



Quay Magnesium Limited
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ABN 75 104 179 099

12 May 2008

Dear Shareholder

Quay Magnesium Limited (Quay) – Non-Renounceable Rights Issue (Offer)

The Board of Quay is pleased to offer you an opportunity to acquire additional shares in Quay at the same price paid by institutional and sophisticated investors in Quay's recent placement (A\$0.05 per New Share). The proceeds of the Offer will be used for working capital purposes including due diligence and other expenses relating to the previously announced acquisition of a possible 49% stake in one or two Chinese pure magnesium producers.

Details of the Offer are set out in the accompanying materials and you should read these in their entirety before deciding whether to participate. Key points of the Offer are set out below and a timetable for the Offer is set out under section 2 of the Offer Document:

- Under the Offer you are able to acquire additional fully paid ordinary shares in the capital of the Company (Shares) via a non-renounceable rights issue on the basis of one (1) New Share for every four (4) Shares held at the Record Date of 6 May 2008.
- There are no transaction costs payable on the allotment of shares under the Offer.
- Shares allotted under the Offer will rank equally with existing fully paid ordinary shares, including as to dividends and voting.
- The rights are non-renounceable and cannot be traded or transferred to any other person.
- Fractional entitlements will be rounded up to the nearest whole number. Holdings in the same name will not be aggregated for this purpose.
- No Offer will be made to eligible shareholders resident outside Australia and New Zealand.

To participate in the Offer you must either:

- submit your payment using BPAY® before 5.00pm AEST on 26 May 2008 or such later date as the Offer may be extended to; or
- complete and return your personalised Entitlement and Acceptance Form attaching either a cheque or bank draft and mail it in the reply paid envelope so that it is received by our Registry before 5.00pm AEST on 26 May 2008 or such later date as the Offer may be extended to.

The Offer is not underwritten however the Board reserves the right to place any shortfall to institutional and sophisticated investors within three months after the close of the Offer.

You should seek professional advice from your accountant, stockbroker, lawyer or other professional adviser before deciding whether to accept the Offer.

Thank you for your continuing support as a shareholder of Quay.

Yours faithfully

A handwritten signature in blue ink, appearing to read "P. Stuntz".

Peter Stuntz
Executive Chairman
Quay Magnesium Limited



RIGHTS ISSUE OFFER DOCUMENT

For a non-renouncable pro-rata offer of New Shares each at an issue price of \$0.05 on the basis of one New Share for every four Shares held at the Record Date.

Important Notices

This document is not a prospectus and does not contain all of the information that an investor would find in a prospectus or which may be required in order to make an informed investment decision regarding the rights attaching to the New Shares described in this Offer document.

It is important that you read this document carefully and in full before deciding whether or not to complete and lodge an Entitlement and Acceptance Form. If you do not understand the content of this document you should consult your financial adviser or other professional adviser before deciding whether or not to invest.

Restrictions on Offer and Distribution

This document does not constitute an offer to any person in any jurisdiction outside Australia and New Zealand. No action has been taken to permit the offer of New Shares under this document in any jurisdiction other than Australia and New Zealand.

Financial Amounts

Money as expressed in this document is in Australian dollars unless otherwise indicated.

Glossary of Terms

Please refer to the Glossary in section 8 for terms and abbreviations used in parts of this Offer document.

Enquiries

If, after reading this Offer document, you have any questions in relation to the Offer, please contact the Registry between 8.30am to 5.30pm (AEST), Monday to Friday on 02 8280 7111.

1. The Offer

Quay is making a non-renounceable pro-rata rights offer of New Shares to Eligible Shareholders at an issue price of \$0.05 on the basis of one (1) New Share for every four (4) Shares held on the Record Date. The New Shares will rank equally with all existing ordinary Shares on issue and any fractional entitlements have been rounded up.

Quay intends to apply the funds raised for Quay's working capital purposes, including due diligence and other expenses relating to the previously announced acquisition of a possible 49% stake in one or two Chinese pure magnesium producers.

The Offer is not underwritten but Quay reserves the right to place any shortfall with institutional and sophisticated private investors within 3 months after the close of the Offer.

2. Key Dates

Announcement of Rights Issue and Appendix 3B	28 April 2008
Notice sent to Shareholders	29 April 2008
Ex Date	30 April 2008
Record Date	6 May 2008
Rights Issue Offer Document and Entitlement and Acceptance Form despatched to Eligible Shareholders	12 May 2008
Closing Date	26 May 2008
Notify ASX of shortfall	29 May 2008
Anticipated date for the issue of the New Shares and despatch of holding statements	3 June 2008

These dates are indicative only and may change. Quay reserves the right to vary these dates without prior notice including, subject to the Corporations Act and the ASX Listing Rules, to extend the latest date for receipt of Applications, to accept late Applications either generally or in particular cases or to withdraw the Offer without prior notice. If any of these dates are changed, subsequent dates may also be changed. Investors are encouraged to submit their Applications as soon as possible. Closing times for any of the above dates are 5.00pm AEST.

