China Magnesium Corporation Limited

15 August 2019

Adrian Smythe
ASX Compliance
20 Bridge Street,
Sydney NSW 2000

Dear Adrian,

CHINA MAGNESIUM CORPORATION LIMITED (CMC or the Company)

We refer to your letter dated 5 July 2019 (**Letter**). Capitalised terms in this letter have the meaning given in your Letter.

We respond to the questions in your Letter, using the numbering in your Letter:

1. Does CMC consider the information regarding the Pingyao plant in China detailed in sub-paragraph R(i) above to be information that a reasonable person would expect to have a material effect on the price or value of its securities?

   Answer:
   Yes.

2. If the answer to Question 1 is:

   a) 'no', please advise the basis for that view.

   b) 'yes':

      i. When in February 2019 did CMC first become aware of the Pingyao Environment Protection Bureau ('PEPB') advice (see sub-paragraph R(i) above.

   Answer:
   CMC's management in China met with Mr Xue Yinping, the deputy director of PEPB on 1 February 2019.

   As noted in CMC's 1 July 2019 Announcement, the advice received was on possible steps to be taken for the Plant to comply with the relevant environmental regulations in relation to coal to gas facilities, including the newly imposed requirement for new desulfurization and denitrification facilities and online monitoring devices. The advice required further consideration, research and assessment by CMC's management.

   Further, on 5 July 2019, three officials from the Ministry of Ecology and Environment of the PRC (**MEE**) visited Pingyao plant to investigate and verify the following:
   a) whether the plant was built with all appropriate approvals;
   b) whether the plant is still operating without meeting the latest discharge requirements of environment protection regulations; and
   c) whether the plant has stopped production as previously reported.

   After MEE's meeting and review of all the permits and approvals of the plant, MEE informed (verbally, not in writing) the plant management that:
   a) the environment impact assessment report prepared and approved for the plant in 2007 is not valid; and
   b) the new discharge standards are being changed on a yearly basis (even half yearly recently).

The above assessment and information from MEE are different from those previously provided by PEPB. Pingyao plant management will meet with PEPB to confirm the latest requirements.

CMC notes that the relevant environmental regulations and their implementation were (and remain) subject to ongoing review and possible changes, and for that reason the advice received on 1 February 2019 was subject to a number of qualifications and uncertainties.

ii. When did CMC first become aware that the supplier of calcinated dolomite to the Pingyao plant, the Mineral Wool plant, would not restart producing dolomite at the end of February or early March 2019 due to the ongoing environmental restrictions (see sub-paragraphs G(ii) and Q(i) above)?

Answer:
CMC first became aware on or about 1 February 2019 that the Mineral Wool plant would not restart producing calcinated dolomite at the end of February or early March 2019. At the time, the Mineral Wool plant's operator could not provide CMC's Chinese management with any updates on its intentions due to the uncertainties of environmental restrictions. Therefor CMC did not have sufficient information on the Mineral Wool plant operator's intentions to determine with any certainty when the Mineral Wool plant could restart producing calcinated dolomite.

iii. When did CMC first decide that it would not commence with the changes suggested by the PEPB (see sub-paragraph R(i) above)?

Answer:
Given the uncertainties regarding the environmental requirements and costs associated with the compliance with them and supply of calcinated dolomite, CMC has not decided whether to commence with the changes suggested by the PEPB. Rather and as announced to ASX on 6 August 2019, CMC agreed (subject to conditions, including CMC shareholder approval) to sell the Pingyao plant. Prior to doing so, CMC monitored the situation closely to determine if and when there would be sufficient certainty with regards to calcinated dolomite supply to decide if and when to commence with the PEPB measures.

iv. When did CMC first become aware that production at the Pingyao plant would not resume by 30 April 2019 as previously advised to the market (see sub-paragraphs B(i) and G(i) above)?

Answer:
CMC first became aware in February 2019 that production at the Pingyao plant may not recommence by 30 April 2019.

3. If the answer to Question 1 is 'yes', please explain why the information in each of Questions 2(b)(i)-(iv) above was not released to the market prior to the 1 July 2019 Announcement.

   In your answers, please specifically address the following:

   a) When did you believe CMC was obliged to release the information under Listing Rules 3.1 and 3.1A?

Answer:
CMC believes that any market release should be provided when CMC's management had sufficient evidence and certainty to ascertain when magnesium production would or would not resume.

