Remuneration report

(a) Key management personnel - audited

The key management personnel of Advanced Magnesium Limited during the year were:

- **Dr CD Rawlings** – Chairman of the Board
- **Mr ID Hartnell** – Managing Director
- **Mr DM Byrne** – Non-Executive Director and Chairman of REM committee
- **Mr FCH O'Connor** – Non-Executive Director (resigned 20 April 2006)
- **Mr KG Williams** – Non-Executive Director and Chairman of FAC committee
- **Prof. G Dunlop** – General Manager - Technology Development
- **Mr G Fotheringham** – General Manager - East Asia
- **Dr C Kettler** – General Manager - Europe
- **Mr PK Nair** – General Manager - Corporate
- **Mr T Sweder** – General Manager - North America

(b) Key management personnel compensation policy - audited

The aggregate amount of Non-Executive Directors' fees is approved by Shareholders and is currently limited to $600,000 per annum. Any increase must be approved by Shareholders. The Board decides how that aggregate or a lesser amount is divided between the Directors.

For 2005-06, the directorship fees for Non-Executive Directors were set at $40,000 per annum and $60,000 per annum for the Non-Executive Chairman. These amounts remain unchanged from the previous financial year. Fees paid to the Chairman of the Finance, Audit and Compliance Committee amounted to $6,250 and fees paid to each Non-Executive member of the FAC Committee amounted to $2,500. Mercer HR Consulting have advised that the Non-Executive Directors and Committee fees reflect current market practice for comparable companies. No fees were paid to members of the REM Committee.

Remuneration and other terms of employment for the Managing Director and executives are formalised in employment agreements. Each agreement provides the ability to salary sacrifice benefits and an eligible bonus scheme and are open ended. Personnel are entitled to annual, long service and sick leave as prescribed by local or Queensland legislation. Entitlements under foreign jurisdiction laws in relation to pensions are also reflected in the specified remuneration details, where applicable. Termination of the employment may be effected by either the company or the executive at any time with either four weeks or one month written notice.

Employees are subject to annual salary reviews. Salaries of AML and AMT employees are adjusted annually for inflationary effects. AML employee salaries are also adjusted to average market rate if appropriate.

(c) Elements of remuneration related to performance - audited

The Board of Directors' policy on remuneration is as follows:

- Each Director, Executive or employee has an individual written contract outlining the terms and conditions under which that person is engaged;
- Each non-executive director has executed an indemnity, insurance & access deed with the Company;
- When an executive or an employee is recruited, the Group's aim is to reward its staff at market rates within the manufacturing technology industry as determined and in consultation with the employment agency;
- Employees' fixed remuneration packages are indexed annually in accordance with movement in the Consumer Price Index (All Groups Index) as published by the Australian Government Statistician;
- The individual's package is flexible and can incorporate salary sacrifice components making the individual's package tax effective;
- The aim of the remuneration policy is to retain key employees and to align employee interests with Company performance and Shareholders' interests; and
- An Employee Share Option Plan (ESOP) has been established comprised of two components:

  (i) An initial issue of options was made in October 2005 which was approved by shareholders and amongst other things was based on the position held by the employee, their length of service and the contribution made by the employee to the Company; and
  (ii) Subsequent issues of options will be based on the achievement of specific performance criteria to be approved by the Board on an annual basis. Non-executive directors are not entitled to participate in the ESOP. The ESOP is designed to provide personnel with options, which links their rewards to the future success of the Company and to shareholders objectives. In the current year there were no issue of options under this form.

- Staff remuneration has three components:

  (i) Base or fixed remuneration;
  (ii) Variable (at risk) performance (there were no bonuses awarded under this criterion during the year); and
  (iii) A long-term incentive in the form of options.

- Each employee has a set of key performance indicators (KPIs) mutually agreed by the employee and his/her supervisor established on an annual basis. The KPIs reflect the employee's ability to add value to the entity and increase shareholder wealth by ensuring productive gains such as increasing efficiencies, reduction in costs and increased profitability by maximising sales volumes and margins on sale revenues. Variable and long term incentives will only be paid if set objectives are achieved.

This Board Policy will be reviewed by the Remuneration and Appointments Committee as required, and where appropriate make recommendations to the Board if any amendment is required.

(d) Key management personnel – audited

The following tables disclose the remuneration of the key management personnel of the Company for the financial year with comparatives for the prior year:

Financial Year ended 30 June 2006:

	Short-term employee benefits			Post-employment benefits		Share based payments	Total
	Salary & fees	Bonus	Non-monetary	Super-annuation	Other	Equity Options (2)	
	$	$	$	$	$	$	$
Dr CD Rawlings	62,500	–	–	5,625	–	–	68,125
Mr ID Hartnell	217,397	–	2,051	90,853	–	121,360	431,661
Mr DM Byrne	42,500	–	–	3,825	–	–	46,325
Mr KG Williams	46,250	–	–	4,162	–	–	50,412
Mr FCH O'Connor*(1)*	33,750	–	–	–	–	–	33,750
Prof. G Dunlop	181,665	–	2,051	76,290	–	73,006	333,012
Mr G Fotheringham	127,450	–	–	41,471	–	30,409	199,330
Dr C Kettler	196,938	–	25,000	–	–	52,147	274,085
Mr PK Nair	169,700	–	2,051	42,057	–	69,148	282,956
Mr T Sweder*(3)*	200,000	–	–	–	–	27,750	227,750
Total	**1,278,150**	**–**	**31,153**	**264,283**	**–**	**373,820**	**1,947,406**

