

MONTAGUE GOLD NL

ACN 006 045 790



QUARTERLY REPORT TO 31 DECEMBER 1998

HIGHLIGHTS

AUSTRALIAN ACTIVITIES

- Extensive search for new projects yields positive results.
- Announcement of proposed acquisition of unlisted gold exploration company, Cullen Resources NL.
- Signing of Underwriting Agreement with Hartley Poynton Limited to raise \$2.25m for exploration funding.

RUSSIA (2% DIRECT EQUITY INTEREST)

- Project development of the Pokrovskiy gold deposit (containing 1.4 million recoverable ounces) on track for commissioning by July 1999
- First year annual production forecast for the Pokrovskiy project of 68,000 ounces.

CORPORATE

- Placement of 4.25 million ordinary shares at 3 cents to raise \$127,500 ratified by shareholders.
- Proposed new board and management appointments.

ASX Code: MGG
Level 32, Grosvenor Place
225 George Street
SYDNEY NSW 2000
AUSTRALIA

Phone: +61 2 9251 4590 Fax: +61 2 9251 4594
Email: wmaus@magna.com.au

AUSTRALIAN ACTIVITIES

New Acquisition

Work during the quarter focused on the evaluation of potential new projects as a platform for future growth of the company.

Of the projects reviewed, a stand out candidate in terms of asset quality and proven management ability was the unlisted gold exploration company, Cullen Resources NL ("Cullen").

Detailed discussions initiated during the quarter culminated in agreement being reached on the 20th of January 1999 on terms under which Montague will acquire 100% ownership of Cullen by issuing 2 new Montague shares for each existing Cullen share.

This will result in the issue of approximately 66.1 million new Montague shares to Cullen shareholders, valuing Cullen's assets at \$2.64 million.

The transaction is conditional on final due diligence by Montague and Cullen, shareholder and regulatory approvals and the completion by Montague of a \$2.25 million capital raising (see below). The acquisition will proceed by means of a selective reduction of capital in Cullen with the requisite shareholder approvals being obtained in the coming weeks.

Summary of Cullen Exploration Assets

The assets of Cullen are considered highly prospective and will provide new opportunities for advanced exploration in Western Australia and North Queensland. Cullen's principal assets comprise;

* Tick Hill (100km SE of Mt Isa, Queensland)

Mount Isa Mines ("MIM") mined 650,000t of ore at Tick Hill with a very high average recovered grade of 25 g/t Au between 1991 and 1994. Cullen is earning a 70% interest in MIM's 280km² Tick Hill tenement package (excluding 12km² around the old mine) by spending \$3.5 million over 5 years. MIM has spent \$7.8 million on exploration of these areas. Expenditure to date by Cullen is \$560,000.

Cullen has outlined drill targets with potential for high grade gold or gold/copper mineralisation at several prospects using aeromagnetic, airphotograph interpretation and detailed geochemical sampling. The Pelican prospect is one of the target areas where previous explorers have reported up to 8.4m @ 1.4% Cu, 0.9 g/t Au and 27.4m @ 0.9% Cu, gold was not assayed.

A new interpretation of the controls of mineralisation in the area is guiding target selection and current exploration. Proposed exploration includes detailed geological mapping and geochemical sampling on selected prospects with follow-up RC drilling. Applications for a further 530km² have also been lodged.

* De Courcy (130km WNW Paraburdoo, WA)

In the Wyloo Dome area in the Ashburton Province of Western Australia, Cullen wholly owns three exploration licences (approx. 369km²) which are strategically located 10km south east and along strike of the Paulsen gold discovery announced late last year by Taipan Resources NL (3.6 million tonnes @ 8.1 g/t Au (940,000 ozs), ASX release 22/11/98). The geology of the Cullen ground comprises structurally complex Archaean volcanics and sediments, similar to that held by Taipan Resources.

Over the past year prospecting, geological mapping and soil sampling by Cullen have upgraded the potential of this key property. Several prospects have been identified along favourable structures with rock chips of quartz veins assaying up to 8.7 g/t Au at one of these. To date, the large De Courcy property has seen only modest exploration because of extensive cover.

