A copy of this preliminary prospectus has been filed with the securities regulatory authorities in each of the provinces of Canada but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the prospectus is obtained from the securities regulatory authorities.

This prospectus constitutes an offering of the securities only in those jurisdictions where they may be lawfully offered for sale and, in such jurisdictions, only by persons permitted to sell such securities. No securities regulatory authority has expressed an opinion about these securities or the adequacy of this prospectus and it is an offence to claim otherwise. The securities offered hereby have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws and may not be offered, sold or transferred, directly or indirectly in the United States of America, except pursuant to an exemption from the registration requirements of the U.S. Securities Act and in compliance with any applicable U.S. state securities laws. See ''Details of the Equity Offering — Plan of Distribution''.

PRELIMINARY PROSPECTUS

New Issue June 8, 2005

AMR TECHNOLOGIES INC.

Cdn$ ●

● Subscription Receipts
each representing the right to receive one common share and one-half of one common share purchase warrant

AMR Technologies Inc. (''AMR'') is hereby offering (the ''Equity Offering''), pursuant to the provisions of an agency agreement between AMR and GMP Securities Ltd., (the ''Agent''), ● subscription receipts (each, a ''Subscription Receipt'') at a price of Cdn$ ● per Subscription Receipt (the ''Equity Offering Price''). Each Subscription Receipt represents the right to receive one common share in the capital of AMR (an ''AMR Common Share'') and one-half of one AMR Common Share purchase warrant (each whole AMR Common Share purchase warrant, an ''AMR Warrant'' and collectively with an AMR Common Share, an ''AMR Unit''). Each AMR Warrant entitles the holder thereof to purchase one AMR Common Share until 5:00 p.m. (Toronto time) on the date that is the third anniversary of its issuance at an exercise price of Cdn$ ● per AMR Common Share. Further particulars concerning the attributes of the Subscription Receipts are set out under the heading ''Details of the Equity Offering — Details of the Distribution — Subscription Receipts''.

Price: Cdn$ ● per Subscription Receipt

	Price to the Public (1)	Agent's Fee (2)	Net Proceeds to AMR (3)
Per Subscription Receipt	Cdn$ ●	Cdn$ ●	Cdn$ ●
Total Equity Offering	Cdn$ ●	Cdn$ ●	Cdn$ ●

Notes:

(1) AMR has granted to the Agent an option (the ''Over-Allotment Option''), exercisable for a period of 30 days following the closing of the Equity Offering, to sell up to an aggregate of ● additional Subscription Receipts (representing 15% of the Subscription Receipts) at the Equity Offering Price, to cover over-allotments and for market stabilization purposes. The grant of the Over-Allotment Option and the Subscription Receipts issuable or transferable upon the exercise of the Over-Allotment Option are also qualified for distribution under this prospectus. If the Over-Allotment Option is exercised in full, the total price to the public will be Cdn$ ● , the Commission will be Cdn$ ● and the net proceeds to AMR will be Cdn$ ● . See ''Details of the Equity Offering — Details of Distribution''.

(2) In connection with the Equity Offering, the Agent will be paid a cash commission fee of 6% of the aggregate gross proceeds from the sale of the AMR Units pursuant to the Equity Offering (the ''Commission''). See ''Details of the Equity Offering — Plan of Distribution''.

(3) After deducting the Commission, but before deducting the expenses of the Equity Offering, estimated to be approximately Cdn$ ● .

Each Subscription Receipt will be automatically exchanged for one AMR Unit without payment of additional consideration at 5:00 p.m. (Toronto time) on the date the Escrow Release Condition (as defined herein) is satisfied.

AMR is issuing the Subscription Receipts in connection with and conditional upon receiving shareholder and other approvals in respect of a proposed acquisition (the ''MQI Acquisition'') of Magnequench, Inc. (''MQI''), a closely held Delaware corporation. The MQI Acquisition is a reverse take-over of AMR. See ''Details of the Offerings — Use of Proceeds,'' ''MQI Acquisition'' and ''Details of the MQI Acquisition''. AMR and MQI carry on complimentary businesses and AMR management believes that several significant synergies can be achieved through the MQI Acquisition. The gross proceeds from the sale of the Subscription Receipts (the ''Escrowed Funds'') will be held in escrow by Computershare Trust Company of Canada as escrow agent (the ''Escrow Agent'') pursuant to the Subscription Receipts Agreement (as defined herein) pending satisfaction of the Escrow Release Condition (as defined herein). Provided that the Escrow Release Condition is satisfied on or before the earlier of (the ''Termination Time'') (i) 5:00 p.m. (Toronto time) on ● , 2005, and (ii) the time the agreements governing the terms of the MQI Acquisition (as defined herein) are terminated, the Escrowed Funds (including all interest earned thereon) will be released to AMR on or immediately following the date such condition is satisfied. See ''MQI Acquisition'', ''Details of the MQI Acquisition'', ''Details of the Equity Offering — Details of the Distribution — Subscription Receipts'' and ''Details of the Equity Offering — Use of Proceeds''.

If the Escrow Release Condition is not satisfied by the Termination Time, the Escrow Agent will return to holders of Subscription Receipts, commencing on the second Business Day (as defined herein) following the Termination Time, an amount equal to the issue price therefor and their *pro rata* entitlements to interest earned on the Escrowed Funds (less any applicable withholding taxes). See ''Details of the Equity Offering — Details of the Distribution — Subscription Receipts''.

The outstanding AMR Common Shares are listed and posted for trading on the Toronto Stock Exchange (the ''TSX'') under the symbol ''AMR''. On June 7, 2005, the closing price of the AMR Common Shares on the TSX was Cdn$2.20.

The Equity Offering Price and the terms of the Equity Offering have been determined by negotiation between AMR and the Agent. See ''Details of the Equity Offering — Plan of Distribution''.

There is no market through which the Subscription Receipts may be sold and purchasers may not be able to resell Subscription Receipts purchased under this prospectus. An investment in the Subscription Receipts is subject to a number of risks that should be considered by a prospective purchaser. An investment in these securities should only be made by persons who can afford the total loss of their investment. See ''Risk Factors''.

The Agent, as exclusive agent for AMR for the purpose of the Equity Offering, hereby conditionally offers the Subscription Receipts for sale on a reasonable best efforts basis, subject to prior sale, if, as and when issued by AMR and accepted by the Agent in accordance with the conditions contained in the Equity Agency Agreement (as defined herein) referred to under ''Details of the Equity Offering — Plan of Distribution'', subject to the approval of certain legal matters on behalf of AMR by Fogler, Rubinoff LLP, and on behalf of the Agent by Ogilvy Renault LLP. In connection with the Equity Offering, the Agent may effect transactions which stabilize or maintain the market price of the AMR Common Shares at a level above that which might otherwise prevail. See ''Details of the Equity Offering — Plan of Distribution''.

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. Closing of the Equity Offering is expected to occur on or about ● , 2005 (the ''Closing Date'') or such other date as AMR and the Agent may agree, but in any event no later than ● , 2005. A certificate or certificates representing the Subscription Receipts will be issued in registered form only to The Canadian Depositary for Securities Limited (''CDS'') or its nominee and will be deposited with CDS on the closing of the Equity Offering. AMR will issue the certificate or certificates representing the AMR Common Shares and AMR Warrants issuable upon exchange of the Subscription Receipts in registered form only to CDS on the date of issue of the AMR Common Shares and AMR Warrants. Notwithstanding the foregoing, Subscription Receipts, AMR Common Shares and AMR Warrants issued in the United States or to U.S. persons will be in the form of a definitive certificate delivered to the holders thereof. See ''Details of the Equity Offering — Details of the Distribution''.

Unless otherwise indicated, the information relating to the business of AMR and references to AMR in this prospectus include references to AMR's wholly-owned subsidiaries and interests in joint ventures and the information relating to the business of MQI and references to MQI in this prospectus include references to MQI's subsidiaries.


AMR TECHNOLOGIES INC.
Our technology permits miniaturization, energy efficiency and environmental friendliness.
Stronger
Brighter
Lighter
Smaller
Faster
Cleaner

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ELIGIBILITY FOR INVESTMENT

Subject to compliance with the prudent investment standards and general investment provisions of the following statutes (and, where applicable, the regulations thereunder) and, in certain cases, subject to the satisfaction of additional requirements relating to investment or lending policies, procedures or goals, and, in certain circumstances, the filing of such policies, procedures or goals, the Subscription Receipts are not, at the date hereof, precluded as investments under or by the following statutes:

Insurance Companies Act (Canada)
Trust and Loan Companies Act (Canada)
Pension Benefits Standards Act, 1985 (Canada)
Cooperative Credit Associations Act (Canada)
Loan and Trust Corporations Act (Ontario)
Pension Benefits Act (Ontario)
Trustee Act (Ontario)
Employment Pension Plans Act (Alberta)
Insurance Act (Alberta)
Loans and Trust Corporations Act (Alberta)
Financial Institutions Act (British Columbia)
Pension Benefits Standards Act (British Columbia)
The Insurance Act (Manitoba)
The Pension Benefits Act, 1992 (Saskatchewan)
Supplement Pension Plans Act (Quebec)
an act respecting trust companies and savings companies (Quebec) (for a trust company, as defined therein, investing its own funds and deposits it receives or a savings company, as defined therein, which invests its own funds)
an act respecting insurance (Quebec) (in respect of an insurer, as defined therein, incorporated under the laws of the province of Quebec, other than a guarantee fund)
The Trustee Act (Manitoba)
The Pension Benefits Act (Manitoba)
Credit Unions Act (New Brunswick)
Loan and Trust Companies Act (New Brunswick)
Insurance Companies Act (Newfoundland and Labrador)
Trustee Act (Nova Scotia)
Pension Benefits Act (Nova Scotia)

Eligibility of the Subscription Receipts for investment by purchasers to whom the *Credit Union and Caisses Populaires Act* (Ontario) and the *Insurance Act* (Ontario) apply is governed by criteria established by the so-called ''basket provisions'' and general investment provisions provided therein. Eligibility of the AMR Common Shares (on exchange of the Subscription Receipts and issuable upon exercise of the AMR Warrants) for investment by purchasers to whom the *Credit Union and Caisses Populaires Act* (Ontario) and the *Insurance Act* (Ontario) apply is governed by criteria which such purchasers are required to establish as policies or guidelines pursuant to the applicable statute (and where applicable, the regulations or guidelines thereunder) and is subject to the prudent investment standards and/or general investment provisions and restrictions provided therein.

In the opinion of Fogler, Rubinoff LLP, counsel to AMR, and Ogilvy Renault LLP, counsel to the Agent, based on the current provisions of the Tax Act and the regulations currently in force thereunder (the ''Regulations'') the Subscription Receipts will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds and deferred profit sharing plans (''Deferred Income Plans'') and for trusts governed by registered education savings plans (''RESPs''). However, the Proposed Amendments that will, when adopted, apply to property acquired after February 27, 2004 will affect the qualified investment status of the Subscription Receipts and AMR Warrants. Under the Proposed Amendments, the Subscription Receipts and the AMR Warrants will be qualified investments under the Tax Act for Deferred Income Plans and RESPs provided AMR deals at arms' length with each person who is an annuitant, a beneficiary, an employer or a subscriber under the governing plan of the plan trust. The acquisition of non-qualified investments by Deferred Income Plans and RESPs can result in the imposition of penalty taxes on the holding of or income from such non-qualified investments and, in the case of an RESP, the revocation of the registration of the plan.

In addition, such counsel are of the opinion, based in part on a certificate of an officer of AMR as to certain factual matters, that the Subscription Receipts, AMR Common Shares and AMR Warrants, if issued on the date hereof, would not constitute ''foreign property'' for purposes of Part XI of the Tax Act. The Proposed Amendments would, if enacted, eliminate the tax imposed under Part XI of the Tax Act on Deferred Income Plans for months ending after December 2004.

FORWARD-LOOKING STATEMENTS

Certain statements in this prospectus are ''forward-looking'' statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of AMR or the combined AMR-MQI entity, the anticipated benefits and synergies of the combination or industry results to be materially different from the results, performance, synergies or achievements expressed or implied by such forward-looking statements. When used in this prospectus, such statements use such words as ''may'', ''will'', ''expect'', ''believe'', ''plan'', ''intend'' and other similar terminology.

Forward-looking statements involve significant risks and uncertainties, and should not be read as guarantees of future performance or results. A number of factors could cause actual results to differ materially from the results expressed or implied in the forward-looking statements, including, but not limited to, the factors discussed under ''Risk Factors''. Although the forward-looking statements contained in this prospectus are based upon what management of AMR believes are reasonable assumptions and expectations, AMR cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this prospectus, and AMR and the Agent assume no obligation to update or revise them to reflect new events or circumstances.

GAAP AND EXCHANGE RATES

The financial statements of AMR and MQI are presented using Canadian generally accepted accounting principles (''GAAP'') but are reported in U.S. dollars.

Unless otherwise indicated, all dollar amounts in this prospectus are expressed in U.S. dollars. The word ''dollar'' and the symbol ''$'' or ''U.S.$'' refer to the U.S. dollar and the symbol ''Cdn$'' refers to the Canadian dollar.

The following tables reflect the high, low and average rates of exchange for the U.S. dollar in terms of the Canadian dollar as reported by the Bank of Canada for the 12 month periods ended December 31, 2004, 2003, 2002, 2001 and 2000, respectively and the three months ended March 31, 2005.

Year ended December 31,	**High** (1)	**Low** (1)	**Average** (2)
2004	1.3968	1.1774	1.3015
2003	1.5747	1.2924	1.4015
2002	1.6132	1.5110	1.5704
2001	1.6021	1.4936	1.5484
2000	1.5593	1.4341	1.4850
Three Months ended			
March 31, 2005	1.2566	1.1987	1.2263

Notes:

(1) The high and low exchange rates, based on the daily Bank of Canada noon rate of exchange during the applicable period.

(2) Calculated as an average of the daily noon rates of exchange for the applicable period.

The Bank of Canada noon exchange for U.S. dollars to Canadian dollars on June 7, 2005 was U.S.$1 = Cdn$1.2472.

NON-GAAP MEASURES

References in this prospectus to ''EBITDA'' are to operating income adjusted for other non-cash items and selected adjustments under the headings ''Selected Financial Information — Reconciliation of EBITDA to GAAP for AMR'' and ''Selected Financial Information — Reconciliation of EBITDA to GAAP for MQI''. EBITDA is not a recognized measure under GAAP. Management of AMR believes that EBITDA is a useful supplemental measure to net income (loss), as it provides an indication of earnings prior to depreciation and amortization of capital expenditures, restructuring costs, other non-cash items and selected adjustments under the headings ''Selected Financial Information — Reconciliation of EBITDA to GAAP for AMR'' and ''Selected Financial Information — Reconciliation of EBITDA to GAAP for MQI''. Investors should be cautioned, however, that EBITDA should not be construed as an alternative to net income (loss) determined in accordance with GAAP as an indicator of the performance of AMR or MQI, as the case may be, or to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. AMR's method of calculating EBITDA and MQI's method of calculating EBITDA may differ from each other and from the methods by which other companies calculate EBITDA and, accordingly, EBITDA used herein may not be comparable to similarly entitled measures used by other companies. A reconciliation of EBITDA to GAAP for both AMR and MQI is provided under the heading ''Selected Financial Information''.

WEBSITES AND TRADEMARKS

Information contained on the websites of AMR, MQI or any of their respective subsidiaries or any other website referred to in this prospectus shall not be deemed to be a part of this prospectus or incorporated by reference herein and shall not be relied upon by prospective investors for the purpose of determining whether to invest in the Subscription Receipts qualified for distribution under this prospectus.

This prospectus includes references to trade names, products, logos, product images and trademarks of companies other than AMR and MQI. Neither AMR nor MQI has any interest in any such trade names, products, logos, product images or trademarks.

INDUSTRY AND MARKET DATA

Market data and certain industry statistics used throughout this prospectus were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys and industry and market data, while believed to be reliable, have not been independently verified, and management makes no representation as to the accuracy or completeness of such information.

GLOSSARY

A glossary of defined terms used in this prospectus can be found at the back of this prospectus.

PROSPECTUS SUMMARY

The following is a summary of the principal features of this distribution and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus. Unless otherwise indicated, all currency amounts are stated in U.S. dollars. A glossary of defined terms can be found at the back of this prospectus.

MQI ACQUISITION

AMR and MQI

AMR is a leading producer of advanced, value-added rare earth, zirconium-derived specialty materials and Neo powders. AMR is the world's second largest processor of advanced rare earths, with an estimated 18% market share of the value-added segment of the market.

MQI is the leading global producer of Neo powders used in the production of high performance, bonded Neo permanent magnets and has an estimated 80% global market share.

These materials are processed by AMR and MQI at plants in China and Thailand (which are close to both raw material sources and customers) into products used in the manufacture of a wide range of products such as mobile phones and digital cameras, mp3 players, computers, displays, office automation products (e.g., printers, copiers, fax machines) and automobiles.

The MQI Acquisition

AMR is proposing to purchase all of the issued and outstanding shares of MQI in exchange for 26,866,819 AMR Common Shares, and 2,833,181 AMR Common Shares will be reserved for issuance upon the exercise of the AMR Options to be granted in exchange for the outstanding options to acquire MQI Shares. The MQI Acquisition will constitute a reverse take-over of AMR and as such the issuance of the AMR Common Shares will require AMR Shareholder Approval. The directors of AMR will call a special meeting of AMR Shareholders (the ''AMR Shareholder Meeting'') which is expected to be held in July 2005 to consider, among other things, the necessary shareholder resolutions in connection with the MQI Acquisition. For further details on the MQI Acquisition, see ''Details of the MQI Acquisition — Transaction Agreement''.

One of the conditions to completing the MQI Acquisition will be that MQI's subsidiary, MQII, refinance its currently outstanding term debt on terms which are satisfactory to AMR and MQI which, when combined with the Equity Offering and a concurrent private convertible debt offering (the ''Debt Offering''), will result in significant savings in debt service expenses. The negotiations regarding this refinancing are currently on-going. For a discussion of the Debt Offering and the refinancing of the MQII term debt, see ''Details of the MQI Acquisition — Refinancing of the MQII Term Debt'' and ''Details of the MQI Acquisition — Debt Offering''.

Rationale for the MQI Acquisition

AMR believes that the MQI Acquisition will result in the following benefits:

- ***Superior Growth Prospects*** — Subsequent to the MQI Acquisition, AMR will be able to leverage a larger operating platform, a greater breadth of customers and a stronger market position to better position itself to exploit growth opportunities in the industry.
- ***Vertical Integration*** — With production facilities in China, AMR is one of the world's largest producers of neodymium, which is the key raw material input in MQI's production of Neo powders. Currently, AMR does not sell any of its neodymium to MQI, even though MQI is one of the world's largest consumers of this rare earth element. Thus, a key benefit of the MQI Acquisition is that AMR will, in addition to its current production, produce neodymium for MQI.
- ***Operating Synergies*** — The MQI Acquisition will result in both companies benefiting from sharing best practices, production technology, research and development (''R&D'') and customer relationships.
- ***Financial Strength*** — Concurrent with the MQI Acquisition, the Equity Offering and the Debt Offering, AMR will refinance MQI's high interest debt with a combination of lower interest rate debt and equity thereby significantly increasing levels of free cash flow. The recapitalization of MQI's debt will result in a reduction from historical interest expense levels and provide additional financial flexibility to exploit growth opportunities in the sector.

Subsequent to the MQI Acquisition, AMR will hold a unique competitive position among its peers through the combination of: (i) advanced low cost production bases in China and Thailand; (ii) proprietary technological skills and capabilities supported by patents; and (iii) direct access to longstanding relationships with the world's leading companies in the electronics and automotive industries. These factors optimally position AMR to exploit certain global macro trends, such as miniaturization, increased environmental regulation and the demand for energy, power and fuel efficiency.

THE PRODUCTS

AMR operates in the rare earths, zirconium and magnetic powders industries and MQI operates in the magnetic powders industry.

Neo Powders

Magnetic powders are the primary materials used in the manufacture of bonded rare earth permanent magnets, which are used generally in motors and sensors utilized in a wide variety of products for consumer and industrial end markets. There are four commercially important classes of permanent magnets, one of which is neodymium-iron-boron (''Neo''). Neo magnets are the magnets of choice in micromotors, precision motors and other applications where increased motor performance is required in combination with small size and weight. According to the Japan Association of Bonded Magnet Manufacturers, the current market for Neo powders for bonded magnets is approximately U.S.$100 million per year with volumes having grown at average annual growth rates of between 15% and 20% over the last decade.

Rare Earths

The term ''rare earths'' is used to describe a group of 15 elements, also known as the lanthanide elements, and the element yttrium. Rare earths have similar chemical and physical properties due to their similar electron structure. They tend to occur mixed together in nature and the resulting materials are processed by companies like AMR by separating the rare earth elements from each other through a multiple stage solvent extraction process. The rare earth elements became known as such not because of their relative scarcity, but because of the fact that their similar chemical and physical properties make them difficult to separate from each other.

Processed rare earths are currently used in diverse applications ranging from metallurgical alloys to electronic components, polishing compounds, glass additives, magnets, electronic and structural ceramics, display phosphors, and other applications.

Rare earths are recovered from a number of different types of ores including bastnaesite, monazite, xenotime and ion adsorption clays. According to the U.S. Geological Survey, China accounted for 93% of the world's rare earth mine production in 2004. According to Roskill, The Economics of Rare Earths and Yttrium, 12th edition, and AMR management estimates, the global market for separated rare earths in 2004 was approximately U.S.$490 million.

Zirconium

Zirconium is an element that often and increasingly is used either separately or in higher value mixed oxides with rare earths. Zirconium in both its pure and mixed oxide form is used in the automotive, electronics, ceramics and other high-tech industries. Zirconium exhibits chemical behaviour similar to that of the rare earths, and, consequently, zirconium chemicals and oxides are produced using processes similar to rare earth processes. Management of AMR estimates that the global market for value-added zirconium chemicals is approximately 14,000 metric tonnes annually, with an approximate sales value of U.S.$175 million.

AMR TECHNOLOGIES INC.

Through its controlling interests in its two Chinese joint ventures, JAMR (90%) and ZAMR (85%) which it has controlled since 1993, AMR is a leading international producer of advanced high-quality, high value-added rare earth and zirconium oxides, chemicals, and other rare earth and zirconium specialities. AMR is the world's second largest processor of advanced rare earths, with an estimated 18% market share of the higher value-added segment of the market.

AMR is believed to be the second-largest producer of Neo powders used in the production of high performance bonded magnets for consumer electronics applications. These powders are produced at its wholly owned facility in Thailand, AMMT, with the key raw material supplied by one of AMR's facilities in China. This market is currently served largely by MQI with an estimated market share of 80%. AMR's market share is approximately 5%.

To complement its rare earths business, AMR entered the nanotechnology field in 1999. The nanotechnology team works closely with customers and research institutions on applied science and product development. This work has opened up new and potential applications for AMR's products as well as improving the performance of current products. Examples of such projects include a new family of advanced high performance rare earth and zirconium oxides for automotive catalytic converters, a new nano-zirconium oxide for electronic applications for a Japanese customer and the nano-cerium oxide for the development of a reduced side-stream smoke cigarette with Rothmans, Benson & Hedges.

AMR has three production facilities, two in China and one in Thailand, and corporate and sales offices located in Barbados, Toronto, Abingdon (United Kingdom), Beijing, Shanghai and Seoul.

MAGNEQUENCH, INC.

Through its control or ownership of a number of manufacturing process and composition patents, MQI, a closely held corporation organized under Delaware law, is the only legal supplier of Neo powder for bonded Neo magnets manufactured or sold in the United States. Most end-use products for bonded Neo magnets are produced for global rather than local markets. This global manufacturing process, combined with the relatively low dollar content per end-use product, makes it costly and inefficient to track individual product runs for compliance purposes. As a result, MQI believes that its U.S. patents effectively restrict the worldwide use of bonded Neo magnets in global products to those only made from MQI's Neo powder. To the extent MQI's Neo powder is not used in these products, the importer and retailer in the United States are subject to a claim that they are infringing on MQI's patents.

MQI's leading market share is a result of its intellectual property portfolio, sophisticated process capabilities, new product development expertise, economies of scale and strong customer relationships. Management of MQI believe all of these attributes create sustainable barriers to entry.

MQI produces 30 grades of its Neo powder at its production facility in Tianjin, China, each with specific magnetic properties and performance characteristics. MQI's Neo powder covers a wide breadth of magnetic properties and has become the standard in the industry.

MQI's Neo powder is ultimately incorporated into numerous end market applications that utilize bonded Neo magnets, primarily motors and sensors used in a range of products, including computer and office equipment (e.g., hard disk drive and optical disk drive motors and fax, copier and printer stepper motors), consumer electronics (e.g., personal video recorders and mp3 music players), automotive and industrial applications (e.g., airbag sensor and servo and other motors) and appliances (e.g., refrigerator and air conditioner motors).

THE EQUITY OFFERING

Securities Distributed:	● Subscription Receipts are being offered at a price of Cdn$ ● per Subscription Receipt for aggregate gross proceeds of Cdn$ ● . Each Subscription Receipt will be automatically exchanged for one AMR Unit without payment of additional consideration at 5:00 p.m. (Toronto time) on the date the Escrow Release Condition is satisfied. Each AMR Unit is comprised of one AMR Common Share and one-half of one AMR Warrant. Each AMR Warrant entitles the holder thereof to purchase one AMR Common Share until 5:00 p.m. (Toronto time) on the third anniversary of its issuance at an exercise price of Cdn$ ● per AMR Common Share. See ''Details of the Equity Offering — Details of the Distribution''.
Over-Allotment Option:	AMR has agreed to grant to the Agent the Over-Allotment Option which is exercisable for a period of 30 days from the closing of the Equity Offering to purchase up to an aggregate of ● additional Subscription Receipts (representing 15% of the number of Subscription Receipts) at the Equity Offering Price to cover over-allotments and for market stabilization purposes.
Escrowed Funds:	The Escrowed Funds will be held by the Escrow Agent pursuant to the Subscription Receipts Agreement pending satisfaction of the following: (i) all conditions and other matters relating to the closing of the MQI Acquisition have been fulfilled to the satisfaction of AMR and the Agent; (ii) all conditions and other matters relating to the closing of the Debt Offering have been fulfilled to the satisfaction of AMR and the Agent; and (iii) all conditions and all other matters relating to the refinancing of the outstanding debt of MQII have been fulfilled to the satisfaction of AMR and the Agent (collectively, the ''Escrow Release Condition''). Provided that the Escrow Release Condition is satisfied on or before the Termination Time, the Escrowed Funds (together with interest earned thereon) will be released to AMR on or immediately following the date such condition is satisfied. If the Escrow Release Condition is not satisfied on or before the Termination Time, the Escrow Agent will return to holders of Subscription Receipts commencing on the second Business Day following the Termination Time an amount equal to the issue price therefor and their *pro rata* entitlements to interest earned on the Escrowed Funds (less any applicable withholding taxes). See ''Details of the Offerings — Equity Offering — Use of Proceeds'' and ''Details of the Equity Offering — Details of the Distribution — Subscription Receipts''.
Market Capitalization:	The AMR Common Shares are currently listed on the TSX under the trading symbol ''AMR''. As at the date hereof, there are 16,730,101 AMR Common Shares outstanding. As at June 7, 2005, the closing price of the AMR Common Shares on the TSX was Cdn$2.20. In addition, 26,866,819 AMR Common Shares will be issued in connection with the MQI Acquisition and 2,833,181 AMR Common Shares will be reserved for issuance upon exercise of the AMR Options to be granted in exchange for the outstanding options to acquire MQI Shares. See ''AMR Technologies Inc. — Price Range and Trading Volume of AMR Common Shares'' and ''Details of MQI Acquisition — Consolidated Capitalization''.
Use of Proceeds:	The estimated net cash proceeds to AMR from the Equity Offering will be Cdn$ ● (determined after deducting the Commission and other expenses of the Equity Offering), assuming no exercise of the Over-Allotment Option. If the Over-Allotment Option is exercised in full, the net cash proceeds to AMR from the Equity Offering (after deducting the Commission and other expenses of the Equity Offering) will be Cdn$ ● .

	Provided that the Escrow Release Condition is satisfied on or before the Termination Time, AMR will apply the net proceeds of the Equity Offering to reduce the outstanding consolidated debt of MQII. See ''MQI Acquisition'', ''Details of the MQI Acquisition'' and ''Details of the Equity Offering — Use of Proceeds''.
Subscription Receipts:	The Subscription Receipts will be issued under the Subscription Receipt Agreement. Pursuant to such agreement, following satisfaction of the Escrow Release Condition, each Subscription Receipt will be automatically exchanged for one AMR Unit without payment of additional consideration at 5:00 p.m. (Toronto time) on the date the Escrow Release Condition is satisfied. Holders of Subscription Receipts and AMR Warrants will not have any voting or other rights as holders of AMR Common Shares until such Subscription Receipts are exchanged or AMR Warrants are exercised for AMR Common Shares. See ''Details of the Equity Offering — Details of Distribution''.
Risk Factors:	An investment in the Subscription Receipts and the AMR Units issuable on the exchange of the Subscription Receipts is subject to certain risks and investment considerations including those in connection with the MQI Acquisition, the market for Subscription Receipts, risks associated with foreign operations, Chinese economic, tax and political considerations, the Chinese legal system, intellectual property, repatriation of profits and investment, environmental liability exposure, joint venture agreements, financial resources, volatility of stock price, hiring and retention of employees, management of growth and future acquisitions. For a full discussion of these and other risks, see ''Risk Factors''.

SUMMARY OF SELECTED FINANCIAL INFORMATION

Selected Historical Consolidated Financial Information of AMR

The following selected historical consolidated financial information for AMR is derived from the audited and unaudited consolidated financial statements of AMR for the years ended December 31, 2004, 2003 and 2002 and the three month periods ended March 31, 2005 and 2004, respectively, and notes thereto. This summary of selected consolidated financial information should be read in conjunction with and is qualified in its entirety by reference to AMR's consolidated financial statements, including the notes thereto, and management's discussion and analysis included elsewhere in this prospectus.

	Three months ended March 31,		Year ended December 31,		
(in $000s except per share amounts)	2005	2004	2004	2003	2002
Revenues	16,217	11,783	54,349	46,758	47,274
EBITDA	1,040	857	4,354	4,733	4,248
Net income (loss) from continuing operations	47	(104)	(208)	838	(7,255)
Net income (loss)	47	(143)	(455)	302	(7,325)
Net income (loss) per share (basic and fully diluted)	0.003	(0.009)	(0.027)	0.018	(0.440)
Total assets	51,282		51,122	49,589	
Long term debt (including current portion)	980		1,140	1,843	
Net working capital (1)	19,638		18,339	16,897	

Selected Historical Combined Financial Information of MQI

The following selected historical combined financial information for MQI is derived from the audited and unaudited combined financial statements of MQI for the years ended and as at December 31, 2004, 2003 and 2002 and the three month periods ended March 31, 2005 and 2004, respectively, and notes thereto appearing. This summary of selected combined financial information should be read in conjunction with and is qualified in its entirety by reference to MQI's combined financial statements, including the notes thereto, and management's discussion and analysis included elsewhere in this prospectus.

	Three months ended March 31,		Year ended December 31,		
(in $000s except per share amounts)	2005	2004	2004	2003	2002
Revenues	17,334	21,070	84,223	78,577	81,488
EBITDA	8,788	13,009	51,295	51,060	52,115
Net income from continuing operations	1,944	2,693	7,043	8,143	7,718
Net income (loss)	1,924	3,854	5,176	(19,143)	(16,016)
Total assets	100,136		104,772	139,058	
Long term debt (including current portion)	152,924		160,424	120,404	
Net working capital (1)	8,761		8,750	8,509	

Note:

(1) A definition of ''Net working capital'' can be found in the glossary at the back of this prospectus.

Pro forma Financial Information

The following summary unaudited *pro forma* consolidated financial information as at and for the three month period ended March 31, 2005 and for the year ended December 31, 2004 gives effect to the MQI Acquisition, the Equity Offering (assuming no exercise of the Over-Allotment Option), the Debt Offering and the refinancing of the MQII term debt, as if such events had occurred on January 1, 2004 for results of operations purposes, and on March 31, 2005 for balance sheet purposes. This summary unaudited *pro forma* consolidated financial information is based on available information and certain assumptions considered reasonable and is presented for illustrative purposes only. It does not purport to represent what AMR's results of operations or financial position would have been if the MQI Acquisition, the Equity Offering, the Debt Offering and the refinancing of the MQII term debt had occurred on the dates indicated. The summary unaudited *pro forma* consolidated financial information is derived from the unaudited and audited consolidated financial statements of AMR and unaudited and audited combined financial statements of MQI for the three month period ended March 31, 2005 and the year ended December 31, 2004, respectively. The *pro forma* information below should be read in conjunction with the unaudited *pro forma* consolidated financial statements, related notes and other financial information appearing elsewhere in this prospectus.

(in $000s except per share amounts)	**Three Months ended March 31, 2005**	**Year ended December 31, 2004**
Revenues	33,551	138,572
EBITDA	9,828	55,649
Interest expense, long-term debt	●	●
Net income (loss) from continuing operations	●	●
Net income (loss) per share (basic and fully diluted)	●	●
Total assets	●	●
Long term debt (including current portion)	●	●
Net working capital	●	●

MQI ACQUISITION

AMR and MQI

AMR is a leading producer of advanced value-added rare earth and zirconium-derived specialty materials. AMR is the world's second largest processor of advanced rare earths, with an estimated 18% market share of the higher value-added segment of the market. It is also believed to be the second largest producer of Neo powder, a sector dominated by MQI.

MQI is the leading global producer of Neo powder used in the production of high performance, bonded Neo permanent magnets and has an estimated 80% global market share.

The MQI Acquisition

AMR is proposing to purchase all of the issued and outstanding shares of MQI in exchange for 26,866,819 AMR Common Shares. In addition, the outstanding options of MQI will be exchanged into 2,833,181 AMR Options at the same exchange ratio as the shares and will retain the same vesting and expiration dates. The MQI Acquisition will constitute a reverse take-over of AMR and as such the issuance of the AMR Common Shares will require AMR Shareholder approval. The directors of AMR will call the AMR Shareholder Meeting which is expected to be held in July 2005 to consider, among other things, the necessary shareholder resolutions in connection with the MQI Acquisition. For a description of the terms on the MQI Acquisition, see ''Details of the MQI Acquisition — Transaction Agreement''.

Rationale for the MQI Acquisition

AMR was established with the goal of becoming the world's leading integrated producer of rare earth based speciality materials. Since the commencement of production at its two China-based joint ventures in 1993, it has captured an 18% market share of the higher value-added segment of the rare earth market. Total sales at AMR for the year ended December 31, 2004 were U.S.$54.4 million. Apart from introducing new and modified materials with better performance capabilities to meet the increasing demand of its customers at competitive cost, AMR has sought opportunities to use its proprietary knowledge to produce downstream products and applications which offer higher sales volumes and better operating margins. To this end, AMR began producing Neo powder in Thailand. The magnetic powder sector held and still holds high growth and margin prospects although AMR found that it was unable to gain significant market share from MQI. AMR believes that following the MQI Acquisition, it will be a world leader in the development and production of specialty materials, including holding the leading position in the Neo powders sector, with increased cash flows and increased financial flexibility.

AMR believes that the MQI Acquisition will result in the following benefits.

Superior Growth Prospects

Following the MQI Acquisition, AMR will be the leading worldwide developer and producer of Neo powders in addition to its leading position in the production of advanced rare earths and zirconium products. Neo powders facilitate the miniaturization, weight reduction, energy efficiency and environmental friendliness of end-products by providing characteristics that make electrical components, motors and sensors stronger, lighter, smaller and more energy efficient. AMR believes that subsequent to the MQI Acquisition, its expanded product line will be better positioned to capitalize on the growth being driven by global macro trends. See ''MQI Acquisition — Global Macro Trends.''

As a result of the MQI Acquisition, AMR currently expects to more than double its revenue, broaden its customer base and product lines and strengthen its market position. AMR will be the largest, vertically integrated Neo powder producer with a market share of approximately 85%, in a market expected to continue its historical volume growth rate of approximately 17.5% per year.

Vertical Integration

AMR is one of the world's largest producers of neodymium, which is the key raw material input in MQI's production of Neo powders. Currently, AMR does not sell any of its neodymium to MQI, even though MQI is one of the world's largest consumers of this rare earth element. Thus, a key benefit of the MQI Acquisition is that AMR will, in addition to its current production, produce neodymium for MQI. Since rare earths occur together in nature, by producing more neodymium, AMR will also be able to produce more of the other rare earths at a favourable incremental cost which will allow AMR to improve its margins.

MQI's customers will benefit from the integration of AMR's Thai plant into MQI's production network by providing customers (particularly, those located in southeast Asia) with a second facility with the capability to produce Neo powders of similar quality.

Operating Synergies

Management is of the view that the MQI Acquisition will result in synergies through the integration of the operations of AMR and MQI with benefits from sharing best practices, production technology and R&D. As an example, while both AMR and MQI use a similar process to produce Neo powders, the adoption of best practices will lead to operational optimization and cost savings. Another opportunity to achieve synergies will result from the sharing of market knowledge and customer relationships.

Financial Strength

Due to its patent portfolio, MQI has historically enjoyed substantially higher margins for its products compared to AMR. As a result of the MQI Acquisition, AMR's *pro forma* EBITDA for the year ended December 31, 2004 was $55.6 million compared to $4.2 million as reported for the year ended December 31, 2004. Concurrent with the MQI Acquisition and the Equity Offering, AMR expects to pre-pay MQI's high interest term debt and refinance it with a combination of lower interest rate debt and equity. This will materially increase free cash flow. The interest expense saving will also be partially sheltered from tax by existing net operating losses at MQI in the United States. With this strong cash generating capability, AMR will be in a better position to compete for and exploit future growth opportunities in the dynamic markets AMR and MQI currently serve. Management also believes that greater market capitalization and improved liquidity will benefit shareholders.

Global Macro Trends

Four major macroeconomic trends are influencing and defining electronic and automotive product consumption globally.

- *Miniaturization and the overall drive towards more powerful, lighter and smaller electronic devices and wireless communication devices.* This trend will benefit AMR, as Neo powder is the material of choice in the production of magnets for micromotors in hard disk drives contained in such items as computers, mp3 players, PDAs and mobile phones.

- *Introduction of increasingly stringent environmental and emission control legislation.* Environmental legislation is becoming more stringent in advanced industrial societies (North America, Europe, Japan) and is also being adopted by newly industrialized countries such as China, India and the rest of Asia. Rare earths (primarily cerium) and zirconium are indispensable materials in automotive catalytic converters which help remove harmful gases from emissions. The latest generation of these materials (where AMR specializes) provides superior catalytic performance and results in lower usage of platinum group metals, the highest cost component in an automotive catalytic converter.

- *Energy, power and fuel efficiency have become key drivers in the design and manufacture of almost every modern electronic product and automobile.* Given the increasing costs of energy in all its forms as well as continuous demand for longer battery life in portable electronic products, AMR expects that demand for motors using bonded Neo magnets will continue to grow since these motors provide improved performance at a reduced size, weight and power consumption. For example, a major trend in automotive design is the replacement of traditional electro-mechanical/hydraulic systems with function-by-wire electronic systems. This provides for better control and performance in automobiles and other machinery as well as superior fuel efficiency and decreased energy consumption. The trend towards function-by-wire electronic systems will result in greater consumption of rare earths and magnetic powders in the motors, sensors and electronic components of these systems. Commercialization of the latest generation of solid-oxide fuel cells currently underway in Japan will also require extensive amounts of rare earth and zirconium materials. These fuel cells are being developed to provide lower cost energy alternatives in housing.

- *Innovation in and proliferation of everyday electronic applications.* Devices such as mp3 players, personal video recorders, mobile phones, plasma/LCD displays, PDAs and computers all use (and are made possible by the use of) bonded Neo and rare earth/zirconium materials.

Growth Strategy

AMR will leverage its own market position and that of MQI to take advantage of these global trends, including opportunities arising in the following three areas:

(i) Neo Powders

The Japanese Association of Bonded Magnets Manufacturers' 2004 forecast indicates that the market for Neo powders will experience average annual growth of between 15% and 20% over the next five years. AMR is well positioned to benefit from significant growth in the demand for high performance magnets used in consumer and industrial applications. Bonded Neo magnets, made from AMR and MQI's products, are critical in the production of electronic devices and automotive components as these products are becoming increasingly lighter and smaller for most applications. These economic drivers will continue to accelerate the replacement of other weaker magnetic materials with bonded Neo.

Growth in AMR's Neo powder business will be driven by three principal elements:

- increased demand for current applications for Neo powder including media storage (disk drives), office automation (printers, scanners, copiers, fax machines), consumer electronics (digital cameras, mobile phones, CD/DVD players, personal video recorders), automotive uses (power adjustment motors and sensors) and industrial uses (appliance, air conditioning, pump motors etc.);
- replacement of ferrite magnetic materials with bonded Neo magnets in motors where ferrite magnets are currently the material of choice due to lower cost. AMR intends to continue MQI's strategy of using low cost Asian production to reduce the price for Neo powders in order to attack that portion of the much larger ferrite market readily replaceable by bonded Neo magnets which in management's estimation may be as much as four times the size of the current bonded Neo magnet market. AMR will have the ability to drive and accelerate ferrite magnet replacement and the adoption of Neo powders in new technologies through its strategic targeted pricing initiatives. The existing combined capacity and low cost structure are expected to provide AMR with the pricing flexibility required to capitalize on this opportunity for growth. Future R&D efforts will be targeted at creating new products with specific magnetic and physical properties aimed at cost effective ferrite magnet replacement and new technology opportunities; and
- development of new applications. One such application is the new automotive electronic power steering motors used in function-by-wire systems. In addition, mobile phone manufacturers are working towards developing new ''smart'' phones that provide additional applications — without significantly compromising the size and weight of current phones. Such new mobile phones include digital cameras, email, internet browsers and mp3 players. AMR management anticipates that in the next three to five years, more than half of all mobile phones made will have miniature hard disk drives that will require magnets made from Neo powders. As this type of technology proliferates, the requirement for rare earths and Neo powders will increase as they provide the only means available to enable the size, weight and battery life characteristics that manufacturers are seeking.

Management believes that subsequent to the MQI Acquisition, AMR will be uniquely positioned to take advantage of these principal elements, in part because the increase in demand for current products utilizing Neo powder will continue to be protected by MQI's patent portfolio. AMR will diligently protect and strengthen its intellectual property by continuing to monitor end market products in the United States, expanding its compliance program with other industry participants, and identifying areas where its current portfolio could be augmented. AMR will also be able to leverage its extensive customer base and some of its research and development activities to further strengthen its position in this base business. These advantages, combined with planned price decreases for Neo powders, are intended to allow AMR to maintain a leading market share.

(ii) Advanced Automotive Oxides

AMR estimates that the market for advanced rare earth/zirconium mixed oxides used in automotive catalytic converters is currently approximately $110 million per year. According to Roskill, The Economics of Rare Earths and

Yttrium, 12th edition, 2004, the leading source on this subject matter, expanding emission control regulations will continue to stimulate demand growth. AMR's 2004 sales in this market amounted to $3.1 million following its entry in this market in the previous year. Sales have shown steady growth and customer feedback on its new generation products has been encouraging. With its superior performance and cost advantage as compared to the other producers of this product category located mainly in Europe, the United States and Japan, AMR believes that it is well positioned to continue to significantly increase its market share.

(iii) Nanotechnology

AMR has introduced a number of new products in the past two years, which have been developed using its nanotechnology expertise. It is one of a small number of companies that actually derives revenues and profits through nano-scale manufacturing. In 2004, AMR had revenues of $3.8 million from products incorporating nanotechnology (primarily materials for automotive catalytic converters and electronic ceramic components). In addition, in 2004 AMR announced the development of a nano-structured cerium oxide material used by its client, Rothmans, Benson & Hedges, in the development of a reduced side-stream smoke cigarette, a product which Rothmans, Benson & Hedges has advanced to the pre-commercialization stage. AMR believes this technology offers promising growth potential and will continue its nanotechnology research and development with the aim of broadening its product offering incorporating this technology.

Competitive Advantages as a Result of the MQI Acquisition

Subsequent to the MQI Acquisition, it is anticipated that AMR will hold a unique competitive and sustainable position among its peers through the combination of the following factors:

Advanced Low Cost Production Facilities

In 1993, AMR saw the opportunity to manufacture technologically advanced rare earth materials in China, a low cost environment which is also the location of its raw material sources. AMR exploited this opportunity by establishing two advanced low cost production facilities in China, which now produce products for demanding global markets. MQI completed the move of its production facilities from the United States to China in 2002.

With their extensive production experience in China and Thailand, AMR and MQI will retain a significant cost advantage over their competitors who are located in higher cost jurisdictions such as the United States, Japan and Europe. In addition, given their extensive operating experience and relationships in the region, they also have advantages over those competitors who desire to move their operations to China in the future. Over the last several years, MQI has focused on reducing manufacturing costs through continual process improvements and the consolidation of powder production in Tianjin, China. These efforts have enabled MQI to reduce labour and overhead costs per kilogram from U.S.$17.39 in 2001 to U.S.$3.36 in 2003, a reduction of 80.7%. By reducing production costs, MQI has been able to utilize strategic pricing initiatives to grow its business and increase its market share while maintaining attractive operating margins.

Proprietary Technology and Patents

Through its control or ownership of a number of manufacturing processes and composition patents, MQI is the only legal supplier of Neo powder for bonded Neo magnets manufactured or sold in the United States. MQI's patent position is such that all end products containing bonded magnets made from Neo powder (e.g. hard disk drives, optical disk drives, mp3 players, PDAs, computers, printers, mobile phones, etc.) that are sold in the United States must use MQI's Neo powder. To the extent MQI's Neo powder is not used in these products, the importers and retailers in the United States of the end products are subject to claims that they are infringing MQI's U.S. patents. While the patents are in force in the U.S. only, MQI believes that the global electronics industry typically does not track individual production runs for compliance purposes. As a result, MQI believes that the U.S. patents effectively restrict the worldwide use of bonded magnets made from Neo powder in global products to those only made from MQI's Neo powder. Although the process patents have expiration dates of 2009 and the remaining composition patent which MQI holds expires in 2012, they have provided MQI, and will continue to provide AMR with a base on which to build strong customer relationships over the medium term. MQI has been strategically reducing prices to discourage the entry of new competitors when its patents expire and to stimulate conversion to Neo powders. Although AMR anticipates that it will continue to reduce prices, it expects that volume increases and cost reductions will offset the impact of lower prices.

MQI has taken steps to aggressively protect its patent portfolio against infringing producers and end-users. MQI, in many instances, has targeted high visibility consumer electronics manufacturers in the United States, as well as certain retailers, in order to send a message to the entire supply chain that infringement will not be tolerated.

Global Marketing and Long Standing Relationships with Worldwide Clients

AMR and MQI share similar marketing philosophies, approaches and global coverage, with particular focus on Asia and it is expected that the integration of the two companies will create a marketing presence which could not be duplicated easily by existing or potential competitors.

Both AMR and MQI combine advanced low cost production bases with strong relationships with industry-leading global customers. Both companies conduct collaborative R&D with customers to leverage each other's expertise, knowledge and particular strengths for material innovation. Subsequent to the MQI Acquisition, AMR will have the scale, technical expertise and financial strength to broaden its collaborative initiatives with an expanded customer base in all of its businesses. The vertical integration and improved security of neodymium supply will enhance MQI's attractiveness in the industry. The improved size and financial strength of the combined company will enhance AMR's attractiveness as the superior supplier of rare earths and zirconium and the partner of choice for collaborative product development in these industries.

PRODUCTS AND THE INDUSTRIES

AMR operates in the magnetic powders, rare earths and zirconium industries and MQI operates in the magnetic powders industry. These products are processed by AMR and MQI at plants in China and Thailand (which are close to both raw material sources and key Asian markets) into products used in the manufacture of a wide range of products such as mobile phones and digital cameras, hard disk drives, optical disk drives, mp3 players, computers, office automation equipment and automobiles.

Neo Powders

Magnetic powders are produced by processing specific combinations of elements that result in distinct magnetic and physical characteristics. These powders are the primary material used in the manufacture of rare earth permanent magnets, which, in turn, are used in motors and sensors utilized in a wide variety of products for consumer and industrial end markets. There are four commercially important classes of permanent magnets: ferrite (iron based), aluminium-nickel-cobalt, samarium-cobalt and Neo. Based on Roskill, The Economics of Rare Earths and Yttrium, 12th edition, 2004, the annual global market for all types of permanent magnets is estimated to be in excess of U.S.$8 billion.

Of the four classes of permanent magnets, Neo magnets are the magnets of choice in micromotors, precision motors and other applications where increased motor performance is required in combination with small size and weight. There are two types of Neo magnets — sintered and bonded. AMR and MQI manufacture Neo powder for the production of bonded Neo magnets.

Relative to sintered magnets, bonded magnets can be formed into a wider variety of shapes and sizes without further processing and are better suited for applications that require small or complex shapes. However, because bonded magnets include a binder, the magnetic strength is lower than sintered magnets which are 100% magnetic material. While sintered Neo magnets are almost always more powerful in the magnet form, when being used in certain motors, bonded Neo magnets may be better suited as there is less likelihood of over saturating the motor causing unwanted cogging torque and are therefore less likely to hinder motor performance.

Neo magnets were first invented in 1982 and since that time they have been refined to a point where they now possess the highest magnetic strength of the four types of permanent magnets.

Raw Materials and Processing

Neodymium metal, one of the rare earth elements, is the primary raw material in Neo powder. It is alloyed with iron and boron as well as other elements in small quantities (such as cobalt). In order to produce Neo powder for the manufacture of bonded Neo magnets, the alloy is melted and then rapidly solidified to produce Neo powders with the desired characteristics. There are three commercially viable ways to rapidly solidify Neo to produce magnetic powders: melt-spinning, atomization and strip casting. Melt-spinning, which is employed by AMR and MQI, is more prevalent in the industry and accounts for the vast majority of the Neo powder produced.

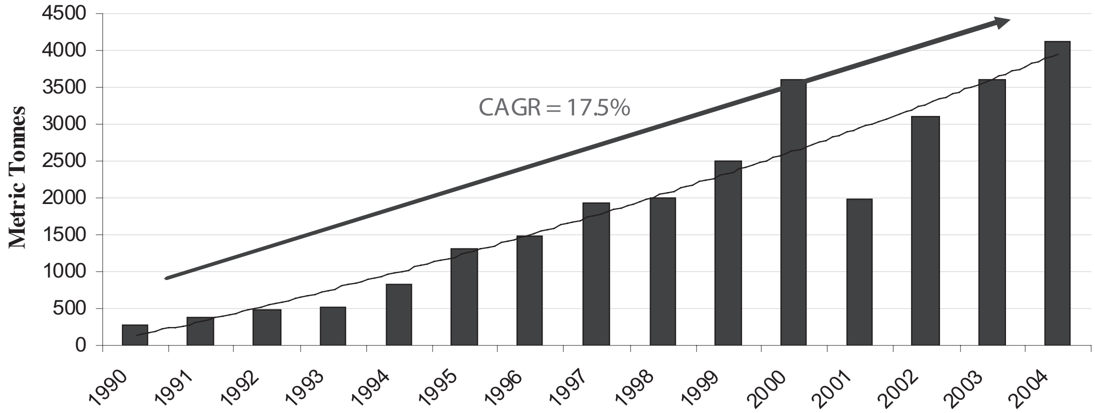
The bonded Neo magnet production process consists of mixing Neo powder with a binder (in order to allow the magnets to be made in intricate shapes). Magnet manufacturers then form magnets by compression molding, injection molding, extruding or calendering the mix into the desired magnet shape.

Demand

According to the Japan Association of Bonded Magnet Manufacturers, the current market for Neo powders is approximately U.S.$100 million per year equating to approximately 4,000 metric tonnes (management estimates the current market at 3,800 metric tonnes), and tonnage has grown at average annual growth rates of between 15% and 20% over the last decade. This growth has primarily been due to a continued increase in end market demand for existing applications. The largest end market applications for Neo powders are hard disk drives in computers, non-traditional applications (such as mp3 players and personal video recorders) and computer optical disk drives. There is at a minimum one bonded Neo magnet in every hard disk drive and optical disk drive produced today. Bonded Neo magnets are also widely used in other consumer electronic products, such as mobile phones and PDAs, office automation products and various automotive motors and sensors.

The market is anticipated to continue growing at a significant rate due to the growth in these end applications and the replacement of weaker magnetic materials by Neo powders. Reduced pricing and the increased performance characteristics of Neo powder and the resulting magnets, as well as trends toward miniaturization and energy savings, are expected to be the primary factors leading to increased substitution of bonded Neo magnets for ferrite magnets.

Bonded Neo Market
Historical Trends



Source: Japan Association of Bonded Magnet Manufacturers

Prices

Neo powder prices have been declining steadily since the mid-1990s. Given MQI's position as the market leader, these prices have generally been reflective of MQI's pricing policy. MQI has strategically reduced prices on the majority of its powder grades on average by approximately 7% annually since 1999 in order to discourage entry of new competitors into the sector when its patents expire and to stimulate conversion from ferrite powders. Other Neo powder manufacturers have been reducing their prices in an attempt to gain market share and increase volume.

Rare Earths

The term ''rare earths'' is used to describe a group of 15 elements, also known as the lanthanide elements, and the element yttrium. Rare earths have similar chemical and physical properties due to their similar electron structure.

They tend to occur mixed together in nature and the resulting materials are processed by companies like AMR by separating the rare earth elements from each other through a multiple stage solvent extraction process. See ''AMR Technologies Inc. — Supply and Rare Earths Refining Process''. The rare earth elements became known as such not because of their relative scarcity, but because of the fact that their similar chemical and physical properties make them difficult to separate from each other.

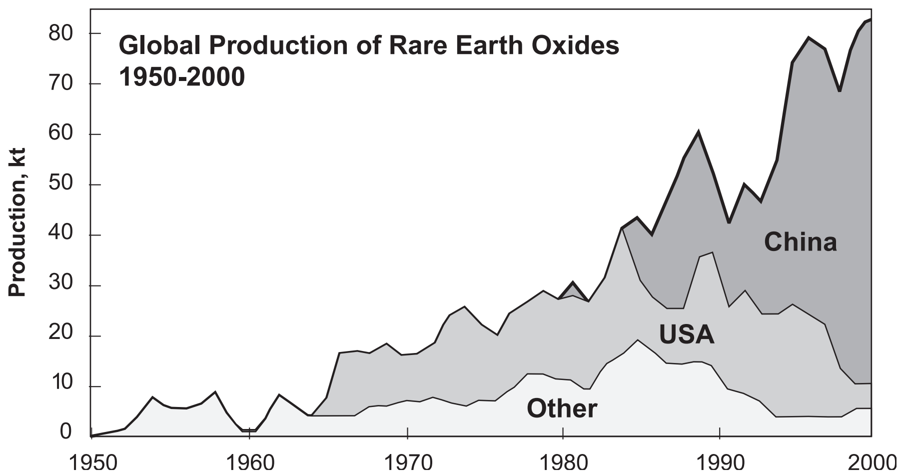
The rare earth elements are categorized into two sub-groups known as the ''light'' rare earths, or cerium sub-group, and the ''heavy'' rare earths, or yttrium sub-group. This division is made on the basis of differences in the atomic numbers and weights and electronic structures of the elements, which result in somewhat different properties for the two groups. As a result of their unique physical and chemical properties, rare earths are used in a wide range of high-tech applications.

Processed rare earths are currently used in diverse applications ranging from metallurgical alloys to electronic components, polishing compounds, glass additives, magnets, electronic and structural ceramics, display phosphors and other applications.

The global rare earth market was estimated at approximately 81,000 metric tonnes with a value of $460 million in 2003 and 85,000 metric tonnes with a value of $490 million in 2004, according to Roskill, The Economics of Rare Earth, & Yttrium, 12th edition, 2004 and AMR management estimates. The volume-average unit price for the rare earth industry is between $5 and $6 per kilogram. AMR focuses on and specializes in the value-added section of specialty rare earths which accounts for approximately one quarter of the industry by volume and approximately one half by value with average unit prices between $10 and $11 per kilogram. Advanced production technology, sophisticated quality and process controls and close customer relationships are the key and necessary ingredients that AMR has developed in order to compete in this sector.

Raw Materials

Rare earths are recovered from a number of different types of ores including bastnaesite, monazite, xenotime and ion adsorption clays. Rare earth deposits are found in many parts of the world but are currently mined mainly in China in two regions: Inner Mongolia, where rare earths are recovered as by-products of large scale iron ore mining operations, and South China (Jiangxi, Guangdong, and Fujian provinces) where a unique mineralization of heavy rare earths (ion adsorption clays) make them extremely easy to extract at a low cost. According to the U.S. Geological Survey, China accounted for 93% of the world's rare earths mine production in 2004. The following graph illustrates China's dramatic historical growth in its share of the world's mine production of rare earths.



Source: U.S. Geological Survey

Demand

Rare earth demand has been driven by a number of global macroeconomic trends including miniaturization, environmental protection and demand for increased energy, power and fuel efficiency. In particular, growth in the electronics and automotive markets has increased the market for rare earth elements. Specific applications contributing to the overall increase in demand include phosphors for TV and computer displays, magnets for micro motors, optical disk drives and hard disk drives, zirconium for automotive catalytic converters, electronic ceramic chips for mobile telephones and other consumer electronics.

Roskill, The Economics of Rare Earths and Yttrium, 12th edition, 2004, estimates that total demand for all rare earths will grow at a rate of 4% to 7% CAGR through 2007. Growth in the Asia-Pacific region, where approximately half of AMR's business is located, is expected to grow at rates near the high end of this range for all rare earth sectors combined.

Prices

In general, rare earth materials are priced on the basis of the relative natural abundance of individual rare earth elements, purity, physical form, the costs associated with separation, the quality of product purchased and the availability of the product. Typically, prices range from about $1.50 per kilogram for commodity grade cerium and lanthanum oxides to $300 per kilogram for europium and $400 per kilogram for terbium oxides.

Zirconium

Zirconium is an element that often and increasingly is used together with rare earths, either separately or in higher value mixed oxides. Zirconium in both its pure and mixed oxide form is used in the automotive, electronics, ceramics and other high-tech industries. Zirconium exhibits chemical behaviour similar to that of the rare earths, and, consequently, zirconium chemicals and oxides are produced using processes similar to rare earth processes. The zirconium industry can be divided into two segments: (a) commodity materials, generally unprocessed or semi-processed zirconium-rich ores (zircon and baddeleyite) and low purity oxides; and (b) value-added materials, such as higher purity oxides, chemicals and mixed oxides (such as cerium/zirconium and yttrium/zirconium oxides) with precise control of physical properties. AMR specializes in producing the value-added category which is used in automotive catalytic converters, electronic ceramics, fibre optics, solid-oxide fuel cells and other high-tech applications.

Raw Materials

Zircon is the main raw material needed for value-added zirconium chemicals production. Zircon is also used in certain high volume/low value applications such as refractories, foundry and pigments, in a variety of unprocessed or semi-processed forms. According to the U.S. Geological Survey, Mineral Commodity Summary, 2004, there are two major sources of zircon ore, Australia (24% of world supply) and South Africa (37% of world supply), and several lesser suppliers located in the United States (9% of world supply) and Brazil, China, India and others (collectively, 30% of world supply). China is the largest customer for zircon sands which is primarily used in its building tiles industry. Some zircon is converted in China to zirconium oxy-chloride which is sold as a raw material to advanced zirconium producers like AMR.

Demand for Value-Added Zirconium Chemicals and Oxides

Management of AMR estimates that the global market for value-added zirconium chemicals is approximately 14,000 metric tonnes per annum, with an approximate sales value of U.S.$175 million. Demand for value-added zirconium chemicals and oxides is spread evenly throughout the world with the major markets being the United States, Europe and Japan.

Prices

Prices of zirconium typically range from $1.50 per kilogram for commodity grade zirconium to $15 per kilogram or more for advanced materials with precisely engineered physical properties. Newer, high purity, nano-structured forms of zirconium materials developed by AMR sell at prices in excess of $50 per kilogram.

AMR TECHNOLOGIES INC.

Overview

AMR was incorporated as Quesada Resources Limited under the *Business Corporations Act* (Alberta) on September 11, 1986, then changed its name to Advanced Material Resources Limited on January 5, 1993. On August 8, 1994, AMR was continued under the *Canada Business Corporations Act* and on July 28, 1995, changed the location of its registered office to Toronto. Articles of Amendment were issued on December 10, 1996 to consolidate the issued and outstanding common shares of AMR. On June 10, 1998, the name of AMR was changed to AMR Technologies Inc. AMR's head and registered office is located at the Standard Life Centre, Suite 1740, 121 King Street West, Toronto, Ontario, M5H 3T9.

Through its indirect controlling interests in its two Chinese joint ventures, JAMR and ZAMR (90% and 85% interests, respectively) which it has controlled since 1993, AMR is a leading international producer of advanced high-quality, high value-added rare earth and zirconium oxides, chemicals, and other rare earth and zirconium specialties. AMR is the world's second largest processor of advanced rare earths, with an estimated 18% market share of the higher value-added segment of the market.

AMR is believed to be the second-largest producer of Neo powders used in the production of high performance magnets for consumer electronics applications. These powders are produced at its wholly-owned facility in Thailand with the key raw material supplied by one of AMR's facilities in China. This market is currently served largely by MQI with an estimated market share of 80%. AMR's market share is approximately 5%.

AMR purchases rare earth mineral concentrates in China from a number of suppliers (with which it has dealt with in some cases for more than 12 years). AMR then separates the individual rare earth elements processed from the intermediates and finishes them using proprietary process technology to achieve the chemical purity and complex physical characteristics required by its customers to achieve strict performance targets. These elements are then sold to customers in the electronics, communications, automotive, energy and lighting industries.

Most of AMR's products are used as advanced materials by the global electronics and automotive markets. In general, AMR's products help customers achieve technological improvements in performance in the applications in which they are incorporated. These improvements create the benefits of miniaturization, energy efficiency and environmental friendliness by helping to create products that are smaller, lighter and stronger.

To complement its rare earths business, AMR entered the nanotechnology field in 1999 with the opening of its nanotechnology centre in Abingdon, United Kingdom. The nanotechnology team works closely with customers and research institutions on applied science and product development. This work has opened up new and potential applications for AMR's products as well as improving the performance of current products. Examples of such projects include a new family of advanced high performance rare earth and zirconium oxides for automotive catalytic converters, a new nano-zirconium oxide for electronic applications for a Japanese customer and the nano-cerium oxide for the development of a reduced side-stream smoke cigarette with Rothmans, Benson & Hedges.

AMR has three production facilities, two in China and one in Thailand. One of the Chinese plants, JAMR, which is located in Jiangyin, China, produces high purity rare earths sold primarily to the electronics industry. AMR's other Chinese facility, ZAMR, which is located in Zibo, China, produces light rare earths for mainly automotive and other catalyst markets. AMR's Thailand facility, AMMT, which is located in Nakhon Ratchasima, Thailand, produces Neo powder.

AMR has corporate and sales offices located in Barbados, Toronto, Abingdon (United Kingdom), Beijing, Shanghai and Seoul.

History of AMR

Company History

Date	Event
1986.	AMR was incorporated as Quesada Resources Limited under the *Business Corporations Act* (Alberta).
1993.	Acquired 60% interest and 80% interest in JAMR and ZAMR, respectively.
1994.	AMR increased its ownership interest in JAMR from 60% to 77%.
1994.	AMR continued under the *Canada Business Corporations Act.*
1995.	AMR obtained listing for the AMR Common Shares on the TSX.
1996.	AMR began evolution from a rare earths producer and marketer to a knowledge driven company serving rapidly growing technology based markets.
1996.	JAMR and ZAMR achieved ISO 9002 certification.
1996.	Opened office in Korea to support its global sales effort and started Advanced Magnetic Materials to target the rare earths magnetic powders market.
1997.	AMR completed its Thailand rare earths magnetic powder facility, AMMT.
1998.	AMR changed its name to AMR Technologies Inc.
1999.	AMR recognized the need to enhance its product development initiatives and established its nanotechnology research centre in Abingdon, United Kingdom.
2001.	AMR increased ownership interests in JAMR and ZAMR to 90% and 85%, respectively.
2002.	AMR completed construction and commissioning of a full product line of zirconium specialities, installed additional capacity at JAMR and ZAMR and began development of a new display materials product line.
2002.	AMR acquired the assets of Zirchem, the zirconium division of Meldform Metals Ltd. of the UK.
2002.	AMMT achieved ISO 9002 certification.
2003.	AMR completed construction of its indium tin oxide conductive nano-coatings facility located within the JAMR facility grounds.
2003.	Certifications at JAMR and AMMT are upgraded to ISO 9001:2000.
2004.	AMR opened representative offices in Shanghai and Singapore.
2004.	AMR sold majority interest in its indium tin oxide conductive nano-coatings facility.

During the early 1990's, AMR recognized that an attractive opportunity existed in the global rare earth industry and invested in its two production joint ventures in China. It was apparent to AMR that its strategic product focus should be the value-added specialty sector of the rare earths industry. This necessitated the development of production capabilities in a low cost environment with easy access to key raw materials, coupled with advanced manufacturing systems and skills. Prices for value-added specialty rare earths (AMR's target segment) tend to be approximately double those in the commodity segment (a segment dominated by Chinese producers).

Advanced low cost production, coupled with global marketing, technical support capabilities and new product development have allowed AMR to grow its market share aggressively at the expense of the leading rare earth companies in the United States, France and Japan, which were leading the industry in the early 1990s. AMR has achieved a number two market share position in the value-added segment of the rare earth industry representing 18% of the market and continues to increase its market share. AMR continues to diversify its rare earth product line and its customer base both geographically and by application. In the past 10 years, AMR has concentrated on building its technical resources and expertise with the aim to become the industry leader in terms of technical innovation and the first choice for large global customers' new rare earth material requirements.

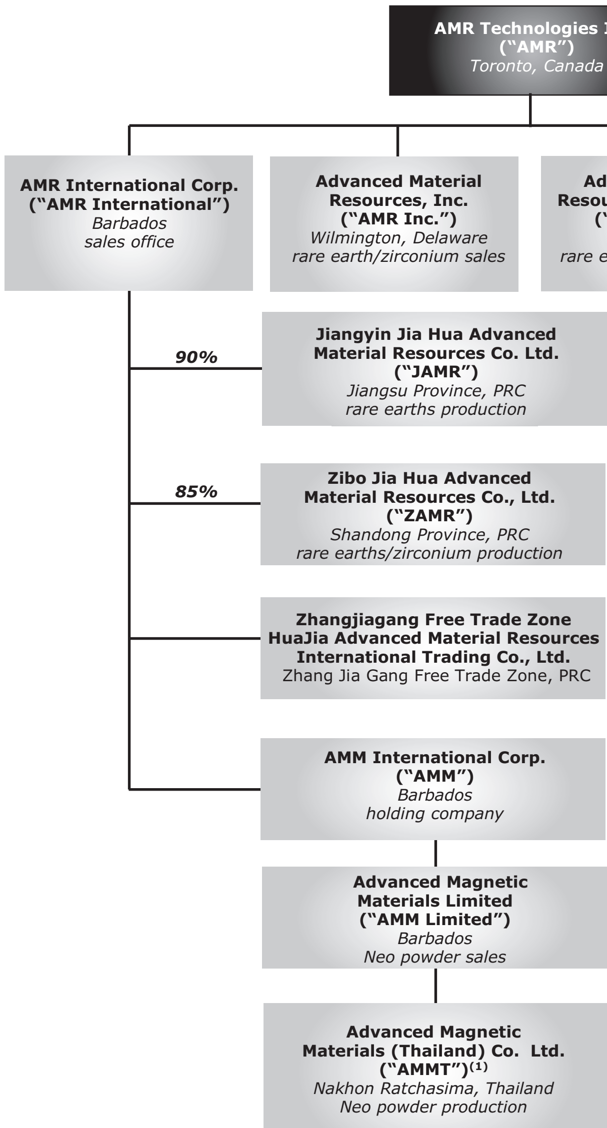
AMR entered the magnetic powders business in 1997 with the opening of its facility in Thailand in order to leverage its position as a low cost, high quality producer of neodymium, a key raw material in the production of Neo powders. AMR has developed valuable production skills and know-how in low cost alloy production, process control and production optimization but has been unable to realize the full potential of its developments due to lack of scale. See ''MQI Acquisition — Competitive Advantages as a Result of the MQI Acquisition''.

AMR has targeted the zirconium valued-added market because: (i) it has technical skills to compete against relatively high cost, non-Chinese based producers which dominate the market; (ii) it leverages AMR's current rare earths customer base as many of its rare earths customers also require zirconium oxides; and (iii) the production facilities and expertise involved in the production of value-added zirconium materials are similar to the expertise required in rare earths production. Technical developments in the automotive catalytic converter industry, one of AMR's key markets, necessitated the development of sophisticated cerium-zirconium mixed oxides and other rare earths. Using technology similar to rare earth purification, AMR constructed a facility within ZAMR's facility to purify and produce various grades of zirconium materials suitable for the production of cerium-zirconium oxides. This facility was later expanded to produce other value-added zirconium chemicals. AMR's zirconium business, similar to its rare earths and magnetic powders businesses, combines advanced low cost production with sophisticated marketing and technical capabilities, giving AMR an advantage over its zirconium competitors in Japan, the United Kingdom and the United States. In 2002, AMR acquired Zirchem, a division of Meldform Metals, an established distributor of zirconium compounds to expand its customer base. Over half of AMR's zirconium customers are also rare earth customers, a fact that has facilitated AMR's entry into the zirconium business.

AMR considers nanotechnology a key ''enabling technology'' for the manufacture of rare earths and zirconium products with significantly advanced performance characteristics. AMR's involvement in nanotechnology dates back to 1997 when it began to collaborate with Dr. James Woodhead, one of the world's pre-eminent sol-gel chemists. This collaboration laid the groundwork for the establishment of AMR's nanotechnology centre in Abingdon, United Kingdom in 1999. The nanotechnology centre works closely with customers and research institutions (such as Nanyang Technological University in Singapore) on applied research and product development. A large portion of AMR's nanotechnology efforts are funded by customers and the Singapore government. Once development products reach commercialization, production technology is then transferred to AMR's plants in China. Examples of AMR's nanotechnology derived commercial products include a number of advanced multi-component oxides that exhibit superior high temperature stability and catalytic activity in catalytic converters. Nanotechnology products under development include a high purity nano-zirconium oxide developed for a Japanese customer for electronic ceramic formulations and a nanosized cerium oxide used by Rothmans, Benson & Hedges in its development of a reduced side-stream smoke cigarette.

Subsidiaries

The following diagram summarizes the material operating subsidiaries of AMR as well as their respective governing jurisdictions and nature of their respective businesses. Unless otherwise indicated, all subsidiaries are wholly-owned.



Note:

(1) AMR, through its wholly-owned subsidiaries, owns 99.99% of the shares of AMMT. The remaining 0.01% is held by six individuals in order to meet the requirements under the laws of Thailand that private limited companies have at least seven shareholders.

Legal Structure of the AMR Joint Ventures in China

Each of JAMR and ZAMR holds a business license and is registered in China as a Sino-foreign equity joint venture enterprise. AMR, through a wholly-owned subsidiary, has long-term joint venture agreements in place with each of its local Chinese partners in JAMR and ZAMR. Jiangyin Special Metals Factory (''JSMF'') is AMR's joint venture partner in JAMR and Zibo Shijia Trading Company (''ZSTC'') is AMR's joint venture partner in ZAMR.

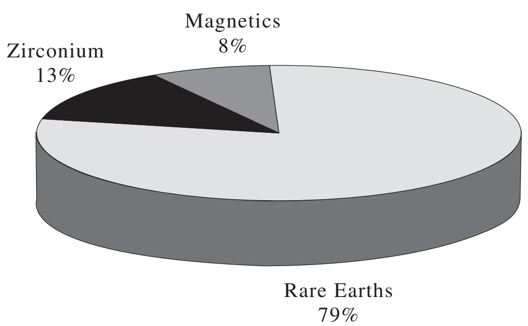
JAMR and ZAMR are distinct legal entities with limited liability and are governed by the laws of China on joint ventures applying to Chinese foreign investment and other related Chinese rules and regulations (collectively the ''Chinese Joint Venture Laws''). The Chinese Joint Venture Laws, the parties' joint venture contracts and the joint ventures' articles of association set forth the governance and operations of JAMR and ZAMR. JAMR is governed by a board of directors consisting of four members appointed to four-year terms. AMR is entitled to appoint two directors, including the Chairman, and JSMF is entitled to appoint the two remaining directors, including the Vice Chairman. In the event of a deadlock, the Chairman has a casting vote. A board of directors consisting of four members appointed to four-year terms governs ZAMR. AMR is entitled to appoint three directors including the Chairman, and ZSTC is entitled to appoint the other director who is also the Vice Chairman.

