2016 Annual Report

Latrobe Magnesium Limited and its Controlled Entities

ABN 52 009 173 611

INDEX

COMPANY DIRECTORY

Directors
Jock Murray, Chairman
David Paterson, CEO
Kevin Torpey
Philip Bruce
John Lee

Registered Office and Principal Place of Business
Suite 307
16-20 Barrack Street
Sydney NSW 2000
Telephone: (02) 8097 0250
Facsimile: (02) 9279 3854

Auditors
Nexia Australia
Level 16
1 Market Street
Sydney NSW 2000

Share Registry
Computershare Investor Services Pty Limited
Level 3
60 Carrington Street
Sydney NSW 2000
Telephone: 1 300 850 505

www.latrobemagnesium.com

Chief Executive Officer
David Paterson

Secretary
John Lee

Bankers
National Australia Bank Limited
Mezzanine Level
255 George Street
Sydney NSW 2000

Solicitors
Minter Ellison
Level 19
88 Philip Street
Sydney NSW 2000

Stock Exchange
Australian Securities Exchange
20 Bridge Street
Sydney NSW 2000

ASX CODE: LMG

REVIEW OF OPERATIONS

LATROBE MAGNESIUM PROJECT

1. Overview

During the year, the Company has made significant progress with its Latrobe Magnesium Project in the following areas:

- the signing of the Ash Supply Term sheet with Hazelwood Power;
- the signing of Memorandum of Understanding for Japanese magnesium offtake;
- the signing of Memorandum of Understanding to appoint USA distributor for sale of magnesium
- the signing of Memorandum of Understanding with RWE Power for a German magnesium plan;
- the granting of the hydromet patents in the USA and China; and
- the acquiring of the remaining 50% interest in its hydromet process.

The Company plans to use its hydromet process together with the proven thermal reduction process to extract magnesium, char and to make a supplementary cementitious material (SCM) from the Latrobe Valley brown coal fly ash. The first stage of the project is planned to produce magnesium metal at 5,000 tonnes per annum then expand to 40,000 tonnes per annum.

2. Magnesium Markets

In the year ended 31 December 2015, the primary world production of magnesium declined by some 3% to approximately 840,000 tonnes. China's estimated primary production for 2015 was approximately 84% of the world's production. Some 40% of China's production is used locally. World growth in demand is expected to continue at an annual rate between 6% and 7% until 2024 when it is projected the market will produce some 1.7 million tonnes.

Australian and New Zealand consumption of magnesium has been recorded in the range between 7,000 tonnes to 10,000 tonnes per annum. All this magnesium is imported.

During the year, the magnesium price traded at an eleven year low in line with many commodities in a narrow range, as follows:

		30-Jun-16	30-Jun-15
FOB China	US$ per tonne	2,100	2,250

Owing to United States anti-dumping duties, the delivered price at year end was in the order of US$3,700 per tonne.

In China, the operating costs of production stayed within the range between US$2,000 to US$2,500 per tonne. However, a number of China plants were either closed or scaled back production due to this low magnesium price.

With the adoption of lightweighting of motor vehicles and the legislated emission standards in many countries in the World, there is a growing demand by car companies to use more magnesium in car parts. The car business has adopted aluminium sheet in outside panels and with this sheet there is up to 6 percent of magnesium. With the development of new magnesium alloys and new production techniques, the use of magnesium car parts and sheet provides many exciting opportunities.

3. Ash Supply Term Sheet

In August 2015, Latrobe Magnesium Limited (ASX:LMG) executed a letter of intent and Ash Supply Term Sheet with GDF SUEZ Hazelwood (Hazelwood) in relation to the supply of spent fly ash from Hazelwood's site in Victoria's Latrobe Valley.

The purpose of the letter of intent is to pave the way for LMG and Hazelwood to enter into a fully termed Agreement for the supply of ash from Hazelwood's premises for use in the LMG plant as well as the installation of associated delivery infrastructure.

REVIEW OF OPERATIONS

LMG and Hazelwood agree to enter into good faith discussions and use their reasonable endeavours to negotiate the Agreement based on the principles and terms set out in the Ash Supply Term Sheet. It is envisaged that this Agreement will be executed following the completion of LMG's feasibility study expected to be completed in October 2016 and prior to the construction of the initial plant in the first quarter of June 2017.

This Ash Supply Term Sheet does not create any legally binding obligations between the parties at this stage.

4. Further Cementitious Material Test Results

In October 2015, LMG completed further cementitious test results that showed LMG's material continues to outperform fly ash. Additional applications in the ultrafine fly ash market, where product sells for over $200 per tonne, are currently being assessed.

There is a major shortage of fly ash in Victoria. Victorian users import up to 300,000 tonnes per annum from New South Wales and Queensland and some users are starting to import fly ash from overseas.

In the next six months LMG will be concluding a significant amount of larger scale test work. A large quantity of supplementary cementitious material ("SCM") will be produced from this work which will allow the properties of LMG's SCM to be analysed further.

LMG is in discussions with a number of major Australian cement companies in relation to selling them this material. These companies require their individual samples to conduct their own analysis before they will commit to our offtake agreements.

5. Test Work and Engineering Study

LMG is looking to use vertical retorts in its initial plant. It has a number of designs which it intends to test on a small scale to confirm its suitability for LMG's fly ash feedstock. LMG will also finalise its iron reduction and test work on its TIPA regeneration circuit whilst this work is being completed.

This work meant that the main body of the design and engineering work was pushed back for four months and should now be completed in November 2016.

6. Patents granted

In October and November 2015, LMG was informed that the United States of America and the Chinese patents for its unique hydromet process had been granted on 22 September 2015 and 23 September 2015 respectively. The Australian patent was granted on 26 September 2013 for 20 years starting from 27 August 2010.

The process is now owned 100% by Magnesium Investments Pty Ltd, a 100% owned subsidiary of LMG. LMG has the exclusive worldwide marketing rights for the commercialisation of this technology.

Patent applications were lodged in March 2013 for additional international territories being all countries within the European Union, India and Indonesia. All these countries are known to have large lignite / brown coal deposits. To date LMG has concentrated its activities on the Latrobe Valley and Germany.

The progress of the patent applications in each of these countries is summarised in the table below:

Country/Region	Number	Status	Expected date of grant
Australia	2011293107	Granted	26 September 2013
United States	9139892 (13/818788)	Granted	22 September 2015
China	201180040099.2	Granted	23 September 2015
Europe	11819208.7	Response filed to Search Opinion	By end 2016
India	577/MUMNP2013	Examination requested	By end 2016
Indonesia	W00201300844	Examination requested	By end 2016

REVIEW OF OPERATIONS

7. Offtake Agreements

In March 2016, LMG signed a Memorandum of Understanding with a Japan-based company committing to purchase up to 4,000 tonnes of magnesium per annum from the LMG planned production facility in Morwell Victoria. The offtake company is Advanced Material Corporation of Japan (AMCJ), the largest titanium and magnesium trading house in Tokyo.

Japan currently uses 40,000 tonnes of magnesium per annum and this is projected to increase with greater use of magnesium by the motor vehicle industry. Currently most of this magnesium is imported from China. The Japanese Magnesium Association has a stated objective to diversify their magnesium supply chain.

In June 2016, LMG signed a Memorandum of Understanding to appoint an exclusive USA distributor to sell its magnesium into North, Central and South America and the Caribbean in the aluminium market. The distributor has committed to purchase a minimum of 2,000 tonnes of magnesium a year from LMG's planned production facility in Morwell Victoria. The deal will deliver excellent prices to LMG due to an anti-dumping duty payable on Chinese imports into US markets.

The distributor is Metal Exchange Corporation (MEC) which is headquartered in St. Louis, Missouri. Founded in 1974, MEC has grown from a regional aluminium scrap company to a global trader with offices in Switzerland, China and Brazil. In the USA, MEC has six manufacturing plants employing over 700. With a unique blend of marketing expertise and deep manufacturing excellence, MEC provides its customers an unparalleled array of products and services, directly supplying scores of aluminium and magnesium ingots under short and long term agreements.

North and Central America currently uses 160,000 tonnes of magnesium a year and this is projected to increase with greater use of magnesium by the motor vehicle industry. There is only one magnesium producer in North and Central America, with most magnesium imported from China.

In the USA, there is an anti-dumping duty payable on imported China magnesium. The result of this duty is that the magnesium price in the USA is currently US$1.70 per lb or in the order of US$3,700 per tonne, whereas the FOB China magnesium price is currently US$2,050 per tonne.

Under the USA-Australia fair trade agreement, magnesium produced in Australia is exempt from this import duty. LMG proposes to sell at least 50% of its production into the US market at this higher price.

8. Feasibility Study

In May, 2016 LMG announced that it had successfully completed the second stage of its bankable feasibility study (BFS) of a plant to produce 5,000 tonnes of magnesium a year from the brown coal fly ash at the Latrobe Valley's Hazelwood power station.

The second stage of the BFS estimated the capital cost of the initial 5,000 tonne per annum plant to be in the range between $46 million and $51 million. A number of areas have been identified that could produce capital cost savings and these will be investigated in the final stage of the BFS.

The final stage of the feasibility study started in July and is expected to be completed by the end of September.

LMG's financial modelling indicated that the Project is economically viable and consistent with its previous prefeasibility and adjustment study projections. A summary of the operating revenues and costs together with the final capital costs will be released upon completion of the final stage of the BFS due by the end of October 2016

9. RWE Power

In June, 2016 LMG signed a MoU with RWE Power AG to continue to develop a magnesium plant capable of producing approximately 30,000 tonnes per annum of magnesium from brown coal fly ash from its Hambach mine near Cologne, Germany.

The project involves four stages of development, being:

- Conduct process test work on the RWE fly ash

REVIEW OF OPERATIONS

- Completion of a feasibility study
- Completion of engineering, procurement and permitting
- Construction and commissioning

Each stage is conditional on the successful completion of the preceding stage.

Europe imports in excess of 150,000 tonnes of magnesium per annum. There is currently no producer in Europe and magnesium metal has been listed as the fourth most critical raw material in the EU list of 20 metals.

RWE Power AG and LMG have identified the brown coal fly ash from RWE's Hambach mine as being the most suitable to commercially extract magnesium. RWE Power mines produce approximately 100 million wet tonnes of brown coal per annum (from which approximately 35 to 40 million tonnes per annum are produced from its Hambach mine) compared to 65 million wet tonnes per annum in the three Latrobe Valley mines.

RWE Power AG is part of the RWE Generation SE. Since 1 January 2013, all generation in the RWE Group has been steered by RWE Generation SE, enabling the pooling of the generation and engineering expertise of RWE Power in Germany, RWE Essent in the Netherlands, and RWE Generation UK in the UK. RWE has some 14,000 employees in its generation business and more than 40 GW of power generation capacity.

10. Hydromet acquisition

On 1 July 2016, LMG acquired the remaining 50% of the hydromet process for the issue of 30 million LMG shares. These shares will be escrowed for a period of six months until 31 December 2016.

Patents have been granted for USA, China and Australia and patents are pending for India, Indonesia and EU. These patents are expected to be granted by the end of 2016.

In addition, Dr. Steve Short entered into a consultancy agreement so that LMG may retain his services to adapt the current hydromet process to process other brown coal fly ashes both in Victoria and overseas.

11. Fund Raising

In September 2015**,** LMG received an Australian R&D tax incentive of $421,651 following its lodging of its FY2015 tax return.

