China Magnesium Corporation Limited

17 December 2018

ASX Compliance Pty Ltd
20 Bridge Street
SYDNEY, NSW, 2000

2018 Annual Report

Further to your letter of 29 November 2018, the Company provides the following responses to the queries raised therein.

Yours faithfully

William Bass
Chairman

	Query	Response
1	Is CMC able to confirm that in the Directors' Opinion the Full Year Accounts: (a) comply with the relevant Accounting Standards; and (b) give a true and fair view of CMC's financial performance and position?	We refer to the Directors' declaration of 25 September 2018 contained within the financial report. This declaration was resolved unanimously by the Board and confirms the directors' view that the financial statements give a true and fair view of the financial position and performance of CMC, and comply with the relevant accounting standards.
2	Please explain the basis for and the factors considered by the Directors to satisfy themselves that the recoverable value of CMC's property, plant and equipment is $14,697,503, especially given the facility located in Pingyao, China has been unable to commence production due to changes in the environmental regulation in China (as disclosed in Note 3 to the Full Year Accounts).	The delay in commencement of production was recognised as an indicator of impairment by the directors. Following this, CMC performed an impairment assessment, as required by AASB 136 *Impairment of Assets.* The directors relied on a valuation prepared by Zhengda Certified Public Accountants ("ZHG"), a professional firm based in Beijing. ZHG attended the Pingyao site for several days, and held extensive discussions with CMC's Chief Operating Officer and Pingyao-based Chief Financial Officer and his team. We note that the valuation was prepared on a fair value less cost to sell basis. This was considered appropriate, given the changes in environmental regulation meant that a reliable estimate of "value in use" was difficult to establish. The fair value less cost to sell method reflected the value that a purchaser would be willing to consider for property, plant and equipment, rather than being reliant on projections of future production by CMC itself. While not commissioned by CMC for the purposes of impairment testing, the ZHG report was, in the opinion of the directors independent, substantial, timely, and thorough. The directors therefore considered it likely that the result obtained is materially consistent with what a market participant would be willing to pay for the assets. The risk of further impairment of property, plant and equipment if production at Pingyao did not recommence was disclosed in Note 3 of the financial statements, however, the directors do not consider this scenario to be likely to occur.
3	What steps has CMC taken since the release of the Full Year Accounts to obtain an unqualified opinion with regards to its future financial statements?	The qualification relates to uncertainty in asset valuation, resulting from the suspension of production at CMC's Pingyao plant due to the requirement for renewal of discharge permits. CMC is currently working with the relevant Chinese authorities to perform the necessary testing, and to obtain the appropriate discharge permits.
4	What steps does CMC intend to take to obtain an unqualified audit opinion with regards to its future financial statements?	The directors of CMC remain confident that the recommencement of magnesium production at Pingyao can be achieved prior to 30 June 2019. Should this occur, then the directors of CMC will be able to prepare an updated impairment assessment as at 30 June 2019, which is likely to be based on the assets' value in use. While CMC's directors cannot prejudge the future opinion of our auditors, we would note that this value in use calculation would, by the time of preparation of the financial statements for the period ended 30 June 2019, be supported by several months of production activity. This is more likely to provide

