



15 February 2006

Company Announcements Office
Australian Stock Exchange Limited
Level 4, 20 Bridge Street
SYDNEY NSW 2000

Dear Sirs,

RE: ANNOUNCEMENT

Please find attached an Announcement in relation to:

*** Half Yearly Report ended 31 December 2005 & Appendix 4D**

Yours faithfully,

A handwritten signature in black ink, appearing to read "P K Nair". The signature is fluid and cursive, with a large initial "P" and a long, sweeping underline.

P K Nair
General Manager Corporate
& Company Secretary

Appendix 4D

Advanced Magnesium Limited
ASX Half-Year Report - 31 December 2005

Advanced Magnesium Limited ("AML") [formerly Australian Magnesium Corporation Limited]
ABN 51 010 441 666

This Half Year Report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A.

This information should be read in conjunction with the Advanced Magnesium Limited
Financial Statements for the year ended 30 June 2005.

Current Reporting Period: Half-Year from 1 July 2005 to 31 December 2005

Previous Corresponding Period: Half-Year from 7 July 2004 to 31 December 2004

**Results for Announcement to the Market
for the Half-Year Ended 31 December 2005**

Revenue and Net Profit		Percentage Change %	Amount \$
Revenue	Up	226.45%	to 239,150
Loss from continuing operations after tax	Down	n/a *	to (2,430,560)
Net Profit attributable to members	Down	65.06%	to 1,586,418

* Cannot calculate percentage change as loss incurred in current period.

Dividends	Amount per share	Franked amount per share
Interim dividend - per share	0.0¢	0.0¢
Previous corresponding half yearly report	0.0¢	0.0¢

Brief Explanation of Revenue, Net Profit and Dividends

Revenue and Net Profit

The following significant events affect Revenue and Net Profit:

- The Group renegotiated its position with Alcan and extinguished its potential payable of \$4,838,370 in relation to licence fees, with the resulting credit to Net Profit.
- Management has elected to fully provide for the remaining Stanwell Project Asset balance, resulting in a writedown included in the Consolidated Income Statement of \$821,391.

In October 2005 Magtrust sold its shareholding in AML and, as part of an agreement between Magtrust and Newmont Australia, provided the net cash amount of \$2,077,690 to AML. This amount has been accounted for as income during the period.

No dividend was declared in the period.

**Financial Report
For the Half-Year Ended
31 December 2005**

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Directors' Report

The Directors of Advanced Magnesium Limited ("the Company") submit herewith the financial report for the half-year ended 31 December 2005. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

The names of the Directors of the Company during or since the end of the half-year are:

Dr CD Rawlings (Non-Executive Chairman)
Mr FCH O'Connor (Non-Executive Director)
Mr DM Byrne (Non-Executive Director)
Mr KG Williams (Non-Executive Director)
Mr ID Hartnell (Managing Director)

Review of Operations

The consolidated profit for the six months was \$1,586,418 (2004: profit of \$4,540,290).

Corporate

An Extraordinary General Meeting was held on 4 October 2005. At this meeting, the following proposals were put to the shareholders and passed:

- that the Company's name be changed from Australian Magnesium Corporation Limited to Advanced Magnesium Limited;
- that the Company's share capital be consolidated on a 1 for 20 basis;
- that an Employee Share Option Plan be effected;
- that Mr ID Hartnell be provided options in his capacity as Managing Director; and
- that shares be issued via a placement.

The twenty-third annual general meeting of AML was held on 24 November 2005 at the Brisbane Convention Centre. Messrs Byrne and Williams were re-elected to the Board of Directors.

Operational Overview

The six months to 31 December 2005 was a watershed period for Advanced Magnesium Limited (AML). The Company's wholly owned subsidiary, Advanced Magnesium Technologies Pty Ltd (AMT) received its first orders for AM-lite, demonstrated the product at 20 factory sites around the world, made 60 presentations to potential customers and will have two reference sites producing AM-lite products in commercial quantities, at HDO and Polmag, by the end of February 2006.

The properties and performance of AM-lite under testing continues to validate the technology. The Company has hired new team members to facilitate customer inquiries following the successful capital raising in October 2005.

The initial order flow and the extraordinary level of interest from diecast manufacturers and OEMs is likely to result in an acceleration of sales as new electroplating and painting technology becomes more widely adopted.

Market Development

During the first half of the 2005/06 financial year priority was given to the commercial launch of AM-lite into Japan, Korea, Taiwan, Europe and North America and the development of new applications for AM-lite. This involved researching and prioritising target customers; the

preparation of promotional material and technical data sheets; presentations to over 60 diecasters and OEMs; the completion of 20 in-plant demonstration trials at customers' diecasting plants; and the finalisation of agency arrangements for Japan, Korea and Taiwan.

As a result of the success of the demonstration trials, our customers are now working on developing new applications using AM-lite with lead times varying from 2-24 months depending on the complexity and the degree of testing required for the part before commercial release. By the end of the period, AMT was aware of over 70 separate components that were either under development or being evaluated by our customers. These include components such as binoculars, bathroom accessories, various parts for a major truck manufacturer, gear shift paddles, various home hardware items including door handles, tap handles, shower fittings and furniture handles, projector housings, various items of trim for interior automotive applications, wing mirrors, car door handles (interior and exterior), rear parcel shelf, stanchions for a rear spoiler, mobile phone housings and laptop computer housings, gear shift cover plates, car door grab handles, cylinder head covers and motorcycle side covers.

