Australian Magnesium

Australian Magnesium Corporation Ltd
ABN 51 010 441 666

Brisbane Office
Level 5, 30 Little Cribb St, Milton Qld 4064 Australia
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www.austmg.com

23 January 2004

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

Dear Sirs,

RE: ANNOUNCEMENT

Please find attached Announcement in relation:

* **Quarterly Report & Appendix 5B for the 3 months ended 31 December 2003**

Yours sincerely

P.K. Nair
COMPANY SECRETARY

Australian Magnesium

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Quarterly Activities and Cashflow Report

For the 3 months ended 31 December 2003

Overview

Queensland Magnesia Operations

- One lost time injury was recorded at QMAG.
- Magnesite production of 146,673 tonnes, up 38.8% on previous quarter.
- Record magnesia production of 51,481 tonnes, up 3.0% on previous quarter.
- Magnesia sales up 35.2% to 54,351 tonnes impacted by some bulk shipments occurring during quarter.

Magnesium Primary Production

- Stanwell plant site continued on care and maintenance.
- All contracts for the Stanwell project have been closed out.
- Work is well advanced in the investigation of alternative development opportunities.

Advanced Magnesium Technologies

- AMC continues to develop a business plan and investment strategy for new advanced technology business.
- New consultancy arrangements concluded with automakers, Tier 1 suppliers and diecasters.
- AMC's proprietary alloys were produced at the Gladstone Pilot Plant for market samples.

Corporate and Finance

- Cash balance of $62.1 million ($38.4 million in escrow) at 31 December 2003.
- Some of QMAG's foreign currency hedge book was restructured generating $5 million cash.
- The fourth 3.2 cent distribution on the DES was paid on 24 November 2003.
- Shareholders supported the restructure of the Company at the AGM.
- Dr Chris Rawlings appointed Executive Chairman following the retirement of Dr Roland Williams.
- Mr Eric Kolatchew appointed Chief Executive Officer.
- Magtrust, acquired 209,939,928 AMC Ordinary shares from Newmont.

Eric Kotalchew
Chief Executive Officer
23 January 2004

QMAG Kunwarara & Parkhurst Operations

QMAG – December 03 Quarter

Health, Safety and Environment: QMAG recorded one lost time injury during the quarter. The 12 month rolling average LTIFR increased from 4.4 to 5.9 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 was up 38.8% on the previous quarter and up 21.0% on the same quarter the previous year. Production was increased to build up stocks following two large magnesite shipments in the June and September quarters.

A refurbished log washer was installed at the KG1 plant to achieve productivity improvements. The log washer was commissioned early in the New Year.

Quarterly Kunwarara Production (tonnes)	**Dec 02**	**Mar 03**	**Jun 03**	**Sep 03**	**Dec 03**
Ore Mined	715,635	717,030	762,120	613,035	932,255
Beneficiated Magnesite Produced	121,234	109,620	108,079	105,666	146,673

Parkhurst Magnesia Production: Magnesia production at Parkhurst was up 3.0% and a record level for the second successive quarter. The plant has run steadily at an annualised level in excess of 200,000tpa for the first half of the financial year which is well above rated full capacity of 175,000tpa. This has been required to meet strong market demand, particularly for CCM and DBM. EFM production was maintained at above market requirements to take advantage of seasonally low electricity prices.

During the quarter, a Memorandum of Understanding was signed with Cement Australia Limited to toll produce up to 25,000tpa CCM in their nearby cement/lime kiln in Rockhampton during 2004 and 2005. Production will commence around mid 2004. The toll production will burn low grade magnesite for use in agricultural markets in NZ and SE Asia. Market development work is well advanced.

A briquetting plant will be installed at Parkhurst during the March quarter to briquette up to 20,000tpa of various magnesia waste streams for use in the steel industries in Australia, NZ and SE Asia. Market development work is well advanced.

Quarterly Parkhurst Production (tonnes)	***Dec 02***	***Mar 03***	***Jun 03***	***Sep 03***	***Dec 03***
Deadburned magnesia (DBM)	25,635	28,157	23,921	28,521	27,591
Electrofused magnesia (EFM)	3,564	5,972	7,000	5,336	6,756
Calcined magnesia (CCM)	13,860	8,750	14,139	16,120	17,134
Total	**43,059**	**42,879**	**45,060**	**49,977**	**51,481**

Sales: Magnesia sales were up 35.2% on the previous quarter and up 7.1% on the same quarter the previous year.

