

**QUAY MAGNESIUM LIMITED**  
ABN 75 104 179 099

# ANNUAL REPORT 2004



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# CORPORATE DIRECTORY

## QUAY MAGNESIUM LIMITED

ABN 75 104 179 099

### DIRECTORS

Peter Stuntz - Executive Chairman

Brendan Joyce - Executive Director

Neil Bonser - Non-Executive Director

### SECRETARY

Jim Harte

### REGISTERED & PRINCIPAL OFFICE

3 Spring Street

Sydney, NSW 2000

Postal Address:

GPO Box 5438

Sydney NSW 2001

Telephone: +61 2 8274 0900

Facsimile: +61 2 8274 0999

Email: [mail@quaymagnesium.com](mailto:mail@quaymagnesium.com)

Website: [www.quaymagnesium.com](http://www.quaymagnesium.com)

### SHARE REGISTRY

ASX Perpetual Registrars Limited

Level 8, 580 George Street

Sydney, NSW 2000

Mail Address:

Locked bag A14

Sydney South NSW 1235

Telephone: +61 2 8280 7111

Facsimile: +61 2 9287 0303

### AUDITORS

KPMG

10 Shelley Street

Sydney, NSW 2000

### SOLICITORS

Freehills

MLC Centre, Martin Place

Sydney, NSW 2000

### AUSTRALIAN STOCK EXCHANGE

20 Bridge Street

Sydney, NSW 2000

ASX Code Ordinary Shares: QMG

## CHAIRMAN'S LETTER

Dear Investor,

These are the first widely circulated financial statements of Quay Magnesium Limited since its incorporation on 25th March, 2003. As such they cover the period from the date of incorporation to 30th June, 2004. These statements reflect the seed capital raised during the formative stages of the company's development and the expenditures carried out in examining the different options available in pursuing the objective of being a producer of high end magnesium alloys.

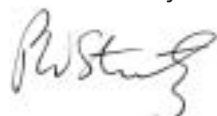
A strategy for the type of plant to be built was identified which the Board believes will maximize the returns to shareholders based on a highly efficient use of capital. China was selected as the location because of the availability of primary magnesium, the favourable tax treatment accorded and the projected growth of its automobile industry. The work carried out during the period covered by these accounts and afterwards has enabled Quay to:

- raise \$28.1 million through its Initial Public Offer (IPO) under a Prospectus lodged with ASIC on 8th July, 2004;
- gain admission to the Australian Stock Exchange (ASX) with the company listing on 29th September, 2004;
- continue to progress the planning and design of a magnesium alloy plant to be built in Nanjing China, and;
- more recently make several appointments that add considerable depth and experience to our construction and technical teams.

The period to 30th June, 2004 and since has been extremely busy and I express my sincere thanks to the directors, employees and advisors that have worked so diligently on the project.

Your company will continue to face an extremely challenging time over the next 12 months as the project takes shape and construction begins. Work has already commenced on the hiring of Chinese staff and the establishment of a temporary office in Nanjing. Quay's Board continues to pursue the raising of additional funds that would allow for the construction of a second production line. To date all outcomes and indications are that the company is making material progress towards its stated objectives.

Yours faithfully,



Peter Stuntz  
Chairman  
8th November, 2004

## DIRECTORS' REPORT

The Directors present their report together with the financial report of Quay Magnesium Limited, ("the Company") and the consolidated financial report of the consolidated entity, being the Company and its controlled entities, for the financial period from the date of incorporation, 25 March 2003 to 30 June 2004 and the auditors' report thereon.

### DIRECTORS

The Directors of the Company at any time during the financial period and up to the date of this report are:

#### *Name and Qualifications*

#### **Mr P W Stuntz**

Age 46

B.Sc, B.E (Min) (Hons),  
M.GEOSCIENCE,  
F.AusIMM, ASIA

Appointed 18 September 2003  
Executive Chairperson / Director

#### *Experience and Special responsibilities*

Peter Stuntz graduated from the University of Sydney with degrees in geology and mining engineering and later obtained a masters degree specialising in mineral economics from Macquarie University. After a period in the mining industry he joined a large financial institution and spent 14 years as a financial analyst and investment manager. During this time he specialised in both listed and unlisted investments and gained extensive experience across a range of industries and commodities. On leaving this institution he established his own financial services company which he ran as Managing Director and subsequently sold in 2002.

#### **Mr N E M Bonser**

Age 61

APTC, MIE Aust, CPEng  
Appointed 31 May 2003.  
Non-Executive Director

Neil Bonser has an Associateship in Civil Engineering (APTC), is a Member of the Institution of Engineers Australia and is a Chartered Professional Engineer. He has worked as a civil engineer for 37 years and is currently the Managing Director of van der Meer Bonser Pty Limited. This is a consulting engineering practise based in Sydney with offices in Perth and Melbourne. This specialist structural engineering company has designed numerous office blocks, apartments, shopping centres, warehouses and other specialist industrial buildings. Neil has gained valuable experience in corporate management from his involvement in various companies over the last 20 years.

#### **Mr B J Joyce**

Age 66

B.E. (Hons)  
Appointed 25 March 2003.  
Executive Director

Brendan Joyce obtained an honours degree in civil engineering from the University of Western Australia in 1960. His initial specialisation and experience was in structural design. Following this he spent lengthy periods in both the construction and quarrying industries throughout Western Australia. He also worked in manufacturing in Asia for over 10 years.

#### **Mr R M Clanan**

Non-Executive Director

Appointed 25 March 2003 and retired as a Director on 23 May 2003.

#### **Ms L L Salter**

Non-Executive Director

Appointed 29 October 2003 and retired as a Director on 21 May 2004.

#### **Mr P L Salter**

Non-Executive Director

Appointed 24 March 2003 and retired as a Director on 29 October 2003.

