

QUARTERLY REPORT

June 2001

HIGHLIGHTS

SAMAG CONTINUES TOWARDS FINANCIAL CLOSE

Pima Mining NL's wholly owned subsidiary, SAMAG Limited ("SAMAG") is rapidly moving into the financing stage with the aim of achieving Financial Close prior to year end for its proposed 65,000 tonnes per annum magnesium metal project.

Since the March 2001 quarter SAMAG has:

- Completed a detailed evaluation of potential plant locations in New Zealand and identified a preferred site where availability of competitive gas and electricity is assured.
- Completed capital cost comparisons of the preferred New Zealand site alternatives which confirmed earlier estimates of a capital cost saving of at least 6.5% compared to the Port Pirie alternative.
- Undertook operating cost comparisons of the preferred New Zealand site. These capital and operating costs comparisons confirmed earlier estimates.
- Commenced the process towards achieving necessary environmental and other approvals for the preferred site in New Zealand.
- Completed simulation and other engineering work which resulted in increasing the proposed plant scale from 52,500 tonnes per annum to 65,000 tonnes per annum of magnesium metal or alloy.
- The Port Pirie site option was granted necessary environmental approvals by the South Australian Government under the Development Act.
- Entered into Heads of Agreement with Australian National Power Pty Limited ("ANP") for ANP to build, own and operate the proposed Port Pirie co-located combined cycle gas fired power station of 233MW capacity subject to site selection.
- Undertaken considerable further design engineering through the contract with the Thiess Pty Ltd and Krupp Uhde GmbH ("TKU") joint venture. This work will provide a program for a fixed price lump sum turn key engineering procurement and construction contract ("EPC").

SAMAG is currently:

- Completing final alternative site location analysis which will lead to the final selection of the proposed plant location.
- Finalising engineering work which leads to the engineering procurement construction contract with TKU which will have a guaranteed maximum price.
- Finalising the Bankable Feasibility Study for project financing following final site selection.



REVIEW OF OPERATIONS

SAMAG Limited (100% Pima) – Magnesium Metal Project

New Zealand

- During the quarter SAMAG completed a review of site location economics for eleven potential sites in New Zealand.
- Following this review SAMAG appointed a New Zealand project team and has been engaged in detailed analysis in order to properly assess the comparative economics of plant location in New Zealand.
- SAMAG has identified three areas one of which is preferred and has commenced the necessary work for final site selection in New Zealand.
- SAMAG's studies and discussions have confirmed the availability of long term competitively priced gas and electricity in New Zealand.
- SAMAG has also completed a detailed analysis of the magnesium metal plant construction costs in various parts of New Zealand compared with Port Pirie. The conclusion of this study is that a New Zealand plant would have construction costs at least 6.5% lower than available at Port Pirie.
- Operating cost estimates for the preferred site have been prepared including the transport costs of imported magnesite.
- SAMAG has commenced the process of environmental and other permitting on the preferred site location in New Zealand.

Resource/Mining

Leigh Creek - South Australia

- Minarco Mining and Resource Consultants was commissioned by SAMAG to undertake a geological and mining study of the Mt Hutton magnesite deposit. This work was completed during the quarter and reports have been provided on the geological modelling and resource estimation, together with reserve estimates to JORC standards and a mine design and mining schedule. This work confirmed the Mt Hutton lease area (ML 6092) contains sufficient reserves within Beds 1 –17 to support mining at the proposed initial mining rate of around 300 000 tpa for 24 years.
- During the quarter a total of 4 615 tonnes of magnesite ore were mined from Beds 5 & 7 at the Myrtle Springs mine to supply feedstock to Unimin Australia Limited and for further testing of the magnesite for the production of calcined magnesia for use in the magnesium metal plant.

Huandot Deposit – Northern Territory

- Exploremine Pty Ltd has prepared a proposed drilling program to test the down dip extension to the Huandot Magnesite deposit. A five hole fully-cored drilling program has been proposed and it is anticipated that this work will increase the size of the existing resource. Drilling is planned to commence prior to the onset of the Northern Territory wet season in November in order to determine the viability of this deposit to supply either a New Zealand plant or an alternative magnesium processing plant in Darwin, should the Timor Sea Gas become available at acceptable prices in the future.



Engineering

- A Joint Venture between Thiess Pty Ltd and Krupp Uhde GmbH continued further engineering work on finalising capital cost estimates and establishing a program for the final lump sum turn key prices for engineering, procurement and construction.
- Work under this Tender Estimate and Design Engineering (“TEDE”) contract with TKU is now expected to be completed during August. The contractual arrangements provide a pathway to the final lump sum turn key arrangements for EPC.
- To minimize construction costs SAMAG agreed to acquire fluid bed driers from Dow Chemical Company’s former magnesium production facility at Freeport, Texas. These driers are capable of producing enough magnesium chloride prill feed for the annual production of 100,000 tonnes per annum of magnesium metal.
- During the quarter, extensive plant simulation analysis was completed and resulted in the proposed plant capacity being increased from 52,500 tonnes per annum to 65,000 tonnes per annum. The estimated capital cost of this expansion is primarily related to additional cell house capacity.
- Coffey Geoscience Pty Ltd undertook geotechnical investigations which indicated that the load bearing capacity of the ground conditions will support the planned structures. No further expenditures specific to the Port Pirie site are authorized or planned.
- Testwork at Amdel Limited laboratories in Adelaide have been successfully completed and provide engineering design inputs for plant design.
- The acid leach of magnesite is the only process step that is not identical to processes utilized by the former Dow plant at Freeport, Texas.

