ABN 75 104 179 099

Quay Magnesium Limited
and its subsidiaries

Financial Report
30 June 2009

Contents

CHAIRMAN'S LETTER

Dear Shareholder,

As I write this letter the world continues to struggle with the after effects of the Global Financial Crisis. While there are some signs that recovery is underway there are still worrying trends and undercurrents that point to the need for conservatism when planning for the company's future. By way of example, our largest customer still can only offer orders with monthly tonnages approximately half of those on offer two years ago. A number of large consumers of magnesium alloy have gone into receivership and as yet there are no signs of new businesses emerging to fill the void.

Another indicator of the current weakness of underlying economic activity is the price of primary magnesium, the major feedstock for our Nanjing facility. This remains at around the 16,000 Renminbi per tonne level – less than half of where it was a year ago. This market continues to be in a sustained state of oversupply. Not only does this primary magnesium go into the manufacture of automobiles, but large quantities are also consumed by the aluminium industry, the steel industry and by consumer electronics goods. Clearly, demand from all these sectors remains weak. Our planning is therefore cautious and reflects these short term realities but it also seeks to position the company for the tremendous growth potential of the sector in the longer term.

A recent positive was the completion of a share placement by the company, which introduced a large China based shareholder to Quay's register. This shareholder is associated with a primary magnesium plant in China. It is Quay's intention to conduct due diligence and examine the acquisition of a share in this business. This is a continuation of our vertical integration strategy and if as a result of due diligence this plant proves to be unsuitable then we will continue to look for others. Within our customer base we have identified Western end users that will significantly increase their orders of magnesium alloy if they can contract with a reliable partner. The combination of direct ownership of a feedstock plant, superior alloying technology and Western business practices will satisfy these criteria and will likely result in significantly higher tonnages for Quay if a successful acquisition can be made.

During the year past the company has worked hard to maintain its accreditations with an ever diminishing pool of resources – cost cutting has been widespread but the business has survived and will re-generate with the growth in the global economy. The drivers for using increased quantities of magnesium alloy such as increased fuel efficiency and reduced emissions remain as strong as ever.

In financial terms the securing of increased levels of working capital from Chinese banks in recent months has been an extremely positive development for the company. Quay is working on additional lines of credit to fund the working capital required to sustain higher production levels when they eventuate.

The work of the past year, in extremely testing conditions, has preserved the assets and expertise of the company in an environment where many other companies have gone out of business. If the world's economy continues to recover then Quay will be well placed to benefit from the likely increased demand for magnesium alloys.

Peter Stuntz
Chairman

DIRECTORS' REPORT

For the year ended 30 June 2009

The directors present their report together with the financial report of Quay Magnesium Limited (the Company) and of the consolidated entity, being the Company and its subsidiaries for the financial year ended 30 June 2009 and the auditor's report thereon.

1. DIRECTORS

The directors of the Company at any time during or since the end of the financial year are:

Name, qualification/s and independence status	Age	Experience, special responsibilities and other directorships
Mr P W Stuntz B.Sc., B.E. (Min) (Hons), M.Geoscience, F.AusIMM, ASIA Appointed 18 Sep 2003. *Executive Chairman/ Director/MD*	51	Peter Stuntz graduated from the University of Sydney with degrees in geology and mining engineering and later obtained a masters degree specialising in mineral economics from Macquarie University. After a period in the mining industry he joined a large financial institution and spent 14 years as a financial analyst and investment manager. During this time he specialised in both listed and unlisted investments and gained extensive experience across a range of industries and commodities. On leaving this institution he established his own financial services company which he ran as Managing Director and subsequently sold in 2002. After this, Mr Stuntz was involved in the establishment of a number of unlisted companies, all of which have a resource focus and are based in Asia.
Mr N E M Bonser APTC, MIE Aust, CPEng Appointed 31 May 2003. *Executive Director*	66	Neil Bonser has an Associateship in Civil Engineering (APTC), is a Member of the Institution of Engineers Australia and is a Chartered Professional Engineer. He has worked as a Civil Engineer for 40 years and is currently a Principal Engineer of the VDM Group, a Consulting Engineering practise and Building Company with offices throughout Australia and in Dubai, Vietnam and India. This specialist Structural Engineering Company has designed numerous high rise office blocks, apartments, shopping centres, warehouses and other specialist industrial buildings. Neil has gained valuable experience in corporate management from his involvement in various Companies over the last 21 years and is presently a non executive director of Beta Pharmaceutical Limited, a company expected to list in early 2011.
Mr B J Joyce B.E. (Hons) Appointed 25 Mar 2003. *Executive Director*	71	Brendan Joyce obtained an honours degree in civil engineering from the University of Western Australia in 1960. His initial specialisation and experience was in structural design. Following this he spent lengthy periods in both the construction and quarrying industries throughout Western Australia. He also worked in manufacturing in Asia for over 10 years.

2. COMPANY SECRETARY

Mr. John Hayes (FCPA) was appointed as Company Secretary on 31 May 2007.

3. DIRECTORS' MEETINGS

The number of directors' meetings and number of meetings attended by each of the directors of the Company during the financial year are:

Director	Board Meetings	
	A	**B**
Mr P Stuntz	7	7
Mr N Bonser	7	7
Mr B Joyce	7	7

A – Number of meetings attended

B – Number of meetings held during the time the director held office during the year

4. CORPORATE GOVERNANCE STATEMENT

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

4.1 Board of directors

Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the Board is responsible for the overall corporate governance of the consolidated entity including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems. The functions allocated to senior management have been formally documented. The Board has delegated responsibility for operation and administration of the Company to the Executive Chairman.

Board processes

The Board schedules meetings including strategy meetings and any extraordinary meetings to address any specific significant matters that may arise.

The Company is currently considered to be of neither a size nor its affairs of such complexity to justify the establishment of separate Board Committees. More specifically, a Nomination Committee, Remuneration Committee, Health Safety and Environmental Committee or Finance, Audit and Compliance Committees. Accordingly all matters that may be considered by such committees are dealt with by the full Board. Furthermore, as there are no Board Committees and the Board comprises only three Directors, the establishment of a formal process of evaluation of the Board or individual Directors is not considered appropriate.

The Board is continuing to build a framework for the management of the Company that includes an ongoing review of the system of internal control, a business risk management process and the publication of appropriate ethical standards.

It is the Board's policy to adopt and implement a business control framework designed to safeguard the Company's assets and interests and to ensure the integrity of reporting. This framework will be made up of the following elements:

- A comprehensive planning system including long-term business plans, an annual budget and rolling forecasts are in place. Monthly actual results to be reported against the budget and revised forecasts for the year are prepared regularly and reported to the Board at least quarterly.

- Identification of key areas that will be subject to regular reporting to the Board.

- Development of clearly defined guidelines for capital expenditure which will include annual budgets, detailed appraisal and review procedures for all major projects, allocation of major contracts and post investment reviews.

- A framework of policies and procedures covering the administration activities of the business.

- A system of delegated authorities to ensure that all actions and transactions are executed within management's specific or general authority, and

- Annual self-assessment of business controls to be undertaken by each business unit and reported to the Board in a letter of representation.

4.1 Board of directors *(continued)*

Director education

The Company educates all directors about the nature of the business, current issues, the corporate strategy and expectations of the Company concerning performance of directors. Directors also have the opportunity to visit Company facilities and meet with management and advisers to gain a better understanding of business operations.

Independent professional advice and access to company information

To encourage intelligent and responsible decision making, the Board accepts that directors are able to seek independent professional advice for Company related business.

Each director has the right of access to all relevant Company information, to the Company's executives and subject to prior consultation with the Executive Chairman, may seek independent professional advice from a suitably qualified adviser at the Company's expense. A copy of the advice is to be made available to all other members of the Board.

Composition of the Board

The names of the directors in office at the date of this report and their experience are set out previously in the directors' report. The Board does not have a majority of independent directors as recommended by the ASX Corporate Governance Council. The directors consider that the current structure of the Board is appropriate for the effective execution of the Board's responsibilities. The directors periodically monitor the need to appoint independent directors.

The Board insists on honest, fair and diligent conduct of its directors when dealing with staff, shareholders, customers, regulatory authorities and the community. The practice of the Board and its management should not depart from the ASX principles in any significant way.

Board members that have any conflict of interest are excluded on making decisions that relate to that particular matter. The Company's constitution allows a director to enter into any contract with the Company other than that of auditor for the Company.

Nomination of new Directors

The Board considers that a formally constituted Nomination Committee is not appropriate as the Board, as part of its usual role, oversees the appointment and induction process for directors, and the selection, appointment and succession planning process of the Company's executive officers. Board appointed candidates must stand for election at the next general meeting of shareholders.

4.2 Remuneration report

The Board considered that a formally constituted Remuneration Committee is not appropriate, as the Board, as part of its role, oversees the appointment and remuneration of directors and the Company's executive officers and advisers. The Board may seek independent advice on the appropriateness of remuneration packages, given trends in comparable companies both locally and internationally.

