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QUAY MAGNESIUM LIMITED
UN-AUDITED PRELIMINARY FINAL REPORT FOR YEAR ENDED 30 JUNE 2010

Quay Magnesium Limited presents its un-audited preliminary consolidated results for the year ended 30 June 2010. Attached as part of the Appendix 4E is the Preliminary Consolidated Financial Report for the year ended 30 June 2010.

	Year ended 30 June		
	2010 $000	**2009** $000	**Movement** %
Revenues from ordinary activities	11,685	5,240	Up 123.0%
Loss from ordinary activities after tax attributable to members	(5,861)	(14,129)	Down 58.5%
Net loss for the year attributable to members	(5,861)	(14,129)	Down 58.5%

RESULTS

The net result for the year ended 30 June 2010 is a loss of $5.9M (2009:loss $14.1M which includes $6.9M impairment write down). This result reflects the effect of operating in adverse trading conditions as a result of the global economic turmoil and the slow recovery of the automotive sector over the past year with the plant operating at levels well below capacity.

CORPORATE UPDATE

The magnesium and magnesium alloy markets continue to be weak and this is reflected in Quay's financial results for the full year. Overall market volumes and margins fell steeply at the time of the GFC over two years ago and have still not recovered. Trading conditions in the industry at this time are extremely difficult and are reflected in the reported losses. It is worth noting that conditions in the automotive sector specifically, are similar to the industry in general. In summary the industry remains at the cyclical low it hit two years ago. While there were tentative signs of a recovery in early 2010, these did not follow through and the market slowed for the northern hemisphere summer. At this time there are not yet indications of an upturn.

In response to these conditions, Quay has continued stringent cost control measures and working capital management. At the same time we have tried to maintain quality and improve our production processes.

During the period, work was progressed on the proposed acquisition of a 49 % beneficial interest in a pure magnesium plant and half coke plant. While the economics of the proposed acquisition indicated a positive outcome, several significant legal issues remained unresolved.

Attempts were made to put in place an alternative lease structure, but ultimately, these were not finalised. Certain aspects of the commercial negotiations relating to this lease structure remained incomplete and the structure made financing difficult to achieve.

At this time, work on the proposed acquisition has ceased, although both sides have indicated their continuing intentions to complete as soon as possible. The vendors have notified Quay that they are in the process of trying to rectify the outstanding legal defects. The latest advice from the vendors is that these may be remedied by the end of this calendar year and possibly as early as October. This transaction will be revisited when this legal rectification work is complete. Consideration is also being given to increasing the scope of the transaction to include the ferrosilicon plant that sits adjacent to the half coke and magnesium plants already included. Ferrosilicon is a major input used in the manufacture of pure magnesium and represents approximately half the cost of production.

Quay has rolled working capital lines as they matured, with a number of Chinese financial institutions during the year. In addition, new factoring facilities have also been made available to the company.

In the short term, it is likely that Quay will announce a major placement requiring shareholder approval.
An announcement on this capital raising can be expected imminently.

DIVIDENDS
No dividends have been paid and no dividends are proposed.

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Quay Magnesium Limited
www.quaymagnesium.com

Quay Magnesium Ltd

And its controlled entities

ABN 75 104 179 099

Un-Audited Preliminary Financial Report

Year Ended 30 June 2010

(Attachment to Appendix 4E)

This financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, it is recommended that this report be read in conjunction with the annual report for the year ended 30 June 2010 and any public announcements made by Quay Magnesium Limited during the year in accordance with the continuous disclosure requirements of the Listing Rules of the Australian Stock Exchange.

Quay Magnesium Limited and its controlled entities
Preliminary consolidated income statements
For the year ended 30 June 2010

	Note	Consolidated 2010	2009
In AUD			
Revenue	4	11,684,502	5,240,063
Cost of sales		(12,387,913)	(7,296,913)
Gross loss		(703,411)	(2,056,850)
Employee and director benefits expense	5	(1,095,957)	(1,682,301)
Selling expenses	7	(1,075,575)	(777,920)
Administration expenses	6	(2,617,776)	(2,502,533)
Results from operating activities		(5,492,719)	(7,019,604)
Asset impairment write down		-	(6,875,965)
Financial income		5,583	37,489
Financial expense	8	(374,002)	(271,212)
Net financing costs		(368,419)	(233,723)
Loss before tax		(5,861,138)	(14,129,292)
Income tax expense			-
Loss for the year		(5,861,138)	(14,129,292)
Attributable to:			
Equity holders of the parent company		(5,861,138)	(14,129,292)
Loss for the year		(5,861,138)	(14,129,292)
Loss per share for profit attributable to the ordinary equity holders of the Company:			
Basic and diluted loss in cents per ordinary share from continuing operations	14	(2.12)	(6.24)

