

EXPLANATORY MEMORANDUM

This explanatory memorandum accompanies the notice of meeting for an extraordinary general meeting of Australian Magnesium Corporation Limited (the **Company**) to be held on Tuesday, 4 October 2005.

Information relevant to the business to be considered at the extraordinary general meeting is provided in the explanatory memorandum and shareholders should read this document in full.

Resolution 1: Consolidation of shares

1.1 Overview

In the interest of all Shareholders, the Board believes that the issued capital of the Company needs to be reconstructed to create a platform from which the Company may pursue future capital raising for its Advanced Magnesium Technologies business. To achieve this objective your Directors are proposing that the Company undertake a reconstruction of its issued capital. It is proposed that every 20 shares held by shareholders will be consolidated into one new share.

The Company has approximately 1.06 billion ordinary shares on issue. The total number of new shares on issue will be approximately 52.9 million following the consolidation.

The Directors do not believe that any material disadvantages will arise for shareholders from a consolidation of the capital of the Company. However, there can be no assurances as to level at which the Company's shares will trade following the consolidation of capital.

1.2 Timetable for Consolidation of Shares

The consolidation of Shares will take effect on the day this resolution is passed. The Company will despatch a notice to shareholders detailing the number of new shares held by them as a result of the consolidation within 10 business days of the date the consolidation takes effect.

1.3 Process

Where the consolidation results in a shareholder not having a whole number of shares the fraction of a share will be rounded up and made into one ordinary share. Fractions of options will be dealt in the same way.

The Company has a number of options. In accordance with the change to the number of shares and the exercise price that the consolidation will cause, the number of options will be reduced by 20 times and the exercise price will be increased 20 times.

1.4 Taxation

In circumstances where a company changes the number of shares on issue through a share consolidation and shareholders remain the beneficial owners of the original and newly converted shares in the same proportions, no CGT event (i.e. disposal of a CGT asset) arises for shareholders on consolidation of their original shares. This is in accordance with a determination of the Australian Taxation Office. However it is recommended that you seek professional advice in relation to your circumstances.

The Directors unanimously recommend that shareholders vote in favour of this resolution.

Resolution 2: Change of company name

2.1 Overview

Following the change in emphasis of the Company's activities to Advanced Magnesium Technologies, the Directors seek support from shareholders to rename the Company from Australian Magnesium Corporation Limited to Advanced Magnesium Limited. Your Directors believe this name better reflects the Company's core business activity. Whilst the immediate focus of the Company is on advanced magnesium technologies through its wholly owned subsidiary, Advanced Magnesium Technologies Pty Ltd, the Company is also evaluating technologies in other fields.

2.2 Regulatory requirements

When a company wishes to change its name, section 157 of the Corporations Act 2001 requires the members to pass a special resolution adopting the new name. A special resolution is a resolution that has been passed by at least 75% of the votes cast by members entitled to vote on the resolution.

The Directors unanimously recommend that shareholders vote in favour of this resolution.

Resolution 3: Employee share option plan**3.1 Overview**

The Company wishes to establish an employee share option plan (**Employee Share Option Plan**) under which options to subscribe for shares will be issued to employees of the Company free of charge, as an incentive to maximise the performance of the Company. This is an alternative to a cash bonus scheme. The Directors believe it is prudent to reward and retain its employees in this manner particularly in the formative years of the Company's Advanced Magnesium Technologies business.

3.2 Regulatory requirements

Approval for the issue of options under the Employee Share Option Plan is sought by way of an ordinary resolution under Listing Rule 7.2, exception 9. Listing Rule 7.2 is an exception to the requirement in Listing Rule 7.1 that the Company not issue equity securities in any 12 month period that amount to more than 15% of its ordinary securities. This exception allows the Company to issue options under the Employee Share Option Plan for a period of three years without requiring further shareholder approval.

3.3 Regulatory information

Below is a summary of the terms of the Employee Share Option Plan. This information is provided for the benefit of shareholders and in accordance with the requirements outlined in section 3.2. As the Employee Share Option Plan is a new plan, no options have been issued pursuant to the plan thus far.

Under the Employee Share Option Plan, the Board of Directors (**Board**) may issue options to Directors (with shareholder approval) and full-time or part-time employees, including consultants, of the Company and its associated companies, free of charge.

To determine who is eligible to participate in the plan, the Board may consider, amongst other things, the position held by the employee and their length of service; the contribution made by the employee to the Company; and whether the employee has met any performance criteria set by the Board.

Each option entitles the holder to subscribe for, and be issued, one fully paid share. The options may be exercised at any time after they have been issued upon payment of the exercise price of the option.

The Company proposes to make an initial issue of options and subsequent issues on an annual basis. The initial issue of options under the Employee Share Option Plan will allow a subscription of up to 5% of the issued share capital of the Company. If the consolidation of shares in resolution 1 is approved, the exercise price will be the weighted average price of the Company's ordinary shares over 3 months preceding this meeting plus a 25% premium multiplied 20 times. For example, if the weighted average price for the 3 months period is assumed to be 1.0c, then multiply it by a 25% premium and that result by 20 times resulting in an exercise price per share of 25 cents.

If the consolidation is not approved, the exercise price will be the weighted average price of the Company's Ordinary shares over 3 months preceding this meeting plus a 25% premium, which represents a premium to the market price when the Board approved the plan.

Subsequent issues of options, allowing subscription of up to a total of a further 5% of the issued share capital of the Company, will be made on the achievement of specific performance criteria to be set by the Board on an annual basis. The exercise price will be determined by the Board before the issue of the options.

The number of shares that may be issued under the plan in any five year period shall not exceed 10% of the number of shares on issue in the Company, disregarding issues under a prospectus or issues excluded from the prospectus requirements.

