



QUAY MAGNESIUM LIMITED
ABN 75 104 179 099

ANNUAL REPORT 2006



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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 - Executive Director

SECRETARY

Jim Harte

REGISTERED & PRINCIPAL OFFICE

3 Spring Street

Sydney, NSW 2000

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GPO Box 5438

Sydney NSW 2001

Telephone: +61 2 8274 0900

Facsimile: +61 2 8274 0999

Email: mail@quaymagnesium.com

Website: www.quaymagnesium.com

SHARE REGISTRY

Link Market Services Limited

Level 12, 680 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

(Front and back cover - photographs of Company's Facility in Nanjing China.)

CHAIRMAN'S LETTER

Dear Shareholder,

When I wrote to you this time last year Quay was on the verge of producing its first magnesium alloy. This happened and samples were brought to our Annual General Meeting in November. It was a pleasing achievement given the short amount of time that had passed between the public listing of the company in September 2004 and the completion of the plant. Since then Quay has expanded its range of alloy types and ingot sizes; a further broadening of product is planned. We are currently installing the equipment to take our capacity from 15,000 to 25,000 tonne per annum.

The past year has very much been one of consolidation. We have encountered a number of technical issues associated with the start up of a new plant and I am pleased to report that the workforce has systematically and successfully addressed each of these. The most serious problem was a leak identified just before Christmas in one of the plant's main furnaces. This necessitated shutting down the furnace, stripping the refractory lining and then rebuilding. This work was completed in February and the furnace re-commissioned; it has since run without incident. While the fault was a disappointment to all at Quay, the quick remedial action and ongoing operation of the repaired furnace is evidence of the growing technical strength of the company.

During the year increasing numbers of local staff have been hired and trained. There are currently in excess of 80 people employed at the Nanjing plant. In terms of direction, while Quay's strategy relies on advanced western technology and product of the highest quality, ultimately we must function as a local company operating in China. Accordingly, as aspects of the technology transfer are completed, numbers of expatriates will continue to decline until only a small core group remains.

As plant ramp up continues the overriding consideration is alloy quality. There have been some initial challenges related to quality in the first half of 2006 but these have now been overcome. Magnesium alloy ingots were sent for testing in two North American laboratories in July 2006. They were found to have met automotive acceptance standards – this is a major achievement and all who work for Quay can be proud. The company achieved its basic ISO 9001 accreditation in September of this year and full accreditation is scheduled for the first quarter of 2007. Global material certification is planned for mid 2007.

Since Quay's first commercial trial shipment in June our marketing plan has been to get product sampled by as wide a range of potential customers as possible. As part of the annual magnesium industry cycle, negotiations are now underway with many of these companies for contracts in 2007. Indications to date are positive but Quay's entry into the market is being overshadowed by another event.

CHAIRMAN'S LETTER (CONTINUED)

In July of this year the largest western producer of magnesium alloys announced that it had decided to exit the business. This has created considerable uncertainty and is likely to result in substantial changes to the industry's structure. There will be opportunities for those companies in a position to respond appropriately.

At the same time the fundamental outlook for magnesium alloy consumption remains positive. High energy prices and a growing environmental awareness among consumers and governments will continue to put pressure on manufacturers to build lighter cars. Greater use of magnesium alloy is one way to achieve this goal.

Yours faithfully,



Peter Stuntz

Chairman

18th October 2006

DIRECTORS' REPORT

For the year ended 30 June 2006

The directors present their report together with the financial report of Quay Magnesium Limited (the Company) and of the consolidated entity, being the Company and its controlled entities for the financial year ended 30 June 2006 and the auditors report thereon.

1. DIRECTORS

The directors of the Company at any time during or since the end of the financial year are:

Name, qualification/s and independence status	Age	Experience, special responsibilities and other directorships
<p>Mr P W Stuntz B.Sc., B.E. (Min) (Hons), M.Geoscience, F.AusIMM, ASIA Appointed 18 Sep 2003 <i>Executive Chairperson/ Director</i></p>	49	<p>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.</p>
<p>Mr N E M Bonser APTC, MIE Aust, CPEng Appointed 31 May 2003 <i>Executive Director</i></p>	63	<p>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 39 years and is currently the Managing Director of Van der Meer Consulting Pty Limited, 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.</p>
<p>Mr B J Joyce B.E. (Hons) Appointed 25 Mar 2003 <i>Executive Director</i></p>	68	<p>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.</p>

DIRECTORS' REPORT (CONTINUED)

For the year ended 30 June 2006

2. COMPANY SECRETARY

Mr. Jim Harte (B.Ec., ACA, FCIS) was appointed to the position of company secretary on 27 October 2003.

3. DIRECTORS' MEETINGS

The number of directors' meetings and number of meetings attended by each of the directors of the Company during the financial year are:

Director	Board Meetings	
	A	B
Mr P Stuntz	12	12
Mr N Bonser	11	12
Mr B Joyce	12	12

A – Number of meetings attended

B – Number of meetings held during the time the director held office during the year

4. CORPORATE GOVERNANCE STATEMENT

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

4.1 Board of directors

Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the Board is responsible for the overall corporate governance of the consolidated entity 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 achievement of management's goals and ensuring the integrity of internal control and management information systems.

It is also responsible for approving and monitoring financial and other reporting. The functions reserved 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.

DIRECTORS' REPORT (CONTINUED)

For the year ended 30 June 2006

Board processes

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 of a size nor its affairs of such complexity to justify the establishment of separate Board Committees. More specifically, 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 that includes a system of internal control, a business risk management process and appropriate ethical standards.

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

- A comprehensive planning system with a 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.

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, 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.

DIRECTORS' REPORT (CONTINUED)

For the year ended 30 June 2006

Composition of the board

The name of the directors in office at the date of this report and their experience is set out previously in the directors' 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 structure of the Board is appropriate for the effective execution of the Board's responsibilities. The directors periodically monitor the need to appoint 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.

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.

4.2 Remuneration report

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.

4.3 Principles of compensation-audited

Remuneration of directors and executives is referred to as compensation as defined in AASB 124.

Remuneration and fee levels for directors, executives and consultants are the responsibility of the Board and are set to competitively recruit and retain appropriately qualified and experienced personnel to provide the suitable executive management and consultancy services to the consolidated entity and the project.

4.4 Directors' and executive officers' remuneration-audited

Total maximum payable for directors fees was approved at the Company's first Annual General Meeting held on 30 June 2004 and was set to not exceed \$300,000 per annum.

Currently fees for directors are set at \$60,000 per annum for the Chairman and \$36,000 per annum for each of the directors. The fees commenced from 1 October 2004. Prior to this date no fees were paid to the directors.