In December 2005, AMT announced its first commercial order for AM-lite from Polmag, a Polish diecaster, to manufacture a well known brand of binoculars (previously made from aluminium), and bathroom accessories (previously made from zinc). This order resulted from the progressive clearance of all the manufacturing and testing hurdles required prior to commercial acceptance. AMT continues to work with Polmag on other projects which it anticipates will lead to further sales in the future.

One of the key factors identified during the period which has limited the rate of commercialisation of AM-lite was the availability of experienced engineers to introduce AM-lite and provide technical support to customer's operators using AM-lite for the first time. AMT had not expected such a high level of interest and found itself under-resourced. AM-lite behaves very differently to existing magnesium alloys and customers generally require guidance from AMT engineers in the initial stages to learn how to manage the metal in the diecasting process. Since the capital raising in October, 2005, AMT has been able to address this issue by recruiting two highly experienced engineers to supplement our existing teams in Asia and North America, and is still actively looking for one more engineer for Europe. AMT has also retained the services of a Korean company specialising in the development of new applications for magnesium to support our activities in that region.

Another short term issue for AM-lite has been the availability of regional electroplating capacity using the MacDermid process, and the completion by MacDermid of the full suite of its standard corrosion tests. This is being addressed in the current half. During the six month period, the MacDermid electroplating process was successfully installed and commissioned on a commercial scale at HDO's diecasting plant in Germany; it is currently being installed at another European diecaster to meet their anticipated production orders for new AM-lite parts in the coming months; and it is progressively being made available in Asia and North America to meet expected demand in those regions. AMT and MacDermid will be participating in a number of joint marketing activities in the coming months to promote the combined benefits of AM-lite castings with MacDermid electroplated finishes.

Apart from AM-lite, the European diecasting industry continues to display a strong interest in AMT's award winning AM-converter technology, with sales to the end of December well ahead of budget and projected sales for the rest of the financial year almost double the budget. The North American diecasting industry has also continued to express a keen interest to trial this new technology, and work is underway to introduce the first North American AM-converter during the course of the 2005/06 financial year.

Manufacturing and Logistics

AMT's strategy is to have its products manufactured under exclusive licensing agreements with leading manufacturers in AMT's main regional markets. When required, AMT can provide R&D and technical support to work with those manufacturers to improve quality and reduce costs.

During the period, AMT concluded manufacturing agreements with alloy producers in China, Japan and Europe, and is in discussion with an alloy manufacturer in the USA. Technical

personnel from AMT worked with the operating teams in all three facilities to transfer relevant AMT technology and establish good working relationships and communications with each facility. To date over 100 tonnes of AM-lite has been manufactured and shipped to regional warehouses for use in demonstration trials and to supply initial sales quantities to customers. Minimum inventory levels will continue to be maintained in each region to support customers as their needs expand.

A competitive bidding process was conducted and finalised during the period to establish AMT's forecast shipping and logistics requirements going forward. AMT has now concluded agreements with NYK and Schenker to service most of its international logistics requirements. These activities are managed out of Brisbane and interface with regional AMT's regional warehouses. Once delivered into the regional warehouses, customer delivery requirements are managed on behalf of AMT by AMT's wholly owned regional subsidiaries in Europe and North America, or by AMT's agents in Asia.

Capital Raising

On October 4th 2005 AML undertook a major capital restructuring to prepare itself for the commercialisation phase of its AM-lite technology. This included raising \$13m in new equity capital from 23 institutional and private investors, the sell-down of AML shares by Magtrust, and the consolidation of the share structure on a 20:1 basis.

AML remains debt free and based on current projections should have sufficient funds to see it through the commercialisation phase of the AM-lite project and to advance the development of its revolutionary engine alloys, AM-HP2 and AM-HP3.

As at 31 December AML has cash on the balance sheet of \$15m.

Looking Forward

In the period to 31 December, 2005, AMT made presentations to over 60 targeted companies about the cost saving benefits of AM-lite in comparison to existing production of decorative components made from zinc, aluminium, plastic and the existing magnesium alloy, AZ91D. During that period, 20 successful in-plant demonstration trials were completed at customer's plants and work was initiated on the development of over 70 new applications using AM-lite for use in the production of electroplated, painted and powder coated components for the automotive, motorcycle, home hardware and electronic industries.

Over the next 6 months, AMT plans to:

- support a further 20 in-plant demonstration trials, bringing the total in FY06 to 40;
- support the development of new and existing AM-lite applications that are currently forecast to lead to the sale of at least 500 tpa AM-lite by the end of this financial year, at least 5000 tpa AM-lite sales by the end of next financial year, and at least 10,000 tpa by the end of calendar year 2007;
- work with MacDermid to promote its new electroplating technology and establish commercial electroplating capacity in all regional markets; and
- work with suppliers of conversion coatings for painted and powder coated products to establish conversion coating services in all regional markets

Research and Development

AMT's objective is to have a pipeline of new alloys and technologies under development at all times. It allocates its R&D resources in the following approximate proportions:

- 70% to current and near term product development (mainly AM-lite and related technologies);
- 20% to intermediate term product development (mainly AM-HP2/AM-HP3 and related technologies); and

- 10% to strategic and long term product development (extrusions, ductile alloys, hydrogen storage, evaluation of new opportunities).

