

Pegmont Mines Limited

ABN 97 003 331 682

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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

DATE: 30 OCTOBER 2007

Dear Scott,

Please find attached our Quarterly Activity Report to 30 September 2007.

Regards,


Chris Leslie

Pegmont Mines Limited

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26 October 2007

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

Dear Sir,

Quarterly Activity Report to 30 September 2007

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

1. Summary

- Share trading profits were \$ 2,228,225 for the quarter making a total profit of \$7,727,288 for the nine months, up 29.3% on September '06. Interest received during the quarter was \$64,436, a total of \$164,916 for the nine months; up 79.4% on September '06.
- The Company subscribed for 4 million shares in **Cloncurry Metals Limited (CLU)** IPO at 25 cents each. CLU listed on the ASX on 9 October 2007 and has since traded between 37-30 cents range. During the quarter the Company and CLU executed the option agreement whereby CLU can acquire the Pegmont lead-zinc deposit and surrounding tenements for \$12 million (cash and shares) by exercising their option by 28 February 2009.
- An initial 5,000 metre drill program commenced at **Pegmont** in mid August (costs to be reimbursed to the Company by CLU) to develop a more accurate resource model, to delineate the oxide-sulphide interface, to seek possible extensions to mineralisation and to provide oxide samples for metallurgical test work. Analytical results from four holes have been received. The drill program is ongoing and should be completed in November.
- Five holes totalling 450 metres were drilled into the **New Hope gold-copper prospect** (north of Pegmont and not part of the CLU option). Incomplete assay results have been received which indicate anomalous gold values in three holes including **4m @ 54.8g/t Au** in NPH002.
- Exploration expenditure was \$303,517 during the quarter.

- The cash position was \$3,702,200 at 30 September 2007 which together with cost of listed shares of \$8,945,027 resulted in liquid assets of \$12,647,227 or 25.0c/sh. The company did not have any debt.

2. Investment Activities

Pre-tax realised share trading profits were \$ 2,228,225 (4.4c/share) for the quarter. Interest received was \$64,436.

Investment Activity Summary

SHARES TRADED	SEPT QUARTER 2007	NINE MONTHS TO SEPT 2007	NINE MONTHS TO JUNE 2006	ESTIMATE YEAR 2007
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
PROCEEDS	13,000	30,969	15,324	35,600
COST	10,772	23,242	9,347	27,000
PROFITS	2,365	8,137	6,140	8,600
LOSSES	(137)	(410)	(164)	(600)
NET REALISED PROFIT	<u>2,228</u>	<u>7,727</u>	<u>5,976</u>	<u>8,000</u>
PROFIT MARGIN %	17.1	25.0	39.0	26.9

