2018 Annual Report

Latrobe Magnesium Limited and its Controlled Entities

ABN 52 009 173 611

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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 Sydney Partnership
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:

- designing and commissioning of the fast cycle retort furnace (FCR).
- signing of term sheet with RWE Power to develop new German magnesium plant;
- granting of the European Union patent;
- signing of MoU with EnergyAustralia Yallourn for fly ash supply; and
- achieving positive results on processing Yallourn fly ash.

2. Magnesium Markets

In the calendar year ended 31 December 2017, the primary world production of magnesium increased to 974,000 tonnes. China's estimated primary production for the calendar year 2017 was approximately 86% of the world's production. Some 50% 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 a three year high in line with the rebound in many commodities. The spot prices as at 30 June were, as follows:

		30-Jun-18	30-Jun-17
FOB China	US$ per tonne	2,550	2,175

Owing to United States anti-dumping duties, the annual delivered price for 2017 was in the order of US$3,750 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 light-weighting 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 and aluminium sheet in cars. 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. Fast Cycle Reduction Furnace

LMG and its engineers have designed a new vertical retort and furnace system to improve the capital and operating cost of the magnesium reduction step.

A prototype retort, furnace and all necessary ancillary equipment has been designed, built and installed at a CSIRO facility in Melbourne. Commissioning of the FCR commenced in December last year. Problems included a leak in the vacuum system and some damage (cracking) and corrosion to the internal silicon carbide lining of the retort.

REVIEW OF OPERATIONS

Developments have resolved issues involving the cracking and corrosion related to the silicon carbide (SiC) lining and the operational performance of the FCR condenser train that collects liquid magnesium and sodium.

Since the beginning of May the FCR furnace has been heated up seven times, nearly on a weekly basis. These runs were mainly to optimise the operating performance of the furnace and the condenser train.

Simultaneously LMG also investigated the performance of SiC and alumina tiles lining the retort. LMG built a small retort approximately 0.6m high for this testing.

In the case of the SiC lining, the retort was heated up to 1250°C and vacuum was applied. It was then allowed to cool. Upon opening the retort, extensive corrosion was apparent owing to the SiC liners.

In addition, 92% and 99% alumina tiles (150mm*100mm*12mm) were tested under various conditions with both types of alumina tiles performing well without cracking or corrosion issues.

A replacement retort has been designed using alumina tiles and has been built in July 2018. Some parts of the existing retort were reused. By the end of August the rebuilt retort was inserted into the FCR and the hot commissioning commenced with magnesia briquettes. Following the successful commissioning a number of dolime runs have been conducted in September.

The condenser train in the FCR has been designed to capture liquid magnesium and sodium. Capturing the magnesium in a liquid form and transporting it to the refinery section of the plant saves energy otherwise required to re-smelt solid magnesium crowns, and reduces the size and capital cost of the refinery.

The desired operating conditions for the metal vapour passing through the condenser train are summarised:

- Furnace is heated to 1180°C
- Magnesium begins condensing at 720-730°C, mainly to a solid at >650°C
- Operating the magnesium portion of the condenser train down to 460°C, only 0.2% of the magnesium remains in the vapour
- Sodium begins condensing at 430-445°C
- Sodium is all condensed by 190°C
- Potassium begins to condense at 250°C
- Still a tiny amount of potassium left at 100°C, at the end of the condenser train

Recent FCR test runs have achieved these desired temperature levels through the condenser train.

A large sample of RWE Power’s fly ash has been prepared and is ready to be processed through the FCR to produce magnesium and supplementary cementitious material. This activity is expected to take place in September and October 2018.

LMG believes its FCR will be superior to the horizontal retorts currently used for the Pidgeon Process in the following areas:

- The retort charge will be larger
- The reduction time will be greatly reduced
- The energy usage will be less due to more efficient heat transfer within the retort
- The use of better quality material in the retort should greatly increase retort life
- The FCR offers a competitive advantage over other vertical retort designs. These benefits should produce reduced capital and operating costs for the project.

REVIEW OF OPERATIONS

4. Hambach Project

On 18 December 2017, LMG announced that they had signed a term sheet with RWE Power AG that detailed how both parties will proceed with the development of a new Germany-based magnesium plant. The up to 30,000 tonnes per annum plant is unique as the magnesium will come from the brown coal fly ash from coal mined at RWE's Hambach mine and processed through their supercritical brown coal power station near Cologne, Germany.

Latrobe Magnesium's project is a world-first in developing a magnesium production plant from brown coal fly ash in Victoria's Latrobe Valley using its patented hydromet extraction process and its own newly developed fast cycle vertical retort furnace (FCR).

The project involves four stages of development:

- Conduct the vertical retort test work using the RWE fly ash
- Completion of a feasibility study
- Completion of engineering, procurement and permitting
- Construction and commissioning.

From June to October 2017, LMG conducted a number of successful small-scale tests using its unique hydromet process on the RWE fly ash producing magnesium and supplementary cementitious material (SCM). From this work, LMG was able to ascertain that the RWE fly ash delivered the best economic outcome of any of the fly ashes tested by LMG to date. This result was achieved mainly due to:

- the treatment of dry precipitator ash versus ash dam material thereby requiring less energy;
- the elimination of dolomite as a consumable thereby reducing process costs; and
- the lower cost of energy and labour in Germany as compared to the Latrobe Valley.

