



QUAY

MAGNESIUM



07

CORPORATE DIRECTORY

QUAY MAGNESIUM LIMITED

ABN 75 104 179 099

DIRECTORS

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

SECRETARY

John Hayes

REGISTERED & PRINCIPAL OFFICE

3 Spring Street
Sydney, NSW 2000

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SHARE REGISTRY

Link Market Services Limited
Level 12, 680 George Street
Sydney, NSW 2000

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AUDITORS

KPMG
10 Shelley Street
Sydney, NSW 2000

SOLICITORS

Freehills
MLC Centre, Martin Place
Sydney, NSW 2000

AUSTRALIAN STOCK EXCHANGE

20 Bridge Street
Sydney, NSW 2000

ASX Code Ordinary Shares: QMG

CHAIRMAN'S LETTER

Dear Shareholder,

It is with great pleasure that I present Quay Magnesium Limited's Annual Report for 2007.

The last twelve months have seen continued good progress made in establishing Quay as a leading supplier of high quality magnesium alloys.

An ongoing focus has been on achieving cost savings through productivity improvements, preventative maintenance and increasing operating efficiencies whilst maintaining industry quality standards. Quay has not only achieved industry certification for our product, but has successfully achieved VW approval following rigorous inspection processes.

The pleasing progress that has been made on industry certification for our product has given our product credibility in the market. Registration under ISO/TS 16949, automotive industry – required management system policies and guidelines, is expected to be achieved before the end of this calendar year. Our products have already achieved acceptance by a number of significant Tier One and Tier Two automotive supply companies.

As part of the ongoing transitioning of the Nanjing operation to local management, the level of expatriate employees has been reduced to three and it is expected to be maintained around this number in the future.

In addition, Quay's technical department has worked hard to successfully eliminate the use of SF₆ from its manufacturing processes, replacing it with dilute SO₂ based technology. Not only has this significantly reduced operating costs, but this technical achievement has reduced the global warming impact of Quay's Nanjing operation.

While all shareholders should be pleased with the solid operational improvements of the company over the last year, the major influence on the company's fortunes has been the restructuring that is taking place in the primary magnesium market.

In last year's letter I spoke of Norsk Hydro's decision to exit the magnesium business. As predicted, this occurred in the first half of the year with the closure of its Becancour plant in April and the subsequent sale of two smaller facilities. The reaction in the market was almost immediate with magnesium prices rising sharply in May. As I wrote in my EGM address the price of pure magnesium rose from approximately 16,000 to 20,000 RMB per tonne in a matter of weeks. Despite the sentiment prevailing amongst western consumers that prices should fall; at the time of writing, this has not occurred.

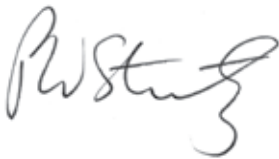
This sharp increase in magnesium prices has had two effects. Firstly, the general level of trading activity fell. Western consumers took a view that prices would fall and accordingly cut back orders for a number of months. This situation appears to have corrected in recent weeks. Secondly, a number of Chinese producers of magnesium have shortened the life of contracts that they are willing to offer. Most producers are now offering contracts on a spot basis only. This has made the business environment more challenging for Quay as most of our customers have a preference for longer term contracts.

Your Board has entered into a heads of agreement to purchase a large Chinese primary magnesium metal producer which the organisation considers a most important and challenging growth opportunity for Quay. This was announced to the ASX on 31st August and at the date of writing this letter, due diligence is proceeding satisfactorily.

CHAIRMAN'S LETTER (CONTINUED)

This is a challenging period for Quay, as the magnesium industry readjusts to being primarily a Chinese industry. We appreciate the support of our shareholders and stakeholders as we implement strategies to take the company forward and believe the strategies and actions we are now pursuing will attain the outcomes we all seek.

One of the underlying strengths of Quay is the quality of its people and their commitment to Quay's core values to exceed our customers' standards for quality, and to exceed profit targets for the Company whilst providing a safe working environment as we grow this organisation. On behalf of the Board, I would like to thank all employees for their special efforts and contributions.



Peter Stuntz

Chairman

16th October 2007

An additional note from the Chairman

I note that a number of our shareholders receive the Company's annual report each year. Due to recent changes to the law, Quay will now only provide shareholders with a printed version of the annual report if shareholders elect to receive a copy by completing the necessary acknowledgment form. A copy of this form is enclosed with this Annual Report. However, we encourage shareholders to take the opportunity of receiving these and all other company communications electronically rather than a printed version. We believe that there are a number of benefits in receiving communications this way, including prompt and environmentally friendly notification and convenience as well as significant cost savings for Quay. Of course, all our announcements and key communications are placed on our website at www.quaymagnesium.com.

DIRECTORS' REPORT

For the year ended 30 June 2007

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 2007 and the auditors 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
<p>Mr P W Stuntz B.Sc., B.E. (Min) (Hons), M.Geoscience, F.AusIMM, ASIA Appointed 18 Sep 2003 <i>Executive Chairperson/Director</i></p>	49	<p>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.</p>
<p>Mr N E M Bonser APTC, MIE Aust, CPEng Appointed 31 May 2003 <i>Executive Director</i></p>	64	<p>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 39 years and is currently the Managing Director of Van der Meer Consulting Pty Limited, a consulting engineering practise based in Sydney with offices in Perth and Melbourne. This specialist structural engineering company has designed numerous 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 20 years.</p>
<p>Mr B J Joyce B.E. (Hons) Appointed 25 Mar 2003 <i>Executive Director</i></p>	69	<p>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.</p>

DIRECTORS' REPORT (CONTINUED)

For the year ended 30 June 2007

2. COMPANY SECRETARY

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

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	15	15
Mr N Bonser	13	15
Mr B Joyce	15	15

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.

DIRECTORS' REPORT (CONTINUED)

For the year ended 30 June 2007

The Board is continuing to establish a framework for the management of the Company that includes a system of internal control, a business risk management process and 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.

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.

DIRECTORS' REPORT (CONTINUED)

For the year ended 30 June 2007

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 comparative companies both locally and internationally.

4.3 Principles of compensation – audited

Remuneration of directors and executives is referred to as compensation as defined in AASB 124.

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 the suitable executive management and consultancy services to the consolidated entity and the project.

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 Employee Share Plan was approved in an EGM on 25 May 2007. No shares have been issued in the year ending 2007.