Energy Supply

- SAMAG has signed a Heads of Agreement (“HOA”) with Australian National Power Pty Ltd (“ANP”) to provide power and gas for the Port Pirie site option. Under the HOA, ANP proposes to build, own and operate a new 230 MW combined cycle gas fired power station adjacent to SAMAG’s Port Pirie site.
- The key elements of the HOA are:
 - ANP has entered into a provisional ten year gas supply contract with BHPP starting in 2004. The gas will be sourced from BHPP’s 90% share of the Minerva gas field, off the western Victorian coast.
 - ANP and Origin Energy have formed a joint venture company, SEA Gas, to build and operate a gas pipeline from Iona in Victoria (near Minerva) to Adelaide. ANP, Origin and possibly SAMAG will be the foundation shippers on the pipeline.
 - ANP proposes to build a 230 MW combined cycle gas fired power station, of which up to 170 MW may be dedicated to SAMAG.
 - ANP propose to convert gas supplied to SAMAG into electricity under a 20 year tolling arrangement.
- The HOA with ANP provides SAMAG with a certainty of energy supply and pricing at Port Pirie. Discussions with energy suppliers in New Zealand are leading towards achieving a similar level of certainty of supply and pricing. This enables SAMAG to make proper comparisons of the New Zealand and Port Pirie location alternatives.



Environmental

- In New Zealand, SAMAG has commenced the process of gaining the necessary environmental and other permitting.
- At Port Pirie, the State Government environmental approvals were granted on July 2001 under the State Development Act.
- Haul Road - Approval in principle has been received for the construction of a 20km Haul Road from the Mt Hutton mine site to the Telford Rail siding. Final approval for the Haul Road requires additional Flora and Fauna surveys, preparation of an Environmental Monitoring and Management Plan (EMMP) and final engineering design plans. These have all now been completed and final approval for the Haul road construction is expected shortly.

Marketing

- During the quarter SAMAG continued to work with ThyssenKrupp Metallurgie GmbH ("TKMet") on further development of marketing strategies and plans to ensure that SAMAG's product range is marketed effectively and at premium prices.
- TKMet have identified substantial magnesium alloy demand from within the ThyssenKrupp group for supply to automotive customers. In addition the ThyssenKrupp group has announced a research initiative in relation to magnesium alloy sheet.
- SAMAG has a long term metal sales agreement with TKMet for all of SAMAG's proposed magnesium metal and alloys output from either a New Zealand or Port Pirie plant.
- The TKMet Metal Sales Agreement ensures that SAMAG receives a guaranteed base price sufficient to service the project debt finance requirements.
- TKMet selected SAMAG as the most attractive primary magnesium supply with its combination of low cash operating costs, low capital costs and use of proven process technology.
- TKMet is a wholly owned subsidiary of ThyssenKrupp ("TK"). TK is one of Germany's major industrial groups with annual sales revenue of around Euro 35 billion or A\$62 billion.

Native Title

- Under the terms of the Adnyamathanha Mining Native Title Agreement, the Adnyamathanha Trust has been issued 500,000 ordinary fully paid shares in Pima Mining NL. Pima welcomes the Adnyamathanha people as shareholders through their Trust.
- SAMAG has Native Title agreements in place with the Adnyamathanha claimant group and the Kuyani claimant group who are the Native Title claimants to the proposed mining area at Mt Hutt

Other Activities

Torrens (EL 2533) – Billiton-Minotaur Joint Venture – Minotaur Operator

Negotiations with the Kokatha Native Title claimant group have been unsuccessful to date.

Sandstone (EL 2239) – Pima 76.6%

No activities. Licence expires 22 November 2001.



Aurora Tank (EL 2503) Pima 45% - Minotaur Operator

No activities

Kanmantoo (EL 2663), Wheal Ellen (EL 2523) – Pima 60% and 100% respectively

Recently acquired aeromagnetic data have been reprocessed. Airborne radiometric data have been processed and interpreted and merged with newly acquired landsat data sets. Several new targets have been selected for drilling and quotations received.

Coombedown Resources (EL 2238 and 2654) – Pima 33.3%

These tenements are joint ventured with Dominion Mining NL and adjoin the Challenger Gold Deposit, which is currently subject to a Mining Feasibility Study. Native Title negotiations have been completed with the Antakirinja Native Title Claimant Group and Edward Roberts. Small high-grade gold intersections have been encountered in previous drilling by Resolute Resources NL and may be developed in conjunction with the Challenger Deposit in the future.

Musgrave Block (ELA 143/97, 144/97, 186/97 and 321/97)

Negotiations commenced with a potential joint venture party to farm in on these tenements.

Corporate

The 1 for 10 entitlement issue announced on 6 June 2001 has closed.

The issue was fully underwritten by KTM Capital Pty Ltd to raise \$5.6 million. A further \$224,245 was raised from the issue of 1,121,227 shares from entitlements, which were not underwritten.

Shareholders subscribed for 21,321,763 shares raising \$4,264,352. The 24.34% shortfall will be taken up in accordance with the underwriting agreement.

The issue is primarily to fund the ongoing development of Pima's wholly owned subsidiary, SAMAG Ltd.

The securities when issued will trade on the Australian Stock Exchange on a Deferred Settlement basis until documentation is issued from Pima's share registry which is expected by 3 August 2001.

Dated: 30 July 2001

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PJD Elliott
Director
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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