DIRECTORS' REPORT (CONTINUED)

For the year ended 30 June 2006

			Salary & Fees	Superannuation benefits	Shares Issued	Consultant Fees	Total
			\$	\$	\$	\$	\$
Directors							
Peter Stuntz	(i)	2006	55,045	4,955	-	360,000	420,000
		2005	41,285	3,716	-	285,000	330,001
Neil Bonser		2006	33,027	2,973	-	-	36,000
		2005	24,771	2,229	-	-	27,000
Brendan Joyce		2006	64,624	5,816	-	-	70,440
		2005	68,450	9,191	-	28,500	106,141
Total of all directors		2006	152,696	13,744	-	360,000	526,440
		2005	134,506	15,136	-	313,500	463,142
Executives							
Bernard Mathieu	(ii)	2006	183,973	-	-	-	183,973
		2005	352,430	-	3,000,000	42,000	3,394,430
Thomas Ruden	(iii)	2006	77,666	-	-	-	77,666
		2005	-	-	-	-	-
Stephane LeBlanc	(iv)	2006	300,169	-	-	-	300,169
		2005	20,499	-	-	-	20,499
Rob Bailey	(v)	2006	74,813	-	-	-	74,813
		2005	-	-	-	-	-
Total of all executives		2006	636,621	-	-	-	636,621
		2005	372,929	-	3,000,000	42,000	3,414,929

- (i) Sepeco Pty Ltd, a company controlled by Mr Peter Stuntz, provided consultancy services in relation to capital raising, general, project and strategic management of the Company and its controlled entities, pursuant to a consultancy agreement. The agreement is for a fixed term to 30 September 2006 and unless a new agreement is entered continues on a month to month basis from that date. In limited circumstances if the Company terminates the agreement before that date the Company will be required to pay an amount equal to the unexpired portion of the agreement. The agreement was approved at the Company's Annual General Meeting (AGM) on 30 June 2004. While the agreement is not exclusive Sepeco Pty Ltd and Peter 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 without consequence if considered in the best interests of the Company.

DIRECTORS' REPORT (CONTINUED)

For the year ended 30 June 2006

- (ii) The Company has terminated Mr Mathieu's services and believes no further payments are required. Under the terms and conditions of his contract Mr Mathieu was issued with 5,000,000 shares in the Company on the date the Company listed on the ASX. The value attributed to the shares in the above table has been determined in accordance with the adoption of AIFRS.
- (iii) Mr Thomas Ruden joined the Company on 17 February 2006 with responsibility for global business development, marketing and sales. Mr Ruden's contract is for a two year period and includes a termination notice of three months.
- (iv) Mr Stephane LeBlanc since year end has resigned and will leave the Company effective 20 October 2006.
- (v) Mr Rob Bailey joined the Company on 13 February 2006 as Manager Technical Sales Support. Mr Bailey has since been promoted to the responsibility of General Manager Nanjing Quay Magnesium Co Ltd responsible for plant operations, product quality and all related activities. Mr Bailey's contract is for a two year period and includes a termination notice of three months.

4.5 Audit Functions

The Company is not currently considered to be of a size, or 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
- Monitoring the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing rules and all other regulatory requirements.

4.6 Risk management

The Company is not currently considered to be of a size, or 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 is required to report 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 recognises that no cost effective internal control system will preclude all errors and irregularities.

DIRECTORS' REPORT (CONTINUED)

For the year ended 30 June 2006

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 consolidated entity has constructed a magnesium alloying plant together with support buildings and services. An Environment Impact Study was prepared and approved by the relevant Chinese authorities and the relevant standards were achieved and included in the design.

Environmental standards will be required to be maintained in the operation and production of the alloying plant.

The Board believes that the consolidated entity 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 consolidated entity.

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.

4.7 Ethical standards

All directors, managers, employees, and advisers 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 the notes to the financial statements.

Code of conduct

The Company is not currently considered to be of a size, nor its affairs of such complexity as to justify the establishment of a formalised 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 the shares whilst in possession of price sensitive information. Directors must notify the Company 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 of any major events that impact the Company. The Board is responsible for ensuring that the Company complies with ASX Listing Rule 3.1, which relates to continuous disclosure.

DIRECTORS' REPORT (CONTINUED)

For the year ended 30 June 2006

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.

5. Principal activities

The principal activities during the course of the financial year was the raising of capital and continuing marketing, design, construction, commissioning and ramp up in relation to the Magnesium Alloy Plant in Nanjing China.

Significant changes in the nature of the activities of the consolidated entity during the year are set out below.

6. Operating and financial review

Overview of the consolidated entity result

The consolidated result for the year ended 30 June 2006 is a loss of \$3,802,174 (2005: loss \$4,685,670).

This largely reflects corporate and general overheads, marketing costs and other non-capital expenses and is in line with the directors expectations.

The comparative results include the impact from changes to comply with AIFRS. These changes are discussed in detail in Note 22 to the financial statements.

Commentary on activities for the year ended 30 June 2006

Good progress continued to be made with major achievements and milestones being achieved. In particular:

Factory and office building construction

On 23 August 2005 the Company was able to announce following site inspection and engineering review that the building contractor Spaceframe Buildings Pty Limited had reached practical completion on its design and construct contract. The contract covered the factory, office buildings and associated site works and services. The completion was a notable achievement as full access to the site had only been granted on 15 February 2005. Occupancy to the buildings was achieved by the end of September 2005.

Capital raising and expansion

In November 2005 a private placement of 16,146,485 shares raising \$9,687,891 in further funding was completed. The funds were raised:

- (i) To expand the magnesium alloy facility capacity from 15,000 tonnes to approximately 25,000 tonnes per annum; and
- (ii) To supplement working capital for the operational ramp up to full production.

DIRECTORS' REPORT (CONTINUED)

For the year ended 30 June 2006

During April 2006 contracts to purchase a second continuous caster were completed and delivery of the caster and other supplementary equipment for the capacity expansion was received in Nanjing during July 2006. The equipment installation and commissioning is scheduled for completion during the first half of the 2007 financial year.

Alloying plant progress

Installation of the initial equipment for the alloying plant was completed in September 2005 and plant commissioning commenced. A small but encouraging achievement was made on 26 October 2005 when alloy type AZ91 was produced in an alloying furnace, and ongoing testing saw three out of the five furnaces commissioned by December 2005 and successfully produce batches of alloy ingots.

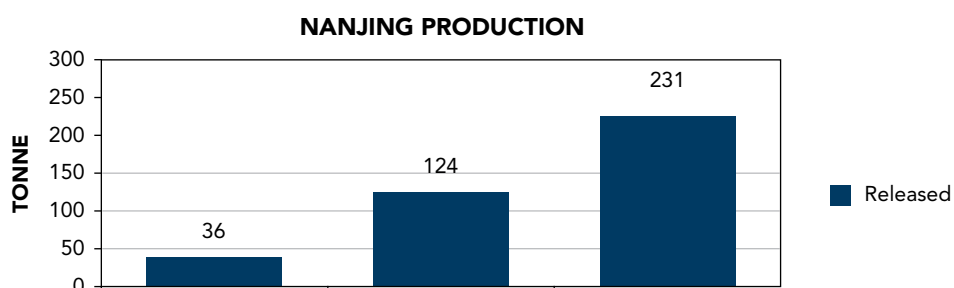
During commissioning, difficulties were encountered with the lining in one of the remaining furnaces. Rectification work was required and commissioning of the furnace subsequently completed by March 2006.

Production from the initial module is expected to reach the nameplate capacity of 15,000 tonnes per annum during early calendar 2007. Ramp up has commenced slowly but production is now expected to rise more steadily in the second half of calendar 2006. The graph below shows production for April, May and June. These are the first three months of production since commissioning of the plant was completed. In late June the best single day output achieved was at an annualised rate of 85 % of the name plate capacity of 15,000 tonne per annum.