LMG has recently produced a large scale beneficiated sample of RWE fly ash to process through its FCR, currently being commissioned at CSIRO in Melbourne. The furnaces are expected to complete the processing of this RWE fly ash in October 2018.

From the FCR test work, LMG will produce a SCM sample to send to Germany for testing. It will then collect the necessary German site specific information so that it can complete a feasibility study on this project. This is expected to take up to 6 months.

Europe imports over 160,000 tonnes of magnesium per annum. There is currently no producer in the EU and magnesium metal has recently been listed among the most critical raw materials in the EU's list of 27 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 about 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 45 million tonnes per annum in the two Latrobe Valley mines. It operates about 10,000 MW of lignite capacity in the Rhenish lignite area with about 10,000 employees. In addition, RWE Power belongs to the RWE Power Group which is focussed on electricity in Germany, the Netherlands and UK as well as energy trading in its subsidiary RWE Supply and Trading.

Since 2000 RWE Power has invested more than €4 billion into the only brown coal super critical power station in Neurath and Niederaubem, with highest efficiency for lignite power stations in the world (greater than 43%) to ensure stable and secure power supply for the German electricity grid.

REVIEW OF OPERATIONS

5. Latrobe Valley - Yallourn Project

On 16 January 2018**,** LMG and Energy Australia Yallourn Pty Ltd signed a Memorandum of Understanding for Yallourn power station to supply its fly ash to LMG's proposed 3,000 tonnes per annum magnesium plant in the Latrobe Valley. The MoU allows for the expansion of the plant to 40,000 tonnes per annum.

The project involves four stages of development:

- Conduct testing of Yallourn fly ash using LMG hydromet process and Monash University's ash leaching and precipitation process
- Complete a feasibility study
- Construct a 3,000tpa magnesium plant
- Expand to a 40,000tpa magnesium plant.

Since January 2018 LMG has been working with Monash University, which has been performing laboratory scale tests on the Yallourn fly ash. This test work has shown that it can breakdown the magnesioferrite, the most abundant mineral in the Yallourn fly ash and extract the magnesium oxide (MgO), calcium oxide and iron oxide separately. The recovery rates achieved for each material is over 90%.

As a feed stock for LMG's fast cycle retort, the MgO grade is some 25% higher that beneficiated fly ash produced by alternative methods. This result is achieved mainly by the effective reduction in the high iron content in the Yallourn fly ash as well as the specific targeting of the minerals by this process.

This Monash process will replace the iron removal stage in LMG's normal hydrometallurgical process. LMG owns the intellectual property developed during this project with Monash University. Monash University owns the background IP.

There is some follow-up test work required to verify a few assumptions and conditions. Once this work has been successfully completed, LMG will produce a large scale beneficiated sample of Yallourn fly ash to process through its FCR. From the FCR test work, LMG will then be in a position to complete a feasibility study using Yallourn fly ash.

6. Feasibility Study

With the successful completion of the FCR test work, ash test work and receipt of site specific information, LMG's engineers will be in the position to finalise LMG's bankable feasibility study on its two projects.

7. International Patents for the Hydromet Process

This unique Hydromet process involves the treatment of the spent fly ash from brown coal-powered electricity generation using chemicals to reduce sulphur, iron and silicon to acceptable levels so that the beneficiated material can be used as a feedstock in the thermal reduction process.

The result is an efficient and novel means of producing magnesium and supplementary cementitious material production extracted from voluminous tailings of industrial fly ash from some of the world's brown coal electricity generators.

The process is owned 100% by LMG. A patent for all countries in the European Union was granted on 21 March 2018 and the national recordal procedure has been completed in Germany, Poland and Czech Republic. The Australian, USA, China and Indonesian patents have already been granted for 20 years starting from August 2011.

REVIEW OF OPERATIONS

Patent applications were lodged in March 2013 for India. The patent for this area is expected to be granted later this year.

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

Country/Region	Number	Status	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
Indonesia	W00201300844	Granted	22 August 2016
Europe	11819208.7	Granted	21 March 2018
India	577/MUMNP2013	Examination requested	Estimated end 2018

8. Supplementary Cementitious Material

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

In the next six months LMG will be completing a significant amount of larger scale test work. A large quantity of supplementary cementitious material (SCM) will be produced from the FCR 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 any agreements.

9. Loan Funding

In October 2017, LMG executed a $660,000 lending facility with RnD Funding Pty Ltd for a period of 12 months. The loan was repaid from its Research and Development rebate which it has received from the Commonwealth Government based upon LMG's research and development expenditure for the year ending 30 June 2018.

RnD Funding Pty Ltd has offered the Company a similar R&D facility of $650,000 for the 2019 year which the company has executed.

RnD Funding Pty Ltd has also offered the Company an additional project finance facility of $1.5 million. These two facilities will be sufficient to finance the Company's operation for the next twelve months. The Company has yet to complete the project finance facility agreement.

