



A.C.N. 003 669 163

QUARTERLY REPORT

31 December 2001

HIGHLIGHTS

SAMAG MAKING RAPID PROGRESS TO FINANCIAL CLOSE

Pima Mining N.L.'s wholly owned subsidiary, SAMAG Limited ("SAMAG") has made rapid progress towards achieving financial close around mid 2002 for its 65,000 tonnes p.a. magnesium metal project and completing the Bankable Feasibility Study which is expected to be at the end of the current quarter.

During the December 2001 quarter SAMAG:

- made significant progress in engineering design and costing work in an alliance arrangement with Thiess, Kvaerner Engineering and Construction and SAMAG's own team. Kvaerner E & C were appointed during the quarter to provide process engineering design services;
- in light of progress in negotiations with State and Federal Governments on infrastructure support selected Port Pirie as the preferred initial plant site;
- The South Australian Government announced a \$25 Million infrastructure support package at Port Pirie;
- identified a magnesite deposit near Port Pirie which could lead to significant operating cost savings;
- received a study by International Project Analysis confirming SAMAG's relatively low technical and engineering risks;
- progressed with final negotiations and contract documentation of the Port Pirie energy supply chain;
- continued to make progress in completing the Bankable Feasibility Study;
- progressed the formulation of the project risk allocation financing strategy;
- finalised the preferred New Zealand site for a subsequent plant and began receiving responses to expressions of interest for long term gas and power supply;
- appointed Rob Eaglesham as General Manager- Project Delivery with responsibility for the Engineering and EPC program;
- appointed Andy Hogendijk to the Board of Directors as part of the planned process to strengthen the Company's Board for the project financing and execution phase of the company's development;
- raised \$5,310,000 in working capital by a placement of 29,500,000 shares (together with a 1 for 2 attaching option) at 18 cents.

In the current quarter SAMAG expects to:

- complete energy supply contract negotiations;
- finalise negotiations with Government in respect of infrastructure support;
- complete basic engineering and costing for the Bankable Feasibility study;
- commence finalisation of the Bankable Feasibility Study, which is the platform to arrange project financing.



REVIEW OF OPERATIONS

Engineering

During the quarter basic engineering and costing work continued on a defined schedule to produce the final construction costs for bankable feasibility study ("BFS") purposes. This work is scheduled for completion by the end of the current quarter and at the date of this report is on schedule.

This work is being undertaken in an alliance open book structure between Thiess Pty Ltd, Kvaerner Engineering and Construction, and SAMAG's own engineering team which includes a number of the former Dow Magnesium team. Thiess is the preferred Engineering Procurement and Construction ("EPC") contractor and Kvaerner is providing engineering design services. This current work will result in a Kvaerner Type 3 (funding) estimate and will also lead to minimising the risk of scope variation.

The alliance structure is to be converted into a lump sum turnkey EPC contract and negotiations to this end have commenced.

Behre Dolbear Australia Pty Ltd, acting as the independent engineers for SAMAG's proposed project finance banks, has undertaken a review of the status of SAMAG's engineering and preparedness for project delivery.

Testwork

Testwork necessary for the design basis for the acid leach and brine purification sections of the proposed plant have been successfully completed. Further in-fill testwork has been undertaken to optimise some aspects of plant design.

Carbonation

SAMAG's technical team has successfully undertaken laboratory scale tests of a carbonation method of calcium removal from the leach liquor. This technique, if successful, will lead to significant cost savings from reducing process consumables.

This work has been subject of the award of a \$911,000 START Grant from the Federal Government.

Further work has commenced and results to date support our earlier conclusions.

Project Delivery

During the quarter Rob Eaglesham joined the SAMAG team as General Manager- Project Delivery. Rob joins the SAMAG team with an impressive record of successful project management achievements recorded on time and within budget delivery. Rob has assumed responsibility for the Engineering and EPC program.

In recognition of the demands placed upon management by project delivery, responsibilities have been restructured and the new management structures are being implemented.



Alloy and Downstream Product Development

The development of specialist alloys will be critical to the company's long term success and the appeal of SAMAG magnesium alloy to not only ThyssenKrupp but other key automotive groups and their diecaster suppliers. To this end SAMAG has commenced a review of the Dow Magnesium development files to establish development priorities following financial close.

The Dow Magnesium files which SAMAG now holds contain the results of over 2,000 man-years of research and development work, much of which is proprietary and is of particular relevance in a variety of applications. SAMAG expects that this information will provide the basis for developing a significant competitive advantage.