During the first half of the financial year ended 31 December, 2005, the priority for R&D activities was to support the successful introduction of AM-lite to the market and provide answers to the numerous requests for technical and design data from our customers. The results from the 20 in-house customer demonstration trials that were completed during the period confirmed AMT's claims about the benefits of AM-lite for diecast products.

The R&D team also had success with casting trials of AMT's new high temperature creep resistant engine alloy at a major automaker. Over 30 engine blocks were cast in a trial in July and these are currently undergoing detailed metallographic evaluation and testing with encouraging results.

Company description

The key business activities of AMT are:

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

Auditor's Independence Declaration

The auditor's independence declaration is included on page 8 of the half year financial report.

Signed on 15 February 2006 in accordance with a resolution of Directors.

On behalf of the Directors



Chris Rawlings
Non Executive Chairman



Ken Williams
Non-Executive Director
Chairman of Finance, Audit & Compliance
Committee

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

15 February 2006

Dear Board Members

Advanced Magnesium Limited

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

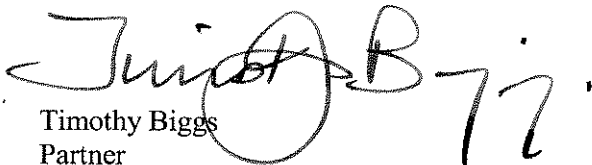
As lead audit partner for the review of the financial statements of Advanced Magnesium Limited for the half-year ended 31 December 2005, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Timothy Biggs
Partner
Chartered Accountants

Independent review report to the members of Advanced Magnesium Limited

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Level 25
123 Eagle Street
Brisbane QLD 4000
GPO Box 1463
Brisbane QLD 4001 Australia

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www.deloitte.com.au

Scope

We have reviewed the financial report of Advanced Magnesium Limited for the half-year ended 31 December 2005 as set out on pages 10 to 30. The financial report includes the consolidated financial statements of the consolidated entity comprising the disclosing entity and the entities it controlled at the end of the half-year or from time to time during the half-year. The disclosing entity's directors are responsible for the financial report. We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the disclosing entity to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

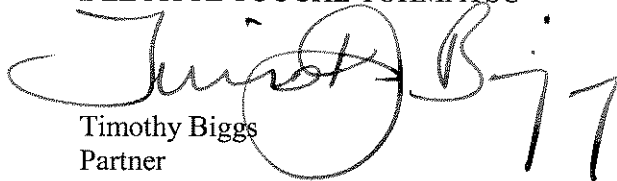
Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Advanced Magnesium Limited is not in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.



DELOITTE TOUCHE TOHMATSU



Timothy Biggs
Partner

Chartered Accountants
Brisbane, 15 February 2006

Member of
Deloitte Touche Tohmatsu

Directors' Declaration

The Directors declare that:

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

Signed in accordance with a resolution of the Directors pursuant to s. 303(5) of the Corporations Act 2001.

On behalf of the Directors



Chris Rawlings
Non-Executive Chairman



Ken Williams
Non-Executive Director
Chairman of Finance, Audit & Compliance Committee

Brisbane, 15 February 2006

**Consolidated Income Statement
for the Half-Year Ended 31 December 2005**

	Note	Half-Year Ended 31 Dec 2005 \$	Half-Year Ended 31 Dec 2004 \$
Revenue		239,150	73,258
Cost of sales		(5,817)	–
Gross Profit		233,333	73,258
Other income	2.1	2,482,321	1,704,418
Recoverable amount writedowns		–	(330,143)
Research, development and marketing costs		(3,015,351)	(2,946,680)
Corporate and administration costs		(1,892,763)	(2,165,788)
Finance costs		(471)	–
Redundancies		(169,632)	(559,942)
Loss before income tax expense		(2,362,563)	(4,224,877)
Income tax expense	2.4	(67,997)	(52,164)
Loss from continuing operations		(2,430,560)	(4,277,041)
Profit from discontinued operations	4.1, 4.2	4,016,978	8,817,331
Profit attributable to members of the parent entity		1,586,418	4,540,290
Earnings per Share			
- Basic (cents per share)		2.33	7.90 *
- Diluted (cents per share)		2.33	7.87 *

Notes to the financial statements are included on pages 15 to 30.

* normalised for 1:20 share consolidation on 4 October 2005. See Note 2.1.

**Consolidated Balance Sheet
as at 31 December 2005**

	Note	31 Dec 2005 \$	30 Jun 2005 \$
Current Assets			
Cash and cash equivalents	8	15,497,525	7,152,374
Trade and other receivables		253,170	457,301
Other		138,602	139,369
		15,889,297	7,749,044
Non-current assets classified as held for sale	2.3	–	937,800
Total Current Assets		15,889,297	8,686,844
Non-Current Assets			
Trade and other receivables		–	–
Property, plant and equipment		410,143	449,672
Other		–	–
Total Non-Current Assets		410,143	449,672
Total Assets		16,299,440	9,136,516
Current Liabilities			
Trade and other payables		731,256	671,752
Provisions		117,478	166,233
Other		15,800	–
Total Current Liabilities		864,534	837,985
Non-Current Liabilities			
Trade and other payables	2.2, 4.2	–	4,838,370
Provisions		174,917	188,231
Other		71,100	–
Total Non-Current Liabilities		246,017	5,026,601
Total Liabilities		1,110,551	5,864,586
Net Assets		15,188,889	3,271,930
Equity			
Issued capital	2.1	894,808,188	884,488,210
Reserves		2,760,544	2,749,980
Accumulated Losses		(882,379,843)	(883,966,260)
Total Equity		15,188,889	3,271,930

Notes to the financial statements are included on pages 15 to 30.

