

News Release

4 July 2011

Advanced Magnesium Limited (*AML*) acquires Magontec Group (*Magontec*);

A leading magnesium alloy and anode manufacturer

Acquisition details

AML has agreed to buy all the shares of Varomet Holdings Limited (the holding company for the Magontec Group businesses) from Straits Mine Management Pty Ltd (SMM) for A\$5.595m.

AML will own 100% of the Magontec businesses from 4 July 2011 including its magnesium alloy and anode manufacturing plants in Xi'an and Suzhou in China, and its European operations at Bottrop in Germany and the soon to be completed recycling facility at Santana (near Arad) in Romania.

In addition to Chinese and non-Chinese manufacturing capacity, Magontec has a global distribution and marketing network for both magnesium alloys and magnesium anodes.

Magontec is a leading magnesium alloy manufacturer and recycler in Asia, Europe and the USA. It is also the leading global supplier for cathodic corrosion protection systems to the water heater industry.

The combination of the Magontec business with the existing AML business will create one of the World's foremost magnesium production, distribution and technology platforms.

This acquisition provides AML with the opportunity to:

- Leverage its existing magnesium alloy technology portfolio to accelerate the development of a profitable proprietary alloy manufacturing and recycling business.
- Acquire highly experienced magnesium industry management and expertise and a well-recognised industry leading magnesium alloy brand name.
- Become immediately profitable.
- Expand on-going financial and technical support for AML's portfolio of magnesium alloy technologies in a broader based entity with a greater ability to commercialise these assets.

- Become the World's leading magnesium alloy manufacturing company, drive new growth in magnesium applications in the automotive and 3C (cell 'phones, computers and cameras) industries and more effectively manage global magnesium industry geopolitical risks.
- Make further investment in the anode business.
- Develop a business base capable of acquiring other targeted magnesium industry assets

AML and Magontec have well developed growth strategies to further develop the capabilities and synergies of the new group and further its ambition to become the most profitable vertically integrated magnesium manufacturing business in the World.

Deal Structure

AML will pay A\$5.6m/US\$6.0m for all the shares in Varomet Holdings Limited (**Varomet**), the Cyprus registered holding company for the Magontec operating businesses.

AML will make a 15% placement of shares to SMM, the owner of Varomet at a price of A\$0.055 (40,499,167 ordinary shares).

AML has also issued to SMM Convertible Loan Notes (**CLNs**) for the balance of the sum owing; A\$3,368,047.

The CLNs will carry a zero coupon and are redeemable at AML's option for a period of 12 months (until 4 July 2012). Thereafter the CLNs will be convertible at SMM's option.

The CLN is issued with the condition that conversion to equity is subject to shareholder approval which approval is intended to be sought to the 2011 Annual general Meeting of the company.

It is the intention of AML to redeem these CLN's prior to 4 July 2012.

AML will shortly announce the detail and form of a capital raising initiative to enable the Company to fund ongoing working capital requirements and retire debt associated with this acquisition.

Operational Structure

Mr Nicholas Andrews will continue in his role as Executive Chairman and Chief Executive Officer of Advanced Magnesium Limited.

Mr Andrews will retain overall responsibility for AML and group strategy and corporate activities. He will also remain Executive Chairman and CEO of AML's 53% owned joint venture, HNKWE.

Mr Günter Franke, the current Managing Director of Magontec, will become the Managing Director of AML and join the Board of AML with immediate effect.

Mr Franke will have overall responsibility for the global operational activities of Magontec and AML, including AML's technology and surface treatment divisions.

Mr Franke was appointed Managing Director of Norsk Hydro Magnesiumgesellschaft GmbH in 1996. In 2007 he became the CEO of the Magontec Group following the sale by Norsk Hydro of its magnesium assets and the establishment of the new Magontec brand. He has been a magnesium industry professional since joining Norsk Hydro in 1975.

Mr John Talbot will continue in his current role as Chief Financial Officer and Company Secretary.

Mr Talbot will continue in his current role as Chief Financial Officer of HNKWE and continue to serve as a Board member of HNKWE.

Reporting to Mr Franke and Mr Talbot will be the senior financial officer at Magontec in Germany, Mr Patrick Look.

All the senior executive staff of Magontec, including Mr Xunyon Tong (General Manager of Magontec China), Mr Christoph Klein-Schmeink (Head of Sales and Marketing) and Mr Martin Tauber (Head of Strategy and Business Development), will continue in their current roles in Magontec and from 1 July 2011 will commence three-year employment contracts.

The management of HNKWE will remain unchanged. A further announcement on the co-ordination of the two entities will be made in due course.

