

QMAG Kunwarara & Parkhurst Operations

Health, Safety and Environment

QMAG recorded one lost time injury during the quarter. The 12 month rolling average LTIFR increased from 3.0 to 4.4 during the quarter. (LTIFR is the number of lost time injuries per million hours worked. Figures include employees and contractors.)

Kunwarara Magnesite Production

Magnesite production of 105,666 tonnes was down 2.2% on the previous quarter with magnesite inventories drawn down to accommodate higher production at Parkhurst.

Commissioning of the air pulsed gravity separator at KG2 continued in the quarter. The technology is working effectively and producing final magnesite product suitable for Parkhurst. However, the plant is experiencing some difficulties with lower bench ore because of the higher level of sandstone and lower density of the magnesite ore. Further work in optimising the plant will take place during the December quarter.

| Quarterly Kunwarara Production (tonnes) | Sep 02 | Dec 02 | Mar 03 | Jun 03 | Sep 03 |
|---|---------|---------|---------|---------|---------|
| Ore Mined | 536,110 | 715,635 | 717,030 | 762,120 | 613,035 |
| Beneficiated Magnesite Produced | 108,328 | 121,234 | 109,620 | 108,079 | 105,666 |

Parkhurst Magnesia Production

Magnesia production at Parkhurst was a record 49,977 tonnes which was 10.9% higher than the previous quarter. The record production was achieved despite a major maintenance shutdown in the electrofused magnesia (EFM) plant for most of August with higher deadburned magnesia (DBM) and calcined magnesia (CCM) production more than offsetting the lower EFM production.

| Quarterly Parkhurst Production (tonnes) | Sep 02 | Dec 02 | Mar 03 | Jun 03 | Sep 03 |
|---|---------------|---------------|---------------|---------------|---------------|
| Deadburned magnesia (DBM) | 28,001 | 25,635 | 28,157 | 23,921 | 28,521 |
| Electrofused magnesia (EFM) | 6,248 | 3,564 | 5,972 | 7,000 | 5,336 |
| Calcined magnesia (CCM) | 15,635 | 13,860 | 8,750 | 14,139 | 16,120 |
| Total | 49,884 | 43,059 | 42,879 | 45,060 | 49,977 |

Sales

Magnesia sales of 40,186 tonnes were down 20.7% on the previous quarter. DBM sales were the major contributing factor due mainly to a delayed large shipment of DBM into the Rotterdam storage facility from end September to early October. DBM inventories have also increased as a result of moving to larger shipment sizes to contain freight cost increases. The order book for DBM remains full.

EFM sales were down 37.2% on the previous quarter but more in line with historical levels.

CCM sales were up 12.7% on the previous quarter reflecting strong agricultural and industrial demand.

A large bulk magnesite shipment took place in September following on from a similar size shipment the previous quarter.

| Quarterly Magnesia Sales (tonnes) | Sep 02 | Dec 02 | Mar 03 | Jun 03 | Sep 03 |
|---|---------------|---------------|---------------|---------------|---------------|
| Deadburned magnesia | 23,411 | 32,900 | 16,945 | 24,549 | 19,477 |
| Electrofused magnesia | 4,664 | 5,453 | 5,890 | 7,923 | 4,976 |
| Calcined magnesia | 13,665 | 12,412 | 10,609 | 13,966 | 15,733 |
| Total magnesia sales | 41,740 | 50,765 | 33,444 | 46,438 | 40,186 |
| Magnesite sales | 772 | 32,202 | 484 | 39,680 | 39,148 |
| Total magnesia and magnesite sales | 42,512 | 82,967 | 33,928 | 86,298 | 79,334 |

QMAG Outlook

The positive market outlook continues with global steel production continuing to grow strongly and the DBM market continuing to tighten following the closure of a North American competitor in September. Two major long term industrial CCM contracts were renewed during the quarter at higher prices.