**Consolidated Statement of Recognised Income and Expense
for the Half-Year Ended 31 December 2005**

Note	Half-Year Ended 31 Dec 2005 \$	Half-Year Ended 31 Dec 2004 \$
Translation of foreign operations – exchange differences taken to equity	10,564	–
Net income recognised directly in equity	10,564	–
Profit for the period	1,586,418	4,540,290
Total recognised income and expense for the period	1,596,982	4,540,290
Attributable to equity holders of the parent	1,596,982	4,540,290

Notes to the financial statements are included on pages 15 to 30.

**Consolidated Cash Flow Statement
For the Half-Year Ended 31 December 2005**

	Note	Half-Year Ended 31 December 2005 Inflows/ (Outflows) \$	Half-Year Ended 31 December 2004 Inflows/ (Outflows) \$
Cash Flows from Operating Activities			
Receipts from customers (including GST)		242,288	29,828,000
Payments to suppliers and employees (including GST)		(4,342,788)	(31,834,000)
Interest and other items of a similar nature received		222,945	400,000
Receipt from Magtrust Pty Ltd	2.1	2,079,387	–
Interest and other costs of finance paid		(471)	(1,697,000)
Recovery of insurance premiums		–	1,146,000
Other receipts		433,474	141,000
Net Cash used in Operating Activities		(1,365,165)	(2,016,000)
Cash Flows From Investing Activities			
Payment for property, plant and equipment		(222,062)	(1,357,000)
Proceeds from sale of property, plant and equipment		166,478	1,150,000
Proceeds from sale of QMAG operations from RCF net of loss of control of QMAG cash balance		–	64,102,000
Net decline in cash on disposal of Icelandic Magnesium Corporation		–	(333,000)
Net Cash provided by/(used in) Investing Activities		(55,584)	63,562,000
Cash Flows from Financing Activities			
Proceeds from share capital issue	2.1	9,765,900	–
Payment to Government Stakeholders under Deed of Transfer and Release		–	(3,000,000)
Repayment of leases		–	(423,000)
Repayment of ANZ loan facility and associated costs		–	(60,926,000)
Net Cash provided by/(used in) Financing Activities		9,765,900	(64,349,000)
Net Increase/(Decrease) in Cash and cash equivalents		8,345,151	(2,803,000)
Cash and cash equivalents at the beginning of the half-year		7,152,374	12,460,000
Cash and cash equivalents at the end of the half-year	8	15,497,525	9,657,000

Notes to the financial statements are included on pages 15 to 30

**Notes to the Consolidated Financial Statements
For the Half-Year Ended 31 December 2005**

1. Summary of Accounting Policies

Financial Reporting Framework

This report has been prepared on the basis of historical cost and, except where stated, does not take into account changing money values or current valuations of non-current assets. Costs are based on the fair values of consideration given in exchange for assets.

Basis of preparation

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. The half-year financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

The consolidated entity changed its accounting policies on 1 July 2005 to comply with A-IFRS. The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards, with 7 July 2004 as the date of transition (the start of the 30 June 2005 financial year). An explanation of how the transition from superseded policies to A-IFRS has affected the consolidated entity's financial position, financial performance and cash flows is discussed in Note 7.

The accounting policies set out below have been applied in preparing the financial statements for the half-year ended 31 December 2005, the comparative information presented in these financial statements, and in the preparation of the opening A-IFRS balance sheet at 7 July 2004 (as disclosed in Note 7), the consolidated entity's date of transition, except for the accounting policies in respect of financial instruments. The consolidated entity has not restated comparative information for financial instruments, including derivatives, as permitted under the first-time adoption transitional provisions. The accounting policies for financial instruments applicable to the comparative information are consistent with those adopted and disclosed in the lodged 2005 annual financial report. The impact of changes in these accounting policies on 1 July 2005, the date of transition for financial instruments, is discussed further in Note 7.

Significant accounting policies

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

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash in banks.

**Notes to the Consolidated Financial Statements
For the Half-Year Ended 31 December 2005**

(b) Employee benefits

The directors have elected under s.334(5) of the Corporations Act 2001 to apply Accounting Standard AASB 119 Employee Benefits, even though the Standards is not required to be applied until annual reporting periods beginning on or after 1 January 2006.

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick 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 as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

Contributions to defined contribution superannuation plans are expensed when incurred.

(c) Financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms required delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

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.

Loans and receivables

Trade receivables, loans, and other receivables are recorded 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 related. 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.

**Notes to the Consolidated Financial Statements
For the Half-Year Ended 31 December 2005**

(e) Foreign currency

Foreign currency transactions

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

Foreign operations

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

(f) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. For receivables and payables which are recognised inclusive of GST.

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

Cash flows are included in the cash flow statement on a gross basis. The GST 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 suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

**Notes to the Consolidated Financial Statements
For the Half-Year Ended 31 December 2005**

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

(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 (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

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

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

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

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

Notes to the Consolidated Financial Statements For the Half-Year Ended 31 December 2005

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

Current and deferred tax for the period

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

Tax consolidation

The Company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Advanced Magnesium Limited is the head entity in the tax-consolidated group.

