

MAGNESIUM ALLOY CORPORATION

September 2002

Recommendation : **Speculative Buy**

Symbol : YMY.U (TSXV)
 Recent Price : \$0.17
 52 Week Range : \$0.08 - \$0.45
 Share Capital: Basic : 25 million
 Fully diluted : 33 million
 Market Capitalization : \$ 4.3 million
 Market Float : \$ 3.1 million
 Major Shareholder : O. Hoegh (21%)
 Web site : www.magnesiumalloy.ca

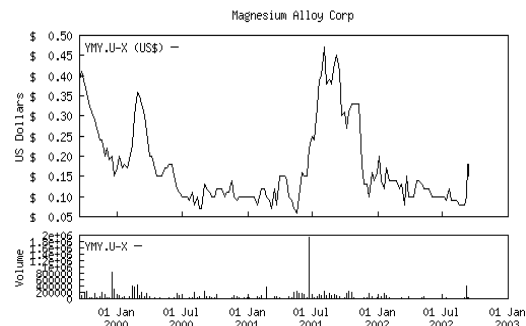


Chart courtesy of globeinvestor.com

(Note: All figures in U.S. dollars unless indicated.)

Alan Ferry, CFA
VP, Metals & Minerals

Lighting the Dark Continent, Lightening Future Autos

Major Steps Made Towards Development of Kouilou Magnesium Project

MagAlloy controls huge magnesium salt deposits underlying the coastal area of the Republic of Congo ("Congo-Brazzaville") beside West Africa's largest industrial port at Pointe-Noire. Several recent positive developments have progressed the project towards constructing a world class magnesium refinery for start-up by 2006. Some highlights are as follows:

- As a major potential consumer of electricity, MagAlloy's Kouilou Magnesium Project forms the cornerstone for power demand to drive the rehabilitation and huge expansion of the INGA hydroelectric facility on the Congo River. The potential to increase the capacity of the power plants from 1775 mW to about 40,000 mW is in turn considered by international agencies to be one of the most significant factors in the industrialization of the Congo region.
- Eskom, South Africa's major power utility, recently signed a Memorandum of Understanding with MagAlloy for the supply of low cost electricity (\$0.01/kWh) for the Kouilou magnesium project in Congo-Brazzaville. MagAlloy would also be a part owner of a new energy company;
- Stinnes AG, a major German transportation and trading company, has agreed in principle to purchase and market 100% of the magnesium metal and alloy output of the Kouilou plant;
- Feasibility studies envisage magnesium production capacity at 60,000 tonnes per year at cash costs under \$0.50 per pound by 2006, amongst the world's lowest cost producers. A bankable feasibility study has been initiated by the Company;
- Production will be by low cost solution mining and the magnesium salt brines will then be treated using proven Russian/Ukrainian technology (VAMI/STI) which is currently in commercial use.

We recommend MagAlloy shares as a Speculative Buy for high-risk tolerant investors with a 12-month target of \$0.70 per share.

Dominick & Dominick Securities Inc. has acted as a fiscal agent for the Company and may receive compensation for fiscal services in the future.



Magnesium Alloy Corporation

(YMY.U – TSX Venture Exchange)

Magnesium Alloy Corporation (“MagAlloy”) controls the huge Kouilou magnesium salt deposit located near the industrial deep-water port Pointe-Noire in the Republic of Congo (“Congo-Brazzaville”). Since 1997, MagAlloy has been advancing this innovative project towards production through a myriad of political, technical and financial obstacles. Remarkably, several key factors are coming together, which may lead to the successful completion of this large infrastructure project against seemingly impossible odds. (An excellent description of the Project can be found on the Company’s web site: www.magnesiumalloy.ca .)

South African electric power utility giant, Eskom, recently announced that it has initiated a feasibility study of the rehabilitation and expansion of the INGA hydroelectric station on the Congo River. In early September 2002, MagAlloy announced an agreement with Eskom that could see the Kouilou magnesium project receive electricity at the very low price of \$0.010 per kWh. With electricity expenses typically making up 35% to 40% of magnesium production costs, this would allow MagAlloy to produce high quality magnesium alloys for under \$0.50 per pound, amongst the lowest costs in the world.

This Eskom announcement was rapidly followed by the announcement of an offtake agreement with Stinnes AG, a major German transportation and trading company, to purchase and market 100% of the Kouilou Project’s magnesium metal and magnesium alloy production estimated at 60,000 tonnes per year starting in 2006.

