Latrobe Magnesium

ABN 52 009 173 611

QUARTERLY ACTIVITIES REPORT

30 September 2016

LATROBE MAGNESIUM PROJECT

1. 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. A number of areas have been identified that could produce capital costs saving and these will be investigated in the final stage of the FS.

The final stage of the feasibility study is expected to be completed by the end of October.

2. RWE Power

In June, 2016, LMG signed a MoU with RWE Power AG to continue to develop a magnesium plant capable of producing approximately 30,000 tonnes per annum of magnesium from brown coal fly ash from its Hambach mine near Cologne, Germany.

In October a large sample of RWE fly ash arrived in Australia and LMG's scientists are reviewing their XRF and XRD analyses before deciding the appropriate hydromet process to treat this ash. This ash will be tested over the next 6 months.

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 approximately 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 65 million tonnes per annum in the three Latrobe Valley mines.

Europe imports in excess of 150,000 tonnes of magnesium per annum. There is currently no producer in Europe and magnesium metal has been listed as the fourth most critical raw material in the EU list of 20 metals.

3. R&D Advanced Finding

On 9 August 2016, LMG received a certificate for Advance Finding under Section 28A of the Industry Research and Development Act 1986 (Act). Under the Act, LMG has been registered for the next three years (2016, 2017 and 2018) and it is entitled to receive a cash rebate for 45% of all eligible expenditure on eleven activities that have been registered.

On 18 October LMG received its 2016 tax incentive rebate of $560,453.

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The finding meets a large part of the cost of establishing and operating LMG's experimental plant at Morwell to extract valuable magnesium metal and cemenititious material from fly ash. The eleven registered activities encompass the test work currently being conducted, the capital costs of its experimental plant and the costs of operating the plant for 12 months to test its feasibility. In its application LMG estimated these costs to be:

	$m's
• Continual test costs	2
• Capital Costs of experimental plant	40
• 12 months operating costs	4
• Total Costs	46

Based on these costs the total cash rebate to be received from the Federal Government over the next three years would be in the order of $20.7M. The Finding will also cover any increased costs. LMG recently announced that based upon Stage 2 of its feasibility study, its capital costs estimates had increased to be in the range between $46M and $51M. The final rebate will be based upon the actual costs incurred by LMG on these eleven activities and will incorporate any increases or decreases.

4. Hydromet Process now 100% owned

On 1 July 2016, LMG acquired the remaining 50% of the hydromet intellectual property for the issue of 30 million LMG shares. These shares will be escrowed for a period of six months until 31 December 2016.

Patents have been granted for USA, China, Indonesia and Australia and patents are pending for India and EU. These patents are expected to be granted by the end of 2016.

In addition, Dr. Steve Short entered into a consultancy agreement so that LMG may retain his services to adapt the current hydromet technology to process other brown coal fly ashes both in Victoria and overseas.

5. Funding

In July, 2016, LMG announced the completion of a $1,000,000 placement to sophisticated investors at an issue price of $0.026 per share. On the same day, LMG also announced a Share Purchase Plan (SPP) to raise an additional $500,000 from its shareholders. The SPP was opened for two days and was oversubscribed. It closed after raising $1,829,200.

Funds raised is being used for the completion of the feasibility study for the Latrobe Valley Magnesium Project and to provide working capital.

D. Paterson

David Paterson
Chief Executive Officer

20 October 2016

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 CO_2 emitter. LMG adopts the principles of an industrial ecology system.