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.

(i) Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the 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.

(j) 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.

(k) Principles of consolidation

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. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

Notes to the Consolidated Financial Statements For the Half-Year Ended 31 December 2005

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.

(l) **Property, plant and equipment**

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

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation 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 estimate useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

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

Property, Plant and Equipment	3 – 20 years
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(m) **Provisions**

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

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

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

**Notes to the Consolidated Financial Statements
For the Half-Year Ended 31 December 2005**

(n) 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.

Dividend and interest revenue

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

(o) Share-based payment

When the entity makes share-based payments for services received from third parties, the value of the equity issued is measured at the fair value of the services rendered where possible. Where the fair value of the services rendered cannot be calculated, the value of the equity is based on the fair value of the equity issued.

Equity-settled share-based payments are measured at their fair value at the date of grant. Fair value is measured by use of either the Black-Scholes or 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-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.

(p) Comparative information – financial instruments

The consolidated entity has elected not to restate comparative information for financial instruments within the scope of Accounting Standards AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement, as permitted on the first-time adoption of A-IFRS. The effect of changes in the accounting policies for financial instruments on the balance sheet at 1 July 2005 are not material.

**Notes to the Consolidated Financial Statements
For the Half-Year Ended 31 December 2005**

2. Significant Transactions and Material Items

The following are the material factors affecting the financial statements of the economic entity for the current period.

2.1 a) Extraordinary General Meeting for Corporate Restructure

On 4 October 2005, an Extraordinary General Meeting was held. At this meeting, the following proposals were put to the shareholders and passed:

- that the Company's name be changed from Australian Magnesium Corporation Limited to Advanced Magnesium Limited;
- that the Company's share capital be consolidated on a 1 for 20 basis;
- that an Employee Share Option Plan be effected;
- that Mr ID Hartnell be provided options in his capacity as Managing Director; and
- that shares be issued via a placement.

b) Advanced Magnesium Limited – share sale and issue of new shares

32,552,999 post-consolidation ordinary shares in AML were issued to institutional and sophisticated investors raising a gross total of \$9,765,900 cash.

c) Magtrust Pty Ltd – share sale

In October 2005 Magtrust sold its shareholding in AML and, as part of an agreement between Magtrust and Newmont Australia, provided the net cash amount of \$2,077,690 to AML. This amount has been accounted for as income during the period.

d) Employee Share Option Plan

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 total options issued to employees, including those issued to the Managing Director, were 2,645,650.

These are unlisted options exercisable at any time upon payment of the exercise price of \$0.31 and expire in 5 years from issue on 13 October 2010. The Black-Scholes model was used to value these options at a total of \$490,028.

e) 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,

Notes to the Consolidated Financial Statements For the Half-Year Ended 31 December 2005

Pegasus is entitled to 400,000 options on a post-consolidated basis. The exercise price of each option is \$0.25 and has a term of 36 months from the date of issue. Each option will entitle Pegasus to subscribe for one fully paid ordinary share in the capital of Advanced Magnesium Limited upon payment of the exercise price. These options are exercisable at any time from the first to the third anniversary of their issue on 7 October 2005. The Black-Scholes model was used to value these options at a total of \$64,050.

Each share issued pursuant to the exercise of any option in d) and e) above will rank equally in all respects with the shares then on issue. If the Company goes through a capital reconstruction, the options would be adjusted in accordance with the Listing Rules.

2.2 AML Group agreements with Alcan and CSIRO

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

In addition, AML has transferred to CSIRO its interest in the patents and research intellectual property relating to the AM Process Technology which was jointly developed by CSIRO and AML. AML has retained a right to use the AM Process Technology in Australia and retains ownership of the associated Engineering Technology.

AML's agreement with Alcan to licence Alcan's magnesium electrolytic cell technology for use in the Stanwell Magnesium Project is also terminated.

2.3 Stanwell Magnesium Project Assets

The gross Project Assets balance of \$821,391 (30 June 2005: \$937,800) relates to the remaining Stanwell Project Assets being sold by Leighton under the Leighton Heads of Agreement. Under the Agreement, AML is entitled to 30% of the gross proceeds of assets sold by Leighton. The Project Assets balance is therefore valued at its recoverable amount, based on the estimate of proceeds receivable by AML on disposal. Given the uncertainty of recoverability, management has elected to fully provide for this balance at 31 December 2005, resulting in a net amount of \$nil in the Consolidated Balance Sheet. The reduction in the balance was expensed in the Consolidated Income Statement.

2.4 Income Tax Expense

Tax losses previously disclosed in the 30 June 2005 Annual Report encompass Advanced Magnesium Limited and its Australian controlled entities. Income taxes incurred in foreign jurisdictions are not sheltered by these Australian tax losses and are governed by relevant tax legislation as applicable. The income tax expense disclosed in the Income Statement relates to taxes incurred within Europe.

