Australian Magnesium

Australian Magnesium Corporation Ltd
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23 June, 2003

Ms Dianna Higgins
State Manager Company
Australian Stock Exchange Limited
PO Box 7055 Riverside Centre
Brisbane QLD 4001

Fax: 07 3835 1004

Dear Ms Higgins,

Further to our discussions regarding the relisting of the Company's securities, please find attached a letter to shareholders from acting Chief Executive Officer, Dr Chris Rawlings, and an executive summary of a Heads of Agreement reached between AMC and its stakeholders on 13 June 2003.

The letter to shareholders covers matters including the Company's:

- asset carrying values and possible writedowns
- the status of the Stanwell Magnesium Project
- a preliminary review of a project cost estimate by Fluor
- magnesium sales contracts, including Ford
- cash position and solvency
- QMAG operations.

The letter to shareholders and summary of the Heads of Agreement will be dispatched to shareholders in coming days.

Yours sincerely,

Prem Nair
Company Secretary

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Dear Shareholder

On 13 June 2003, I was appointed acting Chief Executive Officer of Australian Magnesium Corporation Limited (AMC).

The past few months have been particularly concerning to all shareholders and one of my first priorities is to meet with as many of you as soon as possible. AMC intends to hold a number of shareholder briefings around the country to provide information on the plans being put in place. Information on venues and times will be communicated in the coming weeks.

On the day of my appointment AMC signed a Heads of Agreement (HOA) with the State of Queensland and the Commonwealth of Australia, Newmont Australia Limited, and Leighton Contractors Pty Ltd to restructure the Company and its Stanwell Magnesium Project (Stanwell).

AMC also signed an agreement with Stanwell Corporation Limited to terminate the agreements for the supply of steam, electricity and water to the project, terminate its associated financing plan and place the project on a care and maintenance basis.

The agreements provide AMC with an opportunity to:

- develop a revised magnesium business plan
- identify and develop new opportunities for design, construction and financing of a magnesium facility
- engage in a search for a corporate partner
- preserve AMC's technology and intellectual property
- maintain Queensland Magnesia (QMAG) as a going concern.

The Heads of Agreement covers a number of legal and technical matters relating to the AMC and Stanwell restructuring and a summary is attached.

It is also appropriate I update you on other matters, namely AMC's business plan, the status of the Stanwell cost review by Fluor Corporation, AMC's 45,000 tpa magnesium sales contract with Ford, the Company's asset carrying values, our QMAG operations and our staff.

Business Plan

Integral to a revised business plan will be the significant work AMC has completed to date, the sales and marketing progress it has achieved in the international magnesium industry, the technologies owned by the Company and the significant research and development alliances already established.

AMC will seek to engage a corporate partner in discussions on redeveloping Stanwell and we will look at alternative scale and contracting strategies for Stanwell. All options and opportunities will be reviewed for the project and the assets which have been created.

Fluor Review

AMC's analysis of the Leighton engineering procurement and construction (EPC) contract negotiations, which were not concluded, indicated that the Leighton EPC contract lump sum would have required additional finance.

Under a fixed price EPC arrangement project contingencies become the responsibility of the EPC contractor and thus part of the fixed price and would need to be funded, whether ultimately required or not.

At the time, the information on project cost trends was of a preliminary nature and insufficient to provide a basis for management decision making. As a consequence of the uncertainty an independent bottom up estimate of the capital costs of the project was requested from Fluor Corporation.

AMC has just received Fluor's cost estimate of the Stanwell project. The estimate does not change the reasons for the decision to place the project on care and maintenance and does not cover what it would cost for a new or revised development.

Fluor have estimated what it would have cost to complete the project under an engineering, procurement, construction and management (EPCM) structure had it been able to proceed immediately.

An EPCM contracting approach requires potential access to the funds of a supporting partner or balance sheet to cover risk events and cost trends that may or may not arise. These include prolonged delays due to weather, construction industrial disruption, or unforeseen equipment failures and late delivery.

AMC's preliminary view of the voluminous Fluor estimate indicates the need for additional funding of approximately $200 to $250 million - on top of AMC's previously arranged funding package of $1.5 billion - and the need for contingent balance sheet support.