DIRECTORS' REPORT (CONTINUED)

For the year ended 30 June 2007

4.4 Directors' and executive officers' remuneration – audited

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.

		Short Term Employment		Post	Total
		Salary & Fees	Consulting Fees	Employment Superannuation benefits	
		\$	\$	\$	\$
Directors					
Peter Stuntz	2007	55,045	360,000	4,955	420,000
<i>Executive Chairman (i)</i>	2006	55,045	360,000	4,955	420,000
Neil Bonser	2007	33,027	-	2,973	36,000
<i>Executive Director</i>	2006	33,027	-	2,973	36,000
Brendan Joyce	2007	64,624	-	5,816	70,440
<i>Executive Director (ii)</i>	2006	64,624	-	5,816	70,440
Total of all directors	2007	152,696	360,000	13,744	526,440
	2006	152,696	360,000	13,744	526,440
Executives					
Ritchie Lees	2007	152,496	-	29,245	181,741
<i>Chief Operating Officer</i>	2006	-	-	-	-
Thomas Ruden	2007	237,625	-	-	237,625
<i>Sales Manager</i>	2006	77,666	-	-	77,666
Rob Bailey	2007	152,956	-	-	152,956
<i>General Manager</i>	2006	74,813	-	-	74,813
Former Executives					
Bernard Mathieu	2006	183,973	-	-	183,973
<i>Marketing Manager</i>					
Stephane LeBlanc	2006	300,169	-	-	300,169
<i>NQMG General Manager</i>					
Total for all executives	2007	543,007	-	29,245	572,252
	2006	636,121	-	-	636,121
Total for all personnel	2007	695,703	360,000	42,989	1,098,692
	2006	788,817	360,000	13,744	1,162,561

DIRECTORS' REPORT (CONTINUED)

For the year ended 30 June 2007

- (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 \$36,000 and as a company employee is \$34,440.

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 consolidated entity is not currently considered to be of a size, or its affairs of such complexity to justify the establishment of a separate Risk Management Committee. Instead, the Board, as part of its usual role and through direct involvement in the management of the consolidated entity's operations ensures risks are identified, assessed and appropriately managed. Where necessary, the Board draws on the expertise of appropriate external consultants to assist in dealing with or mitigating risk. The Executive Chairman, in accordance with company policy, approves all expenditure, is intimately acquainted with all operations and is required to report all relevant issues to the directors at the Board meetings.

Compliance control

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities.

Financial reporting

The Executive Chairman has declared to the Board that the consolidated entity's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

DIRECTORS' REPORT (CONTINUED)

For the year ended 30 June 2007

Environmental regulation

The consolidated entity has constructed a magnesium alloying plant together with support buildings and services. An Environment Impact Study was prepared and approved by the relevant Chinese authorities and the relevant standards were achieved and included in the design. Environmental standards will be required to be maintained in the operation and production of the alloying plant.

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.

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 consolidated entity is not currently considered to be of a size, nor its affairs of such complexity as to justify the establishment of a formalised Code of Conduct.

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.

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.

DIRECTORS' REPORT (CONTINUED)

For the year ended 30 June 2007

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.

The external auditor attends the annual general meetings to answer questions concerning the conduct of the audit, the preparation and content of the auditor's report, accounting policies adopted by the Company and the independence of the auditor in relation to the conduct of the audit.

The Board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. Important issues are presented to the shareholders as single resolutions.

5. PRINCIPAL ACTIVITIES

The principal activities during the course of the financial year were the raising of capital and continuing marketing, design, construction, commissioning and ramp up in relation to the Magnesium Alloy Plant in Nanjing China.

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 2007 is a loss of \$7,432,327 (2006: loss \$3,802,174).

This largely reflects corporate and general overheads, marketing costs and other non-capital expenses and is in line with the director's expectations.

Significant achievements by the consolidated entity during the year were:

Funds Raised

During the year new capital was raised by the placement of additional shares. These raisings were as follows:

- (i) November 2006, 7,142,858 shares were placed raising \$2,500,000
- (ii) February 2007 a further 11,483,333 shares were placed raising \$3,445,000 and
- (iii) June 2007, following approval at the EGM in May 2007, a further 16,020,000 shares were placed raising \$5,106,000

These funds were used for working capital, expansion of the plant to 25,000 tonne per annum capacity and general corporate funds.

DIRECTORS' REPORT (CONTINUED)

For the year ended 30 June 2007

Registration of Land Use

In June 2007 the Chinese Government confirmed the 50 year Land Use lease on the land on which the Nanjing factory and office stand. The size of this land is sufficiently large such that a further new plant could be constructed for expansion or new use.

Alloying Plant Progress

A 10,000 tonne per annum plant expansion was completed on schedule and hot commissioning of the expansion equipment was successfully achieved in April 2007. Quay's Nanjing plant nameplate capacity is now 25,000 tonne per annum.

Quay announced in early July 2007 that alloy produced from the Nanjing Plant had received quality approval from VW Germany. This approval was received after evaluation of the metallurgical quality and product performance of Quay's alloys in VW's die-casting plant in Germany. The certification process of recognising Quay's high quality alloys is continuing with other automotive companies.

From an operational perspective, as the plant continues to improve efficiency and output rates, management are focussed on reducing our costs through productivity improvement and supply chain control. As with any new operation there are significant residual inefficiencies from the start up period and we are fully committed to eliminating these. One notable recent achievement has been the elimination of SF₆ as a molten metal cover gas. In July 2007 the plant changed to SO₂ cover gas. This should save well in excess of \$1 million a year in costs. This mixture will also have the benefit of eliminating approximately 2.4 million tonne per annum of CO₂ equivalent emissions at the 25,000 tonne per annum production level. Put another way, this is the same amount of CO₂ that is emitted by 460,000 cars in a year. ISO TS 16949 accreditation is in final audit and should be achieved this year.

In recent months there has been a significant movement in primary magnesium prices. These have increased from approximately 16,000 to 20,000 RMB per tonne in the last 6 months. It should be noted there has been a move in spot alloy prices. While it is too early to speculate on where these prices will settle, this volatility may be damaging to the industry. It is your Company's opinion that these price rises reflect the impact of the closing of the last significant source of western magnesium supply and the now effective dominance of the Chinese magnesium industry.

7. DIVIDENDS

No dividends were paid during the financial year to 30 June 2007 and no dividend is proposed.

