

Precious Metals Australia Limited ("PMA")¹ 1st September 2005

Full Acquisition of the World Class Windimurra Vanadium Project now Complete.

- Transfer of 100% ownership to PMA of the Windimurra Vanadium project finalised.
- Transfer is viewed as the first significant milestone towards the re-commissioning of a World Class operation with longevity (decades) of mine life.
- A\$13.3 million Montagu underwritten share placement with UK and international institutions, will provide initial funding towards the near term rebuilding and reopening of the operation, with existing infrastructure and mining permit approvals already in place.
- Company has announced changes to the existing board will occur as soon as suitably qualified non executive directors can be found capable of boosting the boards technical and operating expertise.

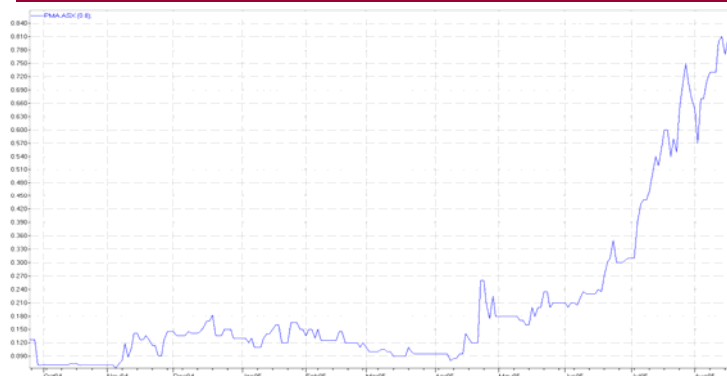
RECOMMENDATION: BUY

(See page 3 for risks, disclosure, disclaimer & warning statement)

KEY ASX DATA

Price of Ords (Cents)	86.0
No of Ordinary Fully Paid (M)*	64.54
Market Cap (\$M)	55.50
No of Options on Issue** (M)	13.90
* Includes the 19.0 million shares (issue subject to existing shareholder approval) to be issued by the recent placement to UK institutions. ** 1 million options exercisable at 15 cents on or before 29 November 2007, 12.9 million options exercisable at \$2.00 on or before 30 Dec. 2005.	
Directors: The Earl of Warwick (Chairman), Mr. Roderick J.H. Smith (Managing Director), Mr. Michael Fry (Director), Mr. Ian Macpherson (Director).	

Price Chart



Recent Developments

- On 9th August 2005, PMA announced that it had re-acquired the remaining tenements, assets and project information for the Windimurra Vanadium Project from previous owner Xstrata. PMA has now re-assumed full responsibility and obligations of the Project from that time forward. i.e PMA now wholly owns and controls the World Class Windimurra Vanadium Project.
- On 10th August 2005, PMA announced that it had successfully placed 19 million new ordinary shares with a number of United Kingdom and international institutional investors, subject to shareholder approval. The level of interest in this placement by institutions reinforces our view on the quality of this project.
- The announcement also stated that the Company will seek a UK Alternative Investment Market (AIM) listing, before year end.
- In addition, the Company has announced a board and management restructure, indicating it is now searching for suitably qualified non executive directors to boost the current board's technical and operating expertise.

Background Information

Precious Metals Australia (PMA) is an Australian Stock Exchange listed resource company. In 1985 the Company acquired the Windimurra tenements in Western Australia, primarily to test the known Windimurra layered ultramafic intrusion for Platinum Group Elements (PGE's). After early reconnaissance drilling and metallurgical test work, it became clear that the Windimurra layered complex was abnormally rich in vanadium within its magnetite mineralogy component. Exploration of the outcropping intrusion continued via drill testing in the late 1980's and well into the 1990's, establishing a large high grade vanadium oxide reserve, capable of supplying a 17.6 million lbs per annum vanadium processing plant for several decades.

In 1998, PMA requiring approximately A\$120 million in funding for plant construction, farmed out a portion of the Project to Xstrata, whereby Xstrata would earn a 60% interest in the project through the sole funding of the Windimurra processing plant under the Xstrata operated name of Vanadium Australia Pty Ltd. Mining began in July 1999, before plant completion and commissioning in December 1999. The first vanadium pentoxide product was produced in January 2000. Over the next three years the plant was slowly ramped up to 70% of rated capacity.

In 2000 PMA, due to low revenue from production and low vanadium prices, was forced to sell its remaining 40% stake to Xstrata, in return for a 15% net royalty from Windimurra production. In 2003, citing low global vanadium prices, Xstrata suspended the operation. By May 2004, Xstrata whom had two competing operations in South Africa had announced that it would

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not be reopening the operation and controversially proceeded to partially demolish the plant.

PMA then commenced a long term legal confrontation with Xstrata (details of which are beyond the scope of this report). However, importantly PMA managed to regain full control of the Windimurra asset, with Xstrata making a strategic decision to withdraw from the confrontation and hand over full ownership and control to PMA.

