



ABN 14 125 236 731

Annual Report
For the year ended 30 June 2018

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That Corporate Governance statement can be found at <http://www.chinamagnesiumcorporation.com/investor-centre/corporate-governance>

China Magnesium Corporation Limited and its subsidiaries

Managing Directors' Report – 30 June 2018

Managing Director's Report

Dear Shareholders

I am pleased to report on continued positive progress in our journey to become a large, low cost, integrated producer of magnesium, semi coke, tar oil and other industrial products.

Financial summary

The Group has recorded a net loss after tax of \$3.1M including impairment charges of \$2.339M compared with a 2017 loss of \$0.987M.

Pingyao magnesium production

In April 2017 SYMC (the operating subsidiary of CMC based at Pingyao) management along with other businesses in the province were informed that production was to immediately cease pursuant to action by the Minister of Environmental Protection to effect measures to ensure compliance with emissions standards. These measures were focused on a variety of production plants in Beijing, Tianjin, Hebei, Shanxi and surrounding provinces including magnesium plants. The directive from the Minister of Environmental Protection was not from specific issues identified with the Pingyao plant, but was rather a "blanket cease of operations" for manufacturing plants.

In August 2017 SYMC staff met with the chief of Pingyao Environment Protection Bureau, who confirmed that pollutant standards dated October 2017 as applicable towards SYMC which are stated in the Environmental Impact Assessment Report of SYMC are unchanged from the original Pingyao plant specifications and comply with the EPP discharge standards. CMC is confident that the Pingyao plant will satisfy the disposal/emission specifications, and thereby pass the inspection and review by the expert environmental team as the prerequisite for production recommencement.

SYMC management have conservatively projected additional initial emission discharge control work will be completed for production return by April 2019, at a total cost of \$1.1M. Monitoring of environmental discharge is anticipated to be effected by controls within all relevant plants with regular reporting thereon to the EPP, together with physical inspection by EPP officers on an ongoing basis.

Lithium tenements

CMC acquired 2 tenements in the Greenbushes area of Western Australia in 2016. In September 2016 CMC announced it had entered into a conditional Framework Agreement to finance the assessment and exploitation of lithium from the 2 tenements. Certain conditions were not satisfied, resulting in the forfeiture of the earnest money. An amended agreement was then entered into with another party and on 31 January 2018, upon satisfaction of the conditions, CMC's interest in the tenements was reduced to 40%. There was a gain of \$690,000 for the loss of control of the subsidiary.

CMC's executive management do not intend to be involved with the management of the project, other than contributing to the overall strategy and early establishment of key personnel.

Jiexiu City Baiyun Quarry

On 31 July 2017 the mining license of Jiexiu City Baiyun Quarry was cancelled. Impairment of tangible Quarry assets at carrying value of \$76,722 (RMB401,214) and intangible land use and mining rights at \$522,385 (RMB2,731,800) have been brought to account. Management has sourced alternative dolomite supply for production.

Funding Agreement

In June 2017 the Company entered into a Controlled Placement Agreement ("CPA") with Acuity Capital. The CPA provides the Company with up to \$3 million of standby equity capital over a 2-year period.

CMC entered into the CPA to complement its funding initiatives and to strengthen its overall capital management program by adding a further capital raising tool. The CPA provides CMC with the flexibility to quickly and efficiently raise capital, including the ability to take advantage of suitable opportunities as they arise. The Company retains full control of the placement process, including having sole discretion as to whether or not to use the CPA. The Company is under no obligation to raise capital under the CPA, and there are no break fees if the CPA is not utilised.

China Magnesium Corporation Limited and its subsidiaries

Managing Directors' Report – 30 June 2018

Fine Chemicals & Fertiliser Agreement

CMC signed a conditional agreement with Taiyuan Hailifeng Science & Technology Co. Ltd in early 2016 for the 20 year lease of business and production facilities in Taiyuan, Shanxi Province and Shandong, Shandong Province.

The conditions for completion were unable to be satisfied and the agreement was cancelled on 3 August 2018. No financial impact on CMC is anticipated.

Working capital

Under the 2013 Investment and Co-Operation Agreement, Fengyan has continued to provide direct working capital facilities to the CMC Group. CMC & Fengyan continue to evaluate other financial facilities, for which Fengyan has indicated its intention to act as guarantor.

CMC also continues to explore alternative working capital facilities for operations including for lithium tenement acquisition and development.

Magnesium Lithium Alloy

Construction and installation of a Magnesium Lithium plant at Pingyao with a nominal capacity of 108tpa has completed on schedule and successfully tested. Production commenced in September 2018. I would like to acknowledge the efforts of our Director, Liang Xinping and our dedicated staff at the Pingyao plant for bringing the process for this high value alloy into reality.

Capital raising

CMC successfully completed shares and options issues which raised \$.7M to provide CMC with additional general working capital and to further Australian and Chinese operations including acquiring assets.

Property, plant and equipment

The Group has made investment in the property, plant and equipment assets as it increases the scale of the facility located in Pingyao, China. The plant has been unable to commence production due to changes in the environmental regulation in China. Accordingly, CMC has recognised an impairment charge on the plant and equipment of \$1,739,840. As a result, the carrying value of these assets is now reduced to \$14,697,503.

Looking forward

CMC anticipates completing all environmental work necessary to commence production. We are encouraged by the sustained improvement in magnesium prices.

We continue to seek diversification in the market offerings from magnesium and magnesium alloy into an array of other manufactures including semi coke and calcium metal.

CMC remains committed to becoming one of the world's largest, integrated, low cost magnesium producers, whilst building capacity in other industries to further leverage our strengths and advantages.

That Corporate Governance statement can be found at <http://www.chinamagnesiumcorporation.com/investor-centre/corporate-governance>

Yours sincerely,



Tom Blackhurst
Managing Director

China Magnesium Corporation Limited and its subsidiaries

Directors' Report – 30 June 2018

Directors' report

Your directors present their report on the consolidated entity (Group). The Group consists of China Magnesium Corporation Limited (Company or parent entity), a public, limited liability company incorporated and domiciled in Australia, and the entities it controlled at the end of, or during the year ended 30 June 2018.

Directors

The following persons were directors of China Magnesium Corporation Limited during the whole of the year and up to the date of this report:

W Bass	T Blackhurst
X Liang	P Robertson

Principal activities

The principal continuing activities of the Group during the year were:

- Progressing diversification of production base to include magnesium, semi-coke, calcium metal, tar oil and synergistic products to support more robust and stable cash flow and profitability in the longer term;
- Negotiating and completing construction of a 108 tpa capacity magnesium lithium (MgLi) plant for production using electricity from the State electricity grid in place of semi-coke gas;
- Negotiating for the acquisition of an additional smelting and purification process for production of high purity magnesium alloys including MgLi. Construction of the additional capacity is expected to complete in the current half year.

Dividends

No dividends were paid during the year and no recommendation is made as to the payment of dividends.

Review of operations and financial position

The Group's financial results for the financial year ended 30 June 2018 are set out in the financial statements following page 13 of this annual report. Significant results include:

	Consolidated	
	2018	2017
	\$	\$
Revenues	26,092	1,839,341
Net (loss) before tax	(3,100,137)	(986,526)
Net (loss) after tax	(3,100,137)	(986,526)

During the year the Group produced no semi-coke (2017: Nil), no calcium metal (2017: Nil), and no tar oil (2017: Nil) from the Group's Pingyao operation. Work was conducted to modify existing plant and introduce new State electricity grid powered plant subsequent to the activation of environmental protection measures by relevant authorities.

The licence for operation of the Baiyun quarry was revoked in July 2017. Management has sourced alternative dolomite supply for production.

Negotiations to secure local loan funding in China for working capital continued throughout the year, supplementing working capital provided by Fengyan under the 17 December 2013 Investment and Co-operation Agreement. The Board reaffirms its confidence that local funding facilities will be approved and can be drawn down in the near future.

China Magnesium Corporation Limited and its subsidiaries

Directors' Report – 30 June 2018

Further information on the operations and financial position of the Group and its business strategies and prospects is set out in the Managing Director's Report on pages 1 - 2 of this annual report.

Significant changes in the state of affairs

CMC completed the installation and testing of crackers at the Pingyao plant in March 2017. This allows CMC to commence magnesium production using semi-coke gas instead of coal-to-gas facilities.

In April 2017 SYMC (the operating subsidiary of CMC based at Pingyao) management along with other businesses in the province were informed that production was to immediately cease pursuant to action by the Minister of Environmental Protection to effect measures to ensure compliance with emissions standards.

In August 2017 SYMC staff met with the chief of Pingyao Environment Protection Bureau, who confirmed that pollutant standards dated October 2017, as applicable towards SYMC (which are stated in the Environmental Impact Assessment Report of SYMC), are unchanged from the original Pingyao plant specifications and comply with the EPP discharge standards.

CMC is confident that the Pingyao plant will satisfy the disposal/emission specifications, and thereby pass the inspection and review by the expert environmental team as the prerequisite for production recommencement. Production using semi-coke gas is expected to resume in the first half of 2019.

CMC has also completed a magnesium lithium (MgLi) plant with capacity of 108 tpa at Pingyao using the state electricity grid as its energy source. Subject to the successful outcome of test production against prescribed high purity standards, CMC intends to enter into an agreement for both supply of raw material and offtake of processed MgLi. Production of MgLi commenced in September 2018.

CMC acquired 2 tenements in the Greenbushes area of Western Australia in 2016. In September 2016 CMC announced it had entered into a conditional Framework Agreement to finance the assessment and exploitation of lithium from the 2 tenements. Certain conditions were not satisfied, resulting in the forfeiture of the earnest money. An amended agreement was then entered into with another party and on 31 January 2018, upon satisfaction of the conditions, CMC's interest in CMC Lithium was reduced to 40%. There was a gain of \$690,000 for the loss of control of the subsidiary.

Following Pingyao plant production ceasing pursuant to the EPP implementation of emission standards measures, the Company has scoped additional work to enhance emissions standards compliance. Management project the cost of this work at \$1.1M which is to be completed before production using semi-coke gas can resume.

