



China Magnesium Corporation Limited

Appendix 4E – Preliminary Final Report

| | |
|---|-------------------------------------|
| Name of Entity: | China Magnesium Corporation Limited |
| ABN: | 14 125 236 731 |
| Reporting Period - year ended: | 30 June 2014 |
| Previous corresponding period – period ended | 30 June 2013 |

Results for Announcement to the Market

| | Percentage change Up or Down | % | | \$'000 |
|---|------------------------------------|-----|----|---------|
| Revenue from ordinary activities | up | 83% | to | 1,491 |
| (Loss) from ordinary activities after tax attributable to members | up | 31% | to | (2,386) |
| (Loss) for the period attributable to members | up | 31% | to | (2,386) |

| Dividends | Amount per Security | Franked amount per security |
|---|---------------------|-----------------------------|
| Interim Dividend – Current reporting period | Nil | Nil |
| Final Dividend – Current reporting period | Nil | Nil |
| Record date for determining entitlements to dividends (if any) | Not applicable | |
| Date Dividend is payable | Not applicable | |
| Details of any dividend reinvestment plan in operation | Not applicable | |
| The last date for receipt of an election notice for participation in any dividend reinvestment plan | Not applicable | |

| Net Tangible Assets (NTA) | June 2014 | June 2013 |
|----------------------------------|-----------|-----------|
| Net Tangible Assets per security | 7.0 Cents | 8.2 Cents |

Brief explanation of any figures reported above necessary to enable the figures to be understood

Commentary on Results

Refer attached annual report

Dividends

No dividends were paid or declared during the period ending 30 June 2014.

Compliance Statement

This report is based on the financial report that has been audited by our external auditors.



Tom Blackhurst
Managing Director

Date: 28 August 2014

For personal use only



China Magnesium Corporation Limited

ABN 14 125 236 731

Annual Report
For the year ended 30 June 2014

For personal use only

CONTENTS

| | |
|---|----|
| Managing Director's report..... | 1 |
| Directors' report..... | 4 |
| Auditor's independence declaration | 12 |
| Corporate governance statement..... | 13 |
| Consolidated statement of profit or loss and other comprehensive income | 21 |
| Consolidated statement of financial position | 22 |
| Consolidated statement of changes in equity..... | 23 |
| Consolidated statement of cash flows..... | 24 |
| Notes to the consolidated financial statements | 25 |
| Directors' declaration | 48 |
| Independent auditor's report | 49 |
| Shareholder information..... | 51 |
| Corporate directory | 52 |

China Magnesium Corporation Limited and its subsidiaries

Managing Director's Report – 30 June 2014

Managing Director's 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.

China Magnesium Corporation Limited and its subsidiaries

Managing Director's Report – 30 June 2014

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.

China Magnesium Corporation Limited and its subsidiaries

Managing Director's Report – 30 June 2014

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

China Magnesium Corporation Limited and its subsidiaries

Directors' Report – 30 June 2014

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 2014.

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:

- Improvement and maintenance of magnesium production facilities belonging to the Group's 91.25% owned subsidiary in Shanxi Province in Northern China.
- Sale of magnesium.
- Expansion of an international trading capability and trial consignments of magnesium to Australia, Europe, Asia and the Middle East from China.

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 2014 are set out in the financial statements following page 20 of this annual report. Significant results include:

| | Consolidated | |
|-----------------------|--------------|-------------|
| | 2014 | 2013 |
| | \$ | \$ |
| Revenues | 1,490,999 | 816,321 |
| Net (loss) before tax | (2,558,922) | (1,947,985) |
| Net (loss) after tax | (2,558,922) | (1,947,985) |

Operations have commenced at Pingyao in July 2014.

There was no production or sale (2013: 83 tonnes) of magnesium from the Group's Pingyao operations in the year ended 30 June 2014. Operations were suspended during the previous financial year pending:

- [i] completion of a one for ten rights issue raising \$220,000 (before costs) by the issue of 5,495,964 shares
- [ii] negotiation and completion of an investment and cooperation agreement with Shanxi Pingyao Fengyan Coal & Coke Group Co Ltd (Fengyan),
- [iii] completion of a placement of 12% of the enlarged share capital to Fengyan pursuant to the investment and cooperation agreement
- [iv] commencement of construction & successful testing of semi-coke crackers, which enabled CMC to commence magnesium production in July 2014 using the waste semi-coke gas from the crackers instead of using the coal-to-gas facilities as originally envisaged when the magnesium plant was built.

China Magnesium Corporation Limited and its subsidiaries

Directors' Report – 30 June 2014

No dolomite (2013:17,000 cubic metres) was produced at the Group's Baiyun quarry which provides dolomite to the Group for magnesium production and other customers, including those in the steel industry. Production at the quarry has been suspended pending commencement of operations at the Group's magnesium plant.

Efforts to secure local loan funding in China for working capital continued throughout the year. In July 2013 the new Chinese Government announced that it was ending controls on bank lending rates as part of a strategy to move towards creation of a market-oriented financial system to support economic growth. The Board reaffirms its confidence that negotiated facilities will be approved and can be drawn down in the near future.

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 - 3 of this annual report.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the financial year. Notably, CMC entered into an agreement with Fengyan, a conglomerate, as covered in the Managing Director's report.

Matters subsequent to the end of the financial year

Except for the matters discussed above, no other matter or circumstance has arisen since 30 June 2014 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.

Likely developments and expected results of operations

Likely developments in the operations of the Group are:

- Construction of further semi-coke crackers at Pingyao, Shanxi Province.
- Increased production of magnesium, magnesium alloy and semi coke from the Pingyao operation.
- Increased production from the Baiyun quarry for use by the Group and for external customers.
- 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 – 3 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 by Chinese government inspectors. The directors are not aware of any matters suggesting that the Group's operations are not in full compliance with the relevant laws and regulations.

Information on directors

Thomas Blackhurst – Managing Director and co-founder.

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 20 years 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.

Information on directors (Continued)

Former directorships in last 3 years

Nil.

Special responsibilities

Managing Director.

Interests in shares and options

26,881,683 ordinary shares in the Company.

Xinping Liang BEng, MEng - Chief Operating Officer and co-founder.

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 Company to its Chinese joint venture partner 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 options

14,592,000 ordinary shares in the Company.

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 brings extensive experience in commercial and financial management with a range of leading Australian and international public companies.

Other current directorships

1300SMILES Limited

Former directorships in last 3 years

Nil

Special responsibilities

Chair of the Board.

Interests in shares and options

682,000 ordinary shares in the Company.

Information on directors (Continued)

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 28 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 19 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

1,193,896 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 14 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 2014, and the numbers of meetings attended by each director were:

| | A | B | C | D | E | F |
|--------------|----|----|---|---|---|---|
| W Bass | 15 | 15 | 2 | 2 | 1 | 1 |
| T Blackhurst | 15 | 15 | 2 | 2 | - | - |
| X Liang | 14 | 15 | 2 | 2 | - | - |
| P Robertson | 15 | 15 | 2 | 2 | 1 | 1 |

A: Director Meetings attended

B: Director Meetings held during time of office

C: Audit Committee Meetings attended

D: Audit Committee Meetings held during time of office

E: Remuneration Meetings attended

F: Remuneration Meetings held during time of office

China Magnesium Corporation Limited and its subsidiaries

Directors' Report – 30 June 2014

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 | G Edwards-Chief Financial Officer and Company Secretary (resigned 24 Sept 2013) |

Changes since the end of the reporting period: NIL

Principles used to determine the nature and amount of remuneration

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.

Since the Company listed on the Australian Securities Exchange on 9 November 2010, the primary focus of the Group has been;

- financing the upgrade and re-commissioning of existing magnesium production facilities and the building of new production capacity;
- acquisition of a dolomite quarry which provides dolomite to the Group for magnesium production and to other customers, including those in the steel industry;
- raising further equity to fund relevant acquisitions as part of the Group's vertical integration objective.

