

# Pegmont Mines NL

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

Dear Sir,

## Quarterly Report to 30 June 2003

We submit the following quarterly report on behalf of Pegmont Mines NL and its subsidiary, Reefway Pty Limited (74.87% owned) for the three months to 30 June 2003.

Drilling at the **May Downs** prospect, 65km northwest of Mount Isa intersected broad anomalous zinc values in three holes which are more than 1000 metres apart. These results provide encouragement for continuing exploration for a Mount Isa-type zinc-lead shale hosted deposit.

Drilling at **Mount Kelly** is expected to commence shortly. This work will be funded by International Base Metals Ltd who are exploring for shallow oxide and supergene copper mineralisation to support a regional SX-EW operation.

MIM Exploration Pty Ltd have completed a MIMDAS survey over the **Mount Kelly** tenements looking for a Mount Isa-type copper (+gold) deposit.

Our **Desert Creek** application area, some 3-6km north of the Mount Gordon Mine operations was expanded by a new application EPM 14149 to include known copper mineralisation associated with the Mount Gordon Fault Zone.

At **Pegmont**, rationalisation of previous application areas, partly surrounding the Lightning Creek magnetic anomaly were consolidated into one tenement ie EPM 14008 This should result in considerable cost savings and expedite the granting process. The area is prospective for iron oxide copper-gold deposits of the Earnst Henry type.

### **May Downs zinc-lead prospect (Reefway 100%)**

BHP Billiton has an option to earn 70% interest.

The drilling of five RC holes totalling 1517 metres on the May Downs prospect (within EPM 13331) was undertaken during the quarter. All holes were stopped short of 400 metres depth due to excess water inflow. The drill program was designed to test the nature of a low order airborne magnetic anomaly indicating a weakly magnetic, steeply dipping, north plunging horizon at a depth of about 150 metres. The horizon appeared to have been broken into several discrete bodies by cross faulting. This modelling was undertaken during year 2000 and has since been reassessed.

The recent drill program intersected disseminated pyrrhotite in MD13 and MD14 which was consistent with the magnetic anomaly when consideration is taken into account of a high degree of magnetic remanence in such horizons. However holes MD10,11 and 12 did not intersect pyrrhotite. This was to be expected in MD 10 as it was drilled outside the magnetic anomaly in order to test the down dip extension of the previously drilled MD3. However MD11 and MD12 were designed to test the eastern and western magnetic ridge lines respectively.

A subsequent three-dimensional inversion model was generated during June 2003 over the area. This revised model indicated that MD11 was drilled outside the magnetic anomaly and that MD12 may not have been drilled deep enough due to excess water inflow.

Nevertheless, MD10, 11 and 12 intersected broad bands of anomalous zinc values (greater than 1000ppm Zn) within argillaceous siltstone with pyritic and dolomite/graphitic veining. These anomalous values appeared to be associated with a fault and a fault/fracture zone intersected in MD11 and MD12 respectively. Drill results were as follows:-

**May Downs Drill Results – July, 2003**  
**(Assay values > 1000ppm Zn)**

Hole No	EOH m	Drill Interval Length m m		Assay Results ppm Pb Zn Ag		
<b>MD10</b>	336	36-44	8	38	1070	< 0.5
		184-240	56	317	1618	< 0.5
		244-248	4	291	2090	< 0.5
		276-288	12	625	4032	< 0.5
		302-307	5	520	2384	< 0.5
		323-336	13	455	2088	< 0.5
	<b>Highest value</b>	280-284	4	687	5380	< 0.5
<b>MD11</b>	293	72-76	4	64	1240	< 0.5
		80-84	4	66	1160	< 0.5
		180-184	4	200	1400	< 0.5
		208-220	12	409	1780	< 0.5
		224-232	8	116	1150	< 0.5
		248-292	44	448	2080	< 0.5
		292-293	1	140	1010	< 0.5
	<b>Highest value</b>	260-264	4	260	5490	< 0.5
<b>MD12</b>	294	192-288	96	107	1905	< 0.5
	<b>Highest value</b>	240-244	4	102	3050	< 0.5
<b>MD13</b>	252	36-40	4	353	1970	< 0.5? This result may be contaminated?
<b>MD14</b>	342	138-142	4	307	1100	< 0.5
<b>Total</b>	1517					

Results from holes MD10, 11, 12 are similar to the previously drilled MD3 (46m@ 0.28% Zn from 52m) and could be considered to form a geochemical anomaly with a north-south dimension of over a kilometre.

Results from this program can be regarded as being encouraging for exploration of a Mount Isa-type zinc-lead stratiform deposit. However, further work is required to determine if the necessary factors for upgrading mineralisation to economic levels are likely to be present.

### **Mount Kelly copper-gold project.**

MIM Exploration Pty Ltd have completed a MIMDAS geophysical survey over the Mount Kelly tenements and are yet to advise the results. They are exploring for a Mt Isa-type sulphide copper deposit. MIM has an option to earn 75% interest.

International Base Metals Limited is about to commence a shallow (down to 100 metres depth) RC program to delineate copper oxide and supergene mineralisation. They have an option to earn 50% of Reefway's interest in the tenements.

### **Tenement Acquisitions and Rationalisation**

Reefway has expanded its **Desert Creek** areas to include additional sub-blocks some 3-6km north of the Mount Gordon (Esperanza/Mammoth) Mine Operations. This EPM 14149 covers a portion of the northern extension of the highly prospective Mount Gordon Fault Zone.

**Pegmont** has consolidated five previous tenement application areas (ie. EPMA 11394, 11671, 11813, 12255 and 12498) into the **Pegmont Extended** tenement EPM 14008. This new tenement partly surrounds the Lightning Creek magnetic anomaly which was a major hydrothermal centre for iron-copper fluids. South of the tenement is the Brumby copper-gold deposit. Our objective is to attract a major partner to undertake regional exploration in this high potential area.

### **Expenditure**

Net cash expenditure of the Pegmont Group during the three months was \$54,710;

	<b>June Quarter</b>	<b>Year to Date</b>
	<b>\$</b>	<b>\$</b>
Pegmont	1,761	1,761
May Downs	32,920	32,920
Wilfred Creek (net of interest)	7,458	6,755
Mount Kelly (net of rental refunds)	415	(10,722)
General Investigations	<u>585</u>	<u>585</u>
	43,139	31,299
Corporate Expenses	17,109	18,558
Working Capital	2,962	9,592
Shareholder advance	<u>(8,500)</u>	<u>(8,500)</u>
NET CASH EXPENDITURE	<u>54,710</u>	<u>50,949</u>

Cash balances (excluding security deposits) at 30 June 2003, totalled \$156,311, including \$144,964 set aside for the May Downs Project. These funds are not adequate to cover ongoing expenditure commitments without raising additional capital and financial support by major shareholders.

Yours faithfully

Malcolm A. Mayger  
**Managing Director**