In October 2015, LMG raised $600,000 of debt funding from Platinum Road Pty Ltd to progress the development of its Latrobe Valley magnesium project. This funding allowed LMG to complete its hydromet and cement test work and also commence its design and engineering studies for its initial 5,000 tonnes per annum magnesium plant.

The key terms of the facility are:

Loan Amount:	$600,000 including capitalised interest for 12 months
Term:	12 months to 16 October 2016.
Repayment:	Cash in full from the 2016 R&D tax rebate refund.
Interest Rate:	15% per annum.
Conversion:	The lenders have the right to convert any part of their loan at the lower of the following: 1. $0.015 per share; and 2. The price of the most recently issued LMG shares throughout the Term excluding any issued alongside this Loan. In the event of multiple issuances of shares during the term, the Lender has up to 24 hours post the announcement of the subsequent shares being issued to determine if they wish to convert on the basis of a prior price. The conversion of the loan or part thereof will result in the cessation of the accrual of the interest in respect of the amount converted. To the extent the amount of the interest that becomes accrued is less than the amount of interest prepaid, the loan amount shall be reduced by the amount of deficiency.

REVIEW OF OPERATIONS

12. Capital Raising

In July 2016, the Company raised $1,000,000 through a private placement to sophisticated and professional investors at an issue price of $0.026. In August 2016, LMG raised a further $1,800,000 from a Share Purchase Plan from existing shareholders at the same price.

These funds will be used to complete its vertical retort testing and it Bankable Feasibility Study. It will also provide working capital.

DIRECTORS' REPORT

The Directors present their report together with the financial report of Latrobe Magnesium Limited ("Company") and of the Group, being the Company and its subsidiaries for the financial year ended 30 June 2016 and the auditor's report thereon.

DIRECTORS

The following persons were Directors of Latrobe Magnesium Limited during the financial year and up to the date of this report.

Jock Murray	Chairman
David Paterson	CEO
K A Torpey	
P F Bruce	
J R Lee	

PRINCIPAL ACTIVITIES

During the year the principal continuing activities of the Group consisted of:

- successfully developing Latrobe magnesium project, as shown by Stage 2B of the feasibility study;
- securing MoU with Japanese and USA distributors for the sale of magnesium;
- entering a MoU for the development of a German magnesium plant with RWE; and
- raising $2.8 million to develop the project further.

OPERATING RESULTS

The consolidated net loss of the Group after providing for income tax amounted to $1,087,123 compared to a net loss of $691,251 for the previous corresponding period. The loss was mainly due to the costs of conducting the test work and feasibility study on the Latrobe Magnesium project and the design of the magnesium plant in the Latrobe valley.

Further information on review of operations of the Group is shown separately in the Directors' Review of Operations on Page 4 to 8 of this report.

Dividends

The Directors have not recommended the payment of a final dividend.

Significant Changes in the State of Affairs

The significant change in the state of affairs of the Group during the financial year is an increase in the contributed equity of $315,469, from $28,670,152 to $28,985,621 as a result of issuing the following fully paid ordinary shares:

		$
October 2015	6,540,300 shares issued @$0.010 to convert unlisted convertible securities to shares	65,403
April 2016	5,000,000 shares issued @$0.015 to convert unlisted convertible securities to shares	75,000
June 2016	5,000,000 shares issued @$0.015 to convert unlisted convertible securities to shares	75,000
June 2016	6,671,063 shares issued @$0.015 to convert unlisted convertible securities to shares	100,066
		315,469

MATTERS SUBSEQUENT TO BALANCE DATE

There are matters or circumstance that have arisen since 30 June 2016 that has significantly affected or may significantly affect:

(a) the operations, in financial years subsequent to 30 June 2016 of the Group; and
(b) the state of affairs, in financial years subsequent to 30 June 2016, of the Group.

These matters are:

- the acquisition of the remaining 50% interest in the hydromet process;
- the share placement on 14 July 2016 for $1,000,000; and
- the share purchase plan raising of $1.8 million on 3 August 2016.
- the conversion of unlisted convertible securities to 6,497,585 ordinary shares at $0.015 on 4 August 2016.

DIRECTORS' REPORT

On 9 September 2016 the financial report was authorised to be issued by a resolution of Directors.

LIKELY DEVELOPMENTS

Except for information disclosed on certain developments and the expected results of those developments included in this report under review of operations, further information on likely developments in the operations of the Group and the expected results of those operations have not been disclosed in this report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

ENVIRONMENTAL REGULATIONS

The Group's operations are subject to normal State and Federal Environmental Regulations. There were no breaches of these regulations during the year or to the date of this report.

INFORMATION ON DIRECTORS

John Stephen Murray – Non Executive Chairman

Experience and Expertise

Mr Murray studied economies and history with the Royal Military College at Duntroon before studying engineering management at the Royal Military College of Science in the UK. He also holds qualifications in international politics from Deakin University.

Roles currently held by Mr Murray include strategic adviser for law firm, King & Wood Mallesons in the government infrastructure sector and non executive chairman of bulk liquid road tank manufacturer, Omni Tankers Holding Pty Ltd. He managed numerous large projects in his role with NSW Department for Transport including the production of a 10 year development plan for the State's transport infrastructure and services as well as chairing the $2 billion Parramatta Rail Link Company project. He acted as an adviser for operational planning and infrastructure for the Sydney, Beijing and London Olympic Games. In addition to these roles he has held numerous directorship including non executive chairman for The Hills Motorway (M2) Limited prior to its takeover by Transurban in 2005. The non executive chairman for Country Pipelines for the three year prior to its takeover by APA in 2008. He was on the board of Terminals Australia for five years up until its sale to Asciano in 2008.

Prior to his foray into business, Mr Murray had a distinguished military career over almost 30 years before retiring as a Colonel in 1994. He brings a wealth of senior management and directorship experience with a particular focus on infrastructure, project management and freight logistics projects.

Appointed as a Director on 1 May 2015

Other Current Public Company Directorships

None

Former Public Company Directorships in Last 3 Years

None

Special Responsibilities

Chairman of the Board of Directors

Interests in Securities

11,400,000 ordinary shares in Latrobe Magnesium Limited, these shares are registered in the name of MurraySetter Pty Limited as trustee for the MurraySetter Trust.

David Oliver Paterson – Chief Executive Officer

Experience and Expertise

Mr Paterson is a qualified non-practising Chartered Accountant and a graduate from the University of Queensland. He is the founding director of Europacific Corporate Advisory Pty Ltd and has held an Investment dealers licence since 1990. Prior to forming Europacific in 1990, he was a group manager of the Corporate Services Division of Tricontinental Corporation Limited responsible for NSW and Queensland. He also worked for Coopers & Lybrand in Brisbane and Sydney in their Corporate Services Division. He has been involved in a wide range of corporate advisory assignments and underwritings for both debt and equity for a number of public and private companies.

DIRECTORS' REPORT

Mr Paterson has experience in the property and mining industries, in relation to:

- Project financing;
- Financial analysis;
- Valuations; and
- The raising of debt and equity.

Appointed as a Director on 23 August 2002

Other Current Public Company Directorships

None

Former Public Company Directorships in Last 3 Years

None

Special Responsibilities

Chief Executive Officer
Member of Audit Committee

Interests in Securities

99,990,000 ordinary shares in Latrobe Magnesium Limited, of these shares 4,998,837 are held as a direct interest and 94,991,163 are registered in the name of Rimotran Pty Limited as trustee for the David Paterson Super Fund.

Kevin Anthony Torpey – Executive Director

Experience and Expertise

Mr Torpey is a chartered professional engineer and a graduate from Sydney University. Over the last 40 years he has been involved in the development of many diverse major projects involving oil, iron ore, aluminium, nickel, lead/zinc, uranium, magnesite, coal and gold, located locally, in Ireland and Indonesia. Generally these projects have been associated with major companies such as Consolidated Goldfields, EZ Industries, Alcan, International Nickel, Tara Minerals Limited (Ireland), Noranda, Denison Mines (Canada), Toyota, Mitsubishi and Iwatani. For the last 20 years his association has mainly been as a corporate officer initially as managing director of Denison Mines (Australia) and then managing director of Devex Limited. Over the last few years he has acted as a consultant to a number of companies involved in mining projects and new technologies.

Appointed as a Director on 11 April 2002

Other Current Public Company Directorships

Empire Energy Group Ltd.

Former Public Company Directorships in Last 3 Years

None

Special Responsibilities

None

Interests in Securities

99,533,391 ordinary shares in Latrobe Magnesium Limited, these shares are held by Famallon Pty Ltd and Famallon Pty Ltd ATF Famallon No.2 Super Fund. Mr Torpey is a principal of Famallon Pty Ltd and a beneficiary of the fund.

Philip Francis Bruce – Non Executive Director

Experience and Expertise

Mr Bruce is a director of P F Bruce & Associates, which provides corporate and project management services. He is a mining engineer with over thirty years resource industry experience in Australia, South Africa, West Africa, South America and Indonesia in operations, project development and corporate management. He was the CEO of PT BHP Indonesia, managing director of Triako Resources Limited and was the general manager – development for Plutonic Resources Limited, where he was technically responsible for acquisition and development of resource projects during the Company's period of growth from $35 million to over $1 billion in market capitalisation.

Appointed as a Director on 4 September 2003

Other Current Public Company Directorships

Managing Director of Hill End Gold Limited
Director of Bassari Resources Limited

DIRECTORS' REPORT

Former Public Company Directorships in Last 3 Years

Brimstone Resources Limited.

Special Responsibilities

None

Interests in Securities

11,071,439 ordinary shares in Latrobe Magnesium Limited, of these shares 704,250 are held as direct interest and 10,367,189 are registered in the name of Diazill Pty Limited as trustee for the PB Superannuation Fund.

John Robert Lee – Non Executive Director

Experience and Expertise

Mr Lee has a broad range of commercial skills and experiences in both the public and private sectors. He has held senior management roles in the Federal Department of Employment and Industrial Relations. He was also senior private secretary and principal adviser to Tony Street, a senior federal cabinet minister. In the private sector, Mr Lee has held a number of senior management positions with a number of major corporations including Henry Jones IXL, Elders Building Supplies and Woolworths Limited. He is the founder of Stockholder Relations Pty Ltd, a management consultancy specialising in corporate advisory, investor relations and corporate governance.

Appointed as a Director on 10 December 2010

Other Current Public Company Directorships

None

Former Public Company Directorships in Last 3 Years

Mongolian Resources Corporation Limited

Special Responsibilities

Chairman of Audit Committee

Interests in Securities

4,679,750 ordinary shares in Latrobe Magnesium Limited, these shares are registered in the name of Stockholder Relations Pty Limited of which Mr Lee is a Director.

Company Secretary

Mr John Lee who has been a Director to the Company since 10 December 2010 became Company Secretary on 1 July 2013.

MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2016 and the number of meetings attended by each Director was:

	Directors' Meetings		Audit Committee Meetings	
Director	**Attended**	**Held Whilst in Office**	**Attended**	**Held Whilst in Office**
J S Murray	7	7	-	-
D O Paterson	7	7	2	2
K A Torpey	3	7	-	-
P F Bruce	6	7	-	-
J R Lee	7	7	2	2

The Board has yet to appoint a Nominations and a Remuneration Committee. The matters that would normally be the responsibility of these committees are dealt with by the full Board of Directors.