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 2014 the share price was \$0.033 (2013: \$0.06), a market capitalisation of \$5.6 million (2013 : \$8.7 million). Remuneration to date has not been dependent upon performance conditions. There has been no share-based remuneration.

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.

China Magnesium Corporation Limited and its subsidiaries
Directors' Report – 30 June 2014

Remuneration report – Audited (Continued)

| | 1 November 2010 until 1 September 2011 | From September 2011 |
|--------------------------------------|---|---------------------|
| Chairman | \$70,000pa | \$70,000pa |
| Non-executive director - P Robertson | \$35,000pa | \$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 2014 (2013 - Nil).

Details of remuneration

2014

| 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 | 64,220 | - | 5,780 | - | - | 70,000 |
| P Robertson | 48,165 | - | 4,335 | - | - | 52,500 |
| Executive directors | | | | | | |
| T Blackhurst | 350,000 | - | - | - | - | 350,000 |
| X Liang | 300,000 | - | - | - | - | 300,000 |
| Other key management personnel | | | | | | |
| G Edwards (until 24 September 2013) | 57,864 | - | 11,992 | - | - | 69,856 |
| Total | 820,249 | - | 22,107 | - | - | 842,356 |

2013

| 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 | 64,220 | - | 5,780 | - | - | 70,000 |
| P Robertson | 48,165 | - | 4,335 | - | - | 52,500 |
| Executive directors | | | | | | |
| T Blackhurst | 350,000 | - | - | - | - | 350,000 |
| X Liang | 300,000 | - | - | - | - | 300,000 |
| Other key management personnel | | | | | | |
| G Edwards | 125,020 | - | 24,980 | - | - | 150,000 |
| Total | 887,405 | - | 35,095 | - | - | 922,500 |

For personal use only

China Magnesium Corporation Limited and its subsidiaries

Directors' Report – 30 June 2014

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 3 years commencing 1 November 2010. Identical terms operate from 1 November 2013 although no service agreement has been signed. | \$350,000 | 12 months' fee |
| XP Liang , Chief Operating Officer | Consulting through Singapore Energy and Equipment Investment Pte Ltd for 3 years commencing 1 November 2010. Identical terms operate from 1 November 2013 although no service agreement has been signed. | \$300,000 | 12 months' fee |

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

The amounts payable to Messrs Blackhurst and Liang were determined prior to the Company's initial public offering having regard to remuneration for similar positions in similar sized companies. These service agreements do not fix the amount of remuneration increases from year to year. Remuneration levels are reviewed generally each year to align with changes in job responsibilities and market salary expectations.

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. There were no shares granted during the reporting year as compensation (2013: Nil).

| 2014 | | | | |
|--------------------------------------|----------------------------------|---|-------------------------------|--------------------------------|
| 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 | 620,000 | - | 62,000 | 682,000 |
| T Blackhurst | 24,517,893 | - | 2,363,790 | 26,881,683 |
| X Liang | 12,160,000 | - | 2,432,000 | 14,592,000 |
| P Robertson | 1,085,360 | - | 108,536 | 1,193,896 |
| G Edwards (resigned 24 Sept 2013) | 165,000 | - | (165,000) | - |

China Magnesium Corporation Limited and its subsidiaries Directors' Report – 30 June 2014

ii) Option holdings

There were no options over ordinary shares in the Company 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 (2013: Nil). There were no options granted during the reporting year as compensation (2013: Nil).

Other transactions with key management personnel

No transactions occurred between key management personnel and their related entities with the Group during the year (2013: Nil).

Loans to directors and executives

There were no loans to directors or executives during the year.

END OF AUDITED REMUNERATION REPORT

Shares under option

No ordinary shares of China Magnesium Corporation Limited are under option at the date of this report (2013: Nil).

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*.

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 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 on page 12.

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



Tom Blackhurst
Managing Director
Southport
28 August 2014

DECLARATION OF INDEPENDENCE BY ANTHONY WHYTE TO THE DIRECTORS OF CHINA MAGNESIUM CORPORATION LIMITED

As lead auditor of China Magnesium Corporation Limited for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of China Magnesium Corporation Limited and the entities it controlled during the period.

A J Whyte

Director



BDO Audit Pty Ltd

Brisbane, 28 August 2014

For personal use only

Corporate Governance Statement

The Board are committed to achieving and demonstrating the highest standards of corporate governance and continue to review the framework and practices to ensure they meet the interests of shareholders. The Company and its controlled entities together are referred to as the Group in this statement.

The ASX Corporate Governance Council Recommendations (“Recommendations”) that have been adopted by the Company are outlined below. Where an alternative approach has been adopted, this is outlined within the relevant section. All these practices unless otherwise stated were in place for the entire year. Instances where the Company has not adopted Recommendations are set out on the final page of this Corporate Governance Statement.

A copy is also available from the corporate governance information section of the Company website at www.chinamagnesiumcorporation.com

Principle 1: Lay solid foundations for management and oversight

The relationship between the Board and senior management is critical to the Group's long-term success. The directors are responsible to the shareholders for the performance of the Group in both the short and the longer term, and continually seek to balance competing objectives in the best interests of the Group as a whole.

Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Managing Director and senior executives.

The full Board meets at least eight times a year, with other meetings as required to address any specific significant matters that may arise.

Responsibilities

The responsibilities of the Board include:

- providing strategic guidance to the Group including contributing to the development of, and approving, the corporate strategy
- reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives
- overseeing and monitoring:
 - organisational performance and the achievement of the Group's strategic goals and objectives
 - compliance with the Company's Code of Conduct
 - progress of major capital expenditures and other significant corporate projects including any acquisitions or divestments
- monitoring financial performance including approval of the annual and half-year financial reports and liaison with the Company's auditors
- appointment, performance assessment and, if necessary, removal of the Managing Director
- ratifying the appointment and/or removal, and contributing to the performance assessment for the members of the senior management team including the Chief Operating Officer, Chief Financial Officer and Company Secretary
- ensuring there are effective management processes in place and approving major corporate initiatives
- enhancing and protecting the reputation of the organisation
- overseeing the operation of the Group's system for compliance and risk management reporting to shareholders

China Magnesium Corporation Limited and its subsidiaries Corporate Governance Statement – 30 June 2014

Principle 2: Structure the Board to add value

The Board operates in accordance with the broad principles set out in its charter. The charter details the Board's composition and responsibilities.

Board composition

The Board has not been comprised of a majority of independent non-executive directors since the resignation of Mr Michael Clarey on 7 October 2011.

- The Chair is an independent non-executive director. In recognition of the importance of independent views and the Board's role in supervising the activities of management, all directors are required to exercise independent judgement and review and constructively challenge the performance of management.
- The Chair is elected by the full Board and meets regularly with the Managing Director.
- The Company maintains a mix of directors on the Board from different backgrounds with complementary skills and experience.
- The Board undertakes an annual Board performance review and consider the appropriate mix of skills required by the Board to maximise its effectiveness and its contribution to the Group. This review process was conducted in June 2014.

The Board seeks to ensure that the size of the Board is conducive to effective discussion and efficient decision making.

The Company's Constitution specifies that all non-executive directors must retire from office no later than the third annual general meeting (AGM) following their last election. Where eligible, a director may stand for re-election, at the next AGM.

Directors' independence

The Board has adopted specific principles in relation to directors' independence. These state that to be deemed independent, a director must be non-executive and:

- not be a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company
- within the last three years, not have been employed in an executive capacity by the Company or any other Group member, or been a director after ceasing to hold any such employment
- within the last three years not have been a principal of a material professional adviser or a material consultant to the Company or any other Group member, or an employee materially associated with the service provided
- not be a material supplier or customer of the Company or any other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
- must have no material contractual relationship with the Company or a controlled entity other than as a director of the Group
- not have been on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company
- be free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

Materiality for these purposes is determined on both quantitative and qualitative bases. A transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the director's performance.

China Magnesium Corporation Limited and its subsidiaries

Corporate Governance Statement – 30 June 2014

Non-executive directors

The non-executive directors meet as required without the presence of management, to discuss the operation of the Board and a range of other matters. Relevant matters arising from these meetings are shared with the full Board.

