

## ASX RELEASE

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### Letter of Intent Signed

Quay Magnesium Limited (Quay) is pleased to announce that it has signed a Letter of Intent with a Chinese group to acquire a beneficial interest in 49 % of the output of a 15,000 tonne per annum (tpa) pure magnesium plant and linked half coke plant. As part of this arrangement Quay employees will be seconded to assist in the management of these plants on behalf of the owners.

As previously announced to the market Quay has conducted due diligence on a 15,000 tpa pure magnesium plant associated with its major shareholder, Central Turbo Limited. In addition to this 15,000 tpa pure magnesium plant there is a 600,000 tonne per annum half coke plant that supplies the energy for the magnesium plant in the form of by-product gas. Quay's detailed legal due diligence has revealed several issues that require rectification. The owners of these two plants have already commenced this corrective legal work. Quay and the owners have agreed that until rectification is complete Quay will pay a lease fee for a 49 % share of the output of both these plants. During this period Quay employees will be seconded to assist in the management of these facilities on behalf of the owners. It has been agreed that Quay will have the right of first refusal to purchase up to 49 % of these plants if all the legal issues are corrected to Quay's satisfaction. The plants are new facilities that are in the process of commissioning and it is anticipated if demand is sufficient, it will take approximately nine months to ramp up both plants to design capacity.

It should be noted that this Letter of Intent is subject to certain conditions, which amongst others, include respective Board approvals, approval from Government authorities and Quay being able to raise sufficient finance. This Letter of Intent confers an exclusivity period of 90 days to complete this transaction. Quay will be seeking approximately \$5 million to fund this transaction. Additional working capital will be required to fund these plants as they ramp up to full capacity but at this time it is anticipated this can be sourced from within China.

This is an extremely positive development for Quay as it will be beneficially entitled to approximately 7,350 tpa of pure magnesium from its 49% share. Quay will also share in any positive price movement on this tonnage and have access to the 7,650 tpa of pure magnesium that accrues to the owners. It is intended this pure magnesium will be passed through Quay's Nanjing alloying facility with pricing agreed by the owners on a quarterly basis. Quay's Nanjing plant has suffered from being fully exposed to the spot market for its feedstock and this transaction will remove much of this pressure.

Given the quantities of magnesium that are currently being sourced from Chinese markets and the tonnage available from this 15,000 tpa plant these new sourcing arrangements have the potential to fully satisfy the Nanjing plant's requirement of up to 25,000 tonne per annum. Sales will need to be developed for Nanjing's increased throughput but it is anticipated the increased availability and reliability of this pure magnesium will be an extremely positive development for Quay.

For further information contact:

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