

QUARTERLY ACTIVITIES REPORT FOR THE QUARTER ENDED 31 DECEMBER 2005

HIGHLIGHTS

- Value engineering work carried out by Hatch confirms that improvements to the Windimurra plant will provide significant improvements in recovery and reduction in operating cost.
- New design based on lifting output from 12mlbs to 20mlbs vanadium pentoxide equivalent (as ferrovanadium).
- Test work and further investigation recommended by Hatch has commenced, with the aim of proving the efficiency of proposed design changes, in order to allow capital and operating cost estimates to be finalised.
- Operating costs are expected to be highly competitive with other major vanadium producers in the world.
- The capital cost of re-opening the mine will be higher than previous expectations due in part to rising labour and material costs in the industry, a decision to increase output and to focus on low operating costs; however the final cost cannot be reliably determined until test work confirms the preferred design options.
- Capital cost not expected to have a material affect on Net Present Value of the project.
- World's largest reported *proven* ore reserve reported at Windimurra – 50Mt at .49% V₂O₅ within Measured and Indicated Resource of 95.53Mt at 0.47% V₂O₅.
- Reserve based on cheap bulk mining of all material within pit, without waste removal or blasting, advantages unique to the Windimurra vanadium deposit.
- Drilling programme at Windimurra underway to add indicated and inferred resources.
- Senior Operations and Environmental Managers appointed.
- Debt adviser to be appointed and offtake agreements advanced.
- New issue brings cash at bank to \$45 million.

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WINDIMURRA VANADIUM MINE (PMA 100%)

Work has neared completion on an optimisation study which has focussed on identifying those areas of the Windimurra mine that worked efficiently and can be rebuilt or recommissioned without substantial change, and those areas of the process which provide opportunity for further enhancement and cost reduction.

Among other matters, it is assessing various options available to optimise the efficiency of the Windimurra project, with particular emphasis on ensuring that operating costs will be competitively low. In this regard the project has certain natural advantages, a felicitous state which the Options Design Study (ODS) will seek to enhance.

The ODS will include an estimate, which by its nature will be preliminary, of capital and operating costs. Due to the rapid expansion that the world mining industry is currently experiencing, with its attendant pressure on human and material resources, it is expected that the capital cost of bringing Windimurra into production will be higher than it would have been had the project been built in the recent past. In addition, the ODS will include some tradeoffs that will lower operating costs at the expense of higher capital costs.

Last year, prior to taking possession of the project and prior to the feasibility study work commencing, the Company produced a broad brush indication that the capital cost would be in the order of \$100 million. Expectations now are that a fully optimised plant, expanded to lift production to 20mlbs V_2O_5 equivalent, will be significantly higher than that figure.

However until Hatch have completed the test work currently underway and have finalised a series of as yet incomplete design reviews the capital cost cannot be determined with any degree of accuracy.

Based on expectations as to cash operating cost production and sales, the capital cost is not expected to have a material effect on the net present value of the project.

Project Finance Strategy

Normally a capital cost would not be generated by the engineer until after the full BFS has been completed. However the Company has sought early indications of the capital and operating cost to allow it to make approaches to the banking community to introduce the project.

To support the project finance process the Company is in the final stages of appointing an experienced debt advisor, who will assist in selecting a panel of banks, preparing the initial information memorandum and drafting the proposed terms for debt funding. It is expected

that the process of securing project finance will be well advanced by the end of this quarter.

In addition to negotiating with potential financiers, the Company will shortly commence a program of advancing discussions with suitable parties among the consumers of vanadium with whom a strategic alliance, including product offtake commitments, can be forged.

Windimurra Mine History

The Windimurra mine was built in 1999 at a cost exceeding A\$200m. Over 30 million pounds of high quality vanadium pentoxide was produced at Windimurra however production ceased in March 2003 and in early 2004 much of the plant and equipment was demolished and removed by the previous owner.

Re-opening the mine will require replacement of the plant which has been removed, which will be greatly facilitated by the existing services and infrastructure. Of particular note are the sealed roads and the 365km gas pipeline running to site. This infrastructure did not exist when the Windimurra mine was first proposed.

