

MAGNESIUM INTERNATIONAL

L I M I T E D

12 July 2006

SOKHNA MAGNESIUM PROJECT UPDATE

The Directors of Magnesium International Limited ("MIL") advise that they have decided to slow expenditures on the Sokhna primary magnesium project to reduce the cash burn rate. The Sokhna project is being developed by MIL's 100% owned subsidiary, Egyptian Magnesium Company S.A.E ("EMAG").

As previously advised, MIL has been evaluating alternatives to fund EMAG through to Financial Close. This has been focussed on an interim equity raising as well as discussions with potential strategic partners. Potential investors have been approached in the Gulf region and UK but there has been insufficient interest to complete the interim equity raising, in part, due to current market conditions. However, MIL is currently in discussions with a party interested in providing equity finance sufficient for the period to Financial Close. MIL Directors have formed the view that the Company's interests are better served by bringing these discussions to a conclusion. In addition, discussions with potential strategic partners are ongoing but are at an early stage. Any transaction that may arise will require the approval of MIL Shareholders in General Meeting.

Neither of these possibilities are expected to be concluded rapidly so MIL will take measures to reduce cash outflows. Fresh commitments are not being entered into pending the completion of possible equity arrangements. The cash balance at 30 June 2006 totalled A\$3 million after allowing for payout of all creditors, accruals and contingent obligations. All directors are to be employed on a consultancy basis. Peter Sydney-Smith will step down as Finance Director but will remain as a non-executive director.

The MIL Directors believe that EMAG remains an attractive project even though MIL currently does not have the financial resources to maintain development momentum. Projected cash costs of magnesium alloys Delivered Duty Paid into Europe are US\$0.64/lb which provides a margin of over US\$0.40/lb compared to estimated costs of alloys from Chinese suppliers. It is expected that the cash costs of Chinese producers will increase in coming years through higher ferrosilicon prices; higher coal prices; increased transport costs; increased environmental compliance costs and a higher Renminbi. If these costs increase as expected then EMAG's projected cost advantage increases and forecast project returns rise.

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About Magnesium International

MIL's primary objective is to enter the growing world magnesium industry through developing a magnesium mine, smelter and alloy plant with 108,000 tonnes annual capacity of high quality magnesium alloy ("HQMA"), located at the port of Sokhna on the Red Sea in Egypt.

Demand for HQMA is growing at 10% pa driven by the light-weighting of automotive components as manufacturers drive for cost and energy efficiency. Metal Bulletin Research Clark & Marron ("MBRC&M") forecast demand for HQMA to increase by over 300,000 tonnes per annum from 200,000 tonnes per annum in 2005 to 500,000 tonnes per annum by 2015.

MIL has the exclusive rights to the proven MIL-Dow Technology for magnesium production which has produced magnesium metal for over 60 years. This was acquired from Dow Chemical in 1999.

In 2004, MIL decided to locate the plant at Sokhna, the Red Sea port in Egypt with ready access to grid electricity and all necessary infrastructure. The location should give cost leadership with projected cash operating cost of US\$0.60/lb benefiting from low cost inputs, principally Egyptian magnesite, grid electricity below US\$2 cents/KWh and competitive labour costs

Construction of the plant is to be phased over a 4-5 year period and should make MIL the world's leading producer with capacity to meet the expected market growth. The plant would be constructed in two phases, the first 54,000 tonnes per annum taking some 24 months and the second phase of 54,000 tonnes per annum capacity would commence following successful commissioning of the first phase and take a further 24 months.

MIL also has an option to acquire technology for the production of thin magnesium sheet using Twin Roll Casting. The MagSheet operation is undergoing production trials and customer evaluations of the product.

MIL is Australian registered with listings in Australian (MGK), London AIM (MGK) and Frankfurt (MIC). The Company has offices in Cairo, Sydney and London.

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