



China Magnesium Corporation Limited

Appendix 4E – Preliminary Final Report

Name of Entity:	China Magnesium Corporation Limited
ABN:	14 125 236 731
Reporting Period - year ended:	30 June 2018
Previous corresponding period – period ended	30 June 2017

Results for Announcement to the Market

	Percentage change Up or Down	%		\$'000
Revenue from ordinary activities	down	99%	to	26
(Loss) from ordinary activities after tax attributable to members	down	100%	to	(2,736)
(Loss) for the period attributable to members	down	100%	to	(2,736)

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 2018	June 2017
Net Tangible Assets per security	2.8 Cents	3.8 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 associated by-products occurred during the year. Accordingly CMC has recognised an impairment charge on plant and equipment of \$1,739,840, determined using a cost based approach from an independent valuation conducted by a Beijing accounting firm.

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 satisfies 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 early 2019 after completion of environmental emission work.

On 31 July 2017 the mining license of Jiexiu City Baiyun Quarry was cancelled. Impairment of tangible Quarry assets at carrying value of \$77,010 (RMB401,214) and intangible land use and mining rights at \$524,348 (RMB2,731,800) and other residual balances have been brought to account.

CMC Lithium Pty Ltd., a previously wholly owned subsidiary of CMC, holds the lithium tenements in Western Australia. The Company divested 60% of its interest in the subsidiary on 31 January 2018. The loss of control of the subsidiary gave rise to a fair value gain of \$690,000. The fair value gain was measured by reference to the cash equity contribution made by the counter-party to the agreement that resulted in the loss of control.

Commentary on Results

Refer attached Managing Director report

Dividends

No dividends were paid or declared during the period ending 30 June 2018.

Compliance Statement

This report is based on the financial report that are being audited by our external auditors. Refer also page 2.



Tom Blackhurst
Managing Director

Date: 31 August 2018

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China Magnesium Corporation Limited and its subsidiaries

Managing Director's Report – 30 June 2018

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 \$3.1M including impairment charges of \$2.405M compared with a 2017 loss of \$0.987M.

Pingyao magnesium production

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 ensuring compliance with emissions standards. These measures were focused on a variety of plants in Beijing, Tianjing, Hebei, Shanxi and surrounding provinces including magnesium plants. The directive from the Minister was not from specific issues identified with the Pingyao plant, but was rather a "blanket cease of operations" for manufacturing plants.

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 2019, at a total cost of \$1.1M. 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 acquired 2 tenements in the Greenbushes area of Western Australia in 2016. 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. Certain conditions were not satisfied, resulting in the forfeiture of the earnest money. An amended agreement was then entered into with another party and on 31 January 2018, upon satisfaction of the conditions, CMC's interest in CMC Lithium was reduced to 40%. There was a gain of \$690,000 for the loss of control of the subsidiary.

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 tangible Quarry assets at carrying value of \$77,010 (RMB401,214) and intangible land use and mining rights at \$524,348 (RMB2,731,800) and other residual balances have been brought to account. Management has sourced alternative dolomite supply for production.

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 a 2-year period.

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.

China Magnesium Corporation Limited and its subsidiaries

Managing Director's Report – 30 June 2018

Fine Chemicals & Fertiliser Agreement

CMC signed a conditional agreement with Taiyuan Hailifeng Science & Technology Co. Ltd in early 2016 for the 20 year lease of business and production facilities in Taiyuan, Shanxi Province and Shandong, Shandong Province.

The conditions for completion were unable to be satisfied and the agreement was cancelled on 3 August 2018. No financial impact on CMC is anticipated.

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 for operations including for lithium tenement acquisition and development.

Magnesium Lithium

Construction and installation of a Magnesium Lithium plant at Pingyao with a nominal capacity of 108tpa has completed on schedule and successfully tested.

Rights and options raising

CMC successfully completed a share issue which raised \$.7M to provide CMC with additional general working capital and to further Australian and Chinese operations including acquiring assets.

