

ASX RELEASE

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Activities Report – December 2009

Quay Magnesium Limited (Quay) wishes to provide the market with the following update on its activities.

As discussed in the Chairman's address at this year's AGM the overall automotive market remains subdued – shipments from the Nanjing facility continue at around the 25 % of capacity level or 500 tonne per month. However, in recent weeks the level of quoting for new business from some of our customers coupled with short notice requests for early shipping may indicate further improvement. Also the low levels of inventory that our customers now appear to be carrying are a positive sign for the New Year. The time of year makes it difficult to discern any sustained trends but on balance it appears that the sales outlook continues to improve albeit slowly.

Due diligence on our proposed acquisition has continued with ongoing positive results. It has to be stated that the level of permitting and compliance is the best that we have seen to date from the group of potential targets that have been looked at in detail. Our initial financial modelling also indicates any acquisition will yield a positive outcome for the company. In previous releases it was anticipated that this due diligence would be complete by year end but slower than expected progress means this will now move into the early months of next year.

On the finance side working capital lines remain sufficient for the business in hand with additional facilities available if needed. Work has been proceeding on raising the capital funds required for the proposed acquisition. The company has several alternatives to be pursued.

In July of this year it was announced Quay was negotiating with two Chinese groups about acquiring interests in two different primary magnesium plants. Negotiations with the second group have been placed on hold while we focus on completing the first acquisition - that associated with Central Turbo Limited. The second group will be revisited and a detailed due diligence initiated once the first acquisition is finalised.

Further funds will be raised from Central Turbo Limited as well as other sources to satisfy working capital requirements in a placement to be announced later today.

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