AUSTRALIAN RESEARCH
BLUE BOOK SERIES

Junior Resources

June 2009 Quarterly Review

Juniors maintain momentum

EXTRACT

Aegis Measured by Performance

Contents

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

IMPORTANT NOTICE

Aegis has been commissioned to produce this report.

Quay Magnesium Limited (QMG)

Sector	Industry Group	Industry	Sub Industry
Materials	Materials	Metals & Mining	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.

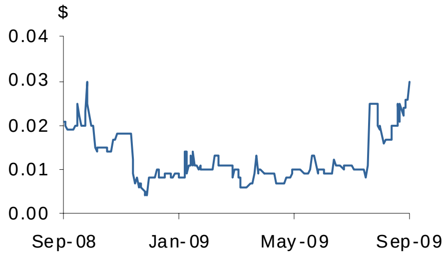
Catalysts: Significant catalysts to share price gains include a general upturn in global economic conditions, leading to an increase in demand from major magnesium customers, including the automotive industry, aerospace and other die-casting industries.

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



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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.

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