Australian Magnesium

Australian Magnesium Corporation Ltd
ABN 51 010 441 666

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22 February 2005

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

Dear Sirs,

RE: ANNOUNCEMENT

Please find attached an Announcement in relation to:

* **Half Yearly Report ended 31 December 2004 & Appendix 4D**

Yours faithfully,

P K Nair
General Manager Corporate
& Company Secretary

Appendix 4D

Australian Magnesium Corporation Limited
ASX Half-Year Information - 31 December 2004

Australian Magnesium Corporation Limited ("AMC") ABN 51 010 441 666

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

This information should be read in conjunction with the Australian Magnesium Corporation Limited Financial Statements for the year ended 6 July 2004.

Current Reporting Period:	Half-Year from 7 July 2004 to 31 December 2004 (see Note 1)
Previous Corresponding Period:	Half-Year from 1 July 2003 to 31 December 2003

Results for Announcement to the Market
for the Half-Year Ended 31 December 2004

Revenue and Net Profit		Percentage Change %	Amount $'000
Revenue from ordinary activities	Up	5.0%	to $45,948
Profit from ordinary activities after tax	Up	n/a *	to $4,172
Net Profit attributable to members	Up	n/a *	to $4,172

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

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

Brief Explanation of Revenue, Net Profit and Dividends

Revenue and Net Profit

Comparisons between the six months ended 31 December 2004 and the previous comparative six months ended 31 December 2003 are difficult, due to the following:

- $5.6 million of current half year revenues relates to the gain on sale of the QMAG Joint Venture operations and $7.543 million to associated debt forgiveness revenue.
- QMAG operating results are for the five months until disposal on 1 December 2004, compared with a full six month result for the half year ended 31 December 2003.
- $1.451 million in deferred foreign exchange gains have been recognised in sales, compared to the previous comparative period recognition of $4.040 million in deferred foreign exchange losses.

Both revenues and net profit are affected by the above factors. No dividend was declared.

Financial Report
For the Half-Year Ended
31 December 2004

Directors' Report

The Directors of Australian Magnesium Corporation Limited submit herewith the financial report for the half-year ended 31 December 2004. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

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

Dr CD Rawlings (Non-Executive Chairman)
Mr FCH O'Connor
Mr JD Story
Mr KG Williams
Mr ID Hartnell (appointed 17 November 2004)

Review of Operations

The consolidated profit for the six months was $4.172 million (2003: loss of $20.246 million).

Corporate

The twenty-second annual general meeting of AMC was held on 4 November 2004 at the Brisbane Convention Centre. Dr Chris Rawlings retired by rotation and was re-elected to the Board of Directors. In addition, shareholders approved the divestiture of the QMAG mining operations and magnesite resource to Resource Capital Funds. Settlement of the sale occurred on 1 December 2004.

On 17 November 2004, Mr Ian Hartnell was appointed as Managing Director, replacing Mr Eric Kolatchew as Chief Executive Officer and joining the Board of Directors. On the same date, Dr Chris Rawlings stepped down as Executive Chairman and became a Non-executive Chairman of the Board of Directors.

The sixth and final distribution of 3.2 cents per Distribution Entitled Security (DES) was paid on 23 November 2004. The DES shares reverted to ordinary share capital in AMC on 24 November 2004.

Formation of Advanced Magnesium Technologies

Following the approval of shareholders to sell the Queensland Magnesia Operations (QMAG) and the associated Kunwarara Magnesite deposit, management set about establishing a magnesium technologies business, with a new team, focus and direction.

After reviewing the company's residual assets and the commercial potential for new magnesium applications in automotive and other industries, it was decided that, whilst challenging, AMC should form a new technology business based on magnesium alloys to be known as Advanced Magnesium Technologies Pty Ltd (AMT). AMT is a wholly owned subsidiary of AMC.

The main residual assets left from the old AMC were:

- Its people, with specialised expertise in metallurgy, automotive design and manufacture of magnesium, aluminium and zinc components;
- Its extensive network of relationships in the automotive industry with advanced engineering teams in the automakers themselves, design teams in major Tier 1 suppliers, and operating teams in die casters and foundries;
- Its long term, well developed and close working relationship with the CRC for Cast Metals Manufacturing (CAST), a very successful Cooperative Research Centre, now entering its third term of seven years;

- A portfolio of exclusive worldwide patented intellectual property rights to highly relevant technology that had been developed in close cooperation with CAST; and

- Approximately $9.7 million in cash (as at 31 December 2004).

The current demand for magnesium alloys is approximately 3kgs per vehicle. With approximately 50 million vehicles per annum produced worldwide, this creates an annual demand of approximately 150,000 tonnes per annum. Most of this demand is for the three existing workhorse alloys (AZ91, AM50 and AM60) for use in applications in the interior of the car, eg. instrument panel support beams, steering wheels, seat frames, pedal brackets etc. Numerous studies have identified potential applications for magnesium which, if all were developed and successfully introduced, could require in excess of 100kg per vehicle. Most of this demand however, is for applications in areas of the car which require different properties to existing magnesium alloys eg. engine blocks requiring creep resistance at high temperatures, or body and crash structures requiring strength, ductility and predictable crash performance. In order to take advantage of these opportunities, the challenge will be:

- to invent new alloys with the required properties;

- to develop technologies which allow these new alloys to be used at costs which are competitive to existing materials (aluminium, steel and plastics); and

- to get the automotive industry to include these alloys for evaluation in their plans to develop new components for use in future vehicles under design and development.