CMC has acquired rights under an agreement with Xi'an Nonferrous Metallurgical Design and Research Institute (XNM) for XNM to provide technical cooperation for an additional high purity magnesium alloy and smelting process. XNM is responsible for the delivery of a turn-key production facility, including installation and commissioning of the plant, as well as training and ongoing support. Production is scheduled for late 2018.

On 31 July 2017 the mining license of Jiexiu City Baiyun Quarry was cancelled. An impairment of Quarry assets at carrying value of \$76,722 (RMB401,214) and land use and mining rights at \$522,385 (RMB2,731,800) have been brought to account. CMC is negotiating for the recovery of \$575,827 (RMB3 million) under the Option and Purchase Agreement. Management has sourced alternative dolomite supply for production.

Matters subsequent to the end of the financial year

Pursuant to the Pingyao plant production closure the Company has scoped additional work to enhance emissions standards compliance. Management project the cost of this work at \$1.1M.

On 3 August 2018, as the conditions for the lease and lease-back agreement with Taiyuan Hailifeng Science and Technology Co. Ltd were unable to be satisfied, the agreement was cancelled.

Except for the matters discussed above, no other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect:

- (a) the Group's operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the Group's state of affairs in future financial years.

China Magnesium Corporation Limited and its subsidiaries

Directors' Report – 30 June 2018

Likely developments and expected results of operations

Likely developments in the operations of the Group are:

- Production of magnesium, magnesium alloys and semi coke from the Pingyao operation
- Expansion of the Group's trading desk operations

Additional comments on expected results of certain operations of the group are included in this annual report under the Managing Director's Report on pages 1 – 2 of this annual report.

Environmental regulation

The Company's operations are not regulated by any significant environmental regulation under a law of the Australian Commonwealth or of a State or Territory. The Group's operations in China are subject to relevant laws and regulations imposed by the Chinese government. These operations are subject to review and enforcement by Chinese government inspectors. Following ceasing of Pingyao plant production pursuant to the EPP advice and actions, the Company has scoped additional work to enhance emissions standards compliance. Management project the cost of this work at \$1.1M which is to be completed before production using semi-coke gas can resume. The directors are not aware of any matters suggesting that the Group's operations are otherwise not in full compliance with the relevant laws and regulations.

Information on directors

Thomas Blackhurst – Managing Director

Experience and expertise

Managing Director since 4 May 2007. Mr Blackhurst co-founded the Company in May 2007 with Messrs Xinping Liang, Ming Li and Guicheng Jia. He has more than 30 year's experience in building new businesses and consulting to various businesses in Australia and Asia. Beginning his career in metals trading, he later embarked upon various other successful entrepreneurial ventures.

Other current directorships: Nil

Former directorships in last 3 years: Nil

Special responsibilities: Managing Director

Interests in shares and options: 46,379,404 ordinary shares in the Company

Xinping Liang BEng, MEng - Chief Operating Officer

Experience and expertise

Executive director since 4 May 2007, Mr Liang is a Chinese engineer with more than 25 years of experience in international project and corporate development; mainly focussing on infrastructure assets, heavy industries, renewable energies such as solar and wind power and supporting technologies for those industries. He has extensive senior executive experience in project evaluation, financial analysis and project/business development for numerous private, public and state owned enterprises in Asia (particularly China and Singapore), Australia, Canada, USA and the UK.

Mr Liang grew up in Pingyao and introduced the opportunity to its Chinese joint venture partners in January 2007, which led to him co-founding the Company in May 2007 with Messrs. Blackhurst, Ming Li and Guicheng Jia.

Other current directorships: Nil

Former directorships in last 3 years: Nil

Special responsibilities: Chief Operating Officer

Interests in shares and option: 34,435,730 ordinary shares in the Company.

China Magnesium Corporation Limited and its subsidiaries

Directors' Report – 30 June 2018

Information on directors (continued)

William Bass BEcon, CA, FGIA, FInstIB, MAICD, JP (Qual) Non-Executive Chairman.

Experience and expertise

Independent non-executive director since 15 February 2010 and Chair since 10 March 2010. Mr Bass is a director and senior executive with extensive experience with international and Australian public, private and not for profit businesses. His predominant focus is on business strategy, financial stewardship, business acquisitions, governance and business re-engineering.

Other current directorships: Nil

Former directorships in last 3 years: 1300SMILES Limited

Special responsibilities: Chair of the Board.

Interests in shares and options: 2,431,414 ordinary shares in the Company.

Peter Robertson BE (Met), MBA - Non-Executive Director.

Experience and expertise

Independent non-executive director since 3 July 2008, Mr Robertson is an Australian metallurgical engineer with more than 35 years of experience in mineral processing, smelting and rolling of aluminium and developing new technologies for the recycling of aluminium waste material. Over the past 25 years, Mr Robertson has been involved in the manufacture and supply of consumables and consulting services to the aluminium cast house industry through his role as General Manager of Leymont Pty Ltd.

Other current directorships: Nil.

Former directorships in last 3 years: Nil

Special responsibilities: Nil.

Interests in shares and options: 4,863,124 ordinary shares in the Company.

Company secretary

Mr Damien Kelly MBA, BCom, FFINSIA, CPA, is a founding director of corporate advisory firm, Western Tiger Corporate Advisers. He has broad corporate and commercial experience spanning more than 15 years, providing professional services to ASX and AIM listed companies predominantly in the mining and energy sector.

Meetings of directors

The numbers of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2018, and the number of meetings attended by each director were:

	A	B	C	D	E	F
W Bass	8	9	2	2	1	1
T Blackhurst	9	9	2	2	-	-
X Liang	8	9	2	2	-	-
P Robertson	7	9	2	2	1	1

A: Director Meetings attended

B: Director Meetings held during the year

C: Audit Committee Meetings attended

D: Audit Committee Meetings held during the year

E: Nomination and Remuneration Committee Meetings attended

F: Nomination and Remuneration Committee Meetings held during the year

China Magnesium Corporation Limited and its subsidiaries

Directors' Report – 30 June 2018

Remuneration report - Audited

The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001.

This Remuneration Report sets out remuneration information for China Magnesium Corporation Limited Group's key management personnel.

Directors and executives disclosed in this report

Non-executive directors	W Bass – Chairman
	P Robertson – Director
Executive directors	T Blackhurst – Managing Director
	X Liang – Chief Operating Officer
Other key management personnel	Nil

Changes since the end of the reporting period: Nil

Principles used to determine the nature and amount of remuneration

The performance of the Group depends on the quality of its directors and executives. Accordingly, the Board's policy for determining the nature and amount of remuneration of key management personnel of the Company and the Group is designed to;

- Maintain the ability to attract and retain senior executives and directors;
- Avoid paying excessive remuneration;
- Remunerate fairly having regard to market conditions and individual contribution; and
- Align the interests of employees and directors with that of the Company and the Group as much as possible.

The Nomination & Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. Consideration is given to normal commercial rates of remuneration for similar levels of responsibility, and the Company's financial performance.

Emoluments comprise the following:

- Base pay (salaries/fees) and benefits, including superannuation
- Short-term incentives (bonuses); and
- Long-term (including critical acquisition) incentives including shares.

All executives have detailed job descriptions with identified key performance indicators against which reviews are compared in relationship between the benefits contained in the employment agreement and the Group's performance in the 2018 financial year.

Remuneration for certain individuals is directly linked to performance of the Group. Bonus payments are dependent on key criteria, being EBITDA. During the year the Group has generated losses in its principal activity of production and distribution of magnesium, semi coke, tar oil and other industrial products.

The Company's share price on listing was \$0.25 per share, which equated to a market capitalisation of \$31.8 million. At 30 June 2018 the share price was \$0.019 (2017: \$0.011), representing a market capitalisation of \$6.0 million (2017 : \$3.1 million). There has been no share-based remuneration.

Year	2013	2014	2015	2016	2017	2018
Share price at year end	0.046	0.045	0.045	0.015	0.011	0.019
Net (loss) \$'000	(1,948)	(2,559)	(3,325)	(2,022)	(987)	(3,100)
EPS	(1.3)	(1.6)	(1.7)	(1.1)	(0.3)	(1.0)
Dividend	-	-	-	-	-	-

China Magnesium Corporation Limited and its subsidiaries

Directors' Report – 30 June 2018

Remuneration report – Audited (Continued)

Directors' fees

Non-executive directors' fees and payments reflect the demands made on, and the responsibilities of, the non-executive directors. The fees are determined within a pool limit, which is periodically reviewed and proposed changes recommended for approval by shareholders. The pool is currently limited to \$200,000 per annum. Non-executive directors do not receive performance-based pay. There are no retirement allowances for non-executive directors.

The following base fees, inclusive of superannuation contributions required under the Australian superannuation guarantee legislation, commenced in November 2010 when the Company listed.

	1 November 2010 until 1 September 2011	From 1 September 2011 to 30 June 2017	From 1 July 2017
Chairman	\$70,000pa	\$70,000pa	\$140,000pa
Non-Executive director	\$35,000pa	\$52,500pa	\$52,500pa

Executive pay and benefits

Executive payments currently consist of consultancy payments to the executive directors and base salary plus statutory superannuation, if applicable, for other executives. Base pay is structured as a total employment package which may be delivered as a combination of prescribed non-financial benefits at the executives' discretion. There are no guaranteed base pay increases in any executives' contracts.

Throughout the year all remuneration for key management personnel was fixed and not linked to performance.

There were no cash bonus, performance related bonus, non-monetary benefits or share-based elements of remuneration in the year ended 30 June 2018 (2017 - Nil).

Details of remuneration

2018

Name	Short term benefits		Post-employment benefits			Total
	Cash Salary and fees	Other	Super-annuation	Long Term Benefits	Termination Benefits	
	\$	\$	\$	\$	\$	\$
Non-executive directors						
W Bass	122,551	-	12,117	-	-	134,668
P Robertson	47,924	-	4,576	-	-	52,500
Executive directors						
T Blackhurst	500,000	-	-	-	-	500,000
X Liang	470,000	-	-	-	-	470,000
Other key management personnel						
Nil						
Total	1,140,475	-	16,693	-	-	1,157,168

China Magnesium Corporation Limited and its subsidiaries

Directors' Report – 30 June 2018

Remuneration report – Audited (Continued)

2017

Short term benefits			Post-employment benefits			
Name	Cash Salary and fees	Other	Super-annuation	Long Term Benefits	Termination Benefits	Total
	\$	\$	\$	\$	\$	\$
Non-executive directors						
W Bass	63,899	20,000	6,101	-	-	90,000
P Robertson	47,924	-	4,576	-	-	52,500
Executive directors						
T Blackhurst	500,000	-	-	-	-	500,000
X Liang	470,000	-	-	-	-	470,000
Other key management personnel						
Nil						
Total	1,081,823	20,000	10,677	-	-	1,112,500

Service agreements

On appointment to the Board, all non-executive directors sign a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the office of director.

