



Advanced  
Magnesium  
Limited

# ADVANCED MAGNESIUM LIMITED

ABN 51 010 441 666

## 1 FOR 1 NON-RENOUNCEABLE RIGHTS ISSUE

### RIGHTS ISSUE OFFER DOCUMENT

30 JUNE 2009

If you are an Eligible Shareholder, this is an important document that requires your immediate attention. It should be read in its entirety. If, after reading this document, you have any questions about the securities being offered under it or any other matter, you should contact your stockbroker, solicitor, accountant or other professional adviser

*commercialising advanced materials solutions*

## IMPORTANT NOTICES

This Offer Document is dated 30 June 2009. This Rights Issue is being made without a prospectus in accordance with section 708AA of the Corporations Act. This Offer Document is not a prospectus or any other form of disclosure document regulated by the Corporations Act and has not been lodged with ASIC. Accordingly, this Offer Document does not contain all of the information which a prospective investor may require to make a decision whether to subscribe for New Shares and it does not contain all of the information which would otherwise be required by Australian law or any other law to be disclosed in a prospectus. Announcements made by AML to ASX are available from the ASX website [www.asx.com.au](http://www.asx.com.au). The information in this Offer Document does not constitute a recommendation to acquire New Shares or financial product advice.

This Offer Document is important and should be read in its entirety before deciding whether to participate in the Rights Issue. This Offer Document has been prepared without taking into account the investment objectives, financial or taxation situation or particular needs of any Applicant. Before applying for New Shares, you should consider whether such an investment is appropriate to your particular needs, considering your individual risk profile for speculative investments, investment objectives and individual financial circumstances. If you are in any doubt about the Rights Issue or the contents of this Offer Document, you should consult your stockbroker, solicitor, accountant or other professional adviser without delay. You should note that the past Share price performance of the Company provides no guidance to its future Share performance.

By returning an Entitlement and Acceptance Form or lodging an Entitlement and Acceptance Form with your stockbroker or otherwise arranging for payment for your New Shares through B<sub>PAY</sub> in accordance with the instructions on the Entitlement and Acceptance Form, you acknowledge that you have received and read this Offer Document, you have acted in accordance with the terms of the Rights Issue detailed in this Offer Document, you agree to all of the terms and conditions as detailed in this Offer Document and you have made your own enquires and assessment as to the assets, liabilities, financial position, profit and losses and prospects of the Company and the rights attaching to New Shares.

### Offering restrictions

This Offer Document has been prepared to comply with the requirements of the laws of Australia. No action has been taken to register this Offer Document in any jurisdiction outside Australia and New Zealand, or to otherwise permit a public offering of Rights or Shares in any jurisdiction outside Australia and New Zealand. The Rights Issue is not being extended to any Shareholder whose registered address is outside of Australia or New Zealand. Any failure to comply with foreign legal restrictions in connection with the Rights Issue may constitute a violation of applicable securities laws, and persons who receive this Offer Document should seek advice on and observe any such restrictions. This Offer Document does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation.

AML may (at its absolute discretion) extend the Offer to certain institutional shareholders (as at the Record Date) in foreign jurisdictions subject to compliance with applicable laws.

### Future performance and forward looking statements

Neither AML nor any other person warrants or guarantees the future performance of the New Shares or any return on any investment made pursuant to the Rights Issue. The forward

looking statements in this Offer Document are based on AML's current expectations about future events. They are, however, subject to known and unknown risks, uncertainties and assumptions, many of which are outside the control of AML and its Directors, that could cause actual results, performance or achievements to differ materially from future results, performance or achievements expressed or implied by the forward looking statements in this Offer Document. Investors should specifically refer to section 9, 'Risk factors', which refers to some but not all of the matters that may cause actual results to differ from the position stated in any forward looking statement in this Offer Document.

### Definitions, currency and time

Definitions of certain terms used in this Offer Document are contained in section 11. All references to currency are to Australian dollars and all references to time are to AEST, unless otherwise indicated.

### Governing law

This Offer Document, the Rights Issue and the contracts formed on acceptance of the Applications are governed by the laws applicable in New South Wales, Australia. Each Applicant submits to the exclusive jurisdiction of the courts of New South Wales, Australia.

### Disclaimer

No person is authorised to give any information or to make any representation in connection with the Rights Issue which is not contained in this Offer Document. Any information or representation in connection with the Rights Issue not contained in the Offer Document may not be relied upon as having been authorised by the Company or any of its officers.

