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ASX RELEASE

27 February 2009

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QUAY MAGNESIUM LIMITED
Appendix 4D
Half Year Ended 31 December 2008

Results for announcement to the market:

	Quay Magnesium Limited		
	Half-year ended 31 December		
	2008 ($000)	2007 ($000)	Movement (%)
Revenues from ordinary activities	3,560	4,368	(18.5)%
Loss from ordinary activities after tax attributed to members	(4,192)	(5,508)	23.9%
Net loss for the period attributable to members	(4,192)	(5,508)	23.9%
Net tangible assets per share (cents)	14	17	(17.7)%

Results

The result for the six months ended 31 December 2008 is a net loss of $4,192,071. This result reflects the effects of the extreme, adverse trading conditions that Quay has experienced over the six months to 31 December 2008, culminating in the global financial collapse.

Despite margins returning to more typical historical levels the collapse of global confidence and particularly concerns about the health of the world's automotive manufacturing industry has had a major impact on our small company.

The slowing of automotive production has resulted in most of our customers being overstocked, with existing magnesium alloy inventory on hand being sufficient for their production requirements over the period.

At an industry level, demand for magnesium alloy over the period has plumbed all time lows.

It is expected that demand for magnesium alloy may recover if our customers' projections of restocking commencing in April / May this year occurs.

The half year financial report for QMG is attached. This report has been reviewed by the company's directors and its auditors, KPMG.

Dividends

No individual has been paid dividends and no dividends are proposed.

For further information contact:

Mr Peter Stuntz
Executive Chairman
Tel: 02 8274 0900
Quay Magnesium Limited
www.quaymagnesium.com

Quay Magnesium Limited

Interim Financial Report

31 December 2008

ABN 75 104 179 099

Contents

Directors' report

The directors present their report together with the consolidated financial report for the six months ended 31 December 2008 and the auditors review report thereon.

Directors

The directors of the Company at anytime during or since the end of the interim period are:

Name	Period of directorship
Peter Stuntz (Chairman)	Director and Chairman since 18 September 2003
Neil Bonser (Executive Director)	Director since 31 May 2003
Brendan Joyce (Executive Director)	Director since 25 March 2003

Review of operations

The performance of the company for the six months under review was adversely impacted by two significant factors. The first of these was the fire at the Nanjing plant in April, 2008. The second was the global economic crisis and associated collapse in the automotive industry.

The April fire damaged a large part of the factory building. The company was fortunate in that this fire was in the building rather than the magnesium furnaces and damage, although major, was much less than it could have been. The new building has been designed to be much more fire resistant and the production process altered to minimise the chance of another such incident. The last of the building work was not completed until December. The insurance company has indicated it expects to make a final payment to Quay for the rectification work in the coming weeks.

During the period under review the magnesium price, and also that of magnesium alloy, has been subject to considerable volatility. Around the middle of 2008 prices were at all time highs reflecting Western concerns about the impact of a shutdown on Chinese industry for the Olympics. During this time large quantities of pure magnesium and magnesium alloy were purchased by consumers. As the Olympics passed without the anticipated shutdowns consumers found themselves significantly overstocked in a period of collapsing demand. Prices have reacted accordingly falling by approximately 50 % over a six month period to around their current level of 17,000 Renminbi per tonne (AUD:3,613) for pure magnesium.

The global economic crisis has led to a collapse in new car purchases – this has flowed through the supply chain and there has been an unprecedented fall in exports of magnesium alloy from China. At this time production from the Nanjing plant is at all time lows and has been for some months. While Quay remains in constant contact with all our customers it is difficult to gauge with certainty when demand will improve. The Board has formed a view that the destocking phase is likely coming to an end and that demand for magnesium alloy will recover to levels representative of underlying global automotive production in the coming months.

The Board has implemented an aggressive cost cutting programme to conserve cash resources. While this has been completed in the head office and marketing areas there still may be other cuts possible at the Nanjing plant. Some surplus assets have been identified and these are also being considered as possible sources of cash. The most significant is a spare parcel of land next to the Nanjing facility which is surplus to requirements. The company is also seeking to access a larger line of working capital to underpin its Chinese operations when demand improves. The board continues to look at all options to maximise shareholder value.

New Sales Company

Quay Magnesium Limited (Quay) has formed a European sales and marketing company, Quay Magnesium GmbH.

