China Magnesium Corporation Limited

"Aiming for World Leadership in Magnesium"

IPO INVESTMENT HIGHLIGHTS

Existing / committed shares	80.0m	Directors:	William Bass – Non Exec Chairman
IPO placement shares[1] @ A$0.25	32.0m		Tom Blackhurst – CEO
Total Shares[1]	**112.0m**		Xinping Liang – COO
Market capitalisation at IPO price[1]	**A$28.0m**		Peter Robertson
Market capitalisation at IPO price[1] (A$1:US82.5c)	US$23.1m		Michael Clarey
[1] Assuming full subscriptions; Minimum subscriptions are set at A$4m		Chairman, CMC China: Ming Li	

KEY POINTS

- Earning a minimum 75% interest in a 5,000tpa (licensed) pure magnesium plant in China's Shanxi province.
- Simple, cheap, proven production process and a management team who know how to operate in China.
- Key Chinese parties are also major shareholders of CMC, with a vested interest in CMC's success.
- Local community also has a vested interest, with the project having been classified by the local government as a "preferred project".
- Growing market for magnesium (Mg), which is far from a mature market. CMC believes magnesium is a superior and economic substitute for aluminium in light weight vehicles and mobile electronic devices.
- Key competitive advantages include a permit to substantially expand production to 105,000tpa, nearby source of good quality feedstock, and a credible ability to offer reliable magnesium alloy supply.
- CMC intends to be vertically integrated and control its feedstock of magnesium ore (dolomite) - has an option to acquire the dolomite quarry which supplies the Plant.
- CMC is planning (subject to financing) to upgrade and restart the plant as a low-cost producer with expansion to 20,000tpa and additional Mg alloying capability (avoiding the need to remelt the pure Mg and therefore capturing the alloying margin at nil or negligible additional cost).
- "Shovel ready" (ie, commencement of construction is subject only to final formalities/processes and financing) with full 20,000tpa production rate expected late March 2011 and with potential for earlier small scale production.
- CMC intends to raise A$4-8m to acquire a 75% interest in the Project and to finance its contribution to the initial plant upgrade/expansion and general working capital.
- Debt funding for the Upgrade and First Phase expansion yet to be secured but China Construction Bank has made an indicative non-binding offer to debt fund US$14.6m of expansion capex to 105,000tpa.
- Intention for phased, modular expansions (5,000tpa per module) to 105,000tpa over ~3 years. This would make it one of the – if not the – world's largest producer.
- Strong investment proposition as a low-cost pure Mg producer, and even stronger as a magnesium alloyer.
- Potential operating margins of more than US$700/t magnesium alloy - based on assumptions set out in section 4.5 of the prospectus.
- Initial listing on ASX. However, given the Chinese focus, CMC will also investigate opportunities for expanding its investor base as future expansions proceed.

BACKGROUND

China dominates global magnesium production using the pidgeon process – a simple, cheap thermal process which is commercially and technically robust compared to the more expensive and capital intensive electrolytic processes in use in western countries.

Abundance of coal, dolomite, ferrosilicon and skilled, low cost labour is a major reason why China (especially Shanxi province) dominates global magnesium production.

Chinese joint venture partner constructed the existing plant in 2004 as a side operation for a coking plant. Key expansion approvals were granted in late 2007 and the joint venture with CMC commenced mid 2008.

Higher production costs caused by older, less efficient legacy equipment led to a temporary suspension of operations when magnesium prices fell during the GFC. Plant currently on care and maintenance. If it were switched back on without any upgrade it would only be a marginal producer.

CMC is planning to upgrade/expand the plant to recommence operations as a low-cost magnesium producer with added magnesium alloying capability.

UPGRADE / EXPANSION PLANS

Phase	Expansion (tpa)	Aggregate Capacity	Target Completion
Upgrade	N/A	5,000	Feb 2011
1st	15,000	20,000	Feb 2011
2nd	35,000	55,000	Dec 2011
3rd	50,000	105,000	Dec 2012

Upgrade + Phase 1 capex ~US$7.9m (including US$2.9m for the Upgrade only) plus working capital (generally ~ 1 month's operating costs). CMC is confident it can secure debt funding for approximately 50% or more of the capex costs and 100% for working capital.

See section 4 of the prospectus for further information.