Overview of the Windimurra Vanadium Operation

Location and Tenure

The Windimurra Vanadium project is located approximately 70km east-southeast of the town of Mt Magnet, Western Australia. The Project consists of granted mining leases, covering an area of approximately 50km² of the outcropping Windimurra intrusive complex. Proximity to infrastructure is considered outstanding, with the Project serviced by a wide lane bitumen sealed road and access to cheap natural gas from a 365km long spur pipeline which was originally built specifically for the Project.

Geology & Mineralisation

The host intrusion to the extensive mineralisation, is a large layered ultramafic complex. The complex which outcrops at surface, has been severely weathered down to approximately 40 metres depth. Within both the primary zone (unmined at present) and the heavily oxidized weathered zone, the vanadium mineralisation is found within the magnetite fraction as massive vanadiferous-titaniferous -magnetite.

Windimurra is currently believed to be one of the largest proven vanadium orebodies in the world, with JORC measured resources currently standing at 77.44 million tonnes grading 0.50% V₂O₅ and a further 31.87 million tonnes grading 0.47% V₂O₅ in the Indicated category. This is currently sufficient to supply the operation for over 20 years, though the Company has indicated an operation life significantly well in excess of this. The Company has engaged original geological consultants BFP to review and update its resource figures.

Mining

Mining occurs within the top 40 metres of the orebody and is undertaken by simple open air, box cut methods down to fresh rock. Little grade control is required. The highly weathered nature of the orebody provides a very soft ore, which does not require any drilling and blasting. The orebody outcropping at surface with no overburden of waste material to move, equates to very low costs of extraction. Crushing and grinding is simple, with a single stage crushing circuit employed prior to grinding in a standard SAG mill, before the vanadium bearing magnetite is separated out, via magnetic separation.

Windimurra: the Worlds Most Advanced Vanadium Plant Design on a World Class Orebody

We understand from discussion with PMA, that the Windimurra processing plant design is still today the most advanced vanadium plant design in the world "combining proven salt roast processing technology, with significant design enhancements to guarantee the highest quality standards." (PMA)

The plant, commissioned in 1999 incorporated a number of advantageous design features which set it a tier above the currently operating plants around the world.

Natural Gas Fired Rotary Kiln a Global Competitive Advantage

The largest competitive advantage is the utilisation of natural gas instead of the standard pulverized coal in the rotary kiln. The kiln is used for salt roasting the magnetite, to effectively liberate the vanadium into a water soluble salt. The use of clean natural gas instead of coal has environmental benefits, as well as not introducing any impurities into the process (which is a constant

issue with coal fired kilns, such as the those currently operating in South Africa). In addition we note the attractive current WA gas prices in comparison to significantly increasing prices of quality South African coals as a fuel source.

Quality Control Systems

In addition, the plant was fitted with the latest in innovative quality control stages and systems, checking throughout the process stages, for any deviation in quality.

What is Left of the Plant, after Partial Demolition?

PMA is still assessing the plant inventory but note that although approximately half of the plant has been demolished and sold off, the parts that had a long lead time to build i.e. the rotary kiln (A\$25 million piece of equipment in 1999) and e.g. large rare earth electromagnetic separators, have been left, recovered or repurchased by PMA. The equipment removed was the more readily available standard components of the processing plant i.e. a jaw crusher, SAG mill etc.

What will be the Cost be to reinstate and re-commission Windimurra and how long to production startup?

It is too early to predict what the final cost estimation will be to reinstate all of the plant to its original condition and re-commission Windimurra. The original cost of the plant was A\$120 million and with approximately half the plant requiring to be repurchased/ reinstated and allowing for higher prices in a buoyant resources market, PMA has indicated a reinstatement and re-commissioning cost in the region of A\$100 million. This is assuming all of the equipment purchased is brand new and no secondhand equipment is sourced. We believe that this is a reasonable proposition and that funding for this should be achievable taking into consideration Windimurra's large measured resources capable of supplying the operation for several decades.

Timing to commissioning is also difficult to predict, however, we believe from discussion with PMA that the operation could potentially be operational within 12-18 months, assuming no delays in either funding or sourcing/construction of plant.

Future Marketing Advantages and Strategy to become the Cheapest Global Producer

When operating, Windimurra demonstrated that it's ore could be mined and treated effectively and efficiently, placing the operation in the lowest quartile of global producers in terms of cash costs per pound of vanadium pentoxide. In successive years 2001 and 2002 despite production still to be fully ramped up, the Project produced 12 million lbs per annum V₂O₅ at an average cash cost per lb of US\$1.59. Based on today's prices of V₂O₅ not taking into consideration any further value-add from the production of ferrovanadium (discussed later) at around US\$8-10 per lb, it is not hard to see that a very significant positive cash flow now has potential to be achieved. It is PMA's ambition now to re-establish and elevate the operation to being the cheapest cost producer in the world. In our view, with a new modern plant, this could well be achieved. In comparison, with Xstrata now having only a single operation (Rhovan) left in South Africa, and assuming the Company is not able to source other product, PMA would be the same size as Xstrata in terms of production capacity.