The new AMT will be addressing these challenges in association with CAST. The company will be bringing high value-added technologies largely developed in Australia to, primarily, the international automotive industry and its network of suppliers. The potential gains in this new area of operations are very large but these are also accompanied by high levels of risk.

Since the shareholders meeting in November 2004:

a) *A team of 18 full time and part time employees has been retained and engaged under new agreements;*

b) *The Company has been restructured, and some of the old wholly owned subsidiaries have been renamed to reflect the new direction the company is taking;*

c) *Detailed operating budgets, revenue forecasts and activity plans have been developed and documented; and*

d) *Four new strategic alliances have been formed, and these are in varying degrees of commercial development. These new alliances are:*

   i. An agreement with a leading European company for AMT to develop new applications for AM-lite, provide technical support to achieve cost effective production of components made from the alloy, and for AMT to be the exclusive supplier of AM-lite;

   ii. An agreement with a European company to manufacture AM-lite on behalf of AMT;

   iii. An agreement with an Australian company to replicate the approach taken with AM-lite in Europe;

   iv. An agreement with an Australian company to remove the relevant equipment from the former AMC Demonstration Plant cast-house in Gladstone and re-install it in Melbourne. This equipment will be used to recycle Australian magnesium scrap and manufacture AM-lite and other alloys for AMT under a tolling agreement.

Other projects and investment opportunities where AMT can add value are actively being sought. One such project, which is in its early stages, is a strategic alliance with an Australian research group to develop

revolutionary new technology to store hydrogen in a magnesium alloy for use as an alternative energy source.

There are extensive international research efforts underway to seek cost competitive renewable fuel sources to replace fossil fuels. There has been a strong push to explore hydrogen as a fuel, since the only emissions it produces when burnt is water vapour.

Magnesia Operations (QMAG)

The QMAG business was under the control of the group for five months during the half-year. QMAG was sold on 1 December 2004 to Resource Capital Fund III L.P. (RCF). During the five month period, QMAG generated operating revenues of $29.092 million (2003 six month period: $41.053 million).

The QMAG segment result for the 2004 period was a profit of $3.227 million (2003: loss of $5.957 million). The improvement was largely due to forgiveness of borrowings costs amounting to $2.296 million (2003: nil) inter-segment debt forgiveness of $4.027 million (2003: nil) and recognition of deferred foreign exchange gains of $1.451 million (2003: deferred losses $4.040 million).

Residual Activities

Sale of Stanwell Magnesium Project Assets

The principal activity for the six months in relation to the Stanwell Project has been the termination and winding up of remaining agreements and, in conjunction with Leighton, determining the disposition and value of assets emanating from its construction contract and from AMC's scope of work. In conjunction with Leighton, asset sales during the period have realised $0.609 million. Estimated proceeds from future asset sales are $2.464 million.

Demolition of Gladstone Demonstration Plant

During the half year, arrangements were put in place with a contractor for the Demonstration Plant to be dismantled, rehabilitated and for the lease to be surrendered back to the State Government. A separate contract was established to clear the site of sodium. Work is ongoing and is expected to be completed by mid April 2005. The cast house equipment will be retained and reinstalled at a site in Melbourne for use in AMT's business. An environmental audit of the site was completed by an independent contractor and submitted to the Queensland State Government Environmental Authorities. No issues of any substance have been identified. A further environmental report specific to the sodium system will be completed once the sodium system has been removed from the site.

Licensing of the AM–Process

AMC has retained a 50% interest in the AM-process technology developed jointly with CSIRO. AMC is in discussions with a major international metals company to market and license the demonstrated AM-process to potential magnesium producers. As the AM-process is jointly owned with the CSIRO, this will require their prior consent. Discussions are in progress with both parties to finalise these arrangements.

The AM-process is a patented process for the removal of water from magnesium chloride brine solutions to produce anhydrous magnesium chloride of very high purity. This allows the anhydrous magnesium chloride to be electrolysed to magnesium metal in modern cells, such as the highly productive and efficient Alcan EX cell. The AM-process was successfully demonstrated to a bankable standard over a period of four years in the Demonstration Plant at Gladstone, following a period of six years intensive research in joint venture with CSIRO. The process has an extremely low environmental profile and low operating costs by Western standards.

Financial Outlook

The sale of the QMAG Joint Venture eliminated AMC's remaining interest bearing debt and generated working capital for the short term. However, additional funding will be required in the future to ensure the continued development and commercialisation of technologies under the Advanced Magnesium Technologies business.

In addition, the liability for technology, research and development and patent fee payments outlined in **Note 7.3** of the financial statements is a significantly liability and if this is not resolved in accordance with the memorandum of understanding, then the potential outflow of cash in relation to this liability will considerably impair AMC's ongoing operational capacity.