Chair and Managing Director

The Chair is responsible for leading the Board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the Company's senior executives.

The Managing Director is responsible for implementing Group strategies and policies. The Board charter specifies that these are separate roles to be undertaken by separate people.

Commitment

Non-executive directors are expected to spend an appropriate portion of time per year preparing for and attending Board and committee meetings and associated activities.

The number of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June, and the number of meetings attended by each director is disclosed in the Directors' Report.

It is the Company's practice to allow its executive directors to accept appointments outside the Company with prior advice to the Board. At the date of the annual report no executive director has accepted an appointment outside the Company.

The commitments of non-executive directors are considered by the Board prior to the directors' appointment to the Board of the Company and are reviewed each year as part of the annual performance assessment.

Prior to appointment or being submitted for re-election, each non-executive director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the Company.

Conflict of interests

No entities connected with directors had business dealings with the consolidated entity during the year.

Independent professional advice

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense. Prior written approval of the Chair is required, but this will not be unreasonably withheld.

Board committees

The Board has established two committees, being the Audit Committee and the Remuneration and Nominations Committee.

The Board may form additional committees in future such as to deal with e.g. Risk in the future. Such function is currently discharged by the full Board.

The committee structure and membership is reviewed on an annual basis. The recommendation that the Audit Committee consist of only non-executive directors has not been adopted as all directors are members of the Audit Committee.

The Audit Committee has its own charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the Committee is to operate. This charter is reviewed on an annual basis.

The Remuneration and Nominations Committee comprises only non-executive directors. It has its own charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the Committee is to operate. This charter is reviewed on an annual basis.

China Magnesium Corporation Limited and its subsidiaries

Corporate Governance Statement – 30 June 2014

Principle 3: Promote ethical and responsible decision making

The Company has established a Code of Conduct that sets out standards which the Board, management and employees of the Company are encouraged to comply with when dealing with each other, shareholders and the broader community.

The Company requires that all directors, managers and employees perform their duties professionally and act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

The Code of Conduct gives guidance to the directors and other key executives about:

- the practices necessary to maintain confidence in the integrity of the Company; and
- the right of employees to alert management and the Board in good faith to potential misconduct without fear of retribution, and, where necessary, recording and investigation of such alerts.

The Company has a formal procedure in place to deal with the disposal or acquisition of the Company's securities. In addition, there are specific periods that trading in the Company's securities are prohibited by Director's and staff.

The Company holds regular meetings with land-owners and local communities in which it operates to ensure that effective communication provided on the Company's activities and that any relevant issues are dealt with.

The Company recognises that a diverse and talented workforce is a competitive advantage and that the Company's international success is the result of the quality and skills of our people, who are primarily resident in northern China. Our practice is to recruit and manage on the basis of qualification for the position and performance, regardless of gender, age, nationality, race, religious beliefs, cultural background, sexuality or physical ability. It is essential that the Company employs the appropriate person for each job and that each person strives for a high level of performance.

Accordingly, the Board has not adopted a formal diversity policy which includes requirements to establish measurable objectives for achieving gender diversity. At 30 June 2014, the Group employed 49 people including 5 women and there were no women senior executives or women on the Board.

Principle 4: Safeguard integrity in financial reporting

The Managing Director, Comptroller and Financial Controller are required to make the following certifications to the Board:

- that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group and are in accordance with relevant accounting standards
- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

China Magnesium Corporation Limited and its subsidiaries Corporate Governance Statement – 30 June 2014

Audit Committee

The Audit Committee currently consists of the full Board, being two independent non-executive directors and two executive directors.

The Audit Committee members have appropriate financial expertise. All members are financially literate, with Mr. Bass being a Chartered Accountant, and have an appropriate understanding of the industries in which the Group operates. During the 2014 financial year the Company did not comply with the structure set out in Recommendation 4.2 as the Audit Committee did not consist of only non-executive directors.

The Audit Committee operates in accordance with a charter that states the main responsibilities of the Committee are to:

- review, assess and approve the annual report, the half year financial report and all other financial information published by the Company or released to the market;
- assist the Board in reviewing the effectiveness of its internal control environment covering:
 - effectiveness and efficiency of operations
 - reliability of financial reporting
 - compliance with applicable laws and regulations;
- determine the scope of potential internal audit requirements;
- oversee the effective operation of the risk management framework;
- recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and assess performance;
- consider the independence and competence of the external auditor on an ongoing basis;
- review and approve the level of non-audit services provided by the external auditors and ensure it does not adversely impact on auditor independence;
- review and monitor related party transactions and assess their propriety; and
- report to the Board on matters relevant to the Committee's role and responsibilities.

In fulfilling its responsibilities, the Audit Committee:

- receives regular reports from management and external auditors;
- meets with external auditors at least two times a year, or more frequently if necessary;
- reviews the processes the Managing Director, Comptroller and Financial Controller have in place to support their certifications to the Board
- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved
- provides the external auditors with a clear line of direct communication at any time to either the Chairman of the Audit Committee or the Chairman of the Board.

The Audit Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

The Company and Audit Committee policy is to appoint external auditors who clearly demonstrate quality and independence.

The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs.

China Magnesium Corporation Limited and its subsidiaries

Corporate Governance Statement – 30 June 2014

BDO Audit Pty Ltd (“BDO”) was appointed as the external auditor for the financial year 2010 onwards. It is BDO’s policy to rotate audit engagement partners on listed companies at least every five years.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the Directors’ Report and in the Notes to the Financial Statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Audit Committee.

Principles 5: Make timely and balanced disclosure

The Company Secretary has been nominated as the person responsible for communications with the Australian Securities Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and coordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

The Company has established policies and procedures designed to ensure compliance with the ASX Listing Rule requirements such that:

- all investors have equal and timely access to material information concerning the Company, including its financial situation, performance, ownership and governance; and
- Company announcements are factual and presented in a clear and balanced way.

The Company has established policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance. The Board authorises all disclosures necessary to ensure compliance with ASX Listing Rule disclosure requirements.

Principle 6: Respect the rights of shareholders

The Board encourages shareholder communication and through the activities of its executives, ensures that shareholders are kept up to date with the Company’s activities.

The Company has policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price of the Company’s securities. These policies and procedures also include the arrangements the Company has in place to promote communication with shareholders and encourage effective participation at general meetings.

All information disclosed to the ASX is posted on the Company’s website as soon as reasonably practicable after it is disclosed to the ASX. When presentations on aspects of the Group’s operations are made, the material used in the presentation is released to the ASX and posted on the Company’s web site. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed and, if so, this information is also immediately released to the market.

A copy of the Company’s Annual Report is issued to shareholders who have requested one. In addition, the Company seeks to provide opportunities for shareholders to participate through electronic means. All Company announcements, media briefings, details of Company meetings, and audited financial reports from 2010 are available on the Company’s website.

The website also includes a feedback mechanism and an option for shareholders to register their email address for direct email updates on Company matters.

The external auditor will attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

China Magnesium Corporation Limited and its subsidiaries Corporate Governance Statement – 30 June 2014

Principle 7: Recognise and manage risk

The Managing Director, Comptroller and Financial Controller provide a written statement to the Board that:

- the integrity of the Company's financial statements are prepared on the basis that there are appropriate internal controls and that there is sufficient compliance with these controls to ensure no material misstatement of the Company's affairs and financial position;
- the Company's risk management and controls systems are operating effectively in all material respects.

During the 2014 financial year, all matters normally within the province of the risk committee were referred to the full Board of Directors.

This included responsibility for ensuring that there are adequate policies in relation to risk management, compliance and internal control systems.

In summary, the Company policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority. The Company Risk Management Policy and the operation of the risk management and compliance system are regularly reviewed by the full Board.

Detailed control procedures cover management accounting, financial reporting, project appraisal, environment, health and safety, IT security, compliance and other risk management issues. In addition, the Board requires that each major proposal submitted to the Board for decision is accompanied by an appropriate review of risks and, where required, management's proposed mitigation strategies.