The largest global market for magnesium alloys is the European Community (EU), with the greatest concentration of users in Germany. To continue to service and grow this substantial market, Quay will have sales and technical support for our customers based in Germany to service all EU countries as well as Norway and Switzerland.

A joint venture company has been formed (Quay 51%) with Aage GmbH a company owned by Professor Dr Dr Friedrich Klein. Professor Klein is an experienced and well known identity in the European magnesium casting industry. He currently leads the European Magnesium Research Organisation, EFM. Quay is pleased to partner with Professor Klein to establish this new entity and continue to grow Quay's European customer base.

The registration of chemicals imported into the EU is governed by a protocol known as REACH. Under this protocol importers and users of chemicals must meet certain compliance and registration standards. In Quay Magnesium's case, this includes its magnesium alloy product. This requires Quay to have an entity in Europe and the establishment of this new company will ensure Quay continues as a reliable, registered supplier to EU customers.

New Credit Facility

On the 20th August 2008, Quay Magnesium Limited (Quay) announced to the market that it had secured a USD 10 million revolving credit facility to fund working capital requirements at its Nanjing plant. This facility has been provided by a leading London based global financial institution.

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The auditor's independence declaration is set out on page 6 and forms part of the directors' report for the six months ended 31 December 2008.

Dated at Sydney this 27th day of February 2009.

Signed in accordance with a resolution of the directors:

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Peter Stuntz
(Director and Executive Chairman)

KPMG

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the directors of Quay Magnesium Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the six months period ended 31 December 2008 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

(ii) No contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Mark Epper
Partner

Sydney,
27 February 2009

Consolidated interim income statement

For the six months ended 31 Dec 2008

In AUD	*Note*	**31 Dec 2008**	**31 Dec 2007**
Revenue		3,560,028	4,368,960
Cost of Sales		(4,249,027)	(6,618,446)
Gross Loss		(688,999)	(2,249,486)
Employee and director benefits expense		(1,048,994)	(1,054,205)
Administrative expenses		(2,168,768)	(2,217,375)
Results from operating activities		(3,906,761)	(5,521,066)
Financial income		39,049	60,207
Financial expense		(324,359)	(47,188)
Net financing costs		(285,310)	13,019
Loss before income tax		(4,192,071)	(5,508,047)
Income tax expense		-	-
Loss for the period		(4,192,071)	(5,508,047)
Loss per share attributable to ordinary equity holders Of the Company			
Basic and diluted loss per share (cents per share)	*6*	(2.14)	(3.26)

The income statement is to be read in conjunction with the notes to the consolidated interim financial report set out on pages 11 to 14.

Consolidated interim statement of recognised income and expense

For the six months ended 31 Dec 2008

In AUD	31 Dec 2008	31 Dec 2007
Foreign exchange translation differences for foreign operations	9,546,573	163,112
Income and expense recognised directly in equity	9,546,573	163,112
Loss for the period	(4,192,071)	(5,508,047)
Total recognised income and expense for the period	5,354,502	(5,344,935)

Other movements in equity arising from transactions with owners as owners are set out in note 7.

The statement of recognised income and expenses is to be read in conjunction with the condensed notes to the consolidated interim financial report set out on pages 11 to 14.

Consolidated interim balance sheet

As at 31 Dec 2008

In AUD	*Note*	**31 Dec 2008**	**30 June 2008**
Current Assets			
Cash and cash equivalents		333,139	3,475,757
Trade and other receivables		252,494	966,183
Insurance receivable		2,151,797	2,013,525
Inventories		1,443,479	1,277,595
Other current assets		96,691	67,158
Total current assets		4,287,600	7,800,218
Non-current assets			
Property, Plant, Equipment		29,098,532	20,423,663
Other Receivables		895,095	739,702
Total non-current assets		29,993,627	21,163,365
Total assets		34,281,227	28,963,583
Current Liabilities			
Trade and other payables		2,858,434	868,329
Employee benefits		100,170	72,169
Loans and borrowings		637,514	2,735,084
Total current liabilities		3,596,118	3,675,582
Total liabilities		3,596,118	3,675,582
Net assets		30,685,109	25,288,001
Equity			
Share capital	*7*	55,243,446	55,200,840
Reserve	*7*	7,048,828	(2,497,745)
Accumulated Losses	*7*	(31,607,165)	(27,415,094)
Total equity		30,685,109	25,288,001

The balance sheet is to be read in conjunction with the condensed notes to the consolidated interim financial report set out on pages 11 to 14.

