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China Magnesium Corporation Limited

AGM Presentation

November 2016

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# Key Developments Since 2015 AGM

- CMC procures 2 tenements at Greenbushes, WA. Exploration permit already approved for 1 tenement.
- CMC identifies and secures key investor to provide sufficient funding for exploration
- Framework Agreement with SMH – lithium/tantalum exploration project - SMH inject RMB 5.25M (\$1M) for 60% interest - CMC inject 2 tenements for 40% interest
- Issue of 80M shares under 1 : 2.4378 rights at \$0.025 to raise \$2M (November 2016) over-subscribed
- Adaptation of all coal-to-gas units into the operational semi-coke crackers completed
- Sustained improvement in Magnesium prices has triggered work to commence at the site with production targeted to commence late 2016 / early 2017
- Improved market conditions for magnesium expected to continue
- Co-operation agreement for FMW commenced February 2015 terminated June 2016 with Fengyan. Fengyan acquire CMC share of losses (RMB44M) under agreement.
- Growing commodities trading desk – now includes fertiliser and chemicals.

# Lithium Project in Greenbushes

- CMC 40% interest under Framework Agreement in funded lithium exploration project
- Tenement considered prospective for pegmatite-hosted lithium and tantalum deposits, being situated in the same geological terrain near to world's largest spodumene mine
- Tenements were selected by CMC for their close proximity to Greenbushes mine & the limited historical exploration for lithium over the application area
- Framework Agreement with Shanghai Min Heng Science & Technology Development Company Limited ("SMH"), which is associated with a diversified lithium concentrate producer and processor with previous experience in Greenbushes WA
- CMC have received RMB 1M (~\$200k) deposit
- SMH quickly progressing completion of formal agreements to inject balance of RMB 5.25M (~\$1M).
- CMC have satisfied all terms of the Framework Agreement.
- SMH to provide technical expertise in lithium exploration and processing.
- SMH team arrived 29/11 into Perth to meet with Executive Director Liang Xinping and Damien Kelly to finalise exploration plans.

# Rights Issue of Shares and Listed Options

- 1:2.4378 Rights offer at 2.5 cents competed 23 November 2016
- Rights issue raises over \$2M (pre costs) – over-subscribed
- Underwriters of Rights offer include Messrs Wu, Ma, Wang Fengjin and Wang Yuping (over \$800K) through CMC's Chinese network
- General working capital raised to build capacity including completion of strategic assets acquisition

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# Fengyan Investment and Co-operation

- Investment and co-operation agreements with Shanxi Pingyao Fengyan Coal & Coke Group Company Limited (“Fengyan”)
- Fengyan is a large, Pingyao-based conglomerate – owns 12.8% of CMC
- Participated in November 2016 rights issue to \$250K.
- Total assets ~A\$1bn and diverse operations including ferronickel, coal mining/coking, power generation, other industrial products, hotels and real estate development
- Co-operative use of plants, infrastructure, manpower, resources, innovation and output adding long term benefit
- Taking mutual advantage of compelling synergies, savings, product expansion, trading and potential downstream processing

# Pingyao – Diversified Market Offering

- Located in Shanxi Province of Northern China
- 20,000 tpa magnesium production nameplate capacity
- Semi coking capacity – with tar oil yields far higher than previous coal-to-gas units
- 22.4t SSC coal = 14t semi coke (product) = 1.4t tar oil (by product) = 1t Mg (product)\*
- Previously 5t thermal coal = 0.125t tar oil (product) = 1t Mg (product)\*
- Semi coke and tar oil production could be a stand-alone business in its own right, without using waste gases - only one demonstration of the value-adding opportunities
- Expanded business license and environmental permissions now in place to allow production of semi coke, bricks and calcium metal at the existing site - Significant milestone as such permissions are difficult and very time consuming

\* Approximate/typical figures

# Fine Chemicals / Fertiliser Agreement

- Conditional Agreement with Taiyuan Hailifeng Science & Technology Co. Ltd (“Hailifeng”) for CMC to lease existing plant and production over 2 plants in Taiyuan for 20 years
- CMC also acquires access to a number of Hailifeng patents and technical resources
- Hailifeng to provide working capital required for existing and forward production
- CMC intent to enter into lease back on identical terms to Hailifeng for production and research and development of a mix of chemical and fertiliser products
- Due diligence progressing on second plant.
- Agreement allows CMC to diversify trading desk offering

