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Market Update

At Quay Magnesium Limited's (Quay) Annual General Meeting on 26th November, 2010 shareholders approved a subscription agreement between Quay and Quay's largest shareholder, Clever Talent Limited. Clever Talent subsequently failed to complete this agreement by depositing the required subscription funds with Quay by the due date. As these funds were critical for Quay's continuing operations the company's shares were placed into a trading halt and then suspended on 17th December, 2010.

In the weeks following Quay's suspension repeated attempts were made to encourage Clever Talent to perform – ultimately all proved unsuccessful. Quay terminated the subscription agreement on 1st February, 2011 and began to search for other sources of capital. To date Quay has not been successful in sourcing new funds. Because these funds were essential for Quay's operations, the company defaulted on payments to both its bank and suppliers and as a result operations in Nanjing have ceased and the workforce has been laid off.

Discussions have been held with several interested parties since the Clever Talent subscription agreement was terminated but nothing has come to fruition. Discussions are continuing with two groups and decisions from both are expected in coming weeks.

Despite this progress, at a Board meeting yesterday, it was decided to start the process of liquidating Quay's Chinese subsidiary. This is being done to protect the interests of shareholders should the current discussions fail. It is anticipated that this process will take at least several weeks to complete and it may be stopped at any time up until a liquidator is appointed. In the meantime Quay will continue its discussions with the two interested parties and try to conclude an investment as soon as possible.

The book value of assets held in China is substantially in excess of liabilities so it is hoped that should discussions prove unsuccessful and liquidation occur any surplus will be remitted to Australia. Ultimately, however, there is considerable uncertainty as to what may be realised from any liquidation process in China and it is therefore impossible to predict a final outcome.

A further update will be provided to the market when matters have progressed.

Mr Peter Stuntz

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