Throughout the ramp up the hiring and training of national staff continued with staffing levels now at approximately 80 % of budget levels. A number of local foreman and operators continue to be trained to a level where they can work independently of expatriate staff.

Over the June 2006 quarter, Quay has continued to implement rigorous quality control procedures and monitoring of all alloying procedures. Internal analysis of product indicates Quay is currently producing alloy that meets ASTM standards. In addition ingot samples sent to laboratories in Michigan and Texas for independent metal quality assessment have met automotive acceptance standards. Quay has selected a registrar company and consulting contractor to implement ISO / TS certification. Automotive product certification is expected to be achieved early in 2007.

In June 2006, Quay made its first commercial trial shipment: a 23 tonne container of AZ91D, to a European customer in the automotive sector. Subject to satisfactory customer testing of trial quantities and the continued ramp up of production, modest sales volumes are expected to be achieved during the half year to December 2006. These initial shipments for the second half of 2006 will show a bias towards European automotive parts manufacturers. This trend reflects the current growth in market demand for automotive magnesium die casting. Volumes should then increase markedly from the start of calendar 2007.



Released tonnage is defined as material that has met Quay's visual and internal acceptance standards

DIRECTORS' REPORT (CONTINUED)

For the year ended 30 June 2006

Quay has welcomed plant visits from major car companies and automotive Tier 1 suppliers. All have expressed interest in working with Quay and the quoting phase has been entered with a number of these parties. The indicative annual amounts involved range from 2,000 to 5,000 tonnes per customer.

In addition to these standard alloys Quay has also commenced discussions with companies for the production of special alloys that are used in niche applications. These alloys sell at larger margins than standard alloys. The indicative annual amounts involved for the two most advanced discussions are 2,000 and 4,000 tonnes.

Significant changes in the state of affairs

Significant changes in the state of affairs of the Company and the consolidated entity during the year were:

- The raising of \$9,687,891 capital completed on 15 November 2005, by private placement of 16,146,485 shares to institutional investors providing additional funding to expand the magnesium alloy capacity from 15,000 tonnes per annum to 25,000 tonnes and to supplement working capital.
- The issue of 1,000,000 shares in satisfaction of a success fee owing of \$600,000 arising from the share placement during the year. This was approved at an Extraordinary General Meeting held on 13 April 2006.
- The approval of shareholders of the capital placement of \$9,687,981 at the Extraordinary General Meeting held on 13 April 2006 provided the Company the opportunity for further fund raising when required.
- Completion of the office building, the factory and installation of the factory plant were completed during the first half of the financial year. Factory commissioning was completed by end of March 2006 and ramp up commenced slowly in April 2006, with 391 tonnes produced (in the 3 months to 30 June 2006) meeting the visual and acceptance standards of the company. Ramp up production is expected to increase over the first six months of the 2007 financial year.

7. Dividends

No dividends were paid during the financial year to 30 June 2006 and no dividend is proposed.

8. Events subsequent to reporting date

Currently directors are considering funding alternatives including the attraction of a strategic investor to assist with the funding of the day to day working capital and to finalise the commissioning of the magnesium alloying facility in China.

The financial statements have been prepared on a going concern basis as the directors believe the Company and the consolidated entity will have access to sufficient funds to be able to pay debts as and when they fall due.

There are no other matters (other than matters disclosed above) that have arisen in the interval between the end of the financial year and the date of this report or any item transaction or event of a material and unusual nature, that is likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of these operations, or the state of affairs of the consolidated entity, in future financial years.

DIRECTORS' REPORT (CONTINUED)

For the year ended 30 June 2006

9. Likely developments

During the 2007 financial year, the consolidated entity will continue its ramp up to its name plate capacity of 15,000 tonnes and commence works to enable expansion capacity to 25,000 tonnes to be achieved.

Quality control procedures and monitoring have been introduced and these will be further enhanced with independent assessment of alloy against automotive standards being obtained (integral to the quality control procedures) to achieve automotive product certification during the 2007 financial year. Once operational capability is achieved, modest production volumes are expected in the first half of the 2007 financial year leading to more commercial volumes being developed in the second half.

Further information on volumes, likely contracts, product specifications and other likely developments in operations for the consolidated entity and the expected results of those developments on operations in the future financial years have not been included in this report because the disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

10. Directors' interests

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

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

11. Indemnification and insurance of officers and auditors

Insurance premiums

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 a judgment 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 has obtained an insurance policy for the benefit of directors and officers of the Company. Disclosure of the premiums paid has not been made as it is prohibited under the terms of the contract.

The Company has not indemnified or agreed to indemnify the auditor or any related body corporate against a liability incurred by the auditor.

DIRECTORS' REPORT (CONTINUED)

For the year ended 30 June 2006

12. Non-audit services

During the year, KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

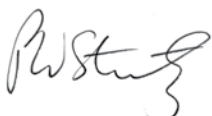
- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Board to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 Professional independence, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below. No other amounts were paid to other auditors for the statutory audit.

In AUD	2006 \$	2005 \$
Audit services:		
Auditors of the Company		
Audit and review of financial reports (KPMG Australia)	67,250	60,000
	<u>67,250</u>	<u>60,000</u>
Services other than statutory audit:		
Other assurance services		
Taxation compliance services (KPMG Australia)	44,768	67,729
	<u>44,768</u>	<u>67,729</u>

The lead auditor's independence declaration is set out on page 15 and forms part of the directors report for the financial year ended 30 June 2006.

Signed in accordance with a resolution of the directors:



Peter W Stuntz
Executive Chairman

Sydney 29 September 2006



LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

To: the directors of Quay Magnesium Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2006 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink that reads 'KPMG' in a stylized, cursive font.

KPMG

A handwritten signature in black ink that reads 'Mark Epper' in a stylized, cursive font.

Mark Epper
Partner

Sydney 29 September 2006

INCOME STATEMENTS

For the year ended 30 June 2006

In AUD	Note	Consolidated		The Company	
		2006	2005	2006	2005
Gross profit and loss					
Employee and director benefits expense	2	(1,592,670)	(3,937,467)	(1,275,660)	(3,935,529)
Administration expenses	3	(2,700,517)	(1,599,676)	(2,013,731)	(1,569,757)
Financial income	5	562,552	851,473	557,952	849,405
Financial expense	5	(71,539)	-	-	-
Loss before tax		(3,802,174)	(4,685,670)	(2,731,439)	(4,655,881)
Income tax expense	10	-	-	-	-
Loss for the year		(3,802,174)	(4,685,670)	(2,731,439)	(4,655,881)
Attributable to:					
Equity holders of the parent company		(3,802,174)	(4,685,670)	(2,731,439)	(4,655,881)
Loss for the year		(3,802,174)	(4,685,670)	(2,731,439)	(4,655,881)
Earnings per share for profit attributable to the ordinary equity holders of the Company:					
Basic and diluted earnings in cents per ordinary share from continuing operations	6	(3.22)	(4.77)		

STATEMENTS OF RECOGNISED INCOME AND EXPENSE

For the year ended 30 June 2006

In AUD	Note	Consolidated		The Company	
		2006	2005	2006	2005
Foreign exchange translation differences		1,120,757	77,385	-	-
Net income recognised directly in equity		1,120,757	77,385	-	-
Loss for the year		(3,802,174)	(4,685,670)	(2,731,439)	(4,655,881)
Total recognised income and expense for the year	15	(2,681,417)	(4,608,285)	(2,731,439)	(4,655,881)

The above income statements and statements of recognised income and expense are to be read in conjunction with the notes to the financial statements set out on pages 19 to 39.

