



China Magnesium Corporation Limited

Appendix 4E – Preliminary Final Report

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|---|-------------------------------------|
| Name of Entity: | China Magnesium Corporation Limited |
| ABN: | 14 125 236 731 |
| Reporting Period - year ended: | 30 June 2017 |
| Previous corresponding period – period ended | 30 June 2016 |

Results for Announcement to the Market

| | Percentage change Up or Down | % | | \$'000 |
|--|------------------------------------|------|----|--------|
| Revenue from ordinary activities | up | 100% | to | 1,839 |
| (Loss) from ordinary activities after tax attributable to members | down | 54% | to | (848) |
| (Loss) for the period attributable to members | down | 54% | to | (848) |

| 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 2017 | June 2016 |
|---|-----------|-----------|
| Net Tangible Assets per security | 3.8 Cents | 4.8 Cents |

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

No production of magnesium, semi coke, metallurgical coke, tar oil or calcium metals occurred during the year as CMC (a) completed the installation and testing of crackers, (b) prior to production commencing in April 2017, became subject to a province-wide environmental protection closure.

CMC has been advised that the disposal/emission specifications in the Environmental Impact Assessment Report dated October 2017 are still applicable to SYMC. CMC is confident that the Pingyao plant will satisfy the disposal/emission specifications, and thereby pass the inspection and review by the expert environmental team as the prerequisite for production recommencement. Production is expected to resume in March 2018.

CMC recognised a \$1.48M marketing support fee for the period 2013 to June 2016 to which includes services provided for international development, marketing and distribution of Fengyan products, provision of trading house facilities and assistance with accreditation for Fengyan products for tender.

Commentary on Results

Refer attached annual report

Dividends

No dividends were paid or declared during the period ending 30 June 2017.

Compliance Statement

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



Tom Blackhurst
Managing Director

Date: 30 August 2017

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China Magnesium Corporation Limited

ABN 14 125 236 731

Annual Report
For the year ended 30 June 2017

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That Corporate Governance statement can be found at <http://www.chinamagnesiumcorporation.com/investor-centre/corporate-governance>

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China Magnesium Corporation Limited and its subsidiaries

Managing Director's Report – 30 June 2017

Managing Director's Report

Dear Shareholders

I am pleased to report on continued positive progress in our journey to become a large, low cost, integrated producer of magnesium, semi coke, tar oil and other industrial products.

Financial summary

The Group has recorded a net loss after tax of \$0.987M compared with a 2016 restated loss of \$2.022M.

Pingyao magnesium production

During the year the Company completed the installation and testing of semi coke crackers. This allowed commencement of magnesium production using semi-coke gas instead of coal-to-gas facilities. Management progressed all operational matters including kiln firing preliminary to production in March and early April 2017.

In April 2017 SYMC (the operating subsidiary of CMC based at Pingyao) management along with other businesses in the province were informed that production was to immediately cease pursuant to action by the Minister of Environmental Protection to effect measures to ensure compliance with emissions standards. These measures were focused on a variety of production plants in Beijing, Tianjing, Hebei, Shanxi and surrounding provinces including magnesium plants. The directive from the Minister of Environmental Protection was not from specific issues identified with the Pingyao plant, but was rather a "blanket cease of operations" for manufacturing plants.

The Environmental Protection Department (EPP) has implemented a 5 step environmental supervision process comprising [i] site inspection [ii] engagement of EPP to investigate issues [iii] EPP progress assessment [iv] EPP interviews & [v] engagement of EPP special inspectors where issues remain unresolved. Companies unable to meet EPP emissions standards will be closed by the end of September 2017.

In August 2017 SYMC staff met with the chief of Pingyao Environment Protection Bureau, who confirmed that pollutant standards dated October 2017 as applicable towards SYMC which are stated in the Environmental Impact Assessment Report of SYMC are unchanged from the original Pingyao plant specifications and comply with the EPP discharge standards. CMC is confident that the Pingyao plant will satisfy the disposal/emission specifications, and thereby pass the inspection and review by the expert environmental team as the prerequisite for production recommencement.

SYMC management have conservatively projected additional initial emission discharge control work will be completed for production return by March 2018, at a total cost of \$1.1M. CMC have in place funding to complete the additional work.

Monitoring of environmental discharge is anticipated to be effected by controls within all relevant plants with regular reporting thereon to the EPP, together with physical inspection by EPP officers on an ongoing basis.

Lithium tenements

CMC has acquired 2 tenements in the Greenbushes area of Western Australia. In September 2016 CMC announced it had entered into a conditional Framework Agreement to finance the assessment and exploitation of lithium from the 2 tenements. Upon satisfaction of the conditions and intent of the Framework Agreement CMC's interest in the tenements will reduce to 40%.

CMC's executive management do not intend to be involved with the management of the project, other than contributing to the overall strategy and early establishment of key personnel.

Jiexiu City Baiyun Quarry

On 31 July 2017 the mining license of Jiexiu City Baiyun Quarry was cancelled. Impairment of Quarry assets at carrying value of \$77,010 (RMB401,214) and land use and mining rights at \$524,348 (RMB2,731,800). CMC will seek to recover \$575,827 (RMB3 million) under the Option and Purchase Agreement. Management has sourced alternative dolomite supply for production.

Commodities Trading Desk

The international trading desk is the exclusive trading desk for a number of Fengyan operations in addition to the CMC Group.

China Magnesium Corporation Limited and its subsidiaries

Managing Director's Report – 30 June 2017

Error on interest calculation

The financial statements include an adjustment correcting an error where interest had been calculated on the wrong principal balance. The overstatement correction has been brought to account in the relevant periods affected. The current full year results include \$127,286 and accumulated losses have been adjusted by \$448,764.

Funding Agreement

In June 2017 the Company entered into a Controlled Placement Agreement ("CPA") with Acuity Capital. The CPA provides the Company with up to \$3 million of standby equity capital over the coming 2 years.

CMC entered into the CPA to complement its funding initiatives and to strengthen its overall capital management program by adding a further capital raising tool. The CPA provides CMC with the flexibility to quickly and efficiently raise capital, including the ability to take advantage of suitable opportunities as they arise.

The Company retains full control of the placement process, including having sole discretion as to whether or not to use the CPA. The Company is under no obligation to raise capital under the CPA, and there are no break fees if the CPA is not utilised.

Fine Chemicals & Fertiliser Agreement

In the previous financial year CMC signed a conditional agreement with Taiyuan Hailifeng Science & Technology Co. Ltd for the 20 year lease of business and production facilities in Taiyuan, Shanxi Province. This plant currently produces G3 (a cross linking agent in powder coatings for various indoor and outdoor applications), G1 (used in water treatment, in paints and coatings & also as slow release fertiliser) and other chemicals. Negotiation for a second 20 year lease at Shandong (Shandong Province) producing magnesium nitrate, sodium nitrate and other chemicals remains in progress. CMC has continued small scale chemical and fertilizer trading in the current financial year.

Working capital

Under the 2013 Investment and Co-Operation Agreement, Fengyan has continued to provide direct working capital facilities to the CMC Group. CMC & Fengyan continue to evaluate other financial facilities, for which Fengyan has indicated its intention to act as guarantor.

CMC also continues to explore alternative working capital facilities including for lithium tenement acquisition and development.

Rights and options raising

CMC successfully completed a rights and options issue which raised \$2.1M to provide CMC with additional general working capital and to further Australian and Chinese operations including acquiring assets. On exercise of options by December 2017 at \$0.05 a further \$2.1M could be raised.

As noted under Shareholder Information, directors hold 14,598,540 (34%) of options on issue, which includes take-up of a shortfall in rights which was underwritten by several shareholders including two directors.

Looking forward

Subject to CMC completing all environmental work necessary, CMC projects recommencing production in March 2018. We are encouraged by the sustained improvement in magnesium prices.

We continue to seek diversification in the market offerings from magnesium and magnesium alloy into an array of other manufactures including semi coke and calcium metal.

CMC remains committed to becoming one of the world's largest, integrated, low cost magnesium producers, whilst building capacity in other industries to further leverage our strengths and advantages.

Yours sincerely,



Tom Blackhurst
Managing Director

China Magnesium Corporation Limited and its subsidiaries

Directors' Report – 30 June 2017

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 2017.

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:

- Progressing diversification of production base to include semi-coke, calcium metal, tar oil and synergistic products to support more robust and stable cash flow and profitability in the longer term; and
- Completion of Pingyao plant for production in late 2017 / 2018 following environmental discharge modifications.

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 2017 are set out in the financial statements following page 13 of this annual report. Significant results include:

| | Consolidated | Restated |
|------------------------------|---------------------|-----------------|
| | 2017 | 2016 |
| | \$ | \$ |
| Revenues | 1,839,341 | 11,350 |
| Net (loss) before tax | (986,526) | (2,022,071) |
| Net (loss) after tax | (986,526) | (2,022,071) |

During the year the Group produced no semi-coke (2016: Nil), no calcium metal (2016: Nil), and no tar oil (2016: Nil) from the Group's Pingyao operation.

No dolomite (2016:nil) 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. The quarry licence was cancelled on 31 July 2017..

Negotiations to secure local loan funding in China for working capital continued throughout the year, supplementing working capital provided by Fengyan under the 17 December 2013 Investment and Co-operation Agreement. The Board reaffirms its confidence that local funding 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 - 2 of this annual report.

