



COMPANY UPDATE

Highlights:

- Building a diversified industrial commodities producer and trader to support more robust, stable cash flow and profitability over the longer term.
- SYMC production still small scale pending further working capital but ensuring robust foundations for future scale.
- FMW acquisition represents further diversification, synergies, and integration with SYMC and the trading desk.
- \$3m in consolidated net operating cash flows for the 9 months ended 31 March 2015.

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PO Box 3767
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Issued Capital:

Quoted:

195,451,564 fully paid shares

24,855,705 options (7c; 30/9/16)

Unquoted:

Nil

Directors:

William Bass

(Non-Executive Chairman)

Tom Blackhurst

(Managing Director)

Xinping Liang

(Chief Operating Officer)

Peter Robertson

(Non-Executive Director)

Substantial shareholders:

Mr Tom Blackhurst 16.8%

Shanxi Pingyao Fengyan
Group

12.7%

Mr Xinping Liang

10.7%

Mr Guicheng Jia

6.1%

Mr Ming Li

6.1%

China Magnesium Corporation Limited (ASX: CMC; "CMC" or the "Company"), is pleased to provide the following market update regarding its recent progress and its current status.

Recent history and fundamental developments

The investment and cooperation agreement with Shanxi Pingyao Fengyan Coal & Coke Group Company Limited ("Fengyan"), which has invested A\$2.8 million in CMC shares, has proven to be a turning point for CMC.

The June 2013 financial year was clearly a major challenge, which led the Company to explore a number of opportunities - including the establishment of an international trading desk - to ameliorate those challenges and establish the foundations for growth.

The June 2014 financial year proved to be one of transition, with the signing of the agreement with Fengyan, a leadership overhaul at the Company's 91.25% owned Shanxi Yushun Magnesium Company Limited ("SYMC"), and the beginning of modifications to SYMC's operations and strategy, including a broadening of its business license to permit production of semi coke, calcium metal and bricks (to be made from waste briquettes used in magnesium and calcium production). All of this was a fundamental shift in the foundations of CMC's long-term growth plans and prospects.

The current June 2015 financial year, has been focused on optimising those foundations, as well as entering into an agreement for a 60% economic interest in Pingyao County Fengyan Mineral Wool Co. Ltd. ("FMW"), all to support more robust, stable cash flow and profitability for CMC over the longer term.

SYMC

SYMC commenced production of semi coke, magnesium, calcium and tar oil in the current financial year. Current production levels remain small-scale, whilst operations are being fine-tuned and we await the necessary access to working capital to enable operations to be scaled up. Fengyan and CMC are working together to source the necessary working capital to do so. In the meantime, SYMC is continuing to optimise its plant and to ensure maximum efficiency and, importantly, maximum flexibility to produce different product mixes depending on the economics of the different product markets, to ensure maximum profitability as scale is increased.

The most important plant additions and modifications were the conversion of SYMC's coal-to-gas units to 5 semi coke crackers (a more cost effective option than building new crackers) and the added capability to produce calcium metal additional to or instead of magnesium. Semi coke and tar oil production could be a stand-alone business with the tar oil yield from semi coke crackers being much higher than from the coal-to-gas units. Importantly, the use of waste gases from semi coke crackers significantly reduces the energy costs associated with producing magnesium utilising the coal to gas route.

The plant has been further modernised by the building and installation of automatic coal, dolomite and briquette loading systems, which significantly reduces associated labour costs (which are generally increasing in mainland China). Retorts are also to be made in-house using ferronickel from FMW rather than the previously more expensive practice of leasing the retorts. The equipment required to do this has already been purchased and installed.

FMW

FMW currently purchases all semi coke produced by SYMC.

The 60% FMW interest, achieved via a cooperation agreement with FMW, is a bolt-on acquisition which expands CMC's activities into ferronickel and products made from its waste slag, including mineral (rock) wool and other industrial products. FMW also has the flexibility to switch from ferronickel production to pig iron. It can also switch to other ferroalloys subject to minor plant modifications.

CMC Commodities

CMC's trading desk, which operates under CMC's wholly owned subsidiary, CMC Commodities Pte Ltd ("**CMC Commodities**") was initially set up to establish a presence in international markets to support brand building and to strengthen the case for future expansion. CMC Commodities has now become a profit centre in its own right. This has been achieved by the expansion of trading into other products largely due to the cooperation agreement with Fengyan and increasing opportunities and delivery capabilities for CMC Commodities.

FY15 cash flows

CMC achieved \$3 million in consolidated net operating cash flows for the 9 months ended 31 March 2015. This is despite the current small-scale production at SYMC and FMW only contributing to CMC's cash flows and profitability since 1 February 2015. The net cash flows up to the end of January 2015 were therefore predominantly attributable to CMC Commodities. Total cash reserves were almost \$5 million at end of March.

General commentary

Whilst magnesium is still the core product stream on which CMC is focussed there has been a strategic shift to diversify and increase flexibility in response to changing circumstances and to ensure maximum returns are extracted from CMC's asset base, product mix and key strengths. Being nimble and continuing to improve efficiency and flexibility will ensure that CMC prospers and creates maximum value in a vibrant and ever changing economy that is China. CMC's recent activity has been focussed on ensuring its foundations are sufficiently robust to allow expansion in this environment.

The financial returns to date have been solid but modest, with CMC Commodities and FMW being the biggest contributors to operating cash flows. As production scales up at SYMC's Pingyao plant, and as FMW's operations are further integrated with SYMC's it is expected that both SYMC and FMW will become CMC's predominant sources of returns and growth.

While CMC remains focussed on becoming a large, low cost, integrated producer of magnesium, we will continue to take advantage of any synergistic opportunities as they present themselves.

Although it has taken time to develop CMC's business and to start to realise the significant potential rewards progress has been and continues to be made.

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