BALANCE SHEETS

As at 30 June 2006

In AUD	Note	Consolidated		The Company	
		2006	2005	2006	2005
Assets					
Cash and cash equivalents	8	7,061,595	15,154,887	6,731,687	14,380,096
Other receivables	9	553,121	309,234	169,721	297,284
Total current assets		7,614,716	15,464,121	6,901,408	14,677,380
Property, plant and equipment	11	24,251,861	9,197,301	58,047	53,841
Other financial assets	12	-	-	23,867,290	9,612,632
Total non-current assets		24,251,861	9,197,301	23,925,337	9,666,473
Total assets		31,866,577	24,661,422	30,826,745	24,343,853
Liabilities					
Payables	13	1,018,615	401,041	130,217	131,068
Employee benefits	14	65,502	-	11,686	-
Total current liabilities		1,084,117	401,041	141,903	131,068
Total liabilities		1,084,117	401,041	141,903	131,068
Net assets		30,782,460	24,260,381	30,684,842	24,212,785
Equity					
Issued capital		39,440,908	30,237,412	39,440,908	30,237,412
Reserves		1,198,142	77,385	-	-
Accumulated losses		(9,856,590)	(6,054,416)	(8,756,066)	(6,024,627)
Total equity	15	30,782,460	24,260,381	30,684,842	24,212,785

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 19 to 39.

STATEMENTS OF CASH FLOWS

For the year ended 30 June 2006

In AUD	Note	Consolidated		The Company	
		2006	2005	2006	2005
Cash flows from operating activities					
Cash payments in the course of operations		(4,015,368)	(2,602,715)	(3,153,416)	(2,568,076)
Interest received		602,854	796,302	594,020	794,234
Net cash from operating activities	19	(3,412,514)	(1,806,413)	(2,559,396)	(1,773,842)
Cash flows from investing activities					
Payment for increased investment in controlled entity		-	-	(12,412,259)	(5,502,085)
Advances to controlled entity		-	-	(1,858,899)	(4,043,739)
Payment of project costs		(13,832,716)	(8,623,672)	-	-
Payment for office equipment		(99,193)	(167,699)	(21,351)	(52,909)
Net cash from investing activities		(13,931,909)	(8,791,371)	(14,292,509)	(9,598,733)
Cash flows from financing activities					
Proceeds from the issue of share capital		9,687,891	28,094,626	9,687,891	28,094,626
Repayment of borrowings		-	(150,000)	-	(150,000)
Payment of costs in respect of share offer		(484,395)	(2,277,614)	(484,395)	(2,277,614)
Net cash from financing activities		9,203,496	25,667,012	9,203,496	25,667,012
Net increase in cash and cash equivalents		(8,140,927)	15,069,228	(7,648,409)	14,294,437
Cash and cash equivalents at beginning of year		15,154,887	85,659	14,380,096	85,659
Effect of exchange rate fluctuations on cash held		47,635	-	-	-
Cash and cash equivalents at 30 June 2006	8	7,061,595	15,154,887	6,731,687	14,380,096

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 19 to 39.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Significant accounting policies

Quay Magnesium Limited (the 'Company') is a company domiciled in Australia. The consolidated financial report of the Company for the financial year ended 30 June 2006 comprise the Company and its subsidiaries together referred to as the 'consolidated entity'.

The financial report was authorised for issue by the directors on 29 September 2006.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. International Financial Reporting Standards ('IFRSs') form the basis of Australian Accounting Standards ('AASBs') adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS ('AIFRS') to distinguish from previous Australian GAAP. The financial reports of the consolidated entity and the Company also comply with IFRSs and interpretations adopted by the International Accounting Standards Board.

This is the consolidated entity's first financial report prepared in accordance with Australian Accounting Standards, being AIFRS and IFRS, and AASB 1 *First-Time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied. An explanation of how the transition to AIFRS has affected the reported financial positions, financial performances and cash flows of the consolidated entity and the Company is provided in note 22.

(b) Basis of preparation

The financial report is presented in Australian dollars and is prepared on the historical cost basis.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards – AIFRS.

The accounting policies have been applied consistently by all entities in the consolidated entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Significant accounting policies (continued)

(c) Going concern

Currently directors are considering funding alternatives including the attraction of a strategic investor to assist with the funding of the day to day working capital and to finalise the commissioning of the magnesium alloying facility in China.

The financial statements have been prepared on a going concern basis as the directors believe the Company and the consolidated entity will have access to sufficient funds to be able to pay debts as and when they fall due.

(d) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

(e) Revenue recognition

Revenues are recognised at the 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.

(i) Sale of goods

Once the plant is operational, revenue from the sale of goods will be recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered will be recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion will be assessed by reference to surveys of work performed. No revenue will be recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods or there is continuing management involvement with the goods.

(ii) Sale of trial shipments

In the period leading up to the plant being in operational production, any revenues resulting from the sale of trial shipments is offset against capitalised project costs.

(iii) Interest revenue

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Significant accounting policies (continued)

(f) Foreign currency

(i) Financial statements of foreign operations

The assets and liabilities of foreign operations are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations, excluding foreign operations in hyperinflationary economies (of which there are none) are translated to Australian dollars at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from the translation of the net investment in foreign operations are taken to translation reserve. They are released into the income statement upon disposal.

In respect of all foreign operations, any differences that have arisen after 1 July 2004, the date of transition to AIFRS, are presented as a separate component of equity.

(g) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy j). The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Subsequent costs

The consolidated entity recognises in the carrying amount of an item of property, plant and equipment, the cost of replacing part of such an item when that cost is incurred, if it is probable that, the future economic benefits embodied within the item, will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land rights are amortised on a straight line basis over the term of the rights being 50 years. The estimated useful lives in the current and comparative periods are as follows: Office equipment - 4 years, fixtures and fittings - 10 years.

(iv) Construction work in progress

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.

Construction work in progress (including project costs) represent costs incurred and directly associated with the design and construction and implementation of the magnesium alloying plant in China.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Significant accounting policies (continued)

Development costs related to the project are capitalised to the extent that they are expected to be recovered through future cash flows arising from the project's operations.

Details of construction, plant and development costs carried forward are set out in note 11 under the headings:

- Building construction
- Plant and Equipment
- Other Project Costs

Depreciation and amortisation of these costs will commence when the facility commences operational production.

(h) Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses (see accounting policy (j)).

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

(j) Impairment

The carrying amounts of the consolidated entity's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (refer below).

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset has previously been re-valued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

(i) Calculation of recoverable amount

The recoverable amount of assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Significant accounting policies (continued)

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Share Capital

Transaction costs of an equity transaction are accounted for as a deduction from equity.

(l) Employee benefits

Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity pay as at reporting date.

