

# PEGMONT MINES N.L.

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The Manager  
Company Announcements  
Stock Exchange of Newcastle Limited  
384 Hunter Street  
NEWCASTLE NSW 2300

Dear Sir,

## **Quarterly Report to 31 December 2001**

Follow up of information brochures on Pegmont and Mount Kelly, widely distributed among explorers active in Australia, has not yet resulted in any joint venture proposals. However, several parties have shown sufficient interest in Mount Kelly to sign a confidentiality agreement. We will continue to look for partners to press ahead with these projects. We are also considering a tax effective exploration and drill program for private investors at Pegmont.

Discussions with the legal representative for the Kalkadoon Peoples concerning an access agreement for EPM 13331 (May Downs) have progressed to a first draft. However, there are several outstanding points which require clarification before finalisation. Every effort will be made to commence field activities by April/May next. The exploration target is a Mount Isa size base metal deposit lying beneath 200 metres of cover. The magnetic anomaly is some 7 km long and between 250-700 metres wide, intersected by a series of north-east trending cross faults. Previous drilling has intersected anomalous lead-zinc values, including 46m @ 0.28% Zn in MD3 between 52-98m. No drill holes went deep enough to intersect unweathered stratigraphy. BHP Billiton Limited remain committed to spend \$200,000 on a 2,000m drill program of 4-5 holes.

Due to the lack of available funding, rationalisation of tenements at both Pegmont and Mount Kelly was undertaken without compromising our position over known mineralisation. The net result was to reduce our mining lease rental charges from \$60,918 to \$15,717 at Pegmont and from \$29,048 to \$7,762 at Mount Kelly. Furthermore the annual expenditure obligation on EPM 7487 was reduced from \$60,000 to \$10,000. From October, we have also reduced our office costs by approximately \$3,000 per month.

## **YEAR IN REVIEW**

Year 2001 started positively with encouraging metallurgical results from both oxide and sulphide Banded Iron Formation (BIF) mineralisation at Pegmont. Preliminary recoveries exceeded Prospectus forecasts thus enhancing the potential profitability of the project. This was followed by a three dimensional Induced Polarisation (IP) survey over the Sharry Fault, which lies 500 metres north of the Pegmont BIF mineralisation. The IP anomaly is 1,200 metres long (open ended in both directions) and 300-400 metres wide. It is associated with a major east-west shear zone. A follow up geological review suggests that the anomaly outlines a disseminated pyritic zone with possible massive sulphides at depth, particularly at the western end. Efforts to attract a joint venture partner to test drill this anomaly for Cannington style massive sulphide have yet to be successful.

However, by mid-year, slumping metal prices, the lack of available funding for speculative exploration activities, corporate restructuring, including mergers among major companies, resulted in both Billiton Exploration Australia Pty Limited and Goldsearch Limited withdrawing from Pegmont and Mount Kelly respectively. To date, we have not been able to attract other parties to these projects.

## THE YEAR AHEAD

Despite current difficult conditions prevailing in the exploration industry, we do feel that the tide has turned. The copper-gold discovery by Minotaur Resources Limited in the Mount Woods joint venture at the Prominent Hill prospect appears to have confirmed an Olympic Dam style deposit. This drill success revalued Minotaur's shares from around 10¢ to more than \$2.00 each and brought speculative money back to the industry. We feel that Pegmont has similar price potential in the event of a major deposit being discovered at either Pegmont or May Downs.

The May Downs magnetic anomaly is well defined, of major size (7km strike length) with potential for a World Class deposit. A discovery hole could have significant (share price) ramifications. Thus, we are determined to press ahead with our discussions with the Kakadoon representatives.

## EXPENDITURE

Net cash expenditure during the December quarter was \$33,273.

	December Quarter \$	Year to Date \$
Mount Kelly Project – net of contributions	21,694	43,431
Wilfred Creek – EPM 13331 net interest	6,727	37,835
Pegmont	22,018	97,839
Project generation and review	1,819	4,826
	<hr/> 52,258	<hr/> 183,931
Corporate expenses – net of interest	17,964	48,894
Working capital – net payments	343	100,909
Shareholder loan repayments	(37,292)	9,488
<b>NET CASH EXPENDITURE</b>	<hr/> 33,273	<hr/> 343,222

Cash balances (excluding security deposits) at 31 December 2001, totalled \$155,258 including \$148,992 set aside for the May Downs Project. These funds are not adequate to cover ongoing expenditure commitments without the raising of additional equity. Various alternatives for additional equity are being considered.

Yours faithfully,

M A Mayger  
Managing Director