



**Advanced
Magnesium
Limited**

9 February 2007

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 2006 & Appendix 4D.

Yours sincerely,

P.K. Nair
COMPANY SECRETARY

Advanced Magnesium Limited

Level 9, 303 Coronation Drive, Milton · PO Box 1364, Milton BC, QLD 4064, Australia

Phone: +61 (0) 7 3510 4400 · **Fax:** +61 (0) 7 3510 4525

Email: corporate@am-technologies.com.au · **Web:** www.am-technologies.com.au · **ABN:** 51 010 441 666



Advanced
Magnesium
Limited

HALF YEARLY REPORT

for the Half-Year Ended 31 December 2006

Appendix 4D

Advanced Magnesium Limited ASX Half-Year Report - 31 December 2006

Advanced Magnesium Limited ("AML") 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 Financial Statements of Advanced Magnesium Limited for the year ended 30 June 2006.

Current Reporting Period: Half-Year from 1 July 2006 to 31 December 2006

Previous Corresponding Period: Half-Year from 1 July 2005 to 31 December 2005

**RESULTS FOR ANNOUNCEMENT TO THE MARKET
for the Half-Year Ended 31 December 2006**

| Revenue and Net Loss | | Percentage Change % | Amount \$ |
|-----------------------------------------|------|------------------------|--------------|
| Revenue | Down | 7.67% | 220,806 |
| Loss from ordinary activities after tax | Down | n/a * | (2,640,132) |
| Net Profit attributable to members | Down | n/a * | (2,640,132) |

* Cannot calculate percentage change as loss incurred in current period versus profit 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 Loss and Dividends

Revenue and Net Loss

The current period loss after tax is \$2.64m, compared to the prior comparative period profit of \$2.10m. However, the comparative period included non-recurring items as follows:

- income from Magtrust Pty Ltd on its sale of Advanced Magnesium Limited shares of \$2.08m;
- net accounting reversal credits of \$3.90m in relation to the discontinued Stanwell operations; and
- non-cash equity expense on issue of options of \$0.49m.

Excluding these non-recurring items, the entity would have incurred a loss in the prior comparative period of \$3.39m.

On an adjusted basis, the improvement in loss after tax from \$3.39m to \$2.64m is a result of focused trials and marketing costs for the Advanced Magnesium Technologies business as it transitions into its commercialisation phase with key customers in its three main geographic regions of Asia, North America and Europe. Also impacting the decrease is further rationalisation of employees and consultants across the AML Group.

On a cash basis, the AML Group is on track to ensure that cash outflows for the 2006/2007 financial year are similar to the cash expenditure in the previous financial year, as advised at the AGM in November 2006.

CONDENSED FINANCIAL REPORT
for the Half-Year Ended 31 December 2006

| | Page Number |
|---------------------------------------------------------|--------------------|
| Directors' Report | 4 |
| Auditor's Independence Declaration | 6 |
| Review Report to the Members of AML | 7 |
| Directors' Declaration | 9 |
| Consolidated Income Statement | 10 |
| Consolidated Balance Sheet | 11 |
| Consolidated Statement of Recognised Income and Expense | 12 |
| Consolidated Cash Flow Statement | 13 |
| Notes to the Consolidated Financial Statement | 14 |

DIRECTORS' REPORT

The Directors of **Advanced Magnesium Limited** ("the Company") submit herewith the financial report for the half-year ended **31 December 2006**. 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 DM Byrne (Non-Executive Director)
 Mr KG Williams (Non-Executive Director)
 Mr ID Hartnell (Managing Director)

Review of Operations

The consolidated loss for the six months was \$2,640,132 (six months to 31 Dec 2005: profit of \$2,102,385).

Corporate

The twenty-fourth annual general meeting of AML was held on 22 November 2006 at the Brisbane Convention Centre. Dr Rawlings retired by rotation and was re-elected to the Board of Directors.

