



Advanced
Magnesium
Limited

ANNUAL REPORT

2009

advanced materials solutions

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EXECUTIVE CHAIRMAN'S MESSAGE



The 2009 financial year was unprecedented in your company's history. From a macro perspective, there was the global financial system melt-down which is still having major repercussions for industry and commerce. In micro terms, it was a year in which your company determined to take greater control of its destiny by entering into an agreement late in the year to invest in a magnesium facility in China. This transaction will be put to a shareholder vote at the Annual General Meeting. The Explanatory Statement in respect of the proposed investment which is included in the Notice of AGM and an Independent Expert's Report have been prepared to enable shareholders to make an informed decision. Directors will recommend that shareholders vote in favour of the investment.

It was apparent at the time of AML's 2008 Annual General Meeting that the global financial crisis was going to have a profound impact on the manufacturing sector. Access to capital dried up almost overnight and global demand for goods and services fell sharply.

Your company moved quickly to adapt to these changed business circumstances. Although possessing limited capital, AML did have the advantage of having no borrowings. For AML, it was a case of focusing internally by making further cost savings to the operating expense base, pulling back on R&D and alloy trials and reducing marketing spend.

There is no doubt that in keeping costs down, your company sacrificed its marketing efforts. The vacant Country Head position in Germany has not been filled, not only to save money but also in recognition of the troubled state of the European die casting industry. In addition, in the U.S., marketing conditions have been so poor that all marketing other than for AM-cover was halted. These measures have enabled your company to both survive the downturn and to position itself for when the global economy recovers.

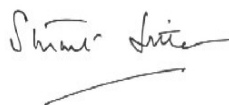
Magnesium has many uses though in terms of "end user" industries, the 3C's (computers, cameras, cell phones) and auto industries were particularly badly hit. In these industries in particular, the focus turned to survival which meant in most cases a blanket ban on any capital expenditures – affecting sells of AM-converter and AM-cover — and in some cases deferral or cancellation of trials of new materials — AM-lite, AM-Ex1, and AM-HP2plus.

Somewhat perversely, the global economic recession allowed the board and management to focus more attention on the shortcomings of your company's business model. Historically, your company has always lacked any real control over both its supply chain and the quality of the product and support services provided to customers. The late Peter Drucker said "the purpose of a business is to create and serve a customer." Your company had major issues in both the 'creating' and the 'serving'. In our view, potential customers have held back from buying AML's alloys and melt technologies because even though AML possessed the intellectual property, it didn't own the production process. Further, serving and retaining customers requires AML to maintain close attention to product quality, speed of service, support and problem-solving. In summary, the old business model was seriously flawed, limiting your company's ability to differentiate, innovate, control costs, and continually give customers' better value.

China is the world's biggest producer of both primary magnesium and magnesium alloys. Also it has become the major supplier to the world of downstream magnesium products a position which AML directors believe is going to further strengthen over the next decade. These factors combined with a low cost, 'green field' operation lead your company to enter into a 'company transforming' joint-venture to build and operate the Henan Keweier alloy materials Co., Ltd (KWE) facility in which AML will own a 53% shareholding. The details of the agreement with the present 100% owners of KWE and the associated capital raisings are explained fully in the Explanatory Memorandum. It is the goal of KWE to be No.1 in its market. This will take some time though the ideal location in Henan province, the availability of skilled labor and the support of both local and provincial governments should ensure that the company makes significant market inroads over the next 12 months. A major area of differentiation for KWE will be the strong research and development support that AML can provide through CAST's input. Further, KWE will be able to differentiate itself from its competitors on a number of fronts, in particular, through its agreement to exclusively produce AML's suite of proprietary alloys in China.

The 2010 financial year will hopefully see the world recovering from the deep recession that has affected global economies since late calendar 2008. There are signs that the Chinese economy is probably further advanced in recovery than the rest of the world and this factor will hopefully allow KWE to accelerate its capacity growth. Your directors believe that while the investment in KWE is occurring in uncertain times, its future is bright. It will be the source of supply for all of AML's alloys sales to customers not only in China, but also in Europe, U.S.A., and Japan.

Thank you for your continued support of AML. Your directors and AML employees are excited about the prospects for 2010 and beyond.



STUART FITTON
EXECUTIVE CHAIRMAN

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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.
- The Board has delegated responsibilities for day to day operation and administration of the Company to the Executive Chairman and key management personnel.
- Consideration of reports from the Executive Chairman regarding management of material business risks.

The Board has received assurance from the Executive Chairman and Chief Financial Officer that the declaration provided in accordance with s295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Committees of the board

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

- Finance, Audit and Compliance Committee (FAC) chaired by Mr Brown with Messrs Fitton and Andrews as members; and
- Remuneration and Appointments Committee (REM) chaired by Mr Andrews with Mr Brown as a member.

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. Following the resignation of Mr Greg Ralph on 25 August 2008, the Board comprised the Executive Chairman, and two Non-Executive Directors.

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....."

CORPORATE GOVERNANCE STATEMENT

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. 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 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 was first appointed in 2008. It is the policy of our auditor to rotate audit engagement partners on listed companies at least every five years.

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 2009. 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, re-appointed as a Director 18 November 2008)
Member of Finance, Audit & Compliance Committee

Mr Fitton (62) 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
B. Ec., MSDIA, MAICD.

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

Mr Andrews (52) 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)
Chairman of Finance, Audit & Compliance Committee
Member of Remuneration & Appointments Committee

Mr Brown (41) 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 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
- Mr Gregory Ralph – appointed 2 May 2007 (resigned 25 August 2008)
- Mr Nick Andrews
- Mr Michael Brown

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

During the financial year 2007-08 Mr Fitton resigned from this non executive directorship.

Company Secretary

MR JD Talbot
B Bus (Acctg), CPA

Mr Talbot (63) 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	
	Attended	Held	FAC [*]	REM [*]
S Fitton	8	8	3	Not applicable
G Ralph ⁽¹⁾	–	8	–	–
N Andrews	8	8	3	1
M Brown	8	8	3	1

¹ Resigned 25 August 2008

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

Directors' shareholdings

The following table sets out the relevant interest of each serving director 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	Number of shares
Mr S Fitton	Ordinary	4,694,439
Mr N Andrews	Ordinary	1,500,000
Mr M Brown	Ordinary	1,472,222

DIRECTORS' REPORT

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
- **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 (resigned 31 December 2008)
- **Ms B Qin** – General Manager – China (commenced 1 August 2008)
- **Mr JD Talbot** – Chief Financial Officer

(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 2008-09, 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.

Within the constraint of the aggregate \$600,000 fees approved by Shareholders for Non-Executive Directors (NEDs), the Board has set compensation at \$40,000 per annum for each Non Executive Director. Chairmanship (by a NED) of the Finance and Audit Committee and the Remuneration Committee attracts additional compensation of \$12,500 per annum and membership (by a NED) of each of these committees \$5,000 per annum. Superannuation on each NED's fees is also paid.

The NEDs of the Company agreed to forego payment of cash fees associated with Chairmanships and memberships of the Finance and Audit Committee and the Remuneration Committee in respect of the period 1 July 2008 to 31 December 2008.

