Australian Magnesium

Australian Magnesium Corporation Ltd
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12 September 2003

Company Announcements Office
Australian Stock Exchange Limited
Level 4, 20 Bridge Street
SYDNEY NSW 2000

Dear Sirs,

RE: PRELIMINARY FINAL REPORT

Please find attached Announcement in relation to AMC's Preliminary Final Result for the year ended 30 June 2003:

- **Press Release**
- **Appendix 4E – Preliminary Final Report**

Yours sincerely

P.K. Nair
COMPANY SECRETARY

12 September 2003

AMC STANWELL WRITE-DOWNS IN LINE WITH EXPECTATIONS

Australian Magnesium Corporation Limited (AMC) today reported a consolidated loss of $813 million for the financial year to 30 June 2003.

As foreshadowed to shareholders and the market in June this year, the loss is largely the result of a recoverable amount adjustment for the Stanwell Magnesium Project, which has been placed on care and maintenance.

The net recoverable amount adjustment for the Stanwell Magnesium Project included in the consolidated loss was $756 million.

An additional adjustment of $38 million was made as the net result of one-off provisions and restructuring costs including a $17 million recoverable amount adjustment for AMC's QMAG business.

AMC's underlying operating loss of $18 million compares to $9 million for the previous corresponding period, due mainly to a lower contribution from QMAG and higher corporate costs associated with the build-up for the Stanwell Magnesium Project.

While the Stanwell assets have been written down to what are effectively salvage levels, assets costing over $350 million are available, if the currently designed plant was to be built at Stanwell. In accordance with the Company's accounting policy, no value has been ascribed to a range of intellectual property assets of the Company.

Future potential value

AMC Chairman, Dr Roland Williams, said the carrying value of the Stanwell Magnesium Project (SMP), had been written down, in accordance with Australian accounting standards.

"However, AMC's objectives are to maximise the value in use of the project assets preserved by the Company by identifying opportunities to proceed with a plant along similar lines to the current design," Dr Williams said.

"Should AMC succeed in attracting partners to this project, SMP assets on hand which cost over $350 million could be utilised."

Dr Williams said the Heads of Agreement (HOA) between the major stakeholders including the Commonwealth of Australia, the State of Queensland, Newmont Australia and Leighton Contractors was being implemented.

"The HOA has enabled AMC shareholders to retain ownership of the magnesium industry expertise and technology interests held within the Group, and the opportunity to realise value from these assets," he said.

Outlook

Dr Chris Rawlings, AMC's Acting Chief Executive Officer, said the company was proceeding with its restructuring plan, as agreed with its major stakeholders, which includes a reduced AMC Board and management team and the establishment of a new business plan.

“As part of this plan, AMC’s assets have now been restructured into three distinct business units - **Magnesium Primary Production**, **Advanced Magnesium Technology** and **Queensland Magnesia (QMAG)**,” Dr Rawlings said.

“**Magnesium Primary Production** retains the assets of the Stanwell Magnesium Project, the AM magnesium production process and process technology relationships with CSIRO for the development of the AM Process.”

Dr Rawlings said the keys to success in the Magnesium Primary Production business would be the reduction of the capital cost of the Stanwell Magnesium Project by:

- maximising the use of the past project expenditure;
- optimising engineering design for a Stanwell Production plant;
- undertaking further research to optimise the AM Process;

and, engaging investment partners to support construction of a magnesium metal production facility at Stanwell.

“The Company is now directly engaged in these activities,” he said.

The **Advanced Magnesium Technology** business retains the licences for technology developed at the Cooperative Research Centre for Cast Metals Manufacturing (CAST), the market relationships with metal die-casters and Tier 1 suppliers to the automotive industry and proprietary intellectual property associated with new alloys and metal handling technologies.

Dr Rawlings said initial market developments were very encouraging and aimed at achieving the keys to success in this business - the ability to develop and grow sales for each of the unique products and services with die-casting customers.

Queensland Magnesia (QMAG) is a producer and supplier of magnesite and magnesia products with an operating mine at Kunwarara and a production facility at Parkhurst.

“QMAG is an ongoing business and its future financial success will hinge on achieving increased production and sales volumes from existing facilities, development of new products and markets and a financial restructuring to enable the benefits of the already achieved operational improvements to flow to AMC,” Dr Rawlings said.