8. EVENTS SUBSEQUENT TO REPORTING DATE

As announced to the market on 31 August 2007, the consolidated entity has signed a heads of agreement with a major Chinese manufacturer of pure magnesium to acquire the business over 2 years. The acquisition is proposed in two stages; initial purchase of a 52.5% interest with an option to move to 100% within 2 years of closing on the same terms.

This heads of agreement is exclusively with Quay but is subject to local regulatory approvals, full due diligence to Quay's satisfaction and arrangement of funding. Quay proposes to enter into a formal agreement with closing targeted for late November 2007. The pure magnesium plant has a capability of around 20,000 tonne per year and will supply the Quay's Nanjing magnesium alloy plant.

DIRECTORS' REPORT (CONTINUED)

For the year ended 30 June 2007

Quay will raise around \$20 million, subject to shareholder approval, to fund the acquisition and inject working capital into the merged business.

Quay currently produces high quality magnesium alloys for die-casting customers at its Nanjing plant in China from sourced pure magnesium. The purchase of this primary magnesium metal plant will vertically integrate the Company and result in a lower risk business model that will improve operating margins. This acquisition will ensure that Quay has the ability to compete in the current global market.

Quay has secured additional short term capital funding of \$2.4M by the issue of 16,033,333 ordinary shares at \$0.15.

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' INTERESTS

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	19,300,000
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	6,000,000

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.

DIRECTORS' REPORT (CONTINUED)

For the year ended 30 June 2007

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 on page 14. No other amounts were paid to other auditors for the statutory audit.

DIRECTORS' REPORT (CONTINUED)

For the year ended 30 June 2007

In AUD	Consolidated	
	2007	2006
	\$	\$
Audit services:		
Auditors of the Company		
Audit and review of financial reports (KPMG Australia)	67,405	67,250
Audit and review of financial reports (KPMG Huazhen)	39,588	-
Total costs for audit and review of financial report	106,993	67,250
Services other than statutory audit:		
Other assurance services	34,148	44,768
Taxation compliance services (KPMG Australia)	34,148	44,768

The lead auditor's independence declaration is set out on page 15 and forms part of the director's report for the financial year ended 30 June 2007.

Signed in accordance with a resolution of the directors:



Peter W Stuntz
Executive Chairman

Sydney 21st September 2007

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 2007 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.

A handwritten signature in black ink, appearing to read 'KPMG' or a similar stylized name.

KPMG

A handwritten signature in black ink, appearing to read 'Mark Epper'.

Mark Epper

Partner

Sydney 21st September 2007

INCOME STATEMENTS

For the year ended 30 June 2007

In AUD	Note	Consolidated		The Company	
		2007	2006	2007	2006
Revenue		5,614,920	-	-	-
Cost of sales		(8,630,971)	-	-	-
Gross loss		(3,016,051)	-	-	-
Employee and director benefits expense	5	(1,448,245)	(1,592,670)	(1,200,214)	(1,275,660)
Administration expenses	6	(3,090,626)	(2,700,517)	(1,468,848)	(2,013,731)
Results from operating activities		(7,554,922)	(4,293,187)	(2,669,062)	(3,289,391)
Financial income		138,637	562,552	119,638	553,717
Financial expense		(16,042)	(71,539)	(373,148)	4,235
Net financing income (expense)	8	122,595	491,013	(253,510)	557,952
Loss before tax		(7,432,327)	(3,802,174)	(2,922,572)	(2,731,439)
Income tax expense	9	-	-	-	-
Loss for the year		(7,432,327)	(3,802,174)	(2,922,572)	(2,731,439)
Attributable to:					
Equity holders of the parent company		(7,432,327)	(3,802,174)	(2,922,572)	(2,731,439)
Loss for the year		(7,432,327)	(3,802,174)	(2,922,572)	(2,731,439)
Basic and diluted loss in cents per ordinary share	18	(5.50)	(3.22)	-	-

STATEMENTS OF RECOGNISED INCOME AND EXPENSE

For the year ended 30 June 2007

In AUD	Note	Consolidated		The Company	
		2007	2006	2007	2006
Foreign exchange translation differences for foreign operations		(2,856,654)	1,120,757	-	-
Net income recognised directly in equity		(2,856,654)	1,120,757	-	-
Loss for the year		(7,432,327)	(3,802,174)	(2,922,572)	(2,731,439)
Total recognised income and expense for the year	18	(10,288,981)	(2,681,417)	(2,922,572)	(2,731,439)

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 19 to 43.

BALANCE SHEETS

As at 30 June 2007

In AUD	Note	Consolidated		The Company	
		2007	2006	2007	2006
Assets					
Cash and cash equivalents	10a	3,717,482	7,061,595	2,387,089	6,731,687
Trade and other receivables	11	4,347,010	553,121	145,740	169,721
Inventories	12	1,745,480	-	-	-
Total current assets		9,809,972	7,614,716	2,532,829	6,901,408
Property, plant and equipment	13	24,864,146	24,251,861	39,762	58,047
Loan to subsidiary	11	-	-	2,017,425	-
Investment in subsidiary	14	-	-	34,383,200	23,867,290
Total non-current assets		24,864,146	24,251,861	36,440,387	23,925,337
Total assets		34,674,118	31,866,577	38,973,216	30,826,745
Liabilities					
Payables	15	1,794,239	1,018,615	392,485	130,217
Loans and borrowings	20	1,543,023	-	-	-
Employee benefits	16	45,127	65,502	20,211	11,686
Total current liabilities		3,382,389	1,084,117	412,696	141,903
Total liabilities		3,382,389	1,084,117	412,696	141,903
Net assets		31,291,729	30,782,460	38,560,520	30,684,842
Equity					
Issued capital	17	50,239,158	39,440,908	50,239,158	39,440,908
Translation reserve	17	(1,658,512)	1,198,142	-	-
Accumulated losses	17	(17,288,917)	(9,856,590)	(11,678,638)	(8,756,066)
Total equity		31,291,729	30,782,460	38,560,520	30,684,842

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 19 to 43.