### Enquiries

If you have any questions in relation to the Rights Issue, please contact your stockbroker, solicitor, accountant or financial adviser. If you have any queries about your Entitlement please contact the Share Registry on the number below:

Registries Limited  
Australian shareholders Telephone: 1300 737 760  
Overseas shareholders Telephone: +61 2 9290 9600  
Facsimile: +61 2 9279 0664

### Privacy

As a Shareholder, AML and the Share Registry have already collected certain personal information from you. If you apply for New Shares, AML and the Share Registry may update your personal information or collect additional personal information. Such information will be used to assess your Application, service your needs as a Shareholder, provide facilities and services that you request and carry out appropriate administration. Company and tax law requires some of the information to be collected. If you do not provide the information requested, your Application may not be able to be processed efficiently, if at all.

AML and the Share Registry may disclose your personal information for purposes related to your shareholding to their agents and service providers as authorised under the Privacy Act. Under the Privacy Act, you may request access to your personal information held by (or on behalf of) AML or the Share Registry. If AML's or the Share Registry's record of your personal information is incorrect or out of date, it is important that you contact the Share Registry so that your records can be corrected.

## 1 FOR 1 NON-RENOUNCEABLE RIGHTS ISSUE – RIGHTS ISSUE OFFER DOCUMENT

### 1. HIGHLIGHTS

The Board of Advanced Magnesium Limited ACN 010 441 666 (the Company) is offering Eligible Shareholders the opportunity to subscribe for additional fully paid ordinary shares in the capital of the Company (New Shares). The offer is in the form of a non-renounceable rights issue with the following features:

- 1 for 1 non renounceable rights issue at 4 cents per New Share to raise up to \$4,238,998.12 before costs.
- the offer is made to all registered holders of shares in the Company at the record date of 27 July 2009 whose registered address is in Australia or New Zealand.
- The Rights Issue is partially underwritten to \$2,708,923.80.

### 2. RIGHTS ISSUE DETAILS

#### *Terms of Rights Issue*

The Board of the Company is pleased to announce the details of a non-renounceable rights issue to be made available to Eligible Shareholders to raise up to \$4,238,998.12 before costs through the issue of up to 105,974,953 new fully paid ordinary shares in the Company at an issue price of 4 cents per New Share.

Eligible Shareholders are invited to subscribe for New Shares under the Rights Issue on the basis of one New Share for every one Share held at 7pm (AEST) on the record date of 27 July 2009 at an issue price of 4 cents per New Share.

Eligible Shareholders should note that the market price of Shares in AML may rise or fall between the date of the Rights Issue and the date that any Shares are allotted to you as a result of your acceptance of the Rights Issue. This means that the subscription price you pay for the Shares may exceed the market price of the Shares at the date of allotment of the Shares. The Board recommends that you obtain your own financial advice in relation to the Rights Issue and consider price movements of the Shares in AML prior to accepting the Rights Issue

Investors who wish to take part in the Rights Issue who are not currently Shareholders may purchase shares prior to the ex-entitlement date (21 July 2009).

#### *Rights Trading*

The Rights Issue is non-renounceable, which means that you cannot transfer your right to subscribe for New Shares under the Rights Issue to anyone else. Any portion of your entitlement which is not taken up by the Closing Date will automatically lapse.

### *Use of Proceeds*

In combination with the funds raised from the placement of ordinary shares announced to the market on 29 June 2009 (**Placement**), capital raised under the Rights Issue will be used by the Company to fund its:

- proposed investment (of \$2,830,189) in shares in Henan Keweier Alloy Materials Co., Ltd (**KWE**) announced to the market on 16 June 2009 (subject to shareholder approval being obtained at the forthcoming annual general meeting of the Company as described below); and
- working capital for current operations.

If the KWE Investment is not approved by Shareholders at the AGM, the proceeds of the Placement and the Rights Issue will be applied to the working capital requirements of the Company.

Following completion of the Rights Issue, the Company will have up to 211,949,906 Shares on issue (depending upon the extent of non Australian and New Zealand shareholders not participating in the New Shares).

### *Eligibility*

Subject to the provision at the last paragraph of this sub heading, only Shareholders whose registered address is in Australia or New Zealand as at the Record Date will be eligible to participate in the Rights Issue. Applications for New Shares by Eligible Shareholders can only be made on an original Entitlement and Acceptance Form to be sent with this document to all Shareholders on 31 July 2009. The Entitlement and Acceptance Form sets out an Eligible Shareholder's Entitlement to participate in the Rights Issue.