CMC's Appendix 4C (announced on 30 April 2019) disclosed that no funds were spent on the Plant during the quarter ended on 31 March 2019, and that it was estimated that no cash outflows would be incurred in the following quarter.

CMC continued to monitor the situation prior to agreeing to sell the plant (as announced on 6 August 2019), however CMC was not able to advise when production at the Pingyao plant could resume as a result of the uncertain conditions at Pingyao. Any production hinges on obtaining calcinated dolomite supply economically and thereafter having the PEPB measures in place. Furthermore, CMC saw the need for a period of stability for both calcinated dolomite supply and environmental regulations before PEPB measures could be taken to recommence production.

b) What steps did CMC take to ensure that the information released promptly and without delay?

Answer:
CMC is mindful of Listing Rule 3.1 and 3.1A and when CMC deems necessary it seeks professional advices regarding monitoring, review and release of Company's announcement.

4. In light of the above, has CMC incurred any of the planned $1.1 million expenditure on initial emission discharge control work for the Pingyao plant? If so, how much expenditure has been incurred?

   Answer:
   Being prudent, CMC has not incurred the planned $1.1 million pending more certainty in the calcinated dolomite supply and the environmental regulations.

5. Does CMC consider the information that it is exploring alternative uses or joint venture arrangements for the Pingyao plant (see sub-paragraph R(ii) above) to be information that a reasonable person would expect to have a material effect on the price or value of its securities?

   Answer:
   No.

6. If the answer to Question 5 is:

   a) 'no', please advise the basis for that view.

   b) 'yes', when did CMC first decide to explore alternative uses or joint venture arrangements for the Pingyao plant?

   Answer:
   CMC notes that corporations, as part of their normal operations, consider joint ventures and other commercial arrangements for their assets from time to time.

   While discussions and negotiations around alternative uses or joint venture arrangements were ongoing, they were confidential and preliminary, and there was no guarantee that any alternative uses or joint venture arrangements could be secured. Preliminary negotiations with no certainty is not information that a reasonable person would expect to have a material effect on CMC's share price.

7. If the answer to Question 5 is 'yes', please explain why the information that it is exploring alternative uses or joint venture arrangements for the Pingyao plant was not released to the market prior to the 1 July 2019 Announcement.

   In your answer, please specifically address the following:

   a) When did you believe CMC was obliged to release the information under Listing Rules 3.1 and 3.1A?

   Answer:
   Not applicable.

   b) What steps did CMC take to ensure that the information released promptly and without delay?

   Answer:
   Not applicable.

8. Is CMC proposing to reduce the carrying value of plant and equipment for the Pingyao plant in its balance sheet as at 30 June 2019? If the answer to this question is 'yes', please provide details.

   Answer:
   No decision has been made in this regard, although CMC notes that it has agreed (subject to conditions) to sell its interest in the plant for RMB 1 million with completion (assuming the conditions are satisfied and completion occurs) effective on 30 June 2019

9. Please provide copies of the following documents (not for release to the market):

   Answer:
   By way of background, we provide the following sequence of events in relation to the transaction:

   Orchard project JV

   (A) On 29 April 2018, Shandong Luzhong Hi-tech Park Development Co. Ltd (**SLHD**) (a state-owned company in PRC) and White Group Pty Ltd (**WG**) entered into an agreement, among other things, to develop an orchard project (**Project Agreement**). The Project Agreement provides, among other things, the following:

   - SLHD and WG will incorporate a project company to develop the orchard project in Shandong, China;
   - SLHD will contribute orchard for up to 30% interest in the project company and WG will contribute capital for 70% or more of the project company;
   - Profits from the project company will be distributed based on the parties' interest in the project company;
   - WG shall be responsible for:
     - establishing cold chain storages, logistics and sales networks;
     - selling the produces from the project company to overseas markets.

   (B) On 3 September 2018, WG assigned (**WG Assignment Agreement**) its rights in the orchard project to Sovran White International Pty Ltd (**SWI**) (which is owned by WG).

(C) SLHD and WG agreed that the project company to develop the orchard project is a foreign investment partnership enterprise (**FIPE**), which is 70% owned by WG and 30% owned by Shandong Luxi Hi-tech Park Development Co. Ltd (which is owned by SLHD).

CMC JV

(D) 29 October 2018, SWI and CMC entered into heads of agreement (**Heads of Agreement**) in relation to a joint venture whereby CMC will acquire 20% of the joint venture that would be granted by SWI with the management services and exclusive export rights in relation to Yiyuan County Growers Co-operative (**Co-operative Rights**).