Remuneration and other terms of engagement for the Managing Director and Chief Operating Officer are also formalised in service agreements as follows:

Name	Term of agreement	Base salary / consulting fee including any superannuation	Termination benefit *
T Blackhurst <i>Managing Director</i>	Consulting through Orient Pacific Consultants Pte Ltd for 5 years commencing 1 November 2013 and concluding 31 October 2018. Bonus per Remuneration Committee approval of: Short term incentive: 0 – 40% Long term incentive: 0 – 90% Critical acquisition: 0 – 40% Non-solicitation and non-compete clauses	\$500,000	12 months' fee
XP Liang <i>Chief Operating Officer</i>	Consulting through Singapore Energy and Equipment Investment Pte Ltd for 5 years commencing 1 November 2013 and concluding 31 October 2018. Bonus per Remuneration Committee approval of: Short term incentive: 0 – 40% Long term incentive: 0 – 90% Critical acquisition: 0 – 40% Non-solicitation and non-compete clauses.	\$470,000	12 months' fee

*Termination benefits are payable on early termination by the Company, other than for cause.

China Magnesium Corporation Limited and its subsidiaries

Directors' Report – 30 June 2018

Remuneration report – Audited (Continued)

Equity instrument disclosures relating to key management personnel

i) Share holdings

The number of shares in the parent entity held during the financial year by each director of China Magnesium Corporation Limited and other key management personnel of the Group, including their personally related parties, are set out below. None of these share holdings are held nominally. There were no shares granted during the reporting year as compensation (2017: Nil).

2018				
Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
W Bass	2,431,414	-	-	2,431,414
T Blackhurst	46,379,404	-	-	46,379,404
X Liang	34,435,730	-	-	34,435,730
P Robertson	4,863,124	-	-	4,863,124

ii) Option holdings

Options over ordinary shares in the Company acquired and held during the financial year by any director of China Magnesium Corporation Limited or other key management personnel of the Group, including their personally related parties are as follows:

2018					
Name	Balance at the start of the year	Options lapsed	Options issued	Balance at the end of the year	Vested and exercisable at end of the year
W Bass	424,542	(424,542)	-	-	-
T Blackhurst	6,745,508	(6,745,508)	-	-	-
X Liang	6,738,640	(6,738,640)	-	-	-
P Robertson	689,850	(689,850)	-	-	-

(2017: 14,598,540).

There were no options granted during the reporting year as compensation (2017: Nil). None of these option holdings are held nominally. None of the options issued during the year has been exercised.

Other transactions with key management personnel

No transactions occurred between key management personnel and their related entities with the Group during the year (2017: Nil).

Loans to directors and executives

The Executive Directors have accrued consulting fees as at 30 June 2018 of \$1,057,313 (2017:\$314,352)

END OF AUDITED REMUNERATION REPORT

Shares under option

Ordinary shares of China Magnesium Corporation Limited under option at the date of this report:-

Grant date	Expiry date	Exercise price	Number under option
Nil			

(2017: 42,335,432).

Insurance of officers and auditors

During the financial year the Company paid a premium in respect of a contract insuring directors, secretaries and executive officers of the Company and its controlled entities against any liability incurred as director, secretary or executive officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or any of its controlled entity against a liability incurred as such an officer or auditor.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Rounding of amounts

The Company is a type of Company referred to in ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191, and therefore the amounts contained in this Report and the Financial Report have been rounded to the nearest \$1,000 or to the nearest Dollar.

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important. No amounts were paid or payable to the current or previous auditor for non-audit services provided during the year.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out in this Annual Report..

This report is made in accordance with a resolution of directors.



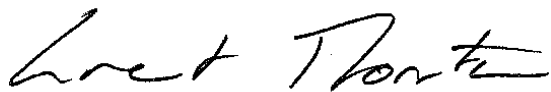
Tom Blackhurst
Managing Director
Southport
25 September 2018

Auditor's Independence Declaration

To the Directors of China Magnesium Corporation Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of China Magnesium Corporation Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.



Grant Thornton Audit Pty Ltd
Chartered Accountants



A F Newman
Partner – Audit & Assurance

Brisbane, 25 September 2018

China Magnesium Corporation Limited and its subsidiaries
Consolidated Financial Statements – 30 June 2018

Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2018

		Consolidated	
	Note	2018	2017
		\$	\$
Revenue	5	26,092	1,839,341
Other income	5	267,836	-
		<u>293,928</u>	<u>1,839,341</u>
Gain from loss of control of subsidiary	6	690,000	-
Gain on derecognition of liability	6	386,800	-
Share of profit/(loss) of associate	8	(54,749)	-
Impairment - Quarry	6	(599,107)	-
Impairment – Plant & equipment	6	(1,739,840)	-
Decommissioning expense		(87,266)	-
Costs of raw materials and consumables		(24,591)	(347,427)
Auditing and accounting expenses		(116,851)	(135,454)
Depreciation and amortisation	6	(386,934)	(353,456)
Employee benefits		(1,555,940)	(1,564,108)
Finance costs		(138,320)	(134,910)
Foreign exchange gain/(loss)		747,068	(33,090)
Lease interest	13	(14,502)	(6,548)
Amortisation on right of use assets	13	(56,533)	(23,387)
Other expenses		(417,925)	(160,892)
Travel		(25,375)	(66,595)
Total expenses		<u>(4,416,116)</u>	<u>(2,825,867)</u>
Loss before income tax		<u>(3,100,137)</u>	<u>(986,526)</u>
Income tax benefit	7	-	-
Loss for the year		<u>(3,100,137)</u>	<u>(986,526)</u>
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Foreign currency translation differences		57,805	(579,319)
Income tax on items of other comprehensive income		-	-
Other comprehensive income for the year (net of tax)		<u>57,805</u>	<u>(579,319)</u>
Total comprehensive income for the year		<u>(3,042,332)</u>	<u>(1,565,845)</u>
Loss for the year is attributable to:			
Owners of the parent		(2,735,658)	(848,201)
Non-controlling interests		(364,479)	(138,325)
		<u>(3,100,137)</u>	<u>(986,526)</u>
Total comprehensive income for the year is attributable to:			
Owners of the parent		(2,683,970)	(1,407,607)
Non-controlling interests		(358,362)	(158,238)
		<u>(3,042,332)</u>	<u>(1,565,845)</u>
Earnings per share		Cents	Cents
Basic earnings/(loss) per share for the year	29	(1.0)	(0.3)
Diluted earnings/(loss) per share for the year	29	(1.0)	(0.3)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

China Magnesium Corporation Limited and its subsidiaries
Consolidated Financial Statements – 30 June 2018

Consolidated statement of financial position as at 30 June 2018

	Note	2018 \$	Restated* 2017 \$	Restated* 1 July 2016 \$
ASSETS				
Current assets				
Cash and cash equivalents	9	1,043,615	1,433,592	2,194,662
Trade and other receivables	10	954,319	1,087,219	916,945
Inventories	11	80,267	145,603	248,080
Total Current Assets		2,078,201	2,666,414	3,359,687
Non-current assets				
Prepayments	12	2,607,120	2,350,990	2,240,816
Property, plant and equipment	14	14,697,503	15,085,404	16,340,275
Right of use assets	13	144,596	201,130	-
Tenements		-	10,000	10,000
Investment accounted for using equity method	8	645,251	-	-
Total Non-Current Assets		18,094,470	17,647,524	18,591,091
Total assets		20,172,671	20,313,938	21,950,778
LIABILITIES				
Current liabilities				
Trade and other payables	15	1,638,901	545,217	2,420,816
Other liabilities	18	-	199,374	-
Lease liabilities	13	61,050	61,050	-
Employee benefits	19	17,248	29,152	17,318
Total Current Liabilities		1,717,199	834,793	2,438,134
Non-Current liabilities				
Trade and other payables	15	6,775,395	5,647,570	6,405,185
Lease liabilities	13	96,971	144,838	-
Borrowings	17	1,555,528	1,320,464	1,253,033
Total Non-Current Liabilities		8,427,894	7,112,872	7,658,218
Total liabilities		10,145,093	7,947,665	10,096,352
Net assets		10,027,578	12,366,273	11,854,426
EQUITY				
Contributed equity	20	23,892,855	23,189,218	21,111,526
Reserves	21	3,447,917	3,396,229	3,955,635
Accumulated losses		(17,007,486)	(14,271,828)	(13,423,627)
Total equity attributable to owners of the parent		10,333,286	12,313,619	11,643,534
Non-controlling interest		(305,708)	52,654	210,892
Total equity		10,027,578	12,366,273	11,854,426

* The prior year restatement relates to the accrued payable for asset under construction that was erroneously recognised as detailed in Note 16. The error has no impact on this statement of changes in equity.