At the 2008 AGM on 18 November 2008 shareholders approved a resolution proposing that, as part compensation for their remuneration, Messrs Andrews and Brown each be issued with ordinary shares in the Company equal in value to \$20,000 at a deemed issue price of \$0.05 (400,000 ordinary shares each).

For the period of his initial contract to 8 July 2008, the Executive Chairman (Mr Fitton) agreed to a cash compensation package of \$130,800 per annum. Upon renewal of the contract the Board agreed the following remuneration regime.

- In respect of the period 9 July 2008 to 31 December 2008 cash compensation would be \$200,000 per annum plus 9% superannuation thereon.
- In respect of the period 1 January 2009 to 30 June 2009 his cash compensation would increase to \$250,000 per annum plus 9% superannuation calculated by reference to \$200,000.

At the 2008 AGM on 18 November 2008 shareholders approved a resolution proposing that, as part compensation

for his remuneration in respect of the period 9 July 2008 to 30 June 2009, Mr Fitton be issued with ordinary shares in the Company equal in value to \$125,000 at a deemed issue price of \$0.05 (2,500,000 ordinary shares).

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 for a bonus scheme and the ability to salary sacrifice benefits and is open ended. Personnel are entitled to annual, long service and sick leave as prescribed by local 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's 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 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 no options were issued.

DIRECTORS' REPORT

- 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 2009 although that loss and the cash "burn" rate were further reduced compared with 2008. This reduced cash "burn" rate has been critical in buying time for the Company to develop the strategic opportunity that has now emerged with Henan Keweier Alloy Materials Co., Ltd (KWE) announced to the market on 16 June 2009.

There were no performance shares or options issued in 2009. The only shares awarded were to

- the Company's two 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 2009:

	Short-term employee benefits				Post-employment Benefits		Shares	Date Shares Issued	Total
	Salary & fees	Termination Benefits	Bonus	Non-monetary	Super-Annuation	Other			
	\$	\$	\$	\$	\$	\$			
Mr S Fitton	221,151	-	-	-	18,029	-	125,000	28-Nov-08	364,179
Mr N Andrews	40,000	-	-	-	5,964	-	20,000	28-Nov-08	65,964
Mr M Brown	40,000	-	-	-	5,850	-	20,000	28-Nov-08	65,850
Dr T Abbott	148,514	-	-	-	31,486	-	-	-	180,000
Mr J Talbot	129,510	-	-	-	-	-	-	-	129,510
Ms B Qin ⁽¹⁾	104,250	-	-	-	-	-	-	-	104,250
Mr G Ralph ⁽²⁾	6,137	-	-	-	2,915	-	-	-	9,052
Prof. G Dunlop ⁽³⁾	29,015	140,389	-	-	3,456	-	-	-	172,859
Dr C Kettler ⁽⁴⁾	112,620	-	-	-	19,593	-	-	-	132,213
Total	831,196	140,389	-	-	87,292	-	165,000	-	1,223,877

(1) Ms Qin (Head of AML's China office) joined on 1 August 2008.

(2) Mr Ralph resigned from the Board on 25 August 2008

(3) Mr Dunlop resigned on 11 July 2008

(4) Mr Kettler resigned on 31 December 2008

Half of the shares issued to Mr Fitton were held in voluntary escrow until 31 December 2008 and the balance until 30 June 2009. Shares issued to Messrs Brown and Andrews were held in voluntary escrow until 31 December 2008.

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

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

Besides developing a strategy to take greater control of the company's destiny through the KWE deal (refer heading third last paragraph of heading (c) of the Remuneration Report) focus was on further cutting the cash burn while maintaining a reasonable level of trialling and testing of AML's proprietary alloys. Rewards will be directed to those personnel who can directly or indirectly further the Company's objectives of cost efficiency and market and strategic developments.

The focus remains on redirecting resources to the marketing and strategic tasks set by the Company. This redirection partially reflects in the remuneration for key management personnel in the 2009 year. The table below shows the historical relationship between remuneration for key management personnel and the company's performance.

Key Management Personnel					
	2005	2006	2007	2008	2009
	\$	\$	\$	\$	\$
Cash based remuneration	1,611,323	1,573,586	1,561,022	1,474,244 ⁽¹⁾	1,058,877 ⁽²⁾
Non-cash remuneration	5,724	373,820	-	480,094	165,000
Total remuneration	1,617,047	1,947,406	1,561,022	1,954,338	1,223,877
Consolidated Loss Attributable to Members of the Parent Entity					
	2005	2006	2007	2008	2009
	\$	\$	\$	\$	\$
Consolidated profit/(loss) from continuing operations	(7,425,448)	(4,842,299)	(\$5,949,715)	(3,989,186)	(2,812,797)
Share price at 1 July prior calendar year	\$0.03	\$0.01	\$0.22	\$0.22	\$0.036
Share price at 30 June current calendar year	\$0.01	\$0.22	\$0.22	\$0.036	\$0.065
Return of capital	Nil	Nil	Nil	Nil	Nil
Dividend per share for relevant year	Nil	Nil	Nil	Nil	Nil

Notes 1 Includes \$409,735 termination benefits

2 Includes \$140,389 termination benefits

(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 G Dunlop (394,625) and Mr C Kettler (281,875) 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	30 June
	2009	2008
	\$	\$
Sales revenue	174,176	170,423
Cost of sales	(29,342)	(93,630)
Gross profit	144,834	76,793
Other income	44,236	412,161
Expenses	(3,036,299)	(4,478,140)
Loss before income tax expense	(2,847,229)	(3,989,186)
Income tax expense	34,432	-
Loss from continuing operations	(2,812,797)	(3,989,186)
Profit from discontinued operations	-	-
Loss attributable to members of the parent entity	(2,812,797)	(3,989,186)

Principal sales revenue for the financial year ended 30 June 2009 comprised \$31,567 in respect of AM-converter royalties, \$49,395 AM-lite revenues from trials and testing, and \$48,844 from sales of Am-cover.

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
	2009	2008
	\$	\$
Assets		
Cash	1,029,471	2,996,127
Receivables	61,637	67,580
Inventories	182,527	204,081
Leasehold improvements	4,237	7,015
Property, plant & equipment	51,872	26,286
Prepayments and other	-	34,462
Total	1,329,744	3,335,551
Liabilities		
Payables and Other Liabilities	104,468	62,410
Provisions	105,986	71,602
Other	-	-
Total	210,454	134,012
Net Assets	1,119,290	3,201,539

The financial position of the AML Group is largely reflected in the cash balance of \$1.029m. 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.

Review of Cashflow

	CONSOLIDATED	
	30 June	30 June
	2009	2008
	\$	\$
Opening Cash Balance	2,996,127	6,564,759
Inflows		
Receipts from customers	162,537	196,129
Sale of plant and equipment	1,000	278,213
Shares issued under private placement	535,434	-
Interest received	117,695	250,253
Outflows		
Operating activity outflows and other (net)	(2,741,346)	(4,277,565)
Purchase of plant and equipment	(41,976)	(15,662)
Net Cash Inflows/ (Outflows)	(1,966,656)	(3,568,632)
Closing Cash Balance	1,029,471	2,996,127

The AML Group had a closing cash balance of \$1,029m in 2009. Net of the funds raised from the placement of shares on 29 June 2009 (\$535,434) cash consumed in 2009 was \$2.502m compared with \$3.569m in 2008.

