China Magnesium Corporation Ltd.

Appendix 4D

Name of Entity:	China Magnesium Corporation Limited
ABN:	14 125 236 731
Current Financial Period Ended:	Half-Year ended 31 December 2018
Previous Corresponding Reporting Period	Half-Year ended 31 December 2017

Results for Announcement to the Market

	Percentage change Up or Down	%		$'000
Revenue from ordinary activities	Up	600%	to	63
(Loss) from ordinary activities after tax attributable to members	Up	4%	to	(1,563)
(Loss) for the period attributable to members	Up	4%	to	(1,563)

Dividends	**Amount per Security**	**Franked amount per security**
Interim 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)	**December 2018**	**December 2017**
Net Tangible Assets per security	$0.03	$0.04

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

During the half-year the Group commenced magnesium lithium production at Pingyao. Production was 287kg. 200kg was invoiced resulting in sales for the period of $17,353. 50kg was delivered to a customer for quality testing prior to invoicing, which was in progress at 31 December 2018. 37kg was held as inventory at 31 December 2018.

Compliance Statement

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

William Bass

William Bass
Chairman
Southport QLD
25 February 2019

China Magnesium Corporation Ltd.

ABN 14 125 236 731

Interim financial report
for the half-year ended 31 December 2018

China Magnesium Corporation Limited ABN 14 125 236 731
Interim financial report – 31 December 2018

Contents

Directors' report

The Directors of China Magnesium Corporation Limited ("the Company") present their Report together with the interim financial statements of the consolidated entity, being the Company and its controlled entities ("the Group") for the half-year ended 31 December 2018.

Directors

The following persons were directors of the Company during the whole of the half-year and up to the date of this report unless otherwise stated:

W Bass, T Blackhurst, X Liang, J Teoh (from 28 January 2019), P Robertson (to 25 January 2019)

Review of operations

During the half-year the Group:

[a] commenced magnesium lithium production at Pingyao.

[b] completed a successful rights issue for 37,541,522 shares raising $1,877,076 before costs.

[c] entered into a conditional Heads of Agreement to form a joint venture with Sovran White, where CMC will provide management services and have exclusive export rights for produce from Yiyuan Growers Co-Operative.

Results

For the half-year ended 31 December 2018 the consolidated entity recorded a loss after tax from continuing operations of $1,582,478 (2017: loss of $1,551,823) and total comprehensive loss of $1,641,013 (2017: comprehensive loss: $1,294,087).

Dividends

No dividends were paid during the period and no recommendation is made as to the payment of dividends.

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 4.

This report is made in accordance with a resolution of directors.

William Bass
Chairman
Southport QLD
25 February 2019

Grant Thornton

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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 review of China Magnesium Corporation Limited for the half-year ended 31 December 2018, 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

Grant Thornton Audit Pty Ltd
Chartered Accountants

Andrew Newman
Partner - Audit & Assurance

Brisbane, 25 February 2019

Consolidated statement of comprehensive income for the half-year ended 31 December 2018