Rounding Off of Amounts

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the Directors' report and the financial report are rounded off to the nearest thousand dollars.

Auditor's Independence Declaration

The auditor's independence declaration is included on page 8

Signed on 21 February 2005 in accordance with a resolution of Directors.

On behalf of the Directors

C. D. Rawlings

Chris Rawlings
Non Executive Chairman

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

Deloitte.

Deloitte Touche Tohmatsu
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Board of Directors
Australian Magnesium Corporation Limited
Level 5
30 Little Cribb Street
Milton QLD 4064

21 February 2005

Dear Board Members

Australian Magnesium Corporation Limited

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

As lead audit partner for the review of the financial statements of Australian Magnesium Corporation Limited for the half-year ended 31 December 2004, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Timothy G G Biggs

Timothy G G Biggs
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
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INDEPENDENT REVIEW REPORT TO THE MEMBERS OF AUSTRALIAN MAGNESIUM CORPORATION LIMITED

Scope

We have reviewed the financial report of Australian Magnesium Corporation Limited for the half-year ended 31 December 2004 as set out on pages 10 to 22. The financial report includes the consolidated financial statements of the consolidated entity comprising the disclosing entity and the entities it controlled at the end of the half-year or from time to time during the half-year. The disclosing entity's directors are responsible for the financial report. We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the disclosing entity to lodge the financial report with the Australian Securities and Investments Commission.

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

Statement

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

(a) the Corporations Act 2001, including:
  (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2004 and of its performance for the half-year ended on that date; and
  (ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
(b) other mandatory professional reporting requirements in Australia.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Timothy G G Biggs
Partner
Chartered Accountants
Brisbane, 21 February 2005

Directors' Declaration

The Directors declare that in respect of the financial statements and notes thereto for the period ended 31 December 2004, set out on pages 11 to 22:

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

Signed on 21 February 2005 in accordance with a resolution of the Directors pursuant to s. 303(5) of the Corporations Act 2001.

On behalf of the Directors

C.D. Rawlings

Chris Rawlings
Non-Executive Chairman

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

Consolidated Statement of Financial Performance for the Half-Year Ended 31 December 2004

	Note	Half-Year Ended 31 Dec 2004 $'000	Half-Year Ended 31 Dec 2003 $'000
Operating revenue			
Gross revenue from sales or services		27,715	45,177
Deferred foreign exchange gain/(loss) recognised	2.1	1,451	(4,040)
Net revenue from sales or services		29,166	41,137
Interest revenue		195	1,427
		29,361	42,564
Non-operating revenue			
Gain on sale of QMAG operations	2.2	5,600	-
Debt forgiveness revenue	2.3	7,543	-
Proceeds on sale of assets and investments		1,809	780
Net foreign exchange gains		1,592	-
Other revenue		43	411
		16,587	1,191
Total revenue from ordinary activities		45,948	43,755
Expenditure			
Cost of sales, excluding depreciation and amortisation		(27,847)	(39,188)
Depreciation and amortisation		(2,543)	(4,011)
Interest and borrowing costs		(2,054)	(10,541)
Advanced Magnesium Technologies related costs		(2,946)	(1,867)
Corporate, Administration and other costs		(3,551)	(3,537)
Net Stanwell Magnesium Project related costs	2.4	(1,212)	(3,923)
Written down value of assets sold		(915)	(672)
Other inventory costs or write-downs		(656)	(103)
Net foreign exchange losses		-	(159)
Total expenditure from ordinary activities		(41,724)	(64,001)
Profit/(Loss) from ordinary activities before income tax expense		4,224	(20,246)
Income tax expense relating to ordinary activities	2.7	(52)	-
Profit/(Loss) from ordinary activities after income tax expense		4,172	(20,246)
Total Revenue, Expense and Valuation Adjustments recognised directly in Equity		-	-
Total Changes in Equity Other than those Resulting from Transactions with Owners as Owners		4,172	(20,246)
Profit/(Loss) per Share - Basic (cents per share)		0.40	(1.92)
- Diluted (cents per share)		0.39	N/A

Notes to the financial statements are included on pages 14 to 22.

Consolidated Statement of Financial Position
at 31 December 2004

	Note	31 Dec 2004 $'000	6 July 2004 $'000
Current Assets			
Cash assets		9,657	12,460
Receivables		3,241	11,734
Inventories		-	22,504
Other		203	3,340
Total Current Assets		13,101	50,038
Non-Current Assets			
Receivables		354	1,247
Property, plant and equipment		464	58,352
Project Assets	2.4	2,464	5,342
Other		-	4,909
Total Non-Current Assets		3,282	69,850
Total Assets		16,383	119,888
Current Liabilities			
Payables		3,329	18,695
Interest-bearing liabilities		-	61,953
Provisions		576	5,345
Other		-	6,070
Total Current Liabilities		3,905	92,063
Non-Current Liabilities			
Payables	7.3	4,624	12,448
Interest-bearing liabilities		-	3,433
Provisions		113	4,414
Other		-	3,867
Total Non-Current Liabilities		4,737	24,162
Total Liabilities		8,642	116,225
Net Assets		7,741	3,663
Equity			
Contributed equity	8	884,489	884,261
Reserves		2,750	2,724
Outside Equity Interest		-	348
Accumulated Losses		(879,498)	(883,670)
Total Equity		7,741	3,663

NB: The Statement of Financial Position for the comparative period was at 6 July 2004. See Note 1.