“Increased sales volumes and new markets for magnesia products in South America and Vietnam have already been realised by QMAG,” he said.

Year in Review – Financial Performance and Cash Position

Financial Performance

While overall Group revenue was up 82% to $150.3 million, boosted by a loan forgiveness of $38.1 million and the release from a $39.2 million obligation to Ford, operating revenue from QMAG was down 13% to $67.4 million due to lower electrofused magnesia prices, lower calcined magnesia sales, unplanned outages at the Parkhurst plant, higher deferred hedge loss amortisation and an adverse exchange rate.

Despite the significant challenges, QMAG performed well with an EBITDA of $12.2 million compared to $17.9 million last year, before deferred hedge loss amortisation.

The consolidated loss of $812.6 million primarily reflects the writedown required by Australian accounting standards on the carrying value of the Stanwell Project assets. While the Stanwell assets have been written down to what are effectively salvage levels, assets costing over $350 million are available if the currently designed plant was to be built at Stanwell. In accordance with the Company’s accounting policy, no value has been ascribed to the intellectual property assets held within the Company.

Australian Magnesium

A recoverable amount adjustment of $17.2 million was also made for the QMAG business due, in part, to the impact of the cessation of the Stanwell Project. Other one-off charges and restructuring costs amounted to $20.5 million.

AMC's underlying operating loss of $18.4 million, compared to $9.3 million for the previous corresponding period, was due largely to a lower contribution from QMAG and higher corporate costs associated with the build-up for the Stanwell Magnesium Project.

Cash Position

As at 30 June 2003, AMC had a cash balance of $74.0 million.

Under the HOA, the cash will be used to fund activities relating to the wind down of the Stanwell Project operations, including care and maintenance, and to fund on-going activities including the development of a new business plan to take the Company's magnesium business forward.

An amount of approximately $31 million has been set aside in an escrow account to be used by the Company for this purpose with the consent of the State of Queensland and the Commonwealth of Australia as secured creditors.

Year in review - Queensland Magnesia

Kunwarara

Magnesite production at the Kunwarara mine in 2002-03 was 469,500 tonnes, down 21.9 per cent on the previous year, reflecting a reduction in inventories. Ore mined was up 25.8 per cent as a result of mining poorer quality ore and reduced reclamation from reject magnesite stockpiles.

Parkhurst

Production of calcined, electrofused and deadburned magnesia at the Parkhurst magnesia plant in 2002-03 was 180,900 tonnes, down 3.1 per cent on the previous year. The lower production was due to unplanned production shutdowns in February 2003, as a result of heavy rains causing transformer sub-station failure, and in May 2003, due to a major gas supply interruption. However, the plant continued to run above nameplate capacity (175,000 tonnes per annum).

Marketing and Sales

Magnesia sales in 2002-03 were 172,400 tonnes, an 11.4 per cent fall on the previous year's record level, due primarily to production disruptions impacting on the availability of deadburned magnesia and loss of business to Chinese competition in the New Zealand agricultural market. Sales in the previous year were also unusually high due to a run-down of deadburned magnesia inventories.

Year in Review – Group Health, Safety and Environment

AMC recorded its best safety performance in 2002-03.

The lost time injury frequency rate (LTIFR) for the year was 1.6, compared to 2.0 for the previous year. There was also a marked improvement in the total recordable cases frequency rate (TRCFR) which fell 43 per cent from 42.4 to 24.4, reflecting a greater focus on injury prevention. The average LTIFR and TRCFR for the Australian mining industry were 6.0 and 38.1 respectively (Minerals Council of Australia).

For further comment contact
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APPENDIX 4E

Preliminary Final Report
for the financial year ended 30 June 2003

Australian Magnesium Corporation Limited
ABN 51 010 441 666

Current reporting period: 30 June 2003
Previous corresponding period: 30 June 2002

Contents

This Preliminary Final Report is provided to the Australian Stock Exchange under ASX Listing Rule 4.3A

Results for announcement to the market

Revenue and net profit

		Percentage change		Amount $'000
Revenue from ordinary activities	Up	82%	to	150,284
Profit (loss) from ordinary activities after tax attributable to members	Down	5,356%	to	(812,584)
Net profit (loss) for the period attributable to members	Down	5,356%	to	(812,584)

Dividends

		Amount per security	Franked amount per security
Final dividend		Nil	Nil
Previous corresponding period		Nil	Nil
Record date		n/a	

A brief explanation of the announcements above

Net loss attributable to members is dominated by Stanwell Magnesium Project recoverable amount writedowns which totalled **$756 million** net of writebacks (see Note A).