4.3 Principles of compensation

This report details the nature and amount of remuneration for each director and executive person of the company. The new regulations require that this report now be shown in the Director's report and that it be audited. Remuneration of directors and executives is referred to as compensation as defined in AASB 124.

4.3 Principles of compensation *(continued)*

Remuneration and fee levels for directors, executives and consultants are the responsibility of the Board and are set to competitively recruit and retain appropriately qualified and experienced personnel to provide suitable executive management and consultancy services to the consolidated entity. Management may obtain independent advice on the appropriateness of compensation packages of the Company given trends in comparable companies both locally and internationally.

The Board recognises the value that the Company's employees and contractors have provided to the Company since its listing on the ASX and the importance of rewarding employees and contractors for those efforts and for their future efforts. The Company is also focussed on the importance of retaining and attracting key executives and employees.

With these objectives in mind, the Board adopted on 4 April 2007 the Quay Magnesium Limited Employee Share Plan (Plan) which allows the Company to make offers of Shares for no monetary consideration to certain eligible employees, contractors and executive directors of the Company and its subsidiaries as determined by the Board in its absolute discretion. The shares granted under this plan immediately vest with the beneficiary. The Employee Share Plan was approved in an EGM on 25 May 2007. The number of shares issued in the year ended 30 June 2009 was 3,670,000.

Quay Magnesium Limited and its subsidiaries

Directors' report *(continued)*

For the year ended 30 June 2009

4.4 Directors' and executive officers' remuneration

Total maximum payable for directors fees was approved at the Company's first Annual General Meeting held on 30 June 2004 and was set to not exceed $300,000 per annum.

Currently fees for directors are set at $60,000 per annum for the Chairman and $36,000 per annum for each of the directors. There have been no performance based payments or options granted over share capital paid this year.

		Short Term Employment Benefits		Post Employment Benefits		
		Salary & Directors Fees $	Consulting Fees $	Superannuation $	Share Based Payments at Fair Value $	Total $
Directors						
Peter Stuntz *Executive Chairman (i)*	2009	55,045	180,000	4,955	-	240,000
Appointed 18 Sep 2003	2008	55,045	360,000	4,955	-	420,000
Neil Bonser *Executive Director*	2009	33,027	-	2,973	-	36,000
Appointed 31 May 2003	2008	33,027	-	2,973	-	36,000
Brendan Joyce *Executive Director (ii)*	2009	48,826	-	4,394	-	53,220
Appointed 25 Mar 2003	2008	64,624	-	5,816	-	70,440
Total of all directors	2009	136,898	180,000	12,322	-	329,220
	2008	152,696	360,000	13,744	-	526,440
Executives						
Ritchie Lees *Chief Operating Officer (iii)*	2009	230,600	-	59,724	22,540	312,864
Commenced 6 Nov 2006	2008	209,000	-	78,760	96,000	383,760
Ed Gu *NQML General Manager*	2009	137,687	-	-	7,680	145,367
Commenced 16 Jan 2008	2008	44,556	-	-	-	44,556
Robin Meng *NQML Chief Financial Officer*	2009	141,402	-	-	7,680	149,082
Commenced 5 May 2008	2008	18,445	-	-	-	18,445
Rob Bailey *NQML Sales Manager*	2009	91,429	-	-	9,975	101,404
Appointed 1 March 2008	2008	134,850	-	-	48,000	182,850
Total for all executives	2009	601,118	-	59,724	47,875	708,717
	2008	406,851	-	78,760	144,000	629,611
Total for all personnel	2009	738,016	180,000	72,046	47,875	1,037,937
	2008	559,547	360,000	92,504	144,000	1,156,051

4.4 Directors' and executive officers' remuneration *(continued)*

(i) Sepeco Pty Ltd, a company controlled by Mr Peter Stuntz, provided consultancy services in relation to capital raising, general, project and strategic management of the Company and its subsidiaries, pursuant to a consultancy agreement. The agreement is for a fixed term to 30 September 2006 and unless a new agreement is entered, continues on a month to month basis from that date. The agreement was approved at the Company's Annual General Meeting (AGM) on 30 June 2004. While the agreement is not exclusive, Sepeco Pty Ltd and Peter Stuntz must inform the Company if they perform services for any other entity operating in the magnesium industry and the Company may immediately terminate the agreement without consequence if considered in the best interests of the Company. The Company is required to pay a non-cancellable commitment of two month's notice in the event of termination.

(ii) Brendan Joyce's remuneration as a director is $33,027 and as a company employee is $15,799.

(iii) The following shares were granted by the company to executive officers during the year. Ritchie Lees 1,300,000, Rob Bailey 600,000, Ed Gu 450,000 and Robin Meng 450,000. Ritchie Lees, Rob Bailey, Ed Gu and Robin Meng were granted 600,000, 250,000, 200,000 and 200,000 shares respectively at a fair value of 2.59 cents per share on 2 October 2008. The remaining shares were all granted on 1 April 2009 at a fair value of 1 cent per share. The fair value used is the market price on the date the shares vested.

4.5 Audit Functions

The consolidated entity is not currently considered to be of a size, or is its affairs of such complexity to justify the establishment of a separate Audit Committee. Whilst the consolidated entity does not have a formally constituted Audit Committee, the Board, as part of its usual role, undertakes audit related responsibilities including:

- Reviewing the annual and interim financial reports and other financial information distributed externally.
- Assessing corporate risk assessment processes, including accounting, compliance and operational risk management.
- Reviewing the nomination and performance of the external auditor.
- Assessing the adequacy of the internal control framework, and
- Monitoring the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing rules and all other regulatory requirements.

4.6 Risk management

The Board believes that the consolidated entity has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the consolidated entity.

Internal audit

The consolidated entity does not have a formally established internal audit function. The Board ensures compliance with the internal controls and risk management procedures previously mentioned.

4.7 Ethical standards

All directors, managers, employees, and advisers are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the consolidated entity.

4.7 Ethical standards *(continued)*

Conflict of interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the consolidated entity. Details of Director related entity transactions with the Company and consolidated entity are set out in the notes to the financial statements.

Code of conduct

The Company has established formalised Code of Conduct which can be found at www.quaymagnesium.com/documents/CodeofConductandEthics.pdf .

Trading in Company securities by directors and employees

The Constitution permits directors to acquire shares in the Company. Directors are prohibited from dealing in the shares whilst in possession of price sensitive information. Directors must notify the Company once they have bought or sold shares in the Company. In accordance with the provisions of the Corporations Act 2001 and the Listing Rules of the Australian Securities Exchange, the Company on behalf of the directors must advise the Australian Securities Exchange of any transactions conducted by them in shares in the Company. The Company has established formal share dealing rules which can be found at www.quaymagnesium.com/documents/ShareTradingPolicy-DealingRulesforDirectorsandEmployees.pdf .

Communication with shareholders

The Board is committed to informing Shareholders and the market in a timely and conscientious manner of any major event that impacts the consolidated entity. The Board is responsible for ensuring that the Company complies with ASX Listing rule 3.1, which relates to continuous disclosure.

The Board discusses any market sensitive information before it is approved for release to the market. The Company's procedure is to lodge such information with ASX in an ongoing and timely manner.

The full Annual Financial Report is available to all shareholders should they request it, including relevant information about the operations of the consolidated entity during the year, changes in the state of affairs and details of future developments.

The half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. The half-year reviewed Financial Report is lodged with the Australian Securities and Investments Commission and the Australian Securities Exchange, and sent to any Shareholder who requests it.

Proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a vote of shareholders.

The full texts of notices of meetings and associated explanatory material are placed on the Company's website.

5. PRINCIPAL ACTIVITIES

The principal activities during the course of the financial year were the raising of capital, continuing to build our client base and focusing on increasing production to more economic levels.

Significant changes in the nature of the activities of the consolidated entity during the year are set out below.

6. OPERATING AND FINANCIAL REVIEW

The consolidated result for the year ended 30 June 2009 is a loss of $14,129,292 (2008: loss $10,126,177) including an asset impairment of $6,875,965 (2008: nil).

This year's operating loss of $7,019,604 reflects the effect of operating in adverse trading conditions as a result of the global economic turmoil and the collapse of the automotive sector over the past nine months with the plant operating at levels well below capacity. It also reflects lost production at the beginning of the financial year due to a previously reported fire.

In the Chairman's address delivered at the November 2008 AGM, the poor condition of global economic confidence, the automotive industry and demand for magnesium alloys were all touched on. Unfortunately the global economy continues to remain weak with limited evidence of recovery and these comments remain relevant today more than ten months after they were originally made. There are some signs of economic activity resuming but currently at a level insufficient to underpin the commercial profitability of our plant. As an indication production and sales to the end of the calendar year from Quay's Nanjing facility are currently forecast to be approximately 25 % of capacity. Scheduling considerations have resulted in a focus on AM50A and AM60B alloys but this strategy is being continuously reviewed to match our products with market opportunities. A small low cost incremental expansion of capacity is currently being planned which will allow Quay to produce specialised Alloy.