ADVANCED MAGNESIUM LIMITED

**Notes to the Consolidated Financial Statements
For the Half-Year Ended 31 December 2005**

3. Segment Information

The consolidated entity's activities are now focused on the Advanced Magnesium Technologies business, compared to the prior year focus on the QMAG mining operations. Discontinued operations have also been disclosed by geographical region. Management now monitor operations primarily on geographic reportable segments as follows:

	Europe		North America		Asia Pacific		Corporate		Eliminations		Total	
	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$
Revenue from external customers	206,215	-	-	-	32,935	29,361,220	-	-	-	-	239,150	29,361,220
Intersegment revenue	669,852	804,273	272,465	193,127	-	-	-	-	(942,317)	(997,400)	-	-
Total revenue	876,067	804,273	272,465	193,127	32,935	29,361,220	-	-	(942,317)	(997,400)	239,150	29,361,220
Other income	602	667	-	1,438	-	-	2,481,719	16,267,312	-	-	2,482,321	16,269,417
Other expenses	(555,853)	(811,028)	(266,759)	(158,827)	(394,265)	(30,525,661)	(918,984)	(10,540,067)	1,068,805	997,400	(1,067,056)	(41,038,183)
Income tax	(67,997)	(52,164)	-	-	-	-	-	-	-	-	(67,997)	(52,164)
Segment result	252,819	(58,252)	5,706	35,738	(361,330)	(1,161,441)	1,562,735	5,727,245	126,488	-	1,586,418	4,540,290

**Notes to the Consolidated Financial Statements
For the Half-Year Ended 31 December 2005**

4. Discontinuing Operations

4.1 Discontinued operation – QMAG Joint Venture

The magnesia operation produced raw magnesite and calcined, deadburned and electrofused magnesia, and marketed this predominantly to steel refractory, agricultural and general chemical industries. On 1 December 2004, AML and its related subsidiaries disposed of the QMAG business and associated assets to Resource Capital Fund III L.P. ("RCF"). The details of the sale, including timing of cash flows, are set out in the Annual Report of AML for 30 June 2005.

4.2 Discontinued operation – Stanwell Magnesium Project

The Annual Report for the year ended 30 June 2005 outlined at Note 5 the shareholders' decision to terminate the Stanwell Magnesium Project. Those financial statements set out the financial performance, carrying amounts of assets and liability and cash flow details for the year ended 30 June 2005. The significant changes to amounts or timing of cash flows relating to assets to be disposed of or liabilities to be settled are as follows:

- After taking into account asset sales in the period, the Project Assets value of \$937,800 disclosed at 30 June 2005 has been written down by \$937,800 to \$nil.
- the potential liability in relation to Alcan (see Note 2.2) has been successfully negotiated, resulting in a write-back of a payable of \$4,838,370, leaving a balance of \$nil at 31 December 2005.

5. Dividends

No dividend was declared or recommended during the 6 months ended 31 December 2005 (6 months ended 31 December 2004: no dividend declared or recommended).

The balance of the franking account at 31 December 2005 is \$nil (31 December 2004: \$nil).

6. Contingent Asset and Liabilities

6.1 RCF Guarantee extinguished

As part of the QMAG Sale Agreement, Resource Capital Funds had unconditionally and irrevocably guaranteed to pay AML up to \$2 million, if called upon, until 1 December 2005. The Directors of AML could only call on these funds if they had resolved to close down the Advanced Magnesium Technologies business. In exchange for such funding, RCF would have been issued a number of fully paid ordinary shares as would result in RCF holding 14.9% of the issued share capital of AML.

The successful share placement and share sale on 4 October 2005 has brought to an end this Guarantee and has terminated the issue of shares noted above.

6.2 Other

Apart from the above modifications, contingent assets and liabilities remain unchanged from those disclosed in the Annual Report at 30 June 2005.

ADVANCED MAGNESIUM LIMITED

**Notes to the Consolidated Financial Statements
For the Half-Year Ended 31 December 2005**

7. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (A-IFRS)

7.1. Effect of A-IFRS on the consolidated balance sheet at 7 July 2004 being the opening balance for the comparative period.

	Note	Superseded policies \$	Effect of transition to AIFRS \$	A-IFRS \$
Current assets				
Cash and cash equivalents		12,460,000	–	12,460,000
Trade and other receivables		11,734,000	–	11,734,000
Inventories		22,504,000	–	22,504,000
Other		3,340,000	–	3,340,000
		<u>50,038,000</u>	<u>–</u>	<u>50,038,000</u>
Non-current asset classified as held for sale	(c)	–	5,545,172	5,545,172
Total current assets		50,038,000	5,545,172	55,583,172
Non-current assets				
Trade and other receivables		1,247,000	–	1,247,000
Property, plant & equipment	(c)(e)(h)	58,352,000	438,390	58,790,390
Project assets	(c)	5,342,000	(5,342,000)	–
Other		4,909,000	–	4,909,000
Total non-current assets		69,850,000	(4,903,610)	64,946,390
Total assets		119,888,000	641,562	120,529,562
Current liabilities				
Trade and other payables		18,695,000	–	18,695,000
Borrowings		61,953,000	–	61,953,000
Provisions	(a)	5,345,000	(2,145,163)	3,199,837
Other		6,070,000	–	6,070,000
Total current liabilities		92,063,000	(2,145,163)	89,917,837
Non-current liabilities				
Trade and other payables		12,448,000	–	12,448,000
Borrowings		3,433,000	–	3,433,000
Provisions	(a)(h)	4,414,000	3,137,064	7,551,064
Other		3,867,000	–	3,867,000
Total non-current liabilities		24,162,000	3,137,064	27,299,064
Total liabilities		116,225,000	991,901	117,216,901
Net assets/(liabilities)		3,663,000	(350,339)	3,312,661
Equity				
Contributed equity		884,261,000	–	884,261,000
Reserves		2,724,000	–	2,724,000
Outside Equity Interest		348,000	–	348,000
Accumulated losses	(d)(h)	(883,670,000)	(350,339)	(884,020,339)
Total equity		3,663,000	(350,339)	3,312,661

ADVANCED MAGNESIUM LIMITED

Notes to the Consolidated Financial Statements
For the Half-Year Ended 31 December 2005

7.2 Effect of A-IFRS on the consolidated income statements for the comparative half-year ended 31 December 2004 and the financial year ended 30 June 2005.