In April 2018, a standby facility for $200,000 was offered by two directors of the Company and a loan agreement was executed, to assist with the funding of the commissioning of the fast cycle reduction furnace.

10. Capital Issue

During the year, the Directors and the Project Director have provided loans to the Company which equated to their fees. The Directors and Project Director have agreed to convert these loans into ordinary shares at the volume weighted average price of the first five trading days of October 2018 being approximately some 7 weeks prior to the Company's AGM. The conversion of these loans will be subject to a resolution being passed by LMG's shareholders at the AGM.

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 2018 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:

- completing the design and commissioning of the fast cycle vertical retort furnace;
- granting of patent for all countries of the European union;
- signing a term sheet with RWE Power for the development of a magnesium plant in Germany;
- signing a MoU with EnergyAustralia Yallourn for fly ash supply to Latrobe Valley magnesium plant; and
- achieving positive test result of the Yallourn fly ash.

OPERATING RESULTS

The consolidated net loss of the Group after providing for income tax amounted to $1,729,833 compared to a net loss of $1,819,585 for the previous corresponding period. The loss was mainly due to the costs of conducting the test work, feasibility study on the Latrobe Magnesium project and the design and commissioning of the fast cycle vertical retort furnace.

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

There is no significant change in the state of affairs of the Group during the financial year. The contributed equity remains at $33,243,049.

MATTERS SUBSEQUENT TO BALANCE DATE

There is no matter or circumstance that has arisen since 30 June 2018 that has significantly affected or may significantly affect:

(a) the operations, in financial years subsequent to 30 June 2018, of the Group;
(b) the results of those operations; or
(c) the state of affairs, in financial years subsequent to 30 June 2018, of the Group.

On 14 September 2018, the financial report was authorised to be signed by a resolution of Directors.

DIRECTORS' REPORT

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 will be 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 AO – Non-Executive Chairman

Mr Murray studied economics 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. 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.

Roles currently held by Mr Murray include strategic adviser for law firm, King & Wood Mallesons in the government infrastructure sector. He managed numerous large projects in his role with NSW Department for Transport including the production of a ten-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 directorships including non-executive chairman of Omni Tanker Holding Pty Ltd for 8 years until retirement in July 2017 and for The Hills Motorway (M2) Limited prior to its takeover by Transurban in 2005 and also the non-executive chairman for Country Pipelines Pty Ltd for 3 years 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.

Date of appointment as Director	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	11,976,923 ordinary shares in Latrobe Magnesium Limited, which are registered in the name of MurraySetter Pty Limited as trustee for the MurraySetter Trust.

David Oliver Paterson – Chief Executive Officer

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.

Date of appointment as Director	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	100,374,615 ordinary shares in Latrobe Magnesium Limited, of which 1,417,275 are held as a direct interest and 98,957,340 are registered in the name of Rimotran Pty Limited as trustee for the David Paterson Super Fund.

Kevin Anthony Torpey – Non-Executive Director

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. 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.

Date of appointment as Director	11 April 2002
Other Current Public Company Directorships	None
Former Public Company Directorships in Last 3 Years	Empire Energy Group Ltd.
Special Responsibilities	None
Interests in Securities	100,860,314 ordinary shares in Latrobe Magnesium Limited, which 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

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.

Date of appointment as Director	4 September 2003
Other Current Public Company Directorships	Director of Bassari Resources Limited
Former Public Company Directorships in Last 3 Years	Managing Director / Chairman of Hill End Gold Ltd Brimstone Resources Limited.

DIRECTORS' REPORT

Special Responsibilities	None
Interests in Securities	11,263,747 ordinary shares in Latrobe Magnesium Limited, of which 704,250 are held as direct interest and 10,559,497 are registered in the name of Diazill Pty Limited as trustee for the PB Superannuation Fund.

John Robert Lee – Non-Executive Director

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.

Date of appointment as Director	10 December 2010
Other Current Public Company Directorships	None
Former Public Company Directorships in Last 3 Years	None
Special Responsibilities	Chairman of Audit Committee
Interests in Securities	4,872,058 ordinary shares in Latrobe Magnesium Limited, which 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 2018 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	5	7	-	-
J R Lee	7	7	2	2

The Board has yet to appoint a Nomination 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 J S Murray is the Director retiring by rotation at the next Annual General Meeting of the Company. Mr Murray being eligible in accordance with Article 12.2 of the Company's constitution offers himself for re-election. His background, experience and qualification are detailed on Pages 10.

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.

2018 Directors	Base Emoluments	Equity Options	Total	Performance Related
	$	$	$	%
J S Murray	60,000	-	60,000	-
D O Paterson	311,604	-	311,604	-
K A Torpey	21,804	-	21,804	-
P F Bruce	21,804	-	21,804	-
J R Lee	21,804	-	21,804	-
	437,016	-	437,016	-

2017 Directors	Base Emoluments	Equity Options	Total	Performance Related
	$	$	$	%
J S Murray	60,000	-	60,000	-
D O Paterson	303,270	-	303,270	-
K A Torpey	21,804	-	21,804	-
P F Bruce	21,804	-	21,804	-
J R Lee	21,804	-	21,804	-
	428,682	-	428,682	-

DIRECTORS' REPORT

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

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. It was agreed by the Board to review all Directors' emoluments once the project moved into the construction phase.

