

Pegmont Mines Limited

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31 January 2008

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

Dear Sir,

Quarterly Activity Report to 31 December 2007

We submit the following report for Pegmont Mines Limited ("the Company") for the three months to 31 December 2007.

1. Summary

- Share trading profits before tax were \$466,914 for the quarter making a realised profit of \$8,194,202 for year ended 31 December 2007, up 11.4% on 2006; prior to an end of year provision of about \$570,000. Interest received during the quarter was \$72,980, making a total of \$237,896 for the year; up 68.1% on 2006.
- The first stage of the Pegmont option agreement with Cloncurry Metals Limited (CLU) was satisfied with the completion of a minimum of 4,000 metres of drilling by the Company with the drilling and associated costs being reimbursed by CLU. CLU have also finalised a contract for 2008 which is for 6000 metres of drilling on the Pegmont prospect and the Lightning Creek area (Pegmont's EPM 14491). Analytical results are generally consistent with previous data.
- A further six holes totalling 528 metres were drilled into the **New Hope gold-copper prospect** (north-west of Pegmont and not part of the CLU option); indicating a strike length of 35-40 metres of high grade mineralisation.
- Quarterly exploration expenditure was \$569,986 during the quarter of which \$442,573 was reimbursed by CLU.
- The cash position was \$4,043,009 at 31 December 2007 which together with listed shares at cost of \$8,642,998 (market value \$9,380,531) resulted in liquid assets of \$12,686,007 or 24.9c/share subject to end of year provision. The

company did not have any borrowings. Shareholders funds approximate \$15 million or 30c/share.

2. Investment Activities

Pre-tax realised share trading profits were \$ 466,914 (.9c/share) for the quarter. Interest received was \$237,896.

Investment Activity Summary

Shares Traded	March Quarter 2007 \$000	June Quarter 2007 \$000	September Quarter 2007 \$000	December Quarter 2007 \$000	Year Ended December 2007 \$000
Proceeds	8,159	9,810	13,000	5,345	36,314
Cost	5,508	6,962	10,722	4,878	28,120
Profits	2,922	2,850	2,361	592	8,729
Losses	(271)	(2)	(137)	(125)	(535)
Net Profit	<u>2,651</u>	<u>2,848</u>	<u>2,228</u>	<u>467</u>	<u>8,194</u>
Profit Margin %	32.5	29.0	17.1	8.7	22.6

The above results do not include net unrealised market gains of \$737,533 (1.5c/share) above cost of shares held for trading totalling \$8,642,998 (16.9c/share) at 31 December 2007. Increased market volatility since July has reduced our realised profit margin and turnover. The sharp decline in share market prices during January 2008 and elevated uncertainties arising from US sub prime mortgage and related securities suggest a very challenging share trading environment for the current year.

3. Exploration Activity

3.1 Pegmont Drilling Program

The program of reverse circulation (RC) percussion drilling undertaken in conjunction with CLU and which commenced at the Pegmont lead-zinc deposit on 20 August was completed on 10 November 2007. This comprised 43 RC holes plus 5 RC holes with NQ diamond drilling tails for a total of 5,410 m of drilling.

Collar locations for the 2007 program are provided in the Drill Hole Locations figure together with collar locations for the pre 2007 drill holes. Analytical results have been received for all holes and the averages of mineralised intervals are presented in Table 1 "Pegmont Prospect – 2007 drilling and analytical results". Sampling and analytical procedures were discussed in the previous Quarterly Activity Report (to 30 September

2007). Duplicates and standards were routinely employed and demonstrated acceptable accuracy and precision.

The analytical results have confirmed the view established by geological logging that the mineralisation is generally consistent with past results and that the mineralisation, whilst dipping at a low to moderate angle to grid east in a broad sense, is structurally complex in detail. At a qualitative level it appears that this drilling has not resulted in any significant change to the previous resource estimates of approximately 8.0m tonnes with a combined grade of 11% Pb-Zn. Advice is being sought from the consultants Hellman & Schofield as to the drilling requirements necessary in the 2008 drilling program to bring resource estimates for selected parts of the mineralised body into JORC compliance.