This Rights Issue does not constitute an offer or invitation to subscribe for New Shares in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or invitation or issue this Offer Document. No action has been taken to register or qualify the Rights Issue in any jurisdiction outside Australia and New Zealand.

AML may (at its absolute discretion) extend the Offer to certain institutional shareholders (as at the Record Date) in foreign jurisdictions subject to compliance with applicable laws.

## **3. UNDERWRITING**

A total of up to 105,974,953 new ordinary shares will be offered under the Rights Issue to raise up to \$4,238,998.12.

Certain existing major shareholders of the Company including the Executive Chairman have irrevocably committed to the Underwriters to take up all of their Entitlements representing in aggregate 38,251,858 New Shares.

The offer of the balance of the maximum number of New Shares being offered under the Rights Issue (67,723,095 New Shares) will be fully underwritten by KWE (HK) Investment Development Co Limited (the Underwriter) under an Underwriting Agreement entered into on 11 June 2009. The Underwriter is owned by a shareholder associated with KWE.

Under the Underwriting Agreement, the Underwriters agree that, to the extent that Eligible Shareholders do not take up their Entitlements, they will subscribe for up to 67,723,095 New Shares at

4 cents per New Share (\$2,708,924), which is approximately equal to the obligation AML has to make an investment in KWE.

The underwriting of the Rights Issue provides the Company with enhanced certainty as to the level of funds to be raised.

#### *Key terms of Underwriting Agreement*

The underwriting is unconditional and is without cost to AML.

#### **4. DEPLOYMENT OF PROCEEDS OF RIGHTS ISSUE**

As mentioned in the Company's announcement on 16 June 2009, the Rights Issue is one prong of a two pronged capital raising. On 29 June 2009 the Company announced that it had raised \$535,434 under a placement of shares. Those shares were issued to an existing institutional shareholder and the Underwriter. A source and application of funds statement as at 30 June 2009 is set out in the table below.

	Source of Funds		Application of Funds
Cash balance as at 30 June 2009 <sup>(1)</sup>	\$1,029,471	Investment in KWE	\$2,830,189
Proceeds of rights issue	<u>\$4,238,998</u>	Company working capital	<u>\$2,438,280</u>
	\$5,268,469		\$5,268,469

*Note 1 Includes proceeds of placement on 29 June 2009*

As noted earlier, in the event shareholder approval is not granted to the Company to make the investment in KWE, funds will be applied to the working capital requirements of the Company.

#### **5. RIGHTS ISSUE TIMETABLE**

EVENT	DATE
Announce pro rata issue and apply for quotation (Appendix 3B).	Tuesday, 30 June 2009
Send notice to Shareholders containing information required by Appendix 3B.	Monday, 20 July 2009
Shares commence trading on an Ex Entitlement basis	Tuesday, 21 July 2009
Record date to identify shareholders entitled to participate in the issue.	Monday, 27 July 2009
Send Rights Offer Document and serially numbered entitlement form to shareholders	Friday, 31 July 2009
Announce that despatch has been completed.	Friday, 31 July 2009
Acceptances close at 5 pm	Thursday, 3 September 2009
Securities quoted on a deferred settlement basis.	Friday, 4 September 2009
Notify ASX of under subscriptions.	Tuesday, 8 September 2009
Despatch date (advise ASX that despatch has occurred <b>by noon</b> )	Friday, 11 September 2009
Deferred settlement trading ends.	
Confirm to ASX ( <b>by noon</b> ) all information required by Appendix 3B.	

These dates are subject to change and are indicative only. AML reserves the right to amend this Timetable including, subject to the Corporations Act and the Listing Rules, to extend the Closing Date, and AML reserves the right to withdraw the Rights Issue at any time before the allotment and issue of New Shares in its absolute discretion.

Issues of new Shares under this Rights Issue will only be made after approval for their quotation on ASX has been granted. Application Monies will be held by AML in a subscription account on behalf of each Eligible Shareholder who has applied for New Shares under the Rights Issue until the New

Shares are issued. If the Rights Issue is withdrawn and New Shares are not issued, the Application Monies will be refunded to those Eligible Shareholders who applied for New Shares under the Rights Issue as soon as reasonably practicable. Interest earned on the Application Monies will be for the benefit of AML and will be retained by AML irrespective of whether New Shares are issued.