Shareholdings

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

Directors & Other Key Management Personnel	Balance at 1 July 2017	Acquired under Share Purchase Plan for Shareholders	Acquired Under Debt Conversion to Equity	Net Change Other	Balance at 30 June 2018
J S Murray	11,976,923	-	-	-	11,976,923
D O Paterson	100,374,615	-	-	-	100,374,615
K A Torpey*	100,610,314	-	-	250,000	100,860,314
P F Bruce	11,263,747	-	-	-	11,263,747
J R Lee	4,872,058	-	-	-	4,872,058

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.

Balance - No options outstanding as at 30 June 2018

END OF AUDITED REMUNERATION 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.

DIRECTORS' REPORT

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
Assurances and Taxation Services	10,960

	42,960
	=====

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.

D. Paterson

J S Murray
Chairman

D O Paterson
Chief Executive Officer

Sydney

14 September 2018

To the Board of Directors of Latrobe Magnesium Limited

Auditor's Independence Declaration under section 307C of the *Corporations Act 2001* to the Directors of Latrobe Magnesium Limited

As lead audit partner for the audit of the financial statements of Latrobe Magnesium Limited for the financial year ended 30 June 2018, 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

Nexia Sydney Partnership

Joseph Santangelo

Joseph Santangelo
Partner

Dated: 14 September 2018
Sydney

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DIRECTORS' DECLARATION

The Directors of the company declare that:

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

   (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 2018 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 2018, comply with section 300A of the *Corporations Act 2001*.

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
Chairman

D O Paterson
Chief Executive Officer

Sydney

14 September 2018

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 30 June 2018

	Note	GROUP 2018 $	GROUP 2017 $
Revenue			
Finance income		6,219	19,675
Other income		996,194	932,118
	3	1,002,413	951,793
Expenses			
Administration expenses		(996,027)	(1,285,919)
Finance cost		(92,913)	(80,687)
Research and evaluation expenses	3	(1,643,306)	(1,404,772)
Total expenses		(2,732,246)	(2,771,378)
Income tax expense	4	-	-
Loss attributable to members of the parent entity		(1,729,833)	(1,819,585)
Other Comprehensive Income			
Other Comprehensive Income for the year		-	-
Total Comprehensive Income		(1,729,833)	(1,819,585)

	Note	GROUP 2018	GROUP 2017
Basic and diluted loss per share (cents per share)	18	(0.14)	(0.15)

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

STATEMENT OF FINANCIAL POSITION
For the year ended 30 June 2018

	Note	GROUP 2018 $	2017 $
CURRENT ASSETS			
Cash and cash equivalents	5	51,087	1,131,913
Trade and other receivables	6	1,080,168	1,077,913
Total Current Assets		1,131,255	2,209,826
NON-CURRENT ASSETS			
Trade and other receivables	6	16,993	16,993
Plant and equipment	7	3,492	5,158
Intangible assets	8	6,869,467	6,848,180
Total Non-Current Assets		6,889,952	6,870,331
TOTAL ASSETS		8,021,207	9,080,157
CURRENT LIABILITIES			
Borrowings	9	725,887	495,468
Trade and other payables	10	742,688	302,224
Total Current Liabilities		1,468,575	797.692
TOTAL LIABILITIES		1,468,575	797,692
NET ASSETS		6,552,632	8,282,465
EQUITY			
Issued capital	11	33,243,049	33,243,049
Accumulated losses		(26,690,417)	(24,960,584)
TOTAL EQUITY		6,552,632	8,282,465

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

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STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2018

GROUP	Note	Issued Capital $	Accumulated Losses $	Total $
Balance at 1 July 2016		28,985,621	(23,140,999)	5,844,622
Total comprehensive income		-	(1,819,585)	(1,819,585)
Shares issued during the period	11	4,257,428	-	4,257,428
Balance at 1 July 2017		33,243,049	(24,960,584)	8,282,465
Total comprehensive income		-	(1,729,833)	(1,729,833)
Shares issued during the period	11	-	-	-
Balance at 30 June 2018		33,243,049	(26,690,417)	6,552,632

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

STATEMENT OF CASHFLOWS
For the year ended 30 June 2018

	Note	GROUP 2018 $	2017 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from operations		932,118	560,453
Payments to suppliers and employees		(2,136,101)	(2,758,048)
Interest Paid		(37,494)	-
Interest received		4,137	17,675
Net cash used in operating activities	16b	(1,237,340)	(2,179,920)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment		(214)	-
Payment of International Patent expenditure		(18,272)	(31,313)
Net cash used in investing activities		(18,486)	(31,313)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of Borrowing		(485,000)	-
Proceeds from Borrowing		660,000	485,000
Proceeds from Issue of Shares		-	2,904,200
Placement Fees		-	(60,000)
Net cash from financing activities		175,000	3,329,200
Net increase / (decrease) in cash and cash equivalent held		(1,080,826)	1,117,967
Cash and cash equivalent at beginning of the financial year		1,131,913	13,946
Cash and cash equivalent at end of financial year	16a	51,087	1,131,913

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

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 2018, in accordance with continuous disclosure obligations arising under both the *Corporations 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

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.