	Note	Consolidated half-year ended 31 Dec 2018 $	31 Dec 2017 $
Revenue from continuing operations	2	55,635	8,372
Interest income		7,629	655
		63,264	**9,027**
Gain on derecognition of liability		-	386,800
Impairment expense		-	(599,107)
Decommissioning expense		-	(87,266)
Share of profit/(loss) of associate		(36,836)	-
Costs of raw materials and consumables		(21,731)	(4,488)
Auditing and accounting expenses		(57,335)	(58,356)
Depreciation and amortisation		(254,403)	(131,950)
Employee benefits expense		(599,173)	(837,855)
Finance costs		(71,336)	(67,755)
Other expenses		(82,808)	(107,476)
Foreign exchange (loss)		(367,580)	(269)
Lease interest		(23,644)	(7,858)
Lease amortisation		(90,129)	(28,065)
Travel expenses		(40,767)	(17,205)
		(1,645,742)	**(1,560,850)**
Profit/(loss) before income tax		(1,582,478)	(1,551,823)
Income tax		-	-
Profit/(loss) after tax from continuing operations		**(1,582,478)**	**(1,551,823)**
Other comprehensive income			
Items that may subsequently be reclassified to profit and loss			
Foreign currency translation differences		(58,535)	257,736
Income tax on items of other comprehensive income		-	-
Other comprehensive income for the period (net of tax)		(58,535)	257,736
Total comprehensive income / (loss) for the period		**(1,641,013)**	**(1,294,087)**
Profit/(loss) at end of reporting period is attributable to:			
Owners of the parent		(1,563,114)	(1,497,397)
Non-controlling interests		(19,364)	(54,426)
		(1,582,478)	**(1,551,823)**
Total comprehensive income / (loss) at end of reporting period is attributable to:			
Owners of the parent		(1,619,409)	(1,244,922)
Non-controlling interests		(21,604)	(49,165)
		(1,641,013)	**(1,294,087)**
Earnings per share			
Basic and diluted earnings/(loss) per share (cents per share)		(0.5)	(0.5)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position as at 31 December 2018

	Note	Consolidated 31 Dec 2018 $	Consolidated 30 June 2018 $
ASSETS			
Current assets			
Cash and cash equivalents		1,837,252	1,043,615
Trade and other receivables		1,134,005	954,319
Inventories		80,475	80,267
Total Current Assets		3,051,732	2,078,201
Non-current assets			
Prepayments		532,636	2,607,120
Property, plant and equipment	3	14,574,376	14,697,503
Rights to use leased assets		559,370	144,596
Investment accounted for using equity method		608,415	645,251
Total Non-Current Assets		18,861,934	18,094,470
Total assets		**19,326,529**	**20,172,671**
LIABILITIES			
Current liabilities			
Trade and other payables	4	2,774,069	1,638,901
Lease liabilities		147,866	61,050
Employee benefits		17,511	17,248
Total Current Liabilities		2,939,446	1,717,199
Non-current liabilities			
Lease liabilities		438,345	96,971
Trade and other payables	4	4,654,534	6,775,395
Borrowings	5	1,036,269	1,555,528
Total Non-Current Liabilities		6,129,148	8,427,894
Total liabilities		**9,068,594**	**10,145,093**
Net assets		**10,257,935**	**10,027,578**
EQUITY			
Contributed equity	6	25,764,225	23,892,855
Reserves		3,391,622	3,447,917
Accumulated losses		(18,570,600)	(17,007,486)
Total equity attributable to owners of the parent		10,585,247	10,333,286
Non-controlling interest		(327,312)	(305,708)
Total equity		**10,257,935**	**10,027,578**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity for the half-year ended 31 December 2018

	Contributed equity	Accumulated losses	Foreign currency translation reserve	Change of interest in subsidiary reserve	Total	Non-controlling interest	Total equity
	$	$	$	$	$	$	$
At 1 July 2017	**23,189,218**	**(14,271,828)**	**2,877,299**	**518,930**	**12,313,619**	**52,654**	**12,366,273**
(Loss) for the half-year	-	(1,497,397)	-	-	(1,497,397)	(54,426)	(1,551,823)
Other comprehensive income:							
Foreign currency translation difference	-	-	252,475	-	252,475	5,261	257,736
Total comprehensive income for the half-year	-	(1,497,397)	252,475	-	(1,244,922)	(49,165)	(1,294,087)
Transactions with owners in their capacity as owners							
Issue of shares	622	-	-	-	622	-	622
Cost of share issues	(804)	-	-	-	(804)	-	(804)
At 31 December 2017	**23,189,036**	**(15,769,225)**	**3,129,774**	**518,930**	**11,068,515**	**3,489**	**11,072,004**
At 1 July 2018	**23,892,855**	**(17,007,486)**	**2,928,987**	**518,930**	**10,333,286**	**(305,708)**	**10,027,578**
(Loss) for the half-year	-	(1,563,114)	-	-	(1,563,114)	(19,364)	(1,582,478)
Other comprehensive income:							
Foreign currency translation difference	-	-	(56,295)	-	(56,295)	(2,240)	(58,535)
Total comprehensive income for the half-year	-	(1,563,114)	(56,295)	-	(1,619,409)	(21,604)	(1,641,013)
Transactions with owners in their capacity as owners							
Issue of shares	1,877,076	-	-	-	1,877,076	-	1,877,076
Cost of share issue	(5,706)	-	-	-	(5,706)	-	(5,706)
At 31 December 2018	**25,764,225**	**(18,570,600)**	**2,872,692**	**518,930**	**10,585,247**	**(327,312)**	**10,257,935**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows for the half-year ended 31 December 2018