As recorded in the last quarterly report, the introduction of magnetic susceptibility measurements on 2007 drill samples has provided confidence in the interpretation of magnetic data since it is only the mineralised BIF horizon which is highly magnetic. A ground based magnetic survey was completed during the quarter over a strike length of 2.2 km of the main mineralised zone. Data was collected on 20m spaced lines with readings about 2m apart. Magnetic inversions have been completed on this newly acquired data and on previous ground magnetic data. Inversions based on the new data are much cleaner and reveal that a magnetic anomaly defined as extending several hundred metres to the north from the south-east portion of the currently established mineralisation provides potential for a significant increase in the known mineralisation at Pegmont. This will be a primary target area in the 2008 drilling program, to be managed by CLU. The new magnetic data also provides support for further drilling at the north end and to the east of the main lode.

Substantial rehabilitation of the Pegmont prospect was undertaken during the quarter. This included filling in approximately two linear kilometres of costeans, the backfilling of numerous drill sumps and the rehabilitation of the 2007 drill sites (including the removal of bagged drill samples).

3.2 Pegmont Metallurgical Program

A small number of holes in the 2007 program were drilled specifically to obtain oxide and transitional mineralisation for further metallurgical investigation. This drilling, which amounted to 443m, was undertaken by Pegmont Mines independent of CLU.. Mineralised material from some of these holes together with relevant mineralised intervals from the main drilling program were collected for metallurgical purposes. These are as follows: PMR062 17-22; PMR063 38-45; PMR072 23-30, 39-47; PMR081 40-63; PMRD110 37.9-43. These holes are shaded in the figure depicting the drillhole locations. They are designed to provide a larger geographic spread and thus mineralogical diversity across the mineralisation relative to the initial material investigated.

Recent work utilising a micro fluid bed reactor on mixed oxide and sulphide using chlorine as the oxidising agent enabled an excellent separation of lead and zinc with the zinc dissolved in and recovered from acid solution and the lead in the solid acid leach residue. The lead recovery circuit will be the main subject of the research

program in early 2008. It is planned that the first half of 2008 will also be used to develop larger scale fluid bed reactor equipment (250-500g compared with 25g currently).

3.3 New Hope Drilling Program

A further six RC percussion holes have been drilled at the optioned New Hope mining lease (ML2487) in addition to the initial five holes reported last quarter. This brings the total number of metres drilled to 978. Collar locations and hole orientations are provided in the ML2487 figure. Analytical results are presented as arithmetic averages over intervals that carry contiguous gold values (Table 2). Mineralised intervals were sampled and analysed every metre. Analytical methods were outlined in the last quarterly report, the exception being that the gold results now reported for NHP002 57-69 are the average of screen fire assay results. Analytical results for As, Co, Cu and W for holes NHP008 to NHP011 are not yet available.

Gold mineralisation was intersected by drilling in the southern part of the ML and is being investigated by close spaced drilling. It appears to be localised in a shear zone in amphibolite (altered dolerite), usually with a hanging wall of quartz and carbonate veining. The shear zone is of the order of 10 metres or so wide and this contains sulphide mineralisation with various metals (eg Co, Cu, As) broadly but sporadically distributed within this zone. There is a seemingly small but consistent core or pod of high grade gold mineralisation (greater than 20g/t) with a strike length of about 35 to 40 metres, a width of 2-4 metres and an unknown down dip extent (not closed off at depth). This core or pod is contained within a lower grade gold envelope (greater than 1 g/t) of the order of 5-12m wide.

While there appears to be a broad relationship between the gold and other metals plus iron and sulphur, there is not a direct correlation on a metre by metre basis and nor does there appear to be a direct relationship between the quartz/carbonate veining and the gold or sulphides. More drilling, including diamond drilling, is planned to define the full extent and grade of the mineralisation and to elucidate the geology more accurately.

One metre samples have been riffle split from the mineralised intervals in three holes and transported to Metcon Laboratories in Sydney for metallurgical investigation. These intervals are NHP002 59-69, NHP006 77-83 and NHP007 62-67.

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

The company's cash position at 31 December 2007 was \$4,043,009 (7.9c/sh) after payment of company income tax \$550,000 and dividend \$610,642 during the quarter.. This position represents 31.9% of total cash and listed share assets totalling \$12,686,007 (24.9c/sh).