	Query	Response
		sufficient evidence for the auditors to assess the reliability of CMC's impairment assessment. If production restarts successfully in April 2019, as planned, CMC will also consider whether conditions exist which would justify the reversal of the impairment recognised in the year ended 30 June 2018.
5	Does CMC consider that its level of operations is sufficient to warrant continued quotation of its securities on ASX as required under listing rule 12.1? In answering this question, please explain the basis for this conclusion. In answering this question, please comment on the nature of the CMC's current business activities.	We refer to the presentation made at our Annual General Meeting on Wednesday 28th November which sets out the current operations of the company. We would highlight the following: • CMC's current production of Magnesium Lithium ("MgLi") from Plant #1 at its Pingyao operations, using electricity from the state owned electricity grid. No additional environmental approvals were required for this activity. • CMC's plan to bring into production Plant #2 at Pingyao during 2019, which also requires no further environmental approvals • CMC's recently signed a Heads of Agreement with Sovran White, whereby CMC will provide management services to the Yiyuan County Growers Co-Operative, and will hold a 20% interest in a Joint Venture • CMC's retention of a 40% interest in the Greenbushes lithium exploration project, on which exploration activity has now commenced The directors are committed to completing the necessary discharge control work in order to obtain the necessary discharge permits to recommence full production of magnesium at Pingyao, and remain confident that this can be achieved by 30 April 2019. However, even in the ongoing, but temporary, absence of such production, they believe that the activities listed above would represent a sufficient level of operations to satisfy ASX Listing Rule 12.1
6	Does CMC consider that the financial condition of CMC is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion.	The Directors have reviewed CMC's financial position and performance, together with their projections of CMC's future cash flows, and believe that the condition of the company remains adequate to satisfy ASX Listing Rule 12.2 In making this determination, the directors have considered the following factors: • As previously announced, CMC has already raised $1.877M from the rights issue. CMC announced on 13 December 2018 a further subscription agreement for $4.35M under the Rights Issue. The total raising to date is $6.227M. The directors are reviewing other applications for the shortfall, and the exercise of the associated options. • The funding received are expected to be sufficient to meet the $1.1M forecast cost of emissions discharge

	Query	Response
		control work at Pingyao, and the working capital requirements of CMC during the period until production can recommence • The directors forecast that, once production recommences, the plant at Pingyao will be able to deliver an operating profit and positive cashflow for CMC. We also refer to our response to Question 12 below, which is relevant to this question.
7	If the answer to questions 6 is "No", please explain what steps CMC has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rules 12.1 and 12.2.	n/a
8	In relation to the Full Year Accounts, did the Board receive the CFO and CEO declaration, as described in section 4.2 of CMC's Corporate Governance Disclosure, that in the opinion of the CFO and CEO, the financial records of CMC have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of CMC and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively?	As noted in the Directors' declaration accompanying the financial statements, these declarations were received by the Board.
9	If the answer to Question 8 is 'no', why did the Board not receive the CEO and CFO declaration as described in section 4.2 of CMC's Corporate Governance Disclosure?	n/a

10	What enquiries did the Board make of management to satisfy itself that the financial records of CMC have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of CMC?	In addition to the usual declarations, the directors note the following:
		
		• The Audit Committee, which consists of all directors, met to discuss the financial statements on 31 August and 25 September. The minutes of these meetings record that they considered and discussed the financial statements, including the key estimates and judgments within them. This included, among other matters:
		  ○ The impairment assessments for plant and equipment
		  ○ The going concern assumption, and the forecasts on which it was based
		  ○ The effect of the suspension of production at Pingyao
		
		• The directors also reviewed and considered the report to those charged with governance prepared by Grant