The overall sales outlook remains positive with the current order book expected to keep the plant at full capacity production levels for the remainder of the financial year. A key concern is the recent tightening of the bulk freight market and consequent large increases in freight rates.

Magnesium Primary Production

Summary

- No lost time injuries recorded at Stanwell or Gladstone.
- Stanwell site placed on care and maintenance following cessation of all work and demobilisation of personnel.
- Receipt of equipment for storage on site continuing.
- A joint venture was formed with Leighton to preserve the value of the project's assets. Disposition and valuation of all assets has been completed.
- Gladstone demonstration plant demobilisation has been completed, with limited ongoing work to fully "make safe" the site.
- Work is proceeding to investigate alternative development opportunities, involving studies into the cost and schedule for a variety of different plant capacities and configurations.
- Budgets were established for closure of Stanwell and Gladstone sites, and for the on-going study work, and all work is progressing generally to plan.

Stanwell Magnesium Project

The principal activity in relation to the Stanwell project has been the termination of all contracts, winding up of all agreements and, in conjunction with Leighton Contractors Pty Ltd, determining the disposition and value of all the assets, both emanating from the EPC contract, and from the owner's scope of work.

This work has been largely completed and resulted in the following:

- Approximately \$350 million "value in use" (defined as the expenditure that would be avoided if the project were re-started); and
- \$32M salvage value in the event of ultimate disposal.

Agreements with Stanwell Corporation and Rockhampton City Council in respect of terminating energy and water supply agreements are in advanced stages of being finalised. Asset sales by Stanwell Corporation are in progress.

Principal Contractor Activities

The Heads of Agreement effectively terminated the role of the Principal Contractor, and established a joint venture with Leighton to preserve the value of the assets and participate in the pursuit of alternative magnesium developments. This is in progress, involving a joint team examining the costs of various new plant development scenarios.

Pre Operations Activities

All pre-operations personnel have now been released, including staff involved in the demobilisation of the demonstration plant. The demonstration plant has been rendered safe and secure, with some minor work remaining to dispose of site chemicals and residue.

Advanced Magnesium Technology

AMC has retained exclusive worldwide rights to a range of patented products and technologies which it developed with the Cooperative Research Centre for Cast Metals Manufacturing (CAST) and others as part of its customer service objectives.

AMC's international market development and technology group will now focus on commercialising these technologies, as well as developing new technologies for powertrain applications and extruded products in strategic alliances with other parties.

AMC is maintaining its close alliance with the Ford Motor Company and has recently signed a new agreement with a European group to develop technology for the production of extruded magnesium products. These development alliances incorporate some of AMC's existing proprietary alloys (AM-SC1, AM-HP1 and AM-cast) and will lead to the development of new alloys. Most of this research will be supported by CAST.

In August, AMC and its research partner CAST announced the successful completion of four years of R&D and commercial trialling of its new cover gas system, AM-cover, for protecting molten magnesium. In comparison with the more widely used SF₆ cover gas systems, AM-cover reduces greenhouse gas emissions by more than 95%, it is non-toxic, non-corrosive, non-flammable and does not contribute to ozone depletion, and its application to date at five separate commercial sites has resulted in significant cost savings for its users.

AMC's service portfolio will include worldwide distribution rights for commercial licences to use AM-cover; new technology for melting magnesium ingots and magnesium scrap, AM-converter; and consulting services in metal handling and in-house magnesium component design services for automakers and their Tier 1 suppliers.

Corporate and Finance

Finance

The cash balance at 30 September 2003 was \$60.5 million (\$36.9 million in escrow). Newmont deposited \$5 million into the escrow account in accordance with the 13 June 2003 Heads of Agreement following the finalisation of the magnesium supply contract with the Ford Motor Company.

The next distribution, of 3.2 cents per DES, is to be paid on 24 November 2003. The Record date for this distribution is 7 November 2003.