Approximately 40% of these sales are to domestic customers and the other 60% are for export. There has been a slight recovery in North America but Europe remains extremely quiet. In both regions customers continue to report overstocking and lack of demand from end users. Chinese domestic demand has remained reasonably firm but margins for alloys have been adversely affected both here and in export markets.

The pure magnesium price also serves to highlight the weak state of underlying economic activity and demand. Anecdotally there are many Chinese primary magnesium plants running at a fraction of their capacity while some have been placed on care and maintenance. At last year's AGM the fall from 36,000 to 24,000 and then to 16,000 Renminbi per tonne (RMB /t) of the pure magnesium price was highlighted. In the ten months since then it has remained firmly around this base with no recovery in demand evident. At the time of writing the pure magnesium price is still at 16,000 RMB/t. At this price level and on low volumes much of the Chinese pure magnesium industry would be in losses.

In order to survive these conditions Quay has implemented several waves of cost cutting at both the plant in Nanjing and Head Office. Current manning at Nanjing is down to approximately 50, considerably less than the over 100 at its peak during ramp up. There is a certain minimum level of manpower required to maintain standards and accreditation which enable Quay to sell into the automotive sector. Manning cannot be reduced below this level without impacting on the plant's credentials. The quiet time at the factory has been used to enhance some parts of the production process and carry out essential maintenance. The largest work currently being performed is on the melting furnace but this will not impact on the sales orders that are in hand.

On a positive note Nanjing's domestic working capital loan of 10 m RMB was increased to a 20 m RMB facility with another Chinese bank when the existing facility expired in late June. This new facility was activated on July 1. Since then a further working capital loan of 5m RMB has been obtained and this will be used to finance the ramp up in production. Quay believes this second facility will increase in time and usage. Another positive was receiving the final payment from our insurer as settlement for the fire of more than a year ago.

In August last year Quay announced that it had secured a line of working capital finance from a European bank. To date this facility has not been used and during the year it was reduced from USD 10.0 million to USD 7.0 m. The facility is expensive to maintain and its usefulness is severely restricted by the bank's inability to provide trade finance insurance for many of Quay's customers in the automotive sector. This facility expired in August, but Quay left the legal arrangements in place that will give it the ability to re-establish the facility quickly at any time in the future.

At this time Quay is in advanced negotiations with a China based group with the objective of securing a second equity investment. An initial placement of 34M shares at 1.5 cents was completed on 24th July raising $510,000. The second possible investment will require approval of shareholders at a General Meeting but the commercial terms are already broadly agreed in principle. If this second investment proceeds not only will Quay benefit from the injection of new equity but the company may also benefit from access to the primary magnesium plants that each of these two investors is associated with. If share issues are successfully completed Quay's intention is to conduct technical, legal and commercial due diligence on each of the plants associated with these investors with a view to realising Quay's strategy of becoming a more fully vertically integrated producer of magnesium products. While it is too early to speculate on the final form of any commercial arrangements, if any, that are entered into beyond the initial investments it is Quay's intention to pursue these potential opportunities aggressively with a view to finalising one or both by calendar year end.

6. OPERATING AND FINANCIAL REVIEW *(continued)*

In summary, Quay is still enduring the effects of a savage downturn in the global economy and confidence but unlike many of our customers in the automotive and die – casting sectors we have survived. We remain committed to our vision of production of magnesium alloys of the highest quality, vertical integration and much larger economies of scale.

7. DIVIDENDS

No dividends were paid during the financial year to 30 June 2009 and no dividend is proposed.

8. EVENTS SUBSEQUENT TO REPORTING DATE

The placement of 34M shares at 1.5 cents to raise $510,000 was completed on 24th July 2009. On 1st July 2009 a line of $3.6M (RMB 20M) credit was granted to the Nanjing operation to replace an existing $1.8M (RMB 10M) facility.

The financial statements have been prepared on a going concern basis as the directors believe the Company and the consolidated entity will have access to sufficient funds to be able to pay debts as and when they fall due.

There are no other matters (other than matters disclosed above) that have arisen in the interval between the end of the financial year and the date of this report or any item transaction or event of a material and unusual nature, that is likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of these operations, or the state of affairs of the consolidated entity, in future financial years.

9. DIRECTORS' INTEREST

Directors and their related entity interests in the Company's shares at the date of the report are:

Director	***No. of shares held***
Mr P Stuntz	35,872,141
Mr N Bonser (held by N & S Bonser Pty Limited which Mr N Bonser controls and is a director and company secretary)	3,100,000
Mr B Joyce	6,040,000

10. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

Insurance premiums

The Constitution of the Company provides that, to the extent permitted by law, each person who is or has been an officer of the Company shall be indemnified against liability incurred by the person in his capacity as an officer of the Company unless the liability arises out of conduct on the part of the officer which involves a lack of good faith.

The Company also indemnifies each person who is or has been an officer of the Company against liability for costs or expenses incurred by the person in his or her capacity as an officer of the Company, in defending civil or criminal proceedings in which a judgment is given in favour of the person, or the person is acquitted, or in connection with an application in which the Court grants relief to the person under the Corporations Act 2001.

Pursuant to this indemnification, the Company has obtained an insurance policy for the benefit of directors and officers of the Company. Disclosure of the premiums paid has not been made as it is prohibited under the term of the contract. The Company has not indemnified or agreed to indemnify the auditor or any related body corporate against a liability incurred by the auditor.

11. NON-AUDIT SERVICES

During the year, KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Board to ensure they do not impact the integrity and objectivity of the auditor; and

- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in *APES 110 Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below. No other amounts were paid to other auditors for the statutory audit.

In AUD	**Consolidated**	
	2009	**2008**
Audit services:		
Auditors of the Company		
Audit and review of financial reports (KPMG Australia)	107,200	112,725
Audit and review of financial reports (KPMG Huazhen)	39,157	39,393
Total costs for audit and review of financial report	146,357	152,118
Services other than statutory audit:		
Taxation compliance services (KPMG Australia)	18,855	35,066
	18.855	35,066

The lead auditor's independence declaration is set out on page 14 and forms part of the director's report for the financial year ended 30 June 2009.

Signed in accordance with a resolution of the directors:

Peter W Stuntz
Executive Chairman

LEAD 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 audit for the financial year ended 30 June 2009 there have been:

- No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

- No contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Mark Epper
Partner
10 September 2009

Quay Magnesium Limited and its subsidiaries

INCOME STATEMENTS

For the year ended 30 June 2009

In AUD	Note	Consolidated 2009	Consolidated 2008	The Company 2009	The Company 2008
Revenue	4	5,240,063	9,145,994	-	-
Cost of sales		(6,868,967)	(12,674,058)	-	-
Gross loss		(1,628,904)	(3,528,064)	-	-
Employee and director benefits expense	5	(1,682,301)	(1,965,540)	(1,176,002)	(1,604,188)
Selling expenses	7	(777,920)	(1,434,260)	-	-
Administration expenses	6	(2,930,479)	(2,876,614)	(837,993)	(1,422,169)
Results from operating activities		(7,019,604)	(9,804,478)	(2,013,995)	(3,026,357)
Insurance recoverable		-	2,013,525	-	-
Provision for impairment of property plant & equipment	14	(6,875,965)	(2,039,163)	-	-
Fire destroyed assets written off		-	(243,227)	-	-
Provision for impairment of investment in subsidiary		-	-	(22,572,855)	-
Financial income		37,489	99,093	401,007	87,532
Financial expense		(271,212)	(151,927)	-	(110,665)
Net financial income/(expense)	9	(233,723)	(52,834)	401,007	(23,133)
Loss before tax		(14,129,292)	(10,126,177)	(24,185,843)	(3,049,490)
Income tax expense	10	-	-	-	-
Loss for the year		(14,129,292)	(10,126,177)	(24,185,843)	(3,049,490)
Attributable to:					
Equity holders of the parent company		(14,129,292)	(10,126,177)	(24,185,843)	(3,049,490)
Loss for the period	18	(14,129,292)	(10,126,177)	(24,185,843)	(3,049,490)
Basic and diluted loss in cents per ordinary share	19	(6.24)	(5.58)	-	-

STATEMENTS OF RECOGNISED INCOME AND EXPENSE

In AUD	Note	Consolidated 2009	Consolidated 2008	The Company 2009	The Company 2008
Foreign currency translation differences for foreign operations	18	5,128,160	(839,232)	-	-
Expense recognised directly in equity		5,128,160	(839,232)	-	-
Loss for the year		(14,129,292)	(10,126,177)	(24,185,843)	(3,049,490)
Total recognised income and expense for the year ending 30 June		(9,001,132)	(10,965,409)	(24,185,843)	(3,049,490)

The above income statements and statements of recognised income and expense are to be read in conjunction with the notes to the financial statements set out on pages 18 to 42.