Notes to the financial statement are included on pages 14 to 22.

Consolidated Statement of Cash Flows
For the Half-Year Ended 31 December 2004

	Note	Half-Year Ended 31 December 2004 Inflows (Outflows) $'000	Half-Year Ended 31 December 2003 Inflows (Outflows) $'000
Cash Flows from Operating Activities			
Receipts from customers (including GST)		29,828	49,242
Payments to suppliers and employees (including GST)		(31,834)	(69,299)
Interest and other items of a similar nature received		400	1,224
Interest and other costs of finance paid		(1,697)	(4,284)
Recovery of insurance premiums	2.5	1,146	2,150
Other receipts		141	411
Net Cash used in Operating Activities		(2,016)	(20,556)
Cash Flows From Investing Activities			
Payment for property, plant and equipment		(1,357)	(1,301)
Proceeds from sale of property, plant and equipment		1,150	780
Proceeds from sale of QMAG operations from RCF net of loss of control of QMAG cash balance	2.2	64,102	-
Net decline in cash on disposal of Icelandic Magnesium Corporation		(333)	-
Net Cash provided by/(used in) Investing Activities		63,562	(521)
Cash Flows from Financing Activities			
Payment to Government Stakeholders under Deed of Transfer and Release	2.6	(3,000)	-
Proceeds from borrowings		-	26,128
Repayment of borrowings		-	(21,537)
Repayment of leases		(423)	(465)
Repayment of ANZ loan facility and associated costs	2.2	(60,926)	-
Early close of forward exchange contracts		-	4,999
Net Cash provided by/(used in) Financing Activities		(64,349)	9,125
Net Decrease In Cash Held		(2,803)	(11,952)
Cash at the beginning of the half-year		12,460	73,997
Cash at the end of the half-year	12	9,657	62,045

Notes to the financial statements are included on pages 14 to 22.

1. Summary of Accounting Policies

Basis of Preparation

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 1029 "Interim Financial Reporting". The half-year financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the Australian Magnesium Corporation Limited Financial Statements for the financial year ended 6 July 2004. The accounting policies adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the 6 July 2004 annual financial report.

Extension of previous financial year to 6 July 2004

For the financial year ended 30 June 2004, the Directors elected to extend the financial year by six days to end on 6 July 2004 as permissible under s323D(2) of the Corporation Act 2001. This has allowed the accounting effect of the Deed of Transfer and Release to be included in that financial year. Further details are located in the Annual Report of AMC dated 25 August 2004.

Financial Reporting Framework

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

Going Concern

In the AMC Limited Annual Report for the year ended 6 July 2004, the Directors acknowledged that the future viability of AMC's businesses depended on the restructure of the QMAG ANZ loan facility. On 1 December 2004 AMC and its related subsidiaries sold the QMAG Joint Venture and Associated Assets to Resource Capital Fund III L.P. ("RCF"). As part of this sale, RCF re-paid the QMAG ANZ loan facility. This has eliminated AMC's remaining interest bearing debt and has generated working capital.

Based on the above matters, the Directors believe the going concern basis of preparation of this financial report is appropriate.

2. Significant Transactions and Material Items

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

2.1 Deferred foreign exchange gains and losses

Forward exchange contracts and options were previously taken out to hedge against currency movement on future sales. Where hedges or options were terminated prior to maturity date, the gain or loss was deferred. The deferred gain or loss was held on the Statement of Financial Position to be released against the future sale when that sale occurred. This accounting treatment remains unchanged from 6 July 2004 and is consistent with AASB1012 "Foreign Currency Translation". In the period ended 31 December 2004, net $1.451 million of deferred gains (31 December 2003: $4.040 million of deferred losses) were released and booked against sales.

2.2 Sale of QMAG Joint Venture operations

During the period, AMC and its related subsidiaries entered into the Sale Agreement for the QMAG Joint Venture and Associated Assets with Resource Capital Fund III L.P. ("RCF").

Under the Sale Agreement, AMC has sold its entire stake in the QMAG Joint Venture and all associated rights to mineral deposits to RCF. In return, RCF have repaid the $58.5 million QMAG financing facility provided by ANZ and provided cash consideration to AMC of $8 million, with $5 million received on settlement and the remaining $3 million receivable by no later than 31 March 2005. A further $2 million in cash is available if the Directors decide to terminate the AMT business before 1 December 2005. As part of the transaction, RCF received 66,265,465 options exercisable into fully paid ordinary shares in AMC for a period of 36 months at an exercise price of $0.035 per option.

Details of the discontinued operations are outlined at **4.1. Discontinuing operations – QMAG Joint Venture**. Details of the options issued to RCF are outlined at **8. Issuance of Securities**.

