LATROBE MAGNESIUM LIMITED
AND ITS CONTROLLED ENTITIES

ABN 52 009 173 611

HALF YEAR
FINANCIAL REPORT

31 DECEMBER 2014

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John Lee

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DIRECTORS' REPORT

The Directors submit the financial report of Latrobe Magnesium Limited ("the Company" or "LMG") and of the Group being the Company and its subsidiaries for the half-year ended 31 December 2014.

DIRECTORS

The names of Directors who held office during or since the end of the half-year are:

D O Paterson, Chairman
K A Torpey
P F Bruce
J R Lee

The Directors have been in office for the whole of the period.

REVIEW OF OPERATIONS

The consolidated loss of the Group for the half-year after providing for income tax was $336,034 (2013: $315,036). The loss was mainly due to the continued activity on the Latrobe Magnesium Project.

During the half year ended 31 December 2014, the Company has made significant progress with:

i. the successful processing of its bulk sample in China;

ii. further test work conducted to increase iron removal; and

iii. continuing its discussions with its major suppliers and potential customers.

LATROBE MAGNESIUM PROJECT

1. China Bulk Sample

In November, the Company successfully processed its bulk sample of beneficiated fly ash (BFA) to produce magnesium metal and cementitious material in its first full scale commercial smelter tests in China. The BFA was prepared using LMG's unique hydromet patented process.

The test work involved smelting three charges of some 150kg each through a commercial retort at the Wu Long's magnesium plant in Shanxi province. This work was managed and supervised by LMG's Chinese construction partner, BTE Engineering Co. Ltd.

Based on initial data, magnesium recoveries are in the range between 80% and 90%. The final numbers will be determined once more comprehensive assaying has been completed.

At the lower end of the range, the magnesium recoveries are already 5% higher than the average magnesium recovery levels of Chinese plants that process dolomite. These higher recoveries reflect an advantage of LMG's unique BFA feedstock.

DIRECTORS' REPORT

This work replaces pilot plant tests that might otherwise have been required and has addressed directly any scale-up risks using BFA as a feedstock in a full scale commercial operation.

At the end of December 2014, the magnesium crowns and the cementitious material from each test was returned to LMG in Australia for further chemical and mineralogical analyses.

The first of its large-scale concrete trials on the cementitious material from its recently processed China sample was conducted on 16 February 2015 in which a load of 40 MPa nominal grade shotcrete was obtained from Western Suburbs Concrete in Penrith, western Sydney. The load was batched in such a way that 30% of the cement was left out, and was then split into three by discharging 0.40 m^3 into each of three mini-agitators. The 30% outstanding Gladstone GP cement was added to the first mini-agitator, and 30% w/w of cementitious content Bayswater fly ash was added to the second, and 30% w/w LMG cementitious material was added to the third mini-agitator. Each was mixed for five minutes and used to produce test specimens for performance assessment. This process was used to limit the effect on performance of variations in the mix design as batched so that the influence of the cementitious additives could be discerned more clearly.

Compressive strength development is normally assessed at 28 days, but it was still two weeks until that milestone is reached. On 5 March 2015, LMG announced it was pleased to report the 7 and 14 day Unconfined Compressive Strength (UCS) results, as listed in the Table below:

Age (days)	Pure GP cement mix	Fly Ash mix	LMG Residues Mix
7	43.5 MPa	34.5 MPa	35.0 MPa
14	48.2 MPa	43.2 MPa	47.0 MPa

The LMG cementitious material appears to behave like a conventional pozzolan, lagging the pure GP cement mix over the first 7 days, but by 14 days age has essentially caught up in compressive strength and has surpassed the conventional fly ash mix in strength development.

Previous test work showed that the LMG cementitious material mix and the pure GP cement mix reacted in the same manner in the initial 7 day period. TSE and BG&E are investigating why this material has behaved differently from the earlier test work.

LMG looks forward to reporting the full set of performance data at 28 and 56 days age together with additional test work carried out on this large sample in April 2015.

