



A.C.N. 003 669 163

# QUARTERLY REPORT

## March 2001

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### **HIGHLIGHTS**

#### **SAMAG MOVING RAPIDLY TOWARDS FINANCIAL CLOSE**

Pima Mining NL's wholly owned subsidiary, SAMAG Limited ("SAMAG") is moving rapidly towards completing its Bankable Feasibility Study which will lead into Financial Close for its 52,500 tonnes per annum Port Pirie magnesium metal project by late 2001.

#### **Since the last 2001 quarter SAMAG has:**

- Entered into a contract with Thiess and Krupp Uhde (in Joint Venture) that provides the program to a fixed price lump sum turn key Engineering Procurement and Construction contract. This contract will include full process guarantees.
- Commenced further design engineering which is expected to lead to significant reductions in capital costs.
- Made significant progress towards finalising gas and electricity supply arrangements.
- Entered into a facilitation agreement with the Treasurer of South Australia for the development of the proposed Victoria to South Australian natural gas pipeline which will provide the gas fuel for the proposed Port Pirie power station. This agreement was entered into by SAMAG together with Australian National Power Pty Ltd and Origin Energy Limited.
- SAMAG signed the Mining Native Title Agreement with the Adnyamathanha People which was the final Native Title Clearance necessary at Mt Hutton.
- SAMAG was granted a Mining Lease covering the Mt Hutton magnesite deposit.
- SAMAG entered into a Work Area Clearance Agreement with the Nukunu People covering the proposed plant site at Weeroona, north of Port Pirie in order to expedite Aboriginal Heritage issue that may arise.
- Lodged the environmental response documents responding to submissions made by public and government departments to the company's Environmental Impact Statement.

#### **SAMAG is currently:**

- Finalising gas and power supply arrangements - these are expected to be completed by July 2001;
- Completing environmental approval processes – final approvals are expected by July 2001.
- Finalising the Engineering Procurement Construction contract with Thiess Pty Ltd and Krupp Uhde GmbH (in joint venture) which has a guaranteed maximum price.
- Conducting further testwork and engineering to further reduce capital and operating costs;
- Finalising the bankable feasibility study for project financing – this is due to be completed by July 2001.



## **REVIEW OF OPERATIONS**

### **SAMAG Limited (100% Pima) – South Australian Magnesium Metal Project**

#### **Resource/Mining**

##### ***Leigh Creek – South Australia***

- Following the signing of the Mining Native Title Agreement with the Adnyamathanha People, SAMAG was granted a Mining Lease covering the Mt Hutton magnesite deposit.
- This lease has been granted for 21 years and the lease area is estimated to contain sufficient reserves within beds 1 to 17 to support mining at the proposed initial mining rate of around 240,000 tonnes per annum for 32 years.
- A retention lease has been granted over the Witchelina magnesite deposit which has a drill outlined resource of 23.7 million tonnes measured, 94 million tonnes indicated and 99 million tonnes inferred at a calculated grade of 40.0% MgO.
- Retention Leases have also been granted over the Pug Hill and Mt Playfair deposits and extensions to the Myrtle Springs deposit.
- Geological modelling of the Mt Hutton deposit for the pit optimisations and creation of the final mine design, continued throughout the period.
- Quotes have been received from five mining contracting firms and final costings for the first five years production are being finalised. A Heads of Agreement for the mining contract is being negotiated.

##### ***Huandot Deposit Northern Territory***

- A review of all available geological data has been undertaken and preliminary mine planning studies are in progress. A follow-up drilling program is being designed to extend the ore reserve which currently stands at 4.57 million tonnes averaging 26.1% Mg, 0.53% Fe and 6.3% acid insolubles. Drilling will test extensions to the mineralisation outlined in the trial pit area.

#### **Engineering**

- A Joint Venture between Thiess Contractors Pty Ltd and Krupp Uhde (TKU) has continued to progress capital cost estimates towards the final lump sum turn key prices for Engineering, Procurement and Construction (EPC).
- SAMAG has entered into a Tender Estimate and Design Engineering (TEDE) contract under which TKU have agreed the process which will produce a lump sum turn key price following some additional engineering work.
- SAMAG expects this additional design work will result in significant reductions in capital costs.