Preliminary consolidated income statement of recognised income and expense

	Note	Consolidated 2010	2009
In AUD			
Foreign exchange translation differences		(1,382,980)	5,128,160
Net income recognised directly in equity		(1,382,980)	5,128,160
Loss for the year		(5,861,138)	(14,129,292)
Total recognised income and expense for the year		(7,244,118)	(9,001,132)

The condensed consolidated statement of changes in equity is to be read in conjunction with the notes to the consolidated interim financial statements set out on pages 7 to 17.

Quay Magnesium Limited and its controlled entities
Preliminary consolidated balance sheet
As at 30 June 2010

		Consolidated	
In AUD	*Note*	**2010**	**2009**
Assets			
Cash and cash equivalents	*9*	1,102,729	150,267
Trade and other receivables		2,214,651	1,035,130
Inventories	*10*	963,320	395,990
Other receivables		38,209	52,373
Total current assets		4,318,909	1,633,760
Non-current assets			
Property, plant, equipment	*11*	13,489,875	16,650,102
Total non-current assets		13,489,875	16,650,102
Total assets		17,808,784	18,283,862
Liabilities			
Trade and payables		2,451,770	1,873,574
Employee benefits		56,427	60,563
Loans and borrowings		4,962,478	-
Total current liabilities		7,470,675	1,934,137
Total liabilities		7,470,675	1,934,137
Net assets		10,338,109	16,349,725
Equity			
Issued capital	*12*	56,496,196	55,263,696
Reserves		1,247,435	2,630,415
Accumulated losses		(47,405,524)	(41,544,386)
Total equity		10,338,107	16,349,725

The condensed consolidated statement of changes in equity is to be read in conjunction with the notes to the consolidated interim financial statements set out on pages 7 to 17.

Quay Magnesium Limited and its controlled entities
Preliminary consolidated statement of changes in equity
For year ended 30 June 2010

Attributable to equity holders of the Company

Consolidated In AUD	Note	Share capital	Translation reserve	Accumulated looses	Total equity
Balance at 1 July 2008		55,200,840	(2,497,745)	(27,415,094)	25,288,001
Total comprehensive income for the period					
Profit or Loss		-	-	(14,129,292)	(14,129,292)
Other comprehensive income					
Foreign currency translation differences		-	5,128,160	-	5,128,160
Total other comprehensive income		-	5,128,160	(14,129,292)	(9,001,132)
Total comprehensive income for the period		-	5,128,160	(14,129,292)	(9,001,132)
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Issue of ordinary shares		-	-	-	-
Share-based payment transactions		62,856	-	-	62,856
Total contributions by and distributions to owners		62,856	-	-	62,856
Total changes in ownership interests in subsidiaries		-	-	-	-
Total transactions with owners		62,856	-	-	62,856
Balance at 30 June 2009		55,263,696	2,630,415	(41,544,386)	16,349,725
Balance at 1 July 2009		55,263,696	2,630,415	(41,544,386)	16,349,725
Total comprehensive income for the period					
Profit or Loss				(5,861,138)	(5,861,138)
Other comprehensive income					
Foreign currency translation differences		-	(1,383,040)	-	(1,383,980)
Total other comprehensive income		-	(1,383,040)	(5,861,138)	(7,244,118)
Total comprehensive income for the period		-	(1,383,040)	(5,861,138)	(7,244,118)
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Issue of ordinary shares		1,164,500	-	-	1,164,500
Share-based payment transactions		68,000	-	-	68,000
Total contributions by and distributions to owners		1,232,500	-	-	1,232,500
Total changes in ownership interests in subsidiaries		-	-	-	-
Total transactions with owners		1,232,500	-	-	1,232,500
Balance at 30 June 2010		56,496,196	1,247,435	(45,405,524)	10,338,107

The condensed consolidated statement of changes in equity is to be read in conjunction with the notes to the consolidated interim financial statements set out on pages 7 to 17.

