

13 November 2009

Ms Emma Badhni  
Senior Adviser, Issuers  
ASX Limited  
Exchange Centre  
Level 6, 20 Bridge Street  
Sydney NSW 2000

By email: [Emma.Badhni@asx.com.au](mailto:Emma.Badhni@asx.com.au)

Dear Emma

### **Quay Magnesium Limited**

Quay Magnesium Limited (the Company) provides the following responses to the ASX request of 10 November 2009 regarding the information contained in the Company's recent Appendix 4C lodged on 23 October 2009 for the quarter ending 30 September 2009.

#### **Question 1**

It is possible to conclude from the information presented in Appendix 4C that if cash expenditure continued at the rate for the quarter indicated the Company may not have sufficient cash to fund activities for two quarters.

However, there are factors that are not reported in the Appendix 4C that should be taken into account when assessing the Company's financial position. The Appendix 4C report takes no account of net receivables and inventories that add positively to the Company's financial position.

At the end of the September quarter these items represented approximately \$4.0 million.

As stated in the Appendix 4C the Company has total debt financing of \$5.2 million with an unutilized amount of \$1.8 million.

#### **Question 2**

The Company does not expect to have future negative cash flows of the magnitude reported in the recent Appendix 4C.

The Company has secured additional lines of credit for working capital financing.

#### **Question 3**

The Company's revenues and expenses have been generally in line with expectations for the period given the economic conditions described in the 2009 AGM Chairman's address.

#### **Question 4**

As stated in Question 3, the Company's revenues and expenses are generally in line with expectations for the period.

The level of business activity is down on past periods where our largest customer is only offering orders with monthly tonnages of approximately half of those on offer two years ago.

To put this into perspective, the global automotive industry is undoubtedly much better off than six months ago, with signs that an economic recovery is underway, but the underlying demand in the North America remains weak. In contrast, Chinese sales are strong and Quay is confident of securing further business in this market in coming months.

For more information please see the Company's website: [www.quaymagnesium.com](http://www.quaymagnesium.com) for the Chairman's letter in the 2009 Annual Report and the Chairman's address delivered in Quay's 2009 Annual General Meeting.

**Question 5**

The Company's directors believe the Company is in compliance with the Listing Rules, including Listing Rule 3.1.

**Question 6**

The Company's directors believe it is compliant with Listing Rule 12.2.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'P. Stuntz', is positioned below the text 'Yours sincerely,'.

**Mr Peter Stuntz**  
Executive Chairman



10 November 2009

Mr John Hayes  
Company Secretary  
Quay Magnesium Limited  
Level 7  
3 Spring Street  
Sydney NSW 2000

ASX Markets Supervision Pty Ltd  
ABN 26 087 780 489  
20 Bridge Street  
Sydney NSW 2000  
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By Email

Dear John

**RE: Quay Magnesium Limited (the "Company")**

I refer to the Company's Quarterly Report in the form of an Appendix 4C for the period ended 30 September 2009 released to ASX Limited ("ASX") on 23 October 2009 (the "Appendix 4C").

ASX notes that the Company has reported the following.

1. Receipts from customers of \$331,000;
2. Negative net operating cash flows for the quarter of \$2,608,000; and
3. Cash at end of quarter of \$537,000.

In light of the information contained in the Appendix 4C, please respond to each of the following questions.

1. It is possible to conclude on the basis of the information provided that if the Company were to continue to expend cash at the rate for the quarter indicated by the Appendix 4C, the Company may only have sufficient cash to fund its activities for less than 2 quarters. Is this the case, or are there other factors that should be taken into account in assessing the Company's position?
2. Does the Company expect that in the future it will have negative operating cash flows similar to that reported in the Appendix 4C for the quarter and, if so, what steps has it taken to ensure that it has sufficient funds in order to continue its operations at that rate?
3. To what extent have the Company's actual revenues and expenses in the quarter, as reported in the Appendix 4C, matched the Company's anticipated revenues and expenses for that reporting period?
4. If the Company's actual revenues and expenses are not substantially in accordance with the Company's anticipated revenues and expenses, when did the Company become aware that its revenues and expenses would not substantially match the anticipated revenues and expenses? You may wish to outline any circumstances that may have had an effect on the Company's revenues and expenses.
5. Can the Company confirm that it is in compliance with the listing rules, and in particular, listing rule 3.1?

**Australian Securities Exchange**

Australian Stock Exchange  
Sydney Futures Exchange

Australian Clearing House  
SFE Clearing Corporation

ASX Settlement and Transfer Corporation  
Austraclear

6. Please comment on the Company's compliance with listing rule 12.2, with reference to the matters discussed in the note to the rule.

### **Listing rule 3.1**

Listing rule 3.1 requires an entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. The exceptions to this requirement are set out in the rule.

In responding to this letter you should consult listing rule 3.1 and the guidance note titled "Continuous disclosure: listing rule 3.1".

If the information requested by this letter is information required to be given to ASX under listing rule 3.1 your obligation is to disclose the information immediately.

Your responsibility under listing rule 3.1 is not confined to, or necessarily satisfied by, answering the questions set out in this letter.

Under listing rule 18.7A, a copy of this query and your response may be released to the market, so your response should be in a suitable form and separately address each of the questions asked. If you have any concerns about your response being released, please contact me immediately. Your response should be sent to me by email at [emma.badhni@asx.com.au](mailto:emma.badhni@asx.com.au) or on facsimile number (02) 9241 7620. It should not be sent to the Company Announcements Office.

Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event, not later than half an hour before the start of trading (i.e. **before 9.30 a.m. A.E.D.T.**) on Monday, 16 November 2009.

If you are unable to respond by the time requested you should consider a request for a trading halt in the Company's securities.

Yours sincerely

*(Sent electronically without signature)*

Emma Badhni  
**Senior Adviser, Issuers (Sydney)**