The ZAMR and JAMR joint venture agreements are 30 year agreements, signed in 1993, which expire in 2023. The agreements may be extended by mutual consent, subject to the receipt of approval from applicable Chinese authorities. Under the terms of the joint venture agreements, neither of the Chinese partners has the right to unilaterally terminate the agreements. Both Chinese partners are companies wholly-owned by employees of the respective joint ventures.

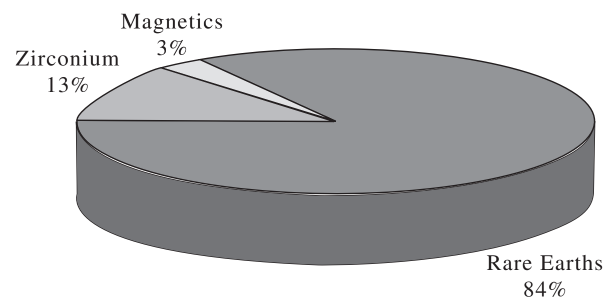
AMR's Business

Approximately 79% of AMR's 2004 revenue and 84% of AMR's 2004 segment EBITDA was derived from the rare earths segment while zirconium and magnetic powders accounted for approximately 13% and 8% respectively of 2004 revenues, and 13% and 3% respectively of 2004 segment EBITDA. By comparison, approximately 81% of AMR's 2003 revenue and 87% of AMR's 2003 segment EBITDA was derived from the rare earths segment, while magnetic powders contributed 10% and 9% to revenue and segment EBITDA, respectively and zirconium contributed 9% and 4% to revenue and segment EBITDA, respectively.

Revenue — 2004
$54.4 million



Segment EBITDA — 2004
$7.5 million



Rare Earths

AMR's rare earths business unit is involved in the manufacture and distribution of a broad range of rare earth based engineered products. The major rare earth elements that AMR produces are cerium, lanthanum, europium, neodymium and yttrium and are mostly produced as oxides and salts. See ''AMR Technologies Inc. — Supply and Rare Earths Refining Process''. AMR divides rare earth applications into two sectors; namely, the high-growth sector and the commodity sector. The largest market by value is the high-growth sector while the largest market by volume is the commodity sector. The commodity sector comprises low-value/high-volume applications such as petroleum refining catalysts, metallurgy, plate glass and low-technology ceramics.

AMR targets applications in the high-growth sector which includes automotive catalytic converters, chemical and other catalysts, bonded magnets, optical/electronic lenses, engineered ceramics, display and lighting phosphors and ceramic chips, which represent approximately 20% of the rare earths market. On balance the market for these higher value-added applications is expected to grow at between 4% and 7%, above the industry average according to Roskill, The Economics of Rare Earths & Yttrium 12th edition, 2004.

Automotive Catalytic Converters

An important use of cerium is in the manufacture of automotive catalytic converters, which form part of an automobile's exhaust system and are used to clean and reduce harmful emissions. Cerium and zirconium (as well as an increased number of other rare earths) are necessary components of the automotive catalytic converter, contributing both to the chemical conversion of pollutants to inerts, as well as the stability of the precious metals used in the automotive catalytic converter. See ''AMR Technologies Inc. — AMR's Business — Zirconium''.

Rare Earth Magnets

The ability of rare earth magnets to combine high magnetic strength with a small size and weight has greatly contributed to the continuing miniaturization of electronic devices such as disk drives and micro motors. Rare earth permanent magnets have higher magnetic strength than the more prevalent ferrite permanent magnets. According to Roskill, The Economics of Rare Earths and Yttrium, 2004, in 2003 more than 12,250 tonnes rare earth oxide (''REO'') of rare earths (mainly neodymium and samarium with some dysprosium and cerium) were estimated to be consumed in the manufacture of bonded Neo and samarium-cobalt permanent magnets. Neodymium produced at AMR's rare earth facilities is used by AMR's magnetic plant in Thailand to produce Neo powders and is also sold to sintered Neo magnetic alloy manufacturers. See ''AMR Technologies Inc. — AMR's Business — Neo Powders''.

Glass and Ceramics

High purity lanthanum is used in the glass formulations for photography, video cameras, photocopiers, eyeglasses and microscope lenses. Lanthanum gives certain desirable properties to glass, including a high refractive index and a high degree of transparency and light transmission. Gadolinium is also used for speciality applications such as lenses for high definition cameras.

Electronics

Cathode ray tubes used in colour television and colour computer monitor screens are coated with phosphors, which generate the primary colours red, blue and green. Phosphors generating the colour red almost exclusively require rare earths and phosphors generating the colours blue and green are doped with rare earths. Rare earth phosphors are made using high purity yttrium, europium and terbium, and also cerium, lanthanum and gadolinium. Rare earth phosphors are also used in low energy lamps and X-ray screens. AMR's products are currently used in all phosphor applications, from small TV screens to state-of-the-art large format HDTV-ready TV monitors and the fast growing plasma and LCD formats.

Rare earths are also used in a variety of electronic ceramic (dielectric) components. The flow of electrical signals on every printed wiring board used in electronic devices is regulated and controlled by the use of dielectric chips known as multi layer ceramic capacitors, a large portion of which use rare earth formulations containing lanthanum and neodymium of high purity and with precisely engineered physical properties. A number of other applications using rare earths include microwave filter chips for mobile communication devices such as cellular phones and PDAs.

Zirconium

AMR manufactures a range of zirconium based engineered products. Zirconium can either be produced as a single element or combined with rare earths such as cerium and yttrium. The primary applications for AMR's zirconium products are automotive catalytic converters which represented approximately 70% of 2004 zirconium sales, while glass and ceramics represented 20% and electronics represented 10% of zirconium sales. Mixed oxides which include rare earths with zirconium are accounted for in the zirconium division.

The ability of AMR to leverage its existing customer base greatly enhances the growth prospects for its zirconium business: many rare earth customers are potential zirconium customers and approximately 40% of AMR's current zirconium customers are also rare earth customers, including five of the top six zirconium customers.

Automotive Catalytic Converters

As indicated earlier, zirconium is important in the manufacture of automotive catalytic converters. Zirconium oxide and zirconium reactive chemicals are used as individual components as well as inter-combined with rare earths (primarily cerium as well as other multi-rare earth formulations) in automotive catalytic converters. Both zirconium and rare earths provide catalytic functionality but newer mixed rare earth and zirconium oxides provide increased performance coupled with higher temperature stability and lower platinum group metals requirements, key features for the newer generations of automotive catalytic converters. AMR is currently supplying five customers at 10 locations in this market and is working with two of the largest OEM producers for qualification of its next generation of advanced mixed (rare earth/zirconium) oxide technology.

The largest markets for automotive catalytic converters are North America, Europe and Japan, but demand in the rest of the world is expected to increase due to expanding environmental regulation. The factors driving increasing demand for rare earth and zirconium for the automotive catalytic converter market include:

- **Legislation in New Markets and Applications:** A variety of new markets requiring emission control catalysts are continuing to emerge. For example, India, Argentina, and certain countries in Asia and parts of Eastern Europe are beginning to introduce environmental legislation which is expected to increase demand for automotive catalytic converters. In addition, applications in diesel emission control continue to demand new rare earth/zirconium formulations.

- **Refinement of Current Environmental Legislation:** Developed nations are continuing to adopt even more stringent automotive exhaust emission standards such as the Federal U.S. LEV (Low Emissions Vehicle), California ULEV (Ultra Low Emissions Vehicle) and the EURO III and EURO IV standards. These more stringent standards continue to demand advanced catalyst formulations which, in turn, demand advanced rare earth and zirconium based materials technology.

- **Cost Reduction:** Automotive catalytic converter producers have been under considerable pricing pressure, exacerbated by industry over-capacity and their willingness to secure market share by lowering prices and making other costly concessions to the auto companies. Furthermore, the major auto companies have implemented significant catalyst cost reduction programs. In combination, these changes have driven the development of new catalyst technologies that lower the use of platinum group metals (the most costly automotive catalytic converter component). Automotive catalytic converter formulations containing advanced rare earth and zirconium have played and will continue to play an important role in permitting reductions in the use of precious metals going forward.

Other Applications

In addition to automotive catalytic converters, zirconium oxides are used in automotive oxygen sensors which are part of the engine management and exhaust catalyst control systems, multi-layer ceramic capacitors and other dielectric chips which store electrical energy and release it on a controlled basis, glass and fibre optics; and structural ceramics which have become increasingly important in the hardened material manufacturing sector where light weight and structural strength is necessary. As well, yttrium-stabilized zirconium oxides are used in thermal barriers for power generation industrial gas and aviation turbines, providing a protective layer for the turbine alloy against high temperatures and wear. In addition, AMR supplies zirconium oxide powder to manufacturers of paints and pigments and solid-oxide fuel cells used in stationary power generation and cogeneration fuel cells.

Neo Powders

AMR produces Neo powder which can greatly influence the size, efficiency and cost of electrical devices and systems. See ''Magnequench, Inc. — MQI's Business''. AMR's Neo powder is utilized in bonded magnets for electronic applications, primarily micro-motors for products such as CD-ROMs and DVD players.

In 2004, AMR's revenue from its magnetic powder business was approximately $4 million. AMR's facilities in China produce neodymium which is the principal rare earth material required for Neo powders which are produced by AMR's wholly-owned Thai plant using a process similar to MQI's process. See ''AMR Technologies Inc. — Manufacturing Facilities and Properties''. For further background on Neo powders, see ''Magnequench, Inc. — MQI's Business''.

The following table summarizes the primary uses for AMR's products and the approximate percentage of 2004 revenue for each.

Industry	Applications	AMR Products
Electronics 40% of 2004 total revenue	• Rare earths are used in a variety of electronic ceramic chips which control the flow of electrical signals on printed wiring boards used in all electronic components. • Other applications using rare earths and zirconium include microwave communication filters for portable communication devices such as mobile phones, PDAs and global positioning systems. • Colour televisions and monitor screens use phosphors coated on the inside of the cathode ray tube to generate colours and brightness. • Phosphors generating the colour red exclusively require rare earths (yttrium and europium) and phosphors generating the colours blue and green are doped with rare earths. • Rare earth phosphors are also used in low energy lamps, LCD screens and X-ray intensifying screens. • A cerium based compound is used in the production of LCD screens.	• AMR sells neodymium and a range of rare earth and zirconium mixtures. • AMR sells yttrium, europium and other rare earths to phosphor producers. • AMR sells cerium ammonium nitrate to the largest producer of LCD etchants in Korea.
Catalysts 30% of 2004 total revenue	• Cerium and zirconium are used in the manufacture of catalytic converters for automobiles which clean up pollutants in exhaust gas. • Increasingly restrictive environmental regulations have led to increased production of catalysts. • Other rare earths used in this application include neodymium, lanthanum, and yttrium. • The largest volume use of lanthanum is in the production of refinery (fluid catalyst cracking) catalysts used for the production of gasoline. • Production of styrene and other chemicals use catalysts containing rare earths.	• AMR has qualified cerium products with most major automotive catalytic converter manufacturers. • AMR is continuing to develop a range of cerium derivatives and other rare earth and zirconium mixed oxides for use in specialized catalyst applications. • AMR supplies cerium to the two largest styrene catalyst producers in the world.
Permanent Magnets 18% of 2004 total revenue	• Rare earth magnets are superior to conventional ferrite magnets in magnetic strength and are used in the continuing miniaturization of electronic devices. • Neodymium-iron-boron is the primary type of rare earth alloy powder used to make rare earth magnets. Bonded Neo magnets provide the optimum combination of size, magnetic strength and complex shape/geometry. • Examples of applications include spindle motors in hard disk drives, spindle and stepper motors for optical disk drives (CD-ROM, DVD) and precision motors for computer peripherals and automotive function-by-wire systems.	• AMR produces Neo powder primarily sold to bonded magnet manufacturers. • AMR produces neodymium for sintered magnet manufacturers
Glass and Ceramics 8% of 2004 total revenue	• High purity lanthanum is used in the glass formulations for eyeglass, photographic, video camera, photocopier, scanner and microscope lenses. • Lanthanum gives certain desirable properties to glass including a high refractive index and a high degree of transparency and light transmission. • Zirconium combined with rare earths allows for high temperature stability in engineered ceramics. • Gadolinium is also used for speciality applications. • Rare earths are used to colour glass and ceramics. • Zirconium is used in optical fibres. • Advanced ceramics are used in applications such as fibre optic connectors, spark plugs, abrasives and the coatings on turbines (jet engines and power generation).	• AMR is the largest supplier of high purity lanthanum and gadolinium to the Japanese optical lens market, the largest market in the world. • AMR sells rare earths such as praseodymium, neodymium, erbium and others. • AMR sells yttrium and zirconium and stabilized mixed oxides.

Supply and Rare Earths Refining Process

The specific refining process and product mix of a rare earth factory is to a large extent determined by the nature of the feedstock material which is being separated. There are two broad categories of feedstock; one containing the light, and the other containing the heavy rare earths. JAMR separates the heavier feedstocks while ZAMR separates light feedstocks. This allows AMR to produce a complete range of rare earth products.

AMR does not carry out rare earth mining operations. It purchases rare earth adsorption clay, chlorides, carbonates, oxides and zirconium intermediates from numerous producers in China. JAMR has four to five regular suppliers of rare earth adsorption clay chosen from approximately 12 mining and refining companies. ZAMR has four to five suppliers chosen from approximately 14 known processors of rare earth chlorides and carbonates. AMR purchases its feedstock requirements on a spot basis, as opposed to long term supply contracts. Other raw materials are available from numerous chemical suppliers in China.

Rare earth ores are usually mined by open pit mining techniques. The ores are concentrated by flotation, leaching or magnetic separation at the mine sites. The rare earths in the concentrates are then chemically extracted and the liberated mixed rare earths dissolved and collected as chlorides, carbonates or oxides. These constitute the feedstocks to the AMR plants. AMR sources its rare earth raw materials from about 10 competing suppliers with which it has well established relationships.

After being analyzed in AMR's quality control laboratories, the solid feedstock is dissolved to make an acid-water solution which, after filtration and partial removal of impurities, is fed to solvent extraction lines. The solvent extraction process removes the residual non-rare earth impurities and, in a sequence of steps, separates the mixed rare earths into separate single element chloride streams. In each step, by adjusting the pH, the flow rate and the choice of organic extraction agents, some of the rare earths are separated from their neighbouring rare earths by selective extraction from the acid-water solution into an organic phase. The acid-water solution and the organic phases are then allowed to settle, thereby separating into two streams. Rare earths are stripped from the organic solvent by washing with hydrochloric acid. These steps are repeated until all the rare earths have been separated from each other (or remain in acceptable compositions).

After the separation stage, the individual element rare earth chloride solutions are processed in a variety of steps proprietary to AMR (which collectively constitute the ''finishing'' stage) to yield high purity materials with precisely engineered physical properties. These steps include precipitation, modifier addition, elutriation, calcination and milling. Under tightly controlled conditions, these processes are collectively designed to produce particles with the desired properties (surface area, surface area thermal stability, crystallite/agglomerate size, particle size, particle size distribution, phase composition, homogeneity, pore size and pore distribution, among others). In addition, AMR produces a range of multi-component materials combining a number of rare earth elements into a single oxide matrix (AMR's fastest growing class of materials are multi-component advanced oxides for automotive catalytic converter formulations, where as many as five different rare earth elements are combined with zirconium and other inorganic elements). AMR's nanotechnology expertise is sometimes employed during the finishing stage. Extensive and sophisticated process controls and instrumentation ensure optimal control of the final properties and consistency of the final products. It is this last finishing stage that tends to differentiate advanced, value-added speciality rare earth materials (a segment in which AMR has a leading position) from the commodity products, which form the bulk of the rare earths industry production.

Sales and Marketing

AMR has offices and production facilities around the world as shown on the following map.

AMR International, AMR's wholly-owned Barbadian subsidiary, has the right to purchase for international resale all export products manufactured by AMR's Chinese joint ventures. AMR International has signed sub-distribution agreements with related and non-related companies, agents and distributors. AMM Limited, also a wholly-owned Barbadian subsidiary, has the right to purchase for international resale all products manufactured at AMR's Thai facility.

AMR derives significant value from its long-standing customer relationships and experience built over the past 10 years. Typically, this is manifested in collaborative product development programs (often involving cost sharing or funding of those programs entirely by AMR's customers) and preferred supplier status (''last look'') on competitive new business and contract renewals.

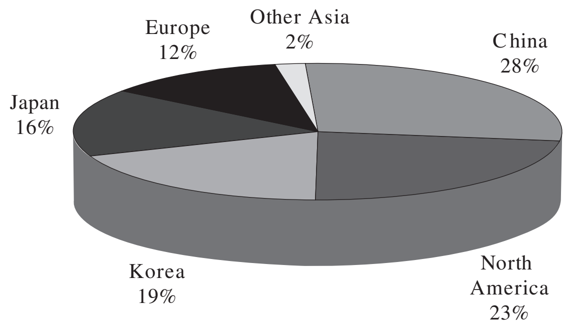
AMR's status as an existing supplier, with an extensive range of qualified products and a number of new products undergoing qualification, represents a significant advantage over its competitors and is a key barrier to entry for AMR's competitors. These testing and qualification requirements are often dictated by AMR's customers and their quality standards (QS9000 and ISO9001), in addition to obligations regarding changes in key raw materials and processes. Depending on the application, a typical qualification time can take between nine and 24 months. The longest qualification times tend to be for automotive catalytic converter applications, where some qualifications can take more than three years.

AMR's global sales force consists of a total of 10 individuals, not including the third party trading companies, Tomen Corporation, which handles sales in Japan, and Advanced Materials Technologies Inc. of Korea. All of AMR sales employees have engineering or chemistry degrees, necessitated by the fact that sales of AMR's products are intensely technical in nature.

Revenue by Geography

Almost two thirds of AMR's 2004 revenue was generated from the Asia Pacific region, with China and Korea contributing approximately 28% and 19%, respectively. AMR's revenue contribution from China has increased from 13% in 2000. AMR's position as the low-cost, high quality leader is strengthened by having a research and development, sales and marketing and manufacturing presence in Asia where 65% of its 2004 revenue was derived.

Revenue — 2004
$54.4 Million



AMR's top 10 rare earth customers represent approximately 51% of rare earth revenues with two customers contributing more than 10% of rare earth revenue. AMR's top 10 rare earth customers have been customers for an average of 7.1 years.

Manufacturing Facilities and Properties

The following table sets forth certain information regarding AMR's principal properties and warehousing facilities, all of which, with the exception of the JAMR and ZAMR buildings and the AMMT property, are leased:

Tenant / Occupant	Location	Area (sq. ft.)	Usage	Lease Expiry Date
JAMR	Jiangsu Province, PRC	888,000	Manufacturing	December, 2012(1)
ZAMR	Shandong Province, PRC	652,000	Manufacturing	April, 2017(2)
AMR(4)	Toronto, Ontario	4,918	Office	August 31, 2015
AMR International	Barbados, W.I.	196	Office	July 31, 2005
AMR International	Beijing, PRC	538	Office	December 31, 2005
AMR International	Shanghai, PRC	226	Office	October 31, 2005
AMR Europe	Abingdon, United Kingdom	1,880	Office and Lab	November 29, 2010
AMA	Seoul, Korea	943(3)	Office	December 31, 2005
AMMT	Nakhon Ratchasima, Thailand	140,000	Manufacturing	Not applicable

Notes:

(1) JAMR has entered into a 10 year land lease agreement and pays a fixed amount per year for the use of the land. This agreement expires in December 2012 with an option to renew for a further term ending on the expiry of the JAMR joint venture agreement in 2023.

(2) ZAMR has the right to use a majority of this land until April 2017, and AMR has received a proposal to extend this land use right beyond 2017 to 2023 for a fixed one-time payment. ZAMR also has prepaid land leases for two smaller portions of this land, expiring in 2023 and 2025.

(3) AMA shares office space with Advanced Materials Technologies Inc.

(4) AMR also leases warehouse space on an on-demand basis in Antioch, Tennessee, Cicero, Illinois, Los Angeles, California, Baltimore, Maryland, Seattle, Washington, Shanghai, PRC, Hong Kong, Hull, England and Ipswich, England to store its products before being shipped to customers.

The JAMR facility is located in the City of Jiangyin, Jiangsu Province, 150 kilometres from Shanghai while the ZAMR facility is located 21 kilometres from the centre of Zibo, an industrial centre in Shandong Province. The AMMT facility is located in the Suranaree Industrial Zone, Nakhon Ratchasima, 250 kilometres northeast of Bangkok, Thailand.

Ownership of resources and operations in the rare earth mining phase is prohibited for non-PRC companies, and AMR is one of a small number of foreign companies permitted to operate the separation phase in China. Export quotas are in place for the life of the joint ventures. Quotas limit the amount of production a Chinese plant is allowed to sell internationally in any one year. According to the China Rare Earths Information Newsletter, March 2005, in 2005, AMR's joint ventures were granted 37% of the total export quotas available to foreign-invested enterprises.

In 2004, ZAMR, processing both rare earths and zirconium, operated at 56% and 47% capacity utilization, respectively, and JAMR processing rare earths operated at 96% capacity utilization. Also in 2004, AMMT operated at 39% capacity utilization. In the case of ZAMR, approximately one third of the zirconium capacity was added in the fourth quarter of 2004. Installed capacity can be fully utilized with limited additional capital investment and only marginal additions to the workforce.

Chinese Facilities

JAMR Facility

JAMR operates a rare earth processing factory on leased land which is located approximately 150 kilometres from Shanghai, in the city of Jiangyin, in Jiangsu Province, China. The plant consists of 25 buildings on 8.25 hectares. JAMR is accessible by highway and is located approximately three kilometres from the Yangtze River. The plant has adequate local water supply and its own water tower. This plant is in close proximity to a large thermal power plant run by Jiangsu Ligang Electric Power Co. Ltd., a Sino-foreign joint venture, which provides sufficient power to the JAMR plant. The JAMR plant employs 468 people as of May 15, 2005.

JAMR refines ion adsorption clay concentrates to produce a range of heavy rare earth products which are sold to customers in high-tech industries in South China such as permanent magnets, electronic components, display phosphors and optical glass.

JAMR leases a building within the JAMR facility to a third party that produces indium tin oxide conductive nano-coatings. This business previously developed and owned by JAMR, was partially sold in November 2004 with JAMR retaining a 10% ownership interest.

The JAMR facility is ISO 9001:2000 and ISO 14001 certified and, according to the China Rare Earth Association, has the largest unit output value of any China rare earth producer using southern feedstocks.

ZAMR Facility

ZAMR operates a rare earth and zirconium processing factory on leased land which is located approximately 21 kilometres from the centre of Zibo, an industrial centre in Shandong Province, China. The plant site consists of 18 buildings on six hectares and is accessible by highway. ZAMR has its own water well, which provides sufficient process water. Sufficient power is supplied by local utilities. The ZAMR plant employs 443 people as of May 15, 2005.

ZAMR refines a light rare earth carbonate and/or chloride feed and produces light rare earths of high purity, primarily cerium sold to automotive catalytic converter producers in North America. ZAMR also produces a line of high quality zirconium products.

The ZAMR facility is ISO 9001:2000 certified and, according to the China Rare Earth Association, has the largest unit output value of any Chinese rare earth producer using northern feedstocks.

By being based in China, AMR's production facilities are located close to raw material sources and its Asian customers. The location of AMR's facilities further strengthens its low-cost, high quality leadership position.

Thai Facility

AMMT Facility

AMMT purchased an existing facility and land for its Neo powder production facility. This facility is located in the Suranaree Industrial Zone, Nakhon Ratchasima, which is located approximately 250 kilometres northeast of Bangkok. The plant site consists of four buildings on 1.3 hectares and is accessible by highway. The plant has an adequate local water supply and sufficient power is provided by local utilities.

AMMT produces Neo powder using a rapid solidification process called melt spinning. In this process, a thin stream of molten alloy is directed onto the outer surface of a rapidly spinning, water-cooled wheel. This rapid quench produces a ribbon-like powder which is then crushed into a fine powder suitable for bonded magnet production. As with the processing of the alloy, all processing of the Neo powder must be carried out in a vacuum/argon atmosphere to prevent oxidation. This process is similar but not identical to that used by MQI.

The AMMT plant is ISO 9001:2000 certified and employs 84 people as of May 15, 2005. AMR owns a 99.99% interest in AMMT. Neodymium metal, its primary raw material is sourced from ZAMR. Other key raw materials are sourced from qualified suppliers around the world.

Research and Development

AMR derives significant value from its long-standing customer relationships and experience built over the past twelve years. Typically, some of the key ways this is manifested is in collaborative product development and ''market pull'' R&D programs (often involving cost sharing with or full funding of these programs by AMR's customers) and preferred supplier status (''last look'') on any competitive new business and contract renewals.

Research and development represents an important part of AMR's client acquisition and retention strategy and AMR plans to continue to invest in the following areas:

- **New product development** — development of new products in collaboration with customers capitalizing on AMR's technical and production capabilities;

- **Existing product optimization and improvement** — refinements to existing products, driven by customer requirements and feedback; and

- **Process development** — aimed at reducing production costs, increasing efficiency and optimizing the overall operations of AMR.

AMR conducts the majority of its R&D internally. In many cases, it collaborates with key customers who provide feedback and evaluation and, in specific cases, pay for some of AMR's R&D related expenses. AMR also collaborates with selected research and educational institutions in basic R&D.

A number of products currently exist in various stages of development in AMR's R&D pipeline. New products are introduced to the market on a continuous basis. AMR's internal target is to derive at least one-quarter of its revenues from products that either did not exist or AMR did not produce three years prior. It is typically these products that contribute the highest margins. In 2004, revenues from products developed in the previous three years accounted for 25% of AMR's overall rare earth and zirconium revenues.

Several products are designed with client directed specifications in mind. Once new products are produced, commercialization timing cycles vary by product, product line and target market based on the client's qualification process. Evaluation and qualification periods are typically between nine and 24 months, although these cycles can be shortened or lengthened depending on the degree of change and the applications involved. AMR's established relationships and qualifications position it among the technological leaders in the rare earth sector. These relationships act as a barrier to entry for new competitors who must build relationships and go through extensive qualification periods just to be in a position to compete.

Consolidated R&D expenditures were $924,000 in 2004 compared to $742,000 in 2003.

Nano-Cerium Development Project

AMR International has been providing materials to Rothmans, Benson & Hedges since 1999 for the development of a reduced side-stream smoke cigarette, which reduces the amount of smoke emitted from a lit cigarette. AMR International has an exclusive 10-year supply agreement with Rothmans, commencing on full commercialization of the product which covers all rare earth and zirconium product requirements by Rothmans and its possible subcontractors and licensees. Rothmans has been paying for AMR's research and development costs related to this project.

Employees

AMR, its subsidiaries and joint ventures have an aggregate of 1,026 full-time employees worldwide as of May 15, 2005, including both corporate and plant level employees. Approximately 98% of employees are located in either China or Thailand.

Summary Headcount — May 15, 2005

By Geography		By Functional Area	
Area	**#**	**Area**	**#**
Canada (Corporate)	11	Corporate Head Office	4
USA	2	Finance & Admin — China and Thailand	70
Europe	9	Finance & Admin — Rest of World	7
Barbados	2	Selling & Marketing	15
Korea	2	Product Development	30
Singapore	1		
China		Operations	900
Beijing	2		
Shanghai	2		
JAMR	468		
ZAMR	443		
Thailand	84		
Total	1,026	Total	1,026

Pursuant to the respective joint venture agreements, each of JAMR and ZAMR permits employees to establish a trade union to represent such employees and to organize employee social activities. The employees at JAMR and ZAMR have each formed a union but, as is typical in China, have not sought a collective bargaining agreement with AMR.

Competition

AMR's competitive strengths in both the rare earths and zirconium sectors result from AMR's extensive process knowledge, its position as a leading international producer of rare earth and zirconium materials, rigorous customer qualification standards and its ability to develop ''next generation'' products in conjunction with its customers and its high level of customer service.

Rare Earths

AMR's principal rare earths competitor is a division of Rhodia, a French public company which is the world's largest value-added rare earths producer. The remainder of the market is fragmented, and is supplied primarily by Japanese and other Chinese producers. AMR's rare earth competitors also include numerous trading companies based in the U.S. and elsewhere, which act as intermediaries between Chinese rare earth producers and Western customers.

Since its establishment, AMR has made significant investments in state-of-the-art analytical, quality and process control systems and procedures to differentiate itself from its Chinese competitors. AMR was the first rare earth producer in China to achieve international ISO9001:2000 certification, a designation which it has achieved at both its JAMR and ZAMR facilities. Both plants have maintained this certification which was first awarded by Underwriters Laboratories in 1996 and JAMR has also now achieved ISO 14001 certification for its environmental program. Another key competitive advantage that AMR has over its Chinese competitors is its extensive global marketing network. Even though it is more costly than AMR's Chinese competitors' practice of using trading companies, it is indispensable in terms of AMR's relationships with its customers, its ability to meet their needs and its ability to translate customer's current and future requirements into a market-driven research and development program.

As compared to its non-Chinese competitors, AMR has the advantage of being a low-cost producer, by virtue of its access to unique, high-quality rare earth reserves in China and its lower operating cost structure, while at the same time being able to produce products that meet the most stringent standards of its customers.

The net result of AMR's positioning is that it is able to achieve competitive advantages versus its Chinese competitors though its superior product and service quality. Compared to its non-Chinese competitors, it has a superior combination of costs with equivalent or higher quality products.

Zirconium

The advanced zirconium oxide and chemicals market is dominated by Magnesium Elektron (a division of the Luxfer Group), Rhodia and Daiichi Kigenso, in a way similar to the way the rare earth market was dominated by Rhodia before AMR's entry in 1993. AMR's primary advantage in the zirconium market is its position as a leading international producer, by virtue of the location of its plant in China. AMR is the only advanced zirconium materials manufacturer in China, whereas AMR's competitors operate plants in higher cost locations such as the United Kingdom, the United States, France and Japan. AMR also has an advantage in its ability to leverage its relationships with its rare earth customers since at least half of AMR's zirconium customers are also rare earths customers with which AMR has built longstanding relationships. AMR also has an advantage regarding technical aspects of zirconium chemical production due to its knowledge of rare earths chemistry, which is important when zirconium and rare earths are combined to make new products.

Magnets

The production of Neo powder is currently dominated by MQI of Indianapolis, Indiana, which holds composition and process patents in certain countries, principally in the United States. See ''Magnequench, Inc. — Competition''.

Description of Share Capital of AMR

The authorized capital of AMR consists of an unlimited number of AMR Common Shares and an unlimited number of preferred shares. On the date hereof, 16,730,101 AMR Common Shares and no preferred shares were outstanding.

The following is a summary of the principal attributes of each class of shares of AMR and the AMR Rights Plan and is qualified in its entirety by the detailed information contained in the articles of AMR and the AMR Rights Plan. A copy of AMR's articles and the AMR Rights Plan have been filed with the Canadian securities regulatory authorities and can be accessed online at www.sedar.com.

AMR Common Shares

Dividends

The holders of AMR Common Shares are entitled to receive dividends as and when declared by the Board, subject to the prior rights of the holders of any shares ranking senior to the AMR Common Shares in the payment of dividends.

Rights on Dissolution

In the event of the dissolution, liquidation or winding-up of AMR, the holders of the AMR Common Shares, subject to the prior rights of the holders of any shares ranking senior to the AMR Common Shares with respect to priority in the distribution of the property and assets of AMR upon dissolution, liquidation or winding-up, will be entitled to receive the remaining property and assets of AMR.

Voting Rights

Holders of the AMR Common Shares are entitled to receive notice of, attend and vote at any meeting of AMR Shareholders, except meetings where only the holders of another class or series of shares are entitled to vote separately as a class or series. The AMR Common Shares carry one vote per share.

Preferred Shares

The preferred shares may at any time, or from time to time, be issued in one or more series, each series to consist of such number of shares as may, before the issue thereof, be determined by resolution of the Board. The directors of AMR shall, by ordinary resolution, fix from time to time before the issue thereof the designation, price, restrictions, conditions and limitations attaching to the preferred shares of each series including, without limiting the generality of the foregoing, the rate or amount of dividends or the method of calculating dividends, the dates of payment thereof, the redemption or purchase price and the terms and conditions of redemption or purchase, any voting rights, any conversion rights and any sinking fund or other provisions. The preferred shares of each series shall rank, both as regards to dividends and return of capital, in priority to all other shares of AMR. The preferred shares of any series may also be given such other preferences over AMR Common Shares and over any other shares of AMR ranking junior to the preferred shares, as may be fixed by the directors of AMR; provided, however, that no rights, privileges, restrictions or conditions attached to a series of shares shall confer on a series a priority in respect of voting, dividends or return of capital over any other series of shares of the same class that are then outstanding.

Dividend Policy

AMR has never declared or paid any dividends on the AMR Common Shares. It is uncertain whether AMR will pay dividends in the future. The Board will determine if and when dividends should be declared and paid in the future based on all relevant circumstances, including the desirability of financing further growth of AMR's financial position at the relevant time.

Shareholder Rights Plan

AMR has entered into a shareholder rights plan agreement (the ''AMR Rights Plan'') with Computershare Trust Company of Canada, as rights agent, dated as of February 5, 2004 in connection with the adoption by AMR of a shareholder rights plan.

The AMR Rights Plan provides for the issuance and attachment to each outstanding AMR Common Share of one right (a ''Right''). One Right will also be issued and attach to each AMR Common Share including any AMR Common Share issued prior to the earlier of the Separation Time (as defined below) and the Expiration Time (as defined below) (collectively, ''Voting Shares''), subject to the limitations set forth in the AMR Rights Plan.

Acquiring Person

An ''Acquiring Person'' is a person that beneficially owns 20% or more of the outstanding Voting Shares. An Acquiring Person does not, however, include AMR or any subsidiary of AMR, or any person that becomes the beneficial owner of 20% or more of the Voting Shares as a result of certain exempt transactions. These exempt transactions include where any person becomes the beneficial owner of 20% or more of the Voting Shares as a result of, among other things: (i) specified acquisitions of securities of AMR, (ii) acquisitions pursuant to a Permitted Bid or Competing Permitted Bid (as described below), (iii) specified distributions of securities of AMR, (iv) certain other specified exempt acquisitions, and (v) transactions to which the application of the Rights Plan has been waived by the Board.

Rights Exercise Privilege

The Rights will separate from the Voting Shares to which they are attached and will become exercisable at the close of business (the ''Separation Time'') on the tenth Business Day after the earliest of: (i) the date of the first public announcement that a person and/or others associated, affiliated or otherwise connected to such person, or acting in concert with such person, has become an Acquiring Person; (ii) the date of commencement of, or first public announcement of the intent of any person to commence a take-over bid, other than a Permitted Bid or a Competing Permitted Bid, and (iii) the date upon which a Permitted Bid or a Competing Permitted Bid ceases to be such, or such later date as the Board may determine in good faith. Subject to adjustment as provided in the Rights Plan, each Right will entitle the holder to purchase one AMR Common Share for an exercise price (the ''Exercise Price'') equal to four times the prevailing market price of an AMR Common Share as at the Separation Time.

A transaction in which a person becomes an Acquiring Person is referred to as a ''Flip-in Event''. Any Rights held by an Acquiring Person on or after the earlier of the Separation Time or the first public announcement by AMR or an Acquiring Person that an Acquiring Person has become such, will become void upon the occurrence of a Flip-in Event.

After the close of business on the tenth Business Day after the first public announcement of the occurrence of a Flip-in Event, each Right (other than those held by the Acquiring Person) will entitle the holder to purchase, for the Exercise Price, that number of Voting Shares having an aggregate market price (based on the prevailing market price at the time of the consummation or occurrence of the Flip-in Event) equal to twice the Exercise Price.

Impact Once Rights Plan is Triggered

Upon a Flip-in Event occurring and the Rights separating from the attached Voting Shares, reported earnings per Voting Share on a fully diluted or non-diluted basis may be affected. Holders of Rights who do not exercise their Rights upon the occurrence of a Flip-in Event may suffer substantial dilution.

By permitting holders of Rights other than an Acquiring Person to acquire Voting Shares at a discount to market value, the Rights may cause substantial dilution to a person or group that acquires 20% or more of the voting securities of AMR other than by way of a Permitted Bid or other than in circumstances where the Rights are redeemed or the Board waives the application of the AMR Rights Plan.

Certificates and Transferability

Prior to the Separation Time, certificates for Voting Shares will also evidence one Right for each Voting Share represented by the certificate. Certificates issued after February 5, 2004 will bear a legend to this effect. Rights are also attached to Voting Shares outstanding on February 5, 2004, although share certificates issued as at that date will not bear such a legend.

Prior to the Separation Time, Rights will not be transferable separately from the attached Voting Shares. From and after the Separation Time, the Rights will be evidenced by Rights certificates which will be transferable and traded separately from the Voting Shares.

Permitted Bids and Competing Permitted Bids

The AMR Rights Plan is not triggered if an offer would allow sufficient time for the AMR Shareholders to consider and react to the offer and would allow AMR Shareholders to decide to tender or not tender without the concern that they will be left with illiquid Voting Shares should they not tender.

A ''Permitted Bid'' is a take-over bid where the bid is made by way of a take-over bid circular and: (i) is made to all holders of Voting Shares, other than the offeror; (ii) the bid is irrevocably open for acceptance for at least 60 days and provides that both deposit and withdrawal rights extend throughout the bid period; and (iii) the bid provides that if the number of Voting Shares of the relevant class validly tendered to the bid and not withdrawn at the expiry time of the bid would exceed 50% of the number of such Voting Shares then outstanding, that fact will be publicly announced and the bid will be extended for at least 10 days following such announcement.

A ''Competing Permitted Bid'' is a take-over bid made after a Permitted Bid has been made and prior to the expiry of the Permitted Bid and that satisfied all the criteria of a Permitted Bid except that since it is made after a Permitted Bid has been made, the minimum deposit period and the time period for the take-up of and payment for shares tendered under a Competing Permitted Bid is not 60 days, but is instead the later of (i) the last day on which a take-over bid must be open for acceptance after the date of such bid under applicable securities legislation, and (ii) the earliest date for take-up and payment of shares under any other Permitted Bid then in existence.

Neither a Permitted Bid nor a Competing Permitted Bid is required to be approved by the Board and such bids may be made directly to AMR Shareholders. Acquisitions of Voting Shares made pursuant to a Permitted Bid or a Competing Permitted Bid do not give rise to a Flip-in Event.

Waiver and Redemption

With the prior consent of the holders of Voting Shares, the Board may, at any time prior to the occurrence of a Flip-in Event that would occur by reason of an acquisition of Voting Shares otherwise than pursuant to a take-over bid made by means of a take-over bid circular to all holders of record of Voting Shares (or otherwise as outlined in the paragraph below), waive the application of the AMR Rights Plan to such Flip-in Event. In such event, the Board shall extend the Separation Time to a date at least 10 Business Days subsequent to the meeting of AMR Shareholders called to approve such waiver.

The Board may also, prior to the occurrence of a Flip-In Event, waive the application of the AMR Rights Plan to a particular Flip-In Event which would occur as a result of a take-over bid made under a circular prepared in accordance with applicable securities laws to all holders of Voting Shares. In such event, the Board shall be deemed to also have waived the application of the AMR Rights Plan to any other Flip-In Event occurring as a result of any other takeover bid made under a take-over bid circular prepared in accordance with applicable securities laws to all holders of Voting Shares prior to the expiry of any take-over bid for which the AMR Rights Plan has been waived or deemed to have been waived.

Until the occurrence of a Flip-in Event, the Board, may, at any time prior to the Separation Time, with the approval of holders of the Voting Shares (or with the approval of holders of Rights if the Separation Time has occurred), elect to redeem all but not less than all of the then outstanding Rights at $0.001 per Right. In the event that a person acquires Voting Shares pursuant to a Permitted Bid, a Competing Permitted Bid or pursuant to a transaction for which the Board has waived the application of the AMR Rights Plan, then the Board shall, immediately upon the consummation of such acquisition, without further formality, be deemed to have elected to redeem the Rights at the redemption price.

Expiration of Rights

No person has any rights pursuant to the AMR Rights Plan in respect of any Right after the Expiration Time. For the purposes of the AMR Rights Plan, Expiration Time means the earlier of (i) the Rights Plan Termination Time, and (ii) the close of the third annual meeting of holders of Voting Shares following the annual meeting of such holders at which the AMR Rights Plan is first approved by the resolution passed by the holders of Voting Shares in accordance with the AMR Rights Plan, unless the AMR Rights Plan is extended in accordance with the terms thereof.

Options to Purchase Securities

AMR Stock Options

The following table summarizes the options of AMR outstanding as of the date of this prospectus.

Group and Group Aggregate	No. of AMR Common Shares Granted Under Option	Grant Date	Expiry Date	Exercise Price per AMR Common Share	Market Value of AMR Common Shares on Grant Date	Market Value of AMR Common Shares as of June 7, 2005
Executive Officers of AMR — 5	30,000	Feb. 27, 2003	Feb. 27, 2013	Cdn$1.20	Cdn$1.20	Cdn$2.20
	20,000	March 1, 2001	March 1, 2011	Cdn$1.51	Cdn$1.51	Cdn$2.20
	130,000	June 30, 2004	June 30, 2014	Cdn$2.01	Cdn$2.01	Cdn$2.20
	45,000	May 2, 2000	May 2, 2010	Cdn$2.05	Cdn$2.05	Cdn$2.20
	70,000	Dec. 17, 1999	Dec. 17, 2009	Cdn$2.12	Cdn$2.12	Cdn$2.20
	100,000	July 5, 1999	July 5, 2009	Cdn$2.25	Cdn$2.25	Cdn$2.20
	20,000	March 2, 2005	March 2, 2015	Cdn$2.50	Cdn$2.50	Cdn$2.20
	30,000	May 28, 1998	May 28, 2008	Cdn$3.00	Cdn$3.00	Cdn$2.20
	313,000	Dec. 6, 1996	Dec. 6, 2006	Cdn$3.25	Cdn$3.25	Cdn$2.20
	155,000	June 15, 1995	June 15, 2005	Cdn$3.75	Cdn$3.75	Cdn$2.20
Directors (other than Executive Officers) of AMR — 5	80,000	Aug. 21, 2003	Aug. 21, 2013	Cdn$1.10	Cdn$1.10	Cdn$2.20
	40,000	May 8, 2001	May 8, 2011	Cdn$1.50	Cdn$1.50	Cdn$2.20
	40,000	Dec. 19, 1997	Dec. 19, 2007	Cdn$1.80	Cdn$1.80	Cdn$2.20
	60,000	Dec. 6, 1996	Dec. 6, 2006	Cdn$3.25	Cdn$3.25	Cdn$2.20
Employees of AMR — 5	20,000	Feb. 27, 2003	Feb. 27, 2013	Cdn$1.20	Cdn$1.20	Cdn$2.20
	5,000	June 14, 2001	June 14, 2011	Cdn$1.70	Cdn$1.70	Cdn$2.20
	10,000	May 2, 2000	May 2, 2010	Cdn$2.05	Cdn$2.05	Cdn$2.20
	20,000	March 2, 2005	March 2, 2015	Cdn$2.50	Cdn$2.50	Cdn$2.20
Executive Officers of the Subsidiaries of AMR — 8	10,000	Sept. 19, 2002	Sept. 19, 2012	Cdn$1.10	Cdn$1.10	Cdn$2.20
	5,000	Feb. 27, 2003	Feb. 27, 2013	Cdn$1.20	Cdn$1.20	Cdn$2.20
	10,000	June 14, 2001	June 14, 2011	Cdn$1.70	Cdn$1.70	Cdn$2.20
	20,000	Dec. 19, 1997	Dec. 19, 2007	Cdn$1.80	Cdn$1.80	Cdn$2.20
	10,000	April 8, 1999	April 8, 2009	Cdn$1.90	Cdn$1.90	Cdn$2.20
	15,000	June 26, 2000	June 26, 2010	Cdn$2.05	Cdn$2.05	Cdn$2.20
	50,000	May 2, 2000	May 2, 2010	Cdn$2.05	Cdn$2.05	Cdn$2.20
	80,000	Dec. 17, 1999	Dec. 17, 2009	Cdn$2.12	Cdn$2.12	Cdn$2.20
	80,000	March 2, 2005	March 2, 2015	Cdn$2.50	Cdn$2.50	Cdn$2.20
Director (other than Executive Officers) of the Subsidiaries of AMR — 1	10,000	March 1, 2002	March 1, 2012	Cdn$1.55	Cdn$1.55	Cdn$2.20

Group and Group Aggregate	No. of AMR Common Shares Granted Under Option	Grant Date	Expiry Date	Exercise Price per AMR Common Share	Market Value of AMR Common Shares on Grant Date	Market Value of AMR Common Shares as of June 7, 2005
Employees of the Subsidiaries of AMR — 2	5,000	Feb. 27, 2003	Feb. 27, 2013	Cdn$1.20	Cdn$1.20	Cdn$2.20
	10,000	June 14, 2001	June 14, 2011	Cdn$1.70	Cdn$1.70	Cdn$2.20
Consultants of AMR — 3	75,000	March 1, 2002	March 1, 2012	Cdn$1.55	Cdn$1.55	Cdn$2.20
	50,000	Dec. 17, 1999	Dec. 17, 2009	Cdn$2.12	Cdn$2.12	Cdn$2.20
	5,000	July 13, 1998	July 13, 2008	Cdn$3.00	Cdn$3.00	Cdn$2.20
Former Directors of AMR — 2	60,000	Dec. 6, 1996	Dec. 6, 2006	Cdn$3.25	Cdn$3.25	Cdn$2.20
TOTAL	1,683,000					

Note:

(1) The market value at the date of grant is the closing price of the AMR Common Shares on the TSX on the day of the grant.

AMR Stock Option Plan

AMR adopted a stock option plan (the ''AMR Stock Option Plan'') to provide AMR with a share ownership incentive program to attract, retain and motivate qualified directors, officers, full-time employees and consultants of AMR and its subsidiaries and affiliates (collectively, ''Service Providers''), to reward those Service Providers for their contributions toward the long term goals of AMR and enable and encourage such Service Providers to acquire AMR Common Shares as long term investments.

The AMR Stock Option Plan is administered by the Board. Subject to the provisions of the AMR Stock Option Plan, the Board is authorized in its sole discretion to make decisions regarding the administration of the AMR Stock Option Plan.

The total number of AMR Common Shares under option cannot exceed 2,499,765 AMR Common Shares. As at the date hereof, options to purchase an aggregate of 1,683,000 AMR Common Shares were outstanding and an aggregate of 731,764 remained available for the grant of options under the AMR Stock Option Plan.

The AMR Stock Option Plan has the following principal terms:

Grant of Options

Subject to the terms of the AMR Stock Option Plan and after reviewing any recommendations from the Corporate Governance Committee, if any, the Board selects the Service Providers to whom options will be granted, the number of AMR Common Shares to be optioned to each of them, the date or dates on which such options will be granted and the terms and conditions attaching to such options. The aggregate number of AMR Common Shares reserved for issuance pursuant to all options granted to any one optionee shall not exceed 5% of the number of AMR Common Shares outstanding on a non-diluted basis at the time of such grant. In addition, the issuance to any one insider (as such term is defined by the *Securities Act* (Ontario)) or such insider's associates, within a one-year period, of AMR Common Shares on the exercise of options may not exceed 5% of the outstanding shares and the issuance to all insiders, within a one-year period, of AMR Common Shares on the exercise of options may not exceed 10% of the outstanding issue.

Exercise Price

The Board shall fix the exercise price of an option which may not be lower than the closing price on the TSX of the AMR Common Shares on the day prior to the date of the grant of such options.

Term of Options

The term of the options shall not be less than one year and not more than 10 years from the date the option is granted. Subject to the terms of the AMR Stock Option Plan, the Board shall specify at the time of grant of options the maximum number of AMR Common Shares that may be exercisable by such optionee in each year during the term of the options. The Board has historically granted AMR Options subject to a three year vesting schedule, with some exceptions. The vesting schedule of the outstanding AMR Options will not be accelerated as a result of the MQI Acquisition.

Lapse of Options

In the event of the discharge of an optionee from AMR or a subsidiary for a wilful and substantial breach of such optionee's duties, all options granted to such optionee under the AMR Stock Option Plan shall cease and terminate. In the event of the resignation or termination of an optionee (other than for a wilful and substantial breach of such optionee's duties), such optionee may exercise each option then held by such optionee to the extent that such optionee was entitled to do so at the time of such resignation for a period of 90 days following the effective date of such resignation (or such later day as the Board in its sole discretion may determine) or the expiry date of such options, whichever is earlier. In the event of the death of an optionee while a Service Provider, all options held by such optionee at the time of death which were exercisable at the time of death may be exercised by the optionee's legal representatives at any time until first anniversary of the date of death. In the event of a take-over or the sale of substantially all of the assets of AMR, options may be exercised within certain fixed time limits.

Adjustments

Appropriate adjustments in the number of AMR Common Shares and in the exercise price of the options, shall be made to give effect to adjustments in the number of AMR Common Shares resulting from any subdivisions, consolidations or reclassifications of the AMR Common Shares, the payment of stock dividends by AMR or other relevant changes in the capital structure of AMR.

Amendments

The Board may amend, vary or discontinue the Stock Option Plan at any time subject to certain regulatory restrictions. Any such amendment, variance or discontinuance of the AMR Stock Option Plan is subject to the approval thereof by any stock exchanges on which the AMR Common Shares are listed and posted for trading.

At the AMR Shareholder Meeting, it is contemplated that AMR Shareholders will be asked to consider, and if thought appropriate, to pass a resolution increasing the number of AMR Common Shares reserved for issuance on the exercise of options granted pursuant to the AMR Share Option Plan sufficient to accommodate the exchange of options of MQI for AMR options pursuant to the MQI Acquisition. A description of this resolution will be included in the management information circular in respect of the AMR Shareholder Meeting which will be posted on-line at www.sedar.com when it is mailed to AMR Shareholders.

Prior Sales

During the period from June 1, 2004 to the date hereof, 63,334 AMR Common Shares were issued by AMR under the AMR Stock Option Plan at prices determined in accordance with the AMR Stock Option Plan. See ''AMR Technologies Inc. — Options to Purchase Securities'' for a description of the AMR Stock Option Plan.

Price Range and Trading Volume of AMR Common Shares

The outstanding AMR Common Shares are quoted on the TSX under the symbol ''AMR''.

The following table sets forth, for the calendar periods indicated, the high and low sale prices and composite volume of trading of the outstanding AMR Common Shares as reported on the TSX.

	AMR Common Shares		
	High	**Low**	**Volume**
2003			
Second Quarter	Cdn$1.36	Cdn$0.95	1,168,799
Third Quarter	Cdn$1.20	Cdn$0.95	1,184,038
Fourth Quarter	Cdn$1.39	Cdn$0.92	822,837
2004			
First Quarter	Cdn$3.95	Cdn$1.13	3,054,435
Second Quarter	Cdn$2.89	Cdn$1.80	481,696
Third Quarter	Cdn$2.50	Cdn$1.80	1,158,857
Fourth Quarter	Cdn$2.45	Cdn$2.15	1,388,868
2005			
January	Cdn$2.40	Cdn$2.00	128,858
February	Cdn$2.64	Cdn$2.16	404,378
March	Cdn$3.10	Cdn$2.20	382,422
April	Cdn$2.71	Cdn$2.00	136,835
May	Cdn$2.30	Cdn$2.00	96,936
June 1-7	Cdn$2.50	Cdn$2.01	216,945

Source: TSX Historical Data Access

On June 7, 2005, the closing sale price per AMR Common Share, as reported on the TSX, was Cdn$2.20. Investors are cautioned that historical market prices are not necessarily indicative of future market prices.

Principal Shareholder of AMR

To the knowledge of the directors and officers of AMR, as of the date of this prospectus, no person beneficially owns or exercises control or direction over AMR Common Shares carrying more than 10% of the votes attached to AMR Common Shares except for the following:

			After Giving Effect to the MQI Acquisition		After Giving Effect to the Equity Offering (assuming no exercise of the Over-Allotment Option) and the MQI Acquisition	
Name	**Number of AMR Common Shares Beneficially Owned Directly or Indirectly**	**Percentage of AMR Common Shares Held**	**Number of AMR Common Shares Beneficially Owned Directly or Indirectly**	**Percentage of AMR Common Shares Held**	**Number of AMR Common Shares Beneficially Owned Directly or Indirectly**	**Percentage of AMR Common Shares Held**
Lynas Corporation Limited (1)(2)	3,316,375	19.83%	3,316,375	7.15%	3,316,375	●

Notes:

(1) See ''AMR Technologies Inc. — AMR Legal Proceedings''.

(2) On a fully diluted basis, the percentage of AMR Common Shares held is 18.01% currently, 6.89% after giving effect to the MQI Acquisition and ● % after giving effect to the Equity Offering (assuming no exercise of the Over-Allotment Option) and the MQI Acquisition.

Directors and Officers of AMR

The following table provides the names, municipalities of residence, position, principal occupation and the number and percentage of voting securities of AMR that each of the directors and executive officers beneficially owns, directly or indirectly, or exercises control over, as of the date hereof. The directors of AMR hold office until the next annual meeting of AMR Shareholders or until their successors are elected or appointed. As of the date hereof, the directors and executive officers of AMR as a group beneficially owned, directly or indirectly, or exercised control or direction over 2,076,186 AMR Common Shares representing approximately 12.4% of the issued and outstanding AMR Common Shares.

Name and Municipality of Residence and Position with AMR	Director/Officer Since	Principal Occupations within the last five years	AMR Common Shares Beneficially Owned Directly or Indirectly (1) at the date of this prospectus	Percentage of Total Outstanding AMR Common Shares at the date of this prospectus
PETER V. GUNDY Chairman, Chief Executive Officer and President Toronto, Ontario	1992	Chairman, Chief Executive Officer and President since 1992.	345,526	2.1%
GEOFFREY R. BEDFORD Executive Vice President and Chief Financial Officer Burlington, Ontario	1999	Appointed Executive Vice President and Chief Financial Officer at the end of 2004. Previously, he was Vice President, Finance and Chief Financial Officer between 1999 and 2004.	111,374	0.7%
ALEXANDER D. CALDWELL Corporate Secretary Toronto, Ontario	1993	Officer of AMR as Corporate Secretary and other capacities since 1993. He is also Manager, Information Systems and Executive Assistant to the Chairman.	7,300	0.05%
CONSTANTINE E. KARAYANNOPOULOS Executive Vice President and Chief Operating Officer; Chairman of JAMR Toronto, Ontario	1999	Appointed Executive Vice President and Chief Operating Officer in October 1999. He was Vice President and General Manager of the Rare Earth Division from September 1998 to October 1999. He joined AMR in 1994.	135,774	0.8%
JEFFREY H. VARAH Vice President, Treasurer Richmond Hill, Ontario	2000	Appointed Vice President, Treasurer at the end of 2004. He had been Corporate Controller since joining AMR in July 2000. Previously, he was Corporate Controller for Berg Chilling Systems, Inc./Mould-Tek Industries from 1999 to July 2000.	20,000	0.1%
HO SOO CHING (2) Director Singapore	1997	Executive Director of MS Corporate Finance Pte Ltd., a financial services firm in Singapore since January 2004. Prior to that, has been involved in management positions in a number of companies within the Singapore Technologies group from 1996 until his departure at the end of 2003.	50,000	0.3%
ROBERT J. LANDER (6) Director Carlisle, Ontario	2003	President and CEO, Stackpole Limited, a supplier of powertrain components and systems to the global automotive industry since 1999; Director, Cymat Corp. since 2001.	74,500	0.5%
PETER O'CONNOR (3)(4)(6) Director London, United Kingdom	1993	Director, Investment Manager Selection Limited since November 1998 and Chairman of Peter O'Connor & Associates since 1991.	505,000 (5)	3.0%

Name and Municipality of Residence and Position with AMR	Director/Officer Since	Principal Occupations within the last five years	AMR Common Shares Beneficially Owned Directly or Indirectly (1) at the date of this prospectus	Percentage of Total Outstanding AMR Common Shares at the date of this prospectus
ROCCO ROSSI (2)(6) . . . . Director Toronto, Ontario	2003	Chief Executive Officer, Heart and Stroke Foundation of Ontario since November 2004; Principal, NPV Associates, Toronto between April 2001 and October 2004, a consulting firm assisting venture capital firms in performing triage on their technology portfolios; President & COO, MGI Software from May 2001 to February 2002; Vice President , Interactive Media, Labatt/Interbrew from April 1999 to January 2000.	Nil	Nil
JOHN P. WLEUGEL (2)(3) . . . . Director Toronto, Ontario	1993	Executive in Residence, Schulich School of Business at York University, Toronto since 1990.	30,000	0.18%

Notes:

(1) The information as to AMR Common Shares beneficially owned or over which control or direction is exercised, not being within the knowledge of AMR, has been furnished by the respective parties.

(2) Member of the Audit Committee.

(3) Member of the Corporate Governance Committee.

(4) Lead Director.

(5) 5,000 AMR Common Shares are owned by Mr. O'Connor directly. 500,000 AMR Common Shares are owned by a British Virgin Island company, of which Mr. O'Connor has a 1% interest with the balance owned by his spouse and family trusts.

(6) Member of the Independent Committee.

For a discussion of the anticipated composition of the Board subsequent to the MQI Acquisition, please see ''Details of the MQI Acquisition — Proposed Directors and Officers''. The following are brief profiles of the directors and executive officers of AMR, including a brief description of each individual's principal occupation within the past five years.

Peter V. Gundy — Chairman of the Board, Chief Executive Officer and President

Mr. Gundy has been the Chairman, President and Chief Executive Officer of AMR since December 1992. Prior thereto, his principal occupation was the Chairman of Renaissance Securities Inc., a Canadian securities dealer, and investment counsel. Mr. Gundy has been Vice-President of Brascan Inc. and Executive Vice President, Finance of the Potash Corporation of Saskatchewan Limited. Mr. Gundy graduated from the London School of Economics with a Masters of Science, Economics degree, McGill University with a Bachelor of Civil Law degree and the University of Western Ontario with a Bachelor of Arts degree.

Geoffrey R. Bedford — Executive Vice President and Chief Financial Officer

Mr. Bedford is Executive Vice President and Chief Financial Officer. Mr. Bedford joined AMR as Vice President, Finance and Chief Financial Officer in July 1999. Prior thereto, he held successively senior financial positions with two manufacturing firms, most recently as Senior Manager, Operations Finance for Woodbridge Corporation, a large multinational automotive parts company. He began his professional career with Price Waterhouse and has a broad range of management, MIS and financial experience. He is a Chartered Accountant and holds a Masters of Business and Administration from Northwestern University, a graduate of the Kellogg-Schulich EMBA program.

Constantine E. Karayannopoulos — Executive Vice President and Chief Operating Officer; Chairman, JAMR

Mr. Karayannopoulos, a Professional Engineer, is Executive Vice President and Chief Operating Officer responsible for AMR's three business units. Prior thereto, he was Vice President and General Manager of the rare earths business unit and Vice-President, Sales of AMR. Before joining AMR as Manager, Business Development in May 1994, he was managing Praxair Canada Inc.'s new business acquisition efforts in Eastern Canada, as well as their commercial development activities in the Chemical, Petrochemical and Refining industries across Canada. From 1986 to 1994 he was in the Linde Division of Union Carbide Canada (now, Praxair Canada Inc.) as a Market Development

Specialist, assuming successively more senior roles. He obtained Bachelor of Applied Sciences and Masters of Applied Sciences degrees in Chemical Engineering from the University of Toronto.

Alexander D. Caldwell — Corporate Secretary, Manager Information Systems and Executive Assistant to the Chairman

Mr. Caldwell is the Corporate Secretary of AMR, and has been an officer of AMR since 1993. He is also Executive Assistant to Peter V. Gundy and responsible for information systems at AMR. Before joining AMR, he served as Manager, Administration of Renaissance Securities Inc. from June 1992 to September 1993. Prior to June 1992, he was an associate real estate broker. His previous experience includes sales, sales management, office management and administration. He graduated from Ryerson University in 1980 with a Diploma in Electrical Technology.

Jeffrey H. Varah — Vice President, Treasurer

Mr. Varah was appointed Vice President, Treasurer in December 2004. He joined AMR in July 2000 as Corporate Controller. Prior thereto, he was Corporate Controller for Berg Chilling Systems, Inc./Mould-Tek Industries. In 1998, he was Director of Finance and Administration for Mark IV Industries. From 1986 to 1998, he held successively senior finance positions with Domtar Inc. Previously, he was a Senior Planning/Business Analyst with Petro-Canada and Process Engineer with Shell Canada. Mr. Varah is a Certified Management Accountant. He holds a Chemical Engineering degree from Queen's University and a Masters of Business Administration from the University of Toronto.

Ho Soo Ching — Director

Mr. Ho is a resident of Singapore and has been a member of the board since December 1997. AMR has benefited from his strong Asian business and government relationships and his understanding of capital markets. Since January 2004, he has been Executive Director of MS Corporate Finance Pte Ltd. Previously he served as President of NEXGEN Financial Solutions. Previously he held senior management positions at Vickers Ballas Holdings Limited and subsidiary companies, all in the financial services arena, and was Executive Vice President (Finance) at Singapore Technologies Telemedia Pte Ltd. and General Manager at Singa Infrastructure Management Pte. Ltd.

Robert J. Lander — Director

Mr. Lander is a Canadian resident and joined the AMR board in June 2003. Mr. Lander is Chief Executive Officer and President of Stackpole Limited, a leading supplier of highly engineered powertrain components and systems to the global automotive industry. He is also a Director of Cymat Corp., a TSX-listed materials technology company. Prior to joining Stackpole he was Vice President Magnesium North American & Global Technology Organization at Meridian Technologies, a supplier of automotive magnesium die-cast components. His previous experience includes management responsibility at a U.S. automotive supplier and management consulting to the manufacturing sector. Mr. Lander holds a Bachelor of Arts (Science) in Mechanical Engineering from the University of Waterloo.

Peter E. O'Connor — Director

Mr. O'Connor is a resident of the United Kingdom and has been a member of AMR's board since December 1993. He serves as Lead Director. He brings a far-ranging understanding of developing markets from his long career in international investment management. He is currently a Director at IMS, an international management selection and funds group. He also chairs a number of investment funds, both of which are closed-end and hedge funds. He is also a Director of Anglo-Eastern Plantations Plc and Chairman of Peter O'Connor & Associates, a consulting firm.

Rocco Rossi — Director

Mr. Rossi is a resident of Canada and became a member of AMR's board in August 2003. His broad-based business experience spans new product releases, strategy and re-engineering for Fortune 500 companies and financing growing companies. He is Chief Executive Officer, Heart and Stroke Foundation of Ontario since November 2004 and a founding Partner at NPV Associates, which consults to venture capital firms. Previously he was President & COO at MGI Software and Vice-President Interactive Media at Labatt/Interbrew. He was VP Strategic Planning & New Media at The Toronto Star and a Senior Consultant with The Boston Consulting Group. His association with AMR began in 1993 when he was VP Corporate Development at Advanced Material Resources. At that time Mr. Rossi was part of the management team that identified two major acquisitions that now form the basis of AMR's manufacturing operations in

China. Mr. Rossi holds a Bachelor of Arts in Political Science from McGill University and an Master of Arts in Politics from Princeton.

John P. Wleugel — Director

Mr. Wleugel is a resident of Canada and joined AMR's board in December 1993, bringing extensive international business experience. He has been an Executive-in-Residence at Schulich School of Business at York University since 1990. From 1972 to 1990, he was a director, Chief Financial Officer and Senior Vice-President of Bata Limited, the world-wide management company of the Bata Shoe Organization. From 1954-1971, he was with Massey-Ferguson Perkins Group of Companies and from 1969-1971 as Corporate Treasurer of Massey-Ferguson Limited. Mr. Wleugel has had extensive board of director experience of public companies in Canada and abroad. He received a Masters Degree in Business Administration from the University of Toronto in 1957 and a Bachelor of Commerce from the University of Copenhagen in 1953.

Corporate Cease Trade Orders or Bankruptcies

To the best of AMR's knowledge, no existing or proposed director, officer, promoter or other member of management of AMR or any AMR Shareholder holding sufficient securities of AMR to materially affect control of AMR is, or within the ten years prior to the date hereof has been, a director, officer, promoter or other member of management of any other company that, while that person was acting in the capacity of a director, officer, promoter or other member of management of that company, was the subject of a cease trade or similar order or an order that denied the company access to any statutory exemptions for a period of more than 30 consecutive days or was declared bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy or insolvency or has been subject to or appointed to hold the assets of that director, officer or promoter.

Penalties or Sanctions

To AMR's knowledge, no director or officer of AMR, or any AMR Shareholder holding sufficient securities of AMR to materially affect control of AMR has:

(a) been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority; or

(b) been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor making an investment decision.

Personal Bankruptcies

To AMR's knowledge, no director or officer of AMR, nor any AMR Shareholder holding sufficient securities of AMR to materially affect the control of AMR, nor any personal holding company of any such person has, within the ten years before the date of this prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangements or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of that person.

Conflicts of Interest

The directors are required by law to act honestly and in good faith with a view to the best interests of AMR and to disclose any interests that they may have in any project or opportunity of AMR. If a conflict of interest arises at a meeting of the Board, any director in a conflict will disclose his interest and abstain from voting on such matter.

To the best of AMR's knowledge, and other than disclosed herein, there are no known existing or potential conflicts of interest among AMR, its promoters, directors and officers or other members of management of AMR or of any proposed promoter, director, officer or other member of management as a result of their outside business interests, except that certain of the directors and officers serve as directors and officers of other companies, and therefore it is possible that a conflict may arise between their duties to AMR and their duties as a director or officer of such other companies.

AMR Executive Compensation

The following table discloses compensation paid to or awarded to AMR's Chief Executive Officer and Chief Financial Officer and the next three most highly compensated officers (collectively, the "Named Executive Officers") whose total salary and bonus was in excess of Cdn$150,000 per annum. Securities legislation provides that the Named Executive Officers are determined on the basis of total cash compensation (salary and annual bonus) earned in the 2004 fiscal year.

Summary Compensation Table

		Annual Compensation			Long Term Compensation			
					Awards	Payouts		
Name and Principal Position	Year	Salary (Cdn$)	Bonus (Cdn$)	Other Annual Compensation (Cdn$)	Securities Under Option/SARs Granted (#)	Shares or Unites Subject to Resale Restrictions (Cdn$)	LTIP Payouts	All other Compensation (Cdn$) (1)
PETER V. GUNDY	2004	373,994	—	—	130,000	—	—	—
Chairman, President and	2003	362,040	—	—	—	—	—	—
Chief Executive Officer	2002	349,800	—	—	—	—	—	—
GEOFFREY R. BEDFORD	2004	197,993	—	—	—	—	—	—
Executive Vice President and	2003	191,640	—	—	—	—	—	—
Chief Financial Officer	2002	156,800	—	—	—	—	—	—
CONSTANTINE E. KARAYANNOPOULOS	2004	258,315	—	—	—	—	—	—
Executive Vice President and	2003	251,100	—	—	—	—	—	—
Chief Operating Officer, Chairman — JAMR	2002	242,600	—	—	—	—	—	—
JOHN J. CROAT (2)	2004	U.S.$106,231	—	—	—	—	—	U.S.$167,250 (2)
former President,	2003	U.S.$194,350	—	—	—	—	—	—
Advanced Magnetic Materials	2002	U.S.$186,840	—	—	—	—	—	—
ALASTAIR S. NEILL (2)	2004	91,182	—	—	—	—	—	155,684 (2)
former Vice President,	2003	169,478	10,000	—	—	—	—	—
Business Development	2002	165,200	21,280	—	—	—	—	—

Notes:

(1) The value of perquisites and benefits does not exceed the lesser of Cdn$50,000 and 10% of the total salary and bonus in 2004, 2003 and 2002 and is not reported herein.

(2) Dr. Croat and Mr. Neill ceased to be employed by AMR on July 8, 2004. The amounts indicated under the last column include severance payments made to Dr. Croat and Mr. Neill in connection with their respective departures from AMR.

Long-Term Incentive Plan Awards during the Most Recently Completed Financial Year

AMR did not have any long-term incentive plans during the most recently completed financial year ended December 31, 2004.

Option/SAR Grants during the Most Recently Completed Financial Year

The following table sets out the details of the stock options granted to the Named Executive Officers under the AMR Stock Option Plan during the most recently completed financial year ended December 31, 2004.

Name	Securities Under Options / SARs Granted (#)	Percent for Total Options / SARs granted to Employees in Financial Year	Exercise or Base Price (Cdn$/Security)	Market Value of Securities Underlying Options / SARs on Date of Grant (Cdn$/Security)	Expiration Date
PETER V. GUNDY Chairman, President and Chief Executive Officer	130,000 (1)	100	Cdn$2.01	Cdn$2.01	June 24, 2014

Note:

(1) Options granted to Mr. Gundy replaced previously expired options and options due to expire in 2004.

Aggregated Options/SAR Exercises in Last Financial Year and Financial Year-End Option/SAR Values

Name	Securities, Acquired on Exercise (#)	Aggregate Value Realized (Cdn$)	Unexercised Options/SARs at December 31, 2004 Exercisable/Unexercisable	Value of Unexercised in-the-Money Options/SARs at December 31, 2004 (Cdn$) Exercisable/Unexercisable
PETER V. GUNDY Chairman, President and Chief Executive Officer	Nil	Nil	450,500/32,500	Nil/Nil
GEOFFREY R. BEDFORD Executive Vice President and Chief Financial Officer	Nil	Nil	120,000/Nil	16,000/Nil
CONSTANTINE E. KARAYANNOPOULOS Executive Vice President and Chief Operating Officer, Chairman — JAMR	15,000	Nil	185,000/Nil	16,100/Nil
ALASTAIR S. NEILL former Vice President, Business Development	50,000	9,000	Nil/Nil	Nil/Nil
JOHN J. CROAT former President, Advanced Magnetic Materials	Nil	Nil	Nil	Nil

Employment Contracts

Peter Gundy — President and Chief Executive Officer

AMR has an employment agreement with Peter Gundy, the President, Chief Executive Officer and Chairman of AMR made as of October 1, 2001, and amended on February 3, 2004, with a term of three years expiring October 31, 2004 and automatic renewals for further consecutive periods of one year each unless AMR provides notice to Mr. Gundy of its intention not to renew at least six months prior to the expiration of the term, or unless Mr. Gundy gives AMR notice of his intention not to renew at least six months prior to the expiration of the term period. The agreement provides, *inter alia*, that:

(i) Mr. Gundy shall receive initially a base salary of U.S.$220,000 per annum and, in the discretion of the Board, a bonus having regard to the contribution of Mr. Gundy to the performance of AMR in a particular fiscal year during the term of his employment. The aggregate salary and bonus shall be subject to review and approval by the Board not less frequently than annually and in no event shall the basic salary be established at an amount which is less than the amount of the basic salary for the immediately preceding year;

(ii) Mr. Gundy is entitled to participate in the supplementary benefits made available generally to AMR's employees from time to time and any perquisites established by AMR from time to time as appropriate for the offices held by him including the use of an automobile;

(iii) Mr. Gundy is entitled to the reimbursement of all expenses actually and properly incurred in furtherance of or in connection with the business of AMR; and

(iv) upon the earlier of: the termination by AMR of his employment other than as a result of the death or disability of Mr. Gundy or ''for cause'', as therein defined; or a change by AMR in any material terms and conditions of his employment, AMR shall thereupon pay to him, in a single payment, an amount equal to two times his regular annual salary.

In the event of a change in control, or other events occurring as more particularly described in the employment agreement, Mr. Gundy may within six months of his learning of such event, give notice of his retirement and AMR shall pay to him, in a single payment, the aggregate amount equal to three times his then regular annual salary plus an amount equal to the bonus payment received in the preceding calendar year. It is a condition of the MQI Acquisition that these change of control provisions be waived prior to closing of the MQI Acquisition. In addition, in any such event, AMR shall continue to provide Mr. Gundy with the supplementary benefits and other perquisites to which he would have otherwise been entitled, for 24 months following the end of his contract term.

Upon retirement after the end of the initial term or a subsequent renewal term, Mr. Gundy shall be entitled to receive from AMR, in a single payment within 30 days following the end of such term, an amount equal to two times his regular annual salary.

Constantine Karayannopoulos — Executive Vice President and Chief Operating Officer

AMR has an employment agreement with Constantine Karayannopoulos, the Executive Vice President and Chief Operating Officer of AMR made as of July 11, 2002, and amended on January 2, 2003, with an indefinite term. The agreement provides, *inter alia*, that:

(i) Mr. Karayannopoulos shall receive initially a base salary of Cdn$242,600 per annum and, pursuant to the performance contract set between him and the Chief Executive Officer in respect of each fiscal year, a bonus having regard to the contribution of Mr. Karayannopoulos to the performance of AMR in a particular fiscal year. The aggregate compensation shall be subject to review and approval by the Board not less frequently than annually;

(ii) Mr. Karayannopoulos is entitled to participate in the supplementary benefits made available generally to AMR's employees from time to time, and the use of an automobile;

(iii) Mr. Karayannopoulos is entitled to the reimbursement of all expenses actually and properly incurred in furtherance of or in connection with the business of AMR; and

(iv) upon the earlier of: the termination by AMR of his employment other than as a result of the death or disability of Mr. Karayannopoulos or wilful failure to properly perform his duties; or a change by AMR in any material terms and conditions of his employment, AMR shall thereupon pay to him, in a single payment, the aggregate of one year of his then regular salary plus one-twelfth of such then regular annual salary for each year, to a maximum of 12 years, of completed employment exceeding six years and an amount equal to the average of the aggregate bonus paid to him in each of the preceding three calendar years.

