



Media/ASX Announcement

4 May 2011

EXERCISE OF OPTION TO ACQUIRE DOLOMITE QUARRY

FULL VERTICAL INTEGRATION OF MAGNESIUM SUPPLY CHAIN TO BECOME A LOW COST PRODUCER OF MAGNESIUM

Background

China Magnesium Corporation Limited (**CMC** or the **Company**)(**ASX: CMC**), which plans to become one of the largest, low cost, vertically integrated producers of pure magnesium and magnesium alloy in the world, has signed a contract to exercise its option to acquire a dolomite quarry (the **Quarry**), to progress the vertical integration of its supply chain from dolomite supply through to magnesium and magnesium alloy production.

The Quarry is located at the foot of Tianzhong Mountain and approximately 30km from CMC's magnesium ingot production plant located at Pingyao, Shanxi Province, northern China (the **Plant**). CMC currently has a supply agreement with the Quarry and all of the dolomite requirements of the Plant to date have been fulfilled by the Quarry. The dolomite is transported by truck with two sealed alternative road routes for transport of the dolomite from the Quarry gate to the Plant.

Dolomite is, by volume, the largest raw material component of magnesium production and therefore locking in supply through ownership of the Quarry is important in becoming one of the world's largest, low cost producers of magnesium and magnesium alloy. The extraction process is basic and experienced staffing is available to manage the quarry after the acquisition.

To exercise the option to acquire the Quarry, CMC must pay RMB5,000,000, (AUD\$730,000) less the option fee of RMB300,000 (AUD\$44,000) which was paid at the time of entering the option agreement in 2008. The purchase is planned to be funded from a mix of existing funds and from a Chinese bank debt facility which is currently being negotiated.

In order to complete the acquisition of the quarry, the conditions precedent that need to be satisfied include the renewal, extension and assignment of the mining permit for the quarry and the assignment of the Land Use Agreement by the relevant local authorities. Satisfying the conditions precedent and completion of the acquisition of the quarry is expected by the end of October 2011.

Mr Tom Blackhurst, Managing Director of CMC said:

"CMC is confident of its existing supply chain for magnesium production but will continue to take opportunities to vertically integrate within the industry when the acquisitions make good economic sense. Dolomite is not a rare or complex raw material but it is fundamental for the production of magnesium, and control over supply requirements is another positive for the company as we progress our expansion plans."



The Quarry



Conveyor belts and production at the Quarry



For further information, please contact:

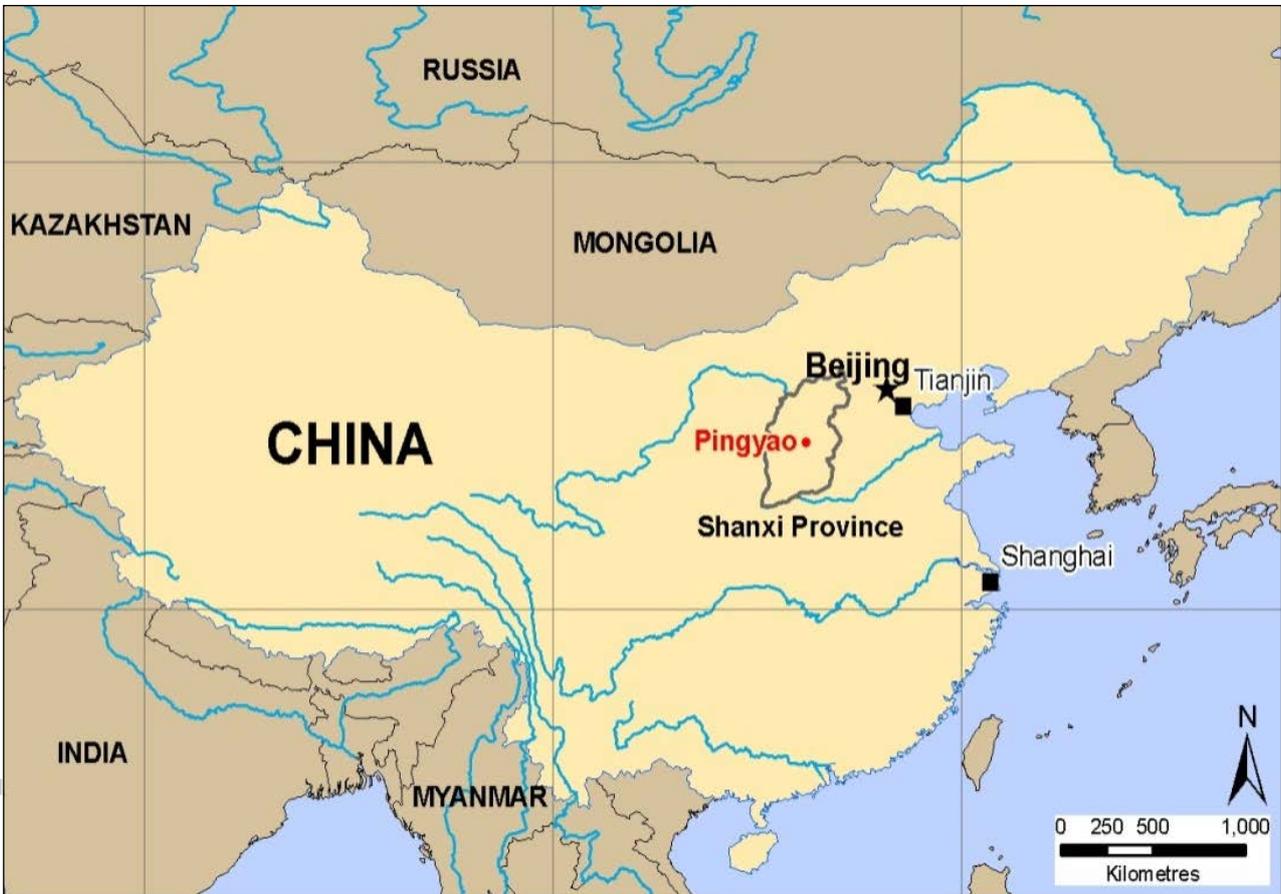
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About CMC

CMC, through its 90.7% interest in CMC China which owns a China based magnesium processing plant, plans to exploit the growing demand for magnesium and magnesium alloy by becoming one of the largest producers of pure magnesium and magnesium alloy in the world within three years. CMC China is strategically positioned in the major magnesium producing Shanxi province of Northern China.

CMC, through its interest in CMC China, has a number of competitive advantages including an environmental permit to produce up to 105,000tpa of magnesium and magnesium alloy, access to key land, ownership of operational plant using proven minerals processing technology, access to skilled labour, close proximity to feedstock and strong local demand for products including a proposed automobile production plant in the area.

CMC has assembled a management team and commercial partners with significant expertise in minerals processing and conducting business in China, and these key personnel have aligned their interests with shareholders by having material shareholdings in CMC. The local community also has a vested interest in ensuring CMC's success, with the project receiving "preferred project" status by local authorities.



Location of the CMC China's magnesium production operations in Pingyao, China

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