

MAGNESIUM INTERNATIONAL

L I M I T E D

1 April 2005

31 DECEMBER 2004 HALF YEAR ACCOUNTS - FULL AUDIT

The 31 December 2004 half year accounts for Magnesium International Ltd have now been subject to a full audit as a requirement for the application for admission to the AIM Market of the London Stock Exchange. The audited accounts are consistent with the accounts released on 28 February 2005 that had been subject to audit review.

For further information please contact

Gordon Galt
Managing Director, Magnesium International Limited

Telephone +61 2 9252 1505
Fax +61 2 9252 1507
Email www.mgil.com.au

Magnesium International Limited

ABN 23 003 669 163

and its Controlled Entities

HALF-YEAR FINANCIAL REPORT

31 DECEMBER 2004

Magnesium International Limited

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Magnesium International Limited

Directors' Report

The directors present their report together with the financial report for the half-year ended 31 December 2004 and the auditors' report thereon.

DIRECTORS

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

David Karpin (Non-Executive Chairman)

Gordon Galt (Managing Director)

Patrick Elliott (Deputy Chairman)

Andy Hogendijk (Non-Executive Director)

Malcolm Richmond (Non-Executive Director)

Captain Ossama Al Sharif – appointed 28 February 2005 (Non-Executive Director)

Directors were in office for this entire period unless otherwise stated

REVIEW AND RESULTS OF OPERATIONS

The net result of operations after applicable income tax expense for the half-year was a loss of \$1,876,000 (2003 - \$1,321,000)

The principal continuing activity of the Company is the development of the magnesium smelter project and evaluation of other magnesium opportunities.

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:

10 January, 2005: conversion of B class shares on basis of 1.6918 ordinary shares for each B share, resulting in the issue of 49,164,003 additional ordinary shares.

28 February, 2005, shareholders at the annual general meeting approved the following resolutions:

- a) the share capital of the company being consolidated on a 1 for 20 basis
- b) approval being given for the issue for up to 10,000,000 shares at an issue price of A\$1.20 per Ordinary Share (post Consolidation), together with up to a maximum of 5,000,000 options, issued on the basis of 1 option for every 2 Ordinary Shares issued, with each option being exercisable at A\$1.80 (post Consolidation) and expiring on 1 March 2007. Proceeds of shares issued in accordance with this resolution were \$11.4m, net of \$0.6m in issue costs.
- c) amending the Constitution by:
 - i) expanding the permitted objects of the Company to include all the activities that are proposed to be conducted in the course of the project;
 - ii) permitting the Company to arrange for the sale of unmarketable parcels of Ordinary Shares, in accordance with the Corporations Act; and
 - iii) permitting an interested Director to vote in matters being dealt with by the Company, subject to the prior compliance with the provisions of the Corporations Act.

A Shareholder Share Purchase Scheme was offered to shareholders which opened on 31 January 2005 and closed on 18 March 2005. Proceeds received from the Shareholder Share Purchase Scheme were \$1.5m.

Magnesium International Limited

Directors' Report (continued)

SUBSEQUENT EVENTS (continued)

11 February, 2005: 8,160,000 unlisted options with an expiry date of 19 February 2005 were exercised raising \$580k net of issue costs of \$32k.

During March 2005, 10,000,000 shares at an issue price of \$1.20 and 5,000,000 options issued on the basis of 1 option for every 2 Ordinary Shares issued, with each option being exercisable at A\$1.80 (post Consolidation) and expiring on 1 March 2007. Proceeds of \$11,400 k were received net of issue costs of \$600k.

During March 2005, 416,667 shares at an issue price of \$1.20 and 208,334 options issued on the basis of 1 option for every 2 Ordinary Shares issued, with each option being exercisable at A\$1.80 (post Consolidation) and expiring on 1 March 2007. Proceeds of \$475k were received net of issue costs of \$25k.

For reporting periods beginning on or after 1 January 2005, the economic entity must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board.

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

The lead auditors' independence declaration is set out on page 5 and forms part of the Directors' Report for the half year.

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 noted.

Signed at Sydney this day 31st March 2005 in accordance with a resolution of the directors.