In the event of a change in control, or other events occurring as more particularly described in the employment agreement, Mr. Karayannopoulos may within six months of his learning of such event, give notice of his retirement and AMR shall pay to him, in a single payment, the aggregate amount equal to two times his then regular annual salary plus an amount equal to the average of the aggregate bonus received in each of the preceding three calendar years. It is a condition of the MQI Acquisition that these change of control provisions if applicable, be waived prior to closing of the MQI Acquisition. In addition, in any such event, AMR shall continue to provide Mr. Karayannopoulos with the supplementary benefits and other perquisites to which he would have otherwise been entitled, for 12 months following the end of his contract term.

Geoffrey Bedford — Executive Vice President and Chief Financial Officer

AMR has an employment agreement with Geoffrey R. Bedford, the Executive Vice President and Chief Financial Officer of AMR made as of July 11, 2002, and amended on January 2, 2003, with an indefinite term. The agreement provides, *inter alia*, that:

(i) Mr. Bedford shall receive initially a base salary of Cdn$156,000 per annum and, pursuant to the performance contract set between him and the Chief Executive Officer in respect of each fiscal year, a bonus having regard to the contribution of Mr. Bedford to the performance of AMR in a particular fiscal year. The aggregate compensation shall be subject to review and approval by the Board not less frequently than annually;

(ii) Mr. Bedford is entitled to participate in the supplementary benefits made available generally to AMR's employees from time to time, and the use of an automobile;

(iii) Mr. Bedford is entitled to the reimbursement of all expenses actually and properly incurred in furtherance of or in connection with the business of AMR; and

(iv) upon the earlier of: the termination by AMR of his employment other than as a result of the death or disability of Mr. Bedford or wilful failure to properly perform his duties; or a change by AMR in any material terms and conditions of his employment, AMR shall thereupon pay to him, in a single payment, the aggregate of one year of his then regular salary plus one-twelfth of such then regular annual salary for each year, to a maximum of 12 years, of completed employment exceeding six years and an amount equal to the average of the aggregate bonus paid to him in each of the preceding three calendar years.

In the event of a change in control, or other events occurring as more particularly described in the employment agreement, Mr. Bedford may within six months of his learning of such event, give notice of his retirement and AMR shall pay to him, in a single payment, the aggregate amount equal to two times his then regular annual salary plus an amount equal to the average of the aggregate bonus received in each of the preceding three calendar years. It is a condition of the MQI Acquisition that these change of control provisions, if applicable, be waived prior to closing of the MQI Acquisition. In addition, in any such event, AMR shall continue to provide Mr. Bedford with the supplementary benefits and other perquisites to which he would have otherwise been entitled, for 12 months following the end of his contract term.

Following closing of the MQI Acquisition, it is anticipated that Mr. Gundy will become Vice Chairman of AMR, Mr. Karayannopoulos will become President and Chief Executive Officer and Mr. Bedford will become Executive Vice President, Rare Earths and Zirconium. Prior to closing the MQI Acquisition, each of Mr. Gundy, Mr. Karayannopoulos and Mr. Bedford will enter into a new or amended employment agreement on terms to be negotiated with the Corporate Governance committee of the Board. The terms of the foregoing agreements have not yet been finalized. However, it is anticipated these agreements will contain terms that are consistent with those typically found in agreements of this nature for individuals in similar positions in similar sized organizations.

Compensation of Directors

In the last completed financial year of AMR, the directors of AMR were paid an aggregate sum of U.S.$155,000. The non-executive directors currently receive U.S.$10,000 as an annual retainer fee, U.S.$1,000 for each Board meeting attended, U.S.$2,000 for each committee meeting attended (U.S.$500 for telephone meetings), and U.S.$1,000 annually for each committee membership. The Chairman of the Audit Committee and the Lead Director each received an additional U.S.$3,000 annual retainer fee. The directors are reimbursed for miscellaneous out-of-pocket expenses incurred in carrying out their duties as directors. There were 130,000 stock options granted to a director of AMR in his capacity as such in 2004.

Indebtedness of Directors and Executive Officers of AMR

The aggregate indebtedness to AMR as at December 31, 2004 of all officers, directors and employees entered into in connection with a purchase of securities of AMR or any of its subsidiaries excluding routine indebtedness was Cdn$475,776. The indebtedness is in the form of a 10 year interest bearing promissory note with repayment beginning in the sixth year of the note. AMR Common Shares purchased with the proceeds of the indebtedness are held as security for the indebtedness.

The following table sets forth the indebtedness of directors, executives and senior officers of AMR under a securities purchase program.

Name and Principal Position	Involvement of AMR or Subsidiary	Largest Amount Outstanding During 2004	Amount Outstanding as at June 7, 2005	Financially Assisted Securities Purchased During 2004	Security for Indebtedness
PETER V. GUNDY Chairman, President and Chief Executive Officer	Loan from AMR	Cdn$147,600	Cdn$147,600	Nil	AMR Common Shares
GEOFFREY R. BEDFORD Executive Vice President and Chief Financial Officer	Loan from AMR	Cdn$109,060	Cdn$109,060	Nil	AMR Common Shares
CONSTANTINE E. KARAYANNOPOULOS Executive Vice President and Chief Operating Officer, Chairman — JAMR	Loan from AMR	Cdn$147,060	Cdn$147,060	15,000	AMR Common Shares

Corporate Governance of AMR

Board Composition

The Board is currently composed of six directors. Of the current Board members, five are considered by the Board to be ''unrelated'' within the meaning of the Corporate Governance Guidelines contained in the TSX Company Manual (the ''Guidelines''), as each is ''free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of AMR, other than interests and relationships arising from shareholding.'' The other member, Peter V. Gundy, the President and Chief Executive Officer of AMR, is related within the meaning of the Guidelines. In deciding whether a particular director is or is not a ''related director'', the Board examines the factual circumstances of each director and considered them in the context of many factors.

The Board believes that the size and composition of the Board has served AMR and its shareholders well and that all of its directors, including its related director, have made valuable contributions to the Board, AMR and its subsidiaries. The Board is of the view that Mr. Gundy, who is not an ''unrelated director'', possesses an extensive knowledge of AMR's business and extensive business experience, both of which have proven to be beneficial to the other directors, and his participation as a director has contributed to the effectiveness of the Board. The Board also believes that Mr. Gundy is sensitive to conflicts of interest and excuses himself from deliberations and voting in appropriate circumstances.

AMR does not have a ''significant shareholder'', which the Guidelines define as ''a shareholder with the ability to exercise a majority of the votes for the election of the Board.''

The Board currently has two committees, an Audit Committee and a Corporate Governance Committee. As and when required, *ad hoc* committees of the Board are appointed to deal with specific matters.

Audit Committee

The Audit Committee is currently composed of three outside directors, all of whom are unrelated, which is consistent with the recommendations in the Guidelines. The Audit Committee is responsible for the integrity of AMR's internal accounting and control systems. The Committee receives and reviews the financial statements of AMR and makes recommendations thereon to the Board prior to their approval by the full Board. The Audit Committee communicates directly with AMR's external auditors in order to discuss audit and related matters whenever appropriate.

Corporate Governance Committee

The Corporate Governance Committee which is currently composed of two outside directors, both of whom are unrelated, is consistent with the recommendations in the Guidelines. The Corporate Governance Committee makes recommendations to the Board regarding the compensation policies and practices of AMR that apply to senior management and the Board. The Corporate Governance Committee is also responsible for making recommendations to the full Board with respect to developments in the area of corporate governance and the practices of the Board. Consistent with the Guidelines, the Corporate Governance Committee has expressly assumed responsibility for developing AMR's approach to governance issues. This Committee is also responsible for reporting to the Board with respect to appropriate candidates for nominations to the Board, and for evaluating the performance of the Board.

Independent Committee (ad hoc)

On April 1, 2005, in connection with the MQI Acquisition, the Board appointed an independent committee consisting of Mr. Robert Lander (Chair), Mr. Rocco Rossi and Mr. Peter O'Connor to consider and provide recommendations to the Board with respect to the proposed transaction with MQI. The Independent Committee retained Osler, Hoskin & Harcourt LLP as its legal advisor and PricewaterhouseCoopers LLP to provide a fairness opinion with respect to the exchange ratio to be used in the MQI Acquisition.

For a discussion regarding the corporate governance of AMR subsequent to the MQI Acquisition, see ''Details of the MQI Acquisition — Proposed Directors and Officers''.

AMR Legal Proceedings

To the knowledge of AMR, there are no legal or arbitration proceedings, active, pending or threatened against, or being brought by AMR or any of its subsidiaries which may have a significant impact on the financial position of AMR other than as set out below.

On February 28, 2005 AMR commenced an application under section 105 of the *Securities Act* (Ontario) in the Ontario Superior Court of Justice (the ''Court'') for an order: (i) declaring that Lynas had not complied with the take-over bid provisions of Part XX of the *Securities Act* (Ontario); and (ii) prohibiting Lynas from voting its AMR Common Shares. In the application AMR has alleged that Lynas, which holds 19.83% of the outstanding AMR Common Shares, has acted jointly or in concert with a third party to make a take-over bid for AMR (by acquiring more than 20% of the outstanding AMR Common Shares) without complying with the take-over bid requirements of the *Securities Act* (Ontario). Lynas has submitted responding affidavits denying the allegations made in the application.

The application was heard on April 4, 2005 before Justice Campbell of the Court. In his endorsement of the application, Justice Campbell: (i) directed a trial of an issue with respect to the application; and (ii) directed the parties to set a schedule for the application. On April 29, 2005, Justice Campbell scheduled a three day trial of issue to be held from July 25 to 27, 2005. AMR and Lynas have recently negotiated a settlement of the matter and AMR has agreed with Lynas to abandon the present application without prejudice.

Interest of AMR Management and Others in Material Transactions

Other than as discussed in this prospectus and apart from fees paid, AMR Stock Options and AMR Common Shares issued to directors and officers of AMR (or entities controlled by them), no insider of AMR, director, or associate or affiliate of them, has any material interest, direct or indirect, in any transaction in the three years preceding the date hereof or in any proposed transaction that has materially affected or will materially affect AMR. See ''AMR Technologies Inc. — Indebtedness of Directors and Executive Officers of AMR''.

Relationship Between AMR and the Agent

AMR is not a related party or connected party to the Agent, as such terms are described under applicable securities legislation.

Auditors, Transfer Agent and Registrar of AMR

The auditors of AMR are Ernst & Young LLP, Chartered Accountants, at 222 Bay Street, Toronto, Ontario.

The registrar and transfer agent for the AMR Common Shares are Computershare Trust Company of Canada at its principal office at 100 University Avenue, 9th Floor, Toronto, Ontario M5J 2Y1.

AMR Material Contracts

Except for contracts made in the ordinary course of business, the following are the only material contracts entered into by AMR within two years prior to the date hereof, which are currently in effect and considered to be currently material:

1. Equity Agency Agreement as described in ''Details of the Equity Offering — Plan of Distribution'';
2. Transaction Agreement as described in ''Details of the MQI Acquisition'';
3. Support Agreement as described in ''Details of the MQI Acquisition'';
4. Subscription Receipts Agreement as described in ''Details of the Equity Offering — Details of the Distribution — Subscription Receipts'';
5. AMR Warrant Indenture as described in ''Details of the Equity Offering — Details of the Distribution — AMR Warrants'';
6. Debt Agency Agreement as described in ''Details of the MQI Acquisition — Debt Offering'';
7. Debenture Indenture as described in ''Details of the MQI Acquisition — Debt Offering''; and
8. Shareholder Rights Plan Agreement as described in ''Description of Share Capital of AMR — Shareholder Rights Plan''.

A copy of any material contract may be inspected during distribution of the Subscription Receipts being offered under this prospectus and for a period of 30 days thereafter during normal business hours at AMR's head offices at the Standard Life Centre, Suite 1740, 121 King Street West, Toronto, Ontario, M5H 3T9.

MAGNEQUENCH, INC.

Overview

MQI is the leading global producer of Neo powder used in the production of high performance, bonded Neo permanent magnets and has an estimated 80% global market share.

MQI was incorporated on April 21, 1999 under the General Corporation Law of the State of Delaware. On August 18, 1999, MQI filed a Certificate of Amendment to its Certificate of Incorporation, allowing for voting rights for preferred stock and eliminating certain terms and conditions on the removal of directors and stock transfers imposed pursuant to a stockholders agreement, dated April 26, 1999. MQI authorized the creation of 25,000 unissued shares of cumulative redeemable preferred stock and filed a Certificate of Designations with the Secretary of State of Delaware on August 24, 1999. A second Certificate of Amendment to the Certificate of Incorporation was filed on January 14, 2000, which set forth the mandatory redemption date of the cumulative redeemable preferred stock. On October 26, 2000, MQI filed an Amended and Restated Certificate of Incorporation, designating a class of non-voting common stock. MQI filed a Certificate of Designations with the Secretary of State of Delaware on April 10, 2001, authorizing the creation of 70,000 shares of exchangeable convertible preferred stock of MQI. On August 10, 2001 MQI filed an Amended Certificate of Designations of the exchangeable convertible preferred stock and created 200,000 shares of Series B Convertible Preferred Stock. MQI filed a Certificate of Amendment to its Certificate of Incorporation on March 3, 2005, effecting a reverse share split, whereby each issued and unissued authorized share of MQI was converted to $^{1}/_{1000}$ of a share. MQI's registered office is located at 1209 Orange Street, Wilmington, Delaware, 19801 and its head office is located at 9775 Crosspoint Boulevard, Suite 100, Indianapolis, Indiana, 46256.

Through its control or ownership of a number of manufacturing process and composition patents, MQI is the only legal supplier of Neo powder for magnets manufactured or sold in the United States. All end products containing bonded magnets made from Neo powder (e.g., mp3 players, PDAs, computers, printers, mobile phones, etc.) that are sold in the U.S. are subject to the enforcement of MQI's patent position. To the extent MQI's Neo powder is not used in these products, the importer and retailer are subject to a claim that they are infringing on MQI's patents.

MQI's leading market share is a result of its intellectual property portfolio, sophisticated process capabilities, new product development expertise, economies of scale and strong customer relationships. Management of MQI believes all of these attributes create sustainable barriers to entry.

History of MQI

MQI's business was started in 1986 by General Motors Corporation (''GM'') to commercialize its 1982 invention of Neo powder and the related process for producing it and bonded Neo magnets. In 1995, a U.S. and Chinese investor group purchased the MQI business from GM.

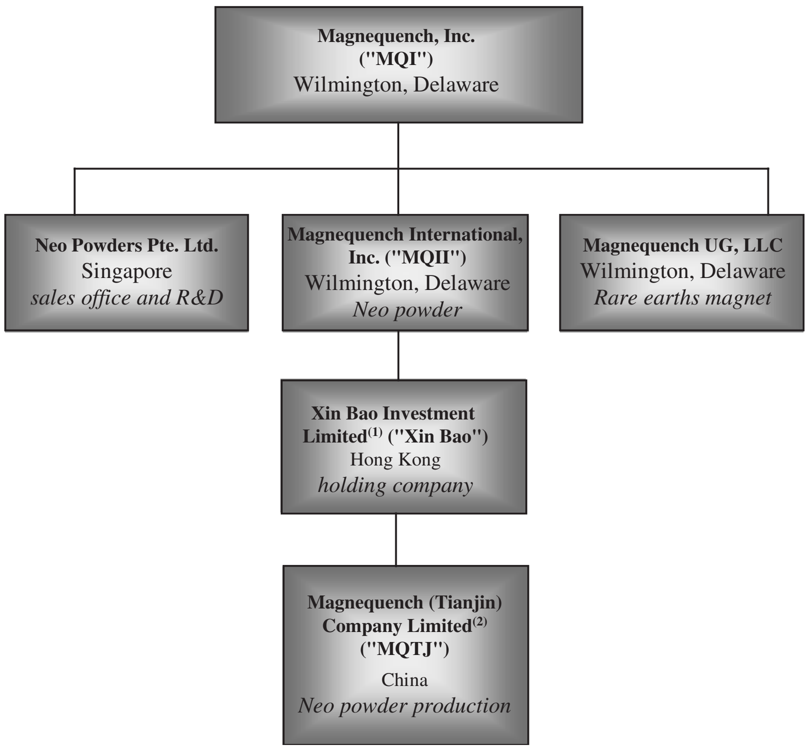
Company History

Date	Event
1982........	GM, Sumitomo Special Metals Corporation (now known as NEOMAX Co.) and The Chinese Academy of Sciences independently discover a new permanent magnet material composed of neodymium, iron and boron.
1983........	Magnetism and Magnetic Materials Convention features the debut of neodymium production methods by GM and Sumitomo Special Metals.
1986........	GM creates a business unit, Magnequench, in order to commercialize Neo powder and builds a 175,000 sq. ft. plant in Anderson, Indiana.
1995........	Investors, including an investment group led by Archibald Cox, Jr., China National Non-Ferrous Metals Import & Export Corp. (''CNIEC''), Soros Fund Management and Beijing San Huan New Material and Hightech, Inc., acquire the business unit known as Magnequench and establish MQII.
1998........	MQII acquires a Tianjin-based alloy manufacturer, Xin Bao Special Metals, and U.S.-based GA Powders which develops a gas atomization manufacturing process for Neo powder. MQII begins building a 145,000 sq. ft. powder manufacturing facility in Tianjin, China.
1999........	MQI is incorporated in April, 1999. The United States International Trade Commission issues a general exclusion order, excluding from entry into the United States any unlicensed rare earth magnets or magnetic materials that infringe the claims of MQII's basic composition patents.
1999........	MQII completes a recapitalization whereby CNIEC's and Soros Fund Management's ownership interests are repurchased by MQI, and new investors, led by TCW/Crescent Mezzanine, LLC, purchase preferred stock and subordinated debt.

Date	Event
2000	Production begins at Tianjin powder manufacturing facility. MQI raises $50 million in new equity to fund the purchase of two magnet manufacturers.
2001	Anderson facility ceases production of powder in December and closes.
2002	MQI completes its operational restructuring plan with the closure of its Anderson, Indiana facility. Outstanding preferred stock of MQI is converted into MQI Shares.
2004	MQI divests magnet manufacturing activities. MQI expands operations in Singapore, including the movement of the R&D centre as well as the addition of sales and marketing resources and the relocation of its administrative and finance functions.

Subsidiaries

The following diagram summarizes the material operating subsidiaries of MQI, their respective governing jurisdictions and the nature of their respective businesses. Each of the subsidiaries is wholly-owned.



Notes:

(1) Pursuant to a pledge agreement dated June 25, 2004, 99.99% of the outstanding shares of Xin Bao were pledged to Bear Stearns Corporate Lending Inc. and the remaining 0.01% were pledged to Bear, Stearns & Co. Inc. as security in connection with the Credit Agreement. Prior to closing, and as a condition of the MQI Acquisition, the outstanding debt under the Credit Agreement will be repaid in full.

(2) Pursuant to a pledge agreement dated June 25, 2004, 66% of the outstanding shares of MQTJ were pledged to Bear Stearns Corporate Lending Inc. as security in connection with the Credit Agreement. Prior to closing, and as a condition of the MQI Acquisition, the outstanding debt under the Credit Agreement will be repaid in full.

MQI's Business

Neo Powder

MQI produces 30 grades of its Neo powder, each with specific magnetic properties and performance characteristics to meet the needs of its customers. MQI's Neo powder covers a wide breadth of magnetic properties which have become the standard in the industry. MQI is continually improving the magnetic characteristics of its powder in order to meet the constantly increasing technical demands of its customers.

MQI is also focused on developing grades of material designed specifically for certain applications by improving the powder's physical or mechanical properties, such as powder morphology and thermal stability. Superior thermal stability is particularly important for a powder in high temperature environments. Such materials maintain their magnetic properties in high temperatures and are ideal for ''under the hood'' automotive applications, an area identified by MQI as a source of potentially significant growth opportunities. One of MQI's patented Neo powders has the highest magnetic properties of any available Neo powder at 180^{o}C, the minimum requirement for ''under the hood'' automotive applications.

New products are developed at MQI's R&D facility in Singapore where MQI has the capability to produce these materials on a lab scale. If warranted, the potential new products are tested and put into production at its facility in Tianjin, China.

MQI's net sales revenue for the year ended December 31, 2004 was approximately $84 million as compared to approximately $78 million for the year ended December 31, 2003.

Applications

MQI's Neo powder is ultimately incorporated into numerous end market applications that utilize bonded Neo magnets. These products are primarily motors and sensors used in a range of products, including computer and office equipment (e.g., hard disk drives and optical disk drive motors and fax, copier and printer stepper motors), consumer electronics (e.g., personal video recorders and mp3 music players), automotive and industrial applications (e.g., instrument panel motors and air bag sensors) and appliances (e.g., refrigerator and air conditioner motors). MQI estimates that in 2004, its Neo powder was used to make approximately one billion magnets worldwide. The following table provides a summary of the principal applications for bonded Neo magnets.

End Market Applications for Bonded Neo Magnets

Computer and Office

- Hard disk drives
- Optical disk drives
- Printers, faxes, and scanners

Consumer Electronics

- Camcorders and cameras
- Game consoles
- Pagers, PDAs and mobile phones
- mp3 music players
- Personal video recorders

Automotive

- Transmission speed sensors
- Airbag sensors
- Motors and actuators
- Instrument gauges

Industrial/Automation

- Robotic arms and motors
- Magnetic couplings
- Bearings
- Generators
- Cordless power tools

Appliances

- Household appliances
- Refrigerators
- Air conditioners

Examples of End Products Produced Using Neo Magnets

Production Facilities

MQI produces its patented Neo powder at its low-cost facilities in Tianjin, China (located approximately 80 miles southeast of Beijing). These facilities include a 145,000 square foot powder manufacturing facility and a 40,000 square foot alloy production plant. The powder manufacturing facility utilizes 10 proprietary, highly sophisticated melt-spinning machines to produce a broad range of Neo powder formulations that meet the specific needs of MQI's global customers.

MQI is always working to develop a range of value-added services to allow customers to reduce their manufacturing costs and improve quality. For example, MQI is currently refining its production processes to tighten magnetic specification ranges on its powders, reduce particle size and increase uniformity as these refinements will allow customers to reduce costs and increase the performance consistency and functionality of their bonded Neo magnets. MQI is also currently exploring other value-added services such as offering powder coating and compounding services. These initiatives are designed to strengthen MQI's relationships with its customers.

MQI's powder manufacturing facility is by far the largest in the industry. It currently has excess capacity leading to significant economies of scale, which provides MQI with considerable pricing flexibility.

MQI is well positioned as the leading low-cost, global supplier of high quality Neo powder. This low-cost position is the outcome of a comprehensive restructuring program which resulted in the closure of MQI's Anderson, Indiana facility and the transfer of its production to its new state-of-the-art Tianjin facility in 2001. As a result, management of MQI believes there is no significant future investment required to maintain this low-cost position for many years. The following chart provides a comparison of historical Anderson production costs to the current Tianjin facilities.

Comparison of Costs at Anderson vs. Tianjin

	($ per kilogram)			
	Anderson 2001	**Tianjin 2003**	**$ Change**	**% Change**
Labour Cost	$ 7.32	$0.16	$ (7.16)	(97.8)%
Overhead Cost (1)	10.07	3.20	(6.88)	(68.3)
Total	$17.39	$3.36	$(14.03)	(80.7)%

Note:

(1) Excludes restructuring charges at Anderson in 2001.

During 2003, MQI achieved record production efficiencies and continues to operate at these levels. In addition, MQI has increased its alloy production 100% without capital expenditures, which allows MQI to reduce outside sourcing of alloy production significantly. This increase in production has resulted in over $650,000 in annual cost savings. MQI has also benefited from increased efficiencies in areas such as consumables usage and inventory management, resulting in still further cost savings.

Customers

MQI's Neo powder is sold directly to magnet manufacturers, some of which are also motor and sensor manufacturers. MQI's customers in turn sell directly or indirectly to global manufacturers of computers, consumer electronics, office automation, automotive and industrial products. MQI's powders are critical to the performance of these products, although they usually represent a very small component of the final product cost.

MQI manufactures some of its grades specifically to individual customer requests. The ability to manufacture products for individual customers helps to create a significant barrier to entry for MQI's potential competitors, as MQI's powders are ''designed into'' these products. In addition, narrower specifications allow MQI's customers to improve their own products which improves performance of products using magnets made from such powders, while eliminating certain processing steps which result in substantial cost savings.

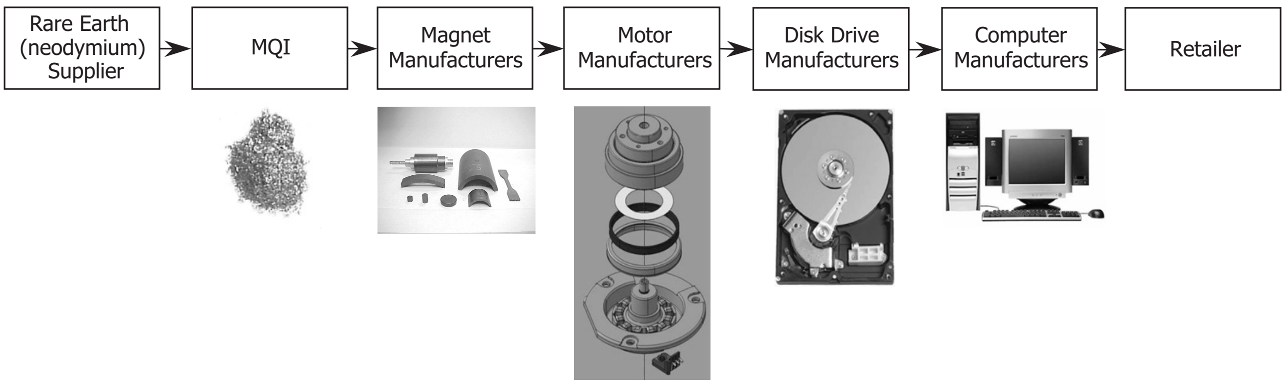
MQI primarily sells to Asian-based customers (approximately 89% of 2004 shipments), but the end products are primarily for global markets.

A typical MQI customer/product chain is as follows:

- MQI purchases the rare earth, neodymium, as its key material input from various suppliers, for use in the manufacture of its Neo powder
- MQI sells its Neo powder to a manufacturer of high performance magnets.
- The magnet manufacturer uses MQI's Neo powder to manufacture a bonded Neo magnet.
- The manufacturer of high performance magnets sells the magnet to a motor manufacturer, which produces a variety of motors, including spindle motors for hard disk drives.

- The motor manufacturer sells its spindle motors to hard disk drive manufacturers.
- The hard disk drive manufacturer sells the hard disk drive to computer manufacturers for use in computers.
- Computer manufacturers distribute computers through retailers.

The customer/product chain is represented graphically by the example below:



A hard disk drive typically contains 1.0 to 2.5 grams of powder, which at today's prices equates to approximately 2.5¢ to 6.25¢ per disk drive.

At all stages of the customer/product chain, MQI's patent portfolio applies to products that are shipped to and ultimately sold in the United States. As the above example shows, the complexity of the customer/product chain makes it difficult and cost prohibitive for manufacturers to track, throughout the supply chain, the shipment of products with bonded magnets using Neo powder not containing MQI's Neo powder in order to prevent entrance into the United States, where they are subject to a claim for infringement by MQI. To better defend its intellectual property portfolio from infringement, MQI inserts a molecular ''tag'' into its powder that allows it to determine if end products contain MQI's Neo powder.

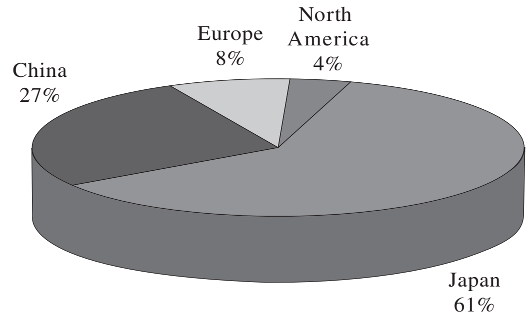
Leading Market Position with Global Customers

MQI is the leading supplier of Neo powder to global manufacturers of bonded Neo magnets. Management of MQI estimates that MQI currently supplies approximately 80% of the global demand for Neo powder. Almost all of its top 10 customers have been customers over 10 years, and most are considered leaders in the magnet manufacturing industry.

MQI's Neo powder is utilized globally in a diverse group of end-use applications and products requiring magnets with high performance characteristics, tight tolerances and complex shapes. Though MQI primarily sells to Asian-based customers, MQI and its customers supply a diversified group of end products that are distributed throughout the world.

Sales to MQI's three largest customers, including Marubeni Corporation, the principal Asian distributor of MQI's Neo powder, represented 66% of MQI's sales from continuing operations in 2004. MQI offers strategic pricing to major customers as an incentive to replace ferrite powder sales with Neo powder thereby enlarging the market for Neo powder. One significant customer of MQI has stated that it believes a ''most-favored-nations'' clause in an agreement with MQI entitles the customer to purchase Neo powder at certain lower strategic prices than MQI has been offering to customers as an incentive to replace ferrite powder sales with Neo powder. While MQI does not agree with this customer's position, the resolution of issues associated with this and similar pricing matters could result in lower sales for Neo powder, especially as the competition from other powder manufacturers increases as MQI's patent protection begins to expire.

2004 Shipments Ultimate Customers by Geography



Intellectual Property

MQI has a significant patent portfolio and its key U.S. patents expire between July 2006 and May 2012. Most end-use products for bonded Neo magnets are produced for global versus local markets. This global manufacturing process, combined with the relatively low dollar content per end-use product, makes it costly and inefficient to track individual production runs for compliance purposes. As a result, MQI believes that its U.S. patents effectively restrict the worldwide use of bonded magnets using Neo powder in global products to those only made from MQI's powder.

MQI's patent for the manufacture of Neo powder by rapid solidification, which has an expiration date of December 2009, is in the opinion of management of MQI, MQI's most valuable patent. The manufacture of Neo powder by rapid solidification is currently the only commercially viable way to manufacture Neo powder to the specifications demanded by MQI's magnet customers and the ultimate end customers. Another patent covering Neo powders containing higher amounts of cobalt, an additive which helps improve the aging characteristics of magnets particularly at elevated temperatures, extends until May 2012. Cobalt-containing powders currently comprise approximately half of MQI's total sales volume. Some of these powders may be replaced or become replaceable with products falling outside the scope of this patent.

Protection of Intellectual Property

Pursuing infringing producers of Neo powders is a significant issue for MQI. MQI periodically purchases various end products containing bonded Neo magnets and disassembles the product to remove the magnet. MQI then performs analyses of the bonded Neo magnet to determine if it was produced from Neo powder sourced from MQI. Because MQI inserts a molecular ''tag'' in its magnetic powder, it can be determined whether a product contains magnets produced from MQI's magnetic powder. To the extent that this molecular ''tag'' is not present, or present in diluted form, MQI can conclude that its patents have been infringed. MQI is also able to determine if material was manufactured or copied using the patent-protected rapid solidification process.

MQI has aggressively protected its patent portfolio against infringing producers and end-users. MQI, in many instances, has targeted high visibility consumer electronics manufacturers in the United States, as well as certain retailers, in order to send a message to the entire supply chain that infringement will not be tolerated. MQI has filed suits in the United States against 19 media storage, office automation and consumer electronics companies. Examples of patent infringement suits filed by MQI against the global supply chain are set forth below:

- May 2001 — MQI sued several major computer manufacturers and retailers for importing into the U.S. and selling products containing infringing magnets. As a result, shipment volumes improved significantly to several of MQI's customers suspected of using infringing powder.
- March 2004 — MQI filed new patent infringement suits to address an increase in the amount of infringing material in the marketplace. In late 2003, management became concerned with infringement as unit volumes were not growing with end market demand. MQI then tested several products and found infringing material and, as a result, filed the recent suits. Management of MQI believes this new enforcement action will result in a reduction of infringement, potentially increasing shipment volumes by 30-40 metric tonnes per month (or 12% – 16% increase in volume per month from current shipment rates).

In order to be dismissed from the 2004 lawsuits, several of the defendants signed settlement agreements with MQI, whereby MQI periodically tests magnets used by the defendants. This compliance program helps ensure that these leading manufacturers and resellers of products use magnets made from MQI's patented Neo powder. MQI is attempting to reach similar settlements with the remaining defendants, and its goal is to then sign similar agreements with entities that were not parties to the lawsuits. MQI currently has a signed agreement with or is in discussions with companies that account for approximately 85% of the optical disk drive market, the industry believed to have the largest amount of infringement.

Research and Development

MQI has developed a wide range of commercial products under its basic patent portfolio covering rapidly solidified powders made within its Neo composition. In recent years, MQI's research has focused on introducing new powder grades that meet significant new application needs as requested by customers, ensuring that the best possible magnetic properties are being provided by the most important grades, and identifying new alloys that can provide improved magnetic properties beyond the limits of the current formulations of Neo.

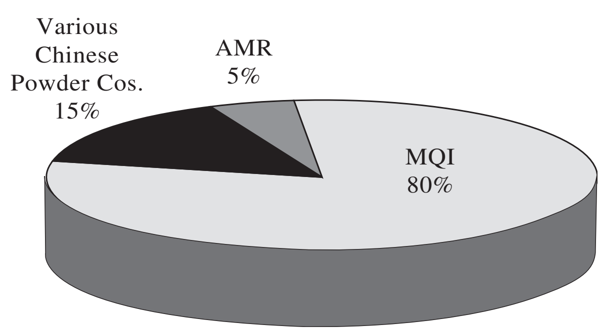
One area of current research is to raise the magnetic properties of MQI's most popular general purpose MQP™-B powder grade, the specific objective being to increase the magnetic flux provided without compromising any other properties. This research could also provide an alternative composition for the MQP™-B+ version to be producible at much higher yield than at present. A large number of possible compositions have already been characterized, and some fruitful possibilities identified using two-phase nano-composite mixtures.

MQI also offers technical applications support to its key customers to help them better utilize bonded Neo magnets. The most sought after assistance relates to the design and development of magnetization fixtures and systems to assure that the magnets are optimally saturated and are providing the most effective magnetic field distribution within the device. MQI has developed unique finite element analysis software that accurately predicts the transient fields from any magnetization system and fixture, allowing prototype fixtures to be built with confidence. MQI continues its efforts to provide solutions in respect of saturation between the ever narrower magnetic poles with energy delivered in much shorter pulses. This is essential as applications continue to be miniaturized including spindle motors in micro disk drives and zoom motors in mobile phone cameras.

Competition

MQI is the leading producer of Neo powder used in the production of high performance bonded Neo permanent magnets with an estimated 80% market share. The next largest producer is believed to be AMR and the remainder of the market is supplied by various Chinese producers.

Estimated Neo Powder Market Share



There are other powder types which compete with MQI's Neo powders for use in bonded rare earth magnets. These powders, either by virtue of their composition or other characteristics, do not fall within the scope of MQI's patents. The most direct competition comes from products produced by NEOMAX Co. (''NEOMAX''), which are rapidly solidified powders made by strip casting as compared to the melt spinning process used by MQI. Under an assignment agreement entered into between NEOMAX and MQI in 1995, NEOMAX is permitted to produce rapidly solidified magnetic powders provided that the composition of such magnetic powders remains outside of MQI's patented range. Initial grades of NEOMAX'S magnetic powders have typically displayed lower magnetic properties compared to certain of MQI's powders.

Certain of MQI's competitors have formulated magnetic powders in the form of a samarium-iron-nitride alloy. These powders are limited to use in a moderate temperature environment due to their poor thermal stability and have achieved only limited success in the marketplace. Other competitors have created Neo powders with higher magnetic properties than the Neo powders produced by MQI through an additional manufacturing process; however, the process is relatively costly and produces a temperature-limited powder with poor thermal stability that is difficult to magnetize. Although not currently produced in significant quantities, this stronger magnetic powder may command a niche market with a few customers served by one or more of Aichi Steel Corp., NEOMAX and Mitsubishi Materials Corp.

Barriers to Entry

MQI's position as the world's leading supplier of Neo powder is strengthened by significant barriers to entry, including:

- **U.S. Patent Protection** — MQI's portfolio of U.S. composition and process patents helps protect its market share and pricing. The process of rapid solidification — the only commercially viable bonded Neo powder manufacturing process that produces the necessary magnetic qualities — is covered by a U.S. patent which has an expiration date of December 2009. Furthermore, MQI has a composition patent, expiring in July 2006, which protects all of MQI's products, a product patent, expiring in 2007, and a composition patent, expiring in May 2012, which protects a majority of its products. As a result of this patent portfolio, MQI is the only legal supplier of Neo powder for the U.S. market. Since the supply chain does not lot track the products containing magnets with non-MQI Neo powders, MQI believes that its U.S. patents effectively restrict the lawful use of non-MQI Neo powders in all global applications.
- **Process Capabilities** — MQI's expertise in the production of Neo powder continues to advance. During 2003, MQI achieved record yields of 96% and 95% in the production of both alloy and powder, respectively, and continues to operate at these levels. In 2004, MQI was also able to increase its captive alloy manufacturing capabilities 100% without any capital expenditures, resulting in over $650,000 in annual cost savings. In addition, MQI utilizes its process capabilities to tighten product specifications, which many of its customers require to improve their own manufacturing processes and to meet increasingly tighter tolerances for their customers.
- **New Product Development Expertise** — MQI's R&D efforts are focused on two critical goals: (i) developing new powder formulations for its customers to meet their changing needs; and (ii) identifying potential new applications for bonded Neo magnets. MQI's R&D operations moved from the U.S. to Singapore in 2004. These R&D initiatives have helped to strengthen customer relationships while increasing the overall size of the Neo powder market.
- **Economies of Scale** — MQI has invested over $40 million since 1998 to develop its state-of-the-art powder manufacturing facility located in Tianjin, China. This facility has the ability to manufacture high volumes of powder as compared to competitors, leading to significant economies of scale.
- **Product Portfolio** — MQI's 30 different grades of Neo powder cover a wide range of markets and applications. This product range effectively protects certain segments of the market from competitors who do not have the development or production resources to match this breadth of product.
- **Ability to Meet Customer Requirements** — MQI has significant experience meeting the stringent specification, quality and high-volume requirements of its customers. As a result, the products produced by MQI's customers are generally ''designed into'' a specific end product for its lifetime which provides additional protection to MQI's volume and market share.

Employees

MQI has 337 full-time employees worldwide as of May 15, 2005, including both corporate and plant level employees. Approximately 96% of employees are located in either China or Singapore.

Summary Headcount — May 15, 2005

By Geography		By Functional Area	
Area	#	Area	#
USA	7	Finance & Admin	25
Europe	2	Selling & Marketing	11
Singapore	16	Research & Development	8
China	309	Operations	293
Japan	3		
Total	337	**Total**	337

Significant Dispositions

In 2004, in order to facilitate MQII's credit financing transaction pursuant to the Credit Agreement, MQI entered into a series of transactions which implemented its strategy of exiting the magnet manufacturing business in order to focus on Neo powder production. Pursuant to a purchase agreement dated as of April 30, 2004 (the ''Kane Purchase Agreement''), MQI and Magnequench UG, Inc. (''MUG'') sold the common stock of and specified assets and liabilities of certain of its subsidiaries to Kane Magnetics Acquisition, LLC, a Delaware limited liability company and subsidiary of Kane Magnetics International (''Kane''). The total consideration paid was $9.217 million subject to certain reductions discussed below. Included in the purchase were Magnequench GmbH, located in Essen, Germany, a producer of bonded ferrite and Neo magnets and magnetic assemblies and aluminium-nickel-cobalt magnets; MQI's copper-nickel-iron magnet operations of Valparaiso, Indiana; Magnequench TX, LLC in El Paso, Texas; and Magnequench de Mexico S.A. de C.V., located in Juarez, Mexico, an operation producing bonded Neo magnets and magnetic assemblies (collectively, the ''Kane Assets''). The transaction also included the sale of MQI's interest in a virtual manufacturing agreement with Beijing Zhong Ke San Huan Hi-Tech Company Ltd. to supply sintered Neo magnets for certain applications in North America and Europe.

MQI, MUG and Kane are subject to certain post-closing obligations in connection with the Kane Purchase Agreement. MQI and MUG are required to deliver to Kane any payments received in respect of accounts receivable constituting part of the Kane Assets. The parties are subject to a five-year non-compete and non-solicit provision, pursuant to which MQI and MUG, shall refrain from producing, distributing or selling certain classes of permanent magnets and Kane shall not manufacture, distribute or sell Neo powder, any other rare earth magnetic powder or any related compounds or coatings, in each case, subject to certain exceptions. The parties agreed to a tax indemnification provision, whereby MQI will be responsible for taxes incurred with respect to the Kane Assets for certain designated periods up to and including the closing date of the transaction and Kane shall be responsible for taxes imposed for a tax period beginning upon the closing date of the transaction. MQI is to maintain directors' and officers' insurance coverage for three years after the closing date for events occurring on or prior to the closing date.

In accordance with the terms of the Kane Purchase Agreement, Kane deposited $2.5 million of the total purchase price into two escrow accounts and MQI received $6.8 million in cash. Of the $2.5 million in the escrow accounts, $1.5 million was returned to Kane as a reduction of the purchase price. Subsequent to the closing of the transaction, a further $285,000 was returned to Kane and $215,000 was returned to MQI as adjustment to working capital. The remaining $500,000 and accrued interest is subject to the resolution of certain pending claims made by Kane. See ''Magnequench, Inc. — MQI Legal Proceedings''.

On June 25, 2004, MQI, sold its interests in Magnequench NJ, LLC (''MQI NJ''), a New Jersey limited liability company and Magnequench Ltd., a limited liability company formed under the laws of the United Kingdom, and Magnequench AG, a Swiss corporation, (collectively, the ''SmCo Acquired Companies'') to SmCo Holding LLC (''SmCo Holding''), a Delaware limited liability company formed by Mr. Archibald Cox, Jr., President and Chief Executive Officer of MQI, to acquire the entities (the ''SmCo Purchase Agreement''). Mr. Cox indirectly owns and controls SmCo Holding. The SmCo Acquired Companies are in the business of sourcing, manufacturing, and/or finishing samarium cobalt magnets and related magnetic assemblies.

Pursuant to the terms of the SmCo Purchase Agreement, certain obligations survive the closing of the transaction. MQI is to remit funds received from customers comprising payment of the accounts receivable of the SmCo Acquired Companies. The parties further agreed to a five-year non-compete provision, pursuant to which MQI shall not manufacture, distribute or sell samarium-cobalt magnets and SmCo Holding shall refrain from the production of Neo powder, any other rare earth magnetic powder, any related compounds or coatings, and any related technologies, as well as certain classes of rare earth magnets, subject to certain specified exceptions. In addition, the MQI sellers may not solicit, or otherwise seek to employ, employees of SmCo Holding (other than Mr. Cox) or seek to terminate the employment of any employee of SmCo Holding for a five-year period following closing of the SmCo Purchase Agreement. The parties to the SmCo Purchase Agreement further agreed to have executed and filed a Remediation Agreement Application (the ''Application'') with the State of New Jersey Department of Environmental Protection pursuant to New Jersey's Industrial Site Recovery Act in respect of MQI NJ's site in Wayne, New Jersey. MQI is required to perform all duties and obligations arising pursuant to the Application or the related Remediation Agreement in the manner and by the times specified therein.

In connection with the SmCo Purchase Agreement, MQI entered into a powder supply agreement, dated June 25, 2004 (the ''Powder Supply Agreement''), with MQI NJ. As the SmCo Purchase Agreement contemplates the transfer of all the rights and obligations of MQI under certain supply contracts with a number of end-product manufacturers to SmCo Holding, MQI agrees to continue to provide 100% of the powder necessary to fulfill MQI NJ's obligations under these agreements. The Powder Supply Agreement provides a fixed price to be based on two specified grades of powder and requires that MQI NJ represent and warrant that the powder purchased be used only to manufacture the magnets and other products needed to satisfy obligations owing under these contracts.

On June 25, 2004 MQI and MUG sold their respective interests in Magnequench Singapore Pte Ltd, and Magnequench Tuas Pte Ltd, each a Singapore company (collectively, the ''HDD Acquired Companies'') to Lux HDD Holdco 2 S.à.r.l., a limited liability company incorporated under the laws of Luxembourg (''HDD''), organized by Mr. Cox to acquire the HDD Acquired Companies (the ''HDD Purchase Agreement''). Mr. Cox indirectly owns and controls HDD. The HDD Acquired Companies are in the business of sourcing, manufacturing, and/or finishing sintered Neo magnets for use in the production of voice coil motors and other related magnetic assemblies for sale in the hard disk drive manufacturing markets.

In accordance with the HDD Purchase Agreement, certain obligations survive the closing of the transaction. MQI and MUG are required to remit funds received from customers comprising payment of the accounts receivable of the HDD Acquired Companies. The parties further agree to a five-year non-compete provision, pursuant to which MQI and MUG shall not manufacture, distribute or sell sintered Neo magnets or magnetic assemblies for use in hard disk drives and HDD shall refrain the production of Neo powder, any other rare earth magnetic powder, any related compounds or coatings, and any related technologies, as well as certain classes of rare earth magnets, subject to certain specified exceptions. In addition, MQI and MUG may not solicit, or otherwise seek to employ, employees of HDD (other than Mr. Cox) or seek to terminate the employment of any employee of HDD for a five-year period following the date of closing of the HDD Purchase Agreement.

The total consideration for the sale of the SmCo Acquired Companies and the HDD Acquired Companies was \$9.5 million, consisting of \$2.55 million in cash, an unsecured promissory note in the amount of \$4.95 million from HDD and an unsecured promissory note in the amount of \$2.0 million from SmCo Holding. The SmCo Holding note has since been paid in full and HDD will repay the HDD note in full prior to the closing of the Equity Offering.

Directors and Officers of MQI

The following table provides the names, municipalities of residence, position, principal occupation and the number and percentage of voting securities of MQI that each of the directors and executive officers beneficially owns, directly or indirectly, or exercises control over, as of the date hereof. The directors of MQI hold office until the next annual meeting of shareholders of MQI or until their successors are elected or appointed. As of the date hereof, the directors and senior officers of MQI as a group beneficially owned, directly or indirectly, or exercised control or direction over 1,240.246 MQI Shares representing 54.02% of the issued and outstanding MQI Shares.

Name and Municipality of Residence and Position with MQI	Director/Officer Since	Principal Occupations within the last five years	MQI Shares Beneficially Owned Directly or Indirectly at the date of this prospectus	Percentage of Total Outstanding MQI Shares at the date of this prospectus
ARCHIBALD COX, JR. .... President and Chief Executive Officer Singapore	1999	President and CEO of MQI since 1995	995.421(1)	43.36%
KOTTAMANGALAM C. (''K.C.'') .... ASHOK .... Chief Financial Officer Singapore	2004	Since June 2004, Chief Financial Officer of MQI; between February and June 2004, Vice President Finance of MQI; prior to that, Mr. Ashok was Vice President and Chief Financial Officer of Hitachi Remy Automotive GmbH	Nil	Nil
SHANNON Y. SONG .... Senior Vice President and President, MQTJ Carmel, Indiana	1999	Ms Song was appointed President, MQTJ in August 2003 and has been Senior Vice President of MQI since 1998	Nil	Nil
PETER CAMPBELL .... Vice President, Technology & Sales Singapore	2001	Vice President-Technology since 1999	Nil	Nil
ZHANG HONG .... Chairman of the Board of Directors Pendleton, Indiana	1999	Chairman of the board of MQI since 1995	Nil	Nil
JEAN-MARC CHAPUS(2) .... Director Los Angeles, California	1999	Group Managing Director and CEO of TCW/Crescent Mezzanine Partners, LLC since 1995	Nil(3)	Nil
KENNETH LANGONE .... Director Sands Point, New York	1999	Chairman of Invemed Associates LLC since 1974	244.825	10.66%
JOHN PEARSON(2) .... Director Ann Arbor, Michigan	2001	President and CEO of Ervin Industries since 1998	Nil	Nil
WANG ZHENXI .... Director Beijing, China	1995	President of Beijing San Huan New Materials and Hightech Inc since April 1985	Nil	Nil

Notes:

(1) Mr. Cox owns 42.225 MQI shares directly and the remainder are held indirectly through a number of investment vehicles which Mr. Cox controls.

(2) Member of the Compensation Committee.

(3) The TCW/Crescent Mezzanine Partners entities own collectively, 207.182 MQI Shares, representing a 9.02% percentage equity interest in MQI.

Archibald Cox, Jr. — President and Chief Executive Officer

Mr. Cox was appointed President, Chief Executive Officer and Director of MQI in 1995. Before joining MQI, he was a managing director of Morgan Stanley International and the President and Chief Executive Officer of CS First Boston Corporation. Mr. Cox serves on the boards of Hutchinson Technology Inc., Hutchinson, Minnesota (1996); Sterling Cruise Lines, LLC, Cape Canaveral, Florida (1998) (Chairman); and Builders Information Group, Inc., Chicago, Illinois (2002). He is also Chairman of SmCo Holding LLC and Lux HDD Holdco 2 S.à.r.l., companies formed by Mr. Cox in 2004 to acquire the SmCo Acquired Companies and the HDD Acquired Companies discussed above under ''Magnequench, Inc. — Significant Dispositions''. Mr. Cox has more than 40 years of local and overseas financial and management experience and is the founder of Sextant Group, Inc. He holds a Bachelor of Economics from Harvard College and a Masters of Business Administration from the Harvard Business School.

Kottamangalam C. (''K.C.'') Ashok — Chief Financial Officer

Mr. Ashok joined MQI in early 2004 and currently serves as Chief Financial Officer. Before joining MQI, he was Vice President and CFO of Hitachi Remy Automotive GmbH, a joint venture between Delco Remy and Hitachi. Mr. Ashok has held several senior financial positions with: iPower Technologies, PSEG Global Inc., The BOC Group and Schlumberger SA. He holds a bachelor's of science degree from Bangalore University in India, was awarded a Masters of Business Administration from the International Institute for Management Development, Switzerland and has been admitted as a member of the Institute of Chartered Accountants of India.

Shannon Y. Song — Senior Vice President and President — Magnequench Tianjin

Appointed as a member of the board of directors in 1995, Ms. Song is responsible for China operations and is also currently Senior Vice President Strategic Planning. Beginning in 1991, she served as Finance Director of China National Non-Ferrous Metals Import & Export Corporation until assuming her duties with MQI. Ms. Song completed her undergraduate education in electrical engineering at Northern China Industrial University in 1982. In 1990, Ms. Song was awarded an MBA at Azusa Pacific University in Azusa, California, and in 1998, she completed the Harvard Executive Education Advanced Management Program.

Peter Campbell — Vice President — Technology and Sales

Dr. Campbell joined MQI in 1999 and is now Vice President — Technology and director of MQI's Technology Center in Singapore. After graduating with a Ph.D. in Electrical Engineering from the University of Warwick, England, Dr. Campbell stayed within academia to become an assistant lecturer at the University of Cambridge from 1973 to 1977 and an assistant professor at the University of Southern California from 1977 to 1981. In 1981, he was recruited to work for the international technical and management-consulting firm, PA Consulting, where he became President of North American Technology. In 1985, Dr. Campbell founded Princeton Electro-Technology, Inc., a consulting firm specializing in new product and market development for magnetic materials and applications.

Zhang Hong — Chairman of the Board of Directors

Mr. Zhang was appointed as Chairman and a member of the board of directors of MQI in 1995. Mr. Zhang also serves as an employee of MQI, providing advice and leadership, but is not involved in the day to day operations of MQI. After earning a Bachelor of Physics degree from Beijing University in 1970, he joined the Chinese Academy of Sciences in 1973. Mr. Zhang performed research work in the application of superconducting magnets for 12 years. Mr. Zhang worked as a visiting scientist in the Max Planck Institute in West Germany from 1978 to 1981. From 1985 to 1992, he served as Deputy Director of Technology Sciences and Director of Hi-Tech Enterprises of the Chinese Academy of Sciences. He has been the Chairman of Beijing San Huan New Materials and Hightech since 1990. Mr. Zhang was one of the founders, in 1993, of the China Sciences Group (Holding) Hightech, Inc. and has served as Vice Chairman since that time. Mr. Zhang has more than 30 years of professional engineering and management experience.

Jean-Marc Chapus — Director

Mr. Chapus has been with Trust Company of the West since 1995 and is a Group Managing Director and Chief Executive Officer of TCW/Crescent Mezzanine Partners, LLC, a private investment fund. From 1991 to 1995, he was a Managing Director and Principal of Crescent Capital Corporation with primary responsibility for the firm's private lending and private placement activities. Prior to 1991, Mr. Chapus was a senior member of Drexel Burnham Lambert Incorporated in the firm's High Yield and Corporate Finance departments. Mr. Chapus is a director of Starwood Hotels and Resorts Worldwide, Inc., MEMC Electronic Materials, Inc., TCW Asset Management Company and MQI. He received his A.B. and Masters of Business Administration from Harvard University, where he is a member of the Harvard College Visiting Committee.

Kenneth G. Langone — Director

Mr. Langone is the founder, Chairman, President and Chief Executive Officer of Invemed Associates LLC, a New York Stock Exchange member firm engaged in investment banking and brokerage. He received a Bachelor of Science from Bucknell University and an MBA from New York University's Stern School of Business. He remains active with both institutions, currently serving on the board of overseers of the Stern School and was recently elected to the board of trustees of New York University. He is a co-founder of Home Depot, Inc. and has been a director and member of the executive committee of its board since it was founded in 1978. He also serves on the boards of ChoicePoint, Inc., Unifi, Inc., General Electric Company, and YUM! Brands.

John Pearson — Director

Mr. Pearson graduated from the University of Arizona in 1973 with a Bachelor of Science degree in Business Administration. Following graduation, he began working for Ervin Industries with a company affiliate in Hamburg, Germany. Upon completion of that term, he was assigned to operations in the United States in various capacities in the manufacturing sector. Mr. Pearson was then redeployed to sales management and later was promoted to Executive Vice President. He has held the position of President and CEO of Ervin Industries since 1988. Mr. Pearson previously served on the Corporate Advisory Council of the University of Michigan School of Business. He is currently a Trustee of Hillsdale College, Hillsdale, Michigan, and The J. F. Ervin Foundation.

Wang Zhenxi — Director

Mr. Wang is the President of Beijing San Huan New Material and Hightech Inc. He received his Bachelor of Science in physics from the University of Science and Technology of China in 1964. Upon completion he entered the Magnetism Laboratory, Institute of Physics, Chinese Academy of Sciences. During 1973 to 1975, he was a visiting scientist in the Laboratories Louis Neel CNRS in France and discovered ''Sperimagnet'' in collaboration with French scientists. During 1980 to 1983, he independently worked on the study of the third generation of Neo magnet materials, by using techniques of ion injection, vacuum sputtering and rapid quenching. He is currently a Professor of the Institute of Physics, Chinese Academy of Sciences; the Director of National Engineering Research Center for Magnetic Materials; Concurrent professor in the Physics Department of Peking University and University of Science and Technology of China; the Chairman of the board of directors of Zhong Ke San Huan High-tech Co., Ltd.; Vice Chairman of the Council of the Chinese Material Research Society; and Member of the Chinese Academy of Engineering.

Corporate Cease Trade Orders or Bankruptcies

To the best of MQI's knowledge, no existing or proposed director, officer, promoter or other member of management of MQI or a shareholder of MQI holding sufficient MQI Shares to materially affect control of MQI is, or within the ten years prior to the date hereof has been, a director, officer, promoter or other member of management of any other company that, while that person was acting in the capacity of a director, officer, promoter or other member of management of that MQI, was the subject of a cease trade or similar order or an order that denied that company access to any statutory exemptions for a period of more than 30 consecutive days or was declared bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy or insolvency or has been subject to or appointed to hold the assets of that director, officer or promoter.

Penalties or Sanctions

To MQI's knowledge, no director or officer of MQI, or any MQI shareholder holding sufficient securities of MQI to materially affect control of MQI has:

(a) been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority; or

(b) been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor making an investment decision.

Personal Bankruptcies

To MQI's knowledge, no director or officer of MQI, nor any MQI shareholder holding sufficient securities of MQI to materially affect the control of MQI, nor any personal holding MQI of any such person has, within the ten years before the date of this prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangements or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of that person.

MQI Executive Compensation

The following table discloses compensation paid to or awarded to MQI's Chief Executive Officer and Chief Financial Officer and the next three most highly compensated officers (collectively, the ''Named Executive Officers''), whose total salary and bonus was in excess of Cdn$150,000 per annum, for the three most recently completed financial years for services rendered to MQI or a subsidiary of MQI.

Summary Compensation Table

		Annual Compensation			Long Term Compensation			
					Awards	Payouts		
Name and Principal Position	Year	Salary (U.S.$)	Bonus (U.S.$)	Other Annual Compensation (U.S.$)	Securities Under Option/SARs Granted (2) (#)	Shares or Unites Subject to Resale Restrictions (U.S.$)	LTIP Payouts	All other Compensation (U.S.$)
Archibald Cox, Jr. (3)	2004	275,000	165,000	48,000	—	—	—	—
President and Chief	2003	250,000	126,042	—	—	—	—	—
Executive Officer	2002	250,000	167,581	—	—	—	—	—
Kottamangalam C. Ashok (1)	2004	180,769	120,000	46,495	—	—	—	—
Chief Financial Officer								
Peter Campbell (3)	2004	179,644	50,000	64,042	—	—	—	—
Vice President, Technology	2003	170,000	31,099	—	—	—	—	—
	2002	154,615	81,337	—	—	—	—	—
Shannon Song	2004	190,000	100,000		—	—	—	—
Senior Vice President and	2003	190,000	87,095	—	—	—	—	—
President, Magnequench Tianjin	2003	190,000	88,546	—	—	—	—	—
Zhang Hong (3)	2004	163,077	65,231	—	—	—	—	—
Chairman of the Board	2003	200,000	67,222	—	—	—	—	—
	2002	200,000	68,858	—	—	—	—	—

Notes:

(1) Mr. Ashok became Chief Financial Officer of MQI in June, 2004.

(2) On January 1, 2005, Mr. Cox was granted 150 options, Mr. Ashok was granted 25 options, Mr. Campbell was granted 25 options, Ms. Song was granted 18.422 options and Mr. Zhang was granted 15.527 options under the 2004 Plan (as defined below) The exercise price for such options is U.S.$22,500 per MQI Share and such options expire on January 1, 2015.

(3) The cash compensation of Messrs. Cox, and Zhang is paid by MQII. Mr. Campbell's cash compensation is paid by Neo Powders Pte. Ltd., a wholly-owned subsidiary of MQI.

Long-Term Incentive Plan Awards during the Most Recently Completed Financial Year

MQI did not have any long-term incentive plans during the most recently completed financial year ended December 31, 2004.

Option/SAR Grants during the Most Recently Completed Financial Year

No stock options were granted to the Name Executive Officers of MQI during the most recently completed financial year ended December 31, 2004.

Aggregated Options/SAR Exercises in Last Financial Year and Financial Year-End Option/SAR Values

None of the Named Executive Officers of MQI exercised any stock options granted under the MQI Stock Option Plan during the most recently completed financial year ended December 31, 2004.

Compensation of Directors

MQI's directors do not receive compensation, but are reimbursed for out of pocket expenses incurred in connection with MQI's business.

Employment Contracts

Archibald Cox, Jr. — President and Chief Executive Officer

Archibald Cox, Jr. and Magnequench International, Inc., (''MQII'') a wholly-owned subsidiary of MQI, entered into an employment agreement dated June 25, 2004. Pursuant to such agreement, Mr. Cox serves as President and CEO of MQII for a term of three years, with such employment extending on a year-to-year basis thereafter unless either party provides ninety days' written notice prior to the end of the then current term. Mr. Cox is to be paid an annual base salary of U.S.$275,000 with such salary to be reviewed on an annual basis by the Compensation Committee of MQI. Mr. Cox is also eligible to receive an annual performance bonus, a housing allowance and a vehicle allowance. Upon a termination without cause or a resignation for good reason, Mr. Cox will receive a minimum of one year and a maximum of three years continued annual salary and health benefits. Upon a change in control and in the event Mr. Cox's employment is terminated without cause or he resigns for good reason, Mr. Cox will be entitled to receive a lump sum payment equal to twice his then current annual salary and annual bonus as well as continuation of health benefits for such two year period. It is a condition of closing of the MQI Acquisition that these change of control provisions be waived prior to the MQI Acquisition. During his employment term and for a period of two years thereafter, Mr. Cox has agreed that he will not compete with MQI nor will he solicit the employees or customers of MQI. Mr. Cox has also agreed to keep certain information of MQI confidential for an indefinite period of time.

K.C. Ashok — Chief Financial Officer

Mr. Ashok serves as Chief Financial Officer of MQI, pursuant to the terms set forth in an offer letter from MQI dated January 12, 2004. Compensation paid to Mr. Ashok is to include an annual base salary of U.S.$200,000 together with annual bonus awards to be based upon achievement of company financial objectives, subject to the provisions of the management bonus plans. Mr. Ashok is further provided a housing allowance and a vehicle allowance. Mr. Ashok is entitled to a severance payment equal to one year's salary and reimbursement of costs associated with his travel and shipment of household goods back to the United States should he be released from MQI during the first three-years of his employment for reasons other than ''good cause,'' or should he resign from his position with MQI for ''good reason.'' A change of control of MQI resulting from the transfer of at least 50% of MQI's current assets or of its currently outstanding securities to a third party shall, in addition to other factors, also constitute a good reason. It is a condition of closing of the MQI Acquisition that Mr. Ashok waive any right to treat the MQI Acquisition as grounds to terminate for good reason.

Peter Campbell — Vice President, Technology

Mr. Peter Campbell and MQII entered into an employment agreement dated September 29, 2003. Mr. Campbell's employment agreement was assigned by MQII to Neo Powders Pte Ltd., a wholly-owned subsidiary of MQI (''Neo Powders''), on July 1, 2004. Pursuant to such agreement, Mr. Campbell is to serve as Vice President of MQI for a term of three years commencing January 1, 2004, with such employment extending on a year-to-year basis thereafter unless either party provides twelve months' written notice prior to the end of the then current term. Mr. Campbell is to be paid an annual base salary of U.S.$178,500 with such salary to be reviewed on an annual basis by MQII. Mr. Campbell is also eligible to receive an annual performance bonus and other benefits generally available to executive employees of MQII working in the Singapore office of MQI. Upon a termination without cause or a resignation for good reason, Mr. Campbell will receive through the expiry of the initial three year term of the agreement a minimum of one year and a maximum of three years continued annual salary and health benefits.

Zhang Hong — Executive Chairman

Mr. Zhang and MQII entered into an employment agreement dated March 11, 1996. Pursuant to the terms of the agreement, Mr. Zhang is paid an annual salary of U.S.$150,000, subject to annual upward adjustment as mutually agreed upon in writing by Mr. Zhang and MQII. Mr. Zhang is further eligible to participate in any and all employee benefit plans programs offered to other employees of MQII. Mr. Zhang is an employee of MQII ''at-will'' and as such either party may terminate the employment relationship at any time, without prior notice. Upon termination of his employment, Mr. Zhang shall be entitled to payment of the unpaid portion of his annual salary earned through and including the date of termination, at the rate of his annual salary then in effect at the time.

Shannon Song — Senior Vice President and President, Magnequench, Tianjin

Ms. Song serves as the President of Magnequench Tianjin pursuant to the terms of a letter agreement delivered by MQII dated March 15, 2004. Ms. Song is paid an annual base salary in the amount of U.S.$190,000 together with annual bonus awards to be based upon achievement of certain objectives. Compensation paid to Ms. Song further includes the provision of a fixed monthly housing allowance, utility allowance, a monthly allowance representing the differential between costs of items in the United States and China and the annual provision of two round trip coach airfare or one business class airfare to China for use by Ms. Song's immediate family members. Ms. Song's assignment is for a term of two years, with additional one year extensions subject to mutual agreement. Six-months advance written notice is required should Ms. Song voluntarily resign and MQII is required to provide six-months advance written notice in the event MQII terminates Ms. Song's employment without good cause. If Ms. Song is terminated for a reason other than good cause or she is terminated or resigns from employment within thirty days following a change of control, she is entitled to severance equal to one year's salary and reimbursement of costs associated with her relocation to the United States. It is a condition of closing of the MQI Acquisition that this change of control provision, if applicable, will be waived prior to the MQI Acquisition.

Following closing of the MQI Acquisition, it is anticipated that Mr. Cox will become the Chairman of AMR and MQI, Mr. Ashok will become the Executive Vice President, Finance and Chief Financial Officer and Ms. Song will become the Executive Vice President, Neo Powders. Prior to closing the MQI Acquisition, both Mr. Ashok and Ms. Song will enter into new employment agreements on terms to be negotiated with the Corporate Governance committee of the Board. It is anticipated that Mr. Cox will enter into a new agreement superceding his current employment agreement. The terms of the foregoing agreements have not yet been finalized. However, these agreements will contain terms that are consistent with those typically found in agreements of this nature for individuals in similar positions in similar sized organizations. See ''Details of the MQI Acquisition — Proposed Officers and Directors''.

Share Capital of MQI

MQI's authorized capital consists of 11,000 MQI Shares (10,800 Common Shares and 200 Non-voting Common Shares) and 11,000 MQI preferred shares. As of the date hereof, 2,295.76 MQI Shares are issued and outstanding. There are no MQI preferred shares issued and outstanding as of the date hereof.

The MQI Shares comprising two categories, ''Common Stock'' and ''Non-voting Common Stock''. The holders of Common Stock are entitled to one (1) vote per share and shall vote as one call on all matters to be voted on by MQI's stockholders. When dividends are declared thereon, the holders of Common Stock and Non-voting Common Stock then outstanding shall be entitled to share equally and ratably, on a share for share basis. The holders of Common Stock and Non-voting Common Stock then outstanding shall be entitled to receive equally and ratably, on a share for share basis, in all assets of MQI to be distributed to holders of Common Stock upon any liquidation, dissolution or winding up of MQI.

The holders of Non-voting Common Stock have the same rights as the holders of Common Stock, except the holders of Non-voting Common Stock shall not be entitled to vote on any matters voted upon by the holders of Common Stock except as otherwise provided by law. The shares of Non-voting Common Stock are exchangeable into Common Stock upon the occurrence of any transfer of such Non-voting Common Stock for fair value to a third party, subject to certain conditions.

Options to Purchase Securities of MQI

The following table summarizes the options of MQI outstanding as of the date of this prospectus.

Group and Group Aggregate	No. of MQI Shares granted under option	Grant Date	Expiry Date	Exercise Price per MQI Share	Value (1) of MQI Shares on Grant Date	Market Value (2) of MQI Shares as of June 7, 2005
Executive Officers of MQI — 4	233.949	January 1, 2005	January 2, 2015	$22,500	$22,500	$18,575.30
	26.051	February 20, 1998	February 20, 2008	$20,000	$20,000	
Directors of MQI (other than Executive Officers) — 3	3.618	January 1, 2005	January 1, 2015	$22,500	$22,500	$18,575.30
	3.618	February 20, 1998	February 20, 2008	$20,000	$20,000	
Employees of MQI	Nil	—	—	—	—	—
Executive officers of the subsidiaries of MQI	Nil	—	—	—	—	—
Directors of the subsidiaries of MQI	Nil	—	—	—	—	—
Employees of the subsidiaries of MQI	Nil	—	—	—	—	—
Consultants of MQI — 1	1.809	January 1, 2005	January 1, 2015	$22,500	$22,500	$18,575.30
TOTAL:	269.045					

Note:

(1) As determined per the applicable MQI Option Plan.

(2) The MQI Shares are not publicly traded. Market value is based on the closing price on the TSX of AMR Common Shares on June 7, 2005 and the exchange ratio pursuant to the MQI Acquisition.

MQI Option Plans

MQI adopted (i) the Magnequench, Inc. Stock Option Plan, effective December 15, 1999 (the ''1999 Option Plan'') and (ii) the Magnequench, Inc. 2004 Stock Option Plan, effective January 1, 2005 (the ''2004 Option Plan'') to provide MQI with share ownership incentives to attract, retain and motivate qualified directors, officers and full-time employees of MQI and its subsidiaries and affiliates (collectively, ''Participants''), to reward those Participants for their contributions toward the long term goals of MQI and enable and encourage such Participants to acquire MQI Shares as long term investments.

The 1999 Option Plan and the 2004 Option Plan (together, the ''MQI Option Plans'') are administered by the board of directors of MQI. Subject to the provisions of the MQI Option Plans, the board of MQI is authorized in its sole discretion to make decisions regarding the administration of the MQI Option Plans.

The total number of MQI Shares issued under the MQI Option Plans, in the aggregate, cannot exceed 350 MQI Shares. As at May 15, 2005, options to purchase an aggregate of 269.045 MQI Shares were outstanding (29.669 under the 1999 Plan and 239.376 under the 2004 Plan) and an aggregate of 80.955 remained available for the grant of options under the 2004 Option Plan.

The MQI Option Plans have the following principal terms:

1999 Option Plan

As of the adoption of the 2004 Option Plan, no further options may be issued under the 1999 Option Plan. Payment of the exercise price of an option must be paid in full at the time of exercise. In the event any change is made to the MQI Shares underlying the option (whether by reason of a merger, consolidation, reorganization, recapitalization, stock dividend, stock split, combination of shares, exchange of shares, change in corporate structure or otherwise), appropriate adjustments shall be made, as determined by the MQI board in its sole discretion, in the number, exercise price, type of securities subject to acquisition and the aggregate number of MQI Shares which may be issued pursuant to options granted under the 1999 Option Plan. Unless otherwise provided in an option agreement, each option becomes exercisable in three equal instalments on the first, second and third anniversary of the grant date. Options granted under the 1999 Option Plan expire, to the extent not exercised, no later than the tenth anniversary of the date of the option grant. Unless specifically provided otherwise in an option agreement, if a Participant's employment with MQI or a subsidiary terminates for any reason other than cause, the Participant will have a period of 60 days to exercise his or her option to the extent then vested. Upon a change in control of MQI, all options granted under the 1999 Option Plan shall vest immediately and shall be exercisable for a period of not less than 10 nor more than 60 days after notice is provided by the board of directors of MQI; however, the board of directors of MQI may, in its sole discretion, deem that immediate vesting is not in the best interests of MQI and may determine that the options shall be assumed or replaced with equivalent options by the successor corporation. The MQI board may from time to time alter, amend, suspend or discontinue the 1999 Option Plan, provided that no such action adversely affects the rights and obligations with respect to options that are at that time outstanding.

2004 Option Plan

Options may be granted under the 2004 Option Plan to employees, and nonstatutory options may be granted under the 2004 Option Plan to a Participant (which includes employers, directors and consultants of MQI). Options granted under the 2004 Option Plan must have an exercise price not less than the fair market value of an MQI Share on the date of the grant. Payment of the exercise price of an option must be paid in full at the time of exercise. If a Participant ceases to be a service provider to MQI, the Participant will have a period of 60 to 90 days to exercise his or her option to the extent then vested. MQI Shares acquired upon exercise of an option granted under the 2004 Option Plan are subject to MQI's right of first refusal before they can be sold to a third party, and will also be subject to restrictions set forth in any shareholders agreement then applicable to such MQI Shares. The number of MQI Shares covered by each outstanding option shall be proportionally adjusted for any increase or decrease in the number of issued MQI Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the stock of MQI or any other increase or decrease in the number of issued MQI Shares. Upon a change in control of MQI, all options granted under the 2004 Option Plan shall vest immediately and shall be exercisable for a period of not less than ten nor more than 60 days after notice is provided by the MQI board; however, the MQI board may, in its sole discretion, deem that immediate vesting is not in the best interests of MQI and may determine that the options shall be assumed or replaced with equivalent options by the successor corporation. The MQI board may from time to time alter, amend, suspend or discontinue the 2004 Option Plan, provided that no such action adversely affects the rights and obligations with respect to options that are at that time outstanding.

Warrants

The following table summarizes the warrants of MQI outstanding as of the date of this prospectus.

	No. of MQI Shares Subject to Warrants	Purchase Date	Expiry Date	Exercise Price per MQI Share
	121.275	December 30, 1999	December 30, 2009	U.S.$8.20
	134.297	August 25,1999	August 25, 2009	U.S.$7.40
TOTAL:	255.572			

It will be a condition to the completion of the MQI Acquisition that all outstanding warrants be exercised prior to closing of the MQI Acquisition.

Principal Shareholders of MQI

At the date hereof, to the knowledge of the directors and officers of MQI, the following are the only persons who beneficially own or exercise control or direction over securities carrying more than 10% of the voting rights attached to any class of outstanding voting securities of MQI.