	Consolidated	
	Half-year ended	
	31 Dec 2018 $	31 Dec 2017 $
Cash flows from operating activities		
Receipts from customers	47,353	-
Payments to suppliers and employees	(993,345)	(646,883)
Interest received	7,629	655
Interest and other costs of finance paid	(68,845)	(67,656)
Net cash inflow/(outflow) from operating activities	(1,007,208)	(713,884)
Cash flows from investing activities		
Purchase of plant and equipment	-	-
Net cash inflow/(outflow) from investing activities	-	-
Cash flows from financing activities		
Proceeds from issue of shares	1,877,076	622
Share issue costs	(5,706)	(804)
Lease capital repayment	(90,129)	(22,901)
Lease interest	(23,644)	(7,858)
Net cash inflow/(outflow) from financing activities	1,757,597	(30,941)
Net increase (decrease) in cash and cash equivalents	750,389	(744,825)
Cash and cash equivalents at the beginning of the period	1,043,615	1,433,592
Effects of exchange rate changes on the balances of cash held in foreign currencies	43,248	32,971
Cash and cash equivalents at the end of the period	**1,837,252**	**721,738**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Significant accounting policies

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report and any public announcements made by China Magnesium Corporation Limited ("the company") during the half-year in accordance with any continuous disclosure obligations arising under the Corporations Act 2001 and the Australian Securities Exchange Listing Rules.

Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted. The fair value of the consolidated entity's financial assets and liabilities approximate their carrying value.

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 Dollar.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2018 annual financial report. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group's last annual financial statements for the year ended 30 June 2018, except for application of AASB 9 Financial Instruments. The accounting policies included in the Group's last annual financial statements for the year ended 30 June 2018 are the relevant policies for the purposes of comparatives.

AASB 15 Revenue from Contracts with Customers, AASB16 Leases and AASB 9 Financial Instruments became effective for periods beginning on or after 1 January 2018. The Group had early adopted AASB 15 and AASB 16 in the full year financial statements ended 30 June 2018. The Group applied AASB 9 for the interim period ended 31 December 2018 only.

Financial Instruments

AASB 9 Financial Instruments replaces AASB 139 Financial Instruments: Recognition and Measurement requirements for the annual periods beginning on or after 1 January 2018. AASB 9 brings together all three aspects of the accounting for financial instruments: classification and measurement; impairment, and hedge accounting. The Group has applied the transitional relief and elected not to restate comparatives, rather any differences are to be recognised in opening retained earnings at 1 July 2018. The application of AASB 9 did not have any impact at 1 July 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Financial Instruments (continued)

Classification and measurement
Except for certain trade receivables, the Group under AASB 9 initially measures a financial asset at its fair value.

Under AASB 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets and whether the instruments' contractual cash flows represent solely payments of principal and interest on the principal amount outstanding (the 'SPPI criterion').

The accounting for the Group's financial liabilities remains largely the same at it was under AASB 139.

Impairment
The adoption of AASB 9 has included a review of the Group's accounting for impairment losses for financial assets by replacing the AASB 139's incurred loss approach with a forward-looking expected credit loss ('ECL') approach. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate. For trade and other receivables, the Group has applied the AASB 9 permitted simplified approach and has calculated ECLs on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward looking factors specific to the debtors and economic environment.

