

DIRECTORS' REPORT

Dividends

The Directors have not recommended payment of a dividend and no dividends have been paid or declared since the end of the previous financial year.

Changes in state of affairs

Significant changes in the state of affairs of the consolidated entity during the financial year were as follows:

- An Extraordinary General Meeting was held on 4 October 2005. At this meeting, the following proposals were put to the shareholders and passed:
 - that the Company's name be changed from Australian Magnesium Corporation Limited to Advanced Magnesium Limited;
 - that the Company's share capital be consolidated on a 1 for 20 basis;
 - that an Employee Share Option Plan be implemented;
 - that Mr ID Hartnell be provided options in his capacity as Managing Director; and
 - that up to 50 million ordinary shares be issued via a placement to new shareholders.
- On 4 October 2005, AML undertook a major capital restructuring to prepare itself for the commercialisation phase of its AM-lite technology. This included raising \$13m in new equity capital from 23 institutional and private investors, the sell-down of AML shares by Magtrust, and the consolidation of the share structure on a 1:20 basis.

Subsequent events

There has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Share options on issue at the date of this report or exercised during the year

Details of unissued shares or interests under option are:

Issuing entity	Number of shares under option	Class of shares	Exercise price of option	Expiry date of options
AML	150,000	ORD	\$12.00	28 Feb 07
AML	3,313,273	ORD	\$0.70	29 Nov 07
AML	2,645,650	ORD	\$0.31	13 Oct 10
AML	400,000	ORD	\$0.25	7 Oct 08

The holders of such options do not have the right, by virtue of the option, to participate in any share issue or interest issue of any other body corporate or registered scheme.

No shares or interests were issued during the financial year as a result of exercise of an option.

During and since the end of the financial year an aggregate of 2,020,650 share options were granted to the following directors and executives of the Company:

Directors and executives	Number of options granted	Issuing entity	Number of ordinary shares under option
Mr ID Hartnell	656,000	AML	656,000
Prof. G Dunlop	394,625	AML	394,625
Mr G Fotheringham	164,375	AML	164,375
Dr C Kettler	281,875	AML	281,875
Mr PK Nair	373,775	AML	373,775
Mr T Sweder	150,000	AML	150,000

Future developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations are likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

Environment regulations

The Consolidated Entity's operations were subject to various environmental laws and regulations relating to the QMAG business. These ceased being applicable on the sale of QMAG on 1 December 2004.

Non-audit services

There were no non-audit services provided by the auditors in this year or the prior year.

Auditor's independence declaration

The auditor's independence declaration is included on page 18 of the financial report.

Indemnification of officers and auditors

The Company paid a premium to insure certain officers of the Company and related bodies corporate in relation to performance of their duties as officers of the Company. The officers of the Company covered by the insurance policy include directors or secretaries of controlled entities who are not also directors of the Company. A confidentiality clause in the insurance contract does not permit further details to be disclosed.

The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

On behalf of the Directors



DR CD RAWLINGS
NON-EXECUTIVE CHAIRMAN



MR KG WILLIAMS
NON-EXECUTIVE DIRECTOR

Signed on the 25 August 2006 in accordance with a resolution of the Directors made pursuant to Section 298(2) of the Corporations Act 2001.