

MAGNESIUM

INTERNATIONAL

L I M I T E D

27 February 2007

Half Year Financial Report and Resignation of Director

Attached is the Half Year Financial Report for 31 December 2006 together with the Appendix 4D Results for announcement to the market.

The Company also advises that Peter Sydney-Smith has resigned as a Director of the Company. With the Company's listing on AIM in London to be cancelled in March 2007 the necessity for a London based director is no longer present. Peter therefore tendered his resignation which the Board reluctantly accepted.

For further information:

Pat Elliott
Chairman and Managing Director
Magnesium International Limited
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Company Secretary and Director
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Magnesium International Limited and its Controlled Entities
Half-year ended 31 December 2006

ABN 23 003 669 163

Appendix 4D
Results for announcement to the market

				\$'000's
Revenue	Down	31.2%	to	11
Loss before tax	Down	27.3%	to	(2,178)
Loss attributable to equity holders of the parent	Down	62.2%	to	(2,178)

These percentages above are calculated by reference to the results for the previous corresponding period being the half-year ended 31 December 2005.

No dividend has been paid or proposed for the six month period to 31 December 2006.

Control has not been gained or lost over any entities during the period under review.

	As at 31 December 2006	As at 31 December 2005
Net tangible assets per security (cents)	4.7	21.0

This information is provided according to ASX listing rule 4.2A

Appendix 4D, Directors' Report and the Financial Report for the half year ended 31 December 2006 should be read in conjunction with the 30 June 2006 annual financial report.

Magnesium International Limited
and its Controlled Entities
ABN 23 003 669 163

HALF-YEAR FINANCIAL REPORT
31 DECEMBER 2006

Directors' Report

The directors present their report together with the consolidated financial report for the half-year ended 31 December 2006 and the auditors' review report thereon.

DIRECTORS

The names of the Company's directors in office during or since the end of the half-year and until the date of this report are as below.

PJD Elliott (Managing Director and Chairman),
OFR Al-Sharif (Non-Executive Director)
JD Beecher (Executive Director)
MR Richmond (Non-Executive Director)
PE Sydney-Smith (Non-Executive Director) – resigned 26 February 2007

Directors were in office for the entire period unless otherwise stated.

REVIEW AND RESULTS OF OPERATIONS

The net loss for the half-year was \$2,178,000 (2005 loss: \$5,762,000).

The principal activities of the consolidated entity during the course of the half-year consisted of the pursuit of opportunities to introduce a strategic partner to and development of the magnesium smelter project (EMAG) at Port Sokhna, Egypt. During the half-year the option with the CSIRO in respect of magnesium sheet manufacturing (Magsheet) was allowed to lapse.

SUBSEQUENT EVENTS

The directors are not aware of any significant changes in the state of affairs of the consolidated entity occurring since the end of the half year apart from:

- The Company has not been able to make progress in completing a financing transaction with a strategic partner;
- The announcement that the EMAG project will be placed on a maintenance basis and the office in Egypt closed;
- On 15 February 2007, as a result of the resignation of Nabarro Wells as nominated adviser, the Company's shares were suspended on AIM and it is anticipated that the admission to trading on AIM will be cancelled on 15 March 2007;
- The announcement that the Company will pursue investment opportunities whilst maintaining its listing on the ASX.

Magnesium International Limited and its Controlled Entities

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

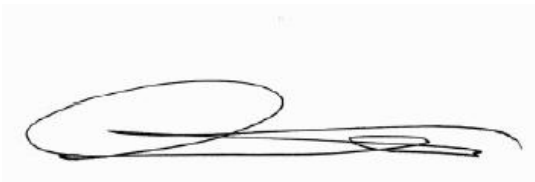
The lead auditor's independence declaration in relation to the review for the half year is set out on page 3 and forms part of the director's report for the half year ended 31 December , 2006.

ROUNDING OFF

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Dated at Sydney this 27th February 2007

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to read 'James Beecher', is written over a light grey rectangular background.

James Beecher
Director

**Magnesium International Limited
and its Controlled Entities**

**LEAD AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS
OF MAGNESIUM INTERNATIONAL LIMITED**

I declare that, to the best of my knowledge and belief, in relation to the review for the financial period ended 31 December 2006 there have been:

- (i) No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review and;
- (ii) No contraventions of any applicable code of professional conduct in relation to the review.