The Company recognises the importance of environmental and workplace occupational health and safety (WH&S) issues and is committed to the highest levels of performance. To help meet this objective the Environmental, Health & Safety Management System was established to facilitate the systematic identification of environmental and WH&S issues and to ensure they are managed in a structured manner.

This system allows the Company to:

- monitor its compliance with all relevant legislation both in Australia and in China;
- continually assess and improve the impact of its operations on the environment;
- encourage employees to actively participate in the management of environmental and WH&S issues;
- work with relevant associations representing the Group's businesses to raise standards;
- use energy and other resources efficiently; and
- encourage the adoption of similar standards by the Group's principle suppliers, contractors and distributors.

Information on compliance with significant environmental regulations is set out in the Directors' Report.

Principle 8: Remunerate fairly and responsibly

During the 2014 financial year all matters which would normally be referred to the remuneration committee were referred to the full Board of Directors.

This included responsibility for:

- remuneration and incentive policies and practices generally, and
- making specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors.

Committee members receive regular information on recent developments on remuneration and related matters as required.

Each member of the senior executive team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description.

China Magnesium Corporation Limited and its subsidiaries Corporate Governance Statement – 30 June 2014

The performance of senior executives is assessed against Group and individual performance targets at least at the time each of their contracts are due for renewal.

The Board reviews its performance on an on-going basis to ensure that individual directors and the Board as a whole work efficiently and effectively in fulfilling their functions set out in the Charter. In addition to this, the Chairman meets annually and separately with each non-executive director to discuss individual performance and ideas for improvement.

Further information on directors' and executives' remuneration, including principles used to determine remuneration, is set out in the Directors' Report under the heading "Remuneration Report".

The Board also assumes responsibility for overseeing management succession planning, including the implementation of appropriate executive development programmes and ensuring adequate arrangements are in place, so that appropriate candidates are recruited for later promotion to senior positions.

Adoption of Principles and Recommendations

The Group has adopted the Recommendations except as noted hereunder

Recommendations 3.2 – 3.3

The Company recognises that a diverse and talented workforce is a competitive advantage and that the Company's international success is the result of the quality and skills of our people, who are primarily resident in northern China. Our practice is to recruit and manage on the basis of qualification for the position and performance, regardless of gender, age, nationality, race, religious beliefs, cultural background, sexuality or physical ability. It is essential that the Company employs the appropriate person for each job and that each person strives for a high level of performance.

In light of this, the Board has not adopted a formal diversity policy which includes requirements to establish measurable objectives for achieving gender diversity.

Recommendation 4.2

The Audit Committee did not consist of only non-executive directors and is not chaired by a person other than the Chair of the Board.

The Board believes that these exceptions to the Recommendations are appropriate given the size of the Board and the development stage of the Company.

China Magnesium Corporation Limited and its subsidiaries
Consolidated Financial Statements – 30 June 2014

Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2014

| | | Consolidated | |
|---|------|--------------------|--------------------|
| | Note | 2014 \$ | 2013 \$ |
| Revenue from continuing operations | 5 | 1,490,999 | 816,321 |
| Purchase of raw materials and consumables | | (1,489,500) | (827,118) |
| Auditing and accounting | | (78,428) | (81,036) |
| Consulting fees | | (70,784) | (204,157) |
| Depreciation and amortisation | 6 | (294,536) | (259,278) |
| Employee benefits | | (1,253,565) | (1,174,991) |
| Finance costs | | (3,163) | (24,083) |
| Foreign exchange gain/(loss) | | (29,136) | 297,167 |
| Other expenses | | (752,072) | (356,070) |
| Travel | | (78,737) | (134,740) |
| Total expenses | | <u>(4,049,921)</u> | <u>(2,764,306)</u> |
| Loss before income tax | | <u>(2,558,922)</u> | <u>(1,947,985)</u> |
| Income tax benefit | 7 | - | - |
| Loss for the year | | <u>(2,558,922)</u> | <u>(1,947,985)</u> |
| Other comprehensive income | | | |
| <i>Items that will be reclassified to profit or loss</i> | | | |
| Foreign currency translation differences | | (145,413) | 1,080,267 |
| Income tax on items of other comprehensive income | | - | - |
| Other comprehensive income for the year (net of tax) | | <u>(145,413)</u> | <u>1,080,267</u> |
| Total comprehensive income for the year | | <u>(2,704,335)</u> | <u>(867,718)</u> |
| Loss for the year is attributable to: | | | |
| Owners of the parent | | (2,385,695) | (1,814,679) |
| Non-controlling interests | | (173,227) | (133,306) |
| | | <u>(2,558,922)</u> | <u>(1,947,985)</u> |
| Total comprehensive income for the year is attributable to: | | | |
| Owners of the parent | | (2,519,012) | (819,610) |
| Non-controlling interests | | (185,323) | (48,108) |
| | | <u>(2,704,335)</u> | <u>(867,718)</u> |
| Earnings per share | | Cents | Cents |
| Basic and diluted earnings per share for the year | 26 | (1.6) | (1.3) |

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 2014

Consolidated statement of financial position as at 30 June 2014

| | | Consolidated | |
|---|------|-------------------|-------------------|
| | Note | 2014 \$ | 2013 \$ |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 8 | 1,504,896 | 3,423,478 |
| Trade and other receivables | 9 | 630,866 | 777,878 |
| Inventories | 10 | 399,436 | 360,458 |
| Other | 11 | 1,814,373 | 122,587 |
| Total Current Assets | | <u>4,349,571</u> | <u>4,684,401</u> |
| Non-current assets | | | |
| Property, plant and equipment | 12 | 12,728,083 | 12,143,139 |
| Total Non-Current Assets | | <u>12,728,083</u> | <u>12,143,139</u> |
| Total assets | | <u>17,077,654</u> | <u>16,827,540</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 13 | 2,450,475 | 2,281,169 |
| Borrowings | 14 | 862,175 | 876,500 |
| Provisions | 15 | 28,227 | 18,763 |
| Total Current Liabilities | | <u>3,340,877</u> | <u>3,176,432</u> |
| Total liabilities | | <u>3,340,877</u> | <u>3,176,432</u> |
| Net assets | | <u>13,736,777</u> | <u>13,651,108</u> |
| EQUITY | | | |
| Contributed equity | 16 | 20,114,724 | 17,324,720 |
| Reserves | 17 | 1,620,064 | 1,753,381 |
| Accumulated losses | | (8,441,852) | (6,056,157) |
| Total equity attributable to owners of the parent | | <u>13,292,936</u> | <u>13,021,944</u> |
| Non-controlling interest | | 443,841 | 629,164 |
| Total equity | | <u>13,736,777</u> | <u>13,651,108</u> |

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 2014

**Consolidated statement of changes in equity for the year ended
30 June 2014**

| | Contributed equity | Accumulated losses | Foreign currency translation reserve | Change of interest in subsidiary reserve | Total | Non- Controlling interest | Total equity |
|---|-----------------------|-----------------------|---|---|--------------------|---------------------------------|--------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| At 30 June 2012 | 16,943,760 | (4,241,478) | 239,382 | 518,930 | 13,460,594 | 677,272 | 14,137,866 |
| Loss for the year | - | (1,814,679) | - | - | (1,814,679) | (133,306) | (1,947,985) |
| <i>Other comprehensive income:</i> | | | | | | | |
| Foreign currency translation difference | - | - | 995,069 | - | 995,069 | 85,198 | 1,080,267 |
| Total comprehensive income for the year | - | (1,814,679) | 995,069 | - | (819,610) | (48,108) | (867,718) |
| Transactions with owners in their capacity as owners | | | | | | | |
| Issue of shares | 395,920 | - | - | - | 395,920 | - | 395,920 |
| Cost of share issue | (14,960) | - | - | - | (14,960) | - | (14,960) |
| At 30 June 2013 | 17,324,720 | (6,056,157) | 1,234,451 | 518,930 | 13,021,944 | 629,164 | 13,651,108 |
| Loss for the year | - | (2,385,695) | - | - | (2,385,695) | (173,227) | (2,558,922) |
| <i>Other comprehensive income:</i> | | | | | | | |
| Foreign currency translation difference | - | - | (133,317) | - | (133,317) | (12,096) | (145,413) |
| Total comprehensive income for the year | - | (2,385,695) | (133,317) | - | (2,519,012) | (185,323) | (2,704,335) |
| Transactions with owners in their capacity as owners | | | | | | | |
| Issue of shares | 2,806,975 | - | - | - | 2,806,975 | - | 2,806,975 |
| Cost of share issue | (16,971) | - | - | - | (16,971) | - | (16,971) |
| At 30 June 2014 | 20,114,724 | (8,441,852) | 1,101,134 | 518,930 | 13,292,936 | 443,841 | 13,736,777 |

