

Pegmont Mines NL

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27 July 2005

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

Dear Sir,

Quarterly Report to 30 June 2005

We submit the following report for Pegmont Mines NL for the three months to 30 June 2005.

1. Summary

Investment Activities during the quarter resulted in a realised pre-tax loss of \$80,752 due to some 'tax-loss' selling and deferral of profits to the new taxation period commencing July. Total realised pre-tax profits from share trading for the half year was \$822,832 which compares favourably to our budget of \$1000,000 for the year. Interest received during the quarter was \$ 50,680.

Exploration activities were focused on the Pegmont lead-zinc deposit in the Mount Isa region. A program of 15 drill holes for 1400 metres was completed in July, but no assay results have been received. This program was designed to generate both oxide and sulphide core samples for metallurgical test work to be undertaken during the remainder of the year.

Preliminary Metallurgical test work undertaken by Intec Ltd on RC samples generated during 2000-2001 provided encouraging results ie the ROM Pegmont ore is potentially a suitable feed to the Intec Polymetal Process.

Future Direction

The Board will continue investment activities during the remainder of the year with the aim of taking advantage of investor interest in the resource sector. Furthermore, this activity enables management to appraise many investment opportunities that may result in a strategic investment for longer term corporate growth. Exploration activities will continue to be focused on appraising the Pegmont lead-zinc deposit with the objective of creating an economic deposit suitable for commercial development.

2. Investment Activities

Pre-tax realised losses from sale of shares for the quarter were \$80,752, this was partially offset by interest received totalling \$50,680 and subunderwriting fees of \$5000. This 'poor' trading result for the quarter is a direct reflection of difficult market conditions from mid March to mid June which caused the speculative end of the sharemarket to retrace prices by up to 40% for some issues. The market has since firmed after absorbing considerable tax-loss selling and is now focused on oil and uranium securities. The Company has traded profitably in July. Other investment activities include seed capital placements and subunderwriting new-issues.

Investment Activity Summary

| | | March Quarter | June Quarter | Year to Date |
|----------------------|-------|------------------|-----------------|--------------|
| Shares Traded - Cost | \$000 | 1,999 | 443 | 2,440 |
| - Proceeds | \$000 | 2,901 | 362 | 3,263 |
| - Profits | \$000 | 918 | 40 | 958 |
| - Losses | \$000 | <u>14</u> | <u>121</u> | <u>135</u> |
| - Net Profit | \$000 | <u>904</u> | <u>(81)</u> | <u>823</u> |

3. Corporate Liquidity

Apart from our net broker credit balance of \$69,906, we have bank cash deposits of \$1,100,000 plus interest and \$936,156 on current account (including \$811,040 received from CopperCo Limited in final payment for shares in Reefway Pty Ltd). \$700,000 was subsequently transferred to a cash management deposit account in July. The Board's policy is to maintain adequate short-term liquidity for investment and corporate opportunities. Current Assets total \$4,808,514 represented by cash in bank of \$2,136,062 and shares held for resale of \$2,672,452 at cost.

4. Exploration Activity

The Company has two exploration areas of interest in the Mount Isa region; at Pegmont and at Duchess. It also retains a royalty interest over the Reefway tenements north of Mount Isa.

At Pegmont, field activity commenced during May in order to site drill pads for a 15 hole program that commenced mid June. Unseasonable wet weather caused a week delay. The drilling program was designed to provide both oxide and sulphide core samples for metallurgical work, to infill drill in order to increase confidence in the resource status and to test geological concepts and structures. A considerable amount of data has been generated which will be collated and reviewed during the remainder of the year.

At Duchess, no activity was undertaken due to delays in the granting of tenement.

5. Preliminary metallurgical test work by Intec Ltd on previously drilled RC samples completed during June was encouraging; Their conclusions were as follows:

“ A sample of ROM ore from the Pegmont lead-zinc deposit in north west Queensland was tested for its suitability to processing using the Intec Polymetal Process. The following results were achieved:

- The ROM Pegmont ore is potentially a suitable feed to the Intec Polymetal Process.
- Lead and Zinc were identified in two forms
 - Free sulphides that leach readily at extraction efficiencies of from 97% to 99%
 - Sulphides locked in magnetite that are not leacheable under conditions used in the Intec Polymetal Process representing about 8 to 9% of the total
- A grind size of P80 = 80 microns and a leach retention time of from 10-12 hours is required.
- Manganese has a tendency to leach, but it is anticipated that this can be limited by operation at a pH in the leach slightly higher than used in the current tests.

The objective of this metallurgical program is to create an on site high quality final product at considerably reduced capital and operating costs compared to standard smelter and refinery processes.

6. Income and Expenditure (cash basis)

| Income received | June Quarter \$ | Year to Date \$ |
|-------------------------------------|-----------------------|-----------------------|
| Interest | 50,680 | 92,745 |
| Net Profit/ loss on sale of shares | <u>(80,752)</u> | <u>822,832</u> |
| | <u>(30,072)</u> | <u>915,577</u> |
| Exploration Expenditure | | |
| Pegmont deposit | 30,466 | 32,776 |
| Pegmont regional | 873 | 3238 |
| Duchess regional | 399 | 2044 |
| General Investigations | <u>1614</u> | <u>2214</u> |
| | <u>33,352</u> | <u>40,272</u> |
| Corporate Expenditure | | |
| Administration | 36,569 | 44,511 |
| Working Capital payments (receipts) | (757,300) | (595,622) |
| Share Investments | <u>621,283</u> | <u>708,783</u> |
| | <u>(99,448)</u> | <u>157,672</u> |
| Total Cash Expenditure | <u>(66,096)</u> | <u>197,944</u> |
| Net Surplus | <u>36,024</u> | <u>717,633</u> |

Yours Faithfully,

M.A. Mayger
Managing Director