Significant changes in the state of affairs

CMC completed the installation and testing of crackers at the Pingyao plant. This allows CMC to commence magnesium production using semi-coke gas instead of coal-to-gas facilities.

In April 2017 SYMC (the operating subsidiary of CMC based at Pingyao) management along with other businesses in the province were informed that production was to immediately cease pursuant to action by the Minister of Environmental Protection to effect measures to ensure compliance with emissions standards.

In August 2017 SYMC staff met with the chief of Pingyao Environment Protection Bureau, who confirmed that pollutant standards dated October 2017 as applicable towards SYMC which are stated in the Environmental Impact Assessment Report of SYMC are unchanged from the original Pingyao plant specifications and comply with the EPP discharge standards.

CMC is confident that the Pingyao plant will satisfy the disposal/emission specifications, and thereby pass the inspection and review by the expert environmental team as the prerequisite for production recommencement. Production is expected to resume in March 2018.

Matters subsequent to the end of the financial year

CMC has acquired 2 tenements in Western Australia. In September 2016 CMC announced it had entered into a conditional Framework Agreement to finance the assessment and exploitation of lithium from the 2 tenements. Upon satisfaction of the conditions of the Framework Agreement CMC's interest in the tenements will reduce to 40%. At the date of this report a number of the Framework Agreement conditions are still outstanding.

Pursuant to the Pingyao plant production closure the Company has scoped additional work to enhance emissions standards compliance. Management project the cost of this work at \$1.1M. Scoping of this work is in progress.

On 31 July 2017 the mining license of Jiexiu City Baiyun Quarry was cancelled. Impairment of Quarry assets at carrying value of \$77,010 (RMB401,214) and land use and mining rights at \$524,348 (RMB2,731,800). CMC will seek to recover \$575,827 (RMB3 million) under the Option and Purchase Agreement. Management has sourced alternative dolomite supply for production.

Except for the matters discussed above, no other matter or circumstance has arisen since 30 June 2017 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:

- Increased production of magnesium, magnesium alloy and semi coke from the Pingyao operation.
- 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 – 2 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 and enforcement 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.

China Magnesium Corporation Limited and its subsidiaries

Directors' Report – 30 June 2017

Information on directors

Thomas Blackhurst – Managing Director

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 30 year's 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;

Former directorships in last 3 years: Nil

Special responsibilities: Managing Director.

Interests in shares and options: 46,379,404 ordinary shares in the Company.

6,745,508 options exercisable at 5 cents on or before 8 December 2017

Xinping Liang BEng, MEng - Chief Operating Officer

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 opportunity to its Chinese joint venture partners 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 option: 34,435,730 ordinary shares in the Company.

6,738,640 options exercisable at 5 cents on or before 8 December 2017

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: Nil

Former directorships in last 3 years: 1300SMILES Limited

Special responsibilities: Chair of the Board.

Interests in shares and options: 2,431,414 ordinary shares in the Company.

424,542 options exercisable at 5 cents on or before 8 December 2017

China Magnesium Corporation Limited and its subsidiaries

Directors' Report – 30 June 2017

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 30 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 24 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: 4,863,124 ordinary shares in the Company.

689,850 options exercisable at 5 cents on or before 8 December 2017

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 15 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 2017, and the number of meetings attended by each director were:

| | A | B | C | D | E | F |
|--------------|----|----|---|---|---|---|
| W Bass | 13 | 15 | 2 | 2 | 1 | 1 |
| T Blackhurst | 15 | 15 | 2 | 2 | - | - |
| X Liang | 13 | 15 | 2 | 2 | - | - |
| P Robertson | 15 | 15 | 2 | 2 | 1 | 1 |

A: Director Meetings attended

B: Director Meetings held during the year

C: Audit Committee Meetings attended

D: Audit Committee Meetings held during the year

E: Nomination and Remuneration Committee Meetings attended

F: Nomination and Remuneration Committee Meetings held during the year

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.

China Magnesium Corporation Limited and its subsidiaries

Directors' Report – 30 June 2017

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 | Nil |

Changes since the end of the reporting period: NIL

Principles used to determine the nature and amount of remuneration

The performance of the Group depends on the quality of its directors and executives. Accordingly, 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.

The Nomination & Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. Consideration is given to normal commercial rates of remuneration for similar levels of responsibility, and the Company's financial performance.

Emoluments comprise the following:

- Base pay (salaries/fees) and benefits, including superannuation
- Short-term incentives (bonuses); and
- Long-term (including critical acquisition) incentives including shares.

All executives have detailed job descriptions with identified key performance indicators against which reviews are compared in relationship between the benefits contained in the employment agreement and the Group's performance in the 2017 financial year.

Remuneration for certain individuals is directly linked to performance of the Group. Bonus payments are dependent on key criteria, being EBITDA. During the year the Group has generated losses in its principal activity of production and distribution of magnesium, semi coke, tar oil and other industrial products.

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 2017 the share price was \$0.011 (2016: \$0.015), representing a market capitalisation of \$3.1 million (2016 : \$2.9 million). There has been no share-based remuneration.

| Year | 2013 | 2014 | 2015 | 2016 | 2017 |
|--------------------------|---------|---------|---------|---------|-------|
| Share price at year end | 0.046 | 0.045 | 0.045 | 0.015 | 0.011 |
| Net profit/(loss) \$'000 | (1,948) | (2,559) | (3,325) | (2,022) | (987) |
| EPS | (1.3) | (1.6) | (1.7) | (1.1) | (0.3) |
| Dividend | - | - | - | - | - |

China Magnesium Corporation Limited and its subsidiaries

Directors' Report – 30 June 2017

Remuneration report – Audited (Continued)

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.

| | 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 2017 (2016 - Nil).

Details of remuneration

2017

| Name | Short term benefits | | Post-employment benefits | Long Term Benefits | Termination Benefits | Total |
|--------------------------------|----------------------|---------------|--------------------------|--------------------|----------------------|------------------|
| | Cash Salary and fees | Other | Super-annuation | | | |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Non-executive directors | | | | | | |
| W Bass | 63,899 | 20,000 | 6,101 | - | - | 90,000 |
| P Robertson | 47,924 | - | 4,576 | - | - | 52,500 |
| Executive directors | | | | | | |
| T Blackhurst | 500,000 | - | - | - | - | 500,000 |
| X Liang | 470,000 | - | - | - | - | 470,000 |
| Other key management personnel | | | | | | |
| Nil | | | | | | |
| Total | 1,081,823 | 20,000 | 10,677 | - | - | 1,112,500 |

China Magnesium Corporation Limited and its subsidiaries
Directors' Report – 30 June 2017

Remuneration report – Audited (Continued)

2016

| Name | Short term benefits | | Post-employment benefits | Long Term Benefits | Termination Benefits | Total |
|--------------------------------|----------------------|----------|--------------------------|--------------------|----------------------|------------------|
| | Cash Salary and fees | Other | Super-annuation | | | |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Non-executive directors | | | | | | |
| W Bass | 63,899 | - | 6,101 | - | - | 70,000 |
| P Robertson | 47,924 | - | 4,576 | - | - | 52,500 |
| Executive directors | | | | | | |
| T Blackhurst | 500,000 | - | - | - | - | 500,000 |
| X Liang | 470,000 | - | - | - | - | 470,000 |
| Other key management personnel | | | | | | |
| Nil | | | | | | |
| Total | 1,081,823 | - | 10,677 | - | - | 1,092,500 |

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 5 years commencing 1 November 2013 and concluding 31 October 2018. Bonus per Remuneration Committee approval of :- Short term incentive :0 – 40% Long term incentive :0 – 90% Critical acquisition : 0 – 40% Non-solicitation and non-compete clauses | \$500,000 | 12 months' fee |
| XP Liang , Chief Operating Officer | Consulting through Singapore Energy and Equipment Investment Pte Ltd for 5 years commencing 1 November 2013 and concluding 31 October 2018. Bonus per Remuneration Committee approval of :- Short term incentive :0 – 40% Long term incentive :0 – 90% Critical acquisition : 0 – 40% Non-solicitation and non-compete clauses. | \$470,000 | 12 months' fee |

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

China Magnesium Corporation Limited and its subsidiaries
Directors' Report – 30 June 2017

Remuneration report – Audited (Continued)

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. None of these share holdings are held nominally. There were no shares granted during the reporting year as compensation (2016: Nil).

2017

| 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 | 1,582,331 | - | 849,083 | 2,431,414 |
| T Blackhurst | 32,888,390 | - | 13,491,014 | 46,379,404 |
| X Liang | 20,958,450 | - | 13,477,280 | 34,435,730 |
| P Robertson | 3,178,668 | - | 1,684,456 | 4,863,124 |

ii) Option holdings

Options over ordinary shares in the Company acquired and 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 are as follows:

2017

| Name | Balance at the start of the year | Options lapsed | Options issued | Balance at the end of the year | Vested and exercisable at end of the year |
|--------------|---|-----------------------|-----------------------|---------------------------------------|--|
| W Bass | 900,331 | (900,331) | 424,542 | 424,542 | 424,542 |
| T Blackhurst | 5,906,011 | (5,906,011) | 6,745,508 | 6,745,508 | 6,745,508 |
| X Liang | 5,566,450 | (5,566,450) | 6,738,640 | 6,738,640 | 6,738,640 |
| P Robertson | 813,167 | (813,167) | 689,850 | 689,850 | 689,850 |

(2016: 13,185,959).

