

Pegmont Mines NL

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17 July 2006

The Manager
Stock Exchange of Newcastle Limited
384 Hunter Street
Newcastle, NSW 2300

Dear Sir,

Quarterly Activity Report to 30 June 2006

We submit the following report for Pegmont Mines NL for the three months to 30 June 2006.

1. Summary

Investment activities during the quarter realised a **pre-tax share trading profit of \$ 3,772,655**, resulting in a total profit of \$4,842,886 for the six months, up 358 % on June '05. Interest received during the quarter was \$32,148; a total of \$43,047 for the six months; down 15.1% on June '05.

Share investments, at cost, total \$4,189,638 (8.2c/share), having a market value of \$ 4,974,462 (9.8 c/share). **Cash at bank and deposit** was \$ 4,105,922(8.1c/share) at 30 June 2006.

Exploration expenditure was \$ 121,654 during the quarter, with emphasis on applying for areas over known bauxite deposits in the **Kimberley** region WA \$67,623 and metallurgic test work on the **Pegmont** lead-zinc drill samples \$22,066.

2. Corporate

Shareholders approved the proposed **change of status of the company to that of a Limited Company** at the Annual General Meeting held on 28 April 2006. The necessary documents have been lodged with ASIC which may enable the change in status to take affect during early August.

Shares in the Company, traded on the Newcastle Stock Exchange, have increased in volume with several large holdings disposed of, albeit at low prices. The last traded price was 12 cents, an encouraging improvement, but remains at a substantial discount to current assets of the company which are in excess of 16 cents per share.

3. Investment Activities

Pre-tax realised share trading profits were \$ 3,772,655 (7.4c/share) for the quarter, plus interest received of \$ 32,148. Total realised trading profits and interest received for the half year was \$4,885,933 which represented 103.4% return on current assets at 31 December 2005.

Investment Activity Summary

Shares Trade	March Quarter 2006 <u>\$000</u>	June Quarter 2006 <u>\$000</u>	Half Year to June 2006 <u>\$000</u>	Year Revised Estimate 2006 <u>\$000</u>
Proceeds	2,905	8,325	11,230	17,500
Cost	1,835	4,552	6,387	11,300
Profits	1,078	3,882	4,960	6,200
Losses	<u>(8)</u>	<u>(109)</u>	<u>(117)</u>	<u>(200)</u>
Net Profit / (Loss)	<u>1,070</u>	<u>3,773</u>	<u>4,843</u>	<u>6,000</u>

The above results do not include net unrealised gains of \$784,824 at 30 June 2006. Subsequent share trading activity has increased year to date profits to \$5,000,000. Although stock market interest continues in resource companies and explorers, we remain cautious with high cash levels. Our revised trading profit estimate for the year is \$ 6 million. The expenditure budget for administration and exploration activities remain at \$1,000,000 for the year. Thus, estimated pre-tax profits for the current year could total \$ 5 million.

4. Corporate Liquidity

The company's cash position improved to \$ 4,105,922 (8.1c/sh) after payment of company income tax \$ 859,614, including a contribution of \$434,614 towards income tax in the current year and exploration expense of \$121,654.

5. Exploration Activity

Metallurgical test work on drill samples from **Pegmont** continues to indicate complex mineralogy with very poor recovery results from oxide material. However, tests on sulphide mineralisation are encouraging which suggest that standard treatment methods could achieve acceptable recoveries.

The company has recently secured an option over the "**New Hope**" copper-gold prospect, 15 km north-west of Pegmont. Previous rock chip sampling indicate a 400 metre strike length of anomalous copper-gold values. This prospect will be drilled as soon as a rig becomes available.

We have continued to apply for exploration areas over known bauxite deposits in the **Kimberley region**, WA. However, no applications have been granted. Upon granting it is proposed to transfer such tenements to Kimberley Ventures Ltd for a royalty consideration.

6. Income and Expenditure (cash basis)

Income Received	June Quarter \$	Half Year 2006 \$	Estimate 2006 \$
Interest	32,148	43,047	100,000
Net Profit/ (Loss) on sale of shares	<u>3,772,655</u>	<u>4,842,886</u>	<u>6,000,000</u>
	<u>3,804,803</u>	<u>4,885,933</u>	<u>6,100,000</u>

Exploration Expenditure

Pegmont deposit – general	14,260	14,257	20,000
- metallurgy	22,066	29,414	190,000
Pegmont regional	4,037	5,062	20,000
New Hope prospect	11,067	11,067	150,000
Duchess regional	2,558	2,833	10,000
Kimberley Joint Venture (60%)	67,622	165,417	250,000
General Investigations	<u>44</u>	<u>4,001</u>	<u>10,000</u>
	<u>(121,654)</u>	<u>(232,051)</u>	<u>(650,000)</u>

Corporate Expenditure

Administration	21,493	30,087	75,000
Directors Fees	42,750	78,750	275,000
Working Capital	(128,477)	(40,739)	-
Share Investments	235,300	895,300	1,000,000
Company Income Tax	<u>859,614</u>	<u>859,614</u>	<u>1,500,000</u>
	<u>(1,030,680)</u>	<u>(1,823,012)</u>	<u>(2,800,000)</u>
Net Cash Surplus/Deficit	2,652,469	2,830,870	2,600,000
Add opening cash balances.	<u>1,453,453</u>	<u>1,275,052</u>	<u>1,275,052</u>
Closing Cash Balances.	<u>4,105,922</u>	<u>4,105,922</u>	<u>3,875,052</u>

In summary, there was an increase in cash balances of \$ 2,652,469 during the quarter after payment of company income taxation of \$ 859,614; and share investments of \$235,300. Additional income tax liabilities of about \$1,000,000 may become payable, which could be funded from further profits derived from share trading during the next six months. Should these estimates be realised, the net tangible asset backing of the Company could exceed 21 cents per share, including 16 cents for cash and shares.

Yours Faithfully,



M. A. Mayger
Managing Director