

Pegmont Mines Limited

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27 January 2012

The Manager
National Stock Exchange of Australia
384 Hunter Street
Newcastle NSW 230

Dear Sir,

Quarterly Activity Report to 31 December 2011

We are pleased to report upon the quarterly activities of Pegmont Mines Limited to 31 December 2011.

1. Summary

- Completion of a one-for-four entitlement issue at 10 cents per share which raised approximately \$856,000 prior to expenses. The shortfall was 4,391,021 shares which directors have the ability to place with professional investors at not less than 10 cents each before 5 February 2012. This issue increases issued capital to 60,373,722 shares.
- The cash position was \$1,807,001 at 31 December 2011 which together with listed shares at market value \$163,095 resulted in liquid assets at market of \$1,970,096 or 3.2c/share.
- Pre-Tax Share Trading loss was \$42,545 for the quarter resulting from further provisions against trading positions held at year end.
- Exploration activities included five (5) shallow RC / core holes at **New Hope**, together with ongoing metallurgical test work of gold-cobalt mineralisation and check fire-screen assaying of all mineralised intersections. The results of this work program will be used to estimate preliminary JORC compliant resources at New Hope.
- A geological review of the **Pegmont lead-zinc deposit** and surrounding area is being undertaken by an independent geological consultant with the objective of determining the next phase of drilling. EPM 18347 has been offered to the Company for grant.
- Encouraging copper and copper-cobalt discoveries continue to be announced by CST Mining Group Limited from the **Reefway Royalty Tenements**, north of Mount Isa, in which the Company has 76.73% royalty interest.

2. Exploration Activity

At **New Hope** a follow up program of 5 holes totalling 370 metres, including 250 metres of HQ drill core was completed, targeted at the shallow (30-60 metre depth) high grade supergene zone. The core provided bulk density and geotechnical information. Also, some 150 samples with gold assay values above 0.2 g/t were check assayed using the screen fire technique. Such results, when received, will be used to compute JORC compliant resource estimates to be included in a scoping study for possible open-pit operations.

Metallurgical test work on **New Hope** mineralised samples is ongoing to evaluate possible cobalt recovery from the complex mineralogy. To date, pilot plant recoveries have not replicated promising bench scale results. Test work is continuing.

A first pass rock chip sampling program was undertaken on **EPM 17052**. Assay results were not encouraging.

A geological review of the **Pegmont lead-zinc deposit** and surrounding area is being undertaken by an independent geological consultant with the objective of recommending the next phase of drilling and evaluation work.

A major Induced Polarisation (IP) anomaly of some 400m by 1000m in size associated with the **Sharry Fault** lying about 500 metres north of Mount Lucas provides a major drill target. The source of this anomaly is not known, but it could represent a large disseminated sulphide body enclosing a smaller but massive sulphide zone at around 300 metre depth. Lead-zinc mineralisation outcrops to the north of the Sharry Fault (**Northern Lodes**) and also to the north-east (**Bonanza Anomaly**). This area provides an attractive target for a new mineralised system.

EPMA 18347 has been offered to the Company for grant. It contains “**The Irishman**” copper-gold prospect north of the Lightning Creek Anomaly. Rock chip sampling and mapping will be undertaken upon grant of the tenement.

3. Reefway Royalty Tenements (Pegmont 76.73% royalty interest)

The current owner and operator of the Reefway Royalty Tenements, CST Mining Group Limited (CST Mining) announced on 4 January 2012 a **New Discovery of Anthill West Deposit** within EMP 16244 (which consolidates a number of Reefway Royalty Tenements). This announcement highlighted the following:

- “The discovery of a new zone of mineralisation to the west of the **Anthill Deposit**
- Drill intercepts include 10m @ 14.29% Cu from 80m
- Drilling has confirmed a target strike length in excess of 700 metres
- Multiple significant intercepts of copper oxide mineralisation over broad widths of greater than 1% copper
- This new mineralised zone has the potential to significantly increase the Mineral Resource for the Anthill Deposit”

The new mineralised zone lies 250 metres west of the current Global Inferred and Indicated Copper Mineral Resource Estimate of the **Anthill Deposit of 6.5Mt at 0.86% copper for 55,900 tonnes of contained copper metal**. CST Mining has indicated a Mineral Resource Target of 6-8Mt @ 0.7-1.5%Cu for the **Anthill West** prospect. It remains open to the north-west, south and south-east

along strike and open at depth for sulphide mineralisation potential. This is regarded as a good discovery with a lot of upside on Buckley River. We understand that CST Mining intends to lodge for a mining lease shortly.