Quay Magnesium Limited and its subsidiaries
BALANCE SHEETS
As at 30 June 2009

In AUD	Note	Consolidated		The Company	
		2009	2008	2009	2008
Current Assets					
Cash and cash equivalents	11a	150,267	3,475,757	85,481	1,493,027
Trade and other receivables	12	1,035,130	1,705,885	16,820	41,518
Insurance receivable	12	-	2,013,525	-	-
Loan to subsidiary	12	-	-	3,678,475	3,560,601
Inventories	13	395,990	1,277,595	-	-
Other current assets	12	52,373	67,158	52,373	67,158
Total current assets		1,633,760	8,539,920	3,833,149	5,162,304
Non-current assets					
Property, plant and equipment	14	16,650,102	20,423,663	7,992	21,355
Investment in subsidiaries	15	-	-	12,994,966	35,542,884
Total non-current assets		16,650,102	20,423,663	13,002,958	35,564,239
Total assets		18,283,862	28,963,583	16,836,107	40,726,543
Current Liabilities					
Trade and other payables	16	1,873,574	868,329	482,642	229,069
Employee benefits	17	60,563	72,169	3,740	24,762
Loans and borrowings	21	-	2,735,084	-	-
Total current liabilities		1,934,137	3,675,582	486,382	253,831
Total liabilities		1,934,137	3,675,582	486,382	253,831
Net assets		16,349,725	25,288,001	16,349,725	40,472,712
Equity					
Issued capital	18	55,263,696	55,200,840	55,263,696	55,200,840
Reserves	18	2,630,415	(2,497,745)	-	-
Accumulated losses	18	(41,544,386)	(27,415,094)	(38,913,971)	(14,728,128)
Total equity		16,349,725	25,288,001	16,349,725	40,472,712

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 18 to 42.

Quay Magnesium Limited and its subsidiaries
STATEMENTS OF CASH FLOWS
For the year ended 30 June 2009

In AUD	Note	Consolidated		The Company	
		2009	2008	2009	2008
Cash flows from operating activities					
Cash receipts from customers (incl. GST)		7,909,280	11,563,142	-	-
Cash paid to suppliers and employees		(7,934,845)	(17,376,020)	(1,663,096)	(2,842,200)
Interest paid		(193,591)	(153,023)	-	-
Interest received		37,489	99,093	26,630	87,532
Net cash from operating activities	11b	(181,667)	(5,866,808)	(1,636,466)	(2,754,668)
Cash flows from investing activities					
Payment for increased investment in subsidiary		-	-	-	(1,159,684)
Loan to subsidiary		-	-	256,502	(1,653,841)
Payment of property, plant and equipment		(2,476,132)	(239,506)	(2,645)	(750)
Investment in Quay Mag. GmbH		-	-	(24,937)	-
Net cash from investing activities		(2,476,132)	(239,506)	228,920	(2,814,275)
Cash flows from financing activities					
Proceeds from the issue of share capital		-	4,718,881	-	4,718,881
Net repayment from borrowings		(667,691)	1,222,013	-	-
Payment of costs in respect of share issues		-	(44,000)	-	(44,000)
Net cash from financing activities		(667,691)	5,896,894	-	4,674,881
Net decrease in cash and cash equivalents		(3,325,490)	(209,420)	(1,407,546)	(894,062)
Cash and cash equivalents at July 1		3,475,757	3,717,482	1,493,027	2,387,089
Effect of exchange rate fluctuations on cash held		-	(32,305)	-	-
Cash and cash equivalents at 30 June	11a	150,267	3,475,757	85,481	1,493,027

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 18 to 42.

Quay Magnesium Limited and its subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Reporting entity

Quay Magnesium Limited (the "**Company**") is a company domiciled in Australia. The address of the Company's registered office is 3 Spring Street, Sydney, NSW, 2000. The consolidated financial statements of the Company as at and for the year ended 30 June 2009 comprise the Company and its subsidiaries (together referred to as the "**consolidated entity"**). The consolidated entity primarily is involved in the manufacture of high performance magnesium alloys.

2. Basis of preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial report of the Company and consolidated entity also complies with the IFRSs and interpretations adopted by the International Accounting Standards Board. The financial statements were approved by the Board of Directors on 10th September 2009.

The accounting policies described below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by its subsidiaries.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

These consolidated financial statements are presented in Australian Dollars, which is the consolidated entity's choice of presentation currency. Items included in the financial statements of each subsidiary of the consolidated entity are measured using the currency of the primary economic environment in which the subsidiary operates ("the functional currency"). The functional currency of the Company is Australian Dollars and the functional currency of the Company's overseas subsidiary is Chinese Yuan.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimated is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- note 10 – recognition of tax losses
- note 14 – property, plant and equipment (measurement of recoverable amount – impairment of non-current assets)
- note 24 – contingencies
- note 23 – measurement of share based payments

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

3. Significant accounting policies

(a) Basis of consolidation

Subsidiaries are entities controlled by the consolidated entity. Control exists when the consolidated entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. In the Company's financial statements, investments in subsidiaries are carried at cost.

Intra-consolidated entity balances, and any unrealised income and expenses arising from intra-consolidated entity transactions, are eliminated in preparing the consolidated financial statements.

(b) Going concern

The financial report has been prepared on the basis of going concern and the Company contemplates continuity of normal business activities, the realisation of assets and the settlement of liabilities in the normal course of business. In the year ended 30 June 2009, the consolidated entity reported a loss of $14,129,292. At year end current liabilities exceeded current assets by $300,377. The Industrial and Commercial Bank of China (ICBC) external debt finance loan of $3.6M (RMB20M) had been received over July and August 2009 period and $510,000 equity raising was completed in July 2009. (refer to note 27 for details).

The directors believe that the Company and the consolidated entity will be able to fund future operations through the achievement of positive cashflow for the Nanjing operation, external finance and further equity raisings. Without an equity raising and the achievement of positive cashflow of the Nanjing operation there is significant uncertainty whether the consolidated entity will be able to continue as a going concern.

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.

(c) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the consolidated entity using average rates calculated at each month end. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at average rates calculated at the end of each month. Foreign currency differences are recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

(d) Financial Instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables. Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

3. Significant accounting policies *(continued)*

Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the consolidated entity becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the consolidated entity's contractual rights to the cash flows from the financial assets expire or if the consolidated entity transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular purchases and sales of financial assets are accounted for at trade date, i.e., the date that the consolidated entity commits itself to purchase or sell the asset. Financial liabilities are derecognised if the consolidated entity's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(ii) Share Capital

Ordinary shares

Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity, net of any related income tax benefit.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the consolidated entity and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- Plant and Equipment 10 years
- Office Equipment 4 years
- Land Rights 50 years
- Building and Construction 20 years
- Other Project Costs 10 years
- Motor Vehicles 5 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

3. Significant accounting policies *(continued)*

(iv) Construction work in progress

Construction work in progress (including project costs) represent costs incurred and directly associated with the design and construction and implementation of the magnesium alloying plant in China.

Development costs related to the project are capitalised to the extent that they are expected to be recovered through future cash flows arising from the project's operations. Details of construction, plant and development costs carried forward are set out in note 14 under the headings:

- Building construction
- Plant and Equipment
- Other Project Costs

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(g) Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses [see accounting policy (h)] are recognised when there is no uncertainty as to the existence of the asset and settlement is probable or virtually certain.

(h) Impairment

Non-financial assets

The carrying amounts of the consolidated entity's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset of the consolidated entity that generates cash flows that largely are independent from other assets of the consolidated entity. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (consolidated entity of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

3. Significant accounting policies *(continued)*

(i) Employee benefits

(i) Termination benefits

Termination benefits are recognised as an expense when the consolidated entity is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

(ii) Short-term benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date, including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the consolidated entity has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iii) 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.

(j) Provisions

A provision is recognised in the balance sheet when the consolidated entity has a present legal or contractual obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

(k) Trade and other payables

Trade and other payables are stated at amortised cost. Trade payables are non-interest bearing and are normally settled on 60-day terms.

(l) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(m) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

3. Significant accounting policies *(continued)*

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(n) Revenue

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

(o) Finance income and expenses

Finance income comprises interest income on funds invested and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings, foreign currency losses, and discount on loan to subsidiary and impairment losses recognised on financial assets. All borrowing costs are recognised in the profit or loss using the effective interest method.

(p) Earnings per share

The consolidated entity presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(q) Segment reporting

A segment is a distinguishable component of the consolidated entity that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The consolidated entity's primary format for segment reporting is based on business segments.

(r) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2009, but have not been applied in preparing this financial report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

3. Significant accounting policies *(continued)*

- Revised AASB 3 Business Combinations changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutuals. The revised standard becomes mandatory for the Group's 30 June 2010 financial statements. The Group has determined the potential effect of the revised standard on the Group's financial report is unlikely to be material.

- AASB 8 Operating Segments introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the Group's 30 June 2010 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them.

- Revised AASB 101 Presentation of Financial Statements introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's disclosures.

- Revised AASB 123 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the Group's 30 June 2010 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised AASB 123 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. The Group has not yet determined the potential effect of the revised standard on future earnings.