Much of the plant and vanadium recovery processes as built, performed or exceeded the expectations of the original design.

The project is now in a unusual position that it was not afforded when the project was first built in that it can now base the process re-design on actual operating data from 3 years of mining and processing together with the hands on experience of key team members who worked at the mine, and whom have been recruited by PMA.

Appointment of Hatch Engineers

During the quarter the Company executed a formal agreement with Hatch Associates to carry out a detailed Bankable Feasibility Study (BFS) on re-opening the Company's Windimurra Vanadium Project.

The first stage of the study (ODS) which is nearing completion, has identified the key re-design options, generated a new process flow sheet, and will produce a capital cost estimate of +/- 20% and confirm operating costs.

Hatch is currently finalising the detailed work schedule however, it is still expected that the full BFS will be completed in May 2006 at a cost of approximately A\$3.5m including test work and overheads.

Optimisation Design Study

In the original plant, processes such as the grinding and magnetic beneficiation areas, whilst sound from a technical perspective, did not produce the levels of magnetite recovery expected. The causes of the shortfall and a

number of process improvements have already been identified, and in some cases trialled during the operating phase. However due to capital restrictions at that time, these improvements were not implemented by the previous owner.

The study of options for processing has confirmed that in all of the areas which have been considered in detail, the proposed changes to the plant will provide significant improvements in recovery and reduction in operating cost.

For guidance of shareholders the following areas of improvement have been recommended subject to confirmatory testwork.

Pre Scrubbing

The addition of a rotary scrubber ahead of primary milling has been proposed.

The Windimurra ore is soft and contains clays resulting in the mill feed size distribution being heavily biased to the finer sizes and readily formed slimes in the previous milling circuit. The scrubber will take advantage of the soft friable nature of the Windimurra ore by removing material already at or below the desired grind size prior to milling.

The mill feed tonnage would also be reduced by the amount of product sized material removed meaning a smaller mill would be required, less power consumed and a lesser starting load on the power station.

This would lead to a coincidental reduction in peak and average power demand and the size of the power station, further reducing capital and operating costs.

A programme of scrubber testwork has begun at Independent Metallurgical Laboratories (IML) Bulk samples have sourced from existing stockpiled ore on the ROM pad at Windimurra will be used to determine run of mine and crushed product particle size distribution. The crushed material will be used in pilot scale scrubbing trials at IML.

Primary Milling

The preferred option based on production data is a single SAG mill. Operating and test data exist for this option and a single SAG mill will thus be the least risk option. However, the delivery time of the mill (or mills) is one of the most important issues for project implementation. The availability of second hand mill or mills may be the deciding factor in selection of a single mill option or a two mill option.

Based on the Bond Work Index derived from operating data the increased production rate will require a mill drawing 3.8 MW in place of the 5.6MW unit previously employed. The correctly sized milling circuit coupled with the appropriate

classification circuit will achieve the desired ground product.

Classification

Hatch have recommended that a substantial installation of twenty DSM screens be used for classifying the mill discharge, instead of the classification cyclones previously installed. This arrangement will increase recovery substantially by preventing overgrinding of the denser magnetite and hematite particles, and reduce unit operating cost.

Cyclones are commonly used to classify the discharge from a wet grinding mill and this was the arrangement in the 1999 Plant. The cyclone underflow, being the coarser fraction, is sent back to the mill for further grinding, and the cyclone overflow, being the finer fraction and therefore the mill product, is forwarded to the next stage of processing.

It has been found that the Windimurra ore consists of minerals of two widely different densities, the gangue minerals with an SG of about 2.7 to 2.9, and the iron oxides (magnetite and hematite) with an SG of about 4.9. The cut size in the cyclones for the two mineral types was quite different. As a result a significant amount of fine magnetite or hematite particles reported to the cyclone underflow, thereby being returned to the mill for further, unnecessary grinding. Some of the slimes in the mill water would also return to the mill with these magnetite or hematite fines.

