



Advanced
Magnesium
Limited

ANNUAL REPORT

2008

commercialising advanced materials solutions

CONTENTS

Executive Chairman's Message	1
Corporate Governance Statement	3
Directors' Report	5
Independent Audit Declaration	14
Financial Statements and Notes to the Financial Statements	15
Directors' Declaration	47
Independent Audit Report	48
Shareholder Information	50

EXECUTIVE CHAIRMAN'S MESSAGE



The year 2008 will, I believe, turn out to be a pivotal one for your company. It was the year in which a clear direction was defined that will build Advanced Magnesium Limited (AML) into a successful, profitable company. We have significantly reduced operating costs, simplified the organisational structure and broadened our marketing strategy.

At the beginning of the 2008 financial year, the focus was largely on achieving market breakthrough

with AM-lite while further developing and commencing industrial trials of AM-HP2plus. Today, while the success of AM-lite remains very important we are looking to other sources of revenue in the immediate future. In particular, AM-cover and AM-converter will be our major cash generators in 2009.

It is expected that during the third quarter of financial 2009 we will also be generating cash flows from AM-EX1. We are anticipating that in the second half of 2009, we should generate a cash flow in excess of our cash 'burn' or cash outflow and will in all probability be profitable.

My confidence in the potential profitability of your company is based on the successful refocussing of the business. Shortly after last year's annual general meeting in which our shareholders supported the company's board and management in pursuing its strategy of survival, your board determined that in order to ensure survival and long term viability we had to broaden our thinking. It was determined that we should accelerate the further development of AM-EX1 and AM-converter and to increase our marketing effort for both AM-cover and AM-converter. Our thinking was based on the view that your company is ideally positioned to pursue two critical themes that are in many ways governing our future:

- The rise of emerging markets
- The need for environmental solutions

The rise of emerging markets

The acronym BRIC is commonly used to define the emerging industrial economies, Brazil, Russia India and China. Your company with its limited resources is only focussing on one of those markets, China. We have built a strong presence in China over the past year. We have opened an office in Shanghai which is headed up by a Chinese national and who is supported by an assistant and a magnesium die casting and electroplating expert who also both speak English as well as Mandarin. The drive, energy and enthusiasm in that office is infectious and in 2009 I expect that the China office will be responsible for the large part of our operating revenue. We have broadened the focus in China from largely AM-lite die casting and electroplating to producing and marketing our full suite of alloys and products in China.

Our understanding of China and how to do business there is a competitive advantage and a strong feature of our business model. We have over the past few years developed strong links with the subsidiaries of a number of China based Taiwanese die casters and electroplaters. In recent months we have broadened our relationship focus to include Chinese owned primary magnesium producers, billet casters, magnesium extrusion companies and die casters and electroplaters servicing the Chinese domestic market. The broadening of our marketing strategy has taken us away from the coast of China – Shanghai, Nanjing and Shenzhen – to magnesium territory in places such as Shanxi, Ningxia, Henan, Shaanxi and Inner Mongolia. One outstanding business opportunity has resulted from these more distant travels – the

re-melting by AM-converter of magnesium crowns which result from the pigeon process that produces primary magnesium from dolomite. We believe that the primary magnesium producer market for AM-converter could be in excess of 250 units with a possible 25 plus sales in this financial year. We are also confident that both cold chamber and hot chamber die casters in not only China but also Japan will boost the likely sales of AM-converter for 2009 to over 40 units in total. To meet this forecast growth in demand; we are presently negotiating a manufacturing licence agreement with a Chinese engineering company.

The need for environmental solutions

Magnesium is a metal for the 21st century. It is light weight, recyclable and versatile. The diversity of your company's suite of alloys and production process technologies means that we are well positioned to take advantage of opportunities in industries as diverse as 3C's (cameras, cell phones, computers) with AM-lite and the automobile industry with AM-HP2 plus and AM-EX1.

However, it is with AM-cover and AM-converter that we expect to make the biggest immediate financial and environmental impacts.

The growing global concern over climate change has led to an interest within the magnesium industry to find an alternative to the SF₆ based protective atmosphere that has been used for the past 35 years. The greenhouse effect or Global Warming Potential (GWP) of SF₆ is 23,900 times that of CO₂. The emergence of mechanisms, under the direction of the UN, to quantify reductions of greenhouse gas emissions, and the establishment of markets to trade carbon credits generated from these reductions has resulted in significant financial incentive to implement technologies such as AM-cover, which reduces greenhouse emissions by over 97%.

AM-cover is one of three alternatives approved by the UN in their methodology to replace SF₆ in the magnesium industry. AM-cover offers excellent protection of magnesium and compared to the other alternatives there are significant advantages in safety and implementation. Companies specialising in carbon credit trading and facilitating the complex process for approval of emission reduction projects have taken notice of the potential offered in switching from SF₆ to AM-cover. Aggressive marketing by these firms is expected to result in significant opportunities for growth in the licensing of AM-cover during the next year. For the magnesium industry the carbon credit revenue resulting from switching to AM-cover removes financial barriers to making the change. For your company, the availability of carbon credit revenue opens the possibility of negotiating a share of this revenue and structuring a more flexible licensing arrangement for the use of AM-cover. The revenue from just a small share of the potential carbon credits can be two to four times that available from the expected AM-cover licensing fee.

AM-converter is being successfully used for in cell recycling by cold chamber die casters in Europe. Its potential market has been broadened to include hot chamber die casters and Chinese primary producers and in the past few months its environmental credentials have been recognised. In addition to enabling users to reduce operating costs and increase productivity, AM-converter operators are able to lower the use of cover gas, decrease energy use and emissions and substantially reduce waste that would go to landfill.

2008 was a year in which we reshaped your company by focussing more on the fast growth areas – China and the environment – rather than on marketing specific products. In essence, we brought solutions to our customer base that

EXECUTIVE CHAIRMAN'S MESSAGE

resulted in AM-cover and AM-converter becoming our key products as we moved into financial year 2009.

We are confident that our strategy is right for today's magnesium industry challenges and as we move forward we will continue to adapt the strategy to the changing environment. Key initiatives in 2009 will include:

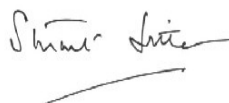
- **AM-converter:** further engineering and process optimisation work to be done to perfectly adapt it to the needs of hot chamber die casting and primary magnesium crowns remelting. Goal of unit sales of 40 in 2009.
- **AM-cover:** aggressive marketing in tandem with carbon credit scheme partners in the developing country markets. Goal of 10 new customers in 2009
- **AM-lite:** electroplating process now proven in a volume production environment. Now that the price of magnesium has fallen back to first half of 2007 levels, a reinvigorated marketing plan is now being executed. Goal of achieving sales revenue of over \$700,000 in 2009.
- **AM-EX1:** The 'bolter' in our suite of alloys. We accelerated the AM-EX1 development program with CAST during 2008 with the goal of producing an alloy possessing extrusion properties equal to those of the AA 6063 aluminium extrusion alloy. Key to the success of AM-EX1 will be its extrusion speed and a number of trials and properties tests will be performed over the next few months. Assuming that the extrusion speed and other properties seen in the development phase are exhibited in volume industrial production trials, we expect that along with our billet casting and extrusion partners we will be running further trials with OEM's. We already have interest in trialling AM-EX1 with a major US automotive company as well as interest from diverse companies in Japan and Europe. Goal: complete successful billet casting and extrusion trials and implement a global marketing program.
- **AM-HP2 plus** – we will continue to run trials with leading European die casters. In 2009 we will commence trials with Japanese and Chinese die casters which serve the automobile sector in those countries. We remain confident that AM-HP2 plus possesses the properties and die castability to become a preferred engine and drive transmission magnesium alloy post 2010. We will continue to develop the alloy with the intention of having two grades of AM-HP2 plus – one for high temperature, high creep resistant engine and transmission castings and a reduced specification, lower cost alloy for less demanding uses.

As well as reshaping your company during 2008 we have always been mindful of the need to remain very disciplined in our capital allocation. We have again reduced our cost base while meeting all our financial commitments. In 2008, we had an operating cash outflow (spend) of over \$3.8million or \$317,000 per month. There were additional one off cash spend items of \$464,000, largely relating to redundancy payments

and relocation expenses.

The cash management performance in 2008 was excellent particularly when compared to an operating cash outflow of just over \$7million or \$585,000 per month in 2007. The 2008 cash spend represents a reduction on 2007 cash outflow of \$267,000 per month which in the context of our long term survival will prove to be vital. Your company is now well positioned to become financially viable in 2009. As at the date of this report we had approximately \$2.15million in cash. We are forecasting cash expenditures of \$2.15million and revenue in excess of \$700,000 to end June 2009. Moving into the 2010 financial year the revenue generating momentum will build such that I expect your company to be both profitable and cash flow positive for the full year.

Your company needed to change and change quickly. We were "burning" cash at an unacceptably high rate while our strategic initiatives were making little or no progress in the market place. We now have the right team and the right strategies for today and more importantly for tomorrow's challenges.



STUART FITTON
EXECUTIVE CHAIRMAN

CORPORATE GOVERNANCE STATEMENT

A summary of the Company's main corporate governance practices, as well as any disclosures required by the Australian Stock Exchange's "Principles of Good Corporate Governance and Best Practice Recommendations", is set out below.

Composition of the board

The Board reviews the mix of experience, expertise and other qualities of the Directors. If a vacancy occurs on the Board, or if the Board is to be increased, the Board will identify the experience, expertise and other qualities sought and identify appropriate candidates. The Remuneration and Appointments (REM) Committee considers these matters in concert with the Board.

Directors retiring by rotation do not seek re-election at an Annual General Meeting if they have reached 69 years of age on or before the date of that meeting. In any event, Directors retire from the Board on reaching 70 years of age.

Board responsibilities

The Directors are responsible for protecting the rights and interests of the Shareholders through the development of sound strategies, ensuring their implementation, and by the development of an integrated framework of controls over the Company's resources, functions and assets.

The Board's responsibilities include:

- Steering strategic directions and establishing goals for management;
- Monitoring performance against these goals and objectives;
- Ensuring there are adequate business controls and ethical standards of behaviour;
- Appointing the Chief Executive Officer or equivalent, evaluating performance and determining the remuneration of the Chief Executive Officer and senior executives;
- Ensuring the significant risks facing the business have been identified and the appropriate and adequate control monitoring and reporting mechanisms are in place; and
- Ensuring there are policies and procedures for recruitment, training, remuneration and succession planning.

Committees of the board

The Board of AML has established and continues to operate the following committees:

- Finance, Audit and Compliance Committee (FAC); and
- Remuneration and Appointments Committee (REM).

Each Committee is chaired by a Non-Executive Director and is comprised of a majority of Non-Executive members. The committee terms of reference outline committee responsibilities and are available on request.

Membership and attendance at Board Committees is detailed in the Directors' Report.

Independence of directors

It is important to have a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties. On 9 July 2007 with the resignation of the Managing Director, Mr Fitton was requested and agreed to become the Executive Chairman. From 9 July 2007 to 30 June 2008, the Board comprised the Executive Chairman, and three Non-Executive Directors. Mr Greg Ralph resigned as a Non-Executive Director on 25 August 2008.

The Directors met whenever necessary.

Internal controls framework and risk management

The Board is responsible for the overall business control framework, but recognises that cost-effective control systems will not necessarily preclude all errors and irregularities. To assist in discharging this responsibility, the Board has instigated a Business Control Framework designed to safeguard the Group's assets and interests and to ensure the integrity of reporting. In addition, the Board constantly monitors the operational and financial aspects of the Company's activities. Through the audit committee, the Board considers the recommendations and advice of external auditors and other external advisors on the operational and financial risks that face the Company.

The Business Control Framework identifies risk management as a key area which is subject to regular reporting to the Board. In addition, the Board investigates ways of enhancing existing risk management strategies, including appropriate segregation of duties, and the employment and training of suitably qualified and experienced personnel.

ASX First Edition Principles of Good Corporate Governance

The following recommendations are made under the above guidelines.

Recommendation 2.2 – "The chairperson should be an independent director."

Recommendation 2.3 – "The roles of chairperson and chief executive officer should not be exercised by the same individual."

Recommendation 4.3 – "Structure the audit committee so that it consists of only non executive directors....."

The Company has not adopted these recommendations. The board is highly cognisant of its fiduciary and corporate governance responsibilities to shareholders. AML is a company in the development stage of its products and markets and as such generates limited revenue relying on equity capital raisings for cash flow. There is great pressure to satisfy the goals of successful commercialisation of its proprietary alloy and magnesium production technologies within the constraint of limited funding. It is a management challenge quite different to the challenges confronting an established business. The act of judiciously allocating funding to the commercialisation tasks and management practices is one that requires careful balance.