Going concern

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and settlements of liabilities in the ordinary course of business. The Group incurred a net loss of $1,582,478 (2017: $1,551,823) and an operating cash outflow of $1,007,208 (2017: $713,884) for the period ended 31 December 2018. At that date, the Group had a net current assets position of $112,286 (2017: net current assets $361,002).

Included in net assets are prepaid capital expenditure of $532,554, receivables from Shanxi Pingyao Fengyan Coal & Coke Group Company Limited ("Fengyan") of $2,587,137 and VAT receivable of $826,287 that will only be recovered once the Group generates sufficient income in China. The Group also has capital commitments of $1,100,000 in relation to its Pingyao initial emission control work.

In forming the view the Group is a going concern, the directors note:

- Under the Investment and Co-operation agreement with Shanxi Pingyao Fengyan Coal & Coke Group Company Limited ("Fengyan"), Fengyan have agreed to provide sufficient working capital for CMC's 91.25% owned joint venture company Shanxi Yushun Magnesium Company Limited which delivers substantially all Pingyao operational production;
- Continued financial support from creditors who have agreed to extended terms of payment;
- Access to funding from a rights issue with 37,541,522 shares issued at $0.05 raised by 31 December 2018 and a further 60,000,000 issued at $0.05 from shortfall in February 2019.
- Capacity to raise working capital from placement of shares, exercise of options and other means including directors' loans;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Going concern (continued)

- the Pingyao plant will continue to satisfy the EPP disposal/emission specifications and thereby pass the inspection and review by the relevant expert environmental team for magnesium and alloy production recommencement;

Having considered all of the above factors, the Directors are of the opinion that the use of the going concern basis of accounting is appropriate as they are satisfied that the Group will be able to generate sufficient cash flows, rely on the financial support as detailed, and rely on the continued financial support of its creditors.

Should all of the above not eventuate, there exists a material uncertainty regarding the Company and the Group's ability to continue as a going concern, realise its assets, settle its liabilities and commitments in the ordinary course of business and at the amounts stated in the financial statements. If production does not commence as anticipated there will be a risk of impairment of the Group's property, plant and equipment.

2. Revenue from continuing operations

	Consolidated	
	2018 **$**	**2017** **$**
Revenue from sale of magnesium lithium and related products	25,635	-
Other income (a)	30,000	8,372
	55,635	**8,372**

The Group commenced magnesium lithium production during the half year, with 200kg invoiced, generating sales of $17,353.

(a) The Group provides support services to CMC Lithium Pty Ltd, an associate entity in which the Group holds a 40% interest.

3. Property, Plant and Equipment

Consolidated	Assets under construction $	Leasehold Land $	Quarry $	Fixed Assets $	Total $
Net book value 1 July 2018	6,278,570	1,306,262	-	7,112,671	14,697,503
Transfers to/from	(13,564)	-	-	-	(13,564)
Additions	76,649	-	-	-	76,649
Disposals	(27,162)	-	-	(41,804)	(68,966)
Depreciation	-	(14,957)	-	(239,446)	(254,403)
Impairment	-	-	-	-	-
Exchange differences	49,838	9,927	-	77,392	137,157
At 31 December 2018	**6,364,331**	**1,301,232**	**-**	**6,908,813**	**14,574,376**

3. Property, Plant and Equipment (continued)

At 31 December 2018					
Cost	6,364,331	1,533,976	-	8,948,222	16,846,529
Accumulated Depreciation	-	(230,590)	-	(2,046,002)	(2,276,592)
Disposals	-	-	-	28,015	28,015
Exchange differences	-	(2,154)	-	(21,422)	(23,576)
Net book value	**6,364,331**	**1,301,232**	**-**	**6,908,813**	**14,574,376**