## DIRECTORS' REPORT (CONTINUED)

### DIRECTORS' MEETING

The number of Directors' meetings held during the financial period and attendance by the directors is as follows:

<i>Director</i>	<i>Number of meetings held</i>	<i>Number of meetings attended</i>
Mr P Stuntz	17	17
Mr N Bonser	18	9
Mr B Joyce	26	26
Mr R Clanan	5	1
Mr P Salter	13	13
Ms L Salter	10	1

Details of directors' remuneration and related party transactions are set out in note 15 to the financial statements

### PRINCIPAL ACTIVITIES

During the financial period the principal activity of the Company and consolidated entity was the prefeasibility review and establishment of the opportunity to invest in the magnesium refining and alloying industry.

### DIVIDENDS

No dividends were paid during the financial period to 30 June 2004 and no dividend is proposed.

### REVIEW OF OPERATIONS

The Company was incorporated on 25 March 2003 and was established with the objective to invest in magnesium refining and alloying with the intention to list on the Australian Stock Exchange (ASX).

The subsidiaries Quay Magnesium Holdings Limited and its wholly owned subsidiary Quay Magnesium Marketing Limited were incorporated on 12 February 2004 and apart from the issue of 1 share at no par value by each of the subsidiaries, they were dormant for the financial period.

The financial period from 25 March 2003 to 30 June 2004 represents the Company's first financial period and during that period the Company's activity was the examination, review and conducting of pre-feasibility studies to examine the opportunities and to determine the appropriate strategy to meet the Company's objective and to prepare for admission to the ASX.

The net result for the period was a loss of \$1,368,746 reflecting the expensing of costs incurred in the pre-feasibility stage of the magnesium refining and alloying opportunity together with general corporate costs.

Costs incurred to 30 June 2004 of \$433,733 in relation to the public offer have been capitalised and included as deferred expenses and will be offset against the funds raised under the public offer. Costs incurred to 30 June 2004 of \$81,315 in relation to the design and construction of the plant to be built in Nanjing China have been capitalised in accordance with accounting policy set out in note 1(f) to the financial statements.

## DIRECTORS' REPORT (CONTINUED)

### STATE OF AFFAIRS

Significant changes in the state of affairs of the Company during the period were the raising of seed capital (detailed in note 12 to the financial statements) of \$1,389,550 to provide the Company with funding to carry out feasibility studies and progress the project (being the refining and alloying of magnesium) and prepare the documentation sufficient to allow a public offer to be made under a Prospectus.

### ENVIRONMENTAL REGULATION

The consolidated entity has not been subject to significant environmental operations during the financial period to 30 June 2004.

The consolidated entity proposes to build a plant for the production of magnesium alloys and preliminary reports have been reviewed by the relevant Chinese authorities indicating the required standards will be achieved.

The Directors believe that the consolidated entity will have adequate systems in place for the management of its environmental requirements and is not aware of any breach of the environmental requirements as they apply to the Company.

### EVENTS SUBSEQUENT TO BALANCE DATE

Since 30 June 2004 the Company has completed the initial public offer, raising \$28,094,625 from the issue of 37,459,501 shares, and was admitted to the Australian Stock Exchange on 29 September 2004.

The raising of funds will enable the Company to invest in the design, construction and commissioning of a magnesium alloying plant in Nanjing China as detailed in the prospectus under which the funds were raised.

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with International Financial Reporting Standards ("IFRS") as issued by the Australian Accounting Standards Board. At balance date, the effect of the convergence to IFRS has not been quantified. Refer to note 20 for further details.

Other than has been identified above there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the company, to affect significantly the operations, or the state of affairs of the consolidated entity, in future financial years.

### LIKELY DEVELOPMENTS

The consolidated entity will commence the project of designing, building and commissioning of a plant in China to refine and manufacture high grade magnesium alloys.

Further information about likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

### OPTIONS

During or since the end of the financial period, the Company has not granted options over unissued ordinary shares.

## DIRECTORS' REPORT (CONTINUED)

### DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

The consolidated entity has a Remuneration Policy which aims to ensure remuneration packages of Board Members and senior executives properly reflect the person's duties and responsibilities and level of performance and that remuneration is competitive in attracting, retaining, motivating people of the highest quality.

To give effect to this policy the consolidated entity reviews available information which measures the remuneration levels in the various labour markets in which it competes. The expectation of the consolidated entity is that, for a particular grade of employee, the total fixed compensation will be at the median level of the relevant market.

During the period the Directors were not entitled to a Director's fee. The Directors however received consultancy fees for the services supplied to the Company as detailed in note 15 to the financial statements.

### DIRECTORS' INTERESTS

Directors and their related entity interests in the Company's shares at the date of the report are:

<i>Director</i>	<i>No of shares held</i>
<b>Mr P Stuntz</b> (including 1,000,000 shares held by Resource Portfolio Management Pty Limited in which Mr P Stuntz has a 50% interest)	13,000,000
<b>Mr N Bonser</b> (held by N & S Bonser Pty Limited which Mr N Bonser controls and is a director and company secretary)	3,100,000
<b>Mr B Joyce</b>	6,000,000

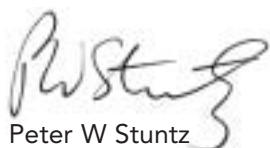
### INDEMNIFICATION AND INSURANCE OF OFFICERS

Clause 9 of the Constitution of the Company provides that, to the extent permitted by law, each person who is or has been an officer of the Company shall be indemnified against liability incurred by the person in his capacity as an officer of the Company unless the liability arises out of conduct on the part of the officer which involves a lack of good faith.

The Company also indemnifies each person who is or has been an officer of the Company against liability for costs or expenses incurred by the person in his or her capacity as an officer of the Company in defending civil or criminal proceedings in which judgement is given in favour of the person or the person is acquitted or in connection with an application in which the Court grants relief to the person under the Corporations Act 2001.

Pursuant to this indemnification, the Company is currently obtaining an insurance policy for the benefit of, Directors, secretaries and executive officers of the Company.

Signed in accordance with a resolution of directors at Sydney:



Peter W Stuntz  
Chairman

Dated: 8 November 2004

# CORPORATE GOVERNANCE STATEMENT

## BOARD OF DIRECTORS

The Board's primary role is the protection and enhancement of long term shareholder value. The Board is responsible for the overall corporate governance of the Company including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievements of management's goals and ensuring the integrity of internal controls and management information systems. It is also responsible for approving and monitoring financial and other reporting. The functions reserved to the Board and those delegated to senior management have not, at the date of this report, been formally documented.