	DECEMBER QUARTER \$	YEAR ENDED DECEMBER 2007 \$	YEAR ENDED 2006 \$
Income Received			
Interest	72,980	237,896	141,962
Net Profit on sale of shares	466,914	8,194,202	7,371,153
Other Income	<u>86,936</u>	<u>86,936</u>	-
	<u>626,830</u>	<u>8,521,034</u>	<u>7,512,692</u>
Exploration Expenditure			
Pegmont deposit drilling & geology	569,986	845,261	83,302
Metallurgy	20,966	85,170	61,254
camp site	36,554	327,014	-
Pegmont regional	8,086	55,774	50,748
New Hope exploration & metallurgy	54,085	114,111	31,355
Kimberley region	775	6,255	187,456
Other	<u>5,379</u>	<u>15,109</u>	<u>1,792</u>
	<u>695,831</u>	<u>1,448,694</u>	<u>415,907</u>
CLU recovery/Rental refunds	<u>442,573</u>	<u>498,056</u>	-
Net exploration expenditure	<u>253,258</u>	<u>950,638</u>	<u>415,907</u>
Corporate Expenditure			
Administration	64,122	321,357	147,138
Directors Fees	52,500	418,000	275,000
Legal fees re CLU	-	128,340	-
Dividend	610,642	610,642	506,869
Company Income Tax	550,000	2,080,000	1,599,614
Share Investments	(1,224,501)	3,540,110	2,252,154
Issued Capital	<u>(20,000)</u>	<u>(20,000)</u>	-
	<u>32,763</u>	<u>7,118,449</u>	<u>4,780,775</u>
Net Cash Surplus	340,809	451,947	2,316,010
Add opening cash balances	<u>3,702,200</u>	<u>3,591,062</u>	<u>1,275,052</u>
Closing Cash Balances	<u>4,043,009</u>	<u>4,043,009</u>	<u>3,591,062</u>

In summary share trading profits have enabled a build up of after tax shareholder funds to about \$15 million (30 cents per share).

Yours faithfully,

A handwritten signature in black ink, appearing to read 'M. A. Mayger', with a small flourish at the end.

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 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.

Table 1 Pegmont Prospect**2007 Drilling and analytical results**

Hole No.	North (Grid)	East (Grid)	Dip	Azimuth (Grid)	Depth (m)	From (m)	To (m)	Interval (m)	Pb %	Zn %	Ag ppm
PMR062	3800	4900	-90		61	18	21	3	7.47	0.98	10.1
PMR063	4100	5036	-90		60	38	42	4	6.50	3.89	8.4
PMR064	4950	4780	-90		114	97	98	1	1.52	2.10	8.7
PMR065	4500	4745	-90		120			nil			
PMR066	4400	4700	-90		78			nil			
PMR067	4600	4915	-60	270	150	65	70	5	5.20	2.72	8.4
PMR068	4500	4683	-60	270	102			nil			
PMR069	4300	4750	-60	270	120	26	33	7	0.75	1.44	2.5
						36	37	1	3.01	0.52	4.4
PMR070	4200	4750	-60	270	66	30	38	8	7.03	2.15	12.2
						49	51	2	1.31	1.35	7.4
PMR071	4400	4850	-90		60			nil			
PMR072	4696	4748	-60	90	66	23	30	7	6.95	2.08	15.4
						39	47	8	8.80	4.11	13.7
PMR073	4200	5050	-90		84			nil			
PMR074	4200	5100	-90		108			nil			
PMR075	4400	4950	-90		79	61	67	6	6.09	2.79	10.0
PMR076	4400	5100	-90		60	38	42	4	6.28	3.80	10.8
PMR077	4400	5150	-90		84			nil			
PMR078	4400	5200	-90		102			nil			
PMR079	4400	5300	-90		132	110	112	2	6.20	3.89	12.0
PMR080	5100	4630	-90		140	82	83	1	1.43	1.31	8.8
PMR081	4000	4990	-90		126	40	63	23	4.78	3.44	8.8
						66	67	1	1.27	0.26	2.7
						74	76	2	0.94	1.50	6.0
PMR082	4000	4513	-90		60	2	8	6	5.50	0.27	0.8
PMR083	4000	4600	-90		24			nil			
PMR084	4200	5150	-90		72	51	55	4	7.30	4.35	10.9
						58	59	1	1.37	0.28	3.6
PMR085	4250	5100	-60	90	120	37	42	5	4.50	3.50	7.9
PMR086	4300	5100	-90		96	28	31	3	1.40	1.11	4.6
PMR087	4300	5200	-90		150			nil			
PMR088	4400	4990	-90		84	71	74	3	3.95	3.37	7.2
PMR089	4400	5250	-90		102			nil			
PMR090	5100	4705	-90		156	116	132	16	9.24	2.31	18.0
PMR091	5100	4950	-90		132	108	118	10	6.84	1.85	13.4
including						109	115	6	10.22	2.81	19.5
PMR092	4900	4930	-60	270	132	117	127	10	6.59	2.64	11.4
including						117	123	6	9.12	4.08	14.2
PMR093	4900	4960	-90		186	173	178	5	7.54	2.81	12.7
PMR094	4800	4940	-60	270	120	102	109	7	8.47	2.73	13.2
PMR095	4700	4915	-60	270	96	82	87	5	7.13	4.00	12.9
PMR096	4700	4940	-90		204			nil			
PMR097	4500	4980	-90		84	67	71	4	7.15	3.22	12.3
PMR098	4500	5030	-90		90	67	69	2	3.50	3.58	12.8
PMR099	4500	5150	-90		106	72	76	4	6.96	3.65	12.8
PMR100	4500	5300	-90		138	120	121	1	5.14	0.58	27.4
						123	129	6	7.27	3.70	11.0