Also at the AGM, shareholders approved an amendment to the Company's constitution allowing the Company to sell non-marketable parcels of shares held by shareholders. The Company is considering the method by which it will reduce such non-marketable parcels and expects to announce the plan over the coming months.

Operational Overview

Over the six-month period to 31 December 2006, the Company made significant strides towards the objective of bringing its proprietary AM-lite magnesium alloy into commercial production. The Company has finalised product development plans and production alliances with major Asian, European and American manufacturing entities for a wide variety of products in the electronics, hardware and automotive sectors. Demand for AM-lite magnesium alloy from these initiatives is likely to commence in the current financial period.

The start of this financial year marked the transition from extensive promotion and customer trialling of AM-lite, to focused commercial development programs with nine selected key customers.

Through this period the Company has been able to demonstrate both the technical and commercial validity of its AM-lite magnesium alloy technology. Over the coming months, we anticipate that this achievement will be reflected in commercial orders for product delivery.

During the 2005/06 financial year, the company made detailed technical presentations on AM-lite to over 150 companies worldwide, and conducted over 40 demonstration trials at customer's plants. The AM-lite product is now widely known in the international market place and the Company continues to receive unsolicited enquiries from potential customers from all over the world.

During the past six months of this financial year;

- the Company finalised the planning of nine detailed product development plans with its selected key customers;
- signed seven alliance agreements to support product development plans by providing technical information and AM-lite production know-how. The Company provides this in consideration for securing the resulting supply of AM-lite;
- assisted with the launch of a new electroplating line in North America; and
- provided 44 man-weeks of shop floor technical support to our key customers to advance the commercial development of new AM-lite products.

The product development program associated with the first alliance agreement announced in August 2006 with a major electronics manufacturer in Asia is nearing completion. The part is now in the final

DIRECTORS' REPORT (cont)

stages of the approval process by the OEM (Original Equipment Manufacturer) for commercial production, at the conclusion of which, the Company anticipates that it will provide the impetus for many other companies to introduce AM-lite into their product line.

As announced in September 2006, the largest development program is anticipated to result in demand for 4,000 tonnes of AM-lite during calendar year 2007, increasing to a cumulative 10,000 tonnes by the end of calendar year 2008. This customer invested significant capital in a purpose built technical centre, with a diecasting machine and electroplating line dedicated to the AM-lite development program. Delays in pre-production trials, due to teething problems experienced by the customer's newly installed magnesium diecasting machine, have largely been overcome. However, as a consequence of this delay the development program has been held up by up to three months, pushing back the finalisation of the associated sales contract until the fourth quarter of this financial year. Notwithstanding the delay, this particular customer continues to display high levels of enthusiasm for AM-lite.

Tax changes announced in China in the last six months are likely to further entrench the competitive position of Chinese manufacturers of magnesium products. The Chinese government announced the withdrawal of VAT rebates for the export of primary magnesium products. Since China now produces almost 80% of the world's primary magnesium, the cost of magnesium exports from China are likely to rise. At the same time, the Chinese government is encouraging Chinese manufacturers to "add value" in China. It would appear inevitable that the growth in downstream manufacturing of diecast magnesium products in China will continue to grow due to their highly competitive manufacturing costs and the capacity of most of the major manufacturers to achieve high quality standards.

The continuing interest in AM-lite from major Chinese manufacturers certainly supports this trend. At the beginning of the period, the Company was in the process of finalising product development programs and alliance agreements with three selected customers. Since then we have been encouraged to open an active dialogue with five more major manufacturers and are now well advanced in concluding alliances with the next group of three key customers in China that will supplement the existing key customers when their development programs mature.

In order to be able to activate the increased number of development programs in the short term, further technical capability may need to be recruited. The geographic dominance of magnesium supply and the increasing numbers of emerging AM-Lite diecasting opportunities in China, necessitates evaluation of ways to establish a more permanent Chinese presence, including training a locally based technical support team. This review is under way.

Auditor's Independence Declaration

The auditor's independence declaration is included on page 6.

