



HALF-YEAR UPDATE

Highlights:

- Recommended minimal scale production.
- Production ramp up subject to working capital finance, for which draw down is expected early March.
- Targeting full production ramp up by 30 June 2013
- Ferrosilicon acquisition pending updated due diligence review.

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PO Box 3767
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Issued Capital:
Shares - Quoted:
144,214,490 fully paid shares

Share price (25/02/13): 10 cents

Market cap: A\$14.4m

Cash as at 31 December 2012:
\$4.15 million

Directors:
William Bass
(Non-Executive Chairman)
Tom Blackhurst
(Managing Director)
Xinping Liang
(Chief Operating Officer)
Peter Robertson
(Non-Executive Director)

Substantial shareholders:

Mr Tom Blackhurst	16.8%
Mr Xinping Liang	8.3%
Mr Guicheng Jia	8.3%
Mr Ming Li	8.3%

China Magnesium Corporation Limited (ASX: CMC; "CMC" or "the Company") which is set to become one of the largest, low cost, vertically integrated producers of magnesium and magnesium alloy in the world is pleased to provide the following half-year update:-

Magnesium operation (91.25% CMC)

The half-year to 31 December 2012 includes minimal-scale production (83 tonnes of pure magnesium over the half year), from the upgraded and expanded magnesium plant in Pingyao (Shanxi Province, Northern China), which commenced in late October, albeit at a very small fraction of its nameplate capacity. Upon recommencement of production following integration of the new and old plants, activity in the period was severely limited as negotiations to finalise local working capital funding in China, which the Directors believe is the most appropriate funding option for working capital at the magnesium plant, became protracted for reasons outside CMC's control. There has been negligible alloy production as the typical customer delivery and payment terms require 60-90 days of working capital (hence the need for working capital financing).

Following finalization of negotiations with Chinese banking institutions (see below) and local partners, the Company is targeting full production ramp up by 30 June 2013.

Chinese working capital funding term sheet

The lengthy delay in obtaining new working capital financing has been frustrating, particularly as finalizing of negotiations has typically been 'imminent' for much of 2012. However, the Company received – just prior to Chinese new year (10 February 2013) – a term sheet from the Industrial and Commercial Bank of China for a one-year working capital loan of RMB30M (A\$4.6M) on commercial terms, which the Company expects to be available for draw down in the week beginning 4 March 2013 (ie, shortly after the end of Chinese new year celebrations/vacations).

Dolomite quarry (91.25% CMC)

The Baiyun dolomite quarry produced 16,760 cubic metres of dolomite, during the half year to December, which was sold into the local market. The Company has recently suspended operations at the dolomite quarry until the Company commences its ramp up to full magnesium production, for which the quarry is on standby to recommence and significantly increase production.

Ferrosilicon operation (acquiring 100%)

The Company's acquisition of Chinese ferrosilicon producer Ningxia Tianjing Tianda Metals Smelting Co Ltd ("NTTMS") is pending an updated due diligence review by the Company to account for the time elapsed since the original agreement was struck in November 2011. Both the vendor and the Company still intend to proceed with the acquisition (subject to satisfactory completion of the due diligence review). Although

the Company is currently making preparations to complete the acquisition before the end of April, it will advise the market as to the expected timing of completion when it has sufficient clarity in respect of timing.

Commencement of trading desk

Since the end of the half year, the Company has commenced an international trading desk, supported by the necessary bank financing arrangements, to leverage management's extensive network – particularly in China – and to assist the international brand-building with respect to its anticipated magnesium and ferrosilicon production. Although it remains CMC's strategy to sell the vast majority of its first phase production within China, the Company believes that establishing a presence in international markets will strengthen the case for future expansion.

The Company has arranged to use London Metal Exchange-approved warehousing facilities in Rotterdam to facilitate (risk minimized/managed/hedged) market penetration in the EU market for magnesium, ferrosilicon and various other commodities.

Examples of supply agreements that have recently been arranged (shipment pending) include pure magnesium (200 tonnes per month), ferro niobium and ferrosilicon (1,000 tpm).

Plant expansion and future developments

The Company will consider expanding its operations within China and developing opportunities in other regions.

In addition to the ferrosilicon acquisition, the Company is considering a number of options including the further expansion of the plant, value adding downstream processing alternatives, and other opportunities near the current magnesium operations and elsewhere. The Company expects to make more substantive progress with respect to one or more of these options in second half of this 2013 calendar year, after the Company has successfully ramped up production from its first phase expansion (20,000tpa nameplate capacity).

To ready the Company in this regard and provide it with some flexibility, the Company has already executed (in October 2012) an agreement for lease of an additional 90Mu (60,000m²; approximately the same size as the land parcel used for the first phase expansion) of land adjacent to the Company's Pingyao magnesium plant. The lease runs until 2061 and the land has its own water bore, which is expected to provide sufficient water to meet magnesium production requirements up to a capacity of 105,000tpa. The lease of this land, on attractive commercial terms, represents a substantial saving in potential capital expenditure compared to purchasing the underlying land use rights, as occurred for the first phase expansion.

Equity Funding

On 3 December 2012, the Company signed a memorandum of understanding for a share placement to, and co-operation with, Shen Zhen Te Ji Industry Co.,Ltd, ("SZTJI") a property and investment conglomerate incorporated in China.

The memorandum provides for SZTJI to subscribe for shares in the Company to the value of RMB30 million (approximately A\$4.5 million), at A\$0.35 per share. This equates to approximately 12.8 million shares or 8.1% of the post-issue capital.

The Company does not expect to complete the share placement before April.

Appendix 4D – summary

The Company reported for the half year ended 31 December 2012 a loss of \$1M (31 December 2011 loss \$1M). The detailed half-year report has been separately released to the market.

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