2. Iron Removal Test Work

Since July 2014, the Company has completed a substantial amount of test work to optimise the further removal of iron in the BFA. The removal of iron has the capacity to reduce the operating costs of the smelter activities and improve the quality of the cementitious material.

DIRECTORS' REPORT

3. Major Customers and Suppliers

Following the completion of the cement tests, LMG will be able to commence to finalise its negotiations with potential customers who have expressed interest in entering into long term supply agreements for both its magnesium and cementitious material.

The Company has commenced its negotiations with its major suppliers and over the next six months these commitments will be formalised in writing. The major commodity cost elements are ferrosilicon, natural gas, fly ash, dolomite, lime and soda ash.

4. Capital Raising

In November 2014 and January 2015, a number of lenders converted their loans to shares. This action had the effect of reducing the Company's indebtedness from $400,000 as at 15 October 2015 to a maximum of $204,560.

In March 2015, the Company is negotiating with a number of parties to complete a capital raising of $1,500,000 to assist with the financing of its bankable feasibility study.

EVENTS SUBSEQUENT TO REPORTING DATE

Except for the capital raising matters referred to in Note 4 above, there has not arisen in the interval between the end of the financial half-year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the consolidated entity, to significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in future financial years.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 7 for the half-year ended 31 December 2014 and forms part of this report.

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

D. Paterson

D O Paterson
Chairman

Sydney

16 March 2015

AUDITOR'S INDEPENDENCE DECLARATION

TO THE DIRECTORS OF LATROBE MAGNESIUM LIMITED

In relation to the independent review of the half-year ended 31 December 2014, to the best of my knowledge and belief there have been:

i. No contraventions of the auditors independence requirements of the *Corporations Act 2001*; and

ii. No contraventions of any applicable code of professional conduct.

Nexia Court & Co

Nexia Court & Co
Chartered Accountants

Joseph Santangelo
Partner

Sydney
Date: 16 March 2015

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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the half year ended 31 December 2014

	Note	Consolidated 31 December 2014 $	31 December 2013 $
Revenue	2	203,816	180,308
Research and evaluation expenses		(144,757)	(58,479)
Administration expenses		(395,093)	(436,865)
Loss before income tax expense		(336,034)	(315,036)
Income tax expense		-	-
Loss attributable to members of the parent entity		(336,034)	(315,036)
Other Comprehensive Income			
Other comprehensive income		-	-
Total comprehensive income		(336,034)	(315,036)
		No.	**No.**
Average weighted shares on issue		938,392,848	813,373,119
Losses per share (cents per share)		(0.04)	(0.04)
Diluted losses per share (cents per share)		(0.04)	(0.04)

The financial statements should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION
As at 31 December 2014

		Consolidated Entity	
		31 December 2014	30 June 2014
	Note	$	$
Current Assets			
Cash and cash equivalents		118,106	216,596
Trade and other receivables		299,265	479,409
Total Current Assets		417,371	696,005
Non-Current Assets			
Property plant & equipment		1,182	497
Intangible assets		5,726,967	5,723,923
Trade and other receivables		16,993	12,960
Total Non-Current Assets		5,745,142	5,737,380
Total Assets		6,162,513	6,433,385
Current Liabilities			
Borrowings	3	256,847	384,615
Trade and other payables		104,173	89,113
Total Current Liabilities		361,020	473,728
Total Liabilities		361,020	473,728
Net Assets		5,801,493	5,959,657
Equity			
Issued capital	4	27,500,152	27,322,282
Accumulated losses		(21,698,659)	(21,362,625)
Total Equity		5,801,493	5,959,657

The financial statements should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY
As at 31 December 2014

	Issued Capital $	Accumulated Losses $	Total $
Balance at 1 July 2013	26,491,507	(20,700.710)	5,790,797
Total comprehensive income and expenses	-	(315,036)	(315,036)
Shares issued during period	377,775	-	377,775
Balance at 31 December 2013	26,869,282	(21,015,746)	5,853,536
Balance at 1 July 2014	27,322,282	(21,362,625)	5,959,657
Total comprehensive income and expenses	-	(336,034)	(336,034)
Shares issued during period	177,870	-	177,870
Balance at 31 December 2014	27,500,152	(21,698,659)	5,801,493