Annual General Meeting

The twenty first annual general meeting of AMC will be held from 10.30am, 24 November 2003, at the Brisbane Convention Centre, Merivale Street, Brisbane. All shareholders are encouraged to attend. The 2003 annual report, notice of meeting, explanatory memorandum and proxy form were dispatched to shareholders on 24 October 2003.

Issue of Shares to Fluor

On 22 July 2003, the Company issued 16,115,754 ordinary full paid shares to Fluor Australia at an average price of 18.6 cents per share in consideration for services provided to the Stanwell Magnesium Project up to 15 May 2003.

The Company issued a further 8,036,724 ordinary full paid shares to Fluor Australia at an average price of 9.4 cents per share on 10 October 2003 in satisfaction of the balance of the agreement with Fluor from 16 May 2003 until the termination of the contract arrangements on 31 July 2003. This finalises the issue of shares to Fluor in consideration of work previously done.

Expiry of un-listed employee options

On 13 August 2003, 54,844 options granted under a 1998 Employee Share Option Plan lapsed and were cancelled.

Company Directory

Australian Magnesium Corporation Limited

REGISTERED & PRINCIPAL OFFICE
Level 5, 30 Little Cribb Street, Milton QLD 4064 Australia
PO Box 1364, Milton BC, QLD 4064 Australia
Tel: +61 7 3837 3400 Fax: +61 7 3837 3423
Website: www.austmg.com
Email: info@austmg.com

Queensland Magnesia Marketing– Milton

Level 5, 30 Little Cribb Street, Milton QLD 4064 Australia
PO Box 1364, Milton BC, QLD 4064 Australia
Tel: +61 7 3837 3400
Fax: +61 7 3837 3489

Queensland Magnesia – Rockhampton

246 Boundary Road, Parkhurst QLD Australia
PO Box 5798, Central QLD Mail Centre 4702 Australia
Tel: +61 7 4920 0200
Fax: +61 7 4936 1380

Directors as at 29 October 2003

| | |
|-----------------|--------------------------------|
| Roland Williams | Non-executive Chairman |
| Chris Rawlings | Acting Chief Executive Officer |
| Creagh O'Connor | Non-executive Director |
| John Story | Non-executive Director |
| Ken Williams | Non-executive Director |

Company Secretariat

| | |
|-----------|-------------------|
| Prem Nair | Company Secretary |
|-----------|-------------------|

Issued Capital as at 30 September 2003

ASX Listed Securities

Ordinary Shares

ASX Code ANM
390,699,179 fully paid
ordinary shares on issue.

Distribution Entitled Securities

ASX Code ANMNA
660,258,713 distribution
entitled securities on issue.

July 2005 Options

ASX Code ANMO
53,153,895 listed options on issue
(expiry date 31 July 2005).

Unlisted Securities

3,000,000 unlisted options (expiry
date 28 February 2007)

Investor Relations & Shareholder Services

Enquiries concerning this report may be directed to:

Joel Forwood - Manager - Investor Relations

Tel: +61 7 3837 3400
Fax: +61 7 3837 3423

Matters relating to shares held, change of address
and tax file numbers should be directed to the
AMC Share Registry:

Pitcher Partners Registry Services

(Formerly Douglas, Heck & Burrell Registries)
Level 22, HSBC Building
300 Queen Street, Brisbane QLD 4000 Australia
GPO Box 35, Brisbane QLD 4001 Australia
Tel: +61 7 3228 4219
Fax: +61 7 3221 3149

ASX REQUIREMENTS

The Information in this report insofar as it relates to ore or mineralisation is based on information compiled by a corporate member of the Australasian Institute of Mining and Metallurgy – Steve Wilcock, M.AusIMM, Senior Mine Geologist - who has a minimum of five years experience in the field of activity being reported on.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

Australian Magnesium Corporation Limited

ABN

51 010 441 666

Quarter ended ("current quarter")