	Query	Response
		Thornton as auditors. The Auditors Report provided that, except for the specific issues forming the basis for the qualified opinion, that the financial report of the Group was in accordance with the Corporations Act 2001. • In respect of the Pingyao assets, the Board also received a briefing from Mr XP Liang, an executive director and Chief Operating Officer of CMC. As a former resident of the Pingyao area, and being familiar with the operations there as the company's Chief Operating Officer, he was well positioned to assess the valuation provided • Taking all of the above, the Board adopted the financial statements as true and fair
11	Commenting specifically on the qualified opinion, does the board consider that CMC has a sound system of risk management and internal control which is operating effectively?	The Board continues to hold the view that CMC has a sound system of risk management and internal control, which is operating effectively. The systems of risk management and internal control are appropriate to an entity of CMC's size and nature. The Board notes that Grant Thornton's reports in both the current and prior year did not identify any deficiencies, or combination of deficiencies, in internal control, which, in their view, resulted in a reasonable possibility that a material misstatement of the company's annual or interim financial statements would not be prevented or detected on a timely basis. While we acknowledge that their audit is not a comprehensive review of internal control, we consider their findings to be consistent with the view expressed by the Board.
12	Given the Auditor has indicated that a material uncertainty exists as to whether CMC can continue as a going concern and, as at 30 June 2018, CMC had cash and cash equivalents of $1,043,615, total current liabilities of $1,717,199 (and non-current liabilities of $8,427,894), and capital commitments of $1,100,000 payable within one year and, as at 29 November 2018, CMC had raised $1,877,076 under the rights issue/shortfall facility (which sought to raise up to $7.8 million), on what basis do the directors consider that CMC is a going concern?	We refer to our response to Question 6 above. CMC has already raised $1.877M from the rights issue. CMC announced on 13 December 2018 a further subscription agreement for $4.35M under the Rights Issue. The total raising to date is $6.227M. The directors are reviewing other applications for the shortfall, and the exercise of the associated options. The directors have acknowledged the existence of a material uncertainty in respect of the Group's ability to continue as a going concern, as a result of which they included comprehensive disclosure in Note 3 to the financial statements, both of the nature of the material uncertainty, and of the basis on which the going concern assumption was considered appropriate. Note 3 to the financial statements highlighted 4 assumptions which the directors' view that the going concern basis was appropriately relied upon. In respect of these assumptions • The directors confirm that CMC has agreed extended terms of payment of at least one year with creditors to the Pingyao plant • As noted above, CMC continues to receive funds from its rights issue, and the associated issue of options. This will provide sufficient funds for the necessary emission discharge control work at the

	Query	Response
		Pingyao plant. • The agreement with Fengyan to provide working capital facilities continues to operate; and • Production of MgLi at Pingyao has already commenced; the directors remain confident that magnesium production will recommence by 30 April 2019. Events since the issue of the financial statement therefore suggest that the going concern assumption made by CMC's directors continues to be reasonable and appropriate in the circumstances.
13	Given the qualified opinion relates to the Auditor's inability to obtain sufficient information to verify the carrying values of CMC's property, plant and equipment, please explain how the directors satisfied themselves that the carrying values are appropriate and adhere to the current Australian Accounting Standards. In answering this question, reference should be made to the underlying assumptions used by the directors in coming to this conclusion, as well as any independent valuations and the validity of the assumptions upon which these valuations are based.	As noted in our response to Question 2, the directors relied on a valuation prepared by Zhengda Certified Public Accountants ("ZHG"), a professional firm based in Beijing. ZHG attended the Pingyao site for several days, and held extensive discussions with CMC's Pingyao-based CFO and accounting team. The valuation considered all assets held at the Pingyao plant in China. During the valuation work, the directors became aware of an error in the previously recognised value of assets under construction. This was corrected in the financial statements for the year ended 30 June 2018, as disclosed in Note 16 to those financial statements. The approach used by ZHG was a "cost approach" which, in the view of the directors, represents a reasonable basis on which to estimate fair value under AASB 13 *Fair Value Measurement.* We note that AASB 13 neither prohibits nor mandates any one valuation technique, and that the cost approach is one of several potential techniques identified within AASB 13. In applying the cost approach, the directors adopted ZHG's suggestion of an impairment in respect of "wear and tear" be incorporated into the valuation of the assets. This reflected the use and other activity to date, which could reasonably be expected to reduce the value of the assets from their initial cost.
14	Given the qualified opinion relates to the Auditor's inability to obtain sufficient information to support the carrying values of the CMC's property, plant and equipment, please explain why the Auditor has been unable to obtain sufficient information to verify the carrying values of CMC's property, plant and equipment.	While the sufficiency of the evidence supplied is ultimately a professional judgment of the auditor, we note the matter leading to the Auditor's judgment was the application of the abovementioned decrease in value due to "wear and tear", and the auditor's uncertainty around the assumptions used in determining the recoverable amount of the Pingyao assets. The auditors were unable to determine whether any adjustment to the carrying amount was necessary. The directors are of the view that, consistent with the report made by an independent, local professional firm (ZHG), the assumptions in the fair value determination in respect of wear and tear were the best available to be used in the estimate of the assets' recoverable amount, and should therefore be

	Query	Response
		considered reasonable and supportable, in line with the requirements of AASB 136 *Impairment of Assets.* .
15	Does CMC continue to expect that magnesium production at the Pingyao plant in China will resume by 30 April 2019?	The directors remain confident that production at Pingyao will resume by 30 April 2019.
16	Please confirm that CMC is complying with the Listing Rules and, in particular, Listing Rule 3.1.	We confirm that CMC remains in compliance with Listing Rule 3.1, and with its continuous disclosure obligations. We are not aware of any further information which would require disclosure under this Rule.

