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Independent audit report to the members of Advanced Magnesium Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of recognised income and expense, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both Advanced Magnesium Limited (the company) and the consolidated entity, for the financial year ended 30 June 2006 as set out on pages 22 to 62. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

The company has disclosed information about the compensation of key management personnel ("compensation disclosures"), as required by paragraphs Aus 25.4 to Aus 25.6 of Accounting Standard AASB 124 *Related Party Disclosures* ("AASB 124") under the heading "remuneration report" in paragraphs (a) to (d) of the directors' report and not in the financial report, as permitted by the Corporations Regulations 2001. These compensation disclosures are identified in the directors' report as being subject to audit. The remuneration report also contains information not subject to audit.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with Accounting Standards in Australia and the Corporations Act 2001. This includes responsibility for the maintenance of adequate financial records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the compensation disclosures contained in the directors' report.

Audit approach

We have conducted an independent audit of the financial report and compensation disclosures in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement and the compensation disclosures comply with AASB 124. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

Liability limited by a scheme approved under Professional Standards Legislation.



We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards in Australia and the Corporations Act 2001 so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations, their changes in equity and their cash flows and whether the compensation disclosures comply with AASB 124.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion:

- (1) the financial report of Advanced Magnesium Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001.
- (2) the compensation disclosures that are contained in paragraphs (a) to (d), under the heading "remuneration report" of the directors' report comply with paragraphs Aus 25.4 to Aus 25.6 of Accounting Standard AASB 124 Related Party Disclosures.

A handwritten signature in black ink that reads "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink that reads "Timothy Biggs".

Timothy Biggs
Partner
Chartered Accountants
Brisbane, 25 August 2006