Research and development tax rebate

Research and development tax rebate is recognised when it is received or when the right to receive payment is established.

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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

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.

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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

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 2018 because:

1. the Company's internal valuations indicate that the recoverable amounts of the assets are 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 preliminary 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, which approximates the project’s life, based on current inputs;
- initial production of 3,000 tonnes increasing to 40,000 tonnes;
- magnesium metal price of US$3,466 per tonne is used which represents the current weighted 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 the preliminary feasibility study; and
- a pre-tax discount rate of 15%.

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:

<u>(i) Liquidity risk</u>

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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

(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 2018 and 30 June 2017 is set out in the following tables:

CONSOLIDATED

Year ended 30 June 2018	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	50,043	-	-	-	1,044	51,087
Trade & other receivables	4	-	53,177	-	-	1,026,992	1,080,169
Total Financial Assets		50,043	53,177	-	-	1,028,036	1,131,256
Financial liabilities							
Borrowings	12	-	(725,887)	-	-	-	(725,887)
Trade and other payables		-	-	-	-	(742,688)	(742,688)
Net financial assets		50,043	(672,710)	-	-	285,348	(337,319)

Year ended 30 June 2017	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	1,121,016	-	-	-	10,897	1,131,913
Trade & other receivables	4	-	51,095	-	-	1,026,818	1,077,913
Total Financial Assets		1,121,016	51,095	-	-	1,037,715	2,209,826
Financial liabilities							
Borrowings	13	-	(495,468)	-	-	-	(495,468)
Trade and other payables		-	-	-	-	(302,224)	(302,224)
Net financial assets		1,121,016	(444,373)	-	-	735,491	1,412,134

(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 2018 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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

NOTE 3: LOSS FROM ORDINARY ACTIVITIES

		GROUP 2018	GROUP 2017
		$	$
The following revenue and expense items are relevant in explaining the financial performance for the period.			
(i)	**Revenue**		
	Finance Income	6,219	19,675
	Other Income		
	Research and development tax rebate	996,194	932,118
		1,002,413	951,793
(ii)	**Expenses**		
	Depreciation	1,880	1,021
	Research and evaluation expenses	1,643,306	1,404,772
	Directors and CEO fees	437,016	428,682

NOTE 4: INCOME TAX EXPENSE

	GROUP 2018	GROUP 2017
	$	$
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	1,729,833	1,819,585
Prima facie tax benefit on loss from ordinary activities before income tax at 27.5%	475,704	500,386
Permanent differences relating to R&D claim	(355,824)	(332,938)
Increase in income tax benefit due to timing differences	6,054	22,061
Tax losses not brought to account as future income tax benefit.	(125,934)	(189,509)
Income tax benefit attributable to loss from ordinary activities before income tax	-	-

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

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 2018	GROUP 2017
	$	$
Benefit of tax losses carried forward:		
Tax losses carried forward	2,085,325	1,959,391
Capital losses	750,305	750,305
	2,835,629	2,709,696

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 2018	GROUP 2017
	$	$
Cash at bank	51,087	1,131,913

NOTE 6: TRADE AND OTHER RECEIVABLES

	GROUP 2018	GROUP 2017
	$	$
CURRENT		
R&D tax concession	996,194	932,118
GST recoverable	19,131	83,325
Promissory Note	53,176	51,095
Prepayment	11,667	11,375
	1,080,168	1,077,913
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: PLANT AND EQUIPMENT

	GROUP	
	2018	2017
	$	$
Plant and equipment at cost	7,779	7,565
Accumulated depreciation	(4,287)	(2,407)
Total Plant and Equipment	3,492	5,158

Movements in Carrying Amounts

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

	Plant and Equipment 2018	Plant and Equipment 2017
	$	$
Balance at 1 July	5,158	1,953
Additions	214	4,369
Disposal	-	(143)
Depreciation expense	(1,880)	(1,021)
Carrying amount at 30 June	3,492	5,158

NOTE 8: INTANGIBLE ASSETS

	GROUP	
	2018	2017
	$	$
Acquired in-process research and development, at cost	5,684,000	5,684,000
Acquired in 2017 with the Ecoengineers Pty Ltd acquisition	1,080,000	1,080,000
Closing balance	6,764,000	6,764,000
International Patent for the Hydromet Process.	105,467	84,180
Total Intangible Assets	6,869,467	6,848,180

Latrobe Magnesium Project is 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 preliminary 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, which approximates the project's life, based on current inputs;
- initial production of 3,000 tonnes per annum increasing to 40,000 tonnes;

- magnesium metal price of US$3,466 per tonne is used which represents the weighted 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 the preliminary feasibility study; and
- a pre-tax discount rate of 15%.

NOTE 9: BORROWINGS

	GROUP	
	2018	**2017**
	$	**$**
CURRENT		
Secured Loan	725,887	495,468

The loan of $495,468 + $27,026 interest = $522,494 was repaid in October 2017 from receipt of 2016-17 R&D tax incentive payment of $932,118.

