

QUARTERLY ACTIVITIES REPORT

31 December 2016

LATROBE MAGNESIUM PROJECT

1. Hazelwood Closure

On December 2016, Hazelwood Power station announced the closure in March 2017 of the power stations. LMG has entered into discussions for securing the rights to access Hazelwood ponded fly ash.

Hazelwood ash dams contain sufficient fly ash to feed a 40,000 tonne per annum magnesium plant for in excess of 20 years.

2. Feasibility Study

In May, 2016 Latrobe Magnesium Limited (ASX:LMG) announced that it had successfully completed the second stage of its feasibility study (FS) of a plant to produce 5,000 tonnes of magnesium a year from the brown coal fly ash at the Latrobe Valley's Hazelwood power station.

The second stage of the FS estimated the capital cost of the initial 5,000 tonne per annum plant to be in the range between \$46 million and \$51 million.

The next stage of the FS will be completed by the end of January 2017 being next week.

3. Indonesian Patent

In October 2016, LMG announced the granting of an Indonesian patent for its unique hydromet process.

The Australian, USA and China patents have already been granted for 20 years starting from August 2011. The process involves the treatment of the spent fly ash from brown coal-powered electricity generation using chemicals to reduce sulphur, iron and silicon to acceptable levels so that the beneficiated material can be used as a feedstock in the thermal reduction process.

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

The process is owned 100% owned by LMG.

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

4. R&D Funding

In October 2016, LMG received an Australian R&D tax incentive payment of \$560,453 from its research and development activities carried out in 2016.

In October 2015, the company borrowed some \$600,000 from Platinum Road lenders against this amount. However, the last conversion announced on 17 October 2016 represented the conversion of the balance of the debt outstanding and therefore the Company is able to use the Australian R&D tax incentive payment as it sees fit.

This funding will be used by LMG to complete its feasibility study for its initial 3,000 tonnes per annum magnesium plant, its fast cycle, vertical retort, hydromet, cement test work and also its RWE Power fly ash test work.

The 2016 year represents the first year of LMG's three year advanced finding that covers the current experimental work, the capital costs of its initial plant and also its first twelve months of operations.



David Paterson
Chief Executive Officer

24 January 2017

About Latrobe Magnesium

Latrobe Magnesium is developing a magnesium production plant in Victoria's Latrobe Valley using its world-first patented extraction process. LMG intends to extract and sell magnesium metal and cementitious material from industrial fly ash, which is currently a waste stream from brown coal power generation.

LMG has completed a pre-feasibility and an adjustment study validating its combined hydromet / thermal reduction process that extracts the metal. Production from its initial 5,000 tonne per annum magnesium plant is due to start at the end of 2017. The plant will then be expanded to 40,000 tonne per annum magnesium 18 months later. The plant will be in the heart of Victoria's coal power generation precinct, providing immediate access to feedstock, infrastructure and labour.

LMG plans to sell the refined magnesium under long-term contracts to Australian and overseas customers. Currently, Australia imports 100% of the 10,000 tonnes annually consumed.

Magnesium has the best strength-to-weight ratio of all common structural metals and is increasingly used in the manufacture of car parts, laptop computers, mobile phones and power tools.

The LMG project is at the forefront of environmental benefit – by recycling power plant waste, avoiding landfill and is a low CO₂ emitter. LMG adopts the principles of an industrial ecology system.