At the same time some relatively coarse gangue minerals were discharged into the cyclone overflow, the mill product.

During the latter stages of previous operations, a trial was conducted using a DSM screen to classify part of the cyclone feed stream. This successfully proved that a true size-based separation of the particles could be achieved.

This change will therefore increase recovery and throughput and decrease operating cost per unit, at increased capital cost.

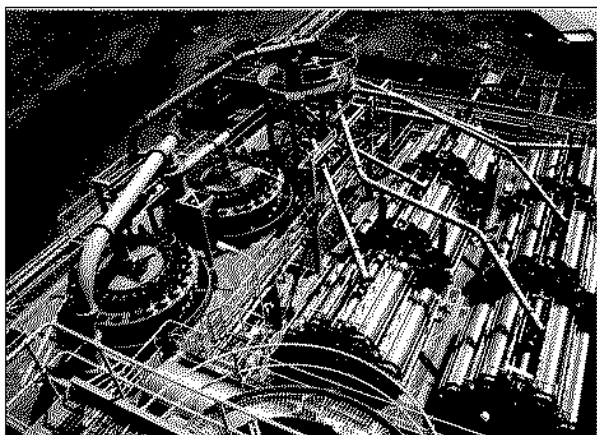
Testwork on ground ore will be used for detailed screen design.

Magnetic Separation

Hatch have proposed that the new plant incorporates a three stage magnetic separation circuit incorporating a Medium Intensity Magnetic Separators (MIMS) in order to increase recovery, decrease maintenance and decrease operating costs at the cost of increased capital.

The 1999 plant incorporated a two stage magnetic separation circuit. The first stage included four low intensity magnetic separator (LIMS) rougher drums followed by a single LIMS cleaner drum.

The non magnetic tailings from the LIMS were pumped to two clusters of desliming cyclones before the second stage of magnetic separation which included twelve double drum Rare Earth Magnet high intensity Separators (REMS) followed by three double drum cleaner REMS.



Magnetic Separators in 1999 plant

PMA have purchased the original REMS units and have these in storage. The rest of the circuit has been removed.

The two stage circuit whilst successfully producing a high quality magnetite concentrate, proved to be problematic in operation, in particular with the REMS units.

The Windimurra ore is a weathered magnetite and contains material with a range of magnetic susceptibilities. In the 1999 plant the LIMS circuit recovered significantly less magnetic particles than expected and as a result the REMS circuits became overloaded when the majority of the magnetic material in the REMS feed was collected on the first drum of the double drum unit. This large amount of material that was effectively "stuck" to the drum surface led to significant wear of the drum skin.

It is proposed that the new plant incorporate a three stage magnetic separation circuit in order to recover a medium magnetic susceptibility product before the REMS. With the improved grinding profile (see comments under "primary milling" and "classification" above) and increasing the take by the LIMS, and the MIMS cutting out another portion, it leaves the REMS to scavenge the last of the ore as it was originally designed.

Laboratory testwork has commenced to confirm the percentage of feed that will report to the MIMS, to allow finalisation of the design and costing.

Kiln Pre-drying

An additional external dryer is proposed to pre-dry and pre-heat the feed to the rotary kiln. The addition of the dryer will reduce kiln gas

consumption by at least 25% and change the temperature profile along the kiln.

Operation experience from the 1999 Plant indicated that the gas consumption for the rotary kiln burner was significantly greater than anticipated, and this is to be addressed.

The lower off-gas temperature resulting from the pre-dryer, allows for the use of a baghouse instead of the original wet scrubber. The baghouse has higher dust collection efficiency than the original wet scrubber which will improve environmental performance.