Property, plant and equipment

The Group has made investment in the property, plant and equipment assets as it increases the scale of the facility located in Pingyao, China. The plant has been unable to commence production due to changes in the environmental regulation in China. Accordingly CMC has recognised an impairment charge on plant and equipment of \$1,739,840, determined from an independent valuation conducted by a Beijing accounting firm. As a result, the carrying value of these assets is now reduced to \$14,982,503.

The auditors have been unable to obtain sufficient, appropriate audit evidence about the assumptions concerning the expected compliance with the environmental regulations and the related timing of production commencement. At this stage it is likely that the audit report will include a qualification with respect to those two assumptions.

Going concern

In forming a view that the Group is a going concern, the directors' have assumed:-

- [a] continued financial support from creditors who have agreed to extended terms of payment;
- [b] access to funding from capital raisings completed;
- [c] Fengyan continuing to provide working capital facilities to SYMC pursuant to the Investment and Co-Operation Agreement announced 17 December 2013;
- [d] production commencing at Pingyao for MgLi plant by 30 September 2018 and magnesium production by 30 April 2019.

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 further 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.

China Magnesium Corporation Limited and its subsidiaries Managing Director's Report – 30 June 2018

Looking forward

CMC anticipates completing all environmental work necessary to commence production. 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.

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

Yours sincerely,



Tom Blackhurst
Managing Director

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China Magnesium Corporation Limited and its subsidiaries
Consolidated Financial Statements – 30 June 2018

Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2018

		Consolidated	
	Note	2018	2017
		\$	\$
Revenue	2	26,092	1,839,341
Other income	2	267,836	-
		<u>293,928</u>	<u>1,839,341</u>
Gain from loss of control of subsidiary	2	690,000	-
Gain on derecognition of liability	3	386,800	-
Impairment – Quarry	3	(665,250)	-
Impairment – Plant & equipment	3	(1,739,840)	-
Share of profit/(loss) of associate	4	(54,749)	-
Decommissioning expense		(87,266)	
Costs of raw materials and consumables		(24,591)	(347,427)
Auditing and accounting expenses		(116,851)	(135,454)
Depreciation and amortisation	3	(386,934)	(353,456)
Employee benefits		(1,555,940)	(1,564,108)
Finance costs		(138,320)	(134,910)
Foreign exchange gain/(loss)		747,068	(33,090)
Lease interest and amortisation		(71,035)	(29,935)
Other expenses		(351,782)	(160,892)
Travel		(25,375)	(66,595)
Total expenses		<u>(4,084,065)</u>	<u>(2,825,867)</u>
Loss before income tax		<u>(3,100,137)</u>	<u>(986,526)</u>
Income tax benefit		-	-
Loss for the year		<u>(3,100,137)</u>	<u>(986,526)</u>
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Foreign currency translation differences		57,805	(579,319)
Income tax on items of other comprehensive income		-	-
Other comprehensive income for the year (net of tax)		<u>57,805</u>	<u>(579,319)</u>
Total comprehensive income for the year		<u>(3,042,332)</u>	<u>(1,565,845)</u>
Loss for the year is attributable to:			
Owners of the parent		(2,735,658)	(848,201)
Non-controlling interests		(364,479)	(138,325)
		<u>(3,100,137)</u>	<u>(986,526)</u>
Total comprehensive income for the year is attributable to:			
Owners of the parent		(2,683,970)	(1,470,607)
Non-controlling interests		(358,362)	(158,238)
		<u>(3,042,332)</u>	<u>(1,628,845)</u>
Earnings per share		Cents	Cents
Basic earnings/(loss) per share for the year	11	(1.0)	(0.3)
Diluted earnings/(loss) per share for the year	11	(1.0)	(0.3)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

China Magnesium Corporation Limited and its subsidiaries
Consolidated Financial Statements – 30 June 2018

