

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 32 IMPACTS OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The consolidated entity changed its accounting policies on 1 July 2005 to comply with Australian equivalents to International Financial Reporting Standards ('A-IFRS'). The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 7 July 2004 as the date of transition, except for financial instruments, including derivatives, where the date of transition is 1 July 2005 (refer note 1(t)).

An explanation of how the transition from superseded policies to A-IFRS has affected the company and consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

#### Effect of A-IFRS on the balance sheet as at 7 July 2004

NOTE	CONSOLIDATED			PARENT ENTITY		
	Superseded policies*	Effect of transition to A-IFRS	A-IFRS	Superseded policies*	Effect of transition to A-IFRS	A-IFRS
	\$	\$	\$	\$	\$	\$
<b>Current assets</b>						
Cash & cash equivalents	12,460,000	—	12,460,000	7,732,000	—	7,732,000
Trade & other receivables	11,734,000	—	11,734,000	4,883,000	—	4,883,000
Inventories	22,504,000	—	22,504,000	11,252,000	—	11,252,000
Other	3,340,000	—	3,340,000	1,689,000	—	1,689,000
	50,038,000	—	50,038,000	25,556,000	—	25,556,000
Non-current assets classified as held for sale	—	5,545,172	5,545,172	—	—	—
<b>Total current assets</b>	<b>—</b>	<b>5,545,172</b>	<b>55,583,172</b>	<b>25,556,000</b>	<b>—</b>	<b>25,556,000</b>
<b>Non-current assets</b>						
Trade & other receivables	1,247,000	—	1,247,000	849,000	—	849,000
Property, plant and equipment	58,352,000	438,390	58,790,390	35,373,000	320,781	35,693,781
Project Assets	5,342,000	(5,342,000)	—	—	—	—
Other	4,909,000	—	4,909,000	2,031,000	—	2,031,000
<b>Total non-current assets</b>	<b>69,850,000</b>	<b>(4,903,610)</b>	<b>64,946,390</b>	<b>38,253,000</b>	<b>320,781</b>	<b>38,573,781</b>
<b>Total assets</b>	<b>119,888,000</b>	<b>641,562</b>	<b>120,529,562</b>	<b>63,809,000</b>	<b>320,781</b>	<b>64,129,781</b>
<b>Current liabilities</b>						
Trade & other payables	18,695,000	—	18,695,000	15,551,000	—	15,551,000
Borrowings	61,953,000	—	61,953,000	30,976,000	—	30,976,000
Provisions	5,345,000	(2,145,163)	3,199,837	1,599,000	(1,254,161)	344,839
Other	6,070,000	—	6,070,000	3,071,000	—	3,071,000
<b>Total current liabilities</b>	<b>92,063,000</b>	<b>(2,145,163)</b>	<b>89,917,837</b>	<b>51,197,000</b>	<b>(1,254,161)</b>	<b>49,942,839</b>
<b>Non-current liabilities</b>						
Trade & other payables	12,448,000	—	12,448,000	1,236,000	—	1,236,000
Borrowings	3,433,000	—	3,433,000	3,838,000	—	3,838,000
Provisions	4,414,000	3,137,064	7,551,064	2,240,000	1,559,906	3,799,906
Other	3,867,000	—	3,867,000	2,044,000	—	2,044,000
<b>Total non-current liabilities</b>	<b>24,162,000</b>	<b>3,137,064</b>	<b>27,299,064</b>	<b>9,358,000</b>	<b>1,559,906</b>	<b>10,917,906</b>
<b>Total liabilities</b>	<b>116,225,000</b>	<b>991,901</b>	<b>117,216,901</b>	<b>60,555,000</b>	<b>305,745</b>	<b>60,860,745</b>
<b>Net assets</b>	<b>3,663,000</b>	<b>(350,339)</b>	<b>3,312,661</b>	<b>3,254,000</b>	<b>15,036</b>	<b>3,269,036</b>
<b>Equity</b>						
Share capital	884,261,000	—	884,261,000	884,261,000	—	884,261,000
Other reserves	2,724,000	—	2,724,000	—	—	—
Outside Equity Interest	348,000	—	348,000	—	—	—
Accumulated Losses	(883,670,000)	(350,339)	(884,020,339)	(881,007,000)	15,036	(880,991,964)
<b>Total equity</b>	<b>3,663,000</b>	<b>(350,339)</b>	<b>3,312,661</b>	<b>3,254,000</b>	<b>15,036</b>	<b>3,269,036</b>

\* Reported financial position for the financial year ended 6 July 2004

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 32 IMPACTS OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont...)