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

The Company has made three significant announcements in June 2009.

- On 16 June 2009, the Company entered an agreement to invest RMB15,000,000 (\$2,830,189) to acquire a 53% shareholding in KWE, a Chinese based magnesium alloy producer. The investment in KWE by AML is subject to approval by shareholders at the Company's forthcoming AGM planned to take place on 31 August 2009.
- The Company undertook a placement of shares on 29 June 2009 which raised \$535,434.
- On 30 June 2009 the Company announced a 1 for 1 rights issue to raise up to \$4,238,998. Material relevant to the rights issue is to be dispatched to shareholders on 31 July 2009 together with material for the AGM.

Subsequent events

Apart from the announcements listed immediately above, 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	100,000	ORD	\$0.31	13 Oct 10

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

The auditor (Camphin Boston) was engaged by the Company on 30 June to assist in compilation of the 2009 annual report. The role did not involve the preparation or assembly of data or accounts but merely called for the translation into the published 2009 annual report format of relevant data from accounts and worksheets already prepared and reconciled by Company staff.

No other non audit services were provided by the auditor during the year.

Auditor's independence declaration

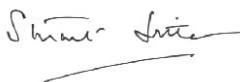
The auditor's independence declaration is included on page 12(a) of the annual report.

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 13 July 2009 in accordance with a resolution of the Directors made pursuant to Section 298(2) of the Corporations Act 2001.

INDEPENDENT AUDIT DECLARATION

CAMPHIN BOSTON

CHARTERED ACCOUNTANTS

13 July 2009

The Board of Directors
Advanced Magnesium Limited
Level 4, 350 George Street
Sydney NSW 2000

Dear Board Members

Auditor's Independence Declaration Under Section 307C of the Corporations Act 2001

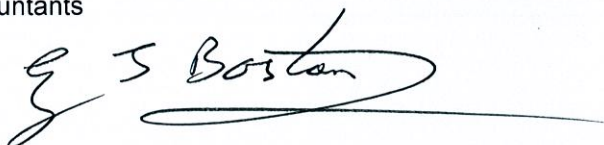
In relation to the audit of Advanced Magnesium Limited and Controlled Entities, we hereby declare, that to the best of our knowledge and belief, during the financial year ended 30 June 2009 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Yours sincerely



Camphin Boston
Chartered Accountants



Greg Boston
Partner

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2009

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	15	Reserves
2	Results from operations	16	Accumulated losses
3	Income taxes	17	Earnings/(Loss) per share
4	Key management personnel remuneration	18	Contingent liabilities and contingent assets
5	Share payment schemes	19	Leases
6	Remuneration of auditors	20	Subsidiaries
7	Current trade and other receivables	21	Segment Information
8	Current inventories	22	Related party disclosures
9	Other current assets	23	Notes to the cash flow statement
10	Other non-current financial assets	24	Financial instruments
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12	Current trade and other payables		
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DIRECTORS' DECLARATION

AUDIT REPORT

**BALANCE SHEET
AS AT 30 JUNE 2009**

	NOTE	CONSOLIDATED		PARENT ENTITY	
		30-Jun	30-Jun	30-Jun	30-Jun
		2009	2008	2009	2008
		\$	\$	\$	\$
Sales revenue	2(a)	174,176	170,423	-	-
Cost of sales ⁽¹⁾		(29,342)	(93,630)	-	-
Gross profit		144,834	76,793	-	-
Other income	2(b)	43,236	412,161	75,518	221,288
Recoverable amount write downs		12,772	(86,216)	(2,618,781)	(2,526,369)
Net Loss/Profit on sale of assets		1,000	88,403	-	-
Marketing		(1,251,357)	(1,758,167)	-	-
Research, development, licensing and patent costs		(321,474)	(531,813)	-	(59,300)
AMT operating costs		(1,417,976)	(1,554,413)	(244,680)	(722,758)
Corporate, administration and other expenses		(58,263)	(635,934)	(1,045)	(4,823)
Loss before income tax expense		(2,847,229)	(3,989,186)	(2,788,988)	(3,091,962)
Income tax benefit	3(a)	34,432	-	-	-
Loss from continuing operations		(2,812,797)	(3,989,186)	(2,788,988)	(3,091,962)
Profit from discontinued operations		-	-	-	-
Loss attributable to members of the parent entity		(2,812,797)	(3,989,186)	(2,788,988)	(3,091,962)
Loss per share:					
Basic (cents per share)	17	(3.07)	(4.57)		
Diluted (cents per share)	17	(3.07)	(4.57)		
Loss per share from continuing operations					
Basic (cents per share)	17	(3.07)	(4.57)		
Diluted (cents per share)	17	(3.07)	(4.57)		

Note 1 The manufactured cost of AM-Lite to satisfy sales of that product is the main element in cost of sales. Sales of Am-Lite in 2008 represented 53% of total sales. In 2009 sales of AM-Lite represented 28% of total sales.

**STATEMENT OF RECOGNISED INCOME AND EXPENSE
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009**

	NOTE	CONSOLIDATED		PARENT ENTITY	
		30-Jun	30-Jun	30-Jun	30-Jun
		2009	2008	2009	2008
		\$	\$	\$	\$
Exchange differences taken to reserves in equity – translation of overseas entities	15	21,117	(5,400)	-	-
Net income/(loss) recognised directly in equity		21,117	(5,400)	-	-
Loss for the year		(2,812,797)	(3,989,186)	(2,788,988)	(3,091,962)
Total recognised income and expense for the year		(2,791,681)	(3,994,586)	(2,788,988)	(3,091,962)
Attributable to equity holders of the parent		(2,791,681)	(3,994,586)	(2,788,988)	(3,091,962)

The above Income Statement and Statement of Recognised Income and Expense should be read in conjunction with the accompanying notes on pages 19 to 45.

**BALANCE SHEET
AS AT 30 JUNE 2009**

	NOTE	CONSOLIDATED		PARENT ENTITY	
		30-Jun	30-Jun	30-Jun	30-Jun
		2009	2008	2009	2008
		\$	\$	\$	\$
Current assets					
Cash and cash equivalents	23(a)	1,029,471	2,996,127	964,923	2,270,356
Trade and other receivables	7	61,637	67,580	50	31,536
Inventories	8	182,527	204,081	-	-
Other assets	9	-	34,462	-	-
Total current assets		1,273,636	3,302,250	964,973	2,301,892
Non-current assets					
Other financial assets	10	-	-	279,644	1,022,279
Leasehold improvements		4,237	7,014	-	-
Property, plant & equipment	11	51,872	26,286	-	-
Total non-current assets		56,108	33,300	279,644	1,022,279
Total assets		1,329,744	3,335,550	1,244,617	3,324,171
Current liabilities					
Trade and other payables	12	104,468	62,410	-	-
Provisions	13	105,986	71,602	-	-
Total current liabilities		210,454	134,012	-	-
Total liabilities		210,454	134,012	-	-
Net assets		1,119,290	3,201,538	1,244,617	3,324,171
Equity					
Share capital	14	19,062,953	18,542,857	19,062,953	18,542,857
Reserves	15	4,311,707	4,101,253	1,563,511	1,374,173
Accumulated losses	16	(22,255,369)	(19,442,572)	(19,381,846)	(16,592,859)
Total equity		1,119,290	3,201,538	1,244,617	3,324,171

The above Balance Sheet should be read in conjunction with the accompanying notes on pages 19 to 45.