ASX

29 November 2018

Mr William Bass
Chairman
China Magnesium Corporation Limited
Level 10 Seabank Building
12-14 Marine Parade
Southport QLD 4215

By email

Dear Mr Bass

China Magnesium Corporation Limited ('CMC'): Queries regarding Accounts

ASX refers to:

A. CMC's full year accounts for the year ended 30 June 2018 lodged with ASX Market Announcements Platform and released on 25 September 2018 ('Full Year Accounts').

B. ASX notes that the Independent Auditor's Report attached to the Full Year Accounts ('Auditor's Report') contains the following qualified opinion:

> "***Basis for qualified opinion***
>
> *The Group's has made investment in property, plant and equipment assets as it increases the scale of the facility located in Pingyao, China. The carrying value of these assets is $14,697,503. As disclosed in Note 3, the plant has been unable to commence production due to changes in the environmental regulation in China. As such, the Group has considered these assets for impairment. In the current year, the Group has taken an impairment of $1,739,840 in relation to these assets. We have been unable to obtain sufficient, appropriate audit evidence about the assumptions made in determining the recoverable amount of these assets. In particular, the assertion concerning the expected compliance with the environmental regulations and the related timing of production commencement. Consequently, we were unable to determine whether any adjustments to the carrying amounts of property, plant and equipment assets or the impairment recognised in the current financial year were necessary.*
>
> *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 auditor 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 qualified opinion."*

C. CMC's Corporate Governance Statement for 2018 lodged on the ASX Market Announcements Platform on 31 August 2018 which provides confirmation that CMC complies with recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations which states:

> *"The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate*

accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively."

D. Listing Rule 12.1 which states:

12.1 The level of an entity's operations must, in ASX's opinion, be sufficient to warrant the continued +quotation of the entity's +securities and its continued listing.

E. Listing Rule 12.2 which states:

12.2 An entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued +quotation of its +securities and its continued listing.

F. Listing Rule 19.11A which states:

19.11A If a listing rule requires an entity to give ASX +accounts, the following rules apply.

(a) If the entity controls an entity within the meaning of section 50AA of the Corporations Act or is the holding company of an entity, required by any law, regulation, rule or accounting standard, or if ASX requires, the +accounts must be consolidated +accounts.

(b) The +accounts must be prepared to Australian accounting standards. If the entity is a +foreign entity the +accounts may be prepared to other standards agreed by ASX.

(c) If the listing rule requires audited +accounts, the audit must be conducted in accordance with Australian auditing standards by a registered company auditor. If the entity is a +foreign entity, the audit may be conducted in accordance with other standards agreed by ASX and may be conducted by an overseas equivalent of a registered company auditor.

(d) If the listing rule requires +accounts to be reviewed, the review must be conducted in accordance with Australian auditing standards. If the entity is a +foreign entity, the review may be conducted in accordance with other standards agreed by ASX. Unless the listing rule says an independent accountant may conduct the review, it must be conducted by a registered company auditor (or, if the entity is a +foreign entity, an overseas equivalent of a registered company auditor).

(e) If there is a +directors' declaration that relates to the +accounts, the +directors' declaration must be given to ASX with the +accounts.

(f) If there is a +directors' report that relates to the period covered by the +accounts, the +directors' report must be given to ASX with the +accounts.

