

# **Pegmont Mines Limited**

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## **CHAIRMAN'S ADDRESS**

### **13<sup>TH</sup> ANNUAL GENERAL MEETING**

**29 APRIL 2009**

Welcome to the 13<sup>th</sup> Annual General Meeting of Pegmont. As you already know from our Annual Report, the 2008 year was a very difficult year, in great contrast to the previous year. We had a consolidated operating loss of \$6,994,915, in comparison to the after tax profit of \$3,914,921 in 2007. This loss reduced our shareholders funds to \$7,725,653 and our working capital to \$4,031,317.

We were hit with two misfortunes, the worst stock market decline since the 1930s and the last minute withdrawal of BHP Billiton Ltd (BHP) from their arrangement with Cloncurry Metals Ltd (CLU) to purchase the Pegmont tenements. The withdrawal came without prior warning and as late as November we were engaged in detailed discussions with CLU on various aspects regarding the exercise of the option. In retrospect, although we were aware at that time that the stock market was passed its peak and we had started to exit some share positions, our primary focus was on the option exercise (and the expected option exercise payment.) This meant that we were not as quick as we should have been in reducing our exposure to the share market.

When we look back on what was happening to base metal prices during in late 2008, it is perhaps less surprising that BHP decided not to proceed. At the time when BHP were making their final decision, both lead and zinc prices were crashing. In late December lead traded on commodity exchanges at below \$900 per tonne and zinc fell below \$1060 per tonne. The value of the Australian dollar was moving against us as well – it rose from a low of 65 cents on 8 December to 71 cents on 18 December. Both metals have since recovered to around \$1400 per tonne and Broken Hill miners have confirmed that they are making money at current prices.

Realized share trading losses in 2008 were \$1,887,061 while provisions for impairment were \$4,529,241. We note that the impairment provision carried no tax benefit which would have reduced the extent of our loss.

Looking at the current year, since year end we have been continuing to exit share positions which we are not comfortable with and focusing on building liquidity. We incurred trading losses before tax of \$102,780 for the first quarter and increased our cash position to \$1.4 million at the end of March. We have made share trading profits in March and expect to in April as well. But we will need to make \$100,000 average profit per month from May onwards if we are to meet our budget and that may not be easy.

Since the release of the Annual Report, share market conditions have improved, but a recovery could have been expected given the massive extent of the decline in the indices. Although the share market looks forward, it is quite possible that the current recovery is a "bear market rally" and that conditions for the remainder of the year will be mixed but trending upwards.

With regard to our mineral exploration and development activities this year, we will focus our exploration efforts on the New Hope gold-cobalt prospect and the nearby Selwyn block. We plan to drill twelve shallow holes totalling 650 meters at New Hope to delineate open cuttable material. In the Selwyn block we will conduct a shallow drilling program at the Camel Dam lead-zinc prospect later in the year and carry out further exploration work at the gold anomaly Sc-3. Our total exploration budget for 2009 is \$500,000.

Our objective at New Hope is to develop a small open cut "Stage One" mine. We believe that there is an 80% probability that this can be achieved. The fine high grade gold oxide mineralisation should be able to be recovered with simple gravity equipment and at a relatively low cost but with a relatively low (say 60%) recovery. (The cobalt will report to the tailings which will still contain significant gold and which may be recovered in Stage Two)) The underground gold-cobalt sulfide mineralization needs further drilling and metallurgical test work prior to a scoping study. We would like to carry out the Stage One operation within our own financial resources if possible. We are planning to move to the approval and design phase for Stage One in 2010 providing this year's work goes well. .

We will be evaluating the results of the 2008 drilling programs undertaken by CLU and BHP at Pegmont. This work program resulted in extensions to existing mineralization and identified possible structural complexities. We have started the process of compiling, interpreting and reviewing the drill data from over 100 holes which will require considerable resources. It is still too early to arrive at any definitive conclusions regarding the outcomes of the drilling.

In our Annual Report we identified three pathways for developing Pegmont:

- As a satellite mine feeding ore to the Cannington mill. This route may reopen when commodity prices improve, which at this stage appears to be at least three years off, and assuming that this still makes sense for BHP in terms of their Cannington expansion plans.
- To develop an independent large scale lead-zinc operation using standard technology. We believe that this has a low probability of success.
- To develop a small open cut operation using modern leach technologies to produce a commercial end product onsite. Our metallurgical test work suggests that this operation is a real possibility. This is not mutually exclusive with option one, since BHP cannot process the substantial amount of Pegmont oxide ore at Cannington.

In last year's address I identified our future as follows:

- To build Net Assets to \$25 million, equivalent to 50 cents per share.
- To continue to earn profits from share trading activities
- To self fund our exploration activities
- To acquire a cash flow business to provide a "third leg" to our exploration and investment activities.
- To continue to pay fully franked dividends, consistent with our financial position and circumstances.
- To move our listing to the ASX when the right opportunity arises.

The events in 2008 will substantially delay the achievement of those goals, but they still represent a useful target for the longer term. In the meantime we shall endeavour to self fund our exploration activities.

On behalf of the board, I thank our employees, consultants, our shareholders and my fellow directors for their effort and support during the past year

John M Armstrong  
Chairman