The Board has delegated responsibility for operation and administration of the Company to the Executive Chairman.

The Board schedules meetings including strategy meetings and any extraordinary meetings to address any specific significant matters that may arise.

The Company is not currently considered to be a size nor its affairs of such complexity to justify the establishment of separate Board Committees, in a Nomination Committee, Remuneration Committee, Health Safety and Environmental Committee or Finance, Audit and Compliance Committees. Accordingly all matters that may be considered by such committees are dealt with by the full Board.

The Board is continuing to establish a framework for the management of the Company including a system of internal control, a business risk management process and appropriate ethical standards.

It is the Board's policy to adopt a business control framework designed to safeguard the Company's assets and interests to ensure the integrity of reporting. This framework will be made up of the following elements:

- A comprehensive planning system with five year business plan and an annual budget which are approved by the Board. Monthly actual results to be reported against the budget and revised forecasts for the year are to be prepared regularly and reported to the Board at least quarterly;
- Identification of key areas that will be subject to regular reporting to the Board.
- Development of clearly defined guidelines for capital expenditure which will include annual budgets, detailed appraisal and review procedures for all major projects, allocation of major contracts and post-investment reviews;
- A framework of policies and procedures covering the administration activities of the business;
- A system of delegated authorities to ensure that all actions and transactions are executed within management's specific or general authority; and
- Annual self-assessment of business controls to be undertaken by each business unit and reported to the Board in a letter of representation.

## DIRECTOR EDUCATION

The Company educates all directors about the nature of the business, current issues, the corporate strategy and expectations of the Company concerning performance of directors. Directors also have the opportunity to visit Company facilities and meet with management and advisers to gain a better understanding of business operations.

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

### INDEPENDENT PROFESSIONAL ADVICE AND ACCESS TO COMPANY INFORMATION

To encourage intelligent and responsible decision making the Board accepts that directors are able to seek independent professional advice for Company related business.

Each director has the right of access to all relevant Company information and to the Company's executives and subject to prior consultation with the Executive Chairman may seek independent professional advice from a suitably qualified adviser at the Company's expense. A copy of the advice is to be made available to all other members of the Board.

### COMPOSITION OF THE BOARD

The name of the directors in office at the date of this report and their experience is set out in the directors' report in the annual report. The Board does not have a majority of independent directors as recommended by the ASX Corporate Governance Council. The directors consider that the current number of independent directors in the Company is appropriate for the effective execution of the Board's responsibilities. The directors periodically monitor the need to appoint additional independent directors.

The Board insists on honest, fair and diligent conduct of its directors when dealing with staff, shareholders, customers, regulatory authorities and the community. The practice of the Board and its management should not depart from the ASX Principles in any significant way.

Board members that have any conflict of interest are excluded on making decisions that relate to that particular matter. The Company's constitution allows a director to enter into any contract with the Company other than that of auditor for the Company, subject to the law.

### NOMINATION OF NEW DIRECTORS

The Board considers that a formally constituted Nomination Committee is not appropriate as the Board, as part of its usual role, oversees the appointment and induction process for directors, and the selection, appointment and succession planning process of the Company's executive officers. Board appointed candidates must stand for election at the next general meeting of shareholders.

### REMUNERATION OF DIRECTORS

The Board considered that a formally constituted Remuneration Committee is not appropriate as the Board, as part of its role, oversees the appointment and remuneration of directors and the Company's executive officers and advisers. The Board may seek independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally.

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

### AUDIT FUNCTIONS

The Company is not currently considered to be of a size, nor is its affairs of such complexity to justify the establishment of a separate Audit Committee. Whilst the Company does not have a formally constituted Audit Committee, the Board, as part of its usual role, undertakes audit related responsibilities including:

- Reviewing the annual and interim financial reports and other financial information distributed externally.
- Assessing corporate risk assessment processes, including accounting, compliance and operational risk management.
- Reviewing the nomination and performance of the external auditor.
- Assessing the adequacy of the internal control framework and the Company's code of ethical standards.
- Monitoring the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements.

### RISK MANAGEMENT

The Company is not currently considered to be of a size, nor is its affairs of such complexity to justify the establishment of a separate Risk Management Committee. Instead, the Board, as part of its usual role and through direct involvement in the management of the Company's operations ensures risks are identified, assessed and appropriately managed. Where necessary, the Board draws on the expertise of appropriate external consultants to assist in dealing with or mitigating risk. The Executive Chairman, in accordance with company policy, approves all expenditure, is intimately acquainted with all operations and reports all relevant issues to the directors at the Board meetings.

### COMPLIANCE CONTROL

The Board acknowledges that it is responsible for the overall internal control framework, but recognized that no cost effective internal control system will preclude all errors and irregularities.

### FINANCIAL REPORTING

The Executive Chairman has declared to the Board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

### ENVIRONMENTAL REGULATION

The Board believes that the Company has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Company.

### INTERNAL AUDIT

The Company does not have a formally established internal audit function. The Board ensures compliance with the internal controls and risk management procedures previously mentioned.

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

### ETHICAL STANDARDS

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

### CONFLICT OF INTEREST

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Details of director related entity transactions with the Company and Consolidated Entity are set out in note 15 to the financial statements.

### CODE OF CONDUCT

The Company is not currently considered to be of a size, nor are its affairs of such complexity to justify the establishment of a formalized Code of Conduct.

### TRADING IN COMPANY SECURITIES BY DIRECTORS AND EMPLOYEES

The Constitution permits directors to acquire shares in the Company. Directors are prohibited from dealing in shares whilst in possession of price sensitive information. Directors must notify the company secretary once they have bought or sold shares in the Company. In accordance with the provisions of the Corporations Act 2001 and the Listing Rules of the Australian Stock Exchange, the Company on behalf of the directors must advise the Australian Stock Exchange of any transactions conducted by them in shares in the Company.