G GALT
Director

Magnesium International Limited

LEAD AUDITORS' 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 audit for the half year ended 31 December 2004 there have been:

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



KPMG



Trent van Veen
Partner

Sydney
31 st March 2005

Magnesium International Limited

Statement of Financial Performance For the half year ended 31 December 2004

	Note	2004	2003
		\$'000	\$'000
REVENUE FROM ORDINARY ACTIVITIES	2	92	314
Administration expenses		(52)	(338)
Salaries and employee benefits expense		(683)	(771)
Consultants expenses		(375)	(186)
Depreciation expense		(12)	(12)
Office rental expense		(79)	(122)
Exploration costs incurred and written off		(494)	-
Other expenses from ordinary activities		(273)	(206)
LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		(1,876)	(1,321)
INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES		-	-
LOSS FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE		(1,876)	(1,321)
Basic and diluted loss per share (cents per share)	7	(0.38)	(0.30)

The statement of financial performance 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

Statement of Financial Position As at 31 December 2004

	Note	31 Dec 2004	30 June 2004
		\$'000	\$'000
CURRENT ASSETS			
Cash assets		2,184	4,123
Receivables		124	145
Other Current Assets		108	117
TOTAL CURRENT ASSETS		2,416	4,385
NON-CURRENT ASSETS			
Property, Plant and Equipment		522	531
Deferred Exploration and Evaluation Expenditure		43,320	43,320
TOTAL NON-CURRENT ASSETS		43,842	43,851
TOTAL ASSETS		46,258	48,236
CURRENT LIABILITIES			
Payables		163	284
Provisions		91	72
TOTAL CURRENT LIABILITIES		254	356
TOTAL LIABILITIES		254	356
NET ASSETS		46,004	47,880
EQUITY			
Contributed equity	5	76,290	76,290
Accumulated losses	6	(30,286)	(28,410)
TOTAL EQUITY		46,004	47,880

The statement of financial position 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

Statement of Cash Flows For the half-year ended 31 December 2004

	2004	2003
	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments for administration and operating expenses	(1,537)	(1,814)
Exploration and evaluation expenditure	(494)	(491)
Interest received	88	107
Other Income	4	48
	<hr/>	<hr/>
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(1,939)	(2,150)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	-	156
Proceeds from sale of plant and equipment	-	3
	<hr/>	<hr/>
NET CASH FLOWS PROVIDED BY INVESTING ACTIVITIES	-	159
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	-	1,684
Transaction costs from issue of shares	-	(210)
	<hr/>	<hr/>
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	-	1,474
	<hr/>	<hr/>
DECREASE IN CASH HELD	(1,939)	(517)
Add opening cash brought forward	4,123	5,493
	<hr/>	<hr/>
CLOSING CASH CARRIED FORWARD	2,184	4,976
	<hr/>	<hr/>

The 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

Notes to the financial statements For the half-year ended 31 December 2004

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis operation of half yearly financial report

Financial Reporting Framework

The half-year consolidated financial report is a general purpose financial report which has been prepared in accordance with Accounting Standard AASB 1029 *Interim Financial Reporting*, the recognition and measurement requirements of applicable AASB Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The half-year financial report covers the economic entity of Magnesium International Limited and its controlled entities. Magnesium International Limited is a listed public company, incorporated and domiciled in Australia.

The half-year financial report does not include all of the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2004 and any public announcement made by Magnesium International Limited during the half year in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial period.

(b) Going Concern

The financial statements have been prepared on a going concern basis which presumes the realisation of assets and discharge of liabilities in the normal course of business for the foreseeable future. The directors confirm, on an ongoing basis, that the company and the consolidated entity continue to meet this criteria.

(c) Exploration and evaluation expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward where there is current activity, to the extent that they are expected to be recouped through the successful development of the area, or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

The consolidated entity's ability to recoup capitalised exploration and evaluation expenditure is dependent upon raising the equity and project finance necessary to develop the magnesium smelter project, or alternatively by its sale or joint venturing. If the consolidated entity is unable to commercialise the project, a write down in the carrying amount may be required.

