

# Pegmont Mines Limited

ACN 003 331 682

**Corporate Office**65 Hume Street  
Crows Nest NSW 2065**Postal address**PO Box 849  
Crows Nest NSW 1585  
Telephone: 02 8437 3591  
Facsimile: 02 8437 3599

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The Manager  
National Stock Exchange of Australia  
384 Hunter Street  
Newcastle NSW 2300

Dear Sir,

## Quarterly Activity Report to 30 June 2007

We submit the following report for Pegmont Mines Limited ("the company") for the three months to 30 June 2007.

### 1. Summary

Investment activities during the quarter realised a **pre-tax share trading profit of \$ 2,847,952**, resulting in a total profit of \$5,499,064 for the six months, up 13.5% on June'06. Interest received during the quarter was \$55,852, a total of \$100,480 for the six months; up 133.4% on June'06.

**Listed share investments**, at cost, totalled \$7,711,150 (15.2c/share), having a market value of \$10,091,273 (19.9c/share). Cash at bank and on deposit was \$4,710,577 (9.3c/share) at 30 June 2007.

Exploration expenditure was \$121,196 during the quarter, including **Pegmont** mining leases \$54,136 and metallurgical costs of \$29,985 and New Hope mining lease option \$20,625. During the quarter activity commenced in establishing a camp site at Pegmont for the upcoming drilling program which resulted in expenditure of \$55,895. Total exploration and camp site expenditure amounted to \$177,091.

### Option Agreement on the Pegmont deposit

During the quarter the company agreed to enter into a 2 year option agreement with Cloncurry Metals Ltd ("CML") in relation to the company's Pegmont lead-zinc deposit and adjacent tenements in Queensland. The option period could extend to 28 February 2009 during which time a minimum drill commitment of 4,000 metres by 31 December 2007 would be undertaken by CPM with a further 6,000 metres in the

following year at CML's discretion. Upon exercise of the option by CML they will pay the company \$12.0m comprising cash \$9.6m and shares of \$2.4m at its intended IPO price and enter into a royalty agreement providing a 1.25% NSR royalty to be paid by CML after recoupment of the \$12 million option exercise amount. Formal agreements are in the process of being finalised.

The option agreement covers the tenements comprising EPMs 14874, 14491, 15106 and MLs 2620, 2621 and 2623.

CML are intending to list on the ASX by undertaking an IPO to which the Company will subscribe \$1,000,000. The Directors of CML have allocated a total of \$200,000 of IPO applications for Pegmont shareholders with the maximum amount for each Pegmont shareholder limited to \$20,000. Accordingly, any shareholder interested in participating in the CML float should advise Pegmont's company secretary in writing as soon as possible.

## **2 Exploration Activity**

### **2.1 Drilling Program**

The drilling program at Pegmont is due to commence in mid-August. In preparation for this and subsequent work a substantial modern camp is being established at a cost in excess of \$200,000. This is capable of accommodating ten field personnel and also provides comprehensive kitchen and ablution facilities. An Iridium satellite phone and broadband coverage will provide updated communication capabilities.

In designing the next drilling program at Pegmont, aeromagnetic and gravity imagery has been merged with the now reliably located historical drill hole locations. Utilising this data and with valuable geological input from CML (based in part on their detailed knowledge of the Cannington deposit), the drilling program has been further refined to seek likely extensions to the mineralisation at the southern end of the principal known mineralisation (east of the Southern Lode). This is in addition to the purposes outlined in the last quarterly report which were to develop a more accurate resource model, to delineate the oxide-sulphide interface and to furnish samples for further metallurgical testing. As a consequence, it has been decided to defer the 1000m of drilling previously planned to test the large Sharpy IP anomaly until 2008. The proposed program now consists of 4500-5000m of reverse circulation (RC) drilling in 44-50 holes and 200-350 m of diamond core drilling.

The 500-600m of RC drilling planned for the New Hope prospect will form an extension to the main drilling program at Pegmont. This prospect does form part of the CML option agreement.

### **2.2 Metallurgical Investigations**

A sulphide composite from Pegmont has been prepared from six core intersections and a design criteria test work program is being undertaken. These criteria include grinding indices, mineralogy, liberation requirements, flotation studies and thickening and filtering characteristics.