Request for Information

In light of the information contained in the Full Year Accounts and the Auditor's Report, and the application of the Listing Rules stated above, please respond to each of the following questions:

1. Is CMC able to confirm that in the Directors' Opinion the Full Year Accounts:

   (a) comply with the relevant Accounting Standards; and

   (b) give a true and fair view of CMC's financial performance and position?

2. Please explain the basis for and the factors considered by the Directors to satisfy themselves that the recoverable value of CMC's property, plant and equipment is $14,697,503, especially given the facility located in Pingyao, China has been unable to commence production due to changes in the environmental regulation in China (as disclosed in Note 3 to the Full Year Accounts).

3. What steps has CMC taken since the release of the Full Year Accounts to obtain an unqualified opinion with regards to its future financial statements?

4. What steps does CMC intend to take to obtain an unqualified audit opinion with regards to its future financial statements?

5. Does CMC consider that its level of operations is sufficient to warrant continued quotation of its securities on ASX as required under listing rule 12.1? In answering this question, please explain the basis for this conclusion. In answering this question, please comment on the nature of the CMC's current business activities.

6. Does CMC consider that the financial condition of CMC is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion.

7. If the answer to questions 6 is "No", please explain what steps CMC has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rules 12.1 and 12.2.

8. In relation to the Full Year Accounts, did the Board receive the CFO and CEO declaration, as described in section 4.2 of CMC's Corporate Governance Disclosure, that in the opinion of the CFO and CEO, the financial records of CMC have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of CMC and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively?

9. If the answer to Question 8 is 'no', why did the Board not receive the CEO and CFO declaration as described in section 4.2 of CMC's Corporate Governance Disclosure?

10. What enquiries did the Board make of management to satisfy itself that the financial records of CMC have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of CMC?

11. Commenting specifically on the qualified opinion, does the board consider that CMC has a sound system of risk management and internal control which is operating effectively?

12. Given the Auditor has indicated that a material uncertainty exists as to whether CMC can continue as a going concern and, as at 30 June 2018, CMC had cash and cash equivalents of $1,043,615, total current liabilities of $1,717,199 (and non-current liabilities of $8,427,894), and capital commitments of $1,100,000 payable within one year and, as at 29 November 2018, CMC had raised $1,877,076 under the rights issue/shortfall facility (which sought to raise up to $7.8 million), on what basis do the directors consider that CMC is a going concern?

13. Given the qualified opinion relates to the Auditor's inability to obtain sufficient information to verify the carrying values of CMC's property, plant and equipment, please explain how the directors satisfied themselves that the carrying values are appropriate and adhere to the current Australian Accounting Standards. In answering this question, reference should be made to the underlying assumptions used by the directors in coming to this conclusion, as well as any independent valuations and the validity of the assumptions upon which these valuations are based.

14. Given the qualified opinion relates to the Auditor's inability to obtain sufficient information to support the carrying values of the CMC's property, plant and equipment, please explain why the Auditor has been unable to obtain sufficient information to verify the carrying values of CMC's property, plant and equipment.

15. Does CMC continue to expect that magnesium production at the Pingyao plant in China will resume by 30 April 2019?

16. Please confirm that CMC is complying with the Listing Rules and, in particular, Listing Rule 3.1.

When and where to send your response

Please note that ASX reserves its right under Listing Rule 18.7A to release this letter and CMC's response to the market. Accordingly, CMC's response should address each question separately and be in a format suitable for release to the market.

Unless the information is required immediately under Listing Rule 3.1, a response is requested as soon as possible and, in any event by no later than **9.30 am AEST** on **Monday, 17 December 2018**.

Any response should be sent to me by return email. It should not be sent to the ASX Market Announcements Office.

Enquiries

If you have any queries regarding any of the above, please contact me.

Yours sincerely,

Clare Porta
Adviser, Listings Compliance (Sydney)

China Magnesium Corporation Limited

4 January 2019

ASX Compliance Pty Ltd
20 Bridge Street
SYDNEY, NSW, 2000

2018 Annual Report

Further to your letter of 21 December 2018, the Company provides the following additional responses to the queries raised therein.

