

27 October 2004

A.C.N. 009 131 533

QUARTERLEY REPORT
For the Quarter Ended September 30, 2004

Highlights

- **PMA issues proceedings against Xstrata in relation to the Windimurra Vanadium Project**
- **Parliament concludes inquiry into Xstrata's actions and the need for legislative change**
- **Vanadium reaches 15 year high of US\$7.90/lb**
- **1 for 3 Rights Issue to raise \$769,947 to fund Xstrata litigation, and further the company's search for new mineral opportunities in Australia**

Windimurra Vanadium Mine

Pursuant to a Royalty Agreement dated 16 October 2000 ("Royalty Agreement") made between the Company, Xstrata Windimurra Pty Ltd ("Xstrata") and Xstrata AG the Company holds a 15% net profit (royalty) interest in the Windimurra Vanadium Project.

Xstrata is the owner of the Windimurra Vanadium Project. Xstrata is a wholly owned subsidiary of Xstrata plc, a company listed on the London Stock Exchange. In 2002, Xstrata (Schweiz) AG took an assignment of and assumed the guarantee given by Xstrata AG in the Royalty Agreement. Xstrata (Schweiz) AG is also a wholly owned subsidiary of Xstrata plc.

In February 2003 Xstrata plc, announced in its Annual Report for the year ended 31 December 2003 that Xstrata would cease production and operations of the Windimurra Vanadium Project would be suspended whilst Xstrata assessed options which would include permanent closure. On 10 May 2004 Xstrata publicly announced the permanent closure of the Windimurra Vanadium Project and advised that it had sold key components of the plant and equipment relating to the vanadium production process.

Despite the permanent cessation of operations of the Windimurra Vanadium Project, the Royalty Agreement provides for the Company to continue to receive the minimum royalty at the rate of \$500,000 per annum (paid in quarterly instalments) until operations of the Windimurra Vanadium Project are 'Terminated'. Under the Royalty Agreement, the project is not 'Terminated' until, amongst other things, all rehabilitation obligations in respect of the (project) tenements have been fully satisfied. In the event the Company's claims in the litigation referred to below were to be unsuccessful, the Directors estimate it will take no less than approximately 4 years for all rehabilitation obligations to be met. Xstrata paid PMA \$125,000 on 1 July, 2004 and on 1 October 2004 in accordance with the agreement.

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Legal Proceedings against Xstrata

On 16 August 2004 the Company issued legal proceedings against Xstrata and Xstrata (Schweiz) AG in the Supreme Court of New South Wales seeking, amongst other things:

1. A declaration that the Royalty Agreement has been breached by Xstrata by reason of its purported permanent closure of the Windimurra Vanadium Project and that the Royalty Agreement remains on foot with the parties being bound to comply with all its terms and conditions.
2. A declaration that Xstrata's suspension of the Windimurra Vanadium Project during the period from February 2003 to 10 May 2004 is a breach of the Royalty Agreement.
3. A declaration that Xstrata's sale and assignment of the assets of the Windimurra Vanadium Project is a breach of the Royalty Agreement.
4. Damages for breach of the Royalty Agreement.
5. An injunction requiring Xstrata to do all things reasonably necessary in order to cause the Windimurra Vanadium Project to be brought back to an operational level and operated consistent with Xstrata's obligations under the Royalty Agreement.
6. Interest, including on a compound basis, on such monetary award as may be made in the proceedings at the rate provided for pursuant to clauses 2.2 and 7.8 of the Royalty Agreement, being the Westpac Indicator Lending Rate (or equivalent) plus 4% or, alternatively, pursuant to s.94 of the *Supreme Court Act 1970 (NSW)*, from 1 December 2001 until judgment.
7. An order that the Company be indemnified by the defendants in respect to any taxation which shall be levied against the Company in respect to or arising from orders as may be made by the Court in the proceedings, which include any tax imposed by *A New Tax System (Goods & Services Tax) Act 1999 (Cth)*.

The Company has instructed Mr Bret Walker SC of the Sydney Bar and Mr Richard McCormack of the Western Australian Bar as counsel assisting to represent the Company in the proceedings.