STATEMENTS OF CASH FLOWS

For the year ended 30 June 2007

In AUD	Note	Consolidated		The Company	
		2007	2006	2007	2006
Cash flows from operating activities					
Cash receipts from customers		2,680,914	-	-	-
Cash payments in the course of operations		(13,748,929)	(4,015,368)	(2,373,615)	(3,153,416)
Interest paid		(30,100)	-	-	-
Interest received		156,637	602,854	137,638	594,020
Net cash from operating activities	10b	(10,941,478)	(3,412,514)	(2,235,977)	(2,559,396)
Cash flows from investing activities					
Payment for increased investment in subsidiary		-	-	(10,394,713)	(12,412,259)
Loan to subsidiary		-	-	(2,390,573)	-
Advances to subsidiary		-	-	(121,197)	(1,858,899)
Payment of project costs		(4,302,640)	(13,832,716)	-	-
Payment for office equipment		(393,440)	(99,193)	(388)	(21,351)
Net cash from investing activities		(4,696,080)	(13,931,909)	(12,906,871)	(14,292,509)
Cash flows from financing activities					
Proceeds from the issue of share capital		11,051,000	9,687,891	11,051,000	9,687,891
Proceeds from borrowings		1,543,023	-	-	-
Payment of costs in respect of share issues		(252,750)	(484,395)	(252,750)	(484,395)
Net cash from financing activities		12,341,273	9,203,496	10,798,250	9,203,496
Net increase in cash and cash equivalents		(3,296,285)	(8,140,927)	(4,344,598)	(7,648,409)
Cash and cash equivalents at beginning of year		7,061,595	15,154,887	6,731,687	14,380,096
Effect of exchange rate fluctuations on cash held		(47,828)	47,635	-	-
Cash and cash equivalents at 30 June 2007	10a	3,717,482	7,061,595	2,387,089	6,731,687

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 19 to 43.

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 2007 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 consolidated financial report of the 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 21 September 2007.

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

The entity has elected to early adopt the following accounting standards and amendments;

- AASB 101 *Presentation of Financial Statements* (October 2006)
- ED 151 *Australian Additions to, and Deletions from, IFRS*

(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.

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 estimate is revised and in any future periods affected.

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. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities will occur in the normal course of business. The directors believe that the Company and the consolidated entity will be able to fund future operations through share issues, the return of profitability of the Nanjing operation on the completion of the Chinese pure magnesium plant acquisition and external finance.

Without the return to profitability of the Nanjing operations, equity raisings or external finance, there is 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies (continued)

(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. Subsequent to initial recognition non-derivative financial instruments are measured.

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 way 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 and share options 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies (continued)

(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	• Building and construction	30 years
• Office equipment	4 years	• Other project costs	10 years
• Land rights	50 years	• Motor vehicles	5 years

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

(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 13 under the headings:

- Building construction
- Plant and equipment
- Other project costs

Depreciation and amortisation of these costs commenced on 1 January 2007 when the facility commenced operational production.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies (continued)

(g) Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses [see accounting policy (i)].

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

(i) Impairment

(i) *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. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

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 consolidated entity that generates cash flows that largely are independent from other assets and 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.

(j) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies (continued)

(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.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies (continued)

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 they probably 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.

(o) 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.

(p) 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, 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.

(q) 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 'on issue' 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 on issue for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(r) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies (continued)

(s) 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 2007, but have not been applied in preparing this financial report.

- AASB 7 *Financial Instruments: Disclosures* (August 2005) replaces the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007, and will require additional disclosures with respect to the Consolidated entity's financial instruments and share capital.
- AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings Per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts arising from the release of AASB 7*. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007 and is expected to only impact disclosures contained within the consolidated financial report.
- AASB 8 *Operating Segments* replaces the presentation requirements of segment reporting in AASB 114 *Segment Reporting*. AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009 and is not expected to have an impact on the financial results of the Company and the Consolidated entity as the standard is only concerned with disclosures.
- AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 makes amendments to AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, AASB 6 *Exploration for and Evaluation of Mineral Resources*, AASB 102 *Inventories*, AASB 107 *Cash Flow Statements*, AASB 119 *Employee Benefits*, AASB 127 *Consolidated and Separate Financial Statements*, AASB 134 *Interim Financial Reporting*, AASB 136 *Impairment Assets*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. AASB 2007-3 is applicable for annual reporting periods beginning on or after 1 January 2009 and must be adopted in conjunction with AASB 8 *Operating Segments*. This standard is only expected to impact disclosures contained within the financial report.
- Interpretation 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. Interpretation 10 will become mandatory for the Consolidated entity's 2008 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Consolidated entity first applied the measurement criteria of AASB 136 and AASB 139 respectively (i.e., 1 July 2004 and 1 July 2005, respectively).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies (continued)

- Interpretation 11 AASB 2 *Share-based Payment – Consolidated entity and Treasury Share Transactions* addresses the classification of a share-based payment transaction (as equity or cash settled), in which equity instruments of the parent or another Consolidated entity are transferred, in the financial statements of the entity receiving the services. Interpretation 11 will become mandatory for the Consolidated entity's 2008 financial report. Interpretation 11 is not expected to have any impact on the financial report. The potential effect of the Interpretation on the Company's financial report has not yet been determined.
- AASB 2007-1 Amendments to Australian Accounting Standards arising from AASB Interpretation 11 amends AASB 2 *Share-based Payments* to insert the transitional provisions of AASB 2, previously contained in AASB 1 *First-time Adoption of Australian Equivalents to international Financial Reporting Standards*. AASB 2007-1 is applicable for annual reporting periods beginning on or after 1 March 2007 and is not expected to have any impact on the consolidated financial report. The potential impact on the Company has not yet been determined.
- Interpretation 12 *Service Concession Arrangements* addresses the accounting for service concession operators, but not grantors, for public to private service concession arrangements. Interpretation 12 will apply for the Consolidated entity's 2009 financial report. The potential effect of the interpretation on the financial report has not yet been determined. At this time an entity must also adopt the revised Interpretation 4 *Determining when an arrangement contains a lease* and Interpretation 129 *Service Concession Arrangements: Disclosures*.
- AASB 2007-2 Amendments to Australian Accounting Standards arising from AASB Interpretation 12 makes amendments to AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 117 *Leases*, AASB 118 *Revenue*, AASB 120 *Accounting for Government Grants and Disclosures of Government Assistance*, AASB 121 *The Effects of Changes in Foreign Exchange Rates*, AASB 127 *Consolidated and Separate Financial Statement*, AASB 131 *Interest in Joint Ventures*, and AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 2007-2 is applicable for annual reporting periods beginning on or after 1 January 2008 and must be applied at the same time as Interpretation 12 *Service Concession Arrangements*.
- AASB 2007-2 Amendments to Australian Accounting Standards amends references to "UIG Interpretation" to interpretations. This amending standard is applicable to annual reporting periods ending on or after 28 February 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Revenue