Yours faithfully

William Bass
Chairman

	Query	Response
1	On page 1 of the Annual Report, CMC states that "SYMC management have conservatively projected additional initial emission discharge control work will be completed for production return by April 2019, at a total cost of $1.1M." Is this (the abovementioned initial emission discharge control work) the only work that CMC believes is required to pass the inspection and review by the expert environmental team as the prerequisite for production recommencement? If not, what other work is required and how much it is expected to cost?	Yes. This is the only work that CMC believes is required for the production recommencement of the existing magnesium plant.
2	Page 31 of the Annual Report states that the Pingyao plant has been granted preferred project status in Shanxi Province. Why wasn't this preferred project status recognised by the Minister of Environmental Protection?	The Pingyao plant has been granted as preferred project status is based on the total investment amount and the project size at the time when the first tranche of funds was injected into the project. It was granted at the provincial level (but issued by Jinzhong Municipal Govt). The Ministry of Environment Protection is at the central government level. The Pingyao plant did not apply for preferred project status at central government level.
3	Please clarify why the Pingyao plant is classified as an "asset under construction" (note 14 on page 37). What part/s of the facility is yet to be completed, and how much will CMC need to spend to complete construction?	Some connections of coal gas pipelines, electrical cables, roofs of reduction ovens etc. are not completed yet. CMC has capital commitments of A$2M to complete current assets under construction including initial emission discharge control work.
4	Given the plant is classified as an "asset under construction", please clarify why the ZHG report suggested the impairment for "wear and tear" (i.e. when/why did this "wear and tear" occur in the absence of production?)	ZHG noted that the "asset under construction" plant had been acquired mainly between 2012 and 2014, and independently determined the "wear and tear" charge based on their experience and practice of this plant compared with other projects they dealt with.

	Query	Response
5	CMC's answer to Question 2 states that the valuation in the ZHG report was prepared on a fair value less cost to sell basis, whereas the answer to Question 13 states that the approach used by ZHG was a "cost approach". Please clarify the basis on which the valuation of the ZHG report was prepared.	The valuation was prepared under AASB 13 "Fair Value Measurement" on a fair value less cost to sell basis. Under this accounting standard an entity can use a valuation technique appropriate to the circumstances. Three widely used valuation techniques are (a) market approach (using prices from market transactions involving similar assets (b) cost approach being the amount required to replace the asset and (c) income approach discounting future cash flows to a current amount. ZHG used (b). Therefore responses to Question 2 and 13 are consistent.
6	The "Basis for qualified opinion" in the Auditor's Report includes the following statements (our emphasis added): "*We have been unable to obtain sufficient, appropriate audit evidence about the assumptions made in determining the recoverable amount of these assets. In particular, the* ***assertion concerning the expected compliance with the environmental regulations and the related timing of production commencement***." CMC's answer to Question 14 states: "*the matter leading to the Auditor's judgment was the application of the abovementioned decrease in value due to "wear and tear", and the auditor's uncertainty around the assumptions used in determining the recoverable amount of the Pingyao assets*." Please confirm whether CMC's answer to Question 14 regarding the auditor's uncertainty around the assumptions used in determining the recoverable amount is a reference to assumptions concerning the expected compliance with the environmental regulations and the related timing of production commencement per the Auditor's report.	Yes, CMC confirms that the Auditor's report includes a particular reference to the assertion concerning the expected compliance with the environmental regulations and the related timing of production commencement. Consequently the auditors were unable to determine whether any adjustments to the carrying amounts of property, plant and equipment assets or the impairment recognised in the financial year were necessary.
7	How much magnesium lithium (MgLi) has been produced from Plant #1 since production commenced in September (as stated on page 6 of the AGM Presentation on 28 November 2018). How much revenue has been derived from magnesium lithium sales since production commenced in September?	287kg MgLi alloy was produced. [i] 200kg has been invoiced since September [ii]50kg was delivered to a customer for quality testing prior to invoicing. Testing was in progress at 31 December 2018. [iii] 37kg was held as inventory at 31 December 2018 Magnesium lithium sales for the period since production commencement to 31 December 2018 is RMB 100,000 (approximately A$ 21,000)