30 SEPTEMBER 2003

Consolidated statement of cash flows

| Cash flows related to operating activities | Current quarter \$A'000 | Year to date (3 months) \$A'000 |
|--|----------------------------|---------------------------------------|
| 1.1 Receipts from product sales and related debtors <i>incl. GST</i> | 20,611 | 20,611 |
| 1.2 Payments for | | |
| (a) exploration and evaluation | - | - |
| (b) development | - | - |
| (c) production & AMO activities <i>excl. GST</i> | (30,971) | (30,971) |
| (d) administration | (5,553) | (5,553) |
| 1.3 Dividends received | - | - |
| 1.4 Interest and other items of a similar nature received | 576 | 576 |
| 1.5 Interest and other costs of finance paid | (1,173) | (1,173) |
| 1.6 Income taxes paid | - | - |
| 1.7 Other payments | - | - |
| Other receipts | 5,000 | 5,000 |
| Net operating cash flows | (11,510) | (11,510) |
| Cash flows related to investing activities | | |
| 1.8 Payment for purchases of: | | |
| (a) prospects | - | - |
| (b) equity investments | - | - |
| (c) other fixed assets incl mine development | (614) | (614) |
| 1.9 Proceeds from sale of: | | |
| (a) prospects | - | - |
| (b) equity investments | - | - |
| (c) other fixed assets | - | - |
| 1.10 Loans to other entities | - | - |
| 1.11 Loans repaid by other entities | - | - |
| 1.12 Other – CSIRO Research Agreement funding | - | - |
| Net investing cash flows | (614) | (614) |
| 1.13 Total operating and investing cash flows (c/ forward) | (12,124) | (12,124) |

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

| | | | |
|------|---|-----------------|-----------------|
| 1.13 | Total operating and investing cash flows (b/ forward) | (12,124) | (12,124) |
| | Cash flows related to financing activities | | |
| 1.14 | Proceeds from issues of shares incl. DES final instalment | - | - |
| 1.15 | Proceeds from sale of forfeited shares | - | - |
| 1.16 | Proceeds from borrowings | - | - |
| 1.17 | Repayment of borrowings - loan note distribution - other | (1,358) | (1,358) |
| 1.18 | Dividends paid | - | - |
| 1.19 | Other | - | - |
| | Net financing cash flows | (1,358) | (1,358) |
| | Net increase (decrease) in cash held | (13,482) | (13,482) |
| 1.20 | Cash at beginning of quarter/year to date | 73,996 | 73,996 |
| 1.21 | Exchange rate adjustments to item 1.20 | - | - |
| 1.22 | Cash at end of quarter | 60,514 | 60,514 |

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

| | Current quarter \$A'000 | |
|------|--|-------|
| 1.23 | Aggregate amount of payments to the parties included in item 1.2 | 1,111 |
| 1.24 | Aggregate amount of loans to the parties included in item 1.10 | - |

1.25 Explanation necessary for an understanding of the transactions

During the quarter, payments included directors' fees, executive directors' remuneration, and payments to other related entities, which include Origin Energy Limited and entities in the Newmont Australia Limited group. Payments to other related entities are mainly for guarantee fees and gas. Reimbursements of expenses are not included.

[\(Not all of these payments are included in items 1.2 and 1.10; some are included in items 1.5 and 1.12\).](#)

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Issue of 16,115,754 ordinary shares to Fluor Australia Pty Ltd in satisfaction of Australian Magnesium Operations Pty Ltd's obligation to pay \$3 million for services rendered.

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

NIL

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

| | | Amount available \$A'000 | Amount used \$A'000 |
|-----|--|-----------------------------|------------------------|
| 3.1 | <u>QMC Finance Pty Ltd</u> | | |
| | <ul style="list-style-type: none"> ANZ: – Fully drawn cash advance facility (for QMAG operations) | 67,500 | 66,375 |
| | <u>Australian Magnesium Operations Pty Ltd</u> | | |
| | <ul style="list-style-type: none"> Qld Treasury Holdings Pty Ltd: State Mezzanine Loan Agreement facility (subordinated debt, to support payment of Loan Note distributions by AMC) | 100,000 | 34,192 |
| | <ul style="list-style-type: none"> ANZ: Cash advance facility, guaranteed by the Commonwealth of Australia (subordinated debt, to fund SMP) | 100,000 | 82,913 |
| 3.2 | Credit standby arrangements | NIL | NIL |