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

China Magnesium Corporation Limited and its subsidiaries
Consolidated Financial Statements – 30 June 2018

**Consolidated statement of changes in equity for the year ended
30 June 2018**

	Contributed equity	Accumulated losses	Foreign currency translation reserve	Change of interest in subsidiary reserve	Total	Non- Controlling interest	Total equity
	\$	\$	\$	\$	\$	\$	\$
As at 1 July 2016	21,111,526	(13,423,627)	3,436,705	518,930	11,643,534	210,892	11,854,426
Net effect of error	-	-	-	-	-	-	-
As at 1 July 2016 restated*	21,111,526	(13,423,627)	3,436,705	518,930	11,643,534	210,892	11,854,426
(Loss) for the year	-	(848,201)	-	-	(848,201)	(138,325)	(986,526)
<i>Other comprehensive income:</i>							
Foreign currency translation difference	-	-	(559,406)	-	(559,406)	(19,913)	(579,319)
Total comprehensive income for the year	-	(848,201)	(559,406)	-	(1,407,607)	(158,238)	(1,565,845)
Transactions with owners in their capacity as owners							
Issue of shares	2,116,771	-	-	-	2,116,771	-	2,116,771
Issue costs	(39,079)	-	-	-	(39,079)	-	(39,079)
At 30 June 2017	23,189,218	(14,271,828)	2,877,299	518,930	12,313,619	52,654	12,366,273
Loss for the year	-	(2,735,658)	-	-	(2,735,658)	(364,479)	(3,100,137)
<i>Other comprehensive income:</i>							
Foreign currency translation difference	-	-	51,688	-	51,688	6,117	57,805
Total comprehensive income for the year	-	(2,735,658)	51,688	-	(2,683,969)	(358,362)	(3,042,332)
Transactions with owners in their capacity as owners							
Issue of shares	708,483	-	-	-	708,483	-	708,483
Issue costs	(4,846)	-	-	-	(4,846)	-	(4,846)
At 30 June 2018	23,892,855	(17,007,486)	2,928,987	518,930	10,333,286	(305,708)	10,027,578

* The prior year restatement relates to the accrued payable for asset under construction that was erroneously recognised as detailed in Note 16. The error has no impact on this statement of changes in equity.

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

China Magnesium Corporation Limited and its subsidiaries
Consolidated Financial Statements – 30 June 2018

Consolidated Statement of cash flows for the year ended 30 June 2018

Consolidated

	Note	2018 \$	2017 \$
Cash flows from operating activities			
Receipts from customers		123,989	1,774,548
Payments to suppliers and employees		(1,050,962)	(2,651,389)
Interest received		5,617	4,479
Interest and other costs of finance paid		(135,706)	(3,130)
Net cash inflow/(outflow) from operating activities	28	(1,057,062)	(875,492)
Cash flows from investing activities			
Payments for property plant and equipment		-	(192,782)
Net cash inflow/(outflow) from investing activities		-	(192,782)
Cash flows from financing activities			
Proceeds from share issue/share option		708,484	2,116,771
Share issue costs		(4,846)	(39,079)
Bill of exchange repayment		-	(1,535,539)
Lease capital repayment		(47,868)	(18,889)
Lease interest		(14,502)	(6,548)
Net cash inflow/(outflow) from financing activities		641,268	516,716
Net increase / (decrease) in cash and cash equivalents		(415,794)	(551,558)
Cash and cash equivalents at the beginning of the year		1,433,592	2,194,662
Effects of exchange rate changes on cash and cash equivalents		25,817	(209,512)
Cash and cash equivalents at the end of the year	9	1,043,615	1,433,592

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

China Magnesium Corporation Limited and its subsidiaries

Notes to the Consolidated Financial Statements - 30 June 2018

Notes to the consolidated financial statements

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China Magnesium Corporation Limited and its subsidiaries

Notes to the Consolidated Financial Statements - 30 June 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are for the consolidated entity consisting of China Magnesium Corporation Limited and its subsidiaries. The financial statements were authorised for issue on 25 September 2018 by the directors of the company.

(a) Basis of preparation

These consolidated general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. China Magnesium Corporation Limited is a for-profit entity for the purpose of preparing the financial statements.

i) Compliance with IFRS

Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

ii) Historical cost convention

These financial statements have been prepared under the historical cost convention.

iii) Critical accounting estimates

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

(b) Principles of consolidation

i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of the subsidiaries of China Magnesium Corporation Limited ("Company" or "parent entity") as at 30 June 2018 and the results of its subsidiaries for the year ended. China Magnesium Corporation Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries (as stated in note 26) are all those entities (including special purpose entities) over which the Group has control. The Group has control over an entity when the Group is exposed to, or has rights to variable returns from its investment with the entity and has the power to affect those returns.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 1(c)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Non-controlling interests in the results and equity of the subsidiaries are shown separately in the Consolidated Statement of Profit or Loss and other Comprehensive Income, Statement of Changes in Equity and Statement of Financial Position, respectively.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

ii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of China Magnesium Corporation Limited.

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(c) Business combinations

The acquisition method of accounting is used to account for all business combinations. Consideration is measured at the fair value of the assets transferred, liabilities incurred and equity interests issued by the Group on acquisition date. Consideration also includes the acquisition date fair values of any contingent consideration arrangements, any pre-existing equity interests in the acquiree and share-based payment awards of the acquiree that are required to be replaced in a business combination. The acquisition date is the date on which the Group obtains control of the acquiree. Where equity instruments are issued as part of the consideration, the value of the equity instruments is their published market price at the acquisition date unless, in rare circumstances it can be demonstrated that the published price at acquisition date is not fair value and that other evidence and valuation methods provide a more reliable measure of fair value.

Identifiable assets acquired and liabilities and contingent liabilities assumed in business combinations are, with limited exceptions, initially measured at their fair values at acquisition date. Goodwill represents the excess of the consideration transferred and the amount of the non-controlling interest in the acquiree over fair value of the identifiable net assets acquired. If the consideration and non-controlling interest of the acquiree is less than the fair value of the net identifiable assets acquired, the difference is recognised in profit or loss as a bargain purchase price, but only after a reassessment of the identification and measurement of the net assets acquired.

For each business combination, the Group measures non-controlling interests at either fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed when incurred.

(d) Associates

Associates are entities over which the consolidated entity has significant influence but not control or joint control. Investments in associates are accounted for using the equity method. Under the equity method, the share of the profits or losses of the associate is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in associates are carried in the statement of financial position at cost plus post-acquisition changes in the consolidated entity's share of net assets of the associate.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

When the consolidated entity's share of losses in an associate equals or exceeds its interest in the associate, the consolidated entity does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The consolidated entity discontinues the use of the equity method upon the loss of significant influence over the associate and recognises any retained investment at its fair value. Any difference between the associate's carrying amount, fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

(e) Segment reporting

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision maker) in assessing performance and determining the allocation of resources. Operating segments are determined on the basis of financial information reported to the Board which is at the Group level. Accordingly, management currently identifies the Group as having only one reportable segment, being the processing and sale of magnesium, coke, fertilisers and related products.

There have been no changes in the operating segments during the year. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the consolidated entity as a whole.

(f) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is China Magnesium Corporation Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation. All foreign exchange gains and losses are presented in the profit or loss on a net basis within income or expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

(iii) Group companies

The functional currency of the overseas subsidiaries is Chinese Renminbi or United States Dollar. The results and financial position of foreign operations (none of which has the currency of a

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each Statement of Financial Position presented are translated at the closing rate at the date of that Statement of Financial Position;
- income and expenses for each Statement of Profit or Loss and other Comprehensive Income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

(g) Revenue recognition

The Group recognises revenue when a performance obligation is satisfied by transferring a promised good or service to a customer. Revenue is measured at the amount of the transaction price that is allocated to the performance obligation. The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognised for the major business activities as follows:

(i) Sale of magnesium, coke, fertilisers and related products

The Group sells magnesium, magnesium alloys, coke products, fertilisers and related products. Domestic and export sales of goods are recognised when a Group entity has delivered products to the purchaser or, in the case of export sales, free on board and there is no unfulfilled obligation that could affect the purchaser's acceptance of the products. Delivery does not occur until the products have been shipped to the specified delivery location or vessel, the risks of obsolescence and loss have been transferred to the purchaser, and either the purchaser has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

(ii) Interest

Interest income is recognised using the effective interest method.

(h) Income Tax

The income tax expense or income for the year is the tax payable on the current year's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Deferred tax liabilities and assets are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(i) Leases

The group, as a lessee, recognises assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Right of use assets and the corresponding liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows.

(j) Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(k) Cash and cash equivalents

For Statement of Cash Flow presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown in current liabilities on the Statement of Financial Position.

(l) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the receivable is impaired. The amount of the impairment allowance is the

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss. When a receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

(m) Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure - the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(n) Investments and other financial assets

Classification

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets.

ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES **(Continued)**

Recognition and de-recognition

Regular purchases and sales of financial assets are recognised on trade date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss, are initially recognised at fair value and transaction costs are expensed. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Measurement

After initial recognition, loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Available-for-sale financial assets are carried at fair value.

Impairment of Financial Assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

(o) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting year in which it is incurred.

Depreciation is calculated using the straight-line method to allocate the cost or revalued amounts, net of their residual values, over the estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

- Buildings 25-40 years
- Plant and equipment 3-15 years
- Vehicles 5-8 years
- Leasehold land 50 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

(p) Impairment testing of other intangible assets and property, plant and equipment

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Cash-generating units or other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to dispose (FVLCD) and value-in-use. Management has determined FVLCD from an independent valuation on plant and equipment valuation conducted by a Beijing accounting firm. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows.

The data used for impairment testing procedures are directly linked to the Group's latest approved budget. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors. Impairment losses for cash-generating units is charged pro rata to the other assets in the cash generating unit. All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash generating unit's recoverable amount exceeds its carrying amount.

(q) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the year which are unpaid. The amounts are unsecured and are usually paid within 30 – 60 days of recognition. Amounts received in respect of subscriptions for the issue of shares in the Company are also included in trade and other payables until the shares are issued.

(r) Borrowings

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the loans and borrowings using the effective interest method. Fees paid for establishing loan facilities are recognised as transaction costs if it is probable that some or all of the facility will be drawn down and deferred until the draw down occurs. If it is not probable that the facility will be drawn down, fees are capitalised as prepayments for liquidity services and amortised over the period to which the facility relates.

Borrowings are derecognised from the statement of financial position when the obligation specified in the contract has been discharged, cancelled or expires. The difference between the carrying amount of the borrowing derecognised and the consideration paid is recognised in profit or loss as other income or finance costs

Where the terms of a borrowing are renegotiated and the group issues equity instruments to a creditor to extinguish all or part of a borrowing, the equity instruments issued as part of the debt for equity swap are measured at the fair value of the equity instruments issued, unless the fair value cannot be measured reliably, in which case, they are measured at the fair value of the debt extinguished. The difference between the carrying amount of the debt extinguished and the fair value of the equity instruments issued is recognised as a gain or loss in profit or loss.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES **(Continued)**

All borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(s) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(t) Employee benefits

i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. All other short-term employee benefit obligations are presented as payables.

ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the reporting period. They are recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and years of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

iii) Termination benefits

The Group recognises termination benefits as an expense and a liability on the earlier of when the Group:

- can no longer withdraw the offer and the benefits; and
- recognises costs for restructuring under AASB137 Provisions, Contingent Liabilities and Contingent Assets which involves the payment of termination benefits. Benefits falling due more than 12 months after the end of the reporting period are discounted to the present value.

(u) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Where any Group company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of China Magnesium Corporation Limited as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of China Magnesium Corporation Limited.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES **(Continued)**

(v) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Group, on or before the end of the financial year but not distributed at reporting date.

(w) Earnings per share

i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(x) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. Where the GST is not recoverable from the taxation authority it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(y) New accounting standards and interpretations

The Group chose to early adopt AASB 15: Revenue from Contracts with Customers and AASB 16: Leases. The date of initial application for both these standards was 1 July 2016.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Accounting Standards issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

- AASB 9: *Financial Instruments* and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018).

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of the Standard, the application of such accounting would be largely prospective.

The directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments. The Group's exposure to financial instruments, mainly comprising trade and other payables and borrowings are shown in Note 2(e). In the current financial year, the Group has not carried out an assessment of any potential impact.

(z) Rounding of amounts

The Company is a type of Company referred to in ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191, and therefore the amounts contained in this Directors' Report and the Financial Report have been rounded to the nearest \$1,000 or to the nearest Dollar.

(aa) Significant management judgement in applying accounting policies and estimation uncertainty

Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Impairment (Note 14)

Plant & equipment impairment was determined using a cost approach under AASB 13, from an independent valuation conducted by a Beijing accounting firm as detailed in Note 14. Given the uncertainty of the timing of recommencement of production a value in use approach was not considered appropriate

Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and equipment.

VAT receivable

VAT receivable will only be recovered once the Group generates sufficient income in China.

NOTE 2: FINANCIAL RISK MANAGEMENT

(a) General Objectives, Policies and Processes

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

The principal financial instrument risks, as detailed in Note 2(e) are:

Cash and cash equivalents	Trade and other receivables
Secured loans	Trade and other payables

The Board has overall responsibility for the determination of the Group's risk management objectives and policies.

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and price risks and aging analysis for credit risk.

Risk management is carried out under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as, interest rate risk, credit risk and investment of excess liquidity.

(b) Market risk

Market risk arises from the use of interest bearing and foreign currency financial instruments. It is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) and foreign exchange rates (currency risk). Cash and a secured loan are the only financial instruments of the Group that are subject to interest rate risk. Cash earns interest at a standard variable rate and the secured loan bears interest at a variable rate.

Foreign currency risk arises from the Group's investment in its foreign controlled subsidiaries. The currency in which transactions with these investments are primarily denominated is the Chinese Renminbi, United States Dollar and Singapore Dollar. The Group's investment in its subsidiaries is not hedged.

(c) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposure to the Chinese Renminbi, Singapore Dollar and the United States Dollar.

Foreign exchange risk arises in particular from the Group's loans, payables and commitment for capital expenditure that is denominated in Chinese Renminbi that is not offset by financial assets denominated in Chinese Renminbi. The Group's exposure to such expenditure at 30 June 2018 was AUD \$5,753,196 (2017: AUD \$4,064,048).

	10% Increase/decrease		Effects of exchange rate changes	
Net Payables and Capex Commitments in RMB	4.8633	A\$5,753,196		
AUD change by 10%+	5.3496	A\$5,230,178	(A\$523,018)	Increase in OCI
AUD change by 10%-	4.3770	A\$6,392,440	A\$639,244	Decrease in OCI

China Magnesium Corporation Limited and its subsidiaries

Notes to the Consolidated Financial Statements - 30 June 2018

NOTE 2: FINANCIAL RISK MANAGEMENT (Continued)

Foreign exchange risk arises from the Group's cash holdings in Singapore Dollars and Canadian Dollars. At 30 June 2018 the Group held AUD\$287,674 in Singapore Dollars (2017: AUD\$99,706) and AUD\$326,170 in Canadian Dollars (2017: AUD\$768,704). Foreign exchange risk also arises from the Group's cash holdings and trade receivables in United States Dollars. At 30 June 2018 the Group had cash holdings and receivables of AUD\$81,246 in United States Dollars (2017: AUD\$225,705).

	10% Increase/decrease		Effects of exchange rate changes	
Cash holdings in SGD	1.0094	A\$287,674		
AUD change by 10%+	1.1103	A\$261,522	(A\$26,152)	Decrease in OCI
AUD change by 10%-	0.9084	A\$319,638	A\$31,964	Increase in OCI
Cash holdings in CAD	1.000	A\$326,170		
AUD change by 10%+	1.100	A\$296,518	(A\$29,652)	Decrease in OCI
AUD change by 10%-	0.900	A\$362,411	A\$36,241	Increase in OCI
Cash holdings & others in USD	0.7407	A\$81,246		
AUD change by 10%+	0.8148	A\$73,860	(A\$7,386)	Decrease in OCI
AUD change by 10%-	0.6666	A\$90,274	A\$9,027	Increase in OCI

(d) Credit risk

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Group incurring a financial loss. The maximum exposure to credit risk at reporting date is the balances recognised in cash and trade and other receivables. Cash is deposited with major banks in Australia, (National Australia Bank and Bank of China), China (China Construction Bank), and Singapore (United Overseas Bank and CIMB Bank Berhad).

(e) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The objective of managing liquidity risk is to ensure, as far as possible, that the Group will always have sufficient liquidity to meet its liabilities when they fall due.

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through access to debt or equity funding sources. The Group manages liquidity risk by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Maturities of financial assets and liabilities

The table below analyses the Group's financial assets and liabilities into relevant maturity groupings based on the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, other than Borrowings which are recorded at carrying value as the Fengyan facility provided under the 17 December 2013 Investment and Cooperation Agreement does not have a contractual maturity date.

Consolidated 2018	\$	\$	\$	\$
Liabilities	0 to 6 months	6 to 12 months	12 to 60 months	Carrying Amount
Others	78,298	-	96,971	175,269
Borrowings	-	-	1,555,528	1,555,528
Trade and other payables	1,638,901	-	6,775,395	8,414,296
	1,717,199	-	8,427,894	10,145,093
Consolidated Restated 2017	\$	\$	\$	\$
Liabilities	0 to 6 months	6 to 12 months	12 to 60 months	Carrying Amount
Others	289,576	-	144,838	434,414
Borrowings	-	-	1,320,464	1,320,464
Trade and other payables	545,217	-	5,647,570	6,192,787
	834,793	-	7,112,872	7,947,665

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2018

NOTE 2: FINANCIAL RISK MANAGEMENT (Continued)

Consolidated 2018	\$	\$	\$	\$
Assets	0 to 6 months	6 to 12 months	12 to 60 months	Carrying Amount
Current assets	2,078,201	-	-	2,078,201
Non-current assets	-	-	18,094,470	18,094,470
	2,078,201	-	18,094,470	20,172,671
Consolidated Restated 2017	\$	\$	\$	\$
Assets	0 to 6 months	6 to 12 months	12 to 60 months	Carrying Amount
Current assets	2,666,414	-	-	2,666,414
Non-current assets	-	-	17,647,524	17,647,524
	2,666,414	-	17,647,524	20,313,938

(f) Fair value

The carrying value of cash and cash equivalents, receivables, payables and borrowings are assumed to approximate their fair values due to their short-term nature.

NOTE 3: GOING CONCERN

The Directors have prepared the financial report on a going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the normal course of business.

The Group incurred a net loss of \$3,100,137 and an operating cash outflow of \$1,057,062 for the financial year ended 30 June 2018. At that date the Group was in a net current asset position of \$361,002. Included in net current assets is VAT receivable of \$814,904 that will only be recovered once the Group generates sufficient income in China.

Also included in net assets are trade creditors of \$3,029,219 which the Group has entered into formal arrangements to extend payment terms for work completed up to 1 year after the commencement of production. The Group also has \$2,092,125 capital commitments in relation to its Pingyao operations. Further details are provided in Note 24.

In the course of the prior financial year CMC completed the Pingyao operating plant and commenced the process of facility firing in April 2017 to commence production in May 2017. In April 2017 SYMC (the operating subsidiary of CMC based at Pingyao) management were informed that production was to immediately cease pursuant to action by the Minister of Environmental Protection to effect measures to ensure compliance with emissions standards. These measures were focussed on a variety of production plants in Beijing, Tianjin, Hebei, Shanxi and surrounding provinces including magnesium plants.

The Pingyao plant was built to significantly higher standards with respect to waste disposal / emission control, has converted its energy source to waste gas, and has been granted preferred project status in Shanxi Province.

NOTE 3: GOING CONCERN (continued)

The Pingyao operation was powered down and remains in pre-production state. Management have been proactive in confirming with EPP and other producers the discharge limits for the specifications relevant to the Pingyao plant, and initiating relevant additional scoping work to ensure continued compliance with EPP emission standards.

CMC is confident that the Pingyao plant will satisfy the disposal/emission specifications and thereby pass the inspection and review by the expert environmental team as the prerequisite for production recommencement. SYMC management has conservatively projected additional initial emission discharge control work will be completed for production resumption by April 2019 at the total cost of \$1.1M.

Monitoring of environmental discharge is anticipated to be effected by controls within all relevant plants with regular reporting thereon to the EPP, together with physical inspection on an ongoing basis. Management do not anticipate further plant closures pursuant to environmental issues.

In forming a view that the Group is a going concern, the directors have assumed:-

- Continued financial support from creditors who have agreed to extended terms of payment;
- Access to funding from capital raising completed;
- Fengyan continuing to provide working capital facilities to SYMC pursuant to the Investment and Co-Operation Agreement announced 17 December 2013
- Production commences at Pingyao by for MgLi by 30 September 2018 and magnesium production by 30 April 2019.

Should any of the above assumptions not eventuate, there exists a material uncertainty regarding the Company's and Group's ability to continue as a going concern and realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial statements.

If production were not to commence, there would be risks of further impairment in Property, Plant and Equipment.

