China Magnesium Corporation Limited

2 September 2014

Dear Shareholder

$1.5M NON-RENOUNCEABLE RIGHTS ISSUE OF SHARES AND LISTED OPTIONS

China Magnesium Corporation Limited (**Company**) is pleased to provide you with the following information about a pro rata non renounceable rights issue of fully paid ordinary shares at $0.04 each offered on the basis of one (1) new share for every 4.53668 shares held at the Record Date, together with one free listed option (exercisable at $0.07 on or before 30 September 2016) for every new share offered. The purpose of the issue is to provide the Company with additional general working capital and flexibility for growth.

The maximum number of new shares to be issued is up to approximately 37,500,000 new shares and 37,500,000 new options, which would raise up to approximately $1.5 million and would result in total issued shares and options in the Company of approximately 207,625,516 and 37,500,000 (respectively) if fully subscribed.

The rights issue is partially underwritten by Messrs Xinping Liang, William Bass and Peter Robertson (Directors of the Company) up to a maximum of $110,000, $30,000 and $22,000 respectively. The Company has also received separate firm commitment undertakings from each Director and major shareholder Mr Wang Feng (on behalf Fengyan Group) that they will subscribe for the full entitlements offered in relation to their relevant interests in the Company. As at the date of this announcement those entitlements amounted to approximately $237,016 for Mr Blackhurst, $128,658 for Mr Liang, $6,013 for Mr Bass, $10,527 for Mr Robertson and $180,000 for Mr Wang. The total underwriting and firm commitment amounts add up to $724,214. No underwriting fee is payable, there is no broker to the issue and no handling fees are intended to be payable to brokers for procuring acceptances.

It is intended that new shares and options issued as a result of entitlements taken up will be quoted on ASX and that the new shares will rank equally with existing issued ordinary shares of the Company. There are no options (quoted or otherwise) presently on issue but the options will form a new class of quoted securities. The rights issue does not require shareholder approval.

The Company's shares will be quoted on an 'ex' basis from 3 September 2014. Any shares bought on market on and after this date will not be entitled to participate in the rights issue.

The prospectus is available to download from both the ASX website (www.asx.com.au) and the Company's website (www.chinamagnesiumcorporation.com), and will be mailed to eligible shareholders with personalised Entitlement and Acceptance Forms on or about 9 September 2014. See the prospectus and the form for further details on accepting the offer.

An indicative timetable for the Offer is set out below:*

"Ex" date	3 September 2014
Record Date (7:00pm EST, Queensland)	5 September 2014
Dispatch of entitlement and acceptance form with prospectus	9 September 2014
Closing date for acceptances (7:00pm EST)	30 September 2014
Issue date; dispatch of holding statements	8 October 2014

** These dates are indicative only. Notwithstanding any provision of this notice or the prospectus or announcement, and to the fullest extent permitted by law, the Company may, from time to time and without giving any notice, abridge or further abridge, extend or further extend any period or vary or further vary any date or time period referred to in this letter to such earlier or later date or for such period as the Company thinks fit whether or not the date to be varied has passed or the period to be extended has expired.*

The offer will be available to each shareholder registered on the Company's register of members at the record date except those with a registered address in the United States of America ("**Eligible Shareholders**"). Fractions of shares will be rounded up to the nearest whole number. Holdings on different registers (or subregisters) will not be aggregated for calculating entitlements.

A copy of the Managing Director's report from the Company's recent annual report is accompanies this letter as Annexure A.

Yours faithfully,

Damien Kelly
Company Secretary

ANNEXURE A – MANAGING DIRECTOR'S REPORT (EXTRACT FROM ANNUAL REPORT)

Dear fellow shareholder,

It is with a fresh sense of optimism that I deliver you this report. The past few years have clearly been difficult. CMC has significant potential, yet certain obstacles have prevented us from unlocking that potential. These obstacles are now being put behind us.

Whilst the 2013 financial year was one of significant changes and challenges externally, the 2014 financial year has seen major changes and challenges within CMC itself, with overwhelmingly positive changes since the signing of an investment and cooperation agreement with Shanxi Pingyao Fengyan Coal & Coke Group Company Limited ("Fengyan") in December 2013. This was a turning point for CMC, and together with the internal changes within CMC – specifically in China – have been the key to finally overcoming our obstacles.

Milestone investment and cooperation agreement with Fengyan

In December 2013, CMC entered into an investment and cooperation agreement with Fengyan; a large, Pingyao-based conglomerate with total assets of approximately A$1bn and diverse operations including ferronickel, coal mining and coking, semi coke, power generation and metal casting/extrusions.

Amongst other matters, the agreement provided for the co-operative use of, and mutual supply/sale to plants, infrastructure, manpower and resources to take mutual advantage of compelling synergies, savings, product expansion, trading and potential downstream processing.

Leadership overhaul and change of name in China

Significantly, there have been major changes to the leadership team in Pingyao, China, including the name of CMC's 91.25%-owned Sino-foreign joint venture company.

The joint venture company has officially changed its name from Shanxi Luyuan Magnesium Company Limited to Shanxi Yushun Magnesium Company Limited (SYMC). Although this may seem insignificant to most Australian investors, its impact in China as part of a wider leadership overhaul has been significant; signalling a new image for a reinvigorated local company.

Part of the management overhaul has also included a physical change of SYMC's administration office from CMC's minority joint venture partner to offices situated at our plant.

The key leadership and management changes at SYMC have been the appointment of Mr Feng Wang as Chairman and Mr Li Xiangmin as Executive General Manager. Mr Wang has brought fresh thinking and a can-do attitude to SYMC and I am pleased to say that the local management team is now thriving.