DBM sales were up significantly on the previous quarter but at a similar level to the same quarter last year. Sales were impacted by some large bulk shipments taking place during the quarter. Prices for 2004 contracts for most key customers in Europe were renegotiated in December with price increases of up to 20% being achieved. The increases reflected tighter market conditions, a weaker US$ and higher bulk shipping freight rates.

EFM sales were up on the previous quarter and in line with historical levels.

CCM sales were up marginally and a record for the second successive quarter. Strong market conditions continue to prevail in the Malaysian agricultural market and Australian steel market. During the quarter, a major industrial contract was renewed at a 16% higher price.

The next bulk magnesite shipment is programmed to take place in the March quarter.

Quarterly Magnesia Sales (tonnes)	Dec 02	Mar 03	Jun 03	Sep 03	Dec 03
Deadburned magnesia (DBM)	32,900	16,945	24,549	19,477	33,125
Electrofused magnesia (EFM)	5,453	5,890	7,923	4,976	5,404
Calcined magnesia (CCM)	12,412	10,609	13,966	15,733	15,822
Total magnesia sales	**50,765**	**33,444**	**46,438**	**40,186**	**54,351**
Magnesite sales	32,202	484	39,680	39,148	680
Total magnesia and magnesite sales	**82,967**	**33,928**	**86,298**	**79,334**	**55,031**

QMAG Outlook: The positive market outlook continues with global steel production continuing to grow strongly. The DBM market remains tight following the closure of a North American competitor in September and an Italian competitor being placed on a care and maintenance basis.

The overall sales outlook remains positive with the current order book expected to keep the plant at above rated full capacity production levels for the remainder of the financial year. Increased prices are being offset by increases in bulk freight rates due to the recent tightening of the bulk freight market.

Magnesium Primary Production

Summary

- No incidents or injuries recorded at Stanwell or Gladstone.
- Maintenance of the Stanwell site continued together with receipt of equipment for storage. Most equipment that was available at the time of termination has now been delivered.
- The Gladstone demonstration plant demobilisation has been completed, and is under care and maintenance.
- Work is well advanced in the investigation of alternative development opportunities, involving studies into the cost and schedule for a variety of different plant capacities and configurations.
- The budgets established for closure of Stanwell and Gladstone sites, and for the on-going study work, are on target.

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.

The asset disposition and valuation work has been completed and resulted in the following:

- Approximately $340 million "value in use" (defined as the expenditure that would be avoided if the project were re-started); and
- $32 million 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 continuing.

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. A joint team of AMO and Leighton personnel has progressed work in the investigation of alternative development scenarios involving studies into cost reduction opportunities and alternative production capacity plants. A report detailing the results of this review, incorporating the input of an independent leading international engineering consultant, is due to be completed during January.

AMO Other Activities

AMC continued to work with CSIRO on the development of process enhancements that may significantly reduce the capital requirement for a primary magnesium metal plant. The work is being undertaken at bench-scale and results obtained in the quarter were promising. Further bench-scale testing is required which, if successful, could lead to reduced capital costs for the Stanwell Magnesium Plant.

Advanced Magnesium Technology

During the quarter AMC continued to develop a business plan and investment strategy for its proposed new advanced technology business, AM Technologies. This will form one part of the three part business plan to be submitted to AMC's key government stakeholders by mid-February, 2004.

Consistent with this draft business plan, the AM Technologies global team continued its activities of commercialising a range of patented products and technologies, to which it has exclusive world-wide rights, as well as advancing its longer term programs to develop new technologies for powertrain applications and extruded products in strategic alliances with other parties.

In August 2003, AMC and its research partner CAST announced the successful completion of four years of R&D of its new patented cover gas system, AM-cover, for protecting molten magnesium. During the quarter, the AM Technologies team have signed three new commercial licences (bringing to five the number of commercial licences signed to date) and are in active discussions with numerous other parties interested in commercial licences. Market interest in AM-cover is expanding, as detailed commercial and technical evaluation by the die-casting industry and environmental authorities continues to prove the favorable cost savings and greater than 95% reduction in greenhouse gas emissions achieved with AM-cover in comparison to the current, more widely used SF_6 cover gas system.

Also during the quarter, the following progress was made:

New consultancy agreements were concluded with automakers, Tier 1 suppliers and die-casters, to provide support for the design of new magnesium automotive components and to reduce melt losses in existing operations involving molten magnesium;

Successful beta trials were initiated on AM Technologies' latest development, the AM-converter – a device for the rapid melting of alloy ingots and magnesium scrap with significantly lower melt losses than can be achieved with conventional technology; and

Favorable progress was made on each of the long term research and development programs with our strategic partners.

