

Pegmont Mines NL

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28th January 2005

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

Dear Sir,

Quarterly Report to 31 December 2004

We submit the following report of Pegmont Mines NL for the three months to 31 December 2004.

The enhanced financial position of the Company, consequent to the completion of the Reefway Share Sale Agreement on 28 September 2004 has enabled the Board to consider a diversification of mining investment opportunities. This diversification is expected to open up new areas of corporate and financial growth in keeping with the growth of the mining industry as a whole.

Our emerging corporate strategy for 2005 anticipates the development of an investor approach by the company to the mining industry in Australia. This means that your Board will continue to invest in worthwhile exploration projects (minerals and energy) also, consideration will be given to equity investment in other resource companies and joint venture opportunities. In order that we may pursue these objectives and take advantage of opportunities as they occur, the Company will retain a high level of financial liquidity.

Equity Investment Activity

Pre-tax realised profits from sale of shares to 31 December 2004 totaled \$510,445.

The investments portfolio at year end, cost \$1,232,204 and the net broker credit balance was \$351,310 available for investing. The company holds 1,153,333 shares in CopperCo Limited after selling 50 million shares during the quarter.

Further realised profits have been made in the New Year.

Exploration Activity

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

The **Pegmont** deposit is the subject of metallurgical studies, which were delayed into the New Year on account of a high level of laboratory activity within the industry. The aim of these studies will be to ascertain as to whether a hydrometallurgical process can be economically applied to the Pegmont mineralisation. The possible advantage of this new approach would be to produce metal on site at a much reduced capital and operating cost.

A geological review of the Pegmont project area was completed during the quarter which indicated the possibility of several overlapping thrust faults, which may give rise to thickening of mineralisation adjacent to such fault zones. This concept needs to be confirmed by drilling.

The **Duchess-Trekellano** application area; EPM 14784 is being processed by the Queensland Department of Natural Resources and Mines for granting. No work has been undertaken on this application area.

Exploration activity on the **Reefway royalty areas**, at Mount Kelly reported by CopperCo Limited in their December quarterly report is summarised as follows:

The **Mount Kelly Project**, located 110km north of Mount Isa, has been the subject of a 4000 metre reverse circulation (RC) drilling programme completed in December 2004, on three prospect areas.

At **Mount Clarke**, copper mineralisation has been delineated in an estimated 400m by 200m zone. Further drilling is planned for January 2005, then an updated resource estimate will be undertaken during February-March 2005; as part of a regional feasibility study by CopperCo Limited

At the **Flying Horse** prospect, located 250 metres south of the Mount Clarke prospect, drilling has delineated copper mineralisation for an estimated 350 metres of strike and is open in all directions. This discovery may lead to a significant potential increase in the Mount Kelly resource inventory.

At the **Mount Kelly Workings** prospect, 6 of the 8 RC holes reported visible copper oxide mineralisation with assay results pending.

The Mount Kelly project is considered to be a satellite operation to a larger regional concept being considered by CopperCo Limited, based on the Lady Annie project (not located on a Reefway tenement)

For further detailed information on the Mount Kelly project please refer to the December quarterly report of CopperCo Limited.

Financial Portion at 31 December 2004

The un-audited financial portion of the Company at 31 December 2004 is very sound. The **working capital** position is approximately \$3,900,000, which includes cash at bank and on deposit of \$2,315,000; deferred payment due by Copper Co Limited \$767,300 and shares held for sale \$1,232,200; less current liabilities (excluding tax) of \$400,000; totaling **7.9 cents per share**.

The **non current assets** of the Company includes; exploration areas at Pegmont valued at \$3,350,000 and royalty interests over Reefway areas \$100,000; totaling **6.8 cents per share**. The value ascribed to Pegmont is dependent upon successful metallurgical studies and future exploration to enable the deposit to be economically developed. At current metal prices the Pegmont lead- zinc deposit could be mined profitably.

Income and Expenditure (excluding accruals)

	December Quarter \$	Year to Date \$
Income		
Interest received	10,385	10,385
Management Fee	---	19,800
Net Profit on sale of shares	<u>510,197</u>	<u>510,197</u>
	<u>520,584</u>	<u>540,382</u>
 Exploration Expenditure		
Pegmont deposit	32,072	42,283
Pegmont regional	16,063	22,984
Duchess regional	2,741	2,741
General Investigations	<u>792</u>	<u>3,552</u>
	<u>51,668</u>	<u>71,560</u>
 Corporate Expenses		
Administration including salaries	147,197	190,169
Shareholder loan repayment	<u>201,224</u>	<u>201,224</u>
	<u>348,421</u>	<u>391,393</u>
Total Expenditure	<u>400,090</u>	<u>462,953</u>

Yours Faithfully,

M.A. Mayger
Managing Director