CORPORATE GOVERNANCE STATEMENT

The current corporate governance practices have been undertaken only after due consideration of this balance.

Remuneration

The overall role of the REM Committee is to ensure that Company remuneration policies and practices are consistent with the Company's goals and objectives. Written detailed terms of reference have been completed.

Directors' and executives' remuneration is presented in the Directors' Report and in Note 4 to the financial statements.

Independent professional advice

When Board members require advice, it is sought as advice for the full Board and each member has unrestricted access to that advice and may suggest issues on which such advice should be sought.

However, if an individual Director requires separate advice then, with the prior approval of the Chairman, which must not be unreasonably withheld, that Director may seek that advice at the Company's expense.

Performance assessment

The Board reviews Key Performance Indicators (KPIs) for the Managing Director/Executive Chairman and the Management Team set on an annual basis. These annual KPIs are mutually agreed by the employee and his/her supervisor. The KPIs reflect the employee's ability to add value to the entity 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.

Non-Executive Directors do not receive any performance incentive payments.

External auditor

The appointment of the external auditor, the audit fee, and any questions of resignation or dismissal are considered first by the FAC Committee. The FAC Committee then conveys its recommendation to the full Board. Our current external auditor, Deloitte, was first appointed in late 1999. It is Deloitte's policy to rotate audit engagement partners on listed companies at least every five years. In practice, however, our audit engagement partner was changed for the 2001, 2004 financial year audit and again in December 2006.

Ethical standards

AML has adopted the following Statement of General Principles that applies to all of AML's business affairs and describes the behaviour expected of every employee. The principles are founded in the core values of honesty, integrity and respect for people.

All directors, managers and staff are expected to act with the utmost integrity and objectivity, in their dealings with each other, competitors, suppliers, customers and the community, striving at all times to enhance the reputation and performance of the business. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment.

The requirement to comply with these ethical standards is taken as a matter of course and is emphasised to all employees.

Continuous disclosure and shareholder communication

The Company has a written continuous disclosure policy.

The Company Secretary is responsible for communications with the Australian Stock Exchange (ASX), including compliance with the ASX continuous disclosure requirements. These responsibilities are specified in the Company Secretary's written position description. The charter of the Finance, Audit and Compliance Committee also specifically includes the review of compliance with ASX and legal requirements.

Through regular shareholder communications such as the Annual Report, Quarterly Reports, and periodic Stock Exchange Reports, the Board informs shareholders of significant developments affecting the Company. All company announcements are immediately posted on the company website. Shareholders are explicitly encouraged to attend general meetings in notices of meeting.

Dealing in shares

The Company has a formal share dealing policy for all employees. This policy reinforces the restrictions in the Corporations Act 2001 with respect to insider trading and use of price sensitive information.

Under the terms of the policy applicable to company staff, AML securities may only be sold or purchased outside the restricted period. The restricted period occurs during the following times:

- Two weeks prior to a Board Meeting.
- One month prior to the release of the half yearly results or the annual results.
- One week prior to the release of the quarterly reports.

If a special need arises for employees to deal outside the window period they are required to contact the Company Secretary prior to entering into the transaction so that Management can determine whether the dealing would be prohibited under the Corporations Act 2001.

DIRECTORS' REPORT

The Directors of Advanced Magnesium Limited submit herewith the Annual Financial Report of the Company for the financial year ended 30 June 2008. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

The names and particulars of the Directors of the Company at the date of signing this Report are:

Board of Directors

MR STUART FITTON
B. Ec.

Non-Executive Chairman (appointed 2 May 2007)
Executive Chairman (from 9 July 2007)
Member of Finance, Audit & Compliance (FAC) Committee

Mr Fitton (61) has had experience in global finance and corporate advisory roles in Australia, the UK and the United States. Stuart has been employed as a senior executive with Barclays Bank, Citibank, Bain and Co and GE Capital. He is also a former finance director of MIM Holdings. Stuart brings to Advanced Magnesium an understanding of global capital markets and a wealth of management experience.

MR NICHOLAS ANDREWS
BEC., MSDIA, MAICD.

Non-executive Director (appointed 10 May 2007)
Chairman of the Remuneration & Appointments Committee

Mr Andrews (51) has held a variety of positions in the Australian financial sector over the last 25 years. Nick has spent 10 years with a global investment bank in management and sales in London and Sydney, and 11 years as an institutional equities investor in large and small cap securities in Australia before co-founding Pegasus Corporate Advisory in 2005.

MR MICHAEL BROWN
LLB, MAICD, MSDIA

Non-executive Director (appointed 10 May 2007)
Member of Finance, Audit & Compliance Committee
Member of Remuneration & Appointments Committee

Mr Brown (40) has held leadership and senior research positions with global investment bank terms over 17 years in Sydney, London, Hong Kong and New York before co-founding Pegasus Corporate Advisory in 2005.

The particulars of Mr G Ralph a director who resigned on 25 August 2008 (before the date of this report) are:

MR GREGORY RALPH
B. Com., M. Com., FCA.

Non-executive Director (appointed 2 May 2007) (resigned 25 August 2008)
Chairman of the Finance, Audit & Compliance Committee

Mr Ralph (52) is the Managing Partner of Gould Ralph & Company, Chartered Accountants and has been engaged in professional practice for over thirty years. Greg commenced his career with Peat Marwick Mitchell (now KPMG) in Sydney before founding Gould Ralph & Company in 1982. His professional practice largely involves listed companies and other public interest entities where he has audited and consulted across a broad range of industries. Additionally, Greg has assisted a number of companies achieve quotation on the ASX and SGX and brings significant experience in the commercialisation of technologies through his involvement with venture capitalists, including CVC.

DIRECTORS' REPORT

Directors who held office during and since the end of the financial year were:

- Mr Stuart Fitton – appointed 2 May 2007
- Mr Gregory Ralph – appointed 2 May 2007 (resigned 25 August 2008)
- Mr Nick Andrews – appointed 10 May 2007
- Mr Michael Brown – appointed 10 May 2007
- Mr Ian Hartnell* – resigned 9 July 2007

* Particulars of this Director are included in the 2006 Annual Report.

Directorships of other listed companies

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

Director and Company	Period of Directorship
Mr S Fitton	
Emeco Holdings Limited	Since April 2006
PR Finance Group Limited	Since March 2007

During the financial year Mr Fitton resigned from both of these non executive directorships.

Company Secretary

MR JD TALBOT

B Bus (Acctg), CPA

Mr Talbot (62) joined AML in February 2008. Prior to 2000 he was a senior executive in the Commonwealth Bank of Australia. Since that date he has been engaged as a financial consultant in the corporate finance field.

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 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).

Director	Board Meetings		Committee Meetings	
	Attended	Held	FAC	REM
Mr S Fitton	9	9	–	–
Mr G Ralph*	9	9	1	2
Mr N Andrews*	9	9	2	2
Mr M Brown*	9	9	2	2
Mr ID Hartnell	–	–	–	–

* There were two FAC and REM committee meetings held during the year.

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
Mr S Fitton	Ordinary	1,785,589
Mr G Ralph	Ordinary	583,333
Mr N Andrews	Ordinary	1,100,000
Mr M Brown	Ordinary	1,072,222

Director	Options	Amount of Options
Mr N Andrews	25 cent options	400,000*
Mr M Brown	25 cent options	400,000*

* A total of 400,000 options are held in the name of Pegasus Corporate Advisory with an expiry in October 2008. Messrs Andrews and Brown are the sole Directors of this entity.

Remuneration report

(a) Key management personnel - audited

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

- **Mr S Fitton** – Chairman of the Board
- **Mr G Ralph** – Non-Executive Director and Chairman of FAC committee (resigned 25 August 2008)
- **Mr N Andrews** – Non-Executive Director and Chairman of REM Committee
- **Mr M Brown** – Non-Executive Director
- **Mr ID Hartnell** – Managing Director (resigned 9 July 2007)
- **Prof. G Dunlop** – Chief Operating Officer (resigned 11 July 2008)
- **Dr T Abbott** – General Manager Alloy Development and R & D
- **Dr C Kettler** – General Manager – Europe
- **Mr G Fotheringham** – General Manager – Asia Pacific (resigned 25 July 07)
- **Mr PK Nair** – General Manager – Corporate (resigned 7 February 2008)
- **Mr JD Talbot** – Chief Financial Officer (appointed 12 February 2008)
- **Mr T Sweder** – General Manager - North America (resigned 6 June 2008)

(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 2007-08, the directorship fees for Non-Executive Directors remain at \$40,000 per year. Fees for the Chairman of the FAC Committee are \$12,500 per annum and fees paid to each Non-Executive member are \$5,000. Fees payable to members of the REM Committee are equivalent to the FAC Committee.

In respect of the period 1 July 2007 to 30 June 2008, Non-Executive Directors agreed to waive any entitlement to Director and Committee fees. In respect of the period 9 July 2007 to 8 July 2008 the Executive Chairman (Mr Fitton) agreed to a cash compensation package of \$130,800 which, in the estimation of the Non-Executive Directors, represented a significant discount to the market value for his services. A motion was approved by shareholders at the 2007 AGM on 28 September 2007

- for the receipt of shares by Non-Executive Directors in lieu of cash for services from 1 July 2007 to 30 June 2008; and
- for the receipt of shares by the Executive Chairman in lieu of full cash remuneration for services from 9 July 2007 to 8 July 2008.

In respect of that motion 583,333 shares were issued to each of Messrs Ralph and Andrews and 555,556 shares issued to Mr Brown. Superannuation contributions of \$2,363 were paid to each of Messrs Ralph and Andrews and \$2,250 to Mr Brown. This reflected 50% of the superannuation contribution due on foregone fees with the remaining contribution to be paid in 2008/09. Also in respect of that motion 1,385,589 shares were issued to Mr Fitton.

Upon the resignation of Mr PK Nair on 7 February 2008, the Company and Mr Nair agreed an arrangement whereby he would forego part of his

termination benefits in exchange for an allocation of shares. Accordingly, he received 500,000 (valued at the time at \$45,000).

Fuji Shokai Company Limited (Fuji) is the Company's agent in Japan. The Company has the benefit of those services at USD1,000 per month. Rather than increase the fee to Fuji an arrangement was negotiated with the principal to issue 50,000 ordinary shares as an equity-settled share based payment for services rendered.

Remuneration and other terms of employment 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.

A standard redundancy termination benefit of three weeks for each year of service applies to all specified personnel. In addition, specified personnel over 45 years of age receive four weeks and over 55 years of age receive eight weeks on redundancy.

Employees are subject to annual salary reviews. AML group employee salaries are also adjusted to average market rate if appropriate.

Shares issued to personnel in lieu of cash remuneration exposes the recipient to movements in the market value of the shares. Management of that exposure remains the responsibility of the recipient.

(c) Elements of remuneration related to performance - audited

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

- Each Executive or employee has an individual written contract outlining the terms and conditions under which that person is engaged;
- 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;
- 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

DIRECTORS' REPORT

Remuneration report (continued)

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.

- 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.

The Company is in a market development phase in which the main performance criteria are the speed of sales breakthrough and the cash cost of achieving sales success.

The Company made a net loss in 2008 although that loss and the cash "burn" rate were significantly reduced compared with 2007. As explained in the Chairman's address this reduced cash "burn" rate could well be critical in ensuring that the company achieves commercial viability within the limits of its available capital resources.

There were no performance shares or options issued in 2008. The only shares awarded were to

- the Company's three Non-Executive directors in lieu of directors fees;
- the Executive Chairman in lieu of full cash remuneration reflective of his responsibilities; and
- the principal of the Company's Japanese agent to supplement its monthly fee.