(m) Provisions

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

(n) Trade and other payables

Trade and other payables are stated at amortised cost. Trade payables are non-interest bearing and are normally settled on 60-day terms.

(o) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (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 balance sheet.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Significant accounting policies (continued)

(p) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Employee and director benefits

In AUD		Consolidated		The Company	
		2006	2005	2006	2005
Wages, salaries and directors' fees		925,390	606,384	723,893	604,446
Share based payments	22	-	3,000,000	-	3,000,000
Other associated personnel expenses		476,084	298,230	414,387	298,230
Contributions to superannuation funds		125,694	32,853	125,694	32,853
Increase in liability for annual leave	14	65,502	-	11,686	-
		1,592,670	3,937,467	1,275,660	3,935,529

3. Administration expenses

In AUD	Note	Consolidated		The Company	
		2006	2005	2006	2005
Consultants expense		1,108,069	565,706	945,441	548,375
Share based payments	22	-	300,000	-	300,000
Occupancy expense		114,501	94,249	106,048	94,249
Travel and accommodation		550,382	168,789	423,847	168,789
Insurance		116,593	70,082	116,593	70,082
Depreciation and amortisation expense	11	48,455	18,137	17,145	8,970
Other		762,527	382,713	404,657	379,292
		2,700,517	1,599,676	2,013,731	1,569,757

4. Auditors' remuneration

In AUD		Consolidated		The Company	
		2006	2005	2006	2005
Audit services					
Auditors of the Company					
KPMG Australia:					
	Audit and review of financial reports	67,250	60,000	67,250	60,000
		67,250	60,000	67,250	60,000
Other services					
Auditors of the Company					
KPMG Australia					
	Taxation services	44,768	67,729	44,768	67,729
		44,768	67,729	44,768	67,729

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Net financial income

In AUD	Note	Consolidated		The Company	
		2006	2005	2006	2005
Interest income (other entities)		562,552	851,473	553,717	849,405
Financial income		562,552	851,473	553,717	849,405
Net foreign exchange (loss) gain		(71,539)	-	4,235	-
Financial expenses		(71,539)	-	4,235	-
Net financial income		491,013	851,473	557,952	849,405

6. Loss per share

Loss attributable to ordinary shareholders

In AUD	Consolidated	
	2006	2005
Loss for the year	(3,802,174)	(4,685,670)
Loss attributable to ordinary shareholders	(3,802,174)	(4,685,670)
Weighted average number of ordinary shares		
<i>In shares</i>		
<i>Issued ordinary shares at 1 July 2005</i>	108,329,502	65,370,001
<i>Effect of shares issued 23 September 2004</i>	-	32,955,234
<i>Effect of shares issued 15 November 2005</i>	9,687,891	-
<i>Effect of shares issued 13 April 2006</i>	213,699	-
<i>Weighted average number of ordinary shares at 30 June 2006</i>	118,231,092	98,325,235
Loss per share		
In AUD		
Basic and dilutive loss in cents per ordinary share	(3.22)	(4.77)

Ordinary shares have been included in basic loss per share. There are no dilutive potential ordinary shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Payment settled by issue of shares

On 13 April 2006 one million ordinary shares were issued by the Company (at a cost of 60 cents per share) to R&K Global Finance Ltd. The issue was made in satisfaction of a success fee of \$600,000 earned for the raising of capital on 15 November 2005 of 16,146,485 ordinary shares raising new capital of \$9,687,891. The issue of shares in satisfaction of this success fee was approved by shareholders in an EGM of the Company held on 13 April 2006.

8. Cash and cash equivalents

In AUD	Consolidated		The Company	
	2006	2005	2006	2005
Bank balances – interest bearing	1,918,340	4,507,891	1,636,183	4,055,977
Term deposits	5,094,365	10,322,692	5,094,365	10,322,692
Interest bearing cash and cash equivalents	21 7,012,705	14,830,583	6,730,548	14,378,669
Bank balances	48,890	324,304	1,139	1,427
Cash and cash equivalents in the statement of cash flows	7,061,595	15,154,887	6,731,687	14,380,096

9. Other current assets

In AUD	Consolidated		The Company	
	2006	2005	2006	2005
Prepayments	97,040	106,457	97,040	106,457
Other receivables	456,081	202,777	72,681	190,827
	553,121	309,234	169,721	297,284

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Income tax expense

No income tax expense or current tax receivable or payable arose in the current or previous year.

In AUD	Consolidated		The Company	
	2006	2005	2006	2005
Reconciliation between tax expense and pre tax loss				
Loss before tax	(3,802,174)	(4,685,670)	(2,731,439)	(4,655,881)
Income tax benefit @30%	(1,140,652)	(1,405,701)	(819,432)	(1,396,764)
Future income tax benefit not recognised	1,140,652	1,405,701	819,432	1,396,764
Income tax expense on pre-tax losses	-	-	-	-
Unrecognised deferred tax assets				
Deferred tax assets have not been recognised in respect to the following items:				
Deductible temporary differences	3,221,235	2,294,589	2,150,499	2,264,799
Tax losses	7,256,046	3,764,167	7,256,046	3,764,167
	10,477,281	6,058,756	9,406,545	6,028,966

The deductible temporary differences and tax losses do not expire under current tax legislation.

The claimability of deferred tax assets against future profits for the Company is subject to the Company passing either of the continuity of ownership or continuity of business tests under current income tax legislation.

The Company and consolidated entity are still in its startup phase in respect of the magnesium alloy plant and has yet to reach full production and sales operations. Deferred tax assets have not been recognised in respect of the above items because it is not considered probable that future taxable profits will be available against which the consolidated entity can utilise the benefits from.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Property, plant and equipment

In AUD	Consolidated					The Company				
	Land rights	Building construction	Plant & equipment	Other project costs	Total	Land rights	Building construction	Plant & equipment	Other project costs	Total
Balance at 1 July 2004	-	-	-	81,315	91,217	-	-	81,315	-	91,217
Acquisitions	397,343	2,311,607	5,071,639	1,175,933	9,124,221	-	-	-	-	52,909
Transfers within the group	-	-	-	-	-	-	-	(81,315)	-	(81,315)
Balance at 30 June 2005	397,343	2,311,607	5,071,639	1,257,248	9,215,438	-	-	-	-	62,811
Balance at 1 July 2005	397,343	2,311,607	5,071,639	1,257,248	9,215,438	-	-	-	-	62,811
Acquisitions	31,073	3,110,894	8,086,641	3,804,364	15,103,005	-	-	-	-	21,351
Balance at 30 June 2006	428,416	5,422,501	13,158,280	5,061,612	24,318,443	-	-	-	-	84,162
Depreciation and impairment losses										
Balance at 1 July 2004	-	-	-	-	-	-	-	-	-	-
Depreciation charge for the year	(5,298)	-	-	-	(18,137)	-	-	-	-	(8,970)
Balance at 30 June 2005	(5,298)	-	-	-	(18,137)	-	-	-	-	(8,970)
Balance at 1 July 2005	(5,298)	-	-	-	(18,137)	-	-	-	-	(8,970)
Depreciation charge for the year	(8,340)	-	-	-	(48,445)	-	-	-	-	(17,145)
Balance at 30 June 2006	(13,638)	-	-	-	(66,582)	-	-	-	-	(26,115)
Carrying amounts										
At 1 July 2004	-	-	-	81,315	91,217	-	-	81,315	-	91,217
At 30 June 2005	392,045	2,311,607	5,071,639	1,257,248	9,197,301	-	-	-	-	53,841
At 1 July 2005	392,045	2,311,607	5,071,639	1,257,248	9,197,301	-	-	-	-	53,841
At 30 June 2006	414,778	5,422,501	13,158,280	5,061,612	24,251,861	-	-	-	-	58,047

