

## DIRECTORS' REPORT

The Directors of Advanced Magnesium Limited (formerly Australian Magnesium Corporation Limited) submit herewith the Annual Financial Report of the Company for the financial year ended 30 June 2006. In order to comply with the provisions of the Corporations Act 2001, the Directors' Report is as follows:

The names and particulars of the Directors of the Company during or since the end of the financial year are:

### Board of Directors

#### **DR CHRIS RAWLINGS**

*PhD, B Sc (Hons), FAICD.*

#### **Non-Executive Chairman**

Dr Rawlings (55) is a former Managing Director of QCT Resources Ltd and was appointed to the AML Board on 3 October 2002. On 6 June 2003 he was appointed Acting Chief Executive Officer. He was appointed Executive Chairman on 22 November 2003 and resigned from his executive roles on 8 November 2004 and since then has been the Non-Executive Chairman of AML. He is the Chairman of Renison Consolidated Mines NL, Northern Energy Corporation Limited and D'Aguiar Gold Limited and a non-Executive Director of Uniquest Pty Ltd and JKTech Pty Ltd.

*Shareholding at 30 June 2006: 5,000 Ordinary Shares.*

#### **MR DENIS BYRNE**

*LL.B.*

#### **Non-Executive Director**

Mr Byrne (59) practised commercial law for 27 years with wide experience in the corporate, infrastructure and resources areas. He was President of the Queensland Law Society in 1985/1986 and the Law Council of Australia in 1988/1989. He was formerly the Managing Partner of Freehill Hollingdale & Page, Brisbane.

Mr Byrne is currently a member of the Australian and the New Zealand Takeovers Panel and Chairman of the Fisheries Research & Development Corporation. His other directorships include Stanwell Corporation Ltd and the Ball Solutions Group of Companies Australia – subsidiaries of Ball Corporation (US).

*Shareholding at 30 June 2006: 100,000 Ordinary Shares.*

#### **MR IAN HARTNELL**

*B. Eng. (Chem. Eng.), MBA.*

#### **Managing Director**

Mr Hartnell (58) joined the Company in 1987 and has over 30 years history in new project development, international marketing of metals and merchant banking. He was previously the General Manager of QMC and subsequently became Vice President Sales & Marketing of AML. He was appointed the Managing Director of the Company in November 2004.

*Shareholding at 30 June 2006: 9,100 Ordinary Shares and 656,000 Options.*

#### **MR CREAGH O'CONNOR**

*B.Ec., LL.B., ACA.*

#### **Non-Executive Director**

Mr O'Connor (45) is a Director and Principal of merchant bank advisory group Gryphon Partners. Mr O'Connor resigned from the Board of Directors on 20 April, 2006.

*Shareholding at 30 June 2006: not applicable.*

#### **MR KEN WILLIAMS**

*B.Ec (Hons), M App Fin, MAICD, CFTP.*

#### **Non-Executive Director**

Mr Williams (45) joined the AML Board as a Newmont appointee in April 2002 and became an independent non-executive director in December 2003. Mr Williams has over 20 years experience in corporate finance and treasury related roles and is a non-executive director of Havilah Resources NL, Curnamona Energy Limited, Geothermal Resources Limited and Queensland Cotton Limited.

*Shareholding at 30 June 2006: 15,000 Ordinary Shares.*

## DIRECTORS' REPORT

The above Directors held office during and since the end of the financial year except for:

- Mr Creagh O'Connor – resigned 20 April 2006

### Directorships of other listed companies

Directorships of other listed companies held by directors in the three years immediately before the end of the financial year are as follows:

Director and Company	Period of Directorship
<b>Dr CD Rawlings</b>	
Renison Consolidated Mines NL	Since 2002
D'Aguilar Gold Limited	Since 2003
Northern Energy Corporation Limited	Since 2005
<b>Mr FCH O'Connor</b>	
Hindmarsh Resources Ltd	Since 2003 Resigned April 2006
<b>Mr KG Williams</b>	
Havilah Resources NL	Since December 2003
Curnamona Energy Limited	Since January 2005
Geothermal Resources Ltd	Since July 2005
Queensland Cotton Ltd	Since January 2006
<b>Mr DM Byrne</b>	
Ball Solutions Group of Companies Australia (subsidiaries of Ball Corporation (US))	Since May 2005

### Company Secretary

#### MR PK NAIR

*B Bus (Acctg), MBA, FCA, FCPA, FCIS, FTIA, MAICD*

Mr Nair (49) joined AML in 1988. He was previously a tax manager for a chartered accounting firm and has over 30 years experience in commercial business.

