

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 KEY MANAGEMENT PERSONNEL REMUNERATION

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

- Dr CD Rawlings (Non-Executive Chairman)
- Mr ID Hartnell (Managing Director)
- Mr DM Byrne (Non-Executive Director)
- Mr FCH O'Connor (Non-Executive Director) (resigned 20 April 2006)
- Mr KG Williams (Non-Executive Director)
- 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)

(a) Key management personnel remuneration

The aggregate compensation of the key management personnel of the consolidated entity and the Company is set out below:

	CONSOLIDATED		PARENT ENTITY	
	30 June 2006 \$	30 June 2005 \$	30 June 2006 \$	30 June 2005 \$
Short term employee benefits	1,309,303	1,491,022	576,199	772,988
Post-employment benefits	264,284	120,301	146,523	59,215
Share based payment	373,820	5,724	190,508	4,423
	1,947,407	1,617,047	913,230	836,626

In accordance with Corporations Regulations 2001 – Schedule 5B (regulation 2M.6.04), the disclosures required by paragraphs Aus25.4 to Aus25.6 of AASB 124 “Related Party Disclosures” have been set out in the Remuneration Report and the disclosures required by paragraph Aus 25.7.2 of AASB 124 have been set out in note 29.

NOTE 5 SHARE-BASED PAYMENT SCHEMES

Details of this note (unless otherwise specified) have been adjusted for the 1 for 20 share consolidation in October 2005. The underlying fair value of share-based payments has not been affected by this. The number of options, exercise price and fair value per option have been amended to reflect the impact of consolidation.

5.1 Employee Share Option Plan

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. The total options issued to employees, including those issued to the Managing Director, were 2,645,650.

These are unlisted options exercisable at any time upon payment of the exercise price of \$0.31 and expire in 5 years from issue on 13 October 2010. The binomial model was used to value these options at a total of \$490,028.

5.2 Option Compensation to Pegasus

Pegasus Corporate Advisory Pty Ltd (Pegasus) provided advice and assistance to the Company for the capital raising exercise. Pursuant to this arrangement, Pegasus is entitled to 400,000 options on a post-consolidated basis. The exercise price of each option is \$0.25 and has a term of 36 months from the date of issue. Each option will entitle Pegasus to subscribe for one fully paid ordinary share in the capital of Advanced Magnesium Limited upon payment of the exercise price. These unlisted options are exercisable at any time from the first to the third anniversary of their issue on 7 October 2005. The binomial model was used to value these options at a total of \$64,050.

Each share issued pursuant to the exercise of any option above will rank equally in all respects with the shares then on issue. If the Company goes through a capital reconstruction, the options would be adjusted in accordance with the Listing Rules.

5.3 Resource Capital Funds

As part of the QMAG Sale, Resource Capital Funds were granted 3,313,274 post-consolidation options to acquire fully paid ordinary shares in AMC for a period of up to 36 months from 29 November 2004 at an exercise price of \$0.70 per option. The binomial option valuation model was used to calculate the gross value of these options at \$227,896.