Quay Magnesium Limited and its controlled entities
Preliminary consolidated Statements of Cash Flows
For the year ended 30 June 2010

In AUD	Note	Consolidated 2010	2009
Cash flows from operating activities			
Cash receipts from customers (incl. GST)		10,337,788	7,909,280
Cash paid to suppliers and employees		(15,700,166)	(7,934,845)
Interest paid		(182,981)	(193,591)
Interest received		5,583	37,489
Net cash from operating activities		(5,539,776)	(181,667)
Cash flows from investing activities			
Payment for plant property and equipment		1,230,281	(2,476,132)
Net cash from investing activities		1,230,281	(2,476,132)
Cash flows from financing activities			
Net repayment from the issue of share capital		1,164,500	-
Cash received (repaid) in respect of borrowings		4,100,978	(667,691)
Payment of costs in respect of share issues		-	-
Net cash from financing activities		5,265,478	(667,691)
Net increase in cash and cash equivalents		955,983	(3,325,490)
Cash and cash equivalents at July 1		150,267	3,475,757
Effect of exchange rate fluctuations on cash held		(3,523)	-
Cash and cash equivalents at 30 June		1,202,729	150,267

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 7 to 17.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Reporting entity

Quay Magnesium Limited (the "**Company**") is a company domiciled in Australia. The address of the Company's registered office is 3 Spring Street, Sydney, NSW, 2000. The consolidated financial statements of the Company as at and for the year ended 30 June 2010 comprise the Company and its subsidiaries (together referred to as the "**consolidated entity**"). The consolidated entity primarily is involved in the manufacture of high performance magnesium alloys.

2. Basis of Preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the consolidated entity also complies with the IFRSs and interpretations adopted by the International Accounting Standards Board.

The accounting polices set up below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by its subsidiaries.

Share Based Payments

The grant date fair value of shares granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the shares.

When the Company grants shares to employees of subsidiaries, the fair value at grant date is recognised as an increase in the investments in subsidiaries, with a corresponding increase in equity.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

These consolidated financial statements are presented in Australian Dollars which is the consolidated entity's choice of presentation currency. Items included in the financial statements of each subsidiary of the consolidated entity are measured using the currency of the primary economic environment in which the subsidiary operates ("the functional currency"). The functional currency of the Company is Australian Dollars and the functional currency of the Company's overseas subsidiary is Chinese Yuan.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Actual results may differ from these estimates.

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 and in any future periods affected.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3. Significant accounting policies *(continued)*

(a) Basis of consolidation

Subsidiaries are entities controlled by the consolidated entity. Control exists when the consolidated entity has the power 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 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.

In the Company's financial statements, investments in subsidiaries are carried at cost.

Intra-consolidated entity balances, and any unrealised income and expenses arising from intra-consolidated entity transactions, are eliminated in preparing the consolidated financial statements.

(b) Going concern

The financial report has been prepared on the basis of going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities will occur in the normal course of business. The directors believe that the Company and the consolidated entity will be able to fund future operations through share issues, the return of profitability of the Nanjing operation and external finance.

Without the return to profitability of the Nanjing operations, equity raisings or external finance, there is uncertainty whether the consolidated entity will be able to continue as a going concern.

If the consolidated entity is unable to continue as a going concern, it may be required to make adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities in order to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial report.

(c) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the consolidated entity using average rates calculated at each month end. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at average rates calculated at the end of each month.

Foreign currency differences are recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3. Significant accounting policies *(continued)*

(d) Financial Instruments

(i) non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured.

A financial instrument is recognised if the consolidated entity becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the consolidated entity's contractual rights to the cash flows from the financial assets expire or if the consolidated entity transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular purchases and sales of financial assets are accounted for at trade date, i.e., the date that the consolidated entity commits itself to purchase or sell the asset. Financial liabilities are derecognised if the consolidated entity's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(ii) Share Capital

Ordinary shares

Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the consolidated entity and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3. Significant accounting policies *(continued)*

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

• Plant and Equipment	20 years	• Building and Construction	20 years
• Office Equipment	4 years	• Other Project Costs	10 years
• Land Rights	50 years	• Motor Vehicles	5 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(iv) Construction work in progress

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.