2.3 Debt forgiveness revenue

In conjunction with the QMAG sale to RCF, companies within the Newmont Australia Limited Group forgave the repayment of various loans and fees. The deed poll by Newmont dated 1 December 2004 resulted in forgiveness of $5 million in debt owed under a previous deed poll dated 9 December 2003 as well as $2.3 million in hedging and loan guarantee fees and $0.2 million in other associated debts.

2.4 Stanwell Magnesium Project assets

The Project Assets balance of $2.464 million (6 July 2004: $5.345 million) in the Statement of Financial Position relates to the remaining Stanwell Project Assets being sold by Leighton under the Leighton Heads of Agreement. Under the Agreement, AMC is entitled to 30% of the gross proceeds of assets sold by Leighton. The Project Assets balance is therefore valued at its recoverable amount, based on the estimate of proceeds receivable by AMC on disposal. After taking account of assets sales in the period, the net reduction in the balance was expensed in the Statement of Financial Performance.

2.5 Insurance premium recovered

Management has continued to seek refunds of insurance premiums paid with respect to the Stanwell Magnesium Project. In the period ended 31 December 2004, management recovered $1.1 million in cash (31 December 2003: $2.3 million). This amount has been recognised as a credit against expenditure in the period, which is consistent with previous accounting periods.

2.6 Return of $3 million to Government Stakeholders

Under the Heads of Agreement signed with the Government Stakeholders on 6 July 2004, AMC Limited was required to repay an amount of $3 million to the Government Stakeholders if the Company were to raise sufficient capital to pursue its Business Plan or by 30 September 2004, whichever occurred first. The Government Stakeholders extended the deadline to 3 December 2004 to allow the completion of the QMAG Sale Agreement. On 1 December 2004, the $3 million was repaid to the Government Stakeholders as agreed.

2.7 Income Tax Expense

The Annual Report at 6 July 2004 disclosed estimated tax losses available at $329.6 million. These tax losses relate to Australian Magnesium Corporation Limited and its wholly-owned Australian controlled entities as a tax consolidated entity, resulting from the entry into the tax consolidation regime from 1 February 2003. Income taxes incurred in foreign jurisdictions are not sheltered by these Australian tax losses and are governed by relevant tax legislation as applicable.

3. Segment Information

The consolidated entity's activities were based on two segments:

- Magnesia operations, including the mining of the Kunwarara magnesite deposit in Central Queensland, Australia ("Magnesia"). With the sale of the QMAG operations on 1 December 2004, only five months of QMAG results are included in the consolidated AMC entity; and
- The development and commercialisation of magnesium technologies as part of the Advanced Magnesium Technologies business ("Magnesium").

	Magnesia		Magnesium		Unallocated/ Eliminations		Consolidated	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Sales to external customers	27,641	45,093	74	-	-	-	27,715	45,093
Foreign exchange gains/(losses) (a)	1,451	(4,040)	-	-	-	-	1,451	(4,040)
Net operating revenue	29,092	41,053	74	-	-	-	29,166	41,053
Debt forgiveness	2,296	-	-	-	5,247	-	7,543	-
Inter-segment debt forgiveness	4,027	-	-	-	(4,027)	-	-	-
Gain on sale of QMAG	-	-	-	-	5,600	-	5,600	-
Other revenue	1,075	63	2,564	1,168	-	-	3,639	1,231
Total segment revenue	36,490	41,116	2,638	1,168	6,820	-	45,948	42,284
EBITDA (b)	7,684	1,250	(5,683)	(4,785)	6,820	-	8,821	(3,535)
Interest and borrowing costs	(2,054)	(3,334)	-	(7,207)	-	-	(2,054)	(10,541)
Depreciation and amortisation	(2,403)	(3,873)	(140)	(29)	-	-	(2,543)	(3,902)
Segment result	3,227	(5,957)	(5,823)	(12,021)	6,820	-	4,224	(17,978)
Unallocated revenue less unallocated expenses							-	(2,268)
Profit/(Loss) from ordinary activities before income tax expense							4,224	(20,246)
Income tax expense							(52)	-
Profit/(Loss) from ordinary activities after income tax expense							4,172	(20,246)

(a) See **2.1 "Deferred forward exchange gains and losses"**
(b) Earnings before Interest, Tax, Depreciation and Amortisation.

4 Discontinuing operations

4.1 Discontinuing operation – QMAG Joint Venture

The magnesia operation produced raw magnesite and calcined, deadburned and electrofused magnesia, and marketed this predominantly to steel refractory, agricultural and general chemical industries. On 1 December 2004, AMC and its related subsidiaries disposed of the QMAG business and associated assets to Resource Capital Fund III L.P. ("RCF"). The details of the sale, including timing of cash flows, are set out in **2.2 Sale of QMAG Joint Venture operations** above.

The financial impact of the discontinued operation for the period is disclosed below.