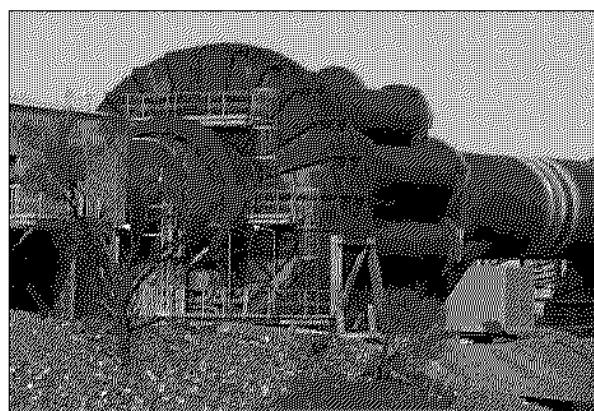
Pre heating will extend the high temperature reaction zone in the rotary kiln, hence increasing residence time at reaction temperature, which is in favour of the reaction. This provides for the capacity increase and potentially for a reduction in the hot zone temperature and further reduction in gas consumption and refractory wear, which will now be examined.

Hatch has recommended confirmatory testwork plus a detailed modelling and analysis of the kiln and dryer. Roasting tests using magnetite concentrate previously produced at Windimurra have commenced to determine the impact of roasting temperature, residence time and oxygen level on the V_2O_5 conversion rate. This will allow optimisation of the design and gas consumption and costing.

Flash drying tests to determine the flash drying design parameters will commence shortly in South Africa.

Kiln Discharge

Hatch propose that a new quench vessel be relocated from its original position elevated on a 12m steel structure to position to paving level below the kiln discharge, which will remove a bottleneck, increase throughput capacity and eliminate the shock loading in the tall structure.



Kiln Cooler section as currently installed

Previously, fine calcine material exited the kiln planetary cooler tubes via circumferential grizzly panel sections at the ends of the tubes and dropped onto a static grizzly. Oversized calcine

was scrolled out of the end of the tubes and fed to a hammer mill (all of the forgoing equipment remains installed on site). The fines and hammer mill product was then elevated and transported by hot pan conveyor up to a quench vessel located at a height of 12.5 m in a steel structure from which it was directed by slewing launder into three large in-ground concrete leach vats. The leach vats remain installed and the steel structure will not be replaced.

In operation the static grizzly frequently became blocked by oversized calcine material causing safety issues and kiln downtime. The redesign includes improvements such as removal of the grizzly prior to the hammer mill and installation a small hammer in each of the fines discharge chutes, with the quenched slurry being pumped up into the leach vats.



Leach Vats currently installed

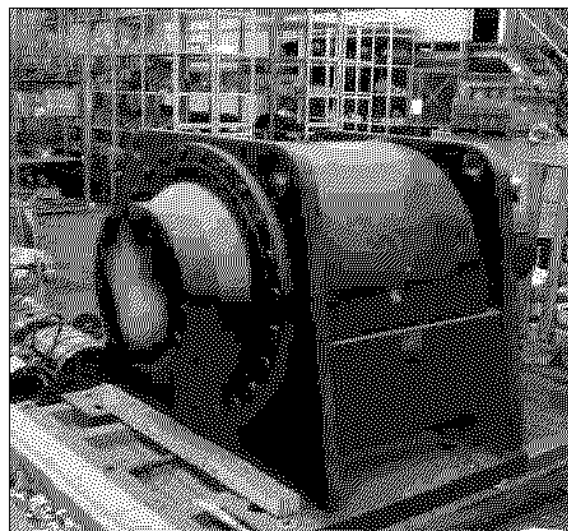
Design Feasibility Study

Stage Two of the study, being the Design Feasibility Study, will include;

- Final process flows, mass balances and final plant design.
- Capital cost estimate to +/- 10% level of confidence.
- Final operating cost estimates by review of process cost savings in areas such as kiln gas consumption, electricity generation, mining costs, and process reagents.
- Environmental compliance and reviving licenses.
- Risk analysis.
- Marketing strategy.
- Competitive advantage and competitor review.
- Mineable reserve statement to JORC standards.

Equipment Purchases

During the quarter the Company purchased a new 650kW diesel generator and custom switchboard. The generator will shortly be installed in a permanent position next to the 126m rotary kiln at Windimurra. This will allow firstly, a resumption of the maintenance programme, secondly an early start to be made to preparing for and installing replacement refractory lining and finally, permanent standby use. Standby power for the kiln is essential to ensure that during resumed operations when the kiln is at operating temperature, the kiln can continue to rotate in the event of a power station failure.



