

NOTES TO THE FINANCIAL STATEMENTS

NOTE 22 EARNINGS/(LOSS) PER SHARE (cont...)

- (b) The weighted average number of ordinary shares for the purposes of diluted earnings/(losses) per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings/(losses) per share as follows:

| | CONSOLIDATED | |
|---|--------------|-------------|
| | 2006 No. | 2005 No. |
| Weighted average number of ordinary shares used in the calculation of basic EPS | 76,817,284 | 52,953,293 |
| Shares deemed to be issued for no consideration in respect of: | | |
| Pegasus Corporate Finance options | 39,146 | — |
| Share based fees for JLM | 355,264 | 296,053 |
| Weighted average number of ordinary shares used in the calculation of diluted EPS | 77,211,694 | 53,249,346 |

- (c) The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings/(losses) per share:

| | CONSOLIDATED | |
|---|--------------|------------|
| | 2006 \$ | 2005 \$ |
| Non-renounceable rights issue | — | 2,657,133 |
| Nottacar Investments Pty Ltd options | 150,000 | 150,000 |
| Resource Capital Funds III L.P. options | 3,313,273 | 3,313,273 |
| Employee Share Option Plan options | 2,645,650 | — |
| | 6,108,923 | 6,120,406 |

- (d) There were no converted, lapsed, or cancelled potential ordinary shares included in the calculation of diluted earnings/(losses) per share.

NOTE 23 COMMITMENTS FOR EXPENDITURE

| | CONSOLIDATED | | PARENT ENTITY | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | 30 June 2006 \$ | 30 June 2005 \$ | 30 June 2006 \$ | 30 June 2005 \$ |
| Capital expenditure commitments | | | | |
| <u>Fitout and associated assets</u> | | | | |
| Not longer than 1 year | — | 57,514 | — | — |
| Longer than 1 year and not longer than 5 years | — | — | — | — |
| Longer than 5 years | — | — | — | — |
| | — | 57,514 | — | — |

Lease commitments

Non-cancellable operating lease commitments are disclosed in note 25 to the financial statements.

NOTE 24 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

- (i) Under the CSIRO Research Agreement, CSIRO engaged the Company's wholly-owned subsidiary, Advanced Magnesium Technologies Pty Ltd, to conduct further research into production of magnesium from magnesite, and provided AMT with \$50,000,000 of cash funding in two tranches (December 2001 and December 2002).

If commercial production were to commence, AMT would be obliged to pay production royalties of a minimum value of \$75,000,000 over the first twenty years. AMT would recognise a liability for the present value of this amount upon commencement of commercial magnesium metal production, based on production forecasts current at that time.

With the decision to terminate the Stanwell Magnesium Project there is no future royalty obligations at Balance Date.

- (ii) Advanced Magnesium Technologies Pty Ltd, a wholly-owned subsidiary of AML, had entered into a contract with IMS Experts-Consells, Inc (IMS) a Canadian corporation, for the licensing of technology to AMT for the Stanwell Magnesium Project. IMS claimed licensing fee instalments due on dates after the contract terminated. Export Development Canada

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NOTE 24 CONTINGENT LIABILITIES AND CONTINGENT ASSETS (cont...)

(EDC) a Canadian Government entity, is a provider of trade credit insurance and insured IMS on accounts receivable under its contract with AMT. EDC has advised it paid an amount of C\$410,000 (A\$439,000) to IMS and now claims that amount from AMT as IMS has assigned its rights to EDC.

This contingent liability was first disclosed in the 31 December 2003 half year report and there has been no further contact since the date of publishing that report. The Directors continue to believe neither IMS, nor EDC as the assignee of IMS' rights, has a valid claim against AMT. AMT will defend any such claim if action is taken against it.

- (iii) As part of the QMAG Sale Agreement, AML has agreed that if it is able to structure a Finance Co-operation Agreement that generates additional value to AML, AML will pay to RCF an amount equal to 25% of that additional value generated as such value is realised. This agreement expires 36 months after the QMAG date of completion on 1 December 2004.

NOTE 25 LEASES

Operating Lease Arrangements

Office Premises – Brisbane, Australia (six year lease from July 2005 with an option to extend for another three years).

Internet – Brisbane, Australia (two year lease from April 2005 for internet services).

Office Premises – Heidelberg, Germany (five year lease from March 2006 with an option to extend for another three years).

| NOTE | CONSOLIDATED | | PARENT ENTITY | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | 30 June 2006 \$ | 30 June 2005 \$ | 30 June 2006 \$ | 30 June 2005 \$ |
| Non-cancellable operating lease payments in respect of premises | | | | |
| Not longer than 1 year | 190,253 | 106,213 | 132,217 | 106,213 |
| Longer than 1 year and no longer than 5 years | 379,398 | 510,073 | 135,365 | 510,073 |
| Longer than 5 years | — | 152,268 | — | 152,268 |
| | 569,651 | 768,554 | 267,582 | 768,554 |
| In respect of non-cancellable operating leases the following liabilities have been recognised: | | | | |
| Current: Fitout incentives | 15 15,800 | — | — | — |
| Non-current: Fitout incentives | 18 63,200 | — | — | — |
| | 79,000 | — | — | — |

NOTE 26 SUBSIDIARIES

| Name of entity | Country of Incorporation | Ownership interest 2006 % | Ownership interest 2005 % |
|---|--------------------------|---------------------------------|---------------------------------|
| <u>Parent entity</u> | | | |
| Advanced Magnesium Limited | Australia | | |
| <u>Subsidiaries</u> | | | |
| Australian Magnesium Investments Pty Ltd | Australia | 100% | 100% |
| Advanced Magnesium Technologies Pty Ltd (a) | Australia | 100% | 100% |
| AM Technologies Pty Ltd (b) | Australia | 100% | 100% |
| AMC Magmetal Pty Ltd (c) | Australia | — | 100% |
| AMC People Services Pty Ltd | Australia | 100% | 100% |
| AMT North America, Inc (d) | USA | 100% | 100% |
| Australian Magnesium Europe BV | Netherlands | 100% | 100% |
| AMT Europe GmbH (e) | Germany | 100% | 100% |

- (a) Renamed from Australian Magnesium Operations Pty Ltd on 12 January 2005
 (b) Renamed from MG Magnesium Pty Ltd on 12 January 2005
 (c) Deregistered on 7 August 2005
 (d) Renamed from AMC North America, Inc on 20 January 2005 (Delaware) and 31 January 2005 (Kentucky)
 (e) Renamed from Australian Magnesium Europe GmbH on 30 May 2006