(E) On 7 March 2019, CMC, SWI and Sovran White (Shangdong) Logistic International Company Ltd (**SWSI**) entered into an agreement (**7 March Agreement**) whereby the parties agreed that:

- SWI grants the Co-operative Rights to SWSI, which was 100% owned by SWI.
- CMC acquires 21.43% of SWSI.

The 7 March Agreement replaced the Heads of Agreement.

(F) On 4 June 2019, pursuant to a novation agreement (**Novation Agreement**), SWSI novated its rights and obligations under the 7 March Agreement to Sovran White (Singapore) Logistics Pte Ltd (**SWL**).

CMC and SWL entered into a supplementary management service agreement in relation management service to be provided by CMC to SWL.

a) the conditional heads of agreement between CMC and Sovran White International Pte. Ltd ('**SWI**') referred to in paragraph D above;

Answer:
Heads of Agreement. See **attachment A1** (not for release).

b) the agreement to acquire 21.43% of SWSI referred to in paragraph M above;

Answer:
7 March Agreement. See **attachment A2** (not for release).

c) the joint venture agreement between CMC and SWI referred to in paragraph D above;

Answer:

Pursuant to the 7 March Agreement, CMC acquired a 21.43% interest in SWSI.

Pursuant to the Novation Agreement, the Co-operative Rights of SWSI were novated to SWL, resulting CMC holding a 21.43% interest in SWL. SWL now is the company that has the Co-operative Rights. See **attachment A3** (not for release) for Novation Agreement.

As a result of the novation mentioned above, the joint venture between CMC and SWI is SWL. No formal joint venture agreement has been entered into at this stage, the operation of SWL as the joint venture is governed by the agreements as mentioned under paragraphs b) being the 7 March Agreement and e) being the supplementary management service agreement.

d) the contracts referred to in paragraph M above that SWSI has been awarded by the Yiyuan County Growers Co-operative for: (1) the provision of management services, and (2) exclusive export rights for the co-operative's products.

Answer:
Under the Project Agreement, WG is responsible for the sale of the produces of the project company. See **attachment A4a** (not for release) for the Chinese version and **attachment A4b** (not for release) for the English translation of the agreement.

On 3 September 2018, WG assigned its rights under the project company to SWI. See **attachment A5** (not for release) for the WG Assignment Agreement.

Under the 7 March Agreement, SWI granted the Co-operative Rights to SWSI.

In June 2019, SWSI's Co-operative Rights were novated to SWL through the Novation Agreement. Please also refer to our answer above in paragraph c).

e) the contract between CMC and SWSI for the provision of minor professional services referred to in paragraph M above.

Answer:
As a result of the novation mentioned in paragraph c) and d) above, CMC and SWL entered into a supplementary management service agreement. See **attachment A6** (not for release).

10. Has CMC paid the $1,000,000 cash consideration balance for its 21.43% interest in SWSI (see sub-paragraph Q(ii) above)?

Answer:
Yes. CMC paid the $1,000,000 cash consideration balance in April 2019 for its 21.43% interest in SWSI/SWL.

11. How much income has CMC received from its interest in SWSI to date?

Answer:
CMC has received $20,000 administrative fee (minimum $5,000 per month) for the period from March to June 2019. Based on the agreement in attachment A6, in addition to the monthly administrative fee, CMC will also charge a management services fee based on a percentage of SWL's sales revenue. SWL did not generate sales revenue during that period and no fees have been received.

CMC has not received any dividend/income as a shareholder holding 21.43% of SWL.

12. Please provide a description of CMC's commodities trading operations (see sub-paragraph Q(iii) above).

Answer:
CMC has negotiated some timber based trades during the year ended on 30 June 2019. CMC and SWI have entered into an agreement whereby SWI will procure the supply of timber for CMC to sell to CMC's customers in Bougainville who are identified by CMC's consultant. Trades are conducted by CMC. This sector of new business reflected the effort to create sources of income which is in line with CMC's business of international trading of commodities and leverages from CMC's directors and employees' contacts. The value of these trades was approximately $1.17 million for the financial year ended on 30 June 2019.

13. How much did CMC spend on commodities trading during the June 2019 quarter?

Answer:
CMC spent approximate $990,000 on trading timber during the June 2019 quarter.

