

QUARTERLY ACTIVITIES REPORT

31 December 2019

LATROBE MAGNESIUM PROJECT

1. Ash Supply Agreement

In October 2019, Latrobe Magnesium Limited (ASX:LMG) signed an agreement with EnergyAustralia Yallourn Pty Ltd (Yallourn) to secure ash supply to LMG's initial 3,000 tonnes per annum magnesium plant for the next ten years.

The agreement requires certain approvals and conditions to be satisfied. It also deals with the principal issues in relation to Yallourn increasing its supply of ash to LMG's 40,000 tpa planned expanded magnesium plant. There are a number of conditions that need to be addressed before this expansion can occur.

The ash supplied to LMG's initial plant represents some 12% of Yallourn's current annual production.

LMG has identified other sources of feed stock for its 40,000 tpa plant should the power station be closed earlier for any reason.

2. Feasibility Study

In September 2019, LMG announced that its 3,000 tpa magnesium plant was estimated to generate EBITDA of up to \$5.6 million per annum when it is operating at its name plate capacity. This estimate was later revised in October 2019 to \$6.5 million per annum due mainly to savings in energy usage.

The initial plant is estimated to employ up to 54 on-going direct employees and contractors and 50 to 75 construction jobs.

The feasibility study estimates the capital cost to be in the order of \$54 million. This estimate includes design growth and contingencies of \$6 million.

3. Community Briefings

In December 2019, LMG organised a community briefing to outline the project to all stakeholders in the Latrobe Valley so that they had the opportunity to be fully informed and understand the benefits of the project. The briefing was well attended and the presentation was well received by the participants.

LMG intends to complete another Community Briefing at the end of February when its emissions, noise and traffic reports have been completed by GHD. LMG does not expect any major variations from what it announced in its December 2019 briefing.

4. Project Funding

LMG intends to fund the capital cost by raising the following finances:

Type of Finance	A\$M's
Project Finance	30
Equity	12
Government Grants	12
Total Funds	54

LMG will be making its final investment decision in April 2020 once, it has:

- obtained the necessary development approval from the Latrobe City Council and the Environment Protection Agency for its Tramway Road site; and
- secured funding from the sources shown above.

This timing has been delayed by two months from the date that was previously announced due to some changes in the planning approval process.

5. Company Funding

In October 2019, LMG announced it had secured project funding of \$2.7 million from Australian-based finance company RnD Funding Pty Ltd, repayable in October 2020.

This funding allows LMG to carry out additional engineering studies, optimisation of its 3,000 tpa plant and provide additional working capital, prior to its construction. The funding was also to be used to refinance its existing \$1.5 million project finance facility.

LMG also intends to secure a Research and Development funding facility in the order of \$450,000 within the next month. LMG has received interest from its traditional R&D lender to provide this facility.



David Paterson
Chief Executive Officer

30 January 2020

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 Yallourn ash, which is currently a waste stream from brown coal power generation.

LMG has completed a feasibility study validating its combined hydromet / thermal reduction process that extracts the metal. Construction is estimated to start on its initial 3,000 tonne per annum magnesium plant in the second quarter of this year with production commencing 18 months later. The plant will then be expanded to 40,000 tonne per annum magnesium 12 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 USA and Japanese customers.

Magnesium has the best strength-to-weight ratio of all common structural metals and is increasingly used in the manufacture of aluminium sheet in cars, 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.