**CASHFLOW STATEMENT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009**

	NOTE	CONSOLIDATED		PARENT ENTITY	
		30-Jun	30-Jun	30-Jun	30-Jun
		2009	2008	2009	2008
		\$	\$	\$	\$
		Inflows/ (Outflows)	Inflows/ (Outflows)	Inflows/ (Outflows)	Inflows/ (Outflows)
Cashflows from operating activities					
		162,537	196,129	-	-
		(2,778,346)	(4,277,565)	(71,907)	(546,302)
		117,695	250,253	107,048	189,802
		37,000	-	139	(2,584)
	23(d)	(2,461,113)	(3,831,183)	35,280	(359,084)
Cashflows from investing activities					
		-	-	(1,876,147)	(1,648,648)
		(41,976)	(15,662)	-	-
		1,000	278,213	-	44,740
		(40,976)	262,551	(1,876,147)	(1,603,908)
Cashflows from financing activities					
		535,434	-	535,434	-
		535,434	-	535,434	-
		(1,966,656)	(3,568,632)	(1,305,433)	(1,962,992)
		2,996,127	6,564,759	2,270,356	4,233,348
	23(a)	1,029,471	2,996,127	964,923	2,270,356

The above Cash flow Statement should be read in conjunction with the accompanying notes on pages 19 to 45.

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, Australian Accounting Standards, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The financial statements were authorised for issue by the Directors on 13 July 2009.

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.

Basis of Preparation

The financial report has been prepared on an accruals basis and is based of historical cost, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. 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 2009, the consolidated entity had cash reserves of almost \$1.03m.
- The proposed rights issue will add a net \$1.3m (after the investment in KWE).
- Sales are expected after quarter 1.
- The maximum cost of a winding up (ie without the benefit of an orderly closure) is estimated not to exceed \$310,000 in June 2010 (\$90,000 annual leave, \$150,000 redundancy and severance and \$70,000 contractual payouts).
- The emerging benefits of the joint venture with KWE coupled with funding available from the proposed 1 for 1 rights issue leads the Directors to believe that the Company and consolidated entity has the necessary business potential to maintain liquidity in the ensuing year.

The Directors are cognisant of the fact that the long term prospects of the Company and consolidated entity will largely depend on the success of the KWE joint venture.

Marketing the output of KWE will be the responsibility of staff at the Company's China office. Sales made to end users within the boundaries of the Peoples Republic of China (PRC) will be to the benefit of KWE. Sales made to end users beyond the borders of the PRC will be to benefit of the Company and its consolidated entity. It is on this basis that KWE will contribute 50% of the cost of running the Company's China office.

The prospects for the Company and its consolidated entity depends therefore on:

- the profitability of KWE (which, if profitable, will partially contribute to the Company's cost structure); and
- the extent of sales that the Company can secure on its own behalf.

The initial efforts of the Company's staff in China will focus on the development of markets to take the output of KWE's generic magnesium products and then the promotion of markets for the Company's proprietary alloy 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 June 2009 closure costs of \$323,000 would be incurred (\$45,000 annual leave, \$135,000 redundancy and severance and \$143,000 contractual payouts). This may reduce over time and if closure occurs on an orderly wind down basis.

NOTES TO THE FINANCIAL STATEMENTS

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

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.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured at 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 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 are translated at the year end exchange rate. Non-monetary items measured at fair value are reported at the exchange rate 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.

NOTES TO THE FINANCIAL STATEMENTS

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

(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 where the GST or VAT is not recoverable from the relevant tax authority. In these circumstances the GST or VAT is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

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 and intangible assets to determine whether there is any indication that those assets have been impaired. If any such indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Where it is not possible to estimate the recoverable amount of an individual asset, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(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 assets and liabilities are ascertained based on 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 calculated at the tax rates that are expected to apply to the period(s) when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects 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 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 subsidiaries are part of a tax-consolidated group under tax consolidation legislation. 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 of acquisition. Patents and trademarks have a finite life and are carried at cost less any accumulated amortisation and impairment losses. 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 measured 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) Leases

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 over the life of the lease term.

(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 20 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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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 assets' estimated useful lives and residual values is reviewed, and adjusted if appropriate, 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 legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(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.

(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), AASB 2007-8 'Amendments to Australian Accounting Standards arising from AASB 101', ASB 2007-10 'Further Amendments to Australian Accounting Standards arising from AASB 101' 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 3 'Business Combinations' (revised), AASB 127 'Consolidated and Separate Financial Statements' (revised) and AASB 2008-3 'Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127' AASB 3 (business combinations occurring after the beginning of the annual reporting periods beginning 1 July 2009), AASB 127 and AASB 2008-3 (1 July 2009)
- AASB 2008-1 'Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations' Effective for annual reporting periods beginning on or after 1 January 2009
- AASB 2008-7 'Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate' Effective for annual reporting periods beginning on or after 1 January 2009
- AASB 2008-2 'Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidations' Applicable for reporting periods commencing from 1 January 2009
- AASB 8 'Operating Segments' Applicable for reporting periods commencing from 1 January 2009

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 RESULTS FROM OPERATIONS

	CONSOLIDATED		PARENT ENTITY	
	30-Jun 2009 \$	30-Jun 2008 \$	30-Jun 2009 \$	30-Jun 2008 \$
(a) Sales Revenue – continuing operations:				
Sale of goods and royalty income	169,682	170,423	-	-
Rendering of services	4,493	-	-	-
	<u>174,176</u>	<u>170,423</u>	<u>-</u>	<u>-</u>
(b) Other income				
Interest revenue	84,409	283,219	75,518	221,288
Foreign exchange gain	(47,938)	(3,252)	-	(3,252)
Other revenue	6,765	132,194	-	3,252
	<u>43,236</u>	<u>412,161</u>	<u>75,518</u>	<u>221,288</u>
(c) Loss before income tax				
Loss before income tax has been arrived at after the following adjustments.				
Net gain on disposal of property, plant and equipment	1,000	88,403	-	-
Net foreign exchange gains/(losses)	(47,938)	(21,295)	-	-
	<u>(46,938)</u>	<u>67,108</u>	<u>-</u>	<u>-</u>
Gains attributable to:				
Continuing operations	1,000	88,403	-	-
	<u>1,000</u>	<u>88,403</u>	<u>-</u>	<u>-</u>
Losses attributable to:				
Continuing operations	(47,938)	(21,295)	-	-
	<u>(47,938)</u>	<u>(21,295)</u>	<u>-</u>	<u>-</u>
Loss before income tax has been arrived at after the following adjustments.				
Cost of sales	(29,342)	(93,630)	-	-
Adjustment to inventory to net realisable value	12,772	15,958	-	-
Adjustment to trade receivables to recoverable amount	-	20,987	-	-
Interest on payables	-	-	-	-
Impairment of non-current asset charge (other than inventory)	-	(102,174)	(2,618,781)	(2,526,369)
Depreciation of non-current assets	(15,296)	(72,363)	-	(17,339)
Operating lease rental minimum lease payments ¹	(132,910)	(183,955)	-	-
Equity settled share-based payments for services	(9,000)	(9,000)	-	-
Employee benefit expense:				
Post employee benefits	(88,463)	(120,561)	(3,600)	(7,989)
Equity settled share-based payments	(165,000)	(480,094)	-	(480,094)
Retrenchments and termination benefits	(218,643)	(597,639)	-	(375,000)
Wages and salaries	(607,262)	(1,352,174)	(100,520)	(100,520)
	<u>(914,368)</u>	<u>(2,550,468)</u>	<u>(104,120)</u>	<u>(963,603)</u>

Note 1 Gross lease payments on office premises in Australia, China and Germany.

