# 2015 Annual Report

Latrobe Magnesium Limited and its Controlled Entities

ABN 52 009 173 611

# INDEX

# COMPANY DIRECTORY

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

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

**Auditors**
Nexia Australia
Level 16
1 Market Street
Sydney NSW 2000

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

www.latrobemagnesium.com

**Chief Executive Officer**
David Paterson

**Secretary**
John Lee

**Bankers**
National Australia Bank Limited
Level 3
255 George Street
Sydney NSW 2000

**Solicitors**
Minter Ellison
Level 19
88 Philip Street
Sydney NSW 2000

**Home Stock Exchange**
Australian Securities Exchange
2 The Esplanade
Perth WA 6000

ASX CODE: LMG

# REVIEW OF OPERATIONS

## LATROBE MAGNESIUM PROJECT

### 1. Overview

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

- the Company successfully processed a large sample through a commercial smelter in China and achieved above average magnesium recovery;
- the Company conducted a large body of test work on the removal of iron contained in the brown coal fly ash;
- the Company successfully completed large scale cement tests on its supplementary cementitious material; and
- the Company raised $1.1 million to assist it with the funding of its bankable feasibility study.

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

### 2. Magnesium Markets

In the year ended 31 December 2014, the primary world production of magnesium increased by some 13% to approximately 869,000 tonnes. China's estimated primary production for 2013 was approximately 84% of the world's production. Some 40% of China's production is used locally. World growth in demand is expected to continue at an annual rate between 6% and 7% until 2024 when it is projected the market will produce some 1.6 million tonnes.

Australian and New Zealand consumption of magnesium has been recorded in the range between 10,000 tonnes to 12,000 tonnes per annum. All this magnesium is imported.

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

| | | 30-Jun-15 | 30-Jun-14 |
|---|---|---|---|
| FOB China | US$ per tonne | 2,250 | 2,755 |

Owing to United States anti-dumping duties, the delivered price at year end was in the order of US$4,000 per tonne.

In China, the operating costs of production stayed within the range between US$2,200 to US$2,500 per tonne. However, a number of China plants were either closed or scaled back production due to this low magnesium price.

With the adoption of lightweighting of motor vehicles and the legislated emission standards in many countries in the World, there seems a real demand by car companies to use more magnesium in car parts. The car business has adopted aluminium sheet in outside panels and with this sheet there is always a per cent 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. Hydromet Process

On 11 October 2013, the Australian patent was issued for a period of 20 years starting 27 August 2010. In the European Union, United States of America, China, India and Indonesia, the patent is at the final examination stages. The granting of these patents in these territories is expected within the next twelve months.

All of these countries have significant brown coal / lignite coal deposits.

# REVIEW OF OPERATIONS

## 4. Thermal Reduction Process

The use of the thermal reduction process for the production of magnesium from the Latrobe Valley brown coal fly ash is suitable for the following reasons:

- It is a simplified proven technology responsible for the majority of the World's magnesium production.
- It can produce small quantities of magnesium economically.
- The production is capable of being expanded on a modular basis.
- A lower capital cost when compared to electrolytic plants.
- The construction period for a plant is 12 months.
- The scalability reduces the overall risks of the project.
- The production can be initially tailored to Australian demand requirements.

The process is simple, well proven and robust and therefore does not require complex solutions in the production process and does not consume as much electricity when compared to an electrolytic process.

During the year, the Company investigated the thermal reduction processes that needed to be changed so that the feed stock could be brown coal fly ash. The Company is presently investigating the use of vertical retorts in its smelter versus the normal horizontal retorts. The vertical retorts are more energy efficient and are cheaper to operate at lower capital costs.

## 5. Cementitious Material

In May 2015, the Company received very positive test results on its supplementary cementitious material ("SCM") from its China sample. The testing concentrated on the wet and hardened properties of the SCM with ordinary portland cement and black coal fly ash mixes.

The SCM is a by-product of LMG's process of extracting magnesium from large volumes of spent fly ash in Victoria's Latrobe Valley. LMG is endeavouring to commercialise SCM as a company income generator.

The tests involved the preparation and setting of three shotcrete mixes – a pure General Purpose Cement (GP) mix, a 70% GP and 30% black coal fly ash mix and a 70% GP with 30% LMG SCM material mix. Shotcrete was chosen because this is a higher cost concrete with higher compressive strength than ordinary portland cement.

The LMG SCM mix behaved like a conventional pozzolan, lagging the pure GP cement mix over the first 7 days; but by 14, 28 and 56 days has caught up in compressive strength. The difference between the LMG SCM mix and the GP mix at 14, 28 and 56 days is not statistically significant.

Unconfined Compressive Strength Results:

| Age (days) | Pure GP cement mix | Black Coal Fly Ash mix | LMG SCM Mix |
|---|---|---|---|
| 7 | 43.5 MPa | 34.5 MPa | 35.0 MPa |
| 14 | 48.2 MPa | 43.2 MPa | 47.0 MPa |
| 28 | 52.5 MPa | 50.7 MPa | 52.7 MPa |
| 56 | 59.7 MPa | 55.3 MPa | 57.7MPa |

Test results indicated that the shrinkage characteristics of the SCM were similar to the fly ash. The initial setting time for the SCM material was slower than the fly ash. However, there was only one hour difference between the three mixes. In July LMG reprocessed some of the China sample and has performed mortar tests on the material to determine whether the slower reaction time was due to the material itself or the China process issues. The results for this material showed no slower set time and therefore LMG believe that the difference is as a result of the China process issue and not the material.

The durability test results whilst different were believed to be the result of the testing regime and not the material. The water penetration test results indicated similar characteristics in all three mixes.

## REVIEW OF OPERATIONS

Workability and consistency was assessed using slump standards and the tetxture was manually assessed. The mixes containing the SCM and fly ash were found to be superior to the cement mix primarily because the creaminess characteristics makes the SCM and flyash concrete more pumpable and sprayable and thus more suitable for shotcrete.

During July 2015, LMG has also carried out cement characterisation tests at a well regarded cement laboratory. The results indicate that LMG's SCM product complies with the appropriate Australian Standards.

The revenue generated from this SCM product is critical in ensuring that LMG, when combined with its magnesium revenue, is cost competitive with China.

LMG produces up to 8 tonnes of SCM for every tonne of magnesium produced. LMG's price for its SCM will be set somewhere between the cost of black coal fly ash and the cost of cement delivered in Melbourne. These costs are between $130-180 per tonne.

LMG's SCM is produced without emitting any $CO_2$. Cement traditionally produces up to 0.9 tonnes of $CO_2$ per tonne of cement. LMG or its customers should therefore earn carbon credits of some 7 tonnes per tonne of magnesium produced.