There were no options granted during the reporting year as compensation (2016: Nil). None of these option holdings are held nominally. None of the options issued during the year has been exercised.

Other transactions with key management personnel

No transactions occurred between key management personnel and their related entities with the Group during the year (2016: Nil).

Loans to directors and executives

The Executive Directors have accrued consulting fees as at 30 June 2017 of \$314,352 (2016:\$1,104,025)

END OF AUDITED REMUNERATION REPORT

Shares under option

Ordinary shares of China Magnesium Corporation Limited under option at the date of this report:-

| Grant date | Expiry date | Exercise price | Number under option |
|-------------------|--------------------|-----------------------|----------------------------|
|-------------------|--------------------|-----------------------|----------------------------|

| | | | |
|------------------|-----------------|---------|------------|
| 30 November 2016 | 8 December 2017 | 5 cents | 42,335,432 |
|------------------|-----------------|---------|------------|

(2016: 24,855,705).

Shares buy-back

During the year China Magnesium Corporation Limited bought back Nil (2016: 305,482) ordinary shares for \$Nil (2016: \$12,753) pursuant to an on market share buyback program. The buyback was commenced as part of an effective capital management strategy to maximise shareholder value and return on 11 November 2014 and remains in effect. It is limited to 10% of the issued shares.

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*.

Rounding of amounts

The Company is a type of Company referred to in ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191, and therefore the amounts contained in this Report and the Financial Report have been rounded to the nearest \$1,000 or to the nearest Dollar.

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 current or previous 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
30 August 2017

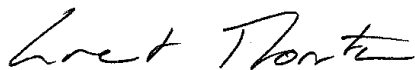
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AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF CHINA MAGNESIUM CORPORATION LIMITED

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of China Magnesium Corporation Limited for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



A F Newman
Partner - Audit & Assurance

Brisbane, 30 August 2017

Grant Thornton Audit Pty Ltd ACN 130 913 594
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China Magnesium Corporation Limited and its subsidiaries
Consolidated Financial Statements – 30 June 2017

Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2017

| | Note | Consolidated | |
|---|------|--------------------|------------------------|
| | | 2017 \$ | Restated 2016 \$ |
| Revenue from continuing operations | 5 | 1,839,341 | 11,350 |
| Share of losses from contractual arrangement | | - | (3,985,345) |
| Share of income from contractual arrangement | | - | 4,469,227 |
| Purchase of raw materials and consumables | | (347,427) | (7,222) |
| Auditing and accounting | | (135,454) | (116,018) |
| Depreciation and amortisation | 6 | (353,456) | (379,825) |
| Employee benefits | | (1,564,108) | (1,504,001) |
| Finance costs | | (134,910) | (174,502) |
| Foreign exchange gain/(loss) | | (33,090) | (13,990) |
| Lease interest and amortisation | | (29,935) | - |
| Other expenses | | (160,892) | (275,861) |
| Travel | | (66,595) | (45,884) |
| Total expenses | | (2,825,867) | (2,517,303) |
| Loss before income tax | | (986,526) | (2,022,071) |
| Income tax benefit | 7 | - | - |
| Loss for the year | | (986,526) | (2,022,071) |
| Other comprehensive income | | | |
| <i>Items that may be reclassified to profit or loss</i> | | | |
| Foreign currency translation differences | | (579,319) | (561,193) |
| Income tax on items of other comprehensive income | | - | - |
| Other comprehensive income for the year (net of tax) | | (579,319) | (561,193) |
| Total comprehensive income for the year | | (1,565,845) | (2,583,264) |
| Loss for the year is attributable to: | | | |
| Owners of the parent | | (848,201) | (1,843,998) |
| Non-controlling interests | | (138,325) | (178,073) |
| | | (986,526) | (2,022,071) |
| Total comprehensive income for the year is attributable to: | | | |
| Owners of the parent | | (1,407,607) | (2,380,632) |
| Non-controlling interests | | (158,238) | (202,632) |
| | | (1,565,845) | (2,583,264) |
| Earnings per share | | Cents | Cents |
| Basic earnings/(loss) per share for the year | 28 | (0.3) | (0.9) |
| Diluted earnings/(loss) per share for the year | 28 | (0.3) | (0.9) |

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 2017

Consolidated statement of financial position as at 30 June 2017

| | | Consolidated | | |
|--|------|---------------------|------------------------|------------------------|
| | Note | 2017 \$ | Restated 2016 \$ | Restated 2015 \$ |
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | 9 | 1,433,592 | 2,194,662 | 3,314,681 |
| Trade and other receivables | 10 | 1,087,219 | 916,945 | 1,024,222 |
| Inventories | 11 | 145,603 | 248,080 | 289,608 |
| Other | | - | - | 100,156 |
| Total Current Assets | | 2,666,414 | 3,359,687 | 4,728,667 |
| Non-current assets | | | | |
| Prepayments | 12 | 2,350,990 | 2,240,816 | 2,283,441 |
| Property, plant and equipment | 14 | 16,450,269 | 16,340,275 | 16,724,342 |
| Right of use assets | 13 | 201,130 | - | - |
| Tenement | | 10,000 | 10,000 | - |
| Total Non-Current Assets | | 19,012,389 | 18,591,091 | 19,007,783 |
| Total assets | | 21,678,803 | 21,950,778 | 23,736,450 |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Trade and other payables | 15 | 1,910,082 | 2,420,816 | 3,987,900 |
| Other liabilities | 17 | 199,374 | - | - |
| Lease liabilities | 13 | 61,050 | - | - |
| Employee benefits | 18 | 29,152 | 17,318 | 29,159 |
| Total Current Liabilities | | 2,199,658 | 2,438,134 | 4,017,059 |
| Non-Current liabilities | | | | |
| Share of losses from contractual arrangements | | - | - | 483,882 |
| Trade and other payables | 15 | 2,827,071 | 1,949,687 | 2,051,896 |
| Lease liabilities | 13 | 144,838 | - | - |
| Related party borrowings | 16 | 4,140,963 | 5,708,531 | 2,733,191 |
| Total Non-Current Liabilities | | 7,112,872 | 7,658,218 | 5,268,969 |
| Total liabilities | | 9,312,530 | 10,096,352 | 9,286,028 |
| Net assets | | 12,366,273 | 11,854,426 | 14,450,422 |
| EQUITY | | | | |
| Contributed equity | 19 | 23,189,218 | 21,111,526 | 21,124,258 |
| Reserves | 20 | 3,396,229 | 3,955,635 | 4,492,269 |
| Accumulated losses | | (14,271,828) | (13,423,627) | (11,579,628) |
| Total equity attributable to owners of the parent | | 12,313,619 | 11,643,534 | 14,036,899 |
| Non-controlling interest | | 52,654 | 210,892 | 413,523 |
| Total equity | | 12,366,273 | 11,854,426 | 14,450,422 |

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 2017

Consolidated statement of changes in equity for the year ended
30 June 2017

| | Contributed equity | Accumulated losses | Foreign currency translation reserve | Change of interest in subsidiary reserve | Total | Non-Controlling interest | Total equity |
|---|--------------------|---------------------|--------------------------------------|--|--------------------|--------------------------|--------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| At 1 July 2015 | 21,124,258 | (11,697,496) | 3,973,339 | 518,930 | 13,919,031 | 402,221 | 14,321,252 |
| Net effect of correction of overstated interest | | 117,868 | | | 117,868 | 11,302 | 129,170 |
| Restated 1 July 2015 | 21,124,258 | (11,579,628) | 3,436,705 | 518,930 | 14,036,899 | 413,523 | 14,450,422 |
| Loss for the year | - | (1,843,999) | - | - | (1,843,999) | (178,072) | (2,022,071) |
| <i>Other comprehensive income:</i> | | | | | | | |
| Foreign currency translation difference | - | - | (536,634) | - | (536,634) | (24,559) | (561,193) |
| Total comprehensive income for the year | - | - | - | - | (2,380,633) | (202,631) | (2,583,264) |
| Transactions with owners in their capacity as owners | | | | | | | |
| Issue of shares | - | - | - | - | - | - | - |
| Share buy back | (12,610) | - | - | - | (12,610) | - | (12,610) |
| Issue/buy back costs | (122) | - | - | - | (122) | - | (122) |
| Restated 1 July 2016 | 21,111,526 | (13,423,627) | 3,436,705 | 518,930 | 11,643,534 | 210,892 | 11,854,426 |
| Loss for the year | - | (848,201) | - | - | (848,201) | (138,325) | (986,526) |
| <i>Other comprehensive income:</i> | | | | | | | |
| Foreign currency translation difference | - | - | (559,406) | - | (559,406) | (19,913) | (579,319) |
| Total comprehensive income for the year | - | (848,201) | (559,406) | - | (1,407,607) | (158,238) | (1,565,845) |
| Transactions with owners in their capacity as owners | | | | | | | |
| Issue of shares | 2,116,771 | - | - | - | 2,116,771 | - | 2,116,771 |
| Share buyback | - | - | - | - | - | - | - |
| Issue/buyback costs | (39,079) | - | - | - | (39,079) | - | (39,079) |
| At 30 June 2017 | 23,189,218 | (14,271,828) | 2,877,299 | 518,930 | 12,313,619 | 52,654 | 12,366,273 |