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 2008:

	Short-term employee benefits				Post-employment Benefits		Shares	Date Shares Issued	Total
	Salary & fees	Termination Benefits	Bonus	Non-monetary	Super-Annuation	Other			
	\$	\$	\$	\$	\$	\$			
Mr ID Hartnell (1)	6,612	175,000	-	-	6,885	-	-	-	188,497
Mr S Fitton	117,692	-	-	-	10,592	-	193,982	23 Oct 07	322,266
Mr G Ralph (2)	-	-	-	-	2,363	-	81,667	23 Oct 07	84,030
Mr N Andrews	-	-	-	-	2,363	-	81,667	23 Oct 07	84,030
Mr M Brown	-	-	-	-	2,250	-	77,778	23 Oct 07	80,028
Prof. G Dunlop (3)	183,420	-	-	-	91,580	-	-	-	275,000
Dr. T Abbott	142,819	-	-	-	37,181	-	-	-	180,000
Dr C Kettler	181,770	-	-	-	-	-	-	-	181,770
Mr P Nair (4)	92,639	200,000	-	-	38,750	-	45,000	7 Feb 08	376,389
Mr T Sweder (5)	108,510	-	-	-	-	-	-	-	108,510
Mr G Fotheringham (6)	-	34,735	-	-	-	-	-	-	34,735
Mr J Talbot (7)	39,083	-	-	-	-	-	-	-	39,083
Total	872,545	409,735	-	-	191,964	-	480,094	-	1,954,338

- (1) Mr Hartnell retired from the Board on 9 July 2007.
(2) Mr Ralph resigned from the Board on 25 August 2008.
(3) Mr Dunlop resigned on 11 July 2008
(4) Mr Nair resigned 7 February 2008
(5) Mr Sweder resigned 6 June 2008
(6) Mr Fotheringham resigned 25 July 2007
(7) Mr Talbot appointed 12 February 2008

Financial Year ended 30 June 2007:

	Short-term employee benefits			Post-employment benefits		Shares	Total
	Salary & fees	Bonus	Non-monetary	Super-annuation	Other		
	\$	\$	\$	\$	\$		
Dr CD Rawlings (1)	54,166	-	-	4,875	-	-	59,041
Mr ID Hartnell (4)	212,320	-	1,702	105,112	-	-	319,134
Mr DM Byrne (1)	10,000	-	-	30,875	-	-	40,875
Mr KG Williams (1)	39,875	-	-	7,812	-	-	47,687
Mr S Fitton (2)	-	-	-	-	-	-	-
Mr G Ralph (2)	-	-	-	-	-	-	-
Mr N Andrews (3)	-	-	-	-	-	-	-
Mr M Brown (3)	-	-	-	-	-	-	-
Prof. G Dunlop	163,535	-	1,702	101,046	-	-	266,283
Mr G Fotheringham (5)	132,097	-	-	41,892	-	-	173,989
Dr C Kettler	203,198	-	25,000	-	-	-	228,198
Mr PK Nair	146,110	-	1,702	72,003	-	-	219,815
Mr T Sweder	206,000	-	-	-	-	-	206,000
Total	1,167,301	-	30,106	363,615	-	-	1,561,022

- (1) Mr Rawlings, Mr Byrne and Mr Williams retired from the Board on 2 May 2007.
(2) Mr Fitton and Mr Ralph were appointed to the Board on 2 May 2007.
(3) Mr Andrews and Mr Brown were appointed to the Board on 10 May 2007.
(4) Mr Hartnell retired from the Board subsequent to year end on 9 July 2007.
(5) Mr Fotheringham's position was made redundant in July 2007.

Of the shares issued to Messrs Fitton, Ralph, Brown and Andrews 1,562,268 shares were held in voluntary escrow until January 2008 and the balance held in voluntary escrow until July 2008. Apart from the passage of time, no other conditions attached to the full vesting of ownership to the beneficiaries.

DIRECTORS' REPORT

Remuneration report (continued)

(e) Relationship between remuneration for key management personnel and the company's performance

The greatest chance for successful commercialisation of the company's proprietary alloy technology rests with preserving cash and focusing resources on marketing to original equipment manufacturers. Thus, the focus over the 14 month period prior to 30 June 2008 has been the rationalisation of high cost non-marketing resources and the focusing of residual and new resources on the marketing task. This rationalisation partially reflects in the remuneration for key management personnel in the 2008 year. The table below shows the historical relationship between remuneration for key management personnel and the company's performance.

Key Management Personnel					
	Year Ended 6 July 2004 ⁽¹⁾	2005	2006	2007	2008
	\$	\$	\$	\$	\$
Cash based remuneration	577,702	1,611,323	1,573,586	1,561,022	1,474,244 ⁽²⁾
Non-cash remuneration	1,436,442	5,724	373,820	-	480,094
Total remuneration	2,014,144	1,617,047	1,947,406	1,561,022	1,954,338
Consolidated Loss Attributable to Members of the Parent Entity					
	Year Ended 6 July 2004	2005	2006	2007	2008
	\$	\$	\$	\$	\$
Consolidated profit/(loss) from continuing operations	77,733,000 ⁽³⁾	(7,425,448)	(4,842,299)	(\$5,949,715)	(3,989,186)
Share price at 1 July prior calendar year	\$0.08	\$0.03	\$0.01	\$0.22	\$0.22
Share price at 30 June current calendar year	\$0.02	\$0.01	\$0.22	\$0.22	\$0.036
Return of capital	Nil	Nil	Nil	Ni	Ni
Dividend per share for relevant year	Nil	Nil	Nil	Ni	Ni

Notes 1 Emoluments of five most highly paid officers
 2 Includes \$409,735 termination benefits
 3 Includes the QMAG Joint Venture operations discontinued on 1 December 2004 and the Stanwell Magnesium Project.

(f) Value of options issued to key management personnel

The Key Management Personnel of Advanced Magnesium Limited were not granted any options and did not exercise any options during the financial year. Options previously issued to Mr ID Hartnell (656,000), Mr G Fotheringham (164,375), Mr P Nair (373,775) and Mr T Sweder (150,000) expired upon their departure from the company.

(g) 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.

The options granted to employees in October 2005 are unlisted options and exercisable at any time upon payment of the exercise price of \$0.31. They 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%.

DIRECTORS' REPORT

Review of Income Statement and operations

	SUMMARY CONSOLIDATED	
	30 June 2008	30 June 2007
	\$	\$
Sales revenue	170,423	478,673
Cost of sales	(93,630)	(266,133)
Gross profit	76,793	212,540
Other income	412,161	552,980
Expenses	(4,478,140)	(6,675,118)
Loss before income tax expense	(3,989,186)	(5,909,598)
Income tax expense	-	(40,117)
Loss from continuing operations	(3,989,186)	(5,949,715)
Profit from discontinued operations	-	49,351
Loss attributable to members of the parent entity	(3,989,186)	(5,900,364)

Principal sales revenue for the financial year ended 30 June 2008 comprised \$44,183 in respect of AM-converter royalties and \$52,928 AM-lite revenues from trials and testing. Other income mainly comprised interest revenue of \$283,219.

Management has focused on reducing operating expenditure during the year, resulting in reductions in all expense captions.

Discussion on the entity's business strategies and its prospects for future financial years are covered in the Executive Chairman's Message.

DIRECTORS' REPORT

Review of Balance Sheet

	CONSOLIDATED	
	30 June	30 June
	2008	2007
	\$	\$
Assets		
Cash	2,996,127	6,564,759
Receivables	67,580	111,760
Inventories	204,081	272,018
Leasehold improvements	7,015	-
Property, plant & equipment	26,286	268,615
Prepayments and other	34,462	101,526
Total	3,335,551	7,318,678
Liabilities		
Payables and Other		
Liabilities	62,410	230,733
Provisions	71,602	317,915
Other	-	63,200
Total	134,012	611,848
Net Assets	3,201,539	6,706,830

The financial position of the AML Group is largely reflected in the cash balance of \$2.996m. This reflects the nature of the business as one reliant mainly on intangible assets, namely its human resource capital and intellectual property, neither of which are recognised in the balance sheet. The significant reduction in Provisions in 2008 largely reflects reduced liabilities for staff benefits (annual leave and long service leave) following the departure of various staff.

Review of Cashflow

	CONSOLIDATED	
	30 June	30 June
	2008	2007
	\$	\$
Opening Cash Balance	6,564,759	12,109,140
Inflows		
Receipts from customers	196,129	588,297
Sale of plant and equipment	278,213	200,221
Share options exercised	-	23,250
Interest received	250,253	696,197
Outflows		
Operating activity outflows and other (net)	(4,277,565)	(7,033,344)
Purchase of plant and equipment	(15,662)	(19,002)
Net Cash Inflows/ (Outflows)	(3,568,632)	(5,544,381)
Closing Cash Balance	2,996,127	6,564,759

The AML Group had a closing cash balance of \$2.996m, a reduction in cash of \$3.569m from the previous year end. Underlying net operating cash expenditure of \$4.278m was offset by interest receipts and certain non-recurring inflows from sales to customers and equipment disposals.

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

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

Subsequent events

Prof. G Dunlop resigned from the Company on 11 July 2008 and Mr. G Ralph resigned from the Board on 25 August 2008. There has not been any other 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	776,500	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.

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.

Non audit services

There were no non audit services provided by the auditor during the year.

Auditor's independence declaration

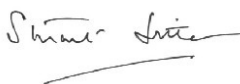
The auditor's independence declaration is included on page 12(a) of the annual report.

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 except to the extent permitted by law, 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



MR S FITTON
EXECUTIVE CHAIRMAN



MR N ANDREWS
NON-EXECUTIVE DIRECTOR

Signed on the 30 September 2008 in accordance with a resolution of the Directors made pursuant to Section 298(2) of the Corporations Act 2001.

INDEPENDENT AUDIT DECLARATION

Deloitte.

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30 September 2008

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 2008, 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



R D Wanstall
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2008

INCOME STATEMENT / STATEMENT OF RECOGNISED INCOME AND EXPENSE

BALANCE SHEET

CASHFLOW STATEMENT

NOTES TO THE FINANCIAL STATEMENTS

Note	Contents	Note	Contents
1	Summary of accounting policies	16	Other non-current liabilities
2	Results from operations	17	Share capital
3	Income taxes	18	Reserves
4	Key management personnel remuneration	19	Accumulated losses
5	Share payment schemes	20	Earnings/(Loss) per share
6	Remuneration of auditors	21	Contingent liabilities and contingent assets
7	Current trade and other receivables	22	Leases
8	Current inventories	23	Subsidiaries
9	Other current assets	24	Segment Information
10	Other non-current financial assets	25	Discontinued operations
11	Plant and equipment	26	Related party disclosures
12	Current trade and other payables	27	Notes to the cashflow statement
13	Current provisions	28	Financial instruments
14	Other current liabilities	29	Executive Chairman/CFO Statement re Risk Management Practices
15	Non-current provisions	30	Subsequent events
		31	Additional Company information

DIRECTORS' DECLARATION

AUDIT REPORT

**INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008**

	NOTE	CONSOLIDATED		PARENT ENTITY	
		30 June	30 June	30 June	30 June
		2008	2007	2008	2007
		\$	\$	\$	\$
Sales revenue	2(a)	170,423	478,673	—	—
Cost of sales		(93,630)	(266,133)	—	—
Gross profit		76,793	212,540	—	—
Other income	2(b)	412,161	543,358	221,288	403,520
Recoverable amount write downs		(86,216)	(119,054)	(2,526,369)	(5,624,482)
Net (Loss)/Profit on sale of assets		88,403	(12,166)	—	—
Marketing		(1,758,167)	(851,069)	—	—
Research, development, licensing and patent costs		(531,813)	(1,341,709)	(59,300)	—
AMT operating costs		(1,554,413)	(2,867,759)	(722,758)	—
Corporate, administration and other expenses		(635,934)	(1,473,739)	(4,823)	(1,107,367)
Loss before income tax expense		(3,989,186)	(5,909,598)	(3,091,962)	(6,328,329)
Income tax expense	3(a)	—	(40,117)	—	—
Loss from continuing operations		(3,989,186)	(5,949,715)	(3,091,962)	(6,328,329)
Profit from discontinued operations	25	—	49,351	—	—
Loss attributable to members of the parent entity		(3,989,186)	(5,900,364)	(3,091,962)	(6,328,329)
Loss per share:					
Basic (cents per share)	20	(4.57)	(6.90)		
Diluted (cents per share)	20	(4.57)	(6.90)		
Loss per share from continuing operations					
Basic (cents per share)	20	(4.57)	(6.96)		
Diluted (cents per share)	20	(4.57)	(6.96)		

**STATEMENT OF RECOGNISED INCOME AND EXPENSE
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008**

	NOTE	CONSOLIDATED		PARENT ENTITY	
		30 June	30 June	30 June	30 June
		2008	2007	2008	2007
		\$	\$	\$	\$
Exchange differences taken to reserves in equity – translation of overseas entities	18	(5,400)	(47,820)	—	—
Net income/(loss) recognised directly in equity		(5,400)	(47,820)	—	—
Loss for the year		(3,989,186)	(5,900,364)	(3,091,962)	(6,328,329)
Total recognised income and expense for the year		(3,994,586)	(5,948,184)	(3,091,962)	(6,328,329)
Attributable to equity holders of the parent		(3,994,586)	(5,948,184)	(3,091,962)	(6,328,329)

The above Income Statement and Statement of Recognised Income and Expense should be read in conjunction with the accompanying notes on pages 19 to 46.