	31 Dec 2004 $'000s	31 Dec 2003 $'000s
Financial performance information relating to the QMAG operations		
Revenue from ordinary activities	36,490	41,116
Expenses from ordinary activities	(33,263)	(47,073)
Profit/(Loss) from ordinary activities before income tax	3,227	(5,957)
Income tax expense	-	-
Profit/(Loss) from ordinary activities after income tax	**3,227**	**(5,957)**
Cash flow information relating to the QMAG operations		
Net cash inflow from operating activities	922	1,812
Net cash outflow from investing activities	(832)	(1,254)
Net cash inflow/(outflow) from financing activities	(137)	2,273
Total cash inflow/(outflow)	(47)	2,831

	31 Dec 2004 $'000s	6 July 2004 $'000s
Other disclosures required regarding discontinuation of the QMAG operations		
Carrying amount/net selling price of assets, including effect of ANZ loan	76	284
Gain on sale of QMAG operations	5,828	n/a
Income tax attributable to gain on sale	nil	n/a

4.2 Discontinuing operation – Stanwell Magnesium Project

The Annual Report for the year ended 6 July 2004 outlined at Note 5 the shareholders' decision to terminate the Stanwell Magnesium Project. Those financial statements set out the financial performance, carrying amounts of assets and liability and cash flow details for the year ended 6 July 2004. The significant changes to amounts or timing of cash flows relating to assets to be disposed of or liabilities to be settled are as follows:

- $1.146 million of insurance premiums was recovered, which was $0.587 million less than the expected Receivable of $1.733 million disclosed at 6 July 2004. See **2.5 Insurance premium recovered** for further details.

- After taking into account asset sales in the period, the Project Assets value of $5.897 million disclosed at 6 July 2004 has been written down by $2.010 million to $2.464 million. See **2.4 Stanwell Magnesium Project assets** for further details.

- Of the Payables of $9.975 million disclosed at 6 July 2004, $5 million relating to a Newmont debt was forgiven. See **2.3 Debt forgiveness revenue** for further details.

- The Provisions balance of $2.134 million disclosed at 6 July 2004 included a Provision for Restoration at the Gladstone Demonstration Plant of $2.067 million. Continuing work on the rehabilitation and restoration of the site, including the successful negotiation for the sale of various assets and cleanup of hazardous substances has resulted in the reduction of the provision to $0.335 million. This amount equates to the expected costs to be incurred up to the finalisation of the restoration works.

5. Dividends

No dividend was declared or recommended during the 6 months ended 31 December 2004 (6 months ended 31 December 2003: no dividend declared or recommended).

The balance of the franking account at 31 December 2004 is $nil (31 December 2003: $nil).

6. Changes in the Composition of the Consolidated Entity

6.1 Sale of Icelandic Magnesium Corporation

On 1 September 2004, the Group sold its entire shareholding in Icelandic Magnesium Corporation Limited for $0.659 million.

6.2 Sale of QMAG Joint Venture operations

On 1 December 2004, the Group sold its entire interest in the QMAG operations to Resource Capital Funds, including the sale of:

- QMC (Kunwarara) Pty Ltd which held 40% of the QMAG Joint Venture and its subsidiary Queensland Magnesia Pty Ltd; and
- QMC Refmag Pty Ltd which held 10% of the QMAG Joint Venture.

Australian Magnesium Corporation Limited, which held the remaining 50% of the joint venture, sold its entire interest in all assets and liabilities of the QMAG JV business. Further details are located at **4.1 Discontinuing Operation – QMAG Joint Venture.**

7. Contingent Asset and Liabilities

7.1 RCF Guaranteed Money to 1 December 2005

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

If AMC issues shares to raise new equity capital of greater than $2 million during the tenure of the RCF guarantee the above RCF guarantee will be extinguished. The RCF guarantee reduces proportionately if an amount of less than $2 million is raised.

If RCF exercises all of the options detailed at **8. Issuance of Securities** below, the RCF guarantee is extinguished.

7.2 Value generated from existing tax losses

As part of the QMAG Sale Agreement, AMC has agreed that if it is able to structure a Finance Co-operation Agreement that generates additional value to AMC, AMC will pay to RCF an amount equal to 25% of that additional value generated as such value is realised. This agreement expires 36 months after the QMAG date of completion.

7.3 Technology, research and development and patent fee payments

In the Annual Report for the year ended 6 July 2004, a disclosure was made regarding technology, research and development and patent fee payments. That Report stated that during the construction of the Stanwell Magnesium Project, AMO contracted with several third parties for certain technology and other intellectual property and as a result, management booked a liability for future payments still under contract. Management recognised that although some of those future payments provided for may not crystallise, a conservative approach was taken in recognising them.

The liability for potential future payments of licence fees relating to the Stanwell Magnesium Project continues to be recognised as a non-current liability at 31 December 2004. At the date of this Half Year Report, management have reached a memorandum of understanding with the third parties involved regarding a beneficial arrangement for both parties that will have the consequent results that the liability of US$4.3 million will be eliminated. However, until the arrangement is consummated, the liability will remain in the Statement of Financial Position.

7.4 Other

Apart from the above modifications, contingent assets and liabilities remain unchanged from those disclosed in the Annual Report at 6 July 2004.

8. Issuance of Securities

As part of the QMAG Sale, Resource Capital Funds were granted 66,265,465 options to acquire fully paid ordinary shares in AMC for a period of up to 36 months from 29 November 2004 at an exercise price of $0.035 per option. The binomial option valuation model was used to calculate the gross value of these options at $0.228 million.

