LATROBE MAGNESIUM LIMITED
AND ITS CONTROLLED ENTITIES

ABN 52 009 173 611

HALF YEAR
FINANCIAL REPORT

31 DECEMBER 2015

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COMPANY DIRECTORY

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

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Chief Executive Officer
David Paterson

Secretary
John Lee

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ASX CODE: LMG

DIRECTORS' REPORT

The Directors submit the financial report of Latrobe Magnesium Limited ("the Company" or "LMG") and of the Group being the Company and its subsidiaries for the half-year ended 31 December 2015.

DIRECTORS

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

J S Murray,	Chairman
D O Paterson	Chief Executive Officer
K A Torpey	
P F Bruce	
J R Lee	

REVIEW OF OPERATIONS

The consolidated loss of the Group for the half-year after providing for income tax was $447,856 (2014: $336,034). The loss was mainly due to the continued activities on the Latrobe Magnesium Project.

During the half year ended 31 December 2015, the Company has made significant progress with:

i. the signing of the Ash Supply Term sheet with Hazelwood Power;
ii. the granting of the hydromet patents in the USA and China;
iii. additional cementitious material test work;
iv. further test work conducted to increase iron removal; and
v. continuing its discussions with its major suppliers and potential customers.

LATROBE MAGNESIUM PROJECT

1. Ash Supply Term Sheet

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

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

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

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

DIRECTORS' REPORT

2. Patents granted

In October and November 2015, LMG was informed that the United States of America and the Chinese patent for its unique hydromet process had been granted on 22 September 2015 and 23 September 2015 respectively.

The Australian patent was granted on 26 September 2013 for 20 years starting from 27 August 2010.

The process is owned 50% each by Ecoengineers Pty Ltd and Magnesium Investments Pty Ltd, a 100% owned subsidiary of LMG. LMG has the exclusive worldwide marketing rights for the commercialisation of this technology.

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

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

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

3. Further Cementitious Material Test Results

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

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

The cementitious testing was conducted by BG&E at the TSE Laboratory in Sydney and also at Cement Australia's Laboratory in Brisbane.

TSE conducted shotcrete mortar tests with a control cement, cement incorporating 30% of a fly ash, the cementitious material produced in China and three other residues including, a SR6 sample, for setting times and compressive strength over 24 hours. The SR6 sample is representative of what LMG expects to produce in a commercial plant. TSE found that the strength of material using the LMG residues were significantly higher than those using fly ash but some 23% down on the cement control mix. These tests showed better initial set times for the SR6 residue mix over cement by 19% and better final set times of 8%. TSE conducted these tests on shotcrete because it is a high value product.

TSE conducted concrete tests on a concrete mix, and two other mixes with 30% substitution with fly ash and the China sample. While the initial set times and strengths of the China sample were somewhat slower than the fly ash and the cement mixes in the early stages it progressively caught up to both over the 3, 7, 14, 28 and 56 day tests. LMG believes the slower initial set times were due to problems with the China sample. The slower set times were not evident in the above mentioned mortar tests.

Cement Australia conducted concrete tests on a concrete mix and three other mixes with 20% substitution with two SR6 samples and the China sample. Cement Australia found the relative strength performance close to that of the cement mix with strengths at both 7 and 28 days being 0.9 of the reference cement.

Cement Australia also found the LMG residue performance is slightly better than a number of the fly ashes currently available in the New South Wales market.

4. Offtake Agreements

In September 2015, both the LMG's CEO and Chairman met with our potential German and Japanese trading partners with a view of firming up our earlier stage negotiations about marketing LMG's future magnesium production. Both countries have identified the metal, Magnesium, as a critical raw material for their own needs and their respective national industry strategies reflect the special role which magnesium is expected to play.

Our potential trading partners expect industrial demand to grow strongly and are keen to advance to a formal agreement with LMG to contract for magnesium deliveries in 2017. Both parties (in Japan and Germany respectively) indicated their willingness to contract for our magnesium output. Our two potential partners informed us that they would also assist us in obtaining finance for our project from their respective national Development Banks.

The potential German and Japanese trading partners confirmed our earlier understanding that once we have completed our feasibility study they would be in a position to commit to formal offtake agreements. We believe that we will be able to complete the feasibility study in April 2016 and finalise the off take agreements shortly thereafter.

5. Test Work and Engineering Study

LMG is looking to use vertical retorts in its initial plant. It has a commercial design from China which it intends to test on a small scale at CSIRO to confirm its suitability for LMG's fly ash feedstock. LMG will also finalise its iron reduction and test work on its TEOA regeneration circuit whilst this work is being completed.

This work meant that the main body of the design and engineering work was pushed back for three months and should now be completed in April 2016. The initial work on the mass balance, draft plant layout and production flowsheet has been completed.

DIRECTORS' REPORT

6. Fund Raising

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

In October 2015, LMG raised $600,000 of debt funding from Platinum Road Pty Ltd to progress the development of its Latrobe Valley magnesium project.