KPMG



Mark Epper
Partner
Sydney

27 February 2007

Magnesium International Limited and its Controlled Entities

Consolidated interim income statement For the half-year ended 31 December 2006

	Note	2006 \$'000	2005 \$'000
Revenue		<u>11</u>	<u>16</u>
Consultants expenses		(534)	(588)
Corporate expenses		(351)	(291)
Employment expense		(586)	(573)
Occupancy expense		(157)	(76)
Research (MagSheet) expenses		(161)	(247)
Impairment of loans and investments		-	(1,213)
Other operating expenses		<u>(455)</u>	<u>(224)</u>
Operating loss before financing costs		<u>(2,233)</u>	<u>(3,196)</u>
Financial income		55	201
Financial expenses		<u>-</u>	<u>-</u>
Net financing income		<u>55</u>	<u>201</u>
Loss before tax		<u>(2,178)</u>	<u>(2,995)</u>
Share of losses, EMAG joint venture		<u>-</u>	<u>(2,767)</u>
Income tax expense		<u>-</u>	<u>-</u>
Net loss for the period		<u>(2,178)</u>	<u>(5,762)</u>
Basic and diluted loss (cents) per share	5	<u>(5.4)</u>	<u>(15.1)</u>

The consolidated interim income statement is to be read in conjunction with the notes to the half-year financial statements set out on pages 8 to 12.

Magnesium International Limited and its Controlled Entities

Consolidated interim statement of changes in equity For the half-year ended 31 December 2006

Equity	Share Capital	Currency translation Reserve	Share compensation expense	Retained losses	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2005	90,227	-	71	(72,642)	17,656
Net loss for the period	-	-	-	(5,762)	(5,762)
Share compensation expense	-	-	172	-	172
Balance at 31 December 2005	90,227	-	243	(78,404)	12,066
Balance at 1 July 2006	91,202	71	243	(87,440)	4,076
Net loss for the period	-	-	-	(2,178)	(2,178)
Balance at 31 December 2006	91,202	71	243	(89,618)	1,898

The consolidated interim statement of changes in equity is to be read in conjunction with the notes to the half-year financial statements set out on pages 8 to 12.

Magnesium International Limited and its Controlled Entities

Consolidated Interim Balance Sheet As at 31 December 2006

	31 Dec 2006	30 June 2006
	\$'000	\$'000
CURRENT ASSETS		
Cash and cash equivalents	2,300	4,024
Trade and other receivables	178	348
TOTAL CURRENT ASSETS	2,478	4,372
NON-CURRENT ASSETS		
Property, plant and equipment	260	741
TOTAL NON-CURRENT ASSETS	260	741
TOTAL ASSETS	2,738	5,113
CURRENT LIABILITIES		
Trade and other payables	782	962
Employee benefits	58	75
TOTAL CURRENT LIABILITIES	840	1,037
TOTAL LIABILITIES	840	1,037
NET ASSETS	1,898	4,076
EQUITY		
Issued capital	91,202	91,202
Share compensation expense	243	243
Currency translation reserve	71	71
Retained losses	(89,618)	(87,440)
TOTAL EQUITY	1,898	4,076

The consolidated interim balance sheet is to be read in conjunction with the notes to the half-year financial statements set out on pages 8 to 12.

Magnesium International Limited and its Controlled Entities

Consolidated Interim Statement of Cash Flows For the half-year ended 31 December 2006

	2006	2005
	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash paid to suppliers and employees	(2,279)	(3,185)
Sundry receipts	<u>11</u>	<u>16</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(2,268)</u>	<u>(3,169)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	81	186
(Acquisition) / disposal of property, plant and equipment	463	(2)
Investment in joint venture entity	<u>-</u>	<u>(648)</u>
NET CASH USED PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>544</u>	<u>(464)</u>
NET DECREASE IN CASH HELD	(1,724)	(3,633)
CASH AND CASH EQUIVALENTS AT 1 JULY	<u>4,024</u>	<u>11,132</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	<u>2,300</u>	<u>7,499</u>

The consolidated interim statement of cash flows is to be read in conjunction with the notes to the half-year financial statements set out on page 8 to 12.