## 6. WHAT YOU NEED TO DO

### *Your entitlement*

The number of New Shares to which Eligible Shareholders are entitled is shown on the individually prepared and serially numbered Entitlement and Acceptance Form to be dispatched on 31 July 2009. Eligible Shareholders may:

- take up all of their Entitlement in full;
- take up part of their Entitlement and allow the balance to lapse; or
- allow all of their Entitlement to lapse.

Non-participating Shareholders may not take any of the steps set out above.

The Company reserves the right to reject any Entitlement and Acceptance Form that is not correctly completed or that is received after the Closing Date. An Application for your Entitlement may be for any number of New Shares but must not exceed your Entitlement as shown on the Form. If it does, your Application will be deemed to be for your full Entitlement and any balance of Application Monies will be returned to you (without interest).

By completing an Entitlement and Acceptance Form or paying Application Monies through B<sub>PAY</sub>, Eligible Shareholders will be deemed to have made the representations, warranties and agreements set out in the Entitlement and Acceptance Form.

### *If you wish to apply for all of your Entitlement*

If you wish to take up the Entitlement in full, complete the Entitlement and Acceptance Form, in accordance with the instructions set out therein and post your completed Entitlement and Acceptance Form, together with your Application Monies, (see section below) to the Share Registry so that it is received no later than 5.00pm AEST on 3 September 2009 at the address set out below:

Registries Limited  
GPO Box 3993  
SYDNEY NSW 2001

You may also take up all of your Entitlement by arranging for payment of the Application Monies through B<sub>PAY</sub> in accordance with the instructions on the Entitlement and Acceptance Form. If payment is being made through B<sub>PAY</sub>, you do not need to return the Entitlement and Acceptance Form. Your payment must be received by no later than 5.00pm AEST on 3 September 2009.

### *If you wish to apply for part of your Entitlement and allow the balance to lapse*

If you wish to take up part of the Entitlement and allow the balance to lapse, complete the Entitlement and Acceptance Form for the number of New Shares you wish to take up and follow the steps set out in above with respect to accepting your Entitlement in full. If you take no further action, the balance of your Entitlement will lapse.

### *If you wish to allow all of your Entitlement to lapse*

If you do not wish to accept any part of the Entitlement, you do not need to take any further action and your Entitlement will automatically lapse. You will receive no payment for your lapsed Entitlement.

You cannot sell or transfer your Entitlement to another person. Your holding of existing Shares will, however, be diluted because the issue of New Shares will increase the total number of Shares on issue.

### *Payment*

The Issue Price for the New Shares is payable in full on application by a payment of 4 cents per New Share. You can make payment of the Application Price in two ways, either:

- the Entitlement and Acceptance Form must be accompanied by a cheque for the Application Monies. Cheques must be drawn in Australian currency on an Australian bank account and made payable to 'Advanced Magnesium Limited Rights Issue' and crossed 'Not Negotiable'; or
- you may arrange for payment of the Application Monies through B<sub>PAY</sub> in accordance with the instructions on the Entitlement and Acceptance Form. If you make payment via B<sub>PAY</sub>, you do not need to return the Entitlement and Acceptance Form.

Eligible Shareholders must not forward cash by mail. Receipts for payment will not be issued.

## **7. PROPOSED INVESTMENT IN KWE AND SHAREHOLDER APPROVAL**

As announced on 16 June 2009, the Company has entered an agreement to invest RMB 15,000,000 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 which is planned to take place on 31 August 2009.

Material relevant to the AGM including further details concerning the Company's proposed investment in KWE will be dispatched to Shareholders together with this Offer Document on 31 July 2009. Amongst the material relevant to the AGM will be an independent expert's report on the KWE Investment which will include an opinion as to whether the expert considers that the proposed investment is fair and reasonable to Shareholders not associated with KWE.

Given that investment in KWE involves a substantial application of the Rights Issue proceeds, the Closing Date for the Rights Issue has been set at a time subsequent to the shareholder vote on the proposed KWE Investment.

The report by the independent expert on the KWE Investment, the Company's pending annual report and the AGM will, in combination, provide analysis of the Company's performance over the last financial year and the Directors' view of the Company's prospects. In the meantime the section below provides management's summary of recent developments and in particular the KWE Investment.

## **8. RECENT DEVELOPMENTS AND KWE PROJECT**

The KWE magnesium alloy plant is located at Dazhou, near Changge just to the south of the capital of Henan province, Zhengzhou. Zhengzhou is a major centre for magnesium recycling being the largest non-ferrous metals distribution centre in northern China. Zhengzhou is located on the Huang He (Yellow river) and is a major transportation hub. It lies on the route of the Beijing – Guangzhou high speed rail link currently under construction. The KWE project site is located approximately 30km from both the centre of Zhengzhou and the Zhengzhou airport.