Consolidated	Assets under construction	Leasehold Land	Quarry	Fixed Assets	Total
	$	$	$	$	$
Net book value 1 July 2017	12,385,047	1,247,883	601,359	2,215,980	16,450,269
Transfers to/from	(4,872,061)	-	-	4,872,061	-
Additions	1,142,425	-	-	-	1,142,425
Disposals	-	-	-	-	-
Depreciation	-	(14,370)	(6,818)	(110,762)	(131,950)
Impairment	-	-	(599,107)	-	(599,107)
Exchange differences	287,933	28,473	4,566	49,261	370,233
At 31 December 2017	**8,943,344**	**1,261,986**	**-**	**7,026,540**	**17,231,870**
At 31 December 2017					
Cost	8,943,344	1,453,314	-	8,517,294	18,913,952
Accumulated Depreciation	-	(191,108)	-	(1,489,062)	(1,680,170)
Exchange differences	-	(220)	-	(1,692)	(1,912)
Net book value	**8,943,344**	**1,261,986**	**-**	**7,026,540**	**17,231,870**

4. Trade and Other Payables

	Consolidated	
	2018	**2017**
	$	**$**
Current		
Trade payables	**-**	**-**
Other payables and accruals	**2,774,069**	**1,638,901**
Non-current		
Trade payables	1,816,838	3,029,219
Other payables	2,837,696	3,746,176
	4,654,534	**6,775,395**

Non-current trade payables include creditors who have agreed to extended terms, due for payments after 12 months from magnesium production. Non-current other payables relates to working capital support rendered by Fengyan Group at 0% interest, based on the Investment & Cooperation Agreement dated 17 December 2017.

5. Borrowings

	Consolidated	
	2018	2017
	$	$
Borrowings (include interest accrued)	**1,036,269**	**1,555,528**

Fengyan Group provides borrowings of $1,036,269 (RMB 5 million) at an interest rate of 13.68% annually, for construction of assets pursuant to the Investment and Cooperation Agreement dated 17 December 2017.

6. Contributed equity

	Consolidated		Consolidated	
	2018	6/2018	2018	6/2018
	Shares	Shares	$	$
Share capital				
Ordinary shares fully paid	352,438,556	314,897,034	25,764,225	23,892,855

During the half year, the company issued 37,541,522 (2017: nil) ordinary shares at $0.05 pursuant to a pro-rata non-renounceable rights issue of 1 new share for every 2 shares held, with 1 free unlisted option exercisable at $0.10 on or before 15 February 2019.

Movements in ordinary share capital

Date	Details	Number of shares	*Issue price	$
30 June 2018	Balance	**314,897,034**		**23,892,855**
	Share issue	37,541,522	0.05	1,877,076
	Share issue transaction cost	-	-	(5,706)
As at 31 December 2018		**352,438,556**		**25,764,225**

*Issue price rounded to two decimal places

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.

Shares in escrow

There were no shares in escrow at 31 December 2018 (2017: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. 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 makers) in assessing performance and determining the allocation of resources. Operating segments are determined on the basis of financial information reported to the board at the group level.

Accordingly, management currently identifies the Group as having only one reportable segment, being the processing and sale of magnesium, semi-coke, metallurgical coke, calcium metals and tar oil. There have been no changes in the operating segments during the half-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.

8. Significant events and transactions

During the half year, the Group:

(a) Commenced magnesium lithium production at Pingyao
(b) Completed a successful rights issue for 37,541,522 shares raising $1,877,976 before costs.
(c) Entered into a conditional Heads of Agreement to form a joint venture with Sovran White, where CMC will provide management services and exclusive export rights for produce from Yiyuan Growers Cooperative.

9. 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.

10 Contingencies and Commitments

The Group has capital commitments of $1,100,000 in relation to its emission discharge works in Pingyao.

Shanxi Yushun Magnesium Corporation Ltd (SYMC), a 91.25% owned subsidiary of China Magnesium Corporation Limited, had entered into 2 mortgage guarantee agreements which expired on 21 December 2018.