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 2009	30-Jun 2008	30-Jun 2009	30-Jun 2008
	\$	\$	\$	\$
(a) Income tax recognised in profit and loss				
Tax expense comprises:				
Current tax expense – Australian entities	-	-	-	-
Tax reimbursement – foreign subsidiaries	34,432	-	-	-
Total tax expense	34,432	-	-	-
Attributable to:				
Continuing operations	34,432	-	-	-
Discontinued operations	-	-	-	-
	34,432	-	-	-
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	(2,847,229)	(3,989,186)	(2,788,988)	(3,091,962)
Loss from operations	(2,847,229)	(3,989,186)	(2,788,988)	(3,091,962)
Income tax benefit calculated at 30%	854,169	1,196,756	836,696	927,589
Tax adjustments to income and expenses in profit and loss	(1,461)	(137,235)	(758,063)	(891,139)
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	(818,276)	(1,059,521)	(78,633)	(36,450)
Total tax expense	34,432	-	-	-

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 report.

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 20.

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

CONSOLIDATE/PARENT ENTITY	
30-Jun 2009	30-Jun 2008
\$	\$
81,580,882	81,580,882
33,967,326	33,149,049
28,868,289	28,868,289
144,416,497	143,598,220
271,936,272	271,936,272
112,762,373	110,546,182
96,227,630	96,227,630
480,926,275	478,710,084

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 (\$112,762,373) 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 2009.

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 2009 subject to further testing and continued compliance with loss integrity rules. No detailed Available Fraction calculations have been performed as at 30 June 2009, 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 2009 and no income tax is expected to be paid prior to 30 June 2010. Accordingly, there are no franking credits available for distribution in the year ending 30 June 2009.

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

(a) Key management personnel compensation

The aggregate compensation of the key management personnel of the consolidated entity and the Company is set out below:

	CONSOLIDATED		PARENT ENTITY	
	30-Jun 2009	30-Jun 2008	30-Jun 2009	30-Jun 2008
	\$	\$	\$	\$
Short term employee benefits	831,196	872,545	40,000	8,137
Termination benefits	140,389	409,735	-	352,307
Post-employment benefits	87,292	191,964	3,600	59,603
Share based payment	165,000	480,094	-	480,094
	1,223,877	1,954,338	43,600	900,141

Individual directors and executives compensation disclosures

Information regarding individual directors and executives compensation and some equity instruments disclosures as required by Corporations Regulations 2M.3.03 is provided in the remuneration report section of the directors' report.

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 2009.

The total options issued to employees, under the plan were 2,645,650 – although at 30 June 2009 only 100,000 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 the parameters that applied to the options of 2,645,650 originally issued. Under that model, the value of these options at the grant date totaled \$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 were exercisable at any time from the first to the third anniversary of their issue on 7 October 2005. The options expired unexercised.

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 Still Able to Be Exercised at 30 June 2009	Grant date	Expiry date	Exercise price \$	Fair value per option at grant date \$
Employee Share Option Plan	100,000	13-Oct-05	13-Oct-10	\$0.31	\$0.185
	100,000				

The weighted average fair value of the share options granted during the financial year is \$nil (2008: Nil).

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

Inputs into the model	2008
	Option series
	ESOP
Grant date share price	\$0.31
Exercise price	\$0.31
Expected volatility	67.48%
Date Granted	4-Oct-05
Option life	5 years
Dividend yield	Nil
Risk-free interest rate	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).

	2009		2008	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
	Balance at beginning of the financial year	1,176,500	\$0.290	6,198,923
Granted during the financial year	—	—	—	—
Forfeited during the financial year (i)	(676,500)	\$0.310	(1,709,150)	\$0.310
Exercised during the financial year (ii)	—	—	—	—
Expired during the financial year (iii)	(400,000)	\$0.700	(3,313,273)	\$0.700
Balance at end of the financial year (iv)	100,000	\$0.310	1,176,500	\$0.290
Exercisable at end of the financial year (v)	100,000	\$0.310	1,176,500	\$0.290

(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	Number Exercised	
	2009	2008
ESOP	Nil	Nil
ESOP	Nil	Nil
ESOP	Nil	Nil

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 SHARE PAYMENT SCHEMES (cont...)

- (iii) **Expired during the financial year**
Pegasus Corporate Advisory Pty Ltd held 400,000 options which expired on 7 October 2008 unexercised.
- (iv) **Balance at end of the financial year**
The share options outstanding at the end of the financial year had an exercise price of \$0.31 and remaining contractual life of 470 days (2008: weighted average exercise price of \$0.289 and weighted average remaining contractual life of 847 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 2009, all outstanding options are exercisable.

NOTE 6 REMUNERATION OF AUDITORS

	CONSOLIDATED		PARENT ENTITY	
	30-Jun	30-Jun	30-Jun	30-Jun
	2009	2008	2009	2008
	\$	\$	\$	\$
Auditor of the parent entity				
- Audit or review of the financial report	58,263	72,650	-	36,325
- Accounting services	6,000	-	-	-
	64,263	72,650	-	36,325

The auditor of Advanced Magnesium Limited is Camphin Boston Chartered Accountants.

NOTE 7 CURRENT TRADE AND OTHER RECEIVABLES

	CONSOLIDATED		PARENT ENTITY	
	30-Jun	30-Jun	30-Jun	30-Jun
	2009	2008	2009	2008
	\$	\$	\$	\$
Trade receivables	14,504	6,931	-	-
Allowance for doubtful debts	-	(6,931)	-	-
	14,504	-	-	-
Goods and services tax (GST) recoverable	6,748	13,161	-	-
Security deposits	22,350	17,884	50	50
Interest receivable	-	32,966	-	31,486
Other	18,036	3,569	-	-
	47,134	67,580	50	31,536
Total receivables	61,637	67,580	50	31,536

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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 CURRENT INVENTORIES

	CONSOLIDATED		PARENT ENTITY	
	30-Jun 2009	30-Jun 2008	30-Jun 2009	30-Jun 2008
	\$	\$	\$	\$
Metal alloy at Cost	294,474	330,063	-	-
Provision for Inventory recovery	(111,947)	(125,982)	-	-
Metal alloy at Net Realisable Value	182,527	204,081	-	-

