



INVESTMENT AND CO-OPERATION AGREEMENT

Highlights:

- Investment & Co-operation Agreement ("Agreement") with a large, Pingyao-based conglomerate (total assets approx. A\$1B) with diverse operations including ferronickel, coal mining and coking, semi coke, power generation and metal casting/extrusions.
- 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.
- New semi coke facilities to be built to produce 200,000 tpa semi coke, 20,000 tpa tar oil, and use of waste gas to support magnesium production, significantly reducing the energy costs and working capital needs.
- A\$2.7m in staged placements at ~A\$0.13 per share for approximately 12% of CMC's enlarged share capital at 445% premium to the current share price.
- New business partnering relationship which will reinvigorate the local Chinese management team

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Issued Capital:

Shares - Quoted:

149,710,454 fully paid shares

Share price (XX/12/13): 3 cents

Market cap: A\$4.5m

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 | 18.0% |
| Mr Xinping Liang | 9.7% |
| Mr Guicheng Jia | 8.0% |
| Mr Ming Li | 8.0% |

China Magnesium Corporation Limited (ASX: CMC; "CMC" or "the Company") is pleased to advise that it has executed an Investment and Co-operation Agreement with Mr Wang Feng, as representative of the Shanxi Pingyao Fengyan Coal & Coke Group Company Limited ("Fengyan"), a large, Chinese industrial conglomerate based in and around Pingyao, Shanxi Province. Fengyan has total assets of approximately A\$1B.

Fengyan and CMC intend to cooperate by utilising all assets and operations where there are synergies, and the Agreement is intended to establish a close co-operative and contractual relationship between CMC and Fengyan to create and share in the significant benefits and synergies unlocked through such co-operation.

The Agreement also provides for staged placement in CMC aggregating to RMB15 million (~A\$2.7 million) for 12% of CMC's enlarged share capital (approximately \$0.13 per share) by 7 January 2014.

CMC Managing Director, Mr Tom Blackhurst, said that the deal establishes a new business partnering relationship which will reinvigorate the local Chinese management team at its 91.25%-owned sino-foreign joint venture company.

"This is a turning point for CMC, and the benefits of this new relationship will be demonstrated over the months and years ahead".

About Fengyan

Fengyan was founded in 1996 and has evolved from coal mining into a large, integrated conglomerate with many businesses including coking, coal washing, cathode carbon blocks, gas for domestic heating, building and furniture materials, power generation, ferroalloys, railway, shipping, agriculture, real estate, hotels and industrial and commercial real estate. It has over 5,000 employees, total assets of RMB 5B (nearly A\$1B) and annual sales revenue of RMB 4B (A\$720 million).

Fengyan:

- produces 2.7 million tonnes per annum (“tpa”) of coal;
- produces 1.1 million tpa of coke;
- has a coal washing capacity of 3 million tpa;
- has 42 mega watts of power generating capacity;
- provides gas for domestic heating in Pingyao covering around 2.5 million cmpa.
- produces 50,000 tpa of cathode carbon blocks;
- produces 60,000 tpa of mineral wool;
- produces 15,000 cubic metres per annum (“cmpa”) of household bricks;
- produces 60 million cmpa of refractory bricks;
- produces 130,000 cmpa of high density board (used for furniture manufacturing);
- produces 10,000 cmpa of wood board;
- produces 10 tpa bio fuels;
- produces 2 million cmpa of insulation board;
- produces 10,000 tpa of plastic extrusions;
- produces 20,000 tpa of aluminium extrusions;
- owns and operates a four-star hotel in Pingyao;
- has a 1,500mu (1,000,000m²) industrial park development in Pingyao.
- operates a steel foundry which currently casts 30,000 tonnes of parts for diesel engines.

Further, Fengyan is presently constructing two steel furnaces in order to support annual output of 600,000 tpa of precision castings.

The steel foundry and the two steel furnaces under construction are located on the one-million-square-metre industrial park. CMC understands there are over 100 small foundries in the Pingyao area that do not meet new environmental standards and have been given notice that they need to move to the industrial park in order to continue to operate. Fengyan will be providing them with their steel requirements from the two new steel furnaces. This will also be energy saving as the steel will be delivered in molten form.

One of Fengyan’s main objectives is to further develop and integrate (both upstream and downstream) its operations, supply chains and distribution chains to maximise synergies, minimise waste and maximise use of all resources, materials, by products and waste products – aiming to establish an advanced, low carbon enterprise of low carbon cycle economy where no opportunity to add or save value is wasted. It is looking to develop or integrate with other energy intensive businesses because Fengyan produces more energy than it can consume, particularly from its coking ovens and other heat generating operations.

Fengyan is – like CMC – determined that CMC develop into one of the world’s largest magnesium producers. It is the intention of both parties – and remains CMC’s long term objective – to increase magnesium and magnesium alloy production to 105,000 tpa over time.

Compelling logic and synergies related to magnesium operations in China

Importantly, and as a major catalyst in bringing the two parties together, Fengyan has its own ferronickel production plant in Pingyao located approximately 3km from CMC's magnesium plant. Fengyan is also currently constructing an additional two steel furnaces at its industrial park in the Pingyao area, which will require a similar (approximately 200,000t) semi coke requirement to the existing ferronickel plant. CMC understands that Fengyan expects to complete these in mid-2014.