### COMMUNICATION WITH SHAREHOLDERS

The Board is committed to informing shareholders and the market in a timely and conscientious manner any major events that influence the Company. The Board is responsible for ensuring that the Company complies with ASX Listing Rule 3.1, which relates to continuous disclosure.

The Board discusses any market sensitive information before it is approved for release to the market. The Company's procedure is to lodge such information with ASX in an ongoing and timely manner.

The Board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the Company's strategy and goals. Important issues are presented to the shareholders as single resolutions. The shareholders are requested to vote on the appointment and aggregate remuneration of directors, the granting of options and shares to directors and changes to the Constitution.

## STATEMENTS OF FINANCIAL PERFORMANCE

### FOR THE PERIOD 25 MARCH 2003 TO 30 JUNE 2004

	<b>Note</b>	<b>Consolidated 2004 \$</b>	<b>Company 2004 \$</b>
Other revenues from ordinary activities	2	6,479	6,479
Other expenses from ordinary activities	3	<u>(1,375,225)</u>	<u>(1,375,225)</u>
<b>Loss from ordinary activities before related income tax expense</b>		(1,368,746)	(1,368,746)
Income tax expense relating to ordinary activities	5	<u>-</u>	<u>-</u>
<b>Loss from ordinary activities after income tax expense</b>		<u>(1,368,746)</u>	<u>(1,368,746)</u>
Net loss and total changes in equity other than those resulting from transactions with owners as owners		<u>(1,368,746)</u>	<u>(1,368,746)</u>
Basic and diluted loss per ordinary share (¢ per share)	21	<u>5.4</u>	

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 13 to 27.

## STATEMENTS OF FINANCIAL POSITION

### AS AT 30 JUNE 2004

	Note	Consolidated 2004 \$	Company 2004 \$
<b>Current assets</b>			
Cash assets	6	85,659	85,659
Other	7	496,112	496,112
<b>Total current assets</b>		581,771	581,771
<b>Non-current assets</b>			
Plant and equipment	8	91,217	91,217
Other financial assets	9	-	-
<b>Total non-current assets</b>		91,217	91,217
<b>Total assets</b>		672,988	672,988
<b>Current liabilities</b>			
Payables	10	502,184	502,184
Loans from related entities	11	150,000	150,000
<b>Total current liabilities</b>		652,184	652,184
<b>Net assets</b>		20,804	20,804
<b>Equity</b>			
Contributed equity	12	1,389,550	1,389,550
Accumulated losses	13	(1,368,746)	(1,368,746)
<b>Total equity</b>		20,804	20,804

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 13 to 27.

## STATEMENTS OF CASH FLOWS

### FOR THE PERIOD 25 MARCH 2003 TO 30 JUNE 2004

	Note	Company 2004 \$	Consolidated 2004 \$
<b>Cash flows from operating activities</b>			
Cash payments in the course of operations		(1,131,123)	(1,131,123)
Interest received		6,479	6,479
<b>Net cash used in operating activities</b>	14(ii)	<u>(1,124,644)</u>	<u>(1,124,644)</u>
<b>Cash flows from investing activities</b>			
Payment of costs in respect of project costs		(50,195)	(50,195)
Payment for plant and equipment		(9,902)	(9,902)
<b>Net cash used in investing activities</b>		<u>(60,097)</u>	<u>(60,097)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		1,389,550	1,389,550
Proceeds from borrowings		150,000	150,000
Payment of costs in respect of public offer		(269,150)	(269,150)
<b>Net cash provided by financing activities</b>		<u>1,270,400</u>	<u>1,270,400</u>
<b>Net increase in cash during the financial period</b>		85,659	85,659
Cash at beginning of the period		-	-
<b>Cash at end of the period</b>	14(i)	<u>85,659</u>	<u>85,659</u>

The statements of cash flows are to be read in conjunction with the notes to the financial report set out on pages 13 to 27.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2004

### 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies which have been adopted in the preparation of this financial report are:

#### (a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of non-current assets. These accounting policies have been consistently applied for the period from the date of incorporation of the Company (being 25 March 2003) to 30 June 2004.

#### (b) Principles of consolidation

##### *Controlled entities*

The financial statements of controlled entities are included from the date control commences until the date control ceases.

#### (c) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority. Exchanges of goods and services of the same nature and value without any cash consideration are not recognised as revenues.

##### *Interest revenue*

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

#### (d) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

#### (e) Taxation

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE PERIOD ENDED 30 JUNE 2004

#### (f) Project costs

Since incorporation the Company has undertaken the review and feasibility of manufacture of high grade magnesium alloys including the location of the plant (the project).

Costs incurred in relation to the evaluation pre-feasibility and associated costs of the project have been written off as incurred.

Development costs related to the project are carried forward to the extent that they are expected to be recouped through future cash flows arising from the commercialisation of the project.

#### (g) Acquisition of assets

All assets acquired including plant and equipment are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of consideration provided plus incidental costs directly attributable to the acquisition.

Expenditure is only recognised as an asset when the entity controls future economic benefits as a result of the costs incurred, it is probable that those future economic benefits will eventuate, and the costs can be measured reliably.

#### (h) Depreciation

##### *Useful lives*

All non-current assets have limited useful lives and are depreciated on a straight line basis over their estimated useful lives.

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation and amortisation are expensed, except to the extent that they are included in the carrying amount of another asset as an allocation of production overheads.

The depreciation rate used for plant and equipment is between 10% - 20%.

#### (i) Investments

##### *Controlled entities*

Investment in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

#### (j) Recoverable amount of non-current assets valued on cost basis

The carrying amounts of non-current assets valued on the cost basis, are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is recognised as an expense in the net profit or loss in the reporting period in which it occurs.

In assessing recoverable amounts the relevant cash flows have not been discounted to their present value.

