

**Attention ASX Company Announcements Platform  
Lodgement of Open Briefing**



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**Title:** Open Briefing. Magnesium Int. MD on Smelter Site Review

**Record of interview:**

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Magnesium International Limited (MIL) has just announced that it has selected the Stanwell area west of Rockhampton in Central Queensland as a focus site for further review. The aim of the review is to determine whether another site exists which could be more economic to build MIL's magnesium smelter. You expect the second stage of the site review to take four months. Is that optimistic?

**Managing Director Gordon Galt**

We are confident that we can do all that is needed in that time, i.e. by the end of May this year. Essentially we need to:

- select a specific site within the Stanwell Energy Park area and complete a detailed capital expenditure estimate for that site,
- obtain signed Heads of Agreement or similarly enforceable commitments from the power provider and the owners of the ore,
- update all consumables costings for the site,
- progress a reasonable distance into an Environmental Impact Study to understand any local issues related to the project's development, and with this information
- complete a new Feasibility Study (FS) for the Stanwell site and make the comparison with Port Pirie.

We are not intending to have this FS at bankable status by the end of May because strict bankability is not needed to allow us to make the comparison.

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If you choose the Stanwell area as the final site, when would you expect to complete a FS to the bankable level? Alternatively, is Port Pirie currently at the bankable status if you remain with that site?

**Managing Director Gordon Galt**

To get to bankable status after the FS at Stanwell we would need to:

- obtain a final sign off from the independent engineer,
- obtain a fixed price from Thiess for the first smelter module,
- undertake some drilling at the ore source to get a mining reserve to JORC standard,
- sign contracts for the supply of power and ore and
- finalise the EIS and obtain a Development Approval.

We believe that it should be possible to accomplish these tasks in the last six months of 2004 as they can be completed in parallel.

To get to bankable status at Port Pirie requires only the first two issues to be dealt with as the other steps are already completed.

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The site review was in response to requests by potential equity participants in the smelter project. Will the results of your stage 2 work be good enough for them to make an investment decision and when do you think you will be able to make further announcements about equity investors?

**Managing Director Gordon Galt**

The FS will be to a sufficient standard for investors to make up their minds about participation and it will be very useful for the debt banks we are talking to as well. We'll be providing information to investors progressively during stage 2 and they will therefore be in a position to make their decisions from mid year 2004.

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The first stage of the review assessed four alternative sites to Port Pirie. The primary matters of importance in the first stage were reviewing operating costs, capital costs and looking at the strategic considerations such as whether the site could be expanded to approximately 250,000 tonnes per annum in the future. What are the strengths and weaknesses of Stanwell in these matters of primary importance?

**Managing Director Gordon Galt**

In terms of operating costs, Stanwell has a good mix of power cost and proximity to a known and extensively drilled source of magnesite ore on freehold land. Stanwell Energy Park is an established industrial zone with sites already designated for light metals production. Direct connection to the power station should be achievable, thereby eliminating some significant transmission charges. At least two gas companies are capable of supplying the site and a number of additional gas supply sources may be developed in the next ten years.

At this stage we have assessed that the capital cost for Stanwell will be greater than the cost of a Port Pirie located smelter.

In respect of expansion capability, we assessed four potential sites in terms of their capability to support a 250,000 tonne per year smelting operation. This required additional physical space, approximately 500MW of power, just over one million tonnes per year of ore plus increased water supply. There is definitely sufficient space for a smelter built in the Stanwell Industrial Park to be expanded and indications are that the required quantities of power, water and ore are all available for long periods into the future.

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In summary, Stanwell should have competitive power costs but it is likely to have higher capital costs than Port Pirie and you'd have to say it's unlikely that a project in Queensland will receive similar government financial support to that guaranteed for Port Pirie. So, is it fair to say that Port Pirie remains the favourite site?

**Managing Director Gordon Galt**

Port Pirie remains the favourite site for these reasons but also for other reasons – because, for example, we may not be able to conclude suitable agreements with potential power and ore providers for Stanwell. So until these contractual matters are all tied up the project cannot proceed – whereas at Port Pirie it can proceed as soon as the two bankability matters are dealt with and financing is obtained.

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Australian Magnesium Corporation Limited (AMC) had commenced site works at its Stanwell Magnesium Project before its project was placed on care and maintenance. Will MIL's review of sites around Stanwell include AMC's site?

**Managing Director Gordon Galt**

We have not included AMC's site as one of the potential Stanwell locations to date. Unless AMC specifically asks us to include their site we have no future intentions of considering it.