Signed on 9 February 2007 in accordance with a resolution of Directors made pursuant to section 306 (3) of the Corporations Act 2001.

On behalf of the Directors



Chris Rawlings
**Non Executive
Chairman**

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



Deloitte Touche Tohmatsu
ABN 74 490 121 060

Riverside Centre
Level 25
123 Eagle Street
Brisbane QLD 4000
GPO Box 1483
Brisbane QLD 4001 Australia

DX 115
Tel: +61 (0) 7 3308 7000
Fax: +61 (0) 7 3308 7001
www.deloitte.com.au

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

9 February 2007

Dear Board Members

Advanced Magnesium Limited

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

As lead audit partner for the review of the financial statements of Advanced Magnesium Limited for the half-year ended 31 December 2006, 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

Richard Wanstall
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.



Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

DX 115
Tel: +61 (0) 7 3308 7000
Fax: +61 (0) 7 3308 7001
www.deloitte.com.au

Independent Auditor's Review Report to the members of Advanced Magnesium Limited

We have reviewed the accompanying half-year financial report of Advanced Magnesium Limited, which comprises the balance sheet as at 31 December 2006, and the income statement, cash flow statement, statement of recognised income and expense for the half-year ended on that date, selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 9 to 17.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year condensed financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Advanced Magnesium Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

Deloitte.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Advanced Magnesium Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



DELOITTE TOUCHE TOHMATSU



Richard Wanstall
Partner
Chartered Accountants
Brisbane, 9 February 2007

DIRECTORS' DECLARATION

The Directors declare that:

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

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

On behalf of the Directors



Chris Rawlings
Non-Executive Chairman



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

Brisbane, 9 February 2007

CONDENSED CONSOLIDATED INCOME STATEMENT
for the Half-Year Ended 31 December 2006

| | | Half-Year Ended 31 Dec 2006 | Half-Year Ended 31 Dec 2005 |
|-------------------------------------------------------------------|------|--------------------------------|--------------------------------|
| | Note | \$ | \$ |
| Revenue | | 220,806 | 239,150 |
| Cost of sales | | (73,291) | (5,817) |
| Gross Profit | | 147,515 | 233,333 |
| Other income | 2.1 | 310,632 | 2,482,321 |
| AMT wages and salaries | | (884,502) | (972,070) |
| AMT marketing, development and operating costs | | (940,282) | (900,926) |
| Corporate wages and salaries | | (380,207) | (863,386) |
| Corporate, administration and other expenses | | (371,379) | (592,455) |
| R&D, licences and patenting | | (523,458) | (1,063,310) |
| Finance costs | | | (471) |
| Redundancy costs | | (4,294) | (169,632) |
| Loss before income tax expense | | (2,645,975) | (1,846,596) |
| Income tax expense | 2.2 | (11,147) | (67,997) |
| Loss from continuing operations | | (2,657,122) | (1,914,593) |
| Profit from discontinued operations | 3 | 16,990 | 4,016,978 |
| (Loss)/profit attributable to members of the parent entity | | (2,640,132) | 2,102,385 |
| (Loss)/earnings per Share | | | |
| <i>From continuing and discontinued operations</i> | | | |
| - Basic (cents per share) | | (3.087) | 3.080 |
| - Diluted (cents per share) | | (3.087) | 3.077 |
| <i>From continuing operations</i> | | | |
| - Basic (cents per share) | | (3.107) | (2.805) |
| - Diluted (cents per share) | | (3.107) | (2.805) |

Notes to the financial statements are included on pages 14 to 17.