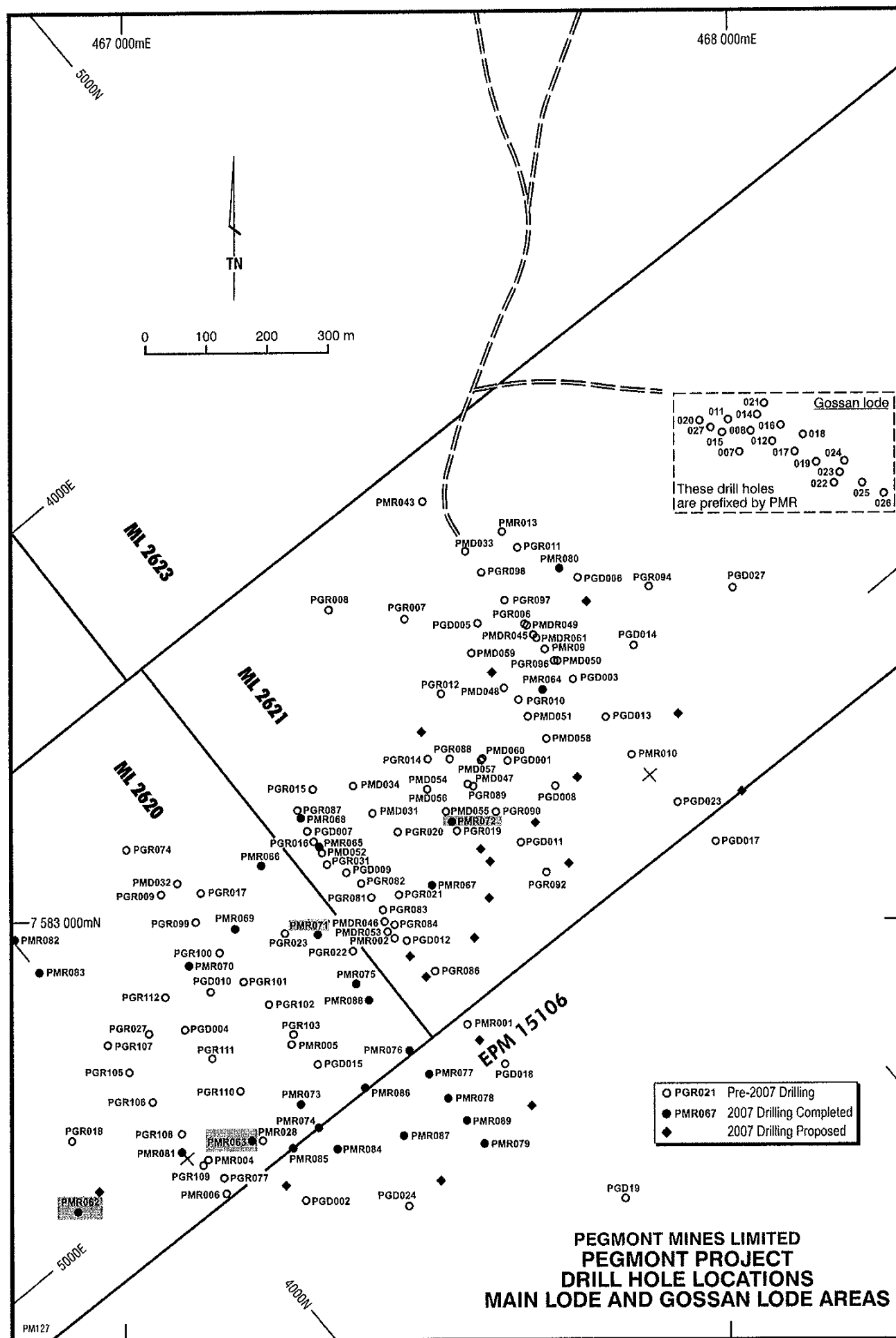
The above results do not include net unrealised market gains of \$803,422 (1.6c/sh) above cost of shares held for trading totalling \$8,945,027 (17.6c/sh). Realised profits since the end of the quarter have been very small due to market volatility. Profit margins have been greatly reduced which has resulted in a review of trading strategy.

3. Exploration Activity

3.1 Pegmont Drilling Program

A program of reverse circulation (RC) percussion drilling commenced at the Pegmont lead-zinc deposit on 20 August 2007. This is being undertaken by Drill Torque Qld using a UDR 650 drilling rig. To the end of September 2744 m had been drilled in 27 holes (PMR 062-089). The Drill Hole Locations figure shows the collar locations for drilling prior to 2007 and also for the current program, for both those holes drilled up to the end of September and those still to be drilled. If weather and drill availability permit, a further 2500 m in 23 holes is to be completed this year.

To date, the only analytical results received have been for three mineralised holes and an unmineralised hole (see under 3.2 Pegmont Metallurgical Program). Geological logging of drill chips has shown that the mineralisation is generally consistent with past results and has confirmed the structural complexity of the mineralisation. Previous cross sections will be updated as results come to hand and correlated with the results of a new program of detailed ground magnetics which is to be undertaken



in the latter half of October. In this connection, magnetic susceptibility readings are being undertaken on all current drill samples. Importantly, these have demonstrated that only the mineralised Banded Iron Formation horizon is strongly magnetic which will be of significant help to future interpretation. A combination of drill results, magnetics (including modelling) and gravity data will be used to establish the detailed drill program for 2008.

The sampling, logging and analytical QA/QC procedures employed for the Pegmont drill program have been examined by the consultants Hellman & Schofield and found to be in "good order". Following their site visit some minor recommendations were made and these are being implemented.