A number of shareholders have written to me to ask, why AMC did not seek to raise an additional $200 million from shareholders to fill its 'capital gap' and continue the development.

Firstly, until the Fluor estimate was completed AMC had no reasonable basis or independent estimate of the level of additional capital required. Second, and most importantly, AMC would have needed the balance sheet support of its existing stakeholders or a new corporate partner.

In the time AMC had available over April and May, AMC's key stakeholders declined to provide the additional support required and it was not possible to secure a new partner.

AMC will now assess the cost 'going forward' to develop a revised project free of many of the past constraints and incorporating the significant value created to date with the engineering data, procured equipment and site works now held in a joint venture with Leighton Contractors.

To re-develop Stanwell will require a new finance plan, new project contracting strategy and new capital estimates. This will form part of the revised business plan outlined above.

Magnesium Customers, Contracts, Alliances

AMC's agreement with the Ford Motor Company of the USA to supply 45,000 tpa of magnesium has not been terminated.

It is likely that the terms of the agreement will have to be substantially renegotiated. AMC will hold discussions with Ford on the status of the agreement and these discussions and negotiations could take some time. If the contract is terminated as a result of those discussions, and if the US$30 million deposit is refundable upon termination, Newmont will cover any refund.

Maintaining AMC's relationship with Ford is important. It is AMC's intention to continue to work closely with Ford on the provision of magnesium alloys and technical services for Ford's future automotive programmes.

Last year AMC reached agreement under a memorandum of understanding with a European metals group to provide 15,000 tonnes of pure magnesium between 2005-2007. AMC will review this agreement, but does not anticipate any cancellation or financial exposures.

A key focus of AMC is to maintain its technical assistance and magnesium development alliances with the international automotive and die-casting communities.

AMC has a number of magnesium component development programmes in Europe and North America with groups such as Wagon Plc and Johnson Controls.

These are important in the development of service opportunities and AMC will seek to align these activities to a revised business plan and continue to leverage the expertise of the CSIRO and the Co-operative Research Centre for Cast Metals Manufacturing (CAST).

ASX and ASIC discussions

There has been media speculation and commentary in recent months regarding AMC and its discussions with the Australian Stock Exchange (ASX) and the Australian Securities and Investment Commission (ASIC). AMC assisted ASIC with its preliminary enquiries in May. The Company believes it is in compliance with the ASX Listing Rules regarding continuous disclosure. AMC will continue to assist both the ASX and ASIC with any further enquiries if they arise.

DES Distributions

AMC has indicated on a number of occasions that the payment of distributions on the Distribution Entitled Securities (DES) remains unchanged. The payment of the distributions is an unconditional obligation of the State of Queensland.

Holders will continue to receive their distribution payments, with the remaining three payments, each of 3.2 cents per security, paid over the next 18 months. The next distribution is payable on 24 November 2003.

In the months ahead, AMC will review whether to maintain the Distribution Reinvestment Plan. Under current arrangements with the State, reinvested distributions are not accessible to AMC as working capital, but are used by the Queensland Government to reduce its loan exposure.

Financial Position and Asset Carrying Values

For the six months to 31 December 2002, AMC reported an interim loss of $8.63 million on a revenue of $36 million. AMC anticipates a similar operating performance for the second half.

With the Stanwell project placed on care and maintenance, AMC will undertake a review of the carrying value of the Company's assets. This review will occur over the September 2003 quarter in consultation with the Company's auditors.

AMC anticipates this will lead to a significant write down in carrying values and that as a consequence the Company will report a significant loss for the year to 30 June 2003.

Stanwell and its associated activities had a carrying value as at 31 December 2002 of $494 million and expenditure since this time is of the order of $300 million.

For the 30 June 2003 accounts due for release in August it is possible the entire carrying value of the project and associated expenditure could be written off.

However AMC believes its intellectual property, physical assets, and joint venture with Leighton have value but that value will ultimately be influenced by the development of the new business plan and the Directors will regularly monitor their value as part of the Company's half year and full year reporting requirements.

AMC will also review the carrying value of QMAG, currently held at approximately $95 million, which may be impacted by the loss or delay of future magnesite sales to Stanwell.

