

AUSTRALIAN

RESEARCH

BLUE BOOK SERIES

Junior Resources

June 2009 Quarterly Review

Juniors maintain momentum

EXTRACT

Contents

This is an extract from the June 2009 Quarterly Junior Resources Review.

IMPORTANT NOTICE

Aegis has been commissioned to produce this report.

Disclaimer & Disclosure of Interests

This publication has been prepared by Aegis Equities Research Pty Limited ("Aegis") (ACN 085 293 910), an Australian Financial Services Licensee (AFSL no. 225072). Aegis has been commissioned to prepare this independent research report (the "Report") and will receive fees for its preparation. Each company specified in the Report (the "Participants") has provided Aegis with information about its activities. Whilst the information contained in this publication has been prepared with all reasonable care from sources that Aegis believes are reliable, no responsibility or liability is accepted by Aegis for any errors, omissions or misstatements however caused. Any opinions, forecasts or recommendations reflects the judgment and assumptions of Aegis as at the date of publication and may change without notice. Aegis and each Participant in the Report, their officers, agents and employees exclude all liability whatsoever, in negligence or otherwise, for any loss or damage relating to this document to the full extent permitted by law. This publication is not and should not be construed as, an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. Any opinion contained in the Report is unsolicited general information only. Neither Aegis nor the Participants are aware that any recipient intends to rely on this Report or of the manner in which a recipient intends to use it. In preparing our information, it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual recipient. Investors should obtain individual financial advice from their investment advisor to determine whether opinions or recommendations (if any) contained in this publication are appropriate to their investment objectives, financial situation or particular needs before acting on such opinions or recommendations. This publication is not for public circulation or reproduction whether in whole or in part and is not to be disclosed to any person other than the intended recipient, without obtaining the prior written consent of Aegis. This report is intended for the residents of Australia. It is not intended for any person(s) who is resident of any other country. Aegis and/or the Participant, their officers, employees or its related bodies corporate may, from time to time hold positions in any securities included in this Report and may buy or sell such securities or engage in other transactions involving such securities. Aegis and the Participant, their directors and associates declare that from time to time they may hold interests in and/or earn brokerage, fees or other benefits from the securities mentioned in this publication.

Aegis, its officers, employees and its related bodies corporate have not and will not receive, whether directly or indirectly, any commission, fee, benefit or advantage, whether pecuniary or otherwise in connection with making any statements and/or recommendation (if any), contained in this Report. Aegis discloses that from time to time it or its officers, employees and related bodies corporate may have an interest in the securities, directly or indirectly, which are the subject of these statements and/or recommendations (if any) and may buy or sell securities in the companies mentioned in this publication; may effect transactions which may not be consistent with the statements and/or recommendations (if any) in this publication; may have directorships in the companies mentioned in this publication; and/or may perform paid services for the companies that are the subject of such statements and/or recommendations (if any).

However, under no circumstances has Aegis been influenced, either directly or indirectly, in making any statements and/or recommendations (if any) contained in this Report.

The information contained in this publication must be read in conjunction with the Legal Notice that can be located at <http://www.aegis.com.au/Public/Disclaimer.aspx>

For more information regarding our services please refer to our website www.aegis.com.au

Quay Magnesium Limited (QMG)



Sector Materials	Industry Group Materials	Industry Metals & Mining	Sub Industry Diversified Metals & Mining
----------------------------	------------------------------------	------------------------------------	--

Company Overview

QMG has a first-class magnesium refinery in China. The plant works well, is de-bottlenecked and produces high-grade automotive alloys. Built for less than \$30M, the initial capacity with one casting line was 15,000tpa. Capacity is now 25,000tpa for a total capital cost of around \$50M. QMG has received quality approval from Chrysler LLC. QMG has a Heads of Agreement to acquire 49% of two Chinese Mg plants.

Strategy

The Nanjing production facility satisfies all the requirements and has received accreditation under ISO/TS 16949. This was a major milestone that admitted QMG to the ranks as a supplier of Mg alloy to the auto industry. QMG has a strategy of vertical integration and discussions with two China-based equity investors who are associated with primary Mg facilities may aid QMG of realising this.

Aegis Comments as at June 2009.

Outlook: QMG has secured an equity investment from one China-based group and is in the process of securing investment with another. These investments will help QMG through this difficult period of subdued Mg alloy demand. Furthermore, QMG may benefit from access to the primary magnesium plants that each of the two investors are associated with. In terms of demand, Mg alloy markets in Europe and North America are quiet, although Chinese domestic demand has remained reasonably high.

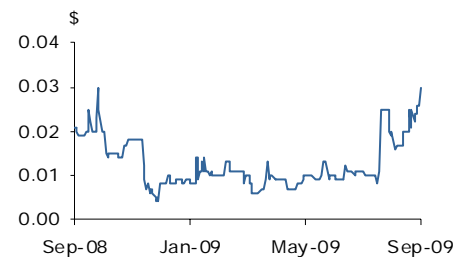
Catalysts: Significant catalysts to share price gains include a general upturn in global economic conditions, leading to an increase in demand from major magnesium customers, including the automotive industry, aerospace and other die-casting industries.