Consolidated interim statement of cash flows

For the six months ended 31 Dec 2008

In AUD	*Note*	**31 Dec 2008**	**31 Dec 2007**
Cash flows from operating activities			
Cash receipts from customers (incl. GST)		4,572,652	7,161,045
Cash paid to suppliers and employees		(4,148,154)	(9,411,760)
Interest paid		(159,616)	(47,188)
Interest received		39,049	60,206
Net cash from operating activities		303,930	(2,237,697)
Cash flows from investing activities			
Payment for property, plant and equipment		(258,979)	(162,766)
Net cash from investing activities		(258,979)	(162,766)
Cash flows from financing activities			
Proceeds from the issue of share capital	*7*	-	2,405,000
Cash flows from Borrowings		(3,187,569)	1,073,146
Payment of Costs in respect of Share Issues		-	(33,000)
Net cash from financing activities		(3,187,569)	3,445,146
Net increase in cash and cash equivalents		(3,142,618)	1,044,683
Cash and cash equivalents at 1 July		3,475,757	3,717,482
Effect of exchange rate fluctuations on cash held		-	47,789
Cash and cash equivalents at 31 Dec 2008		333,139	4,809,954

The statement of cash flows is to be read in conjunction with the condensed notes to the consolidated interim financial report set out on pages 11 to 14.

Condensed notes to the consolidated interim financial report

1. Reporting entity

Quay Magnesium Limited (the "Company") is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 31 December 2008 comprises the Company and its subsidiaries (together referred to as the "consolidated entity").

2. Statement of Compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 Interim Financial Reports and the Corporations Act 2001.

The consolidated interim financial report does not include all of the information required for a full annual financial report and should be read in conjunction with the consolidated annual financial report of the consolidated entity as at the year ended 30 June 2008.

The accounting policies adopted are consistent with those of the previous financial year.

This report must also be read in conjunction with any public announcements made by Quay Magnesium Limited during the half year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

The consolidated interim financial report was approved by the Board of Directors on 27 February 2009.

Share Based Payments

The grant date fair value of shares granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the shares.

When the Company grants shares to employees of subsidiaries, the fair value at grant date is recognised as an increase in the investments in subsidiaries, with a corresponding increase in equity.

3. Significant accounting policies

(a) Estimates

The preparation of interim financial reports requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, significant judgements were made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty related to the assumptions behind forecasts of future cash flows (value in use models) used to assess impairment of non current assets.

(b) Going concern

The financial report has been prepared on the basis of going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities will occur in the normal course of business. The directors believe that the Company and the consolidated entity will be able to fund future operations through the achievement of positive cash flow of the Nanjing operation and obtaining additional finance. Currently, negotiations are underway to obtain a loan of 20 million Renmimbi (AUD: 4,250,000) from the Nanjing Hi Tech Zone authority.

Without the achievement of positive cash flow of the Nanjing operation, external finance or the realisation of surplus assets there is uncertainty whether the consolidated entity will be able to continue as a going concern.

Condensed notes to the consolidated interim financial report

If the consolidated entity is unable to continue as a going concern, it may be required to make adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities in order to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial report.

4. Segment reporting

The consolidated entity operates a magnesium alloying plant to produce high grade magnesium alloys in China, selling domestically to Europe, North America and Australia

5. Issued Capital

The consolidated entity recorded the following amounts within shareholders' equity as a result of the issuance of ordinary shares.

For the six months ended 31 December 2008

	Share Capital	
In AUD	**31 Dec 2008**	**30 June 2008**
On issue at the beginning of the period	55,200,840	50,239,158
Shares issued	-	4,718,882
Shares issued to employees	42,606	286,800
Cost relating to share issue	-	(44,000)
On issue at the end of the period	55,243,446	55,200,840

	Ordinary Shares	
Number of shares fully paid	**31 Dec 2008**	**30 June 2008**
On issue at the beginning of the period	224,853,134	160,122,178
Shares issued	-	62,310,956
Shares issued to employees	1,645,000	2,420,000
On issue at the end of the period	226,498,134	224,853,134

Issues after 31 December 2008

There have been no other subscriptions for ordinary shares since the reporting date and before the completion of the financial report.