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# FMW Agreement Termination

- Termination of 60% interest in the total FMW turnover/profit/loss effective June 2016
- Agreement allows Fengyan to progress into ferro-nickel market, which CMC did not consider a long term strategic fit
- Under termination agreement Fengyan acquire CMC 60% interest including operating loss of RMB 44M from February 2015 to June 2016
- Fengyan reaffirm December 2013 Investment and Co-Operation Agreement including offtake agreement for semi-coke and tar oil production from CMC & to continue close relationship

# Pingyao Operations – Current State

- Magnesium and magnesium alloy production to recommence in early 2017
- Improvement in magnesium prices warranting recommencement of production
- World market for magnesium expected to remain solid for medium term.
- Production of value-added magnesium and other products will also be sought as CMC builds its distribution relationships and branding
- Tar oil yield from semi coke production is much higher than from the coal-to-gas units
- Ability to produce retorts in-house using ferronickel from Fengyan rather than the current (more expensive) practice of leasing the retorts
- New loading and discharging machine to significantly reduce labour costs compared with manual loading and unloading of retorts - developed by CMC and Fengyan
- Using vertical kilns located at FMW to calcinate dolomite for magnesium production. We are utilising waste gas from their blast furnace to reduce energy costs.
- Cost effective and environmentally responsible production using semi-coke cracker waste gas rather than coal-to-gas driving long term benefit

# Future Expansion Capabilities Already Secured



- Key environmental permits in place to expand production to 105,000tpa magnesium
- Water rights secured to enable expansion to 105,000tpa magnesium
- 90mu (~60,000m<sup>2</sup>) of land secured, earmarked for either next expansion phase or to capitalise on other horizontal or vertical synergies such as downstream processing of our products
- Additional 29mu (~20,000m<sup>2</sup>) of land just secured next to CMC's original 5,000tpa nameplate capacity plant will also free up land within the existing plant for expansion.
- Expansion of semi coke, tar oil, calcium metal and brick production occurring concurrently with magnesium expansion

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# Growing International Trading Desk

- Initially established to assist international brand-building and presence for CMC's magnesium production
- Successfully trading low ash metallurgical coke.
- Targeting future expansion and vertical integration into other value-adding opportunities such as carbon black, coal, and other industrial products
- Developing additional profitable trading in markets including fertiliser and chemical

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# Buy Back

- CMC's operations now becoming more established
- On-market share buy back of up to 10% of CMC's issued shares refreshed for 2016/7
- Capital management program to maximise shareholder value and returns
- No guarantee that any shares will be bought back but having the buy back program available may provide opportunities to add value to the remaining shares on issue

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# Summary – Well Placed for Growth

- ✓ CMC well placed for growth with flexible and efficient production capacity
- ✓ Improved market conditions for magnesium expected to continue
- ✓ Greenbushes lithium/tantalum exploration project progressing quickly
- ✓ Over-subscribed rights issue providing working capital flexibility
- ✓ Trading desk continuing to expand range of activities
- ✓ Company-transforming developments and achievements since last AGM
- ✓ Semi-coke, tar oil and magnesium production re-commenced late 2016/early 2017
- ✓ FY2016/7 expected to be both a challenging and rewarding year for CMC
- ✓ CMC remains focussed to become a large, low cost, integrated producer of magnesium, semi coke, tar oil and other industrial products

# Magnesium – 21<sup>st</sup> Century Structural Metal

- Stronger and lighter structural metal
- 33% lighter than aluminium and 75% lighter than steel
- Used in Mg alloy die casting (auto/aircraft & electronics) for its light weight
- Also used for producing aluminium alloys, steel and titanium
- Roskill estimates global magnesium consumption of just under 1.1Mt in 2012
- World production of primary magnesium is estimated by Roskill to have increased at an compound annual growth rate (CAGR) of 6.1% from 2002-2012, despite a massive drop in 2008 and 2009 after the global financial crisis
- Strong growth expected in the automotive sector
- Chinese government's 12<sup>th</sup> 5 year plan targets magnesium as a key metal