Name	Number of MQI Shares Controlled, Directly or Indirectly	Approximate Percentage of MQI Shares
Archibald Cox, Jr.	995.421	43.36 (1)
Beijing San Huan New Material and Hightech, Inc.	495.400	21.58 (2)
Invemed Associates, LLC	244.502	10.66 (3)

Notes:

(1) Mr. Cox owns 42.225 MQI Shares directly and the remainder are held indirectly through a number of investment vehicles which Mr. Cox controls. On a fully diluted basis, the percentage of MQI Shares held directly and indirectly by Mr. Cox is 40.61%.

(2) On a fully diluted basis, the percentage of MQI Shares held is 17.57%.

(3) On a fully diluted basis, the percentage of MQI Shares held is 8.74%.

Indebtedness of Directors and Executive Officers of MQI

Except as described under the heading ''Magnequench, Inc. — Significant Dispositions'', none of the executive officers or directors of MQI, or associates or affiliates of such persons, are or have been indebted to MQI or an MQI subsidiary at any time since the commencement of the last completed fiscal year, nor have any of the foregoing been the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by MQI or an MQI subsidiary since the commencement of the last completed fiscal year.

Committee of the Board of Directors

Compensation Committee

The Compensation Committee is responsible for recommending to the MQI board of directors compensation of executives and key employees. Oversight includes: (i) the administration of all salary and incentive compensation plans for the officers and key employees of MQI and MQII, including its direct and indirect subsidiaries; (ii) review of management organization, development and succession planning for MQI and its direct and indirect subsidiaries; (iii) review of compensation for senior management of MQI and its direct and indirect subsidiaries; and (iv) grants under and administration of specific awards under MQI's key employee welfare benefit plans as it relates to officers and key employees of MQI and its direct and indirect subsidiaries. The Compensation Committee may exercise all of the power and authority of the board of directors of MQI with respect to the employee pension benefit plans and employee welfare benefits plans of MQI and its direct and indirect subsidiaries, and may consult with independent compensation advisors in performing its duties.

Interest of MQI Management and Others in Material Transactions

Other than as discussed under the heading ''Magnequench, Inc. — Significant Dispositions'' and apart from fees paid, MQI stock options and MQI Shares issued to directors and officers of MQI (or entities employing them or controlled by them), no insider of MQI, director, or associate or affiliate of them, has any material interest, direct or indirect, in any transaction in the three years preceding the date hereof or in any proposed transaction that has materially affected or will materially affect MQI.

Conflicts of Interest

There are potential conflicts of interest to which directors and executive officers of MQI may be subject in connection with the operations of MQI. Some of the directors and executive officers of MQI are, or may be, directors or executive officers of other corporations engaged in similar business ventures, and situations may arise where such directors and executive officers of the corporation will be in direct conflict with MQI. Conflicts, if any, are subject to the procedures, requirements and remedies under the General Corporation Law of the State of Delaware. Mr. Archibald Cox, Jr., the Chief Executive Officer of MQI controls companies to which MQI sold businesses in June 2004. See ''Magnequench, Inc. — Significant Dispositions''.

Prior Sales of MQI Shares

During the period from May 1, 2004 to the date hereof, there have not been any sales of MQI Shares.

MQI Material Contracts

MQI has not entered into any material contracts other than in the ordinary course of business within the previous two years prior to the date hereof, with the exception of the following:

1. Transaction Agreement as described in ''Details of the MQI Acquisition'';
2. Key Person Support Agreement as described in ''Details of the MQI Acquisition'';
3. Equity Agency Agreement as described in ''Details of the Equity Offering'';
4. Credit Agreement;
5. MQI Debt Facility Credit Agreement as described in ''MQI Acquisition — Refinancing of the MQII Term Debt'';
6. Kane Purchase Agreement as described in ''Magnequench, Inc. — Significant Dispositions'';
7. SmCo Purchase Agreement as described in ''Magnequench, Inc. — Significant Dispositions''; and
8. HDD Purchase Agreement as described in ''Magnequench, Inc. — Significant Dispositions''.

A copy of any material contract may be inspected during distribution of the Subscription Receipts being offered under this prospectus and for a period of 30 days thereafter during normal business hours at MQI's head offices at 9775 Crosspoint Boulevard, Suite 100, Indianapolis, Indiana, 46256.

MQI Dividends

No dividends have been paid on MQI Shares.

Auditors of MQI

The auditors of MQI for 2002 and 2003 are Ernst & Young at 111 Monument Circle, Suite 2600 Indianapolis, Indiana 46204. The auditors of MQI for 2004 are Ernst & Young at 10 Collyer Quay, #21-01 Ocean Building, Singapore.

MQI Legal Proceedings

To the knowledge of MQI, there are no legal or arbitration proceedings, active, pending or threatened against, or being brought by MQI or any of its subsidiaries which may have a significant impact on the financial position of MQI other than as set out below.

On May 8, 2001, MQI filed a patent infringement action in the United States District Court for the Southern District of New York against several consumer electronics manufacturers and retailers (the ''2001 Defendants'') for infringement of certain of MQI's patents directed to Neo powders and bonded Neo magnets made from such powders. MQI requested a permanent injunction against continued infringement by the 2001 Defendants, and damages for past infringement. Prior to the 2001 Defendants answering the complaint, MQI and the 2001 Defendants negotiated and entered into dismissal agreements pursuant to which the litigation was dismissed without prejudice in mid-October 2001. The dismissal agreements provided that MQI and the 2001 Defendants would exchange certain information and negotiate in good faith towards an overall settlement of the dispute, however, MQI retained the right to reinstitute the litigation if an overall settlement was not reached within 90 days from the date of dismissal.

Pursuant to the dismissal agreements, a settlement was reached with Samsung Electronics America, Inc. and Samsung Electronics Co., Ltd. (collectively, ''Samsung'') in May of 2003 (the ''Samsung Settlement Agreement''). On May 25, 2004, however, MQI filed a patent infringement action in the United States District Court for the Southern District of New York against Samsung for breach of the Samsung Settlement Agreement and infringement of certain of MQI's patents related to Neo powders and bonded Neo magnets made from such powders. Samsung answered the complaint on July 30, 2004, denying that it either breached the Samsung Settlement Agreement or infringed the patents while asserting certain counterclaims. MQI filed its reply on August 19, 2004, denying all of the allegations in the counterclaims and asserting that Samsung had failed to state a claim on which relief could be granted. On August 18, 2004 the court granted Samsung's motion to limit discovery to facts pertinent to the Samsung Settlement Agreement and related issues of material breach and termination and such discovery would be conducted on an expedited basis and completed by October 15, 2004. Subsequently, the parties entered into settlement discussions and stipulated to stay such discovery through January 25, 2004. Settlement discussions are ongoing.

On March 4, 2004 MQI instituted additional patent infringement actions in Delaware and Indiana federal courts against several consumer electronics companies, including some of the 2001 Defendants (the ''2004 Defendants''), for infringing, and/or actively inducing the infringement of certain of MQI's patents. All of the 2004 Defendants answered the complaint, denying MQI's claim of infringement and willful infringement. Various 2004 Defendants asserted counterclaims seeking a declaration that they do not infringe the asserted patents and/or that the patents themselves are invalid. MQI has denied all of the allegations of these counterclaims.

During the fall and winter of 2004 through 2005, the parties conducted settlement negotiations and the litigation did not proceed. On January 21, 2005 a Status and Scheduling Conference was held during which the United States District Court for the District of Delaware ordered that a court-supervised mediation session would be held on March 9 and 10, 2005. The court further ordered the parties to submit a case schedule which contemplates substantive litigation activity beginning in the spring of 2005 with a trial date of October 30, 2006 if the case is not settled. MQI has either reached settlements with or dismissed claims against the majority of the 2004 Defendants.

On December 15, 2004 MQI filed an Amended Complaint for Declaratory Judgment in Marion County Superior Court, Marion County, Indiana (''Marion County Court'') seeking a declaration from the Marion County Court that MQI has acted in accordance with its obligations pursuant to the Kane Purchase Agreement (the ''Amended Complaint''). The action was prompted by correspondence dated December 7, 2004 from counsel for Kane alleging that certain former subsidiaries of MQI had breached the non-competition provisions of the Kane Purchase Agreement. As set forth in the Amended Complaint, MQI asserts that pursuant to the terms of the Kane Purchase Agreement, former subsidiaries of MQI are not subject to the non-competition restrictions of the Kane Purchase Agreement. Kane has responded to the complaint and has alleged counterclaims alleging breach by MQI as described above and other claims.

On or about December 19, 2001 MQI and the United Autoworkers Union entered into a shutdown agreement (the ''Shutdown Agreement'') in connection with the closure of MQI's manufacturing facility in Anderson, Indiana. As part of the consideration for the Shutdown Agreement, MQI agreed to pay certain contingent lump-sum payments to employees terminated as a result of the plant closure. Two of the payments, each amounting to $10,000 per employee, to be paid on May 15, 2004 and May 25, 2005, were contingent upon the receipt of a letter from GM relieving MQI of certain retiree medical liabilities for approximately 12 employees and their eligible dependents. As MQI did not receive the required letter, the two lump-sum payments, amounting to approximately $4,000,000 in the aggregate, have not been paid. In early July 2004, the United Autoworkers Union filed a demand for arbitration pursuant to the terms of the Shutdown Agreement. An arbitrator has been selected and the parties are working to schedule a hearing, which MQI expects will take place in August or September of 2005.

MQI has received correspondence from Osmic, Inc. (''Osmic'') claiming ownership of a process patent and alleging that MQI's Neo powders infringe that patent. MQI has been in previous discussions with Osmic and with other parties in interest regarding this patent. MQI believes, based on independent legal advice, that the patent in question is invalid. MQI is continuing discussions with Osmic regarding a potential settlement of this matter but cannot predict whether a settlement or legal proceedings may result.

DETAILS OF THE MQI ACQUISITION

Background to the MQI Acquisition

During the past few years, senior management of AMR and MQI had become acquainted through their activities in the rare earths industry and in the summer and autumn of 2002 informal discussions occurred between the two companies regarding a potential merger transaction. Although a non-disclosure and standstill agreement was entered into, the parties determined that it was unlikely that a transaction could be completed at that time and discussions broke off.

The companies remained in contact during the years that followed until February 2005 at which time MQI inquired of AMR if it was interested in renewing their transaction discussions. Through February and March a number of informal discussions were held between representatives of the companies regarding the potential synergies to be derived from an acquisition transaction and the possible terms and structure of such a transaction. A non-binding formal letter of intent was entered into on March 31, 2005 and AMR formed an independent committee to consider the transaction.

Mutual diligence was conducted through April and May and the terms of the Transaction Agreement were negotiated. On June 6, 2005 the Board received a fairness opinion from PricewaterhouseCoopers LLP which confirmed that the overall exchange ratio for the MQI Acquisition is fair to AMR Shareholders from a financial point of view. On June 6, 2005 MQI and AMR entered into the Transaction Agreement and issued a joint press release announcing the MQI Acquisition.

Transaction Agreement

Pursuant to the Transaction Agreement, AMR has agreed to purchase from the shareholders of MQI (the ''Vendors'') all of the issued and outstanding MQI Shares for an aggregate of 26,866,819 million AMR Common Shares (the ''MQI Acquisition'') being 10,530.50709 AMR Common Shares for every one MQI Share. In addition, the outstanding options of MQI will be exchanged for 2,833,181 AMR Options at the same exchange ratio. The closing of the MQI Acquisition is expected to occur on a date to be agreed in July 2005 (the ''Acquisition Closing Date''), and is subject to several conditions, including the completion of this Equity Offering, receipt of AMR Shareholder approval, and the receipt of all other necessary approvals and consents and the satisfaction of the other conditions described below. As a condition of the Transaction Agreement, each of the Vendors is required to enter into a support agreement (the ''Support Agreement'') with AMR, whereby each Vendor will agree to sell to AMR the MQI Shares owned by them subject to the parties to the Transaction Agreement having fulfilled their respective obligations thereunder.

The following is a summary of other material provisions of the Transaction Agreement and the Support Agreement, copies of which have been filed with the Canadian securities regulatory authorities and can be accessed online at www.sedar.com. This summary does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the provisions of the Transaction Agreement. See ''AMR Technologies Inc. — AMR Material Contracts''.

Representations and Warranties

The representations and warranties of AMR and MQI, the parties in the Transaction Agreement, will not survive the Acquisition Closing Date. The Support Agreement contains representations and warranties by the Vendors only with respect to their ownership of the MQI Shares, which will survive indefinitely after the Acquisition Closing Date.

Covenants

The parties to the Transaction Agreement have made customary covenants relating to, among other things, the operation of their respective businesses and certain events occurring between the signing of the Transaction Agreement and the Acquisition Closing Date. In particular, the parties have agreed that, until the Acquisition Closing Date, both AMR and MQI will conduct their respective businesses in the ordinary course, consistent with past practice, except for the transactions contemplated or required by the Transaction Agreement or as otherwise mutually agreed. AMR has agreed to convene the AMR Shareholder Meeting at which AMR Shareholders will be asked to consider, and if deemed advisable, approve the AMR Shareholder Resolution. The Support Agreement contains negative covenants of each of the Vendors in respect of the solicitations of offers regarding the disposition of their respective MQI Shares or any other alternative arrangement in respect of MQI and its subsidiaries.

Closing Conditions

The obligations of each of the parties to the Transaction Agreement are subject to customary closing conditions including, among others: (i) the accuracy, in all material respects, of the representations and warranties made by the parties to the Transaction Agreement; (ii) the compliance, in all material respects, with all of the covenants provided for in the Transaction Agreement; (iii) that no material adverse change in AMR or its business or MQI or its business has occurred; (iv) the approval of the AMR Shareholder Resolution at the AMR Shareholder Meeting; (v) the obtaining of certain approvals and consents from regulatory authorities (including review and consent of the MQI Acquisition by the TSX); (vi) the completion of this Equity Offering and the Debt Offering; (vii) the refinancing of the debt of MQII on mutually agreed terms (including closing of the Equity Offering and the Debt Offering); (viii) the entering into of agreements ensuring the continuing management of AMR and MQI and of MQI on terms acceptable to AMR and MQI; (ix) AMR or MQI being satisfied with the results of its due diligence investigation, acting reasonably, and (x) each Vendor having executed and delivered the Support Agreement pursuant to which such Vendor has agreed to sell his or her MQI Shares to AMR. In addition, AMR and MQI have agreed that as a further condition to closing of the MQI Acquisition, the $4.95 million promissory note issued in connection with the HDD Purchase Agreement will be repaid prior to the closing of the MQI Acquisition.

Termination of the Transaction Agreement

The Transaction Agreement may be terminated at any time prior to the Acquisition Closing Date: (i) by the mutual written consent of AMR and MQI; (ii) by MQI, if the Board has withdrawn or changed any of its recommendations to the AMR Shareholders in a manner adverse to MQI or which would impede the completion of the MQI Acquisition or if AMR fails to submit the AMR Shareholder Resolution to the AMR Shareholders prior to September 27, 2005; (iii) by AMR or MQI, if the other party has materially breached any of its representations or warranties, failed to comply, in any material respect, with its covenants or there has been a material adverse change in the other party's business; (iv) by either AMR or MQI, at any time, if AMR's or MQI's board of directors, as applicable, has decided to pursue a superior alternative transaction; or (v) by either AMR or MQI, if the MQI Acquisition has not been completed by October 31, 2005, or such later date as AMR and MQI agree.

Except for the representations and warranties regarding MQI Share ownership, which survive indefinitely, the Support Agreement shall be terminated on the date the Transaction Agreement is terminated, or when the parties thereto mutually agree.

The following procedural steps must occur in order for the MQI Acquisition to become effective:

(i) the issuance of the 26,866,819 AMR Common Shares as consideration must be approved by ordinary resolution of the AMR Shareholders voting at the AMR Shareholder Meeting;

(ii) the waiver of the AMR Rights Plan must be approved by ordinary resolution of the AMR Shareholders voting at the AMR Shareholder Meeting;

(iii) all conditions precedent to the MQI Acquisition, as set forth in the Transaction Agreement, must be satisfied or waived by the appropriate party.

Support Agreement of Management of AMR

Pursuant to the Key Person Support Agreement, certain members of management and directors of AMR (the ''Management Parties'') have agreed not to dispose of the respective AMR Common Shares without the consent of MQI, acting reasonably, prior to the closing of the MQI Acquisition. In addition, the Management Parties agree to vote (i) in favor of the AMR Shareholders Resolution at the AMR Shareholders Meeting and any other matters before the AMR Shareholder Meeting that could reasonably be expected to facilitate the MQI Acquisition, and (ii) against any alternative transaction, subject to certain conditions.

Refinancing of MQII Term Debt

MQI has received an indicative term sheet (''MQI Debt Facility Term Sheet'') from a lead lender on behalf of a proposed syndicate of lenders in respect of a $60 million senior term debt facility for MQI or one or more of its subsidiaries (the ''MQI Debt Facility'') which, together with the Equity Offering and the Debt Offering, will be used to refinance the existing term debt of MQII.

The following is a summary of the material provisions of the MQI Debt Facility Term Sheet. The parties are continuing to negotiate the terms of the MQI Debt Facility with a view to entering into a credit agreement simultaneously with the closing of the MQI Acquisition. This summary does not purport to be complete and is subject to, and is qualified in its entirety by reference to the provisions of the MQI Debt Facility Term Sheet.

Repayment

Under the proposed terms, the MQI Debt Facility would be repayable in 16 quarterly instalments until the fourth anniversary of the drawdown under the facility.

The MQI Debt Facility Term Sheet further contemplates certain prepayment provisions including mandatory prepayment of the facility in full on a change of control or in part from the net cash proceeds from (i) non-ordinary course asset sales, (ii) insurance proceeds, subject to certain exceptions, (iii) the issuance of equity or debt securities and proceeds from the issuance of debt, subject to certain exceptions. In addition, in certain circumstances, a ''cash sweep'' will be triggered.

Interest and Fees

Pursuant to the MQI Debt Facility Term Sheet, interest would be payable at MQI's discretion in one or three month intervals, in arrears at a rate that will vary between 1.5% and 2.75% plus LIBOR depending on the senior debt to EBITDA ratio, from time to time.

MQI would be obligated to pay fees equal to 3% of the amount of the MQI Debt Facility, a commitment fee equal to 0.75% of any undrawn amount and an agency fee equal to $125,000 per annum, until the MQI Debt Facility is repaid in full.

Security

Security for the MQI Debt Facility would be shared equally between each of the lenders in the syndicate and will include: (i) a first ranking pledge of all the shares of each subsidiary (direct and indirect) of AMR (subsequent to the MQI Acquisition), provided that, security over the shares of subsidiary companies incorporated in China or Thailand and directly or indirectly owned by a US subsidiary will be limited to security over 65% of the shares of such subsidiaries; (ii) a first ranking pledge over all existing and future tangible and intangible assets of AMR and its subsidiaries (subsequent to the MQI Acquisition), subject to certain exceptions; (iii) a guarantee given by each of AMR and its subsidiaries (other than the borrowers); and (iv) subordination of intra-corporate indebtedness through an intercreditor agreement.

Conditions Precedent, Representations and Warranties, Events of Default

The MQI Debt Facility Term Sheet contemplates that the credit agreement to be entered into will contain customary conditions precedent including (but not limited to): (i) execution of satisfactory financing and security documents with respect to the MQI Debt Facility; (ii) evidence that the MQI Acquisition, the Equity Offering and the Debt Offering will be consummated substantially simultaneously with the drawdown of the MQI Debt Facility; and (iii) completion of satisfactory terms of employment of Messrs. Cox, Gundy, Karayannopoulos, Zhang, Campbell, Ashok and Bedford and Ms. Song.

The MQI Debt Facility Term Sheet contemplates that customary representations and warranties of MQI will be included in the credit agreement.

Events of Default

The credit agreement governing the MQI Debt Facility will contain the usual and customary events of default, including (subject to materiality tests and grace periods): (i) non-payment of principal, interest and fees when due; (ii) breach of covenants or material inaccuracy of representations and warranties; (iii) revocation of any material government approval necessary for the carrying on of the business; (iv) the departure of both Mr. Cox and Mr. Gundy or four or more specified senior managers of AMR and its subsidiaries before certain dates. See ''Risk Factors''.

For a discussion of the Equity Offering, see ''Details of the Equity Offering''.

Debt Offering

AMR has received an indicative term sheet from a potential investor in respect of a private placement of US$50 million of AMR Debentures.

The AMR Debentures will mature on or about ● , 2010 (the ''Maturity Date''). Interest will be payable at a rate of 10% from the date of issue payable semi-annually. Interest will be payable, at AMR's option, by delivery of AMR Common Shares to a trustee for sale, in which event the holders of AMR Debentures would be entitled to receive a cash payment equal to the interest owed from the proceeds of the sale of the requisite number of AMR Common Shares by the trustee.

The AMR Debentures will be convertible, at the holder's option, into AMR Common Shares at any time prior to the Maturity Date at a conversion price equal to the exercise price (the ''Conversion Price'') of the AMR Warrants (issuable on the exchange of the Subscription Receipts), being a rate of ● AMR Common Shares per $1,000 principal amount of AMR Debentures. In the event that a holder of AMR Debentures exercises his conversion rights, AMR will have the right to settle any conversion in cash (or a combination of cash and AMR Common Shares) in lieu of AMR Common Shares unless such holder has indicated that it does not wish to receive cash. If AMR elects to settle the conversion right in cash (the ''Elected Amount''), AMR will be able to deliver to the holder of AMR Debentures an amount in cash equal to the weighted average closing price of the AMR Common Shares on the TSX during the 10 consecutive trading days beginning five days after AMR provides written notice of such election multiplied by the number of AMR Common Shares into which the Elected Amount would then be convertible.

The AMR Debentures will be secured by a second ranking lien over the same collateral as shall be taken by the lenders pursuant to the MQI Debt Facility and a second ranking guarantee of the AMR Debentures by all subsidiaries of AMR. In addition, AMR and its subsidiaries will agree not to pledge or otherwise encumber their assets (except pursuant to the MQI Debt Facility and pursuant to certain other exceptions) without the written consent of a portion of the holders of AMR Debentures. The AMR Debentures will have cross-default and cross-acceleration provisions related to the MQI Debt Facility. The AMR Debentures will also have financial covenants that are intended to be similar to, but more flexible for AMR than those contained in the MQI Debt Facility Credit Agreement, as well as a covenant restricting AMR from incurring additional debt.

The AMR Debentures will not be redeemable prior to July ● , 2008. After such date and up to and including the maturity of the AMR Debentures, AMR may, at its option, subject to certain notice provisions, redeem the AMR Debentures, in whole or in part, at par plus accrued and unpaid interest, provided that the weighted average closing price of the AMR Common Shares on the TSX during the 20 consecutive trading days ending five trading days preceding the date on which the notice of redemption is given is not less than 150% of the Conversion Price.

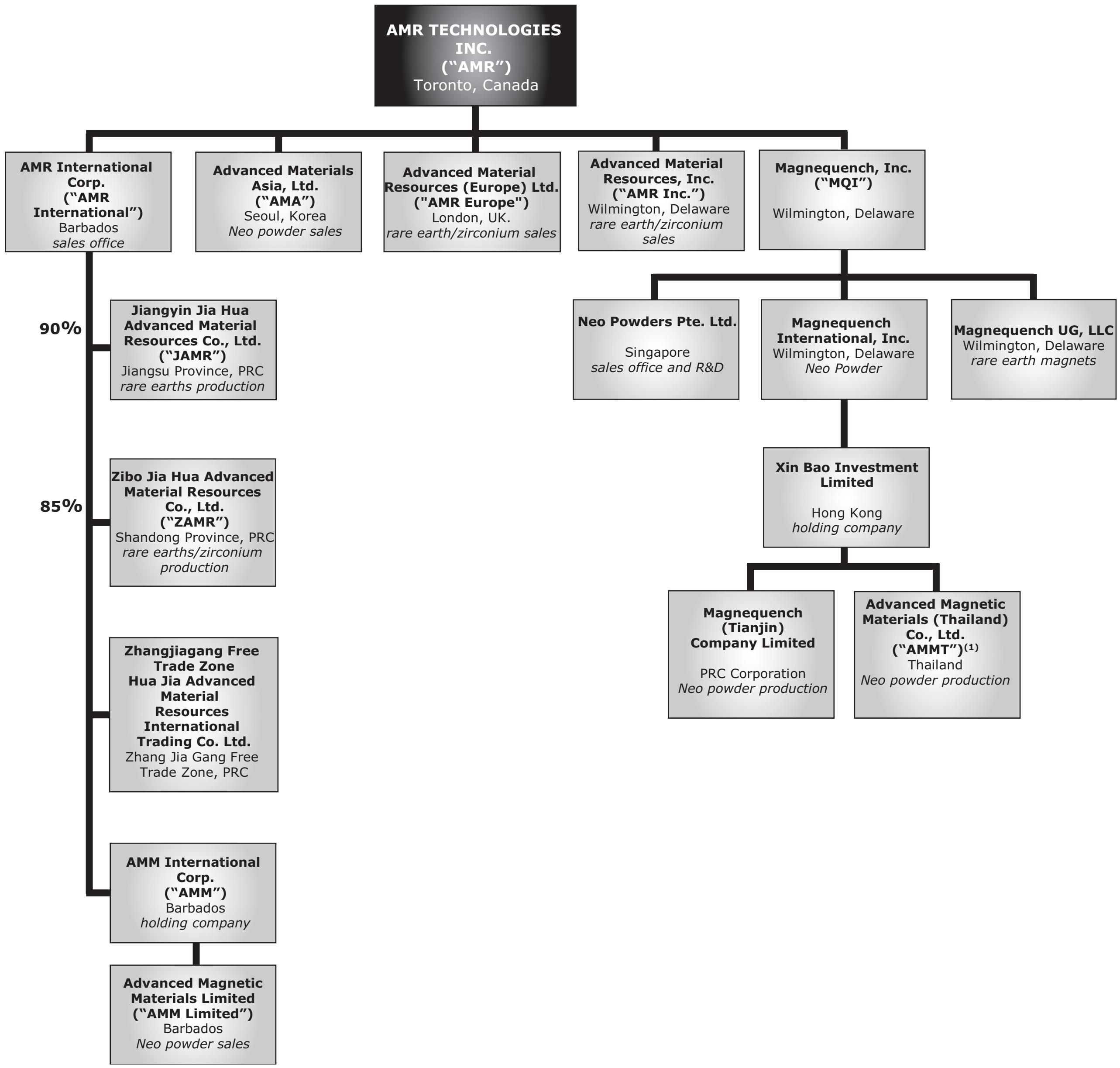
AMR has the option to satisfy its obligation to repay the principal amount of the AMR Debentures, in whole or in part, due at redemption or maturity, by delivering that number of AMR Common Shares as is equal to the number obtained by dividing the principal amount of the AMR Debentures by 95% of the weighted average closing price of the AMR Common Shares on the TSX during the 20 consecutive trading days ending five trading days preceding the date fixed for redemption or the Maturity Date, as the case may be. Any accrued or unpaid interest thereon will be paid in cash.

The Debenture Indenture will provide that in the event of a change of control of AMR, AMR will offer to purchase all of the outstanding AMR Debentures immediately prior to the change of control at a price equal to 101% of the principal amount thereof plus accrued and unpaid interest at such date. Notwithstanding this, in the event that at least 90% of the consideration pursuant to a change of control is received in cash or cash equivalents, AMR will offer to purchase and the holders of AMR Debentures will be required to sell, all outstanding AMR Debentures at a price equal to the sum of all accrued and unpaid interest, and the greater of (i) parity, being the conversion ratio multiplied by the pro rata consideration received by an AMR Shareholder, or (ii) the issue price and a premium of 12% reducing to four percent over the term of the AMR Debentures.

Pursuant to the terms of the Debt Agency Agreement, AMR has agreed to pay the Agent a cash commission, which will be equal to four percent of the aggregate gross proceeds received by AMR from the sale of the AMR Debentures. AMR has also agreed to pay the Agent's expenses in connection with the Debt Offering, including legal expenses and the Agent's reasonable out-of-pocket expenses. The Debt Agency Agreement also provides that AMR will indemnify the Agent against certain liabilities.

Corporate Structure of AMR Subsequent to the MQI Acquisition

The following diagram summarizes the material operating subsidiaries of AMR subsequent to the MQI Acquisition as well as their respective governing jurisdictions. Except as otherwise indicated, the subsidiaries are wholly-owned.



Note:

(1) AMR, through its wholly-owned subsidiaries, owns 99.99% of the shares of AMMT. The remaining 0.01% is held by six individuals in order to meet the requirements under the laws of Thailand that private limited companies have at least seven shareholders resident in Thailand.

Regulatory Regime in China

The Catalogue for the Guidance of Foreign Investment Industries (the ''Catalogue'') provides guidance for examination and approval of foreign investment projects and for the policy application of foreign investment enterprises in China. The Catalogue was promulgated by the State Development Planning Commission (the ''SDPC''), the State Economy and Trade Commission and the Ministry of Foreign Trade and Economic Consideration in June, 1995 and amended most recently in November 2004. The powers of the SDPC have been transferred to the National Development and Reform Commission (the ''NDRC'').

In addition, in August 2002, the NDRC adopted revised administrative regulations governing foreign investment in the Chinese rare earths industry. All of the smelting and separation projects, regardless of the amount of foreign investment, continue to be required to be submitted to the NDRC for approval based on the national rare earth industry policy and the medium to long terms plans for the project and the national economy.

Foreign investment projects are generally categorized into four categories: encouraged, permitted, restricted and prohibited projects. Separation of rare earth metals is listed on the restricted foreign investment list. AMR began its operations in China, through JAMR and ZAMR, prior to the initial publication of foreign investment restrictions and has received the necessary approvals from appropriate Chinese government agencies to operate its rare earths operation in China.

Any Chinese ownership interests in an entity engaged in the production of separated rare earths cannot be transferred to a foreign investor. Further, any merger, division or other substantial capital restructure in a foreign invested enterprise in the rare earth products must be approved by the NDRC.

Rare earths products in China are also subject to export quotas. Pursuant to Measures for the Administration of Licence for the Export of Goods (adopted in December 2004), a foreign trade operator is required to apply for the applicable export licence as required prior to the export of any goods subject to export quotas and export licences. As foreign invested enterprises in China, AMR's two joint ventures have received from the Ministry of Commerce sufficient quotas to cover AMR's export requirements until 2023.

Regulatory Regime in Thailand

The Thai Foreign Business Act prescribes certain business activities in which foreigners are prohibited from participating unless they hold a foreign business license. However, a business that has investment privileges from the Thai Board of Investment (the ''BOI'') may be exempt from the foreign business license requirement.

The BOI provides incentives for both Thai and foreign businesses that wish to establish or expand businesses in Thailand. Incentives given may include non-governmental engagement in a business competing with the BOI promoted business, an undertaking by the government not to nationalize the BOI promoted business, permission for majority foreign ownership of the BOI promoted business and no requirement for a foreign business license, permission to own land for the purpose of carrying on the promoted business, restricting the import of competing products, permission to remit capital, profits, interest and principal on foreign loans, royalties, fees or other obligations in a currency other than Thai Baht, exemption from import duties for machinery imported for use in the promoted business, exemption from import duties, and, subject to various qualifications, exemption from various taxes for specified periods.

Investment incentives can vary from company to company. Each BOI promoted company is issued a BOI ''Certificate'' that lists that company's investment privileges, and it is possible that privileges can vary between companies.

AMMT, a duly registered Thai company, was awarded BOI investment privileges from the Royal Government of Thailand on May 6, 1997 under the Investment Promotion Act of 1977 (the ''IPA'') for manufacturing ''Bonded Magnets type 4.8''.

The AMMT Certificate contains numerous privileges accompanied with various conditions. Privileges include the right to majority foreign ownership without having to obtain a foreign business license. One condition is that AMMT shall provide and use prevention and control systems ''to avoid damage to the quality of the environment or against danger or nuisance to nearby persons provided that such system shall be certified by the Ministry of Industry or institutions approved by government agencies concerned''.

AMR is not aware of any material non-compliance by AMMT with the terms and conditions of its Certificate.

Proposed Directors and Officers

It is anticipated that, subsequent to the MQI Acquisition, Mr. Archibald Cox, Jr. will be appointed the Chairman of the Board and MQI, Mr. Peter Gundy will be appointed the Vice-Chairman of the Board, Mr. Constantine Karayannopoulos will be appointed President and Chief Executive Officer and a director of AMR, Mr. K.C. Ashok will be appointed Executive Vice President and Chief Financial Officer of AMR, Mr. Geoffrey Bedford will be appointed Executive Vice President, Rare Earths and Zirconium of AMR, Ms. Shannon Song will be appointed Executive Vice President, Neo Powders of AMR, and the remaining executive officers of AMR and MQI will retain their current offices.

The following table provides the names, municipalities of residence, position, principal occupation and the number and percentage of voting securities of AMR that each of the proposed directors and executive officers of AMR subsequent to the MQI Acquisition beneficially owns, directly or indirectly, or exercises control over, as of the date hereof. The directors of AMR hold office until the next annual meeting of AMR Shareholders or until their successors are elected or appointed.

Name and Municipality of Residence and Position with AMR subsequent to the MQI Acquisition (1)	Director/Officer Since	Principal Occupations within the last five years	AMR Common Shares Beneficially Owned Directly or Indirectly (2) at the date of this prospectus	Percentage of Total Outstanding AMR Common Shares at the date of this prospectus
ARCHIBALD COX, JR. . . . . Chairman Singapore	New Appointment	President and Chief Executive Officer of MQI since 1995.	Nil (5)	Nil
PETER V. GUNDY . . . . Vice Chairman, Toronto, Ontario	1992	Chairman, Chief Executive Officer and President since 1992.	345,526	2.1%
CONSTANTINE E. KARAYANNOPOULOS . . . President and Chief Executive Officer and Director Toronto, Ontario	1999	Appointed Executive Vice President and Chief Operating Officer in October 1999. He was Vice President and General Manager of the Rare Earth Division from September 1998 to October 1999 and he joined AMR in 1994.	135,774	0.8%
KOTTAMANGALAM C. ASHOK . . . . Executive Vice President and Chief Financial Officer Singapore	New Appointment	Since June 2004, Chief Financial Officer of MQI, between February and June 2004, Vice President, Finance of MQI; prior to that, Mr. Ashok was Vice President and Chief Financial officer of Hitachi Remy Automotive GmbH.	Nil	Nil
GEOFFREY R. BEDFORD . . . . Executive Vice President, Rare Earths and Zirconium Burlington, Ontario	1999	Appointed Executive Vice President, and Chief Financial Officer at the end of 2004. Previously, he was Vice President, Finance and Chief Financial Officer between 1999 and 2004.	111,374	0.7%
SHANNON Y. SONG . . . . Executive Vice President, Neo Powder Carmel, Indiana	New Appointment	Ms Song was appointed President, Magnequench Tianjin in August 2003 and has been Senior Vice President of MQI since 1998.	Nil	Nil
ALEXANDER D. CALDWELL . . . . Corporate Secretary Toronto, Ontario	1993	Officer of AMR as Corporate Secretary and other capacities since 1993. He is also Manager, Information Systems and Executive Assistant to the Vice Chairman.	7,300	0.05%
JEFFREY H. VARAH . . . . Vice President, Treasurer Richmond Hill, Ontario	2000	Appointed Vice President, Treasurer at the end of 2004. He had been Corporate Controller since joining AMR in July 2000. Previously, he was Corporate Controller for Berg Chilling Systems, Inc./ Mould — Tek Industries from 1999 to July 2000.	20,000	0.1%
JEAN-MARC CHAPUS . . . . Director Los Angeles, California	1999	Group Managing Director and CEO of TCW/Crescent Mezzanine Partners, LLC since 1995	Nil (7)	Nil
HO SOO CHING (3) . . . . Director Singapore	1997	Executive Director of MS Corporate Finance Pte Ltd., a financial services firm in Singapore since January 2004. Prior to that, has been involved in management positions in a number of companies within the Singapore Technologies group from 1996 until his departure at the end of 2003.	50,000	0.3%

Name and Municipality of Residence and Position with AMR subsequent to the MQI Acquisition (1)	Director/Officer Since	Principal Occupations within the last five years	AMR Common Shares Beneficially Owned Directly or Indirectly (2) at the date of this prospectus	Percentage of Total Outstanding AMR Common Shares at the date of this prospectus
WILLIAM E. MACFARLANE . . . . Director Midland, Ontario	New Appointment	Retired Executive	Nil	Nil
PETER O'CONNOR (4) . . . . Director London, United Kingdom	1993	Director of IMS Manager Investment Ltd since 1998 and Chairman of Peter O'Connor & Associates since 1991.	505,000 (6)	3.0%
JOHN PEARSON . . . . Director Ann Arbor, Michigan	2001	President and CEO of Ervin Industries since 1998	Nil	Nil
F. MICHAEL WALSH (3) . . . . Director Toronto, Ontario	New Appointment	Retired Investment Industry Executive	Nil	Nil

Notes:

(1) It is currently contemplated that an additional director will be appointed to the Board subsequent to the MQI Acquisition.

(2) The information as to AMR Common Shares beneficially owned or over which control or direction is exercised, not being within the knowledge of AMR, has been furnished by the respective parties.

(3) Member of the Audit Committee.

(4) Member of the Corporate Governance Committee.

(5) On completion of the MQI Acquisition, Mr. Cox will hold directly or indirectly, or exercise control over 10,484,279 AMR Common Shares representing ●% of the issued and outstanding AMR Common Shares after giving effect to the MQI Acquisition, the Debt Offering and the Equity Offering (assuming no exercise of the Over-Allotment Option).

(6) 5,000 AMR Common Shares are owned by Mr. O'Connor directly. 500,000 AMR Common Shares are owned by a British Virgin Island company, of which Mr. O'Connor has a 1% interest with the balance owned by his spouse and family trusts.

(7) On completion of the MQI Acquisition, the TCW/Crescent Mezzanine Partners entities, of which Mr. Chapus is Group Managing Director and CEO, will exercise control or direction over 3,631,566 AMR Common Shares representing ●% of the issued and outstanding AMR Common Shares after giving effect to the MQI Acquisition, the Debt Offering and the Equity Offering (assuming no exercise of the Over-Allotment Option).

For a brief biography of the officers and directors of AMR subsequent to the MQI Acquisition, other than as disclosed below, see ''AMR Technologies Inc. — Directors and Officers'' and ''Magnequench, Inc. — Directors and Officers''.

For details of the employment agreements to be entered into with Messrs. Cox, Gundy, Karayannopoulos, Bedford and Ashok and Ms. Song, see ''AMR Technologies Inc. — AMR Executive Compensation — Employment Contracts'' and ''Magnequench, Inc. — MQI Executive Compensation — Employment Contracts''.

William E. Macfarlane — Proposed Director

Mr. Macfarlane was appointed Chairman of the Electrical Carbon Division of The Morgan Crucible Company plc in 1998, at its head office in Windsor, United Kingdom. During this period, he also served on the board of directors of the Morgan Group until his retirement in 2003. In 1999, he was appointed to Chairman, Carbon Division, responsible for the businesses of the Magnetics, Engineered and Electrical Carbon Groups, which represented approximately 54% of the Group's £1 billion turnover. During his 22 years with the Morgan Group, Mr. Macfarlane held positions of President and Chief Executive Officer of Canadian Operations, President of Electrical Carbon North and South American Operations. Mr. Macfarlane has over 35 years of operations and engineering experience with 28 years of senior management positions as well as extensive international experience while overseeing the 57 Morgan manufacturing operations located in 29 countries throughout the world.

F. Michael Walsh — Proposed Director

Retired investment industry executive, who prior to January 2000 was Senior Vice-President, Secretary and a Director of First Marathon Securities Limited (now National Bank Financial) and Vice-President and Secretary of First Marathon Inc. Mr. Walsh is a Retired Industry Member of the Ontario District Council of the Investment Dealers Association of Canada, and has served as an advisor to the staff of the Ontario Securities Commission and was formerly a member of the Council on Investment Issues of the Conference Board of Canada. He is a Past chair of the Board of Governors of the University of Guelph and received the Queen's Golden Jubilee Medal in 2003 for excellence in leadership and governance of a post-secondary institution as a volunteer.

Principal Shareholders of AMR Subsequent to the MQI Acquisition

To the knowledge of the directors and officers of AMR, as of the date of this prospectus, no person beneficially owns or exercises control or direction over AMR Common Shares carrying more than 10% of the votes attached to AMR Common Shares after giving effect to the Equity Offering (assuming no exercise of the Over-Allotment Option), the Debt Offering and the MQI Acquisition except for the following:

Name	Number of AMR Common Shares Beneficially Owned Directly or Indirectly	Percentage of AMR Common Shares Held
Archibald Cox, Jr. (1)	10,484,279	●
Beijing San Huan New Material and Hightech, Inc.	5,217,804	●

Note:

(1) Mr. Cox will also hold 1,579,576 AMR Options subsequent to the MQI Acquisition.

Options to Purchase Securities

In connection with the MQI Acquisition, it is anticipated that certain directors and executive officers of AMR and MQI will be granted new stock options.

As a part of the MQI Acquisition, the outstanding options of MQI will be exchanged for AMR Options at the same exchange rate as the outstanding MQI Shares are exchanged for AMR Common Shares. Specifically, the 269.045 options of MQI will be exchanged into 2,833,181 AMR Options and will retain the same vesting schedule and expiration dates.

The terms of the options granted will be pursuant to the AMR Stock Option Plan. For a full discussion of the AMR Stock Option Plan, see ''AMR Technologies Inc. — Options to Purchase Securities — AMR Stock Option Plan.''

Auditors, Registrar and Transfer Agent

The auditors of AMR will remain Ernst & Young LLP, Chartered Accountants, Toronto, Ontario.

The registrar and transfer agent for the AMR Common Shares will remain Computershare Trust Company of Canada at its principal office at 100 University Avenue, 9th Floor, Toronto, Ontario M5J 2Y1.

Consolidated Capitalization

The following table summarizes AMR's consolidated capitalization as at December 31, 2004 before and after giving effect to the Equity Offering (assuming no exercise of the Over-Allotment Option), the Debt Offering, the MQI Acquisition and the refinancing of the MQII term debt.

Description	Outstanding as at December 31, 2004	As at December 31, 2004 after giving effect to the Equity Offering (assuming no exercise of the Over-Allotment Option), the Debt Offering, the MQI Acquisition and refinancing of MQII term debt
Short term debt of AMR	13,879,000	●
Long term debt of AMR (including current portion)	1,140,000	●
Shareholders' Equity:		
Share Capital	26,653,000	●
	(16,723,434 shares)	*(● shares)*
Contributed Surplus	152,000	●
Retained Earnings (Deficit)	(2,663,000)	●
Total Capitalization	39,161,000	●

Effect of the MQI Acquisition on Operating Results and Financial Position of AMR

AMR expects to receive approximately Cdn$ ● in net proceeds from the Equity Offering (assuming no exercise of the Over-Allotment Option) after deducting commissions and expenses of the Equity Offering and the MQI Acquisition. It is expected that all of the net proceeds of the Equity Offering will be used to repay debt currently owed by MQII and thereby reduce ongoing interest expense of AMR following the MQI Acquisition.

On a *pro forma* basis, AMR's 2004 combined revenue is $138.6 million which more than doubles its 2004 revenue as reported of $54.4 million, with a corresponding increase in EBITDA to $55.6 million or 40% of combined revenue compared to $4.4 million or 8% as reported. *Pro forma* interest expense in 2004 is $ ● million compared to $0.6 million as reported but significantly below MQI's reported 2004 interest expense of $27.3 million. *Pro forma* 2004 net income from continuing operations is $ ● million (Cdn$ ● per AMR Common Share) compared to a reported net loss in 2004 of $0.2 million (Cdn($0.01) per AMR Common Share).

For the first quarter of 2005, *pro forma* combined revenue is $33.6 million compared to reported revenue of $16.2 million with an EBITDA of $9.8 million or 29% of consolidated revenue compared to $1 million or 6%. *Pro forma* first quarter 2005 net income from continuing operations increase to $ ● million (Cdn$ ● per AMR Common Share) compared to a reported net income in the first quarter 2005 of $0.05 million (Cdn$0.003 per AMR Common Share).

Pro forma net working capital at March 31, 2005 is $ ● million compared to $19.6 million as reported, and total assets are $ ● million compared to $51.3 million as reported. Total debt on a *pro forma* basis is $ ● million, which includes the effects of the repayment of MQI's debt, compared to $14.6 million as at March 31, 2005 as reported. Total shareholders' equity on a *pro forma* basis is $ ● million compared to reported $24.2 million as at March 31, 2005 after accounting for the transaction as a reverse takeover.

See AMR's *Pro Forma* Consolidated Financial Statements.

SELECTED FINANCIAL INFORMATION

AMR Historical Financial Information

The following selected historical consolidated financial information for AMR is derived from the audited and unaudited consolidated financial statements of AMR for the years ended December 31, 2004, 2003 and 2002 and the three month periods ended March 31, 2005 and 2004, respectively, and notes thereto appearing elsewhere in this prospectus. This summary of selected consolidated financial information should be read in conjunction with and is qualified in its entirety by reference to AMR's consolidated financial statements, including the notes thereto, and management's discussion and analysis included elsewhere in this prospectus.

	Three months ended March 31,		Year ended December 31,		
(in $000s except per share amounts)	2005	2004	2004	2003	2002
Revenues	16,217	11,783	54,349	46,758	47,274
EBITDA	1,040	857	4,354	4,733	4,248
Net income (loss) from continuing operations	47	(104)	(208)	838	(7,255)
Net income (loss) for the period	47	(143)	(455)	302	(7,325)
Net income (loss) per share (basic and fully diluted)	0.003	(0.009)	(0.027)	0.018	(0.440)
Total assets	51,282		51,122	49,589	
Long term debt (including current portion)	980		1,140	1,843	
Net working capital	19,638		18,339	16,897	

Reconciliation of EBITDA to GAAP for AMR

	Three months ended March 31		Year ended December 31		
(in $000s)	2005	2004	2004	2003	2002
Operating income per financial statements	437	216	1,045	2,213	(5,942)
Plus the following					
(1) Cost of sales — Depreciation	532	583	2,262	2,182	2,718
(2) Expenses — Restructuring costs	—	—	480	—	—
(3) Expenses — Depreciation and amortization	71	58	317	338	406
(4) Expenses — Write-down of the Magnetics business	—	—	—	—	7,066
(5) Expenses — Strategic Review Costs	—	—	250	—	—
EBITDA	1,040	857	4,354	4,733	4,248

MQI Historical Financial Information

The following selected historical combined financial information for MQI is derived from the audited and unaudited combined financial statements of MQI for the years ended December 31, 2004, 2003 and 2002 and the three month periods ended March 31, 2005 and 2004, respectively, and notes thereto appearing elsewhere in this prospectus. This summary of selected combined financial information should be read in conjunction with and is qualified in its entirety by reference to MQI's combined financial statements, including the notes thereto, and management's discussion and analysis included elsewhere in this prospectus.

	Three months ended March 31,		Year ended December 31,		
(in $000s except per share amounts)	2005	2004	2004	2003	2002
Revenues	17,334	21,070	84,223	78,577	81,488
EBITDA	8,788	13,009	51,295	51,060	52,115
Net income from continuing operations	1,944	2,693	7,043	8,143	7,718
Net income (loss) for the period	1,924	3,854	5,176	(19,143)	(16,016)
Total assets	100,136		104,772	139,058	
Long term debt (including current portion)	152,924		160,424	120,404	
Net working capital	8,761		8,760	8,509	

Reconciliation of EBITDA to GAAP for MQI

(in $000s)	Three months ended March 31		Year ended December 31		
	2005	2004	2004	2003	2002
Operating income per financial statements	5,885	8,704	34,876	32,290	30,924
Plus the following					
(1) Depreciation and amortization — COGS	1,868	1,870	7,469	7,486	7,475
(2) Depreciation and amortization	536	626	2,036	2,621	4,060
(3) Pension and post retirement accruals	102	125	432	233	151
(4) Fixed asset disposal and impairment	—	(12)	(99)	145	—
(5) Restructuring cost	—	156	972	964	1,464
(6) Stock-based compensation	193	—	—	—	—
(7) Royalties and interest on promissory notes	204	30	886	33	360
(8) Non-recurring expenses related to discontinued operations	—	1,510	4,723	7,288	7,681
EBITDA	8,788	13,009	51,295	51,060	52,115

Pro forma Financial Information

The following selected *pro forma* consolidated financial information which is derived from the audited and unaudited consolidated and combined financial statements of AMR and MQI, respectively for the year ended December 31, 2004 and the three months ended March 31, 2005, respectively and gives effect to the MQI Acquisition, the Equity Offering (assuming no exercise of the Over-Allotment Option), the Debt Offering and the refinancing of the MQII term debt, as if such events had occurred on January 1, 2004 for results of operations purposes, and on March 31, 2005 for balance sheet purposes. This selected unaudited *pro forma* consolidated financial information is based on available information and certain assumptions considered reasonable and is presented for illustrative purposes only. It does not purport to represent what AMR's results of operations or financial position would have been if the MQI Acquisition, the Equity Offering, the Debt Offering and the restructuring of the MQII term debt had occurred on the dates indicated. The *pro forma* information below should be read in conjunction with the *pro forma* consolidated financial statements, related notes and other financial information elsewhere in this prospectus.

(in $000s except per share amounts)	Three Months ended March 31, 2005	Year ended December 31, 2004
Revenues	33,551	138,572
EBITDA	9,828	55,649
Interest expense, long-term debt	●	●
Net income (loss) for the period	●	●
Net income (loss) per share (basic and fully diluted)	●	●
Total assets	●	●
Long term debt (including current portion)	●	●
Net working capital	●	●

Reconciliation of EBITDA to GAAP for *Pro forma* Financial Information

(in $000s)	Three Months ended March 31 2005	Year ended Dec. 31 2004
Operating income per financial statements	●	●
Plus the following		
(1)	●	●
(2)	●	●
(3)	●	●
(4)	●	●
(5)	●	●
(6)	●	●
EBITDA	●	●

MANAGEMENT'S DISCUSSION AND ANALYSIS OF AMR

This management's discussion and analysis should be read in conjunction with the financial statements of AMR for the years ended December 31, 2004, 2003 and 2002 and the three months ended March 31, 2005 and 2004 contained in this prospectus.

Overview

AMR develops, manufactures and distributes value-added performance materials and products that enable the advancement and commercialization of various technology applications. The products manufactured by AMR include cerium, lanthanum, neodymium metal, neodymium, yttrium and yttrium-europium co-precipitates, neodymium magnetic powder, zirconium oxides, zirconium carbonate and zirconium sulfate plus a line of mixed rare earth/zirconium oxides. Manufacturers supplying the automotive, catalyst, electronics, glass and coatings industries use these materials in applications that enhance the performance and cost effectiveness of their products.

AMR sells all of its products through a combination of a direct sales force and exclusive sales agents based in all major markets throughout the world.

Period ended March 31, 2005 compared to March 31, 2004

Summary of Results

	Q1 2005	Q1 2004	Total 2004	Trailing 12 months ending March 31, 2005
		[$000's]		
Revenue	16,217	11,783	54,349	58,783
Net income/(loss) from continuing operations	47	(104)	(208)	(57)
Net loss from discontinued operations	—	(39)	(247)	(208)
Net income/(loss)	47	(143)	(455)	(265)
Gross margin	2,797	2,901	11,934	11,830
Operating income from continuing operations	437	216	1,045	1,266

First quarter 2005

AMR's net income from continuing operations for the first quarter of 2005 was $47,000 on revenue of $16.2 million. For the first quarter of 2004, the net loss from continuing operations was $104,000 on revenue of $11.8 million. First quarter net income was higher in 2005 as a result of the operating income increase of $221,000 partially offset by higher interest expense. Segment operating income increased in both the rare earths and zirconium businesses by a combined total of $758,000 but declined by $435,000 in the magnetic powders business.

Consolidated revenues for the first quarter of 2005 were $16.2 million compared to $11.8 million in the corresponding period in 2004. The increase relates to both the rare earths and zirconium businesses with demand for those products increasing in China and the United States. The year-over-year growth in the United States primarily reflects the growth in zirconium/rare earth mixed oxides and other products supplied to the automotive industry while the strong Chinese sales relates mainly to sales of terbium, dysprosium and neodymium oxides.

Sales, general and administrative expenses for the first quarter of 2005 at $2.1 million were $367,000 lower than in the same period in 2004. Most of the decline reflects lower employee compensation expenses part of which relates to the organizational restructuring undertaken in 2004. In addition, selling expenses in Korea were $55,000 lower relating to the lower sales volumes.

Results of Segment Operations, First Quarter 2005

Selected business unit results (excluding discontinued operations)

Rare Earths business unit	Q1 2005	Q1 2004	Total 2004	Trailing 12 Months ending March 31, 2005
		[$000's]		
Revenue	12,859	8,986	43,062	46,935
Quantity shipped (tonnes REO)	1,131	805	3,992	4,318
Segment operating income (1)	1,238	768	4,168	4,638

Zirconium business unit	Q1 2005	Q1 2004	Total 2004	Trailing 12 Months ending March 31, 2005
		[$000's]		
Revenue	2,732	1,451	7,260	8,541
Quantity shipped (tonnes oxide equivalents)	258	136	765	886
Segment operating income (1)	411	123	783	1,071

Neo powders business unit	Q1 2005	Q1 2004	Total 2004	Trailing 12 Months ending March 31, 2005
		[$000's]		
Revenue	626	1,346	4,027	3,307
Quantity shipped (tonnes)	36	61	208	183
Segment operating income/(loss) (1)	(201)	234	(2)	(437)

(1) Operating income before corporate expenses and research and development.

Rare Earths Business Unit

Rare earths sales for the first quarter of 2005 were $12.9 million on shipments of 1,131 tonnes REO (rare earth oxide equivalent) compared to $9.0 million on shipments of 805 tonnes REO for the first quarter of 2004. Of the $3.9 million quarter-over-quarter increase, $3.3 million occurred in China almost all of which related to products from the JAMR facility. During the first quarter of 2005 larger volumes of terbium and neodymium oxides, primarily for use in magnetic products as well as dysprosium oxide, destined for the electronics industries, were shipped in China. The increase reflects increased demand inside China although some of the material was destined for export markets. The volumes shipped of certain products, in particular high value terbium were in excess of normal quarterly production and represent a reduction of inventories built in previous quarters. Compared to the year ago period, first quarter sales to non-Chinese markets increased by $600,000 as increased sales in Japan, Europe and the United States were partially offset by lower volumes in Korea.

The rare earths business generated segment operating income of $1.2 million for the first quarter of 2005, a $470,000 increase from the $768,000 for the corresponding period in 2004. The increase reflects the impact of increased sales partially offset by a 12% reduction in unit margins. The gross margin reduction reflects both the product mix — sales of certain key higher margin products to international customers which were lower than normal levels in the first quarter — and geographic mix with a higher proportion of sales in the highly competitive domestic Chinese market.

Outlook

First quarter sales were positively impacted by the sale of inventories built in prior quarters. Based on the assumptions that inventories will now stabilize, quarterly sales may decline in the near term. However, unit margins are expected to improve as sales of higher margin products sold in international markets recover. As well, growing sales of higher margin products for the automotive and dielectric industries will also positively impact margins. However, a further 5% increase in the VAT on Chinese exports (to the maximum level of 17%) is expected to be partially recovered by price increases to international customers.

Zirconium Business Unit

Growth in the zirconium business continued in the first quarter of 2005 with sales of $2.7 million, a quarterly sales record for the business, compared to $1.5 million in the first quarter of 2004. Quantities shipped increased to 258 tonnes (zirconium oxide basis) in the first quarter of 2005 from 136 tonnes in the corresponding period in 2004.

Segment operating income increased almost four-fold from $123,000 in the first quarter of 2004 to $411,000 in the first quarter of 2005. The increase primarily reflects the increased sales volumes but was partially offset by a slight 4% decline in unit gross margins due to increased prices for certain raw materials. In particular, prices for zircon sand (the main source of zirconium oxychloride which AMR uses as its main raw material for its zirconium products) have nearly doubled over the past 12-16 months. The selling prices for zirconium and mixed oxides have been firm with prices for selected products increasing.

Outlook

Sales in the second quarter are expected to decline marginally as certain customers reduce inventory levels resulting from slower than expected demand growth. Sales growth for the zirconium business is expected to resume in the third quarter. Unit gross margins are expected to be steady or improving as alternative lower cost sources of key raw materials are identified.

Neo Powders Business Unit

Neo powders business unit revenues of $626,000 for the first quarter of 2005 declined by 53% from the first quarter of 2004. The quantities shipped also declined from 61 tonnes of Neo powder to 36 tonnes over that period. The decline reflects reduced demand in the Chinese market. As a result of lower average selling prices and the negative impact of lower volumes on production economics, unit margins were close to zero in the first quarter of 2005. As a result of the negligible gross margins generated by the business, the segment operating loss for the first quarter of 2005 was $201,000 compared to segment operating income of $234,000 for the corresponding period in 2004.

Outlook

Sales opportunities in Europe and Japan will continue to be pursued following the expiration in 2004 of patents held in those areas by MQI. Markets outside of China require a higher proportion of value added powders which tend to sell at higher prices.

Research and Development Expenses

Research and development expenditures for the first quarter of 2005 were $208,000 compared to $179,000 for the same period in 2004. The increase relates in part to the cost of research and development resources in Singapore which were previously funded by the Economic Development Board of Singapore but have been funded by AMR since the second quarter of 2004. As well, the financial support provided by AMR to a major customer for testing and development in exchange for purchase commitments was still in place for part of the first quarter of 2005.

Interest Expense

Interest on short term debt for the first quarter of 2005 totalled $188,000 compared to $93,000 reported in the first quarter of 2004. The difference was partially due to higher loan balances and interest rates in all borrowing locations, but most significantly at JAMR. Outstanding loans at JAMR, including those denominated in both Renminbi and U.S. dollars totalled $7.7 million at March 31, 2005 compared to $6.8 million one year earlier. Furthermore, due to limitations on U.S. dollar loans available reflecting lower exports in the first quarter, the proportion of more expensive Renminbi based loans increased from 18% to 45% of the total outstanding. In addition, interest rates on the Renminbi debt have increased by approximately 100 basis points.

Income Taxes

Income tax expense for the first quarter of 2005 was $143,000 compared to $142,000 in the corresponding period in 2004. While the consolidated income tax expense was unchanged, a $90,000 increase in income taxes at JAMR was more than offset by a decline in Barbados. The increase in JAMR reflects both an increase in taxable income, reflecting the increase in domestic Chinese sales, plus an increase in the income tax rate from 12% to 24%. The higher rate is based on the assumption that JAMR will not reach the 70% minimum threshold of exports as a proportion of total sales to qualify for a 50% reduction in their income tax rate. The decline in income tax expense in Barbados reflects tax due in the first quarter of 2004 relating to prior year dividends received from the Chinese joint ventures.

The national Chinese corporate tax rate is currently 24% for production companies in the coastal open economic zones where AMR operates. There is an additional 3% local tax that is currently being waived by the local government for AMR joint ventures. Under Chinese tax law there are exemptions at a rate of 50% of regular income tax rates if certain conditions are met. The reduction applies if the value of products exported during the year equals a minimum of 70% of total sales value for the year. As noted above JAMR is not expected to qualify for exemption in 2005 while ZAMR is expected to qualify for the exemption under this condition.

Outside of China, AMR has taxes payable in one of the seven jurisdictions in which it operates with sufficient losses from prior years to offset any 2005 taxable incomes in the remaining jurisdictions.

Under terms of the business licenses granted by the Board of Investment of Thailand, AMR's Thailand subsidiary is tax-exempt for a period of eight years. The exemption period begins, depending upon the activity, either from the date that revenue is first earned or when operating income is earned. Revenue has been earned for one activity and the tax-free period for it commenced in 1999.

Minority Interest

Minority interest for the first quarter of 2005 was $61,000 compared to $89,000 for the same period in 2004. The reduced expense reflects the lower level of earnings at ZAMR in the first quarter of 2005.

Liquidity

The unrestricted cash balance at March 31, 2005 was $3.5 million compared to $5.4 million at December 31, 2004. During the first quarter of 2005, $568,000 was used in operations driven by the $1.3 million increase in working capital which in turn related to the $3.5 million increase in accounts receivable. The accounts receivable increase reflects the higher level of sales in the quarter, especially in March 2005. Collection of the receivables is proceeding as expected in April 2005. Partially offsetting the accounts receivable increase was a $1.6 million decline in inventories and $0.7 million increase in accounts payable. In addition to the cash used in operations, $0.5 million was invested in capital projects, primarily related to the expansion of mixed oxide production capacity at ZAMR, an area of sales and margin growth, and $0.4 million went to the repayment of short and long-term debt. Finally, $0.2 million of prior year profit was distributed to the minority partner at JAMR.

AMR utilized $2.125 million at March 31, 2005 (December 31, 2004 — $1.725 million) of the $2.5 million revolving line of credit established by AMR U.S. based subsidiary.

AMR has a remaining credit facility, in the original amount of $707,000, which was used to finance equipment purchases in Thailand. The balance outstanding at March 31, 2005 was $45,000 (December 31, 2004 — $88,000).

AMR has and is expected to continue to generate sufficient cash to maintain capacity and fund any working capital requirements. Additional cash requirements for capital additions in China are typically raised through short-term loans at the Chinese joint ventures. U.S. dollar denominated facilities have been renewed in China secured by international accounts receivable. Sufficient additional Renminbi denominated loans are expected to be available to offset any changes in U.S. dollar loan availability.

Working capital requirements are expected to decline somewhat as accounts receivable are collected in the second quarter. Inventory levels at JAMR declined in the first quarter with higher quantities shipped but this was offset by increased levels of raw materials which were purchased opportunistically in anticipation of higher purchase prices. Inventories should decline further at JAMR as these materials are consumed but inventories and accounts receivables related to ZAMR products are expected to increase with growing production and sales volumes in 2005.

Capital Resources

Commitments for approved capital projects already in progress and those yet to start total $55,000. All commitments are at ZAMR. All projects are expected to be completed in the second or third quarter of 2005. These projects are related to the ongoing expansion of the mixed rare earth/zirconium oxide products, adding capacity to produce material for Ferro under the recently announced supply agreement and for environmental projects. Funding from the capital projects will primarily come from internally generated cash.

Critical Accounting Estimates

The use of accounting estimates has a material impact on inventories:

Inventories — accounting estimates are used to establish provisions against the full cost of finished goods, raw material and finished goods inventories at all locations. The provisions are evaluated by individual product based on three criteria — lower of cost or net realizable value, turnover and product quality. For the turnover criteria, provisions are generally established for items for which a quantity in excess of one year's anticipated sales are in stock. For the quality provision, any inventory not meeting specifications are re-valued to the expected net realizable value. The provision methodology covers the rare earth, zirconium and magnetics product lines and has not changed over the past two financial years. Any change to the estimates used to establish inventory provisions would affect cost of sales.

Financial Instruments

AMR has entered into a number of forward contracts to sell U.S. dollars in exchange for Canadian dollars. These contracts will effectively hedge a portion of ongoing foreign exchange risk on AMR cash flows as much of its non-U.S. dollar expenses outside of China are incurred in Canadian dollars. AMR will generally purchase between 40% and 75% of its Canadian dollar requirements through forward contracts. The fair value of derivative financial instruments reflects the estimated amount that AMR would have to pay to settle all unfavourable outstanding contracts or the amount that would be received if forced to settle all favourable contracts at year-end. The credit risk to which AMR is exposed in the event of non-performance by its counterparties is not material and, in any event, the counterparties have high credit ratings.

As at March 31, 2005, a series of forward contracts were entered into to sell U.S. dollars in exchange for Canadian dollars. The contracts are due at various dates between April 11, 2005 and July 20, 2005. A total of U.S.$450,000 is contracted to be sold at contracted exchange rates ranging from 1.1992 to 1.2399. In the event of non-performance of its counterparty, AMR's risk is limited to the 1% deposits paid on the contracts. In any case, AMR does not anticipate non-performance by its counterparty as it has a high credit rating.

Risks and Uncertainties

AMR's international operations in China and Thailand are subject to a number of special risks including trade barriers, exchange controls and restrictions on currency conversion, political risks and risks of increased duties, taxes, tariffs and governmental royalties, as well as changes in laws and policies governing operations of foreign-based companies such as embargos. A change in policies by the Chinese or Thai governments could adversely affect AMR's investment in its production facilities by, among other factors, changes in laws or regulations or changes in the interpretation thereof. Despite the activity and progress in developing its legal system, China and Thailand do not have a system of laws as comprehensive as in Canada or the United States.

AMR exports the majority of its products produced in China. These exports are invoiced and paid for primarily in U.S. dollars. In the event of a change in the value of the Chinese Renminbi relative to the U.S. dollar, there is no assurance, due to competitive pressure, of a corresponding change in selling prices of AMR's rare earth and zirconium products. As well, at March 31, 2005, AMR had short-term borrowings in China, net of cash held, of 4.7 million denominated in Renminbi. To partially hedge the impact of any change in the value of Renminbi relative to the U.S. dollar on Renminbi denominated borrowings, AMR has previously purchased non-deliverable forward contracts. These contracts expired in December 2004 and AMR will continue to monitor the cost of purchasing future contracts.

In 1999 the government of China introduced an export quota system for the rare earth industry. AMR has been awarded certain quotas based on its export history and also expects to be able to utilize quotas that have been awarded to import/export companies that it has used to maintain its international sales level. To date, AMR has been able to secure all of the quotas it required. AMR continues to have access to sufficient quotas for its requirements.

Almost all of the Thailand facility's sales are made outside of Thailand and are also priced in U.S. dollars. At March 31, 2005, the cash holdings in the Thai currency, the Baht, were not significant.

Sales of AMR's magnetic products will continue to occur outside the United States, the only country in which patents covering bonded magnetic powder that it produces still exist.

Outstanding Share Data

Class of Equity Security	Number outstanding
AMR Common Share	16,730,101
Stock options (1)	1,683,000

(1) Each option can be exercised to purchase one AMR Common Share.

Summary of Quarterly results

	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005
	[$000's, except per share amounts]							
Total Revenue	12,176	10,705	12,467	11,783	14,289	14,124	14,153	16,217
Net income/(loss) from continuing operations	576	(163)	276	(104)	78	(439)	257	47
Net income/(loss) from discontinued operations	(238)	(139)	(82)	(39)	32	(102)	(138)	—
Net income/(loss)	338	(302)	194	(143)	110	(541)	119	47
Net income/(loss) per share from continuing operations, basic and diluted	0.035	(0.010)	0.017	(0.006)	0.005	(0.026)	0.015	0.003
Net income/(loss) per share, basic and diluted	0.021	(0.018)	0.011	(0.009)	0.007	(0.032)	0.007	0.003

Sales mainly trend upward over the previous eight quarters. Only the third quarter of 2003 is significantly lower reflecting lower sales to Japan during that period. Quarterly Neo powders sales also trended slightly higher through 2003 as shipments to customers in China grew. Then following the typical seasonal low sales in the first quarter of 2004, quarterly consolidated revenue stepped sharply upward to over $14 million per quarter. The increase reflected the growth in domestic Chinese rare earth sales, recovery of demand for rare earth products in Japan and the growth for zirconium and mixed rare earth/zirconium oxide sales. Zirconium product sales dipped somewhat in the fourth quarter of 2004 as a major customer took a shutdown for expansion. Neo powders sales were inconsistent in 2004 with lower results in the second and fourth quarters. No seasonal low for sales was experienced in the first quarter of 2005 as certain Chinese sales originally scheduled for the fourth quarter of 2004 were delayed one quarter.

Quarterly net income from continuing operations over the previous eight quarters has fluctuated between a high of $576,000 during the second quarter of 2003 and a net loss of $439,000 during the third quarter of 2004. Net income results generally reflect the aggregate segment income of the three businesses. The strongest half year period was the first half of 2003 when the $606,000 VAT reimbursement was received at ZAMR and the initial sales of very high margin lutetium oxide were highest. The net loss for the third quarter of 2003 reflected the lower sales of rare earth and zirconium products but overall performance recovered with the sales surge in the fourth quarter of that year. The fourth quarter recovery was limited by higher income tax expenses. Quarterly net income for 2004 was impacted by the non-recurring items, in particular the $480,000 restructuring charge in the third quarter which resulted in the largest quarterly loss over the past two years. Net income recovered again in the fourth quarter of 2004 reflecting increased sales and lower sales, general and administrative expenses following the reorganization.

Quarterly Business Unit Information

	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005
	[$000's, except per share amounts]							
Revenues								
Rare Earths	9,820	8,560	9,992	8,986	11,492	10,789	11,795	12,859
Zirconium	1,098	923	1,155	1,451	2,028	2,200	1,581	2,732
Neo Powders	1,258	1,222	1,320	1,346	769	1,135	777	626
	12,176	10,705	12,467	11,783	14,289	14,124	14,153	16,217
Segmented operating income before discontinued operations								
Rare Earths	1,412	603	1,458	768	1,337	950	1,113	1,238
Zirconium	41	7	49	123	279	249	132	411
Neo Powders	170	239	300	234	(40)	(73)	(123)	(201)
	1,623	849	1,807	1,125	1,576	1,126	1,122	1,448

Year ended December 31, 2004 compared to year ended December 31, 2003

Summary of results

The following selected historical consolidated financial information for AMR is derived from the audited and unaudited consolidated financial statements of AMR for the years ended December 31, 2004, 2003 and 2002.

	Year ended December 31,		
	Total 2004	**Total 2003**	**Total 2002**
	[$000's, except per share amounts]		
Revenue	54,349	46,758	47,274
Net income from continuing operations	(208)	838	(7,255)
Net loss from discontinued operations	(247)	(536)	(70)
Net income/(loss)	(455)	302	(7,325)
Gross margin	11,934	12,545	10,822
Operating income from continuing operations	1,045	2,213	(5,942)
Excluding non recurring income and expenses (1)			
Net income from continuing operations	522	381	(1,120)
Operating income from continuing operations	1,775	1,607	46

(1) For 2004, includes restructuring expenses of $480,000 and $250,000 for the strategic review. For 2003, includes the $606,000 VAT reimbursement ($457,000 after tax and minority interest). For 2002, include $1,078,000 VAT reimbursement ($931 after tax and minority interest).

Selected business unit results (excluding discontinued operations)

	Year ended December 31,		
Rare Earths business unit	**2004**	**2003**	**2002**
		[$ 000's]	
Revenue	43,062	37,975	42,387
Quantity shipped (tonnes REO)	3,992	3,642	3,937
Segment operating income (1)(2)	4,168	4,959	5,833
Zirconium business unit			
Revenue	7,260	4,183	1,718
Quantity shipped (tonnes REO)	765	470	161
Segment operating income (2)(3)	783	180	136
Neo powder business unit			
Revenue	4,027	4,600	3,169
Quantity shipped (tonnes REO)	208	201	136
Segment operating income (1)	(2)	505	(8,731)

(1) Segment operating income is operating income before corporate expenses and R&D.

(2) For 2003, includes the $588,000 VAT reimbursement. For 2002, include $1,078,000 VAT reimbursement.

(3) For 2003 includes $18,000 VAT reimbursement.

Overview

AMR's 2004 net loss from continuing operations was $208,000 on revenues of $54.3 million compared to net income from continuing operations for 2003 of $838,000 on revenue of $46.8 million. The 2004 results included approximately $730,000 of non-recurring expenses: $480,000 for organizational restructuring plus $250,000 for the strategic review. The 2003 operating result included the positive impact of the $606,000 reimbursement of previously non-refundable VAT payments. Excluding the impact of the non-recurring expenses in both years, year over year operating income from continuing operations increased by almost $200,000. That increase reflects the impact of higher rare earth and zirconium sales which more than offset the approximate $3.0 million negative impact due to the VAT charge on Chinese exports in effect since the start of 2004.

Consolidated revenues for 2004 were $54.3 million, a record and a $7.5 million increase from 2003. Rare earth and zirconium business sales in 2004 increased by $5.1 million and $3.1 million, respectively from year ago levels with those gains partially offset by declining magnetic sales. The year over year growth in rare earth revenue reflects continued gains in the Chinese market and demand recovery in Japan offset by lower shipments into Korea. Continuing penetration in the prime target markets for higher value products resulted in an almost 75% increase in revenues for the zirconium business unit.

As a result of a management restructuring early in the third quarter of 2004, a number of employees in the United States, Canada and the United Kingdom were terminated. The impact of these terminations will be a reduction in sales, general and administrative expenses of approximately $900,000 annually. Total restructuring charges of $480,000 were primarily severance payments.

During 2004, AMR sold 90% of its interest in Wuxi Te Zhong Cai Liao (''WWSM'') for cash consideration of $1.1 million. WWSM was established in 2002 and was engaged in the production of coating materials for computer monitors. Its sale reflects the decision to defer the effort to develop a display material strategy. For segment reporting, the results of this operation were included with the rare earth business. The results of the disposed business were reclassified and disclosed in the consolidated statements of operations and retained earnings (deficit) as ''Net loss from discontinued operations''. The net loss from discontinued operations for 2004 of $247,000 includes a $100,000 loss on the sale of the business. The net loss from discontinued operations for 2003 of $536,000 reflects the costs incurred in product and market development and as such were primarily reported as research and development expenses.