The options will not be quoted by the Australian Stock Exchange (**ASX**); however, the Company will apply for official quotation by ASX of shares issued on the exercise of options. The shares issued on exercise of the options will rank equally with existing shares.

The options will lapse after five years or where an employee has acted fraudulently, dishonestly or in breach of their duty to the Company. The options will also lapse if the employee ceases to be employed by the Company, except in circumstances of death, permanent illness, retirement or redundancy, in which case there will be 30 days to exercise the option.

Option holders will be given an opportunity to exercise their options prior to any new issue of shares, such as a rights issue, which will allow them to participate in the issue. The options will also confer a right to participate in any bonus issues of shares.

The plan will be administered by the Board who may alter its terms, subject to any Corporations Act or Listing Rule requirements.

The plan will be administered by the Board who may alter its terms, subject to any Corporations Act or Listing Rule requirements.

3.4 Directors' recommendation

Ian Hartnell, the managing director of the Company, has an interest in the outcome of resolution 3, as he may participate in the Employee Share Option Plan. As such, he has not given a recommendation with respect to this resolution.

Apart from Mr Hartnell, none of the Directors has an interest in the outcome of resolution 3, other than as shareholders of the Company. They consider that it is appropriate that they should make a recommendation to shareholders with respect to this resolution.

The remaining Directors, other than Mr Hartnell, unanimously recommend that shareholders vote in favour of resolution 3 because they believe that the Employee Share Option Plan has been structured in such a way as to provide additional incentive to participating employees to remain with the Company and to maximise the Company's performance.

Resolution 4: Issue of options to managing director

4.1 Overview

The Company wishes to give Mr Hartnell, the managing director, the opportunity to participate in the Employee Share Option Plan.

4.2 Regulatory requirements

Given that Mr Hartnell is a director of the Company, approval for the issue of options to him requires approval by shareholders under Listing Rule 10.14.

4.3 Regulatory information

The following information is provided for the benefit of shareholders and in accordance with the requirements outlined in section 4.2. As the Employee Share Option Plan is a new plan, no options have been issued pursuant to the plan thus far.

The options will be issued to Mr Hartnell on the terms of the Employee Share Option Plan, which are summarised above at section 3.3.

Under the first issue of options under the Employee Share Option Plan, the Board intends to issue 656,000 options to Mr Hartnell, if the consolidation in resolution 1 is approved. If the 20 for 1 consolidation is not approved, then the Board intends to issue Mr Hartnell with 20 times the above number.

If the consolidation of shares in resolution 1 is approved, the exercise price will be the weighted average price of the Company's ordinary shares over 3 months preceding this meeting plus a 25% premium multiplied 20 times. For example, if the weighted average price for the 3 month period is assumed to be 1.0c, then multiply it by a 25% premium and that result by 20 times resulting in an exercise price per share of 25 cents.

If the consolidation is not approved, the exercise price will be the weighted average price of the Company's ordinary shares over 3 months preceding this meeting plus a 25% premium, which represents a premium to the market price when the Board approved the plan.

The first issue of options to Mr Hartnell will be made by not later than 31 October 2005.

Any subsequent issues of options to Mr Hartnell will be made on the achievement of specific performance criteria to be set by the Board on an annual basis. Under the Listing Rules, any subsequent issues will require shareholder approval.

Participation in the plan is open to all executive directors of the Company.

4.4 Directors' recommendation

Mr Hartnell has an interest in the outcome of resolution 4. As such, he has not given a recommendation with respect to this resolution.

Apart from Mr Hartnell, none of the Directors has an interest in the outcome of resolution 4, other than as shareholders of the Company. They consider that it is appropriate that they should make a recommendation to shareholders with respect to this resolution.

The remaining Directors, other than Mr Hartnell, unanimously recommend that shareholders vote in favour of resolution 4 because they believe that Mr Hartnell should participate in the Employee Share Option Plan as an incentive to remain with the Company and to maximise the Company's performance.

Resolution 5: Approval of placement**5.1 Overview**

The Company wishes to offer institutional and sophisticated investors an opportunity to invest in the Company.

5.2 Regulatory Requirements

Under Listing Rule 7.1, the Company must not issue equity securities in any 12 month period that amount to more than 15% of its ordinary securities without shareholder approval. Under Listing Rule 7.1, the Company may seek shareholder approval to the issue of securities (which includes ordinary shares) in excess of the Company's 15% limit.

5.3 Regulatory Information

The following information is provided for the benefit of shareholders and in accordance with the requirements outlined in section 5.2.

Issue date:	Anticipated to be 4th October 2005 (EGM date). But in any event not later than three months after 4 th October 2005
Nature of issue:	Placement
Maximum number of shares to be allotted and issued:	Up to 50,000,000 (assuming Resolution 1, 20 for 1 consolidation of shares, is approved. Otherwise 20 times the above number).
Issue price of shares:	Not less than 80% of the average market price of the Company's ordinary shares over the last 5 days on which trading occurs prior to the day of issue.
Terms of the shares:	Ordinary shares, which will rank equally with existing Ordinary shares.
Basis of allottee determination:	Persons identified by the Company as persons to whom offers of securities could be made without disclosure under Chapter 6D of the Corporations Act 2001.
Use or intended use of funds raised:	To finance the commercialisation of the Company's intellectual property and to facilitate the Company's ongoing financial flexibility. In particular, it is expected that the funds raised would be expended on the following activities: approximately 20% on Research & development activities; approximately 35% on marketing of AMT products; approximately 10% on production trials and the balance on general corporate purposes,

5.4 Directors' Recommendation

The Directors consider this equity raising is an important component of the funding strategy developed to finance the commercialisation of the Company's intellectual property and to facilitate the Company's ongoing financial flexibility.

The Directors unanimously recommend that shareholders vote in favour of this resolution.