- Revised AASB 127 Consolidated and Separate Financial Statements changes the accounting for investments in subsidiaries. Key changes include: the remeasurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in profit or loss; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial report.

- AASB 2008-1 Amendments to Australian Accounting Standard - Share-based Payment: Vesting Conditions and Cancellations change the measurement of share-based payments that contain non-vesting conditions. AASB 2008-1 becomes mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the amending standard on the Group's financial report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

4. Revenue

In AUD	Consolidated		The Company	
	2009	2008	2009	2008
Sales	5,240,063	9,145,994	-	-
	5,240,063	9,145,994	-	-

5. Employee and director benefits

In AUD	Consolidated		The Company	
	2009	2008	2009	2008
Wages, salaries and directors' fees	1,349,754	1,302,694	973,187	1,030,850
Other associated personnel expenses	165,680	169,597	35,948	103,547
Contributions to superannuation funds	125,032	178,440	125,032	178,440
Share based payments	62,856	286,800	62,856	286,800
Increase/(decrease) in liability for annual leave	(21,021)	28,009	(21,021)	4,551
	1,682,301	1,965,540	1,176,002	1,604,188

6. Administration expenses

In AUD	Consolidated		The Company	
	2009	2008	2009	2008
Consultants' expense	144,615	199,605	27,026	145,280
Occupancy expense	98,334	160,131	66,567	80,446
Travel and accommodation	158,896	228,503	88,548	195,145
Insurance	94,139	136,889	94,139	122,143
Depreciation and other expenses	2,434,495	2,151,486	561,713	879,155
	2,930,479	2,876,614	837,993	1,422,169

7. Selling expenses

In AUD	Consolidated		The Company	
	2009	2008	2009	2008
Freight	777,702	1,394,754	-	-
Marketing	218	39,506	-	-
	777,920	1,434,260	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

8. Auditors' remuneration

In AUD	Consolidated 2009	Consolidated 2008	The Company 2009	The Company 2008
KPMG Australia:				
Audit and review of financial reports	107,200	112,725	107,200	112,725
KPMG Huazhen:				
Audit and review of financial reports	39,157	39,393	-	-
	146,357	152,118	107,200	112,725
Other services				
KPMG Australia				
Taxation services	18,855	35,066	18,855	35,066
	18,855	35,066	18,855	35,066

9. Net financial income

In AUD	Consolidated 2009	Consolidated 2008	The Company 2009	The Company 2008
Interest income (other entities)	37,489	99,093	26,630	87,532
Unwinding of discount of loans to subsidiary	-	-	374,377	-
Financial income	37,489	99,093	401,007	87,532
Interest expense	(193,592)	(153,023)	-	-
Net foreign exchange (loss) gain	(39,919)	(7,544)	-	-
Discount on loans to subsidiary	-	-	-	(110,665)
Other	(37,701)	8,640	-	-
Financial expenses	(271,212)	(151,927)	-	(110,665)
Net financial income/(expense)	(233,723)	(52,834)	401,007	(23,133)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

10. Income tax expense

No income tax expense or current tax receivable or payable arose in the current or previous year.

In AUD (net)	Consolidated		The Company	
	2009	2008	2009	2008
Reconciliation between tax expense and pre tax loss				
Loss before tax	(14,129,292)	(10,126,177)	(24,185,844)	(3,049,490)
Income tax benefit @ 30%	(4,238,787)	(3,037,853)	(7,255,753)	(914,847)
Current year losses for which deferred tax asset not recognised	1,590,092	1,481,687	472,884	554,745
Non deductible expense	7,146,515	671,502	6,929,702	618,902
Change in unrecognised deductible temporary differences	(4,234,522)	(133,665)	(146,833)	(258,800)
Effect of tax rates in foreign jurisdiction	(263,298)	1,018,329	-	-
Income tax benefit on pre-tax losses	-	-	-	-
Unrecognised deferred tax assets				
Deferred tax assets have not been recognised in respect to the following items:				
Deductible temporary differences	1,027,724	786,417	305,016	786,417
Tax losses	33,261,720	18,189,025	12,815,805	11,239,526
	34,289,444	18,975,442	13,120,821	12,025,943

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

The claimability of deferred tax assets against future profits for the Company is subject to the Company passing either of the continuity of ownership or continuity of business tests under current income tax legislation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

11a. Cash and cash equivalents

In AUD	Consolidated		The Company	
	2009	2008	2009	2008
Bank balances	149,394	3,474,107	84,608	1,491,380
Term deposits	-	-	-	-
Interest bearing cash and cash equivalents	149,394	3,474,107	84,608	1,491,380
Bank Balances	873	1,650	873	1,647
Cash and cash equivalents in the statement of cashflows	150,267	3,475,757	85,481	1,493,027

11b. Reconciliation of cash flows from operating activities

In AUD	Consolidated		The Company	
	2009	2008	2009	2008
Loss for the period:	(14,129,292)	(10,126,177)	(24,185,843)	(3,049,490)
Adjustments for:				
Discount on 3 year loan to subsidiary	-	-	(374,377)	110,665
Impairment of investment in subsidiary	-	-	22,572,855	-
Employee share scheme	62,856	286,800	62,856	286,800
Asset impairment writedown	6,875,965	-	-	-
Asset impairment - fire	-	2,039,163	-	-
Insurance receivable - fire	-	(2,013,525)	-	-
Depreciation of assets	2,434,495	2,151,486	16,008	19,157
Operating profit before changes in working capital and provisions	(4,755,976)	(7,662,253)	(1,908,501)	(2,632,868)
(Increase)/decrease in prepayments	14,785	24,224	14,785	37,065
(Increase)/decrease in receivables	2,684,280	2,549,743	24,698	-
Increase/(decrease) in trade and other payables	1,005,245	(1,273,449)	253,573	(163,416)
Increase/(decrease) in employee benefits	(11,606)	27,042	(21,021)	4,551
(Increase)/decrease in inventories	881,605	467,885	-	-
Net cash from operating activities	(181,667)	(5,866,808)	(1,636,466)	(2,754,668)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

12. Trade, insurance and other receivables

In AUD	Consolidated		The Company	
	2009	2008	2009	2008
Current				
Trade receivables	963,394	786,267	-	-
Other receivables	71,736	919,618	16,820	41,518
	1,035,130	1,705,885	16,820	41,518
Insurance receivable (i)	-	2,013,525	-	-
Prepayments	52,373	67,158	52,373	67,158
Loan to subsidiary	-	-	3,678,475	3,560,601

(i) Insurance payout that was receivable in respect of the factory fire that occurred 25 April 2008.

13. Inventories

In AUD	Consolidated		The Company	
	2009	2008	2009	2008
Raw materials and consumables	149,436	1,086,958	-	-
Work in progress	60,233	173,868	-	-
Finished goods	186,321	16,769	-	-
	395,990	1,277,595	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

14. Property, plant and equipment

In AUD	Consolidated							The Company	
	Land Rights	Building Construction	Plant & Equipment	Other Project Costs	Office Equipment	Motor Vehicles	Total	Office Equipment	Total
Balance at 1 July 2007	747,065	4,654,653	18,404,940	1,981,185	369,000	56,623	26,213,466	84,550	84,550
Acquisitions	-	156,255	33,205	-	4,700	45,347	239,507	750	750
Disposals	-	-	(240,922)	-	-	-	(240,922)	(4,132)	(4,132)
Effect of movements in exchange rates	(14,502)	(51,004)	(224,158)	(36,104)	(5,521)	(1,099)	(332,388)	-	-
Transfers within the consolidated entity	-	(441,003)	964,132	(494,017)	(29,112)	-	-	-	-
Balance at 30 June 2008	732,563	4,318,901	18,937,197	1,451,064	339,067	100,871	25,879,663	81,168	81,168
Balance at 1 July 2008	732,563	4,318,901	18,937,197	1,451,064	339,067	100,871	25,879,663	81,168	81,168
Acquisitions	-	1,500,873	975,259	-	-	-	2,476,132	2,645	2,645
Disposals	-	-	(1,176,221)	(146,404)	(45,472)	-	(1,368,097)	-	-
Effect of movements in exchange rates	145,483	857,713	3,789,910	235,026	51,217	20,033	5,099,382	-	-
Balance at 30 June 2009	878,046	6,677,487	22,526,145	1,539,686	344,812	120,904	32,087,080	83,813	83,813
Depreciation and impairment losses									
Balance at 1 July 2007	(7,106)	(221,702)	(705,324)	(299,963)	(104,646)	(10,579)	(1,349,320)	(44,788)	(44,788)
Depreciation charge for the year	(19,292)	(194,351)	(1,645,791)	(231,841)	(54,874)	(5,337)	(2,151,486)	(15,025)	(15,025)
Impairment provision for fire damaged assets	-	(1,044,604)	(975,259)	-	-	-	(2,019,863)	-	-
Effect of movements in exchange rates	138	43,654	13,691	5,823	1,161	202	64,669	-	-
Balance at 30 June 2008	(26,260)	(1,417,003)	(3,312,683)	(525,981)	(158,359)	(15,714)	(5,456,000)	(59,813)	(59,813)
Balance at 1 July 2008	(26,260)	(1,417,003)	(3,312,683)	(525,981)	(158,359)	(15,714)	(5,456,000)	(59,813)	(59,813)
Depreciation charge for the year	(17,880)	(398,595)	(1,683,267)	(315,220)	(8,653)	(10,881)	(2,434,496)	(16,008)	(16,008)
Asset impairment write down	-	-	(6,875,965)	-	-	-	(6,875,965)	-	-
Effect of movements in exchange rates	(5,215)	(73,957)	(464,197)	(104,457)	(19,571)	(3,120)	(670,517)	-	-
Balance at 30 June 2009	(49,355)	(1,889,555)	(12,336,112)	(945,658)	(186,583)	(29,715)	(15,436,978)	(75,821)	(75,821)
Carrying amounts									
Balance at 1 July 2007	739,959	4,432,951	17,699,616	1,681,222	264,354	46,044	24,864,146	39,762	39,762
At 30 June 2008	706,303	2,901,898	15,624,514	925,083	180,708	85,157	20,423,663	21,355	21,355
Balance at 1 July 2008	706,303	2,901,898	15,624,514	925,083	180,708	85,157	20,423,663	21,355	21,355
Balance at 30 June 2009	828,691	4,787,932	10,190,033	594,028	158,229	91,189	16,650,102	7,992	7,992