Magnesium International Limited and its Controlled Entities

Notes to the Consolidated Interim Financial Statements For the half-year ended 31 December 2006

1. SIGNIFICANT ACCOUNTING POLICIES

Magnesium International Limited is a listed public company, incorporated and domiciled in Australia. The consolidated interim financial report for the six months ended 31 December 2006 comprises the Company and its subsidiaries (the “consolidated entity”) and the consolidated entity’s interest in jointly controlled entities.

The consolidated interim financial report was authorised for issue by the directors on 27 February 2007.

(a) Statement of compliance

The consolidated interim financial report is a general purpose report which has been prepared in accordance with AASB 134: *Interim Financial Reporting* and the Corporations Act 2001.

The consolidated interim financial report does not include all the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2006.

The consolidated entity is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

(b) Going Concern

The financial report has been prepared on a going concern basis which presumes the realisation of assets and extinguishment of liabilities in the normal course of business for the foreseeable future. The Company has taken steps that minimise cash outflows including announcing that it is proceeding to place the EMAG project on a maintenance basis and close the Egypt office; not proceeding with the MagSheet option; winding down the Sydney office, disposing of surplus assets and managing the resolution of the contingent liabilities set out in Note 8. The directors are confident that those steps will be successfully undertaken and therefore the Company should have sufficient cash reserves to pursue investment opportunities into 2008.

(c) Significant accounting policies

The accounting policies applied by the consolidated entity in this consolidated interim financial report are the same as those applied by the consolidated entity in its consolidated financial report as at and for the year ended 30 June 2006.

**Notes to the Consolidated Interim Financial Statements (continued)
For the half-year ended 31 December 2006**

2. SEGMENT REPORTING

The Company operates in one segment only, being the global magnesium industry.

3. OTHER INVESTMENTS

For the six months to 31 December 2005, MIL accounted for its 50% investment in EMAG as a joint venture and recorded \$2,767,000 as its share of losses for the period. During the 6 months to 31 December 2005 the consolidated entity recorded an impairment of \$1,213,000 against its investment and loans to EMAG. The funds advanced to EMAG were used for expenditure on the smelter project. It is the Company's policy to expense these project expenditures as incurred.

4. CAPITAL AND RESERVES

	Fully Paid Ordinary Shares Number of Share '000	
	2006	2005
On issue at 1 July	40,540	38,040
Share issued on acquisition	-	2,500
On issue at 31 December	40,540	40,540

There are 5,833,570 listed options that are due to expire on 1 March 2007. Each option is convertible into 1 ordinary share. The exercise price for these options is \$1.80.

Currency translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity.

Share compensation expense

Share compensation expense represents the cost of expensing share options. Share compensation expense for the 6 months to 31 December 2006 was nil (2005: \$172,442).

Dividends

No dividends were paid or proposed in 2006 (2005: \$ nil).

Notes to the Consolidated Interim Financial Statements (continued)
For the half-year ended 31 December 2006

5. EARNINGS PER SHARE

Basic loss per share

The calculation of the basic and diluted loss per share at 31 December 2006 was based on the net loss for the period of \$2,008,000 (2005: \$5,762,000) and a weighted average number of ordinary shares outstanding for the period ended 31 December 2006 of 40,540,000 (2005: 38,040,000), calculated as follows:

	2006	2005
	'000	'000
Net loss for the period	2,178	5,762
<hr/>		
Weighted average number of ordinary shares at 31 December	40,540	38,040
Basic and diluted loss per share, cents	(5.4)	(15.1)

6. EMPLOYEE SHARE OPTION PLAN (ESOP)

Share-based payments

Shareholders approved the ESOP in November 2001. The terms and conditions of the share option programme and grants made during the year ended 30 June 2006 are disclosed in the most recent annual financial report. In the six months to 31 December 2006 no further grants were made.

The terms and conditions of grants made during the six months ended 31 December 2005 are as follows; all option exercises are settled by physical delivery of shares:

Grant date/employees entitled	Number of options	Vesting conditions	Life of options
Option grant to employees on 19 September 2005	650,000	Achievement of Financial Close	5.75 years
Option grant to employees on 31 October 2005	250,000	After issue and allotment	5.67 and 7 years

The fair values of services received in return for share options granted to employees are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is based on the Black-Scholes formula. Expectations of early exercise are incorporated into the Black-Scholes formula.