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Other financial assets

	Consolidated		The Company	
	2006	2005	2006	2005
Investment in controlled entities	-	-	22,600,295	5,502,085
Unlisted shares at cost-subsiidiaries	-	-	1,266,995	4,110,547
Owing by subsidiary- non current	-	-	23,867,290	9,612,632

The advance of \$1,266,995 is owed by the subsidiaries, Nanjing Quay Magnesium Co Ltd, and represents the payment of project costs by the Company on behalf of the controlled entity. During the year with the approval of the relevant Chinese authorities \$4,685,951 was confirmed as satisfying the conditions of capital in respect of Nanjing Quay Magnesium Co Ltd. The amount was transferred from amount owing by subsidiaries and recognised as investment in unlisted shares in subsidiaries.

Particulars in relation to controlled entities		Consolidated equity interest	Consolidated equity interest
		2006	2005
		%	%
Parent entity			
Quay Magnesium Limited			
Controlled entities			
Quay Magnesium Marketing Limited	(i)	100	100
Quay Magnesium Holdings Limited:	(i)	100	100
Nanjing Quay Magnesium Co Ltd (wholly owned subsidiary of Quay Magnesium Holdings Limited)	(ii)	100	100

(i) Quay Magnesium Holdings Limited and Quay Magnesium Marketing Limited were incorporated on 12 February 2004. The controlled entities are incorporated under the International Business Companies Act (Cap 291) Territory of the British Virgin Isles. The contribution to consolidated result were \$NIL (2005 NIL).

(ii) Incorporated in and carries on a business in China. The formal approval under the law of the People's Republic of China (PRC) was received on 27 March 2004 to commence incorporation of a company and its planned relevant business to invest in magnesium alloying manufacturing. The contributions to consolidated result was a loss of \$1,070,736 (2005; loss \$29,790).

13. Payables

	Consolidated		The Company	
	2006	2005	2006	2005
Creditors and accruals	1,018,615	401,041	130,217	131,068
	1,018,615	401,041	130,217	131,068

14. Employee benefits

Liability for annual leave	65,502	-	11,686	-
	65,502	-	11,686	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Capital and reserves

Reconciliation of movement in capital and reserves

Consolidated					
In AUD	Note	Share capital	Translation reserve	Accumulated losses	Total equity
Balance at 1 July 2004		1,389,550	-	(1,368,746)	20,804
Net loss for the year		-	-	(4,685,670)	(4,685,670)
Translation of subsidiary		-	77,385	-	77,385
Shares issued		31,394,626	-	-	31,394,626
Cost of shares issued		(2,546,764)	-	-	(2,546,764)
Balance at 30 June 2005		30,237,412	77,385	(6,054,416)	24,260,381
Balance at 1 July 2005		30,237,412	77,385	(6,054,416)	24,260,381
Net loss for the year		-	-	(3,802,174)	(3,802,174)
Translation of subsidiary		-	1,120,757	-	1,120,757
Shares issued		10,287,891	-	-	10,287,891
Cost of share issue		(1,084,395)	-	-	(1,084,395)
Balance at 30 June 2006		39,440,908	1,198,142	(9,856,590)	30,782,460

The Company					
In AUD	Note	Share capital	Translation reserve	Accumulated losses	Total equity
Balance at 1 July 2004		1,389,550	-	(1,368,746)	20,804
Net loss for the year		-	-	(4,655,881)	(4,655,881)
Shares issued		28,847,862	-	-	28,847,862
Balance at 30 June 2005		30,237,412	-	(6,024,627)	24,212,785
Balance at 1 July 2005		30,237,412	-	(6,024,627)	24,212,785
Net loss for the year		-	-	(2,731,439)	(2,731,439)
Shares issued		10,287,891	-	-	10,287,891
Cost of share issue		(1,084,395)	-	-	(1,084,395)
Balance at 30 June 2006		39,440,908	-	(8,756,066)	30,684,842

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Capital and reserves (continued)

Reconciliation of movement in capital and reserves (continued)

In Units	Note	Shares 2006	Shares 2005
Share capital			
<i>Ordinary Shares - fully paid</i>			
On issue at 1 July 2005		108,329,502	65,370,001
Issued on 22 September 2004		-	37,459,501
Issued on 29 September 2004		-	5,500,000
Issued during the year;			
Issued on 15 November 2005		16,146,485	
Issued on 13 April 2006	7	1,000,000	
On issue at 30 June 2006		125,475,987	108,329,502

Shares issued during the 2006 financial year were issued at 60 cents per share.

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different from the presentation currency of the reporting entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. Commitments

In AUD	Consolidated		The Company	
	2006	2005	2006	2005
Capital expenditure commitments				
Project costs				
Contracted but not provided for and payable:				
-within one year	431,962	3,583,352	-	986,395
-one year or no later than five years	-	-	-	-
	431,962	3,583,352	-	986,395
Contract Commitments:				
Commitments under non-cancellable contracts with Chairman related entity not provided for in the financial statements and payable:				
-within one year	90,000	360,000	90,000	360,000
-one year or no later than five years	-	90,000	-	90,000
	90,000	450,000	90,000	450,000
Commitments under non-cancellable employment contract with Mr. B. Mathieu not provided for the financial statements and payable:				
-within one year	-	250,000	-	250,000
-one year or no later than five years	-	312,500	-	312,500
	-	562,500	-	562,500

Mr B Mathieu is no longer employed by the Company or its subsidiaries.

17. Contingencies

The directors are not aware of any contingent liabilities at the date of this report.

18. Segment reporting

The Company and consolidated entity operates predominately in the investment, design, and construction of a magnesium alloying plant with subsequent commissioning and operation of the plant to produce high grade magnesium alloys in China.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. Reconciliation of cash flows from operating activities

In AUD	Note	Consolidated		The Company	
		2006	2005	2006	2005
Loss for the period		(3,802,174)	(4,685,670)	(2,731,439)	(4,655,881)
<i>Adjustments for:</i>					
Share based payments		-	3,300,000	-	3,300,000
Depreciation of assets	11	40,105	12,839	17,145	8,970
Amortisation of land rights	11	8,340	5,298	-	-
Operating profit before changes in working capital and provisions		(3,753,729)	(1,367,533)	(2,714,294)	(1,346,911)
(Increase)/decrease in prepayments		9,417	(88,785)	9,417	(88,785)
(Increase)/decrease in receivables		118,147	(158,110)	118,147	(146,160)
(Decrease)/increase in trade and other payables		148,149	(191,985)	15,648	(191,986)
(Decrease)/increase in annual leave provision	14	65,502	-	11,686	-
Net cash from operating activities		(3,412,514)	(1,806,413)	(2,559,396)	(1,773,842)

20. Key management personnel disclosures

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Directors

Peter Stuntz – Executive Chairman

Neil Bonser – Director

Brendan Joyce – Director

Executives

Thomas Ruden Commenced 17 February 2006

Bernard Mathieu Services terminated 23 February 2006

Stephane LeBlanc Resigned effective 20 October 2006

Rob Bailey Commenced 13 February 2006

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20. Key management personnel disclosures (continued)

Key management personnel compensation

The key management personnel compensation included in the total of employee and director benefits shown in note 2 are as follows:

In AUD	Consolidated		The Company	
	2006	2005	2006	2005
Short-term employee benefits	907,948	886,815	907,948	886,815
Equity compensation benefits (note 2)	-	3,000,000	-	3,000,000
	907,948	3,886,815	907,948	3,886,815

Individual directors and executives compensation disclosures

Certain specified directors and specified executives hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

Those entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, as similar transactions to unrelated entities as an arms lengths basis.