#### **Energy Supply**

- SAMAG is finalising agreements for the acquisition of at least 13.5PJ pa of gas to supply gas fuel for the proposed combined cycle gas turbine power station to be co-located at Port Pirie.



- SAMAG, jointly with Australian National Power Pty Ltd and Origin Energy Ltd have agreed to act as the Foundation Shippers on a proposed gas pipeline from Victoria to South Australia with an initial annual capacity of around 45PJ pa.
- This Foundation Shipper group has entered into a Memorandum of Understanding with GPU Gas Net Pty Ltd for the proposed construction, ownership and operation of the gas pipeline. Pipeline tariff arrangements are currently being negotiated.
- SAMAG is currently negotiating arrangements for gas transport from Adelaide to the Port Pirie site.
- SAMAG has closed bids for the proposed building, ownership and operation of the Port Pirie combined cycle gas turbine power station. Bids are currently being evaluated and negotiations with short listed parties are underway.
- SAMAG expects to finalise its power supply arrangements within the current quarter.

### **Environmental**

- SAMAG completed the response document responding to submissions received from public and state government agencies.
- The response document is currently being reviewed and Planning SA are preparing the Assessment Report.
- Environmental approvals are expected by July 2001.

### **Marketing**

- During the quarter SAMAG worked with ThyssenKrupp Metallurgie GmbH ("TKMet") on the preparation 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.
- SAMAG has a long term metal sales agreement with TKMet for all of SAMAG's proposed magnesium metal and alloys from the Port Pirie plant
- The TKMet Metal Sales Agreement provides for SAMAG to receive a guaranteed base price sufficient to fully service the project debt finance requirements.
- TKMet selected SAMAG as the most attractive primary magnesium supplier with its combination of low cash operating costs, low capital costs and use of the proven Dow process technology.
- TKMet is a wholly owned subsidiary of ThyssenKrupp ("TK"). TK is one of Germany's major industrial groups with annual sales revenue around Euro 35 billion or A\$ 62 billion.

### **Native Title**

- Negotiations were completed with the Adnyamathanha claimant group with respect to the proposed mine development at Mt Hutton and SAMAG entered into a Mining Native Title Agreement.
- The agreement with the Adnyamathanha people covers the proposed mining of magnesite from the Mt Hutton mine and includes construction of a Haul Road from the mine site to the Telford rail siding near Leigh Creek.



- Under the agreement the Adnyamathanha Trust will be issued 500,000 ordinary fully paid shares in Pima Mining NL.
- The agreement provides for employment opportunities, administration payments, environmental protection, local business opportunities and ongoing royalty payment related to the mine gate value of magnesite production.
- Signing of the agreement will foster good working relationships between SAMAG and the Adnyamathanha people.
- A Work Area Clearance Agreement has been entered into with representatives of the Nukunu People's Council who are Native Title Claimants over the area covering the Company's proposed magnesium metal plant site at Port Pirie.
- Whilst the proposed magnesium plant is located on freehold land the Work Area Clearance Agreement has been negotiated in order to provide appropriate protection and recording of any heritage sites that might be identified effected by the construction activity.

### **New Zealand**

- SAMAG has commenced the detailed investigation of the feasibility of establishing a magnesium production facility in New Zealand.
- SAMAG is evaluating several possible sites with appropriate infrastructure and competitive energy prices including Hawkes Bay, Taranaki, Southland and Auckland.
- SAMAG's further market investigations have indicated that there is ample room in the magnesium market for a second Dow process based project. Automobile manufacturers are progressively increasing usage of magnesium components, but currently have some concerns about the capacity industry to supply the quantities of metal required at the right price.

### **OTHER ACTIVITIES**

Torrens (EL2533) – Billiton – Minotaur Joint Venture – Minotaur Operator

No field activities. Negotiations are still continuing with the Kokatha Native Title claimant group.

Sandstone (EL2239) – Pima 76.6%

No activities

Aurora Tank (EL2503) – Pima 45% - Minotaur Operator

No activities

Kanmantoo (EL's 2663 and 2523) – Pima 60% and 100% respectively

No activities

Coombedown Resources NL – Pima 33.3%

No activities



## **CORPORATE**

During the quarter 700,000 share options exercisable at 35 cents each and expiring on 28 June 2003 were issued to employees of the company to provide a performance benefit in the form of Pima shares.

Dated: Date

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RCF Tiley  
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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