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 2017

Consolidated Statement of cash flows for the year ended 30 June 2017

Consolidated

| | Note | 2017 \$ | 2016 \$ |
|---|------|------------------|--------------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 1,774,548 | 7,054 |
| Payments to suppliers and employees | | (2,651,389) | (1,632,665) |
| Interest received | | 4,479 | 4,275 |
| Interest and other costs of finance paid - Note (a) | | (3,130) | (494,009) |
| Net cash inflow/(outflow) from operating activities | 27 | <u>(875,492)</u> | <u>(2,115,345)</u> |
| Cash flows from investing activities | | | |
| Payments for property plant and equipment – Note (b) | | (192,782) | (488,025) |
| Net cash inflow/(outflow) from investing activities | | <u>(192,782)</u> | <u>(488,025)</u> |
| Cash flows from financing activities | | | |
| Net share issue/share option/share buyback | | 2,116,771 | (12,610) |
| Share issue costs | | (39,079) | (122) |
| Bill of exchange repayment | | (1,535,539) | - |
| Lease capital repayment | | (18,889) | - |
| Lease interest | | (6,548) | - |
| Net cash inflow/(outflow) from financing activities | | <u>516,716</u> | <u>(12,732)</u> |
| Net increase / (decrease) in cash and cash equivalents | | (551,558) | (2,616,102) |
| Cash and cash equivalents at the beginning of the year | | 2,194,662 | 3,314,681 |
| Effects of exchange rate changes on cash and cash equivalents | | (209,512) | 1,496,083 |
| Cash and cash equivalents at the end of the year | 9 | <u>1,433,592</u> | <u>2,194,662</u> |

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

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2017

Notes to the consolidated financial statements

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are for the consolidated entity consisting of China Magnesium Corporation Limited and its subsidiaries. The financial statements were authorised for issue on 30 August 2017 by the directors of the company.

(a) Basis of preparation

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

Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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 Australian Accounting Standards 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 2017 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 26) 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.

Accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, coke, fertilisers and related products.

There have been no changes 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 or 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

The Group recognises revenue when a performance obligation is satisfied by transferring a promised good or service to a customer. Revenue is measured at the amount of the transaction price that is allocated to the performance obligation. The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue is recognised for the major business activities as follows:

(i) Sale of magnesium, coke, fertilisers and related products

The Group sells magnesium, magnesium alloys, coke products, fertilisers and related products.

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 purchaser's 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

The group, as a lessee, recognises assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Right of use assets and the corresponding liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 high quality corporate 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.

(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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

(w) New accounting standards and interpretations

The Group have chosen to early adopt AASB 15: Revenue from Contracts with Customers and AASB 16: Leases. The date of initial application for both these standards is 1 July 2016.

For AASB 16, the Group has chosen to adopt the standard retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application. On 1 February 2017 the Group has entered into a property lease arrangement for 2 years with a further 2 years option, which is accounted for in accordance with the new standard. The previous property lease, which was on similar terms, expired on 31 January 2017. Due to the remaining life of this lease being less than 12 months at the date of initial application of AASB 16, no lease asset or liability was taken up in respect of it. Lease payments of \$28,745 under the expiring lease were expensed in the current year.

For AASB 15, the Group has chosen to adopt the standard retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application. There were no contracts with customers in the prior period as such no cumulative effect was recognised.

Accounting Standards issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- AASB 9: *Financial Instruments* and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018).

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of the Standard, the application of such accounting would be largely prospective.

The directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments. The Group has minimum exposure to financial instruments, comprising trade and other payables and related party borrowings and accordingly the impact of the AASB 9 is expected to be minimal. The impact will be reassessed as the Company enters into production.

(x) Rounding of amounts

The Company is a type of Company referred to in ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191, and therefore the amounts contained in this Directors' Report and the Financial Report have been rounded to the nearest \$1,000 or to the nearest Dollar.

(y) Restatement

In view of the prior period restatement on interest expense referred to in Note 8, relevant comparative figures have been updated.

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.

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2017

NOTE 2: FINANCIAL RISK MANAGEMENT (Continued)

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.

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 2017 was AUD \$4,064,048 (2016: AUD \$3,485,424).

| | | | | |
|---|--------|--------------|--------------|-----------------|
| Net Payables and Capex Commitments in RMB | 5.2099 | A\$4,064,048 | | |
| AUD change by 10%+ | 5.7309 | A\$3,694,589 | (A\$369,459) | Increase in OCI |
| AUD change by 10%- | 4.6889 | A\$4,515,609 | A\$451,561 | Decrease in OCI |

Foreign exchange risk arises from the Group's cash holdings in Singapore Dollars and Canadian Dollars. At 30 June 2017 the Group held AUD\$99,706 in Singapore Dollars (2016: AUD\$329,424) and AUD\$768,704 in Canadian Dollars (2016: Nil).

| | | | | |
|----------------------|--------|------------|------------|-----------------|
| Cash holdings in SGD | 1.0587 | A\$99,706 | | |
| AUD change by 10%+ | 1.1645 | A\$90,642 | (A\$9,064) | Decrease in OCI |
| AUD change by 10%- | 0.9528 | A\$110,784 | A\$11,078 | Increase in OCI |

| | | | | |
|----------------------|-------|------------|-------------|-----------------|
| Cash holdings in CAD | 1.000 | A\$768,704 | | |
| AUD change by 10%+ | 1.100 | A\$698,822 | (A\$69,882) | Decrease in OCI |
| AUD change by 10%- | 0.900 | A\$854,116 | A\$85,412 | Increase in OCI |

Foreign exchange risk also arises from the Group's cash holdings and trade receivables in United States Dollars. At 30 June 2017 the Group had cash holdings and receivables of AUD\$225,705 in United States Dollars (2016: AUD\$82,715).

| | | | | |
|-------------------------------|--------|------------|-------------|-----------------|
| Cash holdings & others in USD | 0.7686 | A\$225,705 | | |
| AUD change by 10%+ | 0.8454 | A\$205,186 | (A\$20,519) | Decrease in OCI |
| AUD change by 10%- | 0.6917 | A\$250,783 | A\$25,078 | Increase in OCI |

NOTE 2: FINANCIAL RISK MANAGEMENT (Continued)

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

Maturities of financial assets and liabilities

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

| | Consolidated 2017 | | | |
|--------------------------|----------------------|-------------------|---------------------------|--------------------|
| | \$ | \$ | \$ | \$ |
| | 0 to 6 months | 6 to 12 months | Greater than 12 months | Carrying Amount |
| Others | 289,576 | - | 144,838 | 434,414 |
| Trade and other payables | 1,910,082 | - | 6,968,034 | 8,878,116 |
| | 2,199,658 | - | 7,112,872 | 9,312,530 |

| | Consolidated Restated 2016 | | | |
|--------------------------|-------------------------------|-------------------|---------------------------|--------------------|
| | \$ | \$ | \$ | \$ |
| | 0 to 6 months | 6 to 12 months | Greater than 12 months | Carrying Amount |
| Others | 17,318 | - | - | 17,318 |
| Trade and other payables | 2,420,816 | - | 7,658,218 | 10,079,034 |
| | 2,438,134 | - | 7,658,218 | 10,096,352 |

| | Consolidated 2017 | | | |
|--------------------|----------------------|-------------------|---------------------------|--------------------|
| | \$ | \$ | \$ | \$ |
| | 0 to 6 months | 6 to 12 months | Greater than 12 months | Carrying Amount |
| Current assets | 2,666,414 | - | - | 2,666,414 |
| Non-current assets | - | - | 19,012,389 | 19,012,389 |
| | 2,666,414 | - | 19,012,389 | 21,678,803 |

| | Consolidated Restated 2016 | | | |
|--------------------|-------------------------------|-------------------|---------------------------|--------------------|
| | \$ | \$ | \$ | \$ |
| | 0 to 6 months | 6 to 12 months | Greater than 12 months | Carrying Amount |
| Current assets | 3,359,687 | - | - | 3,359,687 |
| Non-current assets | - | - | 18,591,091 | 18,591,091 |
| | 3,359,687 | - | 18,591,091 | 21,950,778 |

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NOTE 2: FINANCIAL RISK MANAGEMENT (Continued)

(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.

(b) Going concern

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

The Group incurred a net loss of \$986,526 and an operating cash outflow of \$875,492 for the financial year ended 30 June 2017. At that date the Group was in a net current asset position of \$466,756. Included in net current assets is VAT receivable of \$765,591 that will only be recovered once the Group generates sufficient income in China.

Also included in net assets are trade creditors of \$2,827,071 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 also has \$926,121 capital commitments in relation to its Pingyao operations. Further details are provided in Note 23.

In the course of the financial year CMC completed the Pingyao operating plant and commenced the process of facility firing in April 2017 to commence production in May 2017. In April 2017 SYMC (the operating subsidiary of CMC based at Pingyao) management were informed that production was to immediately cease pursuant to action by the Minister of Environmental Protection to effect measures to ensure compliance with emissions standards. These measures were focussed on a variety of production plants in Beijing, Tianjing, Hebei, Shanxi and surrounding provinces including magnesium plants.