3. How to accept the Offer

You may accept all, part or none of your Entitlement under this Offer. If you wish to apply for part of your Entitlement simply pay for the number of New Shares you wish to apply for. If you pay for more New Shares than you indicate on your Entitlement and Acceptance Form, Quay will assume you are applying for the number of New Shares paid for. You may only apply for up to the number of New Shares set out as your Entitlement on your Entitlement and Acceptance Form.

Quay reserves the right to reject any Entitlement and Acceptance Form which is not correctly completed or any payment which is submitted by a person whom they believe may be an ineligible Applicant, or to waive or correct any errors made by an Applicant in completing any Entitlement and Acceptance Form.

Payment by BPAY®

If you wish to pay using BPAY, there is no requirement for the Entitlement and Acceptance Form to be returned. Instructions regarding making a payment by BPAY, including the Biller Code and your personalised Reference Number, are set out on the Entitlement and Acceptance Form.

Please note that payment made by BPAY must be received no later than 5.00pm AEST on the Closing Date.

Payment by cheque/bank draft

If you do not wish to pay using BPAY, complete the Entitlement and Acceptance Form by filling in the details in the spaces provided (including the number of New Shares you wish to accept).

Completed Entitlement and Acceptance Forms must be accompanied by a cheque in Australian Dollars drawn on an Australian branch of an Australian bank. Cheques should be made payable to *Quay Magnesium Limited – Rights Offer Account* and crossed “Not Negotiable”. All amounts must be in cleared funds. Please do not send cash. Receipts for payment will not be issued.

Completed Entitlement and Acceptance Forms can be mailed to the Registry or delivered in person. The following addresses should be used for mailing and hand delivery of Applications:

By post:

Link Market Services Limited
Locked Bag A14
SYDNEY SOUTH NSW 1235
AUSTRALIA

By delivery:

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

Applicants are not required to sign the Entitlement and Acceptance Form. Entitlement and Acceptance Forms and Application Monies must be received by the Registry no later than 5.00pm AEST on the Closing Date.

4. If you do not wish to accept the Offer

If you do not wish to accept your Entitlement or any part of your Entitlement (or you are precluded from doing so as you reside outside Australia or New Zealand), you do not need to take any action. The number of Shares you hold and the rights attaching to those Shares will remain unchanged.

5. Entitlements not transferable

Rights under the Offer are not transferable to another person. Offers can only be accepted by the offeree and on the official Entitlement and Acceptance Form which accompanies this Offer document. If you decide not to accept all or part of your entitlement to new shares or fail to do so by the Closing Date, your rights will lapse.

6. Investment Risks

Investors should be aware that an investment in Quay involves risk. Intending Investors should refer to announcements made by Quay to ASX. This information is available from the ASX website www.asx.com.au – Quay’s ASX code is QMG – and Quay’s website www.quaymagnesium.com. Intending Investors should review announcements made by Quay in order to fully appreciate the position of Quay and the manner in which Quay operates before making a decision regarding the Offer.

Potential investors should consider that the investment in Quay is speculative and should consult their professional advisers before deciding whether to apply for New Shares. Investors should note that the New Shares to be issued pursuant to this document carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those Shares.

7. Privacy Notification

The Entitlement and Acceptance Form requires you to provide information that may be personal information for the purposes of the Privacy Act 1988 (Cth) (as amended). Quay (and the Registry on its behalf) collect, hold and use that personal information in order to assess your Application, service your needs as a Shareholder, provide facilities and services that you request and to administer Quay.

Access to information may also be provided to Quay’s related bodies corporate, agents and service providers, regulatory bodies, mail houses and the Registry.

If you do not provide the information requested of you in the Entitlement and Acceptance Form, the Registry will not be able to process your application for New Shares or administer your holding of Shares appropriately.

Under the Privacy Act 1988 (Cth) (as amended), you may request access to your personal information held by (or on behalf of) Quay. You can request access to your personal information by telephoning the Registry on 02 8280 7111 or writing to the Registry using the addresses provided on page 3.

