



## ACTIVITIES REPORT- QUARTER ENDED 30 SEPTEMBER 2007

### HIGHLIGHTS

The quarter ending 30 September 2007 has continued to be one of significant achievement and transition for shareholders of Precious Metals Australia (ASX: PMA). Key achievements have included:

- Increased JORC-compliant Measured and Indicated Resource to 93.73Mt at 0.47% V<sub>2</sub>O<sub>5</sub> (with an additional Inferred Resource of 55.10Mt at 0.44% V<sub>2</sub>O<sub>5</sub>).
- New JORC-compliant Proved and Probable Reserve of 79.0Mt at 0.47% V<sub>2</sub>O<sub>5</sub> delivers a 20 year life of mine schedule.
- Successfully negotiated an outcome with gas supplier Santos to agree a gas supply contract, securing the supply of natural gas to its world-class Windimurra vanadium project.
- Principal environmental approvals received to reconstruct and commence operation of the mine.
- Site reconstruction works have commenced.
- Signing a \$300m contract with Mineral Resources to build, own, operate and transfer (BOOT) the beneficiation plant.
- Appointing Merrill Lynch to secure the remaining A\$200m debt funding.
- Approving a change of name to Windimurra Vanadium Limited, subject to shareholder approval at the Annual General Meeting.

PMA is currently redeveloping the Windimurra mine, with first production targeted for the second half of 2008. The mine is expected to produce 6,400 tonnes per annum of ferrovanadium and 1,000 tonnes per annum of vanadium pentoxide, which will represent approximately 7% of the world market.

Windimurra is expected to be a lowest quartile cost vanadium mine.

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## Corporate

### ***Name Change***

The Board on 16 October 2007 announced their intention to re-brand the organisation under the new name Windimurra Vanadium Limited to more accurately reflect the company's focus and direction. Windimurra Vanadium is already an established brand inside the company.

The change reflects the Company's focus on its core Windimurra Vanadium project in the Mid West of WA.

The proposed name change will be the subject of a special resolution of shareholders at the Company's Annual General Meeting on November 26, and is subject to the approval of the Australian Securities and Investments Commission.

The Company believes the timing is right to make the change, following recent new appointments to the Board and management, and the evolution of the Company as it progresses towards production and sales of vanadium from Windimurra next year.

### ***Financing***

The Company is in a strong financial position with \$56M cash at 30 September 2007.

In early October 2007, the Company announced it had appointed leading financier Merrill Lynch (Asia Pacific) Limited to arrange debt financing of approximately A\$200 million for the Windimurra project. The response from investors has been very positive and the Company is encouraged from the early feedback received.

The financing will complete funding arrangements for the project without diluting equity for shareholders.

The Board considered a number of proposals from international banking groups, and after comprehensive analysis, appointed Merrill Lynch. Merrill Lynch has invested in similar projects recently where it has been mandated as arranger and this track record was a factor in the Board's selection.

The Company considers that completion of funding by year end is achievable because of Merrill Lynch's detailed knowledge of the Windimurra project.

## Project Development

### ***Mineral Resources BOOT Contract***

The Company has secured a build, own, operate and transfer (BOOT) partner for its beneficiation plant.

PMA has agreed a contract with Mineral Resources Limited worth more than \$300 million over ten years, for the provision of ore crushing and beneficiation facilities in order to produce magnetite concentrate.

The extraction and processing plant that produces vanadium from the concentrate will be built, owned and operated by PMA who will also retain responsibility for mine planning and production.

Mineral Resources is a leading integrated Australian based mining services and processing company with operations in contract crushing, general mine services infrastructure provision and recovery of base metal concentrates.

The contract has allowed PMA to reduce its capital requirement for the development of the project by some \$90 million. Importantly, it will also reduce risk by fixing a significant portion of operating costs.

Under the arrangement, Mineral Resources will design and construct and operate the facilities. It is estimated construction will take about one year.

The facilities will be built to process 4.3 million tonnes of ore per year and produce approximately 90,000 dry tonnes of magnetite concentrate per month.