New Zealand

Work has continued on the possible New Zealand plant option. The New Zealand project team has completed a pre feasibility study that confirms the longer term attractiveness of a plant located in New Zealand based on imported magnesite feedstock.

Also during the quarter the final preferred New Zealand location has been established based on a detailed analysis of local factors and gas and energy supply issues. The area will remain confidential until site acquisition arrangements have been completed.

SAMAG has sought expressions of interest on long term gas and power supply from the industry participants which, to date, confirm our earlier analysis of energy pricing and availability.

Subsequent to the end of the quarter, SAMAG received a report from ACIL Consultants outlining the sound long term energy supply situation and confirming the competitiveness of New Zealand's energy pricing.

The Pima Board is currently reviewing the next steps in its New Zealand strategy.

Government

During the quarter the South Australian Government announced a \$25 million infrastructure assistance package which significantly boosts the infrastructure available to SAMAG and other users of the Port Pirie Industrial Park. This package, which is subject to a number of conditions including finalisation of Federal Government contributions, has been particularly important in SAMAG's decision to commit to the Port Pirie site on the back of confidence that negotiations with the Federal Government on infrastructure issues will lead to a similar successful conclusion. The Federal Government negotiations are continuing.

Energy Supply Chain

The energy supply chain final contract negotiations continued during the quarter. Negotiations for the supply and transmission of gas to Port Pirie are well advanced. EPC bids for the gas fired power station have been received and are being evaluated.



SAMAG expects the energy supply chain contracts to be finalised during the current quarter on pricing outcomes that are in line with earlier expectations and which will result in internationally competitive power prices being achieved at Port Pirie.

Magnesium Market

During the quarter SAMAG continued to work with ThyssenKrupp Metallurgie (TKMet) to refine marketing strategies and plans to ensure SAMAG's product range is marketed effectively and at premium prices. The review being undertaken of Alloy and Downstream Product Development will assist in ensuring SAMAG's technical development is at the forefront of industry trends.

SAMAG has a long term Metal Sales Agreement with TKMet for SAMAG's entire magnesium and alloy output. Under this agreement SAMAG receives a Guaranteed Base Price sufficient to meet all the financiers' project financing requirements. TKMet is a wholly owned subsidiary of ThyssenKrupp AG ("TK"). TK is one of Germany's major industrial groups with annual sales revenue around EU38 billion or A\$63 billion.

Previously Pima has advised that CRU International Limited ("CRU") and Clark and Marron Pty Ltd ("Clark and Marron") had completed an independent evaluation of the magnesium market outlook and comparison of production costs with other magnesium producers or possible producers. The key conclusions of the CRU/Clark and Marron report were:

- Primary Magnesium consumption is expected to grow by 6.8 % p.a. over the forecast period 2000-2015;
- US magnesium alloy prices are projected to average US \$1.45/lb over the 2001-2010 period;
- The SAMAG project will deliver the lowest full cost position (cash operating costs plus capital service) of all current and committed Western producers.

Project Financing

Andy Hogendijk joined our management team in October and the Pima Board following the Annual Meeting of shareholders on November 28. Andy has assumed responsibility for the project financing. Andy joins Pima following an extensive career with Shell Australia Coal and more recently as Chief Financial Officer for the Commonwealth Bank and Suncorp Metway.

During the quarter, the SAMAG Preliminary Debt Memorandum was reviewed by a number of potential senior debt providers. This review provides SAMAG with confidence that the Senior Debt will be around 62-65% of total Project Financing of approximately A\$800 million.

In addition, SAMAG has commenced discussions with potential providers of Subordinated Debt which is expected to be at least A\$100 million of the overall financing.

Other project financing strategies are being investigated to minimise the requirement for additional equity.



Resource/Mining

Leigh Creek – South Australia

Minarco Resource Consultants are finalising a 20-year mine plan and mining schedule for the bank feasibility study and this work is expected to be completed by end January 2002. This mine plan will involve only a small fraction of the 579 million tonne magnesite reserve.

A Staged Mining and Rehabilitation Program for the mining of the Mount Hutton deposit is in preparation and is expected to be submitted for Ministerial Approval during the next quarter.

Huandot Deposit – Northern Territory

No work has been conducted during the quarter.

Nelshaby/Port Pirie

Exploration Licence 2828 covering an area of 1414 square kilometres and located 20 kilometres east of Port Pirie was granted to Magnesium Developments Limited, a wholly owned subsidiary of Pima Mining NL, on the 17 July 2001. The area is of interest because of the known occurrences of magnesite, which were previously mined, by BHP and others at Germein Gorge and Beetaloo.