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

14. Property, plant and equipment *(CONTINUED)*

Impairment

During the year ended 30 June 2009 the downturn in global market conditions, lack of sales and significant variance between consolidated net assets and market capitalisation, resulted in the Group to assess the recoverable amount related to the Group's property, plant and equipment and the Company's investment in the Nanjing Quay Magnesium subsidiary.

The recoverable amount of the subsidiary investment cash-generating unit was based on its value in use and was determined by management. The carrying amount of the unit was determined to be higher than its recoverable amount and an impairment loss of $6,876,965 was recognised. The impairment loss was allocated fully to property plant and equipment at the Group level. The Company's investment in Nanjing Quay Magnesium subsidiary recognised an impairment loss of $22,572,855.

Value in use was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

- Cash flows were projected based on actual operating results and the five-year business plan. Cash flows for a further 1 year period were extrapolated using a constant growth rate of 3% percent which does not exceed the long-term average growth rate for the industry. Management believes that this forecast period was justified due to the long-term nature of the industry.

- A post-tax discount rate of 20% percent was applied in determining the recoverable amount of the units. The discount rate was estimated based on an industry average weighted average cost of capital, which was based on a possible range of debt leveraging of 25% to 33% percent at a market interest rate of 7.1% percent.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

15. Investment in subsidiary

In AUD	Consolidated		The Company	
	2009	2008	2009	2008
Investment in subsidiaries				
Unlisted shares at cost in Nanjing Quay Magnesium subsidiary	-	-	35,421,687	35,421,687
Provision for impairment of investment	-	-	(22,572,855)	-
	-	-	12,848,832	35,421,687
Unlisted shares at cost in Quay Magnesium GmbH	-	-	24,937	-
Owing by subsidiary - non current	-	-	121,197	121,197
	-	-	12,994,966	35,542,884

The advance of $121,197 is owed by the subsidiary, Nanjing Quay Magnesium Co Ltd, and represents the payment of project costs by the Company on behalf of the subsidiary.

Particulars in relation to subsidiaries		Consolidated equity interest	Consolidated equity interest
Parent entity		2009	2008
Quay Magnesium Limited		%	%
Subsidiaries			
Quay Magnesium Marketing Limited	(i)	100	100
Quay Magnesium Holdings Limited:	(i)	100	100
Nanjing Quay Magnesium Co Ltd (wholly owned subsidiary of Quay Magnesium Holdings Limited)	(ii)	100	100
Quay Magnesium GmbH	(iii)	51	-

(i) Quay Magnesium Holdings Limited and Quay Magnesium Marketing Limited were incorporated on 12 February 2004. The subsidiaries are incorporated under the International Business Companies Act (Cap 291) Territory of the British Virgin Isles. The contribution to consolidated result was $NIL (2008: nil).

(ii) Incorporated in and carries on a business in China. The formal approval under the law of the People's Republic of China (PRC) was received on 27 March 2004 to commence incorporation of a Company and its planned relevant business to invest in magnesium alloying manufacturing. The contributions to the consolidated result was a loss of $12,166,860 (2008: $7,187,352) including an impairment write down of assets for $6,875,965 (2008: nil).

(iii) Unlisted shares at cost-subsidiaries includes a 51% investment in Quay Magnesium GmbH for $24,937 (EUR12,750). The contribution to the consolidated result was nil. Quay Magnesium GmbH is a joint venture sales and marketing Company formed with Aage GmbH (49%) for selling into Europe.

16. Trade and other payables

In AUD	Consolidated		The Company	
	2009	2008	2009	2008
Creditors and accruals	1,873,574	868,329	482,642	229,069
	1,873,574	868,329	482,642	229,069

17. Employee benefits

In AUD	Consolidated		The Company	
	2009	2008	2009	2008
Liability for annual leave	60,563	72,169	3,740	24,762
	60,563	72,169	3,740	24,762

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

18. Capital and reserves

Movement in capital and reserves

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	-	-	(10,126,177)	(10,126,177)
Translation of subsidiary	-	(839,233)	-	(839,233)
Shares issued	4,718,882	-	-	4,718,882
Shares issued to employees and directors	286,800	-	-	286,800
Cost of shares issued	(44,000)	-	-	(44,000)
Balance at 30 June 2008	55,200,840	(2,497,745)	(27,415,094)	25,288,001
Balance at 1 July 2008	55,200,840	(2,497,745)	(27,415,094)	25,288,001
Net loss for the period	-	-	(14,129,292)	(14,129,292)
Translation of subsidiary	-	5,128,160	-	5,128,160
Shares issued	-	-	-	-
Shares issued to employees and directors	62,856	-	-	62,856
Cost of shares issued	-	-	-	-
Balance at 30 June 2009	55,263,696	2,630,415	(41,544,386)	16,349,725

The Company In AUD	**Share capital**	**Translation reserve**	**Accumulated losses**	**Total equity**
Balance at 1 July 2007	50,239,158	-	(11,678,638)	38,560,520
Net loss for the period	-	-	(3,049,490)	(3,049,490)
Shares issued	4,718,882	-	-	4,718,882
Shares issued to employees and directors	286,800	-	-	286,800
Cost of share issue	(44,000)	-	-	(44,000)
Balance at 30 June 2008	55,200,840	-	(14,728,128)	40,472,712
Balance at 1 July 2008	55,200,840	-	(14,728,128)	40,472,712
Net loss for the period	-	-	(24,185,843)	(24,185,843)
Share issued to employees and directors	62,856	-	-	62,856
Cost of share issue	-	-	-	-
Balance at 30 June 2009	55,263,696	-	(38,913,971)	16,349,725

Share capital **Ordinary Shares**	**2009**	**2008**
On issue at the beginning of the period	224,853,134	160,122,178
Issued on 26 February 2007	-	1,180,000
Issued on 2 April 2008	-	16,033,333
Issued on 4 April 2008	-	26,600,000
Issues on 3 June 2008	-	1,240,000
	-	19,677,623
Employee share issue on 2 October 2008	1,645,000	-
Employee share issue on 1 April 2009	2,025,000	-
	228,523,134	224,853,134

Shares issued during the 2009 financial year were issued at 2.59 cents per share on 2/10/08, 1 cent per share on 1/04/09.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

18. Capital and reserves *(continued)*

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where the functional currency in Chinese Yuan differs from the presentation currency of the reporting entity which is in Australian Dollars.

19. Loss per share

Loss attributable to ordinary shareholders

In AUD	Consolidated 2009	2008
Loss for the period	(14,129,292)	(10,126,177)
Loss attributable to ordinary shareholders	(14,129,292)	(10,126,177)

Weighted average number of ordinary shares

In shares	Consolidated 2009	2008
Issued ordinary shares at 1 July	224,853,134	160,122,178
Effect of shares issued 28 August 2007		993,005
Effect of shares issued 2 October 2007	-	11,959,289
Effect of shares issued 2 April 2008	-	6,540,984
Effect of shares issued 4 April 2008	-	298,142
Effect of shares issued 3 June 2008	-	1,505,392
Effect of shares issued 20 October 2008	1,221,356	-
Effect of shares issued 1 April 2009	499,315	-
Weighted average number of ordinary shares at 30 June	226,573,805	181,418,990
Loss per share		
Basic and diluted loss in cents per ordinary share	(6.24)	(5.58)

Ordinary shares have been included in basic loss per share. There are no dilutive potential ordinary shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

20. Commitments

In AUD	Consolidated		The Company	
	2009	2008	2009	2008
Capital expenditure commitments				
Contracted but not provided for and payable:				
- within one year	388,015	70,996	-	-
- one year or no later than five years	-	-	-	-
	388,015	70,996	-	-
Contract Commitments				
Commitments under non-cancellable contracts not provided for in the financial statements and payable:				
- within one year	60,000	81,976	60,000	60,000
- one year or no later than five years	-	-	-	-
	60,000	81,976	60,000	60,000

The Company is required to pay a non-cancellable commitment of two months notice to Sepeco Pty. Ltd. (a company controlled by the Chairman Peter Stuntz) in the event of termination of the Sepeco contract. This is a $60,000 commitment under the prevailing contract.