**BALANCE SHEET
AS AT 30 JUNE 2008**

	NOTE	CONSOLIDATED		PARENT ENTITY	
		30 June	30 June	30 June	30 June
		2008	2007	2008	2007
		\$	\$	\$	\$
Current assets					
Cash and cash equivalents	27(a)	2,996,127	6,564,759	2,270,356	4,233,348
Trade and other receivables	7	67,580	111,760	31,536	41,772
Inventories	8	204,081	272,018	—	—
Other	9	34,462	101,526	—	—
Total current assets		3,302,250	7,050,063	2,301,892	4,275,120
Non-current assets					
Other financial assets	10	—	—	1,022,279	1,900,000
Leasehold improvements		7,014	—	—	—
Property, plant & equipment	11	26,286	268,615	—	62,080
Total non-current assets		33,300	268,615	1,022,279	1,962,080
Total assets		3,335,550	7,318,678	3,324,171	6,237,200
Current liabilities					
Trade and other payables	12	62,410	230,733	—	76,980
Provisions	13	71,602	256,451	—	171,716
Other	14	—	15,800	—	—
Total current liabilities		134,012	502,984	—	248,696
Non-current liabilities					
Provisions	15	—	61,464	—	61,464
Other	16	—	47,400	—	—
Total non-current liabilities		—	108,864	—	61,464
Total liabilities		134,012	611,848	—	310,160
Net assets		3,201,538	6,706,830	3,324,171	5,927,040
Equity					
Share capital	17	18,542,857	18,598,195	18,542,857	18,598,195
Reserves	18	4,101,253	3,562,222	1,374,173	829,742
Accumulated losses	19	(19,442,572)	(15,453,587)	(16,592,859)	(13,500,897)
Total equity		3,201,538	6,706,830	3,324,171	5,927,040

The above Balance Sheet should be read in conjunction with the accompanying notes on pages 19 to 46.

**CASHFLOW STATEMENT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008**

	NOTE	CONSOLIDATED		PARENT ENTITY	
		30 June 2008	30 June 2007	30 June 2008	30 June 2007
		\$	\$	\$	\$
		Inflows/ (Outflows)	Inflows/ (Outflows)	Inflows/ (Outflows)	Inflows/ (Outflows)
Cashflows from operating activities					
Receipts from customers		196,129	588,297	—	—
Payments to suppliers and employees		(4,277,565)	(7,033,789)	(546,302)	(1,079,192)
Interest received		250,253	696,197	189,802	548,769
Borrowing costs		—	—	—	—
Other receipts		—	445	(2,584)	—
Net cash used in operating activities	27(d)	(3,831,183)	(5,748,850)	(359,084)	(530,423)
Cashflows from investing activities					
Debt and Equity Funding by Parent Entity Provided to Operating Subsidiaries		—	—	(1,648,648)	—
Share purchase in Advanced Magnesium Technologies Pty Ltd		—	—	—	(4,672,860)
Intragroup sale of AMT Europe GmbH from AML to AMT Pty Ltd		—	—	—	40,468
Payment for plant & equipment & leasehold improvements		(15,662)	(19,002)	—	—
Proceeds from sale of plant & equipment and project assets		278,213	200,221	44,740	—
Net cash provided by/(used in) investing activities		262,551	181,219	(1,603,908)	(4,632,392)
Cashflows from financing activities					
Proceeds from exercise of Employee Share Options		—	23,250	—	23,250
Net cash provided by financing activities		—	23,250	—	23,250
Net increase/(decrease) in cash and cash equivalents		(3,568,632)	(5,544,381)	(1,962,992)	(5,139,565)
Cash and cash equivalents at the beginning of the financial year		6,564,759	12,109,140	4,233,348	9,372,913
Cash and cash equivalents at the end of the financial year	27(a)	2,996,127	6,564,759	2,270,356	4,233,348

The above Cashflow Statement should be read in conjunction with the accompanying notes on pages 19 to 46.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF ACCOUNTING POLICIES

Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with the A-IFRS ensures that the parent entity and consolidated financial statements and notes thereto comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the Directors on 30 September 2008.

Adoption of new and revised Accounting Standards

In the current year, The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current annual reporting period. The group has also adopted AASB 7 "Financial Instruments: Disclosures" which has impacted disclosures only.

Basis of Preparation

The financial report has been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

Going Concern

The financial report has been prepared on a going concern basis as the Directors do not believe there is any intention or necessity to close the current operations or cease trading within twelve months from the reporting date.

The factors considered by the Directors in making this assessment, included:

- As at 30 June 2008, the consolidated entity had cash reserves of almost \$3m.
- The forecast consolidated operating gross cash spend over the next financial year has been further reduced to \$2.8m.
- Interest earnings and expected sales revenue are forecast to be sufficient to enable the Company and consolidated entity to continue trading in a solvent state for at least 12 months.
- Residual staff and other termination costs in the event of a winding up are estimated not to exceed \$0.25 million in March 09.
- The Directors are satisfied the Company and consolidated entity has the necessary business potential to maintain liquidity in the ensuing year.

The Directors are cognisant that the Company and consolidated entity needs to achieve commercial sales and/or raise further capital in the next 12 months in order to continue operations. Inherently, this requires the group to have products ready to meet the commercial needs of customers for the production of their end products. The Directors and management are unable to predict the Company's achievement of these future outcomes with any certainty. Moreover, as with the commercialisation of any new technology in international markets and the raising of funds, there are a number of factors outside the Company's control that render a degree, arguably a high degree, of uncertainty as to the prospects for success.

The financial report does not include any adjustments in relation to the recoverability or classification of assets or classification of liabilities that might be necessary if the Company and consolidated entity does not continue as a going concern. The Directors estimate that if the existing operations were to be closed down on a forced basis on 30 September 2008 closure costs of \$0.44 million would be incurred (staff termination costs of \$0.28m and \$0.16m contractual termination costs). This may reduce over time and if closure occurs on an orderly wind down basis.

Significant Accounting Policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks at call and on deposit.

(b) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (cont...)

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

Contributions to defined contribution superannuation plans are expensed when incurred.

(c) Financial assets

Subsequent to initial recognition, investments in subsidiaries are measured at cost less any allowance for impairment

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Receivables

Trade receivables and other receivables are recognised initially at their fair values and subsequently at amortised cost less impairment.

(d) Financial instruments issued by the Company

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

(e) Foreign currency

Foreign Currency Transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in profit or loss in the period in which they arise except that exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

Foreign Operations

On consolidation, the assets and liabilities of the consolidated entity's overseas operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are recognised in the foreign currency translation reserve, and recognised in profit or loss on disposal of the foreign operation.

(f) Goods and Services Tax and Value Added Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) or value added tax (VAT) for certain foreign jurisdictions, except for receivables and payables which are recognised inclusive of GST or VAT.

The net amount of GST or VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST or VAT component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(g) Impairment of assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (cont...)

the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(h) **Income tax**

Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability to the extent that it is unpaid.

Deferred Tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Current and Deferred Tax for the Period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Tax Consolidation

The Company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Advanced Magnesium Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'stand-alone taxpayer' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group).

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (cont...)

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in Note 3 to the financial statements. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

(i) Intangible assets

Patents, Trademarks and Licences

Patents, trademarks and licences are recorded at cost less accumulated amortisation and any allowance for impairment. Such intangibles are also subject to the impairment tests as outlined in (g) above.

Research and Development Costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Development expenditure is recognised as an expense in the period as incurred, unless an internally generated intangible asset can be recognised.

(j) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs are assigned to inventory on hand by the method most appropriate to each particular class of inventory, being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(k) Leased assets

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Lease incentives

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(l) Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current 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.

(m) Payables

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

(n) Presentation currency

The presentation and functional currency of the AML Group is Australian dollars.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (cont...)

(o) Principles of consolidation and investments in subsidiaries

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. A list of subsidiaries appears in Note 23 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The consolidated financial statements include the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

(p) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on plant and equipment and is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

- Plant and equipment 2.5 – 9.0 years

(q) Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

(r) Revenue recognition

Sale of goods

Revenue from the sale of goods is recognised when the consolidated entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

Interest revenue

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(s) Share-based payments

Equity-settled share-based payments granted after 7 November 2002 that were unvested as of 1 July 2005, are measured at fair value at the date of grant. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (cont...)

line basis over the vesting period, based on the consolidated entity's estimate of shares that will eventually vest.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

(t) Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in this note, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements (apart from those involving estimations, which are dealt with below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Useful lives of property, plant and equipment

As described in (p) above, the Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. During the financial year, management determined that the useful life of certain items of furniture and fittings should be shortened. The effect of this decision to accelerate the write off is shown below

Depreciation At Standard Rates	Accelerated Depreciation Determined by Management	Increase In Consolidated Operating Loss
\$62,839	\$72,362	\$9,523

(u) Standards and Interpretations issued not yet effective

At the date of authorisation of the financial report, the Standards and Interpretations listed below were in issue but not yet effective.

Initial application of the following Standard will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the consolidated entity and the company's financial report:

- AASB 101 'Presentation of Financial Statements' (revised September 2007) Effective for annual reporting periods beginning on or after 1 January 2009

Initial application of the following Standards and Interpretations is not expected to have any material impact on the financial report of the Consolidated entity and the company:

- AASB Interpretation 12 'Service Concession Arrangements' Effective for annual reporting periods beginning on or after 1 January 2008
- AASB Interpretation 14 'AASB 119 - The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction' Effective for annual reporting periods beginning on or after 1 January 2008
- AASB Interpretation 13 'Customer Loyalty Programmes' Effective for annual reporting periods beginning on or after 1 July 2009
- AASB 123 'Borrowing Costs' (revised) Effective for annual reporting periods beginning on or after 1 January 2009
- AASB 2008-2 'Amendments to Australian Accountings Standards – Puttable Financial Instruments and Obligations arising on Liquidations' Effective for annual reporting periods beginning on or after 1 January 2009

The potential effect of the initial application of the expected issue of an Australian equivalent accounting standard to the following Standard has not yet been determined:

- IFRS 3 'Business Combinations' and IAS 27 'Separate and Consolidated Financial Statements' Effective for annual reporting periods beginning on or after 1 July 2009

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 RESULTS FROM OPERATIONS

	CONSOLIDATED		PARENT ENTITY	
	30 June 2008 \$	30 June 2007 \$	30 June 2008 \$	30 June 2007 \$
(a) Sales Revenue – continuing operations:				
Sale of goods and royalty income	170,423	462,962	—	—
Rendering of services	—	15,711	—	—
	170,423	478,673	—	—
(b) Other income – continuing operations:				
Interest revenue	283,219	542,913	221,288	401,974
Foreign exchange gain/(loss)	(3,252)	—	(3,252)	1,546
Other	132,194	445	3,252	—
	412,161	543,358	221,288	403,520
Other income – discontinuing operations:				
Gain on sale of assets	—	49,351	—	—
	—	49,351	—	—
Total other income	412,161	592,709	221,288	403,520
(c) Loss before income tax				
Loss before income tax has been arrived at after crediting/(charging) the following gains and losses from continuing and discontinued operations:				
Net gain on disposal of property, plant and equipment	88,403	37,185	—	—
Net foreign exchange gains/(losses)	(21,295)	(62,710)	—	1,546
	67,108	(25,525)	—	1,546
Gains attributable to:				
Continuing operations	88,403	9,622	—	1,546
Discontinued operations	—	49,351	—	—
	88,403	58,973	—	1,546
Losses attributable to:				
Continuing operations	(21,295)	(84,498)	—	—
Discontinued operations	—	—	—	—
	(21,295)	(84,498)	—	—
	67,108	(25,525)	—	1,546
Loss before income tax has been arrived at after charging the following expenses. The line items below combine amounts attributable to both continuing and discontinued operations:				
Cost of sales	(93,630)	(266,133)	—	—
Write-down of inventory to net realisable value	(125,982)	(92,954)	—	—
Impairment of trade receivables	(6,931)	(26,100)	—	—
Interest on payables	—	—	—	—
Impairment of non-current asset charge	(86,216)	(119,054)	(2,526,369)	(5,624,482)
Depreciation of non-current assets	(72,363)	(108,374)	(17,339)	(24,119)
Operating lease rental minimum lease payments ⁽¹⁾	(183,955)	(155,986)	—	—
Equity settled share-based payments for services	(9,000)	—	—	—
Employee benefit expense:				
Post employee benefits – defined contribution	(120,561)	(415,452)	(7,989)	(321,723)
Equity settled share-based payments	(480,094)	—	(480,094)	—
Retrenchments and termination benefits	(597,639)	(4,294)	(375,000)	—
Wages and salaries	(1,352,174)	(1,905,041)	(100,520)	(213,824)
	(2,550,468)	(2,324,787)	(963,603)	(535,547)

Note 1 Gross lease payments on office premises in Australia, China and Germany and payments to Internet Service Provider

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 INCOME TAXES

The aggregate amount of income tax attributable to the financial year differs from the amount calculated on the profit.