Retirement, Election and Continuation in Office of Directors

Mr K A Torpey and Mr J R Lee are the Directors retiring by rotation at the next Annual General Meeting of the Company. Mr Torpey and Mr Lee being eligible in accordance with Article 12.2 of the Company's constitution offer themselves for re-election. Their background, experience and qualification are detailed on Pages 11 and 12.

DIRECTORS' REPORT

REMUNERATION REPORT - AUDITED

This report outlines the Remuneration Arrangements in place for each key management person of Latrobe Magnesium Limited. Principles used to determine the nature and amount of remuneration are:

- Competitiveness and reasonableness
- Acceptability to shareholders
- Performance linkage / alignment of executive compensation
- Transparency
- Appropriateness for level of operations

Remuneration Committee

The Board has not yet formed a separate Remuneration Committee and all matters that would normally be the responsibility of a Remuneration Committee are dealt with by the full Board of Directors.

Key Management Personnel

The full Board of Directors sets remuneration policies and practices generally and makes specific recommendations on remuneration packages and other terms of employment for Executive Directors, other Senior Executives and Non-Executive Directors.

Executive remuneration and other terms of employment are reviewed annually having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice. As well as basic salary, remuneration packages including superannuation.

Directors and executives are also able to participate in an Employee Share Acquisition Plan. Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the Group's operations.

Remuneration of Non-Executive Directors is determined by the Board within the maximum amount approved by shareholders from time to time.

The Board undertakes an annual review of its performance and the performance of the Board Committees against goals set at the start of the year.

Details of the nature and amount of each element of the emoluments of each Director of Latrobe Magnesium Limited and each specified officer of the Company and the Group receiving the highest emoluments are set out in the following tables.

The information which follows through to the section titled "Share Options Granted to Key Management Personnel" is subject to audit by the external auditors.

2016 Directors	**Base Emoluments**	**Super Contributions**	**Equity Options**	**Total**	**Performance Related**
	$	$	$	$	%
J S Murray	60,000	-	-	60,000	-
D O Paterson	261,600	-	-	261,600	-
K A Torpey	35,427	-	-	35,427	-
P F Bruce	21,804	-	-	21,804	-
J R Lee	21,804	-	-	21,804	-
	400,635	-	-	400,635	-

2015 Directors	**Base Emoluments**	**Super Contributions**	**Equity Options**	**Total**	**Performance Related**
	$	$	$	$	%
J S Murray	10,000	-	-	10,000	-
D O Paterson	261,600	-	-	261,600	-
K A Torpey	76,296	-	-	76,296	-
P F Bruce	21,804	-	-	21,804	-
J R Lee	21,804	-	-	21,804	-
	391,504	-	-	391,504	-

There are no additional executives employed by Latrobe Magnesium Limited other than those already disclosed.

DIRECTORS' REPORT

Service Agreements

There are currently no service agreements in place formalising the terms of remuneration of Directors or other key management personnel of the Company and the Group. The above emoluments for D O Paterson and K A Torpey were agreed by the Board for the term of the prefeasibility and bankable feasibility studies.

Shareholdings

Number of shares held by Directors and Other Key Management Personnel of Parent Entity.

Directors & Other Key Management Personnel	Balance at beginning of date of appointment	Acquired under Share Purchase Plan for Shareholders	Net Change Other	Acquired Under Debt Conversion to Equity	Balance at 30 June 2016
J S Murray	11,400,000	-	-	-	11,400,000
D O Paterson	35,933,333	11,333,333	6,412,399	46,310,935	99,990,000
K A Torpey	65,333,334	7,583,333	9,592,595	17,024,129	99,533,391
P F Bruce	3,441,490	1,500,000	-	6,129,949	11,071,439
J R Lee	-	1,500,000	-	3,179,750	4,679,750

Share Options Granted to Key Management Personnel

Granted - No options were granted to key management personnel over unissued shares during the financial year.

Exercised - No options were exercised by key management personnel during or in the period since the end of the financial year and up to the date of this report.

Expiry - No options expired during or since the end of the financial year.

END OF AUDITED REMUNERATION REPORT

UNLISTED CONVERTIBLE SECURITIES

On 9 October 2015, a lender elected to convert $65,403 of loan to ordinary shares at $0.010 from the unlisted convertible securities issued on 10 December 2014.

On 16 October 2015, the loan was renewed and increased to $600,000 including 12 months interest.

On 20 October 2015 the Company issued up to 40,000,000 Unlisted Convertible Securities convertible at $0.015 at any time prior to 16 October 2016 should the lenders wish to convert into ordinary shares. The lenders elected to make the following conversions:

27 April 2016	5,000,000 shares issued @$0.015 to convert unlisted convertible securities to shares
07 June 2016	5,000,000 shares issued @$0.015 to convert unlisted convertible securities to shares
23 June 2016	6,671,063 shares issued @$0.015 to convert unlisted convertible securities to shares

As the securities were converted before 16 October 2016 there was an adjustment made to the interest owing under the loan which also reduced the number of shares to be issued.

In August 2016, a lender elected to convert unlisted convertible securities to 6,497,585 ordinary share at $0.015. The current balance of the loan and interest accrued to 16 October 2016 is $236,911 which can be converted to shares at $0.015 at any time prior to 16 October 2016.

UNLISTED OPTIONS

On 20 October 2015 the Company issued 5,000,000 Unlisted Options exercisable at $0.015 at any time prior to 16 December 2016 in respect of professional services provided for raising $600,000 loan under the terms of the loan facility. The value of the Options using the Black Scholes Option Value method is $7,633.

DIRECTORS' REPORT

INDEMNIFICATION

During or since the end of financial year, the Company has not been indemnified or made a relevant agreement to indemnify an officer or auditor of the Company or any related body corporate against liability incurred as such an officer or auditor. The Company maintains a Directors and Officers Liability Insurance, including company securities cover.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

Details of the amounts paid or payable to Nexia Australia for services provided during the year are set out below:

	$
Audit and Review of Financial Reports	32,000
Taxation Services	3,000

	35,000
	=====

The Board of Directors ensure that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

AUDITORS' INDEPENDENT DECLARATION

A copy of the auditors' independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on Page 16 and forms part of this report.

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

J S Murray	**D O Paterson**
Chairman	**Chief Executive Officer**

Sydney

9 September 2016

nexia australia

the next solution

Auditor's Independence Declaration under section 307C of the *Corporations Act 2001*

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Latrobe Magnesium Limited.

As audit partner for the audit of the financial statements of Latrobe Magnesium Limited for the financial year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Nexia Court & Co

Nexia Court & Co
Chartered Accountants

Joseph Santangelo
Partner

Sydney, 9 September 2016

Sydney Office
Level 16, 1 Market Street, Sydney NSW 2000
PO Box H195, Australia Square NSW 1215
p +61 2 9251 4600, f +61 2 9251 7138
info@nexiacourt.com.au, www.nexia.com.au

Independent member of Nexia International

DIRECTORS' DECLARATION

The Directors of the company declare that:

1. in the Directors' opinion, the financial statements and accompanying notes set out on Pages 18 to 44 are in accordance with the *Corporations Act 2001* and:

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   (a) comply with Australian Accounting Standards and the Corporations Regulations 2001; and

   (b) give a true and fair view of the company's financial position as at 30 June 2016 and of its performance for the year ended on that date;

2. Note 1 confirms that the financial statements also comply with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);

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

4. the remuneration disclosures included in Page 13 and 14 of the Directors' report (as part of the audited Remuneration Report), for the year ended 30 June 2016, comply with section 300A of the *Corporations Act 2001*; and

This declaration is made in accordance with a resolution of the Board of Directors pursuant to section 295(4) of the *Corporations Act 2001* and is signed for and on behalf of the Directors by:

J S Murray	**D O Paterson**
Chairman	**Chief Executive Officer**

Sydney

9 September 2016

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 30 June 2016

	Note	GROUP 2016 $	GROUP 2015 $
Revenue			
Finance Income		11,115	7,784
Other Income		560,453	421,651
	3	571,568	429,435
Expenses			
Administration expenses		(922,849)	(813,002)
Finance Cost		(60,228)	(39,308)
Research and evaluation expenses	3	(675,614)	(268,376)
Total expenses		(1,658,691)	(1,120,686)
Income tax expense	4	-	-
Loss attributable to members of the parent entity		(1,087,123)	(691,251)
Other Comprehensive Income			
Other Comprehensive Income for the year		-	-
Total Comprehensive Income		(1,087,123)	(691,251)

	Note	GROUP 2016	GROUP 2015
Basic and diluted loss per share (cents per share)	18	(0.10)	(0.072)

The above income statement should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION
As at 30 June 2016

	Note	GROUP 2016 $	GROUP 2015 $
CURRENT ASSETS			
Cash and cash equivalents	5	13,946	614,755
Trade and other receivables	6	662,649	516,511
Total Current Assets		676,595	1,131,266
NON-CURRENT ASSETS			
Trade and other receivables	6	16,993	16,993
Property, plant and equipment	7	1,953	1,295
Intangible assets	8	5,754,617	5,730,298
Total Non-Current Assets		5,773,563	5,748,586
TOTAL ASSETS		6,450,158	6,879,852
CURRENT LIABILITIES			
Borrowings	9	324,094	196,750
Trade and other payables	10	281,442	66,826
Total Current Liabilities		605,536	263,576
TOTAL LIABILITIES		605,536	263,576
NET ASSETS		5,844,622	6,616,276
EQUITY			
Issued capital	11	28,985,621	28,670,152
Accumulated losses		(23,140,999)	(22,053,876)
TOTAL EQUITY		5,844,622	6,616,276

The above balance sheet should be read in conjunction with the accompanying notes

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STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2016

GROUP	Note	Issued Capital $	Reserves $	Accumulated Losses $	Total $
Balance at 1 July 2014		27,322,282	-	(21,362,625)	5,959,657
Total comprehensive income		-	-	(691,251)	(691,251)
Shares issued during the period	11	1,347,870	-	-	1,347,870
Balance at 1 July 2015		28,670,152	-	(22,053,876)	6,616,276
Total comprehensive income		-	-	(1,087,123)	(1,087,123)
Shares issued during the period	11	315,469	-	-	315,469
Balance at 30 June 2016		28,985,621	-	(23,140,999)	5,844,622

The above statement of changes in equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASHFLOWS
For the year ended 30 June 2016

	Note	GROUP 2016 $	GROUP 2015 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from operations		421,651	396,325
Payments to suppliers and employees		(1,409,946)	(1,050,537)
Interest received		9,193	5,575
Net cash used in operating activities	17b	(979,102)	(648,637)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment of International Patent expenditure		(7,236)	(7,382)
Payment of Rent Bond		-	(4,033)
Net cash used in investing activities		(7,236)	(11,415)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of Borrowing		(1,428)	(36,789)
Proceeds from Borrowing		386,957	-
Proceeds from Issue of Shares		-	1,135,000
Placement Fees		-	(40,000)
Net cash from financing activities		385,529	1,058,211
Net increase / (decrease) in cash and cash equivalent held		(600,809)	398,159
Cash and cash equivalent at beginning of the financial year		614,755	216,596
Cash and cash equivalent at end of financial year	17a	13,946	614,755

The above statement of changes in equity should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial report is a general purpose financial report and covers Latrobe Magnesium Limited and its controlled Entities (the "Group") and Latrobe Magnesium Limited as an individual parent entity. Latrobe Magnesium Limited is a company limited by shares, incorporated in Australia, whose shares are publicly traded on the ASX.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values. Cost is based on the fair values of the consideration given in exchange for assets.