As at 13 June 2003, AMC's cash position was estimated at around $100 million of which $70 million will be used over the next 12 months and $30 million held in escrow (as outlined in the summary).

The agreement with AMC's stakeholders provides the Company with assurance regarding its solvency and that its debts can be paid as and when they fall due.

AMC's June quarter cash flow statement will be released as soon as possible and update QMAG's end of year production and sales statistics and update AMC's cash position as at 30 June 2003.

QMAG

QMAG is a stand alone business and is not expected to require any additional capital at this time. QMAG has a full order book for 2003-04 of approximately 190,000 tonnes of magnesia products and revenue continues to track at around $80 million per annum. AMC will however review QMAG's budget as part of its financial year-end activities.

QMAG would have enjoyed some Kunwarara mine operating synergies with combined magnesite deliveries to Stanwell and Parkhurst. A review of the mine plan will be undertaken, but few operational changes are envisaged in the short term.

Employees

As part of the restructuring, it is regrettable AMC will lose 120 great people from Brisbane, Gladstone and Rockhampton. All staff will receive their full employee entitlements and AMC has put in place assistance and employee placement programmes.

It has been a difficult couple of months for all staff, but they have as always been dedicated, passionate and professional and our best wishes go to them and their families.

I will keep you informed of developments as they take place.

Yours sincerely,

C.D. Rawlings

Dr Chris Rawlings
Acting Chief Executive Officer

Executive Summary of the Heads of Agreement.

On 13 June 2003, Australian Magnesium Corporation Limited (AMC) and its wholly owned subsidiary Australian Magnesium Operations Pty Ltd (AMO) signed a Heads of Agreement (HOA) with the State of Queensland (the State), the Commonwealth of Australia (the Commonwealth), Newmont Australia Limited (Newmont), and Leighton Contractors Pty Limited (Leighton).

The key elements of the HOA include:

- The termination of the engineering, procurement and construction (EPC) contract between AMO and Leighton for the Stanwell Magnesium Project (SMP).
- The creation of a joint venture between AMO and Leighton with the aim of preserving the value created through the EPC contract and exploring opportunities for future developments.
- Termination of the senior debt facilities and unwinding the hedging arrangements associated with the SMP.
- The State and Commonwealth subordinating their loans to the unsecured creditors of AMO and AMC other than Leighton, up to an agreed amount.
- Newmont, a 27.8% shareholder in AMC, forgiving an existing loan to AMC, providing contingent funding, and retaining its existing guarantees to QMAG and AMC's Ford magnesium sales contract.
- Funds from existing cash reserves being set aside to scale back and sustain the operations of AMC and AMO, with the balance of the funds to be held by AMO in escrow for use by AMC and AMO with the consent of the State and Commonwealth as secured creditors.
- A commitment by AMC and AMO to prepare a new business plan to identify possible options to take the Company's magnesium business forward.

AMC has also signed an agreement with Stanwell Corporation Limited to terminate the agreements for the supply of steam, electricity and water to the SMP.

Business Plan

AMC's primary focus will be to develop a new business plan aimed at taking the Company's magnesium business forward. Undertakings have been given to the State and Commonwealth that over the next 12 months AMC shall:

- Develop a high level strategic plan incorporating detailed financial projections;
- Develop a Feasibility Study proposal for assessing the options for a future magnesium production project;
- Develop a detailed business plan for the magnesium business based on the results of the Feasibility Study; and.
- Subject to the plans acceptance, implement the new business plan.

In parallel with these activities, AMC will continue its corporate partner search programme and involve any such parties in the Feasibility Study and business plan development processes as appropriate.

Funding and Cash Management

Under the terms of the HOA, funds from existing cash reserves are being set aside to scale back the operations of AMC and AMO over the next 12 months.

At the time of signing the HOA, AMC's and AMO's total cash and cash equivalents were estimated by AMC/AMO at around $100 million.

The HOA contemplates cash payments of approximately $70 million over the next 12 months with around $50 million expended on activities relating to the scale back of operations and care and maintenance activities (including settlement of existing creditors, employee entitlements on termination) and around $20 million on-going activities (marketing, corporate, project and technical activities).

This will leave approximately $30 million to be held in escrow.