	NOTE	CONSOLIDATED		PARENT ENTITY	
		30-Jun	30-Jun	30-Jun	30-Jun
		2008	2007	2008	2007
		\$	\$	\$	\$
(a) Income tax recognised in profit and loss					
Tax expense comprises:					
Current tax expense – Australian entities		—	—	—	—
Current tax expense – foreign subsidiaries		—	40,117	—	—
Total tax expense		—	40,117	—	—
Attributable to:					
Continuing operations		—	40,117	—	—
Discontinued operations		—	—	—	—
		—	40,117	—	—
The prima facie income tax expense on pre-tax accounting profit/(loss) from operations reconciles to the income tax expense in the financial statements as follows:					
Loss from continuing operations		(3,989,186)	(5,909,598)	(3,091,962)	(6,328,329)
Profit from discontinued operations	25	—	49,351	—	—
Loss from operations		(3,989,186)	(5,860,247)	(3,091,962)	(6,328,329)
Income tax benefit calculated at 30%		1,196,756	1,758,074	927,589	1,898,499
Non deductible expenses		(137,235)	(512)	(891,139)	(1,687,344)
Deferred tax assets arising from tax losses of the consolidated entity not brought to account as at balance date because realisation is not considered probable		(1,059,521)	(1,717,445)	(36,450)	(211,155)
Total tax expense		—	40,117	—	—

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

	CONSOLIDATED		PARENT ENTITY	
	30-Jun	30-Jun	30-Jun	30-Jun
	2008	2007	2008	2007
	\$	\$	\$	\$
(b) Current Tax Assets & Liabilities				
Income tax payable by foreign entities	—	243	—	—

These amounts are included in Note 12 "Current Trade and Other Payables".

Tax Consolidation

Relevance of tax consolidation to the consolidated entity

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 February 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Advanced Magnesium Limited. The members of the tax-consolidated group are identified at Note 23.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 INCOME TAXES (cont...)

Nature of tax funding arrangements and tax sharing agreements

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, Advanced Magnesium Limited and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

Non-recognition of deferred tax assets

Unrecognised deferred tax balances

The following deferred tax assets have not been brought to account as assets:

DTA on pre-tax consolidation revenue losses
DTA on post-tax consolidation revenue losses
DTA on capital losses

These are based on the following tax losses:

Tax losses – revenue pre-tax consolidation
Tax losses – revenue post-tax consolidation
Tax losses – capital

CONSOLIDATED/PARENT ENTITY	
30 June	30 June
2008	2007
\$	\$
81,580,882	81,580,882
33,149,049	32,089,528
28,868,289	28,868,289
143,598,220	142,538,699
271,936,272	271,936,272
110,546,182	107,014,443
96,227,630	96,227,630
478,710,084	475,178,345

The benefit from the deferred tax asset in respect of unused tax losses will only be obtained if:

- The tax consolidated group derives future assessable income of a nature and amount sufficient to enable the benefits to be realised;
- the consolidated group continues to comply with the conditions for deductibility imposed by the tax law; and
- no changes in tax legislation adversely affect the consolidated group in realising the benefit of the losses.

No deferred tax asset has been brought to account as an asset because it is not probable that taxable profit will be available against which such an asset could be utilised.

Unused tax losses incurred after the formation of the AML consolidated group (\$110,546,182) will be fully available to offset future taxable income to the extent AML continues to satisfy the loss integrity rules (i.e. Continuity of Ownership Test and Same Business Test). Based on testing performed by AML and its advisors, these losses should satisfy the loss integrity rules as at 30 June 2008.

Unused tax losses incurred prior to the formation of the AML consolidated group (\$271,936,272) will be subject to restricted use (Available Fraction rules). These restrictions on use are in addition to the loss integrity rules. Broadly, the Available Fraction rules limit the amount of losses that can be used each year by applying the following formula:

$$\text{Available Fraction} \times \text{Taxable income for year} = \text{Pre consolidation losses available for use for year}$$

Based on testing performed by AML and its advisors, AML's pre consolidation losses should satisfy the loss integrity rules at 30 June 2008 subject to further testing and continued compliance with loss integrity rules. No detailed Available Fraction calculations have been performed as at 30 June 2008, however it is unlikely that the Available Fraction applying to pre-consolidation tax losses will be greater than 0.2.

The Australian tax consolidated entity has not paid income tax up to 30 June 2008 and no income tax is expected to be paid prior to 30 June 2009. Accordingly, there are no franking credits available for distribution in the year ending 30 June 2008.

Tax outside of Australian tax consolidation regime

The Group has several overseas entities which are not subject to Australian tax consolidation and are therefore not sheltered by Australian tax losses. Those entities may incur income tax based on local corporate tax law and are subject to local jurisdiction.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 KEY MANAGEMENT PERSONNEL REMUNERATION

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

- S Fitton (Executive Chairman)
- G Ralph (Non-Executive Director) (resigned 25 August 2008)
- N Andrews (Non-Executive Director)
- M Brown (Non-Executive Director)
- ID Hartnell (Managing Director) (resigned 9 July 2007)
- G Dunlop (Chief Operating Officer) (resigned 11 July 2008)
- T Abbott (General Manager Alloy Development and R & D)
- C Kettler (General Manager - Europe)
- PK Nair (General Manager - Corporate) (resigned 7 February 2008)
- T Sweder (General Manager - North America) (resigned 6 June 2008)
- J Talbot (Chief Financial Officer) (appointed 12 February 2008)

(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 2008 \$	30 June 2007 \$	30 June 2008 \$	30 June 2007 \$
Short term employee benefits	872,545	1,197,407	8,137	465,875
Termination benefits	409,735	—	352,307	—
Post-employment benefits	191,964	363,615	59,603	220,677
Share based payment	480,094	—	480,094	—
	1,954,338	1,561,022	900,141	686,552

NOTE 5 SHARE PAYMENT SCHEMES

5.1 Employee Share Option Plan

On 4 October 2005 an Employee Share Option Plan was approved. 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. No options were issued under the Employee Share Option Plan for the financial year ended 30 June 2008.

The total options issued to employees, under the plan were 2,645,650 – although at 30 June 2008 only 776,500 remain unforfeited. These are unlisted options exercisable at any time upon payment of the exercise price of \$0.31. They expire on 13 October 2010 (5 years from issue). The binomial model was used to value these options at the grant date 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. The exercise price of each option is \$0.25 and has a term of 36 months from the date of issue. 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 the grant date at a total of \$64,050.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 SHARE PAYMENT SCHEMES (cont...)

The following share-based payment arrangements were in existence during the period:

Options series	Number	Grant date	Expiry date	Exercise price \$	Fair value per option at grant date \$
Resource Capital Funds	3,313,273	29-Nov-04	29-Nov-07	\$0.70	\$0.069
Employee Share Option Plan	776,500	13-Oct-05	13-Oct-10	\$0.31	\$0.185
Pegasus Corporate Advisory	400,000	7-Oct-05	7-Oct-08	\$0.25	\$0.160

The weighted average fair value of the share options granted during the financial year is \$nil (2007: Nil).

Inputs used to calculate fair value per option at grant date for the prior year are as follows:

Inputs into the model	2007	
	Option series ESOP	Option series Pegasus
Grant date share price	\$0.31	\$0.30
Exercise price	\$0.31	\$0.25
Expected volatility	67.48%	67.48%
Date Granted	4 October 2005	7 October 2005
Option life	5 years	3 years
Dividend yield	Nil	Nil
Risk-free interest rate	5.25%	5.25%

The following table reconciles the outstanding share options granted under the share-based payment schemes at the beginning and end of the financial year (on a post-consolidated adjusted basis).

	2008		2007	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of the financial year	6,198,923	\$0.515	6,508,923	\$0.664
Granted during the financial year	—	—	—	—
Forfeited during the financial year (i)	(1,709,150)	\$0.310	(85,000)	\$0.310
Exercised during the financial year (ii)	—	—	(75,000)	\$0.310
Expired during the financial year (iii)	(3,313,273)	\$0.700	(150,000)	\$12.000
Balance at end of the financial year (iv)	1,176,500	\$0.290	6,198,923	\$0.515
Exercisable at end of the financial year (v)	1,176,500	\$0.290	6,198,923	\$0.515

(i) **Forfeited during the financial year**

Under the terms of the ESOP, employees leaving the AML Group have 30 days from the date of termination to exercise their options holding (if any), or they are forfeited.

(ii) **Exercised during the financial year**

No share options granted under the employee share option plan were exercised during the financial year:

Option Series	Exercised During Financial Year		Exercise Date	Share price at exercise date \$
	2008	2007	2007	2007
ESOP	Nil	15,000	6 Nov 2006	\$0.365
ESOP	Nil	50,000	27 Nov 2006	\$0.48
ESOP	Nil	10,000	29 Nov 2006	\$0.47

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 SHARE PAYMENT SCHEMES (cont...)

- (iii) **Expired during the financial year**
Resource Capital Funds held 3,313,273 options which expired on 29 November 2007 unexercised.
- (iv) **Balance at end of the financial year**
The share options outstanding at the end of the financial year had a weighted average exercise price of \$0.289, and a weighted average remaining contractual life of 1,611 days (2007: weighted average exercise price of \$0.515 and weighted average remaining contractual life of 1,388 days).
- (v) **Exercisable at end of the financial year**
The Pegasus Corporate Advisory options outstanding at the end of the previous financial year, totalling 400,000, did not vest until the first anniversary of the grant date, which was 7 October 2006. As at 30 June 2008, all outstanding options are exercisable.

NOTE 6 REMUNERATION OF AUDITORS

	CONSOLIDATED		PARENT ENTITY	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
	\$	\$	\$	\$
Auditor of the parent entity				
- Audit or review of the financial report	72,650	71,822	36,325	35,911
- Accounting services	—	5,000	—	5,000
	72,650	76,822	36,325	40,911

The auditor of Advanced Magnesium Limited is Deloitte Touche Tohmatsu.

NOTE 7 CURRENT TRADE AND OTHER RECEIVABLES

	CONSOLIDATED		PARENT ENTITY	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
	\$	\$	\$	\$
Trade receivables	6,931	30,820	—	—
Allowance for impairment	(6,931)	(26,100)	—	—
	—	4,720	—	—
Goods and services tax (GST) recoverable	13,161	16,734	—	1,592
Security deposits	17,884	17,567	50	50
Interest receivable	32,966	50,967	31,486	40,130
Other	3,569	21,772	—	—
	67,580	107,040	31,536	41,772
Total receivables	67,580	111,760	31,536	41,772

The average credit period on sales is 30 days. No interest is charged on trade receivables for the first 30 days of invoice. Thereafter, the entity may charge a market rate of interest. An allowance has been made for estimated irrecoverable trade receivable amounts arising from past sales. Of the trade receivables of \$6,931 the counter party in relation to an amount of \$5,113 is a major company trialing the Company's alloys and is arguing the supply of alloy is the Company's contribution to the trial. The residual debt has been outstanding for 7 months and recovery is unlikely.

NOTE 8 CURRENT INVENTORIES

	CONSOLIDATED		PARENT ENTITY	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
	\$	\$	\$	\$
Metal alloy at Cost	330,063	364,972	—	—
Provision for Inventory recovery	(125,982)	(92,954)	—	—
Metal alloy at Net Realisable Value	204,081	272,018	—	—

NOTE 9 OTHER CURRENT ASSETS

	CONSOLIDATED		PARENT ENTITY	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
	\$	\$	\$	\$
Prepayments	34,462	101,526	—	—

NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 OTHER NON-CURRENT FINANCIAL ASSETS

	CONSOLIDATED		PARENT ENTITY	
	30 June 2008 \$	30 June 2007 \$	30 June 2008 \$	30 June 2007 \$
Shares in controlled entities – unlisted, at cost	—	—	78,048,760	76,400,112
Write down to recoverable amount	—	—	(77,026,481)	(74,500,112)
	—	—	1,022,279	1,900,000

As set out in Note 2(c), the parent entity has recorded an impairment loss of \$2,526,369 in relation to investments in wholly owned subsidiaries. This reflects the reduction in the cash reserves and other readily realisable assets (inventory, deposits VAT rebate) of the subsidiaries as the group continues to pursue the commercialisation of its products and technologies. The recoverable amount primarily reflects the value of the subsidiaries' cash assets.

