

# Pegmont Mines Limited

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19 April 2011

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

Dear Sir,

## Quarterly Activity Report to 31 March 2011

We submit the following report for Pegmont Mines Limited for the three months to 31 March 2011.

### 1. Summary

- Pre-tax share trading loss was \$325,815 for the quarter compared to a loss of \$167,627 for the March 2010 quarter. Interest and other income received during the quarter totalled \$22,716.
- The cash position was \$1,712,131 at 31 March 2011 which together with listed shares at market value of \$1,749,272 resulted in liquid assets at market of \$3,461,403 or 6.7c/share compared to \$4,021,870 or 7.8c/share at 31 December 2010. The company does not have any borrowings.
- Field activity was not undertaken due to wet monsoonal conditions prevailing making access impossible. However, Resource Studies on the Pegmont lead-zinc deposit were completed which resulted in a maiden JORC compliant resource of 8.85Mt @ 5% Pb+Zn of Indicated and Inferred Resources at 3% (Pb+Zn) cutoff.
- A 3,000 – 4,000 metre drill program is planned to commence mid-May concentrating on the New Hope and Pegmont Mining Leases.

## 2. Investment Activities

Share trading results were very disappointing, caused by high volatility and market uncertainty. The explorers from Kalgoorlie to Northern Territory have been affected by the heavy and protracted "Monsoon Wet". The All-Ordinaries index stood at 4882.7 on 31 December 2010; peaked at 4981.2 on 11 January'11, then subsequently declined to a low of 4520.7 on 9 February only to regain 4893.1 on 31 March'11 for a net gain of 10.4 points or 0.2% for the quarter. As this recovery was confined to the "leaders" many issues were left at their low point. Hence, our trading strategy is to reduce second rank positions.

### Investment Activity Summary

Shares Traded	March Quarter 2011 \$000	March Quarter 2010 \$000	Budget Year 2011 \$000
Proceeds	2,462	3,250	15,000
Cost	2,584	3,693	13,000
Profits	61	309	3,000
Losses	(183)	(781)	1,000
Trading Profit/ (Loss)	(122)	(472)	2,000
Net Provision- Profit/ (Loss)	(203)	304	-
<b>Net Trading result</b>	<b>(325)</b>	<b>(168)</b>	<b>2,000</b>

Although trading losses declined, several long held positions (from 2008) continued to remain under pressure and required increased provisions for market movement. Our challenge is to achieve budget trading profits for the year.

## 3. Exploration Activity

The main emphasis of work was to complete compilation of geological data on the Pegmont Deposit since discovery in 1992. This work resulted in a resource estimate by J M Geological Consulting Pty Ltd (JMAC) and checked by Hellman and Schofield Pty Ltd who produced comparable tonnes and grade at the same Pb+Zn% cut-offs using data and geological interpretation of the mineralisation supplied by JMAC. This Summary of Resource Estimation Report was announced on 24 January 2011.

The estimation of total **Indicated and Inferred Resources** varies between 5.79Mt of 5.7% Pb+Zn to 13.3Mt of 4.1% Pb+Zn depending upon cut-off grade (ie at 4% and 2% respectively). The Report mentioned that there was additional **Mineralised Potential** at Pegmont of between 9 and 15Mt at between 4.0% and 5.5% combined Pb+Zn at a 3% Pb+Zn cut-off. This Mineralised Potential has had insufficient exploration to define a Mineral Resource. Infill drilling is required to further define this mineralisation, but it is uncertain that such drilling will convert this to a Mineral Resource.



Since this Report, further studies have resulted in a “**Conceptual Pit Report**” based on a 2% Pb+Zn cut-off which resulted in a reasonable strip ratio (S/R) of about 6/1. Also adjacent to the resource tonnage there are a number of Target Area Locations which indicate a **Potential Target Tonnage of 16Mt – 25.5Mt (including Mineralised Potential)**. However it should be noted that this “Potential Target Tonnage” is conceptual in nature and it is uncertain if exploration will result in a determination of a Mineral Resource.

However, these studies are essential for drill targeting the Pegmont deposit despite uncertainties of outcome. A program of some 20,000 metres of infill drilling will be required over the next 2-3 years to support the above estimates. Nevertheless, the potential for additional tonnage is significant which suggests a large intrinsic upside value attaching to the deposit.

The upcoming drill program, commencing mid-May will include an infill drill program of seventeen (17) holes into the **New Hope gold-cobalt deposit**, a hole into each of **MMA** (Cu-Mo) and **Emu** (Cu-Au) and 1,000 – 2,000 metres into Pegmont (Pb-Zn). Depending upon results of shareholder response to the forthcoming rights issue (details are yet to be announced) a follow up drill program at Pegmont may commence during September.

An extensive metallurgical program to test the metallurgical recoveries of Pegmont’s oxide, intermediate and sulphide mineralisation is expected to commence during May.

EPMs 14491 and 15106 expire in August 2011. Application for their renewal will be made by 31 May 2011.

#### 4. Income and Expenditure (cash basis)

Income Received	March Quarter	Year to date 2011	Budget 2011
	\$	\$	\$
Interest	5,716	5,716	80,000
Net Profit (Loss) on sale of shares	(122,340)	(122,340)	2,000,000
Other Income	17,000	17,000	20,000
	(99,624)	(99,624)	2,100,000
Add: Increase in provisions	(203,475)	(203,475)	-
Trading result	(303,099)	(303,099)	2,100,000

	<b>March Quarter</b>	<b>Year to date 2011</b>	<b>Budget 2011</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Exploration Expenditure</b>			
Pegmont deposit – geology & drilling	38,193	38,193	250,000
– metallurgy	-	-	500,000
Pegmont regional	24,401	24,401	99,000
New Hope- Exploration	12,025	12,025	450,000
Other	<u>558</u>	<u>558</u>	<u>2,000</u>
Exploration expenditure	<u>75,177</u>	<u>75,177</u>	<u>1,300,000</u>
<b>Corporate Expenditure</b>			
Administration	46,911	46,911	309,500
Directors' & Secretary fees	97,625	97,625	390,500
Share Investments	<u>(85,471)</u>	<u>(85,471)</u>	-
	<u>59,065</u>	<u>59,065</u>	<u>700,000</u>
Net Cash Surplus/ (Deficit)	(437,341)	(437,341)	100,000
Add Opening cash balances.	<u>2,149,472</u>	<u>2,149,472</u>	<u>2,149,472</u>
<b>Closing Cash Balances.</b>	<b><u>1,712,131</u></b>	<b><u>1,712,131</u></b>	<b><u>2,249,472</u></b>

### Summary

Trading losses were realised during the quarter. However, we are confident of recouping them during the year. Arising from Resource Studies undertaken at Pegmont, there is increased awareness of its potential to host greater tonnage due to its shallow easterly dip to at least 350 metres depth.

For further information we have prepared an "Investor Presentation April 2011" of some 22 pages which will be posted on our website and lodged with the National Stock Exchange of Australia.

We look forward to a very exciting period ahead.

Yours faithfully,



M. A. Mayger  
Managing Director