In AUD	Consolidated		The Company	
	2007	2006	2007	2006
Sales	5,614,920	-	-	-
	5,614,920	-	-	-

5. Employee and director benefits

In AUD	Consolidated		The Company	
	2007	2006	2007	2006
Wages, salaries and directors' fees	964,712	925,390	721,175	723,893
Other associated personnel expenses	430,891	476,084	402,701	414,387
Contributions to superannuation funds	67,813	125,694	67,813	125,694
Increase (decrease) in liability for annual leave	(15,171)	65,502	8,525	11,686
	1,448,245	1,592,670	1,200,214	1,275,660

6. Administration expenses

In AUD	Consolidated		The Company	
	2007	2006	2007	2006
Consultants expense	668,514	1,108,069	587,047	945,441
Occupancy expense	294,086	114,501	93,229	106,048
Travel and accommodation	369,620	550,382	273,436	423,847
Insurance	117,049	116,593	117,049	116,593
Depreciation and amortisation expense	708,128	48,455	18,673	17,145
Other	933,229	762,527	379,414	404,657
	3,090,626	2,700,517	1,468,848	2,013,731

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Auditors' remuneration

In AUD	Consolidated		The Company	
	2007	2006	2007	2006
Audit services				
Auditors of the Company				
<i>KPMG Australia:</i>				
Audit and review of financial reports	67,405	67,250	67,405	67,250
<i>KPMG Huazhen:</i>				
Audit and review of financial reports	39,588	-	-	-
	106,993	67,250	67,405	67,250
Other services				
Auditors of the Company				
<i>KPMG Australia</i>				
Taxation services	34,148	44,768	34,148	44,768
	34,148	44,768	34,148	44,768

8. Net financial income

In AUD	Consolidated		The Company	
	2007	2006	2007	2006
Interest income (other entities)	138,637	562,552	119,638	553,717
Financial income	138,637	562,552	119,638	553,717
Interest expense	(30,100)	-	-	-
Other	(63)	-	-	-
Net foreign exchange (loss) gain	14,121	(71,539)	-	4,235
Discounted loan to subsidiary	-	-	(373,148)	-
Financial expenses	(16,042)	(71,539)	(373,148)	4,235
Net financial income/(expense)	122,595	491,013	(253,510)	557,952

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. 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	
	2007	2006	2007	2006
Reconciliation between tax expense and pre tax loss				
Loss before tax	(7,432,327)	(3,802,174)	(2,922,572)	(2,731,439)
Income tax benefit @ 30%	(2,229,697)	(1,140,652)	(876,771)	(819,432)
Deferred tax asset not recognised	1,914,801	1,140,652	1,001,795	819,432
Non-deductible expense	120,784	-	120,784	-
Change in unrecognised temporary differences	(538,323)	-	(245,808)	-
Effect of tax rates in foreign jurisdiction	732,435	-	-	-
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	1,426,825	3,221,235	1,645,645	2,150,499
Tax losses	15,840,930	7,256,046	9,754,216	7,256,046
	17,267,755	10,477,281	11,399,861	9,406,545

The deductible temporary differences and tax losses do not expire under current tax legislation.

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)

10a. Cash and cash equivalents

In AUD	Consolidated		The Company	
	2007	2006	2007	2006
Bank balances – interest bearing	3,710,745	1,918,340	2,385,927	1,636,183
Term deposits	-	5,094,365	-	5,094,365
Interest bearing cash and cash equivalents	3,710,745	7,012,705	2,385,927	6,730,548
Bank balances	6,737	48,890	1,162	1,139
Cash and cash equivalents in the statement of cash flows	3,717,482	7,061,595	2,387,089	6,731,687

10b. Reconciliation of cash flows from operating activities

In AUD	Consolidated		The Company	
	2007	2006	2007	2006
Loss for the period:	(7,432,327)	(3,802,174)	(2,922,572)	(2,731,439)
<i>Adjustments for:</i>				
Discount on 3 year loan to subsidiary	-	-	373,148	-
Depreciation of assets	1,277,957	40,105	18,673	17,145
Amortisation of land rights	-	8,340	-	-
Operating profit before changes in working capital and provisions	(6,154,370)	(3,753,729)	(2,530,751)	(2,714,294)
(Increase)/decrease in prepayments	5,658	9,417	5,658	9,417
(Increase)/decrease in receivables	(3,799,547)	118,147	20,444	118,147
(Increase)/decrease in trade and other payables	772,636	148,149	260,147	15,648
(Increase)/decrease in annual leave provision	(20,375)	65,502	8,525	11,686
(Increase)/decrease in inventories	(1,745,480)	-	-	-
Net cash from operating activities	(10,941,478)	(3,412,514)	(2,235,975)	(2,559,396)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Trade and other receivables

In AUD	Consolidated		The Company	
	2007	2006	2007	2006
Current				
Prepayments	91,382	97,040	91,382	97,040
Trade receivables	3,690,420	-	-	-
Other receivables	565,208	456,081	54,358	72,681
	4,347,010	553,121	145,740	169,721
Non-current				
Loan to subsidiary	-	-	2,017,425	-
	-	-	2,017,425	-

12. Inventories

In AUD	Consolidated		The Company	
	2007	2006	2007	2006
Raw materials and consumables	121,382	-	-	-
Work in progress	1,068,081	-	-	-
Finished goods	556,017	-	-	-
	1,745,480	-	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Property, plant and equipment