### 6. Latrobe Valley Site

In October 2014, LMG extended the option over the site located at 320 Tramway Road Morwell for a further twelve months. The site contains over 14,000 m² of office and factory buildings which are 8 to 10 metres high. These premises occupy approximately 50% of the total 10.95 hectares of land. In the past, this site has been used for major infrastructure projects being the Loy Yang Power Station, Eastern Stand of the MCG and the Eastlink bridge beams. The site is ideally situated close to existing gas and water pipelines and local infrastructure.

The existing buildings are more than sufficient to accommodate LMG's initial 5,000 tonne per annum magnesium plant and the land allows sufficient room for expansion on the site for its proposed 40,000 tonne per annum magnesium plant.

LMG has secured a call option for twelve months to enter into a three year lease over the site at fixed rentals and a right to buy the property at a fixed price during this period.

### 7. RWE Power Concept Study

In March 2014, LMG completed the RWE Concept Study which concluded the German project to be economically viable and worthy of further development. The project basis in the study was a magnesium plant producing 40,000 tonnes of magnesium per annum and some 320,000 tonnes of cementitious material.

In 2012, the Hambach's Coal Mine's production profile was reported to be in the order of 1.5 billion tonnes, over a 30 year project life. The LMG magnesium project basis only used about 33% of the annual coal output of the Hambach mine. As the Hambach brown coal fly ash contains a higher iron element than some of the Latrobe Valley fly ash, LMG's hydromet process was expanded to include a magnetic separation step. Test work showed that this step combined with a conditioning step removed approximately 80% of the iron in the fly ash. The precipitate produced contained up to 84% iron oxide. This precipitate needs to be investigated to determine whether an iron product can be developed for sale.

The financial model indicated that both the operating and capital costs are slightly lower than an equivalent 40,000 tonne per annum plant in Australia. However, the higher German tax rate means that the net present value of this project is similar to the Latrobe Valley project.

Both RWE Power and LMG have agreed to pursue the magnesium project and are currently determining the best way to move the project forward.

RWE Power AG is part of the RWE Group in Germany. The RWE Group is a top 30 company listed on the German Stock Exchange (DAX). RWE Power uses a broad energy mix of brown coal, hydro and nuclear power stations and is also a driver of innovation for coal fired power stations and $CO_2$-avoidance. The RWE Group employs more than 65,000 people and is estimated to generate an operating profit in 2014 of €4 billion.

# REVIEW OF OPERATIONS

## 8. China Sample

In November 2014, the Company successfully processed its bulk sample of beneficiated fly ash (BFA) to produce magnesium metal and SCM 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 and the subsequent investigations of the magnesium crowns in Australia, the magnesium recovery results were in the range between 80% and 90%.

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

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.

## 9. Capital Raising

In April 2015, the Company raised $900,000 through private placement to sophisticated and professional investors. In May 2015, the Directors of LMG announced a Share Purchase Plan ("SPP") and the SPP raised $235,000 from existing shareholders.

These funds will be used to assist the with the funding of the Bankable Feasibility.

# 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 2015 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) – Appointed on 1 May 2015 |
| David Paterson | (Chief Executive Officer) |
| K A Torpey | |
| P F Bruce | |
| J R Lee | |

## PRINCIPAL ACTIVITIES

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

- successfully processing a large sample through a commercial smelter in China and achieved above average magnesium recovery;
- conducting test work on the removal of iron contained in the brown coal fly ash;
- successfully completing large scale cement tests on its supplementary cementitious material; and
- raising $1.1 million to assist it with the funding of its bankable feasibility study.

## OPERATING RESULTS

The consolidated net loss of the Group after providing for income tax amounted to $691,251 compared to a net loss of $661,915 for the previous corresponding period. The loss was mainly due to the costs of conducting the test work and studies on the Latrobe Magnesium project.

Further information on review of operations of the Group is shown separately in the Directors' Review of Operations on Page 4 to 7 of this report.

### Dividends

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

### Significant Changes in the State of Affairs

The significant change in the state of affairs of the Group during the financial year is an increase in the contributed equity of $1,347,870, from $27,322,282 to $28,670,152 as a result of issuing the following fully paid ordinary shares:

| | | $ |
|---|---|---|
| November 2014 | 10,000,000 shares issued @$0.01 to convert unlisted convertible securities to shares | 100,000 |
| December 2014 | 9,733,750 shares issued @$0.008 to convert outstanding fees owing to officeholders and consultant | 77,870 |
| January 2015 | 7,500,000 shares issued @$0.01 to convert unlisted convertible securities to shares | 75,000 |
| April 2015 | 90,000,000 shares issued @$0,01 pursuant to a private placement | 900,000 |
| | Placement Fees | (40,000) |
| )May 2015 | 23,500,000 shares issued @$0.01 pursuant to a Share Purchase Plan | 235,000 |
| | | 1,347,870 |

## MATTERS SUBSEQUENT TO BALANCE DATE

There is no matter or circumstance that has arisen since 30 June 2015 that has significantly affected or may significantly affect:

(a) the operations, in financial years subsequent to 30 June 2015, of the Group;
(b) the results of those operations; or
(c) the state of affairs, in financial years subsequent to 30 June 2015, of the Group.

On 3 September 2015 the financial report was authorised to be issued 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 are subject to normal State and Federal Environmental Regulations. There were no breaches of these regulations during the year or to the date of this report.

## INFORMATION ON DIRECTORS

***John Stephen Murray – Non Executive Chairman***

Experience and Expertise

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

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

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

Appointed as a Director on 1 May 2015

Other Current Public Company Directorships

None

Former Public Company Directorships in Last 3 Years

None

Special Responsibilities

Chairman of the Board of Directors

Interests in Securities

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

***David Oliver Paterson – Chief Executive Officer***

Experience and Expertise

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

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

## DIRECTORS' REPORT

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

Appointed as a Director on 23 August 2002

Other Current Public Company Directorships

None

Former Public Company Directorships in Last 3 Years

None

Special Responsibilities

Chief Executive Officer
Member of Audit Committee

Interests in Securities

99,990,000 ordinary shares in Latrobe Magnesium Limited, of these shares 12,998,837 are held as a direct interest and 86,991,163 are registered in the name of Rimotran Pty Limited as trustee for the David Paterson Super Fund.

***Kevin Anthony Torpey – Executive Director***

Experience and Expertise

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

Appointed as a Director on 11 April 2002

Other Current Public Company Directorships

Empire Energy Group Ltd.

Former Public Company Directorships in Last 3 Years

None

Special Responsibilities

None

Interests in Securities

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

***Philip Francis Bruce – Non Executive Director***

Experience and Expertise

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

Appointed as a Director on 4 September 2003

Other Current Public Company Directorships

Managing Director of Hill End Gold Limited

## DIRECTORS' REPORT

Director of Bassari Resources Limited

Former Public Company Directorships in Last 3 Years
Brimstone Resources Limited.