The defendants have made an application to strike out the Company's summons (the court document that details the claims the Company is making against the defendants) which is returnable before the Court in Sydney on 29 October 2004. Mr Bret Walker SC and Mr Richard McCormack of counsel have been instructed to appear and the Company will strenuously oppose the application particularly as the application to strike out is wholly unspecified as to the basis upon which same has been brought.

The defendants have requested security for costs from the Company of \$350,000 in the proceedings and have foreshadowed an application for security for costs if the security

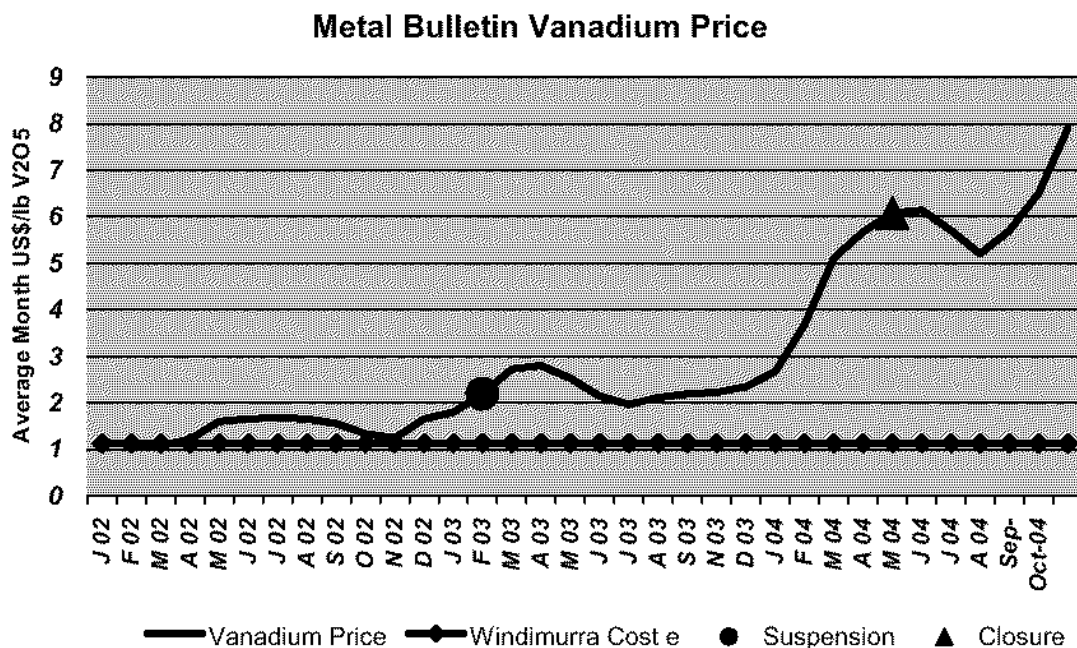
is not given. The granting of an order for security for costs is in the discretion of the Court. Security, if ordered or agreed to be given, is generally provided by way of a cash payment into Court or the provision of a bank guarantee for the relevant amount. The Company is currently considering its position in relation to the request for security for costs.

The Directors do not believe the defendants' application to strike out the summons and the foreshadowed application for security for costs will materially impede the claims the Company is making in the proceedings from proceeding to trial.

As at the date of this report, no defence has been filed by the defendants.

Vanadium Price Increase

As can be seen from the above graph, Xstrata chose to suspend production at Windimurra at the beginning of a price upswing and to close the project at the peak. The average price for 2004 is US\$5.57 and at the date of this report is at a 15 year high of US\$7.90/lb.



The 1997 Fluor Feasibility study upon which the Windimurra project was built, assumed an average price of US\$3.50 throughout the 30-year life of the project. This matched the average price over the previous 15 years. The ruling price at any time is likely to be considerably above or below the average price. Windimurra was built at a time of high prices and unfortunately the commissioning and ramp up to full production took place at the bottom of the price cycle. The current year 2004 is a high point in the price cycle and if operating, Windimurra would now have the capacity to make very substantial returns, adequate to repay all losses since start-up and to provide for future periods of low prices.