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 2014

Consolidated Statement of cash flows for the year ended 30 June 2014

| | | Consolidated | |
|---|-------------|-------------------------|-------------------------|
| | Note | 2014 \$ | 2013 \$ |
| Cash flows from operating activities | | | |
| Receipts from customers | | 1,630,113 | 620,895 |
| Payments to suppliers and employees | | (3,699,475) | (3,024,723) |
| Interest received | | 13,208 | 38,093 |
| Interest and other costs of finance paid | | (3,051) | (3,373) |
| Income taxes paid | | - | - |
| Net cash inflow/(outflow) from operating activities | 25 | <u>(2,059,205)</u> | <u>(2,369,108)</u> |
| Cash flows from investing activities | | | |
| Payments for property plant and equipment | | <u>(2,877,747)</u> | <u>(903,345)</u> |
| Net cash inflow/(outflow) from investing activities | | <u>(2,877,747)</u> | <u>(903,345)</u> |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | | 2,806,975 | - |
| Share issue costs | | (16,971) | (14,960) |
| Proceeds from borrowings | | - | 603,956 |
| Net cash inflow/(outflow) from financing activities | | <u>2,790,004</u> | <u>588,996</u> |
| Net increase / (decrease) in cash and cash equivalents | | (2,146,948) | (2,683,457) |
| Cash and cash equivalents at the beginning of the year | | 3,423,478 | 5,726,387 |
| Effects of exchange rate changes on cash and cash equivalents | | <u>228,366</u> | <u>380,548</u> |
| Cash and cash equivalents at the end of the year | 8 | <u><u>1,504,896</u></u> | <u><u>3,423,478</u></u> |

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

Notes to the consolidated financial statements

| | |
|--|----|
| NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES..... | 26 |
| NOTE 2: FINANCIAL RISK MANAGEMENT | 35 |
| NOTE 3: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS | 37 |
| NOTE 4: SEGMENT INFORMATION | 38 |
| NOTE 5: REVENUE..... | 38 |
| NOTE 6: EXPENSES..... | 38 |
| NOTE 7: INCOME TAX BENEFIT..... | 39 |
| NOTE 8: CURRENT ASSETS – CASH AND CASH EQUIVALENTS | 40 |
| NOTE 9: CURRENT ASSETS – TRADE AND OTHER RECEIVABLES..... | 40 |
| NOTE 10: CURRENT ASSETS - INVENTORIES | 40 |
| NOTE 11: CURRENT ASSETS - OTHER..... | 40 |
| NOTE 12: NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT..... | 40 |
| NOTE 13: CURRENT LIABILITIES – TRADE AND OTHER PAYABLES | 41 |
| NOTE 14: CURRENT LIABILITIES –BORROWINGS..... | 41 |
| NOTE 15: CURRENT LIABILITIES – PROVISIONS..... | 41 |
| NOTE 16: CONTRIBUTED EQUITY | 42 |
| NOTE 17: RESERVES..... | 43 |
| NOTE 18: REMUNERATION OF AUDITORS..... | 43 |
| NOTE 19: CONTINGENCIES | 43 |
| NOTE 20: COMMITMENTS | 43 |
| NOTE 21: RELATED PARTY TRANSACTIONS..... | 44 |
| NOTE 22: PARENT ENTITY DISCLOSURES | 44 |
| NOTE 23: SUBSIDIARIES AND TRANSACTIONS WITH NON-CONTROLLING INTERESTS..... | 45 |
| NOTE 24: RECONCILIATION OF PROFIT / (LOSS) AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES | 46 |
| NOTE 25: EARNINGS PER SHARE..... | 47 |

China Magnesium Corporation Limited and its subsidiaries

Notes to the Consolidated Financial Statements - 30 June 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are for the consolidated entity consisting of China Magnesium Corporation Limited and its subsidiaries.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board 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

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements of China Magnesium Corporation Limited comply with International Financial Reporting Standards (IFRS).

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 AIFRS 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 2014 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 24) 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) 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 and magnesium alloys. There have been no changes

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

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.

(e) 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 and United States Dollar. The results and financial position of foreign operations (none of which has the currency of a 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.

(f) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of discounts, refunds, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that the future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Revenue is recognised for the major business activities as follows:

(i) Sale of magnesium, magnesium alloys and dolomite

The Group sells magnesium, magnesium alloys and dolomite.

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 purchasers 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.

(g) Income Tax

The income tax expense or revenue 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.

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.

(h) Leases

Leases of property, plant and equipment, where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term liabilities. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each year.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the term of the lease.

(i) 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.

(j) 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.

(k) 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 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.

(l) 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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

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.

(m) 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.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

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.

(n) 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
- Quarry 10 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.

(o) 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.

(p) 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

(q) 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.

(r) 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 national government 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

(s) 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.

(t) 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.

(u) 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.

(v) 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

(w) New accounting standards and interpretations

No new or revised Australian Accounting Standards that have been issued but not yet effective have been applied in the preparation of these financial statements. Such standards are not expected to have a material impact on the Group's financial report on initial application.

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 instruments from which financial instrument risk arises 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.

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2014

NOTE 2: FINANCIAL RISK MANAGEMENT (Continued)

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 2014 was AUD \$3,808,507 (2013: AUD \$3,817,180). These payables and capital commitments are expected to be settled within six months when production resumes. A change of 10% + or – in the exchange rate of the Australian Dollar to the Chinese Renminbi would have an impact on Other Comprehensive Income of an increase of AUD \$346,228 (2013: AUD\$347,016) or a decrease of AUD\$423,167 (2013: AUD \$424,131), respectively.

Foreign exchange risk arises from the Group's cash holdings in Singapore Dollars. At 30 June 2014 the Group held AUD\$764,049 in Singapore Dollars (2013: AUD\$3,058,599). A change of 10% + or – in the exchange rate of the Australian Dollar to the Singapore Dollar would have an impact on Other Comprehensive Income of a decrease of AUD \$69,459 (2013: AUD \$278,054) or an increase of AUD \$84,894 (2013: AUD \$339,844), respectively.

Foreign exchange risk also arises from the Group's cash holdings and trade receivables in United States Dollars. At 30 June 2014 the Group had cash holdings and receivables of AUD\$313,573 in United States Dollars (2013: AUD\$226,427). A change of 10% + or – in the exchange rate of the Australian Dollar to the United States Dollar would have an impact on Other Comprehensive Income of a decrease of AUD \$28,507 (2013: AUD \$25,458) or an increase of AUD \$34,841 (2013: AUD \$32,844), respectively.