14. How much income did CMC receive from commodities trading during the June 2019 quarter?

Answer:
CMC received approximate $180,000 in gross profit from commodities trading during the June 2019 quarter.

15. Please provide a full account of the circumstances in which:

a) Mr Tom Blackhurst resigned as managing director on 29 January 2019, along with the reasons for his resignation (see paragraph I above).

Answer:
Mr Blackhurst informed the Company that he resigned as Managing Director of the Company for personal reasons.

b) Mr Tom Blackhurst resigned as non-executive director on 28 February 2019, along with the reasons for his resignation (see paragraph L above).

Answer:
Mr Blackhurst informed the Company that he had resigned as a non-executive director for personal reasons. Mr Blackhurst remains as a director of CMC Lithium, whereby CMC is a shareholder.

c) Mr William Bass resigned as chairman and director on 1 April 2019, along with the reasons for his resignation (see paragraph P above).

Answer:
Mr Bass informed the Company that he resigned for personal reasons. However, the new Board recognised Mr Bass' contribution and knowledge of the Company, and both parties mutually agreed that Mr Bass should continue to be engaged by CMC as a consultant. Furthermore, Mr Bass remains as a director of CMC Lithium, whereby CMC is a shareholder.

16. Please provide copies of the abovementioned resignations of Mr Tom Blackhurst and Mr William Bass (not for release to the market).

Answer:
See **attachments A7 and A8** (not for release).

17. Does CMC consider that its financial condition is sufficient to warrant continued listing on ASX as required under listing rule 12.2? In answering this question, please also explain the basis for the conclusion.

Answer:
The Company believes that the current commodities trading, orchard and the plantation projects provide sufficient activities to warrant listing.

On 6 August 2019 the Company announcement that it had agreed to raise $500,000 through a placement of ordinary shares at an issue price of $0.03 per share. To date $200,000 has been received and the balance is expected shortly. The Company is currently in discussions with other potential investors to raise further funds on the same terms.

18. Please confirm that CMC is complying with the listing rules and, in particular, Listing Rule 3.1.

    Answer:
    Yes.

19. Please confirm that CMC's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of CMC with delegated authority from the board to respond to ASX on disclosure matters.

Answer:
The Board has approved the information provided in this response.

For and on behalf of the Board

Marcelo Mora
Company Secretary

5 July 2019

Reference: ODIN03905

Mr Marcelo Mora
Company Secretary & Non-Executive Director
China Magnesium Corporation Limited
Level 27
480 Queen Street
Brisbane QLD 4000

By email

Dear Mr Mora

China Magnesium Corporation Limited ('CMC'): Query Letter

ASX refers to:

A. CMC's Appendix 4E and Annual Report for the year ended 30 June 2017 released on the ASX Market Announcements Platform ('MAP') on 30 August 2017 ('2017 Annual Report'), which included the following statements on page 1 (of the Annual Report) under the heading 'Pingyao magnesium production' (emphasis added):

   (i) *'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.'*

   (ii) *'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.'*

   (iii) '*SYMC management have <u>conservatively projected</u> additional initial emission discharge control work will be <u>completed for production return by March 2018</u>, at a total cost of $1.1M.*'

B. CMC's Annual Report for the year ended 30 June 2018 released on MAP on 25 September 2018 ('2018 Annual Report'), which included the following statements (emphasis added):

   (i) On page 1 under the heading '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.'*

   - *'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 <u>conservatively projected</u> additional initial emission discharge control work <u>will be completed for production return by April 2019</u>, 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.'

(ii) On page 2 under the heading '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, <u>the carrying value of these assets is now reduced to $14,697,503</u>.'*

(iii) On page 2 under the heading 'Looking forward':

> *'<u>CMC anticipates completing all environmental work necessary to commence production</u>. We are encouraged by the sustained improvement in magnesium prices …*
>
> *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.'*

C. The Independent Auditor's Report attached to the financial report in the 2018 Annual Report which contains the following qualified opinion:

> ***'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 ..."*

D. CMC's announcement titled 'Conditional Heads of Agreement' released on MAP on 29 October 2018 which included the following statements:

> [CMC] *'executed a conditional, non-binding Heads of Agreement (Agreement) with Sovran White International Pte. Ltd. (Sovran White) to form a joint venture providing management services, and holding exclusive export rights in relation to, an agricultural co-operative based in Yiyuan County, Zibo City, Shandong Province.*
>
> *The Yiyuan County Growers Co-Operative (Co-operative) is owned and operated by a Foreign Investment Partnership Enterprise (FIPE) which was formed between Sovran White and Shandong Luxi Hi-Tech Park Development Co. Ltd, a company owned by the Zibo Municipal Government (ZCG) in May 2018 …*
>
> *Sovran White currently holds a 70% interest in the FIPE and ZCG holds a 30% interest*
>
> *…*
>
> - *CMC and Sovran White will form a joint venture company in Singapore (JV);*
> - *CMC will acquire a 20% interest in the JV in consideration for the issue by CMC of 60 million fully paid ordinary shares to Sovran White at A$0.07 per share;*

- *Sovran White will acquire an 80% interest in the JV to provide management services, and exclusive export rights, which are currently managed and operated by the FIPE in relation to the Co-Operative and its produce.'*

E. CMC's announcement titled 'Retractions of prior statements' released on MAP on 21 December 2018 which stated:

'In the Company's AGM presentation released to ASX on 28 November 2018 the following was stated on slide 3: "Retirement of non-executive director Peter Robertson at 2018 AGM."

Also, on 5 December 2018, Appendix 3Z 'Final Director's Interest Notice' was lodged in respect of the purported resignation of Mr Robertson.

The Company's other directors and Mr Robertson have a difference of opinion in respect of the events and effectiveness of the purported resignation of Mr Robertson.

Rather than allow these circumstances and uncertainty to continue to exist, the other directors have agreed to recognise Mr Robertson as a continuing director, and therefore retract the aforementioned statement on slide 3 of the AGM presentation and also retract the entirety of the aforementioned Appendix 3Z.'

F. The notice of general meeting released on MAP on 24 December 2018, which included a sole resolution to remove Mr Peter Robertson as a director, together with the accompanying commentary in the explanatory statement:

'This resolution has been proposed due to a breakdown in the working relationship between Mr Robertson and the other directors. This includes but is not limited to the events and circumstances surrounding the purported resignation of Mr Robertson (suffice to say that the Company's other directors and Mr Robertson have a difference of opinion in respect of the events and effectiveness of the purported resignation) and which lead to the retraction announcement made to ASX on 21 December 2018 (retracting prior statements made by the Company in respect of Mr Robertson's purported resignation).'

G. ASX's first query letter dated 29 November 2018 ('First Query Letter'), the letter from CMC sent to ASX in response to the First Query Letter on 17 December 2018 ('First Response'), ASX's second query letter dated 21 December 2018 ('Second Query Letter'), and the letter from CMC sent to ASX in response to the Second Query Letter on 4 January 2019 ('Second Response'), which were lodged together on MAP on 7 January 2019 and included the following questions (in bold) and answers:

(i) First Query Letter and First Response - Question 15:

'Does CMC continue to expect that magnesium production at the Pingyao plant in China will resume by 30 April 2019?

The directors remain confident that production at Pingyao will resume by 30 April 2019.'

(ii) Second Query Letter and Second Response - Question 10:

'In the 2017 Annual Report (page 1), CMC stated: "SYMC management have conservatively projected additional initial emission discharge control work will be completed for production return by March 2018, at a total cost of $1.1M." Why didn't CMC meet the original target date of March 2018?'

Dolomite is a raw material, and requires calcination for magnesium production. The dolomite was calcinated by another business in Pingyao - the Mineral Wool Plant of Fengyan Coal & Coke Group. CMC expected to restart production in March 2018 based on the restarting production of Mineral Wool plant. Unfortunately, the Mineral Wool plant only produced one month and then stopped *producing due to the same environmental regulations as CMC are addressing. Accordingly, CMC did not commission additional emission discharge control work at the Pingyao plant, but proceeded with MgLi Plant #1 commissioning.*

CMC was informed that the Mineral Wool plant will restart producing at the end of February or early of March 2019. The directors expect that accordingly Pingyao plant can start producing magnesium in April 2019 …'

H. The General Meeting held on 25 January 2019 where shareholders voted in favour of the resolution to remove Mr Peter Robertson as a director.

I. CMC's announcement titled 'Appointment of Chief Executive Officer' released on MAP on 29 January 2019, which included the following statements:

'CMC is pleased to advise of the appointment of Mr Jin Thean (Jason) Teoh as Chief Executive Officer with effect from 28 January 2019. Mr Tom Blackhurst has resigned as Managing Director of CMC for personal reasons …

The Board is pleased to advise that Mr Tom Blackhurst will continue as a non-executive director.'