Risks: The primary risk faced by QMG at present is the going-concern risk. In order to survive the weak conditions, the company has implemented several waves of cost cutting at both the Nanjing plant and the Head Office. The USD revolving credit facility will assist QMG to fund its working capital requirements at its Nanjing plant; however, an upturn in magnesium and alloy prices will be essential to stem cash outflows.

Key investment information

Price:	\$0.03
Price as at:	07-Sep-09
Market Cap (\$M):	6.9
Equiv. Shares (M):	226.50
% All Ords:	0.00
12Mth Range (\$):	0.00 - 0.03
Shares Traded (\$M pa):	0.6
Listed since:	29 Sep 2004
Index:	n/a

Share price performance



Company contact



Peter Stuntz
Executive Chairman
stuntz@quaymagnesium.com
61 2 8274 0900

www.quaymagnesium.com

Earnings Summary

Yr to Jun	NPAT Rep \$M	NPAT ¹ Adj \$M	EPS ¹ c	EPS chg %	PER x	PER rel All Ords x	PER rel Sector x	DPS c	Yield %	Franking %	ROE %
2006A	(3.8)	(3.8)	(3.2)	n/a	(1.0)	(0.1)	(0.1)	0.0	0.0	0	(12.1)
2007A	(7.6)	(7.6)	(5.6)	n/a	(0.6)	(0.0)	(0.0)	0.0	0.0	0	(49.0)
2008A	(10.1)	(10.1)	(5.7)	n/a	(0.6)	(0.0)	(0.0)	0.0	0.0	0	(35.7)
2009A	(14.1)	(7.3)	(3.2)	n/a	(1.0)	(0.1)	(0.1)	0.0	0.0	0	(28.2)

¹ NPAT and EPS are adjusted by removing non-recurring items. All the above statistics are derived from normalised earnings.

Financial Stability

Balance Sheet (Y/E Jun)

	08A	09A
Net debt (cash) (\$M)	(0.7)	(0.2)
Total assets (\$M)	29.0	18.3
Net debt/equity (%)	(2.9)	(0.9)
Net interest cover (x)	(186.8)	(30.0)
NTA per share (\$)	0.11	0.07
Current ratio (x)	2.3	0.8

As at 30-Jun-09

Net debt (cash) (\$M)	(0.2)
Net debt (cash) / shr (\$)	(0.00)
Net debt (cash) / MktCap (%)	(2.2)

Substantial Shareholders

P W Stuntz	15.8%
Central Turbo Limited	12.5%
RAB Special Situations (Master) Fund	9.8%

Board

P W Stuntz (Chairman)
N E Bonser (Director)
B J Joyce (Director)

Key Executives

R Lees (COO)

Differentiating Factors

QMG's Nanjing facility utilises technology unique to China. The technology produces consistently homogenous high-quality alloys that automotive customers require and approval has been received from automotive heavyweights like VW and Chrysler. This, combined with ISO/TS-16949 approval achieved in November 2007, has Quay fully qualified for the automotive supply chain.

Achievements

QMG has built a state-of-the-art Mg alloy facility, expanded from 15,000tpa to 25,000tpa. Plans are being implemented for vertical integration. These plans may involve accessing the primary magnesium plants associated with equity (both current and potential) investors of QMG. These recent equity investments have helped with working capital requirements.

Recent Events

27 July 2009 – Successful placement: QMG successfully entered into a subscription agreement with Central Turbo Ltd for the placement of 34M new ordinary shares at 1.5cps, raising \$510,000 (before costs). As part of the agreement, QMG agreed to appoint a Central Turbo nominee to the QMG board upon completion of the transaction. With \$150,000 cash on hand at the end of the June 2009 quarter, the additional funds raised will be utilised towards general working capital purposes.

24 July 2009 – Update: Magnesium alloy market still doing it tough:

Demand remained weak for magnesium alloys during the June quarter and despite signs of economic activity resuming, it remains at levels insufficient for QMG to underpin a return to commercial profitability of its plant. QMG cites overstocking and poor demand in both the North America and European markets, although Chinese domestic demand remains reasonably firm. QMG is in discussion with two China-based group with the objective of securing equity investments.

24 June 2009 – Quarterly report:

Net operating cash outflow for the quarter was \$496K, compared to the previous quarter's outflow of \$1.6M. QMG drew down a further \$542K on its Chinese Bank financing facility, resulting in an overall cash outflow of \$79K, leaving the company with \$150K cash in hand. The Chinese domestic working capital loan facility of 10M RMB was increased to 20M RMB with another Chinese bank when the original facility expired in late June 2009. The new facility was activated on 1 July 2009.

Capital Structure

QMG has 226.5M fully paid shares on issue.



Level 6, 33 York Street
Sydney NSW 2000 Australia
Locked Bag 7 Australia Square
Sydney NSW 1215
Phone 61 2 8296 1100
Fax 61 2 9299 3777
ABN 72 085 293 910
www.aegis.com.au