Beds of magnesite with intercalated, dolomitic shales, were sampled at two localities. The magnesite sampled at Beetaloo from a 9 metre section ranged from 21.1% Mg to 26.9% Mg and at Germein Gorge, samples from 4 beds ranged from 25.3% Mg to 26.8% Mg.

A potentially large resource of exceptionally high-grade magnesite could be developed within 25 kilometres of the plant site at Port Pirie which would deliver a significant reduction in operating costs.

Rail Access

Negotiations are continuing with NRG Flinders Pty Ltd on access terms on their railway line from Leigh Creek to Port Augusta for the haulage of magnesite ore to the plant site at Port Pirie.

Environmental

An Environmental Monitoring and Management Plan (EMMP) was compiled for the construction of the ore Haul Road from the Mount Hutton mine site to the Telford rail siding and was finally approved under the Planning Act on the 6 September 2001, allowing the construction of the Haul Road to take place.

An EMMP was prepared for the proposed Mount Hutton mine site and a draft submitted to the Department of Primary Industries and Resources for comment. This is expected to be finalised in the next quarter.

Planning of environmental baseline studies including meteorological records, marine monitoring, soil sampling, dust and ambient air monitoring at the plant site were finalised.



with the Environmental Protection Authority (EPA). The baseline studies, which will provide continuous readings over the next 12 months, will be implemented during the next quarter and are a requirement of the Planning Approval granted on the 5 July 2001.

An EMMP covering the construction site is being prepared in consultation with Thiess's environmental team. Guidelines have been agreed with the EPA.

SAMAG Limited is committed to excellence in the field of resource management, including environmental management, and will strive to protect and enhance the environment for the overall benefit of the community, stakeholders and employees. As part of that commitment SAMAG has joined a collaborative project with the Royal Adelaide Zoo and other participants, including NRG Flinders Pty Ltd, in the release and monitoring of yellow-footed rock wallabies in the Aroona Dam area near Leigh Creek and located just south of the Mount Hutton and Camel Flat mine sites.

Native Title

Magnesium Developments Limited has signed a sub-lease agreement with the Indigenous Land Council for the Myrtle Springs Pastoral Lease. A management agreement is being negotiated with the Vinya Aboriginal Corporation to operate and manage the lease.

Negotiations have commenced with the Nukunu Peoples Council for a Work Area Clearance agreement over EL 2828 at Port Pirie. This is required for Heritage Survey purposes prior to undertaking any drilling activities.

Other Activities

Kanmantoo (EL 2662), Wheal Ellen (EL 2523) – Pima 60% and 100% respectively

A review of previous exploration of the Bremer Fault Zone (BFZ) by a consultant geologist outlined several highly-anomalous zones as worthy targets for base-metal and gold mineralisation. The BFZ is a major regional structure consisting of a wide zone of fractured and faulted rocks which extends to considerable depths. Potential exists for metal accumulations being remobilised and concentrated into such tensional zones eg: Kanmantoo Copper mine.

Reconnaissance surface sampling at Guthrie's prospect produced values up to 2.6% Pb and anomalous gold.

Reconnaissance surface sampling at the Pine Hill prospect produced anomalous copper, lead, zinc and silver values with silver up to 320g/t.

Willouran Hill (ELA 92/01) – Pima 100%

An application has been lodged with PIRSA for an Exploration Licence over the Willouran Hill area located 120 kilometres N E of the Olympic Dam mine. This tenement adjoins exploration tenements held by Tasman Resources NL and the Clara St Dora copper mine. The Willouran Hill area hosts numerous small copper and gold occurrences previously explored by Utah Mining.



Other Non-magnesium Exploration

No exploration activities were conducted during the quarter pending the proposed spin-off.

Non – Magnesium Assets Spin-off

Discussions were held with several organisations regarding the possibility of floating off or selling the non-magnesium assets held by Pima Mining NL. An announcement on the proposed spin-off will be made early in the next quarter.

Corporate

- Pima raised \$5,310,000 (prior to costs) in working capital by a placement of 29,500,000 shares at 18cents per share, together with a 1 for 2 attaching option.
- Rob Eaglesham was appointed as General Manager – Project Delivery, with responsibility for the Engineering and EPC program.

Dated: 25 January 2002

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PJD Elliott
Chairman
Pima Mining NL

In accordance with Australian Stock Exchange listing requirements, the geological information in this report has been based on information provided by geologists who are corporate members of the Australian Institute of Mining and Metallurgy or Australian Institute of Geoscientists and who have had in excess of 5 years experience in their field of activity.

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