Mr Teoh was also appointed as an Executive Director.

J. CMC's announcement titled 'Appointment of director, change of company secretary' released on MAP on 26 February 2019 which disclosed that Mr Marcelo Mora had been appointed as a Non-Executive Director and Company Secretary with immediate effect.

K. CMC's Half Yearly Report and Accounts released on MAP on 25 February 2019 which included the following statements:

(i) Under the heading 'Going concern' on pages 10-11:

'The Group incurred a net loss of $1,582,478 (2017: $1,551,823) and an operating cash outflow of $1,007,208 (2017: $713,884) for the period ended 31 December 2018. At that date, the Group had a net current assets position of $112,286 (2017: net current assets $361,002).

Included in net assets are prepaid capital expenditure of $532,554, receivables from Shanxi Pingyao Fengyan Coal & Coke Group Company Limited ("Fengyan") of $2,587,137 and VAT receivable of $826,287 that will only be recovered once the Group generates sufficient income in China. The Group also has capital commitments of $1,100,000 in relation to its Pingyao initial emission control work.

In forming the view the Group is a going concern, the directors note:

- *Under the Investment and Co-operation agreement with Shanxi Pingyao Fengyan Coal & Coke Group Company Limited ("Fengyan"), Fengyan have agreed to provide sufficient working capital for CMC's 91.25% owned joint venture company Shanxi Yushun Magnesium Company Limited which delivers substantially all Pingyao operational production;*
- *Continued financial support from creditors who have agreed to extended terms of payment;*
- *Access to funding from a rights issue with 37,541,522 shares issued at $0.05 raised by 31 December 2018 and a further 60,000,000 issued at $0.05 from shortfall in February 2019.*
- *Capacity to raise working capital from placement of shares, exercise of options and other means including directors' loans;*
- *the Pingyao plant will continue to satisfy the EPP disposal/emission specifications and thereby pass the inspection and review by the relevant expert environmental team for magnesium and alloy production recommencement;*

Having considered all of the above factors, the Directors are of the opinion that the use of the going concern basis of accounting is appropriate as they are satisfied that the Group will be able to generate sufficient cash flows, rely on the financial support as detailed, and rely on the continued financial support of its creditors.

Should all of the above not eventuate, there exists a material uncertainty regarding the Company and the Group's ability to continue as a going concern, realise its assets, settle its liabilities and commitments in the ordinary course of business and at the amounts stated in the financial statements. If production does not commence as anticipated there will be a risk of impairment of the Group's property, plant and equipment.'

(ii) Under the heading 'Critical accounting judgements and estimates' on page 15:

' … The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are:

a) The use of that going concern basis of accounting is appropriate (refer Note 1).

b) The Pingyao plant has been unable to recommence production due to changes in environmental regulations in China. Accordingly, CMC has recognized an impairment for assets under construction of $1,739,640 at 30 June 2018, 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 a cost approach pursuant to an onsite plant and equipment review.

The directors anticipate the Pingyao plant will satisfy the EPP disposal/emission specifications and thereby the inspection and review by the relevant environmental experts team for magnesium and alloy production recommencement.'

L. CMC's announcement titled 'Retirement of Director' released on MAP on 28 February 2019 which disclosed that Mr Tom Blackhurst had retired as a director.

M. CMC's announcement titled 'Management Services Agreement completed' released on MAP on 8 March 2019 which included the following statements:

[CMC] '*has completed all due diligence pursuant to its ASX announcement of 29 October 2018, and has subsequently signed an Agreement to acquire 21.43% of Sovran White (Shandong) International Logistics Company Limited (SWS).*

Under the Agreement CMC will acquire a 21.43% interest in SWS in consideration for $2M and the issue of 50 million fully paid ordinary shares to Sovran White International Pte. Ltd. (SWI) at $0.05 per share. SWI is a Singapore investment enterprise with interests in new-age farm and ecotourism resort development in China

SWS has been awarded contracts in relation to the Yiyuan County Growers Co-operative, an agricultural co-operative based in Yiyuan County, Zibo City, Shandong Province, China for:

a) providing management services for the packaging, storage, logistics and distribution of the co-operatives produce both domestically and internationally

b) the exclusive rights to export the co-operatives products CMC shall also provide minor professional services to SWS for providing logistics and export services expertise, which leverages existing networks of CMC.