In November 2017, the Company obtained a new loan facility of $660,000 from RnD Funding Pty Ltd secured by 2017-18 R&D tax incentive payment, keys terms are:

Interest Rate:	1% per month
Maturity Date:	31 October 2018
Repayment:	Cash in full from the 2018 R&D tax rebate
Principal Loan	$660,000
Establishment fee	$ 19,800
Interest accrued at 30-Jun-18	$ 46,087

Loan as at 30 June 2018	$725,887
	=======

NOTE 10: TRADE AND OTHER PAYABLES

	GROUP	
	2018	**2017**
	$	**$**
CURRENT		
Trade creditors and accrued expenses	547,016	302,234
Loan from Directors and Consultant	195,672	-
Total	742,688	302,234

NOTE 11: ISSUED CAPITAL

			GROUP 2018	GROUP 2017
			$	$
(a)	**Ordinary Shares Issued and Fully Paid**			
	Balance at beginning of reporting period		33,243,049	28,985,621
	01 Jul 2016	30,000,000 shares issued at $0.036 to acquire the remaining 50% of the Hydromet process	-	1,080,000
	14 Jul 2016	38,461,538 shares issued at $0.026 pursuant to a private placement	-	1,000,000
		Placement Fees	-	(60,000)
	09 Aug 2016	70,353,862 shares issued at $0.026 pursuant to a Share Purchase Plant	-	1,829,200
	09 Aug 2016	6,497,585 shares issued at $0.015 to convert unlisted convertible securities to ordinary shares	-	97,464
	08 & 28 Sep 2016	10,000,000 shares issued at $0.015 to convert unlisted convertible securities to ordinary shares	-	150,000
	17 Oct 2016	5,717,601 shares issued at $0.015 to convert unlisted convertible securities to ordinary shares	-	85,764
	16 Dec 2016	5,000,000 shares issued at $0.015 pursuant to exercise of unlisted options	-	75,000
			33,243,049	33,243,049

		2018	2017
(b)	Shares on Issue	**No.**	**No.**
	Balance at beginning of reporting period	1,256,598,819	1,090,568,232
	Share on Issues:		
	• 01 July 2016	-	30,000,000
	• 14 July 2016	-	38,461,538
	• 09 August 2016	-	70,353,862
	• 09 August 2016	-	6,497,585
	• 08 & 28 September 2016	-	10,000,000
	• 16 October 2016	-	5,717,602
	• 16 December 2016	-	5,000,000
	Balance at end of reporting period	1,256,598,819	1,256,598,819

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

There were no unissued shares under option.

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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

Capital Management

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

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

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.

- In October 2017, the Group secured a loan facility of $660,000. An amount of $725,887 is payable as at 30 June 2018.
- In April 2018, the Group secured a loan facility of $200,000 from two Directors of the Group, which was not drawn down as at 30 June 2018.

NOTE 12: CONTROLLED ENTITIES

	Country of Incorporation	Percentage Owned 2018	2017
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
Ecoengineers Pty Ltd	Australia	100	100

NOTE 13: CAPITAL AND LEASING COMMITMENTS

Operating lease commitments

The Company's office lease expired on 30 September 2016 and is currently on month to month basis. Discussion with the property manager to renew the lease for a further 3 years at the current rent has been delayed due to a change in the management of the property. The monthly rent and outgoings of $4,992 is payable monthly in advance.

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

	GROUP 2018	2017
	$	**$**
Not later than one year	-	-
Later than one year and not later than five years	-	-
Later than five years	-	-
	-	-

The Company extended its option agreement to lease a property at 320 Tramway Road, Morwell, Victoria for one year from July 2018 to July 2019. This agreement is being prepared by the landlord's lawyer. 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. 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: 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 2018**	**GROUP 2017**
		$	**$**
(i)	Director’s fees were paid to J S Murray Pty Ltd of which J S Murray is a principal.	60,000	60,000
(ii)	Director’s fees were paid to Famallon Pty Ltd of which K A Torpey is a principal.	21,804	21,804
(iii)	Director’s fees were paid to Stockholders Relation Pty Ltd of which J R Lee is a principal.	21,804	21,804

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

NOTE 16: CASH FLOW INFORMATION

		GROUP 2018	GROUP 2017
		$	$
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	51,087	1,131,913
b.	**Reconciliation of cash flow from operating activities to operating loss after income tax:**		
	Net loss	(1,729,833)	(1,819,585)
	Adjustment of non-cash items:		
	Depreciation	1,880	1,021
	Loss on disposal of assets	-	143
	Interest on loan paid by shares	-	9,134
	Changes in Assets and Liabilities:		
	(Increase)/Decrease in receivables and other assets	(2,255)	(419,633)
	Increase/(Decrease) in trade and other payables	492,868	49,000
	Net Cash used in Operating Activities	(1,237,340)	(2,179,920)

c. Acquisition and Disposal of Entities

There was no acquisition of controlled entities during 2018 financial year. During 2017 financial year, the Company acquired Ecoengineers Pty Ltd which owned 50% of the hydromet process. As a result of this acquisition, the Company owns 100% of the hydromet process.