NOTE 9 OTHER CURRENT ASSETS

	CONSOLIDATED		PARENT ENTITY	
	30-Jun 2009	30-Jun 2008	30-Jun 2009	30-Jun 2008
	\$	\$	\$	\$
Prepayments	-	34,462	-	-

NOTE 10 OTHER NON-CURRENT FINANCIAL ASSETS

	CONSOLIDATED		PARENT ENTITY	
	30-Jun 2009	30-Jun 2008	30-Jun 2009	30-Jun 2008
	\$	\$	\$	\$
Shares and loans in controlled entities – unlisted, at cost	-	-	79,924,906	78,048,760
Write down to recoverable amount	-	-	(79,645,262)	(77,026,481)
	-	-	279,644	1,022,279

As set out in Note 2(c), the parent entity has recorded an impairment loss of \$2,618,781 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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 PLANT & EQUIPMENT

	CONSOLIDATED		PARENT ENTITY	
	Plant and equipment		Plant and equipment	
	\$		\$	
Gross carrying amount				
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 1 July 2008	85,495		7,832	
Additions	40,881		-	
Disposals	(14,724)		-	
Net foreign currency exchange differences	-		-	
Balance at 30 June 2009	111,652		7,832	
Accumulated depreciation/ amortisation and impairment				
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 1 July 2008	59,209		7,832	
Disposals	(14,724)		-	
Depreciation expense	(ii) 15,296		-	
Net foreign currency exchange differences	-		-	
Balance at 30 June 2009	59,781		7,832	
Net book value				
As at 30 June 2008	26,286		-	
As at 30 June 2009	51,872		-	

- (i) During the 2008 year, management re-assessed the useful life of certain items of furniture and fittings with the effect of increasing (compared to standard rates of depreciation) the depreciation write-off by \$9,523.
- (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.

NOTE 12 CURRENT TRADE AND OTHER PAYABLES

	CONSOLIDATED		PARENT ENTITY	
	30-Jun 2009	30-Jun 2008	30-Jun 2009	30-Jun 2008
	\$		\$	
Trade payables and accruals	8,772	4,964	-	-
VAT/GST due	848	5,512	-	-
Accrued audit fees	33,000	42,000	-	-
Other	61,848	9,934	-	-
	104,468	62,410	-	-

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-Jun 2009	30-Jun 2008	30-Jun 2009	30-Jun 2008
	\$		\$	
Provision for redundancy	64,492	-	-	-
Provision for annual leave	41,493	71,602	-	-
	105,986	71,602	-	-

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 SHARE CAPITAL

	CONSOLIDATED		PARENT ENTITY	
	30-Jun 2009 \$	30-Jun 2008 \$	30-Jun 2009 \$	30-Jun 2008 \$
105,974,953 (2008: 89,239,103) Fully paid ordinary shares	19,044,381	18,334,947	19,044,381	18,334,947
Pegasus options expire 7 Oct 2008 (i)	-	64,050	-	64,050
ESOP options expire 12 Oct 2010 (i)	18,572	143,860	18,572	143,860
	19,062,953	18,542,857	19,062,953	18,542,857

(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			
		2009 No.	\$	2008 No.	\$
Fully paid ordinary shares					
Balance at beginning of financial year		89,239,103	18,334,946	85,581,292	17,845,852
Ordinary shares issued as compensation to Directors		3,300,000	165,000	3,107,811	435,094
Ordinary shares issued under private placement		13,385,850	535,434	-	-
Ordinary shares issued to employee (i & iii)		-	-	500,000	45,000
Equity settled share-based payments for services (ii & iii)		50,000	9,000	50,000	9,000
Balance at end of financial year		105,974,953	19,044,380	89,239,103	18,334,946

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 5 September 2008 at price of \$0.18. On the day of issue the company's shares commenced trading at an opening price of \$0.0520. 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 15 RESERVES

	CONSOLIDATED		PARENT ENTITY	
	30-Jun	30-Jun	30-Jun	30-Jun
	2009	2008	2009	2008
	\$	\$	\$	\$
Capital reserve	2,749,980	2,749,980	-	-
Foreign currency translation reserve				
Balance at beginning of financial year	(22,900)	(17,500)	-	-
Translation of foreign operations	21,117	(5,400)	-	-
Balance at end of financial year	(1,783)	(22,900)	-	-
Expired Options Reserve				
Balance at beginning of financial year	1,374,173	829,742	1,374,173	829,742
RCF options expiry	-	227,896	-	227,896
Pegasus Corporate Advisory options expiry	64,050	-	64,050	-
ESOP options expiry	125,288	316,535	125,288	316,535
Balance at end of financial year	1,563,510	1,374,173	1,563,511	1,374,173
Total reserves	4,311,707	4,101,253	1,563,511	1,374,173

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 16 ACCUMULATED LOSSES

	CONSOLIDATED		PARENT ENTITY	
	30-Jun	30-Jun	30-Jun	30-Jun
	2009	2008	2009	2008
	\$	\$	\$	\$
Balance at beginning of financial year	(19,442,572)	(15,453,386)	(16,592,859)	(13,500,897)
Loss attributable to members of the parent entity	(2,812,797)	(3,989,186)	(2,788,988)	(3,091,962)
Balance at end of financial year	(22,255,369)	(19,442,572)	(19,381,846)	(16,592,859)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 17 EARNINGS/(LOSS) PER SHARE

CONSOLIDATED	
2009	2008
cents per share	cents per share
(3.07)	(4.57)

Basic earnings/(loss) per share:

As EPS is a loss per share for 2009 and 2008, 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:

CONSOLIDATED	
2009	2008
\$	\$
Losses	
(2,812,797)	(3,989,186)
Weighted average number of ordinary shares for the purposes of basic loss per share.	
91,754,848	87,260,198

NOTE 18 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 2009 (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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 19 CAPITAL AND LEASING COMMITMENTS

Operating Lease Arrangements (contractual lease payments to lease expiry the Company is obligated to make)

Per Month	Office Premises – Heidelberg, Germany (five year lease from March 2006 with an option to extend for another three years)
\$6,455.60	
\$3,000.00	Office Premises – Sydney, Australia - month to month license to occupy cancellable with a month's notice
\$1,420.58	Office Premises – Shanghai, China terminating Nov 2009

NOTE	CONSOLIDATED		PARENT ENTITY	
	30-Jun 2009	30-Jun 2008	30-Jun 2009	30-Jun 2008
	\$	\$	\$	\$
Non-cancellable operating lease payments in respect of premises				
Not longer than 1 year	84,570	48,204	-	-
Longer than 1 year and not longer than 5 years	51,645	213,035	-	-
Longer than 5 years	-	-	-	-
	136,215	261,239	-	-

Capital Commitments

The Company has entered into an agreement with Henan Keweier Alloy Materials Co., Ltd (KWE) to invest RMB 15,000,000 to acquire a 53% shareholding in the KWE. KWE is a Chinese based magnesium alloy producer. The investment is subject to shareholder approval at the Company's forthcoming AGM.