Sales, general and administrative expenses for continuing operations in 2004 were $9.6 million, compared to $9.3 million for the corresponding period in 2003. The 2004 figure includes the $480,000 restructuring charge and the $250,000 expenditure relating to the strategic review. As well, 2004 total sales, general and administrative expenses increased by approximately $400,000 as a result of year over year movement in currency exchange rates. Most significant was the strengthening of the Canadian dollar, the currency in which most corporate expenses are incurred, versus the U.S. dollar. Offsetting these factors was the reduced run rate for ongoing sales and administrative expenses following the restructuring.

Results of Operations

Rare Earths Business Unit

Rare earth business unit revenues for 2004 increased by $5.1 million, or 13%, over 2003. The increase was mainly due to higher shipping volumes from both JAMR and ZAMR but most significantly for heavy rare earth products at JAMR. In addition, selling prices for certain heavy rare earth products moved upward in 2004. Volumes shipped increased mainly in the Japanese and Chinese markets. Sales in Japan were the highest since the last cyclical demand peak in 2001 with most significant increases in shipments of lanthanum and dysprosium oxide. Sales growth in the domestic Chinese market continued in 2004 driven by strong demand for dysprosium and terbium and yttrium/europium products from JAMR. Domestic sales also increased at ZAMR with the successful local marketing of neodymium oxide.

The rare earth business unit generated a $4.2 million segment operating income in 2004, $0.8 million below the 2003 level. The 2003 result included $588,000 of retroactive VAT reimbursement. Operating income in 2004 was adversely impacted by the new 12% VAT charge on Chinese exports totalling almost $3 million for the year. These costs were largely offset through increased selling prices, cost reductions and by increasing the proportion of domestic Chinese sales to which the VAT expense does not apply.

Zirconium Business Unit

For 2004, zirconium business unit sales grew by 74% over 2003, reaching $7.3 million. The continued strong growth in this unit is occurring primarily in the relatively high value market segments for zirconium and mixed rare earth/zirconium oxides. Average selling prices for 2004 increased by approximately 7% reflecting the higher value product mix and generally higher market prices. Volumes increased for all product categories in 2004 over 2003 but for mixed rare earth/zirconium oxides, the highest value products, volumes more than doubled. The mixed oxide products are predominantly sold into the automotive catalytic converter market, a specialized market featuring exacting product specifications and extensive and costly barriers to entry which AMR has now overcome.

2004 segment operating income increased more than four-fold to $783,000. The operating performance improvement reflects the sales growth partially offset by a 19% reduction in unit $/kg margins. Unit margins in 2004 were adversely affected by the $340,000 impact of the 12% VAT expense on zirconium products as well as certain raw material price increases. Selling prices for some lower value products are expected to increase in 2005 to offset the cost increases.

Neo Powders Business Unit

Neo powders business unit revenues for 2004 of $4.0 million declined by 12% from 2003 levels on virtually the same quantities shipped. The decline reflects lower average selling prices in 2004, especially in the Chinese market. The adverse impact of the weaker Chinese market was partially offset by initial sales of magnetic powder to customers in Europe where restrictive patents expired in 2004. However, mainly as a result of the difficult Chinese market, unit $/kg gross margins declined by 19% year over year. Despite lower margins and $150,000 of organizational restructuring charges in the Neo powders business unit, segment operating income was essentially breakeven for 2004. Segment operating income in 2003 was $505,000.

Interest Expense

Interest on short term debt in 2004 was $474,000 compared to $479,000 in 2003. The total is virtually unchanged year-over-year despite higher levels of short-term debt held through most of 2004 and slightly higher interest rates in China due to a higher proportion of the debt in the form of lower cost U.S. dollar loans. The outstanding short-term debt in China at December 31, 2004 was $12.1 million (December 31, 2003 — $9.2 million).

Interest on long term debt totalled $91,000 in 2004 compared to $144,000 in 2003 with expenses of $18,000 and $30,000 being incurred for the fourth quarters of 2004 and 2003, respectively. The reduction in long term interest expense reflects the declining balances on outstanding loans.

Income Taxes

Income tax expense for 2004 was $444,000 compared to $577,000 in 2003 with most of the decline reflecting lower tax expense at the Chinese factories.

The national Chinese corporate tax rate is currently 24% for production companies in the coastal open economic zones where AMR operates. There is an additional 3% local tax that is currently being waived by the local government for AMR's joint ventures. Under Chinese tax law there are exemptions at a rate of 50% of regular income tax rates if certain conditions are met. The reduction applies if the value of products exported during the year equals a minimum of 70% of total sales value for the year. JAMR and ZAMR qualify for the exemption under this condition.

Outside of China, AMR has taxes payable in one of the seven jurisdictions in which it operates with sufficient losses from prior years to offset any 2004 taxable incomes in the remaining jurisdictions.

Under terms of the business licenses granted by the Board of Investment of Thailand, AMR's Thailand subsidiary is tax-exempt for a period of eight years. The exemption period begins, depending upon the activity, either from the date that revenue is first earned or when operating income is earned. Revenue has been earned for one activity and the tax-free period for it commenced in 1999.

Minority Interest

Minority interest expense for 2004 was $308,000 compared to $322,000 in 2003. As with taxes, minority interest is primarily related to changes in factory earnings which declined from 2003 to 2004.

Year ended December 31, 2003 compared to year ended December 31, 2002

Overview

For the year ended December 31, 2003, AMR's consolidated net income from continuing operations was $838,000 compared to a net loss from continuing operations of $7,255,000 in 2002. Net income from continuing operations per share for 2003 was $0.050 compared to the 2002 net loss from continuing operations of $0.436 per share. The consolidated net income in 2003 was $302,000 compared to a net loss in 2002 of $7,325,000. Net income per share for 2003 was $0.018 compared to the 2002 net loss per share of $0.44. The 2002 results included the impact of a $7.1 million non-cash write-down of certain assets of AMR's magnetics business.

Net income from continuing operations in 2003 includes a reimbursement of previously non-refundable export VAT at AMR's Chinese factories totalling $457,000 net of tax and minority interest. During 2002, the impact, net of income taxes and minority interest, of the Chinese VAT reimbursements totalled $931,000.

Operating income in 2003 increased by approximately $1.6 million over 2002 after adjusting for the impact of the write-down of certain magnetic assets in 2002 and the reimbursement of VAT in both years. This improvement was driven by higher Neo powders business segment operating income, driven by increased sales volumes and operating margins, partially offset by lower rare earth segment operating income.

Revenue

AMR's consolidated revenue for 2003 was $46.8 million compared to $47.3 million in 2002. Compared to the prior year, 2003 sales for the zirconium and Neo powders businesses increased by 143% and 45%, respectively. The increases in both of these growth businesses were driven by ongoing market penetration. However, these gains were generally offset by lower sales of certain rare earth products and a slightly lower average selling price due, in part, to geographic sales mix.

In the rare earth business unit, year-over-year revenues declined by 10% to $38.0 million. Revenue from products manufactured at AMR's ZAMR facility in Zibo, China was impacted by a 30% reduction in quantities shipped from that factory. The products affected were mainly sold into the Japanese magnet and U.S. automotive catalyst markets and the very low margins generated by these products did not warrant retaining market share. Sales of products manufactured at AMR's JAMR facility in Jiangyin, China were level year-over-year as lower average pricing was offset by an approximately 15% increase in quantities sold. Prices fell marginally for certain products but average sales values were also impacted by a higher proportion of shipments into the growing Chinese market where selling prices are generally lower than in other regions. The value of sales to the Chinese market of JAMR products increased from 19% to 27% of total sales year-over-year. The offsetting decline in sales was in the Korean phosphor market where quantities shipped of JAMR products declined by 22% from 2002 to 2003. Positively impacting revenue was the initial sales of high value lutetium oxide which is used for a new medical application being commercialized. Sales of lutetium oxide, most of which were sold in the United States, exceeded $1 million in 2003 compared to almost nil in 2002.

Zirconium business unit sales more than doubled from $1.7 million in 2002 to $4.2 million in 2003. The increase reflects the increased market share achieved in both the U.S. and European markets following the expansion of production facilities at ZAMR in 2002 and the addition of sales resources during the latter half of 2002. The sales increases were across a broad range of zirconium products in both sales regions.

Neo powders business revenues increased by 45% from $3.2 million in 2002 to $4.6 million in 2003. The increase primarily relates to a 41% increase in quantities shipped reflecting AMR's increased share of the growing magnetic powder market where it is one of only two companies in the world able to produce commercial quantities at a quality level required by the industry. Offsetting the impact of higher volumes are slightly lower average selling prices year-over-year.

Operating income

Operating income for 2003 was $2.2 million compared to an operating loss of $5.9 million in 2002. Excluding non-recurring items, operating income increased to $1.6 million in 2003 from $46,000 in 2002. The non-recurring items were the $606,000 VAT reimbursement at ZAMR in 2003 and the $1,078,000 VAT reimbursement at JAMR and the $7,066,000 magnetic business asset write-down in 2002.

This rare earth business unit reported segment operating income of $5.0 million in 2003 compared to $5.8 million in 2002. The lower VAT reimbursement received in 2003 compared to 2002 represents $0.5 million of the decline with the balance reflecting lower selling prices for certain rare earth products and reduced shipments of ZAMR products. Another VAT change that adversely impacted the rare earth (and zirconium) businesses was the reintroduction mid-year of the partial non-refundability of VAT expenses on export shipments. The VAT refund rate on exports was reduced from the full 17% to 13% with the 4% expense, totalling approximately $450,000, impacting rare earth operating profit in the second half of 2003.

Total operating expenses for the rare earth business, including depreciation, were 87% of sales in 2003 the same as in 2002.

The zirconium business unit reported segment operating income of $180,000 in 2003 compared to $136,000 in 2002. The increase in gross margin generated by the $2.5 million year-over-year sales increase was partially offset by higher selling and administrative expenses. The increased expenses mainly reflects the addition of sales resources which enabled the sales growth in 2003 and which represent, along with the production facilities at ZAMR, a sufficient infrastructure to generate continued business expansion. The impact of increased shipments and revenues was also somewhat offset by the lower average operating margins being earned on the broader product mix being produced and sold in 2003.

Total operating expenses for the zirconium business increased from 92% of sales in 2002 to 96% of sales in 2003. These results reflect the somewhat reduced gross margin percent as well as the investments made during the year in the selling infrastructure required to generate further revenue growth.

The Neo powders business unit reported segment operating income of $505,000 in 2003 compared to an operating loss of $8.7 million in 2002. Excluding the write-down, the 2002 operating loss would have been $1.6 million. The $2.0 million increase in segment operating income exclusive of the write-down reflects the 41% increase in shipments and lower operating costs. These lower operating costs include a $850,000 reduction in depreciation expense following the fixed asset portion of the write-down taken at the end of 2002 and the impact of manufacturing efficiency gains. Exclusive of the depreciation expense reduction, unit production costs at the Thailand facility declined by approximately 33%.

Total operating expenses for the Neo powders business unit, including depreciation but excluding the asset writedown declined from 152% of sales to 89% of sales as a result of the cost reductions and operating efficiency gains indicated above plus further reductions in fixed administrative expenses.

Research and Development

AMR's research and development activities are undertaken in collaboration with customers in support of specific product development mandates. If successful, these investments in research and development generate future revenue opportunities for AMR in the form of long-term supply contracts. This research and development activity is undertaken at AMR's nanotechnology centre at Abingdon, United Kingdom and other locations where the equipment and personnel required to conduct this specialized work are available. In 2003, research and development expenditures were $742,000 compared to $714,000 in 2002.

Interest Expense

Interest on short-term debt in 2003 totalled $480,000 compared to $456,000 in 2002. The total expense was almost unchanged year-over-year as slightly higher levels of debt during 2003 were offset by lower average interest rates. Short-term interest rates did increase towards the end of 2003 and were above the levels at the end of 2002. The total outstanding short term debt in China at December 31, 2003 was $9.2 million (December 31, 2002 — $7.8 million). The outstanding balance held by AMR's U.S. subsidiary at December 31, 2003 was $1.5 million (December 31, 2002 — $1.5 million).

Interest expense on long term debt in 2003 was $144,000 compared to $225,000 in 2002. The expense was incurred on loans with a Canadian lending institution originally used to purchase equipment for the Thailand facility plus a loan with the minority partner at JAMR used to purchase an additional 13% of that facility in 2001. The decline in the interest expense reflects the lower principal outstanding on those loans.

Income Taxes

The consolidated income tax expense for 2003 was $577,000, compared to $463,000 in 2002. Most of the tax expense in 2003 and 2002 was incurred in AMR's Chinese joint ventures.

The national Chinese corporate tax rate is currently 24% for production companies in the coastal open economic zones where AMR operates. There is an additional 3% local tax that is currently being waived by the local government for AMR's joint ventures. Under Chinese tax law there are exemptions at a rate of 50% of regular income tax rates if certain conditions are met. The reduction applies if the value of products exported during the year equals a minimum of 70% of total sales value for the year. ZAMR and JAMR qualify for the exemption under this condition.

Outside of China, in 2003 AMR had taxes payable in three jurisdictions. AMR had sufficient losses from prior years to offset 2003 taxable income in the other jurisdictions in which it operates.

Under terms of the business licenses granted by the Board of Investment of Thailand, AMR's Thailand subsidiary is tax-exempt until 2009. The exemption period begins from the date that revenue is first earned which occurred in 1999.

Liquidity

The unrestricted cash balance at December 31, 2004 was $5.4 million compared to $3.9 million at December 31, 2003. Over 2004, cash provided by operations totalled $1.4 million compared to $2.8 million in 2003 reflecting the reduced income from continuing operations. The cash from operations plus proceeds from the sale of WWSM and increased short term debt were used to fund $3.2 million of capital additions, the $1.4 million working capital increase and to repay long term debt and pay dividends to the minority partner at JAMR. Major capital projects were undertaken at both Chinese factories, at JAMR to improve operating efficiencies and expand capacity by approximately 10% and at ZAMR to reduce wastewater emissions and to begin a major expansion of mixed rare earth/zirconium oxide production.

AMR utilized $1.725 million at December 31, 2004 (December 31, 2003 — $1.535 million) of the $2.5 million revolving line of credit established by AMR's U.S. based subsidiary. AMR also has short-term loans denominated in Renminbi in China which AMR has historically revolved as terms come due. These loans totalled $5.6 million at December, 2004 (December 31, 2003 — $4.8 million). At December 31, 2004 AMR also utilized $6.5 million (December 31, 2003 — $4.4 million) of U.S. dollar denominated loans at two of its Chinese joint ventures. These loans are collateralized by U.S. dollar accounts receivable of the joint ventures. To finance the acquisition of an additional 13% stake in JAMR from its minority partner in 2001, AMR established a $2.3 million loan with the minority partner. The loan is repayable over 5 years. The balance outstanding at December 31, 2004 was $1.1 million (December 31, 2003 — $1.6 million).

AMR has a remaining credit facility, in the original amount of $707,000, which was used to finance equipment purchases in Thailand. The balance outstanding at December 31, 2004 was $88,000 (December 31, 2003 — $250,000)

AMR has and is expected to continue to generate sufficient cash to maintain capacity and fund any working capital requirements. Additional cash requirements for capital additions in China are typically raised through short-term loans at the Chinese joint ventures. U.S. dollar denominated facilities have been renewed in China secured by international accounts receivable. Sufficient additional Renminbi denominated loans are expected to be available to offset any changes in U.S. dollar loan availability.

Working capital requirements are expected to remain stable or increase slightly. Inventory levels at JAMR increased over the third and fourth quarters, in part due to the restriction on domestic Chinese sales to meet the export threshold and partially due to higher raw material prices. Production levels at JAMR will decline somewhat over the first quarter due to seasonal reductions in demand and to adjust finished product inventories. However, raw material purchases will be purchased opportunistically in a market in which prices may increase further. Inventories and accounts receivables related to ZAMR products are expected to increase with growing production and sales volumes in 2005. The VAT receivable in China which was $3.6 million at the end of 2003 has been essentially fully paid.

Summary of Contractual Obligations

	Payments Due by Period				
	Total	Less than 1 year	2 – 3 years	4 – 5 years	After 5 years
			[$000's]		
Long Term Debt	1,140	672	468	—	—
Operating Leases	1,950	268	496	458	728
Purchase Obligations	400	400	—	—	—
Total Contractual Obligations	3,490	1,340	964	458	728

Note: Capital Lease Obligations and Other Long Term Obligations are nil.

Capital Resources

Commitments for approved capital projects already in progress and those yet to start total $575,000. All commitments are at ZAMR. All projects are expected to be completed in the first or second quarter of 2005. These projects are related to the expansion of the mixed rare earth/zirconium oxide products and related utilities for which demand has increased and strong continued growth is anticipated in 2005. Funding from the capital projects will come from a combination of internally generated cash and short term borrowings in China.

Changes in Accounting Policies including Initial Adoption

Stock-based compensation

Effective January 1, 2004, in accordance with the Canadian Institute of Chartered Accountants (''CICA'') standard on ''*Stock-based Compensation and Other Stock-based Payments*'', AMR has changed its accounting policy to account for stock-based compensation using the fair value method. This change in accounting policy has been adopted retroactively and the opening deficit and contributed surplus for 2004 have been adjusted to reflect the impact of fair value of options granted in 2002 and 2003 and previously included in the pro forma note disclosures for prior periods.

The adjustment to the opening deficit and contributed surplus is as follows [$000's]:

Deficit, beginning of period before adjustment	(2,088)
Fair value of options granted — 2003	90
Fair value of options granted — 2002	30
Adjusted deficit, beginning of period	(2,208)
Increase in contributed surplus — beginning of period	120
Stock based compensation expense — 2004	32
Contributed surplus — end of period	152

The fair value of the options granted is estimated using the Black-Scholes option-pricing model and recognized over the option vesting period.

Variable interest entity

In 2004, AMR adopted the CICA Guideline 15 on ''*Consolidation of Variable Interest Entities*'' and began to consolidate a Chinese entity in which it does not have a direct equity interest and which is owned by three employees of AMR. AMR retains direct decision making authority over the entity and the entity is dependent on a subsidiary of AMR to finance its operations. As a result of consolidating the variable interest entity, revenues and cost of sales increased by $2,543,000 for the year ended December 31, 2004.

Asset retirement obligations

Effective January 1, 2004, AMR implemented the recommendations of the CICA with respect to asset retirement obligations. Under this policy, the fair value of legal obligations associated with the retirement of tangible long-lived assets must be recognized in the financial statements in the period in which the liability is incurred. Upon initial recognition of a liability for an asset retirement obligation, a corresponding asset retirement cost is added to the carrying amount of the related asset, which is subsequently amortized to income over the remaining useful life of the asset. Following the initial recognition of an asset retirement obligation, the carrying amount of the liability is increased for the passage of time by applying an interest method of allocation to the liability with a corresponding accretion cost reflected in operating expenses. Implementation of this standard did not have an impact on AMR's earnings or financial position at December 31, 2004 or December 31, 2003.

Impairment of Long-lived Assets

Effective January 1, 2004, AMR implemented the recommendations of the CICA accounting standard with respect to the impairment of long-lived assets. The recommendations were applied prospectively.

Under the new policy, impairment is assessed using a two step approach. Under the first step, the impairment of capital assets and finite-life intangible assets is tested when events or changes in circumstances indicate that the asset's carrying value is not recoverable and may be in excess of its fair value. The carrying amount of a long-lived asset is not recoverable if its carrying value exceeds the sum of undiscounted cash flows expected to result from its use and eventual disposition.

If the asset's carrying amount is in excess of the undiscounted cash flows, step two of the asset impairment test must be performed. Under step two of the test, impairment is measured as the excess of an asset's carrying value over fair value. Fair value is measured using a discounted cash flow approach.

Financial Instruments

AMR has entered into a number of forward contracts to sell U.S. dollars in exchange for Canadian dollars. These contracts will effectively hedge a portion of ongoing foreign exchange risk on AMR's cash flows as much of its non-U.S. dollar expenses outside of China are incurred in Canadian dollars. AMR will generally purchase between 40% and 75% of its Canadian dollar requirements through forward contracts. The fair value of derivative financial instruments reflects the estimated amount that AMR would have to settle all unfavourable outstanding contracts or the amount that would be received if forced to settle all favourable contracts at year-end. The credit risk to which AMR is exposed in the event of non-performance by its counterparties is not material and, in any event, the counterparties have high credit ratings.

As at December 31, 2004, a series of forward contracts were entered into to sell U.S. dollars in exchange for Canadian dollars. The contracts are due at various dates between January 10, 2005 and June 10, 2005. A total of $375,000 are contracted to be sold at contracted exchange rates ranging from 1.1992 to 1.1995. There were no exchange gains or losses associated with these hedges in 2004.

Quarterly information

Summary of results

	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004
	[$000's, except per share amounts]							
Total Revenue	11,410	12,176	10,705	12,467	11,783	14,289	14,124	14,153
Net income/(loss) from continuing operations	149	576	(163)	276	(104)	78	(439)	257
Net income/(loss) from discontinued operations	(77)	(238)	(139)	(82)	(39)	32	(102)	(138)
Net income/(loss)	72	338	(302)	194	(143)	110	(541)	119
Net income/(loss) from continuing operations per share, basic and diluted	149	576	(163)	276	(104)	78	(439)	257
Net income/(loss) per share, basic and diluted	0.004	0.021	(0.018)	0.011	(0.009)	0.007	(0.032)	0.007

Quarterly Business Unit Information

Revenue [000's]

Revenues	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004
	[$000's, except per share amounts]							
Revenues								
Rare Earths	9,603	9,820	8,560	9,992	8,986	11,492	10,789	11,795
Zirconium	1,007	1,098	923	1,155	1,451	2,028	2,200	1,581
Magnetics	800	1,258	1,222	1,320	1,346	769	1,135	777
	11,410	12,176	10,705	12,467	11,783	14,289	14,124	14,153
Segmented operating income before discontinued operations								
Rare Earths	1,486*	1,412	603	1,458	768	1,337	950	1,113
Zirconium	83**	41	7	49	123	279	249	132
Magnetics	(204)	170	239	300	234	(40)	(73)	(123)
	1,365	1,623	849	1,807	1,125	1,576	1,126	1,122

* includes Chinese VAT reimbursement of $588,000

** includes Chinese VAT reimbursement of $18,000

Consolidated quarterly revenue showed a slight upward trend during the fourth quarter reflecting the surge in rare earth shipments out of China ahead of the 12% VAT on exports. Quarterly magnetics sales also trended slightly higher through 2003 as shipments to customers in China grew. Following the typical seasonal low sales in the first quarter of 2004, quarterly consolidated revenue stepped sharply upward to over $14 million per quarter. The increase reflected the growth in domestic Chinese rare earth sales, recovery of demand for rare earth products in Japan and the growth for zirconium and mixed rare earth/zirconium oxide sales. Zirconium product sales dipped somewhat in the fourth quarter as a major customer shut down for an expansion. Magnetic sales were inconsistent in 2004 with lower results in the second and fourth quarters.

Quarterly net income from continuing operations over the previous eight quarters has fluctuated between a high of $576,000 during the second quarter of 2003 and a net loss of $439,000 during the third quarter of 2004. Net income results generally reflect the aggregate segment income of the three businesses. The strongest half year period was the first half of 2003 when the $606,000 VAT reimbursement was received at ZAMR and the initial sales of very high margin lutetium oxide were highest. The net loss for third quarter of 2003 reflected the lower sales of rare earth and zirconium products but overall performance recovered with the sales surge in the fourth quarter of that year. The fourth quarter recovery was limited by higher income tax expenses. Quarterly net income for 2004 was impacted by the non-recurring items, in particular the $480,000 restructuring charge in the third quarter which resulted in the largest quarterly loss over the past two years. Net income recovered again in the fourth quarter of 2004 reflecting increased sales and lower sales, general and administrative expenses following the reorganization.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF MQI

This management's discussion and analysis should be read in conjunction with the financial statements of MQI for the years ended December 31, 2004, 2003 and 2002 and the three months ended March 31, 2005 and 2004 contained in this prospectus.

Overview

MQI is the leading producer of Neo powder used in the production of high performance, bonded Neo permanent magnets and has an estimated global market share of approximately 80%. Bonded Neo magnets are used in high growth applications such as: (i) motors for hard and optical disk drives that are used in media storage and consumer electronics devices; (ii) stepper motors for office automation and other equipment; and (iii) sensors and motors for automotive and other industrial and consumer applications. Through a number of manufacturing process and composition patents, MQI is effectively the only legal supplier of Neo powder for bonded Neo magnets manufactured or sold in the United States. MQI's position is such that all end-use products containing bonded Neo magnets that are sold in the U.S. must use MQI's Neo powder without infringing on its patents.

MQI primarily sells to Asian-based customers, but management estimates that 70% to 80% of its Neo powders are used in products that are ultimately sold in North America and Western Europe.

Financial Highlights

	Three months ended March 31, 2005	Three months ended March 31, 2004
	[$000's]	
Financial Results		
Revenue	17,334	21,070
Gross Margin	10,724	14,339
Operating income from continuing operations	5,885	8,704
Net income from continuing operations	1,944	2,693
Net income (loss) income from discontinued operations	(20)	1,161
Net income	1,924	3,854
Financial Position		
Total assets	100,136	104,772
Total long-term liabilities	132,550	139,945

Three months ended March 31, 2005 versus three months ended March 31, 2004

MQI's net income from continuing operations was $1.9 million on revenues of $17.3 million for the first quarter of 2005, compared to net income from continuing operations for the first quarter of 2004 of $2.7 million on revenues of $21.1 million. Sales volumes decreased to 661 metric tonnes in the first quarter of 2005 compared to 761 metric tonnes in the first quarter of 2004. The decline in revenue was due to (i) a reduction in the level of MQI inventory held by a large customer resulting in lower than typical sales to that customer during the quarter; (ii) an increase in the volume of infringing powder sales which resulted in a corresponding reduction in MQI's market share, and sales volumes; and (iii) a 6% reduction in the average selling price per kilogram due to annual price reductions which took effect July 1, 2004, a shift in product mix to lower priced Neo powder and use of the new application and strategic pricing programs, which are designed to encourage the early adoption of bonded Neo magnets to expand the overall market.

During 2004, MQI filed patent infringement suits against 20 companies of which eight have recently been settled and nine are in the process of being signed. Three have been dismissed. The settlement established a compliance program in which the defendants will periodically send motors, purchased or manufactured, to MQI for testing. During the first quarter of 2005, MQI implemented the compliance program and commenced the testing of motors received from these defendants, as well as of motors in devices purchased in the market. As a result of this program, MQI believes that it will substantially regain market share lost to infringement sales.

Gross Profit

Gross profit decreased to $10.7 million or 62% of sales in the first quarter 2005 from $14.3 million or 68% of sales in the corresponding period of 2004. This decrease was primarily due to the decline in unit volumes and the reduction in average selling price as previously discussed combined with an increase in production costs on a per kilogram basis mainly driven by increased raw material and overhead costs. Starting in May 2005, MQI's products will not qualify for the 13% VAT refund on export. MQI is evaluating the impact of this change.

Sales, General and Administrative Expenses

Sales, general and administrative expenses for continuing operations for the three months ended March 31, 2005 were $3.6 million, compared to $4.3 million for the corresponding period in 2004. The decrease in total sales, general and administrative expenses due to the relocating of the administration functions to Singapore and a reduction in personnel was partially offset by increased legal and travel costs primarily related to the settlement of the infringement action and the implementation of the compliance program.

Research and Development Expenses

Research and development expenditures for the first quarter of 2005 totaled $508,000 compared to $446,000 for the same quarter in 2004. The 2004 expense reflects reduced spending in North Carolina in preparation of the relocation to Singapore in the first quarter 2004.

Interest Expense

Interest on short term debt for the three-months ended March 31, 2005 was $458,000 compared to $869,000 for the corresponding period in 2004. The reduction in interest expense was achieved through the refinancing of short term debt of its U.S. subsidiary with long term debt in June 2004. The outstanding short-term debt in China on March 31, 2005 was $5.2 million (March 31, 2004 — $1.8 million).

Interest on long term debt totaled $3.4 million for the quarter ended March 31, 2005 compared to $4.6 million for the same period in 2004. The decrease is a result of refinancing its debts at lower interest cost which was completed in June 2004 and the repayment of $11 million in principal.

Income Taxes

Income tax expense for the three months ended March 31, 2005 was $372,000 compared to $575,000 in the first quarter of 2004 with most of the decline reflecting lower revenue at the Chinese factory.

Liquidity

The unrestricted cash balance at March 31, 2005 was $4.3 million compared to $3.3 million at December 31, 2004, an increase of $1.0 million. Over the first quarter of 2005, cash provided by operations totaled $4.0 million compared to $5.4 million cash provided by operations in the corresponding period in 2004 in line with the reduction in sales revenue.

Operating working capital decreased by $1.3 million in the first quarter of 2005 to $7.4 million, primarily due to the settlement of accounts payables, severance payments and staff benefits subsequent to the year-end and a lower level of sales during the first quarter of 2005.

Cash used in investing activities of $150,000 for the first quarter of 2005 compared to $360,000 in the corresponding period in 2004. This was primarily the result of investing activities for the purchase of capital equipment in compliance with new environmental regulations compared to the amount expended in 2004 for setting up the corporate headquarters in Singapore.

Cash used in financing activities of $2.1 million was the result of increased bank borrowings at MQI's subsidiary in China of $3.4 million and repayment of long term debt by its U.S. subsidiary of $7.5 million.

Selected Annual Information

	2004	2003	2002
	[$000's] except per share amounts		
Revenue	84,223	78,577	81,488
Net income from continuing operations	7,043	8,143	7,718
Net loss from discontinued operations	(1,867)	(27,286)	(23,734)
Net income/(loss)	5,176	(19,143)	(16,016)
Gross margin	57,100	57,931	56,981
Operating income from continuing operations	34,876	32,290	30,924
Total assets	104,772	139,058	
Total long-term liabilities	139,945	3,074	
Interest expense, long-term debt	27,107	21,623	22,705
Non recurring income and expenses (1)	1,554	896	—

(1) For 2004, includes restructuring expenses of $972,000 and $582,000 for shutdown and relocation of its research and development facility. For 2003, includes $896,000 of restructuring expenses.

Year ended December 31, 2004 compared to year ended December 31, 2003

Overview

MQI's 2004 net income from continuing operations was $7 million on revenues of $84.2 million compared to net income from continuing operations for 2003 of $8.1 million on revenues of $78.6 million. Compared to the prior year, sales increased by 7.2% primarily as a result of a 4.6% increase in volume and 2.4% increase in average selling price. These exclude the price rebates to customers.

Gross profit decreased 1.4% to $57.1 million in 2004 from $57.9 million in 2003. This decrease was due to an increase in unit volumes and process efficiency improvements but offset by an increase in overall raw material costs and reduction in average selling price.

The 2004 result included approximately $1.6 million of non-recurring expenses: $972,000 on restructuring expenses and $582,000 in respect of the shutdown of research and development facility in North Carolina, U.S. and relocating to Singapore. The 2003 operating result also included $896,000 of restructuring expenses. Excluding the impact of the non-recurring expenses in both years and the write-off of a $2.96 million asset impairment charge in 2003, year-over-year operating income from continuing operations increased by almost $3.4 million.

As a result of a management restructuring in 2003 and continuing into 2004, a number of employees in the United States and Germany were terminated. The impact of these terminations is expected to result in a reduction in sales, general and administrative expenses of approximately $2 million annually. Total restructuring charges of $972,000 and $896,000, in 2004 and 2003 respectively, were primarily due to severance payments.

On April 30, 2004, MQI sold all of its interest in Magnequench GmbH, Magnequench de Mexico S.A. de C.V. and Magnequench TX and certain assets and liabilities of Magnequench UG Valparaiso operations as well as MQI's interest in certain distribution rights under the Cooperation Master Agreement with San Huan to Kane for cash consideration of $9.2 million, subject to certain reductions. On June 25, 2004, MQI sold Magnequench Singapore Pte. Ltd., Magnequench Tuas Pte. Ltd., Magnequench Limited, Magnequench AG and Magnequench NJ to entities formed by Mr. Archibald Cox, Jr., President and Chief Executive Officer of MQI, for $9.5 million. These magnet companies were disposed of in the second quarter of 2004 and the results of the disposed business were reclassified and disclosed in the combined statements of operations and retained deficit as ''Net loss from discontinued operations''. The net loss from discontinued operations for 2004 was $1.9 million after taking into account restructuring expenses of $288,000. The net loss from discontinued operations for 2003 of $27.3 million included an asset impairment charge of $15.3 million and restructuring expenses of $3.8 million.

Sales, general and administrative expenses for continuing operations in 2004 were $17.3 million, compared to $16.6 million for the corresponding period in 2003. The year-over-year increase in total sales, general and administrative expenses of $700,000 arose from higher legal expenditures incurred on patent infringement and non-recurring relocation expenses of $582,000.

Revenue

MQI's 2004 net income from continuing operations was $7 million on revenues of $84.2 million compared to net income from continuing operations for 2003 of $8.1 million on revenues of $78.6 million. Compared to the prior year, sales increased by 7.2% primarily as a result of a 4.6% increase in volume and 2.4% increase in average selling price. These exclude the price rebates to customers.

Gross Profit

Gross profit decreased 1.4% to $57.1 million in 2004. This decrease was due to an increase in unit volumes and process efficiency improvements but offset by an increase in overall raw material costs and a reduction in average selling price.

Operating Income

Operating income from continuing operations for 2004 was $34.9 million compared to $32.3 million in 2003. The non-recurring expenses were $972,000 of restructuring expenses and $582,000 of shutdown and relocation expenses.

Research and Development

Research and development expenditures for 2004 totaled $2.0 million compared to $2.4 million for 2003. The decrease was due to a reduction in headcount and the relocation from North Carolina to Singapore and resultant cost savings.

Interest Expense

Interest on short term debt in 2004 was $179,000 compared to $220,000 in 2003. The year-over-year decrease reflected the lower interest rate on a loan taken up in 2004. The outstanding short-term debt in China at December 31, 2004 was $1.8 million (December 31, 2003 — $845,000).

Interest on long term debt totaled $27.1 million in 2004 compared to $21.6 million in 2003. The year-over-year increase resulted from the write-off of unamortized deferred financing fees and discount on subordinated notes which were refinanced during the year.

Income Taxes

Income tax expense for 2004 was $1.7 million compared to $2.4 million in 2003 with most of the decline reflecting lower tax expense at the Chinese operations.

The national Chinese corporate tax rate is currently 24% on taxable income for high-tech corporations in the Wuqing Development District where MQI operates. However, the Tianjin Tax Bureau granted MQI's Chinese factories a two year tax holiday commencing from January 1, 2001 followed by a 50% tax reduction for the succeeding three years.

Year ended December 31, 2003 compared to year ended December 31, 2002

Overview

For the year ended December 31, 2003, MQI's net income from continuing operations was $8.1 million compared to $7.7 million in 2002. The net loss in 2003, including discontinued operations, was $19.1 million compared to the 2002 net loss of $16.0 million. The 2003 and 2002 results included the impact of non-cash write-downs of certain assets of $3.0 million and $1.6 million, respectively.

Net income from continuing operations in 2003 includes $896,000 of restructuring expenses. There were no such charges for 2002.

Operating income from continuing operations in 2003 increased by approximately $1.4 million over 2002 after adjusting for the impact of the write-down of certain assets in 2003 and 2002. This improvement was driven by higher operating margins arising from lower raw materials costs.

Revenue

MQI's revenue for 2003 was $78.6 million compared to $81.5 million in 2002. Compared to the prior year, 2003 sales decreased by 3.5% as a result of a decline in average selling price, offset to an extent by an increase in volume. The 5% volume increase in 2003 to 2,999 metric tonnes from 2,857 metric tonnes in 2002 was due to a general increase in demand across MQI's customer base which was tempered by patent infringement by certain competitors that decreased volumes. Average selling price for 2003 was $27.90 per kilogram, a 10.5% reduction from the 2002 average selling price of $31.17 per kilogram, as a result of MQI's annual price reductions, a shift in product mix to lower priced powder and the new application and strategic pricing programs, which are designed to encourage the early adoption of bonded Neo magnets and expand the overall market.

Gross profit

Gross profit increased 1.7% to $57.9 million in 2003 from $57.0 million in 2002 primarily due to on-going process efficiency gains. These efficiencies included yield improvements in alloy and powder manufacturing as well as a reduction in unfavourable production variances related to decreases in scrap levels.

Operating income

Operating income from continuing operations for 2003 was $32.3 million compared to $30.9 million in 2002. Excluding non-recurring items, operating income increased to $33.2 million in 2003 from $30.9 million in 2002. The non-recurring items were the $896,000 restructuring expenses.

Sales, general and administrative expenses for continuing operations in 2003 were $16.6 million, compared to $15.9 million for the corresponding period in 2002. The year-on-year increase in total sales, general and administrative expenses of $700,000 arose from reduced expenditure in consultancy expenses.

Research and Development

Research and development expenditures for 2003 totaled $2.4 million compared to $3.0 million for 2002. The year-over-year decrease in spending reflects the reduction in the research and development activities in the last quarter of 2003 in preparation of relocating from North Carolina to Singapore.

Interest Expense

Interest on short-term debt in 2003 totaled $220,000 compared to $247,000 in 2002. The year on year decrease reflected the lower utilization of the loan in 2003. The total outstanding short term debt in China at December 31, 2003 was $845,000 (December 31, 2002 — $4.1 million). The outstanding balance held by MQI's U.S. subsidiary at December 31, 2003 was $1.5 million (December 31, 2002 — $1.5 million).

Interest expense on long term debt in 2003 was $21.6 million compared to $22.7 million in 2002. The year on year decrease was due to purchase of an interest rate swap in 2002.

Income Taxes

The consolidated income tax expense for 2003 was $2.4 million, compared to $471,000 in 2002. Most of the tax expense in 2003 and 2002 was incurred in MQI's China operations.

The national Chinese corporate tax rate is currently 24% on taxable income for high-tech corporations in the Wuqing Development District where MQI operates. However, the Tianjin Tax Bureau granted MQI's Chinese factories a two year tax holiday commencing from January 1, 2001 followed by a 50% tax reduction for the succeeding three years.

Liquidity

The unrestricted cash balance at December 31, 2004 was $2.8 million compared to $3.2 million at December 31, 2003. Over 2004, cash used by operations totaled $15.3 million compared to $35.3 million of cash provided by operations in 2003 reflecting the refinancing of existing debts and payment of interest on revolving credit facilities and subordinated debts. The cash from discontinued operations, the decrease of working capital of $27.1 million and the proceeds from refinanced credit facilities were used to fund $1.6 million of capital additions and to repay revolving credit facilities and subordinated debt.

During 2004, MQI entered into a credit agreement (the ''Credit Agreement'') which comprised a first lien loan and a second lien loan totaling $170 million to refinance its existing revolving credit facilities and subordinated debts. The amount outstanding at December 31, 2004 totaled $158.8 million (December 31, 2003 — $143.4 million).

The Credit Agreement contains various covenants which require, among other things: (a) limitations on balances of cash, cash equivalents and certain MQTJ liabilities; (b) limitations on mergers, acquisitions, and similar transactions;

(c) limitations on dividends and stock distributions; (d) limitations on advances to subsidiaries or affiliates; (e) limitations on disposals, pledges or encumbrances of assets; and, (f) limitations on additional debt, capital expenditures, and investments. MQI was in compliance with its covenants at December 31, 2004 and remains in compliance a of the date hereof. Borrowings under this Credit Agreement are secured substantially by all of MQI's domestic and Singapore assets as well as the equity interest in MQI's China operations.

The Credit Agreement also requires MQI, for the first three years of the agreement, to maintain interest rate protection on at least 50% of the average outstanding aggregate principal amount of loans under the agreement. MQI entered into interest rate cap agreements for notional amounts totaling $82.5 million covering a period of three years and paid a premium of $1.4 million for these caps.

MQI also has, through its China operations, taken short-term and long-term loans denominated in Renminbi in China providing an aggregate credit limit of up to RMB 99.9 million or $12.1 million (December 31, 2003 — RMB 49.9 or $6.0 million). At December 31, 2004 the balance outstanding was RMB 25 million or $3.0 million (December 31, 2003 — RMB 17 million or $2.1 million) leaving availability of $9.1 million. These loans are collateralized by land use rights, buildings and machinery of its China operations.

MQI has and is expected to continue to generate sufficient cash to maintain capacity and fund any working capital requirements. Additional cash requirements for capital additions in China are typically raised through short-term loans by its Chinese ventures.

Working capital requirements are expected to remain stable, or increase slightly. MQI generally provides 30 days terms to its customers and accounts receivable average 35 days sales outstanding. MQI maintains inventory of 75 days at its warehouses located at its manufacturing facilities in Tianjin, China, Tubingen, Germany and Indiana, USA. Accounts payables are expected to remain stable at 25 days.

In December 2001, in carrying out its restructuring exercise, MQII, a U.S. based subsidiary of MQI, entered into an agreement with the United Auto Workers (''UAW'') regarding the shutdown of its Anderson Facility. MQII continues to carry certain limited pension and retiree medical liabilities related to the UAW contract.

The liability presented on the balance sheet as ''Accrued pension and other post retirement benefits'' represents the accruals of the unfunded portion of the plan; management estimates that it would require $3 million of additional funding to terminate this plan.

In the 1995 purchase of MQI, GM provided seller financing which is presented as ''Existing GM Seller Note'' on the balance sheet under ''Current portion of long-term debt'', which totaled $427,000 at December 31, 2004. The note has only one remaining annual payment due in October 2005.

Summary of Contractual Obligations
(as of March 31, 2005)

	Payments Due by Period				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
			[$000's]		
Long Term Debt	162,237	24,240	45,992	92,005	—
Capital Lease Obligations	—	—	—	—	—
Operating Leases	1,258	427	598	233	—
Purchase Obligations	256	256	—	—	—
Other Long Term Obligations	—	—	—	—	—
Total Contractual Obligations	163,751	24,923	46,590	92,238	—

Capital Resources

Commitments for approved capital projects already in progress and those yet to start total $1.0 million. All commitments are in MQI's China operations. All projects are expected to be completed in the last quarter of 2005. These projects are related to compliance with statutory environmental and health requirements for the China operations. Funding from the capital projects will come from a combination of internally generated cash and short term borrowings in China.

Financial Instruments

In August 2004, MQI entered into interest rate cap agreements for notional amounts totaling $82.3 million — $30 million which caps 30-day LIBOR at 2.5% and matures in $15 million increments at September 7, 2005 and September 7, 2006 and $52.3 million which caps 30-day LIBOR at 3.0% and matures at September 7, 2007. MQI paid an aggregate premium of $1.375 million for these caps, which is being amortized to interest expense on a straight-line basis, which approximates to the effective interest method, and was marked to market at March 31, 2005 and December 31, 2004, which resulted in MQI recognizing an unrealized gain of $786,000 which reduced the interest expense incurred for the period by the same amount.

Related Party Transactions and Balances

In June 2001, MQI entered into an agreement with an affiliate of San Huan and Ganzhou Qiandong Industry Co. to incorporate a company, Ganzhou Rare Earth Materials Ltd (''GREM'') with its principal activities in rare earth smelting operations. As of December 31, 2004, MQI owned 25% of GREM and had made capital contributions of $1.2 million to this venture. MQI accounts for its interest in GREM using the equity method. Under the terms of the agreement related to GREM, MQI did not share in the profits of GREM until its entire capital contribution was paid up in June 2003. Accordingly, MQI's share of GREM earnings in 2003 was not material.

MQI had notes receivables of $6.95 million from entities owned by Archibald Cox, Jr. as of December 31, 2004, which were recorded in other non-current assets in the accompanying combined balance sheet.

MQI occasionally utilizes a private aircraft, an interest in which is owned, by Brookway Aviation, LLC, which is owned by Archibald Cox, Jr., President and Chief Executive Officer of MQI. Flights on which MQI personnel travel with Mr. Cox are generally billed at the lower of actual cost or the equivalent commercial airline rates. Payments by MQI to Brookway Aviation for 2004, 2003 and 2002 utilization totaled $50,000, $29,000 and nil, respectively.

During 2003, MQI entered into a Cooperation Master Agreement (the ''Cooperation Agreement'') with a 33.95%-owned subsidiary of San Huan, Beijing Zhong Ke San Huan High-Tech Co., Ltd.. (''Beijing San Huan''), to sell certain equipment and license technology to manufacture sintered Neo magnets. The sale price of the equipment was $5.0 million (which resulted in no gain or loss recorded in 2003 statement of operations) plus costs to disassemble and ship the equipment to China. MQI also agreed to provide training in respect of the operation of the equipment in Beijing San Huan's facility. Beijing San Huan owed MQI $1.15 million and $1.25 million under this agreement as of March 31, 2005 and December 31, 2004, respectively.

MQI sells Neo powder to Magnequench NJ, LLC, a company owned by Mr. Cox, to fulfill contracts previously entered into by MQI. Total 2005 first quarter Neo powder sales were $108,640 and there were no sales for the corresponding period in 2004. MQI also paid $85,460 for certain administrative services during the first quarter of 2005 that were subsequently billed to Mr. Cox's company at cost. As of March 31, 2005, the balance owed to MQI was $51,300.

Risks and Uncertainties

MQI's international operations in China are subject to a number of special risks including trade barriers, exchange controls and restrictions on currency conversion, political risks and risks of increased duties, taxes, tariffs and governmental royalties, as well as changes in laws and policies governing operations of foreign-based companies such as embargos. A change in policies by the Chinese governments could adversely affect MQI's investment in its production facilities by, among other factors, changes in laws or regulations or changes in the interpretation thereof. Despite the activity and progress in developing its legal system, China does not have a system of laws as comprehensive as in the United States or Canada.

MQI exports the majority of its products produced in China. These exports are invoiced and paid for primarily in U.S. dollars. In the event of a change in the value of the Chinese Renminbi relative to the U.S. dollar, there is no assurance, due to competitive pressure, of a corresponding change in selling prices of MQI's products. As well, at December 31, 2004, MQI had short-term borrowings in China of 15 million denominated in Renminbi.

MQI sells to customers directly and through distributors. Sales to MQI's largest customers for MQI's Neo powder, represented $41.2 million or 49% of MQI's sales from continuing operations in 2004, $45.8 million or 59% of MQI's sales from continuing operations in 2003 and $49.2 million or 58% of sales from continuing operations in 2002. MQI's principal Asian distributor maintains inventory for and sells Neo powder to Asian customers of MQI, on credit terms negotiated with customers and at a fee. However, MQI negotiates all Neo powder prices and maintains direct relationships with the ultimate customers. While the loss of MQI's principal Asian distributor would increase the working capital requirements, management does not believe it would result in a loss of sales.

Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates are used in determining the allowances for doubtful accounts, recoverability of goodwill and long lived assets, and tax assets. Actual results could differ materially from those estimates and assumptions.

MQI records an allowance for doubtful accounts for estimated credit losses based on MQI's knowledge of the financial condition of its customers. A change to this factor could impact the estimated allowance.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. MQI tested for impairment at the reporting unit level by comparing the reporting unit's carrying value with its fair value. In determining the reporting unit's fair value, management made assumptions regarding future revenues, future profits and discount rates. Future goodwill impairment test may result in material impairment charges. Long-lived assets, including capital assets and intangible assets with finite useful lives are amortized over their useful lives. MQI periodically reviews the useful lives and the carrying values of its long-lived assets for continued appropriateness or whenever events changes in circumstances indicate that the carrying amount of the assets may not be recoverable, using assumptions relating to future cash flows of the assets. Future long-lived asset impairment tests may result in material impairment changes.

MQI determines its income tax expense or recovery based on net income earned or net loss incurred in various tax jurisdictions. In the ordinary course of business, there are may transactions and calculations where the ultimate tax outcome is uncertain and is subject to tax authority review. The final outcome of these matters may be different than the estimates originally made by management in determining the income tax provision and changes in these estimates could impact the income tax provision in future periods.

Changes in Accounting Policies including Initial Adoption

Effective January 1, 2004 in accordance with CICA 3870 Stock-Based Compensation and Other Stock-Based Payments, MQI has changed its accounting policy for stock-based compensation using the fair value method. This change in accounting policy has been adopted retroactively without restatement and the opening deficit and net investment for 2004 have been adjusted to reflect the impact of the fair value of options granted in 2002. There were no options granted in 2004 and 2003. MQI's plan is described in Note 10 to the historical statements.

The fair value of the options granted is estimated using the Black — Scholes option pricing model and is recognized over the applicable vesting period as an increase in compensation expense and contributed surplus. When the options are exercised, the proceeds received by MQI will be credited to net investment. For options granted before January 1, 2002 MQI continues to follow the accounting policy under which no expense is recognized for these stock options. When these options are exercised, the proceeds received by MQI will be credited to net investment.

The adjustment to the opening deficit and net investment as at January 1, 2004 is as follows:

Deficit, beginning of year before adjustment	(94,411)
Fair value of options granted — 2002	(19)
Adjusted deficit, beginning of year	(94,430)
Net investment — beginning of year	16,794
Increase in net investment — beginning of year	19
Adjusted net investment, beginning of year	16,813

Outstanding Share Data

Class of Equity Security	Number outstanding as at March 31, 2005
Common Share	2,295.760
Stock options (1)	253.322
Warrants (1)	255.571

(1) Each option and warrant can be exercised to purchase one MQI Share.

On January 6, 2005, MQI's board of directors approved a 1,000 to 1 reverse stock split applying to MQI Shares, stock options and warrants outstanding on the effective date. The reverse stock split reduced the number of outstanding MQI Shares from 2,295,760 to 2,295.760. Following the reverse stock split, MQI is authorized to issue 22,000 MQI Shares consisting of (i) 10,800 shares with a par value of $.001 per share which are designated ''Common Shares'', (ii) 200 shares with a par value of $.001 per share which are designated as ''Non-voting Common Stock'' and (iii) 11,000 shares with a par value of $1.00 per share which are designated as ''Preferred Stock''. MQI has issued fractional shares resulting from the reverse stock split, to the extent necessary. MQI's shareholders approved the reverse stock split. The number of MQI Shares outstanding as indicated above have been adjusted to reflect the reverse stock split.

Quarterly information

Quarterly revenue movements over the last two years ended December 31, 2004, show a general increase in demand across MQI's customer base partially offset by MQI annual price reduction and by patent infringement by certain competitors, especially in 2003. The last quarter of each of the past two years was the lowest due to the typical seasonal slowdown.

Quarterly net income from continuing operations over the previous eight quarters excluding the second quarter of 2004 loss due to write-off of deferred financing cost and original issue discount of subordinated debts totalling $6 million, both of which were refinanced, has fluctuated between a high of $5.2 million during the third quarter of 2004 to a low of $653,000 during the third quarter of 2003.

Recovery in the quarterly net income for 2003 was hampered by professional fees and severance payments on the restructuring of the organization.

In addition to the comments on the second quarter of 2004 above, quarterly net income for 2004 was also impacted by restructuring charges of $972,000, non-recurring relocation expenses of $582,000 and higher professional fees incurred in connection with the restructuring exercise and recapturing sales from patent infringement by MQI's competitors.

	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005
	[$000's, except per share amounts]							
Total Revenue	20,467	20,406	18,419	21,070	22,274	23,144	17,735	17,334
Net income/(loss) from continuing operations	3,374	653	1,017	2,828	(3,450)	5,234	2,431	1,944
Net income/(loss) from discontinued operations	(2,662)	(3,938)	(17,544)	1,026	(2,376)	2,009	(2,526)	(20)
Net income/(loss)	713	(3,285)	(16,528)	3,854	(5,826)	7,244	(96)	1,924

DETAILS OF THE EQUITY OFFERING

Use of Proceeds

The estimated net proceeds to AMR from the Equity Offering will be $ ● (determined after deducting the Commission and other expenses in respect of the Equity Offering estimated at $ ●) assuming no exercise of the Over-Allotment Option. If the Over-Allotment Option is exercised in full, the net cash proceeds to AMR from the Equity Offering after deducting the Commission and other expenses in respect thereof, will be Cdn$ ● .

Provided that the Escrow Release Condition is satisfied on or before the Termination Time, the Escrowed Funds (together with the interest earned thereon) will be released to AMR on or immediately following the date of such satisfaction and AMR will apply the net proceeds of the Equity Offering to reduce the outstanding term debt of MQII following the MQI Acquisition. The MQII debt facility which is being partially repaid with the proceeds of the Equity Offering was used to repay certain senior subordinated notes of MQII.

Details of the Distribution

The distribution consists of ● Subscription Receipts at a price of $ ● per Subscription Receipt. Each Subscription Receipt represents the right to receive, without payment of additional consideration, one AMR Unit. Each AMR Unit comprises one AMR Common Share and one-half of one AMR Warrant. Each AMR Warrant entitles the holder thereof to purchase one AMR Common Share until 5:00 p.m. (Toronto time) on the third anniversary of the issuance of the AMR Warrants at an exercise price of Cdn$ ● per AMR Common Share.

The Subscription Receipts, and the AMR Common Shares and AMR Warrants issuable upon exchange of the Subscription Receipts, will be issued in ''book entry only'' form and must be purchased or transferred through a participant of The Canadian Depositary for Securities Limited (''CDS''). AMR will cause global certificates representing newly issued Subscription Receipts, AMR Common Shares and AMR Warrants to be delivered to, and registered in the name of, CDS or its nominee. All rights of holders of such securities must be exercised through, and all payments or other money to which such holders are entitled will be made or delivered by, CDS or a CDS participant though which the holders hold such securities. Each person who acquires Subscription Receipts will receive only a customer confirmation of purchase from the registered dealer from or through which the Subscription Receipts are acquired in accordance with the practices and procedures of that registered dealer. The practices of registered dealers may vary, but generally customer confirmations are issued promptly after execution of a customer order. CDS is responsible for establishing and maintaining book entry accounts for its CDS participants having interests in the Subscription Receipts. Notwithstanding the foregoing, Subscription Receipts, AMR Common Shares and AMR Warrants issued in the United States or to U.S. persons will be in the form of a definitive certificate delivered to the holders thereof.

The following is a summary of the material attributes and characteristics of the Subscription Receipts and the AMR Warrants. This summary does not purport to be complete and is subject to, and qualified in its entirety by, reference to the terms of the Subscription Receipts Agreement and the AMR Warrant Indenture (as defined herein).

Subscription Receipts

The Subscription Receipts will be issued on the Closing Date pursuant to the Subscription Receipts Agreement.

The Escrowed Funds will be delivered and held in escrow by the Escrow Agent pursuant to the Subscription Receipts Agreement and invested in short-term obligations of, or guaranteed by the Government of Canada (and other approved investments) pending receipt of notice from AMR and the Agent, confirming that (i) all conditions and all other matters relating to the closing of the MQI Acquisition have been fulfilled to their satisfaction; (ii) all conditions and all other matters relating to the Debt Offering have been fulfilled to their satisfaction; and (iii) all conditions and all other matters relating to the refinancing of the outstanding term debt of MQII have been fulfilled to their satisfaction (collectively, the ''Escrow Release Condition''). Provided that the Escrow Release Condition is satisfied on or before the Termination Time, the Escrowed Funds (together with interest earned thereon) less the Commission will be released to AMR and holders of Subscription Receipts will receive, without payment of additional consideration or further action, one AMR Unit for each Subscription Receipt held (and will not be entitled to any interest on the amount of the offering of the Subscription Receipts).

If the Escrow Release Condition is not satisfied on or before the Termination Time, the Escrow Agent will return to Subscription Receipt holders commencing on the second Business Day following the Termination Time an amount equal to the issue price therefor and their *pro rata* entitlements to interest earned on the Escrowed Funds (less applicable withholding taxes).

Upon satisfaction of the Escrow Release Condition, AMR and the Agent are required to provide a joint notice (the ''Release Notice'') to the Escrow Agent of such fact no later than the third Business Day thereafter and during normal business hours. Promptly upon receipt of the Release Notice, the Escrow Agent will release the Escrowed Funds and interest earned thereon, less the Commission, to AMR. The Release Notice shall also contain a direction of AMR to the Escrow Agent (in its capacity as registrar and transfer agent of the AMR Common Shares) to deliver the AMR Units to holders of record of any Subscription Receipts as at 5:00 p.m. (Toronto time) on the date the Escrow Release Condition is satisfied, whereupon the register for the Subscription Receipts will be closed.

Holders of Subscription Receipts will not have any voting or other rights as holders of AMR Common Shares until such Subscription Receipts are exchanged for AMR Common Shares.

Under the Subscription Receipt Agreement, original purchasers of Subscription Receipts will have a contractual right of rescission following the issuance of AMR Common Shares and AMR Warrants to such purchasers upon the exchange of the Subscription Receipts. The right of rescission will entitle the purchaser to receive the amount paid for the Subscription Receipts if this prospectus or any amendment contains a misrepresentation, provided such remedy for rescission is exercised within 180 days of closing of the Equity Offering.

AMR has covenanted with the Escrow Agent and the Agent that from the Closing Date to the earlier of the date the Escrow Release Condition is satisfied or the Termination Time, it will not do any of the following: (i) subdivide the outstanding AMR Common Shares into a greater number of shares; (ii) reduce, combine or consolidate the outstanding AMR Common Shares into a smaller number of shares; (iii) issue AMR Common Shares to holders of all or substantially all of the AMR Common Shares by way of a dividend or distribution (other than the issue of AMR Common Shares to holders of AMR Common Shares who have elected to receive dividends or distributions in the form of AMR Common Shares in lieu of cash dividends or cash distributions paid in the ordinary course on the AMR Common Shares); (iv) fix a record date for the making of a distribution to all or substantially all the holders of its outstanding AMR Common Shares of (y) shares of any class other than AMR Common Shares and other shares distributed to holders of AMR Common Shares who have elected to receive dividends or distributions in the form of such shares in lieu of dividends or distributions paid in the ordinary course, or (z) rights, options, or warrants; or (v) reclassify the AMR Common Shares or undertake a reorganization of AMR or a consolidation, amalgamation, arrangement or merger of AMR with any other person or other entity other than the MQI Acquisition; or a sale or conveyance of the property and assets of AMR as an entirety or substantially as an entirety to any other person or entity or a liquidation, dissolution or winding-up of AMR.

From time to time while the Subscription Receipts are outstanding, AMR, the Agent, and the Escrow Agent, without the consent of the holders of the Subscription Receipts, may amend or supplement the Subscription Receipt Agreement for certain purposes, including making any change that, in the opinion of the Escrow Agent, does not prejudice the rights of holders of the Subscription Receipts. The Subscription Receipt Agreement will provide for other modifications and alterations thereto and to the Subscription Receipts issued thereunder by way of an extraordinary resolution. An ''extraordinary resolution'' will be defined in the Subscription Receipt Agreement to mean, in effect, a resolution passed by the affirmative votes of holders of not less than 66⅔% of the number of outstanding Subscription Receipts represented and voting at a meeting of Subscription Receipt holders or an instrument or instruments in writing signed by the holders of not less than 66⅔% of the number of outstanding Subscription Receipts.

AMR Warrants

The AMR Warrants will be issued under, and be governed by, an indenture to be dated as of the Closing Date (the ''AMR Warrant Indenture'') between AMR and Computershare Trust Company of (the ''Warrant Trustee''), as trustee thereunder. Pursuant to the terms of the AMR Warrant Indenture the offices of the Warrant Trustee in Toronto, Ontario will be appointed as the office at which AMR Warrants may be surrendered for exchange or transfer or at which they may be exercised. The following summary of certain provisions of the AMR Warrant Indenture does not purport to be complete and is qualified in its entirety by reference to the provisions of the AMR Warrant Indenture.

Each AMR Warrant will entitle the holder to purchase one AMR Common Share at an exercise price of ● per share. The number and price of AMR Common Shares issuable upon exercise of AMR Warrants are subject to adjustment in certain circumstances as described below. AMR Warrants will be exercisable any time prior to 5.00 p.m. (Toronto time) on the date that is third anniversary from the date the AMR Warrants are issued, after which they will expire and become null and void. Under the AMR Warrant Indenture, AMR will be entitled to purchase by invitation to tender, by private contract or otherwise, any of the AMR Warrants then outstanding, at the lowest price or prices at which in the opinion of the directors of AMR are obtainable and on such other terms as AMR may determine, and any such warrants so purchased will be cancelled.

The AMR Warrant Indenture will provide for adjustment in the number of AMR Common Shares issuable upon the exercise of the AMR Warrants, including upon: (i) the issuance of AMR Common Shares or securities exchangeable for or convertible into AMR Common Shares to all or substantially all the holders of the AMR Common Shares as a stock dividend or distribution; (ii) the subdivision, redivision or change of the AMR Common Shares into a greater number of shares; and (iii) the reduction, combination or consolidation of the AMR Common Shares into a lesser number of shares.

The AMR Warrant Indenture will also provide for adjustment in the type and/or number of securities or other property issuable upon the exercise of the AMR Warrants, or for the participation of the holder of AMR Warrants in the offering of convertible or exchangeable securities upon the exercise of the AMR Warrants (as the case may be), in the event of the following additional events: (i) the issuance to all or substantially all of the holders of the AMR Common Shares of rights, options or warrants under which such holders are entitled to purchase AMR Common Shares, or securities exchangeable for or convertible into shares of AMR or property or assets of AMR (other than dividends paid in the ordinary course (including a stock dividend or distribution referred to in the preceding paragraph); (ii) reclassifications of the AMR Common Shares or a capital reorganization of AMR; (iii) consolidations, amalgamations or mergers of AMR with or into another entity; or (iv) the sale or conveyance (other than to one of AMR's wholly-owned subsidiaries) of AMR's property and assets as an entirety or substantially as an entirety to another corporation or other entity. In addition, the AMR Warrant Indenture will provide for adjustment in the exercise price in the event of the issuance to all or substantially all of the holders of the AMR Common Shares of rights, options or warrants under which such holders are entitled, during a period expiring not more than 45 days after the record date for such issuance, to subscribe for or purchase AMR Common Shares, or securities exchangeable for or convertible into common shares, at a price per share to the holder (or at an exchange or conversion price per share) of less than 95% of the ''Current Market Price'', as defined in the Warrant Indenture, for the common shares on such record date.

No adjustment in the exercise price or the number of common shares purchasable upon the exercise of the AMR Warrants will be required to be made unless the cumulative effect of such adjustment or adjustments would change the exercise price by at least 1% or the number of common shares purchaseable upon exercise of the AMR Warrants by at least one one-hundredth of an AMR Common Share. In addition, no adjustment will be made if the issue of any common shares, rights, options, warrants or securities exchangeable or convertible into common shares is being made pursuant to the AMR Warrant Indenture or pursuant to the exercise of directors, officers, employees or consultants stock options granted under AMR's stock option or similar plans or being made to satisfy existing instruments and outstanding as of the date of the AMR Warrant Indenture.

AMR will also covenant in the AMR Warrant Indenture that, during the period in which the AMR Warrants are exercisable, it will give notice of certain stated events, including events that would result in an adjustment to the type and/or number of securities issuable upon exercise of the AMR Warrants, at least 14 days prior to the record date or effective date, as the case may be, of such event. No fractional common shares will be issuable upon the exercise of any AMR Warrants.

From time to time, AMR and the Warrant Trustee, without the consent of the holders of AMR Warrants, may amend or supplement the AMR Warrant Indenture for certain purposes, including curing defects or inconsistencies or making certain changes that do not prejudice the rights of any such holder. Any amendment or supplement to the AMR Warrant Indenture that prejudices the rights of the holders of the AMR Warrants may only be made by ''extraordinary resolution'', which will be defined in the AMR Warrant Indenture as either: (i) a resolution passed at a meeting of the holders of AMR Warrants at which there are present in person or represented by proxy holders of AMR Warrants entitled to acquire at least 51% of the aggregate number of AMR Common Shares which may be acquired upon the exercise of all the then outstanding AMR Warrants and passed by the affirmative vote of holders of AMR Warrants entitled to acquire not less than 75% of the aggregate number of common shares which may be acquired upon the exercise of all the then outstanding AMR Warrants represented at the meeting; or (ii) an instrument in writing signed by holders of AMR Warrants entitled to acquire not less than 75% of the aggregate number of common shares which may be acquired upon the exercise of all the then outstanding AMR Warrants.

Plan of Distribution

Pursuant to the Equity Agency Agreement dated ● , 2005, the Agent has agreed to sell on a reasonable best efforts basis, and AMR has agreed to issue Subscription Receipts at a price of $ ● per Subscription Receipt.

The closing of the Equity Offering will take place on a day determined by AMR and the Agent and will be on or about ● , 2005 and will occur no later than ● , 2005. The Equity Offering Price was established through negotiation between AMR and the Agent.

This prospectus qualifies the distribution of the Subscription Receipts in all the provinces of Canada. The Agent may, in connection with the Equity Offering and in its sole discretion, retain one or more licensed dealers, brokers and investment dealers (referred to herein as the ''Selling Firms'') as sub-agents and may receive subscriptions for Subscription Receipts from such Selling Firms.

Pursuant to policy statements and rules of certain securities commissions, the Agent may not, during the period of distribution under this prospectus, bid for or purchase Subscription Receipts or AMR Common Shares. The foregoing restriction is subject to certain exceptions, on the condition that the bid or purchase not be engaged in for the purpose of creating actual or apparent trading activity in, or raising the price of such securities. These exceptions include a bid or purchase permitted under the by-laws and rules of the TSX relating to market stabilization and passive market-making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. In connection with the Equity Offering, and subject to the foregoing and to applicable law, the Agent may over-allot or effect transactions that stabilize or maintain the market price of the AMR common Shares at levels other than those that might otherwise prevail on the open market. Such transactions, if commenced, may be discontinued at any time.

The Subscription Receipts offered hereby, the AMR Common Shares and the AMR Warrants to be issued in exchange for the Subscription Receipts, and the AMR Common Shares issuable upon exercise of the AMR Warrants have not been and will not be registered under the United States *Securities Act of 1933*, as amended (the ''U.S. Securities Act'') or any state securities laws, and may not be offered or sold within the United States or to, or for the account or benefit of U.S. persons (as such terms are defined in Regulation S under the U.S. Securities Act) except in certain transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act and in compliance with any applicable state securities laws. The Agent has agreed that it will only offer or sell the securities referred to above (i) in the United States only to qualified purchasers through the Agent's duly-qualified affiliates; and (ii) outside the United States only in ''offshore transactions'' as defined in, and in accordance with, Regulation S under the U.S. Securities Act.

The Agent may also offer the Subscription Receipts outside of Canada and the United States in accordance with the terms of the Equity Agency Agreement and as permitted by applicable laws.

Pursuant to the terms of the Equity Agency Agreement, AMR has agreed to pay the Agent a cash commission, which will be equal to six percent of the aggregate gross proceeds received by AMR from the sale of the AMR Units. AMR has also agreed to pay the Agent's expenses in connection with the Equity Offering, including legal expenses and the Agent's reasonable out-of-pocket expenses. The Equity Agency Agreement also provides that AMR will indemnify the Agent against certain liabilities.

The obligations of the Agent under the Equity Agency Agreement may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated upon the occurrence of certain other events stated in the Equity Agency Agreement. While the Agent has agreed to use its reasonable best efforts to sell the Subscription Receipts offered hereby, the Agent will not be obligated to purchase any Subscription Receipts not sold. Subscriptions will be received for the Subscription Receipts offered hereby subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time. Upon rejection of a subscription, or in the event that the Equity Offering does not close within the time required, the subscription price and the subscription will be returned to the subscriber forthwith without interest or deduction.

AMR has granted to the Agent the Over-Allotment Option to sell up to an aggregate of ● additional Subscription Receipts (representing 15% of the Subscription Receipts). If the Agent exercises such Over-Allotment Option in full, the total price to the public will be Cdn$ ● , the maximum Commission payable to the Agent will be Cdn$ ● and the net proceeds to AMR will be Cdn$ ● . The Agent may exercise such Over-Allotment Option in whole or in part at any time within 30 days of the closing of the Equity Offering to cover over-allotments and for market stabilization purposes. The grant of the Over-Allotment Option and the Subscription Receipts issuable or transferable upon the exercise of such Over-Allotment Option are also qualified for distribution under this prospectus.

There is presently no market through which the Subscription Receipts or the AMR Warrants may be sold and purchasers may not be able to resell the Subscription Receipts purchased under this prospectus or the AMR Warrants issuable upon exchange of the Subscription Receipts. AMR has applied to list the AMR Common Shares issuable upon exchange of the Subscription Receipts and upon exercise of the AMR Warrants on the TSX. Listing will be subject to AMR fulfilling all of the listing requirements of the TSX.

All shareholders of MQI will agree that they will not sell or agree to sell any AMR Common Shares or any securities convertible into AMR Common Shares without the prior consent of the Agent for a period of 180 days from the closing of the MQI Acquisition, such consent not to be unreasonably withheld or delayed.

RISK FACTORS

In addition to the other information in this prospectus, including the risk factors noted in the management's discussion and analysis of AMR and MQI the following factors should be considered carefully in evaluating an investment in the securities offered by this prospectus.

Acquisition of MQI

The MQI Acquisition was entered into by AMR with the expectation that its successful completion will result in long-term strategic benefits. These anticipated benefits will depend in part on whether the operations of AMR and MQI can be integrated in an efficient and effective manner. It is possible that this may not occur as planned, or that the financial benefits may be less than anticipated. In addition, the integration will give rise to restructuring costs and charges and these may be greater than currently anticipated. Efforts to integrate the operations of MQI into AMR's consolidated operations may place significant strain on AMR's management systems and resources and may significantly divert management's attention away from other business concerns, thereby materially adversely impacting AMR's operating results and financial condition. Additional risks associated with the acquisition include the maintenance of uniform standards, controls, procedures and polices and the potential impairment of relationships with employees and customers as a result of integration of new management.

Although AMR has conducted investigations of, and engaged legal counsel and financial advisors to review, the corporate legal, financial and business records of MQI, there may be liabilities of MQI that AMR may not have uncovered in its due diligence prior to the completion of the acquisition of MQI. Liabilities could include regulatory non-compliance and claims from existing or former clients of MQI. Such matters and any other matters that AMR is at this time unaware of, individually or in the aggregate, could have a material adverse affect on AMR's business, financial condition or results from operations.

Substantial Leverage

After giving effect to the MQI Acquisition, AMR will have substantial indebtedness, aggregating approximately $ ● million on a *pro forma* basis as of March 31, 2005. Such indebtedness would constitute approximately ● % of AMR's *pro forma* consolidated capitalization. All of such indebtedness will mature over the next five years, although repayment of the AMR Debentures may be satisfied in AMR Common Shares.

AMR will have to continue to generate significant cash flow to meet its debt service and working capital requirements. If it becomes necessary to refinance all or a portion of its indebtedness, AMR may not be able to do so on commercially reasonable terms or at all. Also, the agreements governing AMR's indebtedness contain a number of restrictive covenants which could limit its ability to incur additional indebtedness, pay dividends, make investments, merge or consolidate with other companies, or enter into new lines of business.

Market for Securities

There is presently no market through which the Subscription Receipts or the AMR Warrants may be sold and purchasers may not be able to resell the Subscription Receipts purchased under this prospectus or the AMR Warrants issuable upon exchange of the Subscription Receipts. AMR has applied to list the AMR Common Shares issuable upon exchange of the Subscription Receipts and upon exercise of the AMR Warrants on the TSX. Listing will be subject to AMR fulfilling all of the listing requirements of the TSX.

Risks Associated with Foreign Operations

AMR and MQI conduct business on a global basis, with factories, offices and customers in multiple countries with the attendant difficulties and risks inherent in doing business internationally, including the burden of complying with multiple and conflicting regulatory requirements, foreign exchange controls, potential restrictions or tariffs on activities that may be imposed, potentially adverse tax consequences and tax risks and political and economic instability. Changes in the political, regulatory and taxation structures of jurisdictions in which AMR operates and in which users are located could have a material adverse effect on AMR's business, revenues, operating results and financial condition.

AMR's and MQI's financial results are reported in U.S. dollars, which is subject to fluctuations in respect of the currencies of the countries in which AMR and MQI operate. Management expects AMR's and MQI's revenues to be earned in a number of different currencies. Accordingly, fluctuations in the exchange rates of world currencies could have a positive or negative effect on AMR's reported results on a consolidated basis. Given the constantly changing currency exposures and the substantial volatility of currency exchange rates, AMR cannot predict the effect of exchange rate fluctuations upon future operating results. There can be no assurance that AMR will not experience currency losses in the future, which could have a material adverse effect on AMR's business, revenues, operating results and financial condition.

In the event of a change in the value of the Chinese Renminbi relative to the U.S. dollar, there is no assurance, due to competitive pressure, of a corresponding change in selling prices of AMR's products.

Political Considerations

AMR and MQI have processing facilities in China. Although the National People's Congress (''NPC'') is the supreme legislative body in China, it operates under the leadership of the Communist Party of China. When the NPC is not in session, the Standing Committee carries out the duties of the NPC. It also supervises the State Council (or cabinet) which is responsible for state administration. The provinces and autonomous regions report directly to the State Council while the four municipalities are administered by the Central PRC government. The four municipalities under central government control are Beijing, Tianjin, Chongqing and Shanghai. The autonomous regions are Inner Mongolia, Guangxi, Ningxia, Xinjiang and Tibet. Hong Kong and Macao are special administrative regions of the PRC.

