

Pegmont Mines Limited

ABN 97 003 331 682

Corporate Office

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FAX TO: NATIONAL STOCK EXCHANGE OF AUSTRALIA
ATTENTION: MR SCOTT EVANS
FAX NO: (02) 49291556
FROM: CHRIS LESLIE
SUBJECT: QUARTERLY ACTIVITY REPORT TO 31 DECEMBER 2006
DATE: 25 JANUARY 2007

Dear Scott,

Please find attached our quarterly activity report to 31 December 2006.

Regards,

Chris Leslie

Pegmont Mines Limited

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25 January 2007

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

Dear Sir,

Quarterly Activity Report to 31 December 2006

We submit the following report for Pegmont Mines Limited for the three months to 31 December 2006.

1. Summary

Investment activities during the quarter realised a **pre-tax share trading profit of \$ 1,394,576**, resulting in a total profit of \$7,371,153 for year to 31 December 2006, up 257.9% on 2005. Interest received during the quarter was \$49,616 making a total of \$141,539 for the year; down 5.1% on 2005.

Listed share investments, at cost, totalled \$5,193,642 (10.2c/share), having a market value of \$6,835,152 (13.5c/share). Cash at bank and on deposit was \$3,591,062 (7.1c/share) at 31 December 2006.

Exploration expenditure was \$95,629 during the quarter, comprising application costs for areas over known bauxite deposits in the **Kimberley** region WA \$16,700 and geological field costs on **Pegmont** \$29,219, **Pegmont** regional areas \$2,043 the **New Hope** prospect \$5,516 and **Duchess** regional \$9,152. **Pegmont** metallurgical costs for the quarter amounted to \$31,634.

2. 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

A major review of historical exploration data for the **Pegmont** deposit (MLs 2620, 2621 and 2623) has commenced. This review, which includes rationalising various grids and the change from the Australian Geodetic Datum (AGD84) to the Geocentric Datum of Australia (GDA94), will allow us to update and correct the previously generated Hellman & Schofield database during the first quarter of 2007. This will provide a comprehensive and more accurate depiction of past drilling activities and will assist in planning the 2007 drilling program. Subject to the availability of a suitable drilling rig, a program of 4000m of drilling is proposed. Of this, 1000m of drilling is planned for the previously untested Sharpy Fault IP anomaly.

A review of previous work undertaken on EPMs 14491 and 15106 adjoining the Pegmont MLs will be undertaken following the collation of the Pegmont deposit data to assess the exploration potential for base metals, gold and uranium. EPM 15106 includes the Bonanza Pb-Zn anomaly.

The 500m initial drilling program planned for the **New Hope** prospect, which has been delayed by lack of availability of a drilling rig, is now expected to occur in February subject to weather and physical access conditions. This copper-gold property, which lies 15 km north-west of Pegmont, is subject to an option agreement.

Another area of interest in the Cloncurry region, the Freckle Prospect, is located on our **Trekalano** EPM 14784. MIM, now Xstrata, identified Cu-Au-PGE mineralisation in a silicified shear zone and undertook diamond, RC and open hole percussion drilling along its 1.2km strike length. Details of this work will be accessed through the Department of Mines and Energy QDEX system and a decision taken on whether further work is warranted.

Our approach to the Department of Industry and Resources in Western Australia seeking access to the Mitchell Plateau bauxite deposits has not yet been successful despite decades of inactivity by the current holders of the Ministerial Temporary Reserve over the deposits. Notwithstanding this, we have retained our Exploration Licence Applications over the area. However, with the bauxite deposits being the key underpinning of our interest in the **Kimberley** region, we have scaled back the number of our other Exploration Licence Applications to two due to their grass roots nature and our desire to maintain our focus on more advanced stage projects.

3. Investment Activities

Pre-tax realised share trading profits were \$ 1,394,576 (2.3c/share) for the quarter, plus interest received of \$49,616. Total realised trading profits and interest received for the year to 31 December 2006 was \$7,512,692 which represented 159% return on current assets at 31 December 2005.

Investment Activity Summary

Shares Traded	March Quarter 2006 <u>\$000</u>	June Quarter 2006 <u>\$000</u>	September Quarter 2006 <u>\$000</u>	December Quarter 2006 <u>\$000</u>	Year Ended December 2006 <u>\$000</u>
Proceeds	2,905	8,345	4,074	5,405	20,729
Cost	1,835	4,605	2,907	4,011	13,358
Profits	1,078	3,848	1,214	1,722	7,912
Losses	<u>(8)</u>	<u>(109)</u>	<u>(47)</u>	<u>(377)</u>	<u>(541)</u>
Net Profit / (Loss)	<u>1,070</u>	<u>3,739</u>	<u>1,167</u>	<u>1,395</u>	<u>7,371</u>

The above results do not include net unrealised gains of \$1,641,510 at 31 December 2006. Stock market interest remains high in speculative resource companies despite recent falls in oil and metal prices. Thus, we remain cautious with high cash levels of \$3,591,062. Estimated expenditure on administration and exploration activities was approximately \$563,045 for the year. A provision for share price fluctuation will be increased by \$390,000 to \$500,000 to reflect our valuation treatment of valuing individual equity investments at the lower of market or cost.

4. Corporate Liquidity

The company's cash position at 31 December 2006 was \$ 3,591,062 (7.1c/sh) after payment of company income tax \$1,599,614 towards the current year liability and exploration expense of \$415,907

5. Income and Expenditure (cash basis)

Income Received	December Quarter \$	Year ended December 2006 \$	Year Ended 2005
Interest	49,616	141,539	143,962
Net Profit on sale of shares	1,394,576	7,371,153	2,051,253
Sub underwriting fees	<u>-</u>	<u>-</u>	<u>5,000</u>
	<u>1,444,192</u>	<u>7,512,692</u>	<u>2,200,215</u>

Exploration Expenditure

Pegmont deposit – drilling & general	29,219	83,302	339,775
- metallurgy	31,634	61,254	594
Pegmont regional	2,043	30,940	14,415
New Hope prospect	5,516	31,355	-
Duchess regional	9,152	19,808	4,090
Kimberley Joint Venture (60%)	16,700	187,456	-
General Investigations	<u>1,365</u>	<u>1,792</u>	<u>3,346</u>
	<u>(95,629)</u>	<u>(415,907)</u>	<u>(362,220)</u>

Corporate Expenditure

Administration	63,382	147,138	187,781
Directors Fees	188,750	275,000	200,000
Dividend Paid	506,869	506,869	-
Share Investments	(172,560)	2,229,845	1,763,697
Company Income Tax	<u>370,000</u>	<u>1,599,614</u>	<u>726,740</u>
	<u>(956,441)</u>	<u>(4,780,775)</u>	<u>(2,878,218)</u>
Net Cash Surplus/ (Deficit)	392,122	2,316,010	(1,040,223)
Add opening cash balances.	<u>3,198,940</u>	<u>1,275,052</u>	<u>2,315,275</u>
Closing Cash Balances.	<u>3,591,062</u>	<u>3,591,062</u>	<u>1,275,052</u>

In summary, there was an increase in cash balances of \$2,316,010 during the year after payment of company income taxation of \$1,599,614 and share investments of \$2,229,845. The net cash and investment backing of the Company exceeds 20 cents per share. Since the year end the company has continued to sharetrade profitably which could provide enhanced opportunities to further grow the company.

Yours faithfully,



M. A. Mayger
Managing Director