The Pingyao plant was built to significantly higher standards with respect to waste disposal / emission control, has converted its energy source to waste gas, and has been granted preferred project status in Shanxi Province.

The Pingyao operation was powered down and remains in pre-production state. Management have been proactive in confirming with EPP and other producers the discharge limits for the specifications relevant to the Pingyao plant, and initiating relevant additional scoping work to ensure continued compliance with EPP emission standards.

CMC is confident that the Pingyao plant will satisfy the disposal/emission specifications and thereby pass the inspection and review by the expert environmental team as the prerequisite for production recommencement. SYMC management has conservatively projected additional initial emission discharge control work will be completed for production resumption by March 2018 at the total cost of \$1.1M. CMC has in place funding to complete the additional work.

NOTE 3: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(b) Going concern continued

Monitoring of environmental discharge is anticipated to be effected by controls within all relevant plants with regular reporting thereon to the EPP, together with physical inspection on an ongoing basis. Management do not anticipate further plant closures pursuant to environmental issues.

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;
- Access to funding from capital raising completed November 2016;
- Fengyan will continue to provide working capital facilities to SYMC pursuant to the Investment and Co-Operation Agreement announced 17 December 2013
- Continued expansion of cash flow positive chemicals and fertiliser trading
- Capacity to raise working capital from exercise of options and other means, including directors' loans

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. If production were not to commence, there would be risks of impairment in Property, Plant and Equipment. No adjustment has been made to the financial statements relating to the recoverability and classification of the assets and the carrying amount and classification of the liabilities should the directors' assumptions not eventuate.

(c) Impairment Assessment

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates and require the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present value.

These calculations use cash flow projections covering a five year period that are based on financial forecasts of how the business is expected to operate based on current performance consistent with previous experience and external data, excluding any benefit expected to arise from future restructuring or from improved asset performance. Cash flows beyond the five-year period are extrapolated using perpetual growth rates.

Besides commodity pricing, costs of production and discount rate, the key assumptions include delay to planned production commencement in November 2017 allowing management to take necessary actions in response to the current environmental measures undertaken by the authorities in China, Production is expected to increase to the First Phase magnesium capacity of 20,000tpa by April 2018. Commodity pricing has been based on current market prices for the different products produced. Costs of production are based on an assessment of costs following pilot production trials.

In performing value-in-use calculations, the company has applied a post-tax discount rate to discount the forecast future cash flows. Discount rates represent the current market assessment of the risks specific to each cash generating unit, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated into the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest bearing borrowings the Group is obliged to service. A risk premium is included in each CGU's discount rate, reflecting the level of forecasting, size, country and financing risk for that CGU. The post-tax discount rate used is 13.93% (2016: 13.93%).

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, coke, fertilisers 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, coke, fertilisers and related products | Marketing support fee | Total |
|-------------|--|----------------------------------|--------------|
| | \$ | \$ | \$ |
| 2017 | 354,862 | 1,480,000 | 1,834,862 |
| 2016 | 7,075 | - | 7,075 |

During the year \$354,862 (2016: \$7,075) revenue was derived from trading activities of magnesium, coke, fertilisers and related products conducted through the subsidiaries. In addition, the company received \$1.48M (2016: Nil) from Fengyan Group for various marketing support services rendered. The value net of depreciation at \$16,450,269 (2016: \$16,340,270) for the Group's property, plant and equipment as shown in Note 14 are located in the People's Republic of China.

NOTE 5: REVENUE

| | Consolidated 2017 | 2016 |
|---|------------------------------|---------------|
| | \$ | \$ |
| Revenue from sale of magnesium, Coke, fertilisers and related products | 354,862 | 7,075 |
| Marketing support fee | 1,480,000 | - |
| Interest | 4,479 | 4,275 |
| Total revenue from operations | 1,839,341 | 11,350 |

The marketing support fee includes services provided for international development, marketing and distribution of Fengyan products, provision of trading house facilities and assistance with accreditation for Fengyan products for tender. These services have been provided under the terms of the Cooperation and Investment Agreement announced to the ASX on 17 December 2013. While that agreement continues, there is no current proposal for any ongoing revenue in relation to this support.

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2017

NOTE 6: EXPENSES

| | 2017 | 2016 |
|---|-----------------------|-----------------------|
| Profit/(loss) before income tax includes | 2017 | 2016 |
| The following specific expenses | \$ | \$ |
| Depreciation | | |
| Buildings | 24,312 | 29,672 |
| Vehicles | - | - |
| Plant and equipment | 240,886 | 253,530 |
| <i>Amortisation</i> | | |
| Leasehold Land | 29,007 | 31,756 |
| Quarry | 59,251 | 64,867 |
| Total depreciation and amortisation | <u>353,456</u> | <u>379,825</u> |
| Finance Costs | | |
| Interest and finance charges paid/payable | 262,196 | 494,096 |
| Rental expense, including lease interest and amortisation of right to use asset (refer Note 13) | 72,404 | 102,112 |
| | 72,404 | 102,112 |

NOTE 7: INCOME TAX BENEFIT

| | 2017 | 2016 |
|--|-------------------------|-------------------------|
| | \$ | \$ |
| (a) Income tax benefit | | |
| Current tax | (479,691) | (618,378) |
| Deferred tax | 479,691 | 618,378 |
| 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 | (986,526) | (2,341,664) |
| Tax at the Australian tax rate of 27.5% (2016:30%) | (271,295) | (702,499) |
| Foreign exchange translation differences | (24,849) | (40,515) |
| Other permanent differences | - | 62 |
| | <u>(24,849)</u> | <u>(40,454)</u> |
| Difference in overseas tax rate | 60,364 | 136,257 |
| Tax losses not recognised | 472,349 | 600,975 |
| Under/(over) provision from prior years | (236,569) | 5,721 |
| 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 | 3,845,728 | 3,837,338 |
| Deductible temporary differences | 75,137 | 25,581 |
| | <u>3,920,865</u> | <u>3,862,919</u> |

NOTE 8: PRIOR PERIOD RESTATEMENT – FINANCE COSTS

Prior period accounting restatement

In preparing the financial statements of the company for the period ended 30 June 2017, the directors became aware that interest had been calculated on the wrong principal balance from October 2014. The overstatement of interest in the previous periods' and years' financial statements represents a prior period accounting error which has been accounted for retrospectively in the financial statements. Consequently, the company has adjusted all comparative amounts presented in the current period's financial statements affected by the accounting error.

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Notes to the Consolidated Financial Statements - 30 June 2017

NOTE 8: PRIOR PERIOD RESTATEMENT – FINANCE COSTS (Continued)

Pursuant to Australian Accounting Standard AASB 108 the error has been brought to account in the relevant periods affected. The current year's result includes a reduction of interest expense of \$127,286 being the correction of the error relevant to the current period, whilst accumulated losses have been adjusted by \$448,764 being the correction of the error relevant to prior period.

Consolidated statement of financial position

30 June 2016

| | As previously stated \$ | Restatement \$ | As restated \$ |
|--|-------------------------------|-------------------|-------------------|
| Current assets | 3,359,687 | - | 3,359,687 |
| Non-current assets | 18,591,091 | - | 18,591,091 |
| Total assets | 21,950,778 | - | 21,950,778 |
| Current Liabilities | 2,438,134 | - | 2,438,134 |
| Non-current liabilities | 8,106,982 | (448,764) | 7,658,218 |
| Total Liabilities | 10,545,116 | (448,764) | 10,096,352 |
| Net assets | 11,405,662 | | 11,854,426 |
| Contributed equity | 21,111,526 | - | 21,111,526 |
| Reserves | 3,955,635 | - | 3,955,635 |
| Accumulated losses | (13,833,125) | 409,497 | (13,423,627) |
| Total equity attributable to owners of the parent | 11,234,036 | | 11,643,534 |
| Non-controlling interest | 171,626 | 39,267 | 210,892 |
| Total equity | 11,405,662 | 448,764 | 11,854,426 |

Consolidated statement of Profit or Loss and Other Comprehensive income

30 June 2016

| | As previously stated \$ | Restatement \$ | As restated \$ |
|-------------------------------|-------------------------------|-------------------|-------------------|
| Finance costs | 494,096 | (319,594) | 174,502 |
| Loss before tax - Controlling | 2,135,628 | (291,630) | 1,843,998 |
| Loss before tax - NCI | 206,037 | (27,964) | 178,073 |
| Earnings per share | (0.9) | | (0.9) |
| Diluted earnings per share | (0.9) | | (0.9) |

Consolidated statement of financial position

30 June 2015

| | As previously stated \$ | Restatement \$ | As restated \$ |
|--------------------------|-------------------------------|-------------------|-------------------|
| Current assets | 4,728,667 | - | 4,728,667 |
| Non-current assets | 19,007,783 | - | 19,007,783 |
| Total assets | 23,736,450 | - | 23,736,450 |
| Current Liabilities | 4,017,059 | - | 4,017,059 |
| Non-current liabilities | 5,398,139 | (129,170) | 5,268,969 |
| Total Liabilities | 9,415,198 | (129,170) | 9,286,028 |
| Net assets | 14,321,252 | | 14,450,442 |

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2017

NOTE 8: PRIOR PERIOD RESTATEMENT – FINANCE COSTS (Continued)

| | | | |
|--|-------------------|----------------|-------------------|
| Contributed equity | 21,124,258 | - | 21,124,258 |
| Reserves | 4,492,269 | - | 4,492,269 |
| Accumulated losses | (11,697,496) | 117,868 | (11,579,628) |
| Total equity attributable to owners of the parent | 13,919,031 | | 14,036,889 |
| Non-controlling interest | 402,221 | 11,302 | 413,523 |
| Total equity | 14,321,252 | 129,170 | 14,450,422 |

NOTE 9: CASH AND CASH EQUIVALENTS

| | Consolidated | |
|--------------------------|------------------|------------------|
| | 2017 | 2016 |
| | \$ | \$ |
| Cash at bank and in hand | 1,151,612 | 2,094,052 |
| Deposits at call | 281,980 | 100,610 |
| | <u>1,433,592</u> | <u>2,194,662</u> |

Cash at bank and in hand earn interest rates between zero and 1.0% (2016: zero and 1.0%). Deposits at call earn a floating interest rate of around 1% (2016: 1%). Cash held in China is subject to exchange control restrictions as covered in Note 26.