Initial Product Marketing Already Established

At the time of operation, Windimurra's V₂O₅ product was marketed by Xstrata's sister company, Glencore. Glencore distributed the high quality product globally to the majority of vanadium end users. This is now viewed as a significant advantage for PMA, in that the Windimurra V₂O₅ is already established in the market place as a high quality product. We anticipate this will now allow PMA to directly sell into the vanadium market, at market competitive prices, without large marketing tariffs. We also anticipate that a significant number of customers may be keen to further diversify their current supply source with a long term Windimurra product.

Ferro-Vanadium a Likely New Value Add Product

The majority of vanadium used today is in steelmaking processes. The steel producers are unable to use vanadium pentoxide directly as a charge to the steel ladle. Instead, steel makers buy in ferrovanadium which is made from the aluminothermic reduction of vanadium pentoxide with iron and aluminium (the aluminium burning) in an electric arc furnace.

Currently, ferrovanadium sells at a significant premium over vanadium pentoxide i.e. US\$35 per kg of contained vanadium. PMA management believe that Windimurra has significant potential to have added to the plant a ferrovanadium electric arc furnace. This value adding process would not only provide PMA with a second product, but also a wider base of prospective customers it could directly market to.

We understand that to add a ferrovanadium furnace to the back end of the plant would not be expensive with a historical scoping study indicating the cost in the region of A\$5 million. In our view, this is a very attractive option for PMA which has been recognised by PMA's management since commissioning. Historically all of Windimurra's vanadium pentoxide was shipped to Xstrata's South African operations, where the value-add ferrovanadium process was undertaken. Unfortunately this export cut Windimurra out of any benefit of the extra revenue the ferrovanadium produced from its vanadium pentoxide.

Very Large Potential for Upside

Windimurra has previously produced vanadium pentoxide product at the rate of 12 million lbs per annum at an average cash cost of US\$1.59 per lb. If PMA is able only to replicate this historical annual production at today's prices for V₂O₅ at around US\$10 per lb, profit before tax could potentially be in the vicinity of US\$100 million per annum (A\$130 million) per annum.

At the forward forecast 20 year average price for V₂O₅ of US\$3.80 and assuming the same production levels and costs achieved the profit before tax could be in excess of US\$26 million (A\$35 million) per annum.

These numbers are not presented as a projection of future earnings, but as a financial model based on historical production data supplied by the Company adjusted for current product pricing. PMA believes that production will increase to 22 million lbs per annum and there are strong reasons to believe that cash costs per pound can be lowered. These projected figures do not include any production of ferrovanadium which could also significantly value add.

These projected profit numbers should also be compared against the Company's current market capitalisation of approximately A\$55 million (with cash reserves of A\$33 million).

Recommendation: BUY

After recently emerging from a long legal battle, PMA has now regained full control and ownership of the currently idle Windimurra Vanadium Project from previous owner Xstrata.

The recent announcement on 9 August 05 is viewed as the passing of the first milestone for the Company on the road to re-building and re-establishing production at the large scale Windimurra operations. After initial assessment of the partial plant demolition undertaken by the previous owners, PMA believe that production could recommence as early as 12 months from now.

We are encouraged by the speed at which the recent initial equity raising underwritten by Montagu Stockbrokers was undertaken with UK and institutional investors, following the announcement. We believe that this is an acknowledgement by these institutions of the quality that this world class asset has to offer, with potential near term production and longevity (decades) of mine life.

At the current levels around 86cents. We recommend a BUY on PMA, believing significant share price upside is likely, as re-commissioning approaches, on what is still a tight capital structure. Investors do need to be aware however that there still remains a significant lead time to production in which some inherent risk still exists between then and now.

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Risks Associated With Investments in Precious Metals Australia Limited

Potential Investors need to be aware that investment in Precious Metal Australia Limited, like all investments in mineral exploration and development companies, is of a speculative nature. Normal share market risk conditions apply including commodity price, currency fluctuations, sentiment, supply and demand and general economic outlook. Normal exploration, development, mining and processing risks also apply as well as operating and environmental risks.

We note that Windimurra when operating supplied approximately 10-12% of global production of vanadium pentoxide. Due to its size and capacity potential, Windimurra has potential to affect significantly vanadium pentoxide and ferrovanadium commodity prices. In addition we also note that Xstrata and Glencore may have the capacity to significantly influence the two commodity prices. We acknowledge however that demand today is significantly larger than in the late 1990's- 2000. These risks, may well be potentially offset by Windimurra having significant potential to become the cheapest producer globally, however production levels will need to be monitored by all parties so as not to oversupply the market.

Disclosure Disclaimer & Warning

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