NOTE 20 SUBSIDIARIES

Name of entity	Country of Incorporation	Ownership interest 2009 %	Ownership interest 2008 %
<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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 21 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 2009 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

To 31 December 2007, the activities of AMT Europe GmbH and AMT North America, Inc. were carried out in their respective regions as agents of Advanced Magnesium Technologies Pty Ltd. To that date, these entities charged AMT an agency fee equivalent to 107.5% of costs incurred. With the wind-back of the Company's operations in Europe and North America, the Directors recognised that the agency arrangement was inappropriate.

	Europe		North America		Asia Pacific		Total	
	30-Jun 2009	30-Jun 2008	30-Jun 2009	30-Jun 2008	30-Jun 2009	30-Jun 2008	30-Jun 2009	30-Jun 2008
	\$	\$	\$	\$	\$	\$	\$	\$
Sales revenue	133,669	92,875	30,723	17,510	9,784	60,038	174,176	170,423
Cost of sales	(29,342)	(30,186)	-	(21,724)	-	(41,720)	(29,342)	(93,630)
Gross profit	104,327	62,689	30,723	(4,214)	9,784	18,318	144,834	76,793
Other income	27,552	50,958	-	2,628	15,684	358,575	43,236	412,161
Intersegment revenue	-	298,414	-	190,855	-	(489,269)	-	-
Recoverable amount write downs	-	-	-	(1,340)	12,772	(84,876)	12,772	(86,216)
Loss/Profit on sale of assets	-	-	-	104	1,000	88,299	1,000	88,403
Marketing	(155,167)	(297,924)	(253,480)	(196,905)	(842,710)	(1,263,338)	(1,251,357)	(1,758,167)
Research, development, licensing and patent costs	-	-	(3,942)	-	(317,532)	(531,813)	(321,474)	(531,813)
AMT operating costs	(81,897)	(167,176)	(617)	(78,081)	(1,335,462)	(1,309,156)	(1,417,976)	(1,554,413)
Depreciation & Amortisation	-	(4,908)	-	(4,953)	(15,296)	(62,501)	(15,296)	(72,362)
Corporate, administration and other expenses	(74,871)	(62,137)	(3,754)	(5,678)	35,657	(495,757)	(42,967)	(563,572)
Loss before income tax expense	(180,055)	(120,084)	(231,070)	(97,584)	(2,436,104)	(3,771,518)	(2,847,229)	(3,989,186)
Income tax expense	33,305	-	(292)	-	1,418	-	34,432	-
Loss from continuing operations	(146,750)	(120,084)	(231,362)	(97,584)	(2,434,685)	(3,771,518)	(2,812,797)	(3,989,186)
Profit from discontinued operations	-	-	-	-	-	-	-	-
Loss attributable to members of the parent entity	(146,750)	(120,084)	(231,362)	(97,584)	(2,434,685)	(3,771,518)	(2,812,797)	(3,989,186)

	Europe		North America		Asia		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
	\$	\$	\$	\$	\$	\$	\$	\$
Segment Assets								
Total assets	49,632	124,110	11,253	36,511	1,268,859	3,174,929	1,329,744	3,335,550
Segment Liabilities								
Total liabilities	5,221	20,891	37,763	-	167,470	113,121	210,454	134,012
Segment Disclosures								
Acquisition of segment fixed assets	-	-	-	-	40,881	20,429	40,881	20,429
Non-cash share based payments	-	-	-	-	9,000	480,094	9,000	480,094
Inventory provisioning	-	-	-	-	(14,035)	33,028	(14,035)	33,028
Double/(Decrease) Doubtful debts	-	-	-	-	-	6,931	-	6,931
Segment Disclosures by business segment								
	Magnesium alloys		Metal Handling		Consulting		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue from external customers	89,271	92,889	80,412	77,534	4,493	-	174,176	170,423

NOTES TO THE FINANCIAL STATEMENTS

NOTE 22 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 20 to the financial statements.

(b) Transactions with key management personnel

Key management personnel compensation

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

(c) Key Management Personnel Equity Holdings

Fully paid ordinary shares of Advanced Magnesium Limited – 2009

	Balance @ 1/7/08	Granted as compensation	Received on exercise of options	Acquired on Market	Balance @ 30/6/09	Balance held nominally
	No.	No.	No.	No.	No.	No.
Mr S Fitton	1,585,589	2,500,000	-	608,850	4,694,439	-
Mr N Andrews	1,100,000	400,000	-	-	1,500,000	-
Mr M Brown	1,072,222	400,000	-	-	1,472,222	-
	3,757,811	3,300,000	-	608,850	7,666,661	-

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 ⁽¹⁾	256	-	-	(256) ⁽²⁾	-	-
Mr I Hartnell ⁽¹⁾	15,900	-	-	(15,900) ⁽²⁾	-	-
Mr PK Nair ⁽¹⁾	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

Share options of Advanced Magnesium Limited – 2009

	Bal vested @ 1/07/08	Granted as remuneration	Exer- cised	Net other change	Bal @ 30/06/09	Bal vested @ 30/06/09	Vested but not exercisable	Vested and exercisable	Options vested during year
	No.	No.	No.	No.	No.	No.	No.	No.	No.
Dr T Abbott	100,000	-	-	-	100,000	100,000	-	100,000	-
	100,000	-	-	-	100,000	100,000	-	100,000	-

NOTES TO THE FINANCIAL STATEMENTS

NOTE 22 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 exer- cisable	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 held 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 were vested and were exercisable at any time during the period. See Note 5.2 for further details.

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 20.

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

Transactions involving the parent entity

During the financial year, Advanced Magnesium Limited provided accounting and administration services to its subsidiaries for no consideration (2008: 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 23 NOTES TO THE CASH FLOW STATEMENT

	CONSOLIDATED		PARENT ENTITY	
	30-Jun 2009 \$	30-Jun 2008 \$	30-Jun 2009 \$	30-Jun 2008 \$
(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	1,029,471	2,996,127	964,923	2,270,356
(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				
(d) Reconciliation of loss for the period to net cash flows from operating activities				
Loss after income tax	(2,812,797)	(3,989,186)	(2,788,988)	(3,091,962)
Depreciation & amortisation expense	15,296	72,363	-	17,339
Loss/(gain) on disposal of plant & equipment	(1,000)	(88,403)	-	-
Net asset recoverable amount write-down	-	-	-	-
Equity settled share-based payments to employees	165,000	489,094	174,000	489,094
Increase/(decrease) in FCTR on translation of overseas subsidiaries	21,117	(5,400)	-	-
Project asset sales receivable in other current assets	-	-	-	-
Impairment allowance against investment	-	-	2,618,781	2,526,369
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase)/decrease in current receivables	5,943	44,180	31,486	10,236
(Increase)/decrease in inventories	21,554	67,937	-	-
(Increase)/decrease in other current assets	34,462	67,064	-	-
Increase/(decrease) in current payables	42,058	-	-	(76,980)
Increase/(decrease) in non-current payables	-	(168,323)	-	-
Increase/(decrease) in current provisions	34,384	(184,849)	-	(171,716)
Increase/(decrease) in non-current provisions	-	(61,464)	-	(61,464)
Increase/(decrease) in other current liabilities	-	(15,800)	-	-
Increase/(decrease) in other non-current liabilities	-	(47,400)	-	-
Net cash from operating activities	(2,461,113)	(3,831,183)	35,280	(359,084)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 24 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 2008.