NOTE 11 PLANT & EQUIPMENT

	CONSOLIDATED	PARENT ENTITY
	Plant and equipment \$	Plant and equipment \$
Gross carrying amount		
Balance at 1 July 2006	812,097	236,005
Additions	7,684	—
Disposals	(156,012)	(28,997)
Net foreign currency exchange differences	(4,014)	—
Balance at 1 July 2007	659,755	207,008
Additions	20,429	—
Disposals	(585,574)	(199,176)
Net foreign currency exchange differences	(9,115)	—
Balance at 30 June 2008	85,495	7,832
Accumulated depreciation/ amortisation and impairment		
Balance at 1 July 2006	432,322	148,064
Disposals	(147,708)	(27,255)
Depreciation expense (ii)	108,374	24,119
Net foreign currency exchange differences	(1,848)	—
Balance at 1 July 2007	391,140	144,928
Disposals	(393,640)	(154,435)
Depreciation expense (i) (ii)	72,362	17,339
Net foreign currency exchange differences	(10,653)	—
Balance at 30 June 2008	59,209	7,832
Net book value		
As at 30 June 2007	268,615	62,080
As at 30 June 2008	26,286	—

- (i) During the period, management re-assessed the useful life of certain plant and equipment. See Note 1(t) for further detail.
- (ii) This is the aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 CURRENT TRADE AND OTHER PAYABLES

	CONSOLIDATED		PARENT ENTITY	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
	\$	\$	\$	\$
Trade payables and accruals	4,964	212,345	—	76,980
VAT/GST due	5,512	—	—	—
Accrued audit fees	42,000	—	—	—
Other	9,934	18,388	—	—
	62,410	230,733	—	76,980

The average credit period on purchases of goods is 30 days. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

NOTE 13 CURRENT PROVISIONS

	CONSOLIDATED		PARENT ENTITY	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
	\$	\$	\$	\$
Employee benefits - Annual Leave	71,602	209,353	—	124,618
Employee benefits - Long Service Leave	—	47,098	—	47,098
	71,602	256,451	—	171,716

NOTE 14 OTHER CURRENT LIABILITIES

	CONSOLIDATED		PARENT ENTITY	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
	\$	\$	\$	\$
Unamortised fitout incentive	—	15,800	—	—

NOTE 15 NON-CURRENT PROVISIONS

	CONSOLIDATED		PARENT ENTITY	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
	\$	\$	\$	\$
Employee benefits - Long Service Leave	—	61,464	—	61,464

NOTE 16 OTHER NON-CURRENT LIABILITIES

	CONSOLIDATED		PARENT ENTITY	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
	\$	\$	\$	\$
Unamortised fitout incentive	—	47,400	—	—

NOTES TO THE FINANCIAL STATEMENTS

NOTE 17 SHARE CAPITAL

	CONSOLIDATED		PARENT ENTITY	
	30 June 2008 \$	30 June 2007 \$	30 June 2008 \$	30 June 2007 \$
89,239,103 (2007: 85,581,292) Fully paid ordinary shares	18,334,947	17,845,854	18,334,947	17,845,854
RCF options expire 29 Nov 2007	—	227,896	—	227,896
Pegasus options expire 7 Oct 2008 (i)	64,050	64,050	64,050	64,050
ESOP options expire 12 Oct 2010 (i)	143,860	460,396	143,860	460,396
	18,542,857	18,598,196	18,542,857	18,598,196

(i) Details of these options are located at Note 5.

A reconciliation of the movement in fully paid ordinary shares is set out below:

NOTE	CONSOLIDATED / PARENT ENTITY			
	2008		2007	
	No.	\$	No.	\$
Fully paid ordinary shares				
Balance at beginning of financial year	85,581,292	17,845,853	85,506,292	892,648,210
Ordinary shares issued as compensation to Directors	3,107,811	435,094	—	—
Ordinary shares issued to employee i & iii	500,000	45,000	—	—
Equity settled share based payments ii & iii	50,000	9,000	—	—
Exercise of options under ESOP	—	—	75,000	37,140
S258F reduction 19	—	—	—	(874,839,496)
Balance at end of financial year	89,239,103	18,334,947	85,581,292	17,845,854

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

i Upon the resignation of Mr PK Nair on 7 February 2008, the Company and Mr Nair agreed an arrangement whereby he would forego part of his termination benefits in exchange for an allocation of shares. Accordingly, he received 500,000 shares (valued at the time at \$45,000) representing an issue price of \$0.09. On the day of issue the company's shares commenced trading at a price of \$0.09.

ii Fuji Shokai Company Limited (Fuji) is the Company's agent in Japan. The Company has the benefit of those services at USD1,000 per month. The Directors believe the rate at which the Company enjoys the agent's services represents a discount to the market rate. Rather than increase the fee to Fuji, an arrangement was negotiated with the principal to issue 50,000 ordinary shares as an equity-settled share based payment for services rendered. The shares were issued on 6 May 2008 at price of \$0.18. On the day of issue the company's shares commenced trading at an opening price of \$0.0320. Given

- the Company's long term association with the agent;
- the agent's commitment to the Company; and
- the risk inherent in exchanging shares for revenue,

the Directors believe the value proposition for the Company is fair.

iii Both share issues aided the preservation of cash.

Share options

All share options carry no rights to dividends and no voting rights until paid for conversion into ordinary shares. Further details of the share-based payment schemes are contained in Note 5 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 18 RESERVES

	CONSOLIDATED		PARENT ENTITY	
	30 June 2008 \$	30 June 2007 \$	30 June 2008 \$	30 June 2007 \$
Capital reserve	2,749,980	2,749,980	—	—
Foreign currency translation reserve				
Balance at beginning of financial year	(17,500)	30,320	—	—
Translation of foreign operations	(5,400)	(47,820)	—	—
Balance at end of financial year	(22,900)	(17,500)	—	—
Expired Options Reserve				
Balance at beginning of financial year	829,742	—	829,742	—
RCF options expiry	227,896	—	227,896	—
Nottacar options expiry		814,000	—	814,000
ESOP options expiry	316,535	15,742	316,535	15,742
Balance at end of financial year	1,374,173	829,742	1,374,173	829,742
Total reserves	4,101,253	3,562,222	1,374,173	829,742

The capital reserve is a historical reserve from 2002 that arose after calculation of the outside equity interest in the (as it then was) Australian Magnesium Investments Pty Ltd consolidated entity.

The foreign currency translation reserve is a result of translating overseas subsidiaries from their functional currency to the presentation currency of Australian dollars.

The expired options reserve captures the balance of unexercised options on their expiry date from the appropriate share capital account.

NOTE 19 ACCUMULATED LOSSES

	CONSOLIDATED		PARENT ENTITY	
	30 June 2008 \$	30 June 2007 \$	30 June 2008 \$	30 June 2007 \$
Balance at beginning of financial year	(15,453,386)	(884,392,719)	(13,500,897)	(882,012,064)
Loss attributable to members of the parent entity	(3,989,186)	(5,900,364)	(3,091,962)	(6,328,329)
Reduction due to losses not represented by assets under s258F of the Corporations Act 2001	—	874,839,496	—	874,839,496
Balance at end of financial year	(19,442,572)	(15,453,587)	(16,592,859)	(13,500,897)

Note (i) \$201 adjustment to 2007 closing balance

The balance of accumulated losses at 30 June 2007 included paid up ordinary share capital that had been lost (ie. shareholder equity not represented by available assets). In accordance with Section 258F of the Corporations Act 2001, the Company reduced its paid up ordinary Share Capital balance by \$874,839,496 (see Note 17) with an equal reduction of the Accumulated Losses balance, being the total of accumulated losses at 30 June 2007 resulting from the following discontinued operations:

- Stanwell Magnesium Project (terminated 13 June 2003, ratified at AGM on 24 November 2003)
- Icelandic Magnesium Company Limited (disposed 31 August 2004)
- QMAG Joint Venture operations (disposed 1 December 2004)

The Directors do not expect any further gains or losses from these discontinued operations in subsequent financial years.

There is no impact on shareholders from the capital reduction as no shares have been cancelled or rights varied. Similarly, creditors are not affected as there has been no change in available assets. There is also no impact on the availability of the Company's tax losses from this capital reduction.

With the strategy of the Group to pursue the Advanced Magnesium Technologies business from November 2004, the Directors believe that the capital reduction has enabled a clearer presentation of the results of the Group. The balance of Accumulated Losses at 30 June 2007 represents accounting losses relating solely to the Advanced Magnesium Technologies business.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 20 EARNINGS/(LOSS) PER SHARE

	CONSOLIDATED	
	2008 cents per share	2007 cents per Share
Basic earnings/(loss) per share:		
From continuing operations	(4.57)	(6.96)
From discontinued operations		0.06
Total basic loss per share	(4.57)	(6.90)
Diluted earnings/(loss) per share:		
From continuing operations	(4.57)	(6.96)
From discontinued operations		0.06
Total diluted loss per share	(4.57)	(6.90)

As EPS is a loss per share for 2008 and 2007, any potential ordinary shares would be anti-dilutive. As a result, loss per share is identical for basic and diluted EPS calculations.

Basic and diluted loss per share

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted loss per share are as follows:

	NOTE	CONSOLIDATED	
		2008 \$	2007 \$
Losses	(a)	(3,989,186)	(5,900,364)
Losses from continuing operations	(a)	(3,989,186)	(5,949,715)
Weighted average number of ordinary shares for the purposes of basic loss per share.		87,260,198	85,551,758

- (a) Losses used in the calculation of total basic and diluted losses per share and basic losses per share from continuing operations reconciles to net loss in the income statement as follows:

	CONSOLIDATED	
	30 June 2008 \$	30 June 2007 \$
Net loss	(3,989,186)	(5,900,364)
Losses used in the calculation of basic EPS	(3,989,186)	(5,900,364)
Adjustments to exclude profit for the period from discontinued operations	—	(49,351)
Losses used in the calculation of basic EPS from continuing operations	(3,989,186)	(5,949,715)

NOTE 21 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

- (i) Advanced Magnesium Technologies Pty Ltd, a wholly-owned subsidiary of AML, had entered into a contract with IMS Experts-Conseils, 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 (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. 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. In the year to 30 June 2008 (and to the date of this report) no correspondence has issued to or been received from EDC. Given the passage of time, the Directors are of the opinion action is unlikely.
- (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 Resource Capital Fund III L.P. (the acquirers of the QMAG operations) 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. With expiration of the contract on 1 December 2007, any contingent liability under the contract has been extinguished.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 22 LEASES

Operating Lease Arrangements

Per Month	
\$5,100 approx	Office Premises – Heidelberg, Germany (five year lease from March 2006 with an option to extend for another three years)
\$2,400 approx	Office Premises – Shanghai, China (one year license from 1 December 2007)
\$3,000.00	Office Premises – Sydney, Australia - month to month license to occupy cancellable with a month's notice
\$995.00	Internet – Sydney, Australia (one year lease from March 2008 for internet services).

NOTE	CONSOLIDATED		PARENT ENTITY	
	30 June	30 June	30 June	30 June
	2008	2007	2008	2007
	\$	\$	\$	\$
Non-cancellable operating lease payments in respect of premises				
Not longer than 1 year	48,204	204,795	—	124,922
Longer than 1 year and not longer than 5 years	135,751	205,230	—	10,444
Longer than 5 years	—	—	—	—
	183,955	410,025	—	135,366
In respect of non-cancellable operating leases the following liabilities have been recognised:				
Current: Fitout incentives	14	15,800	—	—
Non-current: Fitout incentives	16	47,400	—	—
	—	63,200	—	—

NOTE 23 SUBSIDIARIES

Name of entity	Country of Incorporation	Ownership interest 2008	Ownership interest 2007
		%	%
<u>Parent entity</u>			
Advanced Magnesium Limited (a)	Australia		
<u>Subsidiaries</u>			
Advanced Magnesium Technologies Pty Ltd (a)	Australia	100%	100%
AMT North America, Inc	USA	100%	100%
AMT Europe GmbH	Germany	100%	100%

(a) Entities included in the Australian tax consolidated group.