There was no disposal of controlled entities during the 2018 or 2017 financial years.

d. Non-cash Financing and Investing Activities

2017-18	Fully Paid Ordinary Share
	None
2016-17	Fully Paid Ordinary Share
July 2016	30,000,000 issued at $0.036 to acquire remaining 50% of the Hydromet process
August 2016	6,497,585 issued at $0.015 to convert unlisted convertible securities to shares
September 2016	10,000,000 issued at $0.015 to convert unlisted convertible securities to shares
October 2016	5,717,601 issued at $0.015 to convert unlisted convertible securities to shares

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

NOTE 17: LOSS PER SHARE

			GROUP 2018	GROUP 2017
Reconciliation of loss to net loss:				
(a)	Basic and diluted loss per share	cents per share	(0.14)	(0.15)
(b)	Loss used in the calculation of EPS	$	(1,729,833)	(1,819,585)
(c)	Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS		1,256,598,819	1,240,381,833

There were no unissued shares under option at 30 June 2018.

NOTE 18: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no contingent liabilities for the year ended 30 June 2018 (2017: Nil).

NOTE 19: 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 20: EVENTS SUBSEQUENT TO REPORTING DATE

There are no significant events subsequent to reporting date which will affect the operations and state of affairs of the Group.

NOTE 21: 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, the conversion of the Directors loans to equity and the funding alternatives available to the Company.

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.

The Company does have the ability to raise extra funds through a placement if required or debt funds. The Directors have entered into binding documents showing that they will support the Company with an equity and debt raising should it be required. However, should sufficient and appropriate capital not be available to the Company on a timely basis the Directors may cause the cessation of the magnesium project resulting in a reduction in expenditure on the project, staff and Directors. The business would, under this scenario, continue to operate on existing capital reserves with further support from the Directors.

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

NOTE 22: PARENT ENTITY INFORMATION

As at, and throughout, the financial year ended 30 June 2018 the parent entity of the Group was Latrobe Magnesium Limited.

	2018	2017
	$	$
Result of parent entity		
Profit/(loss) for the period	(1,729,833)	(1,819,585)
Other comprehensive income	-	-
Total comprehensive income for the period	(1,729,833)	(1,819,585)
Financial position of the financial entity at year end		
Current assets	1,131,256	2,209,826
Non-current assets	6,951,290	6,931,670
Total assets	8,082,546	9,141,496
Current liabilities	1,468,575	797,692
Non-current liabilities	-	-
Total liabilities	1,468,575	797,692
Net Assets	6,613,971	8,343,804
Total equity of the parent entity comprising of		
Issued capital	33,243,049	33,243,049
Accumulated Losses	(26,629,078)	(24,899,245)
Total equity	6,613,971	8,343,804

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 entered into deed of guarantee with the effect that its subsidiaries guarantee the secured loan detailed in Note 9, to Latrobe Magnesium Limited.

NOTE 23: AUDITOR'S REMUNERATION

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

	GROUP	
	2018	2017
	$	$
Audit and Review of Financial Reports	32,000	32,000
Assurances and Taxation Services	10,960	10,000
	42,960	42,000

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 24: NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET MANDATORY OR EARLY ADOPTED

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2018. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'.

AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI').

For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity.

New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures.

The Group will adopt this standard from 1 July 2018 and the impact of its adoption is expected to be minimal on the Group's financial assets and financial liabilities.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will 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.

The standard will require contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied.

Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied.

Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a 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 will not have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases.

Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs.

Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. 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.

Independent Auditor's Report to the Members of Latrobe Magnesium Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Latrobe Magnesium Limited (the Company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 30 June 2018, the statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and

ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the 'auditor's responsibilities for the audit of the financial report' section of our report. We are independent of the Group in accordance with the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Capitalised Development Costs ($6,764,000) *Refer to note 8 to the financial report.* Included in the Group's intangible assets are capitalised development costs of $6,764,000	Our audit procedures included, amongst others: • We assessed the development costs against the requirements for capitalisation contained in AASB 138 Intangible Assets; • We assessed and challenged management's key assumptions and estimates used to determine the recoverable amount of the assets, including those relating to magnesium pricing,

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Key audit matter	How our audit addressed the key audit matter
in respect of the acquired in-process research and development cost in relation to extracting magnesium from fly ash. The capitalised development costs are considered to be a key audit matter as they represent 84% of the total assets of the Group and the determination of whether the costs can be capitalised in accordance with AASB 138 - Intangible Assets and/or if an impairment charge is necessary involves significant estimates and judgments made by Management, including estimating future cash flows.	input costs, production volumes, growth assumptions, capital expenditure, and discount rates; • We performed sensitivity analysis in relation to all the significant inputs to assess whether the carrying value of the capitalised development costs exceeded its recoverable amount; • We compared the net assets of the Group to the Group's market capitalisation at year-end; • We checked the mathematical accuracy of the cash flow models; • We tested the mathematical accuracy of the underlying 'value in-use' calculations; and • Assessed whether appropriate disclosure regarding significant areas of uncertainty has been made in the financial report.
Funding and liquidity *Refer to note 21 in the financial report.* The Group is currently in the development phase, and is therefore not yet in a position to generate revenue. Accordingly, the Group is reliant on external funding and research and development claims to develop its operations and progress to extracting Magnesium on a commercial scale. The adequacy of funding and liquidity, in addition to the relevant impact on the going concern assessment is a key audit matter due to the inherent uncertainties associated with the future development of the Group's operations and the level of funding required to support that development.	We evaluated the Group's funding and liquidity position at 30 June 2018 and its ability to repay its debts as and when they fall due for a minimum of 12 months from the date of signing the financial report. In doing so, we: • Obtained management's cash flow forecast, checking the mathematical accuracy of the forecast and agreeing the opening cash balance to bank statements; • We assessed and challenged the reliability and completeness of management's assumptions by comparing the forecast cash flows to those of current and previous years, in addition to our understanding of the company's future plans and operating conditions; • We considered the historical accuracy of the company's cash flow forecasts by comparing forecasts used in prior years to the actual cash flows in the current year; • We evaluated the company's financing options included executed agreements and its ability to place shares in the future ; and • Considered events subsequent to year end to determine whether any additional facts or information have become available since the date on which management made its assessment.