In AUD	Consolidated					The Company					
	Land Rights	Building Construction	Plant & Equipment	Other Project Costs	Total	Motor Vehicles	Office Equipment	Building Construction	Plant & Equipment	Other Project Costs	Total
Balance at 1 July 2005	397,343	2,311,607	5,071,639	1,257,248	9,215,438	-	177,601	-	-	-	62,811
Acquisitions	(665)	2,926,253	7,681,541	3,703,941	14,371,934	-	60,864	-	-	-	21,351
Effect of movements in exchange rates	31,738	184,641	405,100	100,423	731,071	-	9,169	-	-	-	-
Balance at 30 June 2006	428,416	5,422,501	13,158,280	5,061,612	24,318,443	-	247,634	-	-	-	84,162
Balance at 1 July 2006	428,416	5,422,501	13,158,280	5,061,612	24,318,443	-	247,634	-	-	-	84,162
Acquisitions	361,462	524,386	2,609,776	428,050	4,121,028	56,623	140,731	-	-	-	388
Effect of movements in exchange rates	(42,813)	(524,386)	(1,272,480)	(366,961)	(2,226,005)	-	(19,365)	-	-	-	-
Transfers within the consolidated entity	-	(767,848)	3,909,364	(3,141,516)	-	-	-	-	-	-	-
Balance at 30 June 2007	747,065	4,654,653	18,404,940	1,981,185	26,213,466	56,623	369,000	-	-	-	84,550
Depreciation and impairment losses											
Balance at 1 July 2005	(5,298)	-	-	-	(18,137)	-	(12,839)	-	-	-	(8,970)
Depreciation charge for the year	(7,917)	-	-	-	(41,979)	-	(34,062)	-	-	-	(17,145)
Effect of movements in exchange rates	(423)	-	-	-	(6,466)	-	(6,043)	-	-	-	-
Balance at 30 June 2006	(13,638)	-	-	-	(66,582)	-	(52,944)	-	-	-	(26,115)
Balance at 1 July 2006	(13,638)	-	-	-	(66,582)	-	(52,944)	-	-	-	(26,115)
Depreciation charge for the year	7,851	(221,702)	(705,324)	(299,963)	(1,277,957)	(10,579)	(48,240)	-	-	-	(18,673)
Effect of movements in exchange rates	(1,319)	-	-	-	(4,781)	-	(3,462)	-	-	-	-
Balance at 30 June 2007	(7,106)	(221,702)	(705,324)	(299,963)	(1,349,320)	(10,579)	(104,646)	-	-	-	(44,788)
Carrying amounts											
At 1 July 2005	392,045	2,311,607	5,071,639	1,257,248	9,197,301	-	164,762	-	-	-	53,841
At 30 June 2006	414,778	5,422,501	13,158,280	5,061,612	24,251,861	-	194,690	-	-	-	58,047
At 1 July 2006	414,778	5,422,501	13,158,280	5,061,612	24,251,861	-	194,690	-	-	-	58,047
At 30 June 2007	739,959	4,432,951	17,699,616	1,681,222	24,864,146	46,044	264,354	-	-	-	39,762

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. Investment in subsidiary

In AUD	Consolidated		The Company	
	2007	2006	2007	2006
<i>Investment in subsidiaries</i>				
Unlisted shares at cost-subsiidiaries	-	-	34,262,003	22,600,295
Owing by subsidiary – non-current	-	-	121,197	1,266,995
	-	-	34,383,200	23,867,290

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. During the year with the approval of the Chinese authorities \$1,266,995 was confirmed as satisfying the conditions of capital in respect of Nanjing Quay Magnesium Co Ltd. The amount was transferred from amounts owing by subsidiaries and recognised as an investment in unlisted shares in subsidiaries.

Particulars in relation to subsidiaries	Consolidated equity interest		Consolidated equity interest	
		2007		2006
Parent entity				
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

- (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 (2006 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 \$4,882,902 (2006; loss \$1,070,736).

15. Trade and other payables

In AUD	Consolidated		The Company	
	2007	2006	2007	2006
Creditors and accruals	1,794,239	1,018,615	392,485	130,217
	1,794,239	1,018,615	392,485	130,217

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. Employee benefits

In AUD	Consolidated		The Company	
	2007	2006	2007	2006
Liability for annual leave	45,127	65,502	20,211	11,686
	45,127	65,502	20,211	11,686

17. Capital and reserves

Movement in capital and reserves

Consolidated					
In AUD	Note	Share capital	Translation reserve	Accumulated losses	Total equity
Balance at 1 July 2005		30,237,412	77,385	(6,054,416)	24,260,381
Net loss for the year		-	-	(3,802,174)	(3,802,174)
Translation of subsidiary		-	1,120,757	-	1,120,757
Shares issued		10,287,891	-	-	10,287,891
Cost of shares issued		(1,084,395)	-	-	(1,084,395)
Balance at 30 June 2006		39,440,908	1,198,142	(9,856,590)	30,782,460
Balance at 1 July 2006		39,440,908	1,198,142	(9,856,590)	30,782,460
Net loss for the year		-	-	(7,432,327)	(7,432,327)
Translation of subsidiary		-	(2,856,654)	-	(2,856,654)
Shares issued		11,051,000	-	-	11,051,000
Cost of shares issued		(252,750)	-	-	(252,750)
Balance at 30 June 2007		50,239,158	(1,658,512)	(17,228,917)	31,291,729

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Capital and reserves (continued)

Movement in capital and reserves

The Company				
In AUD	Share capital	Translation reserve	Accumulated losses	Total equity
Balance at 1 July 2005	30,237,412	-	(6,024,627)	24,212,785
Net loss for the year	-	-	(2,731,439)	(2,731,439)
Shares issued	10,287,891	-	-	10,287,891
Cost of share issue	(1,084,395)	-	-	(1,084,395)
Balance at 30 June 2006	39,440,908	-	(8,756,066)	30,684,842
Balance at 1 July 2006	39,440,908	-	(8,756,066)	30,684,842
Net loss for the year	-	-	(2,922,572)	(2,922,572)
Shares issued	11,051,000	-	-	11,051,000
Cost of share issue	(252,750)	-	-	(252,750)
Balance at 30 June 2007	50,239,158	-	(11,678,638)	38,560,520

Share capital		
Ordinary Shares	2007	2006
On issue at 1 July – fully paid	125,475,987	108,329,502
Issued on 3 November 2006	7,142,858	-
Issued on 26 February 2007	11,483,333	-
Issued on 31 May 2007	6,000,000	-
Issued on 4 June 2007	10,020,000	-
Issued on 15 November 2005	-	16,146,485
Issued on 13 April 2006	-	1,000,000
On issue at 30 June 2007 – fully paid	160,122,178	125,475,987

Shares issued during the 2007 financial year were issued at 35 cents per share on 3/11/06 and 31/5/07 and 30 cents per share on 26/2/07 and 4/6/07.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. 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 their functional currency is different from the presentation currency of the reporting entity.