(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 continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Maturities of financial liabilities

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Consolidated 2014 | | | |
|--------------------------|------------------------------|-------------------------|---------------------------------|--------------------------|
| | \$ 0 to 6 months | \$ 6 to 12 months | \$ Greater than 12 months | \$ Carrying Amount |
| Secured loan | 862,175 | - | - | 862,175 |
| Trade and other payables | 875,736 | 1,574,739 | - | 2,450,475 |
| | 1,737,911 | 1,574,739 | - | 3,312,650 |

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2014

| | Consolidated 2013 | | | |
|--------------------------|------------------------|-------------------------|---------------------------------|--------------------------|
| | \$ 0 to 6 months | \$ 6 to 12 months | \$ Greater than 12 months | \$ Carrying Amount |
| Secured loan | 876,500 | - | - | 876,500 |
| Trade and other payables | 2,281,169 | - | - | 2,281,169 |
| | 3,157,669 | - | - | 3,157,669 |

(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: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

The Group incurred a net loss of \$2,558,922 and an operating cash outflow of \$2,059,205 for the financial year ended 30 June 2014. At that date the Group was in a net current asset position of \$1,008,694. Included in net current assets are prepaid capital expenditure of \$1,724,000 and VAT receivable of \$531,557 that will only be recovered once the Group generates sufficient income in China. Also included in net current assets are trade creditors of \$1,574,739 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 commenced production subsequent to 30 June 2014.

The Group also has \$999,651 capital commitments in relation to its Pingyao operations. Further details are provided in Note 21.

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

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, and
- Pingyao plant is projected to contribute to positive cash flow by 1 March 2015

Should all 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. No adjustments have been made to the financial statements relating to the recoverability and classification of the assets and carrying amount and classification of the liabilities should the directors' assumptions not eventuate.

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2014

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, magnesium alloys and related products. There have been no changes in the operating segments during the year. 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.

(b) Entity-wide disclosures

Consolidated revenues from each product or service;

| | Magnesium and by- products | Total |
|-------------|---------------------------------------|--------------|
| | \$ | \$ |
| 2014 | 1,477,791 | 1,477,791 |
| 2013 | 778,228 | 778,228 |

During the year \$1,477,791 (2013: \$423,240) product revenue was derived from magnesium trading activities conducted through Singapore.

All of the Group's property, plant and equipment is located in the People's Republic of China except for \$9,991 (2013-\$18,007) of plant and equipment that is located in Australia.

NOTE 5: REVENUE

| | Consolidated | |
|---|---------------------|----------------|
| | 2014 | 2013 |
| | \$ | \$ |
| From continuing operations | | |
| <i>Sales revenue</i> | | |
| Revenue from sale of magnesium and related products | 1,477,791 | 778,228 |
| <i>Other revenue</i> | | |
| Interest | 13,208 | 38,093 |
| Total revenue from operations | <u>1,490,999</u> | <u>816,321</u> |

NOTE 6: EXPENSES

Profit/(loss) before income tax includes the following specific expenses:

| | | |
|--|----------------|----------------|
| <i>Depreciation</i> | | |
| Buildings | 19,351 | 17,029 |
| Vehicles | 16,506 | 14,525 |
| Plant and equipment | 179,951 | 158,443 |
| <i>Amortisation</i> | | |
| Leasehold Land | 24,850 | 47,413 |
| Quarry | 53,878 | 21,868 |
| Total depreciation and amortisation | <u>294,536</u> | <u>259,278</u> |

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2014

NOTE 6: EXPENSES (Continued)

| | Consolidated | |
|---|--------------|--------|
| | 2014 | 2013 |
| | \$ | \$ |
| Finance Costs | | |
| Interest and finance charges paid/payable | 3,163 | 24,083 |
| <i>Rental expenses relating to operating leases</i> | | |
| Minimum lease payments | 49,226 | 66,253 |
| Defined contributions superannuation expense | 35,426 | 41,635 |
| Other expenses | | |
| Provision for impairment on refundable deposit | 507,820 | - |

NOTE 7: INCOME TAX BENEFIT

| | | |
|--|------------------|------------------|
| (a) Income tax benefit | | |
| Current tax | (528,508) | (673,668) |
| Deferred tax | (135,301) | 72,826 |
| Tax losses not recognised | 663,809 | 600,842 |
| Income tax benefit | <u>-</u> | <u>-</u> |
| (b) Reconciliation of income tax benefit to prima facie tax payable | | |
| Profit/(loss) from continuing operations before income tax expense | (2,558,922) | (1,947,985) |
| Tax at the Australian tax rate of 30% (2013:30%) | (767,677) | (584,396) |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Blackhole expenditure recovered | (23,640) | (141,291) |
| Foreign exchange translation differences | 9,075 | 13,593 |
| Other permanent differences | 311 | 821 |
| | <u>(14,254)</u> | <u>(126,877)</u> |
| Difference in overseas tax rate | 118,122 | 110,430 |
| Tax losses not recognised | 663,809 | 600,842 |
| Income tax expense/(credit) | <u>-</u> | <u>-</u> |
| (c) Unrecognised deferred tax assets | | |
| Deferred tax assets at the applicable tax rate have not been recognised for the following: | | |
| Unused tax losses | 2,273,853 | 1,780,089 |
| Deductible temporary differences | 269,861 | 134,290 |
| | <u>2,543,714</u> | <u>1,914,379</u> |

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2014

NOTE 8: CURRENT ASSETS – CASH AND CASH EQUIVALENTS

| | | |
|--------------------------|------------------|------------------|
| Cash at bank and in hand | 923,371 | 3,161,406 |
| Deposits at call | 581,525 | 262,072 |
| | <u>1,504,896</u> | <u>3,423,478</u> |

Cash at bank and in hand earn interest rates between zero and 1.0% (2013: zero and 1.0%). Deposits at call earn a floating interest rate of around 3.04% (2013: 3.29%).

NOTE 9: CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

| | Consolidated | |
|----------------------------------|----------------|----------------|
| | 2014 | 2013 |
| | \$ | \$ |
| Trade debtors | - | 142,820 |
| Other debtors | 630,866 | 635,058 |
| Refundable Deposit | 507,820 | - |
| Provision for Refundable Deposit | (507,820) | - |
| | <u>630,866</u> | <u>777,878</u> |

NOTE 10: CURRENT ASSETS – INVENTORIES

| | Consolidated | |
|--------------------------------|----------------|----------------|
| | 2014 | 2013 |
| | \$ | \$ |
| Raw materials and stores | 188,570 | 209,846 |
| Finished goods | 210,866 | 150,612 |
| Total inventory at cost | <u>399,436</u> | <u>360,458</u> |

Inventory expense: Inventories recognised as expense during the year ended 30 June 2014 amounted to \$1,489,500 (2013 – \$827,118).

NOTE 11: CURRENT ASSETS - OTHER

| | Consolidated | |
|-------------------------------------|------------------|----------------|
| | 2014 | 2013 |
| | \$ | \$ |
| Other assets - Current | | |
| Prepayments | 1,814,373 | 122,587 |
| Total other assets - Current | <u>1,814,373</u> | <u>122,587</u> |

NOTE 12: NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

| Consolidated | Assets under construction | Leasehold Land | Quarry | Buildings | Vehicles | Plant & equipment | Total |
|--------------------------------|---------------------------|------------------|----------------|----------------|---------------|-------------------|-------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Year ended 30 June 2014 | | | | | | | |
| Opening net book amount | 8,035,090 | 1,143,212 | 720,395 | 258,394 | 47,544 | 1,938,504 | 12,143,139 |
| Exchange differences | (131,092) | (17,943) | (10,618) | (3,664) | (305) | (26,404) | (190,026) |
| Additions | 1,069,506 | - | - | - | - | - | 1,069,506 |
| Depreciation / amortisation | - | (24,850) | (53,878) | (19,351) | (16,506) | (179,951) | (294,536) |
| Closing net book amount | <u>8,973,504</u> | <u>1,100,419</u> | <u>655,899</u> | <u>235,379</u> | <u>30,733</u> | <u>1,732,149</u> | <u>12,728,083</u> |

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2014

NOTE 12: NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT (Continued)

At 30 June 2014

| | | | | | | | |
|---|-----------|-----------|----------|-----------|----------|-----------|-------------|
| Cost | 8,973,504 | 1,207,080 | 732,784 | 340,580 | 84,375 | 2,690,453 | 14,028,776 |
| Accumulated depreciation / amortisation | - | (106,661) | (76,885) | (105,201) | (53,642) | (958,304) | (1,300,693) |
| Net Book amount | 8,973,504 | 1,100,419 | 655,899 | 235,379 | 30,733 | 1,732,149 | 12,728,083 |