NOTE 10: TRADE AND OTHER RECEIVABLES

| | | |
|---------------|------------------|----------------|
| Trade debtors | - | 7,054 |
| Other debtors | 1,087,219 | 909,891 |
| | <u>1,087,219</u> | <u>916,945</u> |

NOTE 11: INVENTORIES

| | | |
|--------------------------|----------------|----------------|
| Raw materials and stores | <u>145,603</u> | <u>248,080</u> |
|--------------------------|----------------|----------------|

Inventory expense: Inventories recognised as expense during the year ended 30 June 2017 amounted to \$59,551 (2016 – nil).

NOTE 12: NON-CURRENT ASSET - OTHER

| | | |
|--------------------------|------------------|------------------|
| Prepayment – non-current | <u>2,350,990</u> | <u>2,240,816</u> |
|--------------------------|------------------|------------------|

NOTE 13: LEASES

The Group has chosen to early adopt the new standard AASB 16 Leases. On 1 February 2017 the Group has entered a property lease arrangement for 2 years with a further 2-year option, which is accounted for in accordance with the new standard.

| Right to use leased assets | 2017 | 2016 |
|-----------------------------------|----------------|----------|
| | \$ | \$ |
| Non-current | <u>201,130</u> | <u>-</u> |
| Leased liabilities | | |
| Current | <u>61,050</u> | <u>-</u> |
| Non-current | <u>144,838</u> | <u>-</u> |

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2017

NOTE 13: LEASES (Continued)

| | Current Period \$ | Within 12 Months \$ | Within 2-5 years \$ |
|---------------------------------------|-------------------------|---------------------------|---------------------------|
| Cash lease payments | 25,438 | 61,820 | 171,714 |
| Present value of lease payments | 24,999 | 57,817 | 141,701 |
| Lease expense recognised | | | |
| Interest | 6,548 | 14,394 | 21,330 |
| Amortisation | 23,387 | 56,129 | 145,000 |
| Total charge to profit or loss | 29,935 | 70,523 | 166,330 |

NOTE 14: PROPERTY, PLANT AND EQUIPMENT

| Consolidated | Assets under construction \$ | Leasehold Land \$ | Quarry \$ | Buildings \$ | Vehicles \$ | Plant & equipment \$ | Total \$ |
|---|------------------------------------|-------------------------|--------------|-----------------|----------------|----------------------------|-------------|
| Year ended 30 June 2017 | | | | | | | |
| Opening net book amount | 11,706,904 | 1,367,074 | 652,803 | 272,580 | 14,710 | 2,326,204 | 16,340,275 |
| Exchange differences | (594,514) | (90,146) | (69,140) | (14,003) | (15,165) | (31,829) | (814,797) |
| Additions | 1,272,658 | - | - | - | - | 5,589 | 1,278,247 |
| Disposals | - | - | - | - | - | - | - |
| Depreciation / amortisation | - | (29,007) | (59,251) | (24,312) | - | (240,886) | (353,456) |
| Closing net book amount | 12,385,048 | 1,247,921 | 524,412 | 234,265 | (455) | 2,059,078 | 16,450,269 |
| At 30 June 2017 | | | | | | | |
| Cost | 12,385,048 | 1,420,648 | 815,659 | 399,676 | 73,247 | 3,470,236 | 18,564,514 |
| Accumulated depreciation / amortisation | - | (172,727) | (291,247) | (165,410) | (73,703) | (1,411,158) | (2,114,245) |
| Net Book amount | 12,385,048 | 1,247,921 | 524,412 | 234,266 | (456) | 2,059,078 | 16,450,269 |
| Year ended 30 June 2016 | | | | | | | |
| Opening net book amount | 12,143,991 | 1,418,407 | 767,647 | 383,117 | 79,772 | 1,931,408 | 16,724,342 |
| Exchange differences | (603,972) | (19,576) | (49,977) | 2,806 | (43,304) | 75,999 | (638,024) |
| Additions | 166,884 | - | - | (83,671) | (21,757) | 572,327 | 633,783 |
| Disposals | - | - | - | - | - | - | - |
| Depreciation / amortisation | - | (31,756) | (64,867) | (29,672) | - | (253,530) | (379,825) |
| Closing net book amount | 11,706,903 | 1,367,075 | 652,803 | 272,580 | 14,711 | 2,326,204 | 16,340,275 |
| Cost | 11,706,904 | 1,496,691 | 859,318 | 421,127 | 77,179 | 3,648,025 | 18,209,244 |
| Accumulated depreciation / amortisation | - | (129,617) | (206,515) | (148,547) | (62,469) | (1,321,821) | (1,868,969) |
| Net Book amount | 11,706,904 | 1,367,074 | 652,803 | 272,580 | 14,710 | 2,326,204 | 16,340,275 |

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2017

NOTE 15: TRADE AND OTHER PAYABLES

| | 2017 \$ | Restated 2016 \$ |
|-----------------------------|------------------|------------------------|
| Current:- | | |
| Trade payables | 948,502 | 915,170 |
| Other payables and accruals | 961,580 | 1,505,646 |
| | <u>1,910,082</u> | <u>2,420,816</u> |
| Non-Current:- | | |
| Trade payables | <u>2,827,071</u> | <u>1,949,687</u> |

NOTE 16: RELATED PARTY- PAYABLES AND BORROWINGS

| | | |
|-------------------|------------------|------------------|
| Payables | 3,181,463 | 1,011,000 |
| Borrowings | 959,500 | 3,079,801 |
| Income in advance | - | 1,617,730 |
| | <u>4,140,963</u> | <u>5,708,531</u> |

Related party payables with the Fengyan Group include (i) Borrowings of \$959,500 (RMB 5 million) at interest charge of 13.68% annually; (ii) the Payables for various working capital support rendered at 0% interest. (iii) Income in advance: Nil (2016: RMB8 million) based on agreed supplies.

NOTE 17: OTHER LIABILITIES

| | | |
|---------------------|----------------|----------|
| Refundable deposits | <u>199,374</u> | <u>-</u> |
|---------------------|----------------|----------|

CMC announced a Framework Agreement in September 2016 for a proposed 40% interest in a lithium exploration project in WA with a lithium concentrate producer, Shanghai Min Heng Science & Technology Development Company Ltd (SMH). CMC received RMB1 million (A\$199,374) from SMH as earnest money pending completion of relevant obligations for the exclusive access opportunities.

NOTE 18: EMPLOYEE BENEFITS

| | | |
|---------------------------|---------------|---------------|
| Current employee benefits | <u>29,152</u> | <u>17,318</u> |
|---------------------------|---------------|---------------|

NOTE 19: CONTRIBUTED EQUITY

| | Consolidated | | Consolidated | |
|----------------------------|--------------------|--------------------|-------------------|-------------------|
| | 2017 Shares | 2016 Shares | 2017 \$ | 2016 \$ |
| (a) Share capital | | | | |
| Ordinary shares fully paid | <u>279,693,676</u> | <u>195,022,849</u> | <u>23,189,218</u> | <u>21,111,505</u> |

(b) Movements in ordinary share capital

| Date | Details | Number of shares | *Issue price | \$ |
|-------------------|---------------|---------------------|-----------------|------------|
| 1 July 2015 | Balance | 195,328,331 | | 21,124,258 |
| 3 July 2015 | Share buyback | (57,426) | 0.05 | (2,756) |
| 8 July 2015 | Share buyback | (26,940) | 0.04 | (1,212) |
| 14 July 2015 | Share buyback | (19,000) | 0.05 | (874) |
| 10 August 2015 | Share buyback | (5,000) | 0.05 | (230) |
| 20 August 2015 | Share buyback | (35,000) | 0.05 | (1,610) |
| 21 August 2015 | Share buyback | (3,060) | 0.05 | (138) |
| 21 August 2015 | Share buyback | (50,000) | 0.05 | (2,250) |
| 14 September 2015 | Share buyback | (752) | 0.03 | (19) |

China Magnesium Corporation Limited and its subsidiaries
NOTE 19: CONTRIBUTED EQUITY (Continued)

| Date | Details | Number of shares | *Issue price | \$ |
|-------------------|---|--------------------|--------------|-------------------|
| 14 September 2015 | Share buyback | (50,000) | 0.03 | (1,500) |
| 22 October 2015 | Share buyback | (3,304) | 0.04 | (116) |
| 22 October 2015 | Share buyback | (55,000) | 0.04 | (1,925) |
| | Less: Transaction costs of share issues / buyback | | | (102) |
| 30 June 2016 | Balance | 195,022,849 | | 21,111,526 |
| 30 November 2016 | Share placement | 84,670,827 | 0.025 | 2,116,771 |
| | Less: Transaction costs of share issues | - | - | (39,079) |
| 30 June 2017 | Balance | 279,693,676 | | 23,189,218 |

* Issue price rounded to two decimal places

(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 2017 (2016: nil).

