

# Pegmont Mines NL

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31 January 2003

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

Dear Sir,

## Quarterly Report to 31 December 2002

Discussions with International Base Metals Limited (IBM) and with a major mining group continued with a view of forming a regional exploration agreement on Reefway's tenement areas in the Mount Isa Western Succession as well as conducting an early drill program at **Mount Kelly**.

A Field Inspection was conducted over the proposed exploration area at **May Downs**. The survey did not detect any areas of cultural significance and the initial target areas are now available for drilling.

Reprocessed geophysical data on the Sharry Fault IP Anomaly adjacent to the **Pegmont** deposit has been provided to a major mining group for confirmation. Their preliminary conclusion is that there is an anomaly but it has to be ranked against their other projects prior to commencement of any joint venture negotiations.

In summary, 2003 is shaping up as a most positive year with potential interest in all of our project areas. Drilling is likely to be undertaken at **May Downs** (zinc-lead-silver) and at **Mount Kelly** (copper-gold) while interest is being shown in **Pegmont** (lead-zinc).

### **Mount Kelly copper-gold deposit (100% Reefway)**

Ongoing discussions with IBM now envisage the evaluation of near surface mineralisation (down to 100metres) at Mount Kelly. A Joint Venture Operating Committee has been formed to commence the review and collation of previous drill core data including rock types intersected in the target areas for metallurgical purposes. IBM may earn 50% joint venture interest in the Mount Kelly tenements by spending a minimum \$2 million and producing a bankable feasibility study.

Discussions with a major mining group to assess the depth potential of the Mount Kelly mineralised system have advanced to a draft agreement stage. Although there are a number of points to be agreed upon, we expect finalisation to be achieved shortly.

### **Regional Copper Exploration (Reefway 100%)**

Based upon the Mount Kelly agreement, it is expected that regional exploration agreements with both IBM (to explore other Reefway tenements for copper mineralisation down to 100 metres) and with the major mining group could also be completed within the March quarter. Such agreements would include a number of tenements covering several target areas.

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

A Field Inspection over the proposed drill program area was completed on the 14 November 2002. This survey did not disclose any areas of cultural or historical significance within the initial target areas. The Company (as operator) is now able to proceed with the planning of field activities and commencement of a drill program at an early date.

The May Downs zinc-lead prospect lies within EPM 13331. It is farmed out to BHP Billiton Ltd who will fund the upcoming drill program of five (5) holes totalling 2000 metres by subscribing to an additional allotment of shares in Pegmont. This program is designed to test sections of a large 7km north-south geophysical anomaly to depths of greater than 200 metres. Previous shallow drilling has yielded anomalous zinc-lead values in oxidised material, including 46 metres (from 52-98m) averaging 0.28% Zn (including 18m @ 0.40% Zn). The May Downs prospect appears to be a large Mount Isa-type zinc-lead target.

### **Pegmont zinc-lead deposit (Pegmont 100%)**

Previously collected Induced Polarisation (IP) data covering the Sharpy Fault (survey April 2001) which had detected a large anomaly of moderate to strong intensity at an interpreted depth of about 200 metres was reprocessed using up to date inversion modelling software. The reprocessed IP model contains more information about the source of the anomalous response than was previously obtained, enhancing the validity of the earlier interpretation.

Models were generated to determine if a broad deep zone of anomalous response, which had previously been defined, might contain smaller zones of higher intrinsic IP response typical of semi-massive to massive sulphide ore deposits. **Modelling suggests that the anomalous zone is sufficiently large to easily hide ore deposit sized, strongly IP responsive bodies of about 50 million tonnes at a top depth of 275 metres.** The reprocessed data and models are currently being evaluated by a major mining group.

## Tenement Applications

**EPM 13739 (Buckley River) Reefway 100%** was granted on 23 September 2002 for a term of five years. It covers 55 sub-blocks surrounding the Anthill copper deposit held by another company. The EPM has potential for copper mineralisation associated with the Kennedy Fault which is a major old structure extending north of May Downs – see the attached map.

## Escrow Shares

The Stock Exchange of Newcastle Limited has advised that 13,900,000 shares placed into escrow on 5<sup>th</sup> December 2000 for a period of two years is no longer required. Accordingly, an application will be made for these additional securities to be quoted on the NSX. The issued capital of the Company remains at 47,786,511 Ordinary fully paid shares.

## Expenditure

Net cash expenditure of the Pegmont Group during the three months was \$24,354.

	<b>September Quarter \$</b>	<b>Year to Date \$</b>
<b>Revenue</b>		
Option payments by IBM – Mount Kelly	<u>(15,000)</u>	<u>(20,000)</u>
<b>Expenditure</b>		
Pegmont Project	19,100	23,163
Mount Kelly Project	19,035	28,141
May Downs Prospect – EPM 13331	9,706	16,593
- Native Title	22,394	54,789
Project generation	<u>3,056</u>	<u>15,318</u>
<b>Total exploration expenditure</b>	<u>73,291</u>	<u>138,004</u>
Corporate expenses – net of interest	13,201	37,341
Working capital – net payments	7,762	61,693
Shareholder's advance	<u>(54,900)</u>	<u>(122,634)</u>
Net Corporate Expenditure	<u>(33,937)</u>	<u>(23,600)</u>
<b>Net Cash Expenditure</b>	<u>24,354</u>	<u>94,404</u>

Cash balances (excluding security deposits) totalled \$83,964 including \$83,361 set aside for the drilling of the May Downs prospect. These funds are not adequate to cover ongoing expenditure commitments without the raising of additional equity which is under consideration. Meanwhile, the Company depends upon shareholder advances to meet current expenditures.

M A Mayger  
**Managing Director**