The KWE magnesium alloy plant is located on a 33 acre site and is being developed in stages with the first phase nearing completion.

The first stage involves the building of four buildings being the administration building, the accommodation block, the engineering workshop and the number 1 alloy production building. These buildings are now near completion and it is expected that commissioning of the first module of

furnaces will commence in early July. The first furnace module will manufacture magnesium alloys containing aluminium such as the generic alloys, AZ91D and AM60B as well as AML's proprietary alloy, AM-lite.

Shortly after the commissioning of furnace module 1, a second module will be built in the same building, doubling capacity to 20,000 tonnes per annum.

Work has also begun on the second furnace building which will house production facilities for AML's specialist alloys such as AM-HP2+, AM-EX1 and AM-SC1 and AM-cast. The facility will also be suitable for non-aluminium containing generic alloys such as ZK60 and ZE41.

The last twelve months have been extremely difficult for the magnesium industry worldwide and for alloy producers in particular. Many producers have been forced to exit the business bringing supply back into line with demand resulting in a stabilisation of the primary magnesium price around the US\$2,500 – US\$2,800 level compared to over US\$6,000 per tonne prior to the global economic crisis. There are signs of a growth in domestic demand in China and it is the view of AML Directors that now is a good time to be investing in low operating cost, world class alloy production capacity.

The production of generic alloys will underpin the business initially and generate the first cash flow. Margins are expected to be minimal at the present level of prices for generic alloys and the project will only be marginally profitable in the first six months. However, AML's intention, when determining to invest in KWE was to differentiate itself by moving the production focus to its own specialist alloys. It is expected that these specialist alloys will command much higher margins and enable the project to achieve profitability within the first year of operation.

In summary, the strategy is to firstly build a market reputation as a preferred supplier of quality generic alloys as magnesium demand begins to grow again. By the end of calendar 2009, it is expected that AML will be well into implementing the second stage of its strategy with an active marketing program for its advanced magnesium alloys.

During a most difficult 2009 fiscal year for AML, besides developing a strategy to take greater control of the company's destiny through the KWE deal, focus was on further cutting cash burn while maintaining a reasonable level of trialing and testing of AML's proprietary alloys. AM-cast is now ready for commercial production and we will have two production capabilities in 2010 being at the KWE facility and also with a Japanese production partner.

AM-EX1 has been trialed in Japan and USA and billets are presently undergoing testing in both those countries as well as at CAST in Melbourne. We are confident that we will be actively marketing AM-EX1 in the final quarter of calendar 2009.

Further trials of AM-HP2+ have been on hold for some six months due to the significant downturn in the magnesium auto die casting industry in Europe. It is planned to start new trials of AM-HP2+ within the next few months after which we will be in a position to determine the next stage of development plans for AMHP2.

## **9. RISK FACTORS**

There are a number of risk factors of which Shareholders need to be aware when determining whether to take up their Entitlement. At the end of the 2009 financial year AML was in a position of having to raise capital to ensure its future. Notwithstanding the prospects for its suite of alloys and melt technologies, the AML board determined that the company's prevailing business model was not sufficiently robust to ensure its long term success.

The need to develop a production platform for our proprietary alloys was a key priority and after a review of several opportunities, the KWE project was determined to be by far AML's best option to build a long term, successful future after assessment of such matters as

- local management skills;
- the personal equation of our partners;
- the partners' ability to assist manage the country risk issues; and
- the advanced state of development of the project.

Any investment in a foreign domain contains more risks than a domestic investment. The laws, business practices as well as culture of the foreign country are, to varying degrees, different to those in Australia. The contemplated investment in KWE is a long term illiquid investment that may also be subject to currency fluctuations, change in government rules & employment practices.

The investment in the private placement and the underwriting of the rights issue by Messrs Li and Sun's investment vehicle, KWE (HK) Investment Co. Limited will enable AML to take up a 53% shareholding in the KWE project. It will also enable AML to continue developing its non China project activities.

The project construction risk (possible time and cost overruns) are mitigated by the fact that when AML agreed the 53% investment in the KWE project, the first stage was already 75% complete and on budget. It is expected that the project will commence alloy production from module 1 furnaces early in July 2009.