The results of the experimental non-conventional work on the Pegmont oxide mineralisation continue to hold promise. It has now been demonstrated at a small laboratory scale that recoveries in the order of plus 90% from the Pegmont manganese WAD ores can be produced with the zinc, lead and other metals of value reporting to the leachates. Hydrometallurgical treatment of the dissolved metals appears to be quite straightforward and various waste and value products could be easily produced using selective and sequential precipitation methods. Almost every element can be removed from solution leaving a high tenor zinc chloride solution. The economics of using a commercial SX-EW approach to produce a zinc cathode product at high zinc recovery are being assessed.

### 3. Investment Activities

Pre-tax realised share trading profits were \$ 2,847,952 (5.6c/share) for the quarter, plus interest received of \$55,852.

#### Investment Activity Summary

	SHARES TRADED				
	JUNE	HALF YEAR	HALF YEAR	INITIAL	REVISED
	QUARTER	TO JUNE	TO JUNE	BUDGET	ESTIMATE
	2007	2007	2006	2007	2007
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
PROCEEDS	9,810	17,969	11,230	20,000	26,000
COST	6,962	12,470	6,387	16,000	19,000
PROFITS	2,850	5,772	4,960	4,000	7,400
LOSSES	(2)	(273)	(117)	-	( 400)
NET REALISED PROFIT	<u>2,848</u>	<u>5,499</u>	<u>4,843</u>	<u>4,000</u>	<u>7,000</u>
PROFIT MARGIN %	29.0	30.6	43.1	20.0	26.9

The above results do not include net unrealised gains of \$2,380,123 at 30 June 2007. Since stock market prices remain volatile, a fairly cautious approach of maintaining a high cash ratio has been taken.

### 4. Corporate Liquidity

The company's cash position at 30 June 2007 was \$4,710,577 (9.3c/sh) after payment of company income tax \$250,000 in respect to the 2007 year. This position represents 37.9% of total cash and listed share assets totalling \$12,421,727 (24.5c/sh).

**5. Income and Expenditure (cash basis)**

<b>Income Received</b>	<b>June Quarter</b>	<b>Half Year 2007</b>	<b>Revised Estimate 2007</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Interest	55,852	100,480	220,000
Net Profit on sale of shares	<u>2,847,452</u>	<u>5,499,064</u>	<u>7,000,000</u>
	<u>2,903,304</u>	<u>5,599,544</u>	<u>7,220,000</u>
<b>Exploration Expenditure</b>			
Pegmont deposit – geology & general	54,137	81,310	600,000
- metallurgy	29,985	40,137	100,000
- camp site	55,895	55,895	200,000
Pegmont regional	12,109	16,969	120,000
New Hope ML option	20,625	22,088	125,000
Other	4,340	<u>11,106</u>	<u>10,000</u>
	<u>177,091</u>	<u>227,505</u>	<u>1,155,000</u>
Rental refunds tenement applications	-	<u>55,483</u>	<u>55,483</u>
Net exploration expenditure	<u>177,091</u>	<u>172,022</u>	<u>1,099,517</u>
<b>Corporate Expenditure</b>			
Administration	66,109	152,214	377,500
Directors Fees	70,000	122,500	410,500
Share Investments	600,441	2,354,923	1,893,062
Working capital	647,890	647,890	-
Company Income Tax	<u>250,000</u>	<u>1,030,000</u>	<u>2,030,000</u>
	<u>1,634,440</u>	<u>4,307,527</u>	<u>4,711,545</u>
Net Cash Surplus/ (Deficit)	1,091,773	1,119,515	1,408,938
Add opening cash balances.	<u>3,618,804</u>	<u>3,591,062</u>	<u>3,591,062</u>
<b>Closing Cash Balances.</b>	<u>4,710,577</u>	<u>4,710,577</u>	<u>5,000,000</u>

In summary share trading profits funded exploration, administration and tax expenditures together with a further increase in share investments. Our financial goal is to achieve budget share trading profit of \$7 million as soon as prudently possible and maintain working capital above \$10million; an improvement of \$2.1 million on 31 December 2006.

Yours faithfully,



M. A. Mayger  
Managing Director