8. Glossary

AEST	Australian Eastern Standard Time.
Applicant	A person who applies for New Shares pursuant to this Offer.
Application	An application pursuant to this Offer to subscribe for New Shares.
Application Monies	Monies required to be lodged with an Application which is the Offer Price (A\$0.05) for each New Share the subject of an Application.
ASX	ASX Limited (ACN 008 624 691) or, where the context permits, the Australian Securities Exchange operated by ASX Limited.
ASX Listing Rules	The official listing rules of ASX.
Australian Dollar or \$	The lawful currency of Australia.
Closing Date	Monday, 26 May 2008.
Corporations Act	Corporations Act 2001(Cth).
Eligible Shareholder	A Shareholder whose details appear on Quay's register of Shareholders as at the Record Date and who has a registered address in Australia or New Zealand.
Entitlement	The number of New Shares a Shareholder is entitled to under the Offer, determined by the number of Shares held on the Record Date.
Ex Date	The date from which securities commence trading without the entitlement to participate in the Offer, being Wednesday, 30 April 2008.
New Share	An ordinary share in the capital of Quay.
Offer	The Offer of New Shares in Quay pursuant to this offer document.
Offer Price	A\$0.05 per New Share.
Quay	Quay Magnesium Limited ABN 75 104 179 099.
Record Date	The date for determining entitlements of Eligible Shareholders to participate in the Offer, being Tuesday, 6 May 2008.
Registry	Link Market Services Limited ABN 54 083 214 537.
Share	A fully paid ordinary share in Quay.
Shareholder	A holder of Shares.



QUAY MAGNESIUM LIMITED
ABN 75 104 179 099

Entitlement and Acceptance Form

SRN/HIN

Number of eligible Shares held at 7:00pm on 6 May 2008

Entitlement to Shares on a 1 for 4 basis

Amount payable at \$0.05 per Share

Non-renounceable Rights Issue of one (1) Share at \$0.05 per Share for every four (4) Shares held on the Record Date.

As an Eligible Shareholder in the Quay Magnesium Limited (Quay) we are pleased to be able to offer you the opportunity to acquire more Shares in Quay through a 1 for 4 Entitlement.

PLEASE COMPLETE BELOW (using block letters) – refer overleaf for details and further instructions on how to complete this Entitlement and Acceptance Form.

I/We apply for the following number of Shares and attach a cheque or bank draft for the amount payable.

A Number of Shares applied for and accepted (being not more than your Entitlement shown above)

B Amount enclosed, being Application Monies of \$0.05 per Share applied for in box A (multiply number in box A by \$0.05)

\$

C PLEASE INSERT CHEQUE OR BANK DRAFT DETAILS

Cheque(s) or bank draft(s) (or both) must be drawn on an Australian branch of an Australian bank, made payable in Australian currency to 'Quay Magnesium Limited – Rights Offer Account' and crossed 'Not Negotiable'.

Cheque or bank draft number

BSB

Account number

D BPAY – Contact your participating institution and make the payment via BPAY.

Please tick this box if you make the payment via BPAY. Please return in the reply paid envelope provided.



Bill Code: 343079

Ref:

Quay Magnesium Limited may treat you as applying for as many Shares as the cleared monies will pay for.

Telephone and Internet Banking – BPAY®

Contact your bank, credit union or building society to make this payment from your cheque or savings account. More info: www.bpay.com.au

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E PLEASE COMPLETE HERE in case we need to contact you:

Phone number where we may contact you, if needed, in conjunction with this acceptance.

Contact name

Link Market Services Limited advises that Chapter 2C of the *Corporations Act 2001* requires information about you as a shareholder (including your name, address and details of the shares you hold) to be included in the public register of the entity in which you hold shares. Information is collected to administer your shareholding and if some or all of the information is not collected then it might not be possible to administer your shareholding. Your personal information may be disclosed to the entity in which you hold shares. You can obtain access to your personal information by contacting us at the address or telephone number shown on this form. Our privacy policy is available on our website (www.linkmarketservices.com.au).

OFFER CLOSSES AT 5:00PM (AEST) ON MONDAY, 26 MAY 2008.
THIS ENTITLEMENT AND ACCEPTANCE FORM MUST BE READ IN CONJUNCTION WITH THE OFFER DOCUMENT.
THIS OFFER IS NON-RENOUNCEABLE. SIGNATURES ARE NOT REQUIRED.