Year ended 30 June 2013

| | | | | | | | |
|-----------------------------|-----------|-----------|----------|----------|----------|-----------|------------|
| Opening net book amount | 6,304,616 | 1,074,938 | 669,296 | 249,328 | 57,362 | 1,889,823 | 10,245,363 |
| Exchange differences | 712,522 | 115,687 | 72,967 | 26,095 | 4,707 | 192,395 | 1,124,373 |
| Additions | 1,017,952 | - | - | - | - | 14,729 | 1,032,681 |
| Depreciation / amortisation | - | (47,413) | (21,868) | (17,029) | (14,525) | (158,443) | (259,278) |
| Closing net book amount | 8,035,090 | 1,143,212 | 720,395 | 258,394 | 47,544 | 1,938,504 | 12,143,139 |

At 30 June 2013

| | | | | | | | |
|---|-----------|-----------|----------|----------|----------|-----------|-------------|
| Cost | 8,035,090 | 1,227,100 | 744,937 | 346,229 | 85,775 | 2,734,455 | 13,173,586 |
| Accumulated depreciation / amortisation | - | (83,888) | (24,542) | (87,835) | (38,231) | (795,951) | (1,030,447) |
| Net Book amount | 8,035,090 | 1,143,212 | 720,395 | 258,394 | 47,544 | 1,938,504 | 12,143,139 |

NOTE 13: CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

| | Consolidated | |
|-----------------------------|------------------|------------------|
| | 2014 | 2013 |
| | \$ | \$ |
| Trade payables | 1,304 | 73,841 |
| Other payables and accruals | 2,449,171 | 2,207,328 |
| | 2,450,475 | 2,281,169 |

NOTE 14: CURRENT LIABILITIES –BORROWINGS

| | Consolidated | |
|--------------|----------------|----------------|
| | 2014 | 2013 |
| | \$ | \$ |
| Secured loan | 862,175 | 876,500 |
| | 862,175 | 876,500 |

The loan is secured over land-use-rights in China. The loan is due to be repaid in September 2014 and bears interest at 13.68% (2013: 7.8%). The directors anticipate that the loan will be rolled over on approximately the same terms as the current facility, but at a lower interest rate.

NOTE 15: CURRENT LIABILITIES – PROVISIONS

| | Consolidated | |
|-------------------|---------------|---------------|
| | 2014 | 2013 |
| | \$ | \$ |
| Employee benefits | 28,227 | 18,763 |
| | 28,227 | 18,763 |

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2014

NOTE 16: CONTRIBUTED EQUITY

| | Consolidated 2014 Shares | Consolidated 2013 Shares | Consolidated 2014 \$ | Consolidated 2013 \$ |
|--|--|--------------------------------|----------------------------|----------------------------|
| (a) Share capital | | | | |
| Ordinary shares fully paid | 170,125,516 | 144,214,490 | 20,114,724 | 17,324,720 |
| (b) Movements in ordinary share capital | | | | |
| Date | Details | Number of shares | Issue price | \$ |
| 1 July 2012 | Balance | 142,894,755 | | 16,943,760 |
| 3 July 2012 | Share placement | 1,319,735 | 0.30 | 395,920 |
| | Less: Transaction costs of share issues | - | - | (14,960) |
| 30 June 2013 | Balance | 144,214,490 | | 17,324,720 |
| 21 November 2013 | Rights Issue | 5,495,964 | 0.04 | 219,839 |
| 30 April 2014 | Share placement | 20,415,062 | 0.13 | 2,587,137 |
| | Less: Transaction costs of share issues | - | - | (16,972) |
| 30 June 2014 | Balance | 170,125,516 | | 20,114,724 |

(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 2014 (2013: nil).

(e) Options

There are no unissued ordinary shares of China Magnesium Corporation Limited under option at the date of this report (2013: nil).

(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.

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2014

NOTE 17: RESERVES

| | Consolidated | |
|--|------------------|------------------|
| | 2014 | 2013 |
| | \$ | \$ |
| Foreign currency translation reserve | 1,101,134 | 1,234,451 |
| Change of interest in subsidiary reserve | 518,930 | 518,930 |
| Total reserves | <u>1,620,064</u> | <u>1,753,381</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 18: REMUNERATION OF AUDITORS

| | Consolidated | |
|---|---------------|---------------|
| | 2014 | 2013 |
| | \$ | \$ |
| i) Audit services | | |
| BDO Audit Pty Ltd | | |
| Audit and review of financial reports | 61,200 | 61,128 |
| Total remuneration for audit services | <u>61,200</u> | <u>61,128</u> |
| ii) Non-audit services | | |
| BDO Audit Pty Ltd and related entities | | |
| Advisory services | - | 820 |
| Total remuneration for non-audit services | <u>-</u> | <u>820</u> |

NOTE 19: CONTINGENCIES

The Group is not aware of any contingent liability.

NOTE 20: 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:

| | | |
|--|----------------|------------------|
| Within one year | - | 1,016,467 |
| Later than one year but no later than five years | 999,651 | - |
| Later than five years | - | - |
| | <u>999,651</u> | <u>1,016,467</u> |

For personal use only

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2014

NOTE 20: COMMITMENTS (Continued)

(b) Lease commitments :

Commitments in relation to non-cancellable operating leases for premises not recognised as liabilities, payable:

| | | |
|--|----------------|---------------|
| Within one year | 46,319 | 28,635 |
| Later than one year but no later than five years | 95,901 | - |
| Later than five years | - | - |
| | <u>142,220</u> | <u>28,635</u> |

NOTE 21: 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 24.

(c) Key management personnel

| | Consolidated | |
|------------------------------|----------------|----------------|
| | 2014 | 2013 |
| | \$ | \$ |
| Short term employee benefits | 820,249 | 887,405 |
| Post-employment benefits | <u>22,107</u> | <u>35,095</u> |
| | <u>842,356</u> | <u>922,500</u> |

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

NOTE 22: PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ended 30 June 2014 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) Summary financial information

| | 2014 | 2013 |
|---|-------------------|-------------------|
| | \$ | \$ |
| Result of parent entity | | |
| Profit / (loss) for the year after tax | (273,921) | (143,557) |
| Other comprehensive income | - | - |
| Total comprehensive income for the year | <u>(273,921)</u> | <u>(143,557)</u> |
| Financial position of parent entity at year end | | |
| Current assets | 7,604,385 | 4,958,875 |
| Non-current assets | <u>9,141,497</u> | <u>9,149,514</u> |
| Total assets | <u>16,745,882</u> | <u>14,108,389</u> |
| Current liabilities | <u>(164,581)</u> | <u>(121,614)</u> |
| Total liabilities | <u>(164,581)</u> | <u>(121,614)</u> |

For personal use only

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2014

NOTE 22: PARENT ENTITY DISCLOSURES
(Continued)

| | | |
|----------------------|-------------|-------------|
| Net assets | 16,581,301 | 13,986,775 |
| Contributed equity | 20,114,724 | 17,324,720 |
| Accumulated (losses) | (3,533,423) | (3,337,945) |
| Total equity | 16,581,301 | 13,986,775 |

b) Guarantees entered into by the parent entity

The parent entity has not entered into any guarantees in respect of its subsidiaries (2013 – nil).

c) Contingent liabilities

The Group is not aware of any contingent liability.

d) Contractual commitments

Nil

NOTE 23: SUBSIDIARIES AND TRANSACTIONS WITH NON-CONTROLLING INTERESTS (NCI)

Interests in subsidiaries

Information relating to the group's interests in principal subsidiaries at 30 June 2014 is set out below:

| Name of entity | Country of incorporation | Group holding 2014 % | Group holding 2013 % | NCI holding 2014 % | NCI holding 2013 % |
|-------------------------------------|--------------------------|----------------------|----------------------|--------------------|--------------------|
| 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 |

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

The proportion of ownership interests is equal to the proportion of voting power held.