The project has operating risks and delays could occur to the timing of production build ups. AML's technical experts have visited the project site and advised on building and start up risks. Production should build up to just over 800 tonnes of alloy per month. It is planned that AML's global technical experts will revisit the operation in mid August to ensure that the target of 10,000 tonnes per annum output of high quality magnesium alloy production is achieved.

The market risk is difficult to mitigate other than by being one of the world's lowest cost producers. Investing in a new facility which incorporates the latest technology and low maintenance plant assist realise this objective. AML is investing in the project at a time when the magnesium alloy market is still in a deep recession. However, it is believed that with its skilled but relatively low cost and highly productive workforce the KWE project will be one of the world's lowest cost producers. Further, the KWE project will differentiate itself by producing AML's suite of proprietary alloys which as market presence is developed, will enable those alloys to command premium pricing.

## **10. ADDITIONAL INFORMATION**

### *Tax*

The taxation consequences of any investment in the New Shares will depend on the investor's particular circumstances. It is the responsibility of Eligible Shareholders to make their own enquiries concerning the taxation consequences of an investment in AML. If you are in doubt as to the course you should follow, you should seek professional advice from your accountant, financial adviser, lawyer or other professional adviser.

### *Continuous disclosure*

AML is a disclosing entity for the purposes of the Corporations Act. As such, it is subject to regular reporting and disclosure obligations under the Corporations Act and the Listing Rules. These disclosure obligations require AML to disclose to ASX any information that a reasonable person would expect to have a material effect on the price or value of the securities of AML.

Copies of documents lodged with ASIC in relation to AML may be obtained from, or inspected at, an office of ASIC.

The Rights Issue is being made to Eligible Shareholders without disclosure to investors pursuant to Section 708AA of the Corporations Act. The Company filed a notice with ASX on 30 June 2009 in accordance with section 708AA with respect to the Rights Issue.

*Effect on control*

An existing Shareholder of the Company participated in the Placement which took place on 29 June 2009, thereby increasing its percentage holding in the Company. In addition, this Shareholder and other existing Shareholders of the Company (including the Executive Chairman) have irrevocably committed to the Underwriters to take up their entitlements under the Rights Issue in full representing in aggregate 38,251,858 New Shares.

The Rights Issue is underwritten up to \$2,883,850.12 (representing the balance of 67,723,095 New Shares to be offered under the Rights Issue) by the Underwriters.

Given the commitments and underwriting arrangements described above, the potential effect of the Rights Issue is as follows:

- if all Eligible Shareholders take up their entitlements under the Rights Issue, then the Underwriters will not be issued with any New Shares under the Rights Issue (except to the extent that they take up their pro rata Entitlements as Shareholders of the Company) and the Rights Issue will have no significant effect on the control of the Company;
- if particular Eligible Shareholders do not take up all of their entitlements under the Rights Issue, then the shareholding interests of those Eligible Shareholders in the Company will be diluted;
- the interests of shareholders with registered addresses outside Australia and New Zealand may be diluted because (unless the Company determines otherwise) such shareholders are not entitled to participate in the Rights Issue; and
- the table below shows the interest the Underwriters will have in AML at various rates of take up under their underwriting obligation.

Proportion of Underwriting Activated	Interest of Underwriters In AML
0%	9.83%
25%	17.82%
50%	25.80%
75%	33.79%
100%	41.78%

## 11. DEFINED TERMS

**AEST** means Australian Eastern Standard Time.

**Applicant** means an Eligible Shareholder who has applied to subscribe for New Shares by submitting an Entitlement and Acceptance Form or arranging for payment through B<sub>PAY</sub>® in accordance with the instructions on the Entitlement and Acceptance Form.

**Application** means the submission of an Entitlement and Acceptance Form accompanied by the relevant Application Monies or arranging for payment of the relevant Application Monies through B<sub>PAY</sub>® in accordance with the instructions on the Entitlement and Acceptance Form.

**Application Monies** means the aggregate amount of money payable for the New Shares applied for in a duly completed Entitlement and Acceptance Form or through B<sub>PAY</sub>®.

