Latrobe Magnesium

2019 Annual Report

Latrobe Magnesium Limited and its Controlled Entities

ABN 52 009 173 611

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COMPANY DIRECTORY

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

Registered Office and Principal Place of Business
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Sydney NSW 2000
Telephone: (02) 8097 0250
Facsimile: (02) 9279 3854

Auditors
Nexia Sydney Partnership Pty Ltd
Level 16
1 Market Street
Sydney NSW 2000

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

www.latrobemagnesium.com

Chief Executive Officer
David Paterson

Secretary
John Lee

Bankers

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

Solicitors
Minter Ellison
Level 40
1 Farrer Place
Sydney NSW 2000

Stock Exchange
Australian Securities Exchange
20 Bridge Street
Sydney NSW 2000

ASX CODE: LMG

REVIEW OF OPERATIONS

LATROBE MAGNESIUM PROJECT

1. Overview

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

- Redesigning, testing and evaluating of the fast cycle retort furnace (FCR).
- achieving positive results on processing Yallourn fly ash.
- completing feasibility study using Yallourn fly ash; and
- granting of the Indian patent;

2. Magnesium Markets

In the calendar year ended 31 December 2018, the primary world production of magnesium increased to 974,000 tonnes. China's estimated primary production for the calendar year 2018 was approximately 86% of the world's production. Some 50% of China's production is used locally. World growth in demand is expected to continue at an annual rate between 6% and 7% until 2024 when it is projected the market will produce some 1.7 million tonnes.

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

During the year, the magnesium price traded at a three year high in line with the rebound in many commodities. The spot prices as at 30 June were, as follows:

		30-Jun-19	30-Jun-18
FOB China	US$ per tonne	2,650	2,550

Owing to United States anti-dumping duties, the annual delivered price for 2018 was in the order of US$5,071 per tonne.

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

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

3. Feasibility Study

On 28 November 2018, Latrobe Magnesium Limited's (ASX:LMG) Board announced that it will finalise a feasibility study for its 3,000 tonnes per annum magnesium plant in the Latrobe Valley based upon Yallourn feed stock and an automated horizontal retort smelter.

LMG has been trialling its fast cycle retort (FCR) furnace for the past two years. Latest test work did not provide results necessary to complete a study using FCR. While the potential benefits of the FCR are substantial, the Board has decided to construct the initial plant using proven smelter automated horizontal technology.

LMG has conducted its prefeasibility and adjustment studies using automated horizontal retort technology and the results of those studies were positive.

REVIEW OF OPERATIONS

LMG completed its Yallourn feasibility study using Yallourn fly ash at the end of August 2019. The estimated capital costs of the plant will be in the order of $54 million. The earnings before interest and tax estimated to be generated from this plant when working at its optimal capacity is up to $5.6 million per annum. The planned commencement of construction on site in the Latrobe Valley is expected to start in December 2019.

4. Latrobe Valley Project

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

The project involves four stages of development:

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

In July 2018, LMG announced the successful results of the test work it completed with Monash University. This test work showed that the magnesioferrite, the most abundant mineral in the Yallourn fly ash, can be broken down and the magnesium oxide (MgO), calcium oxide and iron oxide extracted separately. The recovery rates achieved for each material was over 90%.

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

LMG is currently finalising its Ash Supply Agreement with Energy Australia, the owners of the Yallourn Power Station and expects this to be completed by the end of next month.

5. Hambach Project

On 18 December 2017, LMG announced that they had signed a term sheet with RWE Power AG that details how both parties will proceed with the development of a new Germany-based magnesium plant.

LMG is currently producing a large sample of supplementary cement material from its beneficiated RWE fly ash so that the Verein Deutscher Zementwerke e.V. in Düsseldorf may analyse the product to ensure it meets EU Standards. This confirmatory work will take about 3 months to complete.

Europe imports over 160,000 tonnes of magnesium per annum. There is currently no producer in the EU and magnesium metal has recently been listed among the most critical raw materials in the EU's list of 27 metals.

RWE Power AG and LMG have identified the brown coal fly ash from RWE's Hambach mine as being the most suitable to commercially extract magnesium. RWE Power mines produce about 100 million wet tonnes of brown coal per annum (from which approximately 35 to 40 million tonnes per annum are produced from its Hambach mine) compared to 45 million tonnes per annum in the two Latrobe Valley mines. It operates about 10,000 MW of lignite capacity in the Rhenish lignite area with about 10,000 employees. In addition, RWE Power belongs to the RWE Power Group which is focussed on electricity in Germany, the Netherlands and UK as well as energy trading in its subsidiary RWE Supply and Trading.

REVIEW OF OPERATIONS

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

6. Supplementary Cementitious Material

There is a major shortage of fly ash in Victoria. Victoria users used to import up to 300,000 tonnes per annum from South Australia, New South Wales and Queensland. With the closure of power stations, black coal fly ash is becoming harder to source locally and some users are now starting to import fly ash from overseas.

7. International Patents

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

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

The Australian, EU, USA, China, Indonesian and Indian patents have been granted for 20 years starting from 25 August 2011. The process is 100% owned by LMG.

All the above countries are known to have large lignite / brown coal deposits.

Country/Region	Number	Status	Date of grant
Australia	2011293107	Granted	26 September 2013
United States	9139892 (13/818788)	Granted	22 September 2015
China	201180040099.2	Granted	23 September 2015
Indonesia	W00201300844	Granted	22 August 2016
Europe	11819208.7	Granted	21 March 2018
India	577/MUMNP2013	Granted	11 January 2019

LMG has had to develop a new acid process to treat the Yallourn fly ash. This process uses HCl to dissolve the magnesioferrite and precipitate the material into a MgCl2 which is then converted to MgO and processed in the normal manner.