#### (k) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 30 days.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2004

	<i>Consolidated 2004</i>	<i>Company 2004</i>
	\$	\$
<b>2 REVENUE FROM ORDINARY ACTIVITIES</b>		
<b>Other Revenues:</b>		
From operating activities		
Interest - Other parties	6,479	6,479
	<u>6,479</u>	<u>6,479</u>
<b>3 LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE</b>		
Loss from ordinary activities before income tax expense has been arrived at after charging the following items:		
Consulting expenses	790,904	790,904
Legal expenses	191,325	191,325
Travel expenses	105,737	105,737
General and other administration expenses	287,259	287,259
	<u>1,375,225</u>	<u>1,375,225</u>
<b>4 AUDITORS' REMUNERATION</b>		
<b>Audit services</b>		
Auditors of the Company- KPMG		
Audit and review of the financial reports	5,000	5,000
	<u>5,000</u>	<u>5,000</u>
<b>Other services</b>		
Auditors of the Company – KPMG		
Taxation services	135,037	135,037
Due diligence services	102,000	102,000
Assistance with the preparation of the financial report	10,000	10,000
	<u>247,037</u>	<u>247,037</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2004

	<b>Consolidated 2004 \$</b>	<b>Company 2004 \$</b>
<b>5 INCOME TAX</b>		
<b>Income tax benefit</b>		
Prima facie income tax benefit calculated at 30% on the operating loss from ordinary activities	(410,624)	(410,624)
Future income tax benefit not brought to account	410,624	410,624
	<u>-</u>	<u>-</u>
<b>Future income tax benefit not taken to account</b>		
The potential future income tax benefit arising from tax losses and timing differences has not been recognised as an asset because recovery of tax losses is not virtually certain and recovery of timing differences is not assured beyond reasonable doubt:		
Tax losses carried forward	133,774	133,774
Timing differences carried forward	276,850	276,850
	<u>410,624</u>	<u>410,624</u>

The potential future income tax benefit will only be obtained if:

- (i) The Company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised, or the benefit can be realised by another company in the consolidated entity in accordance with Division 170 of the Income Tax Assessment Act 1997;
- (ii) The Company complies with the conditions for deductibility imposed by the law; and
- (iii) No changes in tax legislation adversely affect the company in realising the benefit.

## 6 CASH ASSETS

Cash at bank and on hand	<u>85,659</u>	<u>85,659</u>
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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2004

	<i>Consolidated</i> 2004 \$	<i>Company</i> 2004 \$
<b>7 OTHER CURRENT ASSETS</b>		
Deferred expenditure	433,773	433,733
Prepayments	17,672	17,672
Other debtors	44,667	44,667
	<u>496,112</u>	<u>496,112</u>

Deferred expenditure of \$433,773 represents costs associated with the Company's initial public offer of shares in the Company. The Prospectus in respect of the offer was registered with ASIC on 8 July 2004 and the offer closed on 23 September 2004 with funds raised of \$28,094,625. The Company was listed on the Australian Stock Exchange on 29 September 2004. The deferred amount represents costs paid and accrued at 30 June 2004 and, together with other costs attributable to the offer, will be offset against equity raised from the offer.

## 8 PLANT & EQUIPMENT

Office equipment	9,902	9,902
Project costs	81,315	81,315
	<u>91,217</u>	<u>91,217</u>

Project costs represent costs incurred and directly associated with the design and construction of the proposed alloy magnesium plant in China, for which the Company made a public offer to raise funds.

The costs have been capitalised in accordance with accounting policy note 1(f).

### Reconciliations

Reconciliations of the carrying amounts for each class of plant and equipment are set out below:

#### Office equipment

Carrying amount at beginning of period	-	-
Additions	9,902	9,902
	<u>9,902</u>	<u>9,902</u>
Carrying amount at end of period	<u>9,902</u>	<u>9,902</u>

#### Project costs

Carrying amount at beginning of period	-	-
Additions	81,315	81,315
	<u>81,315</u>	<u>81,315</u>
Carrying amount at end of period	<u>81,315</u>	<u>81,315</u>

<b>Total</b>	<u>91,217</u>	<u>91,217</u>
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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE PERIOD ENDED 30 JUNE 2004

	<b>Consolidated 2004 \$</b>	<b>Company 2004 \$</b>
<b>9 OTHER FINANCIAL ASSETS</b>		
Investment in controlled entities		
Unlisted shares at cost	-	-
		<b>Consolidated equity interest 2004 (%)</b>
<b>Parent entity</b>		
Quay Magnesium Limited		
<b>Controlled entities</b>		
Quay Magnesium Holdings Limited		100
Quay Magnesium Marketing Limited		100
<p>Both companies were incorporated on 12 February 2004. Quay Magnesium Limited acquired 1 share in each company with a nil par value. The controlled entities are incorporated under the International Business Companies Act (Cap 291) Territory of the British Virgin Islands.</p>		
<b>10 PAYABLES</b>		
Trade creditors and accruals	502,184	502,184
<b>11 LOANS FROM RELATED ENTITIES</b>		
Advances from directors	150,000	150,000

As at 30 June 2004 directors Messrs Stuntz and Joyce had themselves or through a related entity advanced to the Company amounts totalling \$150,000. These amounts are unsecured and interest free. The amounts were repaid subsequent to year end in October 2004.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2004

	<b>Consolidated 2004 \$</b>	<b>Company 2004 \$</b>
<b>12 CONTRIBUTED EQUITY</b>		
<b>Issued and paid up capital</b>		
65,370,001 ordinary shares, fully paid	1,389,550	1,389,550
<b>Ordinary shares</b>		
<b>Issued during the period:</b>	<b>No.</b>	<b>\$</b>
On incorporation of Company (25 March 2003)	1	-
9 April 2003	280,000	7,000
30 April 2003	560,000	14,000
30 May 2003	800,000	20,000
13 June 2003	1,000,000	25,000
22 December 2003	39,070,000	292,750
3 February 2004	17,060,000	700,800
11 February 2004	1,400,000	70,000
23 February 2004 *	2,600,000	130,000
29 March 2004	2,600,000	130,000
	65,370,001	1,389,550

\* Includes 500,000 shares issued in return for services provided to the value of \$25,000.