It is also recommended that the financial report be considered together with any public announcements made by the Group during the year ended 30 June 2016, in accordance with continuous disclosure obligations arising under both the *Corporation Act 2001* and Australian Stock Exchange Listing Rules.

The financial report is presented in the Australian currency.

Statement of Compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standard ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS') in their entirety.

A summary of significant accounting policies of the Group under AIFRS are disclosed below. The accounting policies have been consistently applied, unless otherwise stated.

a. **Principles of Consolidation**

The consolidated financial statements comprise the financial statements of Latrobe Magnesium Limited and its subsidiaries at 30 June each year ("the Group"). Subsidiaries are entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Potential voting rights that are currently exercisable or convertible are considered when assessing control. Consolidated financial statements include all subsidiaries from the date that control commences until the date that control ceases. The financial statements of subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies.

All inter-Company balances and transactions between entities in the Group, including any unrealised profits or losses, have been eliminated on consolidation.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

Subsidiaries are accounted for in the parent entity financial statements at cost.

A list of controlled entities is contained in Note 12 to the financial statements.

b. **Income Tax**

The Group adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised. Deferred tax assets in relation to tax losses are not brought to account unless there is convincing evidence of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Latrobe Magnesium Limited and its wholly-owned Australian subsidiaries have formed an income tax group under the Tax Consolidation Regime. Each entity in the Group recognises its own current and deferred tax liabilities, except for any deferred tax liabilities resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity. The current tax liability of each Group entity is then subsequently assumed by the parent entity. The Group notified the ATO on 2 January 2003 that it had formed an income tax group to apply from 1 July 2002. The tax group has entered a tax sharing agreement whereby each Company in the Group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax group.

c. **Foreign Currency Transactions and Balances**

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity otherwise the exchange difference is recognised in the income statement.

d. **Plant and Equipment**

Plant and equipment is stated at historical cost, including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, less depreciation and any impairment.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present value in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets is depreciated on a diminishing value basis over their useful lives to the Group commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Plant and equipment - diminishing value	35%

The asset's residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are calculated as the difference between the net disposal proceeds and the asset's carrying amount and are included in the income statement in the year that the item is derecognised.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

e. **Intangibles**

Research and development

Research costs are expensed as incurred. Development expenditure incurred on an individual project is capitalised only if the product or service is technically feasible, adequate resources are available to complete the project, it is probable that future economic benefits will be generated and expenditure attributable to the project can be measured reliably. Expenditure capitalised comprises costs of materials, services, direct labour and an appropriate portion of overheads. Other development costs are expensed when they are incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and any impairment losses and amortised over the period of expected future sales. The carrying value of development costs is reviewed annually when the asset is not yet available for use, or when events or circumstances indicate that the carrying value may be impaired.

f. **Impairment of Non Financial Assets**

At each reporting date the Group assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in the income statement where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

g. **Investments and other financial assets**

The Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;

The classification depends on the purposes for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loan and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in trade and other receivables (Note 6) in the balance sheet.

After initial measurement, loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through amortisation process.

(iii) Recognition and de-recognition

Regular purchase and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the assets. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit and loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value and transaction costs are expenses in profit and loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

(iv) Subsequent measurement

Loans and receivables are carried at amortised cost using the effective interest method. Details on how the fair value of financial instruments is determined are disclosed in Note 2d.

(v) Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

If there is evidence of impairment for any of the Group's financial assets carried at amortised cost; the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in profit or loss.

h. **Finance Costs**

Finance costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other finance costs are recognised in income in the period in which they are incurred.

i. **Cash and Cash Equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-borrowings in current liabilities on the balance sheet.

j. **Revenue**

Interest

Revenue is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset.

Government Grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the cost they are compensating.

k. **Trade and Other Payables**

Trade and other payables represent liabilities for goods and services provided to the Group prior to the year end and which are unpaid. These amounts are unsecured and have up to 60 day payment terms.

l. **Interest bearing liabilities**

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the loans and borrowings using the effective interest method.

All borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

m. **Other liabilities**

Other liabilities comprise non-current amounts due to related parties that do not bear interest and are repayable in more than 366 days from balance sheet date. As these are non-interest bearing, fair value at initial recognition requires an adjustment to discount these loans using a market-rate of interest for a similar instrument with a similar credit rating (Group's incremental borrowing rate). The discount is credited to the income statement immediately and amortised using the effective interest method.

The component parts of compound instruments (convertible securities) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recognised as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

n. **Provisions**

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount can be reliably estimated. For service warranties, the likelihood that an outflow will be required to settle the obligation is determined by considering the class of obligations as a whole. Provisions are not recognised for future operating losses.

Where the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

o. **Share-based payments**

For equity-settled share-based payment transactions, the Company measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received.

p. **Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

q. **Contributed equity**

Ordinary shares are classified as equity (refer Note 11).

Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the purchase consideration.

r. **Dividends**

Provision is made for dividends declared and no longer at the discretion of the Group, on or before the end of the financial year but not distributed at balance date.

s. **Earnings per share**

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to members of Latrobe Magnesium Limited, adjusted for the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares during the year.

The weighted average number of issued shares outstanding during the financial year does not include shares issued as part of the Employee Share Loan Plan that are treated as in-substance options.

Diluted earnings per share

Earnings used to calculate diluted earnings per share are calculated by adjusting the basic earnings by the after-tax effect of dividends and interest associated with dilutive potential ordinary shares. The weighted average number of shares used is adjusted for the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

t. **Goods and Services Tax (GST)**

Revenues, expenses are recognised net of GST except where GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

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

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

u. **Critical Accounting Estimates and Judgments**

The Directors evaluate, estimate and make judgements which are incorporated into the financial report based on historical knowledge and best available current information.

Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Impairment

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to an impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value in use calculations performed in recoverable amounts incorporate a number of key estimates.

No impairment has been recognised in respect of the intangible assets for the year ended 30 June 2016 because:

1. the Company's internal valuation indicates that the recoverable amount of the asset is greater than the book value of the assets;
2. the magnesium price supports this valuation; and
3. the Company is utilising the proven Thermal Reduction Process in its process with estimates of its capital and operating costs which are based on its stage 2 feasibility study and subsequent reports.

The key assumptions are adjusted to incorporate risks with a particular segment, and are summarised as follows:

- budgeted cash flow period of 20 years;
- initial production of 5,000 tonnes increasing to 40,000 tonnes;
- magnesium metal price of A$4,162 per tonne is used which represents the current average price between China and the United States.
- market information for forward exchange rates;
- operating costs based upon third party consultant’s estimates;
- capital costs based upon stage 2 of its feasibility study; and
- a pre-tax discount rate of 18%.

NOTE 2: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's risk management policy sets out the Company's overall risk management framework and policies, including regular reviews by the Board of the Company's financial position and financial forecasts.

a. Principal financial instruments

The principal financial instruments are as follows:

(i) Cash
(ii) Trade and other receivables
(iii) Inter Company balances
(iv) Trade and other payables
(v) Borrowings

The Group does not use derivative financial instruments, and has no off-balance sheet financial assets and liabilities at year-end.

b. Financial instrument risk exposure and management

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. These main risks, arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign exchange currency risk, share market risk, credit risk and commodity risk. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

c. General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and has the responsibility for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives bimonthly reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

(i) Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash or access to funds to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements for a period of at least 90 days.

The Group's exposure to liquidity risk has been assessed as minimal. There are no past due payables at balance date.

The Board receives cash flow projections on a bimonthly basis as well as information regarding cash balances. At the balance sheet date, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

(ii) Interest Rate Risk

The Group's exposure to interest risk arises when the value of financial instruments fluctuates as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities.

The Group's exposure to interest rate risk only extends to cash and cash equivalents at balance date. The Group's exposure to interest rate risk at 30 June 2016 and 30 June 2015 is set out in the following tables:

CONSOLIDATED

Year ended 30 June 2016	Weighted Average Interest Rate	Floating Interest Rate	Fixed Interest maturing in: 1 year or less	Over 1 to 5 years	More than 5 years	Non-interest bearing	Total
	%	$	$	$	$	$	$
Financial assets							
Cash and cash equivalents	1	13,946	-	-	-	-	13,946
Trade & other receivables	4	-	49,095	-	-	613,554	662,649
Total Financial Assets		13,946	49,095	-	-	613,554	676,595
Financial liabilities							
Borrowings	15	-	(324,094)	-	-	-	(324,094)
Trade and other payables		-	-	-	-	(281,442)	(281,442)
Net financial assets		13,946	(274,999)	-	-	332,112	71,059

Year ended 30 June 2015	Weighted Average Interest Rate	Floating Interest Rate	Fixed Interest maturing in: 1 year or less	Over 1 to 5 years	More than 5 years	Non-interest bearing	Total
	%	$	$	$	$	$	$
Financial assets							
Cash and cash equivalents	1	614,755	-	-	-	-	614,755
Trade & other receivables	4	-	47,173	-	-	469,338	516,511
Total Financial Assets		614,755	47,173	-	-	469,338	1,131,266
Financial liabilities							
Borrowings	15	-	(196,750)	-	-	-	(196,750)
Trade and other payables		-	-	-	-	(66,826)	(66,826)
Net financial assets		614,755	(149,577)	-	-	402,512	867,690

(iii) Foreign exchange currency risk

The Group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the Group's measurement currency.

There was no exposure to foreign currency risk at balance date.

(iv) Share market risk

The Company relies greatly on equity markets to raise capital for its magnesium project development activities, and is thus exposed to equity market volatility.

When market conditions require prudent capital management, in consultation with its professional advisers, the Group looks to alternative sources of funding, including debt financing and joint venture participation.

(v) Credit risk

Credit risk arises principally when the other party to a financial instrument fails to discharge its obligations in respect of that instrument.

The Group's exposure to credit risk arises from potential default of the counter party, with the maximum exposure equal to the carrying amount of these instruments.

Trade and receivable balances are monitored on an ongoing basis with the Group's exposure to bad debts minimal. There was no exposure to trade receivable credit risk at balance date.

The Group does not have any material credit risk exposure to any single receivable or Group of receivables under financial instruments entered into by the Group.

Other receivables comprise GST. Credit worthiness of debtors is undertaken when appropriate.

(vi) Commodity risk

Commodity price risk arises when the fair value of future cash flows of a financial instrument will fluctuate because of changes in commodity market prices.

The Group had no exposure to commodity price risk at balance date. The Group's potential exposure to commodity price risk will materialise in the event that development of the Group's Latrobe Magnesium Project proceeds.

(vii) Market risk

Market risk does not arise as the Group does not use interest bearing, tradeable or foreign currency financial instruments.

As the financial assets held by the company as at 30 June 2016 were cash and cash equivalents and trade and other receivables, and the value of these financial assets are not affected by the short-term movement in interest rates, a market risk sensitivity has not been performed.

(viii) Equity price risk

Equity price risk arises from investments in equity securities and Latrobe Magnesium Limited's issued capital.

The Group had no exposure to investments in equity securities at balance date.

The capacity of the Company to raise capital from time to time may be influenced by either or both market conditions and the price of the Company's listed securities at that time.

d. Fair value of financial assets and liabilities

The fair value of all monetary financial assets and financial liabilities of Latrobe Magnesium approximate their carrying value.

There are no off-balance sheet financial asset and liabilities at year-end. All financial assets and liabilities are denominated in Australian dollars.

