



Tel: +61 7 3237 5999  
Fax: +61 7 3221 9227  
www.bdo.com.au

Level 18, 300 Queen St  
Brisbane QLD 4000,  
GPO Box 457, Brisbane QLD 4001  
Australia

20 September 2010

The Directors  
China Magnesium Corporation Limited  
Pivotal Point  
Level 2, 50 Marine Parade  
SOUTHPORT QLD 4215

Dear Directors

## INDEPENDENT ACCOUNTANT'S REPORT

### 1. Introduction

We have prepared this Independent Accountant's Report on pro-forma financial information of China Magnesium Corporation Limited (the "**Company**") for inclusion in a Prospectus dated on or about 20 September 2010 (the "**Prospectus**"). The Prospectus relates to an initial public offer of 48,000,000 new shares at an issue price of \$0.25 per share with 12,000,000 attaching options (the "**Offer**"). This is expected to raise up to \$12 million, before Offer costs.

The purpose of the pro-forma financial information is to provide investors with a pro-forma Statement of Financial Position as at 30 June 2010 adjusted to include pre-issue transactions and the Offer itself.

This report does not address the rights attaching to the shares to be issued in accordance with the Prospectus, the risks associated with the investment, nor forms the basis of an independent expert's opinion with respect to a valuation of the Company or a valuation of the share issue price per the Offer.

We have not been requested to consider the prospects of the Company nor the merits and risks associated with becoming a shareholder and accordingly have not done so and do not purport to do so. We do not take responsibility for these matters or for any matter or omission in the Prospectus, other than responsibility for this Report. Risk factors are set out in the Prospectus.

### 2. Pro-Forma Financial Information

We have been requested to prepare a report covering the pro-forma financial information described below and disclosed in Prospectus:

- The pro-forma transactions described in section 9.2.3 of the Prospectus;
- The Pro-forma Consolidated Statement of Financial Position for China Magnesium Corporation Limited as at 30 June 2010 and as disclosed in section 9.2.4 of the Prospectus; and
- The Summary of Significant Accounting Policies as disclosed in section 9.2.5 of the Prospectus.

together, the "China Magnesium Corporation Limited Pro-Forma Financial Information".

The China Magnesium Corporation Limited Pro-Forma Financial Information presented in the Prospectus has been derived from the audited financial report of China Magnesium Corporation Limited for the year ended 30 June 2010 after reflecting the pro-forma transactions detailed in section 9.2.3 of the Prospectus.

BDO Audit (QLD) Pty Limited were appointed auditors of China Magnesium Corporation Limited on 23 November 2009. The financial report of China Magnesium Corporation Limited for the year ended 30 June 2010 was audited by BDO Audit (QLD) Pty Limited. Our audit was conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report was free from material misstatement. The audit opinion expressed by BDO Audit (QLD) Pty Limited to the members of China Magnesium Corporation Limited relating to the financial report for the year ended 30 June 2010 was qualified on the basis that the Consolidated Statement of Financial Position for the

Group as at 30 June 2009 had not been audited or reviewed and we could not determine the effect, if any, which this had on the results of the Group for the year ended 30 June 2010.

The directors of China Magnesium Corporation Limited are responsible for the preparation and presentation of the China Magnesium Corporation Limited Pro-Forma Financial Information, including the determination of the pro-forma transactions.

### 3. Scope

We have reviewed the China Magnesium Corporation Limited Pro-Forma Financial Information in order to report whether anything has come to our attention which causes us to believe that the China Magnesium Corporation Limited Pro-Forma Financial Information set out in the Prospectus, does not present fairly in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board, the *Corporations Act 2001* and the accounting policies adopted by China Magnesium Corporation Limited described in Section 9.2.5 of the Prospectus.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. We made such enquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances including:

- Review procedures applied to the financial data;
- Review of work papers, accounting records and other documents;
- Review of the pro-forma transactions described in section 9.2.3 of the Prospectus; and
- Inquiry of directors, management and others.

These review procedures were substantially less in scope than an audit examination conducted in accordance with Australian Auditing Standards, the purpose of which is the expression of an opinion on the financial statements. Accordingly, we do not express such an opinion on the China Magnesium Corporation Limited Pro-Forma Financial information.

The review conclusion expressed in this report has been formed on the above basis.

### 4. Conclusions

#### *Qualification*

As detailed above the consolidated Statement of Financial Position of the Group as at 30 June 2009 has not been audited or reviewed. We cannot determine the effect, if any, which this has on the results of the Group for the year ended 30 June 2010.

#### *Qualified Conclusion*

With the exception of the effect, if any, of the matter in the qualification paragraph, based on our review, which is not an audit, nothing has come to our attention which causes us to believe that the China Magnesium Corporation Limited Pro-Forma Financial Information has not been properly prepared in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board, the *Corporations Act 2001* and the accounting policies adopted by China Magnesium Corporation Limited described in Section 9.2.5 of the prospectus.

As detailed in Note (a) in section 9.2.5 of the Prospectus, the Pro-Forma Statement of Financial Position has been prepared on a going concern basis. This contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of business. The Group requires additional funds or alternative finance to fund the redevelopment of the magnesium production facility and to provide necessary working capital which will allow it to continue as a going concern.