The purpose of the issues during the year were to seek seed capital to finance the establishment, evaluation, pre-feasibility and associated costs of the establishment of the Company's objective to invest in magnesium refining and alloying including the location of the plant, and development of the project sufficiently for the Company to undertake a public offer and seek admission to listing on The Australian Stock Exchange Limited (ASX). Subsequent to year end a public offer raised \$28,094,625 and the Company was admitted to the ASX on 29 September 2004.

### Constitution

On 30 June 2004 the Company held its inaugural general meeting (Statutory meeting) and included in that meeting was the adoption of a new Company constitution. The new constitution is a standard form constitution prepared by the Company's lawyers as being suitable for a Company listed on the Australian Stock Exchange.

Under the adopted constitution ordinary shares entitle the holder to participate in dividends and the proceeds of winding up of the Company in proportion to the number of shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote and upon a poll each share is entitled to one vote.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE PERIOD ENDED 30 JUNE 2004

	<b>Consolidated 2004</b>	<b>Company 2004</b>
	\$	\$
<b>13 ACCUMULATED LOSSES</b>		
Net loss attributed to members of the Company during its first financial period	(1,368,746)	(1,368,746)
Accumulated losses at the end of the financial period	(1,368,746)	(1,368,746)
<b>14 NOTES TO THE STATEMENTS OF CASH FLOWS</b>		
<b>(i) Reconciliation of cash</b>		
For the purposes of the Statements of Cash Flows, cash includes cash on hand and at bank and deposits and bank bills maturing within three months. Cash as at the end of the financial period as shown in the Statements of Cash Flows is reconciled to the related items in the Statements of Financial Position as follows:		
Cash assets	85,659	85,659
<b>(ii) Reconciliation of loss from ordinary activities after income tax to net cash used in operating activities</b>		
Loss from ordinary activities after income tax	(1,368,746)	(1,368,746)
Change in assets and liabilities:		
Increase in prepayments	(17,672)	(17,672)
Increase in other debtors	(44,667)	(44,667)
Increase in payables	306,441	306,441
Net cash used in operating activities	(1,124,644)	(1,124,644)

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 JUNE 2004

### 15 RELATED PARTIES

#### Directors

The name of each person holding the position of director during the year are Mr P Stuntz, Mr N Bonser, Mr B Joyce. Ms L Salter, Mr P Salter and Mr R Clanan resigned as directors during the period.

#### Directors holdings of shares

Ordinary shares held by the directors or personally-related entities are:

	<i>Direct interest</i> Number of shares	<i>Indirect interest</i> Number of shares
Mr P Stuntz	12,000,000	1,000,000 +
Mr N Bonser	-	3,100,000 *
Mr B Joyce	6,000,000	-

+ - These shares are held by Resource Portfolio Management Pty Ltd (company in which Mr P Stuntz has a 50% interest).

\* - These shares are held by N & S Bonser Pty Limited (a Company which Mr N Bonser controls as a director and secretary).

#### Directors and their personally-related entities

During the financial period from 25 March 2003 (date of incorporation) to 30 June 2004 directors and their personally-related entities had the following transactions with the Company.

Sepeco Pty Limited a company controlled and owned by Mr P Stuntz provided consultancy services to the Company (in relation to the public offer and seeking prospective investors) pursuant to a consultancy agreement and was paid \$45,000.

Mr B Joyce provided consultancy services in respect of project management services in relation to the pre-feasibility and examination of magnesium refining and alloying production proposals and was paid \$161,500.

Marlin Court Investments Pty Limited and its representative Mr P Salter provided project management consultancy services to the Company including advice to costing, appropriate design and technology issues and the establishment of a magnesium alloy plant in China, assistance and direction in drafting the prospectus, promotion of the Company generally and strategic advice. Marlin Court Investments Pty Limited was paid \$389,400 for the services. Marlin Court Investments Pty Limited and Peter Salter's consultancy services with the Company ceased in May 2004.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE PERIOD ENDED 30 JUNE 2004

#### 15 RELATED PARTIES (CONTINUED)

##### Loans from Directors

As at 30 June 2004 the following directors or director-related entities had made unsecured advances to the Company to assist the funding, primarily the public offer costs. The advances were unsecured and interest free.

	\$
Mr P Stuntz	100,000
Mr B Joyce	50,000

The advances were repaid in October 2004 from funds raised from the public offer.

##### Directors' remuneration

No directors' fees were paid in the financial period to the 30 June 2004.

At the general meeting held on 30 June 2004 a resolution was passed setting the limit of director remuneration at an aggregate pool of \$300,000 per annum.

##### Director consultancy agreements

As at 30 June 2004 the Company had entered conditional agreements with the following directors and their director related entities to provide ongoing services to the Company. The agreements were conditional on the Company being admitted to the official list of the Australian Stock Exchange.

###### Peter Stuntz

The Company has entered into a consultancy agreement with Sepeco Pty Limited, a Company controlled and owned by Mr P Stuntz, the Chairman of the Company. Pursuant to that agreement Sepeco will provide services including strategic advice and management and operational and general management of the project and the Company and will provide Mr P Stuntz as Sepeco's representative to fulfil those duties and any senior roles to which he is appointed by the Board.

The consultancy agreement is for an initial fixed term of 2 years from its commencement date.

- Sepeco will be paid a retainer of \$30,000 per month; and
- While the arrangement is not exclusive, Sepeco and Mr P Stuntz must inform the Company if they perform services for any other entity operating in the magnesium industry and the Company may immediately terminate the agreement if such performance is considered not to be in the interests of the Company.

The Company has entered into an agreement with Mr P Stuntz relating to his role as chairman of the Company.

The agreement governs this relationship between the Company and Mr P Stuntz for such period as he remains elected as a director or chairman of the Company. In accordance with the agreement Mr P Stuntz will fulfil the duties of a Director and Chairman of the Company (as elected). In consideration of this performance and provided that the Company remains listed on the ASX, the Company will pay Mr P Stuntz \$3,000 per month for such period as he a director of the Company and a further \$2,000 per month for such period as he is Chairman of the Company.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 JUNE 2004

### 15 RELATED PARTIES (CONTINUED)

#### **Brendan Joyce**

The Company has entered into a contract of employment with Mr B Joyce pursuant to which Mr B Joyce will provide agreed services including assistant project management services in relation to the design, construction and commissioning of a magnesium refining and alloying plant in China and fulfilment of offices (including as a director of the Company) for such period as he is elected to such positions. Mr B Joyce will be paid executive remuneration of \$6,500 per month and in consideration of his duties as a director \$3,000 per month for such period as he is a director of the Company. Mr B Joyce's contract is terminable by either party on the giving of 6 months written notice.