Information regarding individual directors and executives compensation is provided in the Remuneration Report section of the Directors' report on pages 6 to 8.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

Other key management personnel transactions with the company and its controlled entities

The aggregate amounts recognised during the year relating to key management personnel and their related parties were as follows:

In AUD	Note	Consolidated		The Company	
		2006	2005	2006	2005
Key management persons	Transaction				
Peter Stuntz	Placement fee	-	458,125	-	458,125
Neil Bonser	Fees (i)	102,737	155,345	102,737	155,345

(i) VDM Consulting Pty Ltd a company that Neil Bonser is a director and a shareholder provided contract administration and risk management services to the consolidated entity in respect of the construction of the magnesium alloy plant. Fees paid in respect of the services amounted to \$102,737 (2005 \$ 155,345)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20. Key management personnel disclosures (continued)

Movements in shares

The movement during the reporting period in the number of ordinary shares in Quay Magnesium Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

Directors	Held at 1 July 2005	Purchases	Sales	Held at 30 June 2006
Peter Stuntz	13,100,000	-	-	13,100,000
Neil Bonser	3,100,000	-	-	3,100,000
Brendan Joyce	6,000,000	-	-	6,000,000

No shares were granted to key management personnel during the year end 30 June 2006 as remuneration and they did not hold any shares. During the year end 30 June 2005, 5,000,000 shares were issued to a former executive Mr B Mathieu.

21. Financial instruments

Effective interest rates and repricing analysis

In respect of income-earning financial assets, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

In AUD	Note	2006		2005			
		Effective interest rate	Total	Effective interest rate	Total		
Consolidated							
Bank balances		5.45%	1,918,340	1,918,340	5.10%	4,507,891	4,507,891
Term deposits*		5.52%	5,094,365	5,094,365	5.41%	10,322,692	10,322,692
Interest bearing cash and cash equivalents	8		7,012,705	7,012,705		14,830,583	14,830,583
Company							
Bank balances		5.81%	1,636,183	1,636,183	5.29%	4,055,977	4,055,977
Term deposits*		5.52%	5,094,365	5,094,365	5.41%	10,322,692	10,322,692
Interest bearing cash and cash equivalents	8		6,730,548	6,730,548		14,378,669	14,378,669

* These assets bear interest at fixed rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22. Explanation of transition to AIFRSs

As stated in significant accounting policies note 1(a), these are the consolidated entity's first consolidated financial statements prepared in accordance with AIFRSs.

The policies set out in the significant accounting policies section of this report have been applied in preparing the financial statements for the financial year ended 30 June 2006, the comparative information presented in these financial statements for the financial year ended 30 June 2005 and in the preparation of an opening AIFRS balance sheet at 1 July 2004 (the consolidated entity's date of transition).

In preparing its opening AIFRS balance sheet, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP). An explanation of how the transition from previous GAAP to AIFRSs has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Notes to the reconciliation of equity

An explanation of how the transition from previous GAAP to AIFRSs has affected the consolidated entity's financial position, financial performance is set out in the following tables and in the following notes.

There was no material difference between the cash flow presented under AIFRS and previous GAAP.

The following adjustment is necessary to understand the impact of AIFRS:

- (a) Under previous GAAP, the consolidated entity did not account for equity settled share based payments. These payments are now recognised at fair value in accordance with AASB2.

On the date of listing, under contract, contingent on Quay Magnesium Limited listing on the ASX, 5,000,000 shares were issued to B Mathieu and 500,000 shares were issued to Process Technologies (Australia) Pty Ltd a non related external supplier to the group.

The fair value of each share has been determined to be 60 cents. The effect in the consolidated entity of accounting for these share based payments is to increase expense in the income statement by \$3,300,000 for the year ended 30 June 2005.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22. Explanation of transition to AIFRSs (continued)

Reconciliation of equity for the year ended 30 June 2005													
In AUD	Note	Consolidated				The Company				Effect of transition to AIFRSs 30 June 2005	AIFRSs		
		Previous GAAP	Effect of transition to AIFRSs 1 July 2004	Previous GAAP	Effect of transition to AIFRSs 30 June 2005	Previous GAAP	Effect of transition to AIFRSs 1 July 2004	Previous GAAP	Effect of transition to AIFRSs 30 June 2005				
Assets													
Cash equivalents		85,659	-	15,154,887	-	15,154,887	-	85,659	-	14,380,096	-	14,380,096	
Trade and other receivables		496,112	-	309,234	-	309,234	-	496,112	-	297,284	-	297,284	
Total current assets		581,771	-	15,464,121	-	15,464,121	-	581,771	-	14,677,380	-	14,677,380	
Property, plant and equipment		91,217	-	9,197,301	-	9,197,301	-	91,217	-	9,666,473	-	9,666,473	
Total non-current assets		91,217	-	9,197,301	-	9,197,301	-	91,217	-	9,666,473	-	9,666,473	
Total assets		672,988	-	24,661,422	-	24,661,422	-	672,988	-	24,343,853	-	24,343,853	
Liabilities													
Trade and other payables		502,184	-	280,807	-	280,807	-	502,184	-	131,068	-	131,068	
Employee benefits		-	-	120,234	-	120,234	-	-	-	-	-	-	
Loans from related entities		150,000	-	-	-	-	-	150,000	-	-	-	-	
Total current liabilities		652,184	-	401,041	-	401,041	-	652,184	-	131,068	-	131,068	
Total liabilities		652,184	-	401,041	-	401,041	-	652,184	-	131,068	-	131,068	
Net Assets		20,804	-	24,260,381	-	24,260,381	-	20,804	-	24,212,785	-	24,212,785	
Equity													
Issued capital	(a)	1,389,550	-	26,937,412	3,300,000	30,237,412	-	1,389,550	-	26,937,412	3,300,000	30,237,412	
Reserves		-	-	77,385	-	77,385	-	-	-	-	-	-	
Accumulated losses	(a)	(1,368,746)	-	(2,754,416)	(3,300,000)	(6,054,416)	-	1,368,746	-	2,724,627	(3,300,000)	(6,024,627)	
Total equity		20,804	-	24,260,381	-	24,260,381	-	20,804	-	24,212,785	-	24,212,785	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22. Explanation of transition to AIFRSs (continued)