Estimated cash outflows for next quarter

| | | \$A'000 |
|--------------|----------------------------|---------|
| 4.1 | Exploration and evaluation | - |
| 4.2 | Development | - |
| Total | | - |

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

| | | Current quarter \$A'000 | Previous quarter \$A'000 |
|--|------------------------------------|----------------------------|-----------------------------|
| 5.1 | Cash on hand and at bank | 47,014 | 10,291 |
| 5.2 | Deposits at call | 13,500 | 61,798 |
| 5.3 | Bank overdraft | - | - |
| 5.4 | Other – Bank bills & Term deposits | - | 1,907 |
| Total: cash at end of quarter (item 1.22) | | 60,514 | 73,996 |

+ See chapter 19 for defined terms.

Changes in interests in mining tenements

| | Tenement reference | Nature of interest (note (2)) | Interest at beginning of quarter | Interest at end of quarter |
|---|--------------------|---|--|-------------------------------|
| 6.1 Interests in mining tenements relinquished, reduced or lapsed | n/a | n/a | n/a | n/a |
| 6.2 Interests in mining tenements acquired or increased | MDL 344 | MDL 344 granted 7 Sept 2003 replaces EPM 9725 which expired 14 Oct 2003 | n/a | n/a |

+ See chapter 19 for defined terms.

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

| | Total number | Number quoted | Issue price per security (see note 3) (cents) | Amount paid up per security (see note 3) (cents) |
|---|----------------------|----------------------|---|--|
| 7.1 Preference ⁺securities (description) | Nil | Nil | | |
| 7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, etc | Nil | Nil | | |
| ⁺Ordinary securities | | | | |
| 7.3 (i) Fully paid | 390,699,179 | 390,699,179 | | |
| (ii) Fully paid * | <u>660,258,713</u> | <u>660,258,713</u> | | |
| * stapled to Loan Notes in 7.12 | <u>1,050,957,892</u> | <u>1,050,957,892</u> | | |
| 7.4 Changes during quarter (a) Increases through issues (i) Fully paid | 16,115,754 | 16,115,754 | 18.6 cents | 18.6 cents |
| (b) Decreases through returns of capital, buy-backs | Nil | Nil | | |
| 7.5 ⁺Convertible debt securities (description) | Nil | Nil | | |
| 7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted | Nil | Nil | | |
| 7.7 Options (description and conversion factor) | | | <i>Exercise price</i> | <i>Expiry date</i> |
| (i) 31 July 2005 * | 53,153,895 | 53,153,895 | 125 cents | 31 July 2005 |
| (ii) 28 Feb 2007 * | 3,000,000 | Nil | 60 cents | 28 Feb 2007 |
| * entitlement to subscribe for one ordinary share | | | | |
| 7.8 Issued during quarter | Nil | Nil | | |
| 7.9 Exercised during quarter | Nil | Nil | | |
| 7.10 Expired during quarter (options lapsed during period) | 44,574 | Nil | 442.1 cents | 13 August 2003 |
| 7.11 Debentures (totals only) | Nil | Nil | | |
| 7.12 Unsecured notes Loan Notes * * stapled to fully paid shares in 7.3(ii) above | 660,258,713 | 660,258,713 | | |

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act 2001 or other standards acceptable to ASX (see note 4).
- 2 This statement does ~~does not~~* (*delete one*) give a true and fair view of the matters disclosed.



Sign here: Date:29 October 2003.....
Director & Acting Chief Executive Officer

Print name: CHRISTOPHER D RAWLINGS

Notes

- 1 The quarterly report provides a basis for informing the market how the entity’s activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The “Nature of interest” (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.