Both mortgage guarantees were in favour of Shanxi Pingyao Rural Commercial Bank Co. Ltd against registered mortgages with Pingyao Fengyan Coal & Coke Group Co Ltd. (Fengyan). The mortgage guarantee agreements were for the term of 22 December 2015 to 21 December 2018 for up to RMB 26,100,000 (AUD $5,220,000).

At the date of the Directors Report, neither SYMC nor the Company are aware of any act of default by Fengyan under the registered mortgages.

11 Events subsequent to half year

The Company issued a further 60M shares on 12 February 2019 at $0.05 each and 60M options exercisable at $0.10 each on or before 15 February 2019 pursuant to shortfall applications for the rights issue. In accordance with ASX Listing Rules 3.10.5 and 3.10A the 60M shares are subject to voluntary escrow until 28 February 2019.

Winshine Science Company Ltd entered into an agreement to subscribe for 87 M ordinary shares and options under the rights issue on 13 December 2018. This subscription did not complete before the rights issue closed.

Receivables of $ 3M from the rights issue are expected to be received before 28 February 2019. The relevant shares are subject to escrow and holding locks until 28 February 2019 or receipt.

97,541,522 unlisted options exerciable at $0.10 each lapsed on 15 February 2019.

Mr Jason Teoh was appointed Chief Executive Officer and Executive Director on 28 January 2019. Previous Managing Director Mr Tom Blackhurst continues as a Non-Executive Director from that date. Mr Peter Robertson was removed as a director at a General Meeting on 25 January 2019.

No other matter or circumstance has occurred subsequent to half year end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial periods.

12 Critical accounting judgements and estimates

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are:

(a) The use of that going concern basis of accounting is appropriate (refer Note 1).

(b) The Pingyao plant has been unable to recommence production due to changes in environmental regulations in China. Accordingly, CMC has recognized an impairment for assets under construction of $1,739,640 at 30 June 2018, based on an independent report by a Beijing accounting firm. The recoverable amount was determined on a fair value less costs of disposal basis using a cost approach pursuant to an onsite plant and equipment review.

The directors anticipate the Pingyao plant will satisfy the EPP disposal/emission specifications and thereby the inspection and review by the relevant environmental experts team for magnesium and alloy production recommencement.

Directors' declaration

In the opinion of the directors:

(a) The attached interim 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 consolidated entity's financial position as at 31 December 2018 and the performance for the half-year ended on that, and
- ii) Complying with Australian Accounting Standard AASB 134 Interim Financial Reporting;

(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.

This declaration is made in accordance with a resolution of the directors.

William Bass
Chairman
Southport
25 February 2019

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

Report on the half year financial report

Conclusion
We have reviewed the accompanying half year financial report of China Magnesium Corporation Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2018, and 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 half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of China Magnesium Corporation Limited does not give a true and fair view of the financial position of the Group as at 31 December 2018, and of its financial performance and its cash flows for the half year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

Material Uncertainty Related to Going Concern
We draw attention to Note 1 in the financial report, which indicates that the Group incurred a net loss of $1,582,478 during the half year ended 31 December 2018 and, its operating cash outflows for that period were $1,007,207. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Emphasis of Matter: Material Uncertainty regarding Impairment of Non-Current Assets
We draw attention to Note 1 and Note 12 in the financial report which discloses the Group's assessment of impairment of non-current assets and the assumptions on which that assessment is based. There are a number of assumptions relied upon in assessing impairment of non-current assets that are outside the control of the Group.

The above conditions indicate there is inherent uncertainty regarding the assumptions that lead to commercial production and should these assumptions prove to be incorrect the Group's property, plant and equipment may be further impaired. Our conclusion is not modified in respect of this matter.

Directors' Responsibility for the Half Year Financial Report

The Directors of the Group are responsible for the preparation of the half year 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 half year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of China Magnesium Corporation Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001.*

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

A F Newman
Partner – Audit & Assurance

Brisbane, 25 February 2019