The co-operative produced over 800,000 tonnes of produce during the 2018 season across approximately 400km2 of land located in Yiyuan County, Shandong Province.

The co-operative prior to this Agreement has not had facilities to export its produce. The Agreement does not have a termination date.

Chief Executive Officer Mr. Jason Teoh noted that "this Agreement provides a valueadding opportunity which also uses CMC's skills and expertise in China, whilst allowing CMC to remain focused on its core magnesium business."'

N. The notice of initial substantial shareholder from Sovran White International Pte Ltd released on MAP on 13 March 2019 disclosing that it holds a relevant interest in 70 million shares in CMC, of which 50 million were received as consideration for CMC's acquisition of 21.43% of Sovran White (Shandong) International Logistics Company Limited ('SWSI') (see paragraph M above) and 20 million were acquired on 8 March 2019 by its associate, Tan Mung Ngian, for cash consideration of $1,000,000.

O. CMC's announcement titled 'Director appointment' released on MAP on 18 March 2019 which disclosed that Mr Antony Tolfts had been appointed as a Non-Executive Director with immediate effect.

P. CMC's announcement titled 'Retirement of Director & Appendix 3Z WLB' released on MAP on 1 April 2019 which disclosed that Mr William Bass had retired as Chairman and Director.

Q. CMC's Appendix 4C for the March 2019 quarter released on MAP on 30 April 2019, which included the following disclosures:

(i) Cash at 31 March 2019 of $2,740,000.

(ii) Total estimated cash outflows of $2,615,000 for the June 2019 quarter (item 9) which included:

- estimated product manufacturing, commodities trading and operating costs of $990,000; and
- payment of the consideration balance payable for the 21.43% interest in SWSI of $1,000,000.

(iii) *'CMC committed $990k for commodities trading with inflows from trades expected to materialise during the June quarter.'*

R. CMC's announcement titled 'Pingyao Plant Update' released on MAP on 1 July 2019 (the '1 July 2019 Announcement') which included the following statements:

(i) *'following the announcements made on 7 January 2019* [CMC] *wishes to provide an update on its Pingyao Plant in China.*

a) In February 2019, Pingyao Environment Protection Bureau (PEPB) advised Pingyao plant management on possible steps to be taken for the Pingyao plant to comply with the relevant environmental regulations in relation to coal to gas facilities, including new desulfurization and denitrification facilities and online monitoring devices. The Pingyao plant has not commenced with the suggested changes by the PEPB due to environmental restrictions imposed on the plant supplier of calcinated dolomite (see 2(b)) and due to the capital funding.'

(ii) *'(c) CMC note that even if the environmental restrictions imposed on the Pingyao plant can be overcome (though at this time it is not certain to CMC) with further capital expenditure, securing the supply of calcinated dolomite and hiring the skilled workers are uncertain, and as such there will be no certainty that revenue will be generated from the plant with further capital expenditure. To mitigate CMC's exposure to the Pingyao plant, CMC is exploring alternative use for the plant so that positive cash flow can be generated from the Pingyao plant, or joint venture arrangements that may generate.'* [sic]

(iii) *‘(d) While negotiations are ongoing with various parties for alternative uses for the Pingyao plant or joint venture arrangements, no definitive agreement has been reached.’*

(iv) *‘CMC is also seeking to enhance shareholder value by considering investment opportunities which complement CMC’s existing operations and are earnings accretive …’*

S. Listing Rule 3.1, which requires a listed entity to immediately give ASX any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity’s securities.

T. Listing Rule 12.2 which states:

‘An entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.’

Questions and Requests for Information

Having regard to the above, ASX asks CMC to respond separately to each of the following questions and requests for information:

1. Does CMC consider the information regarding the Pingyao plant in China detailed in sub-paragraph R(i) above to be information that a reasonable person would expect to have a material effect on the price or value of its securities?

2. If the answer to Question 1 is:

   a) ‘no’, please advise the basis for that view.

   b) ‘yes’:

      i) When in February 2019 did CMC first become aware of the Pingyao Environment Protection Bureau (‘PEPB’) advice (see sub-paragraph R(i) above)?

      ii) When did CMC first become aware that the supplier of calcinated dolomite to the Pingyao plant, the Mineral Wool plant, would not restart producing dolomite at the end of February or early March 2019 due to the ongoing environmental restrictions (see sub-paragraphs G(ii) and Q(i) above)?

      iii) When did CMC first decide that it would not commence with the changes suggested by the PEPB (see sub-paragraph R(i) above)?

      iv) When did CMC first become aware that production at the Pingyao plant would not resume by 30 April 2019 as previously advised to the market (see sub-paragraphs B(i) and G(i) above)?