Magnesium International Limited

Notes to the financial statements For the half-year ended 31 December 2004

2. REVENUE FROM ORDINARY ACTIVITIES

	Dec 2004 \$'000	Dec 2003 \$'000
Interest received – other persons/corporations	88	107
Proceeds on sale of investments	-	156
Proceeds on sale of plant and equipment	-	3
Other income	4	48
	<u>92</u>	<u>314</u>

3. CONTINGENT ASSETS AND LIABILITIES

Since 30 June 2004 there have been no material changes in contingent liabilities or contingent assets.

4. SEGMENT INFORMATION

The Company continued the exploration for and project evaluation of magnesium resources in Australia.

5. CONTRIBUTED EQUITY

	Dec 2004 \$'000	June 2004 \$'000
470,110,606 (June 2004: 470,110,606) ordinary shares, fully paid.	73,384	73,384
29,060,524 (June 2004: 29,060,524) fully paid “B” shares	2,906	2,906
	<u>76,290</u>	<u>76,290</u>

Movements in ordinary share capital

Balance at the beginning of the period	76,290	73,390
Nil (June 2004: 561,798) issued as consideration for services rendered	-	50
Nil (June 2004: 29,090,636) issued pursuant to a Shareholder Share Purchase Scheme at 4.998 cents per share	-	1,454
Nil (June 2004: 1,798,522) “B” shares issued pursuant to a 1 to 5 rights issue at 10 cents per share	-	180
Nil (June 2004: 22,630,686) issued on exercise of options	-	1,532
Transactions cost arising from the issue of shares	-	(316)
	<u>76,290</u>	<u>76,290</u>

Magnesium International Limited

Notes to the financial statements For the half-year ended 31 December 2004

5. CONTRIBUTED EQUITY (continued)

Terms and conditions

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Fully paid "B" shares carry one vote per share and carry the right to dividends and the right to a 15% discount on shares issued in a Major Capital Raising. As the Major Capital Raising did not occur prior to 31 December 2004, each B share was converted to 1.6918 ordinary shares on 10 January 2005.

6. ACCUMULATED LOSSES

	Dec 2004 \$'000	Dec 2003 \$'000
Accumulated losses at the beginning of the half-year	(28,410)	(14,363)
Net loss for the period	(1,876)	(1,321)
Accumulated losses at the end of the half-year	<u>(30,286)</u>	<u>(15,684)</u>

7. EARNINGS PER SHARE

	Dec 2004	Dec 2003
Net Loss for the half year (\$'000)	(1,876)	(1,321)
Weighted average number of shares outstanding during the period used in calculation of basis loss per share (shares)	499,171,130	447,347,519
Basic and diluted loss per share (cents)	<u>(0.38)</u>	<u>(0.30)</u>

8. INTERNATIONAL FINANCIAL REPORTING STANDARDS

For reporting periods beginning on or after 1 January 2005, the economic entity must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the economic entity's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The economic entity has not quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the consolidated financial performance and financial position would not be significantly different if determined in accordance with IFRS.

Magnesium International Limited

Notes to the financial statements For the half-year ended 31 December 2004

8. INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

The key potential implications of the conversion to IFRS on the economic entity are as follows:

- The impacts of changes from the existing AASB 1022 "Accounting for the Extractive Industries" have not yet been determined. Under AASB 6 "Exploration of and Evaluation of Mineral Resources" the Economic Entity's Asset of Exploration and Evaluation Expenditure may not fit within the definition of exploration for and evaluation of mineral resources and may be written down significantly.
- Income tax will be calculated based on the "balance sheet" approach, which will result in more deferred tax assets and liabilities and, as tax effects follow the underlying transaction, some tax effects will be recognised in equity.
- Changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosures of prior year effects.

The Company has continually assessed the impact of IFRS however as a small company its breadth of accounting treatments are not great. It has therefore been able to assess the impact through monitoring of developments and assessment of those changes on its accounting policies and its financial accounts.

All other accounting policies adopted are consistent with those of the previous financial year.