**ASIC** means the Australian Securities and Investments Commission.

**ASX** means ASX Limited ACN 008 624 691.

**Business Day** has the same meaning as in the Listing Rules.

**Closing Date** means 3 September 2009.

**Company** or **AML** means Advanced Magnesium Limited (ABN 51 010 441 666).

**Corporations Act** means the Corporations Act 2001 (Cth).

**Directors** means the directors of the Company.

**Eligible Shareholder** means a Shareholder as at the Record Date who is not a Non-participating Shareholder.

**Entitlement** means the entitlement to subscribe for New Shares pursuant to the Rights Issue.

**Entitlement and Acceptance Form** means the Entitlement and Acceptance Form accompanying this Offer Document.

**Issue Price** means \$0.04 each per New Share.

**Listing Rules** means the official listing rules of ASX.

**KWE** means Henan Keweier Alloy Materials Co., Ltd

**KWE Investment** means the Company's proposed RMB 15,000,000 investment to acquire 53% of KWE

**New Shares** means Shares to be allotted and issued under the Rights Issue.

**Non-participating Shareholder** means a Shareholder as at the Record Date whose registered address is not situated in Australia or New Zealand.

**Rights Issue** means a pro rata non-renounceable offer to Eligible Shareholders to subscribe for New Shares on the basis of one New Share for each Share of which the Eligible Shareholder is the registered holder as at 5.00pm AEST on the Record Date at an issue price of \$0.04 each per New Share, pursuant to the Offer Document.

**Opening Date** means 30 June 2009 2009.

**Record Date** means 7.00pm AEST on 27 July 2009.

**Rights** means the rights to subscribe for New Shares pursuant to this Offer Document.

**Share Registry** means Registries Limited.

**Shareholders** means holders of Shares from time to time.

**Shares** means fully paid ordinary shares in the capital of the Company.

**Timetable** means the indicative timetable set out on page 5 of this Offer Document.

**Underwriters** means KWE (HK) Investment Development Co Limited.

**Underwriting Agreement** means the agreement entered into between the Company and the Underwriters on 11 June 2009 with respect to the partial underwriting of the Rights Issue.



**Advanced  
Magnesium  
Limited**

ABN: 51 010 441 666

**Registries**

All correspondence to  
Registries Limited  
GPO Box 3993  
Sydney NSW 2001

Tel: 1300 737 760 (within Aust)  
Tel: + 61 2 9290 9600 (outside Aust)  
Fax: + 61 2 9279 0664

[www.registries.com.au](http://www.registries.com.au)  
[registries@registries.com.au](mailto:registries@registries.com.au)

## RIGHTS ISSUE ENTITLEMENT AND ACCEPTANCE FORM

NON-RENOUNCEABLE ISSUE OF UP TO 105,974,953 NEW SHARES AT AN ISSUE PRICE OF FOUR CENTS EACH ON THE BASIS OF 1 NEW SHARE FOR EVERY 1 ORDINARY SHARE HELD, PAYABLE IN FULL UPON ACCEPTANCE OF THIS OFFER.

Entitlement No.

Subregister

SRN/HIN.

Number of Shares held at  
7pm on 27 July 2009

**Offer Closes: 3 September 2009 at 5:00pm  
AEST**

### A Rights Acceptance

If you wish to accept your **FULL ENTITLEMENT** please complete and return this form **WITH YOUR PAYMENT FOR THE AMOUNT SHOWN BELOW**. The return of this form by the close date with payment will constitute acceptance of the Offer. Your signature is only required when an alteration to your address is indicated by you over the page.

Entitlement to New Shares on the basis of one New Share for one Ordinary Share held	Price Per Share	Amount Payable for Full Acceptance, at \$0.04 per New Share
	\$0.04 per Share =	

If you wish to accept **PART ONLY OF YOUR ENTITLEMENT** please complete this form showing in the box below the **NUMBER OF NEW SHARES BEING ACCEPTED** and the appropriate amount payable.

Number of New Shares accepted	Price Per Share	Amount Enclosed
	\$0.04 per Share =	\$

### B Payment

Payment may only be made by BPAY or cheque. Cash will not be accepted via the mail or at the Advanced Magnesium Limited Share Registry. Payments cannot be made at any bank.

#### Payment Option 1 - BPAY



**Biller Code: 119008**

Ref:

#### Telephone & Internet Banking - BPAY®

Contact your bank, credit union or building society to make this payment from your cheque or savings account.

More info: [www.bpay.com.au](http://www.bpay.com.au)

© Registered to BPAY Ltd ABN 69 079 137 518

- To pay via BPAY please contact your participating financial institution
- **If paying by BPAY you do not need to return the Application Form**
- If paying by BPAY the amount of your payment received in the account divided by the issue price will be deemed to be the total number of Shares you are applying for.