MagAlloy has initiated a bankable feasibility study in order to facilitate the financing and construction of the \$500 million-plus Kouilou Project, which aims to become one of the world’s lowest cost magnesium producers.

Kouilou Drives Grand INGA Power Development

MagAlloy’s Kouilou Project potentially provides a large, long-term electricity consumer to support the plans to expand the INGA hydroelectric plant on the Congo River. The Congo River is the world’s second largest river system by water volume after the Amazon. Unlike the Amazon, there are no significant seasonal fluctuations in water levels and flow thereby allowing major hydroelectric power development.

The INGA plant has nameplate capacity listed at 1775 mW although it runs at well below capacity. The existing INGA plants (INGA 1 - 351 mW, commissioned in 1972; and INGA 2 - 1424 mW commissioned in 1982) would be rehabilitated first and MagAlloy would initially become the largest commercial customer. The recently announced “Grand INGA” plan would see the construction of 6000 mW of capacity in the first phase and ultimately up to 39,000 mW of new capacity for a cost of \$4 billion plus \$5 billion for related infrastructure. Low cost, reliable and environmentally friendly electricity would be available to consumers in the Congo and East African region and as far away as Egypt and Sudan.

The Grand INGA Project has naturally garnered significant attention from international financing agencies, both public and private, and has strong political support from the US and other senior economies due to the development’s potential to stabilize a region with such a poor historical record of economic development.

MagAlloy Will Own Part of a New Energy Company

The Memorandum of Understanding (“MOU”) announced by MagAlloy and Eskom in early September also includes the provision for a study of the construction and rehabilitation of transmission infrastructure within Congo-Brazzaville. Along with the state electric utility companies, Eskom and MagAlloy would own a portion of the new energy company in Congo-Brazzaville created to build, own and operate the new production and transmission infrastructure.

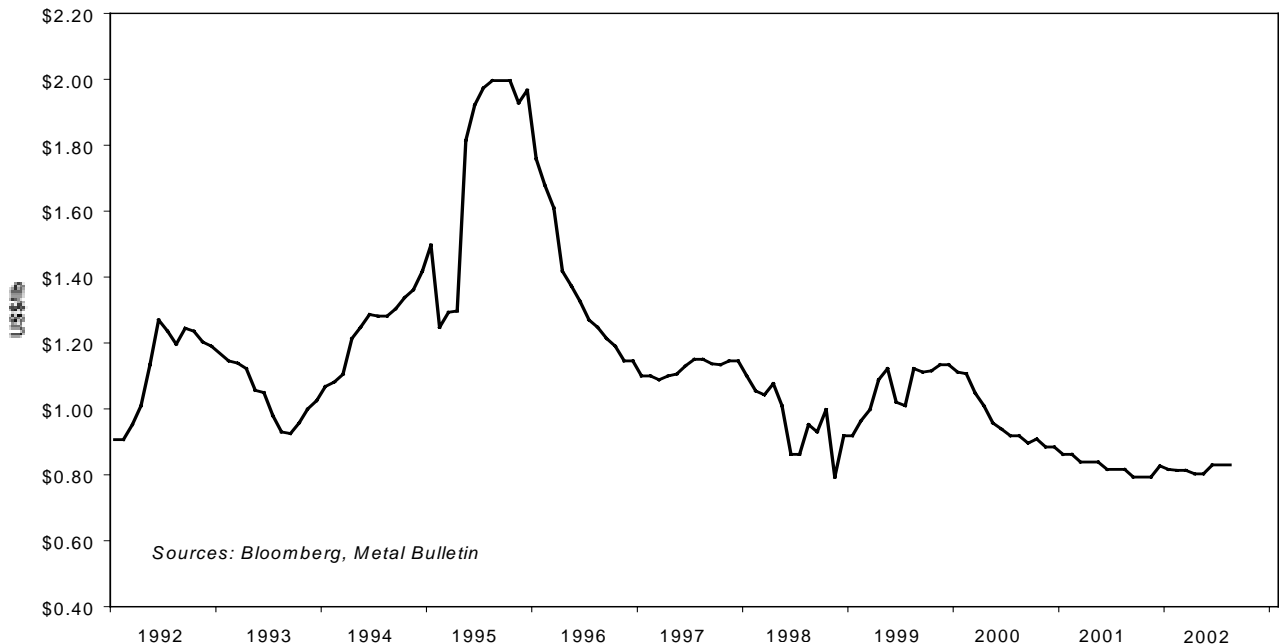
Magnesium Markets Have Long Term Support from the Auto Industry

With the drive towards reducing vehicle weight in order to meet more stringent emission standards, magnesium has been penetrating the auto industry's metal usage due to its high strength-to-weight ratio and die casting superiority. Ford and GM forecast that the amount of magnesium in each car will increase from 2.3 kg (5 lbs) currently to over 90 kg (200 lbs) over the next 15 to 20 years. Volkswagen expects the penetration to be even more rapid estimated at 132 kg to 178 kg (290 to 390 lbs) over the next 10 to 15 years.