The financial statements should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS
For the half-year ended 31 December 2014

	Consolidated Entity	
	31 December 2014 $	31 December 2013 $
Cash Flows from Operating Activities		
Receipts from operations	396,325	382,295
Payments to suppliers and employees	(452,906)	(411,786)
Interest received	2,756	4,053
Net Cash used in Operating Activities	(53,825)	(25,438)
Cash Flows from Investing Activities		
Payment for International Patent Costs	(3,843)	(3,059)
Payment for Property Option	-	(50,000)
Payment for Term Deposit	(4,033)	-
Net Cash used in Investing Activities	(7,876)	(53,059)
Cash Flows from Financing Activities		
Proceeds from Promissory Note	-	25,000
Repayment of Borrowing	(36,789)	(50,000)
Increase in Borrowing	-	1,648
Net Cash used in Financing Activities	(36,789)	(23,352)
Net Decrease in Cash and Cash Equivalents	(98,490)	(101,849)
Cash and Cash Equivalents at Beginning of Period	216,596	293,530
Cash and Cash Equivalents at End of Period	118,106	191,681

The financial statements should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2014

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2014 annual financial report for the financial year ended 30 June 2014. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period. The adoption of these accounting standards did not have any material impact on the financial performance or position of the consolidated entity.

Going Concern Basis of Accounting

For the half year ended 31 December 2014 the consolidated entity recorded a net loss of $336,034 (2013: $315,036) and a net cash outflow of $53,825 (2013 outflow: $25,438).

With the continued support of the Directors, the Company has the required financial resources to fund its operating expenses for the next 12 months. The Company will seek to raise $1.5 million when it decides to proceed to its bankable feasibility study.

Notwithstanding the loss for the half year, negative cash flow from operations and historical financial performance, the financial report has been prepared on a going concern basis. This assessment is based on cash on hand at balance date, the continued support of its Directors, the collection of trade and other receivables and the proposed capital raising.

NOTE 2: LOSS FROM ORDINARY ACTIVITIES

The following revenue and expense items are relevant in explaining the financial performance of the interim period.

		Consolidated Entity	
		31 December 2014 $	31 December 2013 $
(i)	Revenue		
	- Finance Income	3,864	6,223
	- Income Tax Rebate	199,952	174,085
		----------	----------
		203,816	180,308
		======	======
(ii)	Administration Expenses		
	- Depreciation	251	91

NOTE 3: BORROWINGS

	Consolidated Entity	
	31 December 2014 $	30 June 2014 $
Current		
Secured Loan	256,847	384,615
	------------	----------
Total	256,847	384,615
	=======	======

In October 2014, a new loan of $400,000 was raised to progress the development of its Latrobe Valley magnesium project. The loan amount included the capitalised interest for the next twelve months. The loan is secured by a fixed and floating charge over the assets of the Company for a term of 12 months.

Details of the loan outstanding as at 31 December are as follow:

	$
Loan as at 15 October 2014	347,826
Repayment by issue of 10 million shares at $0.01 in Nov 2014	(100,000)
Interest payable up to 31 December 2014	9,021

Loan Balance as at 31 December 2014	256,847
	======

Key terms of the facility are:

Term:	12 months to 15 October 2015.
Interest Rate:	15% per annum.
Conversion Option:	Lender may convert the loan to ordinary shares at $0.01 per share at any time up to 15 October 2015. Please refer to Note 5 Unlisted Convertible Securities for further details.