#### Payment Option 2 – Cheque (Record cheque details below)

DRAWER	CHEQUE NO.	BSB NO.	ACCOUNT NO.	AMOUNT \$AUD
				\$

- Only cheques or bank drafts in Australian dollars and drawn on a bank or financial institution in Australia will be accepted.
- Your cheque or bank draft must be made payable to Advanced Magnesium Limited Rights Issue and crossed Not Negotiable.
- Please ensure that you submit the correct amount. Incorrect payments may result in your application being rejected

### C Contact Details

CONTACT NAME	TELEPHONE WORK	TELEPHONE HOME	EMAIL ADDRESS
	( )	( )	

**THIS FORM CONTINUES OVERLEAF**

By submitting this Application Form or by using the BPAY facility to accept the Offer, I/We represent and warrant that I/we have read and understood the Offer to which this Application Form relates and declare that this Application is completed and lodged according to the Offer and the instructions on the reverse of the Application form and declare that all details and statements made by me/us are complete and accurate. I/We agree to be bound by the constitution of Advanced Magnesium Limited and agree to the terms and conditions of the Offer. I/We represent and warrant that I/we have not relied on any other information provided by the Company other as set out in the Offer when making my/our decision to invest.

## LODGEMENT INSTRUCTIONS TO APPLICANTS

Please read these instructions carefully

### ACCEPTANCE OF YOUR ENTITLEMENT IN FULL OR PART

Multiply the number of New Shares for which you are accepting by \$0.04 then fill in the acceptance details, where necessary, in the space provided on the front of this form. Complete your cheque details on the front of this form and send your cheque/draft and completed form to:

Registries Limited GPO Box 3993 SYDNEY NSW 2001	Telephone No. 02 9290 9600 Facsimile No. 02 9279 0664
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If you do not deal with your entitlement it will lapse at 5.00 pm AEST on 3 September 2009.

### PAYMENT

#### Cheque or Draft

All cheques or drafts (expressed in Australian currency) are to be made payable to "Advanced Magnesium Limited and crossed "Not Negotiable".

#### BPAY

If you make payment using BPAY you must contact your Australian bank, credit union or building society to make this payment from your cheque or savings account. For more information: [www.bpay.com.au](http://www.bpay.com.au). Refer to the front of this form for the Biller Code and Customer Reference Number. Payments must be received by BPAY before 5.00 pm AEST on 3 September 2009.

### PAYMENT - OVERSEAS RESIDENTS

Overseas shareholders who are permitted to apply for shares must obtain a draft in Australian currency payable on a bank in Australia, or where the shareholder has an account with a bank in Australia, by a cheque drawn on that bank within Australia.

The Australian currency draft should be attached to your completed form and the document mailed to:

Registries Limited  
GPO Box 3993  
SYDNEY NSW 2001

OVERSEAS SHAREHOLDERS ARE ADVISED TO ENSURE THEIR DOCUMENTS ARE POSTED TO AUSTRALIA BY AIRMAIL.

Personal cheques drawn on overseas banks in Australian or any foreign currency will not be accepted. These will be returned and the acceptance deemed to be invalid.

### INTERPRETATION

Terms used in this Entitlement and Acceptance Form have the same meaning as defined in the Offer.

### CHANGES OF ADDRESS SUPPORTED BY YOUR SIGNATURE(S)

If your address is not exactly as shown, please provide details below. This is only relevant for Issuer Sponsored registered holdings. CHESSE holders must notify your sponsoring broker for amendments to holdings on the CHESSE Subregister.

CHANGE OF ADDRESS DETAILS – ISSUER SPONSORED ONLY		
SIGN HERE FOR ADDRESS AMENDMENTS:		

Shareholder 1 (Individual) /  
Sole Director & Sole Company Secretary

Joint Shareholder 2 (Individual) /  
Director

Joint Shareholder 3 (Individual) /  
Director/Company Secretary  
(Delete one)

### Privacy Statement:

Registries Limited advises that Chapter 2C of the Corporations Act 2001 (Cth) requires information about you as a shareholder (including your name, address and details of the shares you hold) to be included in the public register of the entity in which you hold shares. Information is collected to administer your share holding and if some or all of the information is not collected then it might not be possible to administer your share holding. Your personal information may be disclosed to the entity in which you hold shares. You can obtain access to your personal information by contacting us at the address or telephone number shown on the Application Form.

Our privacy policy is available on our website ([http://www.registriesltd.com.au/help/share\\_privacy.html](http://www.registriesltd.com.au/help/share_privacy.html)).

**CORPORATE OFFICE**

**ADVANCED MAGNESIUM LIMITED**  
**ABN 51 010 441 666**

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