Condensed notes to the consolidated interim financial report

6. Loss per share

Basic loss per share

The calculation of basic earnings per share for the six months ended 31 December 2008 was based on the loss attributable to ordinary shareholders of $4,192,071 (six months ended 31 December 2007: $5,508,047) and a weighted average number of ordinary shares outstanding during the six months ended 31 December 2008 of 196,218,868 (six months ended 31 December 2007: 168,859,750), calculated as follows:

Loss attributable to ordinary shareholders
For the six months ended 31 December 2008

In AUD	31 Dec 2008	31 Dec 2007
Loss for the period	(4,192,071)	(5,508,047)
Loss attributable to ordinary shareholders	(4,192,071)	(5,508,047)

Weighted average number of ordinary shares
For the six months ended 31 December 2008

	31 Dec 2008	31 Dec 2007
Issued ordinary shares at 1 July	224,853,134	160,122,178
Effect of shares issued during the period	(28,634,266)	8,737,572
Weighted average number of ordinary shares at 31 December	196,218,868	168,859,750

Condensed notes to the consolidated interim financial report

7. Capital and reserves

Reconciliation of movement in capital and reserves
Attributable to equity holders of the parent

Consolidated

In AUD	**Share capital**	**Translation reserve**	**Accumulated losses**	**Total equity**
Balance at 1 July 2007	50,239,158	(1,658,512)	(17,288,917)	31,291,729
Net loss for the period	-	-	(5,508,047)	(5,508,047)
Translation of subsidiary	-	163,112	-	163,112
Shares issued	2,405,000	-	-	2,405,000
Shares issued to employees	212,400	-	-	212,400
Cost of share issue	(33,000)	-	-	(33,000)
Balance at 31 December 2007	52,823,558	(1,495,400)	(22,796,964)	28,531,194
Balance at 1 July 2008	55,200,840	(2,497,745)	(27,415,094)	25,288,001
Net loss for the period	-	-	(4,192,071)	(4,192,071)
Translation of subsidiary	-	9,546,573	-	9,546,573
Shares issued	-	-	-	-
Shares issued to employees and directors	42,606	-	-	42,606
Cost of share issue	-	-	-	-
Balance at 31 December 2008	55,243,446	7,048,828	(31,607,165)	30,685,109

8. Subsequent event

There have been no other circumstances arising since 31 December 2008 that have significantly affected or may significantly affect:

a) the operations;
b) the results of those operations;
c) the state of affairs of the entity in future financial years.

Directors' declaration

In the opinion of the directors of Quay Magnesium Limited ("the company"):

1. the financial statements and notes set out on pages 7 to 14, are in accordance with the Corporations Act 2001 including:

   (a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2008 and of its performance, on that date; and

   (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

2. There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Dated at Sydney this 27th day of February 2009.

Signed in accordance with a resolution of the directors:

Peter Stuntz
Director and Executive Chairman

Independent auditor's review report to the members of Quay Magnesium Limited

KPMG

We have reviewed the accompanying interim financial report of Quay Magnesium Limited ("the Company"), which comprises the consolidated interim balance sheet as at 31 December 2008, income statement, statement of recognised income and expense and cash flow statement for the half year ended on that date, a description of accounting policies, other selected explanatory notes 1 to 8 and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Director's Responsibilities for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the interim financial report in accordance with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the interim financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standards on Review Engagements ASRE 2410 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the company's financial position as at 31 December 2008 and its performance for the half year ended on that date; and complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As auditor of Quay Magnesium Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Quay Magnesium Limited is not in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and

(b) Complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.

Independent auditor's review report to the members of Quay Magnesium Limited (continued)

Inherent uncertainty regarding continuation as a Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter:

The interim financial report has been prepared on a going concern basis as discussed in note 3 (b) which assumes continuity of normal business activities, the realisation of assets and the settlement of liabilities in the ordinary course of business. In note 3 (b), the directors state why they consider the going concern basis used in the preparation of the interim financial report is appropriate. If the Company is unable to secure the additional funding and achieve profitability of the Nanjing operation, there is significant uncertainty whether the Consolidated Entity will be able to continue as a going concern and realise the full value of the non-current assets.

KPMG

Mark Epper
Partner
Sydney,
27 February 2009