18. Loss per share

Loss attributable to ordinary shareholders

In AUD	Consolidated	
	2007	2006
Loss for the year	(7,432,327)	(3,802,174)
Loss attributable to ordinary shareholders	(7,432,327)	(3,802,174)

Weighted average number of ordinary shares

In Shares	Consolidated	
	2007	2006
<i>Issued ordinary shares at 1 July</i>	125,475,987	108,329,502
<i>Effect of shares issued 15 November 2005</i>	-	9,687,891
<i>Effect of shares issued 13 April 2006</i>	-	213,699
<i>Effect of shares issued 3 November 2006</i>	4,677,104	-
<i>Effect of shares issued 26 February 2007</i>	3,901,187	-
<i>Effect of shares issued 31 May 2007</i>	493,151	-
<i>Effect of shares issued 4 June 2007</i>	658,849	-
<i>Weighted average number of ordinary shares at 30 June 2007</i>	135,206,278	118,231,092

Loss per share

Basic and diluted loss in cents per ordinary share	(5.50)	(3.22)
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Ordinary shares have been included in basic loss per share. There are no dilutive potential ordinary shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. Commitments

In AUD	Consolidated		The Company	
	2007	2006	2007	2006
Capital expenditure commitments				
Project costs				
Contracted but not provided for and payable:				
– within one year	207,604	431,962	-	-
	207,604	431,962	-	-
Contract commitments				
Commitments under non-cancellable contracts with Chairman related entity not provided for in the financial statements and payable:				
– within one year	60,000	90,000	60,000	90,000
	60,000	90,000	60,000	90,000

20. Loans and borrowings

In AUD	Consolidated		The Company	
	2007	2006	2007	2006
Unsecured bank facility*	1,543,023	-	-	-
	1,543,023	-	-	-

* This is a 10 million Chinese Yuan limit loan facility between Nanjing Quay Magnesium Limited and Citic Bank. The facility is drawn down to 9,757,745 Chinese Yuan. The bank lends to Nanjing Quay Magnesium Limited on the face value of client invoices at the Chinese national standard rate of interest. The rate is set by the China Central Bank and is currently 7.02% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. Financial instruments

Effective interest rates and repricing analysis

In respect of income-bearing financial assets and liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

	Note	Effective interest rate %	2007		Effective interest rate %	2006	
			Total	12 months or less		Total	12 months or less
Consolidated							
Bank balances*	10a	3.13	3,710,745	3,710,745	5.45	1,918,340	1,918,340
Term deposits		-	-	-	5.52	5,094,365	5,094,365
Unsecured bank facilities*	20	7.20	(1,543,023)	(1,543,023)	-	-	-
Interest bearing cash and cash equivalents			2,167,722	2,167,722	-	7,012,705	7,012,705
Company							
Bank balances*	10a	4.31	2,385,927	2,385,927	5.81	1,636,183	1,636,183
Term deposits*		-	-	-	5.52	5,094,365	5,094,365
Loan to subsidiary		-	2,390,573	2,390,573	-	-	-
Interest bearing cash and cash equivalents		4.31	4,776,500	4,776,500	-	6,730,548	6,730,548

* variable interest rate

Credit risk

Exposure to credit, interest rate and currency risks arises in the normal course of the Company's and the consolidated entity's business.

There is negligible credit risk on financial assets, excluding investments of the Company since there is no exposure to individual customers or countries and the Company's exposure is limited to the amount of cash, short term deposits and receivables which have been recognised in the balance sheet.

Interest risk

The consolidated entity's investments and its variable-rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Investments in short-term receivables and payables are not exposed to interest rate risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. Financial instruments (continued)

Foreign currency risk

The consolidated entity is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the consolidated entity. The currencies giving rise to this risk are primarily Chinese Yuan, US dollars and Euro.

In respect of other monetary assets and liabilities held in currencies other than AUD, the consolidated entity ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

The fair values of financial assets and liabilities approximate their carrying value.

22. Contingencies

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

23. Segment reporting

The consolidated entity operates a magnesium alloying plant to produce high grade magnesium alloys in China.

24. 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

Rob Bailey *General Manager NQMG* Commenced 13 February 2006

Ritchie Lees *Chief Operating Officer** Commenced 7 November 2006

Thomas Ruden *Sales and Marketing Manager* Commenced 17 February 2006

* Ritchie Lees commenced with the company on 7 November 2006 and was appointed Chief Operating Officer effective 1 March 2007. For directors and executive remuneration disclosures, see note 4.4 of the director's report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. 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 3 are as follows:

In AUD	Consolidated		The Company	
	2007	2006	2007	2006
Short-term employee benefits	1,055,703	1,148,817	902,817	1,074,004
Post employment benefits	42,989	13,744	42,989	13,744
	1,098,692	1,162,561	945,806	1,087,748

Individual directors and executives compensation disclosures

Certain specified directors and specified executives 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 lengths basis.

Information regarding individual directors' and executives' compensation is provided in sections 4.3 and 4.4 of the Remuneration report in the Director's report.

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.

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	Key management persons	Transaction	Note	Consolidated		The Company	
				2007	2006	2007	2006
	Neil Bonser	Fees	(i)	-	102,737	-	102,737
	Peter Stuntz	Fees	(ii)	360,000	360,000	360,000	360,000

(i) VDM Consulting Pty Ltd a company that Neil Bonser is a director and a shareholder provided contract administration and risk management services to the consolidated entity in respect of the construction of the magnesium alloy plant. Fees paid in respect of the services in the current year amounted to NIL (2006 \$102,737).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. Related parties for disclosing entities (continued)

(ii) 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.

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:

2007	Held at 30-Jun-06	Purchases	Sales	Held at 30-Jun-07
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Directors

Peter Stuntz	13,100,000	6,200,000	-	19,300,000
Neil Bonser	3,100,000	-	-	3,100,000
Brendan Joyce	6,000,000	-	-	6,000,000

2006	Held at 30-Jun-05	Purchases	Sales	Held at 30-Jun-06
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Directors

Peter Stuntz	13,100,000	-	-	13,100,000
Neil Bonser	3,100,000	-	-	3,100,000
Brendan Joyce	6,000,000	-	-	6,000,000

No shares were granted to key management personnel during the year ended 30 June 2007 and 30 June 2006.