NOTE 4: ISSUED CAPITAL

		Consolidated Entity 31 December 2014 $	30 June 2014 $
(a) Ordinary Shares Issued and Fully Paid			
Movements in ordinary shares on issue:			
Balance at beginning of reporting period		27,322,282	26,491,507
5 August 2013	9,500,000 shares issued @ $0.004 for payment of costs of borrowing and interest payable for the loan term.	-	38,000
2 December 2013	56,629,143 shares issued @ $0.006 to convert outstanding fees owing to officeholders and consultant.	-	339,775
3 June 2014	113,250,000 shares issued at $0.004 pursuant to a share purchase plan	-	453,000
7 November 2014	5,000,000 shares issued @ $0.01 to convert loan to ordinary shares.	50,000	-
13 November 2014	5,000,000 shares issued @ $0.01 to convert loan to ordinary shares.	50,000	-
9 December 2014	9,733,750 shares issued @ $0.008 to convert outstanding fees owing to officeholders and consultant.	77,870	-
Balance at end of reporting period		27,500,152	27,322,282
(b) Shares on Issue		**No.**	**No.**
Balance at beginning of reporting period		926,623,119	747,243,976
Share Issues:			
- 5 August 2013		-	9,500,000
- 2 December 2013		-	56,629,143
- 3 June 2014		-	113,250,000
- 7 November 2014		5,000,000	-
- 13 November 2014		5,000,000	-
- 9 December 2014		9,733,750	-
Balance at end of reporting period		946,356,869	926,623,119

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2014

NOTE 5: UNLISTED CONVERTIBLE SECURITIES

In November 2014, a lender elected to convert $100,000 of loan to ordinary shares at $0.01. This conversion is shown in Note 3.

In January 2015, a number of lenders elected to convert $75,000 of loans and interest to ordinary shares at $0.01.

As at March 2015, the current balance of this loan is $204,560. This balance includes the accrued unpaid interest to 15 October 2015.

The Company has agreed to issue up to 20,456,000 Unlisted Convertible Securities convertible at $0.01 at any time prior to 15 October 2015 should the lenders wish to convert into ordinary shares.

NOTE 6. SEGMENT INFORMATION

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 consists of one business segment being the development of its magnesium extraction process. The Group's operations are based on Australia only.

NOTE 7. CONTINGENT LIABILITIES

There has been no change in contingent liabilities since the last annual reporting date.

NOTE 8. EVENTS SUBSEQUENT TO BALANCE DATE

There has been no matters that has arisen in the interval between the end of the financial half-year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the consolidated entity to significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in future financial years.

NOTE 9. ACCOUNTING ESTIMATES

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. Net present value calculations performed in recoverable amounts incorporate a number of key estimates.

No impairment has been recognised in respect of the intangible assets for the half year ended 31 December 2014 because:

- the Company's internal valuation indicates that the recoverable amount of the asset is greater than the book value of the assets;

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2014

- the magnesium price supports the sale price estimate used in this valuation;
- the Company is utilising a Hydromet Process and the proven Thermal Reduction Process in its process with estimates of its capital and operating costs which are based on its prefeasibility and adjustment studies; and
- the current market capitalisation of the Company is in the order of $13.4 million for this single project company.

DIRECTORS' DECLARATION
For the half-year ended 31 December 2014

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 8 to 16.

   (a) comply with Australian Accounting Standards AASB 134: Interim Financial Reporting and the Corporation Regulations; and

   (b) give a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date.

2. In the Director's opinion there are reasonable grounds to believe that the Company, with the continued support of its Directors, will be able to pay its debts as and when they become due and payable.

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

On behalf of the Directors

D. Paterson

D O Paterson
Chairman

Sydney

16 March 2015

INDEPENDENT AUDITOR'S REVIEW REPORT

INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE MEMBERS OF LATROBE MAGNESIUM LIMITED

We have reviewed the accompanying half-year financial report of Latrobe Magnesium Limited, which comprises the Statement of Financial Position as at 31 December 2014, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising Latrobe Magnesium Limited (the Company) and the entities it controlled at the period's end or from time to time during the half year.

Directors' Responsibility for the Interim Financial Report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Latrobe Magnesium Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Latrobe Magnesium Limited and controlled entities is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and

b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

Nexia Court & Co

Joseph Santangelo

Nexia Court & Co
Chartered Accountants

Joseph Santangelo
Partner

Sydney

Date: 16 March 2015