	Query	Response
8	CMC's answer to Question 5 states that CMC plans to bring Plant #2 into production during 2019 which requires no further environmental approvals. Will this Plant #2 produce magnesium lithium (MgLi) like Plant #1 or other products?	Plant #2 will produce either MgLi alloy or high purity magnesium.
9	CMC's answer to Question 5 also states that exploration activity at the Greenbushes project has now commenced. Is this exploration activity being managed by the 60% shareholder as indicated on page 1 of the Annual Report? What are the funding arrangements for the exploration expenditure (i.e. will it be funded by the 60% shareholder or will CMC be required to pay for 40%)? Please confirm the identity of the 60% shareholder.	The exploration activity is being managed by CMC's management team on behalf of the CMC Lithium Pty Ltd (JV Co). The funding is from the 60% shareholder. CMC is not required to pay for 40% as CMC contributed the titles and permits of the tenements and holds 40% shareholdings. The 60% shareholder is RUIKE ELECTRONICS (HK) CO. LTD
10	In the 2017 Annual Report (page 1), CMC stated: "*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*." Why didn't CMC meet the original target date of March 2018?	Dolomite is a raw material, and requires calcination for magnesium production. The dolomite was calcinated by another business in Pingyao - the Mineral Wool Plant of Fengyan Coal & Coke Group. CMC expected to restart production in March 2018 based on the restarting production of Mineral Wool plant. Unfortunately, the Mineral Wool plant only produced one month and then stopped producing due to the same environmental regulations as CMC are addressing. Accordingly, CMC did not commission additional emission discharge control work at the Pingyao plant, but proceeded with MgLi Plant #1 commissioning. CMC was informed that the Mineral Wool plant will restart producing at the end of February or early of March 2019. The directors expect that accordingly Pingyao plant can start producing magnesium in April 2019. CMC also plans to continue to produce MgLi alloy (from Plant #1) and high purity magnesium from Plant #2 in the period to June 2019).

	Query	Response
11	The Annual Report states (on page 1): "*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*." Please identify the first ASX announcement in which CMC disclosed the above information.	The SYMC management based at Pingyao were informed that production was to immediately cease in late April 2017. SYMC management confirmed that the action was a blanket decision affecting all production factories including magnesium and related products across six provinces including Shanxi. The new environmental measures were announced in Shanxi on 4 May 2017. These were reported by media from 5 May 2017. As the information was publicly available and affected all entities in the sector CMC did not make separate disclosure pursuant to Guidance Note 8, page 8. The first ASX announcement in which CMC disclosed the above information, including quantification of additional emission discharge control work was in the Preliminary Final Report on 30 August 2017. The directors support their view that the environmental measures were publicly available and had been factored in by the market by reference to the CMC share price trend in the relevant period: 3 April 2017 $0.026 29 May 2017 $0.011 (lowest price before announcement) 11 September 2017 $0.013 (lowest price after announcement) 27 November 2017 $0.024 (highest price from 30 August to 31 December 2017).

ASX

21 December 2018

Mr William Bass
Chairman
China Magnesium Corporation Limited
Level 10 Seabank Building
12-14 Marine Parade
Southport QLD 4215

By email

Dear Mr Bass

China Magnesium Corporation Limited ('CMC'): Further Query Letter

ASX refers to:

A. ASX's letter dated 29 November 2018 ('Query Letter');

B. the letter from CMC sent to ASX in reply to the Query Letter on 17 December 2018 ('Response');

C. CMC's full year accounts for the year ended 30 June 2018 lodged with ASX Market Announcements Platform and released on 25 September 2018 ('Full Year Accounts' or 'Annual Report'); and

D. CMC's full year accounts for the year ended 30 June 2017 lodged with ASX Market Announcements Platform and released on 30 August 2017 ('2017 Annual Report').

The Query Letter sets out the necessary background to this letter and terms defined in the Query Letter are also adopted for the purpose of this letter.