Special Responsibilities
None

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

***John Robert Lee – Non Executive Director***

Experience and Expertise

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

Appointed as a Director on 10 December 2010

Other Current Public Company Directorships
None

Former Public Company Directorships in Last 3 Years
Mongolian Resources Corporation Limited

Special Responsibilities
Chairman of Audit Committee

Interests in Securities

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

**Company Secretary**

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

### MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2015 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 | 2 | 2 | - | - |
| D O Paterson | 7 | 7 | 2 | 2 |
| K A Torpey | 6 | 7 | - | - |
| P F Bruce | 7 | 7 | - | - |
| J R Lee | 7 | 7 | 2 | 2 |

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

**Retirement, Election and Continuation in Office of Directors**

Mr B F Bruce is the Director retiring by rotation at the next Annual General Meeting of the Company. Mr Bruce 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 and 11.

# DIRECTORS' REPORT

Mr J S Murray, appointed during the year, and being eligible, offers himself for election. His background, experience and qualification are detailed on Page 9.

**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.

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

| **2014 Directors** | **Base Emoluments** | **Super Contributions** | **Equity Options** | **Total** | **Performance Related** |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | % |
| D O Paterson | 261,600 | - | - | 261,600 | - |
| K A Torpey | 76,300 | - | - | 76,300 | - |
| P F Bruce | 21,052 | 771 | - | 21,823 | - |
| J R Lee | 21,804 | - | | 21,804 | - |
| | 380,756 | 771 | - | 381,527 | - |

# 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. The above emoluments for D O Paterson and K A Torpey were agreed by the Board for the term of the prefeasibility and bankable feasibility studies.

**Shareholdings**

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

| Directors & Other Key Management Personnel | Balance at beginning of date of appointment | Acquired under Share Purchase Plan for Shareholders | Net Change Other | Acquired Under Debt Conversion to Equity | Balance at 30 June 2015 |
|---|---|---|---|---|---|
| J S Murray | 11,400,000 | - | - | - | 11,400,000 |
| D O Paterson | 35,933,333 | 11,333,333 | 6,412,399 | 46,310,935 | 99,990,000 |
| K A Torpey | 65,333,334 | 7,583,333 | 9,592,595 | 17,024,129 | 99,533,391 |
| P F Bruce | 3,441,490 | 1,500,000 | - | 6,129,949 | 11,071,439 |
| J R Lee | - | 1,500,000 | - | 3,179,750 | 4,679,750 |

**Share Options Granted to Key Management Personnel**

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

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

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

**END OF AUDITED REMUNERATION REPORT**

**SHARES UNDER OPTION**

At the date of this report, there were no unissued shares under option.

**UNLISTED CONVERTIBLE SECURITIES**

Under the $400,000 Fast Finance facility completed in October 2014, the Company issued unlisted convertible securities which were convertible at $0.01 at any time prior to 15 October 2015.

In November 2014, 10,000,000 convertible securities were converted to fully paid ordinary shares at $0.01. As the securities were converted before 15 October 2015 there was an adjustment made to the interest owing under the loan which also reduced the number of shares issued.

In January 2015, 7,500,000 convertible securities were converted to fully paid ordinary shares at $0.01. As the securities were converted before 15 October 2015 there was an adjustment made to the interest owing under the loan which also reduced the number of shares issued.

The current balance of the loan and interest accrued to 15 October 2015 is $204,560. The remaining 20,456,000 unlisted convertible securities are convertible at $0.01 at any time prior to 15 October 2015.

**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.

# DIRECTORS' REPORT

## PROCEEDINGS ON BEHALF OF THE COMPANY

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

## NON-AUDIT SERVICES

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

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

| | $ |
|---|---:|
| Audit and Review of Financial Reports | 32,000 |
| Taxation Services | 3,000 |
| | --------- |
| | 35,000 |
| | ===== |

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

## AUDITORS' INDEPENDENT DECLARATION

A copy of the auditors' independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on Page 15 and forms part of this report.

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

**J S Murray**
**Chairman**

**D O Paterson**
**Chief Executive Officer**

Sydney

3 September 2015

nexia
australia

the next solution

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

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

As audit partner for the audit of the financial statements of Latrobe Magnesium Limited for the financial year ended 30 June 2015, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Nexia Court & Co

**Nexia Court & Co**
*Chartered Accountants*

**Joseph Santangelo**
*Partner*

Sydney, 3 September 2015

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Independent member of Nexia International

# DIRECTORS' DECLARATION

The Directors of the company declare that:

1. in the Directors' opinion, the financial statements and accompanying notes set out on Pages 17 to 41 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 2015 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 Pages12 and 13 of the Directors' report (as part of the audited Remuneration Report), for the year ended 30 June 2015, comply with section 300A of the Corporations Act 2001; and

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

D. Paterson

**J S Murray**
**Chairman**

**D O Paterson**
**Chief Executive Officer**

Sydney

3 September 2015

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
## For the year ended 30 June 2015

| | | GROUP | |
|---|---|---|---|
| | Note | 2015 | 2014 |
| | | $ | $ |
| **Revenue** | | | |
| Finance Income | | 7,784 | 8,797 |
| Other Income | | 421,651 | 396,325 |
| | 3 | 429,435 | 405,122 |
| **Expenses** | | | |
| Administration expenses | | (852,310) | (878,535) |
| Research and evaluation expenses | 3 | (268,376) | (188,502) |
| Total expenses | | (1,120,686) | (1,067,037) |
| Income tax expense | 4 | - | - |
| Loss attributable to members of the parent entity | | (691,251) | (661,915) |
| **Other Comprehensive Income** | | | |
| Other Comprehensive Income for the year | | - | - |
| **Total Comprehensive Income** | | (691,251) | (661,915) |

| | | GROUP | |
|---|---|---|---|
| | Note | 2015 | 2014 |
| Basic and diluted loss per share (cents per share) | 18 | (0.072) | (0.083) |

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

# STATEMENT OF FINANCIAL POSITION
## As at 30 June 2015

| | Note | GROUP 2015 $ | GROUP 2014 $ |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 5 | 614,755 | 216,596 |
| Trade and other receivables | 6 | 516,511 | 479,409 |
| **Total Current Assets** | | 1,131,266 | 696,005 |
| **NON-CURRENT ASSETS** | | | |
| Trade and other receivables | 6 | 16,993 | 12,960 |
| Property, plant and equipment | 7 | 1,295 | 497 |
| Intangible assets | 8 | 5,730,298 | 5,723,923 |
| **Total Non-Current Assets** | | 5,748,586 | 5,737,380 |
| **TOTAL ASSETS** | | 6,879,852 | 6,433,385 |
| **CURRENT LIABILITIES** | | | |
| Borrowing | 9 | 196,750 | 384,615 |
| Trade and other payables | 10 | 66,826 | 89,113 |
| **Total Current Liabilities** | | 263,576 | 473,728 |
| **TOTAL LIABILITIES** | | 263,576 | 473,728 |
| **NET ASSETS** | | 6,616,276 | 5,959,657 |
| **EQUITY** | | | |
| Issued capital | 11 | 28,670,152 | 27,322,282 |
| Accumulated losses | | (22,053,876) | (21,362,625) |
| **TOTAL EQUITY** | | 6,616,276 | 5,959,657 |

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

.

# STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2015

| GROUP | Issued Capital<br>$ | Reserves<br>$ | Accumulated Losses<br>$ | Total<br>$ |
|---|---|---|---|---|
| **Balance at 30 June 2013** | 26,491,507 | - | (20,700,710) | 5,790,797 |
| Total comprehensive income | - | - | (661,915) | (661,915) |
| Shares issued during the period | 830,775 | - | - | 830,775 |
| **Balance at 1 July 2014** | 27,322,282 | - | (21,362,625) | 5,959,657 |
| Total comprehensive income | - | - | (691,251) | (691,251) |
| Shares issued during the period | 1,347,870 | - | - | 1,347,870 |
| **Balance at 30 June 2015** | 28,670,152 | - | (22,053,876) | 6,616,276 |

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

# STATEMENT OF CASHFLOWS
## For the year ended 30 June 2015

| | | GROUP | |
|---|---|---|---|
| | | **2015** | **2014** |
| | **Note** | **$** | **$** |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from operations | | 396,325 | 382,295 |
| Payments to suppliers and employees | | (1,050,537) | (888,839) |
| Interest received | | 5,575 | 5,540 |
| **Net cash used in operating activities** | 17b | (648,637) | (501,004) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Payment of International Patent expenditure | | (7,382) | (5,578) |
| Payment of Rent Bond | | (4,033) | - |
| **Net cash used in investing activities** | | (11,415) | (5,578) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Repayment of Borrowing | | (36,789) | (48,353) |
| Proceeds from Promissory Note | | - | 25,000 |
| Proceeds from Issue of Shares | | 1,135,000 | 453,000 |
| Placement Fees | | (40,000) | - |
| **Net cash from financing activities** | | 1,058,211 | 429,647 |
| **Net increase in cash and cash equivalent held** | | 398,159 | (76,935) |
| Cash and cash equivalent at beginning of the financial year | | 216,596 | 293,531 |
| **Cash and cash equivalent at end of financial year** | 17a | 614,755 | 216,596 |

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

# NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

## 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 2015, in accordance with continuous disclosure obligations arising under both the Corporation Act 2001 and Australian Stock Exchange Listing Rules.

The financial report is presented in the Australian currency.

### Statement of Compliance

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

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

a. **Principles of Consolidation**

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

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

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

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

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

b. **Income Tax**

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

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

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

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

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation 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.

j. **Revenue**

Interest

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

Government Grants

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

k. **Trade and Other Payables**

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

l. **Interest bearing liabilities**

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

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

m. **Other liabilities**

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

n. **Provisions**

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

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

o. **Share-based payments**

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

p. **Comparative Figures**

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

q. **Contributed equity**

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

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

r. **Dividends**

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

s. **Earnings per share**

<u>Basic earnings per share</u>

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.

<u>Diluted earnings per share</u>

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.

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 2015 because:

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

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

- budgeted cash flow period of 20 years;
- initial production of 5,000 tonnes increasing to 40,000 tonnes;
- magnesium metal price of US$3,125 per tonne is used which represents the current average price between China and the United States.
- market information for forward exchange rates;
- operating costs based upon third party consultant’s estimates;
- capital costs based upon third party consultant’s estimates; and
- a pre-tax discount rate of 18%.

## NOTE 2: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

**a. Principal financial instruments**

The principal financial instruments are as follows:

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

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 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.

<u>(ii) Interest Rate Risk</u>

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 2015 and 30 June 2014 is set out in the following tables:

**CONSOLIDATED**

| Year ended 30 June 2015 | Weighted Average Interest Rate | Floating Interest Rate | Fixed Interest maturing in: 1 year or less | Over 1 to 5 years | More than 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|
| | % | $ | $ | $ | $ | $ | $ |
| Financial assets | | | | | | | |
| Cash and cash equivalents | 1 | 614,755 | - | - | - | - | 614,755 |
| Trade & other receivables | 4 | - | 47,173 | - | - | 469,338 | 516,511 |
| Total Financial Assets | | 614,755 | 47,173 | - | - | 469,338 | 1,131,266 |
| Financial liabilities | | | | | | | |
| Trade and other payables | 15 | - | (196,750) | - | - | (66,826) | (263,576) |
| Net financial assets | | 614,755 | (149,577) | - | - | 402,512 | 867,690 |

| Year ended 30 June 2014 | 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 | 216,596 | - | - | - | - | 216,596 |
| Trade & other receivables | 4 | - | 54,965 | - | - | 424,444 | 479,409 |
| Total Financial Assets | | 216,596 | 54,965 | - | - | 424,444 | 696,005 |
| Financial liabilities | | | | | | | |
| Trade and other payables | 15 | - | (384,615) | - | - | (89,113) | (473,728) |
| Net financial assets | | 216,596 | (329,650) | - | - | 335,331 | 222,277 |

(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 exploration and 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 the sale of assets 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 2015 were cash and cash equivalents and trade and other receivables, and the value of these financial assets are not affected by the short-term movement in interest rates, a market risk sensitivity has not been performed.

(viii) Equity price risk

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

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

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

**d. Fair value of financial assets and liabilities**

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

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

**NOTE 3: LOSS FROM ORDINARY ACTIVITIES**

| | | GROUP 2015 | GROUP 2014 |
|---|---|---|---|
| | | $ | $ |
| The following revenue and expense items are relevant in explaining the financial performance for the period. | | | |
| (i) | **Revenue** | | |
| | Finance Income | 7,784 | 8,797 |
| | **Other Income** | | |
| | Research and development tax rebate | 421,651 | 396,325 |
| | | 429,435 | 405,122 |
| (ii) | **Expenses** | | |
| | Depreciation | 509 | 203 |
| | Research and evaluation expenses | 268,376 | 188,502 |
| | Directors Fees | 391,504 | 380,756 |
| | Directors Superannuation | - | 771 |

## NOTE 4: INCOME TAX EXPENSE

| | GROUP | |
|---|---|---|
| | **2015** | **2014** |
| | **$** | **$** |
| 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 | 691,251 | 661,915 |
| Prima facie tax benefit on loss from ordinary activities before income tax at 30% | 207,375 | 198,574 |
| Increase in income tax benefit due to timing differences | 7,958 | 4,467 |
| **Permanent differences and tax losses not brought to account as future income tax benefit.** | **215,333** | **203,041** |
| **Income tax benefit attributable to loss from ordinary activities before income tax** | - | - |

**Net deferred tax asset not taken to account**

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

| | GROUP | |
|---|---|---|
| | **2015** | **2014** |
| | **$** | **$** |
| Benefit of tax losses carried forward: | | |
| Tax losses carried forward | 1,804,788 | 1,744,125 |
| Capital losses | 818,514 | 818,514 |
| | 2,623,302 | 2,562,639 |