(1) Mr O'Connor retired from the Board on 20 April 2006.
(2) The Equity Options have been valued at a theoretical cost of 18.5 cents each with a volatility of 67.5%. The Options have an exercise price of 31 cents each which were granted in October 2005 and at 30 June 2006 were "well out of the money". The Shareholders approved the allocation of the Equity Options to the Managing Director.
(3) Mr G Fotheringham and Mr T Sweder are considered key management personnel from 1 July 2005 due to a change in responsibilities.

Financial Year ended 30 June 2005:

	Short-term employee benefits			Post-employment benefits		Share based payments	Total
	Salary & fees	Bonus	Non-monetary	Super-annuation	Other	Ordinary Shares	
	$	$	$	$	$	$	$
Dr CD Rawlings*(1)*	172,615	–	1,180	15,535	–	–	189,330
Mr ID Hartnell*(2)*	261,267	–	21,996	19,861	–	4,423	307,547
Mr DM Byrne*(3)*	6,410	–	–	577	–	–	6,987
Mr FCH O'Connor	40,000	–	–	–	–	–	40,000
Mr KG Williams	40,000	–	–	3,600	–	–	43,600
Mr JD Story*(4)*	33,795	–	–	3,042	–	–	36,837
Prof. G Dunlop	217,890	–	3,124	19,610	–	–	240,624
Dr C Kettler	177,966	–	25,424	19,171	–	–	222,561
Mr PK Nair	192,601	–	3,124	16,600	–	–	212,325
Dr G Sheehan*(5)*	182,575	–	3,124	14,649	–	–	200,348
Mr A Roughead*(6)*	69,994	21,500	16,437	7,656	–	1,301	116,888
Total	**1,395,113**	**21,500**	**74,409**	**120,301**	**–**	**5,724**	**1,617,047**

(1) Dr Rawlings reverted to non-executive Chairman on 8 November 2004.
(2) Mr Hartnell was employed as an Executive from 1 July 2004 to 17 November 2004 and from thereon served as Managing Director. Mr Hartnell was granted 8,500 (post consolidated) ordinary shares in October 2004 when he was an executive and before he became a director and the market value of those shares amounted to $4,423. The remuneration received before Mr Hartnell became a director was $120,690.
(3) Mr Byrne joined the Board on 4 May 2005.
(4) Mr Story retired from the Board on 4 May 2005.
(5) Dr Sheehan was made redundant on 31 October 2005 and ceased to be key management at 30 June 2005.

(6) Mr Roughead's employment with AML Group terminated with the sale of the QMAG business to RCF on 1 December 2004. He was granted in December 2004 his allocation of 2,500 (post consolidated) ordinary shares from the Executive Share Plan and the market value of those shares amounted to $1,301. The Executive Share Plan is otherwise suspended. Mr Roughead received a cash bonus of $21,500 based on safety, profitability and productivity KPIs for the QMAG business for the year ended 6 July 2004 (paid in September 2004). These KPIs were for the QMAG business and not individually based. The bonus was awarded on a sliding scale based on the criteria met. Mr Roughead forfeited a certain component of his available bonus due to the QMAG business not achieving its maximum possible KPIs.

(e) Value of options issued to key management personnel

The following table discloses the value of options granted, exercised or lapsed during the year.

	Options Granted Value at grant date	Options Exercised Value at exercise date	Options Lapsed Value at time of lapse	Total value of options granted, exercised and lapsed	Value of options included in remuneration for the year	Percentage of total remuneration for the year that consists of options
	$	$	$	$	$	%
Mr ID Hartnell*(1)*	121,360	–	–	121,360	121,360	28.11
Prof. G Dunlop	73,006	–	–	73,006	73,006	21.92
Mr G Fotheringham	30,409	–	–	30,409	30,409	15.26
Dr C Kettler	52,147	–	–	52,147	52,147	19.03
Mr PK Nair*(2)*	69,148	–	–	69,148	69,148	24.44
Mr T Sweder	27,750	–	–	27,750	27,750	12.18

(1) Mr Hartnell had 50 share options which had nil value and lapsed during the year.
(2) Mr Nair had 32 share options which had nil value and lapsed during the year.

(f) Value of options – basis of calculation

Under the Employee Share Option Plan approved on 4 October 2005, options allowing subscription of up to 5% of the issued share capital of AML are available for issue to employees, with options over a further 5% of the issued share capital in the future based on performance.

For the options granted to employees in October 2005, these are unlisted options exercisable at any time upon payment of the exercise price of $0.31 and expire 5 years from issue on 13 October 2010. A binomial model was used to value these options at a theoretical cost of 18.5 cents each based on a volatility of 67.5%. At 30 June 2006 the options were "well out of the money".