## **Gas Supply**

The Company has secured the supply of natural gas from the John Brookes field in the Carnarvon Basin to the Windimurra mine.

PMA has successfully negotiated an outcome with gas supplier Santos to agree a gas supply contract for the purchase and delivery of natural gas to the Windimurra mine. The supply agreement is for an initial period of 3 years and includes an option to extend for a further three years, subject to agreement being reached on price, providing long-term security for the project.

Gas will be a key fuel component for the Windimurra vanadium mine and will be used to fire the existing rotary kiln at Windimurra, and to power the gas turbine power station.

Roasting the ore concentrate with natural gas has previously been shown at Windimurra to yield a higher purity vanadium product than is produced by competitors who use pulverised coal.

## **Environmental**

The Company now has the principal environmental approvals necessary to reconstruct and commence operation of the mine.

While the original Windimurra mine received environmental approval in 1998, the design for the mine's reconstruction contained a number of process improvements that were yet to be approved.

The Company has now received a Section 45C Non Substantial Change approval notice from the Environmental Protection Authority for these process improvements.

## **Project Execution**

The Owner's Team was established and the majority of the senior positions were filled to manage the engineering, procurement and construction of the mine and processing facilities. Emerson Stewart, a Perth based strategic project management consultancy, was engaged to provide high level advice, planning and key personnel to the team.

The project execution strategy was finalised and implemented. Key milestones were established as part of the project planning process to facilitate the development of the detailed project delivery schedules and the measurement of project progress.

Site rehabilitation and remediation commenced with the appointment of civil works and demolition contractors. The construction camp was completed and commissioned, allowing for the growth in numbers expected over the next quarter. The permanent accommodation units which will supplement the construction camp and provide a high standard of facilities for the operations team were delivered and will be installed in the coming quarter.

Parsons Brinckerhoff, a global based mining and civil infrastructure engineering consultancy with offices throughout Australia, was appointed as the engineering and construction management contractor responsible for the development of civil infrastructure including the accommodation camp, water supply systems and tailings storage facilities.

Proteus Engineers, the Perth based engineering firm which has been providing design services on the processing plant, completed its Front end Engineering Design report for the vanadium recovery plant, including a detailed capital cost estimate and development schedule. Proteus has been appointed as the engineering and construction management contractor responsible for the development of the extraction and processing plant that will produce vanadium from magnetite concentrate.

Negotiations for the supply of critical long delivery time processing and environmental control equipment were progressed with South African based suppliers that have long associations with Vanadium production.

Three of the gas turbine driven generator sets which will be incorporated into the power station were delivered by Solar.

Risk and value improvement assessments were conducted with the assistance of recognised advisors in these fields.

## **Exploration**

Coffey Mining completed a new resource model over the existing drilled-out 6km strike length of the deposit during the quarter. This work was undertaken as a result of drilling conducted in January 2007 which showed the potential to extend the pit to the west and also at depth. The result has been a new JORC-compliant Measured and Indicated Resource is 93.73Mt at 0.47% V<sub>2</sub>O<sub>5</sub> (with an additional Inferred Resource of 55.10Mt at 0.44% V<sub>2</sub>O<sub>5</sub>).

Initial surface appraisal and evaluation over Exploration Lease E58/113, to the south of the existing pit, commenced in the quarter, with 125 rock specimens collected and assayed over a 16km strike length south of the JORC-compliant Resource area. This confirmed that the magnetic anomaly identified from aeromagnetic data hosted vanadiferous titanomagnetite with similar grades (up to 1.46% V<sub>2</sub>O<sub>5</sub>) as the current Resource area. The southern extension of the magnetic anomaly will be evaluated during 2008, and has potential to host a significant resource for future extensions.

## **Mine Scheduling and Reserves**

Coffey Mining ran a Whittle pit optimisation over the new Resource model during the quarter that showed the existing pit design could be made wider (east-west) and deeper, including more fresh (less oxidised) material leading to significant processing advantages due to higher magnetic susceptibility of this ore.