CONDENSED CONSOLIDATED BALANCE SHEET
as at 31 December 2006

| | | 31 Dec 2006 | 30 Jun 2006 |
|--------------------------------------|--------|-------------------|-------------------|
| | Note | \$ | \$ |
| Current Assets | | | |
| Cash and cash equivalents | 8 | 9,484,121 | 12,109,140 |
| Trade and other receivables | | 353,422 | 880,233 |
| Inventories | | 292,005 | 292,005 |
| Other | | 103,774 | 119,562 |
| Total Current Assets | | 10,233,322 | 13,400,940 |
| Non-Current Assets | | | |
| Property, plant and equipment | | 340,151 | 379,775 |
| Total Non-Current Assets | | 340,151 | 379,775 |
| Total Assets | | 10,573,473 | 13,780,715 |
| Current Liabilities | | | |
| Trade and other payables | | 190,109 | 759,447 |
| Provisions | | 219,394 | 222,561 |
| Other | | 15,800 | 15,800 |
| Total Current Liabilities | | 425,303 | 997,808 |
| Non-Current Liabilities | | | |
| Provisions | | 96,788 | 87,942 |
| Other | | 55,300 | 63,200 |
| Total Non-Current Liabilities | | 152,088 | 151,142 |
| Total Liabilities | | 577,391 | 1,148,950 |
| Net Assets | | 9,996,082 | 12,631,765 |
| Equity | | | |
| Issued capital | 2.1, 7 | 894,267,434 | 894,244,184 |
| Reserves | | 2,761,498 | 2,780,300 |
| Accumulated Losses | | (887,032,850) | (884,392,719) |
| Total Equity | | 9,996,082 | 12,631,765 |

Notes to the financial statements are included on pages 14 to 17.

**CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED
INCOME AND EXPENSE
for the Half-Year Ended 31 December 2006**

| Note | Half-Year Ended 31 Dec 2006 \$ | Half-Year Ended 31 Dec 2005 \$ |
|---------------------------------------------------------------|--------------------------------------|--------------------------------------|
| Translation of foreign operations: | | |
| Exchange differences taken to reserves in equity | (18,802) | 10,564 |
| Net (loss)/income recognised directly in equity | (18,802) | 10,564 |
| (Loss)/profit for the period | (2,640,132) | 2,102,385 |
| Total recognised income and expense for the period | (2,658,934) | 2,112,949 |
| Attributable to equity holders of the parent | (2,658,934) | 2,112,949 |

Notes to the financial statements are included on pages 14 to 17.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
for the Half-Year Ended 31 December 2006

| | | Half-Year Ended 31 December 2006 | Half-Year Ended 31 December 2005 |
|--------------------------------------------------------------|----------|-------------------------------------|-------------------------------------|
| | | Inflows/ (Outflows) | Inflows/ (Outflows) |
| | Note | \$ | \$ |
| Cash Flows from Operating Activities | | | |
| Receipts from customers (including GST) | | 174,045 | 242,288 |
| Payments to suppliers and employees (including GST) | | (3,376,547) | (4,342,788) |
| Interest and other items of a similar nature received | | 427,164 | 222,945 |
| Interest and other costs of finance paid | | — | (471) |
| Other receipts | | 190 | 435,171 |
| Net Cash used in Operating Activities | | (2,775,148) | (3,442,855) |
| Cash Flows From Investing Activities | | | |
| Payment for property, plant and equipment | | (32,788) | (222,062) |
| Proceeds from sale of property, plant and equipment | | 159,667 | 166,478 |
| Net Cash provided by/(used in) Investing Activities | | 126,879 | (55,584) |
| Cash Flows from Financing Activities | | | |
| Proceeds from share capital raising | 2.1 | — | 9,765,900 |
| Receipt from Magtrust Pty Ltd on sale of AML shares | 2.1 | — | 2,077,690 |
| Proceeds on exercise of ESOP options | 7 | 23,250 | — |
| Net Cash provided by Financing Activities | | 23,250 | 11,843,590 |
| Net (Decrease)/increase in Cash and cash equivalents | | (2,625,019) | 8,345,151 |
| Cash and cash equivalents at the beginning of the half-year | | 12,109,140 | 7,152,374 |
| Cash and cash equivalents at the end of the half-year | 8 | 9,484,121 | 15,497,525 |

Notes to the financial statements are included on pages 14 to 17

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
for the Half-Year Ended 31 December 2006****1. Summary of Accounting Policies****Statement of compliance**

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

Basis of preparation

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. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the 31 December 2006 half-year financial report are consistent with those adopted and disclosed in the Company's 2006 annual financial report for the financial year ended 30 June 2006.