8. Funding

In May 2018, two Directors of the Company provided an unsecured lending facility to the Company of up to $200,000. To date some $100,000 of these facilities have been drawn. The repayment of this loan has been extended to 31 December 2020.

In September 2018, the Company executed agreements with RnD Funding to provide up to $2.15 million to assist with financing its 2019 activities. To date $2.14 million of these facilities have been drawn.

The R&D loan facility of $673,620 as at 30 June 2019 plus financial costs of $21,524.06 accrued to 19 August 2019 has been repaid by the research and development tax rebate of $705,429.93 received on 19 August 2019.

REVIEW OF OPERATIONS

The Company has received an offer to refinance the amount owing under its Warrant Loan Facility as at 15 October 2019 of $1,842,363 on the same terms and conditions as detailed in Note 9iii to the financial accounts. This facility will mature on 15 October 2020 under this offer. The Company will issue 20 million warrants with an exercise price of $0.03 for a period of three years on 15 October 2019. The offer is subject to entering into the necessary loan documentation.

9. Capital Issue

The Company has alternatives available to it in relation to future equity raisings which may be required to provide working capital funding for the 2019 year.

10. Warrant Issue

Under the 2018 funding agreements mentioned above with RnD Funding Pty Ltd, LMG has issued 12,495,000 unlisted warrants. The warrants have an exercise price of $0.02 and are exercisable for a period up to 3 years post the drawdown dates but not before 15 October 2019.

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 2019 and the auditor's report thereon.

DIRECTORS

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

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

PRINCIPAL ACTIVITIES

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

- redesigning, testing and evaluating of the fast cycle vertical retort furnace;
- achieving positive test result of the Yallourn fly ash.
- finalising feasibility study using proven automatic horizontal retort technology;
- granting of the Indian patent;

OPERATING RESULTS

The consolidated net loss of the Group after providing for income tax amounted to $1,515,472 compared to a net loss of $1,729,833 for the previous corresponding period. The loss was mainly due to the costs of conducting the test work, feasibility study on the Latrobe Magnesium project and the design and commissioning of the fast cycle vertical retort furnace.

Further information on review of operations of the Group is shown separately in the Directors' Review of Operations on Page 4 to 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 $319,234 from $33,243,049 to $33,562,283 as a result of issuing the following fully paid ordinary shares:

Date	Purpose	Shares Issues	$/Share	Amount
10 December 2018	convert outstanding fees owing to Directors and officer into securities	39,904,250	$0.008	$319,234

MATTERS SUBSEQUENT TO BALANCE DATE

Since the Balance date the Group has repaid one of its debt facilities and refinanced the other two facilities for a further 12 months.

On 27 September 2019, the financial report was authorised to be signed by a resolution of Directors.

DIRECTORS' REPORT

LIKELY DEVELOPMENTS

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

ENVIRONMENTAL REGULATIONS

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

INFORMATION ON DIRECTORS

John Stephen Murray AO – Non-Executive Chairman

Mr Murray studied economics and history with the Royal Military College at Duntroon before studying engineering management at the Royal Military College of Science in the UK. He also holds qualifications in international politics from Deakin University. Prior to his foray into business, Mr Murray had a distinguished military career over almost 30 years before retiring as a Colonel in 1994. He brings a wealth of senior management and directorship experience with a particular focus on infrastructure, project management and freight logistics.

Roles currently held by Mr Murray include strategic adviser for law firm, King & Wood Mallesons in the government infrastructure sector. He managed numerous large projects in his role with NSW Department for Transport including the production of a ten-year development plan for the State's transport infrastructure and services as well as chairing the $2 billion Parramatta Rail Link Company project. He acted as an adviser for operational planning and infrastructure for the Sydney, Beijing and London Olympic Games. In addition to these roles he held numerous directorships including non-executive chairman of Omni Tanker Holding Pty Ltd for 8 years and for The Hills Motorway (M2) Limited prior to its takeover by Transurban in 2005 and also the non-executive chairman for Country Pipelines Pty Ltd for 3 years prior to its takeover by APA in 2008. He was on the board of Terminals Australia for five years up until its sale to Asciano in 2008.

Date of appointment as Director	1 May 2015
Other Current Public Company Directorships	None
Former Public Company Directorships in Last 3 Years	None
Special Responsibilities	Chairman of the Board of Directors
Interests in Securities	16,351,923 ordinary shares in Latrobe Magnesium Limited, which are registered in the name of MurraySetter Pty Limited as trustee for the MurraySetter Trust.

David Oliver Paterson – Chief Executive Officer

Mr Paterson is a qualified non-practising Chartered Accountant and a graduate from the University of Queensland. 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 project financing financial analysis, valuations; and the raising of debt and equity.

DIRECTORS' REPORT

Date of appointment as Director	23 August 2002
Other Current Public Company Directorships	None
Former Public Company Directorships in Last 3 Years	None
Special Responsibilities	Chief Executive Officer Member of Audit Committee
Interests in Securities	123,095,740 ordinary shares in Latrobe Magnesium Limited, of which 17,888,400 are held as a direct interest and 105,207,340 are registered in the name of Rimotran Pty Limited as trustee for the David Paterson Super Fund.