(e) Options

In 2016 the company entered into a pro rata non renounceable rights issue of fully paid ordinary shares at \$0.025 each offered on the basis of one (1) new share for every 2.4378 shares held, together with one (1) free listed option for every two (2) shares issued (exercisable at \$0.05 on or before 8 December 2017) for every new share offered. During the year no options were exercised at \$0.05.

(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.

NOTE 20: RESERVES

| | Consolidated | |
|--|------------------|------------------|
| | 2017 \$ | 2016 \$ |
| Foreign currency translation reserve | 2,877,299 | 3,436,705 |
| Change of interest in subsidiary reserve | 518,930 | 518,930 |
| Total reserves | 3,396,229 | 3,955,635 |

NOTE 20: RESERVES (Continued)

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2017

- (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 21: REMUNERATION OF AUDITORS

| | Consolidated | |
|--|----------------|---------------|
| | 2017 | 2016 |
| | \$ | \$ |
| Audit and review of financial statements | | |
| ShineWing Australia | 39,973 | 90,000 |
| Grant Thornton Australia | 35,000 | - |
| Overseas Grant Thornton network firms | 38,500 | - |
| Audit and review of financial statements | 113,473 | 90,000 |

There have been no non-audit services during the year.

NOTE 22: CONTINGENCIES

On 1 March 2016 CMC entered into an Agreement to

[i] lease and lease-back on identical terms of production facilities over 20 years with Taiyuan Hailifeng Science & Technology Co. Ltd. (Hailifeng) in

[a] the Taiyuan High-tech Industrial Development Zone, Taiyuan, Shanxi Province, China.

[b] Shandong, Shandong Province, China

[ii] acquire exclusive access to a number of patents and technical documents owned by Hailifeng in the respective districts. Negotiations with respect to the Shandong Plant are still in progress.

On completion of the head lease and lease-back agreements for both production facilities, CMC will issue 10M ordinary shares at the VWAP of the previous 5 days. No net financial impact on CMC is anticipated. The lease agreements provide for the payment of RMB2,000 per tonne of product withdrawn. No product was withdrawn in the current financial year. (2016: Nil). Accordingly no expense has been recognised in the financial statements.

NOTE 23: 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 | - | - |
| Later than one year but no later than five years | 926,121 | 1,211,769 |
| Later than five years | - | - |
| | 926,121 | 1,211,769 |

(b) Lease commitments :

On 1 March 2016 CMC entered into a lease and lease-back of production facilities over 20 years with Taiyuan Hailifeng Science & Technology Co. Ltd. (Hailifeng) in the Taiyuan High-tech Industrial

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2017

NOTE 23: COMMITMENTS (Continued)

Development Zone, Taiyuan, Shanxi Province, China. The agreement provides for the payment of 2,000RMB per ton of product withdrawn. As this is a variable lease payment, CMC will recognize such payments as expenses in the periods incurred. No product was withdrawn in the current financial year. (2016: Nil).

Accordingly no expense was recognised in the current financial year.

CMC and Hailifeng also are in negotiations on a lease and lease-back of production facilities over 20 years in Shandong, Shandong Province, China. Negotiations with respect to the Shandong Plant are still in progress.

NOTE 24: 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 26.

(c) Key management personnel

Consolidated

| | 2017 | 2016 |
|------------------------------|------------------|------------------|
| | \$ | \$ |
| Short term employee benefits | 1,101,823 | 1,081,823 |
| Post-employment benefits | 10,677 | 10,677 |
| | 1,112,500 | 1,092,500 |

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 25: PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ended 30 June 2017 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

Result of parent entity

| | | |
|---|--------------------|--------------------|
| Profit / (loss) for the year after tax | 860,251 | (238,927) |
| Other comprehensive income | - | - |
| Total comprehensive income for the year | <u>860,251</u> | <u>(238,927)</u> |
| Financial position of parent entity at year end | | |
| Current assets | 11,936,925 | 9,818,018 |
| Non-current assets | 9,332,656 | 9,131,507 |
| Total assets | <u>21,269,581</u> | <u>18,949,525</u> |
| Current liabilities | (743,753) | (1,191,579) |
| Non-current liabilities | (205,888) | - |
| Total liabilities | <u>(949,641)</u> | <u>(1,191,579)</u> |
| Net assets | <u>20,319,940</u> | <u>17,757,946</u> |
| Contributed equity | 23,189,217 | 21,111,506 |
| Accumulated (losses) | <u>(2,869,277)</u> | <u>(3,353,560)</u> |
| Total equity | <u>20,319,940</u> | <u>17,757,946</u> |

b) Guarantees entered into by the parent entity

The parent entity has not entered into any guarantees in respect of its subsidiaries (2016 – nil).

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2017

NOTE 25: PARENT ENTITY DISCLOSURES (Continued)

c) Contingent liabilities

The Group is not aware of any contingent liability, other than as disclosed at Note 22.

d) Contractual commitments

Nil (2016 – nil)

NOTE 26: SUBSIDIARIES AND TRANSACTIONS WITH NON-CONTROLLING INTERESTS (NCI)

Interests in subsidiaries

Information relating to the group's interests in principal subsidiaries at 30 June 2017 is set out below:

| Name of entity | Country of incorporation | Group holding 2017 % | Group holding 2016 % | NCI holding 2017 % | NCI holding 2016 % |
|-------------------------------------|--------------------------|----------------------|----------------------|--------------------|--------------------|
| 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 |
| CMC Commodities Pty Ltd | Australia | 100.00 | 100.00 | 0.00 | 0.00 |
| CMC Lithium Pty Ltd | Australia | 100.00 | 0.00 | 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. CMC Commodities Pty Ltd and CMC Lithium Pty Ltd were incorporated in Australia in March 2016 and November 2016 respectively.

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 2017 \$ | SYMC 2016 \$ |
|---|--------------|--------------|
| Current assets | 5,482,973 | 2,717,880 |
| Non-current assets | 15,798,808 | 18,578,450 |
| Total assets | 21,281,781 | 21,296,330 |
| Current liabilities | (1,391,302) | (1,237,192) |
| Non-current liabilities | (18,255,332) | (17,080,643) |
| Total liabilities | (19,646,634) | (18,317,835) |
| Net assets | 1,635,147 | 2,978,495 |
| Accumulated NCI | 143,075 | 260,618 |
| Summarised statement of profit or loss and other comprehensive income | SYMC 2017 \$ | SYMC 2016 \$ |
| Loss for the period | 1,580,852 | 2,354,708 |
| Other comprehensive income | 227,574 | 280,677 |
| Total comprehensive income | 1,808,426 | 2,635,385 |

NOTE 26: SUBSIDIARIES AND TRANSACTIONS WITH NON-CONTROLLING INTERESTS (NCI) (continued)

| Summarised cash flows | SYMC 2017 \$ | SYMC 2016 \$ |
|--|--------------------|--------------------|
| Cash flows from operating activities | (1,156,667) | (2,507,853) |
| Cash flows from investing activities | (1,430,597) | (466,935) |
| Cash flows from financing activities | 2,618,680 | 2,966,115 |
| Effect of exchange rate changes | 72,811 | 58,250 |
| Net increase/(decrease) in cash and cash equivalents | 104,227 | 49,577 |

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 to which these restrictions apply is \$1,567,371 (2016: \$1,618,169)

NOTE 27: RECONCILIATION OF PROFIT / (LOSS) AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

| | Consolidated 2017 \$ | Restated 2016 \$ |
|---|----------------------------|------------------------|
| Profit/(loss) for the year | (986,526) | (2,022,071) |
| Depreciation and amortisation | 353,455 | 379,825 |
| Amortisation of rights of use asset | 23,387 | - |
| Lease interest expense included in financing activities | 6,548 | - |
| Share of losses from contractual arrangement | - | (483,882) |
| Foreign exchange loss/(gain) | 33,090 | 42,730 |
| Decrease (increase) in trade and other receivables | (170,273) | (1,510,453) |
| Decrease (increase) in prepayments | (110,173) | 142,781 |
| Decrease (increase) in inventories | 102,476 | 41,528 |
| (Decrease) Increase in trade and other payables | (139,310) | 1,306,038 |
| (Decrease) Increase in other provisions | 11,834 | (11,841) |
| Net cash inflows / (outflows) from operating activities | (875,492) | (2,115,345) |

Non-cash financing and investing activities

Note (a) Interest and other costs of finance paid exclude the non-cash amount of \$258,813 relating to Fengyan, which has been capitalised into the borrowings (Note 16)

Note (b) Payments for property plant and equipment exclude the non-cash amount of \$1,266,819. The liability for these acquisitions remains in trade payables, mainly relating to Fengyan and certain other suppliers.