QMG RIG001



Acknowledgements

By returning this Entitlement and Acceptance Form or by making payment using BPAY, I/we agree to the following statements. I/We:

- confirm that all details in this form are true and correct;
- am/are at least 18 years of age if I/we am/are an individual(s);
- acknowledge that once Quay Magnesium Limited receives this form, I/we may not withdraw it;
- apply for the number of Shares at the Australian Dollar amount shown on the front of this form;
- agree to being transferred the number of Shares that I/we apply for, have paid for or a lower number (including zero) transferred in a way allowed under this Entitlement and Acceptance Form and the Offer Document;
- authorise Quay Magnesium Limited and their respective officers or agents, to do anything on my/our behalf necessary for Shares to be transferred to me/us, including without limitation to sign any documents necessary for Shares to be transferred to me/us, and to act on instructions received by the Registry using the contact details in section E and my/our registered address;
- acknowledge that the information contained in this Entitlement and Acceptance Form and the Offer Document is not investment advice or a recommendation that Shares are suitable to me/us, given my/our investment objectives, financial situation or particular needs;
- represent and warrant that I/we reside in Australia or New Zealand and are therefore not excluded from Quay Magnesium Limited making an Offer to me/us in accordance with the terms of the Offer Document;
- agree, in the case of joint investments, that unless otherwise expressly indicated on this Entitlement and Acceptance Form, the Shares will be held as joint tenants and either investor is able to operate the account and bind the other investor for future transactions; and
- if investing as a trustee, on behalf of a superannuation fund or trust I/we confirm that I/we am/are acting in accordance with my/our designated powers and authority under the trust deed.

Quay Magnesium Limited

OFFER CLOSES AT 5:00PM (AEST) ON MONDAY, 26 MAY 2008.

1. How to complete the Entitlement and Acceptance Form

Please complete all relevant sections of the Entitlement and Acceptance Form using BLOCK LETTERS. These instructions are cross referenced to each section of the Entitlement and Acceptance Form.

A. Application for Shares under your Entitlement

Please enter into box A the number of Shares you wish to apply for within your Entitlement.

If you do not indicate, or you miscalculate, the number of Shares you wish to apply for, Quay Magnesium Limited may treat you as applying for as many Shares up to your Entitlement as your payment covers.

B. Application Monies

Please enter into box B the total amount of the cheque(s) or bank draft(s) (or both) for payment of your Shares at the Issue Price of \$0.05 per Share applied for in box A. To calculate the total amount required for payment, multiply the number in box A by \$0.05.

C. Cheque or bank draft details

Please enter your cheque or bank draft (or both) details in section C. Cheque(s) or bank draft(s) must be drawn on an Australian branch of an Australian bank, made payable in Australian currency to 'Quay Magnesium Limited – Rights Offer Account' and crossed 'Not Negotiable'.

D. BPAY

If you elect to make payment using BPAY you must contact your bank, credit union or building society to make this payment from your cheque or savings account. If you are paying by BPAY you do not need to return this Form. For more information: www.bpay.com.au

Refer to the front of this Form for the Biller Code and Customer Reference Number. Payments must be received by 5:00pm (AEST) on Monday, 26 May 2008. If the BPAY payment is for any reason not received in full, Quay Magnesium Limited may treat you as applying for as many Shares as the cleared monies will pay for. Shareholders using the BPAY facility will be bound by the provisions relating to this Offer.

If you are paying by BPAY and do not return this form Quay Magnesium Limited may treat you as applying for as many Shares as the cleared monies will pay for.

E. Contact details

Please enter your contact telephone number where we may contact you regarding your Entitlement and Acceptance Form, if necessary.

2. How to lodge your Entitlement and Acceptance Form

A reply paid envelope is enclosed for your use. No postage stamp is required if it is posted in Australia. Alternatively, the completed Entitlement and Acceptance Form and the Application Monies may be mailed to the postal address, or delivered by hand to the delivery address, set out below. **Your completed Entitlement and Acceptance Form and Application Monies must be received by the Registry no later than 5:00pm (AEST) on Monday, 26 May 2008.** Entitlement and Acceptance Forms received after 5:00pm (AEST) on Monday, 26 May 2008 may be rejected and Application Monies refunded to the Applicant without interest.

Postal delivery

Quay Magnesium Limited
C/- Link Market Services Limited
Reply Paid 1524
Sydney South NSW 1234

Hand delivery

Quay Magnesium Limited
C/- Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000

If you require further information on how to complete this Entitlement and Acceptance Form, please contact Quay Magnesium Limited between 8:30am and 5:30pm (AEST), Monday to Friday on 02 8280 7111.

Quay Magnesium Limited reserves the right to cancel the Entitlement Offer at any time prior to the Closing Date (in which case any Application Monies will be returned to you without interest), to alter the timetable for the Entitlement Offer (including the Closing Date), or to reject any Application which in its sole judgement is not correctly completed. Receipt of this form by 5:00pm (AEST) on Monday, 26 May 2008 with your Application Monies, will constitute acceptance in accordance with this Entitlement and Acceptance Form and the Offer Document.