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 | |
|---|---|---|
| | **2015** | **2014** |
| | **$** | **$** |
| Cash at bank | 614,755 | 216,596 |

### NOTE 6: TRADE AND OTHER RECEIVABLES

| | GROUP | |
|---|---|---|
| | **2014** | **2014** |
| | **$** | **$** |
| **CURRENT** | | |
| R&D tax concession | 421,651 | 396,325 |
| GST recoverable | 47,687 | 28,119 |
| Promissory Note | 47,173 | 54,965 |
| | 516,511 | 479,409 |
| **NON-CURRENT** | | |
| Rent Bond held in bank deposit | 16,993 | 12,960 |
| | 16,993 | 12,960 |

- Loans to controlled entities are unsecured and are interest free and have no fixed term of repayment.
- There are no balances within trade and other receivable that are impaired and are past due. It is expected these balances will be received when due. Impaired assets are provided for in full.

### NOTE 7: PROPERTY, PLANT AND EQUIPMENT

| | GROUP | |
|---|---|---|
| | **2015** | **2014** |
| | **$** | **$** |
| Plant and equipment at cost | 3,068 | 1,761 |
| Accumulated depreciation | (1,773) | (1,264) |
| **Total Property, Plant and Equipment** | 1,295 | 497 |

**Movements in Carrying Amounts**

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

| | **Plant and Equipment 2015** | **Plant and Equipment 2014** |
|---|---|---|
| | **$** | **$** |
| Balance at 1 July 2014 | 497 | 520 |
| Additions | 1,307 | 180 |
| Depreciation expense | (509) | (203) |
| Carrying amount at 30 June 2015 | 1,295 | 497 |

### NOTE 8: INTANGIBLE ASSETS

| | GROUP | |
|---|---|---|
| | **2015** | **2014** |
| | **$** | **$** |
| Acquired in-process research and development, at cost | 5,684,000 | 5,684,000 |

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

- budgeted cash flow period of 20 years;
- initial production of 5,000 tonnes per annum increasing to 40,000 tonnes;
- magnesium metal price of US$3,125 per tonne is used which represents the current average price between China and the United States.
- market information for forward exchange rates;
- operating costs based upon third party consultant's estimates;
- capital costs based upon third party consultant's estimates; and
- a pre-tax discount rate of 18%.

| | | |
|---|---|---|
| International Patent – Joint worldwide patent application with Ecoengineers for the Hydromet Process | 46,298 | 39,923 |
| **Total Intangible Assets** | 5,730,298 | 5,723,923 |

### NOTE 9: BORROWING

| | GROUP | |
|---|---|---|
| | **2015** | **2014** |
| | **$** | **$** |
| **CURRENT** | | |
| Secured Loan | 196,750 | 384,615 |
| | 196,750 | 384,615 |

In October 2014, a loan of $400,000 was raised to progress the development of the Latrobe Valley magnesium project and the provision of working capital. This loan included the capitalised interest for next 12 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 30 June 2015 are as follows: | $ |
| Loan as at 15 October 2014 | 347,827 |
| Repayment by issue of 10 million shares at $0.01 in Nov 2014 | (100,000) |
| Repayment by issue of 7.5 million shares at $0.01 in Dec 2014 | (75,000) |
| Interest payable at 30 June 2015 | 23,923 |
| **Loan as at 30 June 2015** | **196,750** |
| Unearned interest to 15 October 2015 | 7,810 |
| Total Loan as at 15 October 2015 | 204,560 |

The key terms are:

| | |
|---|---|
| Term: | 12 months to 15 October 2015 |
| Interest Rate: | 15% per annum payable in arrears |
| 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 21 Unlisted Convertible Securities for further details. |

## NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

### NOTE 10: TRADE AND OTHER PAYABLES

| | GROUP | |
|---|---|---|
| | **2015** | **2014** |
| | **$** | **$** |
| **CURRENT** | | |
| Trade creditors | 66,826 | 89,113 |
| | 66,826 | 89,113 |

### NOTE 11: ISSUED CAPITAL

| | | | GROUP | |
|---|---|---|---|---|
| | | | **2015** | **2014** |
| | | | **$** | **$** |
| **(a)** | **Ordinary Shares Issued and Fully Paid** | | | |
| | Balance at beginning of reporting period | | 27,322,282 | 26,491,507 |
| | 05 Aug 2013 | 9,500,000 shares issued at $0.004 for payment of costs of borrowing and interest payable for the loan terms | - | 38,000 |
| | 02 Dec 2013 | 56,629,143 shares issued at $0.006 to convert outstanding fees owing to officeholders and consultants | - | 339,775 |
| | 03 Jun 2014 | 113,250,000 shares issued at $0.004 pursuant to a share purchase plan | - | 453,000 |
| | 07 & 13 Nov 2014 | 10,000,000 shares issued at $0.01 to convert unlisted convertible securities to shares | 100,000 | - |
| | 09 Dec 2014 | 9,733,750 shares issued at $0.008 to convert outstanding fees owing to officeholders and consultant | 77,870 | - |
| | 02 Jan 2015 | 7,500,000 shares issued at $0.01 to convert unlisted convertible securities to shares | 75,000 | - |
| | 15 Apr 2015 | 90,000,000 shares issued at $0.01 pursuant to a private placement | 900,000 | - |
| | | Placement Fees | (40,000) | - |
| | 22 May 2015 | 23,500,000 shares issued at $0.01 pursuant to a Share Purchase Plan | 235,000 | - |
| | | | 28,670,152 | 27,322,282 |
| **(b)** | **Shares on Issue** | | **No.** | **No.** |
| | Balance at beginning of reporting period | | 926,623,119 | 747,243,976 |
| | Share on Issues: | | | |
| | • 05 August 2013 | | - | 9,500,000 |
| | • 02 December 2013 | | - | 56,629,143 |
| | • 03 June 2014 | | - | 113,250,000 |
| | • 07 & 13 November 2014 | | 10,000,000 | - |
| | • 09 December 2014 | | 9,733,750 | - |
| | • 06 January 2015 | | 7,500,000 | - |
| | • 15 April 2015 | | 90,000,000 | - |
| | • 22 May 2015 | | 23,500,000 | - |
| | Balance at end of reporting period | | 1,067,356,869 | 926,623,119 |

**Fully paid ordinary shares**

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

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

**Options**

At the date of this report, there were no unissued shares under option.

**Employee Share Plan Scheme**

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

**Capital Management**

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

In managing its capital, the Group's primary objective as an explorer is to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs.

The Group raised a secured short term loan of $400,000 maturing in October 2015, this loan has been partly repaid and the balance on maturity is $204,560, repayment may be made as follows:

- upon receipt of the R&D Tax Incentive refund of $421,651; or
- convert this loan to ordinary shares at $0.01 per share at any time up to 15 October 2015; or
- extend this loan upon its maturity for a further twelve months.