Consolidated statement of financial position as at 30 June 2018

	Note	2018 \$	2017
ASSETS			
Current assets			
Cash and cash equivalents	5	1,043,615	1,433,592
Trade and other receivables		954,319	1,087,219
Inventories		80,267	145,603
Other		-	-
Total Current Assets		2,078,201	2,666,414
Non-current assets			
Prepayments		2,607,120	2,350,990
Property, plant and equipment		14,982,503	16,450,269
Right of use assets		144,596	201,130
Tenements		-	10,000
Investment equity accounted associate	4	645,251	-
Total Non-Current Assets		18,379,470	19,012,389
Total assets		20,457,671	21,678,803
LIABILITIES			
Current liabilities			
Trade and other payables		1,923,901	1,910,082
Other liabilities		-	199,374
Lease liabilities		61,050	61,050
Employee benefits		17,248	29,152
Total Current Liabilities		2,002,199	2,199,658
Non-Current liabilities			
Trade and other payables		3,029,219	2,827,071
Lease liabilities		96,971	144,838
Borrowings		5,301,704	4,140,963
Total Non-Current Liabilities		8,427,894	7,112,872
Total liabilities		10,430,093	9,312,530
Net assets		10,027,578	12,366,273
EQUITY			
Contributed equity	6	23,892,855	23,189,218
Reserves		3,447,917	3,396,229
Accumulated losses		(17,007,486)	(14,271,828)
Total equity attributable to owners of the parent		10,333,286	12,313,619
Non-controlling interest		(305,708)	52,654
Total equity		10,027,578	12,366,273

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 2018

**Consolidated statement of changes in equity for the year ended
30 June 2018**

	Contributed equity	Accumulated losses	Foreign currency translation reserve	Change of interest in subsidiary reserve	Total	Non- Controlling interest	Total equity
	\$	\$	\$	\$	\$	\$	\$
At 1 July 2016(restated)	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
Issue 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
Loss for the year	-	(2,735,658)	-	-	(2,735,658)	(364,479)	(3,100,137)
<i>Other comprehensive income:</i>							
Foreign currency translation difference	-	-	51,689	-	51,689	6,117	57,806
Total comprehensive income for the year	-	(2,735,658)	51,689	-	(2,683,969)	(358,362)	(3,042,331)
Transactions with owners in their capacity as owners							
Issue of shares	704,440	-	-	-	704,440	-	704,440
Issue costs	(803)	-	-	-	(803)	-	(803)
At 30 June 2018	23,892,855	(17,007,486)	2,928,988	518,930	10,333,286	(305,708)	10,027,578

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 2018

Consolidated Statement of cash flows for the year ended 30 June 2018

Consolidated

	Note	2018 \$	2017 \$
Cash flows from operating activities			
Receipts from customers		123,989	1,774,548
Payments to suppliers and employees		(1,050,962)	(2,651,389)
Interest received		5,617	4,479
Interest and other costs of finance paid		(135,706)	(3,130)
Net cash inflow/(outflow) from operating activities	10	<u>(1,057,062)</u>	<u>(875,492)</u>
Cash flows from investing activities			
Payments for property plant and equipment		-	(192,782)
Net cash inflow/(outflow) from investing activities		<u>-</u>	<u>(192,782)</u>
Cash flows from financing activities			
Proceeds from share issue/share option		704,440	2,116,771
Share issue costs		(804)	(39,079)
Bill of exchange repayment		-	(1,535,538)
Lease capital repayment		(47,866)	(18,889)
Lease interest		(14,502)	(6,548)
Net cash inflow/(outflow) from financing activities		<u>641,268</u>	<u>516,717</u>
Net increase / (decrease) in cash and cash equivalents		(415,794)	(551,557)
Cash and cash equivalents at the beginning of the year		1,433,592	2,194,662
Effects of exchange rate changes on cash and cash equivalents		<u>25,817</u>	<u>(209,512)</u>
Cash and cash equivalents at the end of the year	5	<u>1,043,615</u>	<u>1,433,592</u>

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

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Notes to the consolidated financial statements

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China Magnesium Corporation Limited and its subsidiaries
Notes to Consolidated Financial Statements - 30 June 2018

NOTE 1: 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.