This funding will allow LMG to complete its vertical retort, hydromet and cement test work and also commence its design and engineering studies for its initial 5,000 tonnes per annum magnesium plant.

LMG arranged the loan through Platinum Road Pty Ltd. The key terms of the facility are:

Term	12 months to 16 October 2016
Repayment	Cash in full from the 2016 R&D tax rebate refund
Interest Rate	15% per annum
Conversion	The lenders have the right to convert any part of their loan at a share price of 1.5 cent during the term of their loan

EVENTS SUBSEQUENT TO REPORTING DATE

There has not arisen in the interval between the end of the financial half-year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the consolidated entity to significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in future financial years.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 8 for the half-year ended 31 December 2015 and forms part of this report.

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

D. Paterson

D O Paterson
CEO

Sydney

17 February 2016

AUDITOR'S INDEPENDENCE DECLARATION

TO THE DIRECTORS OF LATROBE MAGNESIUM LIMITED

In relation to the independent review of the half-year ended 31 December 2015, to the best of my knowledge and belief there have been:

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

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

Nexia Court & Co	**Joseph Santangelo**
Chartered Accountants	*Partner*

Sydney

Dated: 17 February 2016

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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the half year ended 31 December 2015

	Note	Consolidated 31 December 2015 $	 31 December 2014 $
Revenue	2	259,640	203,816
Research and evaluation expenses		(182,990)	(144,757)
Administration expenses		(524,506)	(395,093)
Loss before income tax expense		(447,856)	(336,034)
Income tax expense		-	-
Loss attributable to members of the parent entity		(447,856)	(336,034)
Other Comprehensive Income			
Other comprehensive income		-	-
Total comprehensive income		(447,856)	(336,034)
		No.	**No.**
Average weighted shares on issue		1,072,087,387	938,392,848
Losses per share (cents per share)		(0.04)	(0.04)
Diluted losses per share (cents per share)		(0.04)	(0.04)

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

STATEMENT OF FINANCIAL POSITION
As at 31 December 2015

	Note	Consolidated Entity 31 December 2015 $	30 June 2015 $
Current Assets			
Cash and cash equivalents		729,079	614,755
Trade and other receivables		349,834	516,511
Total Current Assets		1,078,913	1,131,266
Non-Current Assets			
Property plant & equipment		1,069	1,295
Intangible assets		5,736,150	5,730,298
Trade and other receivables		16,993	16,993
Total Non-Current Assets		5,754,212	5,748,586
Total Assets		6,833,125	6,879,852
Current Liabilities			
Borrowing	3	538,043	196,750
Trade and other payables		61,259	66,826
Total Current Liabilities		599,302	263,576
Total Liabilities		599,302	263,576
Net Assets		6,233,823	6,616,276
Equity			
Issued capital	4	28,735,555	28,670,152
Accumulated losses		(22,501,732)	(22,053,876)
Total Equity		6,233,823	6,616,276

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

STATEMENT OF CHANGES IN EQUITY
As at 31 December 2015

	Issued Capital $	Reserves $	Accumulated Losses $	Total $
Balance at 1 July 2014	27,322,282	-	(21,362,625)	5,959,657
Total comprehensive income and expenses	-	-	(336,034)	(336,034)
Shares issued during period	177,870	-	-	177,780
	--------------	-----------	-----------------	--------------
Balance at 31 December 2014	27,500,152	-	(21,698,659)	5,801,493
	========	======	==========	=======
Balance at 1 July 2015	28,670,152	-	(22,053,876)	6,616,276
Total comprehensive income and expenses	-	-	(447,856)	(447,856)
Shares issued during period	65,403	-	-	65,403
	--------------	-----------	-----------------	--------------
Balance at 31 December 2015	28,735,555	-	(22,501,732)	6,233,823
	========	======	==========	=======

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

STATEMENT OF CASH FLOWS
For the half-year ended 31 December 2015

	Consolidated Entity	
	31 December 2015 $	31 December 2014 $
Cash Flows from Operating Activities		
Receipts from operations	421,651	396,325
Payments to suppliers and employees	(692,410)	(452,906)
Interest received	6,074	2,756
Net Cash used in Operating Activities	(264,685)	(53,825)
Cash Flows from Investing Activities		
Payment for International Patent Costs	(6,520)	(3,843)
Payment for Term Deposit	-	(4,033)
Net Cash used in Investing Activities	(6,520)	(7,876)
Cash Flows from Financing Activities		
Repayment of Borrowing	(1,428)	(36,789)
Loan Renewal	386,957	-
Net Cash used in Financing Activities	385,529	(36,789)
Net Decrease in Cash and Cash Equivalents	114,324	(98,490)
Cash and Cash Equivalents at Beginning of Period	614,755	216,596
Cash and Cash Equivalents at End of Period	729,079	118,106

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

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2015

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation

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

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2015 annual financial report for the financial year ended 30 June 2015, except for the impact of the Standards and interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with international Financial Reporting Standards.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period.

Going Concern Basis of Accounting

For the half year ended 31 December 2015 the consolidated entity recorded a net loss of $447,856 (2014: $336,034) and a net cash outflow of $264,685 (2014 outflow: $53,825).