PLANT ECONOMICS

(Note that the following is based on recent historical price information and does not incorporate income or withholding tax considerations, which are set out in section 2.10 of the prospectus. Although the following information is considered to have a reliable basis, there is no guarantee that the following economic parameters will apply to the upgraded/expanded plant once in production. Refer to section 4.5 of the prospectus for further information and assumptions)

- Operating costs (excl. by-product credits) budgeted at US$2,050/t.
- In early May 2010, local Chinese pure magnesium prices were in excess of US$2,345/t.
- In early 2010, magnesium alloys have typically sold at a US$365-585/t premium to the pure magnesium price.
- Had it been producing tar oil by-product in early 2010, the Group believes it would have received tar oil by product revenues of between US$40-100/t Mg produced (based on a tar oil yield of 3% / t coal, 5t coal per tonne Mg, and local tar oil prices between US$290-630/t.
- Based purely on the above information, it could have expected operating margins to exceed US$700/t magnesium alloy produced had the upgraded/expanded plant been operating in early 2010.
- Mg prices have tended to move in correlation with local ferrosilicon prices (being the highest input costs).
- Potential for further improvements to plant economics.

LOW COST PRODUCER

CMC expects to be at the low end of the cost curve mainly as it will be using modern, leading edge equipment.

There is limited cost information publicly available, but based on anecdotal reports and company research in early 2010 CMC believes that production costs of most Chinese producers were above US$2,200/t.

GROWING MAGNESIUM MARKET

The Independent Market Expert, Roskill Consulting, believes that there will be strong consumption growth over coming years (~6%), particularly in the Mg alloy market (~8%)

Magnesium's main advantage is its weight to strength ratio – its density is two-thirds of aluminium's so it can often be cheaper on a volume (rather than weight) basis.

It can be used as a substitute for aluminium in many applications, particularly light weight vehicles and mobile electronic devices, eg, CMC believes magnesium's light weight is important in minimising (lithium battery) power consumption for electric cars.

Global customers are seeking magnesium off-take agreements from reliable producers (presently lacking from existing Chinese-owned producers in terms of contractual reliability).

A major Chinese automotive group is also planning to construct a car production plant in the local area.

CMC'S ADVANTAGES

Key competitive advantages include a permit to substantially expand production, proposed vertical integration (especially plans for alloy production), a nearby source of good quality feedstock (dolomite), and a credible ability to offer reliable magnesium supply.

CMC believes its competitive advantages will enable it to produce at a relatively low marginal cost compared to its peers, and that it will maintain long term operational viability regardless of the magnesium price fluctuations.

VERTICAL INTEGRATION / SYNERGIES

CMC will have control over three key stages: magnesium ore (dolomite) supply (via a call option over the quarry; US$0.7m exercise price), magnesium production and magnesium alloy production – others generally only control one of these.

Existing alloyers generally buy pure magnesium from magnesium producers, then re-melt the magnesium to add the alloying ingredients (with additional metal loss, energy costs, plant infrastructure and overheads) – CMC will bypass this in one stage and capture the alloying margin at nil or negligible additional cost.

Long term, CMC will consider other up/downstream applications to maximise long term profit margins and return on capital.

BARRIERS TO MAJOR NEW PLANTS OR EXPANSIONS/UPGRADES

CMC believes that many existing producers in China are unlicensed and are at risk of closure due to the Chinese government's strategy to rationalise the industry into fewer, larger producers – so CMC believes that investment in upgrading their production facilities (and, in many cases, even switching their plants back on) is unlikely.

DIRECTORS AND MANAGEMENT

Mr Blackhurst (CEO) – Over 20 years experience building new businesses and consulting in Asia and Australasia. Active in China. Co-founder and major shareholder of CMC.

Mr Liang (COO) – Singapore-Chinese engineer with 22 years experience in project / corporate development in Asia, Australia and the UK, particularly for heavy industries and infrastructure projects. Co-founder and major shareholder of CMC.

Mr Li (JV Co Chairman) – Chinese entrepreneur with 37 years in developing/operating businesses in China (incl. magnesium). Well connected with local officials. Family interests own the minority JV partner. Co-founder and major shareholder of CMC.

Mr Jia (JV Co general manager) – Chinese engineer with 21 years in developing/operating businesses in China (incl. magnesium). Co-founder and major shareholder of CMC.

Non-exec directors: Messrs Bass (chartered accountant with 20 years public company experience), Robertson (metallurgist with 25 years experience in mineral processing and manufacturing aluminium products) and Clarey (30 years in international insurance/finance, mostly resources/heavy industries).

RISKS

An investment in the Company is subject to general and specific risks which may affect the value of its Shares and the financial performance, financial position, cash flows, dividends, growth prospects and the price of Shares. Many of these risks are outside the control of the Company and the Directors. There can be no guarantee that the Company will achieve its stated objectives or that any forward looking statements will be met.

Some of the key risks include the risk of doing business in China (including the risk of not being granted or maintaining all of the necessary approvals and permissions to carry out or fund all or part of the Project), single project risk, the risk of a fall in domestic Chinese demand for magnesium and supplier, funding risks, margin risks, increases in costs, exchange rate risks and share market risk.

Before deciding to invest in the Company, potential investors should read the entire prospectus and, in particular, should carefully consider the risk factors as identified by the Directors in section 10 of the prospectus