No adjustment has been made to the financial statements relating to the recoverability and classification of the assets and the carrying amount and classification of the liabilities should the directors' assumptions not eventuate.

NOTE 4: SEGMENT INFORMATION

(a) Description of segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision maker) in assessing performance and determining the allocation of resources. Operating segments are determined on the basis of financial information reported to the Board, which is at the Group level. Accordingly, management currently identifies the Group as having only one reportable segment, being the processing and sale of magnesium, coke, fertilisers and related products.

During the year, the Group equity account the results of an associate, which is involved in preliminary exploration of lithium. CMC's executive management do not intend to be involved with the management of the project, other than contributing to the overall strategy and early establishment of key personnel. Hence, the relevant financial results are incorporated in the financial statements of the consolidated entity as a whole.

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2018

NOTE 4: SEGMENT INFORMATION (continued)

(b) Entity-wide disclosures

Consolidated revenues from each product or service;

	Magnesium, coke, fertilisers and related products	Other revenue	Total
	\$	\$	\$
2018	-	293,928	293,928
2017	354,862	1,480,000	1,834,862

During the year Nil (2017: \$354,862) revenue was derived from trading activities of magnesium, coke, fertilisers and related products conducted through the subsidiaries. The value for the Group's property, plant and equipment net of depreciation at \$14,697,503 (2017: \$15,085,404) are located in the People's Republic of China.

NOTE 5: REVENUE AND OTHER INCOME

	Consolidated 2018 \$	2017 \$
Revenue from sale of magnesium, fertilisers and related products	-	354,862
Marketing support fee	-	1,480,000
Management fee (a)	20,000	-
Other income (b)	68,462	-
Earnest money forfeited (c)	199,374	-
Interest	6,092	4,479
Total revenue and other income	293,928	1,839,341

- (a) The management fee was from CMC (associate) \$5,000 monthly effective March 2018;
(b) Other income was attributable to costs recovery from CMC Lithium Pty Ltd and
(c) Earnest money of \$199,374 (RMB1 million), held as a deposit in the prior period, was forfeited by the counterparty to the Framework agreement for Lithium business, due to not satisfying the conditions by the agreed date.

NOTE 6: SIGNIFICANT INCOME AND EXPENSES

Expenses	2018 \$	2017 \$
<i>Depreciation</i>		
Buildings	145,967	24,312
Vehicles	-	-
Plant and equipment	191,410	240,886
<i>Amortisation</i>		
Leasehold Land	29,483	29,007
Quarry	20,074	59,251
Total depreciation and amortisation	386,934	353,456

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2018

NOTE 6: SIGNIFICANT INCOME AND EXPENSES (continued)

	2018 \$	2017 \$
Rental expense, including lease interest and amortisation of right to use asset	71,305	72,404
Plant & equipment impairment (a)	1,739,840	-
Quarry impairment (b)	599,107	-
Income		
Gain on derecognition of liability (b)	386,800	-
Gain from loss of control of subsidiary (c)	690,000	-

- (a) Plant & equipment impairment was determined using a cost approach under AASB 13, from an independent valuation conducted by a Beijing accounting firm as detailed in Note 14. Given the uncertainty of the timing of recommencement of production a value in use approach was not considered appropriate;
- (b) On 31 July 2017 the mining licence of Jiexiu Baiyun Quarry was cancelled. Impairment of quarry assets at carrying value of \$76,222 (RMB401,214) and land use and mining rights of \$522,385 (RMB2,731,800) have been brought to account. Also, the \$386,800 (RMB 2M) that would be payable on renewal of quarry licence, which did not happen, has been derecognised;
- (c) On 31 January 2018 the Company divested 60% of its interest in CMC Lithium. The loss of control gave rise to a fair value gain of \$690,000. The fair value gain was measured by reference to the cash equity contribution made by the counter-party to the agreement that resulted in loss of control.

NOTE 7: INCOME TAX BENEFIT

	Consolidated 2018 \$	2017 \$
(a) Income tax benefit		
Current tax	(1,086,695)	(479,691)
Deferred tax	1,086,695	479,691
Income tax benefit	-	-
(b) Reconciliation of income tax benefit to prima facie tax payable		
Profit/(loss) from continuing operations before income tax expense	(3,100,137)	(986,526)
Tax at the Australian tax rate of 27.5% (2017:27.5%)	(852,538)	(271,295)
Foreign exchange translation differences	(204,239)	(24,849)
Other permanent differences	-	-
	(204,239)	(24,849)
Difference in overseas tax rate	123,900	60,364
Tax losses not recognised	1,075,852	472,349
Under/(over) provision from prior years	(142,975)	(236,569)
Income tax expense/(credit)	-	-
(c) Unrecognised deferred tax assets		
Deferred tax assets at the applicable tax rate have not been recognised for the following:		
Unused tax losses	4,789,447	3,845,728
Deductible temporary differences	65,400	75,137
	4,854,847	3,920,865

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2018

NOTE 8: INVESTMENT ACCOUNTED FOR USING EQUITY METHOD

Name	Principal activities /Country of incorporation	Ownership Interest	
		2018 %	2017 %
CMC Lithium Pty Ltd	Preliminary exploration for lithium / Australia	40%	100%
			2018 \$'000
<i>Summarised statement of financial position</i>			
Current assets			913
Non-current assets			700
Total assets			1,613
Current liabilities			41
Non-current liabilities			-
Total liabilities			41
Net Assets			1,572
<i>Summarised statement of profit or loss and other comprehensive income</i>			
Revenue			-
Expenses			(137)
Profit / (loss) before income tax			(137)
Income tax expense			-
Profit / (loss) after income tax			(137)
Other comprehensive income			-
Total comprehensive income			(137)
<i>Reconciliation of the consolidated entity's carrying amount</i>			
Opening carrying amount			700
Share of loss after income tax			(55)
Closing carrying amount			645

No comparatives have been presented in the table above as the results of the associate were equity accounted effective from 31 January 2018. This was the date CMC lost the control, giving rise to a gain as disclosed in Note 6 (c)

NOTE 9: CASH AND CASH EQUIVALENTS

	Consolidated	
	2018 \$	2017 \$
Cash at bank and in hand	961,819	1,151,612
Deposits at call	81,796	281,980
	1,043,615	1,433,592

Cash at bank and in hand earn interest rates between zero and 1.0% (2017: zero and 1.0%).
Deposits at call earn a floating interest rate of around 1% (2017: 1%).

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2018

NOTE 10: TRADE AND OTHER RECEIVABLES

	2018 \$	2017 \$
Trade debtors	-	-
Other debtors	954,319	1,087,219
	<u>954,319</u>	<u>1,087,219</u>

NOTE 11: INVENTORIES

	2018 \$	2017 \$
Raw materials	<u>80,267</u>	<u>145,603</u>

Inventory expense: Inventories recognised as expense during the year ended 30 June 2018 amounted to \$25,200 (2017 – \$59,551). Expendable

NOTE 12: PREPAYMENT

	2018 \$	2017 \$
Prepayment – non-current	<u>2,607,120</u>	<u>2,350,990</u>

NOTE 13: LEASES

The Group chose to early adopt AASB 16 Leases in the prior period. On 1 February 2017 the Group has entered a property lease arrangement for 2 years with a further 2-year option, which is accounted for in accordance with this standard.

Right to use leased assets	2018 \$	2017 \$
Non-current	144,596	201,130
Lease liabilities		
Current	61,050	61,050
Non-current	96,971	144,838
	Current Period \$	Within 12 Months \$
Cash lease payments	62,370	108,069
Present value of lease payments	56,658	86,146
Lease expense recognised		Within 2-5 years \$
Interest	14,502	10,327
Amortisation	56,533	89,511
Total charge to profit or loss	71,035	99,838

China Magnesium Corporation Limited and its subsidiaries

Notes to the Consolidated Financial Statements - 30 June 2018

NOTE 14: PROPERTY, PLANT AND EQUIPMENT

Consolidated	Assets under construction	Leasehold Land	Quarry	Buildings	Vehicles	Plant & equipment	Total
	\$	\$	\$	\$	\$	\$	\$
Year ended 30 June 2018							
Measurement basis	Cost	Cost	Cost	Cost	Cost	Cost	
Opening net book amount	11,020,183	1,247,921	524,412	234,266	(456)	2,059,078	15,085,404
Transfer to/from other accounts	(4,731,258)	-	74,423	5,095,823	-	(438,988)	-
Exchange differences	712,743	87,824	20,346	36,138	456	463,731	1,321,238
Additions	1,016,742	-	-	-	-	-	1,016,742
Impairment *	(1,739,840)	-	(599,107)	-	-	-	(2,338,947)
Depreciation / amortisation	-	(29,483)	(20,074)	(145,967)	-	(191,410)	(386,934)
Closing net book amount	6,278,570	1,306,262	-	5,220,260	-	1,892,411	14,697,503
At 30 June 2018							
Cost	8,018,410	1,521,896	-	5,524,045	-	3,438,187	18,502,538
Accumulated depreciation	-	(215,634)	-	(303,785)	-	(1,545,776)	(2,065,195)
Impairment *	(1,739,840)	-	-	-	-	-	(1,739,840)
Net Book amount	6,278,570	1,306,262	-	5,220,260	-	1,892,411	14,697,503
Restated 30 June 2017							
Opening net book amount	10,342,039	1,367,074	652,803	272,580	14,710	2,326,204	14,975,410
Exchange differences	(594,514)	(90,146)	(69,140)	(14,003)	(15,165)	(31,829)	(814,797)
Additions	1,272,658	-	-	-	-	5,589	1,278,247
Disposals	-	-	-	-	-	-	-
Depreciation / amortisation	-	(29,007)	(59,251)	(24,312)	-	(240,886)	(353,456)
Closing net book amount	11,020,183	1,247,921	524,412	234,265	(455)	2,059,078	15,085,404
Restated 30 June 2017							
Cost	11,020,183	1,420,648	815,659	399,676	73,247	3,470,236	17,199,649
Accumulated depreciation / amortisation	-	(172,727)	(291,247)	(165,410)	(73,703)	(1,411,158)	(2,114,245)
Net Book amount	11,020,183	1,247,921	524,412	234,266	(456)	2,059,078	15,085,404

* The Pingyao plant has been unable to commence production due to changes in the environmental regulation in China. Accordingly, CMC has recognised an impairment for the following assets as disclosed in Note 6. For assets under construction, the total impairment of \$1,739,840 is based on an independent report by a Beijing accounting firm. The recoverable amount was determined on a fair value less costs of disposal basis using the cost approach pursuant to an onsite plant and equipment review.