In 2001, world magnesium shipments totaled about 330,000 tonnes. Under the auto demand forecasts above, about 600,000 tonnes of new magnesium production will be required to meet the long-term forecasts or 10 MagAlloy Projects. In 2001 about 43% was used in aluminum alloys (mainly can stock – a low growth market) and 33% in die-casting (e.g. auto parts) which has been growing rapidly at 15% per year over the past 10 years. The projected rapidly expanding usage in the auto industry will require several new, long-term low cost producers of which MagAlloy may become the lowest cost with its potential energy cost advantage. Another area of promise for new demand by automobiles is in the flat-rolled area (currently 1% of the market) as two separate German steelmakers are developing such products for use in automobiles.

On the supply side, numerous small Chinese magnesium producers have sprung up in recent years resulting in a flooding of the market of product. Prices dropped from the \$1.50 to \$2.00 per pound range of the mid 1990s to under \$1.00 today. Much of the Chinese product is of lower quality and must be upgraded for die-casting use. A chart showing the monthly magnesium prices over the past 10 years is shown below.

Magnesium Prices



In the West, several high profile projects are underway. Noranda's Magnola plant in Quebec has struggled during its start up but is approaching capacity of 63,000 tonnes per year, however original cost estimates may be difficult to achieve. Australian Magnesium's Stanwell operation (97,000 tonnes/year) is financed and under construction. A competing project, SAMAG, owned by Pima Mining in Australia, is struggling to

finance likely because all the investment demand was sopped up by the Stanwell financing. SAMAG may thus be delayed beyond its targeted 2005 start up. Also, several older, high-cost plants have been closed.

The current long term forecast for prices is above \$1.20 per pound. MagAlloy's cost structure places it in the lowest echelon of production costs and the project would be very successful under this forecast price environment. We believe that even at current prices around \$1.00, the Kouilou Project would prove to be an economic success.

Peaceful Congo-Brazzaville Embracing Economic Redevelopment

Since the current President abruptly assumed power in Congo-Brazzaville in 1998, the region entered several years of turmoil largely due to the wars in the much larger neighbour, the Democratic Republic of Congo ("Congo-Kinshasa"). Efforts have recently turned towards redevelopment in both Congos. The Grand INGA development is perhaps the most important symbol of this new, hopefully prosperous era.

Congo-Brazzaville gained independence from France in 1961. The current population is about 2.5 million and the major economic driver is the offshore oil production, which exceeds 250,000 bbls/day. About 10% of US oil imports originate from this region. There are also about 3 trillion cubic feet of potential natural gas reserves.

The World Bank and the IMF have opened an office in the capital city of Brazzaville, which will help facilitate the financing of major infrastructure projects such as Kouilou and the related electricity facilities. Major international corporations such as Credit Lyonnaise (France), Biwater (UK) and Rand Merchant Bank (South Africa) have recently made important investments in the country relating to privatization and redevelopment.

Pointe-Noire is West Africa's largest industrial port, which services the large oil industry with production from offshore Gabon, Congo-Brazzaville, Congo-Kinshasa and Angola. This industrial city of 300,000 was left untouched during the civil war of the late 1990s. MagAlloy's close proximity of its project to this deep water Atlantic port will give it a great advantage to shipping to markets in industrialized nations.

With access to low cost electricity, abundant natural gas and ocean transportation, Pointe-Noire could benefit from significant growth from heavy industry such as aluminum smelters, chemical plants and plastic manufacturers. Once the Kouilou Project and related energy infrastructure is established, MagAlloy will be well positioned to benefit from any spin-off developments in the region.

Kouilou Project Has Strong Dynamics

MagAlloy controls about 2000 square kilometres of mineral concessions in its Kouilou Project area. The original licenses were granted in 1997 for a four-year term and the key properties were extended for another three years (2004). MagAlloy plans to apply for a 30-year development license as it enters the Implementation Phase of the Project.

