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CHAIRMAN'S ADDRESS - 2009 AGM

Ladies and Gentlemen,

Thank you for attending our Annual General Meeting this morning.

I would like to commence my address by touching on the global economic environment in which we operate. As previously discussed in this year's Annual Report the world continues to struggle with the after effects of the Global Financial Crisis. While world equity markets are recovering strongly and there are signs that economic recovery is underway there are still worrying trends in the principal sector in which we operate – the automotive sector. Our largest customer still can only offer orders with monthly tonnages approximately half of those on offer two years ago. Additionally there are reports that automobile production in North America may be put on hold over the end of this year to help keep stocks of finished vehicles down. A number of large consumers of magnesium alloy have gone into receivership and as yet there are no signs of new businesses emerging to fill the void. Another concerning development in the short term are anecdotal reports that aluminium may be competing more effectively against magnesium in some new parts programmes because of the low and stable aluminium price. All of this is of concern although to put things in perspective undoubtedly we are much better off than six months ago.

Another indicator of the current weakness of underlying economic activity is the price of primary magnesium, the major feedstock for our Nanjing plant. At the time of writing this remains at approximately 16,000 Renminbi per tonne delivered to our factory – less than half of where it was a year ago around the time of the Beijing Olympics. This market continues to be in a sustained state of oversupply and showing no signs of recovery. There are reports of a number of smelters that have temporarily gone onto care and maintenance. Some smelters have had their effective capacity reduced because of cutbacks at the coking plants that supply them with energy. This reduced coke production reflects reduced steel production and can be interpreted to be a further sign of general economic weakness. Not only does this primary magnesium go into the manufacture of automobiles but large quantities are also consumed by the aluminium industry, the steel industry and by consumer electronics goods. Clearly the underlying demand from all these sectors remains weak. Our planning therefore remains cautious and reflects these short term realities. At the same time we are also laying the foundations for the tremendous growth potential we continue to see for the sector in the longer term.

The Nanjing plant will ship 540 tonne of magnesium alloy in October; this is in line with previous comments released by the company that indicated orders were running at around 25% of the plant's 25,000 tonne per annum capacity. At this level of sales the Nanjing plant is running at around cash breakeven. This is in some ways a positive achievement as previously our breakeven level was at much higher volumes. It reflects the aggressive cost cutting that has been undertaken by local management. The concern at the moment is that forward orders are off for November and December reflecting the anticipated weak state of the North American automotive market. In contrast Chinese sales remain strong and we are confident of securing further business in this market in coming months. As previously announced we are using this relatively quiet period to

undertake essential maintenance on the process equipment at the plant. We have also used this time to devise process improvements and increase the flexibility of the equipment that we have to produce a wider product range more efficiently.

Several months ago a share placement was completed by the company which introduced a large China based investor, Central Turbo Limited, to Quay's register. This shareholder is associated with a 15,000 tonne per annum primary magnesium plant in Inner Mongolia, China. Due diligence has commenced on this plant with a view to acquiring an interest in it. Initial progress has been good with no major impediments having been identified but there is still considerable work to be done. At this time technical and financial due diligence is nearing completion but it will be approximately another month before the results of the detailed legal work is known. I would point out that with other acquisitions we have attempted in the past it is usually this detailed legal work that exposes the flaws in the structure of our potential targets. I therefore stress we are still at an early stage but the conceptual discussions to date involves Quay taking a half share in this 15,000 tonne primary magnesium plant. This potential acquisition would give Quay a stable source of feedstock for our Nanjing plant. Part of these discussions involve Quay having a first right of refusal over the other half of the primary magnesium plant's output. This intended acquisition is pivotal to our vertical integration strategy and if, as a result of due diligence, the current target proves to be unsuitable then we will continue to look for another. Within our customer base we believe there are Western end users that will significantly increase their orders of magnesium alloy if they can contract with a reliable partner. The combination of direct ownership of a feedstock plant, superior alloying technology and Western business practices will satisfy these criteria and will likely result in significantly higher throughput for Quay and a much more secure financial position if a successful acquisition can be made.

As previously discussed during the year past the company has worked hard to maintain its accreditations with an ever diminishing pool of resources – cost cutting has been widespread but the business has survived and will re-generate with the growth in the global economy. We have recently started on planning to hire a limited number of additional staff in anticipation of improving business conditions next year. While the short term remains difficult the macro drivers for using increased quantities of magnesium alloy such as increased fuel efficiency and reduced emissions remain as strong as ever.

In financial terms the securing of increased levels of working capital from Chinese banks in recent months has been an extremely positive development for the company. Quay is working on building relationships with a number of financial institutions with the goal of securing additional lines of credit to fund the working capital required to sustain higher production levels when they eventuate. These financing initiatives may also assist Quay secure long term finance for the capital costs of any acquisitions made.

The work of the past year, in extremely testing conditions, has preserved the assets and expertise of the company in an environment where many other companies have gone out of business. I would like to thank Quay's employees for persevering and succeeding through these very tough times. If the world's economy continues to recover then Quay will be well placed to benefit from the increased demand for magnesium alloys.

Peter Stuntz
Chairman