21. Loans and borrowings

In AUD	Consolidated		The Company	
	2009	2008	2009	2008
Secured bank facility*	-	2,735,084	-	-
	-	2,735,084	-	-

**The 10 million Chinese Yuan facility with Shanghai Pudong Developer Bank was repaid on 30/06/2009. A new facility effective 1 July 2009 with ICBC for $3.6M (RMB20M) was secured as a replacement.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

22. Financial risk management

Financial Risk Management Policies

The Group and Company financial instruments consist mainly of deposits with banks, loans and borrowings and accounts receivable. The Group and the Company do not use derivative financial instruments to hedge exposure to financial risks. Exposure to credit, interest and currency risks arises in the normal course of the Company's and the consolidated entity's business. There are no collateralised assets.

Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future developments of the business.

There have been no changes in the Company's or the Group's approach to capital management during the year. The Company and the Group are not subject to any externally imposed capital requirements.

Financial Risk Exposures and Management

The Group and the Company are mainly exposed through their financial instruments to interest rate risk, liquidity risk, credit risk and price risk.

Interest rate risk

The Group and the Company do not enter into interest rate swaps, forward rate agreements or interest rate options to manage cash flow risks associated with interest rates on borrowings that are floating, or to alter interest rate exposures arising from mismatches in repricing dates between assets and liabilities. At balance date the following financial assets and liabilities were exposed to floating interest rates:

Consolidated	**Weighted Ave interest rate %**	**2009**	**Weighted Ave interest rate %**	**2008**
In AUD				
Financial Assets				
Cash and cash equivalents	2.3%	149,394	3.3%	3,474,107
Financial Liabilities:				
Bank loans	0%	-	7.4%	2,735,084
Company				
Financial Assets				
Cash and cash equivalents	5.0%	84,608	5.8%	1,491,380

Sensitivity

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date:

At 30 June, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonable possible movements:

In AUD	**Consolidated 2009**	**2008**
+1% (100 basis points) AUD	17,037	19,479
-1% (100 basis points) AUD	(17,037)	(19,479)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

22. Financial risk management *(continued)*

Liquidity risk

Liquidity risk is the risk that the Company and the Group will not be able to meet its financial obligations as they fall due. The Company and the Group manages liquidity risk by monitoring forecast cash flows and ensuring that sufficient cash is on hand to meet its obligations.

The following are contractual maturities of financial liabilities as at 30 June 2009 including estimated interest payments and excluding the impact of netting agreements:

Consolidated In AUD	Carrying Amount	Contractual Cash Flows	6 months or less	6 to 12 months
Trade and other payables	1,873,574	1,873,574	1,873,574	-
Employee benefits	60,563	60,563	60,563	-
Loans and borrowings	-	-	-	-
Company				
Trade and other payables	482,642	482,642	370,706	111,936
Employee benefits	3,740	3,740	3,740	-

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. There is negligible credit risk on consolidated financial assets, as the Company and the Group's exposure is limited to the amount of cash, and receivables which have been recognised in the balance sheet. The Company's credit risk is greater given that the investment and loan recognised on its balance sheet for $28,691,856 and $3,678,475 respectively, relates to Nanjing Quay Magnesium Limited. Aside from investments of the Company, since there is no exposure to individual customers or countries, exposure is limited to the amount of cash, short term deposits and receivables which have been recognised in the balance sheet.

As at 30 June 2009, there were no receivables past or impaired (2008; $nil). The aging analysis of receivable are as follows:

Consolidated In AUD	Carrying Amount	Contractual Cash Flows	6 months or less	6 to 12 months
Trade and other receivables	1,035,130	1,035,130	1,028,162	6,968
Insurance receivable	-	-	-	-
Company				
Trade and other receivables	16,820	16,820	5,415	11,405

Due to the short term nature of these receivables, their carrying values are assumed to approximate their fair values.
The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above.
The group does not hold any collateral as security.

Foreign currency risk

The Group's primary source of foreign currency risk arises through the operations of Nanjing Quay Magnesium Limited which is a China based controlled subsidiary of Quay Magnesium Limited.

Sales of products and purchases of raw materials are transacted in currencies other than the Australian dollar.

At balance date the following assets and liabilities were exposed to foreign currency risk:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

22. Financial risk management *(continued)*

Consolidated 2009	AUD Equivalent	USD	EUR
Cash and Cash Equivalents	2,512	2,018	-
Trade receivables	-	-	-
	2,512	2,018	-

Consolidated 2008	AUD Equivalent	USD	EUR
Cash and Cash Equivalents	1,578,318	1,518,419	347
Trade receivables	673,641	648,309	-
	2,251,959	2,166,728	347

Sensitivity:

At balance date had the CNY/USD and CNY/EUR cross exchange rates changed as shown below (whilst all other factors are held constant) the effect on the Group result would have been:

	2009	2008
AUD/CNY+10%	250	225,196
AUD/CNY-10%	(250)	(225,196)

Commodity Price Risk

The Group is exposed to commodity price risk through changes in market prices for pure magnesium and magnesium alloy.

The cost of pure magnesium represents around 65% of the Groups input costs. Therefore the effects of changes in the price of pure magnesium and the price at which the Group can sell its Alloy product have a significant impact on the economic viability of the Group.

Sensitivity:

Prices of pure magnesium in China are highly volatile. Over the year, pure magnesium prices moved from a high in July 2008 of CNY 31.4K (AUD 5.7K) to CNY 19.2 (AUD 3.5K) in June 2009.

As pure magnesium is not quoted on any of the international metal exchanges and there is no derivative market, the group does not have the possibility of being able to manage its risk though fixed priced contracts or derivatives such as swaps or futures.

In order to partially shield the Group from commodity price risk the board has committed to the process of acquiring a pure magnesium plant to supply its Nanjing Magnesium Alloy operation at more stable and lower costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

23. Share based payments

During the year ended 30 June 2009, the Company made two share based payments under the Quay Magnesium Ltd Employee Share Plan. This plan allows the Company to make offers of Shares for no monetary consideration to certain eligible employee's contractors and executive directors of the Company and its subsidiaries as determined by the board in its absolute discretion. On the designated grant day the shares vest immediately with a one year non trading limitation.

Date of Grant	Number of Shares	Vesting Conditions	Trading Restrictions*	Fair Value
20 Oct 2008	1,645,000	Immediately	One year	42,606
1 April 2009	2,025,000	Immediately	One year	20,250
				62,856

* Trading restrictions were released on 2nd September 2009.

24. Contingencies

The directors are not aware of any contingent liabilities at the date of this report.

25. Segment reporting

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

26. Related parties for disclosing entities

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Directors

Peter Stuntz – Executive Chairman
Neil Bonser – Director
Brendan Joyce – Director

Executives

Ritchie Lees *Chief Operating Officer*	Commenced 6 November 2006
Ed Gu *General Manager NQML*	Commenced 16 January 2008
Robin Meng *Chief Financial Officer NQML*	Commenced 12 May 2008
Rob Bailey *Technical Sales Manager North America*	Commenced 13 February 2006

Rob Bailey was Nanjing Quay Magnesium General manager until 29 February 2008. For directors and executive remuneration disclosures, see note 4.4 of the director's report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

26. Related parties for disclosing entities *(continued)*

Key management personnel compensation

The key management personnel compensation included in the total of employee and director benefits shown in note 5 are as follows:

In AUD	Consolidated		The Company	
	2009	2008	2009	2008
Short-term employee benefits	954,016	1,066,749	674,927	927,185
Share based payments	47,875	162,000	47,875	162,000
Post employment benefits	72,046	92,504	72,045	92,504
	1,073,937	1,321,253	794,847	1,181,689

Individual directors and executives compensation disclosures

Certain key management personnel hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

Those entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, as similar transactions to unrelated entities as an arms length basis.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end 30 June 2009.