Whilst this year's program has been a co-operative effort by Pegmont and CLU under Pegmont control, in 2008 and until the option period of the Pegmont-CLU agreement expires in February 2009 (or by earlier exercise), the program will be under the control of CLU. CLU is currently finalising a contract for next year's drilling program at Pegmont of approximately 5000 m.

3.2 Pegmont Metallurgical Program

A small number of holes are being drilled in the current program specifically to obtain samples of oxidised mineralisation for further metallurgical investigations. At this stage this work is independent of CLU's involvement. So far analytical results have been received for four holes. One of these, PMR 071, was barren. Results for the other three holes are provided in the table below.

Intersection Summary- Oxide holes

Hole No.	North	East	Dip	Azimuth (mag.)	From (m)	To (m)	Interval (m)	Pb %	Zn %	Ag ppm
PMR 062	3800	4900	-90		18	21	3	7.47	0.98	10.0
PMR 063	4100	5036	-90		38	45	7	4.41	2.43	5.8
PMR 072	4696	4748	-60	122	23	30	7	6.95	2.08	15.5
					39	47	8	8.80	4.11	13.7

Locations refer to the local Pegmont grid; the four holes are "shaded" in the Figure depicting the drill hole locations. The intersections are apparent widths only. True thicknesses cannot be determined at this stage because of the drilling method and structural complexity, but will be less than the apparent widths. Results for mineralised intervals represent the average of analyses of one metre intersections (whilst the barren or country rock is analysed in four metre composites). The cut-off for reporting analytical results is 1% combined Pb and Zn. The analytical methods employed are summarised as follows:

Analytical Method

Laboratory: ALS Chemex Queensland

Element	Method	Detection Limit	Method	Detection Limit
Pb	ME-MS61	2 ppm	ME-OG46	0.01%
	4 acid digest		3 acid digest	
Zn	with HF;	2 ppm	with aqua	0.01%
	ICPAES*		regia; ICPAES	
Ag	finish	0.5 ppm	finish	1 ppm

*ICPAES: Inductively Coupled Plasma Atomic Emission Spectroscopy

During the quarter Metcon Laboratories undertook and reported on Pegmont metallurgical basic criteria test work (based on a sulphide composite from holes PMD 049, 053, 055, 060, 061). It can be concluded from their work that pure sulphide ore, that is one without dilution by oxidised material, responds well to conventional flotation and that either marketable grades of separate lead and zinc concentrates can be obtained for conventional smelting or a bulk combined metal concentrate suitable for non-conventional hydrometallurgical or pyrometallurgical smelting can be produced at acceptable recoveries.