#### **Neil Bonser**

The Company has entered into a written agreement pertaining to Mr N Bonser's role as non-executive director of the Company on and from the date the Company is admitted to the official list of the ASX. For such period as the Company is listed on the ASX and Mr N Bonser is elected a director, the Company will pay Mr Bonser \$3,000 per month in director's fees for the performance of his role as director of the Company.

The arrangements were approved at the Company's general meeting held on 30 June 2004, conditional on the Company being admitted to the ASX.

### 16 DIVIDEND FRANKING ACCOUNT

The consolidated entity does not have any available franking credits.

### 17 SEGMENT REPORTING

In the period to 30 June 2004 the Company has operated in one geographic segment industry segment being the evaluation, pre-feasibility review of the investment in magnesium refining and alloying with subsequent design, construction, commissioning and operation of a plant to produce high grade magnesium alloys in China.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE PERIOD ENDED 30 JUNE 2004

#### 18 CONTRACT COMMITMENTS

As at 30 June 2004 the Company had entered the following material commitments which were conditional on the Company successfully raising funds under a public offer and being admitted to the Australian Stock Exchange.

The conditional contracts were approved at the Company's inaugural Annual General Meeting held on 30 June 2004 and subsequently came into force on 29 September 2004 the date of official listing in the Australian Stock Exchange.

##### **Employment contracts**

The Company has entered into a contract of employment with Mr Mathieu pursuant to which Mr Mathieu will be employed as the Company's Marketing Director for a fixed term of 3 years from its commencement date (after which time the Company and Mr Mathieu may agree to extend the term of the agreement for a further 2 Years).

The commencement of Mr Mathieu's contract of employment is conditional on the listing of the Company on the ASX.

Subject to the condition described above, the key terms and conditions relating to Mr Mathieu's employment with the Company after listing are as follows:

- in addition to a basic salary of \$250,000 per annum (inclusive of director's fees), Mr Mathieu will be paid a once off sign-on fee of \$150,000 and will be issued with 5,000,000 shares in the Company on the date the Company lists on the ASX;
- Mr Mathieu undertakes that he will not sell, transfer or otherwise deal with the shares issued to him for a period of 2 years after the date the Company is listed on the ASX; and
- Mr Mathieu is required to work exclusively for the Company and is subject to post-employment restraints.

Subject to the condition described above, except in limited circumstances, if the Company terminates the agreement before the third anniversary of the listing date, the Company will be required to pay Mr Mathieu an amount equal to the basic salary Mr Mathieu would have received for the unexpired portion of the contract.

##### **Consultancy agreement**

The Company has entered into a consultancy agreement with Process Technologies Pty Limited (PTA) to provide services including technical assistance in assessing capital costs for the building, commissioning and operating of the refining plant, technical engineering advice relating to the plant and coordinating and managing design and construction engineering tenders for a magnesium metal salt refining furnace.

The consultancy agreement is for an initial fixed period ending on 31 December 2005 (thereafter it can be terminated on one month's written notice) and except in limited circumstances, if the Company terminates the agreement before 31 December 2005, the Company will be required to pay PTA an amount equal to the proportion of the retainer paid to PTA since the commencement of the contract which corresponds to the period of time remaining until 31 December 2005.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 JUNE 2004

### 18 CONTRACT COMMITMENTS (CONTINUED)

The key terms and conditions relating to PTA's consultancy to the Company after listing are as follows:

- PTA will be paid a retainer of \$1,100 per day worked, on a monthly basis on receipt of PTA's invoice;
- PTA will be issued with 500,000 shares in the Company on the date the Company lists on the ASX and agree to do all things necessary to ensure the Company's compliance with the ASX listing rules, including execution of any documents in relation to the share issues; and
- While the arrangement is not exclusive, PTA must inform the Company if it performs services for any other entity operating in the magnesium industry and the Company may immediately terminate the agreement if such performance is considered not to be in the interests of the Company.

### 19 ADDITIONAL FINANCIAL INSTRUMENT DISCLOSURE

#### (a) Interest rate risk

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

	Note	Weighted average interest rate	Floating interest rate \$	Non- Interest bearing \$	Total &
<b>2004</b>					
<b>Financial assets</b>					
Cash assets	6	2.7%	85,659	-	85,659
Other	7	-	-	496,112	496,112
			85,659	496,112	581,771
<b>Financial liabilities</b>					
Payables	11	-	-	502,184	502,184
Loans from related entities	12	-	-	150,000	150,000
			-	652,184	652,184

#### (b) Other financial risks

The consolidated entity has not yet reached a stage whereby commodity or currency risk is significant. Accordingly, the consolidated entity does not hedge these risks.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE PERIOD ENDED 30 JUNE 2004

#### 20 EVENTS SUBSEQUENT TO REPORTING DATE

##### **Admittance to the Australian Stock Exchange**

Subsequent to year end the Company through a prospectus dated 8 July 2004 made a public offer and raised further equity. The primary purpose of the offer was to raise sufficient funds to fund the Project (being the design, build and commissioning of a refining and alloying plant in Nanjing, China to produce high grade magnesium alloys).

The Company successfully raised funds of \$28,094,625 resulting in the further issue of 37,459,501 shares and was successful in its application to join the Australian Stock Exchange (ASX) being admitted on 29 September 2004.

##### **International Financial Reporting Standards**

Regulatory bodies that promulgate Australian GAAP and IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the consolidated entity's financial reports in the future. The potential impacts on the consolidated entity's financial performance and financial position of the adoption of IFRS, including system upgrades and other implementation costs which may be incurred have not been quantified as at the transition date of 1 January 2004 due to the short time frame between finalisation of IFRS standards and the date of preparing this report. The impact on future years will depend on the particular circumstances prevailing in those years.