Other key management personnel transactions with the company and its subsidiaries

The aggregate amounts recognised during the year relating to key management personnel and their related parties were as follows:

In AUD			Consolidated		The Company	
		Note	2009	2008	2009	2008
Key management person	**Transaction**					
Peter Stuntz	Fees	(i)	180,000	360,000	180,000	360,000

(i) Sepeco Pty Ltd, a company controlled by Mr Peter Stuntz, provided consultancy services in relation to capital raising, general, project and strategic management of the Company and its subsidiaries, pursuant to a consultancy agreement. The agreement is for a fixed term to 30 September 2006 and unless a new agreement is entered, continues on a month to month basis from that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

26. Related parties for disclosing entities *(continued)*

The agreement was approved at the Company's Annual General Meeting (AGM) on 30 June 2004. While the agreement is not exclusive Sepeco Pty Ltd and Peter Stuntz must inform the Company if they perform services for any other entity operating in the magnesium industry and the Company may immediately terminate the agreement without consequence if considered in the best interests of the Company. The Company is required to pay a non-cancellable commitment of two month's notice in the event of termination.

Movements in shares

The movement during the reporting period in the number of ordinary shares in Quay Magnesium Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

2009	Held at 30 June 2008	Purchases	Granted as Compensation	Sales	Held at 30 June 2009
Directors					
Peter Stuntz	25,350,000	10,522,141	-	-	35,872,141
Neil Bonser	3,100,000	-	-	-	3,100,000
Brendan Joyce	6,040,000	-	-	-	6,040,000
Executives					
Ritchie Lees	1,500,063	-	1,300,000	-	2,800,063
Rob Bailey	400,000	-	600,000	-	1,000,000
Ed Guo	-	-	450,000	-	450,000
Robin Meng	-	-	450,000	-	450,000

2008	Held at 30 June 2007	Purchases		Sales	Held at 30 June 2008
Directors					
Peter Stuntz	19,300,000	6,050,000	-	-	25,350,000
Neil Bonser	3,100,000	-	-	-	3,100,000
Brendan Joyce	6,000,000	40,000	-	-	6,040,000
Executives					
Ritchie Lees	150,050	550,013	800,000	-	1,500,063
Rob Bailey	-	-	400,000	-	400,000
Former Executives					
Thomas Ruden	-	-	100,000	-	100,000

A total of 2,800,000 shares were granted by the Company to key management personnel during the year ended 30 June 2009 and 1,300,000 were granted during year ended 30 June 2008. Ritchie Lees 1,300,000, Rob Bailey 600,000, Ed Gu 450,000 and Robin Meng 450,000. Ritchie Lees, Rob Bailey, Ed Gu and Robin Meng were granted 600,000, 250,000, 200,000 and 200,000 shares respectively at a fair value of 2.59 cents per share on 2 October 2008. The remaining shares were all granted on 1 April 2009 at a fair value of 1 cent per share. The fair value used is the market price on the date the shares vested.

Non key management personnel disclosures

As at 30 June 2009, the Company has loaned $3,787,911 ($US 3.5M) to its subsidiary, Nanjing Quay Magnesium Limited (NQML) unsecured on three year interest free terms. The loan was discounted to its fair value of $3,678,475.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

27. Subsequent events

34M shares at 1.5 cents to raise $510,000 was completed on 24th July 2009. On 1 July 2009 a line of $3.6M (RMB20M) credit was granted to the Nanjing operation to replace an existing $1.8M (RMB10M) facility.

At this time Quay is in advanced negotiations with a China based group with the objective of securing a second equity investment. An initial placement of 34M shares at 1.5 cents was completed on 24th July raising $510,000. The second possible investment will require approval of shareholders at a General Meeting but the commercial terms are already broadly agreed in principle.

If share issues are successfully completed Quay's intention is to conduct technical, legal and commercial due diligence on each of the plants associated with these investors with a view to realising Quay's strategy of becoming a more fully vertically integrated producer of magnesium products. While it is too early to speculate on the final form of any commercial arrangements, if any, that are entered into beyond the initial investments it is Quay's intention to pursue these potential opportunities aggressively with a view to finalising one or both by calendar year end.

On 1 July 2009 a line of RMB 20M credit was granted to the Nanjing operation to replace an existing RMB 10M facility. The facility is secured by a floating charge mortgage over property plant equipment and is for term of 12 months. The interest rate on the facility is currently 10.6%.

DIRECTORS' DECLARATION

1. In the opinion of the directors of Quay Magnesium Limited ('the Company')

(a) the financial statements and notes including the remuneration disclosures that are contained in sections 4.2 to 4.4 of the remuneration report in the Directors' report, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company and the consolidated entity's financial position as at 30 June 2009 and of their performance for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2; and

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. There are reasonable grounds to believe that the Company and the group entities identified in Note 15 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418

3. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the individuals acting in the role of the chief executive officer function and the chief financial officer function for the financial year ended 30 June 2009.

Signed in accordance with a resolution of the directors:

Peter Stuntz
Executive Chairman

Sydney
10 September 2009

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF QUAY MAGNESIUM LIMITED

KPMG

Report on the financial report

We have audited the accompanying financial report of Quay Magnesium Limited (the Company), which comprises the balance sheets as at 30 June 2009, and the income statements, statements of recognised income and expense and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 27 and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the 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.

The directors of the Company are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's opinion

In our opinion:

(a) the financial report of Quay Magnesium Limited is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF QUAY MAGNESIUM LIMITED *(CONTINUED)*

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

Report on the remuneration report

We have audited the Remuneration Report included in paragraphs 4.2 to 4.4 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Inherent uncertainty regarding continuation as a Going Concern

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

The financial report has been prepared on going concern basis as discussed in Note 3 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, the directors state why they consider the going concern basis used in the preparation of the financial report is appropriate. Without the achievement of positive cashflow of the Nanjing Operations, equity raising or external finance, there are significant uncertainties as to whether the Consolidated entity will be able to continue as a going concern.

KPMG

Mark Epper
Partner

KPMG

Sydney
10 September 2009

ADDITIONAL INFORMATION REQUIRED BY AUSTRALIAN STOCK EXCHANGE LIMITED

QUAY MAGNESIUM LIMITED

ACN 104 179 099

Quay Magnesium Limited incorporated and domiciled in Australia is a publicly listed Company limited by shares.

1. STATEMENT OF ISSUED CAPITAL AT 10 September 2009

(a) Distribution of fully paid ordinary shares

Size of Holding	Shareholders	Number of Shares Held
1 - 1,000	13	4,947
1,001 - 5,000	96	327,515
5,001 - 10,000	82	686,796
10,001 - 100,000	391	16,944,689
100,001 and over	217	245,859,187
Total	**799**	**263,823,134**

(b) There are no restrictions on the voting rights attached to the fully paid ordinary shares. On a show of hands, every member present in person shall have one vote and upon a poll, every member present in person or by proxy shall have one vote for every share held.

2. OPTIONS ON ISSUE

There are no unlisted options on issue.

3. SUBSTANTIAL SHAREHOLDERS

As at 10 September 2009 the following have disclosed substantial shareholdings notices to ASX:

Name	Shares Held	Percentage
Peter Stuntz	35,872,141	13.66%
Central Turbo Limited	34,000,000	12.95%
RAB Special Situations (Master) Fund Ltd	25,722,452	9.80%

4. QUOTATION

Shares in Quay Magnesium Limited (ASX Code 'QMG') are quoted on the Australian Stock Exchange.

5. FUND RAISING

During the year there was no new capital raised. However on 6th August 2009 working capital of $510,000 was raised by the issue of 34,000,000 shares at $0.015 per share

6. RESTRICTED SECURITIES

As at 10 September 2009 there are no other restricted securities.

ADDITIONAL INFORMATION REQUIRED BY AUSTRALIAN STOCK EXCHANGE LIMITED *(CONTINUED)*

7. TOP TWENTY SHAREHOLDERS – AS AT 10 SEPTEMBER 2009

Rank	Holder	Number of Shares	% Issued Capital
1	CENTRAL TURBO LIMITED	34,000,000	12.89%
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3	25,722,452	9.75%
3	PETER WAYNE STUNTZ	23,750,000	9.00%
4	BOND STREET CUSTODIANS LIMITED	12,350,000	4.68%
5	PETSEL PTY LIMITED	10,552,141	4.00%
6	TAMBA INVESTMENTS PTY LTD	6,586,429	2.50%
7	MR BRENDAN JOHN JOYCE	6,040,000	2.29%
8	IRREWARRA INVESTMENTS PTY LTD	5,379,000	2.04%
9	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	5,136,344	1.95%
10	MR RITCHIE LEES & MRS PAMELA LEES	4,000,000	1.52%
11	NIKAM INVESTMENTS PTY LTD	3,751,500	1.42%
12	GREGORACH PTY LTD	3,317,359	1.26%
13	N & S BONSER PTY LTD	3,100,000	1.18%
14	NATIONAL NOMINEES LIMITED	3,040,687	1.15%
15	MRS NARELLE FAY	2,787,595	1.06%
16	WINROCK INVEST LIMITED	2,600,000	0.99%
17	PETIA SUPERANNUATION PTY LTD	2,204,125	0.84%
18	FORTIS CLEARING NOMINEES P/L	2,151,455	0.82%
19	BERNE NO 132 NOMINEES PTY LTD	2,067,796	0.78%
20	MR RICHARD PITTMAN	1,961,250	0.74%
	Total	**160,498,133**	**60.84%**