New Spare Kiln Gearbox bought in January

The company has also continued to buy back plant and equipment formerly installed at Windimurra but removed by the previous operator. Additional equipment purchased in January includes the unused spare drive motor and gearbox for the rotary kiln, and vacuum pump for the magnetite belt filter. These were bought for savings over replacement price.

The company has also purchased a second hand jaw crusher (the same model as installed previously) and other equipment as it has become available.



New Kiln power supply purchased December

Windimurra Design Information

In accordance with the settlement agreement, the previous owner of Windimurra has delivered to PMA approximately 180 archive boxes of production and other records related to the construction and operation of Windimurra.

During the quarter further progress was made in accessing and copying extensive records held by the previous consulting engineers who designed and built Windimurra. Approximately 60 boxes of information are currently being copied.

This information is expected to reduce the lead time for design and procurement as considerable sections of the plant will be rebuilt to the original design and specification.

JORC Ore Reserve Statement

The Windimurra reserve is the largest *proved* vanadium ore reserve reported anywhere in the world, and the only one which allows development of an open cut completely within ore, with no overburden removal or blasting.

In December 2005 Coffey Mining, an independent consultant (formerly named BFP Consultants) completed their recalculation of JORC compliant resource and reserves, a reconciliation of the original resource model with the ore delivered by previous mining, and changes in operating costs. The Proven Reserve based on bulk mining of the deposit is **50.4 Mt @ 0.489% V₂O₅**.

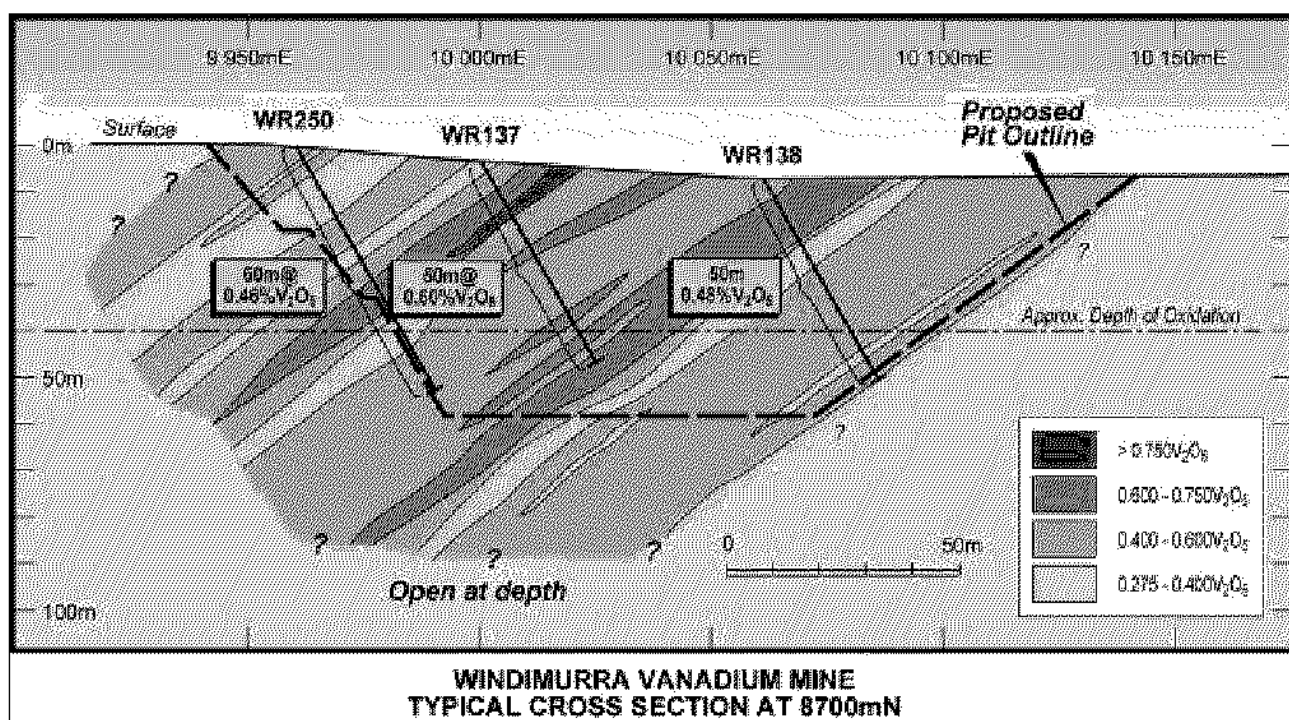
The combined Measured and Indicated Resource (including the Proven Reserve) is **95.53 Mt at 0.47% V₂O₅**.