## 5. Subsequent Events

Apart from the matters dealt with in the report, and having regard to the scope of our report, to the best of our knowledge and belief no material items, transactions or events outside of the ordinary business of China Magnesium Corporation Limited have come to our attention which would require comment on, or adjustment to, the information referred to in our report or that would cause the information to be misleading or deceptive.

## 6. Independence Disclosure

BDO Audit (QLD) Pty Ltd does not have any pecuniary interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in relation to this matter. BDO Audit (QLD) Pty Ltd has provided advisory services and will receive a professional fee for the preparation of this Report. The Directors of BDO Audit (QLD) Pty Ltd do not hold nor have any interest in any ordinary shares of the Company or its controlled entity.

BDO Audit (QLD) Pty Ltd are the appointed Auditors for the Company.

Consent to the inclusion of the Independent Accountant's Report in this prospectus in the form and context in which it appears has been given. At the date of this report consent has not been withdrawn.

## 7. General Advice Limitation

This report has been prepared and included in the Prospectus to provide investors with general information only and does not take into account the objectives, financial situation or needs of any specific investor.

This report is not intended to take the place of any professional advice and investors should not make specific investment decisions in reliance on the information contained in the report. Before acting or relying on any information, an investor should consider whether it is appropriate for their circumstances having regard to their objectives, financial situation or needs.

Yours faithfully

**BDO Audit (QLD) Pty Ltd**

BDO



**A J Whyte**  
Director

## 9.2 HISTORICAL AND PRO-FORMA STATEMENTS OF FINANCIAL POSITION

### 9.2.1 Introduction

This section contains a summary of historical and pro forma financial information for the Group, comprising China Magnesium Corporation Limited and its Controlled Entity (“**Group**”). All financial information presented in this section should be read in conjunction with the other information contained in this Section 9, the risk factors in Section 11, and other information contained in this Prospectus.

The Financial Information comprises (collectively the “**Statements of Financial Position**”):

- The statements of financial position of the Company and its Controlled Entity (“**Group**”) as at 30 June 2009 and 30 June 2010 (“**Historical Statements of Financial Position**”); and
- Pro-forma statement of financial position of the Group as at completion of the Offer prepared on the basis described in Section 1 (“**Pro-Forma Statement of Financial Position**”).

### 9.2.2 Basis of preparation of Historical Statements of Financial Position

The financial statements of the Group as at 30 June 2010 have been audited.

The financial statements were prepared on a consolidated basis because CMC is deemed to control CMC China.

The consolidated Group financial statements as at 30 June 2009 have neither been reviewed nor audited. This position in relation to the consolidated Group financial statements has arisen because CMC China was not operating as at 30 June 2009 and its financial statements as at that balance date are unaudited.

Accordingly, the Historical Statements of Financial Position are based on:

- The audited statement of financial position of the Company as at 30 June 2009;
- The unaudited consolidated statement of financial position of the Group as at 30 June 2009; and
- The audited consolidated statement of financial position of the Group as at 30 June 2010.

None of the pro-forma adjustments contemplated in this section affect the Historical Statements of Financial Position.

There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

### 9.2.3 Basis of preparation of Pro-Forma Statement of Financial Position

The Pro-Forma Statement of Financial Position is based on the audited consolidated Group statement of financial position as at 30 June 2010, adjusted to reflect the following pro forma adjustments, on the Closing Date of the Offer:

- The issue of 48,000,000 Shares and 12,000,000 attaching options to raise \$12 million;
- Payment of corporate and administrative expenses of \$0.3 million; and
- Payment of the expenses of the Offer of approximately \$1.5 million (GST Exclusive). \$0.2 million of these costs were incurred prior to 30 June 2010.

Some of the above mentioned transactions, while expected to occur, have not yet all occurred in full. Actual transactions yet to be completed may differ to the transactions anticipated and mentioned in this report.

## 9.2.4 Consolidated Statements of Financial Position

(AUD '000)	30 Jun 2009 (unaudited)	30 Jun 2010 (audited)	Pro forma adjustments	Pro forma on Closing Date
<b>Current Assets</b>				
Cash	182	1,157	10,370	11,527
Trade and other receivables	143	155	–	155
Prepayments	–	152	(152)	–
Inventories	438	381	–	381
<b>Total Current Assets</b>	<b>763</b>	<b>1,845</b>	<b>10,218</b>	<b>12,063</b>
<b>Non-Current Assets</b>				
Property plant & equipment	1,394	1,241	–	1,241
Other	152	152	–	152
<b>Total Non-Current Assets</b>	<b>1,546</b>	<b>1,393</b>	<b>–</b>	<b>1,393</b>
<b>Total Assets</b>	<b>2,309</b>	<b>3,238</b>	<b>10,218</b>	<b>13,456</b>
<b>Current liabilities</b>				
Trade & other creditors	38	157	–	157
Tax liability	88	88	–	88
<b>Total Liabilities</b>	<b>126</b>	<b>245</b>	<b>–</b>	<b>245</b>
<b>Net Assets</b>	<b>2,183</b>	<b>2,993</b>	<b>10,218</b>	<b>13,211</b>
<b>Equity</b>				
Issued capital	859	2,185	10,500	12,685
Minority interest	1,487	1,345	–	1,345
Reserves	(84)	(68)	–	(68)
Retained earnings (Accumulated losses)	(79)	(469)	(282)	(751)
<b>Total Equity</b>	<b>2,183</b>	<b>2,993</b>	<b>10,218</b>	<b>13,211</b>