Magontec History

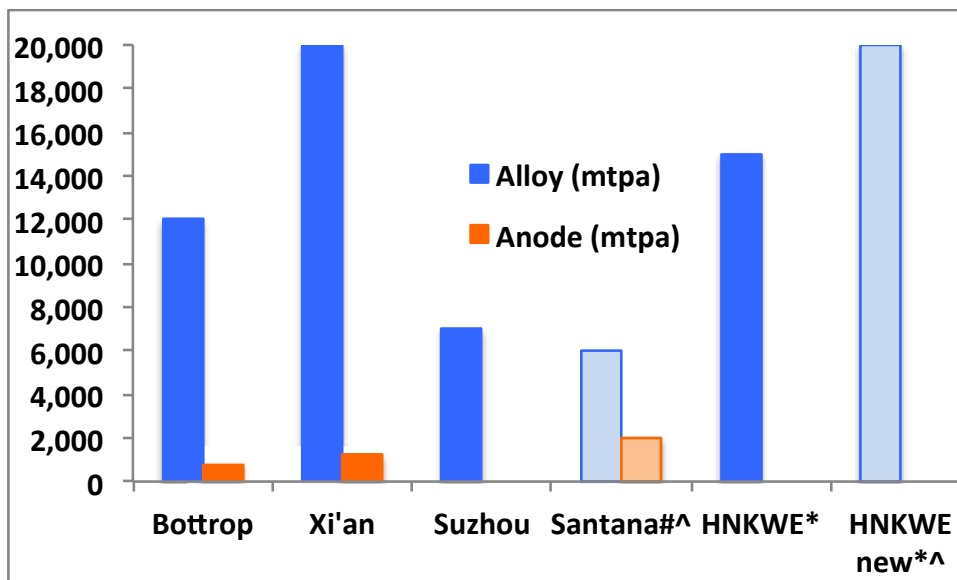
Magontec was founded in 1953 in Germany as Magnesiumgesellschaft. In 2007 Straits Resources Limited acquired the company from Norsk Hydro.

Magontec has a long and profitable history as a leading magnesium alloy manufacturer and the largest magnesium anode manufacturer in the World.

Manufacturing Operations

AML, through its operating subsidiaries, will have a combined manufacturing capacity of 60,000 metric tonnes per annum (mtpa). In addition to the manufacture of new magnesium alloy in Xi'an and at HNKWE (AML's 53% owned Chinese joint-venture), the company has installed recycling capacity of 19,000 mtpa. This will rise to 25,000 mtpa in 2012 as the new Romanian recycling plant comes on stream in Santana. In addition to magnesium alloys the Santana facility will also produce 2,000 mtpa of anodes.

The combination of new alloy and recycling capacity in both Europe and China provides a broadly based and comprehensive supply offering to customers in the automotive and 3C industries. Recycling in particular offers relative independence from volatility in the raw materials markets and the opportunity to generate higher gross profit margins.



Santana will commence in 2012

* HNKWE is 53% owned by AML

^Capacity under construction

The business combination will also offer customers the broadest range of existing and new technology magnesium alloys for use in the automotive and 3C industries. Both organisations have committed significant resources to bringing lightweight applications to market, particularly for the automotive industry as it seeks to improve environmental and emissions performance.

In addition to the manufacture of high quality generic alloys, already widely used by automotive manufacturers, the new company has an unrivalled offering of high technology magnesium alloys for current and future applications.

AML/Magontec technology portfolio

Alloy Type	Generic Alloys	Specialist Alloys	Industry	Applications
Benchmark Die cast	AM50A/60B		Auto	Seat frame, IP beam, door frame
	AZ91D		Auto/3C/ Powertool	Painted finish 3C, powertool housing, auto
Decorative Die Cast		HyMag2 AM-lite	Auto/3C Auto/3C	Internal auto 'metal finish', engine housing, light housing, 3c housing
High Temperature Die Cast		AM-HP2+ AE44 AJ62 AS31	Powertrain	Engine block, gearbox housing, other hi temp applications
High Temperature Sand Cast		AM-SC1		Engine block, gearbox housing, other hi temp applications
Extrusion		AM-EX1 AZ31	Auto/Train/3C	Auto space-frame, train luggage rack
Anode		AZ31 Ti	Water heater	Sacrificial anode Ti-anode; impressed current systems
Master		AM-Cast	Aerospace, military	Powertrain/ engine parts/ housing

Over the last 20 years AML has forged a close and productive relationship with CAST CRC (CAST), an Australian Government and industry funded light metals research organisation. CAST and the CAST scientists most closely associated with the development of AML's technology alloys and melt process applications will continue to be integrally involved with on-going research projects within the new company.