It should be noted that copper mineralisation at **Anthill and Anthill West** is additional to recently announced copper mineralisation discoveries at Lady Colleen and Mount Clarke West pit within the mining leases at **Mount Clarke** which supply ore to the Lady Annie Operations.

The Reefway Royalty only applies after 100,000 tonnes of copper has been recovered from the Reefway Royalty Tenements. Copper cathode production totalled 25,392 tonnes to 30 September 2011.

4. Share Trading Activities

The Net Trading result for the three months to 31 December 2011 was a loss of \$42,545 and \$1,026,178 for the year after adjusting for provision for loss on quoted and non-quoted shares.

Shares Traded	December Quarter 2011 \$'000	Year to December 2011 \$'000	Budget 2011 \$'000
Proceeds	1,047	7,235	20,000
Cost	1,911	10,087	18,000
Profits	53	219	2,500
Losses	(917)	(3,071)	(500)
Realised Profit/(Loss)	(864)	(2,852)	2000
Net Provision	822	1,826	-
Net Trading Profit/(Loss)	(42)	(1,026)	2,000

The Net Trading loss of \$1,026,178 (after provisions) was very disappointing. This loss was made up of several large individual losses (mainly from legacy positions carried forward from prior years) which continued to degrade. The heavy realised losses resulted from the liquidation of most positions in the trading portfolio in order to limit risk exposure. The conclusion to draw from this result is not to carry "investment type positions" in a Bear Market. Since the stockmarket continues to remain unpredictable and subject to unexpected reversals, the Company has limited trading in favour of a high liquidity position.

5. Corporate

Efforts to increase the shareholder base were successful through a series of off market sales by a major shareholder and subsequent subscriptions to our one-for-four entitlement issue which raised \$856,000. Shareholders now total 266 which places the Company in an easier position to list on the ASX in the future.

6. Income and Expenditure (cash basis)

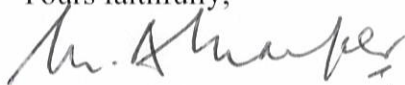
Income Received	December 2011 Quarter \$	Year Ended 2011 \$
Interest/Dividends	17,021	66,084
Net profit (Loss) on sale of shares	(863,981)	(2,852,275)
Other Income	-	17,740
	(846,960)	(2,768,451)
Add: Write back of provisions	821,436	1,826,097
Trading Result	(25,524)	(942,354)
Entitlement Issue Funds (net)	821,985	821,985
Exploration Expenditure		
Pegmont Deposit - geology and general	25,113	196,134
- metallurgy	-	90,909
Pegmont Regional - geology and drilling	95,338	326,115
New Hope - geology and drilling	238,349	583,685
- metallurgy	45,454	90,908
Other	1,660	2,927
Exploration Expenditure	405,914	1,290,678
Corporate Expenditure		
Administration	104,697	278,165
Directors & Secretary Fees	179,675	467,050
Share Investment/(Decrease)	(412,893)	(1,813,791)
	(128,521)	(1,068,576)
Net Cash Surplus/(Deficit)	519,068	(342,471)
Add: Opening Cash Balances	1,287,933	2,149,472
Closing Cash Balances	1,807,001	1,807,001

Summary

The Company made excellent progress during 2011 in advancing its two main projects - the Pegmont lead-zinc deposit and the New Hope gold-cobalt deposit by resource drilling and metallurgical test work. Data compilation and assessment studies at New Hope should be completed within the March quarter of this year.

2012 promise's challenging and interesting times. Please maintain your interest by regularly checking our website at www.pegmont.com.au for news updates.

Yours faithfully,



Malcolm A. Mayger
Managing Director