Statement of Financial Performance
for the financial year ended 30 June 2003

	2003 $'000	2002 $'000
Operating revenue		
Sale of goods	67,377	77,378
Interest received	5,405	4,818
	72,782	82,196
Non-operating revenue		
Proceeds on sale of plant & equipment	63	22
Proceeds on sale of mining & exploration tenements	14	—
Release from Ford deposit repayment obligations	39,226	—
Loan forgiven – Newmont	38,098	—
Other revenue	101	476
	77,502	498
Revenue from ordinary activities	**150,284**	**82,694**
Recoverable amount adjustments		
Stanwell Magnesium Project **(see Note A)**	(833,779)	-
QMAG joint venture assets	(17,209)	-
Icelandic Magnesium Company investment	(3,789)	-
Exploration expenditure	(5,968)	-
Redundancy costs	(5,138)	-
Provision for demonstration plant site rehabilitation	(3,000)	-
Provision for restructuring of the Stanwell Magnesium Project	(2,651)	-
Other investing costs	-	(5,573)
Cost of goods sold	(74,370)	(76,199)
Other inventory costs	(716)	(1,827)
Administration costs	(8,843)	(5,831)
Other	(879)	(3,276)
Expenses from ordinary activities (excluding borrowing costs)	**(956,342)**	**(92,706)**
Borrowing costs	**(6,526)**	**(4,882)**
Loss from ordinary activities before income tax expense	**(812,584)**	**(14,894)**
Income tax expense relating to ordinary activities	—	—
Loss from ordinary activities after income tax expense	**(812,584)**	**(14,894)**
Net loss attributable to members of the parent entity	**(812,584)**	**(14,894)**
Total changes in equity other than those resulting from transactions with owners as owners	**(812,584)**	**(14,894)**

Statement of Financial Position
as at 30 June 2003

	2003 $'000	2002 $'000
Current assets		
Cash assets	73,997	184,379
Receivables	16,209	16,959
Inventories	16,802	15,157
Other	10,191	17,593
Total current assets	**117,199**	**234,088**
Non-current assets		
Receivables	4,101	1,000
Investments accounted for using the equity method	—	3,789
Property, plant and equipment	63,224	83,112
Project expenditure	31,276	368,007
Other	7,843	23,713
Total non-current assets	**106,444**	**479,621**
Total assets	**223,643**	**713,709**
Current liabilities		
Payables	37,421	26,593
Interest-bearing liabilities	44,829	43,407
Provisions	12,116	3,134
Other	3,305	73
Total current liabilities	**97,671**	**73,207**
Non-current liabilities		
Payables	1,522	1,680
Interest-bearing liabilities	197,074	167,631
Provisions	3,554	3,078
Other	4,469	39,932
Total non-current liabilities	**206,619**	**212,321**
Total liabilities	**304,290**	**285,528**
Net assets / (liabilities)	**(80,647)**	**428,181**
Equity		
Contributed equity	878,006	574,250
Reserves	2,750	2,750
Accumulated losses	(961,403)	(148,819)
Total equity	**(80,647)**	**428,181**

