

Pegmont Mines Limited

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14 October 2010

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

Dear Sir,

Quarterly Activity Report to 30 September 2010

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

1. Summary

- **The Net Share Trading Result** was a profit of \$856,168 for the quarter compared to a profit of \$1,358,972 for the Sept'09 quarter. Net trading loss after provisions for the nine months to September '10 total \$381,198. Interest and other income received during the quarter was \$35,144. This result arose from better market conditions during the quarter arising from higher metal prices and more positive news from the resource sector.
- **Exploration** cash expenditure during the quarter totalled \$380,634 which comprised further detailed mapping and rock chip sampling and drilling expenditure of \$119,075 for a 1440 metre drill program which was completed in late June. Nine month expenditure was \$675,514. Administration expenses were \$113,508 during the quarter and \$362,161 for the nine months to 30/9/10.
- **The cash position** was \$2,261,592 at 30 September 2010 which together with listed shares at market value of \$1,029,379 share sale transactions settled in October amounting to \$837,819 resulted in liquid assets at market of \$4,128,790 or 8.1c/share compared to \$3,644,251 at 30 June 2010. 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. Mineralisation was intersected at Pegmont but not at Frank's Find or Frank's Find West prospects.

2.1 Pegmont Exploration Program – Mining Leases

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 were run during August to resolve this matter and defined additional targets and limits to mineralisation. Based on these results it was decided to undertake an additional 40 hole program on a 50x50m grid program totalling 2,500 metres.

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

Assay results will be reported separately when received.

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 intersected.

2.4 EPM 17053

Four holes were drilled on the Mort River Prospect (Sc7). However, no mineralisation was observed but assay results did indicate a few anomalous rare earth values which will be followed up.

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 availability.

3. Investment Activities

The Net Share Trading result for the three months to 30 September 2010 was a profit of \$856,168 and \$381,198 loss for the nine months to date after allowing for the changes in the provisions for diminution in value of quoted and non quoted shares. We anticipate making further trading profits during the final three months of this year, subject to unforeseen market conditions.

| Shares Traded | Sept Quarter 2010 \$000 | Nine Months to Sept 2010 \$000 | Nine Months To Sept 2009 \$000 | Year Budget 2010 \$000 | Revised Estimate 2010 \$000 |
|--|----------------------------------|---|---|---------------------------------|--------------------------------------|
| Proceeds | 7,473 | 15,910 | 16,905 | 15,000 | 21,500 |
| Cost | 7,597 | 18,764 | 15,250 | 13,500 | 24,000 |
| Profits | 657 | 1,133 | 2,647 | 2,500 | 1,500 |
| Losses | (781) | (3,987) | (992) | (1,000) | (4,000) |
| Trading Profit/(Loss) | <u>(124)</u> | <u>(2,854)</u> | <u>1,655</u> | <u>1,500</u> | <u>(2,500)</u> |
| Net Provision- Profit/ (Loss) | <u>980</u> | <u>2,473</u> | <u>1,140</u> | <u>500</u> | <u>2,500</u> |
| Net Trading Profit After provisions | <u>856</u> | <u>(381)</u> | <u>2,795</u> | <u>2,000</u> | <u>NIL</u> |

The Stock market continues to be extremely volatile attributed mainly to instability of overseas markets. Share trading profits were derived during the quarter from mining producers or near producers with the exception of one exploration company with encouraging drilling results. We remain cautious, holding a high level of cash.

4. Income and Expenditure (cash basis)

| Income Received | Sept Quarter | Nine Months to Sept' 2010 | Revised Estimate 2010 |
|-------------------------------------|-----------------|------------------------------|-----------------------------|
| | \$ | \$ | \$ |
| Interest | 26,706 | 41,867 | 50,000 |
| Net Profit (Loss) on sale of shares | (123,794) | (2,854,355) | (2,500,000) |
| Other Income | <u>640</u> | <u>17,928</u> | <u>20,000</u> |
| | (88,650) | (2,795,190) | (2,430,000) |
| Add: Write back of provisions | <u>979,962</u> | <u>2,473,157</u> | <u>2,500,000</u> |
| Trading result | <u>891,312</u> | <u>(322,033)</u> | <u>70,000</u> |

Exploration Expenditure

| | | | |
|--------------------------------------|----------------|----------------|----------------|
| Pegmont deposit – geology & drilling | 139,255 | 235,955 | 450,000 |
| – metallurgy | - | 50,000 | 50,000 |
| Pegmont regional | 221,920 | 349,220 | 400,000 |
| New Hope- exploration | 19,029 | 37,959 | 45,000 |
| Other | <u>430</u> | <u>2,380</u> | <u>5,000</u> |
| Exploration expenditure | <u>380,634</u> | <u>675,514</u> | <u>950,000</u> |

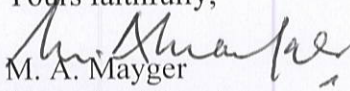
Corporate Expenditure

| | | | |
|-------------------------------|--------------------|--------------------|--------------------|
| Administration | 60,487 | 131,640 | 245,000 |
| Directors' & Secretary fees | 76,250 | 253,750 | 355,000 |
| Working Capital | 837,819 | 837,819 | - |
| Share Investments | <u>(2,106,907)</u> | <u>(3,467,719)</u> | <u>(2,480,000)</u> |
| | (1,132,551) | (2,244,810) | (1,880,000) |
| Net Cash Surplus/ (Deficit) | 1,643,029 | 1,247,263 | 1,000,000 |
| Add opening cash balances. | <u>618,563</u> | <u>1,014,329</u> | <u>1,014,329</u> |
| Closing Cash Balances. | <u>2,261,592</u> | <u>2,261,592</u> | <u>2,014,329</u> |

Share trading results are becoming more predictable as the portfolio is restructured towards holding more liquid major resource positions, albeit with lower margin potential.

We look forward to the challenging period ahead.

Yours faithfully,


M. A. Mayger
Managing Director