

Pegmont Mines NL

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13 July 2004

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

Dear Sir

Quarterly Report to 30 June 2004

We submit the following report for Pegmont Mines NL and its subsidiary, Reefway Pty Ltd (76% owned) for the three months to 30 June 2004.

Field Activities

Drilling by International Base Metals Ltd recommenced on the Mount Kelly tenements near the Mount Clarke outcrop in order to extend the strike length of mineralisation and to provide infill data for greater assurance purposes. Xstrata Copper Exploration also drilled two RC/DD holes to test a MIMDAS geophysical anomaly. Complete assay results have yet to be received from the IBML drilling whilst only low grade results were observed by Xstrata.

Corporate Activities

The Company was able to finalise negotiations with Avon Resources Ltd on the possible sale of the Company's shareholding in Reefway Pty Ltd. The announced terms for 100% of Reefway (Pegmont 76%) include the payment of \$4.06 million plus the issue of 66.6666 million shares in Avon, plus a deferred royalty of 1% Net Smelter Return on net payable metal production over certain thresholds, ie 100,000 tonnes of copper.

The sale is subject to shareholder approval from both the Company and Pegasus Enterprises Limited.

1. Field Activities

On the Mount Kelly tenements, Savannah Resources Pty Ltd, a subsidiary company of International Base Metals Limited completed a 20 RC drill hole program totalling 1472 metres at Mount Clarke by late June. Assay results are awaited. This drill program was designed to confirm the present Inferred Resource of shallow oxide copper of approximately 0.9m @ 1.1% Cu, and to extend mineralisation along strike towards the north-west.

Preliminary assay results received from the first nine (9) holes include MK 585 - 30m @ 1.43% Cu; MK 586 - 46m @ 0.46% Cu; MK 587 - 18m @ 1.44% Cu; MK 588 - 18m @ 1.88% Cu; MK 592 - 46m @ 0.33% Cu; MK589 - 14m @ 1.15% Cu; MK 590 - 5m @ 0.79% Cu; MK 591 - 30m @ 0.73% Cu; MK 593 - 26m @ 0.83% Cu.

Xstrata Copper Exploration drilled two RC/DD holes totalling 525 metres to test a 500 metre MIMDAS anomaly. Only low grade copper mineralisation was observed.

At Pegmont, no field activity was undertaken due to the lack of funding. However, a review of previous work will be undertaken during the September quarter with the view of recommending a program before the end of the current season.

2. Corporate Activities

Avon Resources Ltd announced on 17 June last that it had reached an agreement with Pegmont Mines NL, Pegasus Enterprises Limited and Goldsearch Ltd to acquire a 100% shareholding in Reefway for a cash consideration of \$4.06 million plus the issue of 66.6666 million shares plus a deferred royalty on net payable metal production after certain threshold quantities had been achieved. A map of Reefway's tenements which are the subject of the royalty agreement is attached.

The sale of Reefway would release substantial funds to the Company which could then be applied:

- (i) To further explore the Pegmont lead-zinc deposit. This deposit has a substantial intrinsic value of about \$10 million (ie. 20 cents per share) at current metal prices. A review of previous work has been commissioned to start mid July with the view to recommending a limited program of field work before the close of this exploration season; and
- (ii) To consider several opportunities to either farm into or acquire advanced stage exploration projects.

It should be noted that the Avon agreement also provides some upside protection to the Company by the issuance of Avon shares (approximately one Avon share per Pegmont share), plus a deferred royalty once production from the Reefway tenements exceeds threshold quantities that have an aggregate value approximately equal to the cash consideration.

The sale of Reefway shares would thus put the Company on a sound financial footing for the first time in its corporate history, without recourse to current shareholders. It would provide the Company with tangible assets of cash and shares equal to approximately eight (8) cents per share without taking into account the intrinsic value of the Pegmont tenements or the deferred value of future royalties.

Over time we expect the sharemarket interest in the company to increase and that new opportunities to expand shareholder value would develop. Our aim is to gain listing on the Australian Stock Exchange.

3. Expenditure

Exploration	June Quarter	Year to Date
	\$	\$
Pegmont	5397	10,134
May Downs/Wilfred Creek	(573)	7382
Buckley River Project	161	1217
Mount Kelly (net of refunds)	(915)	1289
Other Projects	3610	5837
General Investigations	<u>1995</u>	<u>2431</u>
	9671	28,290

Corporate

Administration (net of interest)	5399	23,618
Working Capital	16,221	19,204
Shareholder loan repayment	<u>(10,000)</u>	<u>71,112</u>
	<u>21,295</u>	

Option/Joint Venture Expenditures

Mount Kelly – IBML	219,527 (e)	256,234 (e)
Mount Kelly – Xstrata Copper	<u>52,500 (e)</u>	<u>52,657 (e)</u>
	<u>272,027</u>	<u>308,891</u>

Cash balances exclusive of security deposits at 30 June 2004, totalled \$8207. These funds are not adequate to cover ongoing expenditure commitments without raising additional capital by placements or sale of assets.

Yours sincerely,

Malcolm A. Mayger
Managing Director