Kevin Anthony Torpey – Non-Executive Director

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

Date of appointment as Director	11 April 2002
Other Current Public Company Directorships	None
Former Public Company Directorships in Last 3 Years	Empire Energy Group Ltd.
Special Responsibilities	None
Interests in Securities	102,450,189 ordinary shares in Latrobe Magnesium Limited, which are held by Famallon Pty Ltd and Famallon Pty Ltd ATF Famallon No.2 Super Fund. Mr Torpey is a principal of Famallon Pty Ltd and a beneficiary of the fund.

Philip Francis Bruce – Non-Executive Director

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

Date of appointment as Director	4 September 2003
Other Current Public Company Directorships	Director of Bassari Resources Limited
Former Public Company Directorships in Last 3 Years	Managing Director / Chairman of Hill End Gold Ltd Brimstone Resources Limited.
Special Responsibilities	None
Interests in Securities	12,853,622 ordinary shares in Latrobe Magnesium Limited, of which 704,250 are held as direct interest and 12,149,372 are registered in the name of Diazill Pty Limited as trustee for the PB Superannuation Fund.

DIRECTORS' REPORT

John Robert Lee – Non-Executive Director

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

Date of appointment as Director	10 December 2010
Other Current Public Company Directorships	None
Former Public Company Directorships in Last 3 Years	None
Special Responsibilities	Chairman of Audit Committee
Interests in Securities	6,461,933 ordinary shares in Latrobe Magnesium Limited, which are registered in the name of Stockholder Relations Pty Limited of which Mr Lee is a Director.

Company Secretary

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

MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2019 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	6	6	-	-
D O Paterson	6	6	2	2
K A Torpey	1	6	-	-
P F Bruce	6	6	-	-
J R Lee	6	6	2	2

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

Retirement, Election and Continuation in Office of Directors

Mr K A Torpey and Mr J R Lee are the Directors retiring by rotation at the next Annual General Meeting of the Company. Mr Torpey and Mr Lee being eligible in accordance with Article 12.2 of the Company's constitution offer themselves for re-election. Their background, experience and qualification are detailed on Pages 10 and 11.

DIRECTORS' REPORT

REMUNERATION REPORT - AUDITED

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

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

Remuneration Committee

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

Key Management Personnel

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

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

2019 Directors	Base Emoluments	Equity Options	Total	Performance Related
	$	$	$	%
J S Murray	52,500	-	52,500	-
D O Paterson	311,604	-	311,604	-
K A Torpey	24,306	-	24,306	-
P F Bruce	24,306	-	24,306	-
J R Lee	24,306	-	24,306	-
	437,022	-	437,022	-

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

DIRECTORS' REPORT

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

Service Agreements

There are currently no service agreements in place formalising the terms of remuneration of Directors or other key management personnel of the Company and the Group. It was agreed by the Board to review all Directors' emoluments once the project moved into the construction phase.

Shareholdings

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

Directors & Other Key Management Personnel	Balance at 1 July 2018	Acquired under Share Purchase Plan for Shareholders	Acquired Under Debt Conversion to Equity	Net Change Other	Balance at 30 June 2019
J S Murray	11,976,923	-	4,375,000	-	16,351,923
D O Paterson	100,374,615	-	22,721,125	-	123,095,740
K A Torpey*	100,860,314	-	1,589,875	-	102,450,189
P F Bruce	11,263,747	-	1,589,875	-	12,853,622
J R Lee	4,872,058	-	1,589,875	-	6,461,933

Share Options Granted to Key Management Personnel

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

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

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

Balance - No options outstanding as at 30 June 2019

END OF AUDITED REMUNERATION REPORT

INDEMNIFICATION

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

PROCEEDINGS ON BEHALF OF THE COMPANY

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

DIRECTORS' REPORT

NON-AUDIT SERVICES

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

Details of the amounts paid or payable to Nexia Sydney Partnership Pty Ltd for services provided during the year are set out below:

	$
Audit and Review of Financial Reports	36,000
Taxation Services	7,000

	43,000
	=====

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. Paterson

D O Paterson
Chief Executive Officer

Sydney

27 September 2019

To the Board of Directors of Latrobe Magnesium Limited

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

As lead audit partner for the audit of the financial statements of Latrobe Magnesium Limited for the financial year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Nexia

Nexia Sydney Partnership

Joseph Santangelo
Partner

Dated: 27 September 2019
Sydney

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DIRECTORS' DECLARATION

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;

- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and

- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

D. Paterson

J S Murray
Chairman

D O Paterson
Chief Executive Officer

Sydney

27 September 2019

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 30 June 2019

	Note	GROUP 2019 $	GROUP 2018 $
Revenue			
Finance income		4,352	6,219
Other income		705,430	996,194
	3	709,782	1,002,413
Expenses			
Administration expenses		(943,775)	(996,027)
Finance cost		(311,714)	(92,913)
Research and evaluation expenses	3	(969,765)	(1,643,306)
Total expenses		(2,225,254)	(2,732,246)
Income tax expense	4	-	-
Loss attributable to members of the parent entity		(1,515,472)	(1,729,833)
Other Comprehensive Income			
Other Comprehensive Income for the year		-	-
Total Comprehensive Income		(1,515,472)	(1,729,833)

	Note	GROUP 2019	GROUP 2018
Basic and diluted loss per share (cents per share)	18	(0.12)	(0.14)