China Magnesium Corporation Limited and its subsidiaries
Notes to the Consolidated Financial Statements - 30 June 2017

NOTE 28: EARNINGS PER SHARE

| | 2017 | 2016 |
|---|---------------|---------------|
| | Cents | Cents |
| Basic earnings / (loss) per share | (0.3) | (0.9) |
| Diluted earnings / (loss) per share | (0.3) | (0.9) |
| | \$ | \$ |
| Net loss for the year attributable to owners of the parent used to calculate loss per share – basic and diluted | (848,201) | (1,843,998) |
| | Number | Number |
| Weighted average number of ordinary shares outstanding during the year used to calculate basic loss per share | 243,969,546 | 195,063,545 |
| Diluted earnings per share:- options over ordinary shares would decrease loss per share and provide antidilutive effect | 10,000,000 | 10,000,000 |
| Weighted average number of ordinary shares outstanding during the year used to calculate diluted loss per share | 253,969,546 | 205,063,545 |

NOTE 29: SUBSEQUENT EVENTS

CMC has acquired 2 tenements in Western Australia. In September 2016 CMC announced it had entered into a conditional Framework Agreement to finance the assessment and exploitation of lithium from the 2 tenements. Upon satisfaction of the conditions and intent of the Framework Agreement, CMC's interest in the tenements will reduce to 40%. At the date of this report a number of the Framework Agreement conditions are still outstanding.

Pursuant to the Pingyao plant production closure the Company has scoped additional work to enhance emissions standards compliance. Management project the cost of this work at \$1.1M.

On 31 July 2017 the mining license of Jiexiu City Baiyun Quarry was cancelled. Impairment of Quarry assets at carrying value of \$77,010 (RMB401,214) and land use and mining rights at \$524,348 (RMB2,731,800). CMC will seek to recover \$575,827 (RMB3 million) under the Option and Purchase Agreement. Management has sourced alternative dolomite supply for production.

Except for the matters discussed above, no other matter or circumstance has arisen since 30 June 2017 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.

China Magnesium Corporation Limited and its subsidiaries

Directors' Declaration - 30 June 2017

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 2017 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 7 to 10 complies with Section 300A of the *Corporations Act 2001*.

The Directors have been given the declarations by the Chief Executive Officer and Comptroller 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
30 August 2017

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Independent Auditor's Report to the Members of China Magnesium Corporation Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of China Magnesium Corporation Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
- b Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 3(b) in the financial statements, which indicates that the Group incurred a net loss of \$986,526 during the year ended 30 June 2017 and had operating cash outflows of \$577,144 for the year then ended. As stated in Note 3(b), these events or conditions, along with other matters as set forth in Note 3(b), indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report. Our opinion is not modified in respect of this matter.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

| Key audit matter | How our audit addressed the key audit matter |
|--|--|
| <p>Revenue recognition Notes 1(f) and 5</p> <p>The Group recognised \$1.48 million of income related to marketing support services that it provided to a counterparty. The Group has early adopted <i>AASB 15 Revenue from Contracts with Customers</i> for the year ended 30 June 2017, and the requirements of this standard have dictated the recognition of this balance as revenue.</p> <p>We have determined that this is a risk due to the material value of the transaction, and the impact that it has on the financial statements for the 30 June 2017 financial year.</p> <p>This area is a key audit matter as the appropriate recognition of this balance as income was a matter of significant judgment.</p> | <p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • obtaining and reading the underlying agreement between the Group and the counterparty; • obtaining and reviewing the management prepared position paper for this transaction; • assessing the appropriateness of accounting treatment applied in line with requirements of the applicable accounting standard; • confirming key terms and interpretations of contract clauses directly with a representative of the counterparty, both verbally and in writing; and • assessing the adequacy of financial statement disclosures. |
| <p>Property, plant and equipment activity Notes 1(n) and 14</p> <p>The Group has made a material investment in property, plant and equipment assets during the period as it increases the scale of the facility located in Pingyao, China in readiness for production.</p> <p>We have determined that this is a risk due to the material investment involved.</p> <p>This area is a key audit matter due to the production assets being integral to the Group's successful operations.</p> | <p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • assessing appropriateness of capitalisation and depreciation rates applied in accordance with the requirements of <i>AASB 116 Property, Plant and Equipment</i>; • agreeing a sample of assets capitalised to supplier invoice and payment; and • assessing the adequacy of financial statement disclosures. |

Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of the Directors 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 preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

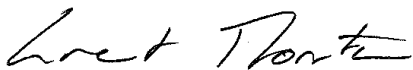
Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 10 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of China Magnesium Corporation Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Group 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.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



A F Newman
Partner - Audit & Assurance

Brisbane, 30 August 2017

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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 31 JULY 2017

(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 | 159 |
| 10,001 - 100,000 | 253 |
| 5,001 - 10,000 | 72 |
| 1,001 - 5,000 | 54 |
| 1 - 1,000 | 19 |
| Total | 557 |

There were 231 holders of less than a marketable parcel of ordinary shares.

(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 TOM BLACKHURST | 46,379,404 | 16.58% |
| SHANXI PINGYAO FENGYAN COAL & COKE GROUP CO LTD | 34,915,062 | 12.48% |
| MR XINPING LIANG | 34,435,730 | 12.31% |
| MR GUICHENG JIA | 16,922,472 | 6.05% |
| MR JIEPENG WU | 15,473,920 | 5.53% |
| MR MING LI | 12,000,000 | 4.39% |
| MR FENGJIN WANG | 7,736,960 | 2.77% |
| DATO LEE HAN SIEW | 7,000,000 | 2.50% |
| MR ONG HOCK SEONG | 6,197,348 | 2.22% |
| MR PETER ROBERTSON | 4,863,124 | 1.74% |
| H & R GERAS PL | 4,512,778 | 1.61% |
| JOHN WARDMAN & ASSOC PL | 3,664,000 | 1.31% |
| MR YUPING WANG | 3,594,800 | 1.29% |
| MR YANQIN ZHAO | 3,594,800 | 1.29% |
| MR YINGZHE MA | 3,094,800 | 1.11% |
| MR JOHN CHARLES PLUMMER | 3,000,000 | 1.07% |
| MR WILLIAM BASS | 2,431,414 | 0.87% |
| CITICORP NOMINEES PTY LTD | 2,281,247 | 0.82% |
| CARMANT PL | 2,148,262 | 0.77% |
| GDJ MECHANICAL INSTALLATIONS | 1,742,469 | 0.62% |
| Top 20 total | 215,988,590 | 77.22% |
| Others | 63,705,086 | 22.78% |
| Total as at 31 July 2017 | 279,693,676 | 100.00% |

Shareholder information (Continued)

(c) Substantial holders

Substantial holders in the Company are set out below:

| Ordinary Shares | Number Held | Percentage |
|---|--------------------|-------------------|
| MR THOMAS TROY BLACKHURST | 46,379,404 | 16.58% |
| SHANXI PINGYAO FENGYAN COAL & COKE GROUP CO LTD | 34,915,062 | 12.48% |
| MR XINPING LIANG | 34,435,730 | 12.31% |
| MR GUICHENG JIA | 16,922,472 | 6.05% |
| MR JIEPENG WU | 15,473,920 | 5.53% |
| | 148,126,588 | 52.96% |

(d) Quoted options security holders

Twenty largest quoted options security holders

| Name | Quoted Options Held | Percentage of Issued Options |
|---|----------------------------|-------------------------------------|
| MR JIEPENG WU | 7,736,960 | 18.28% |
| MR TOM BLACKHURST | 6,745,508 | 15.93% |
| MR XINPING LIANG | 6,738,640 | 15.92% |
| SHANXI PINGYAO FENGYAN COAL & COKE GROUP CO LTD | 5,000,000 | 11.81% |
| MR FENGJIN WANG | 3,868,480 | 9.14% |
| MR GUICHENG JIA | 2,461,236 | 5.81% |
| MR YUPING WANG | 1,797,400 | 4.25% |
| MR YANQIN ZHAO | 1,797,400 | 4.25% |
| MR YINGZHE MA | 1,547,400 | 3.66% |
| MR PETER ROBERTSON | 689,850 | 1.63% |
| MR MARK ANDREW TROCZ | 500,001 | 1.18% |
| MR WILLIAM BASS | 424,542 | 1.00% |
| H & R GERAS PL | 399,825 | 0.94% |
| MR ZOU YU | 386,840 | 0.91% |
| MR GLEN JAMES PETERSON | 142,001 | 0.34% |
| CUSTODIAL SERVICES LTD | 138,686 | 0.33% |
| ZELL NOMINEES PTY LTD | 129,000 | 0.30% |
| M & K KORKIDAS PTY LTD | 100,001 | 0.24% |
| BRIAN GEARY TV SERVICES PTY LTD | 100,001 | 0.24% |
| LANCEDALE HLDGS PL | 100,001 | 0.24% |
| Top 20 total | 40,803,771 | 96.38% |
| Others | 1,531,661 | 3.62% |
| Total as at 31 July 2017 | 42,335,432 | 100.00% |

(e) 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

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1 Eagle Street
Brisbane QLD 4000
Australia

Share Registry

Security Transfer Registrars Pty Ltd
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APPLECROSS WA 6153
Australia

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

Auditor

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Brisbane QLD 4000 Australia

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