

MAGNESIUM INTERNATIONAL

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19 June 2006

SOKHNA MAGNESIUM PROJECT UPDATE

HIGHLIGHTS

- The project team was relocated to Egypt in January 2006 and has now completed initial work to prepare the first phase of a revised capital cost estimate. The estimated cost of construction (including owner's capital) has been reduced to US\$290 million, in line with the original July 2005 Feasibility Study. The local Egyptian content has increased to 40%;
- Further work is now planned to adopt self-perform project delivery techniques used widely in India and other low cost countries which have delivered projects at 30 – 40% below Western benchmarks for construction costs. This approach should further reduce the capital cost estimate by increasing the Egyptian/Indian content of fabricated equipment and through better contract pricing by improved engineering definition before obtaining fixed price packages;
- Plant capacity has been increased from 88,000 tonnes per annum to 100,000 tonnes per annum magnesium metal which results in output of 108,000 tonnes per annum magnesium alloys, with limited additional capital cost. The increase follows a thorough review of the capacity and includes a 10% increase in the number of electrolytic cells. The plant will be constructed in two equal phases;
- Following shareholder approval on 17 May 2006, EMAG has become a 100% owned subsidiary of MIL. Final settlement of the change of ownership is currently in process;
- Arrangements have been finalised with Egypt Electricity Transmission Company for the supply of power for 15 years;
- Work on defining the Sul Hamed magnesite deposit has indicated that the deposit should have the potential, with further exploration and testwork, in grade and quality for the first phase of the smelter which requires around 200,000 tonnes per annum of +40% MgO. The commercial supply arrangements are currently being negotiated.

Capital Cost Estimate and Plant Capacity

The initial work was completed in June 2006 reducing the Phase 1 estimate for direct cost (including owner's capital cost) to some US\$290 million, in line with the July 2005 Feasibility Study. The level of local Egyptian content has risen to some 40% and there was additional benefit from improved design and value engineering. In addition to the direct cost estimate would be costs for Engineering, Procurement and Construction Management and contingency of some 30%. This results in a total construction cost of US\$377 million. The program going forward is aimed at reducing this further.

The Company has undertaken a thorough review of the plant's construction capacity and layout resulting in the number of cells being increased by 10% to 144. This results in a more efficient

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MAGNESIUM INTERNATIONAL

L I M I T E D

use of capital through reduced bottlenecking in the cell house. The ancillary circuits in the leach, drying, acid recovery and cast house areas have sufficient capacity to accommodate the extra units. Together with other changes in operating parameters, this should increase pure magnesium output from 88,000 tonnes per annum to 100,000 tonnes per annum and of high quality metal alloys (HQMA) from 96,000 tonnes per annum to 108,000 tonnes per annum. This increase in capacity is estimated to incur limited additional capital cost, so improving the proposed plant's capital efficiency. The plant layout and design should also permit future expansion with the doubling of 108,000 tonnes per annum capacity to 216,000 tonnes per annum

The additional capacity should assist the Sokhna plant to achieve cost leadership with projected ex-plant cash operating cost of US\$0.56/lb for pure magnesium and US\$0.60/lb for HQMA benefiting from low cost inputs, principally Egyptian magnesite, grid electricity at US 1.67 cents/KWh (based on the current Egyptian Major Users Tariff and Egyptian Pound/US Dollar exchange rates) and competitive labour costs.

EMAG Ownership

Following shareholder approval on 17 May 2006, EMAG has become a 100% owned subsidiary of MIL. Final settlement of the change of ownership is currently in process.

Magnesite Feedstock

Work is continuing to determine the extent and quality of the magnesite resource at Sul Hamed in Egypt. An Egyptian government operation, El Nasr Mining Company ("ENMC"), has the mining lease and currently extracts up to around 10,000 tonnes per year of magnesite with a grade of 42% MgO. Recent geological evaluation and exploration by ENMC has indicated the deposit should have the potential, with further exploration, to have sufficient in grade and quantity for the first phase of the Sokhna magnesium smelter which will require 200,000 tonnes per annum of +40% MgO grade. Initial tests conducted by the Central Laboratory of the Egyptian Mineral Resources Authority indicate the Sul Hamed magnesite should be a suitable feedstock for the EMAG plant but further detailed test work is necessary.

Further exploration and testwork is currently underway.

Electricity, Gas and Process Water Supply

Electricity supply arrangements have been finalised for 15 years with Egypt Electricity Transmission Company at the Major Users Tariff which is currently 9.8 piastres per KWh (or at the current exchange rate US 1.67 cents/KWh).

A contract is being finalised for gas from GASCO, the state owned pipeline operator at \$1/GJ.

An allocation of water has been provided by the Governate of Suez using the existing pipeline system.

MAGNESIUM INTERNATIONAL

L I M I T E D

Environmental

The EIA for the residue storage area will be submitted when the location is finalised with the Governorate of Suez which has already allocated to EMAG part of a proposed regional waste facility for the disposal of EMAG's solid residues.

The Environmental Impact Assessment ("EIA") for the EMAG plant was approved by the Egyptian Environmental Affairs Agency ("EEAA") in March 2006. EMAG will be in compliance with Egyptian Law 4 and be in accordance with the guidelines of the World Bank and IFC as detailed in the Equator Principles.

Market Conditions

The independent market research from Metal Bulletin Research/Clark & Marron ("MBRC&M") was received earlier this year. This confirmed that the Company's target market segment, HQMA, has shown historic growth of 10% pa driven by strong demand from the automotive sector which is required to meet rising industry standards to lightweight vehicles, improve fuel economy and reduce CO² emissions. HQMA accounts currently for around 40% of the global magnesium market of almost 500,000 tonnes which is worth some US\$1.5 billion (including alloys) per annum. By 2015 the market is projected by MBRC&M to have increased to 900,000 tonnes per annum with HQMA accounting for 500,000 tonnes or 55%, an absolute increase in annual demand of some 400,000 tonnes.