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

STATEMENT OF FINANCIAL POSITION
For the year ended 30 June 2019

	Note	GROUP 2019 $	GROUP 2018 $
CURRENT ASSETS			
Cash and cash equivalents	5	401,750	51,087
Trade and other receivables	6	839,848	1,080,168
Total Current Assets		1,241,598	1,131,255
NON-CURRENT ASSETS			
Trade and other receivables	6	16,993	16,993
Plant and equipment	7	2,270	3,492
Intangible assets	8	6,891,729	6,869,467
Total Non-Current Assets		6,910,992	6,889,952
TOTAL ASSETS		8,152,590	8,021,207
CURRENT LIABILITIES			
Borrowings	9	2,471,710	725,887
Trade and other payables	10	274,285	742,688
Total Current Liabilities		2,745,995	1,468,575
TOTAL LIABILITIES		2,745,995	1,468,575
NET ASSETS		5,406,595	6,552,632
EQUITY			
Issued capital	11	33,562,283	33,243,049
Warrant Reserves	12	50,201	-
Accumulated losses		(28,205,889)	(26,690,417)
TOTAL EQUITY		5,406,595	6,552,632

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

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STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2019

GROUP	Note	Issued Capital $	Warrant Reserves $	Accumulated Losses $	Total $
Balance at 1 July 2017		33,243,049	-	(24,960,584)	8,282,465
Total comprehensive income		-	-	(1,729,833)	(1,729,833)
Shares issued during the period	11	-	-	-	-
Balance at 1 July 2018		33,243,049	-	(26,690,417)	6,552,632
Warrants Issued			50,201		50,201
Total comprehensive income		-	-	(1,515,472)	(1,515,472)
Shares issued during the period	11	319,234	-	-	319,234
Balance at 30 June 2019		33,562,283	50,201	(28,205,889)	5,406,595

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

STATEMENT OF CASHFLOWS
For the year ended 30 June 2019

	Note	GROUP 2019 $	2018 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from operations		996,194	932,118
Payments to suppliers and employees		(2,106,713)	(2,136,101)
Interest and other financial costs paid		(95,691)	(37,494)
Interest received		2,185	4,137
Net cash used in operating activities	17b	(1,204,025)	(1,237,340)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment		-	(214)
Payment of International Patent expenditure		(25,312)	(18,272)
Net cash used in investing activities		(25,312)	(18,486)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of Borrowing		(660,000)	(485,000)
Proceeds from Borrowing		2,240,000	660,000
Net cash from financing activities		1,580,000	175,000
Net increase / (decrease) in cash and cash equivalent held		350,663	(1,080,826)
Cash and cash equivalent at beginning of the financial year		51,087	1,131,913
Cash and cash equivalent at end of financial year	17a	401,750	51,087

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 9 Financial Instruments

The consolidated entity has adopted AASB 9 from 1 July 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

AASB 15 Revenue from Contracts with Customers

The consolidated entity has adopted AASB 15 from 1 July 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

Impact of adoption

The impact on the change in Accounting Standards AASB 9 and AASB 15 for the year ended 30 June 2019 and the comparative year was immaterial.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 1(u).

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 23.

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 13 to the financial statements.

b. **Income Tax**

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

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

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

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

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

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

c. **Foreign Currency Transactions and Balances**

Functional and presentation currency

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

Transaction and balances

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

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

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

d. **Plant and Equipment**

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

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

Depreciation

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

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

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

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

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

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

e. **Intangible assets**

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Research and development

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources; and intent to complete the development and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

Patents

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 20 years.

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**

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, it's carrying value is written off.

Financial assets at fair value through profit or loss

Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include equity investments which the consolidated entity intends to hold for the foreseeable future and has irrevocably elected to classify them as such upon initial recognition.

Impairment of financial assets

The consolidated entity recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the consolidated entity's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance 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 include 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

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Research and development tax rebate

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

k. **Trade and Other Payables**

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

l. **Interest bearing liabilities**

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

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

m. **Other liabilities**

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

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

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

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

n. **Provisions**

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

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

o. **Share-based payments**

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

p. **Comparative Figures**

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

q. **Contributed equity**

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

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

r. **Dividends**

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

s. **Earnings per share**

Basic earnings per share

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

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

Diluted earnings per share

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

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 2019 because:

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

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

- budgeted cash flow period of 20 years, which approximates the project's life, based on current inputs;
- initial production of 3,000 tonnes increasing to 40,000 tonnes;
- magnesium metal price of US$4,829 per tonne is used which represents the current weighted average price between China and the United States.
- market information for forward exchange rates;
- operating costs and inputs based upon third party consultant's estimates and the feasibility study;
- capital costs based upon the detailed feasibility study; and
- a pre-tax discount rate of 15%.

NOTE 2: FINANCIAL RISK MANAGEMENT OBJECTIVES

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses derivative financial instruments such as forward foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

(i) Liquidity risk

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

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

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

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

(ii) Interest Rate Risk

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

The Group’s exposure to interest rate risk only extends to cash and cash equivalents at balance date. The Group’s exposure to interest rate risk at 30 June 2019 and 30 June 2018 is set out in the following tables:

CONSOLIDATED

			Fixed Interest maturing in				
Year ended 30 June 2019	**Weighted Average Interest Rate**	**Floating Interest Rate**	**1 year or less**	**Over 1 to 5 years**	**More than 5 years**	**Non-interest bearing**	**Total**
	%	$	$	$	$	$	$
Financial assets							
Cash and cash equivalents	1	350,077	-	-	-	51,673	401,750
Trade & other receivables	4	-	55,344	-	-	784,504	839,848
Total Financial Assets		350,077	55,344	-	-	836,177	1,241,598
Financial liabilities							
Borrowings	12	-	(2,357,607)	(114,103)	-	-	(2,471,710)
Trade and other payables		-	-	-	-	(274,285)	(274,285)
Net financial assets		350,077	(2,302,263)	(114,103)	-	561,892	(1,504,397)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