9. 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:

- 10 January, 2005: conversion of B class shares on basis of 1.6918 ordinary shares for each B share, resulting in the issue of 49,164,003 additional ordinary shares.
- 28 February, 2005, shareholders at the annual general meeting approved the following resolutions:
 - a) the share capital of the company being consolidated on a 1 for 20 basis
 - b) approval being given for the issue for up to 10,000,000 shares at an issue price of A\$1.20 per Ordinary Share (post Consolidation), together with up to a maximum of 5,000,000 options, issued on the basis of 1 option for every 2 Ordinary Shares issued, with each option being exercisable at A\$1.80 (post Consolidation) and expiring on 1 March 2007. Proceeds of shares issued in accordance with this resolution were \$11.4m, net of \$0.6m in issue costs.
 - c) amending the Constitution by:
 - i) expanding the permitted objects of the Company to include all the activities that are proposed to be conducted in the course of the project;
 - ii) permitting the Company to arrange for the sale of unmarketable parcels of Ordinary Shares, in accordance with the Corporations Act; and
 - iii) permitting an interested Director to vote in matters being dealt with by the Company, subject to the prior compliance with the provisions of the Corporations Act.

Magnesium International Limited

Notes to the financial statements For the half-year ended 31 December 2004

9. SUBSEQUENT EVENTS (CONTINUED)

A Shareholder Share Purchase Scheme was offered to shareholders which opened on 31 January 2005 and closed on 18 March 2005. Proceeds received from the Shareholder Share Purchase Scheme were \$1.5m.

11 February, 2005: 8,160,000 unlisted options with an expiry date of 19 February 2005 were exercised raising \$580k net of issue costs of \$32k.

During March 2005, 10,000,000 shares at an issue price of \$1.20 and 5,000,000 options issued on the basis of 1 option for every 2 Ordinary Shares issued, with each option being exercisable at A\$1.80 (post Consolidation) and expiring on 1 March 2007. Proceeds of \$11,400 k were received net of issue costs of \$600k.

During March 2005, 416,667 shares at an issue price of \$1.20 and 208,334 options issued on the basis of 1 option for every 2 Ordinary Shares issued, with each option being exercisable at A\$1.80 (post Consolidation) and expiring on 1 March 2007. Proceeds of \$475k were received net of issue costs of \$25k.

10. RECONCILIATION OF AUSTRALIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES TO UNITED KINGDOM GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The financial statements are prepared in accordance with Australian Generally Accepted Accounting Principles (“A GAAP”), which differs in certain respects from United Kingdom Generally Accepted Accounting Principles (“UK GAAP”). There are no material differences between A GAAP and UK GAAP for the six months ended 31 December 2004 as they relate to the financial statements of Magnesium International Limited..

Magnesium International Limited

DIRECTORS' DECLARATION

In the opinion of the directors:

- a) the financial statements and notes are in accordance with 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, 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 1029 "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.

In accordance with a resolution of the directors of Magnesium International Limited

Sydney, 31 st March, 2005



G GALT
Director

Magnesium International Limited

Independent audit report to the members of Magnesium International Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Magnesium International Limited ("the Consolidated Entity"), for the half-year ended 31 December 2004. The Consolidated Entity comprises Magnesium International Limited ("the Company") and the entities it controlled during that half-year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Consolidated Entity's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Magnesium International Limited

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

Audit Opinion

In our opinion, the half year financial report of Magnesium International Limited is in accordance with:

- a) the Corporations Act 2001, including:
 - i. giving a true and fair view of the Company'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 financial reporting requirements in Australia.

Magnesium smelter project

Without qualification to the opinion above, attention is drawn to the following matter. As indicated in Note 1(c) to the financial statements, the Company's and economic entity's ability to develop its magnesium smelter project and recoup exploration and evaluation expenditure carried forward in respect of its magnesium smelter project is dependent upon raising the equity and project finance necessary to develop the project or alternatively by its sale or joint venturing. If the Company is unable to commercialise the project, a write down in the carrying amount of its magnesium smelter project may be required.



KPMG



Trent van Veen
Partner

Place: Sydney

Date: 31 st March 2005