Note	Half-year ended 31 December 2004			Financial year ended 30 June 2005			
	Superseded	Effect of	A-IFRS	Superseded	Effect of	A-IFRS	
	Policies	Transition to		Policies	transition to		
		A-IFRS		A-IFRS			
	\$	\$	\$	\$	\$	\$	
Operating revenue	(i)	30,380,190	(30,306,931)	73,258	30,469,846	(30,384,465)	85,381
Debt forgiveness revenue	(i)	7,543,382	(7,543,382)	—	7,543,377	(7,543,377)	—
Proceeds on sale of QMAG	(b) (e)	67,102,248	(67,102,248)	—	67,102,248	(67,102,248)	—
Proceeds on sale of assets	(b)	1,808,751	(1,808,751)	—	2,254,875	(2,254,875)	—
Gain on sale of assets	(b)	—	—	—	—	—	—
Foreign exchange gain		572,643	(572,643)	—	572,626	(572,626)	—
Other revenue		42,964	(42,964)	—	135,209	(135,209)	—
Revenue from ordinary activities		107,450,178	(107,376,920)	73,258	108,078,181	(107,992,800)	85,381
Cost of goods sold		—	—	—	—	—	—
Gross profit/(loss)		107,450,178	(107,376,920)	73,258	108,078,181	(107,992,800)	85,381
Other income		—	1,704,418	1,704,418	—	2,060,278	2,060,278
QMAG related operating costs	(i)	(30,525,661)	30,525,661	—	(30,535,433)	30,535,433	—
Recoverable amount write downs	(i)	(1,541,876)	1,211,733	(330,143)	(3,710,112)	3,216,372	(493,740)
Net provision writeback/(expense)	(i)	(419,000)	419,000	—	820,041	(820,041)	—
Written down value of assets sold	(b)	(62,417,058)	62,417,058	—	(63,401,785)	63,401,785	—
Loss on sale of assets	(b)	—	—	—	—	(103,179)	(103,179)
Research, development, licencing and patent costs under contract (Note 1(ab))	(i)	—	—	—	(622,413)	328,648	(293,765)
Insurance premium writeback/(refund)	(i)	(587,410)	587,410	—	(587,410)	587,410	—
Redundancy costs		(559,942)	—	(559,942)	(1,063,901)	—	(1,063,901)
Advanced Magnesium Technologies		(2,946,680)	—	(2,946,680)	(4,621,525)	—	(4,621,525)
Corporate, administration and other costs	(a)	(2,174,837)	9,049	(2,165,788)	(2,566,676)	12,750	(2,553,926)
Profit/(loss) before income tax expense and borrowing costs		6,277,713	(10,502,591)	(4,224,877)	1,788,967	(8,773,344)	(6,984,377)
Borrowing costs	(i)	(2,054,017)	2,054,017	—	(2,054,105)	2,054,105	—
Profit/(loss) before income tax expense		4,223,696	(8,448,574)	(4,224,877)	(265,138)	(6,719,239)	(6,984,377)
Income tax expense		(52,164)	—	(52,164)	(51,321)	—	(51,321)
Profit/(loss) from continuing operations		4,171,533	(8,448,574)	(4,277,041)	(316,459)	(6,719,239)	(7,035,698)
Profit/(loss) from discontinuing operations	(i)	—	8,817,331	8,817,331	—	7,091,697	7,091,697
Net profit/(loss) attributable to members of the parent entity		4,171,533	368,757	4,540,290	(316,459)	372,458	55,999