### Principal activities

The principal activities of the consolidated entity during the course of the financial year consisted of:

- Researching and developing new proprietary magnesium alloys and technologies which will be required to support the future needs of automotive and other downstream users;
- Creating markets for these new alloys and technologies by supporting in-house demonstration trials and programs for developing new applications in alliance with these customers; and
- Manufacturing and selling these new alloys and technologies to its customers for a profit.

### Directors meetings

The following table sets out the number of directors meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, ten board meetings, one nomination and remuneration committee meeting and five finance and audit committee meetings were held.

Director	Board Meetings		Committee Meetings*	
	Attended	Held	FAC	REM
Dr CD Rawlings	10	10	5/5	1/1
Mr DM Byrne	10	10	5/5	1/1
Mr ID Hartnell	10	10	5/5	1/1
Mr FCH O'Connor	8	9	4/4	0/0
Mr KG Williams	10	10	5/5	1/1

\* Attendance reflects tenure of member, e.g. attended four of five (4/5) meetings while a committee appointee.

### Directors' shareholdings

The following table sets out each director's relevant interest in shares, debentures, and rights or options in shares or debentures of the Company or a related body corporate as at the date of this report.

Director	Security Type	Amount of shares
Dr CD Rawlings	Ordinary	5,000
Mr KG Williams	Ordinary	15,000
Mr DM Byrne	Ordinary	100,000
Mr ID Hartnell	Ordinary	9,100

Director	Options	Amount of Options*
Mr ID Hartnell	31 cent options	656,000

\* These options expire in October 2010.

## DIRECTORS' REPORT

### Remuneration report

#### (a) Key management personnel - audited

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

- **Dr CD Rawlings** – Chairman of the Board
- **Mr ID Hartnell** – Managing Director
- **Mr DM Byrne** – Non-Executive Director and Chairman of REM committee
- **Mr FCH O'Connor** – Non-Executive Director (resigned 20 April 2006)
- **Mr KG Williams** – Non-Executive Director and Chairman of FAC committee
- **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

#### (b) Key management personnel compensation policy - audited

The aggregate amount of Non-Executive Directors' fees is approved by Shareholders and is currently limited to \$600,000 per annum. Any increase must be approved by Shareholders. The Board decides how that aggregate or a lesser amount is divided between the Directors.

For 2005-06, the directorship fees for Non-Executive Directors were set at \$40,000 per annum and \$60,000 per annum for the Non-Executive Chairman. These amounts remain unchanged from the previous financial year. Fees paid to the Chairman of the Finance, Audit and Compliance Committee amounted to \$6,250 and fees paid to each Non-Executive member of the FAC Committee amounted to \$2,500. Mercer HR Consulting have advised that the Non-Executive Directors and Committee fees reflect current market practice for comparable companies. No fees were paid to members of the REM Committee.

Remuneration and other terms of employment for the Managing Director and executives are formalised in employment agreements. Each agreement provides the ability to salary sacrifice benefits and an eligible bonus scheme and are open ended. Personnel are entitled to annual, long service and sick leave as prescribed by local or Queensland legislation. Entitlements under foreign jurisdiction laws in relation to pensions are also reflected in the specified remuneration details, where applicable. Termination of the employment may be effected by either the company or the executive at any time with either four weeks or one month written notice.

Employees are subject to annual salary reviews. Salaries of AML and AMT employees are adjusted annually for inflationary effects. AML employee salaries are also adjusted to average market rate if appropriate.

#### (c) Elements of remuneration related to performance - audited

The Board of Directors' policy on remuneration is as follows:

- Each Director, Executive or employee has an individual written contract outlining the terms and conditions under which that person is engaged;
- Each non-executive director has executed an indemnity, insurance & access deed with the Company;
- When an executive or an employee is recruited, the Group's aim is to reward its staff at market rates within the manufacturing technology industry as determined and in consultation with the employment agency;
- Employees' fixed remuneration packages are indexed annually in accordance with movement in the Consumer Price Index (All Groups Index) as published by the Australian Government Statistician;
- The individual's package is flexible and can incorporate salary sacrifice components making the individual's package tax effective;
- The aim of the remuneration policy is to retain key employees and to align employee interests with Company performance and Shareholders' interests; and
- An Employee Share Option Plan (ESOP) has been established comprised of two components:
  - (i) An initial issue of options was made in October 2005 which was approved by shareholders and amongst other things was based on the position held by the employee, their length of service and the contribution made by the employee to the Company; and
  - (ii) Subsequent issues of options will be based on the achievement of specific performance criteria to be approved by the Board on an annual basis. Non-executive directors are not entitled to participate in the ESOP. The ESOP is designed to provide personnel with options, which links their rewards to the future success of the Company and to shareholders objectives. In the current year there were no issue of options under this form.
- Staff remuneration has three components:
  - (i) Base or fixed remuneration;
  - (ii) Variable (at risk) performance (there were no bonuses awarded under this criterion during the year); and
  - (iii) A long-term incentive in the form of options.
- Each employee has a set of key performance indicators (KPIs) mutually agreed by the employee and his/her supervisor established on an annual basis. The KPIs reflect the employee's ability to add value to the entity and increase shareholder wealth by ensuring productive gains such as increasing efficiencies, reduction in costs and increased profitability by maximising sales volumes and margins on sale revenues. Variable and long term incentives will only be paid if set objectives are achieved.

This Board Policy will be reviewed by the Remuneration and Appointments Committee as required, and where appropriate make recommendations to the Board if any amendment is required.

## DIRECTORS' REPORT

### (d) Key management personnel – audited

The following tables disclose the remuneration of the key management personnel of the Company for the financial year with comparatives for the prior year:

#### Financial Year ended 30 June 2006:

	Short-term employee benefits			Post-employment benefits		Share based payments	Total
	Salary & fees	Bonus	Non-monetary	Super-annuation	Other	Equity Options (2)	
	\$	\$	\$	\$	\$	\$	
Dr CD Rawlings	62,500	-	-	5,625	-	-	68,125
Mr ID Hartnell	217,397	-	2,051	90,853	-	121,360	431,661
Mr DM Byrne	42,500	-	-	3,825	-	-	46,325
Mr KG Williams	46,250	-	-	4,162	-	-	50,412
Mr FCH O'Connor(1)	33,750	-	-	-	-	-	33,750
Prof. G Dunlop	181,665	-	2,051	76,290	-	73,006	333,012
Mr G Fotheringham	127,450	-	-	41,471	-	30,409	199,330
Dr C Kettler	196,938	-	25,000	-	-	52,147	274,085
Mr PK Nair	169,700	-	2,051	42,057	-	69,148	282,956
Mr T Sweder(3)	200,000	-	-	-	-	27,750	227,750
<b>Total</b>	<b>1,278,150</b>	<b>-</b>	<b>31,153</b>	<b>264,283</b>	<b>-</b>	<b>373,820</b>	<b>1,947,406</b>

(1) Mr O'Connor retired from the Board on 20 April 2006.

(2) The Equity Options have been valued at a theoretical cost of 18.5 cents each with a volatility of 67.5%. The Options have an exercise price of 31 cents each which were granted in October 2005 and at 30 June 2006 were "well out of the money". The Shareholders approved the allocation of the Equity Options to the Managing Director.

(3) Mr G Fotheringham and Mr T Sweder are considered key management personnel from 1 July 2005 due to a change in responsibilities.

#### Financial Year ended 30 June 2005:

	Short-term employee benefits			Post-employment benefits		Share based payments	Total
	Salary & fees	Bonus	Non-monetary	Super-annuation	Other	Ordinary Shares	
	\$	\$	\$	\$	\$	\$	
Dr CD Rawlings(1)	172,615	-	1,180	15,535	-	-	189,330
Mr ID Hartnell(2)	261,267	-	21,996	19,861	-	4,423	307,547
Mr DM Byrne(3)	6,410	-	-	577	-	-	6,987
Mr FCH O'Connor	40,000	-	-	-	-	-	40,000
Mr KG Williams	40,000	-	-	3,600	-	-	43,600
Mr JD Story(4)	33,795	-	-	3,042	-	-	36,837
Prof. G Dunlop	217,890	-	3,124	19,610	-	-	240,624
Dr C Kettler	177,966	-	25,424	19,171	-	-	222,561
Mr PK Nair	192,601	-	3,124	16,600	-	-	212,325
Dr G Sheehan(5)	182,575	-	3,124	14,649	-	-	200,348
Mr A Roughead(6)	69,994	21,500	16,437	7,656	-	1,301	116,888
<b>Total</b>	<b>1,395,113</b>	<b>21,500</b>	<b>74,409</b>	<b>120,301</b>	<b>-</b>	<b>5,724</b>	<b>1,617,047</b>

(1) Dr Rawlings reverted to non-executive Chairman on 8 November 2004.