Non-key management personnel disclosures

Effective 12 June 2007, the Company loaned \$2,390,573 (\$US 2M) to its subsidiary, Nanjing Quay Magnesium Limited (NQMG) unsecured for a period of three years interest free. The loan was discounted to its fair value of \$2,017,425.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

25. Subsequent events

As announced to the market on 31 August 2007, the consolidated entity has signed a heads of agreement with a major Chinese manufacturer of pure magnesium to acquire the business over 2 years.

The acquisition is proposed in two stages; initial purchase of a 52.5% interest with an option to move to 100% within 2 years of closing on the same terms.

This heads of agreement is exclusively with the consolidated entity but is subject to local regulatory approvals, full due diligence to the consolidated entity's satisfaction and arrangement of funding.

The consolidated entity proposes to enter into a formal agreement with closing targeted for late November 2007. The pure magnesium plant has a capability of around 20,000 tonne per year and will supply the consolidated entity's Nanjing magnesium alloy plant.

The Company will raise around \$20 million, subject to shareholder approval, to fund the acquisition and inject working capital into the merged business.

The consolidated entity currently produces high quality magnesium alloys for die-casting customers at its Nanjing plant in China from sourced pure magnesium. The purchase of this primary magnesium metal plant will vertically integrate the consolidated entity and result in a lower risk business model that will improve operating margins. This acquisition will ensure that the consolidated entity has the ability to compete in the current global market.

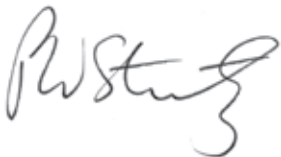
On 21 September 2007, subscription agreements were completed by the Company for the placement of 16,033,333 new ordinary fully paid shares at \$0.15.

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 4.3 and 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 2007 and of their performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards including the Australian Accounting Interpretation and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (c) 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 2007.
- (d) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

Signed in accordance with a resolution of the directors:



Peter Stuntz

Executive Chairman

Sydney 21st September 2007

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



Report on the financial report and AASB 124 remuneration disclosures contained in the director's report.

We have audited the accompanying financial report of Quay Magnesium Limited ("the Company"), which comprises the balance sheets as at 30 June 2007, and the income statements, statements of recognised income and expense and cash flow statements for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 25 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.

As permitted by the Corporations Regulations 2001, the Company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Australian Accounting Standard AASB 124 Related Party Disclosures, contained in sections 4.3 and 4.4 of the directors' report and not in the financial report. We have audited these remuneration disclosures.

Directors' responsibility for the financial report and the AASB 124 remuneration disclosures contained in the directors' 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. In note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

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 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.

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

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 2007 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*.
- b) The financial report also complies with International Financial Reporting Standards as disclosed in note 1.

Auditor's opinion on AASB 124 remuneration disclosures contained in the directors' report

In our opinion the remuneration disclosures that are contained in sections 4.3 and 4.4 of the directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*.

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 1 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 return to profitability of the Nanjing Operations, equity raising or external finance, there are uncertainties as to whether the Consolidated entity will be able to continue as a going concern.



Mark Epper
Partner



KPMG

Sydney 21st September 2007

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 3 OCTOBER 2007

a) Distribution of fully paid ordinary shares

Size of Holding	Shareholders	Number of Shares Held
1 - 1,000	12	5,324
1,001 - 5,000	114	402,120
5,001 - 10,000	96	827,304
10,001 - 100,000	409	16,979,906
100,001 and over	140	159,120,857
Total	771	177,335,511

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 11 October 2007 the following organisations have disclosed substantial shareholdings notices to ASX:

Name	Shares Held	Percentage
Ospraie Management LLC and Ospraie Portfolio Ltd	12,846,181	7.24%

4. QUOTATION

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

ADDITIONAL INFORMATION REQUIRED BY AUSTRALIAN STOCK EXCHANGE LIMITED (CONTINUED)

5. FUND RAISING

During the year new capital was raised by the placement of additional shares. These raisings were as follows:

- (i) November 2006, 7,142,858 shares were placed raising \$2,500,000
- (ii) February 2007 a further 11,483,333 shares were placed raising \$3,445,000 and
- (iii) June 2007, following approval at the EGM in May 2007, a further 16,020,000 shares were placed raising \$5,106,000

These funds were used for working capital, expansion of the plant to 25,000 tonne per annum capacity and general corporate funds.

The Company has for the third period since admission to the ASX being the period from 1 July 2006 to 30 June 2007, used the cash raised consistent with its business objectives.

6. RESTRICTED SECURITIES

As at 3 October 2007 there were 1,180,000 Employee Share Plan shares that were restricted from trading. There were no other restricted securities.

7. TOP TWENTY SHAREHOLDERS – AS AT 3 OCTOBER 2007

Rank	Holder	Number of Shares	% Issued Capital
1	PETER WAYNE STUNTZ	19,300,000	10.88
2	HSBC CUSTODY NOMINEES (AUSTRALIA) No3	14,457,452	8.15
3	HSBC CUSTODY NOMINEES (AUSTRALIA) No2	10,706,000	6.04
4	TAMBA INVESTMENTS PTY LTD	6,700,000	3.78
5	BRENDAN JOHN JOYCE	6,000,000	3.38
6	HSBC CUSTODY NOMINEES (AUSTRALIA)	5,646,561	3.18
7	NORTHCLIFFE HOLDINGS PTY LTD	4,880,000	2.75
8	NATIONAL NOMINEES LIMITED	4,406,251	2.48
9	COGENT NOMINEES PTY LIMITED	3,988,477	2.25
10	NIKAM INVESTMENTS PTY LTD	3,751,500	2.12
11	MONTAGU STOCKBROKERS PTY LTD	3,333,334	1.88
12	AMP CAPITAL INVESTORS	3,333,333	1.88
13	ANZ NOMINEES LIMITED	3,143,340	1.77
14	N & S BONSER PTY LTD	3,100,000	1.75
15	NARELLE FAY	2,828,572	1.60
16	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – GSI ECSA	2,711,833	1.53
17	ALMOND CONSULTANCY SERVICES LTD	2,600,000	1.47
18	CITICORP NOMINEES PTY LTD	2,536,768	1.43
19	MANFREE NOMINEES PTY LTD	2,525,000	1.42
20	BELL POTTER NOMINEES LTD	2,450,000	1.38
		108,398,421	61.13