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.

| Summarised statement of financial position | SYMC 2014 \$ | SYMC 2013 \$ |
|--|--------------|--------------|
| Current assets | 5,483,963 | 2,973,638 |
| Non-current assets | 9,800,299 | 10,035,359 |
| Total assets | 15,284,262 | 13,008,998 |
| Current liabilities | (10,211,792) | (5,818,552) |
| Non-current liabilities | - | - |
| Total liabilities | (10,211,792) | (5,818,552) |
| Net assets | 5,072,470 | 7,190,446 |
| Accumulated NCI | 443,841 | 629,164 |

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2014

NOTE 23: SUBSIDIARIES AND TRANSACTIONS WITH NON-CONTROLLING INTERESTS (NCI) (Continued)

| Summarised statement of profit or loss and other comprehensive income | SYMC 2014 \$ | SYMC 2013 \$ |
|--|-----------------------------|-----------------------------|
| Loss for the period | (1,979,738) | (1,947,985) |
| Other comprehensive income | (138,238) | 1,080,000 |
| Total comprehensive income | (2,117,976) | (867,718) |
| Loss allocated to NCI | (185,323) | (48,108) |
| Dividends paid to NCI | 0 | 0 |

| Summarised cash flows | SYMC 2014 \$ | SYMC 2013 \$ |
|--|-----------------------------|-----------------------------|
| Cash flows from operating activities | (312,051) | (247,922) |
| Cash flows from investing activities | (2,877,747) | (902,002) |
| Cash flows from financing activities | 3,103,829 | 901,328 |
| Effect of exchange rate changes | 116,269 | 10,939 |
| Net increase/(decrease) in cash and cash equivalents | 30,299 | (237,658) |

Significant restrictions

Cash held in China is subject to exchange control regulations and as such, there are restrictions on the amount of dividend that can be paid by SYMC. The carrying amount of cash in the consolidated financial statements which these restrictions apply is \$30,907 (2013: \$608)

NOTE 24: RECONCILIATION OF PROFIT / (LOSS) AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

| | Consolidated | |
|---|---------------------|--------------------|
| | 2014 \$ | 2013 \$ |
| Profit/(loss) for the year | (2,558,922) | (1,947,985) |
| Depreciation and amortisation | 294,536 | 259,278 |
| Foreign exchange loss/(gain) | 29,136 | (297,167) |
| Decrease (increase) in trade and other receivables | 147,012 | 26,566 |
| Decrease (increase) in prepayments | (125,676) | 1,308 |
| Decrease (increase) in inventories | (38,978) | (162,729) |
| (Decrease) Increase in trade and other payables | (338,514) | (244,856) |
| (Decrease) Increase in other provisions | 532,201 | (3,523) |
| | - | - |
| Net cash inflows / (outflows) from operating activities | <u>(2,059,205)</u> | <u>(2,369,108)</u> |

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2014

NOTE 25: EARNINGS PER SHARE

| | 2014 Cents | 2013 Cents |
|---|-----------------------|-----------------------|
| Basic earnings / (loss) per share | (1.6) | (1.3) |
| Diluted earnings / (loss) per share | (1.6) | (1.3) |
| | \$ | \$ |
| Net loss for the year attributable to owners of the parent used to calculate loss per share – basic and diluted | 2,385,695 | 1,814,679 |
| | Number | Number |
| Weighted average number of ordinary shares outstanding during the year used to calculate basic and diluted loss per share | 150,954,016 | 144,203,643 |

For personal use only

China Magnesium Corporation Limited and its subsidiaries

Directors' Declaration - 30 June 2014

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 2014 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 8 to 11 complies with Section 300A of the *Corporations Act 2001*.

The Directors have been given the declarations by the Chief Executive Officer and Financial Controller 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
28 August 2014

INDEPENDENT AUDITOR'S REPORT

To the members of China Magnesium Corporation Limited

Report on the Financial Report

We have audited the accompanying financial report of China Magnesium Corporation Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility 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 Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of China Magnesium Corporation Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

For personal use only

Opinion

In our opinion:

the financial report of China Magnesium Corporation Limited is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(a).

Emphasis of matter

Without modifying our opinion, we draw attention to Note 3 in the financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon the Pingyao operation contributing to the cash flow of the Group and the continued financial support from creditors that have agreed to extended terms of payment. These conditions, along with other matters as set out in Note 3, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 11 of the directors' report for the year ended 30 June 2014. 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.

Opinion

In our opinion, the Remuneration Report of China Magnesium Corporation Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

BDO Audit Pty Ltd



A J Whyte

Director

Brisbane, 28 August 2014

For personal use only

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 13 AUGUST 2014

(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 | 146 |
| 10,001 - 100,000 | 262 |
| 5,001 - 10,000 | 94 |
| 1,001 - 5,000 | 68 |
| 1 - 1,000 | 12 |
| Total | 582 |

There were 153 holders of less than a marketable parcel of ordinary shares. There is currently no on-market buy-back of the Company's securities.

(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 THOMAS TROY BLACKHURST | 26,881,683 | 15.80% |
| SHANXI PINGYAO FENGYAN COAL & COKE GROUP CO LTD | 20,415,062 | 12.00% |
| MR XINPING LIANG | 14,592,000 | 8.58% |
| MR GUICHENG CHIA | 12,000,000 | 7.05% |
| MR MING LI | 12,000,000 | 7.05% |
| DATO LEE HAN SIEW | 7,000,000 | 4.11% |
| MR ONG HOCK SEONG | 6,197,348 | 3.64% |
| JOHN WARDMAN & ASSOC PL | 3,600,000 | 2.12% |
| H & R GERAS PL | 2,786,019 | 1.64% |
| PLUMMER JOHN CHARLES | 2,280,000 | 1.34% |
| MR CLIVE THOMAS | 1,890,000 | 1.11% |
| CUSTODIAL SERVICES LTD | 1,809,500 | 1.06% |
| WASHINGTON H SOUL PATTINSON | 1,714,286 | 1.01% |
| MCGEE CONSTRUCTIONS PL | 1,600,000 | 0.94% |
| CARMANT PL | 1,486,752 | 0.87% |
| DRYCA PL | 1,300,000 | 0.76% |
| MR PETER ROBERTSON | 1,193,896 | 0.70% |
| GDJ MECHANICAL INSTALLATI | 1,108,000 | 0.65% |
| MCCALL JULIE GAY | 1,000,010 | 0.59% |
| PERCY MATTHEW REX | 916,500 | 0.54% |
| Top 20 total | 121,771,046 | 72% |
| Others | 48,354,470 | 28% |
| Total as at 13 August 2014 | 170,125,516 | 100.00% |

China Magnesium Corporation Limited and its subsidiaries

Corporate Directory

Shareholder information (Continued)

(c) Substantial holders

Substantial holders in the Company are set out below:

| Ordinary Shares | Number Held | Percentage |
|---|-------------------|---------------|
| MR THOMAS TROY BLACKHURST SHANXI PINGYAO FENGYAN COAL & COKE GROUP CO LTD | 26,881,683 | 15.80% |
| MR XINPING LIANG | 20,415,062 | 12.00% |
| MR MING LI | 14,592,000 | 8.58% |
| MR GUICHENG CHIA | 12,000,000 | 7.05% |
| | 12,000,000 | 7.05% |
| | 85,888,745 | 50.48% |

(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

www.chinamagnesiumcorporation.com
www.chinamagnesiumcorporation.cn

Lawyers

Thomson Geer
Level 16 Waterfront Place
1 Eagle Street
Brisbane QLD 4000
Australia

Share Registry

Security Transfer Registrars Pty Ltd
770 Canning Highway
APPLECROSS WA 6153
Australia

Registered Office

Seabank Building Level 10
12 –14 Marine Parade
Southport, QLD 4215 Australia
Telephone: +61 7 5531 1808
Facsimile: +61 7 5591 1059

Auditor

BDO Audit Pty Ltd
Level 10, 12 Creek Street
Brisbane QLD 4000 Australia