

Pegmont Mines Limited

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16 April 2010

The Manager
National Stock Exchange of Australia
384 Hunter Street
Newcastle NSW 2300

Dear Sir,

Quarterly Activity Report to 31 March 2010

We submit the following report for Pegmont Mines Limited for the three months to 31 March 2010.

1. Summary

- Pre-tax share trading loss was \$167,672 for the quarter compared to a loss of \$102,780 for the March'09 quarter. Interest and other income received during the quarter totalled \$14,392.
- The cash position was \$1,543,414 at 31 March 2010 (an increase on \$1,014,327 at 31 December 2009), which together with listed shares at market value \$3,615,565 resulted in liquid assets at market of \$5,158,979 or 10.1c/share compared to \$5,305,051 or 10.3c/share at 31 December 2008. The company does not have any borrowings.
- Field activity was not undertaken due to wet monsoonal conditions prevailing making access impossible. However a revision of resource estimates of the Pegmont lead-zinc deposit is being undertaken and an independent report will be compiled; to be released shortly. Other petrological and geophysical reports on areas around the Lightning Creek magnetic anomaly, provide encouragement for further exploration.
- A reconnaissance drill program is planned to commence in June to test up to six (6) new prospects.

2. Investment Activities

The All-Ordinaries index stood at 4882.7 on 31 December 2009; peaked at 4981.2 on 11 January '10, then subsequently declining to a low of 4520.7 on 9 February only to regain 4893.1 on 31 March '10 for a net gain of 10.4 points or 0.2% for the quarter. These movements in the index indicated considerable market uncertainty arising from tightening bank credit in China (to slow down buoyant activity and speculative real estate conditions); concerns about a credit default by Greece and other Mediterranean countries within the EEC and uncertain economic growth prospects in Japan. Our trading strategy was to build cash and to take losses against provisions on speculative shares. A small operating profit was generated in March upon the recovery by the market.

Investment Activity Summary

| Shares Traded | March Quarter 2010 <u>\$000</u> | March Quarter 2009 <u>\$000</u> | Budget Year 2010 <u>\$000</u> |
|---------------------------|--|--|--|
| Proceeds | 3,250 | 2,647 | 15,000 |
| Cost | 3,693 | 3,399 | 13,500 |
| Profits | 309 | 158 | 2,500 |
| Losses | <u>(781)</u> | <u>(910)</u> | <u>(1,000)</u> |
| Net realised (Loss) | (472) | (752) | 1,500 |
| Write back of provisions | <u>304</u> | <u>645</u> | <u>500</u> |
| Net Trading result | <u>(168)</u> | <u>(107)</u> | <u>2,000</u> |

The level of losses incurred during the quarter was due to a deliberate policy of reducing our exposure to weak and non-performing investments, thereby improving the quality of the portfolio. A major swing factor in determining the Net Trading result is the effect of market movements upon loss provisions against shares held in the portfolio, mostly held from 2008. Our challenge is to achieve budget profits for the year.

3. Exploration Activity

Field activity was not undertaken during the quarter owing to the monsoonal wet making ground access impossible. However, camp improvements were made to improve water collection, and Pegmont drill samples were despatched to a laboratory for upcoming metallurgical test work commencing during July.

A geophysical review of tenements around the Lightning Creek magnetic anomaly provide encouragement to follow up the previous 2009 program of rock chip sampling which resulted in scattered highly anomalous rock chip geochemistry over a broad extent. Airborne magnetic and radiometric data for these areas were examined to determine if these are recognisable features that may assist the location of the source

of these anomalous results. A broad circular pattern is discernable in the magnetic data (at the centre of the most widely mineralised area) that may reflect a late phase granite intrusion centre associated with the anomalous geochemical results (S Collins, Feb 2010). Follow up rock chip sampling will continue to firm up drill targets.