During the year, the Group equity account the results of an associate, which is involved in preliminary exploration of lithium. 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. Hence, the relevant financial results are incorporated in 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	Other income	Total
	\$	\$	\$
2018	-	293,928	293,928
2017	354,862	1,480,000	1,834,862

During the year Nil (2017: \$354,862) revenue was derived from trading activities of magnesium, coke, fertilisers and related products conducted through the subsidiaries. The value for the Group's property, plant and equipment net of depreciation at \$14,982,503 (2016: \$16,340,270) are located in the People's Republic of China.

NOTE 2: REVENUE AND OTHER INCOME

	Consolidated 2018 \$	2017 \$
Revenue from sale of magnesium, fertilisers and related products	-	354,862
Marketing support fee	-	1,480,000
Management fee (a)	20,000	
Other income (b)	68,462	-
Earnest money forfeited (c)	199,374	
Interest	6,092	4,479
Total revenue and other income	293,928	1,839,341

- (a) Management fee was from CMC Lithium Pty Ltd (associate) - \$5,000 monthly effective March 2018;
 (b) Other income was attributable to costs recovery from CMC Lithium Pty Ltd. and
 (c) Earnest money of \$199,374 (RMB1 million), held as a deposit in prior period, was forfeited by the counterparty to the Framework agreement for Lithium business, due to not satisfying the conditions by the agreed date.

China Magnesium Corporation Limited and its subsidiaries
Notes to Consolidated Financial Statements - 30 June 2018

NOTE 3: EXPENSES AND OTHER ITEMS

Profit/(loss) before income tax includes	2018	2017
The following specific items	\$	\$
<i>Depreciation</i>		
Buildings	145,967	24,312
Vehicles	-	-
Plant and equipment	191,410	240,886
<i>Amortisation</i>		
Leasehold Land	29,483	29,007
Quarry	20,074	59,251
Total depreciation and amortisation	386,934	353,456
Interest and finance charges paid/payable	138,320	262,196
Rental expense, including lease interest and amortisation of right to use asset	71,305	72,404
Plant & Equipment impairment (a)	1,739,840	-
Quarry impairment (b)	665,250	-
Gain from loss of control of subsidiary (c)	690,000	-

(a) Plant and Equipment impairment was determined using a cost approach under AASB 13, from an independent valuation conducted by a Beijing accounting firm. Given the uncertainty of the timing of recommencement of production a value in use approach was not considered appropriate.

(b) On 31 July 2017 the mining licence 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 of \$524,348 (RMB2,731,800) and other residual balances have been brought to account.

(c) On 31 January 2018 the Company divested 60% of its interest in CMC Lithium. The loss of control gave rise to a fair value gain of \$690,000. The fair value gain was measured by reference to the cash equity contribution made by the counter-party to the agreement that resulted in loss of control.

NOTE 4: INVESTMENT ACCOUNTED FOR USING EQUITY METHOD

Name	Principal activities /Country of incorporation	Ownership Interest	
		2018	2017
		%	%
CMC Lithium Pty Ltd	Preliminary exploration for lithium / Australia	40%	100%

	2018
	\$'000
<i>Summarised statement of financial position</i>	
Current assets	913
Non-current assets	700
Total assets	1,613
Current liabilities	41
Non-current liabilities	-
Total liabilities	41
Net Assets	1,572

China Magnesium Corporation Limited and its subsidiaries
Notes to Consolidated Financial Statements - 30 June 2018

NOTE 4: INVESTMENT ACCOUNTED FOR USING EQUITY METHOD (continued)

Summarised statement of profit or loss and other comprehensive income

Revenue	-
Expenses	(137)
Profit / (loss) before income tax	(137)
Income tax expense	-
Profit / (loss) after income tax	(137)
Other comprehensive income	-
Total comprehensive income	(137)
<i>Consolidated entity's carrying amount reconciliation</i>	
Opening carrying amount	700
Share of loss after income tax	(55)
Closing carrying amount	645

No comparatives have been presented in the table above as the results of the associate were equity accounted effective from 31 January 2018.