The existing ferronickel plant requires approximately 100,000 tpa of semi coke to sustain its operations and Fengyan currently purchases the semi coke from the Shenmu/Fugu area of the neighbouring Shaanxi province. One semi semi-coke carbonization furnace and its auxiliary facilities (together a "cracker") is sufficient to produce this quantity of semi-coke and, importantly, also produces by-product waste gas to sustain magnesium production. Approximately 1.6 tonnes of raw coal is typically required to produce 1 tonne of semi coke.

The rise of the semi-coking industry in the neighbouring Shaanxi province – and in particular the use of semi-coking waste gases to produce magnesium – is a major reason for the Shaanxi province recently becoming the largest and lowest cost magnesium producing province in China.

For similar reasons, CMC has agreed to construct two new semi-coke crackers within 4 months after the injection of funds by Fengyan pursuant to a placement of approximately A\$2.7m (placement to be completed by 7 January 2014 – see below for further details). CMC will build the crackers at the site of its existing 20,000 tpa capacity magnesium plant, which is held and managed via CMC existing and 91.25%-owned sino-foreign joint venture company, Shanxi Luyuan Magnesium Company Limited ("SLMC"). The total production capacity will be 200,000 tpa of semi-coke and Fengyan has agreed to purchase all of the semi-coke produced at market rates via an offtake agreement.

Consequently the working capital requirements of the combined semi coke and magnesium plants are now expected to be significantly lower than for magnesium-only production because CMC will not need to purchase coal for magnesium production and the lead time between the commencement of costs and revenues for semi coke production will be significantly less than that of magnesium production.

Another by-product of semi coke production is tar-oil, which is typically produced at the rate of 1 tonne (~7.14 barrels) of tar oil for every 10 tonnes of semi coke produced; and Fengyan has agreed to purchase all of the tar oil produced at market rates via an offtake agreement. The tar oil can potentially be refined into diesel fuel at a cost which is a fraction of the market price and with a relatively small footprint area. Although not part of any immediate plans, as Fengyan requires substantial diesel fuel for its other operations it is considered in the interests of both CMC and Fengyan to acquire the necessary plant to exploit this natural fit.

Fengyan's ferronickel plant produces significant heat which is presently available for generating electricity but for which CMC understands it presently has surplus power generating capacity. The parties have reached an in-principle understanding that SLMC's site will be connected to Fengyan's internal power grid in the near future. This will result in reduced electricity prices for SLMC.

Co-located with the ferronickel plant is Fengyan's aluminium/magnesium extrusion facility. The cooperative use of these facilities is therefore being considered as representing a near term potential for downstream processing of SLMC's magnesium alloy.

The ferronickel plant also produces a slag which contains around 16% magnesium. Although use of this slag is not part of any immediate plans, Fengyan is in the process of testing the slag for inclusion in the magnesium production process. Ferronickel itself is also the main raw material used in the production of the retorts used in magnesium reduction (i.e. production) ovens. Retorts are a consumable item that regularly collapse and require replacement. Although not part of any immediate plans, it is in the interests of both parties to exploit this natural fit where possible.

CMC's magnesium plant is also expected to produce around 5 tonnes of waste briquettes for every tonne of magnesium produced. This can be used for production of cement, and an agreement has been signed with Fengyan to purchase all of the waste briquettes produced at market rates via an offtake agreement. The cement plant with annual production of 700,000 tonnes is completed and is waiting for final signoff from the Environment Protection Bureau.

Indicative Timings

Following are indicative timings of when CMC expects certain important events to be completed by:

| | |
|---|----------------|
| Commence construction of new semi-coking crackers | Early Jan 2014 |
| Complete RMB15m (A\$2.7m) placement | 7 Jan 2014 |
| Semi-coke crackers completed | 7 May 2014 |

Compelling logic and synergies related to international trading

Fengyan produces currently 50,000 tpa of carbon black .Approximately half is currently sold on international markets to some mutual customers of CMC's trading company. Fengyan have agreed that the carbon black produced by it and currently sold overseas will be sold and distributed by CMC's trading company. Carbon black currently sells at between RMB10,000-17,000/t (A\$1,800-3,000/t).

CMC has also agreed to sell all the magnesium produced by SLMC to international markets, and CMC intends to leverage Fengyan's international product distribution networks to assist in this regard.

Changes to SLMC management and name

CMC has appointed Mr Wang as the new Chairman and legal representative of SLMC, effective immediately. Mr Wu Xiang has been appointed General Manager of SLMC effective immediately.

CMC is making application for SLMC to change its name to Shanxi Yushun Magnesium Company Limited in early 2014, subject to the approval of Shanxi Commerce Bureau in case the same name has been used by other companies.

Placement

Mr Wang will pay RMB 15 million (~A\$2,727,273) for 20,415,062 new shares to be issued CMC. Payments will be made in five equal tranches of RMB 3 million (~A\$545,455) each and the parties have agreed to complete the placements by 7 January 2014.

The proceeds of the placement will be used by CMC for the construction of two, 100,000 tpa semi-coke crackers and their auxiliary facilities at the site of CMC's 20,000tpa first phase magnesium production facilities and also the construction and building of an underground transmission cable to connect SLMC to the Fengyan power grid.

Working Capital

The Agreement does not explicitly state, but it is currently intended by both parties that Fengyan will ensure that SLMC has access to all working capital requirements to enable it to operate as both parties intend (as noted above, the working capital requirements are now expected to be significantly lower).

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