

Pegmont Mines Limited

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27 July 2010

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

Dear Sir,

Quarterly Activity Report to 30 June 2010

We submit the following report for Pegmont Mines Limited for the three months to 30 June 2010.

1. Summary

- **The Net Share Trading Result** was a loss of \$1,146,358 for the quarter compared to a profit of \$1,044,312 for the June'09 quarter. This loss was due mainly to market uncertainties arising from the proposed resource taxes which caused a slump in exploration and resource development shares. Interest and other income received during the quarter was \$9,589.
- **Exploration** cash expenditure during the quarter totalled \$224,822 which comprised further detailed mapping and rock chip sampling. In addition a 1440 metre drill program was completed in late June for an estimated expenditure of \$130,000. Half year expenditure was \$294,880.
Administration expenses were \$113,508 during the quarter and \$248,653 for the half year to 30/6/10.
- **The cash position** was \$618,121 at 30 June 2010 (\$1,014,327 at 31 December 2009), which together with listed shares at market value of \$2,001,965) and June share transactions settled in July amounting to \$1,023,723 resulted in liquid assets at market of \$3,644,251 or 7.1c/share compared to \$5,305,051 at 31 December 2009. The company does not have any borrowings.

Exploration Activity

Field work for the year commenced late April due to a prolonged wet. A drill program was undertaken in June. However, due to high drill rig demand, our program was limited to 1440 metres.

2.1 Pegmont Exploration Program – MLs

A drilling program was carried out at Pegmont South to test for extensions to the shallow oxidised lead-zinc mineralisation. Ten holes (PMR 194-203) were drilled for a total of 642 metres to test a 2007 ground magnetic survey that suggested a continuation of mineralisation to the south of PMR 062 which intersected 3 metres from 18m; 7.47% Pb, 0.98% Zn, 10.1ppm Ag. Further detailed magnetic traverses will be run during August to resolve this matter and to define additional targets and limits to mineralisation. Analytical results are not yet available.

Final compilation of data from 324 holes drilled into the Pegmont lead-zinc mineralisation is awaiting assay results from the recently completed 10 hole drill program. This work should be completed in the current quarter and will result in a maiden estimate of JORC indicated and inferred resources.

2.2 Pegmont extended

Systematic prospecting, mapping and sampling is ongoing in EPM 15106 within and west of the Pegmont leases, working south from the contact of the Squirrel Hills Granite and Formation metasediments. An initial batch of rock chip samples from this area returned several anomalous gold values of up to 0.86g/t associated with a gossanous breccia. Further sampling in detail will be undertaken during the next quarter.

2.3 EPM 14491- Frank's Find/ Frank's Find West

One hole was drilled on the Frank's Find prospect a shear zone in granite but with no apparent success. Three holes were drilled into Frank's Find West prospect which consists of sporadically outcropping secondary copper occurrences often associated with specular hematites, extending linearly over a strike length of 600m. The country rock has been identified as a quartz monzonite. No significant copper mineralisation was observed. Assay results are awaited.

2.4 EPM 17053

Four holes were drilled on the Mort River Prospect (Sc7). However, no mineralisation was observed but assay results are awaited.

2.5 New Hope Lease ML 2487

A five year Plan of Operations for the New Hope Prospect was drafted for submission to the Environmental Protection Agency. Rehabilitation of previous costeaning was carried out to establish a baseline for proposed future work. No drilling was undertaken due to lack of drill time availability.

3. Investment Activities

The Net Share Trading result for the three months to 30 June 2010 was a loss of \$1,146,358 and \$1,237,366 for the half year to date after allowing for the decrease in the provisions for loss on quoted and non quoted shares by \$1,493,300 from 31 December 2009. This result has caused us to revise our Net Trading Profit estimate to \$NIL for the year.

Shares Traded	June Quarter 2010 \$000	Half Year to June 2010 \$000	Half Year To June 2009 \$000	Year Budget 2010 \$000	Revised Estimate 2010 \$000
Proceeds	5,185	8,437	8,840	15,000	16,000
Cost	7,469	11,165	8,544	13,500	18,000
Profits	167	476	1,211	2,500	1,000
Losses	(2,451)	(3,206)	(915)	(1000)	(3,000)
Trading Profit/(Loss)	<u>(2,284)</u>	<u>(2,730)</u>	<u>296</u>	<u>1,500</u>	<u>(2,000)</u>
Net Provision-					
Profit/ (Loss)	<u>1,138</u>	<u>1,493</u>	<u>695</u>	<u>500</u>	<u>2,000</u>
Net Trading Profit/ (Loss) After provision	<u>(1,146)</u>	<u>(1,237)</u>	<u>991</u>	<u>2,000</u>	<u>NIL</u>

The Stock market since March 2010 has been extremely volatile attributed mainly to the announcement by the Federal Government of a Resource Profits Tax which effectively killed overseas interest in Australia's resource equities. Although the proposed resource tax has been substantially modified to apply only to coal, iron ore and onshore petroleum production, nevertheless, future exploration funding will become extremely difficult. Our losses arise from increased loss provisions and a deliberate sell down of exploration equities. Future trading strategy will be confined mainly to existing producers. Uncertainties surrounding the resource sector has by necessity, increased our preference towards holding cash and to reduce assets at risk.

4. Income and Expenditure (cash basis)

Income Received	June Quarter	Half Year 2010	Revised Estimate 2010
	\$	\$	\$
Interest	8,989	15,161	20,000
Net Profit (Loss) on sale of shares	(2,285,045)	(2,730,366)	(2,000,000)
Other Income	640	8,860	30,000
	<u>(2,275,416)</u>	<u>(2,706,345)</u>	<u>(1,950,000)</u>
Add: Write back of provisions	<u>1,138,687</u>	<u>1,493,000</u>	<u>2,000,000</u>
Trading result	<u>(1,136,729)</u>	<u>(1,213,345)</u>	<u>50,000</u>

Exploration Expenditure

Pegmont deposit – geology & general	64,411	96,700	200,000
– metallurgy	50,000	50,000	50,000
Pegmont regional	95,521	127,300	300,000
New Hope- exploration	13,340	18,930	45,000
Other	<u>1,550</u>	<u>1,950</u>	<u>5,000</u>
Exploration expenditure	<u>224,822</u>	<u>294,880</u>	<u>600,000</u>

Corporate Expenditure

Administration	24,758	71,153	365,000
Directors' & Secretary fees	88,750	177,500	335,000
Working Capital	1,023,723	1,023,723	-
Share Investments	<u>(1,573,931)</u>	<u>(2,384,835)</u>	<u>(1,250,000)</u>
	<u>(436,700)</u>	<u>(1,112,459)</u>	<u>550,000</u>
Net Cash Surplus/ (Deficit)	<u>(924,851)</u>	<u>(395,766)</u>	-
Add opening cash balances.	<u>1,543,414</u>	<u>1,014,329</u>	<u>1,014,329</u>
Closing Cash Balances.	<u>618,563</u>	<u>618,563</u>	<u>1,014,329</u>

Share losses were realised during the quarter in order to build cash, reduce risk and to concentrate investments on existing producers with greater market liquidity. Our aim is to recoup share trading losses during the second half of the year.

We look forward to the challenging period ahead.

Yours faithfully,



M. A. Mayger
Managing Director