9. International Financial Reporting Standards (IFRS)

Management of the transition to A-IFRS

In accordance with the Financial Reporting Council's strategic directive, AMC will be required to prepare financial statements that comply with Australian equivalents to International Financial Reporting Standards ("A-IFRS") for annual reporting periods beginning on or after 1 January 2005. Accordingly, AMC's first half-year report prepared under A-IFRS will be for the half-year reporting period ending 31 December 2005, and its first annual financial report prepared under A-IFRS will be for the year ending 30 June 2006.

At the date of this report, the Directors of AMC are in the process of assessing the impact of A-IFRS on the consolidated entity. The Directors are monitoring the developments in A-IFRS and the potential impact it will have on the consolidated entity, and expect to complete an impact study and commence a plan to prepare the consolidated entity to be A-IFRS compliant.

While no decision has yet been made as to checking the policy alternatives to be applied or the extent to which it will affect the consolidated entity, the Directors of AMC have identified the following as being the key accounting policy differences expected to arise on transitioning to A-IFRS.

First-time adoption of A-IFRS

On first-time adoption of A-IFRS, the consolidated entity will be required to restate its comparative balance sheet such that the comparative balances presented comply with the requirements specified in the A-IFRS. That is, the balances that will be presented in the financial report for the year ending 30 June 2005 may not be the balances that will be presented as comparative numbers in the financial report for the following year, as a result of the requirement to retrospectively apply the A-IFRS. In addition, certain assets and liabilities may not quality for recognition under A-IFRS, and will need to be derecognised. As most adjustments on first-time adoption are to be made against opening retained earnings, the amount of retained earnings at 6 July 2004 presented in the 2005 financial report and the 2006 financial report may differ significantly.

Various voluntary and mandatory exemptions are available to the consolidated entity on first-time adoption, which will not be available on an ongoing basis. The exemptions provide relief from retrospectively accounting for certain balances, instruments and transactions in accordance with A-IFRS, and include relief from having to restate past business combinations, expense share-based payments granted before 7 November 2002, and permit the identification of a 'deemed cost' for property, plant and equipment.

The impact on AMC of the changes in accounting policies on first-time adoption of A-IFRS will be affected by the choices made. The consolidated entity is evaluating the effect of the options available on first-time adoption in order to determine the best possible outcome for the consolidated entity.

Income tax

The consolidated entity currently recognises deferred taxes by accounting for the differences between accounting profits and taxable income, which give rise to 'permanent' and 'timing' differences. Under A-IFRS, deferred taxes are measured by the reference to the 'temporary differences' determined as the difference between the carrying amount and the tax base of assets and liabilities recognised in the balance sheet.

The consolidated entity has carried forward tax losses which have not been recognised as deferred tax assets as they do not satisfy the 'virtually certain' criteria under current Australian GAAP. Under A-IFRS, it may be easier to recognise these tax losses as deferred tax assets as they are recognised based on a 'probable' recognition criteria. The impact of this difference may be to increase deferred tax assets and opening retained earnings, and result in a higher level of recognised deferred tax assets on a go-forward basis.

Property, plant and equipment

On transition to A-IFRS, the entity has several options in the determination of the cost of each tangible asset, and can also elect to use the cost or fair value basis for the measurement of each class of property, plant and equipment after transition. At the date of this report, the entity has not decided which options and measurement basis will be adopted and the likely impacts therefore cannot be determined.

Under current Australian GAAP, revaluation increments and decrements within a class of assets must be set-off; however, A-IFRS requires revaluations to be tracked on an individual asset-by-asset basis. This change in accounting policy may result in the recognition of impairment losses in the profit and loss even though the class of assets has increased in value.

Impairment of assets

Non-current assets are written down to recoverable amount when the asset's carrying amount exceeds recoverable amount. Historically, although not mandated, AMC has discounted cash flows in determining the recoverable amount of its non-current assets.

Under A-IFRS, both current and non-current assets, including property, plant and equipment previously excluded if they were measured on the fair value basis, are tested for impairment. In addition, A-IFRS has a more prescriptive impairment test and requires discounted cash flows to be used where value in use is used to assess recoverable amount. Consequently, on adoption of A-IFRS, a further impairment of certain assets may need to be recognised, thereby decreasing opening retained earnings and the carrying amount of assets — the consolidated entity has not yet determined the impact, if any, of any further impairment which may be required. It is not practicable to determine the impact of the change in accounting policy for future financial reports, as any impairment or reversal thereof will be affected by future conditions.

Off-balance sheet financial assets and liabilities

A-IFRS requires the recognition of all financial assets and financial liabilities, including all derivatives and embedded derivatives, some of which may not be recognised under current Australian GAAP. Accordingly, recognition of these financial assets and financial liabilities may significantly change the net asset position of the consolidated entity, but the impact of the change will not be known until all financial instruments, including any embedded derivatives, are identified, measured and recognised in accordance with the new requirements.