#### Effect of A-IFRS on the income statement for the year ended 30 June 2005

	NOTE	CONSOLIDATED			PARENT ENTITY		
		Superseded policies*	Effect of transition to A-IFRS	A-IFRS	Superseded policies*	Effect of transition to A-IFRS	A-IFRS
		\$	\$	\$	\$	\$	\$
Operating revenue	(a)	30,469,846	(30,384,465)	85,381	15,336,979	(15,336,979)	—
Debt forgiveness revenue	(a)	7,543,377	(7,543,377)	—	10,638,059	(10,638,059)	—
Proceeds on sale of QMAG	(a), (e)	67,102,248	(67,102,248)	—	29,588,496	(29,588,496)	—
Proceeds on sale of assets	(a), (c)	2,254,875	(2,254,875)	—	10,004	(10,004)	—
Foreign exchange gain	(a)	572,626	(572,626)	—	—	—	—
Other revenue		135,209	(135,209)	—	48,753	(48,753)	—
<b>Revenue</b>		<b>108,078,181</b>	<b>(107,992,800)</b>	<b>85,381</b>	<b>55,622,291</b>	<b>(55,622,291)</b>	<b>—</b>
Other income	(c)	—	1,567,349	1,567,349	—	397,587	397,587
<b>Revenue and Other income</b>		<b>108,078,181</b>	<b>(106,425,451)</b>	<b>1,652,730</b>	<b>55,622,291</b>	<b>(55,224,704)</b>	<b>397,587</b>
QMAG related operating costs	(a)	(30,535,433)	30,535,433	—	(15,492,418)	15,492,418	—
Recoverable amount write downs	(a)	(3,710,112)	3,216,372	(493,740)	(458,544)	—	(458,544)
Net provision writeback/(expense)	(a)	820,041	(820,041)	—	(209,500)	209,500	—
Write down of other investments & loans		—	—	—	(1,650,951)	—	(1,650,951)
Written down value of assets sold	(a), (c)	(63,401,785)	63,401,785	—	(33,176,522)	33,176,522	—
Research, development, licencing and patent costs under contract	(a)	(622,413)	328,648	(293,765)	—	—	—
Insurance premium writeback/(refund)	(a)	(587,410)	587,410	—	—	—	—
Redundancy costs		(1,063,901)	—	(1,063,901)	(480,842)	—	(480,842)
Administration and other costs		(7,188,201)	12,750	(7,175,451)	(2,013,389)	21,034	(1,992,355)
<b>Expenses (excluding finance costs)</b>		<b>(106,289,214)</b>	<b>97,262,357</b>	<b>(9,026,857)</b>	<b>(53,482,166)</b>	<b>48,899,474</b>	<b>(4,582,692)</b>
Finance costs	(a)	(2,054,105)	2,054,105	—	(1,072,000)	1,072,000	—
<b>Profit/(loss) before income tax expense</b>		<b>(265,138)</b>	<b>(7,108,989)</b>	<b>(7,374,127)</b>	<b>1,068,125</b>	<b>(5,253,230)</b>	<b>(4,185,105)</b>
Income tax expense relating to ordinary activities		(51,321)	—	(51,321)	—	—	—
<b>Profit/(loss) from continuing operations after income tax expense</b>		<b>(316,459)</b>	<b>(7,108,989)</b>	<b>(7,425,448)</b>	<b>1,068,125</b>	<b>(5,253,230)</b>	<b>(4,185,105)</b>
Profit from discontinuing operations after income tax expense	(a)	—	7,481,447	7,481,447	—	5,259,228	5,259,228
<b>Net profit/(loss) attributable to members of the parent entity</b>		<b>(316,459)</b>	<b>372,458</b>	<b>55,999</b>	<b>1,068,125</b>	<b>5,998</b>	<b>1,074,123</b>

\* Reported financial results for the year ended 30 June 2005.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 32 IMPACTS OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont...)

#### Effect of A-IFRS on the balance sheet as at 30 June 2005

	NOTE	CONSOLIDATED			PARENT ENTITY		
		Superseded policies*	Effect of transition to A-IFRS	A-IFRS	Superseded policies*	Effect of transition to A-IFRS	A-IFRS
		\$	\$	\$	\$	\$	\$
<b>Current assets</b>							
Cash & cash equivalents		7,152,374	—	7,152,374	4,427,045	—	4,427,045
Trade & other receivables		457,301	—	457,301	363,892	—	363,892
Other		139,369	—	139,369	535	—	535
Non-current assets classified as held for sale	(d)	—	937,800	937,800	—	—	—
<b>Total current assets</b>		<b>7,749,044</b>	<b>937,800</b>	<b>8,686,844</b>	<b>4,791,472</b>	<b>—</b>	<b>4,791,472</b>
<b>Non-current assets</b>							
Trade & other receivables		—	—	—	—	—	—
Other financial assets		—	—	—	—	—	—
Property, plant and equipment		449,672	—	449,672	134,906	—	134,906
Project Assets	(d)	937,800	(937,800)	—	—	—	—
<b>Total non-current assets</b>		<b>1,387,472</b>	<b>(937,800)</b>	<b>449,672</b>	<b>134,906</b>	<b>—</b>	<b>134,906</b>
<b>Total assets</b>		<b>9,136,516</b>	<b>—</b>	<b>9,136,516</b>	<b>4,926,378</b>	<b>—</b>	<b>4,926,378</b>
<b>Current liabilities</b>							
Trade & other payables		671,752	—	671,752	145,055	—	145,055
Provisions	(b)	251,278	(85,045)	166,233	135,259	(94,382)	40,877
<b>Total current liabilities</b>		<b>923,030</b>	<b>(85,045)</b>	<b>837,985</b>	<b>280,314</b>	<b>(94,382)</b>	<b>185,932</b>
<b>Non-current liabilities</b>							
Trade & other payables		4,838,370	—	4,838,370	—	—	—
Provisions	(b)	125,305	62,926	188,231	96,458	73,348	169,806
<b>Total non-current liabilities</b>		<b>4,963,675</b>	<b>62,926</b>	<b>5,026,601</b>	<b>96,458</b>	<b>73,348</b>	<b>169,806</b>
<b>Total liabilities</b>		<b>5,886,705</b>	<b>(22,119)</b>	<b>5,864,586</b>	<b>376,772</b>	<b>(21,034)</b>	<b>355,738</b>
<b>Net assets</b>		<b>3,249,811</b>	<b>22,119</b>	<b>3,271,930</b>	<b>4,549,606</b>	<b>21,034</b>	<b>4,570,640</b>
<b>Equity</b>							
Share capital		884,488,210	—	884,488,210	884,488,210	—	884,488,210
Other reserves		2,749,980	—	2,749,980	—	—	—
Accumulated losses		(883,988,379)	22,119	(883,966,260)	(879,938,604)	21,034	(879,917,570)
<b>Total equity</b>		<b>3,249,811</b>	<b>22,119</b>	<b>3,271,930</b>	<b>4,549,606</b>	<b>21,034</b>	<b>4,570,640</b>