Premium share placement and rights issue

In May, CMC completed a placement of 12% of its enlarged share capital to Mr Wang pursuant to the investment and cooperation agreement. The placement was completed at almost A$0.13 per share – a 445% premium over CMC's prior closing share price just prior to entering into the agreement with Fengyan. This is a strong vote of confidence in CMC and its investment and cooperation agreement with Fengyan.

The Company also raised $220,000 pursuant to a rights issue in November 2013. The rights issue was priced at $0.04 per share, a 14% premium to the last share price before the announcement of the rights issue. In another vote of confidence in CMC's future, the directors took up all their rights and subscribed for a total of $200,000, with the offer partially underwritten as to $50,000 by CMC's executive director and Chief Operating Officer, Mr Xinping Liang, and all directors taking up their entitlements.

Commencement of production at Pingyao

CMC has finally commenced semi-coke and magnesium production at its Pingyao operations.

Soon after the end of the 2014 financial year, in July 2014, the first of what will be many semi-coke crackers was completed, installed and successfully tested, which enabled CMC to commence magnesium production using waste semi-coke gas instead of using the coal-to-gas facilities as originally envisaged when the magnesium plant was built.

These coal-to-gas units will effectively be made redundant due to the use of waste semi-coke gases in substitution for coal gas generated by the coal-to-gas units. Importantly, the Company has adapted one of the coal-to-gas units into the now fully operational semi-coke cracker and the conversion of the remaining coal-to-gas units is underway.

This has significantly reduced the capex requirements to build the semi-coke crackers, and CMC has or will apply the surplus funds towards other capital equipment to reduce operating costs.

For example, we have purchased and are installing the necessary equipment to produce our own retorts in-house rather than the current practice of leasing the retorts. We have also purchased and installed a radically new loading and discharging machine which is expected to significantly reduce labour costs associated with the manual loading and unloading of the retorts. CMC has worked closely with the manufacturer in respect of the design of the machine and has signed a technology and co-operation agreement to secure intellectual property rights to this latest technological development.

Initial production has so far been semi coke and pure magnesium ingot production on a relatively small scale, which is expected to increase over the months ahead as further magnesium ovens are commissioned and semi-coking capacity is added. Production of value-added products such as alloying and/or other higher-value magnesium products will also be sought as CMC builds its distribution relationships and its working capital access. The plant has a maximum nameplate production capacity of 20,000 tonnes of magnesium and/or magnesium alloy per annum.

Working capital no longer a major impediment

Past difficulties with drawing down working capital to commence production at Pingyao have now been solved, with Fengyan providing the necessary working capital to start production. It is intended by both parties that this arrangement will continue until SYMC secures direct working capital financing with a local bank. Fengyan has also indicated its intent to act as guarantor to such working capital loans.

Commodities Trading Desk

CMC's international trading desk is generating modest revenues from increased magnesium trading but is not expected to contribute material profits until the magnesium business is in full production. Its main purpose is to establish a presence in international markets to support brand-building and strengthen the case for future expansion.

Tianda ferrosilicon acquisition update

Completion of the Tianda ferrosilicon business acquisition remains subject to improved business economics. Disclosure of further updates on this matter will be subject to sufficient improvement in such economics.

Discontinuing of Fugu joint venture

The Fugu semi coke and magnesium plant is located in Fugu County, Shaanxi Province (next to Shanxi province), which recently overtook Shanxi province as China's largest magnesium producing province due to cheap fuel source of waste gas produced by semi-coke plants.

However, CMC is now producing its own semi-coke and using the waste semi-coke gases to provide the heat energy for its magnesium production. The Pingyao location also gives ready access to a magnesium ore (dolomite) source. Accordingly the strategic advantage of the proposed Fugu semi-coke and magnesium plant lease arrangements is no longer compelling.

Building a strong, sustainable company

Your Company is building a competitive position to take advantage of the increasing use of magnesium, and in time I expect it will also be in a stronger position to pursue expansion and vertical integration or other value-adding production opportunities as previously envisaged.

The group's environmental permits to expand production to 105,000 tonnes per annum of magnesium production still stand, and the Company still has a lease over the 90mu (~60,000m2) of land adjacent to the current Pingyao operations.

The new capacity to produce semi coke is expected to make significant contributions to CMC's revenues and profitability in its own right. It is only one example of potential value-adding production opportunities. CMC's growth strategy may also include diversified asset or business acquisitions inside or outside China which enable CMC to utilise its strengths, such as its Australian-based headquarters, relevant director and management experience, networks and its commodities trading desk.

Although frustrating and time-consuming, I believe the aforementioned challenges over the past couple of years have now been, or are being appropriately redressed, and are now strengthening the entire group going forward.

On CMC's behalf I would like to thank Mr Feng Wang, the new Chairman of SYMC and the representative of Fengyan, for his energetic, can-do and cooperative style, which has been of great benefit to SYMC as it transitions into its production and growth phase. I'd also like to give specific thanks to Mr Xinping Liang, CMC's executive director and Chief Operating Officer, for his tireless efforts and utilisation of his extensive networks and know-how in Pingyao and elsewhere in China to get CMC through the difficulties of the past couple of years. Thanks also to our non-executive directors – Chairman William Bass and Peter Robertson – for their valuable support and assistance during the challenges of the past couple of years.

CMC remains committed to becoming one of the world's largest, integrated, low cost, magnesium producers. We also intend to build capacity in industries – such as semi coke – which leverage our strengths and advantages.

I am confident that CMC will finally start delivering the significant results that I know it can.

Yours sincerely,

Tom Blackhurst

Managing Director