MAGNESIUM INTERNATIONAL LIMITED

CHAIRMAN'S ADDRESS TO AGM 9 OCTOBER 2006

Needless to say the past year has been one of great disappointment to everyone who is part of the Magnesium International Limited team – shareholders and Directors.

The Past Year

Last year we had every expectation that we would have the Egyptian Magnesium project financed and construction commenced before now.

Two major events conspired to derail our plans:

1. the incomplete capital cost estimate received in December 2005 was materially higher than forecast in the Company's internal feasibility study; and
2. magnesium alloys market prices came under severe downwards pressure as Chinese producers expanded their output significantly and gained much greater market share as many improved their product quality.

The December 2005 incomplete capital cost estimate contained a very low local Egyptian content and excessive margins and contingencies. As a result in January, 2006 your Directors reviewed the EMAG project and concluded that there was much scope to reduce the capital cost estimate by increasing the extent of Egyptian and regional content and changing from a Fixed Price Lump Sum Turn Key Engineering Procurement and Construction contract delivery arrangement to a greater degree of self-perform with underlying fixed price packages.

In addition, our team also reviewed the proposed plant capacity and this was increased to 108,000 tonnes per annum of magnesium alloy. Our plan remains to build this capacity in two stages so as to smooth EMAG's entry into the magnesium alloy market.

magnesium international limited abn 23 003 669 163
level 6 210 george street sydney nsw 2000 australia
po box N114 grosvenor place nsw 1220
tel 61 2 9252 1505 fax 61 2 9252 1507
email contact@mgil.com.au
www.mgil.com.au

By June 2006 the initial re-estimation work by our team had reduced the total construction cost to US$377 million.

I am pleased to announce that further work by our Cairo team together with local specialist engineering consultants has reduced the estimated total construction cost to US$354 million (comprising Construction costs of US$328 million and Owners Capital Costs of US$26 million) for the increased initial 54,000 tonnes per annum stage. These lower estimates primarily reflect a greater degree of Egyptian and regional content.

Current Position of EMAG

We are now at the stage of requiring additional capital to produce a Bankable Feasibility Study on this new basis. Our plan is to undertake further engineering design work to refine the capital cost estimate and minimise risks of cost overruns through tight design specification and fixed price component packages. In addition we are planning to finalise all the contracts necessary to implement the project and then proceed to final financing.

To source the necessary capital we are currently discussing potential project involvement with a number of parties. The outcome of those discussions will be known over the next few months.

MagSheet

Turning now to the magnesium sheet operation. This has been disappointing as it has taken longer to resolve the outstanding technical issues than expected and it has proven more expensive than planned. We are currently reviewing our involvement and seeking to re-negotiate the terms of the technology option. Notwithstanding these disappointments, the MagSheet operation remains potentially on the cusp of initial commercial orders – but then it was at that stage 12 months ago.

Cash Position

During the year we have focused on managing within our existing cash resources and reduced our planned burn rate by reducing the level of engineering and other activity and focusing on the activity of attracting a strategic partner which is essential to enabling the project to move forward. This reduction in costs has also included the withdrawal of the listing on the Xetra market in Frankfurt.

magnesium international limited abn 23 003 669 163
level 6 210 george street sydney nsw 2000 australia
po box N114 grosvenor place nsw 1220
tel 61 2 9252 1505 fax 61 2 9252 1507
email contact@mgil.com.au
www.mgil.com.au

Continued Commitment

As outlined in the Annual Report your Directors remain of the view that the magnesium industry does offer attractive potential and that Egypt is the right place for a primary magnesium smelter which will be extremely competitive.

Magnesium Alloy Markets

These are showing signs of recovering as we have been expecting . Reported magnesium alloy prices have increased somewhat mainly as a result of higher costs incurred by Chinese producers and the removal of a 5% VAT export rebate by the Chinese Government.

In addition, Norsk Hydro have announced their intention sell or close their 48,000 tonne per annum primary magnesium smelter at Becancour, Canada. This operation produces a bit less that 10% of current world primary magnesium output but has become less cost competitive through a combination of higher electricity costs and a higher Canadian dollar against the US dollar, in which magnesium alloy prices are denominated. The closure of Becancour can only further assist a recovery in magnesium alloy prices as its North American customers seek alternative reliable sources of supply.

Conclusion

The prospect of further recovery in magnesium alloy prices and the possible introduction of a strategic partner into EMAG will provide us with the opportunity to recover some of the losses we have all incurred in the past year. Unfortunately, nothing is guaranteed or certain. We can assure shareholders of our ongoing commitment to achieve the best outcome possible in the circumstances.

magnesium international limited abn 23 003 669 163
level 6 210 george street sydney nsw 2000 australia
po box N114 grosvenor place nsw 1220
tel 61 2 9252 1505 fax 61 2 9252 1507
email contact@mgil.com.au
www.mgil.com.au