Hole No.	North (Grid)	East (Grid)	Dip	Azimuth (Grid)	Depth (m)	From (m)	To (m)	Interval (m)	Pb %	Zn %	Ag ppm
PMR101	4115	5170	-60	90	150	76	80	4	5.02	3.03	6.9
						87	88	1	2.25	1.99	12.1
						90	92	2	0.56	2.79	2.0
PMR102	4750	4700	-90		138			nil			
PMR103	4150	5005	-90		72	46	47	1	0.78	1.36	2.2
PMR104	3850	4950	-90		60	51	52	1	0.27	1.34	2.0
						53	54	1	1.46	2.55	7.2
PMR105	4300	5300	-90		120			nil			
PMRD106	4600	5035	-60	270	219.5			nil			
PMRD107	4430	4878	-60	90	60.5			nil			
PMRD108	4800	5035	-60	270	207.6	143.95	146	2.05	1.19	2.61	6.7
						148.3	151.15	2.85	2.39	4.81	15.3
PMRD109	5150	5100	-60	270	261.4	219.35	221	1.65	1.48	2.00	9.4
PMRD110	4100	5036	-90		57.6	38.65	45.6	6.95	4.02	2.36	7.2
including						38.65	42.35	3.70	5.88	4.87	12.4

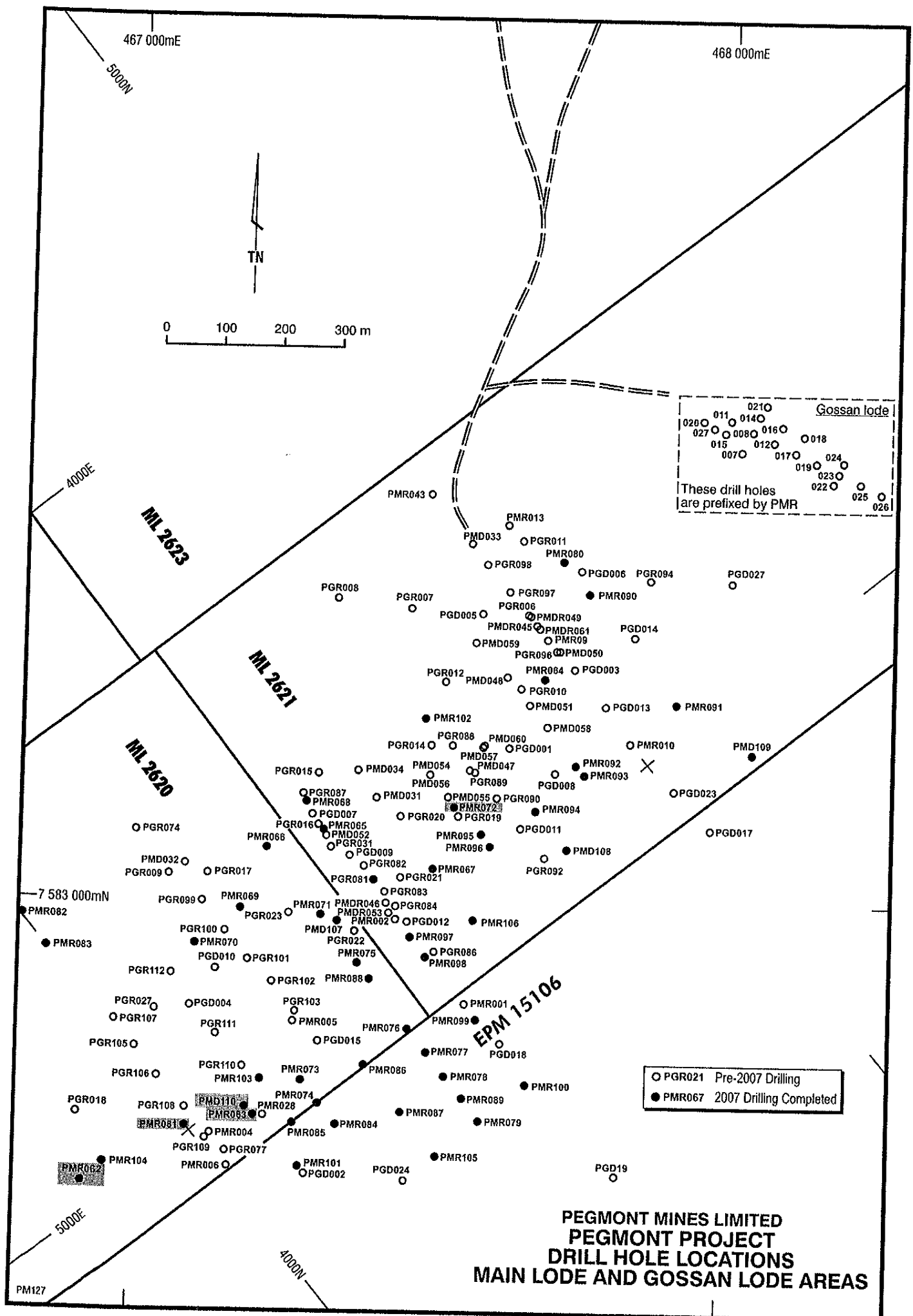


Table 2 New Hope Prospect**Drill hole locations**

Hole No.	North (local)	East (local)	Dip	Azimuth (magnetic)	Depth (m)
NHP001	1050	1082	-60	270	66
NHP002	1050	1092	-75	270	132
NHP003	1100	1087	-60	270	66
NHP004	1150	1084	-60	270	78
NHP005	1350	1120	-60	270	108
NHP006	1050	1093	-90		91
NHP007	1051	1091	-70	312	78
NHP008	1049	1091	-70	233	90
NHP009	1002	1093	-75	270	91
NHP010	1083	1089	-75	270	91
NHP011	1100	1089	-75	270	87

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)
NHP001	34	38	4	5.14	950	79	1450	1540
	52	53	1	4.90	33	80	1285	3250
NHP002	57	69	12	23.1	181	205	3698	83
including	63	67	4	51.3	186	280	4350	100
NHP003	52	57	5	1.63	2570	1690	89	700
NHP006	77	87	10	9.20	1012	689	578	710
including	80	82	2	32.9	2222	1448	922	825
NHP007	62	69	7	20.8	2574	1809	478	969
including	63	66	3	45.1	3753	2588	635	1930
NHP008	63	65	2	1.66	Results pending			
NHP009	58	59	1	7.01				
NHP010	53	54	1	1.50				
	58	66	8	11.8				
including	59	63	4	22.7				
NHP011	60	65	5	1.08				