The following dormant entities within the Advanced Magnesium Limited Group were deregistered during the period 1 July 2007 to 31 December 2007:

- Australian Magnesium Investments Pty Ltd
- AM Technologies Pty Ltd
- AMC People Services Pty Ltd

NOTES TO THE FINANCIAL STATEMENTS

NOTE 24 SEGMENT INFORMATION

Geographical Segments

The consolidated entity comprises four legal and accounting entities – Advanced Magnesium Limited (the holding company) Advanced Magnesium Technologies Pty Ltd (the principal operating company) AMT Europe GmbH and AMT North America, Inc

In respect of the financial year to June 2008 segment information is presented in respect of three geographical areas

- Europe – reflecting the accounting position of AMT Europe GmbH adjusted to reflect the gross profit on sales in the books of Advanced Magnesium Technologies Pty Ltd that is attributable to the European operation;
- North America - reflecting the accounting position of AMT North America, Inc adjusted to reflect the gross profit on sales in the books of Advanced Magnesium Technologies Pty Ltd that is attributable to the North American operation;
- Asia – aggregating the accounting positions of Advanced Magnesium Limited and Advanced Magnesium Technologies Pty Ltd adjusted for the gross profit on sales attributable to the foreign jurisdictions.

The principal products and services of each of these divisions comprise the business segments as follows:

- Magnesium alloys including AM-lite, AM-HP2, AM-SC1 and AM-cast;
- Magnesium handling technologies including AM-cover and AM-converter; and
- Magnesium consulting activities.

Intersegment revenue

The activities of AMT Europe GmbH and AMT North America, Inc. are carried out in their respective regions as agents of Advanced Magnesium Technologies Pty Ltd. To 31 December 2007 these entities charged AMT an agency fee equivalent to 107.5% of costs incurred. The Directors have requested that this arrangement be reviewed before further fees are levied as it may give rise to an income tax liability in the foreign jurisdictions.

	Europe		North America		Asia		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$	\$	\$
Sales revenue	92,875	244,121	17,510	34,078	60,038	200,474	170,423	478,673
Cost of sales	(30,186)	(105,697)	(21,724)	(28,825)	(41,720)	(131,611)	(93,630)	(266,133)
Gross profit	62,689	138,424	(4,214)	5,253	18,318	68,863	76,793	212,540
Other income	50,958	5,474	2,628	—	358,575	547,506	412,161	552,980
Intersegment revenue	298,414	1,160,483	190,855	933,726	(489,269)	(2,094,209)	—	—
Recoverable amount write downs	—	—	(1,340)	—	(84,876)	(119,054)	(86,216)	(119,054)
Loss/Profit on sale of assets	—	—	104	—	88,299	(21,788)	88,403	(21,788)
Marketing	(297,924)	—	(196,905)	(140,564)	(1,263,338)	(710,505)	(1,758,167)	(851,069)
Research, development, licensing and patent costs	—	—	—	—	(531,813)	(1,341,709)	(531,813)	(1,341,709)
AMT operating costs	(167,176)	(975,033)	(78,081)	(742,891)	(1,309,156)	(1,149,835)	(1,554,413)	(2,867,759)
Depreciation & Amortisation	(4,908)	(7,368)	(4,953)	(2,662)	(62,501)	(98,344)	(72,362)	(108,374)
Corporate, administration and other expenses	(62,137)	(69,116)	(5,678)	—	(495,757)	(1,296,249)	(563,572)	(1,365,365)
Loss before income tax expense	(120,084)	252,864	(97,584)	52,862	(3,771,518)	(6,215,324)	(3,989,186)	(5,909,598)
Income tax expense	—	(40,117)	—	—	—	—	—	(40,117)
Loss from continuing operations	(120,084)	212,747	(97,584)	52,862	(3,771,518)	(6,215,324)	(3,989,186)	(5,949,715)
Profit from discontinued operations	—	—	—	—	—	49,351	—	49,351
Loss attributable to members of the parent entity	(120,084)	212,747	(97,584)	52,862	(3,771,518)	(6,165,973)	(3,989,186)	(5,900,364)

	Europe		North America		Asia		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$	\$	\$
Segment Assets								
Total assets	124,110	284,678	36,511	106,980	3,174,929	6,927,020	3,335,550	7,318,678
Segment Liabilities								
Total liabilities	20,891	57,445	—	16,350	113,121	538,053	134,012	611,848
Segment Disclosures								
Acquisition of segment fixed assets	—	3,822	—	—	20,429	33,992	20,429	37,814
Non-cash share based payments	—	—	—	—	480,094	554,078	480,094	554,078
Inventory provisioning	—	—	—	—	33,028	92,954	33,028	92,954
Doubtful debts	—	26,100	—	—	6,931	—	6,931	26,100

Segment Disclosures by business segment

	Magnesium alloys		Metal Handling		Consulting		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue from external customers	92,889	280,213	77,534	182,749	—	15,711	170,423	478,673

NOTES TO THE FINANCIAL STATEMENTS

NOTE 25 DISCONTINUED OPERATIONS

Stanwell Magnesium Plant

The Magnesium Primary Production business was being pursued through the Stanwell Magnesium Project (SMP) and involved the development and construction of a 97,000 tonne per annum magnesium metal and alloy plant at Stanwell in Central Queensland. The Annual Report for the year ended 6 July 2004 outlined in Note 5 the shareholders' decision to terminate the Stanwell Magnesium Project.

Current financial year transactions in relation to the termination of the SMP are as follows:

	CONSOLIDATED	
	30 June	30 June
	2008	2007
	\$	\$
Financial performance information		
Gain on sale of assets	—	49,351
Expenses on writedown of assets	—	—
Credit on grant of Engineering Technology licence related to settlement of licensing payable	—	—
Profit before income tax	—	49,351
Income tax expense	—	—
Profit after income tax	—	49,351
Carrying amount of assets and liabilities		
Total Assets	—	—
Total Liabilities	—	—
Net Assets	—	—
Cashflow information		
Net cash inflow from investing activities	—	49,351
Total cash inflow	—	49,351

NB: cash balances subsumed within group and not shown separately as Stanwell Magnesium Project cash.

On 29 September 2005, the Advanced Magnesium Limited Group agreed to grant Alcan International Limited an exclusive licence to use and to sub-licence the Engineering Technology which AML developed for the Stanwell Magnesium Project. This transaction extinguished the last remaining liability related to the SMP. The Group retains access to the technology it has developed over many years.

The Directors do not believe there will be any further material transactions from this discontinued operations in subsequent financial periods.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 26 RELATED PARTY DISCLOSURES

(a) Equity interests in related parties

Equity interest in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in Note 23 to the financial statements.

(b) Key Management Personnel Remuneration

Details of key management personnel remuneration are disclosed in Note 4 to the financial statements.

(c) Key Management Personnel Equity Holdings

Fully paid ordinary shares of Advanced Magnesium Limited – 2008

	Balance @ 1/7/07	Granted as remuneration	Received on exercise of options	Net other change	Balance @ 30/6/08	Balance held nominally
	No.	No.	No.	No.	No.	No.
Mr S Fitton	—	1,385,589	—	200,000 ⁽¹⁾	1,585,589	—
Mr G Ralph	—	583,333	—	—	583,333	—
Mr N Andrews	516,667	583,333	—	—	1,100,000	—
Mr M Brown	516,666	555,556	—	—	1,072,222	—
Prof. G Dunlop	320	—	—	—	320	—
Mr G Fotheringham	256	—	—	(256) ⁽²⁾	—	—
Mr I Hartnell	15,900	—	—	(15,900) ⁽²⁾	—	—
Mr PK Nair	1,100	500,000	—	(501,100) ⁽²⁾	—	—
	1,050,909	3,607,811	—	(317,256)	4,341,464	—

(1) Acquired on market during year

(2) Resigned prior to 30 June 2008

Fully paid ordinary shares of Advanced Magnesium Limited – 2007

	Balance @ 1/7/06	Granted as remuneration	Received on exercise of options	Net other change	Balance @ 30/6/07	Balance held nominally
	No.	No.	No.	No.	No.	No.
Mr S Fitton (appointed 2 May 07)	—	—	—	—	—	—
Mr G Ralph (appointed 2 May 07)	—	—	—	—	—	—
Mr N Andrews * (appointed 10 May 07)	—	—	—	516,667	516,667	—
Mr M Brown * (appointed 10 May 07)	—	—	—	516,666	516,666	—
Dr CD Rawlings ** (resigned 2 May 07)	5,000	—	—	(5,000)	—	—
Mr ID Hartnell	15,900	—	—	—	15,900	—
Mr DM Byrne ** (resigned 2 May 07)	100,000	—	—	(100,000)	—	—
Mr KG Williams ** (resigned 2 May 07)	15,000	—	—	(15,000)	—	—
Prof. G Dunlop	320	—	—	—	320	—
Mr G Fotheringham	256	—	—	—	256	—
Dr C Kettler	—	—	—	—	—	—
Mr PK Nair	1,100	—	—	—	1,100	—
Mr T Sweder	—	—	—	—	—	—
	137,576	—	—	913,333	1,050,909	—

* "Net other change" is balance at date of appointment to Board of Directors

** "Net other change" is balance at date of resignation

NOTES TO THE FINANCIAL STATEMENTS

NOTE 26 RELATED PARTY DISCLOSURES (cont...)

Share options of Advanced Magnesium Limited - 2008

	Bal vested @ 1/07/07	Granted as remun- eration	Exer- cised	Net other change	Bal @ 30/06/08	Bal vested @ 30/06/08	Vested but not exerci- sable	Vested and exerci- sable	Options vested during year
	No.	No.	No.	No.	No.	No.	No.	No.	No.
Mr ID Hartnell	656,000	—	—	(656,000)	—	—	—	—	—
Prof. G Dunlop	394,625	—	—	—	394,625	394,625	—	394,625	—
Dr T Abbott	100,000	—	—	—	100,000	100,000	—	100,000	—
Dr C Kettler	281,875	—	—	—	281,875	281,875	—	281,875	—
Mr G Fotheringham	164,375	—	—	(164,375)	—	—	—	—	—
Mr PK Nair	373,775	—	—	(373,775)	—	—	—	—	—
Mr T Sweder	150,000	—	—	(150,000)	—	—	—	—	—
	2,120,650	—	—	(1,344,150)	776,500	776,500	—	776,500	—

In addition to the above, Mr N Andrews and Mr M Brown are the sole co-Directors of Pegasus Corporate Advisory Pty Ltd ("Pegasus"), which holds 400,000 options over ordinary shares in Advanced Magnesium Limited. These were granted to Pegasus prior to Mr N Andrews and Mr M Brown becoming Directors of Advanced Magnesium Limited on 10 May 2007. These options are vested and were exercisable at any time during this period. See Note 5.2 for further details.

Share options of Advanced Magnesium Limited - 2007

	Bal @ 1/7/06	Granted as remun- eration	Exer- cised	Net other change	Bal @ 30/06/07	Bal vested @ 30/06/07	Vested but not exerci- sable	Vested and exerci- sable	Options vested during year
	No.	No.	No.	No.	No.	No.	No.	No.	No.
Mr ID Hartnell	656,000	—	—	—	656,000	656,000	—	656,000	—
Prof. G Dunlop	394,625	—	—	—	394,625	394,625	—	394,625	—
Mr G Fotheringham	164,375	—	—	—	164,375	164,375	—	164,375	—
Dr C Kettler	281,875	—	—	—	281,875	281,875	—	281,875	—
Mr PK Nair	373,775	—	—	—	373,775	373,775	—	373,775	—
Mr T Sweder	150,000	—	—	—	150,000	150,000	—	150,000	—
	2,020,650	—	—	—	2,020,650	2,020,650	—	2,020,650	—

During the current financial year, no options were exercised by key management personnel (2007: nil).

Further details of the Employee Share Option Plan and of share options granted during the financial year is contained in Notes 4 and 5 to the financial statements.

(d) Wholly owned group

The parent entity in the wholly-owned group is Advanced Magnesium Limited. Members of the wholly-owned group are set out in Note 23.

Transactions during the financial year between the parent entity and other entities in the wholly-owned group included:

- Investment in controlled entities;
- Repayment of interest free funds from controlled entities to the parent entity;
- Incurring expenditure on behalf of other entities for office rental and related costs, travel costs, seconded employees and other sundry costs. (The entity is fully reimbursed for these costs on an actual cost basis); and
- Overseas entities acting as agent for the Australian entity and charging an agency fee of 107.5% for its services.

Transactions involving the parent entity

During the financial year, Advanced Magnesium Limited provided accounting and administration services to its subsidiaries for no consideration (2007: nil).