In the current year, the AML Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2006. There are no material changes to the Group's accounting policies.

Going Concern

In preparing these financial statements on a going concern basis, the Directors of Advanced Magnesium Limited are required to satisfy the going concern criteria set out by both legislation and legislative enforced professional standards.

The reader's attention is drawn to the Corporations Act requirement that the Directors must opine that reasonable grounds exist that support the ability of the Company to pay its debts as and when they become due and payable. The Directors' belief that such reasonable grounds do exist as at the date of signing this financial report is set out in the Directors' Declaration on page 9.

In preparing its support for this going concern conclusion, the Directors considered many factors, including:

- a cash flow forecast for twelve months from the signing date of this report which included management's estimates of cash inflows and outflows for the coming year;
- the status of product development plans with selected key customers; and
- the Company's ability and preparedness to reduce or delay cash outflows if required.

The Directors also considered other internal and external factors that may impact the operations of the business.

While the Directors have come to the conclusion that AML is a going concern and that the financial statements should be prepared on that basis, the Directors are unable to predict with certainty the impact of various factors that could, in isolation or in conjunction, alter this conclusion.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont)
for the Half-Year Ended 31 December 2006

A significant factor to bring to the reader's attention is the impact that a delay of sales revenue from the commercialisation of AM-lite could have on cash flows. A change to the timing or the quantum of such revenues could have a considerable impact on the operations of the AML Group.

However, taking this matter into consideration and based on management's estimates of cash inflows and outflows over the next twelve months, noting that these are not guaranteed, the Directors believe that whilst uncertainty exists with respect to the Company and consolidated entity being able to continue as going concerns, the going concern basis of preparation of the 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 and comparative period.

2.1 AML share sale and issue of new shares

In the 2005 comparative period, 32,552,999 ordinary shares in AML were issued to institutional and sophisticated investors raising a gross total of \$9,765,900 cash. Also in the prior comparative period, 10,496,996 ordinary shares in AML were sold by Magtrust Pty Ltd for \$3,149,099. The after tax cash balance of \$2,077,690 was transferred to AML in accordance with the articles and constitution of Magtrust Pty Ltd. This amount is included in "Other Income" in the six months ended 31 December 2005.

2.2 Income Tax Expense

Tax losses previously disclosed in the 30 June 2006 Annual Report encompass Advanced Magnesium Limited and its Australian controlled entities. Income taxes incurred in foreign jurisdictions are not sheltered by these Australian tax losses and are governed by relevant tax legislation as applicable.

3. Discontinuing Operations - Stanwell Magnesium Project

The Annual Report for the year ended 30 June 2006 outlined at Note 28 the financial performance, carrying amounts of assets and liability and cash flow details for the year ended 30 June 2006 for the terminated Stanwell Magnesium Project. The only significant change to amounts or timing of cash flows relating to assets to be disposed of or liabilities to be settled is in relation to the Project Assets.

Although the Project Assets were written to \$nil at 30 June 2006, cash receipts of \$158,238 were received in the six months ended 31 December 2006. Of that amount, \$141,248 had been booked as a receivable at 30 June 2006. The remaining \$16,990 received in the half year period is a credit to the Discontinued Operations profit line.

4. Dividends

No dividend was declared or recommended during the 6 months ended 31 December 2006 (6 months ended 31 December 2005: no dividend declared or recommended). The balance of the franking account at 31 December 2006 is \$nil (31 December 2005: \$nil).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont)
for the Half-Year Ended 31 December 2006