\* Reported financial position for the financial year ended 30 June 2005.

#### Effect of A-IFRS on the cashflow statement for the financial year ended 30 June 2005

There are no material differences between the cashflow statement presented under A-IFRS and the cashflow statement presented under the superseded policies.

#### Notes to the reconciliations of income and equity

##### (a) Discontinued Operations

Under A-IFRS, the consolidated entity recognises revenue and expenses, including tax expenses, attributable to discontinued operations as part of a single line item 'profit from discontinued operations' on the income statement. There was no requirement under previous GAAP to split out revenue and expenses attributable to discontinued operations in this manner, and accordingly, amounts are reclassified from the various line items in which they were recognised under previous GAAP to 'profit from discontinued operations' on adoption of A-IFRS.

##### (b) Employee entitlement provisions

Under A-IFRS, provisions for employee entitlements must be classified as either current or non-current dependent upon whether the entity has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Employee benefits not expected to be settled within 12 months of balance date are measured at the present value of the estimated future cash outflows.

##### (c) Disclosure of asset disposals

AGAAP required the disclosure of asset disposals on a gross basis, with the proceeds on sale itemised as revenue and the written down value of such assets sold presented as expense. A-IFRS requires a net disclosure basis as either a gain or loss on sale. Gain on sale is included in other income.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 32 IMPACTS OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont...)

#### (d) Assets held for sale

A-IFRS introduces a category of assets described as assets held for sale. Assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. The sale of the asset or disposal group is expected to be completed within one year from the date of classification.

#### (e) QMAG sale

The impact of A-IFRS on the opening balance sheet position of the consolidated group at 7 July 2004, as described in (d) above), has altered the carrying value of assets sold as part of the QMAG sale on 1 December 2004. The change in carrying value of the QMAG assets and restoration liabilities sold has resulted in a modification to the gain or loss on sale of these operations.

#### (f) Financial instruments

The directors have elected to adopt AASB139 *Financial Instruments: Recognition and Measurement* with effect from 1 July 2005. Therefore, there is no impact on the 30 June 2005 financial statements from AASB139.

#### (g) Business combinations

AMC Limited did not acquire any business or entities in the financial year ended 30 June 2005. On initial adoption of A-IFRS the directors have elected not to restate business combinations that occurred before 7 July 2004. Accordingly, there are no impacts of the adoption of A-IFRS on the financial report associated with past business combinations.

#### (h) Rehabilitation provision

Under AGAAP the provision for rehabilitation of the QMAG mine and the related expense was recognized progressively throughout the mine life such that the full amount is provided when the mine's life is at an end. Under A-IFRS such a provision is recognised in full at the inception of the mine and capitalised into the asset. The provision is discounted and the capitalised amount is depreciated in accordance with the asset.

#### (i) Accumulated losses

The effect of the above adjustments on the accumulated losses is as follows:

	NOTE	CONSOLIDATED		PARENT ENTITY	
		7 July 2004 \$	30 June 2005 \$	7 July 2004 \$	30 June 2005 \$
Employee entitlement provisions	(b)	13,773	(12,750)	197,092	21,034
QMAG sale	(e)	—	(359,708)	—	—
Recalculation of QMAG mine rehabilitation provision	(h)	(364,112)	—	(182,056)	—
Total increase/(decrease) to accumulated losses		(350,339)	(372,458)	15,036	21,034

### NOTE 33 ADDITIONAL COMPANY INFORMATION

Advanced Magnesium Limited (AML) is a listed public company and is incorporated in Australia. The AML Group operates globally with subsidiaries in Australia, North America and Europe.

#### Registered Office and Principal place of business

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