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

### NOTE 12: CONTROLLED ENTITIES

| | Country of Incorporation | Percentage Owned 2015 | 2014 |
|---|---|---|---|
| **Parent Entity:** | | % | % |
| Latrobe Magnesium Limited | Australia | - | - |
| **Subsidiaries of Latrobe Magnesium Limited** | | | |
| Money Management WA Pty Ltd | Australia | 100 | 100 |
| Gold Mines of WA Pty Ltd | Australia | 100 | 100 |
| Magnesium Investments Pty Ltd | Australia | 100 | 100 |

### NOTE 13: CAPITAL AND LEASING COMMITMENTS

Operating lease commitments

The Company's office lease was renewed on 1 March 2014 for a period of two and half years. The monthly rent and outgoings of $4,794 is payable monthly in advance.

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

| | GROUP 2015 | 2014 |
|---|---|---|
| | $ | $ |
| Not later than one year | 57,528 | 54,564 |
| Later than one year and not later than five years | 14,382 | 81,846 |
| Later than five years | - | - |
| | 71,910 | 136,410 |

The Company extended its option agreement to lease a property at 320 Tramway Road, Morwell, Victoria with the payment of an option fee of $50,000. This agreement expires in October 2015. This site is intended for the installation of the future magnesium plant and associated facilities.

### NOTE 14: SEGMENT REPORTING

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

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

### NOTE 15: REMUNERATION OF DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

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

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

| Directors & Other Key Management Personnel | Base Emolument $ | Superannuation $ | Total $ | Performance Related % |
|---|---|---|---|---|
| 2015 | 391,504 | - | 391,504 | - |
| 2014 | 380,756 | 771 | 381,527 | - |

**Shareholdings**

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

| Directors & Other Key Management Personnel | Balance at beginning of date of appointment | Acquired under Share Purchase Plan for Shareholders | Net Change Other | Acquired Under Debt Conversion to Equity | Balance at 30 June 2015 |
|---|---|---|---|---|---|
| J S Murray | 11,400,000 | - | - | - | 11,400,000 |
| D O Paterson | 35,933,333 | 11,333,333 | 6,412,399 | 46,310,935 | 99,990,000 |
| K A Torpey | 65,333,334 | 7,583,333 | 9,592,595 | 17,024,129 | 99,533,391 |
| P F Bruce | 3,441,490 | 1,500,000 | - | 6,129,949 | 11,071,439 |
| J R Lee | - | 1,500,000 | - | 3,179,750 | 4,679,750 |

**Option holdings**

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

## NOTE 16: RELATED PARTY TRANSACTIONS

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

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

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

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

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

| | **Other related entities** | **GROUP 2015** | **GROUP 2014** |
|---|---|---|---|
| | | **$** | **$** |
| (i) | Director's fees were paid to J S Murray Pty Ltd of which J S Murray is a principal. | 10,000 | - |
| (ii) | Director's fees were paid to Famallon Pty Ltd of which K A Torpey is a principal. | 76,296 | 76,300 |
| (iii) | Director's fees were paid to Stockholders Relation Pty Ltd of which J R Lee is a principal. | 21,804 | 21,804 |
| (iv) | Administration and accounting fees were paid to Europacific Corporate Advisory Pty Ltd of which D O Paterson is a principal. | 12,000 | 12,000 |

## NOTE 17: CASH FLOW INFORMATION

| | | **GROUP 2015** | **GROUP 2014** |
|---|---|---|---|
| | | **$** | **$** |
| **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 | 614,755 | 216,596 |
| **b.** | **Reconciliation of cash flow from operating activities to operating loss after income tax:** | | |
| | Net loss | (691,251) | (661,915) |
| | Adjustment of non cash items: | | |
| | Depreciation | 509 | 203 |
| | Shares issued to settle cost of borrowing | 10,976 | 38,000 |
| | Shares issued to settle loans from officeholders and consultant | 77,870 | 339,775 |
| | Changes in Assets and Liabilities: | | |
| | Decrease/(Increase) in receivables and other assets | (37,402) | (4,135) |
| | (Decrease)/Increase in trade and other payables | (9,339) | (212,932) |
| | **Net Cash used in Operating Activities** | (648,637) | (501,004) |

**c. Acquisition and Disposal of Entities**

There was no acquisition or disposal of controlled entities during the 2015 or 2014 financial years.

**d. Non-cash Financing and Investing Activities**

| **2015** | Fully Paid Ordinary Share | |
|---|---|---|
| November 2014 | 10,000,000 | issued at $0.01 to convert unlisted convertible securities to shares |
| December 2014 | 9,733,750 | issued at $0.008 to convert outstanding fees owing to officeholders and consultant |
| January 2015 | 7,500,000 | issued at $0.01 to convert unlisted convertible securities to shares |
| April 2015 | 90,000,000 | issued at $0.01 pursuant to a private placement |
| May 2015 | 23,500,000 | issued at $0.01 pursuant to a Share Purchase Plan |
| **2014** | | |
| August 2013 | 9,500,000 | issued at $0.004 to settle the costs of borrowing and interest payable for the loan term |
| December 2013 | 56,629,143 | issued at $0.006 to repay loans from officeholders and consultant |

**NOTE 18: LOSS PER SHARE**

| | | | GROUP | |
|---|---|---|---|---|
| | | | **2015** | **2014** |
| Reconciliation of loss to net loss: | | | | |
| (a) | Basic and diluted loss per share | cents per shares | (0.072) | (0.083) |
| (b) | Loss used in the calculation of EPS | $ | (691,251) | (661,915) |
| (c) | Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS | | 963,239,424 | 796,988,260 |

There were no unissued shares under option at 30 June 2015.

**NOTE 19: CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

There are no contingent liabilities for the year ended 30 June 2015 (2014 : Nil).

**NOTE 20: EMPLOYEE BENEFITS**

**Employees Share Acquisition Plan**

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

## NOTE 21: UNLISTED CONVERTIBLE SECURITIES

In November 2014, a lender elected to convert $100,000 of loan to ordinary shares at $0.01. In January 2015, a number of lenders elected to convert $75,000 of loans and interest to ordinary shares at $0.01. These conversions are shown in Note 9.

The current balance of the loan including accrued unpaid interest to 15 October 2015 is $204,560.

The Company has issued 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 22: 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 23: GOING CONCERN

Notwithstanding the loss for the year, negative cash flow from operations and historical financial performance, the financial report has been prepared on a going concern basis. The assessment is based on a cash on hand balance at balance date, the collection of trade and other receivables after year end and the continued support of the company's financier.