Year ended 30 June 2018	Weighted Average Interest Rate	Floating Interest Rate	Fixed Interest maturing in: 1 year or less	Over 1 to 5 years	More than 5 years	Non-interest bearing	Total
	%	$	$	$	$	$	$
Financial assets							
Cash and cash equivalents	1	50,043	-	-	-	1,044	51,087
Trade & other receivables	4	-	53,177	-	-	1,026,992	1,080,169
Total Financial Assets		50,043	53,177	-	-	1,028,036	1,131,256
Financial liabilities							
Borrowings	12	-	(725,887)	-	-	-	(725,887)
Trade and other payables		-	-	-	-	(742,688)	(742,688)
Net financial assets		50,043	(672,710)	-	-	285,348	(337,319)

(iii) Foreign exchange currency risk

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

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

(iv) Share market risk

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

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

(v) Credit risk

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

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

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

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

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

(vi) Commodity risk

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

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

(vii) Market risk

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

As the financial assets held by the company as at 30 June 2019 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.

Fair value of financial assets and liabilities

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

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

NOTE 3: LOSS FROM ORDINARY ACTIVITIES

		GROUP 2019	GROUP 2018
		$	$
The following revenue and expense items are relevant in explaining the financial performance for the period.			
(i)	**Revenue**		
	Finance Income	4,352	6,219
	Other Income		
	Research and development tax rebate	705,430	996,194
		709,782	1,002,413
(ii)	**Expenses**		
	Depreciation	1,222	1,880
	Research and evaluation expenses	969,765	1,643,306
	Directors and CEO fees	437,022	437,016

NOTE 4: INCOME TAX EXPENSE

	GROUP 2019	GROUP 2018
	$	$
The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax benefit as follows:		
Loss from ordinary activities before income tax	1,515,472	1,729,833
Prima facie tax benefit on loss from ordinary activities before income tax at 27.5%	416,755.	475,704.
Permanent differences relating to R&D claim	(251,968)	(355,824)
Increase in income tax benefit due to timing differences	10,867.	6,054.
Tax losses not brought to account as future income tax benefit.	(175,654)	(125,934)
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	
	2019	2018
	$	$
Benefit of tax losses carried forward:		
Tax losses carried forward	2,261,488	2,085,325
Capital losses	750,305	750,305
	3,011,792	2,835,629

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	
	2019	2018
	$	$
Cash at bank	401,750	51,087

NOTE 6: TRADE AND OTHER RECEIVABLES

	GROUP	
	2019	2018
	$	$
CURRENT		
R&D tax concession	705,430	996,194
GST recoverable	64,491	19,131
Promissory Note	55,344	53,176
Prepayment	14,583	11,667
	839,848	1,080,168
NON-CURRENT		
Rent Bond held in bank deposit	16,993	16,993
	16,993	16,993

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

NOTE 7: PLANT AND EQUIPMENT

	GROUP	
	2019	**2018**
	$	**$**
Plant and equipment at cost	7,779.	7,779.
Accumulated depreciation	(5,509)	(4,287)
Total Plant and Equipment	2,270.	3,492.

Movements in Carrying Amounts

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

	Plant and Equipment 2019	**Plant and Equipment 2018**
	$.	**$.**
Balance at 1 July	3,492.	5,158.
Additions	-.	214.
Depreciation expense	(1,222)	(1,880)
Carrying amount at 30 June	2,270.	3,492.

NOTE 8: INTANGIBLE ASSETS

	GROUP	
	2019	**2018**
	$	**$**
Acquired in-process research and development, at cost	5,684,000	5,684,000
Acquired in 2017 with the Ecoengineers Pty Ltd acquisition	1,080,000	1,080,000
Closing balance	6,764,000	6,764,000
International Patent for the Hydromet Process.	127,729	105,467
Total Intangible Assets	6,891,729	6,869,467

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

- budgeted cash flow period of 20 years, which approximates the project's life, based on current inputs;
- initial production of 3,000 tonnes per annum increasing to 40,000 tonnes;
- magnesium metal price of US$4,829 per tonne is used which represents the weighted average price between China and the United States;
- market information for forward exchange rates;
- operating costs based upon third party consultant's estimates;
- capital costs based upon the detailed feasibility study; and
- a pre-tax discount rate of 15%.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

NOTE 9: BORROWINGS

	GROUP 2019	GROUP 2018
	$	$
CURRENT		
R&D Loan Facility	673,620	725,887
Warrant Loan Facility	1,683,987	-
Directors Loan Facility	114,103	-
Total	2,471,710	725,887

i. Balance of loan as at 30 June 2018 — $725,887
Accrued interest to October 2018 — 29,804

Repaid from receipt of 2018 R&D tax rebate of $996,194 — $755,691

ii. R&D loan facility from RnD Funding Pty Ltd — $650,000
Interest Rate: 0.9375% per month
Maturity Date: 31 October 2019
Repayment: Cash in full from the 2019 R&D tax rebate

Loan drawdown in Oct-18 & Jun-19	$640,000
Finance fee capitalised at 30-Jun-19	10,000
Interest accrued at 30-Jun-19	23,620
Loan as at 30 June 2019	**$673,620**

This loan was repaid on September 2019 upon receipt of the Research and Development rebate.

iii. Project loan facility from RnD Funding Pty Ltd — $1,500,000
Interest Rate: 1.25% per month
Maturity Date: 15 October 2019
Repayment: Cash in full or refinancing into a project finance facility