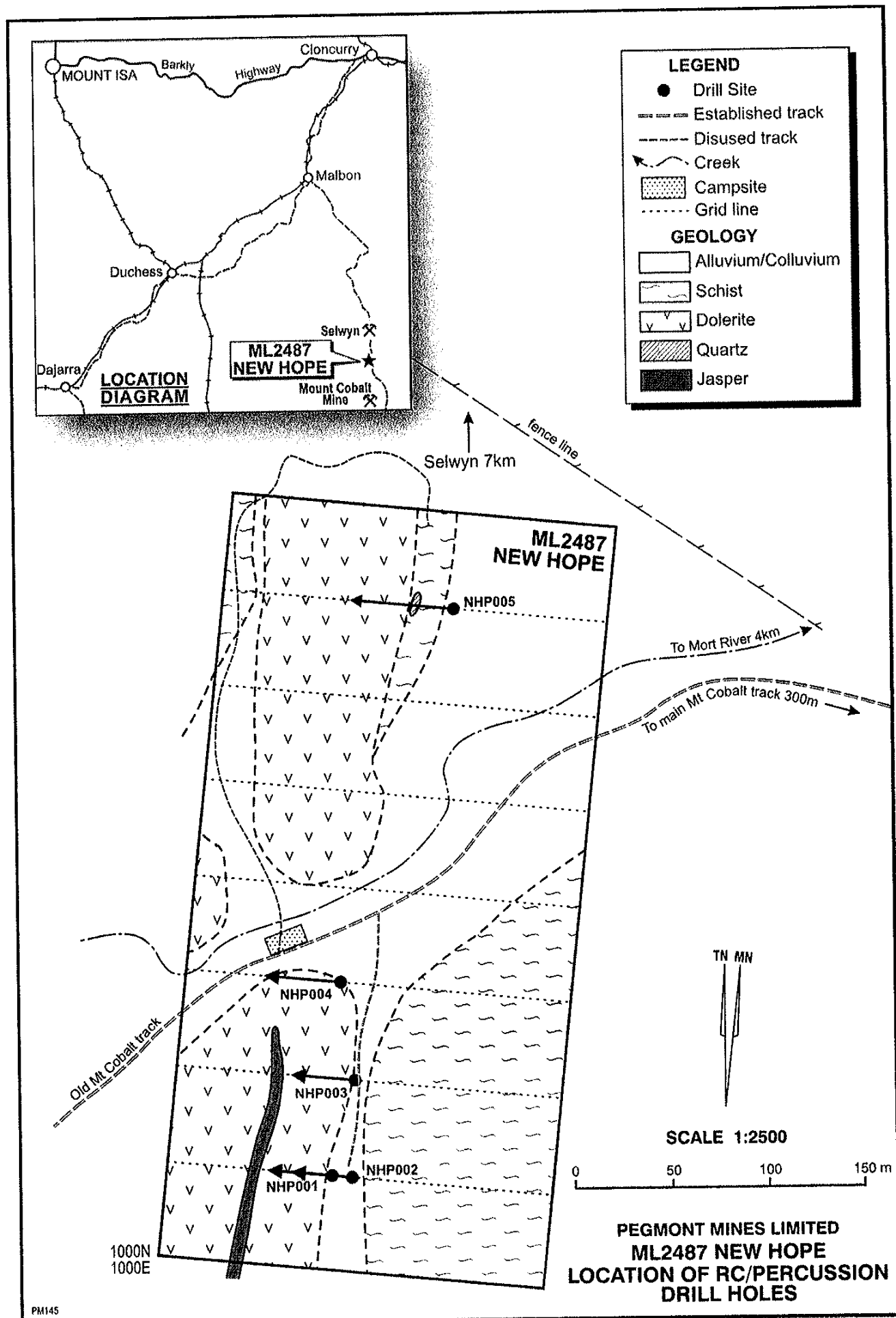
The Pegmont sulphide material seems to be quite standard with normal mixing characteristics and excellent settling qualities. Tailing disposal is likely to be straightforward and high water recovery and recycle criteria can be used for design purposes.

The Pegmont oxide material does not respond effectively to conventional treatment methods. With respect to non-conventional metallurgical treatment, the Intec Leaching Process using a two stage approach (Halex addition followed by oxygen sparging) produced a high lead recovery (99%) and moderate zinc recovery (78%) on a bulk sulphide concentrate. However, only moderate lead extraction (71%) was achieved on oxide ore using an acid leach at pH1, and zinc extraction was low (46%).

EcoZinc testwork using a rotary bed reactor produced extractions into solution of 99% of the Pb and Zn in the case of the bulk sulphide concentrate and 90% and 98% for lead and zinc respectively on oxide ore. Current EcoZinc test work involves switching from a rotary bed to a fluid bed reactor (which would be used in commercial practice), but it is too early to tell whether the high extraction results for oxide ore can be achieved with a fluid bed reactor. The Company will continue with its test program on oxide ores.

3.3 New Hope Drilling Program

Five RC percussion holes have been drilled at the optioned New Hope mining lease (ML2487) for a total of 450m. Collar locations are provided in the ML2487 Figure. The holes were sampled and analysed on a 1m and a 4m composite basis depending on the visual presence or absence of apparent mineralisation (particularly sulphides). Early observations suggest a correlation between quartz-carbonate veining in a dolerite host seen in NHP 001, 002 and 003 and mineralised jasper-quartz outcrop at the surface. If this is correct the veining has a dip of about 60 degrees to the east. There was no visually significant mineralisation in NHP 004 and 005.



NHP 002 was drilled at minus 75 degrees to magnetic west; all other holes were drilled minus 60 degrees W. Mineralised intervals recorded below are apparent thicknesses only. True thicknesses are likely to be of the order of 80 to 90% of the apparent thicknesses.