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.

Plant and equipment and development costs carried forward are set out in note 13 under the headings:

- Building construction
- Plant and Equipment
- Other Project Costs

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(g) Trade and other receivables

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

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

(i) Impairment

(i) Non-financial assets

The carrying amounts of the consolidated entity's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3. Significant accounting policies *(continued)*

If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset consolidated entity that generates cash flows that largely are independent from other assets and consolidated entity. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (consolidated entity of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

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.

(j) Employee benefits

(i) Termination benefits

Termination benefits are recognised as an expense when the consolidated entity is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

(ii) Short-term benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the consolidated entity has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(k) Provisions

A provision is recognised in the balance sheet when the consolidated entity has a present legal or contractual 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.

(l) 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.

(m) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3. Significant accounting policies *(continued)*

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.

(n) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss 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 reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) Revenue

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

(p) Finance income and expenses

Finance income comprises interest income on funds invested and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings, foreign currency losses, and discount on loan to subsidiary and impairment losses recognised on financial assets. All borrowing costs are recognised in the profit or loss using the effective interest method.

(q) Earnings per share

The consolidated entity presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

Quay Magnesium Limited and its controlled entities
Notes to the preliminary consolidated financial statements
For the year ended 30 June 2010

4. Revenue

	Consolidated	
	2010	**2009**
In AUD		
Sales	11,684,502	5,240,063
	11,684,502	5,240,063

5. Employee and director benefits

	Consolidated	
	2010	**2009**
In AUD		
Wages, salaries and directors' fees	907,333	1,349,754
Other associated personnel expenses	80,465	165,680
Contributions to superannuation funds	41,229	125,032
Employee share scheme	68,000	62,856
Increase in liability for annual leave	(1,070)	(21,021)
	1,095,957	1,682,301

6. Administration expenses

	Consolidated	
	2010	**2009**
In AUD		
Consultants expense	393,933	144,615
Occupancy expense	186,736	98,334
Travel and accommodation	179,125	158,895
Insurance	129,641	94,139
Depreciation and amortisation expense	1,208,933	1,228,415
Other	519,413	778,135
	2,617,776	2,502,533

7. Selling expenses

	Consolidated	
	2010	**2009**
In AUD		
Freight	1,071,838	777,702
Marketing	3,737	218
	1,075,575	777,920

Quay Magnesium Limited and its controlled entities
Notes to the preliminary consolidated financial statements
For the year ended 30 June 2010

8. Net financial income and expenses

In AUD	Consolidated 2010	Consolidated 2009
Interest income	5,583	37,489
	5,583	37,489
Interest expense	(182,981)	(193,592)
Other income/expense	(282,479)	(37,701)
Net foreign exchange (loss) gain	91,458	(39,919)
Net financial income and (expense)	(374,002)	(271,212)

9. Cash and cash equivalents

In AUD	Consolidated 2010	Consolidated 2009
Bank balances – interest bearing	1,102,309	149,394
Term deposits	-	-
Interest bearing cash and cash equivalents	1,102,309	149,394
Bank Balances	420	873
Cash and cash equivalents in the statement of cash flows	1,102,729	150,267

10. Inventories

In AUD	Consolidated 2010	Consolidated 2009
Raw materials and consumables	91,506	149,436
Works in progress	39,327	60,233
Finished Goods	832,487	186,321
	963,320	395,990

Quay Magnesium Limited and its controlled entities
Notes to the preliminary consolidated financial statements
For the year ended 30 June 2010