An embedded derivative will have to be separately recognised at fair value from its host contract unless certain conditions are met. Changes in the fair value of the derivative are to be recognised in the income statement unless specific hedging criteria are met. The process of reviewing all contracts (e.g. lease contracts) for the existence of such derivatives is time-consuming, and whether any such derivatives exist and the value attaching to them, can only be determined subsequent to the review.

Financial assets and financial liabilities

Under current Australian GAAP, financial assets and financial liabilities are recognised at cost, at fair value, or at net market value. On adoption of A-IFRS, the consolidated entity will be required to classify these financial instruments into various specified categories. The classification of the instrument will affect the instrument's subsequent measurement — at amortised cost using the effective interest rate method, fair value with movements recognised through equity or fair value recognised through the profit and loss. The consolidated entity is evaluating the different options available, but has not made any determination at reporting date of the accounting to be adopted, and consequently, the impact of the change on the financial statements cannot yet be quantified.

Depreciation

Under current Australian GAAP, the consolidated entity's property, plant and equipment is depreciated to the extent of its depreciable amount, determined as the difference between carrying amount and residual value. The residual amount used in the determination of recoverable amount is estimated at the date of acquisition and is not subsequently increased for changes in prices. Under A-IFRS, the residual amount is reviewed at each balance date and revised to the current net amount expected from the disposal of the asset if it were already at the age and condition expected at the end of its useful life. Accordingly changes to the residual value may introduce additional volatility in the profit or loss.

Business combinations

Historically, the acquisition of an entity or operation is accounted for under the purchase method of accounting by the legal acquirer. Where consolidated accounts are prepared, the assets and liabilities purchased are initially recognised at their fair values in the consolidated accounts.

Under A-IFRS, the purchase method of accounting must be applied where there is a business combination, however, not all acquisitions will qualify as a business combination, and as such the purchase method of accounting for these acquisitions will no longer be appropriate. In addition, the legal acquirer may not be the 'acquirer' per A-IFRS, and the consolidated accounts may consequently reflect the fair values of the legal acquirer's assets and liabilities rather than the fair value of the assets and liabilities of the entity legally acquired.

Furthermore, there are a number of recognition and measurement differences that result in relation to assets and liabilities acquired in a business combination, particularly in relation to intangible assets and restructuring provisions. Acquired contingent liabilities must also be recognised at their fair values where acquired in a business combination.

The impact of these changes in accounting policy on first-time adoption will depend on whether the consolidated entity will elect to adopt the exemption available to it to not reopen past acquisitions and retrospectively account for them. On an ongoing basis, this change in policy may significantly affect the profit and loss and balance sheet, as the accounting going forward significantly differs from the manner in which such transactions are treated under current Australian GAAP.

Employee benefits

Under A-IFRS, the consolidated entity will no longer be able to recognise provisions for annual leave on a nominal basis, regardless of when the leave is expected to be taken, but will instead be required to discount the portion of annual leave liabilities expected to be taken more than twelve months from the reporting date. This change in accounting policy is likely to reduce the aggregate provision for annual leave, but is unlikely to significantly affect the income statement.

Proceeds from sale of assets

The current definition of revenue requires proceeds on sale of non-current assets to be included as revenue — this has the effect of 'grossing up' the statement of financial performance. Under A-IFRS, only the net gain or loss from the sale will be recognised in profit or loss. Consequently, there will be no net impact on the income statement.

Provision for restoration

A-IFRS specifically requires the capitalisation of costs of dismantling and removing an asset and restoring a site on which the asset was created when an asset is initially recognised. The consolidated entity currently accrues through the Statement of Financial Performance for the cost of dismantling and restoration over the life of the asset. Adjustments may be required to the liability recognised where the amount accrued at the date of transition under AGAAP differs from that required under A-IFRS. The entity is also still determining the adjustments to the carrying amounts of assets that may result from these requirements.

The above should not be regarded as a complete list of changes in accounting policies that will result from the transition to A-IFRS, as not all standards have been analysed as yet, and some decisions have not yet been made where choices of accounting policies are available. For these reasons it is not yet possible to quantify the impact of the transition to A-IFRS on the Group's financial position and reported results.

10. Reconciliation of cash

Reconciliation of cash at the end of the period (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	31 Dec 2004 $'000	6 Jul 2004 $'000
Cash on hand and at bank	995	3,697
Deposits at call *	8,662	8,763
Total cash at end of period	**9,657**	**12,460**
* includes cash deposits restricted to support bank guarantees	2,262	2,307

11. Subsequent Events

As part of an overall group structure simplification exercise, applications were lodged with ASIC to voluntary deregister the following companies on 13 January 2005:

- QMC Finance Pty Ltd
- Stanwell Finance Pty Ltd
- QMC Investments Pty Ltd
- QMC (Flamemag) Pty Ltd

Supplementary Appendix 4D Information

A. Further Details Relating to Dividends

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

B. Net Tangible Assets Per Share

	31 Dec 2004 cents	6 July 2004 cents
Net tangible assets per share	0.73	0.35

C. Information on Audit or Review

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

☐	The accounts have been audited.	☑	The accounts have been subject to review.
☐	The accounts are in the process of being audited or subject to review.	☐	The accounts have not yet been audited or reviewed.

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

Not applicable.

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

None.