NOTE 5: CASH AND CASH EQUIVALENTS

	Consolidated 2018 \$	2017 \$
Cash at bank and in hand	961,819	1,151,612
Deposits at call	81,796	281,980
	1,043,615	1,433,592

Cash at bank and in hand earn interest rates between zero and 1.0% (2017: zero and 1.0%).
 Deposits at call earn a floating interest rate of around 1% (2017: 1%).

NOTE 6: CONTRIBUTED EQUITY

	Consolidated 2018 Shares	2017 Shares	Consolidated 2018 \$	2017 \$
(a) Share capital				
Ordinary shares fully paid	314,897,034	279,693,676	23,892,855	23,189,218
(b) Movements in ordinary share capital				
Date	Details	Number of shares	*Issue price	\$
30 June 2016	Balance	195,022,849		21,111,526
30 November 2016	Share placement	84,670,827	0.025	2,116,771
	Share issue transaction costs	-	-	(39,079)
	Balance at 30 June 2017	279,693,676		23,189,218
30 November 2017	Options	12,445	0.05	622
22 June 2018	Share placement	35,190,913	0.02	707,862
	Share issue transaction costs			(4,847)
	Balance at 30 June 2017	314,897,034		23,892,855
				23,189,218

* Issue price rounded to two decimal places

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NOTE 6: CONTRIBUTED EQUITY(continued)

(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 2018 (2017: nil).

(e) Contributed equity

During the year the company issued 35,203,358 (2017: nil) ordinary shares comprising:

[i] 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. Pursuant to this the company issued 12,445 (2017: nil) ordinary shares with capital raised \$622 and costs of \$804.

[ii] a placement of fully paid ordinary shares at \$0.02 each. Pursuant to this the company issued 35,190,913 (2017: nil) ordinary shares with capital raised of \$707,862 and costs of \$4,043.

(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 7: CONTINGENCIES

On 1 March 2016 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 and Shandong, Shandong Province.

The conditions for completion were unable to be satisfied and the agreement was cancelled on 3 August 2018. No financial impact on CMC is anticipated.

NOTE 8: COMMITMENTS

(a) Capital commitments

The Group had the following commitments in relation to capital expenditure contracted for at the reporting date but not recognised as liabilities, payable:

Within one year	1,100,000	-
Later than one year but no later than five years	992,125	926,121
Later than five years	-	-
	2,092,125	926,121

China Magnesium Corporation Limited and its subsidiaries

Notes to Consolidated Financial Statements - 30 June 2018

NOTE 8: COMMITMENTS (continued)

(b) Mortgage Guarantee

Shanxi Yushun Magnesium Corporation Ltd (SYMC), a 91.25% owned subsidiary of China Magnesium Corporation Limited, has entered into two mortgage guarantee agreements.

The mortgage guarantees are in favour of Shanxi Pingyao Rural Commercial Bank Co. Ltd and Shanxi Pingyao Rural Commercial Bank Co. Ltd against a registered mortgage with Pingyao Fengyan Coal & Coke Group Co Ltd. (Fengyan).

The mortgage guarantee agreements are for the term 22 December 2015 to 21 December 2018 for up to RMB 26,100,000 (AUD \$5,220,000).

At the date of this report neither SYMC nor the Company are aware of any act of default by Fengyan under the registered mortgages.