**Notes to the Consolidated Interim Financial Statements (continued)
For the half-year ended 31 December 2006**

**Fair value of share options and assumptions
for the six months ended 31 December 2005**

	2005
Fair value at measurement date	\$1.64
Share price	\$1.65
Exercise price	\$1.16 to \$2.00
Expected volatility	30.8 %
Option life	6 years
Expected dividends	Nil %
Risk-free interest rate	4.55 %

The share based payment expense in the period to 31 December 2006 is nil (2005:\$172,442). This cost does not include the cost of all options granted as it is not possible to ascribe a share price to future periods when certain options are exercisable.

7. RELATED PARTIES

Transaction arrangements with key management personnel

Compensation arrangements are substantially as set out in the consolidated entity's most recent annual report.

In September 2006 a payment of A\$200,000 (US\$150,000) was made to Amiral Magnesium Overseas, Limited, a company associated with OFR Al-Sharif, a director of the Company, pursuant to the Amiral Royalties and Services Agreement which was approved by shareholders at a General Meeting held on 17 May 2006.

**Notes to the Consolidated Interim Financial Statements (continued)
For the half-year ended 31 December 2006**

8. CONTINGENT LIABILITIES

The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Contingent liabilities not considered remote:

	31 December 2006	30 June 2006
	\$'000	\$'000
<i>Litigation</i>		
MAN Ferrostaal AG (“MFS”) has advanced a claim against EMAG for Euro 314,286 in unpaid fees under an EPC Quoting Services Contract between them dated 23 March 2005. MFS claims that it has delivered various services to EMAG under that contract and is entitled to payment. EMAG disputes that MFS has provided those services in accordance with its contractual obligations. MFS and EMAG are in correspondence concerning the dispute. The Contract amount was Euro 2,000,000, of which Euro 1,471,430 has been paid by EMAG	523	523
<i>Retirement benefits</i>		
A number of the Company’s former Directors have agreed that retirement benefits amounting to \$182,001 will only become payable upon Financial Close of the Dow technology development project.	182	182
<i>Success fees</i>		
A number of the Company’s advisors, consultants and other parties have entered into Success Fee arrangements, whereby amounts become payable upon Financial Close of the Dow technology development project. The fees payable vary depending on the amount of capital raised.	-	-
<i>Dow Chemicals</i>		
Under an agreement with The Dow Chemical Company (“Dow”) a controlled entity has purchased an exclusive licence to Dow’s technology for the manufacture of magnesium. The purchase gives full access to Dow’s technology for the manufacture of magnesium and to Dow’s magnesium database and patents. A technology fee of US\$4.9 million is payable by 30 days after Financial Close.	6,215	6,530
<i>CSIRO Option</i>		
The Option Agreement between Magnesium International (No. 1) Pty Ltd (formerly Magsheet Pty Ltd) (“MI 1”), a wholly owned subsidiary of Magnesium International Ltd, and CSIRO lapsed on 15 September 2006. CSIRO is claiming \$331,458 in respect of a Services Agreement and Secondment Agreement associated with the Option Agreement. CSIRO and MI 1 are in correspondence regarding this dispute with lawyers advising MI 1. CSIRO has in its possession a furnace owned by MI 1 which CSIRO is prepared to discuss the acquisition of at book value. The book value of this furnace included in the 31 December 2006 accounts is \$228,103.	331	-

DIRECTORS' DECLARATION

In the opinion of the directors of Magnesium International Limited:

- a) the financial statements and notes set out on pages 4 to 12, are in accordance with the Corporations Act, 2001, including:
 - i) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2006 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
 - ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Sydney this 27th February 2007

Signed in accordance with a resolution of the directors:

A handwritten signature in black ink, appearing to read 'James Beecher', is written over a light grey rectangular background.

James Beecher
Director

Independent auditor's review report to the members of Magnesium International Limited

We have reviewed the accompanying interim financial report of Magnesium International Limited which comprises the consolidated interim balance sheet as at 31 December 2006, income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes 4 to 12 and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the interim financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the interim 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 an opinion on the interim 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 interim 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 Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Magnesium International Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim 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.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Magnesium International 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 Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.

**Independent review report to the members of
Magnesium International Limited (continued)**

Going Concern

Without qualification to the statement above, attention is drawn to the following matter. As a result of the matters described in Note 1(b) to the financial statements, there is significant uncertainty whether the consolidated entity will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.



KPMG



Mark Epper
Partner

Sydney

27 February 2007.