An airborne magnetic and radiometric survey is planned for the current quarter as a prelude to more intensive exploration commencing in the second quarter. This will include sampling of the soil-bedrock interface by auger and RAB drilling followed by RC target drilling. A map showing the location of the De Courcy licences is attached.

*** Gunbarrel (130 km E of Wiluna, WA)**

The Gunbarrel Project covers three exploration licences and two licence applications totalling 580km². It encompasses 46km of a prospective greenstone belt located 45km east of the very productive Yandal greenstone belt which hosts the Bronzewing gold deposit. Cullen's interests range from 80 to 100%. The tenements include most known gold occurrences in the Mount Eureka district and a zone of gold mineralisation discovered by Pegasus Gold Australia Pty Ltd at the Taipan prospect (best RC result 22m @ 2.1 g/t Au).

Underwritten Equity Issue

Montague has secured exploration funding for the Cullen projects through a new equity issue. Subject to completion of the transaction, Montague will raise a total of \$2.25 million via an issue of 50 million new Montague shares at a price of 4.5 cents per share. The issue has been underwritten by Hartley Poynton Limited.

The acquisition of Cullen provides the Company with a solid core of projects and the technical expertise required to exploit their exploration potential.

RUSSIAN GOLD MINING INTEREST

POKROVSKIY GOLD PROJECT

The Company owns a 2% direct equity interest in Joint Stock Company Pokrovskiy ("JSCP"), the Russian company which owns the mining lease and mining assets covering the Pokrovskiy gold deposit in the Amur Region of Russia. The Pokrovskiy deposit is a high grade (9 g/t for the first 5 years) open pit deposit containing 1.4 million recoverable ounces of gold with a further 1.2 million ounces in the resource category.

The project is being developed as a heap leach operation capable of producing 60,000 ounces of gold per annum at an estimated capital cost of US\$6.5 million. The life of the heap leach operation is forecast to be at least 7 years with an estimated average cash cost of production over the life of the project of US\$90 per ounce.

The operators of the project, JSCP, have reported that during the quarter, considerable further progress was made on the site works prior to the winter weather closing in.

In particular, JSCP have advised that ;

- * the foundations of the leach pad are now complete and are ready for lining;
- * the foundations of the stacker pad have been completed;
- * dewatering is approx. 80% complete; and
- * electrical works are approx.90% complete

Leaching is currently scheduled to commence by July 1999 with first gold production scheduled shortly thereafter.

Regular updates on the progress of the development and commissioning of the Pokrovskiy project can be obtained via the Internet on www.zoloto.co.uk.

BOARD AND MANAGEMENT APPOINTMENTS

Upon completion of the acquisition of Cullen, the co-founders and major shareholders of Cullen, John Horsburgh and Grahame Hamilton will become executive directors of Montague responsible for developing the Company's expanded exploration activities.

John Horsburgh and Grahame Hamilton were the co-founders and managers of the successful Solomon Pacific Resources NL which developed the Brocks Creek Gold Mine prior to being taken over by Acacia Resources for \$104 million in 1996.

The Company believes, as a result of the Cullen acquisition, it has a highly professional and broadly based management team in place which is an important ingredient in the success of any junior exploration company.

The Company is now looking to appoint an independent non-executive Chairman to oversee the management and board functions of the enlarged group.

CAPITAL RAISING

At the Company's AGM, shareholders ratified the placement of 4.25m new ordinary shares to private investors on 20 October 1998.

In addition to the underwritten capital raising referred to above, the Company has, since the end of the current quarter, completed a further placement of 15% of its capital via an issue of 4.875m new ordinary shares at 4 cents per share, raising a total of \$195,000.

These funds will be used to supplement existing working capital and to meet the costs incurred in relation to the acquisition of Cullen and associated fundraising which will involve the issue of a prospectus.

Following this latest placement, Montague has a total of 37.5 million ordinary fully paid shares on issue.

Yours faithfully,
Montague Gold NL

WJ Kernaghan
Company Secretary

NOTE:

The information contained in this report is based on information compiled by The State Committee on Geology of the Russian Federation which is the overseas equivalent of being a member of the Australasian Institute of Mining and Metallurgy. This report accurately reflects the information compiled by this committee as supplied to the Company by Zoloto Mining Ltd.