

QUARTERLY ACTIVITIES REPORT

TO 30 SEPTEMBER 2004

1. HIGHLIGHTS

- Decision made to evaluate Russian dehydration and electrolytic cell technology;
- Share Purchase Plan successfully completed;
- Russian technology licensing negotiations commenced;
- Latrobe ash samples despatched to Russia and test work commenced to produce synthetic carnallite;
- Discussions commenced with Possehl Erzkontor GmbH on co-operation for metal sales.

2. MAGNESIUM PROJECT

Latrobe Magnesium (LMG) has made the recent decision to evaluate proven, Russian technology. The company's decision was prompted by the undue risk associated with the previously planned Alcan technology. This is particularly the case in light of the recent failures of Noranda and AMC, further casting doubt over the viability of unproven technology in a commercial magnesium plant.

The Russian technology will involve production of an electrolytic magnesium metal directly from a synthetically produced magnesium/potassium chloride called carnallite. The process is in use at four magnesium production plants these being Solikamsk and Avisma in Russia, Dead Sea Magnesium in Israel, and a small plant in Kazakhstan. The annual production from these four plants approximates 80,000 tonnes. The Dead Sea plant produces some 35,000 tonnes of magnesium per annum and is part owned by Volkswagen, with whom it has an off-take agreement.

In September, LMG travelled to Russia for the second time to gain further insight into the Russian technology that the Company will implement. On this visit, the Company's CEO was accompanied by Worley's Lead Processing Engineer, Ross Hayes, and LMG's BFS Manager, Michael Noakes. The group first met with representatives from RITM, followed by a more detailed inspection of the Solikamsk plant. Afterwards the group continued to St Petersburg to conduct detailed discussions with the Russian National Aluminium- Magnesium Institute (VAMI) regarding their technology. Jim Marron, an independent resource analyst from Clark and Marron, also joined the LMG group during their visits to the Solikamsk plant, RITM and VAMI.

The visit has enabled the Company to gain a more detailed understanding of the technology. The LMG group learned that, whilst Dead Sea Magnesium's carnallite crystals are grown over a period of six months in large solar evaporation ponds, the LMG project would be able to complete this same process in one hour by means of vacuum crystallisation technology as used at the Solikamsk works. The visit also allowed LMG to obtain sufficient information to allow an updated evaluation study to be progressed following the completion of test work on Hazelwood and Yallourn ash at RITM. Test work on the production of magnesium chloride from carnallite has now commenced and negotiations on a licensing agreement are taking place.

The visit also allowed the LMG group to thoroughly examine the Solikamsk plant. The group closely investigated each stage of the Solikamsk production process resulting in detailed data collection. This will facilitate LMG's further refinement of capital and operating costs through flow sheet and mass balance development.

Worley's Lead Processing Engineer, Mr Ross Hayes, was optimistic about the Russian visit. He concluded that 'the Russian technology appears to be well developed with an on-going improvement program which is well backed-up by technically competent personnel. The simplicity of the process and the lack of chlorine in the plant were impressive. Capital costs would appear not to be prohibitive and operating costs appear to be similar to the Alcan technology, although both of these require engineering confirmation'. Mr Hayes was positive about the well-developed nature of the technology, which is constantly being developed and improved. For example RITM are currently working on a technology to improve the chlorine utilisation to 99.9%. Worley's main concern for Latrobe was the high level of calcium in the leach solution. However, a solution has already been recognized by HRL Laboratory personnel, who have identified a potential process route of weak acid leaching at higher density.

3. MAGNESIUM MARKET

Reports from resource analysts show that the magnesium market continues to grow. Worldwide production of magnesium metal currently totals around 450,000 tonnes per year. Western primary magnesium production is around 150,000 tonnes while the Chinese primary production is around 300,000 tonnes.

Stricter Government environmental regulations and trends in the automotive industry to reduce vehicle weight, improve fuel efficiencies and reduce greenhouse gas emissions, have led to an increased popularity of magnesium as a lightweight structural metal.

The necessary technological advances in alloy performance that have occurred in the last 20 years have ensured a wider use of magnesium metal

in the automotive industry. Today's applications include transmission housings, instrument panels, intake manifolds, cylinder head covers, inner boot lid sections and steering components. Components such as engine blocks and magnesium metal sheets for body components are on the verge of being introduced into new model series.

Between now and 2012, it is forecast that overall magnesium usage will increase by 6% per annum, while die-casting alloys, the higher value market that LMG is focused on, will increase at a rate of 9% per year. Auto manufacturers are therefore seeking long-term stable suppliers for the next 15-20 years.