NOTE 3: LOSS FROM ORDINARY ACTIVITIES

		GROUP	
		2016	**2015**
		$	**$**
The following revenue and expense items are relevant in explaining the financial performance for the period.			
(i)	**Revenue**		
	Finance Income	11,115	7,784
	Other Income		
	Research and development tax rebate	560,453	421,651
		571,568	429,435
(ii)	**Expenses**		
	Depreciation	1,051	509
	Research and evaluation expenses	675,614	268,376
	Directors Fees	400,635	391,504

NOTE 4: INCOME TAX EXPENSE

	GROUP	
	2016	**2015**
	$	**$**
The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax benefit as follows:		
Loss from ordinary activities before income tax	1,087,123	691,251
Prima facie tax benefit on loss from ordinary activities before income tax at 30%	326,137	207,375
Permanent differences relating to R&D claim	(205,499)	(154,606)
Increase in income tax benefit due to timing differences	5,354	7,894
Tax losses not brought to account as future income tax benefit.	(125,992)	(60,663)
Income tax benefit attributable to loss from ordinary activities before income tax	-	-

Net deferred tax asset not taken to account

The potential future income tax benefit arising from tax losses has not been taken to account because of the absence of convincing evidence of the realisation of the benefit.

	GROUP	
	2016	**2015**
	$	**$**
Benefit of tax losses carried forward:		
Tax losses carried forward	1,930,780	1,804,788
Capital losses	818,514	818,514
	2,749,294	2,623,302

The deferred tax asset will only be released if:

i. the Group derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised;
ii. the Group continues to comply with the conditions for deductibility imposed by the law; and
iii. no changes in tax legislation adversely affect the Group in realising the benefit.

NOTE 5: CASH AND CASH EQUIVALENTS

	GROUP	
	2016	**2015**
	$	**$**
Cash at bank	13,946	614,755

NOTE 6: TRADE AND OTHER RECEIVABLES

	GROUP	
	2016	2015
	$	$
CURRENT		
R&D tax concession	560,453	421,651
GST recoverable	45,102	47,687
Promissory Note	49,095	47,173
Prepayment	7,999	-
	662,649	516,511
NON-CURRENT		
Rent Bond held in bank deposit	16,993	16,993
	16,993	16,993

There are no balances within trade and other receivable that are impaired and are past due. It is expected these balances will be received when due. Impaired assets are provided for in full.

NOTE 7: PROPERTY, PLANT AND EQUIPMENT

	GROUP	
	2016	2015
	$	$
Plant and equipment at cost	4,777	3,068
Accumulated depreciation	(2,824)	(1,773)
Total Property, Plant and Equipment	1,953	1,295

Movements in Carrying Amounts

Between the beginning and the end of the current financial year, movements in the carrying amounts for each class of property, plant and equipment are:

	Plant and Equipment 2016	Plant and Equipment 2015
	$	$
Balance at 1 July	1,295	497
Additions	1,709	1,307
Depreciation expense	(1,051)	(509)
Carrying amount at 30 June	1,953	1,295

NOTE 8: INTANGIBLE ASSETS

	GROUP 2016	GROUP 2015
	$	$
Acquired in-process research and development, at cost	5,684,000	5,684,000

Latrobe Magnesium Project based in the Latrobe Valley in Victoria. As the project is not held ready for use, the Company is required to perform an annual impairment test. The key assumptions underlying this impairment test have been based on data provided in the Company's Pre-feasibility and Adjustment Studies and subsequent reports. The key assumptions are adjusted to incorporate risks with a particular segment, and are summarised as follows:

- budgeted cash flow period of 20 years;
- initial production of 5,000 tonnes per annum increasing to 40,000 tonnes;
- magnesium metal price of A$4,162 per tonne is used which represents the current average price between China and the United States.
- market information for forward exchange rates;
- operating costs based upon third party consultant's estimates;
- capital costs based upon stage 2 of the feasibility study; and
- a pre-tax discount rate of 18%.

	2016	2015
International Patent – Joint worldwide patent application with Ecoengineers for the Hydromet Process	70,617	46,298
Total Intangible Assets	5,754,617	5,730,298

NOTE 9: BORROWINGS

	GROUP 2016	GROUP 2015
	$	$
CURRENT		
Secured Loan	324,094	196,750

On 16 October 2015, the loan was renewed and increased to $600,000 to progress the development of the Latrobe Valley magnesium project and the provision of working capital. This loan amount included the capitalised interest for the next 12 months. It is secured by a fixed and floating charge over the assets of the Company for a term of 12 months.

Details of the loan outstanding as at 30 June 2016 are as follows:	$
Loan as at 16 October 2015	521,739
Repayment by issue of 5,000,000 shares at $0.015 in April 2016	(75,000)
Repayment by issue of 11,671,063 shares at $0.015 in June 2016	(175,066)
Interest payable at 30 June 2016	52,421
Loan as at 30 June 2016	**324,094**
Repayment by issue of 6,497,585 shares at $0.015 in August 2016	(97,464)
Unearned interest to 16 October 2016	10,281
Total Loan as at 16 October 2016	236,911

The key terms are:

Term: 12 months to 16 October 2016

Interest Rate: 15% per annum payable in arrears

Repayment: Upon receipt of the R&D Tax Incentive refund of $560,453

Conversion: The lenders have the right to convert any part of their loan at the lower of the following:

1. $0.015 per share; and
2. The price of the most recently issued LMG shares throughout the Term excluding any issued alongside this Loan. In the event of multiple issuances of shares during the term, the Lender has up to 24 hours post the announcement of the subsequent shares being issued to determine if they wish to convert on the basis of a prior price.

The conversion of the loan or part thereof will result in the cessation of the accrual of the interest in respect of the amount converted. To the extent the amount of the interest that becomes accrued is less than the amount of interest prepaid, the loan amount shall be reduced by the amount of deficiency.

NOTE 10: TRADE AND OTHER PAYABLES

	GROUP	
	2016	2015
	$	$
CURRENT		
Trade creditors and accrued expenses	281,442	66,826

NOTE 11: ISSUED CAPITAL

			GROUP	
			2016	2015
			$	$
(a)	**Ordinary Shares Issued and Fully Paid**			
	Balance at beginning of reporting period		28,670,152	27,322,282
	07 & 13 Nov 2014	10,000,000 shares issued at $0.010 to convert unlisted convertible securities to shares	-	100,000
	09 Dec 2014	9,733,750 shares issued at $0.008 to convert outstanding fees owing to officeholders and consultant	-	77,870
	02 Jan 2015	7,500,000 shares issued at $0.010 to convert unlisted convertible securities to shares	-	75,000
	15 Apr 2015	90,000,000 shares issued at $0.010 pursuant to a private placement	-	900,000
		Placement Fees	-	(40,000)
	22 May 2015	23,500,000 shares issued at $0.010 pursuant to a Share Purchase Plan	-	235,000
	09 Oct 2015	6,540,300 shares issued at $0.010 to convert unlisted convertible securities to shares	65,403	-
	27 Apr 2016	5,000,000 shares issued at $0.015 to convert unlisted convertible securities to shares	75,000	-
	08 & 23 Jun 2016	11,671,063 shares issued at $0.015 to convert unlisted convertible securities to shares	175,066	-
			28,985,621	28,670,152

(b)	**Shares on Issue**	**No.**	**No.**
	Balance at beginning of reporting period	1,067,356,869	926,623,119
	Share on Issues:		
	• 07 & 13 November 2014	-	10,000,000
	• 09 December 2014	-	9,733,750
	• 06 January 2015	-	7,500,000
	• 15 April 2015	-	90,000,000
	• 22 May 2015	-	23,500,000
	• 09 October 2015	6,540,300	-
	• 27 April 2016	5,000,000	-
	• 08 & 27 June 2016	11,671,063	-
	Balance at end of reporting period	1,090,568,232	1,067,356,869

Fully paid ordinary shares

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholder meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Options

At the date of this report, there were no unissued shares under option. There are 5,000,000 unlisted options exercisable at $0.015 at any time prior to 16 December 2016.

Employee Share Plan Scheme

For information relating to the Latrobe Magnesium Limited Share Plan Acquisition Plan, refer to Note 20: Employee Benefits. No shares were issued during the financial year.

Capital Management

The Group considers its capital to comprise its ordinary share capital and reserves.

In managing its capital, the Group's primary objective as an explorer is to maintain a sufficient funding base to enable the Group to meet its working capital and the development of its Latrobe magnesium project.

The Group raised a secured short term loan of $600,000 maturing in October 2016, this loan has been partly repaid and the balance on maturity is $236,911, repayment may be made as follows:

- upon receipt of the R&D Tax Incentive refund of $560,453; or
- convert this loan to ordinary shares at $0.015 per share at any time up to 16 October 2016.

In making decisions to adjust its capital structure to achieve these aims, either through altering its dividend policy, new share issues, or consideration of debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

NOTE 12: CONTROLLED ENTITIES

	Country of Incorporation	Percentage Owned 2016	2015
Parent Entity:		**%**	**%**
Latrobe Magnesium Limited	Australia	-	-
Subsidiaries of Latrobe Magnesium Limited			
Money Management WA Pty Ltd	Australia	100	100
Gold Mines of WA Pty Ltd	Australia	100	100
Magnesium Investments Pty Ltd	Australia	100	100

NOTE 13: CAPITAL AND LEASING COMMITMENTS

Operating lease commitments

The Company's office lease will be expiring on 30 September 2016. The monthly rent and outgoings of $4,992 is payable monthly in advance. The Company has been discussing with the property manager to renew the lease for a further 3 years at the current rent.

Future non-cancellable operating lease rentals not provided for and payable:

	GROUP 2016	2015
	$	**$**
Not later than one year	14,976	57,528
Later than one year and not later than five years	-	14,382
Later than five years	-	-
	14,976	71,910

The Company extended its option agreement to lease a property at 320 Tramway Road, Morwell, Victoria for a further 6 months with the payment of an option fee of $25,000. This agreement expires in January 2017. This site is intended for the installation of the future magnesium plant and associated facilities.

NOTE 14: SEGMENT REPORTING

The Group has adopted AASB 8 *Operating Segments* with effect from 1 July 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (AASB 114 *Segment Reporting*) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity's system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments. As a result, following the adoption of AASB 8, the Board of Directors believe there is only one operating segment and this is reflected in managements reporting processes.

AASB 8 requires a management approach under which segment information is presented on the same bases as that used for internal reporting purposes. The Group consist one business segment being the development of its Latrobe magnesium project.

NOTE 15: REMUNERATION OF DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

Names and positions held of parent entity Directors at any time during the financial year are:

Jock Murray	Chairman - Non-Executive
David Paterson	Chief Executive Officer
Kevin Torpey	Director - Executive
Philip Bruce	Director - Non-Executive
John Lee	Director - Non Executive

Directors & Other Key Management Personnel	Base Emolument $	Superannuation $	Total $	Performance Related %
2016	400,635	-	400,635	-
2015	391,504	-	391,504	-

Shareholdings

Number of shares held by Directors and Other Key Management Personnel of Parent Entity.

Directors & Other Key Management Personnel	Balance at beginning of date of appointment	Acquired under Share Purchase Plan for Shareholders	Net Change Other	Acquired Under Debt Conversion to Equity	Balance at 30 June 2016
J S Murray	11,400,000	-	-	-	11,400,000
D O Paterson	35,933,333	11,333,333	6,412,399	46,310,935	99,990,000
K A Torpey	65,333,334	7,583,333	9,592,595	17,024,129	99,533,391
P F Bruce	3,441,490	1,500,000	-	6,129,949	11,071,439
J R Lee	-	1,500,000	-	3,179,750	4,679,750

Option holdings

There were no options over unissued shares in the Company held during the financial year by any Director or key management personnel of the Company including their related entities.

