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PROJECT UPDATE - EMAG MAGNESIUM SMELTER PROJECT

This announcement provides an update on developments at the proposed magnesium smelter project at Port Sokhna in Egypt which is being developed by the Egyptian Magnesium Company ("EMAG"), jointly owned by Magnesium International Limited ("MIL") and Amiral Overseas Magnesium Limited ("Amiral"). This project update addresses the following project areas:

- Construction capital cost estimate
- Egyptian magnesite resources
- Environmental impact assessment
- Magnesium market study
- Summary and future EMAG funding

CONSTRUCTION CAPITAL COST ESTIMATE

In March 2005, following an extensive pre-qualification process, EMAG appointed MAN Ferrostaal ("MFS") to determine the price for an EPC construction contract for the first module of the magnesium smelter (capacity 43,000tpa). The smelter is expected to reach a total capacity of 88,000tpa when the second module is completed.

Finalisation of the price has been delayed by late delivery of some significant vendor bids although these have now all been received by MFS. On the basis of indicative information provided to EMAG, the Board anticipates that the total construction cost of the first module will be materially higher than had been forecast in the Company's internal feasibility study. The factors contributing to the increase in costs include:

- the high level of global demand for equipment and services for resources sector projects
- high raw material prices, including steel and copper, both of which are major components
- the relatively high European content of some material aspects of the project

The Board is disappointed with this outcome and will now evaluate opportunities to reduce the overall construction cost. These include further increasing the Egyptian content, re-tendering a number of vendor bid packages and a possible change in construction strategy to a fixed price Engineering, Procurement and Construction Management ("EPCM") contract.

Fixed price EPCM offers the potential for reduced construction capital cost and a shorter time to project completion after construction starts. Under fixed price EPCM, EMAG would appoint an organisation to complete the engineering design, then procure and manage the construction and pre-commissioning of the project through a number of fixed price contracts direct with EMAG. This approach would also require a strong in-house project management team for the duration of the project construction and mechanical completion. Although EMAG can use the work provided by the current MFS contract, an EPCM strategy would have the additional consequence of further delaying a start on construction, because the engineering design work has to be progressed to a stage sufficient to enable a definitive cost estimate to be completed.

EGYPTIAN MAGNESITE RESOURCES

EMAG has been engaged in ongoing work with El Nasr Mining on exploration for magnesite deposits in Egypt. El Nasr is a 100% government owned mining company. Access to proven deposits from Egypt would significantly reduce the costs of ore supply to the smelter and EMAG is currently discussing options to cover the mining and transport of ore to Sokhna with El Nasr and transport companies.

Work to date has focussed principally on the Sul Hamed area in the far south-eastern part of Egypt. The area is approximately 40 kilometres from the Red Sea and some 900 kilometres south of Sokhna port. Open cut magnesite mining is already occurring in the area at a low rate of extraction.

Initial results from widespread surface sampling of the magnesite deposits in the area are now available and drilling of the most prospective areas is expected to start in the next few weeks. The surface samples analysed to date suggest that good quality magnesite may exist over an extensive area. Magnesium content is approximately ten percent higher and impurities are lower than the Australian magnesite currently slated for use in the EMAG smelter.

Initial sampling of the Zurgat Naan deposit, the second Egyptian deposit being evaluated, will occur this month.

ENVIRONMENTAL IMPACT ASSESSMENT (“EIA”)

The EIA for the smelter within Sokhna Port was submitted to the Red Sea Ports Authority in mid September 2005. Formal feedback has now been received and the few clarifications requested are being prepared. The smelter will also require the identification and separate approval of a site for the storage of smelter solid residue (magnesite impurities). EMAG has selected an initial storage area and has received in principle approval for the site from the Governorate of Suez. The area is approximately one kilometre south west of the smelter site and will have at least ten years' storage volume available. An EIA for this area has been commissioned and is expected to take approximately three months to complete.

MAGNESIUM MARKET STUDY

In July 2005, Metal Bulletin Research / Clark & Marron (“MBR/C&M”) were commissioned to undertake a study of the current status and future development of the world magnesium market for use by the Board, banks and equity providers to the EMAG project. This study, although in draft form, is largely complete and forecasts:

- continued strong short and long term growth (+9% per year) in the market for lightweight magnesium alloys in the auto sector (EMAG's target market) to assist in meeting industry targets for reduced vehicle emissions and to offset rising oil costs
- a drop in magnesium prices in 2006 followed by improved prices over the next decade to between US\$1.40 and \$1.50/lb (in real terms) as Chinese production costs rise due to reduced/eliminated export rebates and further revaluations of the Chinese currency

- a continuation of the marked slowdown in the rate of production increase in China, as has already happened in 2005 and
- the development of new electrolytic production capacity in low cost locations outside China

MBR/ C&M believe that EMAG is the most likely greenfield magnesium smelter project capable of being successfully developed outside China in the next five years and that, based on current estimates, EMAG will operate in the lowest quartile of the ex works cash cost curve and will also have the advantages of low distribution costs.

SUMMARY AND FUTURE FUNDING OF EMAG

The expected return on the EMAG project is influenced by the selling price for the smelter products, cash operating margins and the project capital cost. The draft market study indicates that selling price expectations are in line with previous projections. The expected increase in capital cost of the EMAG project will have a negative effect while success in finding a local source of magnesite will have a positive effect on project returns. MIL is currently reviewing these parameters to determine their overall financial implications for the project.

Against this background and the expected significant delay in achieving financial close, the funding of EMAG is now under active discussion between MIL and Amiral and will need to be resolved before further progress on the project can be achieved

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