On 31 July 2017 the mining licence of Jiexiu Baiyun Quarry was cancelled. Accordingly, CMC has impaired \$599,107 as at 31 July 2017 relating to the intangible quarry assets at their carrying value of \$76,722 (RMB 401,214), intangible land use and mining rights \$522,385 (RMB 2,731,800).

Assets at fair value by level of the fair value hierarchy:

Level 2 – non-recurring	6,278,570	-	-	-	-	-	6,278,570
Fair value at 30 June 2018	6,278,570	-	-	-	-	-	6,278,570

No comparatives for fair value by level of the fair value hierarchy in FY 2017 as the impairment on assets under construction, based on AASB 13, relates to initial adjustments in FY 2018. Hence, there was no transfers to/from the Level 2 fair value hierarchy. The impairment is in respect of the sole reportable segment, being the processing and sale of magnesium, coke and related products. The recoverable amount of Assets under Construction is its fair value less costs of disposal.

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2018

NOTE 15: TRADE AND OTHER PAYABLES

	2018 \$	Restated 2017 \$
Current:		
Trade payables	-	-
Other payables and accruals	1,638,901	545,217
	<u>1,638,901</u>	<u>545,217</u>
Non-Current:		
Trade payables	3,029,219	2,827,071
Other payables	3,746,176	2,820,499

Non-current trade payables include creditors who have agreed to extended terms, due for payment 12 months after magnesium production commences. Non-current other payables relate to working capital support rendered by Fengyan Group at 0% interest, based on the Investment & Cooperation Agreement dated 17 December 2013.

NOTE 16: PRIOR YEAR RESTATEMENT

In preparing the financial statements for the period ended 30 June 2018, the directors became aware that certain accrued payables initially recognised in June 2015 relating to assets under construction were erroneously recognised. This represents a prior period accounting error which has been accounted for retrospectively in the financial statements. Pursuant to AASB 108, the error has been brought to account, resulting in a decrease of \$1,364,865 for both payables and non-current assets, with the net assets unaffected.

Consolidated statement of financial position
30 June 2017

	As previously stated \$	Restatement \$	As restated \$
Current assets	2,666,414		2,666,414
Non-current assets	19,012,389	1,364,865	17,647,524
Total assets	21,678,803		20,313,938
Current liabilities	2,199,658	1,364,865	834,793
Non-current liabilities	7,112,872		7,112,872
Total liabilities	9,312,530		7,947,665
Net assets	12,366,273		12,366,273
Contributed equity	23,189,218		23,189,218
Reserves	3,396,229		3,396,229
Accumulated reserves	(14,271,828)		(14,271,828)
Equity attributable to owners	12,313,619		12,313,619
Non-controlling interest	52,654		52,654
Total equity	12,366,273		12,366,273
30 June 2016			
Total assets	21,950,778	1,364,865	20,585,913
Total liabilities	10,096,352	1,364,865	8,731,487
Net assets	11,854,426		11,854,426

NOTE 17: BORROWINGS

	2018 \$	2017 \$
Borrowings (include interest accrued)	1,555,528	1,320,464

Fengyan Group provides borrowings of \$1,028,108 (RMB 5 million) at interest rate of 13.68% annually. The facility is for the construction of new plant provided pursuant to the 17 December 2013 Investment and Cooperation Agreement

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2018

NOTE 18: OTHER LIABILITIES

	2018 \$	2017 \$
Refundable deposits	-	199,374

NOTE 19: EMPLOYEE BENEFITS

	2018 \$	2017 \$
Current employee benefits	17,248	29,152

NOTE 20: CONTRIBUTED EQUITY

		Consolidated 2018 Shares	2017 Shares	Consolidated 2018 \$	2017 \$
(a) Share capital					
Ordinary shares fully paid		314,897,034	279,693,676	23,892,855	23,189,218
(b) Movements in ordinary share capital					
Date	Details	Number of shares	*Issue price	\$	
30 June 2016	Balance	195,022,849		21,111,526	
30 November 2016	Share placement	84,670,827	0.025	2,116,771	
	Share issue transaction costs	-	-	(39,079)	
As at 30 June 2017		279,693,676		23,189,218	
30 November 2017	Options	12,445	0.050	622	
22 June 2018	Share placement	35,190,913	0.020	707,862	
	Share issue transaction costs	-	-	(4,847)	
As at 30 June 2018		314,897,034		23,892,855	

* Issue price rounded to three decimal places

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

(d) Shares in escrow

There were no shares in escrow at 30 June 2018 (2017: nil).

(e) Contributed equity

During the year the company issued 35,203,358 (2017: nil) ordinary shares comprising:

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2018

NOTE 20: CONTRIBUTED EQUITY (continued)

[i] a pro rata non-renounceable rights issue of fully paid ordinary shares at \$0.025 each offered on the basis of one (1) new share for every 2.4378 shares held, together with one (1) free listed option for every two (2) shares issued (exercisable at \$0.05 on or before 8 December 2017) for every new share offered. Pursuant to this the company issued 12,445 (2017: nil) ordinary shares with capital raised \$622 and costs of \$803.

[ii] a placement of fully paid ordinary shares at \$0.02 each. Pursuant to this the company issued 35,190,913 (2017: nil) ordinary shares with capital raised of \$707,862 and costs of \$4,043.

(f) Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

NOTE 21: RESERVES

	2018 \$	Consolidated 2017 \$
Foreign currency translation reserve	2,928,987	2,877,299
Change of interest in subsidiary reserve	518,930	518,930
Total reserves	<u>3,447,917</u>	<u>3,396,229</u>

(i) Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences on translation of the foreign controlled subsidiaries. Amounts are reclassified to profit or loss when the investment is disposed of.

(ii) Change of interest in subsidiary reserve

The change of interest in subsidiary reserve is used to record differences which may arise as a result of increases or decreases in non-controlling interests that do not result in a loss of control

NOTE 22: REMUNERATION OF AUDITORS

	2018 \$	Consolidated 2017 \$
Audit and review of financial statements		
ShineWing Australia	-	39,973
Grant Thornton Australia	55,000	35,000
Overseas Grant Thornton network firms	40,000	38,500
Audit and review of financial statements	<u>95,000</u>	<u>113,473</u>

There have been no non-audit services during the year.

China Magnesium Corporation Limited and its subsidiaries

Notes to the Consolidated Financial Statements - 30 June 2018

NOTE 23: CONTINGENCIES

On 1 March 2016 CMC signed a conditional agreement with Taiyuan Hailifeng Science & Technology Co. Ltd for the 20 year lease of business and production facilities in Taiyuan, Shanxi Province and Shandong, Shandong Province.

The conditions for completion were unable to be satisfied and the agreement was cancelled on 3 August 2018. No financial impact on CMC is anticipated.

NOTE 24: COMMITMENTS

(a) Capital commitments

The Group had the following commitments in relation to capital expenditure contracted for at the reporting date but not recognised as liabilities, payable:	2018 \$	2017 \$
Within one year	1,100,000	-
Later than one year but no later than five years	992,125	926,121
Later than five years	-	-
	2,092,125	926,121

(b) Mortgage Guarantee

Shanxi Yushun Magnesium Corporation Ltd (SYMC), a 91.25% owned subsidiary of China Magnesium Corporation Limited, has entered into 2 mortgage guarantee agreements.

Both the mortgage guarantees are in favour of Shanxi Pingyao Rural Commercial Bank Co. Ltd against registered mortgages with Pingyao Fengyan Coal & Coke Group Co Ltd. (Fengyan). The mortgage guarantee agreements are for the term 22 December 2015 to 21 December 2018 for up to RMB 26,100,000 (AUD \$5,220,000).

At the date of the Directors Report neither SYMC nor the Company are aware of any act of default by Fengyan under the registered mortgages.

NOTE 25: RELATED PARTY TRANSACTIONS

(a) Parent entity

The parent entity within the Group is China Magnesium Corporation Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 27.

(c) Associates

CMC Lithium Pty Ltd become an associate effective 1 February 2018. Details are set out in note 8.

(d) Key management personnel

	Consolidated	
	2018 \$	2017 \$
Short term employee benefits	1,140,475	1,101,823
Post-employment benefits	16,693	10,677
	1,157,168	1,112,500

For details of transactions that key management personnel and their related entities had with the Group during the year refer to the Remuneration Report.

China Magnesium Corporation Limited and its subsidiaries

Notes to the Consolidated Financial Statements - 30 June 2018

NOTE 26: PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ended 30 June 2018 the parent entity of the Group was China Magnesium Corporation Limited. The following information relates to the parent entity and has been prepared using accounting policies that are consistent with those presented in Note 1.

a) Summarised financial information

Result of parent entity	2018 \$	2017 \$
Profit / (loss) for the year after tax	1,262,592	860,251
Other comprehensive income	-	-
Total comprehensive income for the year	1,262,592	860,251
Financial position of parent entity at year end		
Current assets	13,781,123	11,936,925
Non-current assets	9,976,123	9,332,656
Total assets	23,757,246	21,269,581
Current liabilities	1,313,056	205,888
Non-current liabilities	158,021	743,753
Total liabilities	(1,471,077)	(949,641)
Net assets	22,286,169	20,319,940
Contributed equity	23,892,854	23,189,217
Accumulated (losses)	(1,606,686)	(2,869,277)
Total equity	22,286,168	20,319,940

b) Guarantees entered into by the parent entity

The parent entity has not entered into any guarantees in respect of its subsidiaries (2017 – nil).

c) Contingent liabilities

The Group is not aware of any contingent liability, other than as disclosed at Note 23.

d) Contractual commitments

Nil (2017 – nil)

NOTE 27: SUBSIDIARIES AND TRANSACTIONS WITH NON-CONTROLLING INTERESTS (NCI)

Interests in subsidiaries

Information relating to the group's interests in principal subsidiaries at 30 June 2018 is set out below:

Name of entity	Country of incorporation	Group holding 2018 %	Group holding 2017 %	NCI holding 2018 %	NCI holding 2017 %
Shanxi Yushun Magnesium Corporation	China	91.25	91.25	8.75	8.75
CMC Commodities Pte Ltd	Singapore	100.00	100.00	0.00	0.00
CMC Commodities Pty Ltd	Australia	100.00	100.00	0.00	0.00

Shanxi Yushun Magnesium Corporation (SYMC), is a Sino-foreign joint venture entity. CMC Commodities Pte Ltd is a proprietary limited company, incorporated in Singapore. CMC Commodities Pty Ltd is incorporated in Australia.