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

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

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

## NOTE 24: PARENT ENTITY INFORMATION

As at, and throughout, the financial year ended 30 June 2015 the parent entity of the Group was Latrobe Magnesium Limited.

| | 2015 | 2014 |
|---|---|---|
| | $ | $ |
| **Result of parent entity** | | |
| Profit/(loss) for the period | (691,251) | (661,915) |
| Other comprehensive income | - | - |
| Total comprehensive income for the period | (691,251) | (661,915) |
| **Financial position of the financial entity at year end** | | |
| Current assets | 1,131,266 | 696,005 |
| Non-current assets | 5,809,925 | 5,798,720 |
| **Total assets** | 6,941,191 | 6,494,725 |
| Current liabilities | 263,576 | 473,728 |
| Non-current liabilities | - | - |
| **Total liabilities** | 263,576 | 473,728 |
| **Net Assets** | 6,677,615 | 6,020,997 |
| **Total equity of the parent entity comprising of** | | |
| Issued capital | 28,670,152 | 27,322,282 |
| Accumulated Losses | (21,992,537) | (21,301,285) |
| **Total equity** | 6,667,615 | 6,020,997 |

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

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

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

## NOTE 25: AUDITOR'S REMUNERATION

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

| | GROUP | |
|---|---|---|
| | 2014 | 2014 |
| | $ | $ |
| Audit and Review of Financial Reports | 32,000 | 31,500 |
| Taxation Services | 3,000 | 3,000 |
| | 35,000 | 34,500 |

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 26: NEW ACCOUNTING STANDARDS AND AMENDMENTS

The following Australian Accounting Standards, which have been issued or amended, are applicable to the Company. Application of these standards will not affect any of the amounts recognised or disclosed in the financial statements.

| Australian Accounting Standard | Key requirements | Effective Date |
|---|---|---|
| AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities | AASB 2012-3 adds application guidance to AASB 132 *Financial Instruments: Presentation* to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. | 1 July 2014 |
| AASB 2013-3 Recoverable Amount Disclosures for Non-Financial Assets | Amends the disclosure requirements in AASB 136 *Impairment of Assets.* The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. | 1 July 2014 |
| AASB 2013-4 Novation of Derivatives and Continuation of Hedge Accounting [AASB 139 ] | Amends AASB 139 *Financial Instruments: Recognition and Measurement* to permit the continuation of hedge accounting in specified circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations. | 1 July 2014 |
| AASB 2013-7 Amendments to Australian Accounting Standards - Life Insurance Contracts | Amends AASB 1038 arising from AASB 10 *Consolidated Financial Statements* in relation to consolidation and interests of policyholders. | 1 July 2014 |

# NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 30 June 2015

| Australian Accounting Standard | Key requirements | Effective Date |
|---|---|---|
| AASB1031 Materiality | Deletes all the previous Australian guidance in AASB 1031 on materiality, including the quantitative thresholds, and cross references the definition of 'material' to the *Framework for the Preparation and Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors.* | 1 July 2014 |
| AASB2014-1 Amendments to Australian Accounting Standards | This Standard makes amendments to other Accounting Standards for:<br>*A.* Annual Improvements to IFRSs 2010-2012 Cycle and Annual Improvements to IFRSs 2011-2013 Cycle - applicable from 1 July 2014. Amendments relate to:<br>AASB 2 - clarifying vesting and non-vesting conditions in share-based payment arrangements;<br>AASB 3 - clarifies that contingent consideration in a business combination is accounted for at fair value through profit and loss;<br>AASB 8 - disclosure of the judgements used in applying the aggregation criteria and of segment assets;<br>AASB 3 - clarifies that business combination requirements do not apply to the formation of joint arrangements in the financial statements of the joint arrangement itself;<br>AASB 116/138 - clarification of proportionate restatement of accumulated depreciation on revaluation of property, plant and equipment and intangibles;<br>AASB 124 - clarification of KMP where an entity has a management entity/responsible entity;<br>AASB 13 - Clarification of the scope exemption for measuring the fair value of financial assets and liabilities on a portfolio basis;<br>AASB 3/140 - clarifying the interrelationship between AASB 3 and AASB 140 when classifying property as either an investment property or property, plant and equipment and whether that property constitutes a business.<br>B. Amendments to AASB 119 Employee Benefits in relation to the requirements for contributions from employees or third parties that are linked to service - applicable from 1 July 2014;<br>C. Amendments to particular Australian Accounting Standards to delete their references to AASB 1031 Materiality- applicable from 1 July 2014;<br>D. Amendments to AASB 1 First-time Adoption of Australian Accounting Standards, which arise from the issuance of AASB 14 Regulatory Deferral Accounts - applicable from 1 July 2016;<br>E. Defers the application date of AASB 9 Financial Instruments to annual reporting periods beginning on or after 1 January 2018 and other consequential amendments - applicable from 1 January 2015. | 1 July 2014 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2015

## NOTE 27: ACCOUNTING STANDARDS NOT YET EFFECTIVE AND NOT BEEN ADOPTED EARLY BY THE GROUP

| Australian Accounting Standard | Key requirements | Effective Date |
|---|---|---|
| AASB 9 Financial Instruments<br>AASB 2009-11 Amendments arising from AASB 9<br>AASB 2010-7 Amendments arising from AASB 9<br>AASB 2012-6 Amendments Mandatory AASB 9 and Transition Disclosures | AASB 9 and AASB 2009-11 address the classification and measurement of financial assets. Initial indications are that it may affect the Group's accounting for available-for sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investment that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. | 1 January 2017 |

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

## Report on the Financial Report

We have audited the accompanying financial report of Latrobe Magnesium Limited, which comprises the statement of financial position as at 30 June 2015, statement of profit or loss and other comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the year's end or from time to time during the financial year.

*Directors' Responsibility for the Financial Report*

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

*Auditor's Responsibility*

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

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

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

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*Independence*

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

*Opinion*

In our opinion:

(a) the financial report of Latrobe Magnesium Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

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

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

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 12 to 13 of the directors' report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001.* Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Opinion*

In our opinion, the Remuneration Report of Latrobe Magnesium Limited for the year ended 30 June 2015, complies with section 300A of the *Corporations Act 2001.*

Nexia Court & Co

**Nexia Court & Co**
*Chartered Accountants*

**Joseph Santangelo**
*Partner*

Sydney, 3 September 2015

# ADDITIONAL INFORMATION

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

**SHAREHOLDING**

a. Distribution of Shareholders as at 31 August 2015

| Range | Total holders | Units | % of Issued Capital |
|---|---|---|---|
| 1 - 1,000 | 191 | 86,849 | 0.01 |
| 1,001 - 5,000 | 296 | 973,134 | 0.09 |
| 5,001 - 10,000 | 229 | 1,958,337 | 0.18 |
| 10,001 - 100,000 | 644 | 30,111,876 | 2.82 |
| 100,001 - 9,999,999,999 | 656 | 1,034,226,673 | 96.90 |
| **Total** | **2,016** | **1,067,356,869** | **100.00** |

b. The number of shareholdings held in less than $500 unmarketable parcels is 1,195.