Consistent with the growing market interest to test samples of AMC's existing proprietary alloys (AM-SC1, AM-HP1 and AM-cast), AMC relocated its facilities to produce these samples from QCAT (Queensland Centre for Advanced Technologies) to the cast house of its Gladstone Demonstration Plant. Current capacity of the Gladstone facility is approximately 2,000 tpa.

Corporate and Finance

Finance

The cash balance at 31 December 2003 was $62.1 million ($38.4 million in escrow). $2.3 million was received during the Quarter as a result of cancellation of certain Stanwell Magnesium Project insurance policies

QMC Finance Pty Ltd, a wholly owned subsidiary of AMC, restructured some of its foreign currency hedge contracts associated with the QMAG business. Cash of $5 million was generated from this exercise which was used to supplement existing funds to meet QMAG short-term obligations. New currency hedges were put in place to reinstate the hedge book position at the then prevailing forward rates.

QMAG made a scheduled repayment of $1.125 million under the ANZ Facility Agreement in November 2003. The fully drawn limited recourse facility with ANZ now stands at $65.25 million. The next scheduled repayment of $2.25 million is due in February 2004.

This debt position is not sustainable in the long term. Whilst the underlying business basis of QMAG remains sound, the future viability of the QMAG business is dependent on restructuring the debt facility in the coming months. AMC is continuing discussions with Newmont and ANZ on restructuring the facility. In the meantime, the debt continues to be guaranteed by Newmont Mining Corporation (Newmont).

The fourth distribution payment, of 3.2 cents per DES, was paid on 24 November 2003.

Annual General Meeting

The twenty first annual general meeting of AMC was held on 24 November 2003. A special resolution to restructure the Company to continue the pursuit of a light metals industry in Australia was approved almost unanimously by shareholders. AMC was required to have its shareholders confirm the proposed restructure, brought about by the termination of the Stanwell Magnesium Project in mid-2003, under the terms of the Heads of Agreement entered into by the Company with its key stakeholders on 13 June 2003.

At the conclusion of the meeting, the Board of AMC resolved to appoint Dr Chris Rawlings as Executive Chairman following the retirement of then Chairman, Dr Roland Williams. The AMC Board also resolved to appoint Mr Eric Kolatchew, General Manager Project Development, to the position of Chief Executive Officer.

Disposal by Newmont of its Shareholding in AMC

Newmont disposed of its 26.7% shareholding in AMC. This was in line with Newmont's previously stated strategic position to concentrate on its main business of gold exploration, mining and development.

Magtrust Pty Ltd (Magtrust) acquired 209,939,928 shares from Newmont, representing 19.9% of AMC's issued shares.

Magtrust will hold the shares pursuant to an equitable share sale deed entered into with AMC and Newmont. Under the terms of the equitable share sale deed, if the proceeds of sale of any of the shares held by Magtrust exceed the consideration paid to Newmont plus administrative costs, the net proceeds will be held on trust for AMC. Therefore, Magtrust and its shareholders will not profit from the transaction. Magtrust will not receive any remuneration for performing this role or receive any other benefit as a consequence of holding the AMC shares.

The balance of Newmont's former shareholding in AMC, representing 72,602,150 shares or 6.86% of AMC's issued shares, was acquired by Deutsche Bank AG.

Business Plan and Investment Strategy

AMC principal objective in the coming weeks is to deliver a new business plan and investment strategy to its key government stakeholders by mid-February 2004, incorporating the results of various studies and proposals undertaken by the Company since the termination of the Stanwell Magnesium Project in mid-2003. This is a requirement of the Heads of Agreement entered into by AMC with its key stakeholders on 13 June 2003.

The new business plan and investment strategy will outline the proposed restructure of AMC's magnesium activities associated with the continued pursuit of a light metals industry in Australia and the Company's funding requirements to pursue these activities.

Under the terms of the Heads of Agreement, the government stakeholders will review the new business plan and investment strategy and, within one month of having received it, advise AMC whether it is acceptable to them.