NOTE 16: RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions, no more favourable than those available to other parties unless otherwise stated.

Transactions with and amounts receivable from and payable to Directors of related parties or their director related entities which:

a. occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those which it is resonable to expect the entity would have adopted if dealing with the director or director related entities at arms length in the same circumstances;

b. do not have the potential to adversely affect decisions about the allocations of scarce resources made by users of the financial report, or the discharge of accountability by the director's if disclosed in the financial report only by general description; and

c. are trivial or domestic in nature must be excluded from the detailed disclosures required. Such transactions and amounts receivable or payable shall be disclosed in the financial report by general description.

	Other related entities	**GROUP 2016**	**GROUP 2015**
		$	**$**
(i)	Director's fees were paid to J S Murray Pty Ltd of which J S Murray is a principal.	60,000	10,000
(ii)	Director's fees were paid to Famallon Pty Ltd of which K A Torpey is a principal.	35,427	76,296
(iii)	Director's fees were paid to Stockholders Relation Pty Ltd of which J R Lee is a principal.	21,804	21,804
(iv)	Administration and accounting fees were paid to Europacific Corporate Advisory Pty Ltd of which D O Paterson is a principal.	12,000	12,000

NOTE 17: CASH FLOW INFORMATION

		GROUP 2016	**GROUP 2015**
		$	**$**
a.	**Reconciliation of Cash**		
	Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:		
	Cash at Bank	13,946	614,755
b.	**Reconciliation of cash flow from operating activities to operating loss after income tax:**		
	Net loss	(1,087,123)	(691,251)
	Adjustment of non cash items:		
	Depreciation	1,051	509
	Shares issued to settle cost of borrowing	23,778	10,976
	Shares issued to settle loans from officeholders and consultant	-	77,870
	Changes in Assets and Liabilities:		
	Decrease/(Increase) in receivables and other assets	(147,847)	(37,402)
	(Decrease)/Increase in trade and other payables	231,039	(9,339)
	Net Cash used in Operating Activities	(979,102)	(648,637)

c. Acquisition and Disposal of Entities

There was no acquisition or disposal of controlled entities during the 2016 or 2015 financial years.

d. Non-cash Financing and Investing Activities

2016	Fully Paid Ordinary Share	
October 2015	6,540,300	issued at $0.010 to convert unlisted convertible securities to shares
April 2016	5,000,000	issued at $0.015 to convert unlisted convertible securities to shares
June 2016	11,671,063	issued at $0.015 to convert unlisted convertible securities to shares
2015		
November 2014	10,000,000	issued at $0.010 to convert unlisted convertible securities to shares
December 2014	9,733,750	issued at $0.008 to convert outstanding fees owing to officeholders and consultant
January 2015	7,500,000	issued at $0.010 to convert unlisted convertible securities to shares

NOTE 18: LOSS PER SHARE

			GROUP	
			2016	**2015**
Reconciliation of loss to net loss:				
(a)	Basic and diluted loss per share	cents per shares	(0.10)	(0.072)
(b)	Loss used in the calculation of EPS	$	(1,087,123)	(691,251)
(c)	Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS		1,073,347,734	963,239,424

There were no unissued shares under option at 30 June 2016.

NOTE 19: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no contingent liabilities for the year ended 30 June 2016 (2015 : Nil).

NOTE 20: EMPLOYEE BENEFITS

Employees Share Acquisition Plan

The Directors have approved the implementation of a Share Acquisition Plan.

The Plan provides for eligible participants to purchase shares in the Company tax effectively through salary sacrifice. Shares will be acquired on the Australian Stock Exchange at prevailing market prices on or about the first trading day following the normal monthly pay day. The shares including transaction costs will be met by the pre-tax remuneration forgone by the Plan participant. Administration costs of the Plan will be met by the Company.

The minimum contribution under the Plan is $2,400 per annum. Participants can allocate up to 100% of their gross remuneration.

During the period under review and the previous corresponding period, there were no shares purchased in accordance with the employee share acquisition plan.

NOTE 21: UNLISTED CONVERTIBLE SECURITIES

Under the loan agreement, the lenders elected to make the following conversions, these conversions are shown in Note 9.

09 October 2015	6,540,300 shares issued @$0.010 to convert unlisted convertible securities to shares
27 April 2016	5,000,000 shares issued @$0.015 to convert unlisted convertible securities to shares
07 June 2016	5,000,000 shares issued @$0.015 to convert unlisted convertible securities to shares
23 June 2016	6,671,063 shares issued @$0.015 to convert unlisted convertible securities to shares

As the securities were converted before 16 October 2016 there was an adjustment made to the interest owing under the loan which also reduced the number of shares issued.

In August 2016, a lender elected to convert unlisted convertible securities to 6,497,585 ordinary share at $0.015. The balance of the loan and interest accrued to 16 October 2016 is $236,911 which can be converted to shares at $0.015 at any time prior to 16 October 2016.

NOTE 22: UNLISTED OPTIONS

On 20 October 2015 the Company issued 5,000,000 Unlisted Options exercisable at $0.015 at any time prior to 16 December 2016 in respect of professional services provided for raising $600,000 loan under the terms of the loan facility. The value of the Options using the Black Scholes Option Value method is $7,633.

NOTE 23: EVENTS SUBSEQUENT TO REPORTING DATE

There are significant events subsequent to reporting date which affect the operations and state of affairs of the Group.

- the acquisition of the remaining 50% interest in the hydromet process.
- the share placement on 14 July 2016 for $1,000,000;
- the share purchase plan raising of $1.8 million on 3 August 2016; and
- the conversion of unlisted convertible securities to 6,497,585 ordinary shares at $0.015 on 4 August 2016.

NOTE 24: GOING CONCERN

Notwithstanding the loss for the year, negative cash flow from operations and historical financial performance, the financial report has been prepared on a going concern basis. The assessment is based on a cash on hand balance at balance date, the collection of trade and other receivables after year end and the capital raising detailed in Note 23.

The Directors have performed a review of the cash flow forecasts and have considered the cash flow needs of the company and consolidated group, including the ability to reduce the level of cash expenditure if required to do so.

Directors have initiated discussions with a number of parties that have expressed interest in supporting the Company with its working capital requirements. At this time no financial commitment is contracted but discussions are continuing. The Company does have the ability to raise extra funds through a placement if required. However, should sufficient and appropriate capital not be available to the company on a timely basis the Directors will require the cessation of the magnesium project and a further reduction in expenditure on staff and Directors. The business would, under this scenario, continue to operate on existing capital reserves.

The Company has prepared cash flow forecasts for this base case scenario and the Directors are therefore satisfied that the Company will be able to continue to operate as a going concern on this basis.

NOTE 25: PARENT ENTITY INFORMATION

As at, and throughout, the financial year ended 30 June 2016 the parent entity of the Group was Latrobe Magnesium Limited.

	2016	2015
	$	$
Result of parent entity		
Profit/(loss) for the period	(1,087,123)	(691,251)
Other comprehensive income	-	-
Total comprehensive income for the period	(1,087,123)	(691,251)
Financial position of the financial entity at year end		
Current assets	676,595	1,131,266
Non-current assets	5,834,901	5,809,925
Total assets	6,511,496	6,941,191
Current liabilities	605,536	263,576
Non-current liabilities	-	-
Total liabilities	605,536	263,576
Net Assets	5,905,960	6,677,615
Total equity of the parent entity comprising of		
Issued capital	28,985,621	28,670,152
Accumulated Losses	(23,079,661)	(21,992,537)
Total equity	5,905,960	6,667,615

Parent entity contingencies
The parent entity has no significant contingent liabilities.

Parent entity capital commitments for the acquisition of property, plant or equipment.
The parent entity has not entered any contractual commitments for the acquisition of property, plant or equipment.

Parent entity guarantees in respect of the debts of the subsidiaries
The parent entity has not entered into deed of guarantee with the effect that the Company guarantees debts in respect of its subsidiaries.

NOTE 26: AUDITOR'S REMUNERATION

Details of the amounts paid or payable to Nexia Australia for services provided during the year are set out below.

	GROUP	
	2016	2015
	$	$
Audit and Review of Financial Reports	32,000	32,000
Taxation Services	3,000	3,000
	35,000	35,000

The Board of Directors ensure that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

NOTE 27: NEW ACCOUNTING STANDARDS AND AMENDMENTS

In the current year, the Group has applied the amendments to AASBs issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 July 2015, and therefore relevant for the current year end.

Australian Accounting Standard	Key Requirements
AASB 2012-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality	This amendment completes the withdrawal of references to AASB 1031 in all Australian Accounting Standards and Interpretations, allowing that Standard to effectively be withdrawn

The application of these amendments does not have any material impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

NOTE 28: ACCOUNTING STANDARDS NOT YET EFFECTIVE AND NOT BEEN ADOPTED EARLY BY THE GROUP

A number of Australian Accounting Standards and Interpretations are in issue but are not effective for the current year end. The following existing group accounting policies will change on adoption of these pronouncements:

Australian Accounting Standard	Key requirements	Effective Date
AASB 9 Financial Instruments, and the relevant amending standards	AASB 9 issued in December 2009 introduced new requirements for the classification and measurement of financial assets. AASB 9 was subsequently amended in December 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in December 2013 to include the new requirements for general hedge accounting. Another revised version of AASB 9 was issued in December 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a ‘fair value through other comprehensive income’ (FVTOCI) measurement category for certain simple debt instruments. Key requirements of AASB 9: • all recognised financial assets that are within the scope of AASB 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under AASB 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss. • with regard to the measurement of financial liabilities designated as at fair value through profit or loss, AASB 9 requires that the amount of change in fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the	1 January 2018

recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under AASB 139 'Financial Instruments: Recognition and Measurement', the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- in relation to the impairment of financial assets, AASB 9 requires an expected credit loss model, as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in AASB 139. Under AASB 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

AASB 9 applies to annual periods beginning on or after 1 January 2018. The directors of the Company anticipate that the application of AASB 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of AASB 9 until the Group undertakes a detailed review.

AASB 15 Revenue from Contracts with Customers'

1 January 2018

AASB 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. AASB 15 will supersede the current revenue recognition guidance including AASB 118 'Revenue,' AASB 111 'Construction Contracts' and the related interpretations when it becomes effective.

The core principle of AASB 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under AASB 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

AASB 15 applies to annual periods beginning on or after 1 January 2018. The directors of the Company anticipate that the application of AASB 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of AASB 15 until the Group performs a detailed review.