Non-controlling interests (NCI)

Below is the summarised financial information for each subsidiary that has non-controlling interests that are material to the group. Amounts disclosed are before inter-company eliminations.

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2018

NOTE 27: SUBSIDIARIES AND TRANSACTIONS WITH NON-CONTROLLING INTEREST (NCI) (continued)

Summarised statement of financial position	SYMC 2018 \$	SYMC 2017 \$
Current assets	3,995,017	5,482,973
Non-current assets	14,169,143	15,798,808
Total assets	18,164,160	21,281,781
Current liabilities	(371,391)	(1,391,302)
Non-current liabilities	(20,193,515)	(18,255,332)
Total liabilities	(20,564,906)	(19,646,634)
Net assets	(2,400,746)	1,635,147
Accumulated NCI	(210,065)	143,075

Summarised statement of profit or loss and other comprehensive income

Loss for the period	4,165,479	1,580,852
Other comprehensive income	(69,908)	227,574
Total comprehensive income	4,095,571	1,808,426

Summarised cash flows

Cash flows from operating activities	(1,482,772)	(1,156,667)
Cash flows from investing activities	(695,291)	(1,430,597)
Cash flows from financing activities	2,155,446	2,618,680
Effect of exchange rate changes	312,105	72,811
Net increase/(decrease) in cash and cash equivalents	289,488	104,227

Potential restrictions

China's State Administration of Foreign Exchange (SAFE) is generally known to monitor and control companies' ability to convert and transfer currencies. Based on the anticipated transactions in the next 12 months, we do not expect to be affected by such potential restrictions. The carrying amount of cash in the consolidated financial statements on 30 June 2018 for which these restrictions apply is \$11,485 (2017: \$1,567,371)

NOTE 28: RECONCILIATION OF PROFIT / (LOSS) AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	Consolidated 2018 \$	2017 \$
(Loss) for the year	(3,100,137)	(986,526)
Depreciation and amortisation	386,934	353,455
Impairment - Quarry	599,107	-
Impairment - Plant & equipment	1,739,840	-
Gain on derecognition of liability	(386,800)	-
Consumables written off - Quarry	66,141	-
Amortisation of rights of use asset	56,533	23,387
Lease interest expense included in financing activities	14,502	6,548
Foreign exchange loss/(gain)	(747,068)	33,090
Decrease (increase) in trade and other receivables	234,820	(170,273)
Decrease (increase) in prepayments	-	(110,173)
Decrease (increase) in inventories	75,713	102,476
(Decrease) Increase in trade and other payables	15,988	(139,310)
(Decrease) Increase in other provisions	(12,635)	11,834
Net cash inflows / (outflows) from operating activities	(1,057,062)	(875,492)

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2018

NOTE 29: EARNINGS PER SHARE

	2018 Cents	2017 Cents
Basic earnings / (loss) per share	(1.0)	(0.3)
Diluted earnings / (loss) per share	(1.0)	(0.3)
	\$	\$
Net loss for the year attributable to owners of the parent used to calculate loss per share – basic and diluted	(2,735,658)	(848,201)
	Number	Number
Weighted average number of ordinary shares outstanding during the year used to calculate basic loss per share	280,568,625	243,969,546
Diluted earnings per share:- options over ordinary shares would decrease loss per share. No potential anti-dilutive ordinary shares	-	10,000,000
Weighted average number of ordinary shares outstanding during the year used to calculate diluted loss per share	280,568,625	253,969,546

NOTE 30: SUBSEQUENT EVENTS

Pursuant to the Pingyao plant production closure the Company has scoped additional work to enhance emissions standards compliance. Management project the cost of this work at \$1.1M.

On 3 August 2018, as the conditions for the lease and lease-back agreement with Taiyuan Hailifeng Science and Technology Co. Ltd were unable to be satisfied, the agreement was cancelled.

Except for the matters discussed above, no other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect:

- (a) the Group's operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the Group's state of affairs in future financial years.

China Magnesium Corporation Limited and its subsidiaries

Directors' Declaration - 30 June 2018

Directors' declaration

In the opinion of the directors:

- (a) The attached financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - i) Giving a true and fair view of the financial position as at 30 June 2018 and the performance for the year ended on that date of the consolidated entity; and
 - ii) Complying with Accounting Standards, *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - iii) Complying with International Financial Reporting Standards as disclosed in Note 1(a); 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; and
- (c) The audited Remuneration Report set out in the Directors' Report on pages 7 to 10 complies with Section 300A of the *Corporations Act 2001*.

The Directors have been given the declarations by the Chief Executive Officer and Comptroller as required by Section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.



Tom Blackhurst
Managing Director

Southport
25 September 2018

Independent Auditor's Report

To the Members of China Magnesium Corporation Limited

Report on the audit of the financial report

Qualified opinion

We have audited the financial report of China Magnesium Corporation Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the year ended on that date; and
- b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for qualified opinion

The Group's has made investment in property, plant and equipment assets as it increases the scale of the facility located in Pingyao, China. The carrying value of these assets is \$14,697,503. As disclosed in Note 3, the plant has been unable to commence production due to changes in the environmental regulation in China. As such, the Group has considered these assets for impairment. In the current year, the Group has taken an impairment of \$1,739,840 in relation to these assets. We have been unable to obtain sufficient, appropriate audit evidence about the assumptions made in determining the recoverable amount of these assets. In particular, the assertion concerning the expected compliance with the environmental regulations and the related timing of production commencement. Consequently, we were unable to determine whether any adjustments to the carrying amounts of property, plant and equipment assets or the impairment recognised in the current financial year were necessary.

Basis for qualified opinion (continued)

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Material uncertainty related to going concern

We draw attention to Note 3 in the financial statements, which indicates that the Group incurred a net loss of \$3,100,137 during the year ended 30 June 2018. As stated in Note 3, these events or conditions, along with other matters as set forth in Note 3(b), indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Other than the matters described in the *Basis for qualified opinion* and *Material uncertainty related to going concern* sections, we have determined there were no additional key audit matters to be communicated in our report.

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors' for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

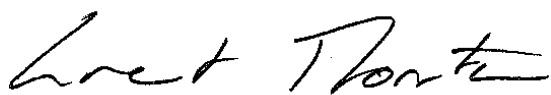
Opinion on the remuneration report

We have audited the Remuneration Report included in pages 7 to 10 of the Directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of China Magnesium Corporation Limited, for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



Grant Thornton Audit Pty Ltd
Chartered Accountants



A F Newman
Partner – Audit & Assurance

Brisbane, 25 September 2018

China Magnesium Corporation Limited and its subsidiaries

Corporate Directory

Shareholder information

Information required by Australian Securities Exchange Limited and not shown elsewhere in this report is as follows:-

STATEMENT OF QUOTED SECURITIES AS AT 31 AUGUST 2018

(a) Distribution of equity securities

Analysis of number of equity security holders by size of holding:

Size of holding	Number of Shareholders
100,001 and Over	155
10,001 - 100,000	239
5,001 - 10,000	63
1,001 - 5,000	53
1 - 1,000	19
Total	529

There were 184 holders of less than a marketable parcel of ordinary shares.

(b) Quoted Equity security holders

Twenty largest quoted equity security holders

<u>Name</u>	<u>Quoted Ordinary Shares Held</u>	<u>Percentage of Issued Shares</u>
MR TOM BLACKHURST	46,379,404	14.73%
SHANXI PINGYAO FENGYAN COAL & COKE GROUP CO LTD	34,915,062	11.09%
MR XINPING LIANG	34,435,730	10.94%
MR GUICHENG JIA	16,922,472	5.37%
MR JIEPENG WU	15,473,920	4.91%
MR CHIN LENG ZACCHEUS PEH	15,000,000	4.76%
MR MING LI	12,000,000	3.81%
MR ONG HOCK SEONG	9,189,848	2.92%
MS VERA LIM HUI	8,500,000	2.70%
MR FENGLIN WANG	7,736,960	2.46%
MS HUI VERA LIM	7,300,000	2.32%
DATO LEE HAN SIEW	7,000,000	2.22%
JOHN WARDMAN & ASSOC PL	5,822,166	1.85%
MR PETER ROBERTSON	4,863,124	1.54%
H & R GERAS PL	4,512,778	1.43%
MR YANQIN ZHAO	3,594,800	1.14%
MR YUPING WANG	3,594,800	1.14%
MR YINGZHE MA	3,094,800	0.98%
MR JOHN CHARLES PLUMMER	3,000,000	0.95%
MR WILLIAM BASS	2,431,414	0.77%
Top 20 total	245,767,278	78.05%
Others	69,129,756	21.95%
Total as at 31 August 2018	314,879,034	100.00%

Shareholder information (Continued)

(c) *Substantial holders*

Substantial holders in the Company are set out below:

Ordinary Shares	Number Held	Percentage
MR THOMAS TROY BLACKHURST	46,379,404	14.73%
SHANXI PINGYAO FENGYAN COAL & COKE GROUP CO LTD	34,915,062	11.09%
MR XINPING LIANG	34,435,730	10.94%
MR GUICHENG JIA	16,922,472	5.37%
	132,652,668	42.13%

(d) *Voting rights*

The voting rights attaching to each class of equity securities are set out below.

(i) Ordinary Shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share will have one vote

Corporate Directory

Board of Directors

William Bass, Non-Executive Chairman
Tom Blackhurst, Managing Director and Chief Executive Officer
Xinping Liang, Chief Operating Officer
Peter Robertson, Non-Executive Director

Company Secretary

Damien Kelly

Websites

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