In general, the escrow amounts held by the Company can only be released following the development of the new business plan and upon satisfaction of the Government stakeholders, as secured creditors, that a suitable project has been identified with a reasonable prospect of success with a new budgeted programme of activities.

Stanwell Magnesium Project and Associated Financing Arrangements

The SMP in its current form has been cancelled. The EPC contract between AMO and Leighton and other project agreements (including the Energy Supply Agreement and Water Supply Agreement with Stanwell Corporation Limited) have been terminated, and the Stanwell site placed on a care and maintenance basis.

The project financing facilities will be terminated and the associated foreign exchange and interest rate hedging contracts have been unwound. The balance of the proceeds from the close-out of the hedging facilities ($2.9 million) will be used to offset partly outstanding commitment fees ($4.7 million) and other payments due in respect of the project financing facilities. AMC will seek reimbursement of these fees and payments.

AMC has paid $35.2 million in underwriting and arranging fees and work fees, and a further $16.6 million in commitment fees to date in respect of the project financing facilities.

Newmont

Newmont has agreed to forgive a $38 million loan provided to AMO through the 2001 Facility Agreement. It will provide up to $10 million in contingent funding for 12 months for the settlement of obligations towards existing unsecured creditors.

Newmont has confirmed its commitment to providing guarantees for QMAG's debt facility and hedge book and AMC's Ford sales contract.

The agreement allows Newmont to terminate the $75 million contingent equity and option arrangement (The Equity Contribution Deed No.2) that could have been accessed by AMC as part of its Stanwell commissioning facility in 2006 should Stanwell not have met certain operating tests.

Newmont has reduced its Board representation from three Directors to one and will be entitled to one director on the AMC board while its shareholding remains above 20 per cent.

The State of Queensland

The financing arrangements for SMP included three agreements with the State or related entities, namely:

(a) A $70 million cost overrun facility with Stanwell Corporation Limited;

(b) A $50 million agreement with the State for the development of common user infrastructure under the Stanwell Industrial Park Development Deed (SIPDD); and

(c) A $100 million loan facility to support distribution payments to holders of Distribution Entitled Securities (the State Mezzanine Loan Agreement).

As part of the termination of the project's debt facilities, the $70 million cost overrun facility will be terminated.

The $50 million SIPDD facility has not been drawn and will be cancelled. AMO will bear the cost of approximately $20 million in common user infrastructure developed to date.

The $100 million State Mezzanine Loan Agreement (SMLA) remains in place. To date, $33 million has been drawn under the SMLA. Further draw downs of $21 million will occur in each of November 2003, May 2004 and November 2004 as a consequence of the scheduled distributions.

Commonwealth of Australia

The financing arrangements for SMP include two agreements with the Commonwealth and related entities:

(a) A guarantee for a $100 million loan and interest rate hedging facility provided by Australia and New Zealand Banking Group Limited; and

(b) A Research Agreement with CSIRO under which $50 million in funding was applied to the development and creation of assets involving the 'AM Process' in return for a royalty stream.

The guarantee and ANZ facility remain in place. The loan balance currently stands at around $82 million and, with capitalised interest, will increase to $100 million by January 2007.

The CSIRO funding has been expended and the obligation remains to make future royalty payments when commercial magnesium production is achieved.

Leighton

Leighton and AMO have agreed to terminate their engineering, procurement and construction (EPC) contract for SMP and have released each other from any claims.

Leighton and AMO have further agreed to create a joint venture to preserve value created through the EPC contract and explore opportunities for future developments.

The initial term of the joint venture will be 12 months but may be extended by a further 12 months with the consent of the State and Commonwealth.

It should be noted that AMC and AMO have retained sole rights over the Stanwell site, the AM Process and all licences they hold in relation to SMP.

Government rights and consultation

AMC has agreed to report regularly and consult with the State and Commonwealth. As secured creditors, they have the right to exercise their security at any time if an event of material adverse change to their interests, or the objectives of AMC, occurs.

Shareholder Approval

AMC has agreed to put a resolution to its next Annual General Meeting for ratification of the decision to terminate SMP in its current form and proceed with the proposed business.

If not passed by a majority of shareholders in number and 75 per cent of votes cast at the meeting, the State and Commonwealth may enforce their security rights.