Other information

The directors are responsible for the other information. The other information comprises the information in Latrobe Magnesium Limited's annual report for the year ended 30 June 2018, but does not include the financial report and the auditor's report thereon.

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

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

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

Directors' responsibility for the financial report

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

Auditor's responsibility for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at The Australian Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion 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 2018.

In our opinion, the Remuneration Report of Latrobe Magnesium Limited for the year ended 30 June 2018, complies with section 300A of the Corporations Act 2001.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Nexia

Nexia Sydney Partnership

Joseph Santangelo
Partner

Dated: 14 September 2018
Sydney

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 13 September 2018.

Range	Total holders	Units	% Units
1 - 1,000	206	86,399	0.01
1,001 - 5,000	292	958,634	0.08
5,001 - 10,000	215	1,832,319	0.15
10,001 - 100,000	715	33,627,111	2.68
100,001 Over	802	1,220,094,356	97.08
Total	**2,230**	**1,256,598,819**	**100.00**

b. Unmarketable Parcels as at 12 September 2018.

	Minimum Parcel Size	Holders	Units
Minimum $500.00 parcel at $0.008 per unit	62,500	1,231	18,583,149

c. Substantial Shareholders as at 13 September 2018.

No.	Shareholder Name	Number of Fully Paid Ordinary Shares Held	Interest (%)
2	Famallon Pty Ltd <Famallon No2 Super Fund A/C>	80,194,358	6.38
289	Famallon Pty Ltd <Famallon No2 Super Fund A/C>	750,000	0.06
6	Famallon Pty Ltd	19,915,956	1.59
	Total	100,860,314	8.03
1	Rimotran Pty Ltd <DP Super A/C>	98,957,340	7.88
168	David Oliver Paterson	1,417,275	0.11
	Total	100,374,615	7.99

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 13 September 2018:

Rank	Top Shareholders – Ungrouped	Number of Fully Paid Ordinary Shares Held	Holding %
1.	Rimotran Pty Ltd <DP Super A/C>	98,957,340	7.88
2.	Famallon Pty Ltd <Famallon No2 Super Fund A/C>	80,194,358	6.38
3.	CSH Engineering Pty Ltd	44,463,873	3.54
4.	Gibbs Plumbing Services Pty Ltd <Superannuation Fund A/C>	36,000,000	2.86
5.	JJ Wolfe Holdings Pty Limited <JJ Wolfe Super Fund A/C>	25,020,969	1.99
6.	Famallon Pty Ltd	19,915,956	1.58
7.	Arco Four Investments Pty Ltd <The Ocramid Holdings Fam A/C>	19,500,000	1.55
8.	Mr Brett Roy Morrison + Mrs Donna-Maree Earle Morrison <Badem Family A/C>	18,075,683	1.44
9	Ableside Pty Ltd	15,647,230	1.25
10	HSBC Custody Nominees (Australia) Limited	13,659,925	1.09
11	Murraysetter Pty Ltd <The Murraysetter A/C>	11,976,923	0.95
12	Mrs Robyn Ann Lys	11,559,096	0.92
13	Lyndcote Super Pty Ltd <Lyndcote Super Fund A/C>	10,961,538	0.87
14	Stefan Group Pty Ltd <Stefan Superannuation A/C>	10,660,794	0.85
15	Mrs Carmela Adele Murray	10,580,777	0.84
16	Diazill Pty Limited <P B Superannuation Fund A/C>	10,559,497	0.84
17	Mr Antonino Galipo	10,310,000	0.82
18	Mr Neville Masterton Hall + Mrs Gwenda Aileen Hall <Hall Super Fund A/C>	10,200,000	0.81
19	Fantapants Pty Ltd <Macleod Family A/C>	10,000,000	0.80
20	Mr Leslie Robert Knight + Mrs Heather Margery Knight + Mr Timothy Paul Knight <Knight Super Fund A/C>	10,000,000	0.80
		478,243,959	38.06

CORPORATE GOVERNANCE STATEMENT

The Corporate Governance Statement can be viewed at the following location on the Company's website:

http://latrobemagnesium.com/company/corporate-governance