AASB 16 Leases	AASB 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. The accounting model for lessees will require lessees to recognise all leases on balance sheet, except for short-term leases and leases of low value assets. AASB 16 applies to annual periods beginning on or after 1 January 2019. The directors of the Company anticipate that the application of AASB 16 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of AASB 16 until the Group performs a detailed review.	1 January 2019
AASB 2014-3 Amendments to Australian Accounting Standards–Accounting for Acquisitions of Interests in Joint Operations	The amendments to AASB 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in AASB 3 ‘Business Combinations’. Specifically, the amendments state that the relevant principles on accounting for business combinations in AASB 3 and other standards (e.g. AASB 112 ‘Income Taxes’ regarding the recognition of deferred taxes at the time of acquisition and AASB 136 ‘Impairment of Assets’ regarding impairment testing of a cash generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if, and only if, an existing business is contributed to the joint operation by one of the parties that participate in the joint operation. A joint operator is also required to disclose the relevant information required by AASB 3 and other standards for business combinations. The amendments should be applied prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute businesses as defined in AASB 3) occurring from the beginning of annual periods beginning on or after 1 January 2016. The directors of the Company anticipate that the application of these amendments to AASB 11 may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.	1 January 2016
AASB 2015-1 Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle	The Annual Improvements to Australian Accounting Standards 2012-2014 Cycle include a number of amendments to various AASB’s, which are summarised below. The amendments to AASB 5 introduce specific guidance in AASB 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in AASB 5 regarding the change of sale plan do not apply. The amendments also clarify the guidance for when held for distribution accounting is discontinued. The amendments to AASB 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets. The amendments to AASB 119 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead. The amendments apply to annual periods beginning on or after 1 January 2016. The directors of the Company do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.	1 January 2016
AASB 2015-2 Amendments to Australian Accounting	The amendments to AASB 101 give some guidance on how to apply the concept of materiality in practice.	1 January 2016

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

Standards – Disclosure Initiative: Amendments to AASB 101	The amendments apply to annual periods beginning on or after 1 January 2016. The directors of the Company do not anticipate that the application of these amendments to AASB 101 will have a material impact on the Group's consolidated financial statements	
AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	Amends AASB 107 'Statement of Cashflows' to require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments apply to annual periods beginning on or after 1 January 2017. The directors of the Company do not anticipate that the application of these amendments to will have a material impact on the Group's consolidated financial statements."	1 January 2017

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LATROBE MAGNESIUM LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Latrobe Magnesium Limited, which comprises the statement of financial position as at 30 June 2016, statement of profit or loss and other comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the disclosing entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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.

Sydney Office
Level 16, 1 Market Street, Sydney NSW 2000
PO Box H195, Australia Square NSW 1215
p +61 2 9251 4600, f +61 2 9251 7138
info@nexiacourt.com.au, www.nexia.com.au

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Latrobe Magnesium 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 30 June 2016 and of its performance for the year ended on that date; and

 (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 14 of the directors' report for the year ended 30 June 2016. 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.

Opinion

In our opinion, the Remuneration Report of Latrobe Magnesium Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001.*

Nexia Court & Co

Nexia Court & Co
Chartered Accountants

Joseph Santangelo
Partner

Sydney, 9 September 2016

ADDITIONAL INFORMATION

The following additional information is required by the Australian Securities Exchange Ltd in respect of listed public companies only.

SHAREHOLDING

a. Distribution of Shareholders as at 31 August 2016

Range	Total holders	Units	% of Issued Capital
1 - 1,000	192	85,909	0.01
1,001 - 5,000	295	969,134	0.08
5,001 - 10,000	225	1,919,153	0.16
10,001 - 100,000	733	34,153,918	2.75
100,001 - 9,999,999,999	798	1,198,753,104	97.00
Total	**2,243**	**1,235,881,218**	**100.00**

b. The number of shareholdings held in less than $500 unmarketable parcels is 813.

c. Substantial Shareholders

The names of the substantial shareholders listed in the holding Company's register as at 7 September 2016

No.	Shareholder Name	Number of Ordinary Fully Paid Shares Held	Interest (%)
1	Rimotran Pty Ltd <DP Super A/C>	95,375,778	7.72
10	David Oliver Paterson	4,998,837	0.40
	Total	100,374,615	8.12
2	Famallon Pty Ltd <Famallon No2 Super Fund A/C>	80,194,358	6.49
7	Famallon Pty Ltd	19,915,956	1.61
	Total	100,110,314	8.10

d. Voting Rights

The voting rights attached to each class of equity security are as follows:

Ordinary shares

(i) At meetings of members each member is entitled to vote in person or by proxy or attorney or, in the case of a member which is a body corporate, by representative duly authorized.

(ii) On a show of hands every member entitled to vote and be present in person or by proxy or attorney or representative duly authorized shall have one (1) vote.

(iii) On a poll every member is entitled to vote and be present in person or by proxy or attorney or representative duly authorized shall have one (1) vote for each fully paid share of which they are a holder.

ADDITIONAL INFORMATION

e. Twenty largest shareholders as at 7 September 2016

Rank	Top Shareholders – Ungrouped	Number of Ordinary Fully Paid Shares Held	Holding %
1.	Rimotran Pty Ltd <DP Super A/C>	95,375,778	7.72
2.	Famallon Pty Ltd <Famallon No2 Super Fund A/C>	80,194,358	6.49
3.	CSH Engineering Pty Ltd	46,154,798	3.73
4.	Gibbs Plumbing Services Pty Ltd <Superannuation Fund A/C>	40,111,706	3.25
5.	S A Short Pty Ltd <The Short Super Fund A/C>	30,000,000	2.43
6.	JJ Wolfe Holdings Pty Limited <JJ Wolfe Super Fund A/C>	25,020,969	2.02
7.	Arco Four Investments Pty Ltd <The Ocramid Holdings Fam A/C>	24,140,483	1.95
8.	Famallon Pty Ltd	19,915,956	1.61
9.	Ableside Pty Ltd	15,647,230	1.27
10.	Stefan Group Pty Ltd <Stefan Superannuation A/C>	14,660,794	1.19
11.	Mr Brett Roy Morrison + Mrs Donna-Maree Earle Morrison <Badem Family A/C>	13,456,923	1.09
12.	HSBC Custody Nominees (Australia) Limited	12,644,878	1.02
13.	Mr Antonino Galipo	12,560,000	1.02
14.	Murraysetter Pty Ltd <The Murraysetter A/C>	11,976,923	0.97
15.	Wiljoeana Pty Ltd <Morrison Investment A/C>	11,706,923	0.95
16.	Mrs Robyn Ann Lys	11,559,096	0.94
17.	Lyndcote Super Pty Ltd <Lyndcote Super Fund A/C>	10,961,538	0.89
18.	Mrs Carmela Adele Murray	10,580,777	0.86
18.	Diazill Pty Limited <P B Superannuation Fund A/C>	10,559,497	0.85
20.	Mr Leslie Robert Knight + Mrs Heather Margery Knight + Mr Timothy Paul Knight <Knight Super Fund A/C>	10,000,000	0.81
		507,228,627	41.04

CORPORATE GOVERNANCE STATEMENT

OVERVIEW

The Company and the Board of Directors are committed to achieving and demonstrating the highest standards of corporate governance and aim to comply with the Corporate Governance Principals and Recommendations set by the ASX Corporate Governance Council.

However, given the current size of both the Company's operations and the Board of Directors, it is not appropriate, cost effective or practical to comply fully with those principles and recommendations. Where a recommendation has not been followed, this fact has been disclosed together with the reasons for the departure.

Consistent with the ASX recommendations, the Company's corporate governance practices are regularly reviewed.

Principle 1 – Lay solid foundations for management and oversight

The respective roles and responsibilities of the Board and management are set out below.

1.1 Board and Management Responsibilities

The Board of Directors is accountable to shareholders for the performance of the Group. In carrying out its responsibilities, the Board undertakes to serve the interest of shareholders honestly, fairly and diligently. The Board's responsibilities are reviewed annually to determine whether any changes are necessary or desirable. The responsibilities of the Board include:

- reporting to shareholders and the market;
- ensuring adequate risk management processes exist and are complied with;
- reviewing internal controls and external audit reports;
- ensuring regulatory compliance;
- monitoring financial performance, including approval of the annual and half-yearly financial reports and liaison with the Company auditors;
- reviewing the performance of senior management;
- monitoring the Board composition, Director selection and Board processes and performance;
- validating and approving corporate strategy;
- reviewing the assumptions and rationale underlying the annual plans; and
- authorising and monitoring major investment and strategic objectives of the Company.

1.2 Appointment of Directors

The background, experience and qualification of a Director are thoroughly assessed before appointment. This information is provided to shareholders through announcement to the market.

Information on each Director's background, experience and qualification can be found on pages 10-12 of the Director's Annual Report. Shareholders may rely on this information in relation to re-election of Directors.

1.3 Written Contract of Appointment

The Company issues a formal letter of appointment for new Directors or senior executives setting out the terms and conditions relevant to that appointment and the expectations of the role of the director. The Company also provides a formal induction process which provides key information on the nature of the business and its operations.

1.4 Company Secretary

A Director of the Company also takes on the role of Company Secretary. His major functions are:

- advising the board and committee on governance issues;
- monitoring company policies are followed;
- coordinating and timing despatching of Board and committee papers; and.
- ensuring that the business at Board and committee meetings are accurately captured in the minutes.

1.5 Diversity

The Company is yet to establish a diversity policy although it recognizes the benefits of diversity at Boards, in senior management and within the organisation generally and recognizes the organisational strengths, deeper problem solving ability and opportunity for innovation that diversity brings to an organisation.

The Company does not currently comply with this recommendation which requires ASX listed entities to establish a diversity policy which includes a requirement that:

- the Board establish measurable objectives for achieving gender diversity; and
- the Board assess annually both the measurable objectives for achieving diversity and the process in achieving them.

CORPORATE GOVERNANCE STATEMENT

The implementation of an appropriate diversity policy to reflect the circumstances of the Company and the industry in which the Company operates is currently under review with this task being considered by the full Board.

While no formal policy is currently in place the Company is committed to providing an environment in which all employees are treated with fairness, respect and have equal access to employment opportunities at work.

Currently, female employees are not represented in the Company's workforce, in senior executive positions and as members of the Board.

1.6 Board Reviews

An independent Chairman was appointed on 1 May 2015, he is responsible for leading the Board, ensuring that Board activities are organised and efficiently conducted and for ensuring the Directors are properly briefed for meetings. The Chairman and the CEO are responsible for implementing the Group's strategies and Board policies.

A formal charter is in place which lays out the duties and responsibilities of the CEO. This charter also requires that the responsibilities and accountabilities of both the Board of Directors and the CEO are clearly defined. The assessment and monitoring of the CEO is the chief responsibility of the Board. Performance is assessed against pre-determined objectives on a regular basis.

The Chairman's other responsibilities include:

- Ensuring that general meetings are conducted efficiently and shareholders have adequate opportunity to air their views and obtain answers to their queries.
- Present the view of the Board formally.

1.7 Management Reviews

The Board evaluates the performance of the senior executives and consultants and discharges its responsibilities in relation to remuneration of executives. In meeting this purpose, the Board's duties include :

- regularly reviewing the executive remuneration policy of the Company to ensure that it is clearly linked to the performance of the Company and it motivates senior executives to pursue both short term deliverables and long term growth;
- reviewing all aspects of the remuneration (including base pay, incentive payments, equity awards, retirement rights and service contracts) and any proposed change to the terms of employment of the CEO and his or her direct reports;
- developing and reviewing appropriate succession plans for key executives; and
- reviewing the recruitment, retention and termination policies and procedures for senior executives.

The Board has available to it the services of independent professional advisers to assist in the search for high calibre people at all levels and to ensure that the terms and conditions offered by the Company are competitive with those offered by comparable companies.

<u>Principle 2 – Structure the Board to add value</u>

The composition of the Board is structured to efficiently discharge its responsibilities and duties.