**Notes to the Consolidated Financial Statements
For the Half-Year Ended 31 December 2005**

7.3 Effect of A-IFRS on the comparative consolidated balance sheets as at 31 December 2004 and 30 June 2005.

Note	As at 31 December 2004			As at 30 June 2005		
	Superseded Policies	Effect of transition to A-IFRS	A-IFRS	Superseded Policies	Effect of transition to A-IFRS	A-IFRS
	\$	\$	\$	\$	\$	\$
Current assets						
	9,657,333	—	9,657,333	7,152,374	—	7,152,374
	3,241,002	—	3,241,002	457,301	—	457,301
	202,782	—	202,782	139,369	—	139,369
Non-current assets classified as held for sale	—	2,464,324	2,464,324	—	937,800	937,800
	13,101,117	2,464,324	15,565,441	7,749,044	937,800	8,686,844
Non-current assets						
	354,257	—	354,257	—	—	—
	—	—	—	—	—	—
	463,817	—	463,817	449,672	—	449,672
Project assets	2,464,324	(2,464,324)	—	937,800	(937,800)	—
	3,282,398	(2,464,324)	818,074	1,387,472	(937,800)	449,672
	16,383,515	—	16,383,515	9,136,516	—	9,136,516
Current liabilities						
	3,329,940	—	3,329,940	671,752	—	671,752
Provisions	578,787	(64,842)	513,945	251,278	(85,045)	166,233
	3,908,727	(64,842)	3,843,885	923,030	(85,045)	837,985
Non-current liabilities						
	4,623,987	—	4,623,987	4,838,370	—	4,838,370
Provisions	112,998	46,424	159,422	125,305	62,926	188,231
	4,736,985	46,424	4,783,409	4,963,675	62,926	5,026,601
	8,654,712	(18,418)	8,627,294	5,886,705	(22,119)	5,864,586
	7,737,803	18,418	7,756,221	3,249,811	22,119	3,271,930
Equity						
	884,488,210	—	884,488,210	884,488,210	—	884,488,210
	2,749,980	—	2,749,980	2,749,980	—	2,749,980
Accumulated losses	(879,500,387)	18,418	(879,481,969)	(883,988,379)	22,119	(883,966,260)
	7,737,803	18,418	7,756,221	3,249,811	22,119	3,271,930

**Notes to the Consolidated Financial Statements
For the Half-Year Ended 31 December 2005**

The following explanatory notes relate to the proforma financial statements above and describe, for significant items, the differences between the accounting policies under A-IFRS and the current treatment of those items under AGAAP.

(a) Employee entitlement provisions

Under A-IFRS, provisions for annual leave and long service leave must be classified as either current or non-current dependent upon the expectation of when employees are expected to take such leave. Employee benefits not expected to be settled within 12 months of balance date are measured at the present value of the estimated future cash outflows.

(b) Disclosure of asset disposals

AGAAP required the disclosure of asset disposals on a gross basis, with the proceeds on sale itemised as revenue and the written down value of such assets sold presented as expense. A-IFRS requires a net disclosure basis as either a gain or loss on sale.

(c) Assets held for sale

A-IFRS introduces a category of assets described as assets held for sale. 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.

(d) Accumulated losses

With limited exceptions, adjustments required on first-time adoption of A-IFRS are recognised directly in accumulated losses at the date of transition to A-IFRS. The cumulative effect of these adjustments for the consolidated entity will be an increase in accumulated losses by \$350,339 and for the parent entity an increase in accumulated losses of \$175,266.

(e) QMAG sale

The impact of A-IFRS on the opening balance sheet position of the consolidated group at 7 July 2004, as described in (d) above, has altered the carrying value of assets sold as part of the QMAG sale on 1 December 2004. The change in carrying value of the QMAG assets and restoration liabilities sold has resulted in a modification to the gain or loss on sale of these operations.

(f) Financial instruments

The directors have elected to adopt AASB139 *Financial Instruments: Recognition and Measurement* with effect from 1 July 2005. Therefore, there is no impact on the 31 December 2005 financial statements from AASB139.

(g) Business combinations

Advanced Magnesium Limited did not acquire any business or entities in the financial year ended 30 June 2005. On initial adoption of A-IFRS the directors have elected not to restate business combinations that occurred before 7 July 2004. Accordingly, there are no impacts of the adoption of A-IFRS on the financial report associated with past business combinations.

(h) Restoration provision

Under A-IFRS, a restoration provision should be recognised in full at inception of the mine and capitalised into the asset. The liability should be discounted and the capitalised amount will be depreciated in accordance with the asset.

(i) Profit/(loss) from discontinued operations

A-IFRS requires the disclosure of the results from discontinued operations as a separate line item in the Income Statement. These details are reclassified from the body of the Income Statement. Amounts included in the Income Statement for discontinued operations consists of the sale of the QMAG operations (see Note 4.1) and the Stanwell Project (see Note 4.2).

8. Reconciliation of Cash

Reconciliation of cash at the end of the period (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	31 Dec 2005	30 June 2005
	\$	\$
Cash on hand and at bank	714,970	587,374
Deposits at call *	3,300,000	3,100,000
Term deposits	11,482,555	3,465,000
Total cash at end of period	15,497,525	7,152,374

* includes cash deposits restricted to support bank guarantees

Supplementary Appendix 4D Information

A. Further Details Relating to Dividends

Dividend		Date dividend Paid /payable	Amount per share ¢	Amount per share of foreign sourced dividend ¢
Interim	FY 2005			
	Fully paid	Not Applicable	0.00	0.00
Final	FY 2004			
	Fully paid	Not Applicable	0.00	0.00
	Partly Paid	Not Applicable	0.00	0.00

B. Net Tangible Assets Per Share

Net Tangible Assets Per Share

	31 Dec 2005 cents	30 Jun 2005 cents
Net tangible assets per share (normalised based on 1 for 20 share consolidation)	17.80	6.18

C. Information on Audit or Review

This half-year report is based on accounts to which one of the following applies.

- | | | | |
|--------------------------|--|-------------------------------------|---|
| <input type="checkbox"/> | The accounts have been audited. | <input checked="" type="checkbox"/> | The accounts have been subject to review. |
| <input type="checkbox"/> | The accounts are in the process of being audited or subject to review. | <input type="checkbox"/> | The accounts have not yet been audited or reviewed. |

Description of likely dispute or qualification if the accounts have not yet been audited or subject to review or are in the process of being audited or subjected to review.

Not applicable.

Description of dispute or qualification if the accounts have been audited or subjected to review.

None.