

Tom Blackhurst  
China Magnesium Corporation Ltd  
PO Box 3377  
Australia Fair  
SOUTHPORT QLD 4215

28 October 2010

Dear Tom,

**30 JUNE 2009 STATEMENT OF FINANCIAL POSITION**

We understand that the Australian Securities Exchange has requested that we provide a summary of the consolidation that resulted in the unaudited consolidated statement of financial position as at 30 June 2009 as reported in section 9.2.4 of the China Magnesium Corporation Limited (CMC) prospectus dated 20 September 2010. Attached as Appendix 1 is a summary of the above mentioned consolidation.

The consolidated statement of financial position as at 30 June 2009 was prepared in accordance with measurement and recognition requirements of AASB 127 "Consolidated and Separate Financial Statements". In particular the consolidation adjustments summarised in Appendix 1 eliminate CMC's investment in its subsidiary and CMC's share of the subsidiary's equity. The consolidation adjustments also recognise the minority interest's share of the subsidiary's equity.

Yours sincerely

Anthony Whyte  
Partner

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**CHINA MAGNESIUM CORPORATION LIMITED**  
**SUMMARY OF CONSOLIDATION OF STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2009**

	Parent (audited) \$'000	Subsidiary (unaudited) \$'000	Consolidation adjustments (audited) \$'000	Consolidated (unaudited) \$'000
<b>Current Assets</b>				
Cash	156	26	-	182
Trade and other receivables	3	140	-	143
Inventories	-	438	-	438
Investment	359	-	(359)	-
<b>Total Current Assets</b>	<b>518</b>	<b>604</b>	<b>(359)</b>	<b>763</b>
<b>Non-Current Assets</b>				
Property, plant and equipment	-	1,394	-	1,394
Other	-	152	-	152
<b>Total Non-Current Assets</b>	<b>-</b>	<b>1,546</b>	<b>-</b>	<b>1,546</b>
<b>Total Assets</b>	<b>518</b>	<b>2,150</b>	<b>(359)</b>	<b>2,309</b>
<b>Current Liabilities</b>				
Trade and other creditors	15	23	-	38
Tax liability	-	88	-	88
<b>Total Liabilities</b>	<b>15</b>	<b>111</b>	<b>-</b>	<b>126</b>
<b>Net Assets</b>	<b>503</b>	<b>2,039</b>	<b>(359)</b>	<b>2,183</b>
<b>Equity</b>				
Issued capital	859	-	-	859
Minority interest	-	-	1,487	1,487
Reserves	-	338	(422)	(84)
Retained earnings (Accumulated losses)	(356)	445	(168)	(79)
Contributed equity	-	1,256	(1,256)	-
<b>Total Equity</b>	<b>503</b>	<b>2,039</b>	<b>(359)</b>	<b>2,183</b>

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