c. Substantial Shareholders

The names of the substantial shareholders listed in the holding Company's register as at 31 August 2015

| No. | Shareholder Name | Number of Ordinary Fully Paid Shares Held | Interest (%) |
|---|---|---|---|
| 1 | Rimotran Pty Ltd <DP Super A/C> | 86,991,163 | 8.15 |
| 10 | David Oliver Paterson | 12,998,837 | 1.22 |
| | Total | 99,990,000 | 9.37 |
| 2 | Famallon Pty Ltd <Famallon No2 Super Fund A/C> | 79,617,435 | 7.46 |
| 7 | Famallon Pty Ltd | 19,915,956 | 1.87 |
| | Total | 99,533,391 | 9.33 |

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 31 August 2015

| Rank | Top Shareholders – Ungrouped | Number of Ordinary Fully Paid Shares Held | Holding % |
|---|---|---|---|
| 1. | Rimotran Pty Ltd <DP Super A/C> | 86,991,163 | 8.15 |
| 2. | Famallon Pty Ltd <Famallon No2 Super Fund A/C> | 79,617,435 | 7.46 |
| 3. | CSH Engineering Pty Ltd | 46,154,798 | 4.32 |
| 4. | Gibbs Plumbing Services Pty Ltd <Superannuation Fund A/C> | 36,250,000 | 3.40 |
| 5. | JJ Wolfe Holdings Pty Limited <JJ Wolfe Super Fund A/C> | 25,020,969 | 2.34 |
| 6. | Arco Four Investments Pty Ltd <The Ocramid Holdings Fam A/C> | 24,033,560 | 2.25 |
| 7. | Famallon Pty Ltd | 19,915,956 | 1.87 |
| 8. | Ableside Pty Ltd | 15,647,230 | 1.47 |
| 9. | Stefan Group Pty Ltd <Stefan Superannuation A/C> | 14,660,794 | 1.37 |
| 10. | David Oliver Paterson | 12,998,837 | 1.22 |
| 11. | Mr Brett Roy Morrison + Mrs Donna-Maree Earle Morrison <Badem Family A/C> | 12,880,000 | 1.21 |
| 12. | Mr Antonino Galipo | 12,560,000 | 1.18 |
| 13. | Murraysetter Pty Ltd <The Murraysetter A/C> | 11,400,000 | 1.07 |
| 14. | Wiljoeana Pty Ltd <Morrison Investment A/C> | 11,120,000 | 1.04 |
| 15. | Mrs Robyn Ann Lys | 10,982,173 | 1.03 |
| 16. | Diazill Pty Limited <P B Superannuation Fund A/C> | 10,367,189 | 0.97 |
| 17. | Mrs Carmela Adele Murray | 10,003,854 | 0.94 |
| 18. | Mr Leslie Robert Knight + Mrs Heather Margery Knight + Mr Timothy Paul Knight <Knight Super Fund A/C> | 10,000,000 | 0.94 |
| 19. | Lyndcote Super Pty Ltd <Lyndcote Super Fund A/C> | 10,000,000 | 0.94 |
| 20. | Mr Trenton Nicholas Bruce Macleod | 9,966,674 | 0.93 |
| | | 470,550,632 | 44.09 |

# CORPORATE GOVERNANCE STATEMENT

**OVERVIEW**

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

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

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

**Principle 1 – Lay solid foundations for management and oversight**

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

**1.1 Board and Management Responsibilities**

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

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

**1.2 Appointment of Directors**

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

Information on each Director's background, experience and qualification can be found on pages 9-10 of the Director's Annual Report. Shareholders may rely on this information in relation to re-election of Directors.

**1.3 Written Contract of Appointment**

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

**1.4 Company Secretary**

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

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

**1.5 Diversity**

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

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

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

## CORPORATE GOVERNANCE STATEMENT

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

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

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

### 1.6 Board Reviews

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

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

The Chairman's other responsibilities include:

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

### 1.7 Management Reviews

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

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

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

**Principle 2 – Structure the Board to add value**

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

### 2.1 Nomination committee

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

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

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

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

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

### 2.2 Board Skills Matrix

The Board of Directors is comprised of a non-executive Chairman, two non-executive Directors, an executive Director and a Chief Executive Officer, all of whom have a broad range of skills and experience. Information of each Director is on Page 9-11 of the Director's Report.

# CORPORATE GOVERNANCE STATEMENT

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

**2.3 Independence and Length of Service**

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

| Name of Director | Position/Status | Term in Office | |
|---|---|---|---|
| | | Years | Months |
| Jock Murray | Chairman – Independent | | 2 |
| David Paterson | Chief Executive Officer | 13 | 1 |
| Kevin Torpey | Non-Executive– Non-Independent | 13 | 5 |
| Philip Bruce | Non-Executive– Independent | 12 | 1 |
| John Lee | Non-Executive– Independent | 4 | 6 |

The Board held 7 scheduled meetings last year together with a number of ad hoc meetings. The Directors attendance is disclosed on Page 11 of the Director's Report.

**2.4 Independent Directors**

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

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

**2.5 Independent Chairman**

Mr J S ((Jock) Murray has been appointed as Chairman of the Board on 1 May 2015. His background and experience is outlined on Page 9 of the Director's Report.

**2.6 Professional Development**

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

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

**Principle 3 – Promote ethical and responsible decision making**

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

**3.1 Code of conduct**

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

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

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

Policy on dealing in Company securities

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

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

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

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

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

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

**Principle 4 – Safeguard Integrity in financial reporting**

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

### 4.1 Audit Committee

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

- John Lee – Chairman
- David Paterson

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

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

The responsibilities of the Audit Committee include:

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

### 4.2 Certification of Financial Statement

The Audit Committee has received confirmation in writing from the CEO and the Company Secretary that the Company's Financial Report for the financial year ended 30 June 2015 presents a true and fair view in all material respects of the Company's financial position and operational results and is in accordance with relevant accounting standards.

### 4.3 External auditors

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

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

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

# CORPORATE GOVERNANCE STATEMENT

**Principle 5 – Make timely and balanced disclosure**

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

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

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

**Principle 6 – Respect the rights of shareholders**

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

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

### 6.1 Information on Website

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

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

### 6.2 Investor Relations Program

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

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

### 6.3 Facilitate participation at Shareholders meetings

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

### 6.4 Electronic Communication

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

**Principle 7 – Recognise and manage risk**

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

### 7.1 Risk Committee

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

### 7.2 Risk Review

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

# CORPORATE GOVERNANCE STATEMENT

### 7.3 Internal Audit

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

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

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

### 7.4 Sustainability Risks

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

## Principle 8 – Remunerate fairly and responsibly

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

### 8.1 Remuneration Committee

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

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

### 8.2 Executive Directors and executive remuneration

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

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

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

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

### 8.3. Equity based remuneration scheme

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