(2) Mr Hartnell was employed as an Executive from 1 July 2004 to 17 November 2004 and from thereon served as Managing Director. Mr Hartnell was granted 8,500 (post consolidated) ordinary shares in October 2004 when he was an executive and before he became a director and the market value of those shares amounted to \$4,423. The remuneration received before Mr Hartnell became a director was \$120,690.

(3) Mr Byrne joined the Board on 4 May 2005.

(4) Mr Story retired from the Board on 4 May 2005.

(5) Dr Sheehan was made redundant on 31 October 2005 and ceased to be key management at 30 June 2005.

## DIRECTORS' REPORT

- (6) Mr Roughead's employment with AML Group terminated with the sale of the QMAG business to RCF on 1 December 2004. He was granted in December 2004 his allocation of 2,500 (post consolidated) ordinary shares from the Executive Share Plan and the market value of those shares amounted to \$1,301. The Executive Share Plan is otherwise suspended. Mr Roughead received a cash bonus of \$21,500 based on safety, profitability and productivity KPIs for the QMAG business for the year ended 6 July 2004 (paid in September 2004). These KPIs were for the QMAG business and not individually based. The bonus was awarded on a sliding scale based on the criteria met. Mr Roughead forfeited a certain component of his available bonus due to the QMAG business not achieving its maximum possible KPIs.

### (e) Value of options issued to key management personnel

The following table discloses the value of options granted, exercised or lapsed during the year.

	Options Granted Value at grant date	Options Exercised Value at exercise date	Options Lapsed Value at time of lapse	Total value of options granted, exercised and lapsed	Value of options included in remuneration for the year	Percentage of total remuneration for the year that consists of options
	\$	\$	\$	\$	\$	%
Mr ID Hartnell(1)	121,360	–	–	121,360	121,360	28.11
Prof. G Dunlop	73,006	–	–	73,006	73,006	21.92
Mr G Fotheringham	30,409	–	–	30,409	30,409	15.26
Dr C Kettler	52,147	–	–	52,147	52,147	19.03
Mr PK Nair(2)	69,148	–	–	69,148	69,148	24.44
Mr T Sweder	27,750	–	–	27,750	27,750	12.18

(1) Mr Hartnell had 50 share options which had nil value and lapsed during the year.

(2) Mr Nair had 32 share options which had nil value and lapsed during the year.

### (f) Value of options – basis of calculation

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.

For the options granted to employees in October 2005, these are unlisted options exercisable at any time upon payment of the exercise price of \$0.31 and expire 5 years from issue on 13 October 2010. A binomial model was used to value these options at a theoretical cost of 18.5 cents each based on a volatility of 67.5%. At 30 June 2006 the options were "well out of the money".

## DIRECTORS' REPORT

### Review of Income Statement and operations

	CONSOLIDATED	
	30 June	30 June
	2006	2005
	\$	\$
Sales revenue	363,140	85,381
Cost of sales	(209,004)	–
<b>Gross profit</b>	<b>154,136</b>	<b>85,381</b>
Other income	3,012,458	1,567,349
Recoverable amount write downs	(45,016)	(493,740)
Loss on sale of assets	(7,058)	–
Marketing	(1,087,269)	(229,497)
Research, development, licensing and patent costs	(1,479,646)	(878,949)
Redundancy costs	(169,631)	(1,063,901)
AMT operating costs	(3,048,134)	(3,794,094)
Corporate, administration and other expenses	(2,075,111)	(2,566,676)
<b>Loss before income tax expense</b>	<b>(4,745,271)</b>	<b>(7,374,127)</b>
Income tax expense	(97,028)	(51,321)
<b>Loss from continuing operations</b>	<b>(4,842,299)</b>	<b>(7,425,448)</b>
Profit from discontinued operations	4,415,840	7,481,447
<b>Profit/(loss) attributable to members of the parent entity</b>	<b>(426,459)</b>	<b>55,999</b>

### Revenue

Sales of AMT's alloys and metal handling technologies continue to grow, albeit slowly. Included in revenue is sales of six AM-converters totalling approximately \$170,000 and AM-lite revenues from trials of \$160,000. Other income during the year consists of cash received from Magtrust on sale of its shareholding of AML shares of \$2.1m and interest on cash balances of \$700,000.