The value of AMR's investment in JAMR and ZAMR and MQTJ (collectively, the ''Chinese Production Facilities'') may be adversely affected by political, economic and social changes in China. A change in policies by the Chinese government could adversely affect AMR's investments in the Chinese Production Facilities, by, among other factors, changes in laws or regulations or the interpretation thereof, confiscatory taxation, restrictions on currency conversion, imports, exports and sources of supplies, or the expropriation of private enterprises. Although the Chinese government has been pursuing economic reform policies for more than 20 years, no assurance can be given that the government will continue to pursue such policies or that such policies may not be significantly altered, especially in the event of a change in leadership, social or political disruption or unforeseen circumstances affecting China's political, economic and social life. See ''Risk Factors — Legal System in China''.

Legal System in China

Since 1979, many laws and regulations dealing with economic matters, in general, and foreign investment, in particular, have been promulgated in China. In December 1982, the NPC of China amended the Constitution of China to authorize foreign investment and to guarantee ''the lawful right and interests'' of foreign investors in China. Despite the activity and progress in developing the legal system, the PRC has not developed a fully integrated legal system and the array of new laws and regulations may not be sufficient to cover all aspect of economic activities in the PRC. Further, enforcement of existing laws may be uncertain and sporadic, and the implementation and interpretation may be inconsistent. In particular, it has been difficult for companies with significant intellectual property rights, such as MQI, to obtain adequate enforcement in China of laws intended to protect against patent infringement. The Chinese judiciary is relatively inexperienced in enforcing the laws that exist, leading to a higher than usual degree of uncertainty as to the outcome of any litigation. Even where adequate law exists in China, it may be impossible to obtain swift and equitable enforcement of such law or to obtain enforcement of the judgment by a court or another jurisdiction. China's legal system is based on written statutes and, therefore, decided legal cases are without binding legal effect, although they might be followed by judges as guidance. The interpretation of PRC laws may be subject to policy changes reflecting domestic political changes.

As China's legal system develops, the promulgation of new laws, changes to existing laws and the pre-emption of local regulations by national laws may adversely affect foreign investors. The trend of legislation over the past 26 years has, however, significantly enhanced the protection of foreign investment and allowed for more active control by foreign parties of foreign invested enterprises in China. There can be no assurance, however, that the current trend in economic legislation towards promoting the market reforms and experimentation as well as a further ''opening to the outside world'' will not be slowed, curtailed or reversed, especially in the event of a change in leadership, social or political disruption, or unforeseen circumstances affecting China's political, economic or social life. Such a shift could have a material adverse effect upon the business and prospects of AMR.

AMR believes that the Chinese Production Facilities have obtained the governmental approvals necessary to permit them to conduct their businesses. There can be no assurance, however, that further unanticipated approvals will not be required, or that any approvals not heretofore insisted upon by the regulatory authorities will not be required, either of which could impact adversely on the ability of AMR to continue to carry on its business or the rights of the parties to each of the JAMR joint venture contract or the ZAMR joint venture contract.

The Chinese Production Facilities may be subject, in certain instances, to administrative review and approval by various national, provincial and local agencies of the Chinese government. While China has promulgated a law permitting redress to the courts with respect to certain administrative actions, this law appears to be largely untested.

While Chinese law expressly protects the status and rights of Sino-foreign joint ventures and enterprises, the State reserves the right, in certain circumstances, to terminate joint ventures and provide compensation therefor. There can be no assurance, however, that such compensation will be adequate or timely.

Intellectual Property

The ability of MQI (and AMR subsequent to the MQI Acquisition) to maintain its position as the world's leading supplier of Neo powder is dependent on its ability to secure and maintain appropriate patent and other intellectual property rights protection. Although MQI owns patents covering its products and processes that have already been issued, there can be no assurance that additional patents applied for will be obtained, or that any of these patents, once issued, will afford commercially significant protection for its products and processes, or will be found valid if challenged. Moreover, MQI has not obtained patent protection for some of its technology in all foreign countries in which Neo powder and related processes might be manufactured or sold. In any event, the patent laws and enforcement regimes of other countries may differ from those of the United States as to the patentability of Neo powder and the related processes and the degree of protection afforded. As indicated above, enforcement through the Chinese legal system of MQI's patent rights against infringing powder manufacturers has not been effective. Sales of infringing powder has had and may continue to have a material adverse effect on MQI's Neo powder sales.

The strength of MQI's current intellectual property position in the United States results primarily from the essential nature of its fundamental patents covering its manufacturing process for Neo powder. These patents mature from 2006 through 2012, with the most important patents having expiration dates of 2009. While MQI holds a wide range of additional patents and patent applications whose expiration dates extend (and in the case of patent applications, will extend) beyond 2009, none are of an equally essential nature as MQI's fundamental patents, and therefore its competitive position after 2009 is likely to be less strong.

MQI has been engaged in litigation to protect and enforce its patents and other intellectual property rights. In addition, MQI may have to participate in interference or reexamination proceedings before the U.S. Patent and Trademark office, or in opposition, nullity or other proceedings before foreign patent offices, with respect to its patents or patent applications. All of these actions would place MQI's patent portfolio at risk and may result in substantial costs as well as a diversion of management attention. Moreover, if successful, these actions could result in the loss of patent or other intellectual property rights protection for the Neo powder and related processes on which MQI's business strategy depends. AMR (subsequent to the MQI Acquisition) will have to continue to spend money on patent protection.

MQI has asserted its intellectual property rights by instituting legal proceedings against others and will continue to do so in the future. There can be no assurance that MQI will be successful in enforcing its patents in any lawsuits. Defendants in any litigation commenced by MQI to enforce its patents may attempt to establish that its patents are invalid or are unenforceable. Thus, any patent litigation commenced could lead to a determination that one or more of its patents are invalid or unenforceable. If a third party succeeds in invalidating one or more of MQI's patents, that party and others could compete more effectively against MQI. The ability of MQI to derive licensing revenues from products or technologies covered by these patents could also be adversely affected.

In addition, both AMR and MQI rely in part on unpatented proprietary technology, and others may independently develop the same or similar technology or otherwise obtain access to AMR and MQI's unpatented technology. To protect its trade secrets, know-how and other proprietary information, AMR and MQI require employees, consultants, financial advisors and strategic partners to enter into confidentiality agreements. These agreements may not ultimately provide meaningful protection for AMR or MQI's trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure of those trade secrets, know-how or other proprietary information. The problem of misappropriation of trade secrets by former employees is especially acute in China, where enforcement of intellectual property rights has not been adequate.

Until recently, many patent applications were retained in secrecy by the United States Patent Office until and unless a patent was issued. As a result, there may be United States patent applications pending that may be infringed by the use of MQI's technology or a part thereof, thus substantially interfering with the future conduct of MQI's business. In addition, there may be issued patents in the United States or other countries that are pertinent to MQI's business of which MQI is not aware. MQI could be sued by other parties for patent infringement in the future. Such lawsuits could subject MQI to liability for damages that could increase the cost of their products, which might have an adverse affect on MQI's sales.

Plaintiffs in intellectual property cases often seek injunctive relief. Any intellectual property litigation commenced against MQI could impact the company's customers, forcing customers to take actions that could be harmful to their business and thus to MQI's sales, including the following:

- stop selling their products that incorporate or otherwise use technology that contains MQI's allegedly infringing intellectual property;
- attempt to obtain a license to the relevant third-party intellectual property, which may not be available on reasonable terms or at all; or
- attempt to redesign their products to remove MQI's allegedly infringing intellectual property to avoid infringement of the third-party intellectual property.

If MQI's customers are forced to take any of the foregoing actions, they may be unable to manufacture and sell their products that incorporate MQI's technology at a profit or at all. Furthermore, the measure of damages in intellectual property litigation can be complex, and is often subjective or uncertain. If MQI's customers were to be found liable for infringement of proprietary rights of a third party, the amount of damages they might have to pay could be substantial and is difficult to predict. Decreased sales of end products incorporating MQI's technology would adversely effect revenues under existing supply agreements. Any necessity to procure rights to the third-party technology might cause MQI's customers to renegotiate the terms of their supply agreement with MQI to compensate for this increase in their cost of production or, in certain cases, to terminate their agreement with MQI entirely. These developments would also harm MQI's ability to compete for new customers and would adversely affect the terms of the supply agreements MQI could enter into with any new customers.

As is common place in the magnetic powder industry, MQI employs individuals who were previously employed at other companies in the same line of business. To the extent MQI's employees are involved in research areas that are similar to those areas in which they were involved at their former employers, MQI may be subject to claims that such employees or MQI has, inadvertently or otherwise, used or disclosed the alleged trade secrets or other proprietary information of the former employers. Litigation may be necessary to defend against such claims. The costs associated with these actions or the loss of rights critical to its business could negatively impact revenues or cause MQI's business to fail.

Repatriation of Profits and Investment

The remittance of profits out of China by foreign investors and the repatriation of their investments are governed by Chinese regulations. In general, current account foreign exchange transactions, including the remittance of dividends or profits from foreign invested companies out of China by foreign investors, may be undertaken without prior approval from the State Administration of Foreign Exchange, by producing commercial documents evidencing such transactions, provided that they are processed through designated banks licensed to engage in foreign currency transactions. However, foreign exchange transactions for capital account purposes, which include increase, transfer or other disposal of capital invested in the joint ventures by foreign investors and the remittance of investments released through liquidation of joint ventures out of China to foreign investors may be subject to the approval of the State Administration for Exchange Control or its designated local branches and the availability of foreign currency. If there is a deterioration in China's balance of payments or for other reasons, China may impose restrictions on foreign currency remittances abroad.

Under Chinese Joint Venture Laws and the respective joint venture contracts, either JAMR or ZAMR may be liquidated in certain limited circumstances, including the expiry of its respective term or any extension of such term, if the respective joint venture is unable to meet its debts as they fall due, failure of a party to honour its obligations under the joint venture contract or the articles of association or unforeseen circumstances which materially and adversely affect the performance of the joint venture company. Liquidation, if it occurs, will occur in China, in a market where demand for the assets may be limited and in circumstances where it may be difficult to obtain full value for those assets. As a result, there can be no assurance that AMR, in such circumstances, would recover its investment in each of JAMR and ZAMR.

Chinese Economic Considerations

The economy of China is traditionally a planned economy subject to five year annual plans adopted by the Chinese government which set down national economic development goals. Policies of the Chinese government can have significant effects on the economic conditions of China.

The principal participants in China's economy (which, in part, overlap) are enterprises (''State-Owned Enterprises'') wholly-owned by the people of China acting through the agencies of the Chinese government (the ''State''); collective enterprises owned by local groups for which the Chinese government is not responsible for wages or similar obligations (''Collectively-Owned Enterprises''); businesses owned by private individuals or companies (''Privately-Owned Enterprises''); joint-stock companies, including joint-stock companies that are subject to varying degrees of State ownership; and enterprises owned by foreign individuals or foreign companies (''Foreign-Invested Enterprises'' or ''FIEs'').

Although increasing in absolute terms, gross industrial output value contributed by State-Owned Enterprises has been declining in percentage terms due to the more rapid growth of other sectors. The fastest growing sectors of the economy have been joint-stock companies. FIEs with Privately-Owned Enterprises and Collectively-Owned Enterprises are also growing very rapidly.

As part of its reopening to foreign trade in 1978, China embarked upon a policy of allowing foreign investors to establish certain enterprises in China. To implement such policy, the first joint venture law was promulgated in 1979 (and was amended in 2001), which law was subsequently followed by various administrative rules and regulations. Since then, a broad range of related laws, administrative rules and regulations have been adopted that provide a framework within which foreign investment activities can be effectively conducted and regulated. Such foreign enterprises have taken one of three forms — equity joint ventures, contractual or cooperative joint ventures and wholly-owned foreign enterprises.

Equity joint ventures such as JAMR and ZAMR are primarily governed by the provisions of the Law of China on Joint Ventures Using Chinese and Foreign Investments and the regulations promulgated thereunder.

An equity joint venture is a limited liability company jointly established by a foreign investor(s) and Chinese investors and incorporated and registered in China. An equity joint venture company is a ''PRC legal person'' which has the right to own, use and dispose of its property. The parties share in the investment risk and profits of the joint venture in proportion to their respective contributions in the registered capital of the joint venture.

An important element of the Chinese government's reform programs is price reform, which was commenced in 1979 when the government substantially raised agricultural prices and moderately raised prices for textile products and certain raw materials. Prices for precious metals remain subject to government regulation, but the Chinese government is generally pursuing a policy of gradually increasing state-mandated prices to market levels. Although the Chinese government has imposed from time to time measures intended to control increases in the market prices of certain staples in an effort to stabilize economic growth and curb inflation, the Chinese government has indicated its intention to continue its price reform program with the objective of ultimately eliminating all state-mandated prices.

It is expected that China will continue to strengthen its economic and trading relationships with foreign countries and business development in China will follow market forces and rules of economics. While it is expected that this trend will continue, there can be no guarantee that such will be the case.

Tax Considerations

The ''Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises'' (the ''Income Tax Law''), Article 5, stipulates that ''The income tax on enterprises with foreign investment and the income tax which shall be paid by foreign enterprises on the income of their establishments or places set up in China to engage in production or business operations shall be computed on the taxable income at the rate of thirty per cent, and a local income tax shall be computed on the taxable income at the rate of three per cent''. In addition, pursuant to the Income Tax Law and other relevant PRC tax laws and regulations, generally, an FIE is entitled to certain preferential taxation treatments.

According to the commitment made by the PRC to the World Trade Organization, Chinese enterprises, including FIEs, foreign enterprises having business operations in China and individuals will be treated equally in China which will result in the gradual elimination of the preferential tax treatments set forth above for FIEs. Therefore, any decision of the applicable Chinese authorities to reduce or revoke the preferential tax treatment which are currently enjoyed by JAMR, ZAMR and MQTJ may adversely affect the financial position of AMR on a consolidated basis.

In December 1993, China introduced a new system of indirect taxation, effective January 1, 1994. The new system, comprising VATs, consumption tax and business tax, replaced the previous Consolidated Industrial and Commercial Tax System. VAT is an indirect tax assessed on the sellers and importers of goods. In principal, the VAT burden is largely passed on to the ultimate consumers.

Effective May 1, 2005, exports of rare earth products from China are subject to a net VAT charge 17% of the sales value. Prior to May 1, 2005, the VAT charge was offset by a 5% refund resulting in a net expense of 12% of the sales value of the exports. Selling prices to rare earth customers outside of China are being increased to the extent possible to offset impact of the recent elimination of the partial refund. Exports of zirconium products continue to be eligible for the 5% refund.

Although AMR is unaware of any proposed changes, there can be no guarantee that the government will not move to impose or vary other taxes, duties or tariffs in a manner detrimental to the interests of AMR.

Realization of the benefits of AMR's future tax asset is dependent upon generating sufficient future taxable earnings in specific jurisdictions. Due to the uncertain nature of the ultimate realization of the asset, a full valuation allowance was established against the U.S. tax asset. The carryforward period on the 2004, 2003 and 2002 U.S. net operating losses will expire in 2024, 2023 and 2022, respectively.

Environmental Liability Exposure

AMR is subject both to Chinese national and local environmental protection regulations which currently impose a graduated schedule of fees for the discharge of waste substances, require the payment of fines for discharges exceeding the standards, and provide for the closure of any facility which fails to comply with orders requiring it to cease or remedy certain activities causing environmental damage. Both JAMR and ZAMR discharge waste water into the environment. In the case of JAMR, its expansion in 1995 included an upgrading of its waste water processing and treatment procedures, as a result of which its waste water passes local environmental requirements and no fines are payable. JAMR pays an agreed fee once a year for the discharge of waste (during 2003 and 2004 the fee was 100,000 Renminbi but it is expected to be increased to 120,000 Renminbi in 2005). In the case of ZAMR, the plant was designed to make use of the waste water discharge facilities of an adjacent petrochemical complex, which has a fixed monthly fee charge of 50,000 Renminbi. AMR is also obliged to pay a monthly environmental administration fee of 15,000 Renminbi to the Linzi Government. Since the installation of additional water treatment processing equipment in July 2004, the waste water has met the environmental standards for ammonia and chlorine levels. Continued investment in water treatment infrastructure will be required as AMR brings additional production facilities on line. However, there is no assurance that Chinese national or local authorities will not impose additional regulations which would require additional expenditures that may have a material adverse effect on the profitability of the joint ventures.

Supplies of Raw Materials

AMR and MQI are vulnerable to any volatility in the prices of raw materials because it does not currently have long term supply contracts. Although AMR believes there is an abundant supply of rare earth feedstocks for its processing facilities, there is no assurance that the prices of such rare earth feedstocks will not rise dramatically, in which case the increased cost of production may have a material adverse effect on the profit margins of AMR. Such rises in the prices of rare earth feedstocks may be offset by increasing the prices of AMR's products; however, there is no assurance that the market will bear such price increases.

Technological Developments and Product Dependence

Markets for AMR's products are highly competitive and characterized by rapid technological change. AMR's future successes depend upon its ability to continue to provide products which achieve market acceptance. As technologies develop, substitutes may be developed for AMR's products which may have an adverse impact on the marketability of AMR's products. Since AMR specializes in a limited number of products, there is a risk that their replacement by other products may have a material adverse impact on AMR's sales.

Competition

AMR believes its ability to compete successfully depends upon a number of factors including: market presence, low production costs, maintenance and improvement of quality and purity of products, access to capital and the pricing policies of its competitors. Many of AMR's competitors have financial resources, and, in some cases, operational resources, which are substantially in excess of those of AMR.

Customer Dependence

AMR has obtained a substantial portion of its business from a small number of large customers. For the year ended December 31, 2004, 65% of sales were made in Asia and its Japanese trading partner who sells to a number of customers, accounted for 16% of AMR's sales. The loss of key customers could have a material adverse effect upon AMR's future performance.

MQI sells directly to customers and through distributors. Sales to MQI's three largest customers, including its principal Asian distributor, represented 66% of MQI's sales in 2004. The loss of a key customer could have a material adverse effect on MQI's future performance.

Joint Venture Arrangements

Co-operation and agreement among AMR's joint venture partners is an important factor for the operational and financial success of JAMR and ZAMR. In certain circumstances, AMR is not able to control the decision making process of the joint ventures without the concurrence of the joint venture partners. AMR does, however, through contractual provisions and representatives appointed by it, have the ability to control most material decisions. Disputes among the partners over joint venture obligations or other matters, or the early termination or non-renewal of the joint venture agreements, could materially adversely affect the businesses of AMR. However, AMR has not to date experienced any significant disagreements with its partners.

Risks of Operations and Insurance

AMR's and MQI's production and distribution activities are subject to natural hazards and uncertainties including fires, equipment failure and other risks which can result in personal injuries, loss of life and property damage. Management believes that the current Chinese insurance coverage of MQI's production facility is as extensive as MQI had when located in the United States, however, coverage for AMR and MQI's distribution activities, while in line with industry practice in China, are somewhat less extensive than would be carried by international rare earths manufacturers. AMR and MQI intend to review the need for additional coverage. No assurance can be given that such coverage can be obtained in China, or if obtainable, that it can be obtained at reasonable cost.

Reliability of Information on China

While the information contained herein regarding China has been obtained from a variety of government and private sources, independent verification of this information is not available and there can be no assurance that the sources from which it is taken or on which it is based are wholly reliable. Official statistics in relation to China may be produced on a basis different to that used in Western countries. Accordingly, no assurance can be given as to the completeness or reliability of available information regarding China as presented in certain of the risk factors described in this section.

Financial Resources

AMR's future capital requirements will depend on numerous factors, including the rate of market acceptance of AMR's products and services, its ability to expand its customer base and potential acquisitions. In the future, AMR may require additional funds and may attempt to raise additional funds through equity or debt financings, collaborative arrangements with commercial partners or from other sources. Any additional equity financing may be dilutive to holders of AMR Common Shares, and any debt financing, if available, may require restrictions to be placed on AMR's future financing and operating activities. AMR may be unable to obtain additional financing on acceptable terms if market and economic conditions, the financial condition or operating performance of AMR or investor sentiment are unfavourable. AMR's inability to raise further funds may hinder its ability to grow in the future.

Possible Volatility of Stock Price

The market price of the AMR Common Shares has been and may be subject to significant fluctuation in response to numerous factors, including variations in the annual or quarterly financial results of AMR or its competitors, timing of announcements of acquisitions by AMR or its competitors, conditions in the economy in general or in the rare earths, zirconium and magnetic powders industries in particular, changes in applicable laws and regulations and other factors. Moreover, from time to time, the stock market experiences significant price and volume volatility that may affect the market price of the AMR Common Shares for reasons unrelated to AMR's performance. No prediction can be made as to the effect, in any, that future sales of AMR Common Shares or the availability of shares for future sales (including shares issuable upon the exercise of stock options) will have on the market price of the AMR Common Shares prevailing from time to time. Sales of substantial numbers of such shares or the perception that such sales could occur, could adversely affect the prevailing price of the AMR Common Shares.

Hiring and Retention of Employees

AMR's future success is dependent on certain key management and technical personnel. The loss of key personnel or the inability to attract and retain highly qualified personnel, consultants or advisors could have a material adverse effect on AMR's business, revenues, operating results and financial condition. AMR faces competition for such personnel from other companies and organizations. There can be no assurance that AMR will be successful in hiring or retaining qualified personnel. The inability to attract and retain the necessary management, technical, and sales and marketing personnel could have a material adverse effect on AMR's business, revenues, operating results and financial condition.

It is anticipated that the terms of the refinancing of MQII's term debt will include a provision which would require employment agreements to be entered into with certain key employees. In addition, it is anticipated that the terms of the re-financing will also provide that an event of default shall have occurred if four or more of the key employees are no longer employed by AMR or a subsidiary of AMR or if both Mr. Cox and Mr. Gundy are no longer employed by AMR or a subsidiary of AMR. There is no guarantee that AMR or its subsidiaries will be able to ensure the continued employment of such key employees. In the event that the departure of any of the key employees causes an event of default it may have a material adverse effect on the business and financial condition of AMR.

Management of Growth

The expansion of AMR's business and the increasing complexity of its production methods and products, coupled with the rapid evolution of AMR's markets, may place a significant strain on AMR's management and operational resources and increase demands on its internal systems, procedures and controls. AMR's future operating results will depend on management's ability to develop and manage growth, hire and retain significant numbers of qualified employees, accurately forecast revenues and control expenses. A decline in the growth rate of revenues without a corresponding and timely slowdown in expense growth or the inability of AMR to manage or build future growth efficiently could have a material adverse effect on AMR's business, revenues, operating results and financial condition.

Future Acquisitions

As part of AMR's business strategy, AMR may make acquisitions of, or significant investments in, businesses that offer complementary products and services. Any such acquisitions or investments will be accompanied by the risks commonly encountered in acquisitions of businesses. Such risks include, among other things, the difficulty of assimilating the operations and personnel of the acquired businesses, the potential disruption of AMR's ongoing business, the distraction of management from AMR's business, the inability of management to maximize the financial and strategic position of AMR and acquired businesses, the maintenance of uniform standards, controls, procedures and policies and the impairment of relationships with employees and customers as a result of any integration of new management personnel. In addition, acquisitions could result in large one-time write-offs or the creation of goodwill or other intangible assets that could result in significant amortization expenses. The failure to successfully evaluate, negotiate, effect and integrate an acquisition transaction could have a material adverse effect on AMR's business, revenues, operating results and financial condition, particularly in the case of a larger acquisition. Consideration paid for future acquisitions, if any, could be in the form of cash, shares, rights to purchase shares or a combination thereof. Dilution to existing AMR Shareholders and to earnings per share may occur in connection with any such future acquisitions.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS PERTAINING TO THE EQUITY OFFERING

In the opinion of Fogler, Rubinoff LLP, counsel to AMR, and Ogilvy Renault LLP, counsel to the Agent the following is, as of the date hereof, a summary of the principal Canadian federal income tax considerations under the *Income Tax Act* (Canada) (the ''Tax Act'') generally applicable to a holder who acquires Subscription Receipts pursuant to the Equity Offering, and AMR Common Shares and AMR Warrants in exchange for Subscription Receipts and who, for purposes of the Tax Act, at all relevant times, holds such Subscription Receipts, AMR Warrants and AMR Common Shares as capital property and deals at arm's length with AMR and the Agent (a ''Holder'').

This summary is based upon the current provisions of the Tax Act and the regulations thereunder in force as of the date hereof (the ''Regulations''), and counsel's understanding of the current published administrative and assessing practices and policies of the Canada Revenue Agency. This summary takes into account all specific proposals to amend the Tax Act and the Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the ''Proposed Amendments'') and assumes that all Proposed Amendments will be enacted in the form proposed. However, there can be no assurance that the Proposed Amendments will be enacted in their current form or at all. This summary does not otherwise take into account or anticipate any changes in the law or administrative or assessing practice or policy whether by legislative, regulatory, administrative, or judicial action, nor does it take into account tax legislation or considerations of any province, territory or foreign jurisdiction, which may differ significantly from those discussed herein.

This summary is of a general nature only and is not, and is not intended to be, legal or tax advice to any particular Holder. This summary is not exhaustive of all federal income tax considerations. Accordingly, prospective purchasers should consult their own tax advisors having regard to their own particular circumstances.

Residents of Canada

The following portion of the summary applies to a Holder who at all relevant times is resident or deemed to be resident in Canada for the purposes of the Tax Act (a ''Resident Holder''). Certain Resident Holders whose AMR Common Shares might not otherwise be capital property, may, in certain circumstances, be entitled to have the AMR Common Shares and all other ''Canadian securities'', as defined in the Tax Act, treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. This summary is not applicable to a purchaser that is a ''financial institution'', as defined in the Tax Act, for purposes of certain rules applicable to securities held by financial institutions, ''specified institutions'', as defined by the Tax Act, or a holder an interest in which would be a ''tax shelter investment'' as defined in the Tax Act. Such purchasers should consult their own tax advisors.

Termination of Subscription Receipts

If the Escrow Release Condition is not satisfied on or before the Termination Date, a Resident Holder will receive the issue price paid for the Subscription Receipt and the Resident Holder's share of interest earned on the Escrowed Funds (less any applicable withholding tax). The Resident Holder will not generally realize any income, gain or loss on the repayment to the Holder of the issue price.

Where a Resident Holder is entitled to receive the Resident Holder's share of interest earned on the Escrowed Funds, a Resident Holder that is a corporation, partnership, unit trust or any trust of which a corporation or a partnership is a beneficiary will be required to include in computing income for a taxation year any interest accrued to the Resident Holder on the Escrowed Funds to the end of the Resident Holder's taxation year, or that is receivable or received by the Resident Holder before the end of that taxation year, except to the extent that such interest was included in computing the Resident Holder's income for a preceding taxation year. Any other Resident Holder that is entitled to receive the Resident Holder's share of interest earned on the Escrowed Funds will be required to include in income for a taxation year such interest as is received or receivable by the Resident Holder in that taxation year, depending on the method regularly followed by the Resident Holder in computing income.

Disposition of Subscription Receipts

Generally, on a disposition or deemed disposition of a Subscription Receipt (other than on an acquisition of AMR Common Shares and AMR Warrants pursuant to the terms thereof), a Resident Holder will realize a capital gain (or capital loss) equal to the amount, if any, by which the proceeds of the disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to the Resident Holder of the Subscription Receipt immediately before the disposition or deemed disposition.

Generally, a Resident Holder is required to include in computing income for a taxation year one-half of the amount of any capital gain (a ''taxable capital gain''). Subject to and in accordance with the provisions of the Tax Act, a Resident Holder is required to deduct one-half of the amount of any capital loss (an ''allowable capital loss'') realized in a taxation year from taxable capital gains realized by the Resident Holder in the year and allowable capital losses in excess of taxable capital gains may be carried back and deducted in any of the three preceding taxation years or carried forward an deducted in any subsequent taxation year against net taxable capital gains realized in such years. Capital gains realized by an individual will be relevant in computing possible liability for alternative minimum tax.

Acquisition of AMR Common Shares and AMR Warrants Pursuant to Subscription Receipts

A Resident Holder of a Subscription Receipt will not realize any gain or loss upon the acquisition of an AMR Common Share and an AMR Warrant pursuant to the provisions of such Subscription Receipt. The adjusted cost based to a Resident Holder of an AMR Common Share and an AMR Warrant acquired pursuant to a Subscription Receipt will generally be determined by averaging the cost of such AMR Common Shares and AMR Warrants with the adjusted cost base of all other AMR Common Shares and AMR Warrants owned by the Resident Holder as capital property at that time.

Allocation of Purchase Price

Purchasers of Subscription Receipts will be required to allocate the cost of each Subscription Receipt between the AMR Common Shares and the AMR Warrants on a reasonable basis in order to determine the respective costs for the purposes of the Tax Act. AMR will also be required to allocate the amount received for each Subscription Receipt between the AMR Common Shares and the AMR Warrants on a reasonable basis for the purposes of the Tax Act. For its purposes, AMR will allocate $ ● to each AMR Common Share and the balance to each AMR Warrant issuable under each Subscription Receipt. AMR believes that such allocation is reasonable; however, such allocation will not be binding on the Canada Revenue Agency.

Disposition of AMR Common Shares and AMR Warrants

Generally, on disposition or deemed disposition of an AMR Common Share or an AMR Warrant, a Resident Holder will realize a capital gain (or capital loss) equal to the amount, if any, by which the proceeds of disposition, net of any reasonable cost of disposition, exceed (or are less than) the adjusted cost base to the Resident Holder of the AMR Common Share or the AMR Warrant, as the case may be, immediately before the disposition or deemed disposition.

The taxation of capital gains and losses is described above under ''Disposition of Subscription Receipts''.

The amount of any capital loss realized by a Resident Holder that is a corporation on disposition of an AMR Common Share may be reduced by the amount of any dividends received or deemed to be received by such Resident Holder on the AMR Common Share subject to and in accordance with the provisions of the Tax Act. Similar rules may apply to a partnership or trust of which a corporation, trust or partnership is a member of beneficiary.

Exercise or Expiry of AMR Warrants

No gain or loss will be realizable by a Resident Holder of an AMR Warrant upon the exercise of such AMR Warrant. When an AMR Warrant is exercised, the holder's cost of the AMR Common Share acquired thereby will be the aggregate of the holder's adjusted cost base of the AMR Warrant and the exercise price paid for the AMR Common Shares. The cost to a Resident Holder of an AMR Common Share acquired on the exercise of an AMR Warrant must be averaged with the adjusted cost base (determined immediately before the exercise of the AMR Warrant) of all other AMR Common Shares held by the Resident Holder as capital property at the time of exercise of the AMR Warrant. In the event of the expiry of an unexercised AMR Warrant, the AMR Warrant holder will realize a capital loss equal to the adjusted cost base to him or her of the AMR Warrant.

Taxation of Dividends

A Resident Holder will be required to include in computing its income for a taxation year any dividends received, or deemed to be received, by it on the AMR Common Shares. In the case of a Resident Holder who is an individual (other than certain trusts), such dividends will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received from taxable Canadian corporations. Taxable dividends received by an individual will be relevant in computing possible liability for alternative minimum tax. A dividend received or deemed to be received by a Resident Holder that is a corporation will generally be deductible in computing the corporation's taxable income.

A ''private corporation'' as defined in the Tax Act, or any other corporation controlled, whether because of a beneficial interest in one or more trusts or otherwise, by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts) will generally be liable to pay a refundable tax of $33\frac{1}{3}$% under Part IV of the Tax act on dividends received or deemed to be received on the AMR Common Shares to the extent such dividends are deductible in computing taxable income for the year.

Additional Refundable Tax

A Resident Holder that is a Canadian controlled private corporation as defined in the Tax Act may be liable to pay an additional $6\frac{2}{3}$% refundable tax on certain investment income, including taxable capital gains and interest.

Non-Resident Holders

The following portion of the summary applies to Holders who, at all relevant times, for purposes of the Tax Act and any applicable income tax convention, are not, and are not deemed to be resident in Canada and do not use or hold, and will not be deemed to use or hold, the Subscription Receipts, AMR Warrants or AMR Common Shares in a business carried on in Canada (a ''Non-Resident Holder''). Special rules, which are not discussed in this summary, may apply to a holder that is an insurer that carries on an insurance business in Canada and elsewhere. Such holders should consult their own tax advisors.

Termination of Subscription Receipts

If the Escrowed Funds are returned to Holders, a Non-Resident Holder may be subject to Canadian withholding tax under the Tax Act on amounts of interest paid or credited to the Non-Resident Holder. The rate of withholding tax is 25%, although such rate may be reduced under the provisions of an applicable income tax convention between Canada and the Non-Resident Holder's country of residence.

Acquisition of AMR Common Shares and AMR Warrants Pursuant to Subscription Receipts

A Non-Resident Holder of a Subscription Receipt will not realize any gain or loss upon the acquisition of an AMR Common Share or an AMR Warrant pursuant to the provisions of such Subscription Receipt.

Taxation of Dividends

Dividends received or deemed to be received by a Non-Resident Holder of the AMR Common Shares will be subject to Canadian withholding tax under the Tax Act. The rate of withholding tax is 25%, although such rate may be reduced under the provisions of an applicable income tax convention between Canada and the Non-Resident Holder's country of residence.

Disposition of Subscription Receipts, AMR Warrants and AMR Common Shares

A Non-Resident Holder will generally not be subject to a tax under the Tax Act in respect of any gain realized on the disposition or deemed disposition of a Subscription Receipt, an AMR Warrant or a AMR Common Share, unless the Subscription Receipt, AMR Warrant or AMR Common Share, as the case may be, constitutes ''taxable Canadian property'' of the Non-Resident Holder. Provided the AMR Common Shares are listed on a prescribed stock exchange for the purposes of the Tax Act (which includes the TSX) at the relevant time, the Subscription Receipts, AMR Warrants and AMR Common Shares, as the case may be, will not constitute ''taxable Canadian property'' to a Non-Resident Holder unless the Non-Resident Holder, persons with whom the Non-Resident Holder does not deal with at arm's length, or the Non-Resident Holder together with such persons have owned 25% or more of the issued shares of any class of shares of AMR at any time during the sixty-month period that ends at the relevant time.

Exercise or Expiry of AMR Warrants

No gain or loss will be realizable by a Non-Resident Holder of an AMR Warrant upon the exercise of such AMR Warrant. When an AMR Warrant is exercised, the holder's cost of the AMR Common Share acquired thereby will be the aggregate of the Non-Resident Holder's adjusted cost base of the AMR Warrant and the exercise price paid for the AMR Common Shares. The cost to a Non-Resident Holder of an AMR Common Share acquired on the exercise of an AMR Warrant must be averaged with the adjusted cost base (determined immediately before the exercise of the AMR Warrant) of all other AMR Common Shares held by the Non-Resident Holder as capital property at the time of exercise of the AMR Warrant. In the event of the expiry of an unexercised AMR Warrant, the AMR Warrant holder will realize a capital loss equal to the adjusted cost base to him or her of the AMR Warrant.

PURCHASERS' STATUTORY RIGHT OF WITHDRAWAL AND RESCISSION

Securities legislation in certain provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two Business Days after receipt, or deemed receipt of a prospectus and any amendment thereto. Securities legislation in certain of these provinces further provides a purchaser with remedies for rescission or, in some provinces, damages where the prospectus or any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages must be exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

In addition, original purchasers of Subscription Receipts will have the benefit of a contractual right of rescission exercisable following the issuance of the AMR Common Shares and AMR Warrants to such purchasers upon exchange of the Subscription Receipts. See ''Details of the Equity Offering — Subscription Receipts''.

LEGAL EXPERTS

Certain legal matters related to the Equity Offering have been passed upon on behalf of AMR by Fogler, Rubinoff LLP, Toronto, Ontario and on behalf of the Agent by Ogilvy Renault LLP, Toronto, Ontario. At the date hereof, the partners and associates of Fogler, Rubinoff LLP and the partners and associates of Ogilvy Renault LLP, as a group, own beneficially, directly or indirectly, less than one percent, respectively, of the securities of AMR.

GLOSSARY OF TERMS

''**Agent**'' means GMP Securities Ltd., in its capacity as agent in connection with the Equity Offering;

''**alloy**'' means a substance composed of two or more metals;

''**AMM**'' means AMM International Corp.;

''**AMM Limited**'' means Advanced Magnetic Materials Limited;

''**AMMT**'' means Advanced Magnetic Materials (Thailand) Co. Ltd.;

''**AMR**'' means AMR Technologies Inc., and all of its subsidiaries;

''**AMR Common Shares**'' means the common shares in the capital of AMR;

''**AMR Debentures**'' means the convertible senior subordinated debentures offered by way of private placement pursuant to the Debt Offering;

''**AMR International**'' means AMR International Corp.

''**AMR Shareholder Meeting**'' means a special meeting of AMR Shareholders called for the purposes of considering the AMR Shareholder Resolution;

''**AMR Shareholder Resolution**'' means the shareholder resolution to be considered at the AMR Shareholder Meeting regarding the issuance of a certain number of AMR Common Shares as consideration in connection with the MQI Acquisition;

''**AMR Shareholders**'' means holders of AMR Common Shares;

''**AMR Stock Option Plan**'' means AMR's Stock Option Plan;

''**AMR Unit**'' means a unit in the capital of AMR comprising one AMR Common Share and one-half of one AMR Warrant;

''**AMR Warrant**'' means an AMR Common Share purchase warrant that entitles the holder thereof to purchase one AMR Common Share prior to the third anniversary of its issuance at an exercise price of Cdn$ ● per AMR Common Share;

''**AMR Warrant Indenture**'' means the warrant indenture dated ●, 2005 between AMR and Computershare Trust Company of Canada relating to the AMR Warrants;

''**atomic number**'' means the number of positive charge carried by the nucleus of an atom. It also identifies an element's position in the periodic table. Yttrium has atomic number 39 while the rare earths fall between atomic numbers 57 to 71;

''**automotive catalytic converters**'' are devices found in an automobile's exhaust system which remove harmful gases formed during the combustion of petrol;

''**bastnaesite**'' is a mineral containing lighter rare earths and minimal amounts of heavy rare earths occurring as fluorocarbonates;

''**Board**'' means the board of directors of AMR;

''**Business Day**'' means a day, other than Saturdays, Sundays and statutory holidays, when the banks conducting business in the City of Toronto are generally open for the transaction of banking business;

''**CAGR**'' means compound average growth rate;

''**calendering**'' means to extrude by pressing between rollers or plates;

''**carbonates**'' are chemical compounds which have the group CO3 as the anion. For example, Ce2(CO3)3 is cerium carbonate;

''**catalyst**'' means a substance that increases the rate of a chemical reaction without being consumed itself;

''**China**'' or ''**PRC**'' means the People's Republic of China;

''**Closing Date**'' means such date or dates that AMR and the Agent mutually determine to close the sale of the Subscription Receipts offered pursuant to this prospectus;

‘‘**Commission**’’ means a cash commission fee of 6% of the aggregate gross proceeds from the sale of the Subscription Receipts pursuant to the Equity Offering to be paid to the Agent;

‘‘**Cooperation Agreement**’’ means the cooperation master agreement between MQI and a subsidiary of San Huan;

‘‘**co-precipitate**’’ means a solid mixture of two or more elements at the molecular level produced by simultaneous precipitation from a mixed solution;

‘‘**Credit Agreement**’’ means MQI’s credit agreement dated June 25, 2004 among MQI, Bear Stearns Corporate Lending Inc., as administrative agent, and the lenders named therein;

‘‘**Debenture Indenture**’’ means the indenture dated ● , 2005 among AMR, the Agent and Computershare Trust Company of Canada, as trustee relating to the Debt Offering;

‘‘**Debt Offering**’’ means the concurrent offering by way of private placement of AMR Debentures;

‘‘**Debt Agency Agreement**’’ means the agency agreement dated ● , 2005 between the Agent and AMR relating to the Debt Offering;

‘‘**Decision Document**’’ means an MRRS decision document issued by one of the Securities Commissions in accordance with National Policy 43-201, ‘‘Mutual Reliance Review System for Prospectuses and AIFs’’ evidencing that receipts for this prospectus have been issued by all of the Securities Commissions;

‘‘**elutriation**’’ means to purify, separate or remove by washing

‘‘**Equity Agency Agreement**’’ means the agency agreement dated ● , 2005 between the Agent, AMR and MQI relating to the Equity Offering;

‘‘**Equity Offering**’’ means the offering of ● Subscription Receipts as described in this prospectus;

‘‘**Equity Offering Price**’’ means $ ● per Subscription Receipt;

‘‘**Escrow Agent**’’ means Computershare Trust Company of Canada in its capacity as escrow agent pursuant to the Subscription Receipts Agreement;

‘‘**Escrowed Funds**’’ means the gross proceeds from the sale of the Subscription Receipts to be held in escrow pursuant to the terms of the Subscription Receipts Agreement;

‘‘**Escrow Release Condition**’’ means the conditions to the release of the proceeds of the Equity Offering held in escrow pursuant to the Subscription Receipts Agreement being that: (i) all conditions and other matters relating to the closing of the MQI Acquisition have been fulfilled to the satisfaction of AMR and the Agent; (ii) all conditions and other matters relating to the Debt Offering have been fulfilled to the satisfaction of AMR and the Agent; and (iii) all conditions and other matters relating to the refinancing of the outstanding term debt of MQII have been fulfilled to the satisfaction of AMR and the Agent;

‘‘**extruding**’’ means shaping metals or powders, usually mixed with polymers, by forcing them through a die;

‘‘**GAAP**’’ means Canadian generally accepted accounting principles;

‘‘**ion adsorption clay**’’ is a common name given to highly weathered mixed rare earth minerals from which the heavier rare earths and yttrium may be recovered;

‘‘**JAMR**’’ means Jiangyin Jia Hua Advanced Material Resources Co., Ltd., AMR’s joint venture in Jiangyin, Jiangsu Province in China;

‘‘**Key Person Support Agreement**’’ means the support agreement dated ● , 2005 among certain members of AMR management and of the Board and MQI;

‘‘**lanthanide elements**’’ comprise the series of inner-transition elements in which the number of 4f electrons increases from 1 to 14, also called rare earths. They are the elements with atomic numbers 57 to 71. Due to the similar properties displayed by yttrium, it is included in this series;

‘‘**leaching**’’ is a chemical processing step wherein one or more of the solid materials present is converted to a form which is easily dissolved in water, usually by the addition of acid in the rare earth industry;

‘‘**LIBOR**’’ means London interbank rate;

‘‘**Lynas**’’ means Lynas Corporation Ltd., a corporation organized and existing under the laws of Western Australia.

‘‘**monazite**’’ is a mineral containing mainly light rare earth elements as phosphates. The mineral also contains thorium orthophosphate which is a radioactive species;

‘‘**MQI**’’ means Magnequench, Inc.;

‘‘**MQI Acquisition**’’ means the acquisition of the outstanding shares of MQI pursuant to the Transaction Agreement;

‘‘**MQI Debt Facility**’’ means the senior debt facility of MQI or one or more of its subsidiaries as indicated in the MQI Debt Facility Term Sheet;

‘‘**MQI Debt Facility Credit Agreement**’’ means the credit agreement dated ● , 2005 among MQI, ● and ● relating to the MQI Debt Facility;

‘‘**MQI Debt Facility Term Sheet**’’ means the indicative term sheet relating to the MQI Debt Facility;

‘‘**MQII**’’ means Magnequench International, Inc.;

‘‘**MQI Shares**’’ means the voting and non-voting common shares in the capital of MQI;

‘‘**MQTJ**’’ means Magnequench (Tianjin) Co., Ltd.;

‘‘**mT**’’ means metric tonnes;

‘‘**nanotechnology**’’ means the technology of creating materials, devices and systems at the atomic, molecular or macromolecular range of 1-100 nanometers. (1 nanometer = 1 billionth of a metre);

‘‘**Neo**’’ means neodymium iron boron;

‘‘**Neo powder**’’ refers to the resultant material, produced by processing an alloy of Neo by melt spinning or atomization and which is used mainly in the production of bonded Neo magnets;

‘‘**Net working capital**’’ means the current assets (excluding cash and assets of operations held for sale or discontinued operations) less current liabilities (excluding short and long term debt components, reserves for facility closures, and liabilities of operations held for sale or discontinued operations), computed in accordance with GAAP and as set out in the balance sheets of AMR or MQI, as applicable.

‘‘**organic**’’ refers to chemical compounds that contain carbon;

‘‘**Over-Allotment Option**’’ means the option granted to the Agent pursuant to the Equity Agency Agreement whereby the Agent may sell an aggregate of ● additional Subscription Receipts (representing 15% of the Subscription Receipts) at the Equity Offering Price and which is exercisable within 30 days of the closing of the Equity Offering;

‘‘**oxalates**’’ are chemical compounds with the group (C2O4) as the anion. These are normally formed by reacting materials with oxalic acid. For example, La2(C2O4)3 is lanthanum oxalate;

‘‘**PC**’’ means personal computer;

‘‘**PDA**’’ means personal data assistant;

‘‘**petroleum fluid cracking catalysts**’’ are catalysts which aid in the splitting of heavy hydrocarbons such as crude or heavy oil into lighter organic compounds such as gasoline;

‘‘**pH**’’ is a measure of acidity or alkalinity;

‘‘**platinum group metals**’’ are platinum, paladium and rhodium;

‘‘**phosphors**’’ are powders which produce light in the visible range of the spectrum when excited by electric discharges;

‘‘**Proposed Amendments**’’ means all specific proposals to amend the Tax Act and the Regulations publicly announced by the Minister of Finance (Canada), prior to the date hereof;

‘‘**R&D**’’ means research and development;

‘‘**rare earth chloride**’’ or ‘‘**RECl**’’ is a mixture of light rare earth elements which have been converted to chlorides, usually by dissolving them in hydrochloric acid;

‘‘**rare earth oxide**’’ or ‘‘**REO**’’ is also known as Total Rare Earth Oxides and is the standard form and unit of measurement of rare earths. This is an indication of the amount of rare earth contained in a material. It is calculated by converting all rare earth values to their oxide equivalent and summing them;

‘‘**Release Notice**’’ means the joint notice of AMR and the Agent to the Escrow Agent pursuant to the Subscription Receipts Agreement;

‘‘**Rights Plan Termination Time**’’ means the time at which the right to exercise Rights shall terminate pursuant to the terms of the AMR Shareholder Rights Plan;

‘‘**Selling Firms**’’ means licensed dealers, brokers and investment dealers retained by the Agent as sub-agent to assist in the placement of subscriptions for Subscription Receipts under the Equity Offering and as retained by the Agent to assist in the placement of the Subscription Receipts;

‘‘**sintered**’’ means to have become a coherent mass by heating without melting;

‘‘**solid-oxide fuel cells**’’ are energy conservation systems, which convert chemical to electric energy directly. In essence, fuel cells are similar to batteries except that where batteries run down and become depleted, fuel cells are continually replenished with fuel and are able to provide a continuous supply of electric power;

‘‘**solvent extraction**’’ is a counter current stage separation process which depends upon relative differences in material solubilities to place them in different liquid phases. These phases are subsequently separated by virtue of their differing densities;

‘‘**Subscriber**’’ means a person or other entity that subscribes for Subscription Receipts under the Equity Offering;

‘‘**Subscription Receipts Agreement**’’ means the subscription receipts agreement dated ● , 2005 between AMR, the Agent, and Computershare Trust Company of Canada;

‘‘**Subscription Receipts**’’ means the subscription receipts of AMR offered for sale pursuant to the Equity Offering;

‘‘**Support Agreement**’’ means the support agreement dated ● , 2005 between the Vendors and AMR;

‘‘**Tax Act**’’ means the *Income Tax Act* (Canada) as amended from time to time;

‘‘**Termination Time**’’ means the earlier of (i) 5:00 p.m. (Toronto time) on ● , 2005, and (ii) the time the agreements governing the terms of the MQI Acquisition are terminated;

‘‘**Transaction Agreement**’’ means the transaction agreement dated June 6, 2005 between AMR and MQI;

‘‘**TSX**’’ means the Toronto Stock Exchange;

‘‘**U.S. Securities Act**’’ means the United States *Securities Act of 1933* as amended;

‘‘**VAT**’’ means value-added tax;

‘‘**Vendors**’’ the vendors of all of the shares in the capital of MQI;

‘‘**WWSM**’’ means Wuxi Te ZhongCia Liao;

‘‘**xenotime**’’ is a mineral which contains mainly heavier rare earth elements occurring as orthophosphates;

‘‘**ZAMR**’’ means Zibo Jia Hua Advanced Material Resources Co., Ltd., AMR’s joint venture in Zibo, Shandong Province in China.

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AUDITORS' CONSENT

We have read the prospectus of AMR Technologies Inc. (''AMR'') dated ● , 2005 relating to the offering of subscription receipts of AMR. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned prospectus of our report to the directors of AMR on the consolidated balance sheets of AMR as at December 31, 2004 and 2003, and the consolidated statements of operations, retained earnings (deficit) and cash flows for each of the years in the three-year period ended December 31, 2004. Our report is dated March 1, 2005, except as to note 23 which is as of ● , 2005.

Toronto, Canada
● , 2005

Chartered Accountants

PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

AMR Technologies Inc.

For the Year Ended December 31, 2004 and Three Months Ended March 31, 2005

COMPILATION REPORT ON PRO FORMA FINANCIAL STATEMENTS

To the Directors of
AMR TECHNOLOGIES INC.

We have read the accompanying unaudited pro forma consolidated balance sheet of AMR Technologies Inc. (the ''Company'') as at March 31, 2005 and the unaudited proforma consolidated statement of operations for the three month period ended March 31, 2005 and for the year ended December 31, 2004, and have performed the following procedures.

1. Compared the figures in the columns captioned ''AMR Technologies Inc.'' to the unaudited consolidated financial statements of the Company as at March 31, 2005 and for the three month period then ended, and the audited consolidated financial statements of the Company for the year ended December 31, 2004, respectively, and found them to be in agreement.

2. Compared the figures in the columns captioned ''Magnequench'' to the unaudited combined financial statements of Magnequench as at March 31, 2005 and for the three month period then ended, and the audited combined statements of Magnequench for the year ended December 31, 2004, respectively and found them to be in agreement.

3. Made enquires of certain officials of the Company who have responsibility for financial and accounting matters about:

   (a) the basis for determination of the unaudited pro forma adjustments; and

   (b) whether the unaudited pro forma consolidated financial statements comply as to form in all material respects with the requirements of Canadian securities legislation.

   The officials:

   (a) described to us the basis for determination of the unaudited pro forma adjustments, and

   (b) stated that the unaudited pro forma consolidated financial statements comply as to form in all material respects with the requirements of Canadian securities legislation.

4. Read the notes to the unaudited pro forma consolidated financial statements and found them to be consistent with the basis described to us for determination of the unaudited pro forma adjustments.

5. Recalculated the application of the unaudited pro forma adjustments to the aggregate of the amounts in the columns captioned ''AMR Technologies Inc.'' and ''Magnequench'' as at March 31, 2005 and for the three month period then ended, and for the year ended December 31, 2004 and found the amounts in the column captioned ''AMR Technologies Inc. Pro Forma Consolidated'' to be arithmetically correct.

A pro forma financial statement is based on management's assumptions and adjustments which are inherently subjective. The foregoing procedures are substantially less than either an audit or a review, the objective of which is the expression of assurance with respect to management's assumptions, the unaudited pro forma adjustments, and the application of the adjustments to the historical financial information. Accordingly, we express no such assurance. The foregoing procedures would not necessarily reveal matters of significance to the unaudited pro forma consolidated financial statements, and we therefore make no representation about the sufficiency of the procedures for the purposes of a reader of such statements.

Toronto, Ontario
● , 2005

Chartered Accountants

AMR Technologies Inc.

PRO FORMA CONSOLIDATED BALANCE SHEET

As at March 31, 2005

(Unaudited — See Compilation Report) (in thousands of United States dollars)

	AMR Technologies Inc.	Magnequench	Pro Forma Adjustments	Reference to Note 2	AMR Technologies Inc. Pro Forma Consolidated
Assets					
Current Assets					
Cash and cash equivalents	3,521	4,282	●	(b)	●
			●	(c)	
			●	(d)	
			●	(e)	
			●	(f)	
			●	(g)	
Restricted cash	914	—			914
Trade accounts receivable	12,200	6,988			19,188
Royalty and licensing income receivable	—	473			473
Inventory	17,238	7,492	●	(a)	●
Other current assets	565	3,300			3,865
Assets of operations held for sale	—	299			299
Total current assets	34,438	22,834	●		●
Property, plant and equipment	16,142	33,446	●	(a)	●
Patents and other intangible assets	—	7,134	●	(a)	●
Goodwill	—	23,133	●	(a)	●
Deferred financing costs	—	5,542	●	(e)	●
			●	(f)	●
Other assets	702	8,047	●	(g)	●
Total assets	51,282	100,136	●		●

See accompanying notes

AMR Technologies Inc.

PRO FORMA CONSOLIDATED BALANCE SHEET
As at March 31, 2005
(Unaudited — See Compilation Report) (in thousands of United States dollars)

	AMR Technologies Inc.	Magnequench	Pro Forma Adjustments	Reference to Note 2	AMR Technologies Inc. Pro Forma Consolidated
Liabilities					
Current Liabilities					
Short term debt/bank advances	13,638	5,229	●	(e)	●
Accounts payable and accrued liabilities	10,365	9,492			19,857
Reserve for facility closure	—	451			451
Current portion of long-term debt	629	22,427	(22,427)	(e)	●
			●	(c)	
Liabilities of operations held for sale	—	282			282
Total current liabilities	24,632	37,881	●		●
Long term liabilities					
Long term debt	351	130,497	(130,497)	(e)	●
			●	(c)	
			●	(d)	
Accrued pension and other post retirement benefits	—	2,053			2,053
Future tax liability	—	—	●	(a)	●
Total liabilities	24,983	170,431	●		●
Minority interest	2,085				2,085
Shareholders' equity					
Common stock	26,662	—	●	(b)	●
			●	(a)	
			●	(d)	
Net investment	—	17,006	(17,006)	(a)	—
Additional paid in capital/contributed surplus	168	—	(168)	(a)	—
Deficit	(2,616)	(87,330)	●	(e)	●
			2,616	(a)	
Cumulative currency translation adjustment	—	29			29
Total shareholders' equity (deficit)	24,214	(70,295)	●		●
Total liabilities and shareholders' deficit	51,282	100,136	●		●

See accompanying notes

AMR Technologies Inc.

PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

For the three months ended March 31, 2005

(Unaudited — See Compilation Report) (in thousands of United States dollars, except per share amounts)

	AMR Technologies Inc.	Magnequench	Pro Forma Adjustments	Reference to Note 2	AMR Technologies Inc. Pro Forma Consolidated
Revenue					
Net sales	16,217	17,208			33,425
Royalty and license revenue	0	126			126
Total revenue	16,217	17,334			33,551
Cost of sales					
Cost excluding depreciation and amortization	12,888	4,742			17,630
Depreciation and amortization	532	1,868	●	(jj)	●
Gross profit	2,797	10,724			●
Operating expenses					
Selling, general and administrative	2,081	3,795	50	(aa)	5,926
Depreciation and amortization	71	536	●	(bb)	●
Research and development	208	508			716
Operating income	437	5,885			●
Other expense					
Interest expense, short term debt	188	458	●	(cc)	●
Interest expense, long term debt	16	3,390	(3,390)	(cc)	●
			●	(dd)	
			●	(ee)	
			●	(ff)	
			●	(gg)	
			●	(ii)	
Foreign exchange loss	25	—			25
Other income	(43)	(204)	●	(kk)	●
Income from continuing operations before income taxes and equity income of uncombined affiliate	251	2,241	●		●
Income taxes	143	372	●	(hh)	●
Minority interest	61	—			61
Income from continuing operations before equity income from uncombined affiliate	47	1,869	●		●
Equity in income of uncombined affiliate	—	75			75
Income from continuing operations	47	1,944	●		●
Loss from discontinued operations, net of tax	—	(20)			(20)
Net income for the period	47	1,924	●		●
Basic earnings (loss) per share from continuing operations	0.003		●		●
Basic earnings (loss) per share	0.003		●		●
Weighted average number of shares	16,726,768		●		●

See accompanying notes

AMR Technologies Inc.

PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended December 31, 2004

(Unaudited — See Compilation Report) (in thousands of United States dollars, except per share amounts)

	AMR Technologies Inc.	Magnequench	Pro Forma Adjustments	Reference to Note 2	AMR Technologies Inc. Pro Forma Consolidated
Revenue					
Net sales	54,349	83,612			137,961
Royalty and license revenue		611			611
Total revenue	54,349	84,223			138,572
Cost of sales					
Cost excluding depreciation and amortization	40,153	19,654			59,807
Depreciation and amortization	2,262	7,469	●	(jj)	●
Gross profit	11,934	57,100			●
Operating expenses					
Selling, general and administrative	9,168	17,258	148	(aa)	26,574
Depreciation and amortization	317	2,036	●	(bb)	●
Research and development	924	1,958			2,882
Restructuring charge	480	972			1,452
Operating income	1,045	34,876	●		●
Other expense					
Interest expense, short term debt	474	179	●	(cc)	●
Interest expense, long term debt	91	27,107	(27,107)	(cc)	●
			●	(dd)	
			●	(ee)	
			●	(ff)	
			●	(gg)	
			●	(ii)	
Foreign exchange loss	332	32			364
Other income	(396)	(886)	●	(kk)	●
Income from continuing operations before income taxes and equity income of uncombined affiliate	544	8,444	●		●
Income taxes	444	1,708	●	(hh)	●
Minority interest	308	—			308
Income (loss) from continuing operations before equity income from uncombined affiliate	(208)	6,736	●		●
Equity in income of uncombined affiliate	—	307			307
Income (loss) from continuing operations	(208)	7,043	●		●
Loss from discontinued operations, net of tax	(247)	(1,867)			(2,114)
Net income (loss) for the year	(455)	5,176	●		●
Basic earnings (loss) per share from continuing operations	(0.013)		●		●
Basic earnings (loss) per share	(0.027)		●		●
Weighted average number of shares	16,678,616		●		●

See accompanying notes

AMR Technologies Inc.

NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited — See Compilation Report)

1. Acquisition and Basis of Presentation

The accompanying unaudited pro forma consolidated financial statements have been compiled for purposes of inclusion in a long form prospectus filed by AMR Technologies Inc. (the ''Company'') on June ●, 2005. The unaudited pro forma consolidated financial statements set forth certain historical financial information of Magnequench (''MQI'') and the Company after giving effect to the proposed acquisition of MQI by the Company, which, on completion, will result in MQI becoming a wholly owned subsidiary of the Company. Under the terms of the Transaction Agreement dated June 6, 2005, it provides that MQI shareholders will exchange all of their MQI shares for an aggregate of 26,866,819 common shares of the Company, and will exchange all of their options to acquire MQI Shares for options to acquire an aggregate of 2,833,181 common shares of the Company.

The unaudited pro forma consolidated financial statements have been prepared from the unaudited and audited consolidated financial statements of the Company for the three month period ended March 31, 2005 and for the year ended December 31, 2004, respectively, and the unaudited and audited combined financial statements of MQI for the three month period ended March 31, 2005 and for the year ended December 31, 2004, respectively, and gives pro forma effect to the transaction described above and the assumptions as described in Notes 2 and 3.

The proposed acquisition is subject to approval of the shareholders of the Company and the approval of regulatory authorities.

The unaudited pro forma consolidated financial statements are not necessarily indicative of the financial position and result of operations that would have occurred if the proposed transaction had been completed on the dates indicated or of the financial position or operating results which may be obtained in the future.

The unaudited pro forma consolidated financial statements should be read in conjunction with the unaudited and audited consolidated financial statements of the Company for the three month period ended March 31, 2005 and the year ended December 31, 2004, respectively, and the unaudited and audited combined financial statements of MQI for the three month period ended March 31, 2005 and the year ended December 31, 2004, respectively. The unaudited pro forma adjustments contained in these unaudited pro forma consolidated financial statements are based on estimates and assumptions by management based on information available at ●, 2005 as described in Notes 2 and 3 below.

2. Pro Forma Assumptions

The unaudited pro forma consolidated balance sheet gives effect to the following transactions as though they occurred on March 31, 2005.

(a) The acquisition of the Company by MQI through the issuance of 26,866,819 million common shares of the Company to Magnequench, Inc. shareholders with a market value of C$ ● per share and the exchange of all Magnequench, Inc. stock options for stock options to acquire 2,833,181 common shares of the Company. The proposed transaction will constitute a reverse takeover under applicable accounting principles. This means that for accounting purposes effectively MQI will acquire the net assets of AMR. This transaction will be accounted for using the purchase method. The preliminary allocation of the purchase price is summarized as follows:

	Amount (thousands of United States dollars)
Working capital, including cash of $4,435	●
Property, plant and equipment	●
Other long term assets	702
Patents and other intangibles	●
Goodwill	●
Bank advances	(13,638)
Long term debt	(980)
Future tax liability	●
Minority interest	(2,085)
	●
Consideration — shares	●
— vested stock options	●

The actual calculation and allocation of purchase price will be based on the fair value of assets acquired and liabilities assumed at the effective date of the acquisition and other information available at that date. Accordingly, the actual amounts for each of the assets acquired and liabilities assumed will vary from the pro forma amounts and the variation may be material.

(b) Issuance of ● subscription receipts of the Company pursuant to the offering for net proceeds of $ ● after deducting estimated expenses of the offering of $ ●. Each subscription receipt will be automatically exchanged for one common share and one-half of one common share purchase warrant.

(c) Issuance of new term bank debt facility of $ ● . which matures after ● years and is repayable in ● quarterly payments and carries an interest rate of ● . The ● of the Company are pledged as collateral.

(d) Issuance of the new convertible debt facility of $ ● of which $ ● is allocated to equity and $ ● is allocated to debt, which matures after ● years, carries an interest rate of ● with interest payable quarterly and is convertible to common shares at a price of $ ● per share.

(e) Repayment of $ ● of the outstanding MQI debt including prepayment penalties of $ ● and the elimination of related deferred financing costs of $ ● .

(f) Payment of deferred financing fees of $ ● relating to the new term bank debt and issuance of convertible debt.

(g) Repayment of the Lux HDD, 2 s.à.r.l. unsecured promissory note of $ ● .

The unaudited pro forma consolidated statement of operations gives effect to the following transaction as though they occurred as at January 1, 2004.

(aa) Amortization of unvested outstanding AMR stock options (note (a) above) and compensation expense related to these options.

(bb) Amortization of intangible assets created on acquisition over their estimated useful lives of ● years (note (a) above).

(cc) Elimination of $ ● of interest expense relating to existing MQI debt (note (e) above).

(dd) Recognition of $ ● of interest expense relating to the new term bank debt (note (c) above).

(ee) Recognition of $ ● of interest expense related to the convertible debt (note (d) above).

(ff) Elimination of the amortization of deferred financing costs relating to the existing MQI debt (note (f) above).

(gg) Amortization of new deferred financing costs, using the effective interest rate method, over the terms of the new term bank debt and convertible debt (note (f) above).

(hh) Recognition of the income tax rate of ● %.

(ii) To record interest accretion on the convertible debt to its fair value over the term of the convertible debt (note (d) above).

(jj) Amortization of the fair value increment resulting from the acquisition (note (a) above) in property plant and equipment over ● years.

(kk) Elimination of $ ● of interest income relating to the unsecured promissory notes (note (g) above).

3. Share Capital

After giving effect to the pro forma assumptions in note 2, the proforma issued and outstanding common shares of the Company is as follows:

	Common Shares	Amount
		(thousands of United States dollars)
Balance, December 31, 2004	16,723,434	26,653
Issued subsequent to December 31, 2004		
(d) Share issuance (equity offering)	●	●
(e) Share issuance acquisition of AMR by MQI	●	●
Unaudited pro forma balance, March 31, 2005	●	●

CONSOLIDATED FINANCIAL STATEMENTS

AMR Technologies Inc.

For the Years Ended December 31, 2004, 2003 and 2002
and Three Months Ended March 31, 2005

AUDITORS' REPORT

To the Directors of
AMR TECHNOLOGIES INC.

We have audited the consolidated balance sheets of **AMR Technologies Inc**. as at December 31, 2004 and 2003 and the consolidated statements of operations and retained earnings (deficit), and cash flows for each of the years in the three-year period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for each of the years in three-year period ended December 31, 2004 in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
March 1, 2005, except as to note 23 which is as of ● , 2005.

Chartered Accountants

AMR Technologies Inc.

CONSOLIDATED BALANCE SHEETS

[All figures in thousands of United States dollars]

	As at December 31	
	2004	2003
	$	$
ASSETS		
Current		
Cash and cash equivalents *[note 4]*	5,437	3,880
Restricted cash *[note 4]*	718	1,233
Accounts receivable *[notes 5 and 9]*	8,741	11,562
Inventories *[notes 6 and 9]*	18,867	14,091
Prepaid expenses	410	1,242
Current assets of discontinued operations *[note 19]*	—	400
Total current assets	34,173	32,408
Property, plant and equipment, net *[notes 7, 9 and 11]*	16,230	15,731
Other assets, net *[note 8]*	719	696
Capital assets of discontinued operations *[note 19]*	—	754
	51,122	49,589
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank advances *[note 9]*	13,879	10,707
Accounts payable and accrued liabilities *[note 10]*	9,679	9,998
Current portion of long-term debt *[note 11]*	672	821
Current liabilities of discontinued operations *[note 19]*	—	21
Total current liabilities	24,230	21,547
Long-term debt *[note 11]*	468	1,022
Minority interest	2,282	2,578
Commitments and contingencies *[note 12]*		
Shareholders' equity		
Share capital *[note 13]*	26,653	26,530
Contributed surplus *[note 3]*	152	—
Deficit	(2,663)	(2,088)
Total shareholders' equity	24,142	24,442
	51,122	49,589

On behalf of the Board:

PETER V. GUNDY
Director

JOHN P. WLEUGEL
Director

See accompanying notes

AMR Technologies Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)

[All figures in thousands of United States dollars, except per share information]

	Years ended December 31		
	2004	2003	2002
	$	$	$
REVENUE			
Sales	54,349	46,758	47,274
Cost of sales *[note 17]*			
Cost excluding depreciation	40,153	32,031	33,734
Depreciation	2,262	2,182	2,718
	11,934	12,545	10,822
EXPENSES			
Selling, general and administration	9,168	9,252	8,578
Restructuring costs *[note 18]*	480	—	—
Depreciation and amortization	317	338	406
Write-down of the Magnetics business *[note 20]*	—	—	7,066
Research and development	924	742	714
Operating income for the period	1,045	2,213	(5,942)
Other income	(396)	(72)	(119)
Interest expense, short-term debt	474	479	465
Interest expense, long-term debt	91	144	225
Foreign exchange loss/(gain)	332	(75)	34
Income before income taxes and minority interest	544	1,737	(6,547)
Income taxes *[note 15]*	444	577	463
Minority interest	308	322	245
Net income (loss) from continuing operations	(208)	838	(7,255)
Net loss from discontinued operations *[note 19]*	(247)	(536)	(70)
Net income (loss) for the period	(455)	302	(7,325)
Retained earnings (deficit), beginning of period	(2,088)	(2,390)	4,935
Changes in accounting policy for stock-based compensation *[note 3]*	(120)	—	—
Adjusted retained earnings (deficit), beginning of period *[note 3]*	(2,208)	(2,390)	4,935
Deficit end of period	(2,663)	(2,088)	(2,390)
Net income (loss) from continuing operations per share, basic and diluted *[note 14]*	(0.013)	0.050	(0.436)
Net income (loss) per share, basic and diluted *[note 14]*	(0.027)	0.018	(0.440)

See accompanying notes

AMR TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

[All figures in thousands of United States dollars]

	Years ended December 31		
	2004	**2003**	**2002**
	$	$	$
OPERATING ACTIVITIES			
Net income (loss) from continuing operations	(208)	838	(7,255)
Add items not affecting cash			
Minority interest	308	322	245
Depreciation and amortization	2,579	2,520	3,124
Write off of property, plant and equipment	115	—	—
Write down of the Magnetics business [note 20]	—	—	7,066
Stock-based compensation	32	—	—
Net change in non-cash working capital balances [note 16]	(1,442)	(846)	498
Cash provided by operating activities	1,384	2,834	3,678
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(3,184)	(1,404)	(1,681)
Business acquisition	—	—	(496)
Decrease (increase) in restricted cash	515	(1,233)	—
Proceeds from the sale of WWSM [note 19]	1,111	—	—
Decrease (increase) in other assets	28	(271)	(39)
Cash used in investing activities	(1,530)	(2,908)	(2,216)
FINANCING ACTIVITIES			
Increase in bank advances	3,172	1,506	2,074
Repayment of long-term debt	(703)	(685)	(1,126)
Minority interest share of subsidiary's cash distribution	(604)	(494)	(323)
Common share issuance	123	—	—
Cash provided by financing activities	1,988	327	625
Net increase in cash and cash equivalents	1,842	253	2,087
Change in cash from discontinued operations [note 19]	(285)	(147)	(1,598)
Cash, beginning of year	3,880	3,774	3,285
Cash, end of year	5,437	3,880	3,774

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[All figures in United States dollars, unless otherwise stated]

1. DESCRIPTION OF BUSINESS

AMR Technologies Inc. [the ''Company'' or ''AMR''] produces rare earth based and other engineered materials in the People's Republic of China [''China'] through its ownership in two Sino-foreign equity joint venture enterprises and through its wholly-owned subsidiaries and consolidated entity in China and Thailand. Although referred to as equity joint ventures, AMR controls these enterprises and they are considered to be subsidiaries of AMR. The majority of the Company's products are sold to customers outside of China and Thailand. The Company's wholly-owned subsidiary, AMR International Corp., holds the interests in these four manufacturing subsidiaries. The details of these subsidiaries are as follows:

[a] Jiangyin Jia Hua Advanced Material Resources Co., Ltd. [''JAMR'']

JAMR is a manufacturing operation in Jiangyin, Jiangsu Province, China. The Company's interest in this joint venture is 90% as at December 31, 2004 (90% at December 31, 2003, 90% at December 31, 2002)

[b] Zibo Jia Hua Advanced Material Resources Co., Ltd. [''ZAMR'']

ZAMR is a manufacturing operation in Zibo, Shandong Province, China. The Company's interest in this joint venture is 85% as at December 31, 2004 (85% at December 31, 2003, 85% at December 31, 2002)

[c] Advanced Magnetic Materials (Thailand) Co., Ltd. [''AMMT'']

AMMT is a wholly-owned manufacturing operation in Nakhon Ratchasima (Korat), Thailand.

[d] Zibo Jia Xin Magnetic Materials Co., Ltd. [''ZAMM'']

ZAMM is a wholly-owned manufacturing operation in Zibo, Shandong Province, China which is inactive.

In 2004, the Company reduced its interest in **Wuxi Te Zhong Cai Liao,** a manufacturing operation in Jiangyin, Jiangsu Province, China, from 92.5% to 9%. For 2004, the business operations related to this subsidiary is treated as a discontinued operation. The remaining minority interest in this former subsidiary is treated as an investment (note 19).

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING AND CURRENCY

These consolidated financial statements have been prepared in United States dollars and in accordance with Canadian generally accepted accounting principles.

CONSOLIDATION

The consolidated financial statements include the accounts of the Company, its subsidiaries and an entity over which the Company has control. All significant intercompany balances and transactions have been eliminated on consolidation.

FOREIGN CURRENCY TRANSLATION

The Company's subsidiaries are integrated foreign operations. Revenue and expenses denominated in currencies other than the U.S. dollar are translated into U.S. dollars at average exchange rates prevailing during the month of the transaction [except depreciation and amortization which have been translated at rates pertaining to the related assets]; monetary balances are translated at the rates prevailing at the consolidated balance sheet dates while non-monetary balances are translated at historical rates. Gains and losses resulting from translation of foreign currencies are included in net income (loss) for the year.

REVENUE RECOGNITION

Revenue is recognized when title to the goods passes to third-party purchasers. Revenue from the sale of manufactured products is recognized upon shipment to (or receipt by customers depending on contractual shipping terms), and acceptance by, customers when the price is fixed or determinable and collectibility is reasonably assured.

DERIVATIVE INSTRUMENTS

The Company enters into foreign exchange forward contracts to hedge the cash flow risk associated with forecasted transactions in certain foreign currencies. To the extent that the contracts qualify for hedge accounting, unrealized gains and losses on outstanding contracts are deferred until realized. The realized gains and losses are included in income. The Company does not engage in trading or other speculative activities with respect to derivative financial instruments. The Company formally documents all relationships between hedging instruments and hedged items as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also formally assesses whether the derivatives used in hedged transactions are highly effective in offsetting changes in cash flows of hedged items. The fair value of derivative financial instruments reflects the estimated amount that the Company would have to settle all unfavourable outstanding contracts or the amount that would be received if forced to settle all favourable contracts at year-end. The counterparties to the contracts are with high quality institutions and therefore the credit risk of counterparty non-performance is low.