Loan drawdown in Oct-18, Dec-18 & Mar-19	$1,500,000
Finance fee capitalised at 30-Jun-19	98,800
Interest accrued at 30-Jun-19	135,388
Warrant Reserves	(50,201)
Loan as at 30 June 2019	**$1,683,987**

The Company has signed a Term Sheet which refinances this loan for a further 12 months on similar terms and conditions.

iv. Directors' Loans — $200,000
Interest Rate: 1% per month
Maturity Date: 31 December 2020
Repayment: Cash in full or by Issue of LMG shares

Loan drawdown in Jul-Sep 2018	$100,000
Finance fee capitalised	3,000
Interest accrued at 30 June 2019	11,103
Loan as at 30 June 2019	**$114,103**

NOTE 10: TRADE AND OTHER PAYABLES

	GROUP	
	2019	**2018**
	$	**$**
CURRENT		
Trade creditors and accrued expenses	274,285	547,016
Loan from Directors and Consultant	-	195,672
Total	274,285	742,688

NOTE 11: ISSUED CAPITAL

		GROUP	
		2019	**2018**
		$	**$**
(a) Ordinary Shares Issued and Fully Paid			
Balance at beginning of reporting period		33,243,049	33,243,049
10 Dec 2018	31,865,750 shares issued at $0.008 to convert outstanding fees owing to Directors.	254,926	-
10 Dec 2018	8,038,500 shares issued at $0.008 to convert outstanding fees owing to Project Director	64,308	-
		33,526,283	33,243,049
(b) Shares on Issue		**No.**	**No.**
Balance at beginning of reporting period		1,256,598,819	1,256,598,819
Share on Issues:			
• 10 December 2018		31,865,750	-
• 10 December 2018		8,038,500	-
Balance at end of reporting period		1,296,503,069	1,256,598,819

Fully paid ordinary shares

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

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

Options

There were no unissued shares under option.

Employee Share Plan Scheme

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

Capital Management

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

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

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

- In October 2018, the Group secured a loan facility of $2.15 million, $2.14 million was drawn as at 30 June 2019. The Group has repaid one of its facilities and extended the warrant loan for a further 12 months.
- In April 2018, the Group secured a loan facility of $200,000 from two Directors of the Group, $100,000 was drawn down as at 30 June 2019. The repayment of the loan amount of $100,000 has been extended to 31 December 2020.

NOTE 12: UNLISTED WARRANTS

Under the funding agreements mentioned above with RnD Funding Pty Ltd, LMG has issued 12,495,000 unlisted warrants which have an exercise price of $0.02 and are exercisable for a period up to 3 years post the drawdown dates but not before October 2019. A reconciliation of the warrants issued is as below.

Total warrants outstanding at beginning of the period	0
Granted in the period	12,495,000
Exercised in the period	0
Lapsed in the period	0
Outstanding at the end of the period	12,495,000

The value of the warrants is estimated to be $50,201 using Black & Scholes valuation methodology.

NOTE 13: CONTROLLED ENTITIES

	Country of Incorporation	Percentage Owned 2019	2018
Parent Entity:		**%**	**%**
Latrobe Magnesium Limited	Australia	-	-
Subsidiaries of Latrobe Magnesium Limited			
Money Management WA Pty Ltd	Australia	100	100
Gold Mines of WA Pty Ltd	Australia	100	100
Magnesium Investments Pty Ltd	Australia	100	100
Ecoengineers Pty Ltd	Australia	100	100

NOTE 14: CAPITAL AND LEASING COMMITMENTS

Operating lease commitments

The Company's office lease expired on 30 September 2016 and is currently on month to month basis. Discussion with the property manager to renew the lease for a further 3 years at the current rent has been delayed due to a change in the management of the property. The monthly rent and outgoings of $5,371 is payable monthly in advance.

There are no other non-cancellable operating lease rentals.

The Company extended its option agreement to lease a property at 320 Tramway Road, Morwell, Victoria for one year from July 2019 to November 2019. This option agreement has been signed together with payment of $15,000 option fee. This site is intended for the installation of the future magnesium plant and associated facilities.

NOTE 15: SEGMENT REPORTING

The Group has adopted AASB 8 *Operating Segments* with effect from 1 July 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. As a result, following the adoption of AASB 8, the Board of Directors believe there is only one operating segment and this is reflected in managements reporting processes.

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

NOTE 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 2019**	**GROUP 2018**
		$	**$**
(i)	Director's fees were paid to J S Murray Pty Ltd of which J S Murray is a principal.	52,500	60,000
(ii)	Director's fees were paid to Famallon Pty Ltd of which K A Torpey is a principal.	24,306	21,804
(iii)	Director's fees were paid to Stockholders Relation Pty Ltd of which J R Lee is a principal.	24,306	21,804

Directors Loans to the Company

In May 2018, two Directors of the Company provided an unsecured lending facility to the Company of up to $200,000. To date $100,000 of these facilities have been drawn. The repayment of this loan has been extended to 31 December 2020.