Operating costs relating to the Advanced Magnesium Technologies business continues to be supported by expenditure on research and development into AMT's unique proprietary alloys and the corporate infrastructure expenses of a listed company. As AMT transitions from trials of its flagship AM-lite product into commercial sales, marketing and promotional expenditure has become a greater component of overall expenditure.

The finalisation of the Stanwell Project comprises the accounting profit outlined under discontinued operations. The potential liability of \$4.8m was successfully settled (resulting in a credit) by providing Alcan with an exclusive licence for the Stanwell Engineering Package, offset by a final write down of the remaining assets at Stanwell of \$400,000.

## DIRECTORS' REPORT

### Review of Balance Sheet

	CONSOLIDATED	
	30 June 2006 \$	30 June 2005 \$
<b>Assets</b>		
Cash	12,109,140	7,152,374
Receivables	880,233	457,301
Inventories	292,005	-
Property, plant & equipment	379,775	449,672
Non-current assets classified as held for sale	-	937,800
Prepayments and other	119,562	139,369
<b>Total</b>	<b>13,780,715</b>	<b>9,136,516</b>
<b>Liabilities</b>		
Payables and Other Liabilities	759,447	5,510,122
Provisions	310,503	354,464
Other	79,000	-
<b>Total</b>	<b>1,148,950</b>	<b>5,864,586</b>
<b>Net Assets</b>	<b>12,631,765</b>	<b>3,271,930</b>

The net asset position of the Group has strengthened during the year due to inflows of cash from the issue of ordinary shares and receipt of cash from Magtrust Pty Ltd for the sale of its shareholding of AML ordinary shares in October 2005.

The balance of Stanwell assets has been classified as assets held for sale under the new accounting standards. The 30 June 2005 balance has been partially converted to cash, during the current year with the remainder written off to nil value.

The reduction in payables includes the settlement of a licence payable to Alcan of \$4.8m in relation to the Stanwell Project.

As a result the 30 June 2006 balance sheet solely comprises the AML Group and its Advanced Magnesium Technologies operating business.

## DIRECTORS' REPORT

### Review of Cashflow

	CONSOLIDATED	
	30 June	30 June
	2006	2005
	\$	\$
<b>Opening Cash Balance</b>	<b>7,152,374</b>	<b>12,460,000</b>
<b>Inflows</b>		
Proceeds from issue of securities	9,765,900	-
Proceeds from sale of QMAG business	-	65,037,248
Receipt from Magtrust Pty Ltd	2,077,690	-
Proceeds from sale of non-current and project assets	463,825	1,596,100
Recovery of insurance premiums	-	1,145,590
<b>Outflows</b>		
Operating activity outflows and other (net)	(6,332,406)	(3,113,800)
Redundancies	(169,631)	(1,123,184)
Payment to Government Stakeholders re: DOTR	-	(3,000,000)
Repayment of Department of Natural Resources security	-	(1,850,081)
Property, plant & equipment purchased and mine development	(284,600)	(1,583,131)
Net Interest & borrowing costs paid	-	(1,089,439)
Repayment of Borrowings and Leases	-	(61,326,929)
Share issue costs	(564,004)	-
<b>Net Cash Inflows/ (Outflows)</b>	<b>4,956,766</b>	<b>(5,307,626)</b>
<b>Closing Cash Balance</b>	<b>12,109,140</b>	<b>7,152,374</b>

The AML Group had a closing balance of \$12,109,140 at 30 June 2006 representing a net increase in cash of \$4,956,766 over the year.

Total net fundraising in October 2005 comprising issue of ordinary shares, receipt of cash from Magtrust on sale of its AML ordinary shareholding less share issue costs was \$11.3m. This was offset by usage of cash in the Advanced Magnesium Technologies business and supporting corporate and administration activities of \$6.3m.

## 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.

INDEPENDENT AUDIT DECLARATION



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The Board of Directors  
Advanced Magnesium Limited  
Level 9, 303 Coronation Drive  
Milton 4064 QLD

25 August 2006

Dear Board Members

**Advanced Magnesium Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Advanced Magnesium Limited.

As lead audit partner for the audit of the financial statements of Advanced Magnesium Limited for the financial year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

Timothy Biggs  
Partner  
Chartered Accountant

Liability limited by a scheme approved under Professional Standards Legislation.