INVENTORIES

Inventories are carried at the lower of cost or market with cost being determined on a weighted-average basis. For work-in-process and finished goods, cost includes materials and an application of manufacturing value-add and market is defined as the net realizable value.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost and are depreciated over their estimated useful lives on a straight-line basis at the following rates:

Buildings	5%
Equipment	10% - 33%

The Company has long-term land leases in China that have been prepaid and for which the cost has been capitalized. This cost is being amortized on a straight-line basis over the term of the leases.

Construction in progress is not depreciated until put into use.

RESEARCH AND DEVELOPMENT COSTS

The Company expenses all research costs as incurred. Development costs are expensed in the year incurred unless a development project meets the criteria under Canadian generally accepted accounting principles for deferral and amortization. No developments have been capitalized to date.

INCOME TAXES

The Company follows the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that are expected to be in effect when the differences are expected to be realized or settled. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs. A valuation allowance is provided to the extent that it is more likely than not that the future income tax asset will not be realized.

CASH, CASH EQUIVALENTS AND RESTRICTED CASH

Cash, cash equivalents and restricted cash consists of cash on hand and balances with banks and short-term deposits with original maturities of less than three months.

USE OF ESTIMATES

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for the period reported. Actual results could differ from those estimates. A significant area requiring the use of management's estimates is the provisions associated with inventories

3. CHANGES IN ACCOUNTING POLICIES

Stock-based compensation

Effective January 1, 2004, in accordance with the Canadian Institute of Chartered Accountants standard on *''Stock-based Compensation and Other Stock-based Payments'',* the Company has changed its accounting policy to account for stock-based compensation using the fair value method. This change in accounting policy has been adopted retroactively and the opening deficit and contributed surplus for 2004 have been adjusted to reflect the impact of fair value of options granted in 2002 and 2003 and previously included in the pro forma note disclosures for prior periods.

The adjustment to the opening deficit and contributed surplus is as follows [000's]:

Deficit, beginning of period before adjustment	(2,088)
Fair value of options granted — 2003	90
Fair value of options granted — 2002	30
Adjusted deficit, beginning of period	(2,208)
Increase in contributed surplus — beginning of period	120
Stock based compensation expense — 2004	32
Contributed surplus — end of period	152

The fair value of the options granted is estimated using the Black Scholes option-pricing model and recognized over the option vesting period.

Variable interest entity

In 2004, in accordance with the Canadian Institute of Chartered Accountants Guideline 15 on ''*Consolidation of Variable Interest Entities*'', the Company began to consolidate a Chinese entity in which it does not have a direct equity interest and which is owned by three employees of the Company. The Company retains direct decision making authority over the entity and the entity is dependent on a subsidiary of the Company to finance its operations. As a result of consolidating the variable interest entity, revenues and cost of sales increased by $2,518,000 for the year ended December 31, 2004.

Asset retirement obligations

Effective January 1, 2004, the Company implemented the recommendations of the CICA with respect to asset retirement obligations. Under this policy, the fair value of legal obligations associated with the retirement of tangible long-lived assets must be recognized in the financial statements in the period in which the liability is incurred. Upon initial recognition of a liability for an asset retirement obligation, a corresponding asset retirement cost is added to the carrying amount of the related asset, which is subsequently amortized to income over the remaining useful life of the asset. Following the initial recognition of an asset retirement obligation, the carrying amount of the liability is increased for the passage of time by applying an interest method of allocation to the liability with a corresponding accretion cost reflected in operating expenses. Implementation of this standard did not have an impact on the Company's earnings or financial positions at December 31, 2004, 2003 or 2002.

Impairment of Long-lived Assets

Effective January 1, 2004, the Company implemented the recommendations of the CICA accounting standard with respect to the impairment of long-lived assets. The recommendations were applied prospectively.

Under the new policy, impairment is assessed using a two step approach. Under the first step, the impairment of capital assets and finite-life intangible assets is tested when events or changes in circumstances indicate that the asset's carrying value is not recoverable and may be in excess of its fair value. The carrying amount of a long-lived asset is not recoverable if its carrying value exceeds the sum of undiscounted cash flows expected to result from its use and eventual disposition.

If the asset's carrying amount is in excess of the undiscounted cash flows, step two of the asset impairment test must be performed. Under step two of the test, impairment is measured as the excess of an asset's carrying value over fair value. Fair value is measured using a discounted cash flow approach.

4. CASH, CASH EQUIVALENTS AND RESTRICTED CASH

Included in cash and equivalents at December 31, 2004 was $2,418,000 (2003 -$1,854,000) which was held in China in Renminbi and U.S. dollar denominated accounts. In addition, restricted cash of $718,000 was held in China in Renminbi (2003 — $1,233,000). These restricted cash amounts will be applied to balances which are included in accounts payable which are payable to Chinese banks on account of purchases from third party suppliers. The Company's cash balances are primarily held in bank accounts bearing interest at rates commensurate with such deposits.

5. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	2004	2003
	[$000's]	[$000's]
Trade	8,349	7,496
Refundable China value-added tax	—	3,647
Other	392	419
Total	8,741	11,562

[a] Trade

While the Company sells its products to many customers, two accounts represented approximately 31% of trade receivables as at December 31, 2004. As at December 31, 2003, two accounts represented approximately 43% of the year-end balance.

[b] Value-Added Tax (VAT)

The VAT receivable is primarily the refundable portion of the 17% tax paid based on the value of export shipments. Effective January 1, 2004, the refundable portion on most rare earth and zirconium products was reduced from 17% to 5%.

6. INVENTORIES

Inventories consist of the following:

	2004	2003
	[$000's]	[$000's]
Raw materials	3,015	2,624
Work-in-process	3,767	2,086
Finished goods	12,085	9,381
Total	18,867	14,091

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	2004		2003	
	Cost	**Accumulated depreciation and amortization**	**Cost**	**Accumulated depreciation and amortization**
	[$000's]	[$000's]	[$000's]	[$000's]
Prepaid land lease	614	234	614	116
Land	453	—	453	—
Buildings	7,179	3,058	8,059	2,445
Equipment	25,760	14,780	22,456	13,348
Construction in progress	296	—	58	—
	34,302	18,072	31,640	15,909
Net book value	16,230		15,731	

8. OTHER ASSETS

Other assets consist of the following:

	2004	2003
	[$000's]	[$000's]
Employee loans	256	224
Employee share purchase loan pool [note 13[d]]	365	462
Interest in WWSM [note 19]	60	—
Other assets	38	10
Total	719	696

The Company has loaned money to employees in the amount of $256,000 of which $224,000 was used to purchase an indirect 5.5% minority interest in ZAMR previously held by another party. The equity held by the employee has been pledged as collateral.

9. BANK ADVANCES

The Company's U.S. based subsidiary has available for use a revolving line of credit of up to $2,500,000 (2003 — $2,500,000) with a Canadian financial institution. Any amounts drawn under this line of credit are payable on demand. Accounts receivable and inventories of the U.S. subsidiary and a guarantee by the Company have been pledged as collateral. The loan bears interest at 1.0% plus the rate of the financial institution's prime commercial rate for U.S. dollar loans. At December 31, 2004 the interest rate on this line was 6.25% (2003 — 5.00%). The line of credit is subject to review by the financial institution from time to time and not less than annually. The balance outstanding under this line of credit as at December 31, 2004 was $1,725,000 (2003 — $1,535,000).

As at December 31, 2004, two of the subsidiaries in China have borrowed, in aggregate, $5,610,000 (Renminbi 46.5 million) (2003 — $4,813,000, Renminbi 39.8 million) from Chinese banks in the form of term loans denominated in Renminbi. The loans mature at various dates from February to December 2005. Property, plant and equipment and accounts receivable held in China have been pledged as collateral. The loans bear a weighted average interest rate of 5.90% (2003 — 5.45%).

As at December 31, 2004, there were additional borrowings from Chinese banks of $6,544,000 (2003 — $4,359,000) under U.S. dollar denominated facilities at both Chinese subsidiaries. The U.S. dollar receivables of the subsidiaries from its parent have been pledged as collateral. The weighted average interest rate on the U.S. dollar loans was 3.34% (2003 — 2.43%) and they mature from January to May 2005.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	2004	2003
	[$000's]	[$000's]
Trade payables and accrued liabilities	9,462	9,481
Income taxes payable	75	349
Other	142	168
Total	9,679	9,998

As at December 31, 2004, a total of $2,995,000 (Renminbi 24.8 million) (2003 – $2,633,000, Renminbi 21.8 million) payable to a Chinese bank on account of purchases from third party suppliers is included in the trade payables (note 4). These notes expire within 3 to 9 months of issuance.

11. LONG TERM DEBT

Long-term debt consists of the following:

Loan	Original amount	Denominated in	Interest rate	Payments starting	Payment frequency	Last payment date	Balance Outstanding 2004	2003
	[$000's]						[$000's]	[$000's]
1	$ 707	U.S. dollars	9.7%	Aug. 2000	Quarterly	May 2005	88	250
2	$2,336	Renminbi	6.0%	Dec. 2002	Quarterly	Dec. 2006	1,052	1,593
Total							1,140	1,843

Loan 1 is between a subsidiary of the Company and a Canadian lending institution and was used to finance the purchase of plant and equipment. The equipment and a guarantee from the Company has been pledged as collateral. Loan 2 is between another subsidiary of the Company and its minority interest partner in JAMR. The fair value of debt approximates its carrying value based on discounted cash flows at current market prices.

Principal repayments on the loans are as follows:

	[$000's]
2005	672
2006	468
Total	1,140

12. COMMITMENTS AND CONTINGENCIES

[a] Employment Agreements

The Company has an agreement with a senior officer of the Company covering the period to October 31, 2005. The agreement permits the senior officer to retire within six months of certain events occurring without his approval, as defined in the agreement. If any such event occurs, the senior officer would currently be entitled to a lump sum payment not to exceed three times annual compensation. No such event occurred in 2004. The agreement has an automatic one-year extension.

The Company has agreements with each of two senior officers of the Company for indefinite terms. The agreements permit the senior officers to resign within six months of certain events occurring without their approval, as defined in the agreement. If any such event occurs, the senior officers would currently be entitled to a lump sum payment not to exceed two times their annual compensation. No such event occurred in 2004.

[b] Lease Commitments

The Company is committed under the terms of a land lease for its plant facilities at JAMR until the year 2013 and at ZAMR until the year 2025. Leases for office and laboratory space, equipment, and vehicles are committed to the year 2015. Minimum annual lease payments are as follows:

	[$000's]
2005	268
2006	260
2007	235
2008	230
2009	229
Thereafter	728
Total	1,950

[c] Foreign Currency Hedges

As at December 31, 2004, the Company has contracted to receive a total of Cdn $449,825 in exchange for US$375,000. The contracts expire between January and June 2005. At the market rates prevailing at December 31, 2004, a total of Cdn $451,275 would be received in exchange for the US$375,000.

13. SHARE CAPITAL

[a] Authorized

The Company is authorized to issue an unlimited number of common and preferred shares. No preferred shares have been issued to date.

[b] Issued and Outstanding Common Shares

	2004	2003
Common shares	16,723,434	16,645,100
$(000's)	26,653	26,530

During 2004, 78,334 stock options were exercised for cash proceeds of $123,000.

[c] Stock Option Plan

The Company has granted certain options for the purchase of common shares to directors, officers, employees and consultants of the Company. These options are exercisable for 10 years from the date of issue and can be exercised, at any time within that period once vested. Some options vest immediately, others vest at various periods of up to 3 years. In the event of a beneficiary choosing to exercise an option, the Board of Directors of the Company may, at its discretion, elect to make a cash settlement in exchange for the beneficiary forfeiting the options. Any unexercised options will expire three months after the date that a beneficiary ceases to be an employee, officer or consultant. The aggregate number of common shares of the Company that may be issued and sold under option plans is not to exceed 2,499,765. Options are granted at prevailing market prices at the date of issue.

The following table summarizes information about the stock option plan as at December 31:

	2004		2003		2002	
	Number	Weighted average exercise price — Cdn$	Number	Weighted average exercise price — Cdn$	Number	Weighted average exercise price — Cdn$
Options outstanding at beginning of year	2,238,000	2.50	2,143,000	2.60	2,113,000	2.59
Granted during year	130,000	2.01	180,000	1.13	125,000	1.46
Exercised during year	(78,334)	2.08	0		0	
Forfeited during year	(576,666)	2.22	(85,000)	1.92	(95,000)	2.45
Options outstanding at end of year	1,713,000	2.50	2,238,000	2.44	2,143,000	2.53
Options exercisable at end of year	1,663,002	2.54	2,126,333	2.50	1,981,331	2.60

	2004	2003
Options outstanding		
Price range per option	Cdn $1.10 - $2.55	Cdn $1.10 - $2.55
Weighted average remaining contractual life	6.26 years	6.04 years
Weighted average exercise price	Cdn $1.82	Cdn $1.83
Number of shares	950,000	1,275,000
Price range per option	Cdn $2.56 - $3.75	Cdn $2.56 - $4.00
Weighted average remaining contractual life	1.35 years	2.16 years
Weighted average exercise price	Cdn $3.34	Cdn $3.25
Number of shares	763,000	963,000
Options exercisable		
Price range per option	Cdn $1.10 - $2.55	Cdn $1.10 - $2.55
Weighted average remaining contractual life	6.19 years	5.30 years
Weighted average exercise price	Cdn $1.85	Cdn $1.71
Number of shares	900,002	1,163,333
Price range per option	Cdn $2.56 - $3.75	Cdn $2.56 - $4.00
Weighted average remaining contractual life	1.35 years	2.16 years
Weighted average exercise price	Cdn $3.34	Cdn $3.25
Number of shares	763,000	963,000

[d] Loan Pool

The Company has a loan pool of Cdn $600,000 (2003 — Cdn $600,000) which was authorized to be used by officers of the Company to purchase shares in the secondary market. The Board of Directors will specify which officers are eligible to borrow under this plan and when advances can be made. The loans are full recourse and their terms are 10 years with equal annual repayments commencing in the sixth year. Any shares purchased are pledged to the Company as collateral for the loan and, if these shares are sold when there is a loan balance outstanding, the proceeds will first be used to repay the loan. Interest on the loans is being charged at market rates. During 2004 and 2003 no amounts were advanced under the plan. Loans totaling Cdn $159,482 were repaid by former Company employees which had been used to purchase 135,000 shares The total number of shares purchased under the plan for which loans remained outstanding was 328,248 as at December 31, 2004 which had a market value of $641,003 (December 31, 2003 — 463,248 shares with a market value of $428,768).

[e] Stock Based Compensation

The fair value of stock options granted to employees was estimated using the following assumptions:

	2004	2003	2002
Weighted average risk free interest rate (%)	4.01	4.06	4.2
Expected volatility (%)	72	47	47
Expected dividend yield (%)	0	0	0
Expected life of options (years)	5	5	5

(i) For the year ended December 31, 2003, a weighted average risk free interest rate of 4.06% was used for options granted in the first quarter of 2003 and 3.75% for options granted in the third quarter of 2003. No options were granted in the second and fourth quarters of 2003.

(ii) The effect of options granted to employees would decrease 2003 net income by $90,000 and, including that impact, the Company's pro forma basic and diluted net income would be $0.013 per share, a difference of $0.005 per share from the basic and diluted net income of $0.018 per share as reported. For 2002, the effect of the options granted to employees on the Company's pro forma net loss was $30,000 and the Company's pro forma basic and diluted net loss for the year was $0.442, a difference of $0.002 from the basic and diluted net loss of $0.440 per share as reported. The opening deficit and contributed surplus for 2004 have been adjusted to reflect the impact of fair value of options granted in 2003 and previously included in the pro forma note disclosures for prior periods (Note 3).

14. NET INCOME (LOSS) PER SHARE

	2004	2003	2002
Weighted average number of common shares outstanding (1)	16,678,616	16,645,100	16,645,100
Net income (loss) from continuing operations	$ (208,000)	838,000	(7,255,000)
Net income (loss) from continuing operations per share, basic and diluted	$ (0.013)	0.050	(0.436)
Net income (loss)	$ (455,000)	302,000	(7,325,000)
Net income (loss) per share, basic and diluted (1)	$ (0.027)	0.018	(0.440)

Net income (loss) per share has been determined by dividing net income (loss) by the weighted average number of common shares outstanding during the year.

(1) For 2004 and 2002, the effect of outstanding options is anti-dilutive and for 2003 had no impact on net income per share.

15. INCOME TAXES

[a] China Subsidiaries' Tax Status

According to the ''Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises'', the Company's China subsidiaries are entitled to an exemption on enterprise income tax for the first two years commencing with the first profitable year after offsetting all losses carried forward, and a 50% reduction for the three years thereafter. The first year of profitability for JAMR was the year ended December 31, 1994 and, for ZAMR, the year ended December 31, 1995. Both factories are therefore beyond the tax reduction period. ZAMM has not yet achieved its first year of profitability. Following the expiration of the two-year exemption, each of the subsidiaries qualifies for a 50% reduction in regular tax rates if the value of their exported products amounts to 70% or more of the total production value for the year. Both JAMR and ZAMR qualify for the 50% reduction as a result of the value of its exported products exceeding 70% of total sales value.

[b] Thailand Tax Status

Under the terms of its business license applications with the Board of Investment of Thailand, the Company is entitled to a tax-exempt status for a period of eight years from the date revenue is first earned, which occurred in 1999. Annual losses incurred during this eight-year period can be carried forward against future income for up to five years. For a period of five years from the expiration of the related eight year tax holiday, any profits will be taxed at 50% of normal tax rates in effect during the period.

[c] Loss Carry Forwards

The Company has unrecorded potential income tax benefits resulting from non-capital losses of approximately $9.6 million. These amounts are available to reduce future income for income tax purposes. If these losses are unutilized they expire as follows:

	$
	[$000's]
2006	2,558
2007	509
2008	58
2009	51
Thereafter	6,467
Total	9,643

[d] Income Tax Provision

The differences between the effective tax rate reflected in the provision for income taxes and the Canadian statutory income tax rate are as follows:

	2004	2003	2002
	[$000's]	[$000's]	[$000's]
Income Taxes at Canadian Statutory rates (2004 — 36.6%, 2003 — 36.6%, 2002 — 38.6%)	107	440	(2,554)
Increase (decrease) due to the following:			
Tax losses for which no benefit has been recorded	1,110	770	2,164
Write-down of the Magnetics business	—	—	2,475
Income tax at different rates in foreign jurisdictions	(775)	(618)	(1,395)
Previously unrecognized income tax losses	—	—	(185)
Other	2	(15)	(42)
	444	577	463

All tax provisions are current.

16. CONSOLIDATED STATEMENTS OF CASH FLOWS

[a] Net Change in Non-Cash Working Capital Balances

The net change in non- cash working capital balances consists of the following:

	2004	2003	2002
	[$000's]	[$000's]	[$000's]
Accounts receivable	2,821	(798)	(2,283)
Inventories	(4,776)	(3,272)	1,950
Prepaid expenses	832	(724)	(268)
	(1,123)	(4,794)	(601)
Accounts payable and accrued liabilities	(319)	3,948	1,099
Net Change	(1,442)	(846)	498

[b] Cash payments

The following is a detail of cash paid in the year for each of the following expense items:

	2004	2003	2002
	[$000's]	[$000's]	[$000's]
Interest on short-term debt	476	478	458
Interest on long-term debt	106	163	152
Income taxes	643	495	258

17. RECOVERY OF CHINA VALUE-ADDED TAX

Included in cost of goods sold for 2003 was a recovery (recorded during the first quarter) of the previously non-refundable portion of value-added tax (''VAT'') on export shipments from ZAMR. As a result of changes to tax rules in China, the government has reimbursed the previously non-refundable amount paid by ZAMR during the years 2000 to 2002. Included in cost of goods sold for 2002 was a recovery of the previously non-refundable portion of VAT on export shipments from JAMR.

	2003	2002
	[$000's] ZAMR	[$000's] JAMR
VAT recovery addition to Operating Income		
Zirconium	18	—
Rare Earth	588	1,078
	606	1,078
VAT recovery after tax and minority interest		
Zirconium	14	—
Rare Earth	443	931
	457	931

18. RESTRUCTURING EXPENSES

In 2004, the Company implemented a restructuring plan which resulted in the termination of a number of employees. These employees worked for subsidiaries of the Company located in the United States, Canada and the United Kingdom. The total severance and other expenses related to the restructuring was $480,000. As at December 31, 2004, payments of $164,000 remained outstanding.

19. DISCONTINUED OPERATIONS

In November 2004, the Company sold 83.5% of its 92.5% interest in Wuxi Te Zhong Cai Liao (''WWSM'') for cash consideration of $1.1 million, resulting in a loss on disposal of $0.1 million. WWSM was established in 2002 and was engaged in the production of coating materials for computer monitors. The results of this operation were included with the rare earth business. The transaction was recorded in accordance with section 3475, *Disposal of Long-lived Assets and Discontinued Operations*, of the CICA Handbook and, accordingly, the results of the disposed business were reclassified and disclosed in the consolidated statements of operations and retained earnings (deficit) as ''Loss from discontinued operations''.

The following provides additional financial information for the discontinued operations.

Years ended December 31	2004	2003	2002
	[$000's], except per share amounts		
REVENUE			
Sales	814	137	—
Cost of sales			
Cost excluding depreciation	485	130	—
Depreciation	84	85	—
	245	(78)	—
EXPENSES			
Selling, general and administration	383		70
Depreciation and amortization	10	3	—
Research and development	—	455	—
Operating loss for the period	(148)	(536)	(70)
Income taxes	—	—	—
Net loss before loss on disposal of business			
Loss on disposal of business	(99)	—	—
Net loss for the period	(247)	(536)	(70)
Net loss per share, basic and diluted	(0.014)	(0.032)	(0.004)

20. WRITE-DOWN OF THE MAGNETICS BUSINESS.

During 2002, the Company recognized a write-down of $7,066,000 against the assets of its Magnetics business. The total includes a $5,730,000 charge against capital assets and $1,336,000 against working capital items, primarily consisting of inventory. The assets were written down to their estimated net recoverable and realizable amounts.

21. BUSINESS ACQUISITIONS

On September 6, 2002, the Zirconium segment of the Company acquired the assets of the Zirchem division of Meldform Metals Ltd. for cash consideration of $496,000. The transaction was accounted for using the purchase method under which the entire purchase price was allocated to working capital. The operating results of this acquisition have been consolidated with the Company's operating results from the date of acquisition.

22. SEGMENTED INFORMATION

The Company operates within three principal segments — Rare Earth products, Magnetics products and Zirconium products. Discrete operating and financial information is available for these principal segments and is used to determine operating performance for each segment and to allocate resources.

The Rare Earths business manufactures and distributes a range of rare earth based engineered products. The major products are cerium, lanthanum, neodymium, yttrium and yttrium-europium co-precipitates, which are supplied primarily into the automotive, catalyst, electronics and glass industries.

The Magnetics business manufactures neodymium magnetic powder which is used to make bonded magnets for a variety of electronic and mechanical products.

The Zirconium business manufactures a range of zirconium based engineered products, which are supplied to the automotive, catalyst, ceramics and glass industries.

Effective 2004, segment operating income is the primary measure of income for each business. It is equivalent to gross margin less operating expenses directly related to the segment. It excludes corporate expenses and research and development expenditures. Aggregate segment operating income for all segments less corporate and research and development expenses equals consolidated operating income for the Company.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies described in note 2. Sales transactions between segments are valued at prevailing market prices. The value of inter-segment sales was not significant for the years 2004 and 2003.

A comparative breakdown of business segment information is as follows:

	2004			
	Rare Earths	**Magnetics**	**Zirconium**	**Total**
		[$000's]		
Sales	43,062	4,027	7,260	54,349
Segment operating income (loss)				4,949
Corporate and R&D expenses				(3,904)
Operating Income (loss)	4,168	(2)	783	
				1,045
Income tax expense	444	—	—	444
Capital asset additions	2,291	23	870	3,184
Total assets	39,222	5,456	6,444	51,122
Depreciation and amortization	2,131	265	183	2,579

	2003			
	Rare Earths	**Magnetics**	**Zirconium**	**Total**
		[$000's]		
Sales	37,975	4,600	4,183	46,758
Segment operating income (loss)				5,644
Corporate and R&D expenses				3,431
Operating Income (loss)	4,959	505	180	
				2,213
Income tax expense	577	—	—	577
Capital asset additions	858	73	473	1,404
Total assets	39,517	5,480	4,592	49,589
Depreciation and amortization	2,107	269	144	2,520

	2002			
	Rare Earths	Magnetics	Zirconium	Total
		[$000's]		
Sales	42,387	3,169	1,718	47,274
Segment operating income (loss)				(2,762)
Corporate and R&D expenses				3,180
Operating Income (loss)	5,833	(8,731)	136	
				(5,942)
Income tax expense	463	—	—	463
Capital asset additions	594	—	1,087	1,681
Total assets	34,904	5,132	3,105	43,141
Depreciation and amortization	1,886	1,132	106	3,124

The Zirconium business operating income includes a VAT reimbursement of $18,000 in 2003 [note 17]. The Rare Earths business operating income includes a VAT reimbursement of $588,000 in 2003 and $1,078,000 in 2002 [note 17].

The results for the discontinued operations were previously included in the segmented information for the rare earth business.

Capital Assets by Geographic Location

Country	2004	2003
	[$000's]	[$000's]
China	14,519	13,752
Thailand	1,515	1,737
Other	196	242
Total	16,230	15,731

Major Customers

In 2004 there was one customer who accounted for more than 10% of the Company's sales. Sales to this customer were 16% of total sales. In 2003 the Company had two customers who individually accounted for more than 10% of the Company's sales. Sales to these two customers in total were 25% of total sales. In 2002 the Company had four customers who individually accounted for more than 10% of its sales. Sales to these customers in total were 54% of total sales.

Revenues by Geographic Location

The Company's product sales, based on the location of the customer, occur primarily in Asia, North America and Europe. A comparative breakdown is as follows:

	2004	2003	2002
	[$000's]	[$000's]	[$000's]
China	15,599	11,513	6,936
North America	12,356	10,586	11,328
Korea	10,192	11,845	14,295
Japan	8,821	6,985	8,455
Europe	6,514	5,499	4,995
Other Asia	867	330	1,265
Total	54,349	46,758	47,274

23. SUBSEQUENT EVENT

Acquisition

Subsequent to December 31, 2004, the Company proposed to: (i) acquire all of the issued and outstanding shares of Magnequench, Inc. (''MQI''), a closely held Delaware corporation in exchange for the issuance of an aggregate of 26,866,819 common shares of the Company; and (ii) in exchange for all of MQI's outstanding stock options, issue options of the Company to acquire an aggregate of 2,833,181 common shares of the Company. Simultaneous with the closing of the transaction the Company will,

(a) complete a public equity offering and a private convertible debenture offering, the proceeds from which will be used to retire outstanding indebtedness of MQI.

(b) refinance the remaining portion of MQI's indebtedness.

Completion of the transaction is subject to, including but not limited to, the following conditions:

(i) the Company's shareholders' approval of the transactions;

(ii) completion of the financings and refinancing of the remaining portion of outstanding indebtedness; and

(iii) Toronto Stock Exchange approval of the transactions.

AMR Technologies Inc.

CONSOLIDATED BALANCE SHEETS

[Unaudited — all figures in thousands of United States dollars]

	As at	
	March 31 2005	**December 31 2004**
	$	$
ASSETS		
Current		
Cash and cash equivalents *[note 2]*	3,521	5,437
Restricted cash *[note 2]*	914	718
Accounts receivable *[notes 3 and 5]*	12,200	8,741
Inventories *[notes 4 and 5]*	17,238	18,867
Prepaid expenses	565	410
Total current assets	34,438	34,173
Property, plant and equipment, net	16,142	16,230
Other assets, net	702	719
	51,282	51,122
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank advances *[note 5]*	13,638	13,879
Accounts payable and accrued liabilities *[note 6]*	10,365	9,679
Current portion of long-term debt *[note 7]*	629	672
Total current liabilities	24,632	24,230
Long-term debt *[note 7]*	351	468
Minority interest	2,085	2,282
Commitments and contingencies *[note 13]*		
Shareholders' equity		
Share capital *[note 8]*	26,662	26,653
Contributed surplus *[notes 8 and 9]*	168	152
Deficit	(2,616)	(2,663)
Total shareholders' equity	24,214	24,142
	51,282	51,122

See accompanying notes

AMR Technologies Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

[Unaudited — all figures in thousands of United States dollars except per share information]

	For three months ended	
	March 31 2005	March 31 2004
	$	$
REVENUE		
Sales	16,217	11,783
Cost of sales Cost excluding depreciation	12,888	8,299
Depreciation	532	583
	2,797	2,901
EXPENSES		
Selling, general and administration	2,081	2,448
Depreciation and amortization	71	58
Research and development	208	179
Operating income for the period	437	216
Other income	(43)	(96)
Interest expense, short-term debt *[note 5]*	188	93
Interest expense, long-term debt *[note 7]*	16	27
Foreign exchange loss	25	65
Income before income taxes and minority interest	251	127
Income taxes	143	142
Minority interest	61	89
Net income (loss) from continuing operations	47	(104)
Net loss from discontinued operations *[note 10]*	—	(39)
Net income (loss) for the period	47	(143)
Deficit, beginning of period	(2,663)	(2,088)
Change in accounting policy for stock-based compensation *[note 9]*	—	(120)
Adjusted deficit, beginning of period *[note 9]*	(2,663)	(2,208)
Deficit, end of period	(2,616)	(2,351)
Net income (loss) from continuing operations per share, basic and diluted	0.003	(0.006)
Net income (loss) per share, basic and diluted	0.003	(0.009)

See accompanying notes

AMR Technologies Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

[Unaudited — all figures in thousands of United States dollars]

	For three months ended	
	March 31 2005	March 31 2004
	$	$
OPERATING ACTIVITIES		
Net income (loss) from continuing operations	47	(104)
Add items not affecting cash		
Minority interest	61	89
Depreciation and amortization	603	641
Stock-based compensation	20	—
Net change in non-cash working capital balances	(1,299)	859
Cash provided by (used in) operating activities	(568)	1,485
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(515)	(1,032)
Decrease (increase) in restricted cash	(196)	266
Decrease in other assets	17	5
Cash provided by (used in) investing activities	(694)	(761)
FINANCING ACTIVITIES		
Increase (decrease) in bank advances	(241)	1,514
Repayment of long-term debt	(160)	(39)
Minority interest share of subsidiary's cash distribution	(258)	(369)
Common share issuance	5	8
Cash provided by financing activities	(654)	1,114
Net increase (decrease) in cash and cash equivalents	(1,916)	1,838
Change in cash from discontinued operations *[note 10]*	—	(145)
Cash, beginning of period	5,437	3,880
Cash, end of period	3,521	5,573

See accompanying notes

AMR TECHNOLOGIES INC.

NOTES TO QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

[Unaudited — all figures in United States dollars, unless otherwise stated]

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements have been prepared by management using Canadian generally accepted accounting principles (''GAAP''). These unaudited notes to the consolidated financial statements do not include all disclosures required in the annual financial statements and should be read in conjunction with the audited consolidated financial statements and notes included in the Company's annual report for the year ended December 31, 2004.

The preparation of the unaudited consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and these accompanying notes. In the opinion of management, these unaudited consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies. Actual results could differ from those estimates, and the operating results for the interim period presented are not necessarily indicative of the results expected for the full year. These unaudited consolidated financial statements have been prepared on a basis consistent with the significant accounting policies disclosed in the audited consolidated financial statements for the year ended December 31, 2004.

2. CASH, CASH EQUIVALENTS AND RESTRICTED CASH

Included in cash and cash equivalents at March 31, 2005 was $1,189,000 (December 31, 2004 — $2,418,000) which was held in China in Renminbi and US$ denominated accounts. In addition, restricted cash equaling $914,000 was held in China in Renminbi (December 31, 2004 — $718,000). The restricted cash amounts will be applied to balances which are included in accounts payable which are payable to Chinese banks on account of purchases from third party suppliers. The Company's cash balances are held primarily in bank accounts bearing interest at rates commensurate with such deposits.

3. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following: [US$000's]

	Mar. 31, 2005	Dec. 31, 2004
Trade	11,727	8,349
Other	473	392
Total	12,200	8,741

4. INVENTORIES

Inventories consist of the following [US$000's]

	Mar. 31, 2005	Dec. 31, 2004
Raw materials	3,987	3,015
Work-in-process	4,124	3,767
Finished goods	9,127	12,085
Total	17,238	18,867

5. BANK ADVANCES

The Company's US based subsidiary has available for use a revolving line of credit of up to $2,500,000 (December 31, 2004 — $2,500,000) with a Canadian financial institution. Any amounts drawn under this line of credit are payable on demand. The loan is collateralized by the accounts receivable and inventories of the US subsidiary and is guaranteed by the Company. The loan bears interest at 1.0% plus the rate of the financial institution's prime commercial rate for U.S. dollar loans. At March 31, 2005 the interest rate on this line was 6.75% (December 31, 2004 — 6.25%). The line of credit is subject to review by the financial institution from time to time and not less than annually. The balance outstanding under this line of credit as at March 31, 2005 was $2,125,000 (December 31, 2004 — $1,725,000).

As at March 31, 2005, the subsidiaries in China have borrowed, in aggregate, $6,630,000 (Renminbi 54.9 million) (December 31, 2004 — $5,610,000, Renminbi 46.5 million) from domestic banks in the form of a number of term loans denominated in Renminbi. These loans mature at various dates from April 2005 to December 2005. Certain of these loans are collateralized by property, plant and equipment in China. The loans have a weighted average interest rate of 5.97% (December 31, 2004 — 5.90%).

As at March 31, 2005, the subsidiaries in China have borrowed, in aggregate, $4,883,000 (December 31, 2004 — $6,544,000) under U.S. dollar denominated facilities. These loans are collateralized by U.S. dollar receivables of the subsidiaries from the parent. The bank reviews these facilities from time to time. The weighted average interest rate on the U.S. dollar loans is 3.71% (December 31, 2004 — 3.34%) and they mature at various dates from April 2005 to September 2005.

6. **ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities consist of the following: [US$000's]

	Mar. 31, 2005	Dec. 31, 2004
Trade payables and accrued liabilities	10,138	9,462
Income taxes payable	134	75
Other	93	142
Total	10,365	9,679

As at March 31, 2005, a total of $2,995,000 (Renminbi 24.8 million) (December 31, 2004 — $2,995,000, Renminbi 24.8 million) payable to a Chinese bank on account of purchases from third party suppliers is included in the trade payables.

In 2004, the Company implemented a restructuring plan which resulted in the termination of a number of employees. As at March 31, 2005 $53,000 (December 31, 2004 — $164,000) of payments remained outstanding and are included in accounts payable.

7. **LONG-TERM DEBT**

Loan	Original amount	Denominated in	Interest rate	Payments starting	Payment frequency	Last payment date	Balance Outstanding Mar. 31 2005	Balance Outstanding Dec. 31 2004
	[$000's]						[$000's]	[$000's]
1	$ 707	U.S. dollars	9.7%	Aug. 2000	Quarterly	May 2005	45	88
2	2,336	Renminbi	6.0%	Dec. 2002	Quarterly	Dec. 2006	935	1,052
Total							980	1,140

The first loan is between a subsidiary of the Company and a Canadian lending institution and was used to finance the purchase of plant and equipment. This debt is collateralized by a lien against the financed equipment and by a guarantee from the Company. The second loan is between another subsidiary of the Company and its minority interest partner in Jiangyin Jia Hua Advanced Material Resources Co., Ltd. (JAMR), the proceeds of which were used to acquire an additional 12.83% of JAMR's stock in 2001. As the value of Renminbi remained fixed relative to the U.S. dollar, there was no foreign exchange gain or loss related to the translation of the Renminbi denominated loan into U.S. dollars. The fair value of debt approximates its carrying value based on discounted cash flows at current market prices.

8. **SHARE CAPITAL AND CONTRIBUTED SURPLUS**

[a] **Issued and Outstanding Common Shares**

A summary of the number and stated value of issued and outstanding common shares for the three months ended March 31, 2005 is as follows: [$000's for share capital]

	Number of shares	Share capital
Beginning of period	16,723,434	26,653
Options exercised	6,667	5
Transfer contributed surplus to share capital for options exercised		4
End of period	16,730,101	26,662

[b] **Stock Option Plan**

The aggregate number of common shares of the Company that may be issued and sold under the stock option plan is not to exceed 2,499,765. As at March 31, 2005 a total of 1,683,000 options were outstanding (December 31, 2004 — 1,713,000). During the three months ended March 31, 2005, 6,667 shares have been issued for $5,000 under the stock option plan.

[c] **Contributed Surplus**

A summary of contributed surplus for the three months ended March 31, 2005 is as follows [$000's]:

Contributed Surplus — beginning of period	152
Stock-based compensation expense	20
Transfer contributed surplus to share capital for options exercised	(4)
Contributed Surplus — end of period	168

9. **STOCK-BASED COMPENSATION**

For the three months ended March 31, 2005, a total of 120,000 options were granted to employees. The fair value of stock options granted to employees is determined using the Black-Scholes option-pricing model. For the options granted in the three months ended March 31, 2005, the following assumptions were used: weighted average risk free interest rate of 3.49%; volatility factor of the expected market price of the Company's common stock of 57.1%; expected dividend yield of 0%; and an expected life of the options of five years. The resulting fair value was determined to be $122,000 which is being amortized over the vesting period of the options. For the three months ended March 31, 2004, there were no employee options granted. Total stock-based compensation expense recorded in the three months ended March 31, 2005 was $20,000 which included $16,000 for options granted in 2004 and $4,000 for options granted in 2005.

Effective January 1, 2004, in accordance with the Canadian Institute of Chartered Accountants (''CICA'') standard on *''Stock-based Compensation and Other Stock-based Payments''*, the Company has changed its accounting policy to account for stock-based compensation using the fair value method. This change in accounting policy was adopted retroactively and the opening deficit and contributed surplus for 2004 were adjusted to reflect the impact of fair value of options granted in 2002 and 2003 and previously included in the pro forma note disclosures for prior periods.

The adjustments to the opening deficit and contributed surplus are as follows [$000's]:

Deficit, beginning of period before adjustment	(2,088)
Fair value of options granted — 2003	90
Fair value of options granted — 2002	30
Adjusted deficit, beginning of period	(2,208)
Increase in contributed surplus — beginning of period	120
Stock based compensation expense — 2004	32
Contributed surplus — end of period	152

10. DISCONTINUED OPERATIONS

In November 2004, the Company sold 83.5% of its 92.5% interest in Wuxi Te Zhong Cai Liao (''WWSM'') for cash consideration of $1.1 million, resulting in a loss on disposal of $0.1 million. WWSM was established in 2002 and was engaged in the production of coating materials for computer monitors. The results of this operation were included with the Rare Earths business. The transaction was recorded in accordance with section 3475, ''*Disposal of Long-lived Assets and Discontinued Operations*'', of the CICA Handbook and, accordingly, the results of the disposed business were reclassified and disclosed in the consolidated statements of operations and deficit as ''Net loss from discontinued operations''.

The following provides additional financial information for the discontinued operations for the three months ended March 31, 2004. [$000's]

REVENUE	
Sales	246
Cost of sales	
Cost excluding depreciation	171
Depreciation	23
	52
EXPENSES	
Selling, general and administration	86
Depreciation and amortization	5
Operating loss for the period	(39)
Net loss for the period	(39)
Net loss per share, basic and diluted	(0.002)

11. VARIABLE INTEREST ENTITY

In 2004, in accordance with the CICA Guideline 15 on ''Consolidation of Variable Interest Entities'', the Company began to consolidate a Chinese entity in which it does not have a direct equity interest and which is owned by three employees of the Company. The Company retains direct decision making authority over the entity and the entity is dependent on a subsidiary of the Company to finance its operations. As a result of consolidating the variable interest entity, revenues and cost of sales increased by $549,000 for the three months ended March 31, 2004. The entity was inactive for the three months ended March 31, 2005 during which time the Company severed its operating relationship with the entity.

12. SEGMENTED INFORMATION

The Company operates within three principal segments — Rare Earths, Magnetics and Zirconium. The Rare Earths business manufactures and distributes a range of rare earths based engineered products. The major products are cerium, lanthanum, neodymium, yttrium and yttrium-europium co-precipitates, which are supplied primarily into the automotive, catalyst, electronics and glass industries. The Magnetics business manufactures neodymium magnetic powder, which is used in a variety of electronic and mechanical products. The Zirconium business manufactures a range of zirconium-based engineered products, which are supplied to the automotive, catalyst, ceramics and glass industries.

Effective 2004, segment operating income was established as the primary measure of income for each business. It is equivalent to gross margin less operating expenses directly related to the segment. It excludes corporate expenses and research and development expenditures. Aggregate segment operating income for all segments less corporate and research and development expenses equals consolidated operating income for the Company.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies included in the 2004 annual report. Sales transactions between segments are valued at prevailing market prices. The value of inter-segment sales was not significant for the first three months of 2005 and 2004.

A comparative breakdown of business segment information is as follows: [$000's]

	For the three months ended March 31, 2005			
	Rare Earths	Magnetics	Zirconium	Total
Sales	12,859	626	2,732	16,217
Segment operating income (loss)	1,238	(201)	411	1,448
Corporate and R&D expenses				1,011
Operating income				437
Income tax expense	143	—	—	143
Purchase of property, plant and equipment	286	2	227	515
Total assets	39,794	4,682	6,806	51,282
Depreciation and amortization	487	62	54	603

	For the three months ended March 31, 2004			
	Rare Earths	Magnetics	Zirconium	Total
Sales	8,986	1,346	1,451	11,783
Segment operating income	768	234	123	1,125
Corporate and R&D expenses				909
Operating income				216
Income tax expense	142	—	—	142
Purchase of property, plant and equipment	982	2	48	1,032
Total assets	39,350	5,694	4,551	49,595
Depreciation and amortization	533	66	42	641

Revenues by Geographic Location

The Company's product sales, based on the location of the customer, occur primarily in Asia, North America and Europe. A comparative breakdown is as follows: [US$000's]

	For the three months ended	
	Mar. 31, 2005	Mar. 31, 2004
China	6,810	3,837
North America	4,502	2,991
Europe	1,755	1,566
Japan	1,542	858
Korea	1,510	2,212
Other Asia	98	319
Total	16,217	11,783

13. COMMITMENTS AND CONTINGENCIES

Foreign Currency Hedges

As at March 31, 2005, the Company has contracted to receive a total of Cdn $551,598 in exchange for US$450,000. The contracts expire between April and July 2005. At the market rates prevailing at March 31, 2005, a total of Cdn $544,230 would be received in exchange for the US$450,000.

14. SUBSEQUENT EVENT

Acquisition

Subsequent to December 31, 2004, the Company proposed to: (i) acquire all of the issued and outstanding shares of Magnequench, Inc. (''MQI''), a closely held Delaware corporation in exchange for the issuance of an aggregate of 26,866,819 common shares of the Company; and (ii) in exchange for all of MQI's outstanding stock options, issue options of the Company to acquire an aggregate of 2,833,181 common shares of the Company. Simultaneous with the closing of the transaction the Company will,

(a) complete a public equity offering and a private convertible debenture offering, the proceeds from which will be used to retire outstanding indebtedness of MQI.

(b) refinance the remaining portion of MQI's indebtedness.

Completion of the transaction is subject to, including but not limited to, the following conditions:

(i) the Company's shareholders' approval of the transactions;

(ii) completion of the financings and refinancing of the remaining portion of outstanding indebtedness; and

(iii) Toronto Stock Exchange approval of the transactions.

COMBINED FINANCIAL STATEMENTS

Magnequench, Inc.

For the Years Ended December 31, 2004, 2003 and 2002
and Three Months Ended March 31, 2005

REPORT OF INDEPENDENT AUDITORS

To the Directors of
MAGNEQUENCH, INC.

We have audited the combined balance sheet of Magnequench as of December 31, 2004 and the combined statements of operations, deficit and net investment and cash flows for the year then ended, which, as described in Note 2, have been prepared on the basis of accounting principles generally accepted in Canada. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these combined financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

March 8, 2005 (except as to Notes 12 and 18
which are as of June 8, 2005)
Singapore

REPORT OF INDEPENDENT AUDITORS

To the Directors of
MAGNEQUENCH, INC.

We have audited the accompanying combined balance sheet of Magnequench as of December 31, 2003, and the related combined statements of operations, deficit and net investment and cash flows for the years ended December 31, 2003 and 2002, which, as described in Note 2, have been prepared on the basis of accounting principles generally accepted in Canada. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Since the date of completion of our audit of Magnequench, Inc.'s previously issued consolidated financial statements as of and for the year ended December 31, 2003 and initial issuance of our report thereon dated April 30, 2004, which report contained an explanatory paragraph regarding Magnequench, Inc.'s ability to continue as a going concern, Magnequench, Inc., as discussed in Note 9, has completed a refinancing of its long-term debt that was in default. Therefore, the condition that raised substantial doubt about whether the Company will continue as a going concern no longer exists.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of Magnequench as of December 31, 2003, and the combined results of its operations and its cash flows for the years ended December 31, 2003 and 2002 in conformity with Canadian generally accepted accounting principles.

April 30, 2004,
Except for Note 9 (third paragraph) and Note 18(d), as to which the date is June 8, 2005
Indianapolis, Indiana
United States

Magnequench

COMBINED BALANCE SHEETS

(All figures in thousands of United States dollars)

	As at December 31,	
	2004	2003
	$	$
ASSETS		
Current assets		
Cash	2,755	3,227
Trade accounts receivable, net of allowances of $Nil — 2004; $19 — 2003	8,115	15,230
Royalty and licensing income receivable	386	350
Inventory *[Note 5]*	8,172	11,067
Other current assets	3,777	2,495
Assets of operations held for sale *[Note 4]*	253	27,137
Total current assets	23,458	59,506
Property, plant and equipment, net *[Note 6]*	34,603	39,694
Patents and other intangible assets, net *[Note 8]*	8,227	12,577
Goodwill *[Note 7]*	23,133	23,133
Deferred financing costs, net of accumulated amortization of $580 — 2004; $4,704 — 2003	5,832	2,242
Other assets	9,519	1,906
	104,772	139,058
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities		
Long-term debt in default *[Note 9]*	—	119,586
Revolving credit facility in default *[Note 9]*	—	26,887
Short-term debt *[Note 9]*	1,813	—
Current portion of long-term debt *[Note 9]*	22,427	391
Accounts payable	3,650	8,787
Accrued liabilities	3,431	6,788
Accrued interest on senior subordinated debt in default	—	23,962
Reserve for facility closure	875	929
Accrued payroll and benefits	576	1,002
Accrued income taxes	4,043	4,056
Liabilities of operations held for sale *[Note 4]*	428	19,143
Total current liabilities	37,243	211,531
Long-term liabilities		
Long-term debt *[Note 9]*	137,997	427
Accrued pension and other post retirement benefits *[Note 10]*	1,948	2,247
Other long-term liabilities	—	400
	177,188	214,605
Commitments and contingencies *[Note 12]*		
Shareholders' deficit		
Net investment	16,813	16,794
Deficit	(89,254)	(94,411)
Cumulative currency translation adjustment	25	2,070
Total shareholders' deficit	(72,416)	(75,547)
	104,772	139,058

The accompanying notes are an integral part of these combined statements.

Magnequench

COMBINED STATEMENTS OF OPERATIONS
(All figures in thousands of United States dollars)

	Years ended December 31		
	2004	2003	2002
	$	$	$
Net sales	83,612	77,822	80,623
Royalty and license revenue	611	755	865
Total revenue	84,223	78,577	81,488
Cost of sales			
Cost excluding amortization	19,654	13,431	18,466
Depreciation and amortization	7,469	7,486	7,475
Restructuring recovery [Note 3]	—	(271)	(1,434)
Gross profit	57,100	57,931	56,981
Operating expenses			
Selling, general and administrative	17,258	16,646	15,903
Depreciation and amortization	2,036	2,621	4,060
Research and development	1,958	2,448	3,022
Restructuring expense [Note 3]	972	964	1,464
Asset impairment (recovery) charge	—	2,962	1,608
Operating income	34,876	32,290	30,924
Other expense			
Interest expense, short term debt	179	220	247
Interest expense, long-term debt	27,107	21,623	22,705
Foreign exchange loss	32	120	143
Other income, net	(886)	(33)	(360)
Income from continuing operations before income taxes and equity income of uncombined affiliate	8,444	10,360	8,189
Income taxes [Note 11]	1,708	2,425	471
Income from continuing operations before equity income of uncombined affiliate	6,736	7,935	7,718
Equity in income of uncombined affiliate	307	208	—
Income from continuing operations	7,043	8,143	7,718
Loss from discontinued operations, net of tax [Note 4]	(1,867)	(27,286)	(23,734)
Net income (loss)	5,176	(19,143)	(16,016)

The accompanying notes are an integral part of these combined financial statements.

Magnequench

COMBINED STATEMENTS OF DEFICIT AND NET INVESTMENT

(All figures in thousands of United States dollars)

	Years ended December 31		
	2004	2003	2002
	$	$	$
Deficit at beginning of the year as previously stated	(94,411)	(75,268)	(46,304)
Change in accounting policies (notes 2 and 7)	(19)	—	(12,948)
Deficit at beginning of the year as restated	(94,430)	(75,268)	(59,252)
Net income/(loss)	5,176	(19,143)	(16,016)
Deficit at end of the year	(89,254)	(94,411)	(75,268)
Net Investment at beginning of year	16,794	16,794	18,510
Change in accounting policy (note 2)	19	—	—
Dividends on preferred stock	—	—	(1,716)
Net Investment at end of year	16,813	16,794	16,794

The accompanying notes are an integral part of these combined financial statements.

Magnequench

COMBINED STATEMENTS OF CASH FLOWS

(All figures in thousands of United States dollars)

	Years ended December 31		
	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income from continuing operations	$ 7,043	$ 8,143	$ 7,718
Adjustments for items not requiring (providing) cash			
Depreciation and amortization	9,505	10,107	11,535
Future income tax benefit	—	—	—
Provision for losses on accounts receivable	(5)	(16)	12
Accretion of sub-debt original issue discount	5,286	724	723
Asset impairment charge	—	2,962	1,608
Equity in income of uncombined affiliate	(307)	(208)	—
Decrease (increase) in assets, net of effects of assets held for sale			
Accounts receivable	(2,205)	(810)	510
Inventory	(2,953)	2,701	7,508
Other assets	(7,007)	2,776	2,286
Increase (decrease) in liabilities, net of effects of liabilities held for sale			
Accounts payable	113	(232)	587
Accrued liabilities, payroll and benefits	(727)	(2,492)	(15,402)
Accrued interest on senior subordinated debt	(23,962)	12,164	10,408
Accrued pension and other post retirement benefits	(108)	(555)	(1,076)
Net cash (used in) provided by operating activities	(15,327)	35,264	26,417
CASH FLOWS FROM INVESTING ACTIVITIES			
Property, plant and equipment additions	(1,579)	(1,749)	(3,670)
Proceeds from sale of assets	50	1,621	1,144
Acquisition of investment in uncombined affiliate	—	(1,029)	—
Net cash used in investing activities	(1,529)	(1,157)	(2,526)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings on revolving credit facility	63,367	124,320	147,676
Payments on revolving credit facility	(90,253)	(128,734)	(151,093)
Proceeds from borrowings of (payments on) short-term debt	974	(4,715)	2,096
Proceeds from borrowings on long-term debt	170,000	—	—
Payments on long-term debt	(133,499)	(20,239)	(9,136)
Net cash provided by (used in) financing activities	10,589	(29,368)	(10,457)
Effect of exchange rate changes	34	206	1,164
Net change in cash	(6,232)	4,945	14,598
Cash flows from discontinued operations	5,760	(7,020)	(11,617)
Increase (decrease) in cash	(472)	(2,075)	2,981
Cash at beginning of year	3,227	5,302	2,321
Cash at end of year	$ 2,755	$ 3,227	$ 5,302

The accompanying notes are an integral part of these combined financial statements.

MAGNEQUENCH

NOTES TO COMBINED FINANCIAL STATEMENTS
(All figures in United States dollars, unless otherwise stated)

1. ORGANIZATION, NATURE OF OPERATIONS AND BASIS OF PRESENTATION

These combined financial statements reflect the business of Magnequench (the ''Company'' or ''Magnequench'') which is under the common control of the following principal shareholders: Sextant Group One, LLC and affiliated companies (41.5%), Beijing San Huan New Materials and Hightech, Inc. (''San Huan'') (21.6%), INVEMED Associates, LLC (10.7%) and several other private investment funds and individuals (26.2%). Magnequench Inc. is a holding company formed on April 21, 1999 through a series of stock transactions between the shareholders of Magnequench International, Inc. (''MQII''). These combined financial statements include the accounts of Magnequench, Inc. and its 100% ownership interest in each of the following companies:

United States Subsidiaries:	Foreign Subsidiaries:
Magnequench International, Inc. (''MQII'')	Xin Bao Investment Limited (Hong Kong)
Magnequench UG, LLC	Magnequench (Tianjin) Company Limited (China)
	Neo Powders Pte. Ltd. (Singapore)

The accounting policies of Magnequench conform with Canadian generally accepted accounting principles. All significant intercompany balances and transactions have been eliminated. The significant accounting policies are summarized in Note 2 below.

The Company, through its subsidiaries, is engaged in the business of manufacturing and distributing high energy, rare earth magnetic powder. The Company's powder is used in a wide range of industries, including the computer storage device, office automation, automotive and appliance industries. The Company operates a manufacturing facility in Tianjin, in the People's Republic of China (''China''), as well as magnetic powder distribution facilities in El Paso, Texas and Tubingen, Germany.

MQII was originally organized in 1995 to acquire certain assets of a business unit operated by the Delphi Energy and Engine Management Systems Division of General Motors Corporation (''GM''). The acquisition from GM was consummated for $73.4 million (financed with $15.2 million in cash and $58.2 million in debt) plus the assumption of certain liabilities. The acquisition was accounted for as a purchase. Effective March 31, 2002, MQII ceased all manufacturing operations at its production facility in Anderson, Indiana, and transferred those activities to the Company's operations in Tianjin, China.

Xin Bao Investment Limited is the sole shareholder of Magnequench (Tianjin) Company Limited (''Tianjin''), established by MQII during 1998 in China to produce and distribute high energy, rare earth, magnetic powder. Beginning in 2002, all of the Company's magnetic powder has been manufactured by Tianjin.

Xin Bao Special Metals (''Tianjin Xin Bao''), which was a Wholly Owned Foreign Enterprise of Xin Bao Investment Limited, commenced operations in November 1993 and its main activities were the manufacturing and sales of special metals. Based on the approval numbered [2000] 372 of the Tianjin Foreign Trade and Economic Committee, Tianjin Xin Bao was acquired on January 1, 2001 and integrated its operations into Magnequench (Tianjin) Company Limited.

On June 14, 2004, Magnequench Valparaiso, Inc was merged with and into the surviving entity Magnequench UG, Inc. The former was formed and the latter was acquired during 2000 in conjunction with the acquisition of the rare earth magnet business of Le Carbone Lorraine S.A. Following the merger, Magnequench UG, Inc. was converted into a limited liability company and changed its name to Magnequench UG, LLC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Currency

These combined financial statements have been prepared in United States dollars and in accordance with Canadian generally accepted accounting principles.

Inventory

Inventory is recorded at the lower of cost or net realizable value with cost being determined on a first-in, first-out basis. For work-in-progress and finished goods, costs include raw materials, and an application of value-add.

Property, Plant and Equipment

Property, plant and equipment, including significant renewals and improvements, are capitalized at cost. Amortization is recorded using the straight-line method over the estimated useful lives of the depreciable assets. Estimated useful lives range from 8 to 40 years for buildings and improvements and from 2 to 15 years for machinery and equipment. Maintenance and repairs are charged to expense as incurred.

The Company capitalizes interest incurred on capital additions and improvement projects that take in excess of one year to complete.

Employee Future Benefits

The significant policies related to employee future benefits are as follow:

- The cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service, market interest rates and actuarial best estimate of expected plan investment performance, retirement ages of employees and expected health care costs.

- A market-related value method is used to value the plan assets for the purpose of calculating the expected return on plan assets. Under the selected method, the differences between investment returns during a given year and the expected returns are amortized on a straight line basis over 5 years.
- Cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the accumulated post retirement benefit obligation or market-related value of plan assets at the beginning of the year are amortized over the average remaining future service to expected retirement age.

Goodwill, Patents and Other Intangible Assets

Goodwill, which is not amortized, represents the excess of cost over the fair value of net assets acquired in acquisitions accounted for using the purchase method. Goodwill is reviewed for impairment at least annually, or whenever facts and circumstances indicate that the carrying amount may not be recoverable. This process involves comparing the estimated fair value of the reporting unit to which goodwill has been allocated to its carrying value, including goodwill. If the carrying value exceeds the fair value, the goodwill of the reporting unit is potentially impaired and the Company is required to complete further steps to measure the impairment loss to be charged to operations. See Note 7 for discussion of the impact of adoption of the Canadian Institute of Chartered Accountants standard (''CICA'') 3062 *Goodwill and Other Intangible Assets.*

Other intangible assets consist primarily of patents, license agreements and Chinese land use rights owned by the Company. Other intangible assets are amortized on a straight-line basis over the period of the associated agreement or legal title, which ranges from 3 to 16 years for patents and license agreements and 50 years for Chinese land use rights. The Company's patents expire between 2006 and 2012. Amortization expense was approximately $4.3 million, $4.7 million and $5.2 million in 2004, 2003 and 2002, respectively. Amortization expense is expected to be approximately $4.3 million in 2005, $2.6 million in 2006, $100,000 in 2007 and $33,000 in 2008.

Deferred Financing Costs

Costs incurred to obtain debt financing are recorded as deferred financing costs and amortized as interest expense on a straight-line basis over the term of the related debt, which approximates the effective interest rate method, resulting in expense of $2.8 million, $1.4 million and $1.2 million for 2004, 2003 and 2002, respectively. Included in the expense of 2004 was a write-off of $1.6 million in relation to the debt which was refinanced during the year.

Long-lived Assets

Long-lived assets other than goodwill are reviewed for impairment whenever facts and circumstances indicate that the carrying amount may not be recoverable. An undiscounted cash flow approach is used for evaluating impairment of assets to be held and used and assets to be disposed of other than by sale, with a fair value approach required for measuring assets that are deemed to be impaired. Assets to be disposed of by sale are evaluated for impairment using a fair value less cost to sell approach. Assets are evaluated at the individual subsidiary level, which is the lowest level for which identifiable cash flows are independent of the cash flows from other assets and liabilities. Impairment charges are recorded in results of operations.

See Note 4 for discussion of impairment charges recorded during 2004, 2003 and 2002 in respect of assets of magnet subsidiaries that were disposed of in 2004.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financials statements and the reported amounts of revenues and expenses during the reporting periods. Due to the inherent uncertainty involved in making estimates, actual results may differ from those estimates.

Revenue Recognition

The Company recognizes revenue when there is persuasive evidence of an arrangement, the product has been shipped, the sales price is fixed or determinable and collectibility is reasonably assured. The Company reduces revenue for customer returns and other allowances.

Royalty and License Income

The Company receives royalty and license income from various licensees related to sub-licenses of certain composition patents. The license agreements generally provide that a specified royalty amount is earned on each product shipped to a third party by a licensee. The gross royalty amount due to the Company is generally determined on a semi-annual basis, with communication to the Company required within 30-60 days of this determination.

Research and Development Costs

The Company expenses all research and development costs as incurred.

Income Taxes

The Company recognizes future income tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Future income tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using substantively enacted tax rates. The Company evaluates the available evidence about future taxable income and other possible sources of realization of future income tax assets and records a valuation allowance to reduce future income tax assets to an amount that represents the Company's best estimate of the amount of such future income tax assets that more likely than not will be realized.

Stock-Based Compensation

Effective January 1, 2004 in accordance with CICA 3870 *Stock-Based Compensation and Other Stock-Based Payments*, the Company has changed its accounting policy for stock-based compensation using the fair value method. This change in accounting policy has been adopted retroactively without restatement and the opening deficit and net investment for 2004 have been adjusted to reflect the impact of the fair value of options granted in 2002. There were no options granted in 2004 and 2003. The Company's plan is described in Note 10.

The fair value of the options granted is estimated using the Black – Scholes option pricing model and is recognized over the applicable vesting period as an increase in compensation expense and contributed surplus. When the options are exercised, the proceeds received by the Company will be credited to net investment. For options granted before January 1, 2002 the Company continues to follow the accounting policy under which no expense is recognized for these stock options. When these options are exercised, the proceeds received by the Company will be credited to net investment.

The adjustment to the opening deficit and net investment as at January 1, 2004 is as follows:

Deficit, beginning of year before adjustment	(94,411)
Fair value of options granted — 2002	(19)
Adjusted deficit, beginning of year	(94,430)
Net investment — beginning of year	16,794
Increase in net investment — beginning of year	19
Adjusted net investment, beginning of year	16,813

Derivatives

To qualify for hedge accounting in accordance with CICA Accounting Guideline 13 *Hedging Relationships* (AcG13) the Company requires that the instruments are effective in reducing the risk exposure that they are designated to hedge. Instruments that meet established accounting criteria are formally designated as hedges at the inception of the contract. These criteria demonstrate that the derivative is expected to be highly effective at offsetting changes in fair value or cash flows of the underlying exposure both at inception of the hedging relationship and on an ongoing basis. The assessment for effectiveness is formally documented at hedge inception and reviewed at least quarterly throughout the designated hedge period.

Where derivatives are designated as a hedge of (1) the fair value of a recognized asset or liability or of an unrecognized firm commitment (''fair value'' hedge); (2) the variability of anticipated cash flows of a forecasted transaction or the cash flows to be received or paid to a recognized asset or liability (''cash flow'' hedge); or (3) a hedge of a long-term investment (''net investment'' hedge) in a foreign operation, hedge accounting would be applied.

The Company may enter into derivatives that economically hedge certain of its risks, although hedge accounting under AcG13 is not applied. In these cases, there generally exists a natural hedging relationship in which the changes in fair value of the derivative, which are recognized in net income, act as an economic offset to changes in the fair value of the underlying hedged item(s).

The Company had interest rate swap agreements, which were designated as hedges against changes in interest rate on the Company's floating rate notes payable, that was settled in 2002. The swap agreements were contracts to exchange floating rate for fixed interest payments periodically over the life of the agreements without the exchange of the underlying notional amounts. The notional amounts of the interest rate agreements were used to measure interest to be paid or received and did not represent the amount of exposure to credit loss.

The liability associated with these swap agreements was not recorded in the December 31, 2002. Realized gains or losses on the swaps were reported in earnings in the period in which settlement occurred.

The premium paid for the Company's interest rate cap is recognized at cost in the 2004 combined balance sheet as other current assets and other assets. The carrying value of the cap is adjusted to market on a quarterly basis. The premium is recorded within interest expense and recognized over the lifetime of the cap.

Foreign Currency Translation

The functional currency of the Company's subsidiary in China is the local currency — Renminbi. Balance sheets of this foreign subsidiary have been translated from local currency to United States dollars using the current exchange rate in effect at the balance sheet dates. All of the Company's other subsidiaries use United States dollars as their functional currency. Results of operations from this foreign subsidiary have been translated using a weighted average exchange rate for the period. For year ended December 31, 2004, substantively all of the translation adjustment of $2 million resulting from the realization of accumulated currency translation adjustment following the disposal of the magnet subsidiaries as disclosed in Note 4. For years ended December 31, 2003 and 2002, the translation adjustment resulted from conversion of foreign subsidiary financial statements were $1.0 million and $790,000, respectively.

3. BUSINESS CONDITIONS AND RESTRUCTURING INITIATIVES

The Company is in a net shareholders' deficit and net current liabilities position of $72.4 million and $13.8 million, respectively as at December 31, 2004. The Company has implemented several restructuring initiatives as disclosed herewith and in Note 4. These include (i) divesture of all magnet manufacturing subsidiaries and (ii) relocation of research and development facility and certain corporate administrative and finance functions from the United States to Singapore in 2004.

During the past four years the Company has implemented several restructuring initiatives which, in the opinion of management, will improve the Company's profitability and liquidity. Components of these initiatives included the following:

- 2001 — Negotiation of a plant closure agreement for its Anderson, Indiana facility with the United Auto Workers and transfer of all powder manufacturing to the Company's facility in Tianjin, China
- 2003 — Negotiation of a plant closure agreement with the United Steelworkers for its Magnequench UG facility in Valparaiso, Indiana
- 2004 — Divestiture of all magnet manufacturing subsidiaries
- 2004 — Relocation of the research and development facility and certain corporate administrative and finance functions from the United States to Singapore

In 2004, 2003 and 2002, the Company recorded restructuring charges of $1.3 million, $4.5 million and $1.3 million, respectively, primarily for severance and other workforce reduction expenses related to its operations in Germany, Valparaiso, Indiana, Research Triangle Park (''RTP'') and its corporate headquarters. The components of these restructuring charges are summarized below, with detailed discussion following (dollars in thousands):

	2004	2003	2002
Restructuring reserve at January 1	$ 3,229	$ 4,177	$11,616
Restructuring expense			
Charges	1,260	4,784	3,116
($288, $4,091 and $3,086 classified with discontinued operations in 2004, 2003 and 2002, respectively)			
Recovery	—	(278)	(1,800)
($Nil, $278 and $1,800 classified with discontinued operations in 2004, 2003 and 2002, respectively)			
Reserve assumed by buyer of magnet operations	(974)	—	—
Payments charged to reserve	(2,546)	(5,454)	(8,755)
Restructuring reserve at December 31	969	3,229	4,177
Reserve related to discontinued operations	94	2,395	1,056
Reserve related to continuing operations	$ 875	$ 834	$ 3,121

During 2003 and 2004, the Company relocated its research facility from RTP to Singapore, along with certain of its corporate administrative and finance functions. In conjunction with this relocation, $896,000 in severance and retention expense was recorded for 24 salaried employees during 2003, $88,000 of which was paid during that year. An additional $972,000 in severance and retention expense was recorded during 2004, with 2004 payments totaling $716,000 and $190,000 of severance liabilities assumed by the buyer in conjunction with the sale of Magnequench NJ (see Note 4). The remaining $875,000 in severance payments will be completed by the end of 2005.

The Company entered into a plant closure agreement with the United Steelworkers related to the Magnequench UG facility in Valparaiso, Indiana during 2003. In conjunction with the closure of that facility, the Company recorded a severance liability of $2.4 million in 2003 for 175 hourly and salaried employees, of which $1.5 million was paid during 2003. An additional $288,000 of severance expense was accrued during 2004, with payments made totaling $868,000 and $212,000 of severance liabilities assumed by the buyer in conjunction with the sale of Magnequench NJ (see Note 4). As of December 31, 2004, approximately $94,000 of severance liabilities remained, all of which will be paid during 2005. In 2002, Magnequench UG entered into severance agreements with 14 salaried employees and established a reserve for the severance liability of $220,000 in November 2002. Payment of $175,000 was charged against the reserve during 2003.

Also during 2003, in conjunction with cost reduction efforts the Company's German subsidiary entered into severance arrangements with 24 employees and a $1.3 million liability was accrued and expensed. During 2002, the German subsidiary entered into severance arrangements with 25 employees and recorded a severance liability of approximately $1.1 million, $1.0 million of which was remaining at December 31, 2002. Severance payments totaling $842,000 and $864,000 were made by the German subsidiary during 2004 and 2003, respectively, related to the 2003 and 2002 severance arrangements, and $572,000 of severance liabilities were assumed by the buyer in conjunction with the sale of the German operation (see Note 4).

During 2002 the Company accrued and expensed $1.2 million in salaried severance charges, primarily for service commitments related to a salaried workforce at the Company's corporate headquarters. During 2003 and 2002 the Company made approximately $169,000 and $1.3 million, respectively, in salaried severance payments related to the workforce reduction. Approximately $260,000 in salaried severance costs were reversed during 2003 as a result of employees leaving the Company prior to the end of their service commitment. As at December 31, 2004, there was no reserve remaining related to 2002 salaried workforce reduction.

During 2001 the Company reached a plant closure agreement with the United Auto Workers in connection with the closure of the Anderson, Indiana manufacturing facility. During 2004, 2003 and 2002, the Company made approximately $120,000, $2.6 million and $6.6 million, respectively, in payments related to the plant closure agreement. During 2002, $1.8 million of the reserve was reversed as a result of favorable experience with health care costs. As at December 31, 2004, there was no reserve remaining related to the Anderson plant closure agreement.

4. SOLD BUSINESSES AND DISCONTINUED OPERATIONS

In May 2003 the Company entered into a Cooperation Master Agreement with San Huan (as discussed in Note 17) that provided for the sale of certain equipment from the Valparaiso, Indiana facility of Magnequench UG to San Huan and the license of technology to manufacture sintered NdFeB magnets. In July 2003, the Company entered into a plant closure agreement with the United Steelworkers related to the Valparaiso facility. At December 31, 2004, all equipment from the Valparaiso facility has been sold to San Huan or otherwise disposed of and all operations at that facility have ceased.

On April 30, 2004, the Company sold the common stock of Magnequench GmbH, Magnequench de Mexico S.A. de C.V. and Magnequench TX and certain assets and liabilities of the Magnequench UG Valparaiso operation, as well as the Company's interest in certain distribution rights under the Cooperation Master Agreement with San Huan, to Kane Magnetics Acquisition, LLC for $9.2 million. Pursuant to the purchase agreement, the buyer remitted $2.5 million to setup two escrow accounts and $6.8 million was received by the Company. Of the $2.5 million in the escrow accounts, $1.5 million was returned to the buyer as a reduction in purchase price. Subsequent to the closing of the transaction, a further $285,000 was returned to the buyer and $215,000 to the seller as adjustment to the working capital. The remaining $500,000 and accrued interest less the amount on pending claims to the buyer was to be released to the Company on April 30, 2005 (Notes 12(b) and 12(c)). A net gain of $1.9 million was realized on the transaction which is included in results from discontinued operations in the 2004 consolidated statement of operations. An asset impairment charge of $3.9 million was recorded in 2003 in conjunction with this transaction.

On June 25, 2004, the Company sold Magnequench Singapore Pte. Ltd., Magnequench Tuas Pte. Ltd., Magnequench Limited, Magnequench AG and Magnequench NJ to Mr. Archibald Cox, Jr., President and Chief Executive Officer of Magnequench, Inc., for $9.5 million. The consideration from the transaction was $2.55 million in cash and two unsecured notes totaling $6.95 million from two new companies formed by Mr. Cox to acquire the entities. Subsequent to December 31, 2004, one of the promissory notes amounting to $2 million was repaid. The outstanding note amounts to $4.95 million, with the first installments due on June 25, 2007 amounting to $780,000 followed by three equal installments of $1.39 million payable on each anniversary date. A loss on disposition of $3.9 million was realized on the transaction, which is included in results from discontinued operations in the 2004 combined statement of operations. The anticipated consideration from this transaction was used in a probability-weighted fair value calculation for these subsidiaries at December 31, 2003, resulting in an impairment charge of $11.3 million.

The subsidiaries disposed of during 2004 qualified as discontinued operations in accordance with *CICA 3475 ''Disposal of Long-lived Assets and Discontinued Operations''*. Accordingly, the results of their operations (including restructuring charges related to Magnequench UG and Magnequench GmbH) have been reflected as discontinued operations in the combined statements of operations for the years ended December 31, 2004, 2003 and 2002 and the assets and liabilities of those operations have been reflected as held for sale in the combined balance sheets at December 31, 2004.