Request for Information

In light of the information contained in the Response, the Full Year Accounts/Annual Report and the 2017 Annual Report, and the application of the Listing Rules, please respond to each of the following questions:

1. On page 1 of the Annual Report, CMC states that '*SYMC management have conservatively projected additional initial emission discharge control work will be completed for production return by April 2019, at a total cost of $1.1M.*'

   Is this (the abovementioned initial emission discharge control work) the only work that CMC believes is required to pass the inspection and review by the expert environmental team as the prerequisite for production recommencement? If not, what other work is required and how much it is expected to cost?

2. Page 31 of the Annual Report states that the Pingyao plant has been granted preferred project status in Shanxi Province. Why wasn't this preferred project status recognised by the Minister of Environmental Protection?

3. Please clarify why the Pingyao plant is classified as an 'asset under construction' (note 14 on page 37 of the Annual Report). What part/s of the facility is yet to be completed, and how much will CMC need to spend to complete construction?

4. Given the plant is classified as an 'asset under construction', please clarify why the ZHG report suggested the impairment for 'wear and tear' (i.e. when/why did this 'wear and tear' occur in the absence of production?)

5. CMC's answer to Question 2 of the Query Letter states that the valuation in the ZHG report was prepared on a fair value less cost to sell basis, whereas the answer to Question 13 states that the approach used by ZHG was a 'cost approach'.

   Please clarify the basis on which the valuation of the ZHG report was prepared.

6. The 'Basis for qualified opinion' in the Auditor's Report includes the following statements (our emphasis added): '*We have been unable to obtain sufficient, appropriate audit evidence about the assumptions made in determining the recoverable amount of these assets. In particular, the* ***assertion concerning the expected compliance with the environmental regulations and the related timing of production commencement***.'

   CMC's answer to Question 14 of the Query Letter states: '*the matter leading to the Auditor's judgment was the application of the abovementioned decrease in value due to "wear and tear", and the auditor's uncertainty around the assumptions used in determining the recoverable amount of the Pingyao assets*.'

   Please confirm whether CMC's answer to Question 14 of the Query Letter regarding the auditor's uncertainty around the assumptions used in determining the recoverable amount is a reference to assumptions concerning the expected compliance with the environmental regulations and the related timing of production commencement per the Auditor's report.

7. How much magnesium lithium (MgLi) has been produced from Plant #1 since production commenced in September (as stated on page 6 of the AGM Presentation on 28 November 2018). How much revenue has been derived from magnesium lithium sales since production commenced in September?

8. CMC's answer to Question 5 of the Query Letter states that CMC plans to bring Plant #2 into production during 2019 which requires no further environmental approvals. Will this Plant #2 produce magnesium lithium (MgLi) like Plant #1 or other products?

9. CMC's answer to Question 5 of the Query Letter also states that exploration activity at the Greenbushes project has now commenced. Is this exploration activity being managed by the 60% shareholder as indicated on page 1 of the Annual Report? What are the funding arrangements for the exploration expenditure (i.e. will it be funded by the 60% shareholder or will CMC be required to pay for 40%)? Please confirm the identity of the 60% shareholder.

10. In the 2017 Annual Report (on page 1), CMC stated: '*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.*'

    Why didn't CMC meet the original target date of March 2018?

11. The Annual Report states (on page 1): '*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*.'

    Please identify the first ASX announcement in which CMC disclosed the above information.

When and where to send your response

Please note that ASX reserves its right under Listing Rule 18.7A to release this letter and CMC's response to the market. Accordingly, CMC's response should address each question separately and be in a format suitable for release to the market.

Unless the information is required immediately under Listing Rule 3.1, a response is requested as soon as possible and, in any event by no later than **9.30 am AEST** on **Friday, 4 January 2019**.

Any response should be sent to me by return email. It should not be sent to the ASX Market Announcements Office.

Enquiries

If you have any queries regarding any of the above, please contact me.

Yours sincerely,

Clare Porta
Adviser, Listings Compliance (Sydney)