Parliamentary Inquiry into Windimurra Closure

On 3 July 2004 the Economics and Industry Standing Committee commenced its *Inquiry into Vanadium Resources at Windimurra*. Your company has made a number of written submissions to the Inquiry and gave oral evidence on 11 August and 22 September 2004. Xstrata Windimurra Pty Ltd gave oral evidence on 24 August 2004. Submissions have now closed and it is anticipated that the Committee will table its findings in Parliament before year end.

The Committee posts information about the Inquiry, including transcripts of oral evidence received, on the Parliament's web site at www.parliament.wa.gov.au.

Shareholders may also wish to visit the company's web site at www.pmal.com.au from time to time for any updated information.

Rights Issue

The Company is in the process of finalising a prospectus for a pro-rata non-renounceable rights issue to shareholders at a price of 7 cents per share on the basis of 1 share for every 3 shares held to raise approximately \$770,000. It is anticipated that the issue will be conditionally underwritten. The funds from the issue will be applied to working capital, to further the company's search for new mineral opportunities in Australia, to meet the costs of the issue and to meet the ongoing costs of the litigation against Xstrata referred to above.

Other Projects

The company's directors continued to review other investment opportunities during the quarter.

Yours sincerely

Ian Macpherson
Company Secretary

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

PRECIOUS METALS AUSTRALIA LIMITED

ABN

65 009 131 533

Quarter ended ("current quarter")

30 September 2004

Consolidated statement of cash flows

		Current quarter \$A'000	Year to date (3 months) \$A'000
Cash flows related to operating activities			
1.1	Receipts from product sales and related debtors	205	205
1.2	Payments for		
	(a) exploration and evaluation	-	-
	(b) development	-	-
	(c) production	-	-
	(d) administration	(113)	(113)
1.3	Dividends received		
1.4	Interest and other items of a similar nature received	6	6
1.5	Interest and other costs of finance paid		
1.6	Income taxes paid		
1.7	Other – Xstrata Claim Costs	(138)	(138)
Net Operating Cash Flows		(40)	(40)
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a)prospects		
	(b)equity investments		
	(c) other fixed assets		
1.9	Proceeds from sale of:		
	(a)prospects		
	(b)equity investments		
	(c)other fixed assets		
1.10	Loans to other entities		
1.11	Loans repaid by other entities		
1.12	Other – Proceeds From Sale of Subsidiary		
	- Proceeds Account cash at bank		
	- Legal Settlement		
	- Stamp Duty Payment		
Net investing cash flows		(40)	(40)
1.13	Total operating and investing cash flows (carried forward)	(40)	(40)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(40)	(40)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.		
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other – Costs of share issue		
	Net financing cash flows	-	-
	Net increase (decrease) in cash held	(40)	(40)
1.20	Cash at beginning of quarter/year to date	428	428
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	388	388

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	74
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Rental of office and outgoings, \$3,630.
Executive directors salaries and non executive directors fees and superannuation, \$53,956.
Corporate, business advisory and company secretarial services, charged by Ord Group Pty Ltd, a company associated with Ian Macpherson, \$16,419.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/A

Financing facilities available

+ See chapter 19 for defined terms.

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	55
4.2 Development	-
Total	55

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	388	428
5.2 Deposits at call		
5.3 Bank overdraft		
5.4 Other – DOIR Bank Guarantee		
Total: cash at end of quarter (item 1.22)	388	428

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			
6.2	Interests in mining tenements acquired or increased			

Issued and quoted securities at end of current quarter

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

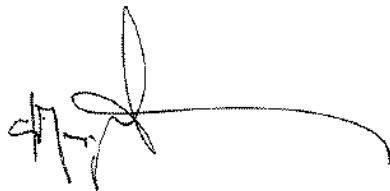
Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities <i>(description)</i>	Nil			
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	32,997,712	32,997,712		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 +Convertible debt securities <i>(description)</i>	Nil			
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	12,896,334	12,896,334	<i>Exercise price</i> \$2.00	<i>Expiry date</i> 1 December 2005
7.8 Issued during quarter		-		
7.9 Exercised during quarter	-			
7.10 Expired during quarter	-			
7.11 Debentures <i>(totals only)</i>	Nil			
7.12 Unsecured notes <i>(totals only)</i>	Nil			

Compliance statement

+ See chapter 19 for defined terms.

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act 2001.
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here:

Date:27 October 2004.

Director / Company Secretary

Print name: Ian Macpherson

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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