

CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Fellow Shareholders

The enclosed notice of meeting and explanatory memorandum sets out five resolutions for which we seek your approval at a general meeting of shareholders to be held in **Brisbane on Tuesday, 4th October 2005**.

At last year's AGM, Shareholders approved the sale of the Queensland Magnesia Operations (QMAG). This relieved the Company of all bank debts and enabled the Company to establish a magnesium technologies business with a new team, focus and direction. The Board now turns its attention to the issues of corporate reconstruction and staff incentivisation, which are necessary to establish a platform for future development. These issues are capital reconstruction, Company name change, the introduction of an Employees Share Option Plan, the issue of options to the Managing Director and shareholder approval for raising capital.

The current capital structure restricts the Company's ability to attract new investors and severely limits the Company's ability to engage the capital markets. A capital reconstruction will help overcome these limitations and potentially broaden investor interest in the Company's activities. Raising fresh capital would allow the Company to accelerate the commercialisation of the Intellectual Property.

The Board wishes to reflect the current and ongoing business of the Advanced Magnesium Technologies entity and accordingly seeks Shareholder support on changing the name of the Company to Advanced Magnesium Limited.

The retention of key employees is critical to the future success of the Company. Employee rewards should reflect the risks and rewards of a technology company. The Non executive Directors believe that options are a more appropriate way to align employee interests with shareholder's interests than cash bonuses at this time in the company's development. The Board recommends that an Employee Share Option Plan (ESOP) be introduced. The ESOP is designed to provide personnel with options, which links their rewards to the future success of the Company and to shareholders' objectives.

The Board also proposes to issue options to the Managing Director to strongly incentivise him to achieve growth in shareholder value.

The adoption of all five resolutions will assist the Company to move forward into its new phase of its development.

Your directors and I urge you read the notice of meeting and explanatory memorandum in their entirety and consider the implications of the resolutions before deciding how to vote. You are welcome to attend the general meeting in person, or alternatively, you should lodge your proxy.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'C.D. Rawlings'.

Dr Chris Rawlings
Chairman
August, 2005