The board is in the process of establishing a formal project to achieve transition to IFRS reporting, beginning with the half-year ending 31 December 2004. The Company expects this project to be substantially completed by 30 June 2005.

The potential implications of the conversion to IFRS on the consolidated entity include:

- Financial instruments must be recognised in the statement of financial position and all derivatives and most financial assets must be carried at fair value.
- Impairment of assets will be determined on a discounted basis, with strict tests for determining whether goodwill and cash generating operations have been impaired.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2004

### 21 EARNINGS PER SHARE

**Classification of securities as ordinary shares**

Ordinary shares have been included in basic earnings per share.

**Classification of securities as potential ordinary shares**

There are no dilutive potential ordinary shares.

**Earnings reconciliation**

Basic and diluted loss

*Consolidated*  
2004  
\$

(1,368,746)

**Weighted average number of shares used as the denominator**

Number for basic and diluted earnings per share

*Consolidated*  
2004  
Number

25,535,660

**Basic and diluted loss per ordinary share**

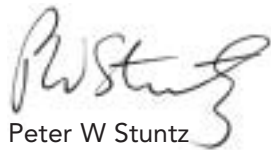
5.4¢

## DIRECTORS' DECLARATION

In the opinion of the Directors of Quay Magnesium Limited:

- (a) the financial statements and notes, set out on pages 10 to 27 are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows, for the financial period ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors at Sydney, 8 November 2004.



Peter W Stuntz  
Chairman

## INDEPENDENT AUDIT REPORT TO MEMBERS OF QUAY MAGNESIUM LIMITED



### SCOPE

#### **The financial report and directors' responsibility**

The financial report comprises the statements of financial position, statements of financial performance, statements of cash flows, accompanying notes to the financial statements, and the directors' declaration for Quay Magnesium Limited (the "Company") and its controlled entities (the "Consolidated Entity"), for the year ended 30 June 2004. The Consolidated Entity comprises both the Company and the entities it controlled during that year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### **Audit approach**

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

## INDEPENDENT AUDIT REPORT (CONTINUED) TO MEMBERS OF QUAY MAGNESIUM LIMITED

### Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

### Audit opinion

In our opinion, the financial report of Quay Magnesium Limited is in accordance with:

- a) the Corporations Act 2001, including:
  - i. giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2004 and of their performance for the financial period ended on that date; and
  - ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory financial reporting requirements in Australia.



KPMG

**Trent van Veen**  
Partner

Sydney  
8 November 2004

## ADDITIONAL INFORMATION REQUIRED BY AUSTRALIAN STOCK EXCHANGE LIMITED

Additional information included in accordance with the Listing Rules of the Australian Stock Exchange Limited.

### 1. Statement of issued capital at 31 October 2004

#### a) Distribution of fully paid ordinary shareholders

<i>Size of Holding</i>	<i>Shareholders</i>	<i>Number of Shares Held</i>
1 - 1,000	3	1,851
1,001 - 5,000	337	1,057,415
5,001 - 10,000	32	246,000
10,001 - 100,000	26	848,000
100,001 and Over	47	106,176,236
	<b>445</b>	<b>108,329,502</b>

b) There are no restrictions on the voting rights attached to the fully paid ordinary shares. On a show of hands, every member present in person shall have one vote and upon a poll, every member present in person or by proxy shall have one vote for every share held.

### 2. Options on Issue

There are no unlisted options on issue.

### 3. Substantial Shareholders

At 31 October 2004 the company's register of substantial shareholdings shows the following:

<i>Name</i>	<i>Shares Held</i>	<i>Percentage</i>
Stonor Group limited, Dirndal Limited and New Oxford Limited and their associates (the 'SDN' Group)	16,066,667	14.80%
Portfolio Partners Limited and entities in the AVIVA plc Group	10,000,000	9.23%
RAB Special Situations LP	6,000,000	5.79%

### 4. Quotation

Shares in Quay Magnesium Limited (ASX Code 'QMG') are quoted on the Australian Stock Exchange.

### 5. Restricted Securities

5,750,669 until 22 December 2004  
 13,029,334 until 3 February 2005  
 1,306,666 until 11 February 2005  
 1,960,000 until 23 February 2005  
 2,426,667 until 29 March 2005  
 42,030,001 until 29 September 2006

## QUAY MAGNESIUM LIMITED ACN 104 179 099

**TOP TWENTY SHAREHOLDERS**  
AS AT 31 OCTOBER 2004

<i>Rank</i>	<i>Holder</i>	<i>Number of Shares</i>	<i>% Issued Capital</i>
1	Mr Peter Wayne Stuntz	12,000,000	11.08
2	National Nominees Limited	11,513,095	10.63
3	Ms. Linda Lee Salter	8,000,000	7.38
4	Queensland Investment Corporation	7,447,274	6.87
5	Mr. Brendan John Joyce	6,000,000	5.54
6	Dirndal Ltd	5,320,000	4.91
7	Stonor Group	5,320,000	4.91
8	Mr. Bernard Mathieu	5,000,000	4.62
9	New Oxford Limited	4,000,000	3.69
10	The Ospraie Portfolio Ltd	4,000,000	3.69
11	Westpac Custodian Nominees Limited	3,671,333	3.39
12	N&S Bonser Pty Ltd	3,100,000	2.86
13	RAB Special Situations LP	3,000,000	2.77
14	High Range International Limited	2,600,000	2.40
15	Affaires Financiers SA	2,060,000	1.90
16	RBC Global Services Australia Nominees Pty Limited (PP A/C)	2,034,827	1.88
17	AMP Life Limited	1,830,000	1.69
18	Cogent Nominees Pty Limited (SMP A/C)	1,670,000	1.54
19	Caisse De Depot Et Placement Du Quebec	1,500,000	1.38
20	McNeil Nominees Pty Limited	1,391,667	1.28
		<b>91,458,196</b>	<b>84.43</b>