With the continued support of the Directors, the Company has the required financial resources to fund its operating expenses for the next 12 months. The Company will seek to raise $900,000 when it decides to proceed with the balance of its detailed engineering and design works for the initial plant.

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

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2015

NOTE 2: LOSS FROM ORDINARY ACTIVITIES

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

		Consolidated Entity	
		31 December 2015 $	31 December 2014 $
(i)	Revenue		
	- Finance Income	7,025	3,864
	- Income Tax Rebate	252,615	199,952
		----------	----------
		259,640	203,816
		======	======
(ii)	Administration Expenses		
	- Depreciation	227	251

NOTE 3: BORROWING

	Consolidated Entity	
	31 December 2015 $	30 June 2015 $
Current		
Secured Loan	538,043	196,750
	------------	----------
Total	538.043	196,750
	=======	======

In October 2015, the loan was increased to $600,000 to progress the development of the Latrobe Valley magnesium project. The loan amount includes the capitalised interest for the twelve months to 16 October 2016. The loan is secured by a fixed and floating charge over the assets of the Company.

Details of the loan outstanding as at 31 December 2015 are as follows:

	$
Loan as at 16 October 2015	521,739
Interest payable up to 31 December 2015	16,304

Loan Balance as at 31 December 2015	538,043
	======

Key terms of the facility are:

Term: 12 months to 16 October 2016.
Interest Rate: 15% per annum.

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2015

Conversion Option: Lender may convert the loan to ordinary shares at $0.015 per share at any time up to 16 October 2016. Please refer to Note 5 Unlisted Convertible Securities for further details.

NOTE 4: ISSUED CAPITAL

		Consolidated Entity 31 December 2015 $	30 June 2015 $
(a) Ordinary Shares Issued and Fully Paid			
Movements in ordinary shares on issue:			
Balance at beginning of reporting period		28,670,152	27,322,282
7 Nov 2014	5,000,000 shares issued @ $0.01 to convert unlisted convertible securities to ordinary shares.		50,000
13 Nov 2014	5,000,000 shares issued @ $0.01 to convert unlisted convertible securities to ordinary shares.		50,000
9 Dec 2014	9,733,750 shares issued @ $0.008 to convert outstanding fees owing to officeholders & consultant.		77,870
2 Jan 2015	7,500,000 shares issued @ $0.01 to convert unlisted convertible securities to ordinary 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
9 Oct 2015	6,540,300 shares issued @ $0.01 to convert unlisted convertible securities to ordinary shares.	65.403	-
Balance at end of reporting period		28,735,555	28,670,152
(b) Shares on Issue		**No.**	**No.**
Balance at beginning of reporting period		1,067,356,869	926,623,119
Share Issues:			
- 07 November 2014		-	5,000,000
- 13 November 2014		-	5,000,000
- 09 December 2014		-	9,733,750
- 02 January 2015		-	7,500,000
- 15 April 2015		-	90,000,000
- 22 May 2015		-	23,500,000
- 09 October 2015		6,540,300	-
Balance at end of reporting period		1,073,897,169	1,067,356,869

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2015

NOTE 5: UNLISTED CONVERTIBLE SECURITIES

On 9 October 2015, a lender elected to convert $65,403 of loan to ordinary shares at $0.01.

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

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

NOTE 6. UNLISTED OPTIONS

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

NOTE 7. SEGMENT INFORMATION

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

NOTE 8. CONTINGENT LIABILITIES

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

NOTE 9. EVENTS SUBSEQUENT TO BALANCE DATE

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

NOTE 9. ACCOUNTING ESTIMATES

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

No impairment has been recognised in respect of the intangible assets for the half year ended 31 December 2015 because:

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2015

- the Company's internal valuation indicates that the recoverable amount of the asset is greater than the book value of the assets;
- the magnesium price supports the sale price estimate used in this valuation;
- the Company is utilising a Hydromet Process and the proven Thermal Reduction Process in its process with estimates of its capital and operating costs which are based on its prefeasibility and adjustment studies; and
- the current market capitalisation of the Company as at 17 February 2016 is in the order of $8.6 million for this single project company.

DIRECTORS' DECLARATION
For the half-year ended 31 December 2015

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 9 to 17.

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

   (b) give a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date.

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

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

On behalf of the Directors

D. Paterson

D O Paterson
CEO

Sydney

17 February 2016

INDEPENDENT AUDITOR'S REVIEW REPORT

INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE MEMBERS OF LATROBE MAGNESIUM LIMITED

We have reviewed the accompanying half-year financial report of Latrobe Magnesium Limited, which comprises the Statement of Financial Position as at 31 December 2015, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising Latrobe Magnesium Limited (the Company) and the entities it controlled at the period's end or from time to time during the half year.

Directors' Responsibility for the Interim Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Latrobe Magnesium Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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Conclusion

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

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and

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

Nexia Court & Co

Nexia Court & Co
Chartered Accountants

Joseph Santangelo
Partner

Sydney

Dated: 17 February 2016