Statement of Cash Flows
for the financial year ended 30 June 2003

	2003 $'000 Inflows/ (Outflows)	2002 $'000 Inflows/ (Outflows)
Cash flows from operating activities		
Receipts from customers	88,049	74,206
Payments to suppliers and employees	(82,496)	(72,783)
GST recovered on payments for Stanwell Magnesium Project	42,702	9,962
GST paid on payments for Stanwell Magnesium Project	(42,533)	(12,482)
Interest received	5,929	4,295
Borrowing costs	(6,413)	(6,123)
Partial close-out of QMAG hedge book	—	(52,710)
Other receipts	101	476
Net cash provided by/(used in) operating activities	**5,339**	**(55,159)**
Cash flows from investing activities		
Payments for Stanwell Magnesium Project		
EPC contract		
Equipment	(161,278)	(5,000)
Bulk materials & installation	(27,339)	—
Temporary facilities & indirect costs	(31,041)	(2,000)
Engineering	(70,819)	(11,000)
Management salaries & expenses	(27,847)	(7,000)
Fees – Leighton Contractors and subcontractors	(34,744)	(2,900)
Non-EPC contract scope		
Lump sum turn key contracts	(26,760)	—
Energy supply / water supply contracts	(33,600)	(4,400)
Other contracts	(19,323)	(3,900)
Insurances	(4,306)	(17,000)
Land & buildings	—	(2,085)
Owner's project management costs	(22,138)	(18,315)
Other Stanwell Magnesium Project costs		
Preparation for operations	(9,281)	(4,100)
Research and development	(4,031)	(600)
Marketing	(3,760)	(1,700)
Bank fees	(14,900)	(44,500)
Other	(3,418)	(1,000)
Pre-financial close costs	—	(8,182)
CSIRO Research Agreement funding	17,200	32,800
Stanwell Magnesium Project redundancies	(1,396)	—
Payment for property, plant and equipment & mine development	(6,811)	(5,325)
Proceeds from sale of non-current assets	77	22
Net cash used in investing activities	**(485,515)**	**(106,185)**
Amount carried forward	(480,176)	(161,344)

	2003 $'000 Inflows/ (Outflows)	2002 $'000 Inflows/ (Outflows)
Amount brought forward	(480,176)	(161,344)
Cash flows from financing activities		
Proceeds from issue of shares	303,707	193,656
Proceeds from borrowings	105,930	221,145
Repayment of borrowings	(39,843)	(67,360)
Other – debt origination fees	—	(13,086)
Net cash provided by financing activities	**369,794**	**334,355**
Net increase/(decrease) in cash held	**(110,382)**	**173,011**
Cash at the beginning of the financial year	184,379	11,450
Effects of exchange rate changes to cash held at the beginning of the financial year	—	(82)
Cash at the end of the financial year	**73,997**	**184,379**

Statement of Retained Earnings
as at 30 June 2003

	2003 $'000	2002 $'000
Balance at the beginning of the financial year	(148,819)	(133,925)
Net loss attributable to members	(812,584)	(14,894)
Balance at the end of the financial year	**(961,403)**	**(148,819)**

Earnings per share

	2003	2002
	Cents	**Cents**
Basic EPS	**(110.01)**	**(4.26)**
Basic EPS, based on year-end fully-paid ordinary share equivalents (note (e))	(78.52)	(2.90)
	$'000	**$'000**
(a) Earnings used in calculating both Basic EPS ratios		
Net loss attributable to members of the parent entity	(812,584)	(14,894)
	Number '000	**Number '000**
(b) Denominators used		
WANOS used in calculation of Basic EPS	738,630	349,464
Fully-paid ordinary share equivalents used for the alternative Basic EPS	1,034,842	514,140
(WANOS means weighted average number of ordinary shares)		

(c) Diluted EPS
Diluted EPS has not been calculated as the "trigger test" in AASB 1027 was not satisfied.

(d) Classification of securities
Ordinary shares (which form part of a Distribution Entitled Security) became fully paid to 60.8 cents per share when the final instalment of 30 cents was made on 31 January 2003. Until that date, the partly-paid shares carried rights to dividends in the proportion to which they had been paid up, and have been included as ordinary shares in WANOS in this proportion until 31 January 2003.

(e) Basic EPS, based on year-end fully-paid ordinary share equivalents
This ratio provides more meaningful information than the Basic EPS in light of the major capital restructurings that occurred in 2003 and 2002.

Distribution Reinvestment Plan

The Distribution Reinvestment Plan was suspended on 7 August 2003.