MBRC&M's medium term pricing forecast of HQMA is US\$1.45/lb (delivered duty paid into EU and US) which is based on the Renminbi/US dollar exchange rate rising to 6.07 by 2015 and increased input costs for Chinese producers. This forecast is above the reported current spot price of US\$1.05/lb and US\$1.15/lb for the EU and US respectively. MBRC&M state that Chinese production costs are expected to increase due to a fall in export rebates, currency appreciation and a significant increase in input costs for energy, transport and especially ferrosilicon (the latter is classified as a "discouraged industry" and whose prices are now rising sharply). Magnesium pricing is expected to follow.

Way Forward

Additional work is now planned to further reduce the project capital cost using self-perform project delivery techniques widely adopted in India and other low cost countries to successfully deliver large projects at capital costs typically 60 – 70% of prevailing international prices. This approach is expected to also reduce significantly the cost of engineering, procurement, management and contingency on that envisaged previously as further engineering should provide better definition of proposed subcontractor bid packages and EMAG undertakes a greater degree of self-perform. In addition, the work programme is expected to increase the proportion of fabricated equipment sourced from Egypt/India or other low cost countries from the current estimate level around 40% towards the 80 – 90% level. This increase is expected to be a significant factor in further reducing the Capital Cost

MAGNESIUM INTERNATIONAL

L I M I T E D

In support of this planned work the Company proposes to develop the owner's team and also appoint a Cairo based COO to drive all aspects of the business and to replicate the construction methodology used successfully by the leading Indian metal groups.

This construction approach will be implemented for the Sokhna project through:

- Strengthening the owner's team with recruitment of engineers, estimators, planners and legal/accounting support;
- Contracting specialist engineering services mostly from India and Egypt;
- Definitive design and value engineering for obtaining at financial close fixed price packages for a high proportion of the project value; and
- Achieve a local (Egypt/India) equipment content with a target of 80-90%.

Better definition may also permit a lower contingency than used under the alternative construction approaches.

This approach should ensure MIL has greater exposure to and control over the project permitting better value engineering, greater cost certainty and a committed and knowledgeable owner's team to be retained following commissioning to both operate the plant and plan for capacity expansion.

On this basis and with 80-90% of construction procured from India/Egypt the Company is targetting total construction cost of US\$500 million split into US\$300 million for Phase 1 and US\$200 million for Phase 2.

The main sources of the reduction in Capital Cost towards this target are expected to be:

- increased local fabrication especially in the acid plant, dryer and cell house areas which are still mainly based on European fabrication;
- reduced costs in electrical, instrumentation and controls where the engineering definition is intended to be improved;
- reduced costs through reducing the footprint of the plant. This has already been done with the leach and brine purification areas but not the remainder of the plant;
- possible use of sea water wells to provide cooling water rather than a sea water pumping station;
- reduced engineering, procurement and construction management costs as a result of a greater degree of engineering definition before Phase 1 is financed; and
- possibly reduced contingency as the additional engineering definition is undertaken and a large proportion of the expected construction cost is included in fixed price packages.

The US\$500 million target cost embraces fixed price packages as well as owners cost including engineering, mine development, utilities, site infrastructure and auxiliary services. Excluded are various working capital costs amounting to US\$24 million including first fill, stores and spares which are included in operating cash flow.

MAGNESIUM INTERNATIONAL

L I M I T E D

There are risks to achieving this target capital cost but the Directors believe that the potential savings justify the cost of the additional engineering expenditure necessary to get to the target capital cost.

The engineering and pricing of the project is expected to be completed in the first quarter of 2007 leading to Financial Close anticipated during mid 2007 when the plant construction should be funded through a mix of equity and project debt. The debt strategy will seek to raise debt in both the Middle East and Europe from commercial banks, development banks and Islamic institutions. Debt funding for the first 54,000 tonnes per annum phase is expected to be finalised ahead of the equity funding. The second phase is planned to be fully debt funded.

Timetable to Financial Close

Financial Close will be predicated on achieving a Bankable Feasibility Study which is expected to include:

- Full project economics;
- Committed project debt finance;
- Egyptian magnesite resource proved to JORC standard;
- Fixed price packages for the major plant elements;
- Contracts in place for key Egyptian inputs (electricity, gas, water, etc.); and
- Advanced marketing arrangements.

Construction of the first 54,000 tonnes per annum phase is forecast to commence following Financial Close in mid 2007 and is estimated to take approximately 24 months with completion mid 2009. Construction of the second 54,000 tonnes per annum capacity phase is planned to commence during 2009/10 with completion in 2012 when the plant should achieve its 108,000 tonnes per annum design capacity.

Expected Project Returns

The Directors believe that EMAG's expected project returns and proposed construction strategy will enable EMAG to fund the project with in excess of 50% project debt and that the equity returns should be more than sufficient to prove attractive to equity investors.

Cash Position

The cash balance at 31 May 2006 was A\$4.9 million. To undertake the forward programme outlined the Company will need to raise additional equity. Alternatives are currently being evaluated.

MAGNESIUM INTERNATIONAL

L I M I T E D

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 will be phased over 2007 –12 and should make MIL the world's leading producer with capacity to meet the expected market growth. The plant will be constructed in two phases, the first 54,000 tonnes per annum in the period 2007-09 and the second 54,000 tonnes per annum during 2010-12. The plant is projected to attain full operational capacity by 2012.

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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