NOTE 9: SUBSIDIARIES AND TRANSACTIONS WITH NON-CONTROLLING INTERESTS (NCI)

Interests in subsidiaries

Information relating to the group's interests in principal subsidiaries at 30 June 2018 is set out below:

Name of entity	Country of incorporation	Group holding 2018 %	Group holding 2017 %	NCI holding 2018 %	NCI holding 2017 %
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

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

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 2018 \$	SYMC 2017 \$
Current assets	3,995,017	5,482,973
Non-current assets	17,273,847	15,798,808
Total assets	21,268,864	21,281,781
Current liabilities	(1,736,255)	(1,391,302)
Non-current liabilities	(19,787,541)	(18,255,332)
Total liabilities	(21,523,796)	(19,646,634)
Net assets	(254,931)	1,635,147
Accumulated NCI	(22,306)	143,075

China Magnesium Corporation Limited and its subsidiaries
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NOTE 9: SUBSIDIARIES AND TRANSACTIONS WITH NON-CONTROLLING INTERESTS (NCI) (continued)

Summarised statement of profit or loss and other comprehensive income	SYMC 2018 \$	SYMC 2017 \$
Loss for the period	2,348,631	1,580,852
Other comprehensive income	<u>(398,874)</u>	<u>227,574</u>
Total comprehensive income	1,949,757	1,808,426
	SYMC 2018 \$	SYMC 2017 \$
Summarised cash flows		
Cash flows from operating activities	(1,482,772)	(1,156,667)
Cash flows from investing activities	(695,291)	(1,430,597)
Cash flows from financing activities	2,155,446	2,618,680
Effect of exchange rate changes	<u>312,105</u>	<u>72,811</u>
Net increase/(decrease) in cash and cash equivalents	289,488	104,227

Potential restrictions

China's State Administration of Foreign Exchange (SAFE) is generally known to monitor and control companies' ability to convert and transfer currencies. Based on the anticipated transactions in the next 12 months, we do not expect to be affected by such potential restrictions. The carrying amount of cash in the consolidated financial statements on 30 June 2018 is \$11,485 (2017: \$1,567,371).

NOTE 10: RECONCILIATION OF PROFIT / (LOSS) AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	Consolidated	
	2018 \$	2017 \$
(Loss) for the year	(3,100,137)	(986,526)
Depreciation and amortisation	386,933	353,455
Impairment - Quarry	665,250	-
Impairment - Plant & equipment	1,739,840	-
Gain on derecognition of liability	(386,800)	-
Amortisation of rights of use asset	56,533	23,387
Lease interest expense included in financing activities	14,502	6,548
Gain from loss of control of subsidiary	(690,000)	-
Share of results in associate	54,749	-
Foreign exchange loss/(gain)	(747,068)	33,090
Net assets of investment	635,251	-
Decrease (increase) in trade and other receivables	234,820	(170,273)
Decrease (increase) in prepayments	-	(110,173)
Decrease (increase) in inventories	75,713	102,476
(Decrease) Increase in trade and other payables	15,988	(139,310)
(Decrease) Increase in other provisions	<u>(12,635)</u>	<u>11,834</u>
Net cash inflows / (outflows) from operating activities	<u>(1,057,062)</u>	<u>(875,492)</u>

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NOTE 11: EARNINGS PER SHARE

	2018	2017
	Cents	Cents
Basic earnings / (loss) per share	(1.0)	(0.3)
Diluted earnings / (loss) per share	(1.0)	(0.3)
	\$	\$
Net loss for the year attributable to owners of the parent used to calculate loss per share – basic and diluted	(2,735,658)	(848,201)
	Number	Number
Weighted average number of ordinary shares outstanding during the year used to calculate basic loss per share	280,568,625	243,969,546
Diluted earnings per share:- options over ordinary shares would decrease loss per share and provide antidilutive effect	-	10,000,000
Weighted average number of ordinary shares outstanding during the year used to calculate diluted loss per share	280,568,625	253,969,546

NOTE 12: SUBSEQUENT EVENTS

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 3 August 2018, as the conditions for the lease and lease-back agreement with Taiyuan Hailifeng Science and Technology Co. Ltd were unable to be satisfied, the agreement was cancelled.

Except for the matters discussed above, no other matter or circumstance has arisen since 30 June 2018 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.