Note A - Going concern

At year-end the consolidated entity was in a net liability position of $80.647 million. This position must be considered in the context of the limited recourse nature of the following secured liabilities:

- the rights of recourse of ANZ under the QMAG debt facility of $67.5 million are limited to the assets of the QMAG joint venture operation ($109.456 million), with the facility being guaranteed by Newmont Australia Limited; and
- the rights of recourse of:
  (i) the State of Queensland (through Queensland Treasury Holdings Pty Ltd) under its loan to fund distributions to holders of loan notes; and
  (ii) the Commonwealth of Australia under the Commonwealth Mezzanine Indemnity Agreement,

  are limited to the assets charged under the Security Trust Deed and other collateral charges.

The consolidated entity is effectively engaged in two businesses, namely a magnesia business and a magnesium business. These businesses have independent financing arrangements. Detailed below are the directors' views as to the going concern assumption in relation to each of these two businesses and the carrying value of the Stanwell Magnesium Project (SMP) included in Project expenditure.

Magnesia business

Going concern

The magnesia business is being pursued through the wholly-owned QMAG unincorporated joint venture, the financing for which is guaranteed by Newmont Australia Limited.

With respect to the magnesia business, the ability of the consolidated entity to continue as a going concern is dependent upon a number of factors, in particular:

- the continued financial support by Newmont Australia Limited for the business' financing arrangements; and
- the ability of the business to generate sufficient net cash inflows from operating activities to meet the obligations of its financing arrangements.

The view of the directors with respect to the above matters is as follows:

- based upon the confirmation by Newmont Australia Limited of its commitment to guarantee the financing arrangements of the magnesia business, the directors believe that such support will continue; and
- there are reasonable grounds to believe that the magnesia business will generate sufficient net cash inflows from operating activities to meet the obligations of its financing arrangements.

Magnesium business

Going concern

The magnesium business was being pursued through the SMP and involved the development and construction of a 97,000 tonne per annum magnesium metal and alloy plant at Stanwell in central Queensland.

The magnesium business is now governed by the terms of the Heads of Agreement (HOA) signed on 13 June 2003 by the Company, its wholly-owned subsidiary Australian Magnesium Operations Pty Ltd, the State of Queensland (the State), the Commonwealth of Australia (the Commonwealth), Newmont Australia Limited and Leighton Contractors Pty Limited. As a consequence of the HOA, the SMP was terminated in its current form.

In terms of the magnesium business, the ability of the consolidated entity to continue as a going concern is dependent upon a number of factors, in particular:

- that circumstances do not arise during the life of the HOA which would entitle the State or Commonwealth to exercise their rights under their securities. These circumstances include:
  (i) the happening of a material adverse change to the interests of the State or Commonwealth or

to the objectives of the Company; or

(ii) the failure by the members of the Company to resolve at the Annual General Meeting to be held in November 2003 to ratify the decision to terminate the SMP in its current form and to proceed with the proposed business; and

- the Company being able to develop a business plan acceptable to the State and Commonwealth by March 2004 to take the consolidated entity beyond the funding arrangements established by the HOA.

The view of the directors with respect to the above matters is as follows:

- the directors are not aware of any circumstances which would be likely to entitle the State and Commonwealth to exercise their rights under their securities. In particular, the directors are not aware of the likelihood of any such material adverse change arising and propose to recommend to the members of the Company the passing of the above resolution at the AGM;
- the cash reserves are sufficient to meet the ongoing magnesium business as they are currently structured;
- there are reasonable grounds to believe that the Company will be able to develop such a business plan.

Carrying value of the Stanwell Magnesium Project

Cash spent on SMP by the consolidated entity since financial close in November 2001 and up to the reporting date was $570.085 million net of the CSIRO Research Agreement funding of $50 million (see Statements of Cash Flows).

Up to the reporting date and before any recoverable amount adjustments, the book value of SMP to the consolidated entity was $865.977 million. This included $274.057 million of expenditure incurred prior to the project's financial close.

In accordance with the consolidated entity's policy on project and development expenditure and the requirements of AASB 1010 *Recoverable Amount of Non-Current Assets*, the assets created through the SMP have been written down to what effectively represents salvage values from the sale of project assets. The carrying value of the SMP assets at the reporting date after the recoverable amount adjustments is $32.198 million. The write down to salvage values is considered the "worst case" scenario given that the Stanwell Project has been terminated in its current form. However, in the event that the Company is able to utilise existing project assets and/or the technology underlying the SMP, the recoverable value is likely to be in excess of the salvage value.