Company Directory

Australian Magnesium Corporation Limited
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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 23 January 2004

Chris Rawlings	Executive Chairman
Creagh O'Connor	Non-executive Director
John Story	Non-executive Director
Ken Williams	Non-executive Director

Eric Kolatchew Chief Executive Officer

Company Secretariat
Prem Nair Company Secretary

Issued Capital as at 31 December 2003

ASX Listed Securities

Ordinary Shares
ASX Code ANM
398,735,903 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)

Shareholder Services

Major Shareholders:	No. of Shares:	Percent:
Magtrust P/ L	209,939,928	19.8%
RBC Global Services P/L	76,500,000	7.2%
Pan Australian Nominees P/L	72,252,150	6.8%

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.

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

Australian Magnesium Corporation Limited

ABN	Quarter ended ("current quarter")
51 010 441 666	**31 December 2003**

Consolidated statement of cash flows

	Cash flows related to operating activities	Current quarter $A'000	Year to date (6 months) $A'000
1.1	Receipts from product sales and related debtors incl. GST	28,857	49,468
1.2	Payments for		
	(a) exploration and evaluation	-	-
	(b) development	-	-
	(c) production & AMO activities excl. GST	(28,122)	(59,093)
	(d) administration	(5,584)	(11,137)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	690	1,266
1.5	Interest and other costs of finance paid	(1,183)	(2,356)
1.6	Income taxes paid	-	-
1.7	Other payments	-	-
	Other receipts (a) Newmont loan	-	5,000
	(b) Insurance refund	2,308	2,308
	Net operating cash flows	**(3,034)**	**(14,544)**
	Cash flows related to investing activities		
1.8	Payment for purchases of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets incl mine development	(475)	(1,089)
1.9	Proceeds from sale of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	1,094	1,094
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other – CSIRO Research Agreement funding	-	-
	Net investing cash flows	**619**	**5**
1.13	Total operating and investing cash flows (c/ forward)	**(2,415)**	**(14,539)**

+ See chapter 19 for defined terms.

1.13	Total operating and investing cash flows (b/ forward)	(2,415)	(14,539)
	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 - QTH	21,428	21,428
1.17	Repayment of borrowings - loan note distribution	(21,428)	(21,428)
	- other	(1,371)	(2,729)
1.18	Dividends paid	-	-
1.19	Other – Early close-out of forward exchange contract	4,999	4,999
	– Loans to Directors repaid	323	323
	Net financing cash flows	3,951	2,593
	Net increase (decrease) in cash held	1,536	(11,946)
1.20	Cash at beginning of quarter/year to date	60,514	73,996
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	**Cash at end of quarter**	62,050	62,050

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	919
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 Corrs Chambers Westgarth. 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 8,036,724 ordinary shares at an average price of 9.4 cents per share to Fluor Australia Pty Ltd on 10 October 2003 in satisfaction of Australian Magnesium Operations Pty Ltd's remaining obligation.

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.

		Amount available $A'000	Amount used $A'000
3.1	**QMC Finance Pty Ltd**		
	• ANZ: – Fully drawn cash advance facility (for QMAG operations)	67,500	65,250
	Australian Magnesium Operations Pty Ltd		
	• Qld Treasury Holdings Pty Ltd: State Mezzanine Loan Agreement facility (subordinated debt, to support payment of Loan Note distributions by AMC)	100,000	56,206
	• ANZ: Cash advance facility, guaranteed by the Commonwealth of Australia (subordinated debt, to fund SMP)	100,000	84,009
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	47,438	47,014
5.2	Deposits at call	12,353	13,500
5.3	Bank overdraft	-	-
5.4	Other – Bank bills & Term deposits	2,259	-
	Total: cash at end of quarter (item 1.22)	**62,050**	**60,514**

+ 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	n/a	n/a	n/a	n/a

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		
7.3	**+Ordinary securities** (i) Fully paid (ii) Fully paid * * stapled to Loan Notes in 7.12	398,735,903 660,258,713 1,058,994,616	398,735,903 660,258,713 1,058,994,616		
7.4	Changes during quarter (a) Increases through issues (i) Fully paid (b) Decreases through returns of capital, buy-backs	8,036,724 Nil	8,036,724 Nil	9.4 cents	9.4 cents
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	Nil Nil		
7.7	**Options** *(description and conversion factor)* (i) 31 July 2005 * (ii) 28 Feb 2007 * * entitlement to subscribe for one ordinary share	53,153,895 3,000,000	53,153,895 Nil	*Exercise price* 125 cents 60 cents	*Expiry date* 31 July 2005 28 Feb 2007
7.8	Issued during quarter	Nil	Nil		
7.9	Exercised during quarter	Nil	Nil		
7.10	Expired during quarter (options lapsed during period)	Nil	Nil		
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		

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: 23 January 2004
Chief Executive Officer

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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