Reconciliation of loss for the year ended 30 June 2005						
In AUD	Note	Previous GAAP	Consolidated Effect of transition to AIFRSs	Previous GAAP	The Company Effect of transition to AIFRSs	AIFRSs
Administration expenses	(a)	(1,281,539)	(300,000)	(1,260,787)	(300,000)	(1,560,787)
Depreciation and Amortisation expense		(18,137)	-	(8,970)	-	(8,970)
Employee and director benefits expense	(a)	(937,467)	(3,000,000)	(935,529)	(3,000,000)	(3,935,529)
Finance Income		851,473	-	849,405	-	849,405
Loss before tax		(1,385,670)	(3,300,000)	(1,355,881)	(3,300,000)	(4,655,881)
Income tax expense		-	-	-	-	-
Loss for the period		(1,385,670)	(3,300,000)	(1,355,881)	(3,300,000)	(4,655,881)
Basic and diluted loss in cents per share from continuing operations		(1.41)	(4.77)			

DIRECTORS' DECLARATION

1. In the opinion of the directors of Quay Magnesium Limited ('the Company'):

(a) the financial statements and notes (including the remuneration disclosures that are contained in sections 4.2, 4.3 and 4.4 of the Remuneration report in the Directors' report), set out on pages 16 to 39, are in accordance with the Corporations Act 2001, including:

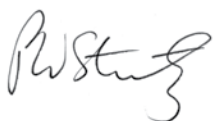
(i) giving a true and fair view of the financial position of the Company and the consolidated entity as at 30 June 2006 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards 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.

2. the directors have been given the declarations required by section 295A of the Corporations Act 2001 from the individuals acting in the role of the Chief Executive Officer function and the Chief Financial Officer function for the financial year ended 30 June 2006 and are in accordance with S 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors:



Peter Stuntz

Executive Chairman

Sydney 29 September 2006



INDEPENDENT AUDIT REPORT TO THE MEMBERS OF QUAY MAGNESIUM LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the income statements, statements of recognised income and expense, balance sheets, statements of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Quay Magnesium Limited (the "Company") and Quay Magnesium Limited and its controlled entities (the "Consolidated Entity") for the year ended 30 June 2006. 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. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB I *First-time Adoption of Australian equivalents to International Financial Reporting Standards*.

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 financial position, and of its performance as represented by the results of its 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.

**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 2006 and of their performance for the financial year ended on that date; and
 - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b) other mandatory financial reporting requirements in Australia.

Inherent uncertainty regarding continuation as a Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter:

The financial report has been prepared on going concern basis as discussed in Note 1 which assumes continuity of normal business activities, the realisation of assets and the settlement of liabilities in the ordinary course of business. In Note 1, the directors state why they consider the going concern basis used in the preparation of the financial report is appropriate. Without the Company securing additional funding from a potential investor, there are uncertainties as to whether the Consolidated Entity will be able to continue as a going concern.

A handwritten signature of the KPMG firm, written in black ink.

KPMG

A handwritten signature of Mark Epper, written in black ink.

Mark Epper

Partner

Sydney, 29 September 2006

ADDITIONAL INFORMATION REQUIRED BY AUSTRALIAN STOCK EXCHANGE LIMITED

QUAY MAGNESIUM LIMITED

ACN 104 179 099

Quay Magnesium Limited incorporated and domiciled in Australia is a publicly listed Company limited by shares.

1. STATEMENT OF ISSUED CAPITAL AT 29 SEPTEMBER 2006

a) Distribution of fully paid ordinary shares

Size of Holding	Shareholders	Number of Shares Held
1 - 1,000	9	5,876
1,001 - 5,000	134	454,107
5,001 - 10,000	56	473,753
10,001 - 100,000	92	3,257,841
100,001 and over	47	121,284,410
Total	338	125,475,987

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 29 September 2006 the Company's register of substantial shareholdings shows the following:

Name	Shares Held	Percentage
Stonor Group Limited, Dirndal Limited and New Oxford Limited and their associates (the 'SDN' Group)	17,130,757	13.76%
McNeil Nominees Pty Ltd	13,210,757	10.61%
RAB Special Situations (Master) Fund Limited	8,707,452	13.31%*
AMP Life and its related bodies corporate	8,216,180	6.60%
Deutsche Bank AG and its related bodies corporate (together, the "Deutsche Bank Group")	8,000,000	6.43%
Portfolio Partners Limited and entities in the AVIVA plc Group	7,640,437	6.97%**

*Shareholder notice issued to ASX on 13 October 2006 has corrected the percentage holding to 6.94%

**Shareholder advised percentage was correct at date of lodgement. Percentage based on current shares on issue would represent 6.1%.

ADDITIONAL INFORMATION REQUIRED BY AUSTRALIAN STOCK EXCHANGE LIMITED (CONTINUED)

4. QUOTATION

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

5. FUND RAISING

The company raised \$28,094,626 under an IPO that closed on 23 September 2004, to provide funds for the design, construction and commissioning of a high grade magnesium alloying plant in the city of Nanjing, China.

A further \$9,687,891 was raised by placement of 16,146,485 shares on 15 November 2005 for expansion of magnesium alloying plant capacity and working capital.

At Extraordinary General Meeting held on 13 April 2006 shareholders approved the issue of 1,000,000 shares in settlement of \$600,000 success fee payable in respect of the capital raised under the placement of shares on 15 November 2005.

The Company has for the second period since admission to the ASX being the period from 1 July 2005 to 30 June 2006, used the cash raised consistent with its business objectives.

6. RESTRICTED SECURITIES

As at 29 September 2006 there were no restricted securities.

7. TOP TWENTY SHAREHOLDERS – AS AT 29 SEPTEMBER 2006

Rank	Holder	Number of Shares	% Issued Capital
1	WESTPAC CUSTODIAN NOMINEES LIMITED	24,968,055	19.90
2	MCNEIL NOMINEES PTY LTD	13,130,757	10.46
3	PETER WAYNE STUNTZ	12,000,000	9.56
4	NATIONAL NOMINEES LIMITED	9,865,815	7.86
5	LINDA LEE SLATER	8,000,000	6.38
6	BRENDAN JOHN JOYCE	6,000,000	4.78
7	BERNARD MATHIEU	5,000,000	3.98
8	COGENT NOMINEES PTY LIMITED	4,595,753	3.66
9	NEW OXFORD LIMITED	4,000,000	3.19
10	JP MORGAN NOMINEES AUSTRALIA LIMITED	3,169,032	2.53
11	N & S BONSER PTY LTD	3,100,000	2.47
12	ANZ NOMINEES LIMITED	3,029,563	2.41
13	QUEENSLAND INVESTMENT CORPORATION	2,827,830	2.25
14	HIGH RANGE INTERNATIONAL LIMITED	2,600,000	2.07
15	NORTHCLIFFE HOLDINGS PTY LTD	2,400,000	1.92
16	CITICORP NOMINEES PTY LIMITED	2,047,435	1.63
17	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – GSCO ECSA	1,630,541	1.30
18	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,115,200	0.89
19	R&K GLOBAL FINANCE LTD	1,000,000	0.80
20	RESOURCE PORTFOLIO MANAGEMENT PTY LTD	1,000,000	0.80
		111,479,981	88.84