Due to the uncertainties as to the form of the final business plan, there is inherent uncertainty as to the actual recoverable amount of the assets. To demonstrate the extent of the uncertainty, detailed below is a table outlining cash spent since financial close in November 2001, incurred expenditure in total, the salvage values and the directors' assessment of the past cost of assets with potential utilisation in a future plant.

	Cash spent since financial close ($'000)	Incurred expenditure ($'000)	Recoverable amount ($'000)	Past cost of assets with potential utilisation in a future plant (i) ($'000)
EPC Contract				
Equipment	166,278	166,278	15,740	159,768
Bulk materials & installation	27,339	27,339	440	20,563
Temporary facilities & indirect costs	33,041	33,041	245	14,121
Engineering	81,819	81,819	-	81,819
Management salaries & expenses	34,847	34,847	-	-
Fees-Leighton Contractors & subcontractors	37,644	37,644	-	-
	380,968	380,968	16,425	276,271
Non-EPC contract scope				
Lump sum turn key contracts	26,760	35,593	2,920	35,593
Energy / water supply agreements	38,000	38,000	10,000	10,000
Other contracts	23,223	27,963	1,723	19,182
Insurances	21,306	21,306	-	21,306
Land & buildings	2,085	2,085	799	2,084
Owner's project management costs	40,453	41,576	-	-
	151,827	166,523	15,442	88,165
Other Stanwell Magnesium Project costs				
Preparation for operations	13,381	13,481	294	739
Research & development	4,631	4,631	-	-
Marketing	5,460	5,680	-	-
Bank fees	59,400	59,400	-	-
Interest capitalised	18	6,834	-	-
CSIRO Research Agreement funding	(50,000)	(50,000)	-	-
Other	4,400	4,403	37	418
	37,290	44,429	331	1,157
Pre-financial close costs	-	274,057	-	-
Total	**570,085**	**865,977**	**32,198**	**365,593**
		(A)	(B)	

Recoverable amount adjustment – Stanwell Magnesium Project	(A) less (B)	833,779
Release from Ford deposit repayment obligations		(39,226)
Loan forgiven – Newmont		(38,098)
Recoverable amount adjustment net of write backs – Stanwell Magnesium Project		**756,455**

(i) Directors' assessment of past costs incurred which may be avoided if the project was to proceed with a plant of the same design as envisaged prior to entering into the HOA.

Conclusion

Based upon the views outlined above, the directors believe that whilst there exist a number of significant uncertainties with respect to going concern, the going concern basis of preparation for the consolidated entity is appropriate. The directors also highlight the associated uncertainty as to the recoverable amount of the Stanwell Project costs. In light of the current uncertainties with respect to the Stanwell Magnesium Project, the directors consider the most appropriate basis upon which to value the associated project assets is salvage value.

If the financial report was not prepared on the going concern basis, the amount and classification of assets may need to be adjusted and there may be changes in the amounts and dates of maturity of liabilities, with consequential amendments to revenues, expenses and equity, and appropriate disclosures would need to be made.

Note B - Change in accounting policy

In order to comply with revised AASB 1012 *Foreign Currency Translation*, applicable for the first time in the year ended 30 June 2003, the policy for accounting for monetary items arising under foreign currency contracts and outstanding at reporting date has changed.

The new policy is for the net amounts receivable or payable under the hedge to be recorded in the statement of financial position.

If this policy were applied in the prior year, the financial effect would be for Current assets – other and Payables – current to increase by $2.097 million. Non-current assets – other and Payables – non-current would increase by $7.156 million, ie total assets and total liabilities would each increase by $9.253 million, with the net effect on net assets being nil.

Commentary on results for the period

The commentary on results for the period is included in the announcement dated 12 September 2003 accompanying this statement.

Information on audit or review

The accounts are in the process of being audited.

It is expected the auditors will include an Emphasis of Matter paragraph in their audit report to members:

- relating to the going concern assumption (refer to Note A); and
- highlighting the fact that under the terms of the Heads of Agreement, shareholders are required at the Annual General Meeting in November 2003 to ratify the decision to terminate the Stanwell Magnesium Project in its current form and to proceed with the proposed business (refer to Note A).