11. Property, plant and equipment

	Consolidated						
	Land Rights	Building construction	Plant & equipment	Other project costs	Office equipment	Motor Vehicles	Total
In AUD							
Balance at 1 July 2008	732,563	4,318,901	18,937,197	1,451,064	339,067	100,871	25,879,663
Acquisitions	-	1,840,507	-	-	-	-	1,840,507
Disposals	-	-	(2,560,459)	(146,404)	(45,472)	-	(2,752,335)
Effect of movements in exchange rates	145,483	857,713	3,789,910	235,026	51,217	20,033	5,099,382
Balance at 30 June 2009	878,046	7,017,121	20,166,648	1,539,686	344,812	120,904	30,067,217
Balance at 1 July 2009	878,046	7,017,121	20,166,648	1,539,686	344,812	120,904	30,067,217
Acquisitions	-	23,475	1,325	370,991	651		396,442
Disposals	-	-	-	(121,195)	-	(12,157)	(133,352)
Effect of movements in exchange rates	(47,370)	(378,566)	(1,087,969)	(76,526)	(17,613)	(6,523)	(1,614,567)
Balance at 30 June 2010	830,676	6,662,030	19,080,004	1,712,956	327,850	102,224	28,715,740
Depreciation and impairment losses							
Balance at 1 July 2008	(26,260)	(1,417,003)	(3,312,683)	(525,981)	(158,359)	(15,714)	(5,456,000)
Depreciation charge for the year	(17,880)	(398,595)	(1,683,267)	(315,220)	(8,653)	(10,881)	(2,434,496)
Asset impairment write down	-	-	(6,875,965)	-	-	-	(6,875,965)
Impairment provision for fire damaged assets	-	1,044,604	975,259	-	-	-	2,019,863
Effect of movements in exchange rates	(5,215)	(73,957)	(464,197)	(104,457)	(19,571)	(3,120)	(670,517)
Balance at 30 June 2009	(49,355)	(844,951)	(11,360,854)	(945,658)	(186,583)	(29,715)	(13,417,115)
Balance at 1 July 2009	(49,355)	(844,950)	(11,360,854)	(945,658)	(186,583)	(29,715)	(13,417,116)
Depreciation charge for the year	(16,915)	(331,848)	5,426,297	(298,215)	(58,520)	(5,915)	4,714,885
Asset Impairment write down	-		(6,875,965)	-			(6,875,965)
Effect of movements in exchange rates	2,663	45,584	241,955	51,017	9,508	1,603	352,330
Balance at 30 June 2010	(63,607)	(1,131,214)	(12,568,567)	(1,192,856)	(235,595)	(34,027)	(15,225,866)
Carrying amounts							
At 1 July 2008	706,304	2,901,898	15,624,514	925,082	180,708	85,157	20,423,663
At 30 June 2009	828,692	6,172,171	8,805,793	594,026	158,229	91,188	16,650,102
At 1 July 2009	828,692	6,172,171	8,805,793	594,026	158,229	91,188	16,650,102
At 30 June 2010	767,070	5,530,816	6,511,436	520,098	92,257	68,198	13,489,875

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12. Share Capital

	2010	2009
Ordinary Shares		
On issue at the beginning of the period	55,263,696	55,200,840
Shares issued	1,220,000	-
Shares issued to employees and Directors	68,000	62,856
Cost relating to share issue	(55,500)	-
On issue at the end of the period	56,496,196	55,263,696

Number of shares fully paid	2010	2009
On issue at the beginning of the period	228,523,134	224,853,134
Shares issued	64,000,000	-
Shares issued to employees and Directors	8,900,000	3,670,000
On issue at the end of the period	301,423,134	228,523,134

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.

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13. Commitments

In AUD	Consolidated 2010	2009
Capital expenditure commitments		
Contracted but not provided for and payable:		
-within one year	69,717	388,015
-one year or no later than five years		
	69,717	388,015
Contract Commitments:		
Commitments under non-cancellable contracts with Chairman related entity not provided for in the financial statements and payable:		
-within one year	60,000	60,000
-one year or no later than five years		
	60,000	60,000

14. Loss Per Share

In AUD	Consolidated 2010	2009
Loss for the period	(5,861,138)	(14,129,292)
Loss attributable to ordinary shareholders	(5,861,138)	(14,129,292)
Weighted average number of ordinary shares		
For the year ended 30 June 2009		
Issued ordinary shares at 1st July	160,122,178	160,122,178
Effect of shares issued during the period	116,154,107	66,451,627
Weighted average number of ordinary shares at 30 June 2010	276,276,285	226,573,805

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

15. NTA Backing

	Consolidated 2010	2009
Net tangible asset backing per ordinary share (cents)	3.43	7.15

16. Segment reporting

The consolidated entity operates a magnesium alloying plant to produce high grade magnesium alloys in China, selling domestically and to Europe and North America.