Directors' Loans	$200,000
Interest Rate:	1% per month
Maturity Date:	31 December 2020
Repayment:	Cash in full or by Issue of LMG shares
Loan drawdown in Jul-Sep 2018	$100,000
Finance fee capitalised	3,000
Interest accrued at 30 June 2019	11,103

Loan as at 30 June 2019	**$114,103**
	=======

NOTE 17: CASH FLOW INFORMATION

		GROUP	
		2019	**2018**
		$	**$**
a.	**Reconciliation of Cash**		
	Cash at the end of the financial year as shown in the statement of cash flow flows is reconciled to items in the statement of financial position as follows:		
	Cash at Bank	401,750	51,087
b.	**Reconciliation of cash flow from operating activities to operating loss after income tax:**		
	Net loss	(1,515,472)	(1,729,833)
	Adjustment of non-cash items:		
	Depreciation	1,222.	1,880.
	Convert Directors' & Consultant's outstanding fees to shares	319,234.	-.
	Changes in Assets and Liabilities:		
	(Increase)/Decrease in receivables and other assets	290,522.	(2,255)
	Increase/(Decrease) in trade and other payables	(299,531)	492,868.
	Net Cash used in Operating Activities	(1,204,025)	(1,237,340)

c. Acquisition and Disposal of Entities

There was no acquisition and disposal of controlled entities during the 2019 or 2018 financial year.

d. Non-cash Financing and Investing Activities

2018-19 Fully Paid Ordinary Share

December 2018 39,904,250 shares issued at $0.008 to convert outstanding fees owing to Directors and officer.

Increase in issued capital	$319,234
Decrease in trade and other payables	$195,672

2017-18 Fully Paid Ordinary Share

None

NOTE 18: LOSS PER SHARE

		GROUP 2019	GROUP 2018
Reconciliation of loss to net loss:			
(a) Basic and diluted loss per share	cents per share	(0.12)	(0.14)
(b) Loss used in the calculation of EPS	$	(1,515,472)	(1,729,833)
(c) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS		1,279,010,795	1,256,598,819

There were no unissued shares under option at 30 June 2019.

NOTE 19: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no contingent liabilities for the year ended 30 June 2019 (2018: Nil).

NOTE 20: EMPLOYEE BENEFITS

Employees Share Acquisition Plan

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

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

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

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

NOTE 21: 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 except the matter mentioned below.

Since the reporting date the Company has repaid one of its loan facilities and repayment of Directors loans has been extended to 31 December 2020.

The Company has received an offer to refinance the amount owing under its Warrant Loan Facility as at 15 October 2019 of $1,842,363 on the same terms and conditions as detailed in Note 9iii to the financial accounts. This facility will mature on 15 October 2020 under this offer. The Company will issue 20 million warrants with an exercise price of $0.03 for a period of three years on 15 October 2019. The offer is subject to entering into the necessary loan documentation.

NOTE 22: GOING CONCERN

Notwithstanding the loss for the year, negative cash flow from operations and historical financial performance, the financial report has been prepared on a going concern basis. The assessment is based on a cash on hand balance at balance date, the collection of trade and other receivables after year end, the conversion of the Directors loans to equity and the funding alternatives available to the Company.

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

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

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

NOTE 23: PARENT ENTITY INFORMATION

As at, and throughout, the financial year ended 30 June 2019 the parent entity of the Group was Latrobe Magnesium Limited.

	2019	2018
	$	$
Result of parent entity		
Profit/(loss) for the period	(1,515,472)	(1,729,833)
Other comprehensive income	-.	-.
Total comprehensive income for the period	(1,515,472)	(1,729,833)
Financial position of the financial entity at year end		
Current assets	1,241,598	1,131,256
Non-current assets	6,972,331	6,951,290
Total assets	8,213,929	8,082,546
Current liabilities	2,745,995	1,468,575
Non-current liabilities	-	-
Total liabilities	2,745,995	1,468,575
Net Assets	5,467,934	6,613,971
Total equity of the parent entity comprising of		
Issued capital	33,562,283	33,243,049.
Warrant Reserves	50,201.	-
Accumulated Losses	(28,144,550)	(26,629,078)
Total equity	5,467,934.	6,613,971.

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

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

Parent entity guarantees in respect of the debts of the subsidiaries
The parent entity has entered into deed of guarantee with the effect that its subsidiaries guarantee the secured loan detailed in Note 9, to Latrobe Magnesium Limited.

NOTE 24: AUDITOR'S REMUNERATION

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

	GROUP	
	2019	**2018**
	$	$
Audit and Review of Financial Reports	36,000	32,000
Taxation Services	7,000	10,960
	43,000	42,960

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

NOTE 25: NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET MANDATORY OR EARLY ADOPTED

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2019. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 16 Leases

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

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

Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. AASB 16 applies to annual periods beginning on or after 1 January 2019.

The directors of the Company anticipate that the application of AASB 16 in the future will have an insignificant impact on the amounts reported and disclosures made in the Group's consolidated financial statements.

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Latrobe Magnesium Limited (the Company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 30 June 2019, the statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and

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

Basis for opinion

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

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

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Capitalised Development Costs ($6,764,000) *Refer to note 8 to the financial report.* Included in the Group's intangible assets are capitalised development costs of $6,764,000	Our audit procedures included, amongst others: • We assessed the development costs against the requirements for capitalisation contained in AASB 138 Intangible Assets; • We reviewed the company's externally commissioned Feasibility Study and tested, where appropriate, the capital investment and chemical components amounts concluded in this report for consistency with the "value in use" calculations.