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To what extent can you piggyback on AMC's feasibility work for its project? For example, will you have to conduct an Environmental Impact Study from scratch?

**Managing Director Gordon Galt**

We won't get any appreciable benefits from AMC's work. We'll conduct our EIS from scratch for all intents and purposes, as we'll be using a different site and a different source of magnesite ore with a very different process route. We have different water requirements, for example, because we won't use the large steam volumes they needed.

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If MIL chooses Stanwell as the final site it intends to source magnesite ore from deposits around Yaamba, which is approximately 45 km north of Rockhampton.

Did you consider using magnesite ore from AMC's Kunwarara mine, which is approximately 70 km northwest of Rockhampton?

**Managing Director Gordon Galt**

We have considered using this ore but AMC gave us no encouragement that they were interested in supplying. We are therefore concentrating on Yaamba, which in any event should be less costly than Kunwarara because Yaamba is closer to Stanwell, has shallower overburden above the magnesite beds and should be able to be mined above the water table rather than below it as occurs at Kunwarara.

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What do you know about the Yaamba deposits in terms of size and suitability for the Dow process and who owns the lease?

**Managing Director Gordon Galt**

The lease is owned by AngloGold, who inherited the deposit from Acacia Resources when Acacia was taken over by AngloGold a few years ago. The Yaamba deposit is very extensive, with considerably more than 100 million tonnes of magnesite appearing to be available at reasonable strip ratio. Our investigations to date indicate that the magnesite will be entirely suitable for the Dow process with low impurity levels. Having said this, we'll be conducting sufficient additional exploration and leach testing during Stage 2 to prove that the deposit is adequate for our purposes.

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Are there many world magnesium projects which could be commissioned in the broad timeframe of MIL's project?

**Managing Director Gordon Galt**

We would be seeking to commence production in mid 2007 assuming financing from the end of Q1 2005. We are firmly of the opinion that no other new projects can be commissioned in the Western World in that timeframe and in fact the most advanced other project would be several years later. Brownfields expansions could occur in Russia, at two other Western smelters or in China. No intentions for major expansions in Russia or in the West have been announced at this time.

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Base metal markets and gold have rallied strongly in US\$ terms over the last few months. What are current conditions in magnesium metal markets and what influence is China having both on the demand and supply side?

**Managing Director Gordon Galt**

Magnesium is sold into several direct markets in a number of different forms. There are spot markets for pure magnesium and for standard magnesium alloys in Europe and in the USA. Different duty regimes exist in each of these locations. Prices in the pure magnesium market are much more visible than prices in the alloy market because the pure market is bigger and is mostly spot. Alloy sales contracts are longer term in nature, there is greater need for price stability, and quality and supply reliability concerns are taken into account much more than in

the pure market. China is a big influence in the pure market but is only a minor influence in the alloy market. MIL's target market is long term alloy sales.

Within the context of these comments it can be said that spot magnesium prices have been rising over the past year in both the pure market and in the alloy market, with the main pressure being from internal cost hikes in China, which is the biggest producing country. In China the costs of transport, coal and ferrosilicon are all up significantly over the past year.

Some recent spot price quotes delivered in the USA are US\$1.12 to US\$1.15/lb for pure magnesium and US\$1.10 to US\$1.17/lb for alloy depending on the source of supply. The Norsk Hydro spot price for European alloy is currently 2,500 Euros per tonne, which is equivalent to over US\$1.40/lb. No prices are available for long term contract alloy sales but Norsk is the market leader in the West and we believe that their price is a good guide.

MIL believes that magnesium prices for all quality categories will rise in the future in US dollar terms because Chinese costs will continue to be under pressure as their economy grows rapidly and because, in due course, we also believe that the Chinese will begin to revalue their currency. MIL's cost structure will not be subject to these pressures.

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Last year, MIL had to endure an unexpected review of its project by the SA Government as well as the failure of the AMC project. On the positive side, equity markets and metal markets have improved. Is your project gaining greater acceptance from investors, equity and debt markets or is it still a struggle?

#### **Managing Director Gordon Galt**

The issues you mention caused us great difficulties last year but we believe we have successfully differentiated ourselves from AMC and the SA Government's project review gave us a clean bill of health. We are now clearly the leading greenfields project in the Western World and this has allowed potential investors to focus on us more intently. We have been fielding a lot more enquiries about the project from these investors.

Equity markets are much better and we are getting a lot of encouragement that we will be able to raise the equity for the project early next year. The debt markets have always been supportive because of our proven technology, fixed price construction costs and outstanding offtake agreement arrangements.

#### **corporatefile.com.au**

Thank you Gordon.

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