Through the acquisition of Magontec AML also acquires the Cathodic Corrosion Protection (CCP) business. CCP manufactures sacrificial and impressed current anodes for the global water heater industry under the brand names HyTonic® and Correx®. Magontec has also developed a range of titanium anodes and is seeking to expand its anode manufacturing abilities into new markets with new anode technologies.

Outlook

The magnesium industry is expected to experience strong growth over the next decade. In their 2009 report Clarke & Marron* forecast a 62.5% increase in primary magnesium consumption in the period 2011 to 2018. The combination of plentiful and competitively priced raw materials, highly valued performance and weight characteristics and a global drive for lighter and more fuel efficient materials in the automotive industry are expected to underpin much of this growth.

The combination of AML and Magontec will ensure that the Group sits at the forefront of the global magnesium industry in terms of capacity, technology and geographic diversification. Over the coming months the company expects to make announcements that will further develop these strategic objectives.

HNKWE has already announced its intention to increase manufacturing capacity at its Chang Ge plant to 35,000 mtpa. Construction has commenced on the 3rd and 4th furnaces. These new furnaces will have a manufacturing capacity of 10,000 mtpa each. HNKWE expects these modules to come on stream by 1 October 2011, building up to full capacity by 25 January 2012. The current production of 15,000 mtpa from the first and second furnaces is currently 100% committed to rolling 3-month contracts. HNKWE is now developing a marketing strategy to grow domestic and international sales and will announce this to the market in the coming months.

As discussed above, Magontec will also be increasing recycling and anode capacity as its Romanian plant in Santana comes on stream in the first half of FY 2012. This facility has been established to provide re-cycling services to a specialist magnesium die casting company located nearby and to boost Magontec global anode production capacity to supply new markets in Europe and North America.

The impact of both these initiatives is expected to have a positive effect on the overall profitability of AML in FY2013.

In addition to growing alloy and anode manufacturing and alloy recycling capacity, the new group has also examined investments in upstream activities in China and elsewhere in the World. The group is well advanced in these discussions and expects to make further announcements on these initiatives in the near future.

Securing reliable raw materials for the growing manufacturing capacity of the groups two operating entities is a critical objective for the new company. While AML sees significant opportunities for increasing supply to the automotive and 3C industries, our customers are very keen to see increased stability within the industry. As one of the largest and most technologically advanced magnesium alloy manufacturers, AML expects to take a leading role in delivering industry stability. We expect this will ensure that the company is well placed to secure new and longer term contracts with automotive and 3C manufacturers around the World.

The combination of a vertically integrated magnesium alloy manufacturing business and a significant magnesium alloy technology portfolio will allow AML to exploit three key product growth areas in the automotive industry; high temperature magnesium alloys for powertrain (gear-box, engine and transmission) applications; decorative magnesium solutions to replace plastic and zinc applications in automotive interiors and; magnesium extrusion alloys to replace aluminium extrusions in automotive space frames.

The adoption of high temperature alloys for powertrain applications has already commenced in small volumes within the German automotive industry. Magontec is currently the chief supplier of specialist alloy material for this application.

Magnesium Industry Overview

Magnesium is by far the lightest structural metal material, with low-density, high specific strength, electromagnetic shielding, good shock absorption and excellent casting and mechanical processing properties.

Magnesium has a density of 1,740 kilograms/cubic metre - about 64% of aluminium, 25% of zinc and 23% of steel. As a light metal in terms of strength and stiffness, magnesium alloy ranks after titanium and alloy structural steel, significantly higher than aluminium and much higher than the engineering materials (composites and polymers). Magnesium also offers processing performance and recycling properties that are superior to aluminium alloys.

Its status as an increasingly suitable substitute for aluminium lies in the development and application of alloying technologies. Magnesium is highly corrosive in its natural state, hence its use as a 'sacrificial' alloy in water heaters and other applications seeking corrosion protection.

Magnesium is the 8th most abundant element on earth and there are 80 minerals with more than 20% magnesium within their crystalline structure. The principal alloying materials include aluminium and zinc.

The most common (generic) die cast magnesium alloys, all out of patent, are

- AZ91D (9% Al, 1% Zn)
- AM50 (5% Al)
- AM60 (6% Al)

The characteristics of magnesium offer environmental and performance advances much in demand in the automotive, rail and electronics industries. Advances in alloy technologies increasingly promote magnesium as a replacement for aluminium and other metals in a wide variety of applications. Environmental targets for the automotive industry in particular ensure that automotive companies remain focussed on 'light weighting' through the use of magnesium among other technologies.

The US has recently introduced legislation that requires automotive companies to achieve a fuel economy of 39mpg (up from the current average of 27.5 mpg) by 2016. It is estimated that 25% of this may come from weight savings and as a general rule of thumb, a 10% mass reduction equates to 6.6% fuel efficiency gain.

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