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Key audit matter	How our audit addressed the key audit matter
in respect of the acquired in-process research and development cost in relation to extracting magnesium from fly ash. The capitalised development costs are considered to be a key audit matter as they represent 83% of the total assets of the Group and the determination of whether the costs can be capitalised in accordance with AASB 138 - Intangible Assets and/or if an impairment charge is necessary involves significant estimates and judgments made by Management, including estimating future cash flows.	• We assessed and challenged management's key assumptions and estimates used to determine the recoverable amount of the assets, including those relating to output pricing, input costs, growth assumptions and discount rates; • We performed sensitivity analysis in relation to all the significant inputs to assess whether the carrying value of the capitalised development costs exceeded its recoverable amount; • We compared the net assets of the Group to the Group's market capitalisation; • We tested the mathematical accuracy of the underlying 'value in-use' calculations; and • Assessed whether appropriate disclosure regarding significant areas of uncertainty has been made in the financial report.
Funding and liquidity *Refer to note 22 in the financial report.* The Group is currently in the development phase, and is therefore not yet in a position to generate revenue. Accordingly, the Group is reliant on external funding and research and development claims to develop its operations and progress to extracting Magnesium on a commercial scale. The adequacy of funding and liquidity, in addition to the relevant impact on the going concern assessment is a key audit matter due to the inherent uncertainties associated with the future development of the Group's operations and the level of funding required to support that development.	We evaluated the Group's funding and liquidity position and its ability to repay its debts as and when they fall due for a minimum of 12 months from the date of signing the financial report. In doing so, we: • Obtained management's cash flow forecast, checking the mathematical accuracy of the forecast and agreeing the opening cash balance to bank statements; • We assessed and challenged the reliability and completeness of management's assumptions by comparing the forecast cash flows to those of current and previous years, in addition to our understanding of the company's future plans and operating conditions; • We considered the historical accuracy of the company's cash flow forecasts by comparing forecasts used in prior years to the actual cash flows in the current year; • We evaluated the company's financing options included executed agreements and its ability to place shares in the future ; and • Considered events subsequent to year end to determine whether any additional facts or information have become available since the date on which management made its assessment.

Other information

The directors are responsible for the other information. The other information comprises the information in Latrobe Magnesium Limited's annual report for the year ended 30 June 2019, but does not include the financial report and the auditor's report thereon.

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

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

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

Directors' responsibility for the financial report

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

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

Auditor's responsibility for the audit of the financial report

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

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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 13 of the directors' Report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Latrobe Magnesium Limited for the year ended 30 June 2019, complies with section 300A of the Corporations Act 2001.

Responsibilities

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

Nexia

Nexia Sydney Partnership

Joseph Santangelo
Partner

Dated: 27 September 2019
Sydney

ADDITIONAL INFORMATION

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

SHAREHOLDING

a. Distribution of Shareholders as at 26 September 2019.

Range	Total holders	Units	% Units
1 - 1,000	205	86,399	0.01
1,001 - 5,000	291	949,409	0.07
5,001 - 10,000	217	1,845,584	0.14
10,001 - 100,000	697	32,454,977	2.50
100,001 Over	771	1,261,166,700	97.28
Total	**2,181**	**1,296,503,069**	**100.00**

b. Unmarketable Parcels as at 26 September 2019.

	Minimum Parcel Size	Holders	Units
Minimum $500.00 parcel at $0.012 per unit	41,667	1,113	12,768,767

c. Substantial Shareholders as at 26 September 2019.

No.	Shareholder Name	Number of Fully Paid Ordinary Shares Held	Interest (%)
1	Rimotran Pty Ltd <DP Super A/C>	105,207,340	8.11
10	David Oliver Paterson	17,888,400	1.38
	Total	123,095,740	9.49
2	Famallon Pty Ltd <Famallon No2 Super Fund A/C>	80,194,358	6.19
106	Famallon Pty Ltd <Famallon No2 Super Fund A/C>	2,339,875	0.18
7	Famallon Pty Ltd	19,915,956	1.54
	Total	102,450,189	7.90

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

a. Twenty largest shareholders as at 26 September 2019:

Rank	Top Shareholders – Ungrouped	Number of Fully Paid Ordinary Shares Held	Holding %
1.	Rimotran Pty Ltd <DP Super A/C>	105,207,340	8.11
2.	Famallon Pty Ltd <Famallon No2 Super Fund A/C>	80,194,358	6.19
3.	CSH Engineering Pty Ltd	46,603,873	3.59
4.	Gibbs Plumbing Services Pty Ltd <Superannuation Fund A/C>	36,000,000	2.78
5.	JJ Wolfe Holdings Pty Limited <JJ Wolfe Super Fund A/C>	25,020,969	1.93
6	Ableside Pty Ltd	23,685,730	1.83
7.	Famallon Pty Ltd	19,915,956	1.54
8.	Arco Four Investments Pty Ltd <The Ocramid Holdings Fam A/C>	19,893,534	1.53
9.	Mr Brett Roy Morrison + Mrs Donna-Maree Earle Morrison <Badem Family A/C>	18,075,683	1.39
10.	David Oliver Paterson	17,888,400	1.38
11	Murraysetter Pty Ltd <The Murraysetter A/C>	16,351,923	1.26
12	HSBC Custody Nominees (Australia) Limited	13,409,925	1.03
13	Mr Neville Masterton Hall + Mrs Gwenda Aileen Hall <Hall Super Fund A/C>	12,500,000	0.96
14	Diazill Pty Limited <P B Superannuation Fund A/C>	12,149,372	0.94
15	Mrs Robyn Ann Lys	11,559,096	0.89
16	Lyndcote Super Pty Ltd <Lyndcote Super Fund A/C>	10,961,538	0.85
17	Mrs Carmela Adele Murray	10,580,777	0.82
18	Mr Antonino Galipo	10,310,000	0.80
19	Fantapants Pty Ltd <Macleod Family A/C>	10,000,000	0.77
19	Mr Neville Masteron Hall	10,000,000	0.77
19	Mr Leslie Robert Knight + Mrs Heather Margery Knight + Mr Timothy Paul Knight <Knight Super Fund A/C>	10,000,000	0.77
		520,308,474	40.13

CORPORATE GOVERNANCE STATEMENT

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

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