Whittle pit shells were evaluated, and pit ramps, benches, and berms were designed by Arbitrage Consulting using established design parameters and geotechnical data.

This information was used to generate a new Mine Schedule. Three pits have been designed that will be developed sequentially over the 20 year scheduled mine life.

The schedule Reserve now stands at 79Mt at 0.47% V<sub>2</sub>O<sub>5</sub>. The current Reserve is restricted to a 4km strike length of a 26km long magnetic anomaly that shows potential to host additional mineralised magnetite.

A 4 700 metre drilling program has been scheduled for early 2008 to drill-out the 850 strike length of the initial 5 year Central Pit. The drilling and metallurgical data collected will be modeled to provide additional information for detailed mine scheduling, short term planning, and plant optimisation.

## **Processing**

The new Mine Schedule delivers an overall ore blend with a significantly higher percentage of fresh, unoxidised ore. This will result in a more efficient mine schedule than was the case previously. Modelling has shown the magnetic beneficiation process will perform better with this increase in fresh ore, and also the concentrate produced from lower levels of the mine has a higher V<sub>2</sub>O<sub>5</sub> content that higher in the sequence.

A study concluded that soda ash provided advantages over sodium oxalate as the sodium flux in the roasting kiln. Soda ash is a dry solid, resulting in lower transport costs and more kiln capacity when compared to oxalate slurry.

## **Marketing**

Market forecasts indicate vanadium producers are generally operating at very close to practical capacity. It is the Company's view that the forecast growth in supply of vanadium, including from Windimurra is not expected to exceed the growth in demand over the next five years. To date Customers have been very receptive to Windimurra as a new potential vanadium supplier.

Ferrovandium prices remained in the range of US\$36-39 per kilogram of contained vanadium for most of the September quarter.

In 2006, PMA appointed **Noble Group (SGX:NOBL)** to be the exclusive sales and marketing distributor of the vanadium production from Windimurra and signed a Sales and Marketing Agreement. Noble has a 10% stake in Windimurra Vanadium Pty Ltd . Under the terms of the Agreement, Noble will purchase the vanadium production throughout the operating life of Windimurra Mine, develop sales to end user companies and coordinate the logistics for delivery of product to the customers. A key component of the Agreement is that Noble will assume all credit risk for the sales to customers and guarantees to pay PMA a minimum price that is equal to the unit cost of production, if this was to exceed the Metal Bulletin spot price.

Headquartered in Hong Kong and operating in more than 40 countries through a network of over 80 offices with over 9,000 people, the Group serves more than 4,000 customers. With a 2006 annual turnover exceeding US\$13 billion, assets of more than US\$3.8 billion and access to capital markets, Noble has reached a critical mass and become a very significant player in a number of key commodity markets around the world. Noble Group manages the flow of raw materials from source to destination with a hands-on approach. **Visit: [www.thisisnoble.com](http://www.thisisnoble.com)**

Yours sincerely

**By Order of the Board**  
**PRECIOUS METALS AUSTRALIA LIMITED**  
**DR IAIN SCOTT**  
**Managing Director**

*The information in this report that relates to the Mineral Resource is based on information compiled by Mr Alex Virisheff and Ms Hilary Wright who are members of The Australasian Institute of Mining and Metallurgy. Both Mr Alex Virisheff and Ms Hilary Wright are full time employees of Coffey Mining Pty Ltd. Mr Alex Virisheff and Ms Hilary Wright have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Persons as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Alex Virisheff and Ms Hilary Wright consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.*

*The information in this report that relates to the Ore Reserve is based on information compiled by Mr Blair Duncan who is a member of The Australasian Institute of Mining and Metallurgy. Mr Duncan is a full time employee of Arbitrage Consulting Australia Pty Ltd. Mr Duncan has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Duncan consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

*The information in this report that relates to Exploration Results is based on information compiled by Mr Ian Hassall who is a member of The Australasian Institute of Mining and Metallurgy. Mr Ian Hassall is full time employee of Windimurra Vanadium Pty Ltd. Mr Ian Hassall has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Ian Hassall consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

# Diagram 1- Location Map