Assets and liabilities associated with these discontinued operations consisted of the following as of December 31, 2004 and 2003 (dollars in thousands):

	2004	2003
Cash	$ —	$ 2,651
Accounts receivable, net	—	17,584
Inventory	—	12,984
Other current assets	253	2,086
Property, plant and equipment, net	—	12,093
Other long-term assets	—	326
Total assets	$253	$47,724
Long-term debt in default	$ —	$ 7,515
Accounts payable	—	6,439
Accrued liabilities	266	5,731
Reserve for plant closure	—	2,395
Accrued payroll and benefits	162	1,830
Accrued pension	—	4,640
Total liabilities	$428	$28,550

Amounts constituting Assets of operations held for sale, including the former research facility, resulted from the Company having those assets available for immediate sale, conducting an active program to locate a buyer or buyers and the determination made by the Company that completing a sale as probable as of December 31, 2004 and 2003. These assets were comprised the following:

	2004	2003
Cash	$ —	$ 243
Accounts receivable, net	—	8,264
Inventory	—	7,136
Other current assets	253	642
Property, plant and equipment, net	—	10,734
Other long-term assets	—	118
Total assets	$253	$27,137
Long-term debt in default	$ —	$ 6,463
Accounts payable	—	1,189
Accrued liabilities	266	2,715
Reserve for plant closure	—	2,300
Accrued payroll and benefits	162	1,316
Future income taxes	—	520
Accrued pension	—	4,640
Total liabilities	$428	$19,143

Results from discontinued operations consisted of the following for the years ended December 31, 2004, 2003 and 2002 (dollars in thousands):

	2004	2003	2002
Net sales	$42,861	$97,307	$104,562
Cost of sales			
Cost excluding depreciation and amortization	34,403	83,257	95,596
Depreciation and amortization	—	4,290	4,930
Restructuring charge [Note 3]	100	2,991	—
Gross profit	8,358	6,769	4,036
Operating expenses			
Selling, general and administrative	7,665	13,952	12,335
Research & development	—	2,111	1,923
Depreciation and amortization	285	591	331
Restructuring charge [Note 3]	188	822	1,286
Loss on disposal of discontinued operations	2,030	—	—
Asset impairment charge	—	15,123	11,681
Operating loss	(1,810)	(25,830)	(23,520)
Other expense			
Interest expense, short-term debt	443	1,017	760
Loss on disposal of fixed assets	—	53	—
Other (income) expense, net	(578)	344	(288)
Loss before income taxes	(1,675)	(27,244)	(23,992)
Income taxes	192	42	(258)
Net loss	(1,867)	(27,286)	(23,734)

5. INVENTORY

Inventory consisted of the following at December 31, 2004 and 2003 (dollars in thousands):

	2004	2003
Raw materials	$2,225	$ 2,122
Work-in-progress	506	2,294
Finished goods	3,724	4,898
Supplies	1,717	1,753
Total	$8,172	$11,067

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at December 31, 2004 and 2003 (dollars in thousands):

	2004		
	Cost	Accumulated depreciation	Net
Land	$ 100	$ —	$ 100
Buildings and improvements	10,398	3,124	7,274
Machinery and equipment	48,492	21,336	27,156
Construction-in-progress	73	—	73
	$59,063	$24,460	$34,603

	2003		
	Cost	Accumulated depreciation	Net
Land	$ 827	$ —	$ 827
Buildings and improvements	11,037	2,836	8,201
Machinery and equipment	50,272	19,640	30,632
Construction-in-progress	34	—	34
	$62,170	$22,476	$39,694

Depreciation expense was $5.2 million, $5.4 million and $6.5 million for the years ended December 31, 2004, 2003 and 2002, respectively.

The Company's former manufacturing facility in Anderson, Indiana was sold during 2003, resulting in a loss of $590,000 that is reflected in asset impairment charge in the accompanying statement of operations. The net proceeds from the sale of $1.6 million were used to pay down Term Loans A and B, in accordance with the terms of the Credit Agreement (Note 9). Costs to prepare the facility for sale of approximately $100,000 and $600,000 was incurred during 2003 and 2002 respectively, and charged to restructuring expense. An impairment charge of approximately $1.6 million was recorded in 2002 as a result of a reduction in the estimated net selling price of the building. At December 31, 2004, approximately $5.1 million in fixed assets of the former Anderson facility were being held for eventual transfer and use at other Magnequench facilities. These assets continued to be depreciated in 2004.

In conjunction with the relocation of the research facility to Singapore, the Company's facility in RTP, North Carolina was also put up for sale during 2003. The fair value of the facility was estimated based upon an appraisal of the land and building, and an impairment charge of $2.2 million was recorded during 2003. The $2.9 million remaining net book value of the facility was included with assets held for sale in the December 31, 2003 combined balance sheet. The facility was sold during 2004 for $3.1 million, resulting in a net loss of $110,000.

As a result of the conditions discussed in Notes 3 and 4, the Company specifically reviewed its long-lived assets for impairment during the fourth quarters of 2004 and 2003. In 2003, in addition to the impairment charges related to assets held for sale discussed above, management's estimate of future cash flows from the remaining magnet subsidiaries indicated potential impairment existed at those subsidiaries. A fair value was determined for those subsidiaries based upon projected operating cash flows for the first quarter of 2004 and expected proceeds from sale of those subsidiaries in the second quarter of 2004, resulting in an impairment charge of $11.3 million. Sale proceeds were calculated as the probability-weighted average of proceeds from a sale to an independent third party and proceeds from a sale to Archibald Cox, Jr., President and Chief Executive Officer of the Company. The impairment charge is included with the results of discontinued operations (Note 4).

Based on management's estimate of future cash flows for each of the Company's subsidiaries in 2002, potential impairment existed at the Magnequench UG and Magnequench GmbH subsidiaries. Accordingly, an impairment charge was calculated based on the estimated fair value of the long-lived assets of these entities. Fair values for the Magnequench GmbH assets were determined by discounting the projected cash flows utilizing a discount rate of 14%, which was the Company's weighted average cost of capital, resulting in an impairment charge of $2.0 million. The fair value of the assets of Magnequench UG were estimated based upon negotiations for sale of the assets of the Valparaiso, Indiana facility (see Note 3 for further discussion of the disposition of the Valparaiso facility), resulting in an impairment charge of $9.3 million. In addition, $411,000 in newly acquired software at the Valparaiso facility was impaired and written off in December 2002 when implementation was discontinued. These impairment charges are included with results of discontinued operations (Note 4).

7. GOODWILL

In conjunction with the implementation of CICA 3062, the Company reviewed the carrying value of all goodwill as of January 1, 2002 for impairment. The fair value of each of the Company's reporting units to which goodwill had been allocated was determined based upon management's estimate of the net present value of future cash flows utilizing a discount rate of 14%, which was the Company's weighted average cost of capital at that time. Comparing the resulting fair values to the carrying values of each of the reporting units indicated potential impairment existed at several of the units. As a result of its adoption of CICA 3062 on January 1, 2002, the Company recognized an impairment charge, which related to the sold businesses and discontinued operations (Note 4) of approximately $13.0 million (reported as a change in accounting policy in the combined statement of deficit).

During the fourth quarters of 2004 and 2003 the Company performed its required annual review of the carrying value of the remaining goodwill. In 2003, with the exception of $10,000 of goodwill at Magnequench de Mexico S.A. de C.V which was fully impaired in conjunction with the Kane Magnetics transaction discussed in Note 4, no further goodwill impairment charges were required as a result of those reviews.

8. PATENTS AND OTHER INTANGIBLE ASSETS

Patents and other intangible assets consisted of the following at December 31, 2004 and 2003 (dollars in thousands):

	2004		
	Cost	Accumulated Amortization	Net
Patents	$34,922	$28,608	$6,314
License agreements	7,243	6,359	884
Chinese land use rights	1,129	100	1,029
	$43,294	$35,067	$8,227

	2003		
	Cost	Accumulated Amortization	Net
Patents	$34,922	$24,747	$10,175
License agreements	7,243	5,879	1,364
Chinese land use rights	1,109	71	1,038
	$43,274	$30,697	$12,577

Amortization of the patents, license agreements and Chinese land use rights totaled $4.3 million, $4.7 million, $5.2 million for the years ended December 31, 2004, 2003 and 2002, respectively.

9. DEBT

Borrowings consisted of the following at December 31, 2004 and 2003 (dollars in thousands):

	2004	2003
GM pension note	$ 427	$ 818
First Lien Loan	133,785	—
Second Lien Term Loan	25,000	—
Short-term lines of credit at foreign subsidiaries	1,813	3,102
Long-term lines of credit at foreign subsidiaries	1,212	
Revolving credit facility	—	26,887
Capital expenditures term loans	—	14,500
Term Loan A	—	14,911
Term Loan B	—	23,393
Senior subordinated notes, net of discount	—	63,680
Total debt	162,237	147,291
Less-current portion, revolving credit facility and long-term debt	24,240	146,864
Total long term debt	$137,997	$ 427

The GM pension note is to reimburse General Motors for pension costs related to individuals at the Company who were employed as of September 30, 1995 and covered by a GM pension at the time of the Company's acquisition. The note is payable in ten annual installments of $460,000, including interest at 8.5% per annum and matures October 31, 2005 and is unsecured.

On June 25, 2004, the Company entered into a Credit Agreement which consists of a First Lien Loan and a Second Lien Loan. Interest is payable under both loans at either the prime rate (5.25% at December 31, 2004) or the Eurodollar rate (2.4% at December 31, 2004), plus a specified margin. At its option, Magnequench may use the Eurodollar-based rate for any borrowing for periods of one, two, three or six months. The prime-based rate is used for any borrowing and all periods where the Eurodollar-based rate is not selected by the Company. Borrowings under the Credit Agreement were used to pay off the remaining principal balances of the revolving credit facility, Term Loan A, Term Loan B, Capital expenditure term loans and senior subordinated notes, along with accrued interest thereon. Borrowings under the Credit Agreement are secured by substantively all of the Company's domestic and Singapore assets, as well as the Xin Bao Investment Limited equity in Tianjin.

The First Lien Loan matures September 30, 2009 and is payable in 21 quarterly principal installments which commenced September 30, 2004 and will aggregate $145 million. The prime rate margin on the First Lien Loan is 6.5%, whereas the Eurodollar rate margin on the First Lien Loan is 7.5%. For the year ended December 31, 2004, the weighted average borrowing rate under the First Lien Loan was 9.31%.

The Second Lien Loan matures December 31, 2009 with a single payment of $25 million. The prime rate margin on the Second Lien Loan is 10%, whereas the Eurodollar rate margin on the Second Lien Loan is 11%. For the year ended December 31, 2004, the weighted average borrowing rate under the Second Lien Loan was 12.81%.

The Credit Agreement contains various covenants which require, among other things: (a) limitations on balances of cash, cash equivalents and certain Tianjin liabilities; (b) limitations on mergers, acquisitions, and similar transactions (see Note 18); (c) limitations on dividends and stock distributions; (d) limitations on advances to subsidiaries or affiliates; (e) limitations on disposals, pledges or encumbrances of assets; and,

(f) limitations on additional debt, capital expenditures, and investments. The Company was in compliance with its covenants at December 31, 2004.

Under the Credit Agreement, should there be excess cashflow, as defined in the Credit Agreement, at the end of each of the Company's fiscal years, 75% of such excess cashflow is required to be applied towards prepayment of the loan.

The Company is also required, under the Credit Agreement, to enter into and thereafter maintain in each of the first three years, hedge agreements to the extent necessary to provide at least 50% of the average outstanding agreement principal. Details of the interest-rate cap agreements entered into by the Company are described in Note 16.

As a result of the refinancing completed in 2004, the Company incurred a premium of $818,000 in connection with the payoff of the senior subordinated notes. In addition, $1.6 million of deferred financing costs related to the debt extinguished and $4.9 million of remaining original issue discount were expensed. These costs are recognized in the combined statement of operations, as early extinguishment of debt.

At December 31, 2001, the Company was in violation of a restrictive financial covenant contained in its Seventh Amended and Restated Credit Agreement, requiring a minimum level of earnings before interest, taxes, depreciation and amortization (''EBITDA''). In addition, in the two years ended December 31, 2003, the Company failed to make $18.2 million of scheduled interest payments under the senior subordinated notes and $6.1 million of scheduled principal payments under the Seventh Amended and Restated Credit Agreement. These matters constituted events of default under both the senior subordinated notes and the Seventh Amended and Restated Credit Agreement. As a result of these matters, all borrowings outstanding under the Seventh Amended and Restated Credit Agreement and senior subordinated notes were classified as current liabilities as of December 31, 2003 in the accompanying combined balance sheets. Outstanding borrowings under this credit facility were repaid in 2004 through the new Credit Agreement executed on June 25, 2004.

Scheduled annual maturities of debt as of December 31, 2004 were as follows (dollars in thousands):

2005	$ 24,240
2006	23,212
2007	22,780
2008	23,390
2009	68,615
Thereafter	—
Total	$162,237

There are three lines of credit in China which provide an aggregate of up to 99.9 million Renminbi (''RMB''), of which RMB50.0 million bears an interest rate of 4.698%, RMB39.9 million bears an interest rate of 5.04% and RMB10.0 million bears an interest rate of 5.49%. RMB25 million was outstanding against these lines at December 31, 2004, which are secured by the Tianjin land use rights, building and machinery. The 2004 average interest rate for borrowings against the Tianjin local lines was 5.19%. Based on exchange rates in effect at December 31, 2004, borrowings against these local lines of credit aggregated approximately $3.02 million, leaving availability of approximately $9.05 million.

The carrying amounts of the First Lien and Second Lien Loans approximate their fair values at December 31, 2004 based on the debt's variable market interest rates. The carrying amount of the GM pension note approximates its fair value due to the short-term nature of the remaining obligation.

10. EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plan and Other Postretirement Benefits

The Company has a defined benefit pension plan which covers all hourly employees employed as at September 30, 1995 and all hourly employees subsequently hired by the Company. Under this pension plan, benefits are based on years of service. The Company's liability recognized in the balance sheet for such benefits represents the sum of each individual's accrued benefit using the projected salary and years of service that individual is expected to have obtained at retirement. A December 31 measurement date is used for the plan. The most recent actuarial valuation of the pension plans for funding purposes was as of January 1, 2004 and the next funding valuation will be as of January 1, 2005.

Measurement of the accumulated pension benefit obligation at December 31, 2004 and 2003 was based on a weighted-average discount rate of 5.75% and 6.25%, respectively. The assumed long-term rate of return on plan assets was 6.50% for 2004 and 7.75% for 2003. To develop this return on assets assumption, the Company considered the historical returns and the future expectations for returns for each asset class as well as the target asset allocation of the pension portfolio. No assumption was made with regard to rate of expected compensation increase as there are no active participants in the plan.

In connection with the closure of the Anderson, Indiana manufacturing facility, the Company commenced the process for termination of the Company's hourly pension plan. For the December 31, 2004 and 2003 measurements of the accumulated pension benefit obligation, all plan participants were assumed to have been terminated effective December 31, 2001. Actuarial gains and losses on the plan are amortized over the average life expectancy of the participants.

It is the Company's policy to make contributions to this plan sufficient to meet the funding requirements of applicable laws and regulations, plus such additional amounts as deemed appropriate. The Company paid $678,000 during 2004 and expects to make contributions during 2005 that total $742,000. Investment policies for the plan are heavily weighted toward fixed income securities consistent with the Company's investment philosophy to reduce exposure to equity market risks. An investment committee meets periodically to review asset allocation percentages and investment goals. At December 31, 2004 and 2003, the U.S. plan's assets consist of the following:

	2004	2003
Interest-bearing cash	1%	1%
Fixed income securities	73%	73%
Equities	26%	26%

The Company also provides postretirement medical and life insurance benefits to certain of its former employees from the Anderson, Indiana manufacturing facility. Measurement of the accumulated postretirement benefit obligation (APBO) at December 31, 2004 and 2003 was based on a weighted-average discount rate of 5.75% and 6.25%, respectively. For measurement purposes, a 12.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2005 and the rate was assumed to decrease gradually to 5.0% in 2012 and remain at that level thereafter. The measurement date used for postretirement benefit plans is December 31.

On December 8, 2003, the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Medicare Act) was signed into law. The Act expands Medicare to include coverage for prescription drugs. The Company remeasured its plans' assets and accumulated postretirement benefit obligation (APBO) as at December 31, 2004 to include the effects of the Medicare Act. At December 31, 2004, the Company has not reflected any potential savings from the Medicare Act in the remeasured APBO. The Company intends to amend its plan so that Medicare is primary and the Company is secondary for prescription drug coverage. However, the Company does not expect any of its retirees to sign up for Medicare Part D. Due to retirement agreements, the Company is not able to require its retirees to sign up for Medicare Part D. Therefore, the passage of the Act is not expected to have any effect on this plan.

The following table sets forth details of the Company's components of periodic net benefit cost related to its U.S. pension and postretirement benefit plans for the years ended December 31, 2004, 2003 and 2002 (dollars in thousands):

	Pension			Post Retirement		
	2004	2003	2002	2004	2003	2002
Components of net periodic benefit cost						
Interest cost	$ 446	$ 461	$ 483	$200	$261	$283
Expected return on plan assets	(366)	(388)	(368)	—	—	—
Amortization of gain	—	—	—	(43)	—	—
Actuarial gain recognized	127	111	81	—	—	—
Net periodic benefit cost	$ 207	$ 184	$ 196	$157	$261	$283

The following table sets forth details of the Company's changes in U.S. benefit obligation, plan assets and accrued pension and postretirement benefits as at December 31, 2004 and 2003 (dollars in thousands):

	Pension		Post Retirement	
	2004	2003	2004	2003
Change in benefit obligation				
Accumulated benefit obligation at beginning of year	$ 7,470	$ 7,171	$3,250	$3,915
Service cost	—	—	—	—
Interest cost	446	461	200	261
Actuarial loss (gain)	533	564	(253)	(922)
Benefits paid	(722)	(726)	(17)	(7)
Participant contributions	—	—	4	3
Accumulated benefit obligation at end of year	$ 7,727	$ 7,470	$3,184	$3,250
Change in plan assets				
Fair value of plan assets at beginning of year	$ 5,529	$ 4,776	$ —	$ —
Actual return on plan assets	527	484	—	—
Participant contributions	—	—	4	3
Employer contributions	649	995	13	4
Benefits paid	(722)	(726)	(17)	(7)
Fair value of plan assets at end of year	$ 5,983	$ 5,529	$ —	$ —
Accrued pension and retirement benefits				
Projected benefits in excess of plan assets	$ 1,744	$ 1,941	$3,184	$3,250
Unrecognized net actuarial loss (gain)	(4,440)	(4,195)	1,460	1,251
Accrued pension and other post retirement benefits	$ (2,696)	$(2,254)	$4,644	$4,501

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement plans. Increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation for the health care plan as of December 31, 2004 by approximately 11.1%, or $352,000, and would increase the service and interest costs of net postretirement health care benefits for the year then ended by approximately 10.98%, or $22,000. Decreasing the assumed health care cost trend rates by one percentage point in each year would decrease the accumulated postretirement benefit obligation for the health care plan as of December 31,

2004 by approximately 9.3%, or $296,000, and would decrease the service and interest costs of net postretirement health care benefits for the year then ended by approximately 9.3%, or $19,000.

Defined Contribution Retirement Plans

The Company sponsors a defined contribution 401(k) retirement plan available to substantially all U.S. salaried employees. The Company contributes up to 6% of salaried employees' compensation to the plan. The Company's contributions to the plan in 2004, 2003 and 2002 were approximately $304,000, $406,000 and $399,000, respectively.

Stock Compensation

Magnequench, Inc. sponsors a Stock Compensation Plan (the ''Plan'') under which 344.736 shares of the Magnequench, Inc.'s common stock were reserved for issuance in the form of incentive stock options and nonqualified stock options. There were no remaining shares available for grant under the plan as of December 31, 2004 and 2003. Stock options granted under the Plan expire ten years after grant date and are issued at a price which is equal to the fair market value of one share of Magnequench, Inc.'s common stock at the date of grant. Options vest under a three-year or a four-year graded vesting, depending on the date of issuance.

In addition to options under the Plan, 138.514 options were granted in connection with a five-year employment agreement with the President and Chief Executive Officer of Magnequench, Inc. These options were issued under essentially the same terms and conditions as those issued under the Plan, with an additional provision which, in the event Magnequench, Inc. issues additional common stock or common stock equivalents at a price below $55,250 per share, allows the CEO to maintain his direct ownership in the Company at 10%, on a fully diluted basis.

Magnequench, Inc.'s stock option activity for the years ended December 31, 2004, 2003 and 2002 is summarized as follows:

	2004		2003		2002	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at January 1	277.322	$56,520	277.322	$56,520	317.322	$57,940
Granted	—	—	—	—	4.000	$25,000
Exercised	—	—	—	—	—	—
Lapsed/Cancelled	(24.000)	$66,060	—	—	(44.000)	$63,890
Outstanding at December 31	253.322	$55,620	277.322	$56,620	277.322	$56,520
Exercisable at December 31	253.322	$55,620	235.527	$46,970	224.988	$49,020

At December 31, 2004, 49.932 options were outstanding with an exercise price of $20,000 and an average remaining contractual life of three years, all of which were exercisable; 161.968 options were outstanding with an exercise price of $55,250 and an average remaining contractual life of five years, all of which were exercisable; 41.422 options were outstanding with an exercise price of $100,000 and an average remaining contractual life of six years, all of which were exercisable.

There were no options granted during 2004 and 2003. In 2002, 4.000 options were granted with a vesting period of three years. The fair value of these options of $19,000 was calculated using the Black-Scholes option pricing model using the following assumptions; a weighted average life of ten years, expected common stock price volatility of 37%, dividends are reinvested in the Company and a risk free interest rate of 4.03%. The aggregate unexpensed fair value of unvested stock options was nil (2003 — nil), as at December 31, 2004.

11. INCOME TAXES

The provision for income taxes for the years ended December 31, 2004, 2003 and 2002 consisted of the following (dollars in thousands):

	2004	2003	2002
Current			
Federal	$ —	$ —	$ 28
State	24	21	49
Foreign	1,684	2,404	394
Income tax provision	$1,708	$2,425	$471

A reconciliation of the income tax provision to income taxes computed using the U.S. statutory income tax rate in continuing operations is summarized below (dollars in thousands):

	2004	2003	2002
Domestic income (loss)	$1,471	$(4,151)	$(7,766)
Foreign income	6,973	14,511	15,955
Income before income taxes	$8,444	$10,360	$ 8,189
U.S. statutory tax rate	34%	34%	34%
Tax at U.S. statutory rate	$2,871	$ 3,522	$ 2,784
Tax rate difference	4,544	2,954	(2,472)
Foreign withholding taxes	351	781	433
State taxes (net of federal benefit)	24	21	49
Recovery of AMT credit	—	—	532
Other	(504)	18	(456)
Valuation allowance	(5,578)	(4,871)	(399)
Income tax provision	$1,708	$ 2,425	$ 471

Future income tax deductions and income for expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns are recorded as future tax assets and future tax liabilities. The future tax assets and future tax liabilities presented in the table as of December 31, 2004 include the effects of the businesses that were disposed of in 2004 and recorded within discontinued operations.

Significant components of the Company's future income taxes at December 31, 2004 and 2003 were as follows (dollars in thousands):

	2004	2003
Current		
Inventory	$ 490	$ 586
Accrued liabilities	336	317
Restructuring reserves	411	359
Accrued interest	—	4,554
Other	673	133
Valuation allowance	(1,910)	(5,949)
Net current future tax asset	$ —	$ —
Non-Current		
Property, plant and equipment	$ (3,913)	$ (3,319)
Patents and other intangibles	(44)	(1,204)
Accrued pension and postretirement benefits	700	470
AMT credits	638	638
U.S. net operating loss benefit	38,187	16,553
Foreign subsidiary earnings, net Foreign Tax Credit	(2,788)	—
Valuation allowance	(32,780)	(13,138)
Net non-current future tax liability	$ —	$ —

Under the tax laws of the China, Tianjin received tax exempt status for 2002 as a foreign investment enterprise engaged in manufacturing with operations expected to continue for over ten years. This exemption decreased to 50% in 2003 and will remain at that level through 2005, at which time Tianjin's tax rate will increase to the full Tianjin Wuqing Development Area rate of 24%. The impact from this exemption was to reduce income tax expense by approximately $1.3 million, $1.5 million and $2.2 million for the years ended December 31, 2004, 2003 and 2002, respectively.

Tianjing Xin Bao paid taxes at the full Tianjin Wuqing Development Area tax rate of 24% in 2004, 2003 and 2002. In accordance with Chinese tax law, Tianjin is maintaining separate tax records for itself and Xin Bao consistent with pre-merger accounting in order to preserve the benefits of all tax holidays.

The undistributed earnings of foreign subsidiaries amounted to approximately $8.87 million, $12.2 million and $13.3 million at December 31, 2004, 2003 and 2002, respectively. The Company has provided for deferred income taxes related to all of these earnings.

Realization of the benefits of the Company's future tax asset is dependent upon generating sufficient future taxable earnings in specific jurisdictions. Due to the uncertain nature of the ultimate realization of the asset, a full valuation allowance was established against the U.S. tax asset. The carryforward period on the 2004, 2003 and 2002 U.S. net operating losses will expire in 2024, 2023 and 2022, respectively.

Tax years subject to review by the Internal Revenue Service are 1998 through 2004.

12. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

As of December 31, 2004, the Company had outstanding non-cancelable purchase commitments with various suppliers for fixed asset and raw material items. Subject to the suppliers' quality and delivery performance, the purchase commitments aggregate approximately $256,000 and $1 million at December 31, 2004 and 2003, respectively.

Litigation

(a) In 2003, the Company determined that because some of the magnets it made were used in military applications, it should (i) be registered with the U.S. Department of State's Office of Defense Trade Controls and the U. S. Department of Treasury's Bureau of Alcohol, Tobacco and Firearms; and (ii) obtain licenses for imports and exports of magnets and technical data used in certain military applications. The Company appointed a compliance officer, implemented a compliance program, filed the appropriate registration forms and fees and submitted voluntary disclosure letters disclosing various past transactions that should have been licensed by those agencies. The Company has received letters from the State Department with respect to all the 2003 disclosures stating that no enforcement actions would be taken at that time. The State Department retains the right to reopen those matters in the future.

In early 2004, the Company discovered some additional exports that had been made to Canada without the appropriate licenses. The Company has made voluntary disclosures with respect to these shipments. To our knowledge, no response from the State Department has been received with respect to these disclosures.

(b) On December 7, 2004, the Company received correspondence from Kane Magnetics Acquisition, LLC (''Kane'') relating to allegations that the Company had breached certain provisions of the April 30, 2004 Purchase Agreement, whereby the Company sold certain assets to Kane (the ''Agreement'') as disclosed in Note 4. Subsequently, the Company received a letter from Midmark Capital, the largest equity holder in Kane, asserting the same allegation as well as threats of potential fraud claims against the Company. Management believes that based on the intent clearly expressed in the language in the Agreement, these allegations are unfounded, but has engaged in discussions over a possible business resolution, which discussions have not been successful to date. On December 15, 2004, the Company filed the above referenced suit seeking a declaration from the Court that the Company has acted in accordance with its obligations pursuant to the Agreement. Kane was served with the summons and a copy of the Company's complaint on February 14, 2005. On June 6, 2005, Kane filed an Answer to Amended Complaint for Declaratory Judgment, Counterclaim and Third Party Complaint. In that pleading, Kane asserts causes of action against Magnequench, Inc. and Magnequench UG, Inc. alleging fraud, securities fraud under the Indiana Securities Act, breach of purchase agreement, breach of implied covenant of good faith and fair dealing, unfair competition, and misappropriation of trade secrets, all arising from or related to the transaction and dealings raised in the Complaint. The Company intends to defend vigorously these counterclaims. Kane's third party complaint names Archibald Cox, Jr., Precision Magnetics, LLC, Kenneth Langone, Brian Gallagher, Jean-Marc Chapus, and Hong Zhang as defendants. The Company denies the allegations in the correspondence and intends to continue its vigorous defense against the claims against it in the Answer to Amended Complaint for Declaratory Judgment, Counterclaim and Third Party Complaint. The outcome of the matter is not reasonably estimable at this time.

(c) On or about May 19, 2005, the Company received notification that pursuant to that certain Asset Purchase Agreement between Magnequench GmbH and Deutsche Carbone AG, dated as of October 31, 2000, the German taxing authorities have determined that 16% VAT should have been assessed on the purchase price paid by Magnequench GmbH to Deutsche Carbone AG thereunder. The parties believe that such amount (approximately €974,000) is subject to a corresponding input tax deduction which would result in no VAT being paid to the German taxing authorities. The German taxing authorities have also determined that interest is to be assessed on the unpaid VAT for a total of approximately €189,920 which amount is not subject to a corresponding input tax deduction and must be paid to the German taxing authorities in cash. On April 30, 2004, the Company sold the common stock of Magnequench GmbH to Kane Magnetics Acquisitions, LLC (''Kane'') and Kane changed the name of Magnequench GmbH to Kane Magnetics GmbH. Under the terms of the Agreement between Kane and the Company, the Company agreed to indemnify and hold Kane harmless for all taxes for all taxable period ending on or before the closing date. If it is determined that Kane Magnetics GmbH were to be liable for all or any part of the VAT payment referenced above, the Company has a contractual indemnification obligation to reimburse such amounts to Kane Magnetics GmbH. In addition, the Company is obligated in any event to indemnify Kane Magnetics GmbH for 50% of the interest payable on such amount, which if paid by June 30, 2005, is estimated to result in a €94,960 liability for the Company (with an additional €2,435 for each month therefore until fully paid).

(d) The UAW and the Company entered into a Shutdown Agreement on or about December 19, 2001, in connection with the closure of the Company's manufacturing facility in Anderson, Indiana. As part of the consideration for the Shutdown Agreement, the Company agreed to pay certain contingent lump sum payments to employees terminated as a result of the plant closure. Two of the payments, each amounting to $10,000 per employee, were scheduled to be paid on May 15, 2004 and May 15, 2005. There are approximately 200 employees terminated as a result of the Anderson plant closure. Both of those payments were contingent on receiving a letter from General Motors Corporation (GM) relieving the Company of certain retiree medical liabilities for the lives of approximately 12 employees and their eligible dependents. Because Magnequench never received that letter, those two lump sum payments, amounting to approximately $4 million in the aggregate, have not been accrued or paid. The UAW filed a demand for arbitration in early July 2004 under the terms of the Shutdown Agreement, demanding payment of these last two lump sum payments. An arbitrator has been selected and a hearing is likely to be held in late summer/early fall 2005. The potential liability growing out of this arbitration is either (1) an order to pay approximately $4 million in lump sum payments with a determination that GM has fully relieved Magnequench of liability for the retiree medical benefits for approximately 12 employees, or (2) an order relieving the Company of any liability for paying the $4 million in lump sum payments, which, in turn, could likely lead to a determination that the Company is responsible for funding (or providing directly) the retiree medical benefits for the 12 employees and their eligible dependents. The 12 employees at issue worked for GM before GM spun off Magnequench as a separate entity in 1995, then returned to work for GM after the closure of the Anderson, Indiana facility, and most of them now have retired from GM and are presently receiving their retiree medical benefits from GM. The arbitrator only has jurisdiction to award, or decline to award the $4 million in lump sum payments; he does not directly have any authority to determine the Company's liability for paying retiree medical benefits, but that would remain a contingent liability in the event the arbitrator denies the Union's request for the additional lump sum payments.

(e) Since January 10, 2005, the Company has been in negotiations with Osmic, Inc. (''Osmic'') concerning a possible license or assignment arrangement concerning an Osmic patent relating to a method of forming a particulate solid alloy. The two parties have not reached an agreement on the terms of such a license or assignment arrangement. Osmic has suggested that if a satisfactory final agreement is not reached, it could initiate patent infringement litigation against the Company. The Company has indicated that if such litigation were initiated, the Company would contest the matter vigorously. The Company has also indicated that it would nonetheless still be open to discussing an out-of-court settlement with Osmic. With respect to any damages that may be awarded against the Company as a result of such litigation, or any payment that may result from a negotiated agreement, the probability and amount of any such damages or payment cannot be ascertained with any reasonable degree of certainty at this time.

The Company is also subject to various claims and legal proceedings that arise in the ordinary course of business. However, it does not expect any of these claims or legal proceedings, either individually or in the aggregate, to have a material adverse effect on its financial conditions, results of operations or liquidity.

Operating Leases

Rental expense were approximately $0.45 million, $2.1 million and $2.2 million in 2004, 2003 and 2002, respectively. Minimum future payments under non-cancelable operating leases are as follows:

2005	$ 427,069
2006	341,392
2007	256,980
2008	214,664
2009	17,888
Thereafter	—
Total	$1,257,993

13. COMMON STOCK WARRANTS AND DEFICIT

Common Stock Warrants

In connection with previous issuances of senior subordinated debt and redeemable preferred stock, Magnequench, Inc. issued warrants to purchase an aggregate of 121.274 shares and 134.297 shares, respectively, of Magnequench, Inc.'s common stock at an exercise price of $8.20 and $7.40 per share, respectively. These warrants were valued at $3.3 million based upon the market value of Magnequench, Inc.'s common stock at issue date, which was accounted for as an original issue discount (''OID'') from the face value of the notes and was reflected in shareholder deficit. The senior subordinated notes issued in 2000 were issued with OID of $4.6 million based upon the carrying value of the preferred stock exchanged for the notes. These notes were repaid on June 25, 2004 (see Note 9). The warrants expire on December 30, 2009 and August 25, 2009, respectively.

Deficit

Included in the deficit of the Company's is approximately $3.44 million of retained earnings in Tianjin which are subject to restrictions under laws of the China and cannot be used to pay dividends to Xin Bao Investment Limited or otherwise be repatriated to the United States.

14. SUPPLEMENTAL CASH FLOW INFORMATION

Cash payments during 2004, 2003 and 2002 were as follows (dollars in thousands):

	2004	2003	2002
Cash paid for:			
Income taxes	$ 1,782	$2,158	$1,015
Interest	16,359	7,853	9,305

15. SEGMENT REPORTING

CICA 1701, *Segment Disclosures* establishes standards for the reporting by public business enterprises of information about reporting segments, products and services, geographic areas and major customers. The method for determining what information to report is based on the way that the management organizes the segments within the Company for making operating decisions and assessing financial performance. The Company has aggregated its businesses into a single reportable segment because the segments have similar long term economic characteristics. In addition, the segments are similar in regards to (a) nature of products and production process, (b) type of customers and (c) method used to distribute products. Accordingly, the Company describes its reportable segment as high energy, rare earth magnetic powder. All the Company's revenues result from sales in its product lines.

Sales

Sales have been segmented based on the ultimate destination of the Company's powders. For the years ended December 31, 2004, 2003 and 2002, net sales to customers by location were as follows (dollars in thousands):

	2004	2003	2002
Asia			
Japan	$24,490	$28,222	$35,302
China	11,430	11,886	12,816
Singapore	20,797	20,713	19,604
Hong Kong	14,585	8,397	1,256
Other	3,211	1,961	5,330
Total Asia	74,513	71,179	74,308
North America	1,674	2,680	4,756
Europe	7,425	3,963	1,559
Net Sales	$83,612	$77,822	$80,623

The Company sells to customers directly and through distributors. Sales to the Company's largest customer, the principal Asian distributor for Magnequench powder, represented $41.2 million or 49% of the Company's sales from continuing operations in 2004, $45.8 million or 59% of the Company's sales from continuing operations in 2003 and $49.2 million or 58% of sales from continuing operations in 2002.

Property, Plant and Equipment, Patents and Licenses, Goodwill and Other Intangibles

The Company's production facility is located in China. As at December 31, 2004, and 2003, property, plant and equipment, patents and licenses, goodwill and other intangibles by geographic region were as follows (dollars in thousands):

	2004	2003
North America	$35,136	$43,350
Asia	30,827	32,054
Total	$65,963	$75,404

Net Income (Loss) from Continuing Operations

	2004	2003	2002
North America	$1,065	$(4,920)	$(8,198)
Asia	5,671	12,855	15,916
Total	$6,736	$ 7,935	$ 7,718

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Under its risk management policy, the Company may manage its exposure to interest rates through the use of various derivative financial instruments. Senior management is responsible for setting acceptable level of risk and reviewing risk management activities as necessary. The Company uses derivatives financial instruments only for risk management purposes, not for generating trading profit.

Interest Rate Risks

Prior to 2002, the Company entered into interest rate swap agreements which were designated as hedges against changes in interest rates on the Company's floating rate notes payable. The agreement fixes the one-month LIBOR rate for notional amount of approximately $7.0 million at 7.1% and expires February 3, 2003. As at December 31, 2002, the Company had one interest rate swap agreement outstanding.

At December 31, 2002, the Company had $63,000 of unrealized losses net of tax, related to cash flow hedges, which the Company expects to recognize in interest expense over the life of the swap agreements.

As disclosed in Note 9, the Company is required, under the Credit Agreement, to maintain interest rate protection on at least 50% of the average outstanding aggregate principal amount of loans for the first three years. The Company has entered into interest rate cap agreements for notional amounts totaling $82.5 million — $30 million which caps 30-day LIBOR at 2.5% and matures in $15 million increments at September 7, 2005 and September 7, 2006 and $52.5 million which caps 30-day LIBOR at 3.0% and matures at September 7, 2007. The Company paid an aggregate premium of $1.375 million for these caps, which is adjusted to market on a quarterly basis. The premium is recorded within interest expense and recognized over the lifetime of the cap. The Company has three interest rate cap agreements totaling $1.2 million as at December 31, 2004. The current portion and the long-term portion of the premium is included in Other current assets and Other assets, respectively.

Sales and Credit Risks

As disclosed in Note 15, the Company sells to customers directly and through distributors. Marubeni, as the principal distributor, maintains inventory for and sells powder to Asian customers of the Company, on credit terms that Marubeni negotiates with those customers and to whom Marubeni charges a fee. However, the Company negotiates all powder prices and maintains direct relationship with the ultimate customers.

While loss of the Marubeni relationship would increase the Company's working capital requirements, management does not believe it would result in a loss of sales.

Political and Economic Risk

All of the Company's powder production takes place at the Tianjin, China facility. This results in an increased concentration risk of the Company's operations in China. As a result, the Company's operations could be negatively impacted by unforeseen events such as political instability, social unrest or a decline in trade relations between the China and the U.S. In addition, there can be no assurance that China will not impose restrictions on the Company's ability to transfer property or earnings out of China.

Financial Instruments

The carrying amounts reported in the combined statement of financial position for cash, accounts receivable, accounts payable and short-term debt approximate fair value due to the immediate or short-term maturities of these financial instruments.

The carrying values of long-term debt, including the current portion, contain variable interest rates and therefore approximate fair value.

17. RELATED PARTY TRANSACTIONS

In June 2001, the Company entered into an agreement with an affiliate of San Huan and Ganzhou Qiandong Industry Co. to incorporate a company, Ganzhou Rare Earth Materials Ltd (''GREM'') with its principal activities in rare earth smelting operations. As of December 31, 2004, the Company owned 25% of GREM and had made capital contributions of $1.2 million to this venture. The Company accounts for its interest in GREM using the equity method. Under the terms of the agreement related to GREM, the Company did not share in the profits of GREM until its entire capital contribution was paid up in June 2003.

The Company has notes receivables of $6.95 million (Note 4) from entities owned by Archibald Cox, Jr. as of December 31, 2004, which were recorded in other non-current assets in the accompanying combined balance sheet.

The Company occasionally utilizes a private aircraft leased by Brookway Aviation, LLC, which is owned by Archibald Cox, Jr., President and Chief Executive Officer of Magnequench. Flights on which Company personnel travel with Mr. Cox are generally billed at the lower of actual cost or the equivalent commercial airline rates. Payments by the Company to Brookway Aviation for 2004, 2003 and 2002 utilization totaled $50,000, $29,000 and $nil, respectively.

During 2003, the Company entered into a Cooperation Master Agreement (the ''Agreement'') with a 33.95%-owned subsidiary of San Huan, Beijing Zhong Ke San Huan High-Tech Co., Ltd. (''Beijing San Huan''), to sell certain equipment from Magnequench UG and license technology to manufacture sintered NdFeB magnets. The sale price of the equipment was $5.0 million (which resulted in no gain or loss recorded in the 2003 statement of operations) plus costs to disassemble and ship the equipment to China. The Company has also agreed to provide training in operation of the equipment and use of the licensed technology for a period of three months after installation of the equipment in Beijing San Huan's facility. Beijing San Huan owed the Company $1.247 million and $540,000 under this agreement as of December 31, 2004 and 2003.

The Company sells powder to Magnequench NJ, which is owned by Archibald Cox, Jr., MI's President and Chief Executive Officer. Total 2004 powder sales to Magnequench NJ subsequent to the sale of the company to Mr. Cox were $125,440. The Company also paid $519,600 for certain administrative services during 2004 that were subsequently billed to Magnequench NJ at cost. As at December 31, 2004, Magnequench NJ owed the Company $234,300.

These transactions have been recorded at the exchange amount, which is the consideration paid as established and agreed by the related parties.

18. SUBSEQUENT EVENTS

(a) Reverse Stock Split

Subsequent to December 31, 2004, Magnequench, Inc.'s Board of Directors has approved a one thousand to one (1,000 to 1) reverse stock split of the shares of Magnequench Inc., each such share of capital stock to be converted into 1/1,000 of a share, and applying to its common stock, stock options and warrants outstanding on the effectuated date. On January 6, 2005, Magnequench, Inc.'s shareholders approved the reverse stock split and the number of shares outstanding in 2004, 2003 and 2002 have been retroactively restated to reflect the reverse stock split.

(b) Stock Options

On January 6, 2005, Magnequench, Inc.'s Board of Directors has approved the 2004 Option plan for issuance of 350,000 shares of Common Stock of Magnequench, Inc. (deemed to be 350 after giving effect to the reverse stock split) to Officers and Directors of the Magnequench, Inc., each having an exercise price of $22.50 per share. On January 6, 2005, Magnequench, Inc.'s shareholders gave their consent to this plan.

Events after March 8, 2005

(c) Litigation

On or about May 19, 2005, the Company received notification that pursuant to that certain Asset Purchase Agreement between Magnequench GmbH and Deutsche Carbone AG, dated as of October 31, 2000, the German taxing authorities have determined that 16% VAT should have been assessed on the purchase price paid by Magnequench GmbH to Deutsche Carbone AG thereunder. The parties believe that such amount (approximately €974,000) is subject to a corresponding input tax deduction which would result in no VAT being paid to the German taxing authorities. The German taxing authorities have also determined that interest is to be assessed on the unpaid

VAT for a total of approximately €189,920 which amount is not subject to a corresponding input tax deduction and must be paid to the German taxing authorities in cash. On April 30, 2004, the Company sold the common stock of Magnequench GmbH to Kane Magnetics Acquisitions, LLC (''Kane'') and Kane changed the name of Magnequench GmbH to Kane Magnetic GmbH. Under the terms of the Agreement between Kane and the Company, the Company agreed to indemnify and hold Kane harmless for all taxes for all taxable period ending on or before the closing date. If it is determined that Kane Magnetics GmbH were to be liable for all or any part of the VAT payment referenced above, the Company has a contractual indemnification obligation to reimburse such amounts to Kane Magnetics GmbH. In addition, the Company is obligated in any event to indemnify Kane Magnetics GmbH for 50% of the interest payable on such amount, which if paid by June 30, 2005, is estimated to result in a €94,960 liability for the Company (with an additional €2,435 for each month therefore until fully paid.

(d) Acquisition

Subsequent to December 31, 2004, AMR Technologies, Inc. (''AMR'') a company listed on the Toronto Stock Exchange, proposed to: (i) acquire all of the Company's issued and outstanding common shares in exchange for the issuance of an aggregate of 26,866,819 common shares of AMR; and (ii) in exchange for all of the Company's outstanding stock options, issue options of AMR to acquire an aggregate of 2,833,181 common shares of AMR. Simultaneous with the closing of the transaction,

(a) AMR will complete a public equity offering, and a private convertible debenture offering, the proceeds from which will be used to retire outstanding indebtedness of the Company as disclosed in Note 9.

(b) Refinance the remaining portion of outstanding indebtedness.

Completion of the transaction is subject to, including but not limited to, the following conditions:

(i) AMR shareholders' approval of the transactions;

(ii) Completion of financings and refinancing of the remaining portion of outstanding indebtedness; and

(iii) Toronto Stock Exchange approval of the transactions.

As described more fully in Note 9, the Company's Credit Agreement provides for a limitation on mergers, acquisitions, and similar transactions. This facility will be repaid as a condition of the transactions.

Magnequench

COMBINED BALANCE SHEETS
(Unaudited)
[All figures in thousands of United States dollars]

	March 31 2005	December 31 2004
ASSETS		
Current assets		
Cash	$ 4,282	$ 2,755
Trade accounts receivable, net of allowances of $Nil — 2005; $Nil — 2004	6,988	8,115
Royalty and licensing income receivable	473	386
Inventory	7,492	8,172
Other current assets	3,300	3,777
Assets of operations held for sale	299	253
Total current assets	22,834	23,458
Property, plant and equipment, net	33,446	34,603
Patents and other intangible assets, net	7,134	8,227
Goodwill	23,133	23,133
Deferred financing costs, net of accumulated amortization of $872 — 2005; $580 — 2004	5,542	5,832
Other assets	8,047	9,519
	$100,136	$104,772
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities		
Short-term debt	$ 5,229	$ 1,813
Current portion of long-term debt	22,427	22,427
Accounts payable	1,996	3,650
Accrued liabilities	3,134	3,431
Reserve for facility closure	451	875
Accrued payroll and benefits	379	576
Accrued income taxes	3,983	4,043
Liabilities of operations held for sale	282	428
Total current liabilities	37,881	37,243
Long-term liabilities		
Long-term debt	130,497	137,997
Accrued pension and other post retirement benefits	2,053	1,948
Total liabilities	170,431	177,188
Commitments and contingencies		
Shareholders' deficit		
Net investment	17,006	16,813
Deficit	(87,330)	(89,254)
Cumulative currency translation adjustment	29	25
Total shareholders' deficit	(70,295)	(72,416)
	$100,136	$104,772

The accompanying notes are an integral part of these combined statements.

Magnequench

COMBINED STATEMENTS OF OPERATIONS
(Unaudited)
[All figures in thousands of United States dollars]

	Three months ended March 31	
	2005	2004
Net sales	$17,208	$21,070
Royalty and license revenue	126	—
Total revenue	17,334	21,070
Cost of sales		
Cost excluding amortization	4,742	4,862
Depreciation and amortization	1,868	1,870
Gross profit	10,724	14,339
Operating expenses		
Selling, general and administrative	3,602	4,276
Depreciation and amortization	536	626
Research and development	508	446
Stock-based compensation	193	—
Restructuring charge	—	311
Asset impairment charge	—	(24)
Operating income	5,885	8,704
Other expense		
Interest expense, short-term debt	458	869
Interest expense, long-term debt	3,390	4,603
Other income, net	(204)	(30)
Income from continuing operations before income taxes and equity income of uncombined affiliate	2,241	3,262
Income taxes	372	575
Income from continuing operations before equity income of uncombined affiliate	1,869	2,687
Equity in income of uncombined affiliate	75	6
Income from continuing operations	1,944	2,693
Income (loss) from discontinued operations, net of tax	(20)	1,161
Net income for the period	$ 1,924	$ 3,854

The accompanying notes are an integral part of these combined statements.

Magnequench

COMBINED STATEMENTS OF DEFICIT AND NET INVESTMENT
(Unaudited)

[All figures in thousands of United States dollars]

	Three months ended March 31	
	2005	**2004**
Deficit at beginning of the period	(89,254)	(94,430)
Net income for the period	1,924	3,854
Deficit at end of the period	(87,330)	(90,576)
Net Investment at beginning of year	16,813	16,813
Stock-based compensation	193	—
Net Investment at end of year	17,006	16,813

The accompanying notes are an integral part of these combined statements.

Magnequench

COMBINED STATEMENTS OF CASH FLOWS
(Unaudited)
[All figures in thousands of United States dollars]

	Three months ended March 31	
	2005	**2004**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 1,924	$ 3,854
Adjustments for items not requiring (providing) cash		
Amortization	2,404	2,357
Stock-based compensation	193	—
Asset impairment charge	—	(23)
Equity in income of uncombined affiliate	(75)	(6)
Decrease/(increase) in assets, net of effects of assets held for sale		
Accounts receivable	1,127	(1,500)
Inventory	680	(1,670)
Other assets	221	(80)
Increase/(decrease) in liabilities, net of effects of assets held for sale		
Accounts payable	(1,654)	(18)
Accrued liabilities, payroll and benefits	(974)	(741)
Accrued interest on senior subordinated debt	—	3,349
Accrued pension and other post retirement benefits	105	(70)
Net cash (used in) provided by operating activities	3,951	5,452
CASH FLOWS FROM INVESTING ACTIVITIES		
Property, plant and equipment additions	(150)	(360)
Net cash provided by investing activities	(150)	(360)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings on revolving credit facility	—	10,170
Proceeds from borrowings of (payments on) short-term debt	3,417	(235)
Proceeds from Promissory Notes	2,000	—
Payments on long-term debt	(7,500)	(6,415)
Net cash provided by (used in) financing activities	(2,083)	3,520
Effect of exchange rate changes	—	53
Net change in cash	1,718	8,665
Cash flow used by discontinued activities	(191)	(8,832)
Increase (decrease) in cash	1,527	(167)
Cash at beginning of year	2,755	819
Cash at end of year	$ 4,282	$ 652
Supplemental disclosures:		
Cash paid for interest	$ 3,952	$16,359
Cash paid for income taxes	$ 544	$ 1,782

The accompanying notes are an integral part of these combined statements.

MAGNEQUENCH

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004

[All figures in United States dollars, unless otherwise stated]

(Unaudited)

1. ORGANIZATION, NATURE OF OPERATIONS AND BASIS OF PRESENTATION

These combined financial statements reflect the business of Magnequench (the ''Company'' or ''Magnequench'') which is under the common control of the following principal shareholders: Sextant Group One, LLC and affiliated companies (41.5%), Beijing San Huan New Materials and Hightech, Inc. (''San Huan'') (21.6%), INVEMED Associates, LLC (10.7%) and several other private investment funds and individuals (26.2%). Magnequench, Inc. is a holding company formed on April 21, 1999 through a series of stock transactions between the shareholders of Magnequench International, Inc. (''MQII''). These combined financial statements include the accounts of Magnequench, Inc. and its 100% ownership interest in each of the following companies:

United States Subsidiaries:	Foreign Subsidiaries:
Magnequench International, Inc. (''MQII'')	Xin Bao Investment Limited (Hong Kong)
Magnequench UG, LLC	Magnequench (Tianjin) Company Limited (China) Neo Powders Pte. Ltd. (Singapore)

The accounting policies of Magnequench conform with Canadian generally accepted accounting principles. All significant intercompany balances and transactions have been eliminated.

The Company, through its subsidiaries, is engaged in the business of manufacturing and distributing high energy, rare earth magnetic powder. The Company's powder is used in a wide range of industries, including the computer storage device, office automation, automotive and appliance industries. The Company operates a manufacturing facility in Tianjin, in the People's Republic of China (''China''), as well as magnetic powder distribution facilities in El Paso, Texas and Tubingen, Germany.

MQII was originally organized in 1995 to acquire certain assets of a business unit operated by the Delphi Energy and Engine Management Systems Division of General Motors Corporation (''GM''). The acquisition from GM was consummated for $73.4 million (financed with $15.2 million in cash and $58.2 million in debt) plus the assumption of certain liabilities. The acquisition was accounted for as a purchase. Effective March 31, 2002, MQII ceased all manufacturing operations at its production facility in Anderson, Indiana, and transferred those activities to the Company's operations in Tianjin, China.

Xin Bao Investment Limited is the sole shareholder of Magnequench (Tianjin) Company Limited (''Tianjin''), established by MQII during 1998 in China to produce and distribute high energy, rare earth, magnetic powder. Beginning in 2002, all of the Company's magnetic powder has been manufactured by Tianjin.

Xin Bao Special Metals (''Tianjin Xin Bao''), which was a Wholly Owned Foreign Enterprise of Xin Bao Investment Limited, commenced operations in November 1993 and its main activities were the manufacturing and sales of special metals. Based on the approval numbered [2000] 372 of the Tianjin Foreign Trade and Economic Committee, Tianjin Xin Bao was acquired on January 1, 2001 and integrated its operations into Tianjin.

On June 14, 2004, Magnequench Valparaiso, Inc. was merged with and into the surviving entity Magnequench UG, Inc. The former was formed and the latter was acquired during 2000 in conjunction with the acquisition of the rare earth magnet business of Le Carbone Lorraine S.A. Following the merger, Magnequench UG, Inc. was converted into a limited liability company and changed its name to Magnequench UG, LLC.

2. RESTRUCTURING INITIATIVES

The Company is in a net shareholders' deficit and net current liabilities position of $70.3 million and $37.9 million, respectively as at March 31, 2005. The Company has implemented several restructuring initiatives disclosed in Note 3 to the Company's audited combined financial statements for the year-ended December 31, 2004.

During the past four years the Company has implemented several restructuring initiatives which, in the opinion of management, will improve the Company's profitability and liquidity. Components of these initiatives included the following:

- 2001 — Negotiation of a plant closure agreement for its Anderson, Indiana facility with the United Auto Workers and transfer of all powder manufacturing to the Company's facility in Tianjin, China
- 2003 — Negotiation of a plant closure agreement with the United Steelworkers for its Magnequench UG facility in Valparaiso, Indiana
- 2004 — Divestiture of all magnet manufacturing subsidiaries
- 2004 — Relocation of the research and development facility and certain corporate administrative and finance functions from the United States to Singapore

In the three months ended March 31, 2004, the Company accrued $311,000 for severance and related payments for termination of support personnel when the corporate headquarters was relocated to Singapore in December 2003. As of March 31, 2005, the balance, which was included in the reserve for facility closure in the Company's combined balance sheet, was $451,000 and a vast majority of these accruals will be utilized by June 30, 2005.

3. ASSETS AND LIABILITIES HELD FOR SALE

The carrying value of the assets and liabilities held for sale of the discontinued Magnequench UG operations included in the balance sheets are as follows:

	March 31, 2005	December 31, 2004
Assets held for sale		
Other current assets	$299	$253
Liabilities held for sale		
Accrued liabilities	282	266
Accrued payroll and benefits	—	162
Liabilities held for sale	$282	$428

4. INVENTORIES

Inventories, stated at the lower of cost or market, consisted of the following:

	March 31, 2005	December 31, 2004
Raw materials	$1,196	$2,225
Work-in-progress	975	506
Finished goods	3,446	3,724
Supplies	1,875	1,717
Total	$7,492	$8,172

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment for operations consisted of the following:

	March 31, 2005			December 31, 2004		
	Gross	Accumulated Depreciation	Net Book Value	Gross	Accumulated Depreciation	Net Book Value
Land	$ 100	$ —	$ 100	$ 100	$ —	$ 100
Buildings and improvements	11,402	3,306	8,096	10,398	3,124	7,274
Machinery and equipment	47,675	22,465	25,210	48,492	21,336	27,156
Construction in progress	40	—	40	73	—	73
	$59,217	$25,771	$33,446	$59,063	$24,460	$34,603

For the three months ended March 31, 2005 and 2004, the Company incurred amortization expense of $1,311 and $1,252, respectively.

6. PATENTS AND OTHER INTANGIBLES

Information regarding the Company's patents and other intangible assets is as follow:

	March 31, 2005			December 31, 2004		
	Gross	Accumulated Amortization	Net Book Value	Gross	Accumulated Amortization	Net Book Value
Patents	34,922	29,573	5,349	34,922	28,608	6,314
License agreements	7,243	6,479	764	7,243	6,359	884
Chinese land use rights	1,129	108	1,021	1,129	100	1,029
	$43,294	$36,160	$7,134	$43,294	$35,067	$8,227

Amortization expense of amortizing assets was $1,093 and $1,089 for the three months ended March 31, 2005 and 2004.

7. DEBT

Borrowings consisted of the following at December 31, 2004 and 2003 (dollars in thousands):

	2005	2004
GM pension note	$ 427	$ 427
First Lien Loan	126,285	133,785
Second Lien Term Loan	25,000	25,000
Short-term lines of credit at foreign subsidiaries	5,229	1,813
Long-term lines of credit at foreign subsidiaries	1,212	1,212
Total debt	158,153	167,237
Less-current portion, long-term debt	27,656	24,240
Total long term debt	$130,497	$137,997

The GM pension note is to reimburse General Motors for pension costs related to individuals at MQI who were employed as of September 30, 1995 and covered by a GM pension at the time of the MQI acquisition. The note is payable in ten annual installments of $460,000, including interest at 8.5% per annum and matures September 30, 2005 and is unsecured.

On June 25, 2004, the Company entered into a Credit Agreement which consists of a First Lien Loan and a Second Lien Loan. Interest is payable under both loans at either the prime rate (5.25% at December 31, 2004) or the Eurodollar rate (2.4% at December 31, 2004), plus a specified margin. At its option, Magnequench may use the Eurodollar-based rate for any borrowing for periods of one, two, three or six months. The prime-based rate is used for any borrowing and all periods where the Eurodollar-based rate is not selected by the Company. Borrowings under the Credit Agreement were used to pay off the remaining principal balances of the revolving credit facility, Term Loan A, Term Loan B, Capital expenditure term loans and senior subordinated notes, along with accrued interest thereon. Borrowings under the Credit Agreement are secured by substantively all of the Company's domestic and Singapore assets, as well as the Xin Bao Investment Limited equity in Tianjin.

The First Lien Loan matures September 30, 2009 and is payable in 21 quarterly principal installments which commenced September 30, 2004 and will aggregate $145 million. The prime rate margin on the First Lien Loan is 6.5%, whereas the Eurodollar rate margin on the First Lien Loan is 7.5%. For the year ended December 31, 2004, the weighted average borrowing rate under the First Lien Loan was 9.31%.

The Second Lien Loan matures December 31, 2009 with a single payment of $25 million. The prime rate margin on the Second Lien Loan is 10%, whereas the Eurodollar rate margin on the Second Lien Loan is 11%. For the year ended December 31, 2004, the weighted average borrowing rate under the Second Lien Loan was 12.81%.

The Credit Agreement contains various covenants which require, among other things: (a) limitations on balances of cash, cash equivalents and certain Tianjin liabilities; (b) limitations on mergers, acquisitions, and similar transactions; (c) limitations on dividends and stock distributions; (d) limitations on advances to subsidiaries or affiliates; (e) limitations on disposals, pledges or encumbrances of assets; and, (f) limitations on additional debt, capital expenditures, and investments. The Company is in compliance with its covenants at March 31, 2005.

Under the Credit Agreement, should there be excess cashflow, as defined in the Credit Agreement, at the end of each of the Company's fiscal years, 75% of such excess cashflow is required to be applied towards prepayment of the loan.

The Company is also required, under the Credit Agreement, to enter into and thereafter maintain in each of the first three years, hedge agreements to the extent necessary to provide at least 50% of the average outstanding agreement principal.

There are three lines of credit in China which provide an aggregate of up to 99.9 million Renminbi (''RMB''), of which RMB 50.0 million bears an interest rate of 4.698%, RMB39.9 million bears an interest rate of 5.04% and RMB10.0 million bears an interest rate of 5.49%. RMB25 million was outstanding against these lines at December 31, 2004, which are secured by the Tianjin land use rights, building and machinery. The 2004 average interest rate for borrowings against the Tianjin local lines was 5.19%. Based on exchange rates in effect at December 31, 2004, borrowings against these local lines of credit aggregated approximately $3.02 million, leaving availability of approximately $9.05 million.

The carrying amounts of the First Lien and Second Lien Loans approximate their fair values at December 31, 2004 based on the debt's variable market interest rates. The carrying amount of the GM pension note approximates its fair value due to the short-term nature of the remaining obligation.

8. SHAREHOLDERS' EQUITY

On January 6, 2005, the Company's Board of Director has approved a one thousand to one (1,000 to 1) reverse stock split, each such share of capital stock to be converted into 1/1,000 of a share, and applying to its common stock, stock options and warrants outstanding on the effectuated date. On January 6, 2005, Magnequench, Inc. shareholders approved the reverse stock split.

Common Stock Warrants

In connection with previous issuances of senior subordinated debt and redeemable preferred stock, the Company issued warrants to purchase an aggregate of 121.274 shares and 134.297 shares, respectively, of the Company's common stock at an exercise price of $0.0082 and $0.0074 per share, respectively. These warrants were valued at $3.3 million based upon the market value of the Company's common stock at issue date, which was accounted for as an original issue discount (''OID'') from the face value of the notes and is reflected in additional paid-in capital. The senior subordinated notes issued in 2000 were issued with OID of $4.6 million based upon the carrying value of the preferred stock exchanged for the notes. These notes were repaid on June 25, 2004. The warrants expire on December 30, 2009 and August 25, 2009, respectively.

9. EMPLOYEE BENEFIT PLANS

Stock Compensation

The Company's stock option activity for the periods ended March 31, 2005 and 2004 is summarized as follows:

	March 31			
	2005		2004	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at January 1	253.322	$55.62	277.322	$56.52
Granted	239.376	$22.50	—	—
Exercised	—	—	—	—
Lapsed/Cancelled	(223.653)	$60.34	—	—
Outstanding at March 31	269.045	$22.22	277.322	$56.52
Exercisable at March 31	29.669	$20.00	235.527	$46.97

During the quarter ended March 31, 2005, the Company granted approximately 239.376 stock options to designated senior management employees that vest over a period of three to five years of continuous employment. The total number of options outstanding at March 31, 2005 was 269.045.

The fair value of these options was calculated using the Black-Scholes option pricing model using the following assumptions; a weighted average life of ten years, expected common stock price volatility of 37%, dividends are reinvested in the Company and a risk free interest rate of 4.03%. The stock compensation expense for 2005 was $193,427 (2004 nil). The aggregate unexpensed fair value of unvested stock options was $2,904,000 (2004 — nil), as at March 31, 2005.

At March 31, 2005, 29.669 options were outstanding with an exercise price of $20.00 and an average remaining contractual life of three years, all of which were exercisable; 239.376 options were outstanding with an exercise price of $22.50 and an average remaining contractual life of ten years.

Defined Benefit Pension Plan

The Company's total net benefit cost for the three month period ended March 31, 2005, was $90,250.

10. SEGMENT INFORMATION

CICA 1701, *Segment Disclosures* establishes standards for the reporting by public business enterprises of information about reporting segments, products and services, geographic areas and major customers. The method for determining what information to report is based on the way that the management organizes the segments within the Company for making operating decisions and assessing financial performance. The Company has aggregated its businesses into a single reportable segment because the segments have similar long term economic characteristics. In addition, the segments are similar in regards to (a) nature of products and production process, (b) type of customers and (c) method used to distribute products. Accordingly, the Company describes its reportable segment as high energy, rare earth magnetic powder. All the Company's revenues result from sales in its product lines.

The geographic distributions of our net sales to customers, and long-lived assets for 2005 and 2004 are summarized as follow:

	Three Months Ended March 31	
	2005	2004
Net Sales (1)		
Asia		
Japan	$ 6,202	$ 4,960
China	4,470	2,895
Singapore	115	5,512
Hong Kong	2,619	2,978
Others	688	700
Total Asia	14,094	17,045
North America	1,074	2,070
Europe	2,040	1,955
	$17,208	$21,070

(1) Net sales are attributed to countries based on location of customer.

Income		
Asia	$ 1,652	$ 2,843
North America	272	1011
	$ 1,924	$ 3,854
Capital Expenditures		
Asia	$ 150	$ 338
North America	—	22
	$ 150	$ 360
Long-Lived Assets		
Asia	$29,952	$30,827
North America	39,200	40,969
	$ 150	$71,796

11. CONTINGENCIES

Litigation

(a) In 2003, the Company determined that because some of the magnets it made were used in military applications, it should (i) be registered with the U.S. Department of State's Office of Defense Trade Controls and the U.S. Department of Treasury's Bureau of Alcohol, Tobacco and Firearms; and (ii) obtain licenses for imports and exports of magnets and technical data used in certain military applications. The Company appointed a compliance officer, implemented a compliance program, filed the appropriate registration forms and fees and submitted voluntary disclosure letters disclosing various past transactions that should have been licensed by those agencies. The Company has received letters from the State Department with respect to all the 2003 disclosures stating that no enforcement actions would be taken at that time. The State Department retains the right to reopen those matters in the future.

In early 2004, the Company discovered some additional exports that had been made to Canada without the appropriate licenses. The Company has made voluntary disclosures with respect to these shipments. To our knowledge, no response from the State Department has been received with respect to these disclosures.

(b) On December 7, 2004, the Company received correspondence from Kane Magnetics Acquisition, LLC (''Kane'') relating to allegations that the Company had breached certain provisions of the April 30, 2004 Purchase Agreement, whereby the Company sold certain assets to Kane (the ''Agreement'') as disclosed in Note 4. Subsequently, the Company received a letter from Midmark Capital, the largest equity holder in Kane, asserting the same allegation as well as threats of potential fraud claims against the Company. Management believes that based on the intent clearly expressed in the language in the agreement, these allegations are unfounded, but has engaged in discussions over a possible business resolution, which discussions have not been successful to date. On December 15, 2004, the Company filed the above referenced suit seeking a declaration from the Court that the Company has acted in accordance with its obligations pursuant to the Agreement. Kane was served with the summons and a copy of the Company's complaint on February 14, 2005. On June 6, 2005, Kane filed an Answer to Amended Compliant for Declaratory Judgment, Counterclaim and Third Party Complaint. In that pleading, Kane asserts causes of action against Magnequench, Inc. and Magnequench UG, Inc. alleging fraud, securities fraud under the Indiana Securities Act, breach of purchase agreement, breach of implied covenant of good faith and fair dealing, unfair competition, and misappropriation of trade secrets, all arising from or related to the transaction and dealings raised in the Complaint. The Company intends to defend vigorously these counterclaims. Kane's third party complaint names Archibald Cox, Jr., Precision Magnetics, LLC, Kenneth Langone, Brian Gallagher, Jean-Marc Chapus, and Hong Zhang as defendants. The Company denies the allegations in the correspondence and intends to continue its vigorous defense against the claims against it in the Answer to Amended Complaint for Declaratory Judgment, Counterclaim and Third Party Complaint. The outcome of the matter is not reasonably estimable at this time.

(c) On or about May 19, 2005, the Company received notification that pursuant to that certain Asset Purchase Agreement between Magnequench GmbH and Deutsche Carbone AG, dated as of October 31, 2000, the German taxing authorities have determined that 16% VAT should have been assessed on the purchase price paid by Magnequench GmbH to Deutsche Carbone AG thereunder. The parties believe that such amount (approximately €974,000) is subject to a corresponding input tax deduction which would result in no VAT being paid to the German taxing authorities. The German taxing authorities have also determined that interest is to be assessed on the unpaid VAT for a total of approximately €189,920 which amount is not subject to a corresponding input tax deduction and must be paid to the German taxing authorities in cash.

On April 30, 2004, the Company sold the common stock of Magnequench GmbH to Kane Magnetics Acquisitions, LLC (''Kane'') and Kane changed the name of Magnequench GmbH to Kane Magnetic GmbH. Under the terms of the Agreement between Kane and the Company, the Company agreed to indemnify and hold Kane harmless for all taxes for all taxable period ending on or before the closing date. If it is determined that Kane Magnetics GmbH were to be liable for all or any part of the VAT payment referenced above, the Company has a contractual indemnification obligation to reimburse such amounts to Kane Magnetics GmbH. In addition, the Company is obligated in any event to indemnify Kane Magnetics GmbH for 50% of the interest payable on such amount, which if paid by June 30, 2005, is estimated to result in a €94,960 liability for the Company (with an additional €2,435 for each month therefore until fully paid.

(d) The UAW and the Company entered into a Shutdown Agreement on or about December 19, 2001, in connection with the closure of the Company's manufacturing facility in Anderson, Indiana. As part of the consideration for the Shutdown Agreement, the Company agreed to pay certain contingent lump sum payments to employees terminated as a result of the plant closure. Two of the payments, each amounting to $10,000 per employee, were scheduled to be paid on May 15, 2004 and May 15, 2005. There are approximately 200 employees terminated as a result of the Anderson plant closure. Both of those payments were contingent on receiving a letter from

General Motors Corporation (GM) relieving the Company of certain retiree medical liabilities for the lives of approximately 12 employees and their eligible dependents. Because Magnequench never received that letter, those two lump sum payments, amounting to approximately $4,000,000 in the aggregate, have not been paid. The UAW filed a demand for arbitration in early July 2004 under the terms of the Shutdown Agreement, demanding payment of these last two lump sum payments. An arbitrator has been selected and a hearing is likely to be held in late summer/early Fall 2005. The potential liability growing out of this arbitration is either (1) an order to pay approximately $4,000,000 in lump sum payments with a determination that GM has fully relieved Magnequench of liability for the retiree medical benefits for approximately 12 employees, or (2) an order relieving the Company of any liability for paying the $4,000,000 in lump sum payments, which, in turn, could likely lead to a determination that the Company is responsible for funding (or providing directly) the retiree medical benefits for the 12 employees and their eligible dependents. The 12 employees at issue worked for GM before GM spun off Magnequench as a separate entity in 1995, then returned to work for GM after the closure of the Anderson, Indiana facility, and most of them now have retired from GM and are presently receiving their retiree medical benefits from GM. The arbitrator only has jurisdiction to award, or decline to award, the $4,000,000 in lump sum payments; he does not directly have any authority to determine the Company's liability for paying retiree medical benefits, but that would remain a contingent liability in the event the arbitrator denies the Union's request for the additional lump sum payments.

(e) Since January 10, 2005, the Company has been in negotiations with Osmic, Inc. (''Osmic'') concerning a possible license or assignment arrangement concerning an Osmic patent relating to a method of forming a particulate solid alloy. The two parties have not reached an agreement on the terms of such a license or assignment arrangement. Osmic has suggested that if a satisfactory final agreement is not reached, it could initiate patent infringement litigation against the Company. The Company has indicated that if such litigation were initiated, the Company would contest the matter vigorously. The Company has also indicated that it would nonetheless still be open to discussing an out-of-court settlement with Osmic. With respect to any damages that may be awarded against the Company as a result of such litigation, or any payment that may result from a negotiated agreement, the probability and amount of any such damages or payment cannot be ascertained with any reasonable degree of certainty at this time.

The Group currently and from time to time is involved in litigation incidental to the conduct of its business. The Group has received correspondence relating to allegations relating to breach of agreement but no formal legal action has been brought against the Group. Management believes that based on the intent clearly expressed in the language in the agreement, these allegations are unfounded. The Group is not currently a party to any lawsuit or proceeding which, in the opinion of management, is likely to have a material adverse effect on its financial position or results of operations.

12. RELATED PARTY TRANSACTIONS

The Company sells powder to Magnequench NJ, which is owned by Archibald Cox, Jr., MI's President and Chief Executive Officer. Total 2005 powder sales to Magnequench NJ subsequent to the sale of the company to Mr. Cox were $108,640 and there were no sales for the corresponding period in 2004. The Company also paid $85,460 for certain administrative services during 2005 and 2004 that were subsequently billed to Magnequench NJ at cost. Magnequench NJ owed MQI $51,300 and $234,300 as of March 31, 2005 and December 31, 2004.

These transactions have been recorded at the exchange amount, which is the consideration paid as established and agreed by the related parties.

13. SUBSEQUENT EVENT

Acquisition

Subsequent to December 31, 2004, AMR Technologies, Inc. (''AMR'') a company listed on the Toronto Stock Exchange, proposed to: (i) acquire all of the Company's issued and outstanding common shares in exchange for the issuance of an aggregate of 26,866,819 common shares of AMR; and (ii) in exchange for all of the Company's outstanding stock options, issue options of AMR to acquire an aggregate of 2,833,181 common shares of AMR. Simultaneous with the closing of the transaction,

(a) AMR will complete a public equity offering, and a private convertible debenture offering, the proceeds from which will be used to retire outstanding indebtedness of the Company as disclosed in Note 9.

(b) Refinance the remaining portion of outstanding indebtedness.

Completion of the transaction is subject to, including but not limited to, the following conditions:

(i) AMR shareholders' approval of the transactions;

(ii) Completion of financings and refinancing of the remaining portion of outstanding indebtedness; and

(iii) Toronto Stock Exchange approval of the transactions.

As described more fully in Note 9, the Company's Credit Agreement provides for a limitation on mergers, acquisitions, and similar transactions. This facility will be repaid as a condition of the transactions.

CERTIFICATE OF AMR

Dated: June 8, 2005

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 9 of the *Securities Act* (Alberta), by Part XI of *The Securities Act, 1988* (Saskatchewan), by *Part VII* of the *Securities Act* (Manitoba), by Part 6 of the *Securities Act* (New Brunswick), by Part II of the *Securities Act* (Prince Edward Island), by section 63 of the *Securities Act* (Nova Scotia), by Part XIV of the *Securities Act* (Newfoundland and Labrador) and by Part XV of the *Securities Act* (Ontario) and the respective regulations thereunder. This prospectus, as required by the *Securities Act* (Quebec) and the regulations thereunder, does not contain any misrepresentation likely to affect the value or market price of the securities to be distributed.

(signed) PETER V. GUNDY Chairman, Chief Executive Officer and President	(signed) GEOFFREY R. BEDFORD Executive Vice President and Chief Financial Officer

On Behalf of the Board of Directors

JOHN P. WLEUGEL (signed) Director	ROBERT J. LANDER (signed) Director

CERTIFICATE OF THE AGENT

Dated: June 8, 2005

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 9 of the *Securities Act* (Alberta), by Part XI of *The Securities Act, 1988* (Saskatchewan), by Part VII of the *Securities Act* (Manitoba), by Part 6 of the *Securities Act* (New Brunswick), by Part II of the *Securities Act* (Prince Edward Island), by Section 64 of the *Securities Act* (Nova Scotia), by Part XIV of the *Securities Act* (Newfoundland and Labrador) and by Part XV of the *Securities Act* (Ontario) and the respective regulations thereunder. To our knowledge, this prospectus, as required by the *Securities Act* (Quebec) and the regulations thereunder, does not contain any misrepresentation likely to affect the value or market price of the securities to be distributed.

GMP SECURITIES LTD.

(signed) HARRIS FRICKER

AMR TECHNOLOGIES INC.

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