Presently, approximately 70% of global magnesium metal output is produced in China. Industry experts Clark and Marron have shown an average Chinese growth rate of 15% per annum over the last 10 years, accelerating to 27% per annum over the last three years. Recent projections show that China's domestic automobile sector is expected to increase consumption of magnesium alloy from 6,000 tonnes in 2003, to a forecast 35,500 tonnes in 2005 and 176,400 tonnes by 2010. With China's magnesium increasingly being used in the domestic market, Chinese output is becoming insufficient to sustain the growing international market.

4. OTHER MATTERS

LMG is seeking to cooperate with partners in Europe in the areas of off-take agreements and project investment, and discussions are proceeding with four organisations spread across Germany, Belgium and the UK. Early indications are that LMG will be able to cover its' entire projected output with off-take agreements from these sources.

In particular, LMG is in discussions with Possehl Erzkontor GmbH in Lubeck, Germany concerning potential cooperation in the area of alloy sales. Possehl has a 156 year trading history, with seven divisions and almost 4,500 employees world wide. Total sales in 2003 exceeded € 1bn.

5. LOOKING FORWARD

The Company intends to complete an evaluation stage of the BFS by the end of June 2005. Initial leaching and solution purification test work is being undertaken by RITM to determine whether this test work can produce from fly ash a synthetic carnallite suitable to be processed by the Russian technology. It is expected that this conservative approach will confirm earlier leach and purification test work performed by HRL Laboratories in Melbourne and Lakefield Research Inc in Ontario. The total cost of this work is estimated at approximately \$250,000, of which 50% is refundable to LMG under its' funding contract with the Department of Transport and Regional Services (DOTARS). The results are expected by February 2005.

Whilst performing this test work, negotiations will continue on a licensing agreement for the Russian Technology and the use of the Solikamsk pilot plant.

RITM will then commence an engineering study for the LMG plant based on Russian technology. This study will form the input to a feasibility study to be completed by Worley Engineers in Sydney who will evaluate the Australian capital and operating costs for the plant. The estimated cost for this section of the work is \$625,000, of which 50% is refundable to LMG under its' funding contract with DOTARS. A further capital raising will be made at this time to fund this work. This evaluation stage is estimated to be completed by June 2005.

Following the successful completion of the evaluation stage, the BFS and the securing of the necessary funding, the Project could be in production after a two year construction phase.

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")

30 September 2004

Consolidated statement of cash flows

		Current quarter \$A	Year to date (3 months) \$A
Cash flows related to operating activities			
1.1	Receipts from product sales and related debtors		
1.2	Payments for (a) exploration and evaluation	(38,401)	(38,401)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(85,923)	(85,923)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	1,505	1,505
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other (GST Refund)	-	-
Net Operating Cash Flows		(122,819)	(122,819)
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)	-	-
Net investing cash flows		-	-
1.13	Total operating and investing cash flows (carried forward)	(122,819)	(122,819)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(122,819)	(122,819)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	289,765	289,765
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	289,765	289,765
	Net increase (decrease) in cash held	168,946	168,946
1.20	Cash at beginning of quarter/year to date	189,811	189,811
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	356,757	356,757

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	\$29,000
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

- Directors fees and statutory superannuation contributions.
- Consultant fees paid to Rossing Pty Ltd, a Company associated with C W Sylvester.

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

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A	Amount used \$A
3.1 Loan facilities	100,000	Nil
3.2 Credit standby arrangements	Nil	Nil

Estimated cash outflows for next quarter

	\$A
4.1 Exploration and evaluation	100,000
4.2 Development	Nil
Total	100,000

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	10,207	2,361
5.2 Deposits at call	346,550	187,450
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	356,757	189,811

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	-	-	-	-

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

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 <i>(description)</i>	Nil	Nil		
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	347,839,806	347,839,806		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	30,000,000 Nil	30,000,000 Nil		
7.5 +Convertible debt securities <i>(description)</i>	Nil	Nil		
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	Nil Nil	Nil Nil		
7.7 Options <i>(description and conversion factor)</i>	2,000,000 2,000,000	Nil Nil	<i>Exercise price</i> 5 Cents 10 Cents	<i>Expiry date</i> 12/12/04 12/12/04
7.8 Issued during quarter	Nil	Nil		
7.9 Exercised during quarter	Nil	Nil		
7.10 Expired during quarter	Nil	Nil		
7.11 Debentures <i>(totals only)</i>	Nil	Nil		
7.12 Unsecured notes <i>(totals only)</i>	Nil	Nil		

+ 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:
(Director/Company secretary)

David Hughes

Print name:

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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