Since commencement of mining in August 1999 to closure in December 2002, **7.32 Mt ore at 0.535% V₂O₅** was delivered to the Windimurra plant.

Reconciliation between the resource model and actual production carried out by Coffey shows vanadium content mined was **5%** in excess of that modelled.

Windimurra is considered by Coffey to be one of the most straightforward open pit mining undertakings in Australia. A typical cross section of the ore body is shown as figure 2 which clearly shows the commencement of mineralization from surface and the continuity across the mineable width of 150m

The Windimurra ore body has a number of natural advantages including , the absence of overburden or ongoing waste removal, its soft oxidised ore, low production requirement, shallow depth, minimal dewatering and ground control, easy blending of ore at the face, no grade control drilling, almost no drill and blast or re-handling of material and short haul distance to plant.



New Drilling at Windimurra

A reverse circulation drilling programme commenced in January 2006 is expected to add significantly to indicated and inferred vanadium resources.

The stated Windimurra reserves and resources are contained within a 4km segment of the 26km strike length within PMA's mining leases as indicated on the accompanying regional geology map.

The deeper drilled RC and diamond holes completed at Windimurra indicated that there is continuing vanadium mineralisation at depth in fresh rock. In addition, the deposit has not been drilled to exhaustion along strike to either the north or south. Surface magnetite outcrops and float, together with geophysical data indicate significant strike extents to the magnetite and gabbro horizons. Drilling completed in 1991 at Shephards Hill, at the "Southern Orebody" 2.5km south of the ore resource, showed the host structure the Shepard's Discordant Zone to have continuity in vanadium grades south of a major fault zone (this drilling is included in the current resource and reserve estimates).



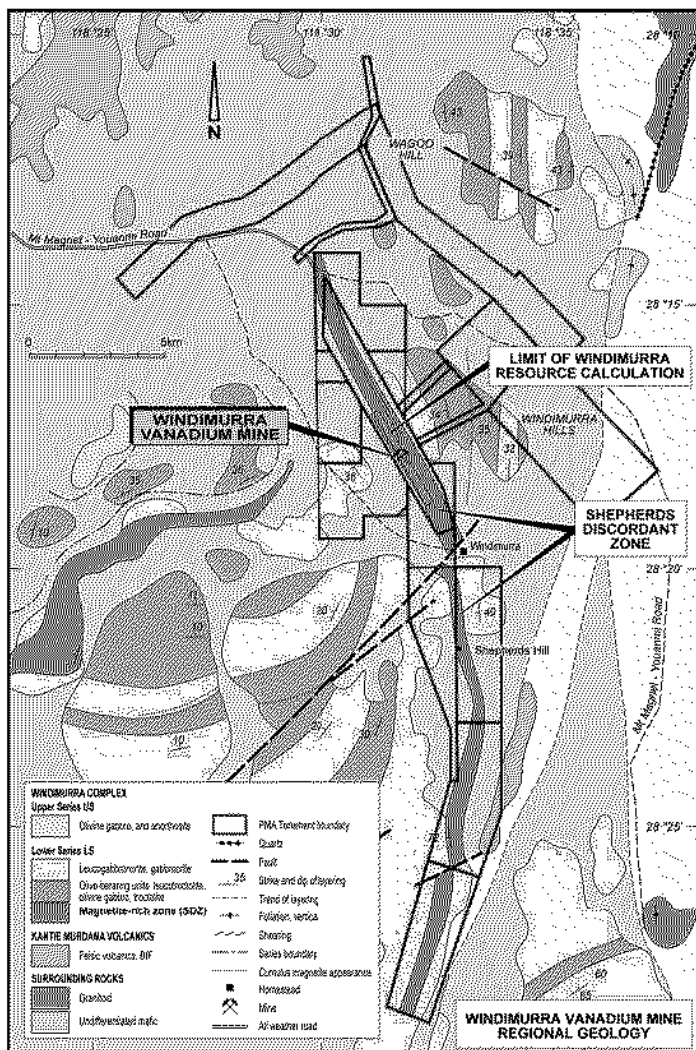
Drilling at Windimurra January 2006 (photo courtesy of RIU)