Selected analytical results (intervals based on contiguous gold values)

Hole No.	From (m)	To (m)	Interval (m)	Au (ppm)	As (ppm)	Co (ppm)	Cu (ppm)	W (ppm)
NHP 001	34	38	4	5.14	950	79	1450	1540
	52	53	1	4.90	33	80	1285	3250
NHP 002	57	67	10	23.3	214	232	2480	150
including	63	67	4	54.8	186	280	4350	100
NHP 003	52	57	5	1.63	2570	1690	89	700

The analytical work is not complete with more gold assays required to close off the gold mineralised intervals in NHP 002 and NHP 003.

Analytical method

Laboratory: ALS Chemex Queensland

All elements except Au – ME-ICP61s, 4 acid digest with HF, ICPAES finish; detection limits (d.l.): As 5ppm, Co 1ppm, Cu 1ppm, W 10ppm.

Gold by Au-AA21 (geochemical; d.l. 0.001ppm) or Au-AA25 (ore grade; d.l. 0.01ppm) – sample fused, gold bead (prill) developed, dissolved in aqua regia, AAS finish (AA25) or organic solvent extraction and AAS finish (AA21).

Further drilling is planned at New Hope. The timing will be determined by drilling rig availability.

4. Corporate Income and Expenditure (cash basis) and Liquidity

The company's cash position at 30 September 2007 was \$3,702,200 (7.3c/sh) after payment of company income tax \$500,000 in respect to the 2007 year. This position represents 29.3% of total cash and listed share assets totalling \$12,647,227 (25.0c/sh).

	SEPT QUARTER \$	NINE MONTHS TO SEPT 2007 \$	ESTIMATE YEAR 2007 \$
Income Received			
Interest	64,436	164,916	220,000
Net Profit on sale of shares	<u>2,228,225</u>	<u>7,727,288</u>	<u>8,000,000</u>
	<u>2,292,661</u>	<u>7,892,204</u>	<u>8,220,000</u>

Exploration Expenditure

Pegmont deposit	geology (net)	207,189	288,499	300,000
	metallurgy	24,068	64,205	100,000
	camp site	234,565	290,460	300,000
Pegmont regional		30,146	47,115	120,000
New Hope exploration		37,938	60,026	100,000
Other		<u>4,176</u>	<u>15,282</u>	<u>10,000</u>
		<u>538,082</u>	<u>765,587</u>	<u>930,000</u>
Rental refunds tenement applications		-	<u>55,483</u>	<u>55,483</u>
Net exploration expenditure		<u>538,082</u>	<u>710,104</u>	<u>874,517</u>

Corporate Expenditure

Administration	118,280	257,235	327,500
Directors Fees	258,000	380,500	418,000
Share Investments	1,771,595	4,126,997	2,349,203
Working capital	-	647,890	-
Legal fees re CLU	115,081	128,340	150,000
Dividend	-	-	611,842
Company Income Tax	<u>500,000</u>	<u>1,530,000</u>	<u>2,080,000</u>
	<u>2,762,956</u>	<u>7,070,962</u>	<u>5,936,545</u>
Net Cash Surplus/ (Deficit)	(1,008,377)	111,138	1,408,938
Add opening cash balances	<u>4,710,577</u>	<u>3,591,062</u>	<u>3,591,062</u>
Closing Cash Balances	<u>3,702,200</u>	<u>3,702,200</u>	<u>5,000,000</u>

In summary share trading profits have enabled a build up of after tax shareholder funds to about \$15 million (30 cents per share). This result will enable the board to contemplate the payment of a dividend to shareholders before the year end.

Yours faithfully,



M. A. Mayger
Managing Director

The information in this report that relates to Exploration Activity is based on information compiled by Dr M D Leggo, who is a Fellow of the Australian Institute of Geoscientists and of the Australasian Institute of Mining and Metallurgy, and a Technical Director of Pegmont Mines Limited. M D Leggo has sufficient experience which is relevant to the styles of mineralisation and types of deposit under consideration and to the activity he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. M D Leggo consents to the inclusion in the report of the matters based on his information in the form and context in which they appear.