2.1 Nomination committee

The Board has not yet formed a separate nominations committee and all matters that would normally be the responsibility of a nominations committee are dealt with by the full Board of Directors.

The Board reviews its composition on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, for whatever reasons, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience.

External advisers may be used to assist in such a process. The Board will then appoint the most suitable candidate who must stand for election at the next general meeting of shareholders.

For Directors retiring by rotation, the Board assesses that director before recommending re-election.

The Board considers the Company and the Board are currently not of sufficient size to justify the establishment of a separate Nomination Committee.

2.2 Board Skills Matrix

The Board of Directors is comprised of a non-executive Chairman, three non-executive Directors and a Chief Executive Officer, all of whom have a broad range of skills and experience. Information of each Director is on Page 10-12 of the Director's Report.

CORPORATE GOVERNANCE STATEMENT

Each Director's independent status is regularly assessed by the Board.

2.3 Independence and Length of Service

The position/status and term in office of each Director at the date of this report is as follows:

Name of Director	Position/Status	Term in Office	
		Years	Months
Jock Murray	Chairman – Independent	1	2
David Paterson	Chief Executive Officer	14	1
Kevin Torpey	Non-Executive– Non-Independent	14	5
Philip Bruce	Non-Executive– Independent	13	1
John Lee	Non-Executive– Independent	5	6

The Board held 7 scheduled meetings last year together with a number of ad hoc meetings. The Directors attendance is disclosed on Page 12 of the Director's Report.

2.4 Independent Directors

The majority of the Board comprises independent Directors. Its composition provides for the timely and efficient decision making required for the Company and will be beneficial to the shareholders.

The Board's size and composition is subject to limits imposed by the Company's constitution which provides for a minimum of three Directors and a maximum of nine.

2.5 Independent Chairman

Mr J S (Jock) Murray has been appointed as Chairman of the Board on 1 May 2015. His background and experience is outlined on Page 10 of the Director's Report.

2.6 Professional Development

All Directors are required to bring an independent judgement to bear on Board decisions. To facilitate this, each Director has the right of access to all relevant Company information and to the Company's executives. The Directors also have access to external resources as required to fully discharge their obligations as Directors of the Company. The use of this resource is coordinated through the Chairman of the Board.

The Company has processes in place to review the performance of the Board and its committees and individual Directors. Each year the Board of Directors gives consideration to corporate governance matters, including the relevance of existing committees and to reviewing its own and individual Directors' performance. The Chairman is responsible for monitoring the contribution of individual Directors and consulting with them in any areas of improvement.

Principle 3 – Promote ethical and responsible decision making

Apart from complying with legal obligations, the Company actively promotes ethical and responsible decision making.

3.1 Code of conduct

The Board acknowledges the need for continued maintenance of the highest standards of Corporate Governance Practices and ethical conduct by all Directors and employees of the Group.

The Company has established a code of conduct applicable to all Directors, employees and contractors. The requirement to comply with the code is mandatory and is communicated to all employees. The code sets out standards of conduct, behaviour and professionalism.

The shareholder communications strategy, the securities trading policy, the continuous disclosure policy collectively form a solid ethical foundation for the Company's ethical practices.

Policy on dealing in Company securities

The Company has adopted a policy on how Directors, key management personnel, contractors and all other employees can deal in the securities of the Company.

This policy aims to ensure that the reputation of the Company is not adversely impacted by perceptions of trading in the Company's securities at inappropriate times or in an inappropriate manner. In addition to the specific prohibition on insider trading, Directors and all other employees must also not deal in the Company's securities during the following closed periods, being the four week period before or 48 hours after:

- the release of the Company's annual results to the ASX
- the release of the Company's half-year results to the ASX

CORPORATE GOVERNANCE STATEMENT

- the release of the Company's quarterly cash flow and activities report to the ASX
- the annual general meeting
- such other periods as advised by the Board of Directors or Chief Executive Officer (such as prior to ASX being advised of a significant matter or event).

Requests to trade during the closed periods may be considered in exceptional circumstances. At all other times Directors, key management personnel and all other employees are not permitted to buy or sell securities in the Company without first obtaining written consent from the Chairman. When the Chairman trades Company securities written approval has to be obtained from an independent Director.

The Company has introduced compliance standards and procedures to ensure that the policy is properly implemented. In addition there is also an internal review mechanism to assess compliance and effectiveness.

A copy of the Company's securities trading policy was lodged with the ASX Company Announcements office on 23 December 2010 and is also posted on the Company's website.

Principle 4 – Safeguard Integrity in financial reporting

The following structure is set up to independently verify and safeguard the integrity of financial reporting.

4.1 Audit Committee

The Board has formed a separate Audit Committee. The members of the Audit Committee during the year were:

- John Lee – Chairman
- David Paterson

The structure of the Audit Committee does not comply with the recommendation that the Audit Committee consists of only Non-Executive Directors. The committee does have an independent Chairman who is not the Chairman of the Board and is a non-executive Director. The Board considers that given its current size and structure it is neither appropriate nor cost effective for this recommendation to be adopted in full.

The committee met twice during the year. The Audit Committee has adopted a formal charter which sets out the responsibilities of the Audit Committee.

The responsibilities of the Audit Committee include:

- reviewing the annual and half year financial reports to ensure compliance with Australian Accounting Standards and generally accepted accounting principles;
- monitoring corporate risk management practices;
- reviewing and approval of the consolidated entity's accounting policies and procedures;
- reviewing the scope and adequacies of external audit plans;
- reviewing the nomination, performance and independence of the external auditors; and
- organising, reviewing and reporting on any special reviews or investigations deemed necessary by the Board.

4.2 Certification of Financial Statement

The Audit Committee has received confirmation in writing from the CEO and the Company Secretary that the Company's Financial Report for the financial year ended 30 June 2016 presents a true and fair view in all material respects of the Company's financial position and operational results and is in accordance with relevant accounting standards.

4.3 External auditors

The full Board is responsible for the appointment, removal and remuneration of the external auditors, and reviewing the terms of their engagement, and the scope and quality of the audit. In fulfilling its responsibilities, the Board receives regular reports from management and the external auditors at least once a year, or more frequently if necessary. The external auditors have a clear line of direct communication at any time to the Chairman of the Audit Committee.

The current auditors, Nexia Australia were appointed on 30 November 2009. The Australian accounting bodies' statement on professional independence requires mandatory rotation of audit partners for listed companies every five years. Nexia Australia confirm that they conform with the requirements of the statement.

Nexia Australia are required to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditor's Report.

CORPORATE GOVERNANCE STATEMENT

Principle 5 – Make timely and balanced disclosure

The Company makes timely and balanced disclosure of any material matters concerning the Company.

The Company has a written policy on information disclosure that focuses on the continuous disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price of the Company's securities.

The Company Secretary in consultation with the CEO and Directors is responsible for communications with the ASX. He is also responsible for ensuring compliance with the continuous disclosure requirements of the ASX Listing Rules, and overseeing and coordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the general public.

Principle 6 – Respect the rights of shareholders

The Board recognises and respects the rights of our shareholders as the beneficial owners of the Company. In order to facilitate the effective exercise of those rights, the Company follows a communications strategy that aims to empower shareholders by:

- communicating effectively with them;
- providing easy access to balanced and understandable information about the Company; and
- encouraging and facilitating shareholder participation in general meetings.

6.1 Information on Website

The Company posts corporate information in the Investor Section of its website at www.latrobemagnesium.com. Corporate Governance section is posted in the Company Section.

The Company provides shareholders with copies of all announcements made to the ASX by mail on request. Copies are also available in its web site or the ASX web site, ensuring that all shareholders are kept informed about the Company. Shareholders also have the option of receiving a hard copy of the Annual Report each year.

6.2 Investor Relations Program

All shareholders are invited to attend the Annual General Meetings which are held in Sydney. The full Board and senior executives are present and available to answer questions from the floor, as are the External Auditor.

Informal meetings with shareholders in other States are also held from time to time. The Company also encourages shareholders to communicate directly.

In December 2015, a Community Briefing was held in the Latrobe Valley on the progress of the Latrobe magnesium project.

6.3 Facilitate participation at Shareholders meetings

The Company does not provide the facilities of live webcasting and live telecommunication at shareholders meetings as the Board considers it is not cost effective at this stage of the Company's development.

6.4 Electronic Communication

The Company encourages electronic communication via email with shareholders at all times.

Principle 7 – Recognise and manage risk

The Company has established a sound system of risk oversight and management. The main project risks are assessed by the Project Committee which comprises the Chairman and CEO. The Project Committee regularly reports to the Board on all matters to do with the development of the project.

7.1 Risk Committee

The Board is yet to set up a Risk Committee. The CEO oversees the establishment, implementation and review of the Company's Risk Management System. To ensure it meets its responsibilities, the Board has implemented appropriate systems for identifying, assessing, monitoring and managing material risk throughout the organisation.

7.2 Risk Review

The Board identifies potential areas of business risk arising from changes in the financial and economic circumstances of its operating environment. It regularly assesses the Company performance in light of risks identified. It also reviews the effectiveness of the implementation of the Company's risk management and internal control system on a regular basis.

CORPORATE GOVERNANCE STATEMENT

7.3 Internal Audit

The Board does not employ an internal auditor, although as part of the Company's strategy to implement an integrated framework of control, the Board requests the external auditors review internal control procedures. Recommendations once presented are considered by the Board.

The Board has received written consent from the CEO and the Company Secretary that the integrity of the financial statements is founded on a sound system of risk management, internal compliance and control system which is operating efficiently in all material respects.

The Board requires the declaration prior to the Directors signing the Company's financial statements.

7.4 Sustainability Risks

The Board regularly assesses risks associated with economic, global, environmental and social sustainability risks.

Principle 8 – Remunerate fairly and responsibly

The Company ensures that the level and composition of remuneration is sufficient to attract and retain high quality Directors and executives and to align their interests with the creation of value for shareholders.

8.1 Remuneration Committee

The role of the Remuneration Committee is undertaken by the full Board of Directors. The Board has adopted a formal charter. The main responsibilities of the Board are:

- review and approve the Group's policy for determining executive remuneration and any amendments to that policy;
- review the on-going appropriateness and relevance of the policy;
- consider and make recommendations on the remuneration of executive Directors (including base salary, incentive payments, equity awards and service contracts);
- review and approve the design of all equity based plans;
- review and approve the total proposed payments under each plan; and
- review and approve the remuneration levels for non-executive Directors.

8.2 Executive Directors and executive remuneration

The Board reviews and approves the policy for determining an executive's remuneration and any amendments to that policy. Executive remuneration and other terms of employment are reviewed annually having regard to relevant comparative information and independent expert advice, if required.

Remuneration packages include basic salary, superannuation and the rights of participation in the Company's Employee Share Purchase Plan. These are set at levels that are intended to attract and retain executives capable of effectively managing the Company's operations. Consideration is also given to reasonableness, acceptability to shareholders and appropriateness for the current level of operations.

Remuneration of Non-Executive Directors is determined by the Board based on relevant comparative independent expert advice and the maximum amount approved by shareholders from time to time. They have the right to participate in the Company's Employee Share Purchase Plan.

Further information on Directors and executive remuneration is included in the remuneration report which forms part of the Directors' report.

8.3. Equity based remuneration scheme

The Company does not have an equity based remuneration scheme and therefore a policy is not set up in this regard. In order to preserve cash flows for operational purposes, if necessary the company may pay Directors and consultants fees by share based payments. Shareholders' approval is obtained in the case of share payments to Directors.