

Pegmont Mines Limited

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31 January 2011

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

Dear Sir,

Quarterly Activity Report to 31 December 2010

We submit the following report for Pegmont Mines Limited for the three months to 31 December 2010. The financial information provided is unaudited.

1. Summary

- **The Net Share Trading Result** was a profit of \$624,954 for the quarter. Net trading profit after provisions for the twelve months amounted to \$243,756. Interest and dividends received during the quarter were \$27,039 and \$79,757 for the twelve months. Other income was NIL for the quarter and \$17,298 for the twelve months.
- **Exploration** cash expenditure totalled \$430,875 for the quarter which comprised further detailed mapping and rock chip sampling and drilling of a 2,937 metre drill program which was completed in November (refer to separate announcement dated 13 December 2010). Twelve month expenditure was \$1,061,127 including 4,377 metres of RC drilling.
- **The cash position** was \$2,148,476 at 31 December 2010 which together with listed shares at market value of \$1,876,045 resulted in liquid assets at market of \$4,024,521 or 7.8c/share. 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 Deposit-Exploration Program

A drilling program was carried out at Pegmont South to test for extensions to the shallow oxidised lead-zinc mineralisation. An initial ten hole program (PMR 194-203) was drilled in June 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, an additional 47 hole program on a 50x50m grid program totalling 2,937 metres was completed in October on the Pegmont leases and adjacent EPM 15106.

The drilling confirmed an appreciable area of consistently shallow lead-zinc mineralisation, possibly in two en-echelon basins giving a combined area of about 650m by 200m. Drill results of this program were reported on 13 December 2010.

Final compilation of data from 381 holes totalling 40,409 metres drilled into the Pegmont lead-zinc mineralisation including results from the recent drill program should be completed shortly. It is expected that this study will result in a maiden estimate of JORC indicated and inferred resources and will be reported when it comes to hand.

This report is a major milestone which provides the basis for the commencement of feasibility work, including metallurgy, to assess the factors determining possible commercialisation of the Pegmont lead-zinc deposit. A review of the current carrying value of \$3.0 million for the Pegmont Project could be made, when the review is completed.

2.2 Pegmont extended

Systematic prospecting, mapping and sampling is ongoing in EPM 15106 within and east of the Pegmont leases, working south from the contact of the Squirrel Hills Granite and Formation metasediments. Rock chip samples from north-west of Pegmont returned several anomalous gold values of up to 1.13ppm associated with a gossanous breccia, but the prospective areas are yet to be mapped in detail. This prospect is called Eagle's Nest. It may be drilled tested during 2011.

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

No further work was undertaken during the quarter.

2.4 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. However a drill-out program of seventeen holes is planned for 2011 which could then enable an initial JORC compliant resource estimate of gold-cobalt mineralisation to be calculated.

3. Investment Activities

Investment Activity Summary

Shares Traded	December Quarter 2010 \$000	Year Actual 2010 \$000	Previous Estimate 2010 \$000
Proceeds	2,750	18,660	21,500
Cost	2,230	20,994	24,000
Profits	567	1,700	1,500
Losses	(47)	(4,034)	(4,000)
Trading Profit/(Loss)	520	(2,334)	(2,500)
Net Provision- Profit/ (Loss)	105	2,578	2,500
Net Trading Profit After provisions	625	244	NIL

The All Ordinaries Index firmed 4.5% during the quarter to close at 4846.9 at 31 December 2010 on the back of the improving US economy, higher corporate profits and firm commodity prices for gold, coal, iron ore and base metals.

The outlook for 2011 is positive for the World Economy which should result in continuing demand for metal commodities. However demand pressure for gold may weaken as currency values stabilise. The ongoing mineral exploration boom will continue to uncover new deposits and provide investment opportunities.

4. Income and Expenditure (cash basis)

Income Received	Dec 2010 Quarter	Year Ended 2010
	\$	\$
Interest & Dividends	27,039	79,757
Net Profit (Loss) on sale of shares	519,826	(2,334,429)
Other Income	-	17,298
	<u>546,865</u>	<u>(2,237,374)</u>
Add: Write back of provisions	<u>105,128</u>	<u>2,578,185</u>
Trading result	<u>651,993</u>	<u>340,811</u>

Exploration Expenditure

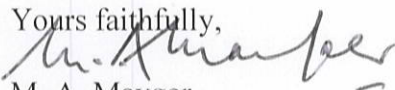
Pegmont deposit – geology & drilling	264,942	501,038
Pegmont regional	142,367	495,442
New Hope- exploration	23,185	62,061
Other	<u>381</u>	<u>2,586</u>
Exploration expenditure	<u>430,875</u>	<u>1,061,127</u>

Corporate Expenditure

Administration	53,093	184,783
Directors' & Secretary fees	101,250	355,000
Working Capital	48,292	48,292
Share Investments	<u>131,599</u>	<u>(2,442,538)</u>
	<u>334,234</u>	<u>(1,854,463)</u>
Net Cash Surplus/ (Deficit)	(113,116)	1,134,147
Add opening cash balances.	<u>2,261,592</u>	<u>1,014,329</u>
Closing Cash Balances.	<u>2,148,476</u>	<u>2,148,476</u>

Share trading profits during the quarter covered both exploration and administration expenditures. However, the Trading Result for the year was badly affected by the first half year loss of \$1,237,366 due mainly to the Federal Government's resource rent tax proposals. The political risk of this tax does create a challenging period ahead.

Yours faithfully,


M. A. Mayger
Managing Director