3. If the answer to Question 1 is ‘yes’, please explain why the information in each of Questions 2(b)(i)-(iv) above was not released to the market prior to the 1 July 2019 Announcement.

   In your answers, please specifically address the following:

   a) When did you believe CMC was obliged to release the information under Listing Rules 3.1 and 3.1A?

   b) What steps did CMC take to ensure that the information released promptly and without delay?

4. In light of the above, has CMC incurred any of the planned $1.1 million expenditure on initial emission discharge control work for the Pingyao plant? If so, how much expenditure has been incurred?

5. Does CMC consider the information that it is exploring alternative uses or joint venture arrangements for the Pingyao plant (see sub-paragraph R(ii) above) to be information that a reasonable person would expect to have a material effect on the price or value of its securities?

6. If the answer to Question 5 is:

   a) 'no', please advise the basis for that view.

   b) 'yes', when did CMC first decide to explore alternative uses or joint venture arrangements for the Pingyao plant?

7. If the answer to Question 5 is 'yes', please explain why the information that it is exploring alternative uses or joint venture arrangements for the Pingyao plant was not released to the market prior to the 1 July 2019 Announcement.

   In your answer, please specifically address the following:

   a) When did you believe CMC was obliged to release the information under Listing Rules 3.1 and 3.1A?

   b) What steps did CMC take to ensure that the information released promptly and without delay?

8. Is CMC proposing to reduce the carrying value of plant and equipment for the Pingyao plant in its balance sheet as at 30 June 2019? If the answer to this question is 'yes', please provide details.

9. Please provide copies of the following documents (not for release to the market):

   a) the conditional heads of agreement between CMC and Sovran White International Pte. Ltd ('SWI') referred to in paragraph D above;

   b) the agreement to acquire 21.43% of SWSI referred to in paragraph M above;

   c) the joint venture agreement between CMC and SWI referred to in paragraph D above;

   d) the contracts referred to in paragraph M above that SWSI has been awarded by the Yiyuan County Growers Co-operative for: (1) the provision of management services, and (2) exclusive export rights for the co-operative's products; and

   e) the contract between CMC and SWSI for the provision of minor professional services referred to in paragraph M above.

10. Has CMC paid the $1,000,000 cash consideration balance for its 21.43% interest in SWSI (see sub-paragraph Q(ii) above)?

11. How much income has CMC received from its interest in SWSI to date?

12. Please provide a description of CMC's commodities trading operations (see sub-paragraph Q(iii) above).

13. How much did CMC spend on commodities trading during the June 2019 quarter?

14. How much income did CMC receive from commodities trading during the June 2019 quarter?

15. Please provide a full account of the circumstances in which:

    a) Mr Tom Blackhurst resigned as managing director on 29 January 2019, along with the reasons for his resignation (see paragraph I above).

    b) Mr Tom Blackhurst resigned as non-executive director on 28 February 2019, along with the reasons for his resignation (see paragraph L above).

    c) Mr William Bass resigned as chairman and director on 1 April 2019, along with the reasons for his resignation (see paragraph P above).

16. Please provide copies of the abovementioned resignations of Mr Tom Blackhurst and Mr William Bass (not for release to the market).

17. Does CMC consider that its financial condition is sufficient to warrant continued listing on ASX as required under listing rule 12.2? In answering this question, please also explain the basis for the conclusion.

18. Please confirm that CMC is complying with the listing rules and, in particular, Listing Rule 3.1.

19. Please confirm that CMC's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of CMC with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

This request is made under, and in accordance with, Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by not later than **12.00 pm AEST** on **Friday 12 July 2019**.

ASX reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under Listing Rule 18.7A. Accordingly, your response should be in a form suitable for release to the market.

Your response should be sent to me by e-mail. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Listing Rules 3.1 and 3.1A

In responding to this letter, you should have regard to CMC's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*.

It should be noted that CMC's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, providing the information requested in this letter.

Further, if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, CMC's obligation is to disclose the information "immediately". This may require the information to be disclosed before the deadline set out in this letter.

If you have any queries regarding any of the above, please contact me.

Yours sincerely,

Adrian Smythe
Manager, Listings Compliance (Sydney)