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 14, 15, and 16 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 2009.

	Weighted average effective interest rate	Variable interest rate	Fixed maturity dates Less than 1 year	Non interest bearing	Total
2009	%	\$		\$	\$
Financial assets:					
Cash and cash equivalents	2.62%	1,008,397	-	21,075	1,029,472
Trade receivables		-	-	14,504	14,504
Other receivables		-	-	47,134	47,134
	2.62%	1,008,397	-	82,713	1,091,110
Financial liabilities:					
Trade payables	Nil	-	-	8,772	8,772
Other payables	Nil	-	-	95,696	95,696
Employee benefits	Nil	-	-	105,986	105,986
	Nil	-	-	210,454	210,454

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

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	
	2009	2008	2009	2008
	\$	\$	\$	\$
Cash and cash equivalents	-	-	39,259	266,941
Trade and other receivables	-	-	-	1,818
Trade and other payables	25,104	433	-	-

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		
	2009	2008	2009	2008	
	\$	\$	\$	\$	
Effect on Loss of a 10% increase in USD rate	42,160	30,309	28,328	21,942	(i)
Effect on Loss of a 10% decrease in USD rate	(42,160)	(30,309)	(28,328)	(21,942)	(i)
	EURO impact				
	Consolidated		Parent		
	2009	2008	2009	2008	
	\$	\$	\$	\$	
Effect on Loss of a 10% increase in EUR rate	17,283	15,105	17,889	11,148	(ii)
Effect on Loss of a 10% decrease in EUR rate	(17,283)	(15,105)	(17,889)	(11,148)	(ii)

Positive number represent a reduction in loss

(i) Net consolidated entity exposure to USD as at 30 June 2009 was USD335,986 compared with USD291,122 as at 30 June 2008

(ii) Net consolidated entity exposure to EUR as at 30 June 2009 was EUR98,765 compared with EUR91,834 as at 30 June 2008

The Group's sensitivity to foreign currency has increased during the current period due to increased 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 25 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. Its risk management procedures need to balance the limitations of our size and available resources with the exposure and cost of addressing identified risks.

The KWE investment and expanded role for the Company's China Office will demand the allocation of administrative resources that can oversee the management of financial and operational performance. Initially, much of this oversight will come from the Executive Chairman who has spent, and will continue to spend, the majority of his time offshore – particularly in China. His presence in China will be supplemented by occasional visits by the CFO.

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 26 SUBSEQUENT EVENTS

Apart from the developments mentioned at the heading "Subsequent Events" in the Directors' Report on page 13, there are no significant developments that will affect the Company and its consolidated entity.

NOTE 27 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.

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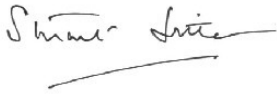
DIRECTORS' DECLARATION

The Directors declare that the financial statements and notes thereto, set out on pages 16 to 45:

- (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 give 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

13 July 2009

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 2009, 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 46.

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 (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

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*.

CAMPHIN BOSTON

CHARTERED ACCOUNTANTS

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 and consolidated entity's financial position as at 30 June 2009 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 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.

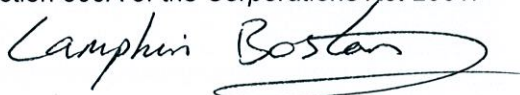
Report on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 9 of the directors' report for the year ended 30 June 2009. 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 2009, complies with section 300A of the *Corporations Act 2001*.

Camphin Boston
Chartered Accountants



Greg Boston
Partner



Level 9, 5 Elizabeth Street, Sydney NSW 2000

Dated: 13 July 2009

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 30 June 2009

		No. of Shares	Percentage
1	KWE (HK) INVESTMENT DEVELOPMENT CO LIMITED	10,415,100	9.828
2	CITICORP NOMINEES PTY LIMITED	9,610,488	9.069
3	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	5,073,059	4.787
4	JOHN STUART HAMER FITTON	4,694,439	4.430
5	OPTIMIST INTERNATIONAL INVESTMENTS LIMITED <OPTIMIST A/C>	4,166,667	3.932
6	ANZ NOMINEES LIMITED <CASH INCOME A/C>	3,220,423	3.039
7	NATIONAL NOMINEES LIMITED	2,244,863	2.118
8	J P MORGAN NOMINEES AUSTRALIA LIMITED	2,079,421	1.962
9	FLUOR AUSTRALIA PTY LTD	1,947,756	1.838
10	MR NICHOLAS WILLIAM ANDREWS	1,500,000	1.415
11	MR MICHAEL ANTHONY JOHN BROWN + MRS WENDY ELIZABETH BROWN	1,472,222	1.389
12	MR IANAKI SEMERDZIEV	1,385,000	1.307
13	MR HOWARD LEONARD PATRICK & MS CAROL FRANCIS PATRICK <HL & CF PATRICK S/FUND A/C>	1,200,000	1.132
14	RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <MLCI A/C>	1,004,985	0.948
15	MRS DAWN PATRICIA DAVIS	1,000,000	0.944
16	PEAMAN PTY LTD <PEARSON SUPER FUND ACCOUNT>	1,000,000	0.944
17	MR PETER FABIAN HELTINGS & MRS JACQUELINE KIM GUN HELTINGS <BOX SUPER FUND A/C>	980,000	0.925
18	J I M PTY LTD	800,000	0.755
19	PEPSEC PTY LTD <THE PHILIP PARKER FAMILY A/C>	750,000	0.708
20	MR NICK DYKI & MRS LORRAINE ELENOR DYKI	703,017	0.663
	TOTAL	55,247,440	52.133

The number of security investors holding less than a marketable parcel of 7,692 securities (\$0.065 on 30/06/2009) is 16,459 and they hold 11,181,051 securities.

Distribution of Shareholdings as at 30 June 2009

Number Held	Holders	No. of Securities	Percentage
1-1000	13,948	4,696,882	4.43
1001-2000	1,363	2,027,946	1.91
2001-5000	953	3,212,262	3.03
5001-10000	374	2,930,442	2.77
10001-50000	504	12,330,509	11.64
50001-100000	103	8,055,197	7.60
100001-500000	77	14,073,494	13.28
500001-1000000	12	8,633,798	8.15
1000001 and over	14	50,014,423	47.19
TOTAL	17,348	105,974,953	100

Issued Capital and Securities	On Issue
Ordinary Shares fully paid	105,974,953

Substantial shareholders	Number of Ordinary Shares	Voting Power
KWE (HK) INVESTMENT DEVELOPMENT CO LIMITED	10,415,100	9.828%
CITICORP NOMINEES PTY LIMITED	9,610,488	9.069%

Unlisted Options	Number	Grant Date	Expiry Date	Exercise Price \$
Unlisted Employee Options	100,000	13 Oct 2005	13 Oct 2010	\$0.31

SHAREHOLDER INFORMATION
Share Registry Services

Registries Limited
Level 7, 207 Kent Street
SYDNEY, NSW 2000

Postal:
GPO Box 3993,
SYDNEY, NSW 2001

Tel: 1300 737 760 or
International: +61 2 9290 9600
Fax: +61 2 9279 0664
Website: www.registries.com.au

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Magnesium
Limited**

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