There is considerable scope for further mineralisation to be developed outside the currently defined Windimurra resource.

Coffey Mining are supervising the drilling programme currently underway. At the time of this report 9 holes varying from 50 to 70 meters depth had been drilled, three holes to a line, on 200m line spacing along strike from the northern end of the zone containing the proven ore reserve.

The on site geologist has indicated that iron bearing mineralisation has been intersected in the holes in line with expectations.

Results of the drilling are not expected for approximately two months due to the workload currently experienced by assay laboratories in Perth.



Personnel

The board is in the final stages of engaging a Chief Operating Officer who will be a Chemical Engineer with extensive experience in the design, construction and operation of complex metallurgical processing plants. This appointment will add considerable strength to the Company's project execution expertise.

The directors are pleased to announce that the company has recruited an experienced environmental scientist, Carrie Pritchard, formerly with Lionore.

Carrie's tasks will include working with Hatch to assess changes made to the production process, minimising environmental impact, and working with the regulatory authorities for the reinstatement of necessary environmental and operating approvals.

She will be involved in the management of environmental issues during construction and development of ongoing environmental management systems.

Ferro Alloys Conference

PMA was invited to present the vanadium paper at the International Ferro-Alloys conference hosted by Ryan's Notes in Tucson, Arizona on 24 October 2005. The paper, given by your CEO Roderick Smith, and other up to date information is available on the company's web site www.pmal.com.au.

CORPORATE

Share Placement

In December the Company announced a placement of 9,680,000 ordinary shares at a price of \$1.44 to raise \$13.0m to institutional and sophisticated investor clients of Mirabaud Securities Limited, London.

At the end of the quarter cash reserves of the company were in excess of \$45m.

On 1 December 2005 the 12.9m listed options (PMAOB) expired with 3,586 being exercised at an exercise price of \$2 per share.

Shares on Issue (as at 31 December 2005)

Fully Paid Ordinary Shares	74.7m
Unlisted options	0.7m

New Office

The Company will be relocating to larger office premises in February and the new registered office will be Level 4, 76 Kings Park Road, West Perth. The additional space will allow for expansion of staff numbers required for construction and operation of Windimurra.

The past quarter has been one of extraordinary achievement and growth for the company and is a prelude to a very busy year. I would like to extend a big welcome to the newer members of our team – we have a great opportunity and exciting times ahead!

Yours sincerely

PRECIOUS METALS AUSTRALIA LIMITED



Roderick Smith
MANAGING DIRECTOR

The information in this report that relates to Exploration Results, Mineral Resources and Ore Reserves is based on information compiled by Mrs Hilary Wright who is a member of the Institute of Materials, Minerals and Mining, London, a fellow of the Geological Society, London, and a Chartered Geologist, and is an employee of Coffey Mining, who are independent consultants to Precious Metals Australia Limited. Mrs Hilary Wright has more than five years relevant experience in the style of mineralisation and types of deposit under consideration and consents to inclusion of the information in this report in the form and context in which it appears. She is qualified as a Competent person as defined in the 2004 Edition of the "Australasian Code for reporting of Exploration Results, Mineral Resources and Ore Reserves".