5. Segment Information

The consolidated entity's activities are focused on the Advanced Magnesium Technologies business. Management monitor operations primarily on geographic reportable segments as follows:

| | Europe | | North America | | Asia Pacific | | Corporate | | Eliminations | | Total | |
|---------------------------------|----------------|----------------|----------------|----------------|------------------|------------------|--------------------|------------------|--------------------|------------------|--------------------|------------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| Revenue from external customers | 174,877 | 206,215 | 24,806 | - | 21,123 | 32,935 | - | - | - | - | 220,806 | 239,150 |
| Intersegment revenue | 549,901 | 669,852 | 477,466 | 272,465 | - | - | - | - | (1,027,367) | (942,317) | - | - |
| Total revenue | 724,778 | 876,067 | 502,272 | 272,465 | 21,123 | 32,935 | - | - | (1,027,367) | (942,317) | 220,806 | 239,150 |
| Other income | 2,233 | 602 | - | - | - | - | 308,399 | 2,481,719 | - | - | 310,632 | 2,482,321 |
| Other expenses | (544,390) | (555,853) | (451,394) | (266,759) | (355,034) | (394,265) | (2,866,607) | (4,419,995) | 1,042,202 | 1,068,805 | (3,177,413) | (4,568,067) |
| Income tax | (11,147) | (67,997) | - | - | - | - | - | - | - | - | (11,147) | (67,997) |
| Discontinued operations | - | - | - | - | - | - | 16,990 | 4,016,978 | - | - | 16,990 | 4,016,978 |
| Segment result | 171,484 | 252,819 | 50,878 | 5,706 | (333,911) | (361,330) | (2,543,418) | 2,078,702 | 14,835 | 126,488 | (2,640,132) | 2,102,385 |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont)
for the Half-Year Ended 31 December 2006

6. Contingent Asset and Liabilities

Contingent assets and liabilities remain unchanged from those disclosed in the Annual Report at 30 June 2006.

7. Issuances of equity securities

During the half-year reporting period, Advanced Magnesium Limited issued 75,000 ordinary shares for \$23,250 on exercise of 75,000 share options issued under its Employee Share Option Plan (see Note 5.1 of the Annual Report 30 June 2006). There were no other movements in the ordinary share capital or other issued share capital of the company in the current half-year reporting period.

8. Reconciliation of Cash

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

| | 31 Dec 2006 \$ | 30 June 2006 \$ |
|------------------------------------|----------------------|-----------------------|
| Cash on hand and at bank | 530,715 | 659,357 |
| Deposits at call * | 2,703,406 | 1,861,607 |
| Term deposits | 6,250,000 | 9,588,176 |
| Total cash at end of period | 9,484,121 | 12,109,140 |

* includes restricted deposits of approximately \$250,000 relating to payroll banking arrangements and a lease agreement.

9. Subsidiaries

On 22 August 2006, Australian Magnesium Europe B.V. (incorporated in the Netherlands) was deregistered. This was a wholly-owned dormant entity within the AML Group.

10. Correction of prior period error

In accordance with AASB 139 "Financial Instruments: Recognition and Measurement", the transaction costs relating to the raising of equity should be recognised as an offset against the gross cash raised.

In the six months ended 31 December 2005, a total of \$515,967 in capital raising costs was incorrectly recognised in the Income Statement instead of a debit to the Issued Capital line. This error was correctly accounted for in the 30 June 2006 Annual Report.

The effects of correcting the financial figures in the 2005 comparative period are as follows:

- a reduction in Corporate, administration and other expenses from \$1,108,422 to \$592,455;
- an increase in net profit from \$1,586,418 to \$2,102,385; and
- an increase in Basic Earnings per Share from 2.324c to 3.080c and Diluted Earnings per Share from 2.322c to 3.077c.

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 2006 Fully paid | Not Applicable | 0.00 | 0.00 |
| Final | FY 2005 Fully paid | Not Applicable | 0.00 | 0.00 |

B. Net Tangible Assets Per Share

Net Tangible Assets Per Share

| | 31 Dec 2006 cents | 30 Jun 2006 cents |
|-------------------------------|----------------------------------|----------------------------------|
| Net tangible assets per share | 11.680 | 14.773 |

C. Information on Audit or Review

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

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

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

Not applicable.

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

None.