PMA

PRECIOUS METALS AUSTRALIA LIMITED

A.C.N. 009 131 533

12 November 2004

Dear Shareholder,

Re: Government Inquiry into Vanadium Resources at Windimurra

As you know, your company holds a 15% net profit interest in the Windimurra vanadium mine pursuant to a Royalty Agreement with Xstrata.

Xstrata suspended operations of the Windimurra mine in February 2003 citing low vanadium prices and a rising Australian dollar. On 10 May 2004 Xstrata announced its unilateral decision to permanently close the mine blaming an unfavourable economic assessment and prohibitive costs of reopening the mine.

In late June 2004 the Economics and Industry Standing Committee of the Legislative Assembly of Western Australia (**Committee**) announced an inquiry into the operations of the mine and plant since establishment, the conditions leading to closure, the arrangements by Xstrata for the dismantling and sale of the plant and statutory or policy reform to protect the State's mineral resources and their development potential.

The Committee's report was tabled in the Legislative Assembly on 11 November 2004. Whilst the Committee stated that it has not made definitive judgements on some issues raised because of the New South Wales Supreme Court proceedings your company has instituted against Xstrata, the Committee's findings included the following:

- The operating cost of producing vanadium pentoxide at Windimurra in 2002 was reported by Xwin as US$1.60 per pound ...(Finding 8)

- The performance of vanadium prices over the last twenty years has been characterised by significant but short-lived peaks. (Finding 9)

- On the basis of evidence presented to the Committee regarding vanadium prices, it is reasonable to believe that the Windimurra project could have been economically sustainable in the long term. The volatility of the vanadium price suggests that over an operating period of 30 years the project could be expected to experience highly profitable periods and periods of break even or loss. (Finding 10)

- If the Windimurra vanadium mine had been operating at 2004 market prices the project is likely to have made a profit over the preceding 12 months. (Finding 11)

- The increasing value of the Australian Dollar against the US Dollar since 2000 has been similar to the increase in value of

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the South African Rand against the US Dollar. This movement in the Australian currency has not hampered Windimurra's competitiveness when compared with South African vanadium operations. (Finding 13)

- The closure of the Windimurra project in May 2004 and the decommissioning that was already in progress signalled a permanent cessation of vanadium production at Windimurra and this is likely to have been responsible, at least in part, for the subsequent increase in world vanadium prices. (Finding 14)

- The Committee finds that Xstrata's $80 million asking price for the sale of the Windimurra project was inconsistent with the comparatively small return obtained through disposal of the project's infrastructure assets and the $11 million cost to Xstrata for site rehabilitation. (Finding 14). The Committee does not accept that adequate steps were taken by Xstrata to sell the project intact while it was on care and maintenance. (Finding 16)

- The partial dismantling of Windimurra's plant (by Xstrata) lessened its overall attractiveness to potential buyers by adding the cost of re-installing the removed parts to the nominated purchase price for the mine ($80 million), creating a new start up price that was very high and potentially uneconomic. (Finding 17)

- Xstrata was unlikely to attract serious bids for the sale of the Windimurra operation once the mine's infrastructure was partially dismantled and with a sale price of $80 million, as set by Xstrata. (Finding 18)

- The Committee considers that legislative changes required to protect Western Australia's interests reflect some of the best practice provisions in other jurisdictions. (Finding 19). At present, WA's *Mining Act 1978* does not provide sufficient power for the Government to protect the public interest in resource development projects. (Finding 21)

These findings support in general terms the position taken by PMA in its submissions to the Committee. A full copy of the Committee's report may be obtained from the Parliament's website. A link to this website can be found at www.pmal.com.au. Alternatively, contact this office and we will send a copy to you.

PMA is continuing to vigorously pursue the legal proceedings against Xstrata in the NSW Supreme Court alleging breach of the Royalty Agreement. On Friday 5 November 2004 the Court refrained from allowing an application by Xstrata to strike out PMA's claim. PMA now expects a substantive hearing on its claim is likely to be heard within the next few months.

Yours sincerely

Roderick Smith
Executive Director