With potential for very low cost electricity and access to nearby ocean transport, the Kouilou Project may become one of the world's most competitive magnesium producers. A feasibility study was completed in 1999 using a power cost assumption of \$0.017/kWh. The Company has revised the economics to reflect the INGA power at \$0.010 per kWh. The key parameters are as follows:

Capacity:	60,000 tonnes per year (70% high purity magnesium alloys)
Capital cost:	\$544 million
IRR	21%
Payback:	< 7 years
Cash costs:	< \$0.50/lb (before by-product credits)
Tax holiday:	5 years
NPV @ 15%	> \$200 million

By-products would include KCl, NaCl (salt) and Chlorine products. Cash costs net of by-product credits would be reduced even further from the sub \$0.50 level.

MagAlloy has initiated a bankable feasibility study (estimated to take up to 18 months) which can be expected to result in some “fine-tuning” revisions to the economic parameters.

A Unique Junior with Senior Management Depth and High Aspirations

MagAlloy has a market capitalization of \$4 million and is currently running a working capital cash deficit in excess of \$700,000 (owed mainly to insiders). Financing this deficit will become a priority now that the major deals have been announced. In the more distant future, the Project development process will require significant new financing, some of which through private placements although the majority will likely come from senior partners. Management is currently considering a number of financing options.

The management team is highly skilled and has dodged many obstacles to reach this critical stage. In brief, the team includes:

Bill Burton, President, who has steered the Company since its inception in 1997. Bill is a respected geologist with a strong record of international development. Bill has assembled a strong team of technical and financial professionals with experience in large industrial projects, particularly in Africa. Of note is the Chairman, Brian Benitz, who recently retired from his London-based institutional investment dealing firm, Benitz & Partners (now Middlemarch Partners) and previously had a long, successful career in the institutional investment business in Canada. The CEO is Marcel Rigny, an engineer with significant experience in African and other international hydroelectric development and who is Honorary Consul to Canada for Congo-Brazzaville. On the technical front is Achim Strauss VP, Technical Development, who recently worked for Saltzgitter reviewing magnesium projects. The largest shareholder of MagAlloy is Ove Hoegh, the head of the Norwegian shipping family, with a 21% interest in MagAlloy.

The Corporate head office is located in Halifax, Canada with a regional office in Pointe-Noire.

MagAlloy Shares Extremely Inexpensive

Finding market proxies for magnesium companies is not easy but several do exist – two in Australia and one in BC, Canada. The table below compares the market capitalizations of MagAlloy and three comparable publicly-traded companies with new magnesium development projects.

Publicly Traded Magnesium Development Companies

<u>Company</u>	<u>Symbol</u>	<u>Recent Market Cap.</u> (US\$mm)	<u>Project, Country</u>	<u>Stage</u>
Australian Magnesium	ANM-ASX	\$211	Stanwell, Australia	Construction
Leader	LMN-TSXV	\$ 24	Cogburn, BC, Canada	Exploration
Pima	PAL-ASX	\$ 33	SAMAG, Australia	Project Finance
MagAlloy	YMY.U-TSXV	\$ 4	Kouilou, Rep. of Congo	Feasibility

Australian Magnesium is fully financed and under construction, thereby being well advanced but is useful in showing the market potential for a developing magnesium company. Pima's SAMAG project has completed a bankable feasibility study and has entered the financing stage thereby being slightly ahead of MagAlloy's Kouilou Project. We believe that MagAlloy shares should be trading at closer to Pima's \$33 million market capitalization than the current level of less than one-seventh. Leader has an advanced, large exploration project and is highly visible and located in Canada but is well behind the stage of MagAlloy's Project, yet LMN commands a \$24 million market cap. or over 5 times that of MagAlloy.

With the previous political and financial stumbling blocks and a lack of a public profile amongst Canadian stock markets, MagAlloy shares have been largely unnoticed by investors. Also, Canadian investors have little knowledge of magnesium and of Congo-Brazzaville. We believe as more senior developments occur, the MagAlloy share price will increase rapidly to reflect it's underlying fundamentals.

We believe that MagAlloy's share price is greatly lagging the rapid increase in the credibility and potential bankability of the Kouilou Project. We believe that MagAlloy shares could trade in the range of the market caps. of Pima and Leader which would translate to \$0.70 to \$1.00 per YMY.U share (33 million shares fully diluted). We have therefore placed a price target on MagAlloy shares at \$0.70 within the next 12 months.

We recommend purchase of MagAlloy shares as a Speculative Buy for high-risk tolerant investors.

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