(e) Pegasus Corporate Advisory Pty Ltd (Pegasus)

Mr N Andrews and Mr M Brown (Directors of Advanced Magnesium Limited) are the sole co-Directors of Pegasus. Advanced Magnesium Limited occupies office space in Sydney under a month to month license granted by Pegasus.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 27 NOTES TO THE CASH FLOW STATEMENT

	CONSOLIDATED		PARENT ENTITY	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
	\$	\$	\$	\$
(a) Reconciliation of cash and cash equivalents				
For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:				
Cash and cash equivalents	2,996,127	6,564,759	2,270,356	4,233,348
(b) Non-cash financing and investing activities				
There were no non-cash financing or investing activities other than those disclosed elsewhere in this financial report.				
(c) Cash balances not available for use				
The AML Group has \$150,000 (2007: \$250,000) as cash collateralised guarantees for its payroll obligations.				
(d) Reconciliation of loss for the period to net cashflows from operating activities				
Loss after income tax	(3,989,186)	(5,900,364)	(3,091,962)	(6,328,329)
Depreciation & amortisation expense	72,363	108,374	17,339	24,119
Loss/(gain) on disposal of plant & equipment	(88,403)	(37,186)		1,740
Equity settled share-based payments to employees	489,094	—	489,094	—
Increase/(decrease) in FCTR on translation of overseas subsidiaries	(5,400)	(47,820)	—	—
Project asset sales receivable in other current assets	—	(141,248)	—	—
Impairment allowance against investment	—	—	2,526,369	5,624,482
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:	(10,996)	—	—	—
(Increase)/decrease in current receivables	44,180	768,473	10,236	146,147
(Increase)/decrease in inventories	67,937	19,987	—	—
(Increase)/decrease in other current assets	67,064	18,036	—	—
Increase/(decrease) in current payables	(168,323)	(528,714)	(76,980)	(19,232)
Increase/(decrease) in non-current payables	—	—	—	—
Increase/(decrease) in current provisions	(184,849)	119,486	(171,716)	129,715
Increase/(decrease) in non-current provisions	(61,464)	(112,074)	(61,464)	(109,065)
Increase/(decrease) in other current liabilities	(15,800)	—	—	—
Increase/(decrease) in other non-current liabilities	(47,400)	(15,800)	—	—
Net cash from operating activities	(3,831,183)	(5,748,850)	(359,084)	(530,423)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 28 FINANCIAL INSTRUMENTS

(a) Capital Risk Management

The Consolidated entity and the company ("Group") manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the potential future return to stakeholders through the development and marketing of the Group's technologies.

The Group's overall strategy remains unchanged from 2007.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses as disclosed in notes 17, 18, and 19 respectively.

The Group operates globally, primarily through subsidiary companies established in the markets in which the Group trades. None of the Group's entities are subject to externally imposed capital requirements.

(b) Financial risk management objectives

The Group's senior management team co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group in line with the Group's policies. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

(c) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

(d) Categories and maturity profile of financial instruments and interest rate risk

The following table details the consolidated entity's exposure to interest rate risk as at 30 June 2008.

	Weighted average effective interest rate	Variable interest rate	Fixed maturity dates Less than 1 year	Non interest bearing	Total
2008	%	\$		\$	\$
Financial assets:					
Cash and cash equivalents	6.20%	746,127	2,250,000	—	2,996,127
Trade receivables		—	—	—	—
Other receivables		—	—	67,580	67,580
	6.06%	746,127	2,250,000	67,580	3,063,707
Financial liabilities:					
Trade payables	Nil	—	—	4,964	4,964
Other payables	Nil	—	—	57,446	57,446
Employee benefits	Nil	—	—	71,602	71,602
	Nil	—	—	134,012	134,012

The following table details the consolidated entity's exposure to interest risk as at 30 June 2007.

	Weighted average effective interest rate	Variable interest rate	Fixed maturity dates Less than 1 year	Non interest bearing	Total
2007	%	\$		\$	\$
Financial assets:					
Cash and cash equivalents	5.786%	2,704,901	3,858,352	1,506	6,564,759
Trade receivables	nil	—	—	4,720	4,720
Other receivables	nil	—	—	107,040	107,040
	5.689%	2,704,901	3,858,352	113,266	6,676,519
Financial liabilities:					
Trade payables	nil	—	—	215,993	215,993
Other payables	nil	—	—	6,604	6,604
Employee benefits	nil	—	—	314,267	314,267
	nil	—	—	536,864	536,864

NOTES TO THE FINANCIAL STATEMENTS

(e) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

At a Group level, market risk exposures are measured using sensitivity analysis.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk from previous period.

(f) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Foreign currency is required to fund operations in China, Europe and USA. Holdings of USD and EUR are maintained by the subsidiaries in the respective jurisdictions to meet one month's operating needs. Cash flow budgeting aids the management of capital to optimise interest earnings and at the same time forecast the need for cash in foreign currencies.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows.

	Liabilities		Assets	
	2008	2007	2008	2007
	\$	\$	\$	\$
Cash and cash equivalents	—	—	266,941	970,974
Trade and other receivables	—	—	1,818	—
Trade and other payables	433	40,556	—	—

Foreign currency sensitivity analysis

The Group is mainly exposed to United States Dollars and Euros.

The following table details the Group's sensitivity to a 10% increase and 10% decrease in the Australian Dollar against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates over the medium term. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in profit or loss and other equity where the Australian Dollar strengthens against the respective currency. For a weakening of the Australian Dollar against the respective currency there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	USD impact			
	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
Effect on Loss of a 10% increase in USD rate	30,309	70,911	21,942	23,583
Effect on Loss of a 10% decrease in USD rate	(30,309)	(70,911)	(21,942)	(23,583)
	EURO impact			
	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
Effect on Loss of a 10% increase in EUR rate	15,105	53,581	11,148	3,976
Effect on Loss of a 10% decrease in EUR rate	(15,105)	(53,581)	(11,148)	(3,976)

Positive number represent a reduction in the consolidated operating loss

- (i) Net consolidated entity exposure to USD as at 30 June 2008 was USD291,122 compared with USD601,891 as at 30 June 2007
- (ii) Net consolidated entity exposure to EUR as at 30 June 2008 was EUR91,834 compared with EUR337,559 as at 30 June 2007

The Group's sensitivity to foreign currency has decreased during the current period due to reduced holdings of cash and other assets in Europe and the United States.

NOTES TO THE FINANCIAL STATEMENTS

(g) Capital Management and Interest rate risk management

The consolidated entity has nil borrowings and is therefore not exposed to interest rate risk on borrowings. Interest rate risk may arise in the proper management of surplus funds. Maintenance of sound forward budgets will assist the appropriate nomination of the duration of invested funds.

(h) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of as far as possible dealing with creditworthy counterparties – an ideal not always possible in a product development environment. The use of collateral or other contributions can act as a means of mitigating the risk of financial loss from defaults. Credit exposure is controlled by limits that are continually reviewed.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

(i) Liquidity risk management

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

(j) Fair value of financial instruments

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximates their fair values.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 29 EXECUTIVE CHAIRMAN/CFO STATEMENT RE RISK MANAGEMENT

AML has implemented a business wide Risk Management framework. While AML is only a small company at this time, it operates in several and varying jurisdictions and its risk management policies are designed to ensure that the Executive Chairman and CFO and through them, the Audit Committee and Board have effective control over substantive risks.

Financial Risk has a number of elements which are managed jointly by the Executive Chairman and CFO.

Firstly, we have a process of ensuring that all financial information is reliable and that it reflects the true state of the company's operating performance and financial condition.

Secondly, we monitor all financial and operating systems. Critical to AML at this stage of its development is capital allocation and daily cash flow reports. All known cash commitments are advised to the Executive Chairman. Further, the CFO monitors daily our internal control over financial reporting.

Thirdly, the Board and Executive Chairman continually emphasise the need for total integrity in everything that we do. This includes our own employees as well as only doing business with those companies and partners that we believe to be of the highest integrity.

Operational Risk requires us to understand the markets in which we operate and the processes and inputs involved in all our operating relationships.

Reputational Risk and the effective governance of our good name and reputation for straight dealing are vital when largely operating in overseas markets. There is a zero tolerance of any behaviour, other than that of the highest integrity, by our employees and those that we do business with. The Executive Chairman oversees and approves all business relationships entered into and the policy is to walk away from a business opportunity than risk our reputation for honesty and transparency in everything that we do.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 30 SUBSEQUENT EVENTS

On 11 July 2008, Mr G Dunlop resigned. On that date (ie in the 2009 financial year) his options (394,625) lapsed.

NOTE 31 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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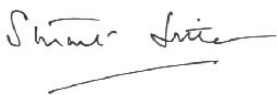
DIRECTORS' DECLARATION

The Directors declare that the financial statements and notes thereto, set out on pages 16 to 46:

- (a) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (b) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company and consolidated entity; and
- (c) the Directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



MR STUART FITTON
EXECUTIVE CHAIRMAN



MR NICHOLAS ANDREWS
NON-EXECUTIVE DIRECTOR

30 September 2008



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Independent Auditor's Report to the members of Advanced Magnesium Limited

Report on the Financial Report

We have audited the accompanying financial report of Advanced Magnesium Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, cash flow statement and statement of recognised income and expense for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 16 to 47.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Deloitte.

Auditor's Opinion

In our opinion:

- (a) 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 2008 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1, "Going Concern" in the financial report which indicates the need to achieve commercial sales and/or raise capital in the next 12 months in order to continue operations. These factors, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the company's and consolidated entity's ability to continue as going concerns and, therefore, whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 9 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Advanced Magnesium Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



R D Wanstall

Partner

Chartered Accountants

Brisbane, 30 September 2008

SHAREHOLDER INFORMATION ORDINARY SHARES FULLY PAID

Class: Ordinary share fully paid

ASX Code: ANM

Voting Rights: Voting rights of members are governed by the Company's constitution. In summary, every member present in person or by proxy, attorney or representative has one vote on a show of hands and one vote for each share on a poll.

Twenty Largest Holders of Ordinary Shares as at 25 September 2008

		No. of Shares	Percentage
1	CITICORP NOMINEES PTY LIMITED	19,368,718	21.7
2	OPTIMIST INTERNATIONAL INVESTMENTS LIMITED <OPTIMIST A/C>	4,166,667	4.67
3	ANZ NOMINEES LIMITED <CASH INCOME A/C>	2,222,195	2.49
4	FLUOR AUSTRALIA PTY LTD	1,947,756	2.18
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,843,166	2.06
6	JOHN STUART HAMER FITTON	1,385,589	1.55
7	MR IANAKI SEMERDZIEV	1,385,000	1.55
8	MR HOWARD LEONARD PATRICK & MS CAROL FRANCIS PATRICK <HL & CF PATRICK S/FUND A/C>	1,200,000	1.34
9	MR NICHOLAS WILLIAM ANDREWS	1,100,000	1.23
10	RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <MLCI A/C>	1,033,485	1.16
11	MR NICK DYKI & MRS LORRAINE ELENOR DYKI	1,003,017	1.12
12	ASIA UNION INVESTMENTS PTY LIMITED	1,000,000	1.12
13	MRS DAWN PATRICIA DAVIS	1,000,000	1.12
14	NEWLAKE SERVICES PTY LIMITED <PROVIDENT FUND ACCOUNT>	800,000	0.9
15	PARKER ASSET MANAGEMENT LIMITED	750,000	0.84
16	MRS NAOMI JANE BELL	660,000	0.74
17	MR DAVID ALOYSIUS DRABSCH	650,000	0.73
18	GREGORY CHARLES RALPH	583,333	0.65
19	MR PETER FABIAN HELLINGS & MRS JACQUELINE KIM GUN HELLINGS <BOX SUPER FUND A/C>	580,000	0.65
20	MR THOMAS CALDWELL & MRS SHIRLEY CALDWELL	550,500	0.62
	TOTAL	43,229,426	48.42

The number of security investors holding less than a marketable parcel of 10,417 securities (\$0.048 on 25/09/2008) is 16,902 and they hold 13,318,784 securities.

Distribution of Shareholdings as at 25 September 2008

Number Held	Holders	No. of Securities	Percentage
1-1000	14,102	4,768,061	5.34
1001-2000	1,411	2,104,000	2.36
2001-5000	995	3,348,478	3.75
5001-10000	380	2,955,649	3.31
10001-50000	504	12,103,335	13.56
50001-100000	91	6,999,520	7.84
100001-500000	66	12,763,948	14.3
500001-1000000	11	7,590,519	8.5
1000001 and over	11	36,655,593	41.05
TOTAL	17,571	89,289,103	100

Issued Capital and Securities	On Issue
Ordinary Shares fully paid	89,289,103

Substantial shareholders	Number of Ordinary Shares	Voting Power
Nil		

Unlisted Options	Number	Grant Date	Expiry Date	Exercise Price \$
Unlisted Employee Options	776,500	13 Oct 2005	13 Oct 2010	\$0.31
Pegasus Corporate Finance	400,000	7 Oct 2005	7 Oct 2008	\$0.25

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**Advanced
Magnesium
Limited**

CORPORATE OFFICE

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