A collection of nineteen (19) samples from the Squirrel Hills granite complex in the vicinity of the Lightning Creek anomaly were the subject of a detailed petrological and mineralographic examination. Several samples contained characteristics that may be compared with compositions of copper-gold bearing mafic monzonites in central-western NSW that have been shown to have mantle chemical contribution. (Dr J.B. Barron Feb 2010). The report's conclusions are considered to be encouraging as it underlines the prospectivity of the southern part of the Squirrel Hills granite complex, with rock types and alteration comparable to those of other copper-gold deposits. An expanded petrological sampling program will be undertaken in order to more fully understand the nature of the Squirrel Hills granite complex and its associated intrusions.

During the forthcoming field season, it is hoped to map different rock types, brecciation, alteration and geochemistry of the Lightning Creek- Frank's Find West-Gums Creek area. It may then be possible to identify local intrusive bodies such as suggested by Collins (2010) which may be directly linked to mineralisation.

Upcoming Drill Program

A drill program of approximately **3400 metres** is planned to commence in June as outlined in the Annual Report. This program of 31 RC holes is expected to test (subject to all necessary approvals) the following new prospects:-

New Prospects

Sc-7 (gold target): five (5) RC holes for 400 metres.

MMA (molybdenum): three (3) RC for 260 metres.

EMU (copper-cobalt): three (3) RC for 260 metres.

Lightning Creek (IOCG): one (1) RC for 300/400 metres.

Gums Creek (copper-gold): three (3) RC for 260 metres.

Frank's Find West (copper-gold): six (6) RC for 520 metres.

Existing Projects

New Hope (gold-cobalt)* six (6) RC for 800 metres.

Pegmont (lead-zinc)* four (4) RC for 500 metres.

*The extent of drilling at New Hope and Pegmont will depend upon visual results obtained from prior drill targets.

This reconnaissance drill program will be the climax of several years of systematic prospecting and rock chip sampling. It will yield both positive and negative surprises which should enhance our geological understanding of the Company's tenement areas and provide the basis for future exploration activities.

4. Income and Expenditure (cash basis)

| Income Received | March Quarter | Year 2010 | Budget 2010 |
|-------------------------------------|------------------|------------------|------------------|
| | \$ | \$ | \$ |
| Interest | 6,172 | 6,172 | 50,000 |
| Net Profit (Loss) on sale of shares | (471,985) | (471,985) | 1,500,000 |
| Other Income | <u>8,220</u> | <u>8,220</u> | <u>50,000</u> |
| | (457,593) | (457,593) | 1,600,000 |
| Add: Write back of provisions | <u>304,313</u> | <u>304,313</u> | <u>500,000</u> |
| Trading result | <u>(153,280)</u> | <u>(153,280)</u> | <u>2,100,000</u> |

Exploration Expenditure

| | | | |
|-------------------------------------|---------------|---------------|------------------|
| Pegmont deposit – geology & general | 32,289 | 32,289 | 300,000 |
| – metallurgy | - | - | 500,000 |
| Pegmont regional | 34,779 | 34,779 | 400,000 |
| New Hope- Exploration | 5,590 | 5,590 | 200,000 |
| Other | <u>400</u> | <u>400</u> | <u>-</u> |
| Exploration expenditure | <u>73,058</u> | <u>73,058</u> | <u>1,400,000</u> |

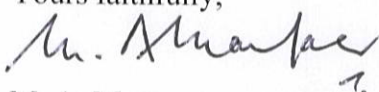
Corporate Expenditure

| | | | |
|-------------------------------|------------------|------------------|------------------|
| Administration | 46,395 | 46,395 | 365,000 |
| Directors' & Secretary fees | 83,750 | 83,750 | 335,000 |
| Share Investments | <u>(885,568)</u> | <u>(885,568)</u> | <u>-</u> |
| | (755,423) | (755,423) | 700,000 |
| Net Cash Surplus/ (Deficit) | 529,085 | 529,085 | - |
| Add opening cash balances. | <u>1,014,329</u> | <u>1,014,329</u> | <u>1,014,329</u> |
| Closing Cash Balances. | <u>1,543,414</u> | <u>1,543,414</u> | <u>1,014,329</u> |

Losses were realised during the quarter in order to build liquidity, increase the quality of trading stock and to concentrate the portfolio on current resource favourites.

We look forward to the challenging period ahead.

Yours faithfully,



M. A. Mayger
Managing Director