Latrobe Magnesium Limited

ABN 52 009 173 611

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QUARTERLY ACTIVITIES REPORT TO 31 DECEMBER 2002

1. HIGHLIGHTS

Highlights for the company during the quarter were:

- Agreement reached with Yallourn Energy for the supply of their ash to the magnesium project.
- Federal Government approval of $1.4 million in funding assistance for the bankable feasibility study.
- Report received from the Independent Expert in the royalty dispute with Paddington Gold.

2. OPERATIONS

2.1 Rambora Items

Although the Company is now concentrating exclusively on the Latrobe Magnesium Project, there remain a number of minor items to be finally resolved in addition to the Paddington Gold Royalty dispute.

In the matter of the Supreme Court claim against Paddington Gold for unpaid royalties, the Independent Expert has calculated the top cuts which are to be applied to the Granny Venn and Aunty Nellie ore processed by Paddington. These top cuts will enable the average grade of the ore to be agreed with Paddington, and the royalty owing to be calculated. The results of the Independent Expert are in line with the Directors expectations and substantiates the value in the Company's financial accounts. The directors anticipate that the dispute will be resolved in the near future.

2.2 Government Funding

After careful scrutiny of the Company's application, and in a competitive environment, the Federal Government has announced the provision of a grant of $1.4 million towards selected parts of the bankable feasibility study. The grant is subject to certain conditions including the provision of equal funding from the Company, and a matching grant being provided by the State Government of Victoria. The Company will negotiate the terms and conditions relating to the grant during the next quarter, in order to be able to commence draw down of the grant for a start to the bankable feasibility study as soon as possible. At the close of the quarter, an agreement to supply matching funds by the Victorian Government was imminent and the commitment was received on 6 January 2003.

2.3 Ash Supply

Agreement has been reached with Yallourn Energy on the terms and conditions for the supply of ash to the project, and the contract is now being finalised by the lawyers. This brings the total ash resources committed to the project to sufficient for the production of 77,000 tonnes per annum of magnesium alloys for a minimum 20 year life. In addition, the letter of support from Loy Yang Power provides for additional resources on terms to be negotiated.

2.4 European Discussions

The Company was represented at the Materialica 2002 conference held in Munich during October 2002.

After the Materialica 2002 Directors had meetings with several German metal trading companies, the Federal Association of Metal Traders, the Federal German Government and European construction companies.

The metal trading companies especially gave a very strong positive feedback because of our projected low operating costs. According to their assessment of our pre feasibility study our cash operating costs are the lowest of all existing and planned magnesium metal plants, with the exception of some Chinese producers. The MD of a major metals trading company based in Germany suggests that many Chinese producers have operating costs above our anticipated cash cost of A$ 0.7 per pound.

This cost compares with:

Cash operating costs:	
Noranda, Canada	A$ 0.96/lb
Projected cash operating costs:	
AMC	A$ 0.95/lb
SAMAG	A$ 1.06/lb
Latrobe Magnesium	A$ 0.705/lb

The overall reaction that the Directors received was that our project has outstanding economics and will be well placed in the future as a highly competitive magnesium metal producer.

2.5 Forward Planning

The Company intends to commence the bankable feasibility study as soon as funding permits. Whilst the study will take two years to complete at a cost of some $20 million, there are a number of individual components of the study which will be addressed in order. The first component will be a detailed assessment of the tasks and programme, followed by drilling and sampling of the old ash reserves to accurately quantify the contained magnesium. The company is about to undertake a placement, and the proceeds from this, together with the settlement of the Paddington dispute, will provide sufficient working capital when matched by Federal Government funding to commence the study activities referred to above.

Concurrent with the initial study activities the Company will be vigorously pursuing the funding for the balance of the work required to complete the bankable feasibility study. Discussions have already commenced with a number of brokers and bankers, and funds are being sought domestically and overseas. Directors are confident that the robustness of the project will ensure that the required funding will be obtained in a timely manner.

2.6 General

The Company's shares have been suspended from Australian Stock Exchange Limited (ASX) listing since early November, due to the late lodgement of the Company's 2002 annual audited accounts. This situation arose from the movement of the Company's office from Perth to Sydney and consequential delays in the transfer of documentation vital to the completion of the annual accounts.

As reported in the Chairman's address to the AGM, ASX have stated that they see no reason why the Company's securities would not be re-instated to official quotation subject to the Company fulfilling the ASX requirements.

Yours faithfully,

C W Sylvester,
Director and CEO.

Rule 5.3

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

LATROBE MAGNESIUM LIMITED

ABN

52 009 173 611

Quarter ended ("current quarter")

31 DECEMBER 2002

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter $A	Year to date (6 months) $A
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for (a) exploration and evaluation	(43,602)	(275,505)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(53,689)	(183,302)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	84	1,266
1.5	Interest and other costs of finance paid	(1,315)	(1,364)
1.6	Income taxes paid		
1.7	Other (provide details if material)		
	Net Operating Cash Flows	(98,522)	(458,905)
	Cash flows related to investing activities		
1.8	Payment for purchases of: (a) prospects		
	(b) equity investments		
	(c) other fixed assets		
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 (provide details if material)	20,374	20,374
	Net investing cash flows	20,374	20,374
1.13	Total operating and investing cash flows (carried forward)	(78,148)	(438,531)

1.13	Total operating and investing cash flows (brought forward)	(78,148)	(438,531)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	225,000
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	Net financing cash flows	-	225,000
	Net increase (decrease) in cash held	(78,148)	(213,531)
1.20	Cash at beginning of quarter/year to date	10,520	145,903
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	**Cash at end of quarter**	(67,628)	(67,628)

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
1.23	Aggregate amount of payments to the parties included in item 1.2	NIL
1.24	Aggregate amount of loans to the parties included in item 1.10	NIL

1.25 Explanation necessary for an understanding of the transactions

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

NIL

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

Financing facilities available

Add notes as necessary for an understanding of the position.

+ See chapter 19 for defined terms.

		Amount available $A	Amount used $A
3.1	Loan facilities	100,000	(67,628)
3.2	Credit standby arrangements	Nil	Nil

Estimated cash outflows for next quarter

		$A
4.1	Exploration and evaluation	547,000
4.2	Development	Nil
	Total	**547,000**

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	Previous quarter $A
5.1	Cash on hand and at bank	-	10,520
5.2	Deposits at call	-	-
5.3	Bank overdraft	(67,628)	-
5.4	Other (provide details)	-	-
	Total: cash at end of quarter (item 1.22)	(67,628)	10,520

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	-	-	-	-
6.2	Interests in mining tenements acquired or increased	-	-	-	-

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)*				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	**+Ordinary securities**	303,038,316	107,038,316		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	Nil Nil	Nil Nil		
7.5	**+Convertible debt securities** *(description)*				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	**Options** *(description and conversion factor)*	2,000,000 2,000,000	Nil Nil	*Exercise price* 5 cents 10 cents	*Expiry date* 12/12/2004 12/12/2004
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	**Debentures** *(totals only)*				
7.12	**Unsecured notes** *(totals only)*				

+ 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 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: 31 JANUARY 2003
(~~Director~~/Company secretary)

Print name: DAVID HUGHES

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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