

Pegmont Mines Limited

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27 April 2012

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

Dear Sir,

Quarterly Activity Report to 31 March 2012

We submit the following activity report for Pegmont Mines Limited for the three months ending 31 March 2012.

1. Summary

- Field Activity commenced on 30 March with a drill program at the Bonanza Anomaly prospect, to be followed by drilling at the Sharpy Fault prospect as outlined in our announcement on 29 February 2012.
- Share trading activity was limited due to unpredictable volatility and lack lustre performance of leading resource equities. Completed transactions resulted in a profit of \$22,184, offset by a provision for diminution of portfolio market value of \$24,241, resulting in a net trading loss of \$2,057.
- The cash position was \$1,398,113 at 31 March 2012 which together with listed shares at market value of \$540,725 resulted in liquid assets at market of \$1,938,838 or 3.1c per share, compared to \$1,970,096 or 3.2c per share at 31 December 2011.
- A maiden JORC compliant resource estimate has been completed at the **New Hope gold-cobalt deposit** in ML 2487. The resource estimate is 93,239 tonnes assaying 6.79 g/t gold and 0.18% cobalt.

2. Exploration Activity

The main emphasis of work during the quarter was to complete the compilation of **New Hope** geological and assay data including the assaying of all results above 0.5 g/t by screen fire methods involving 237 samples. Of these 237 samples, the average weighted grade dropped from 17.2 g/t Au for the standard assay to 16.4 g/t for SFAs, a reduction of 4.9%. This work provided the assay base for Resource estimation by J M Geological Consulting Pty Ltd.

A combination RC and Diamond core drill program of 1235 metres commenced on 30 March 2012 including four holes (594 metres) into the lead-zinc **Bonanza Anomaly** and two holes (641 metres) into the **Sharry Fault IP Anomaly**. This program was completed on 24 April without intersecting any visible sign of mineralisation. RC and core sampling together with down hole logging have yet to commence. Four holes have been cased for down hole geophysical survey and possible re-entry at a later date. Selected drill samples will be comprehensively assayed.

EPMs 14491 and 15106 expired 10 August 2011. Also MLs 2620, 2621, 2623 expired on 31 January 2012. Applications for renewal of these tenements have been made. Since conditions for renewal of all these tenements have been met, the company is allowed to continue exploration activities on the tenements until the formal process of their renewal has been completed.

EPM 18347 was granted on 7 February 2012 for a five (5) year period. This tenement covers a copper-gold prospect call "**Irishman**". Rock chip sampling there indicates an extensive anomaly and an advanced drill target.

The increasingly restrictive imposition of environmental and native title requirements may be well-intentioned but has a stifling effect on early stage exploration. This means that the grant of exploration applications (Including our own EPM 18347) can take up to three years instead of six months previously. Furthermore, non-productive compliance reports absorbs increasing work time. Consequently, an increasing back log of 'work' within most departments causes delays and reduced productivity. Hopefully, the new state government in Queensland will review the process.

3. Exploration Assets

A JORC compliant maiden resource estimate for the **New Hope gold-cobalt deposit** was prepared by Mr James McIlwraith on 17 April 2012. At 1g/t gold cut-off grade, the resource estimate is as follows:

New Hope Resource Estimate					
<u>Category</u>	<u>Tonnes</u>	<u>Au g/t</u>	<u>Au oz</u>	<u>Co%</u>	<u>Co Tonnes</u>
Measured	27,487	7.37	6514	0.22	60
Indicated	55,923	6.49	11670	0.17	95
Inferred	9,829	6.9	2187	0.2	16
Total Resource	93,239	6.8	20371	0.2	171

Mr James McIlwraith of J M Geological Consulting Pty Ltd has consented to the inclusion of this Resources estimate of the New Hope gold-cobalt deposit in this report. Mr James McIlwraith is a

consultant to the company and has sufficient experience to qualify as a competent person as defined in the 2004 Edition of the Australasian Code of Reporting of Exploration results.

Metallurgical testing has indicated a possible recovery of approximately 95% for gold and 30-36% for cobalt. Test work is continuing to develop processes to enhance cobalt recoveries. Preliminary studies on open-cut and underground mining economics have commenced to evaluate alternative courses of possible development.

4. Investment Activities

Net Trading result for the three months to 31 March 2012 was a loss of \$2,057 (loss \$325,815 – March 2011), after allowing for increase in the provision for loss on quoted shares of \$24,241 (\$203,475 – March 2011).

Investment Activity Summary

Shares Traded	March Quarter 2012 \$'000	March Quarter 2011 \$'000	Budget Year 2012 \$'000	Revised Budget 2012 \$'000
Proceeds	665	2,462	10,000	5,000
Cost	643	2,584	9,000	4,500
Profits	22	61	1,000	600
Losses	-	(183)	-	(100)
Realised Profit/(Loss)	22	(122)	1,000	500
Net Provision	(24)	(203)	-	-
Net Trading Profit/(Loss)	(2)	(325)	1,000	500

Although the broad All Ordinary index increased by 7.5% during the quarter to 31 March 2012; BHP, representing the resource sector, gained only 0.5%. Thus, it would appear that the combination of declining commodity prices, high Aussie dollar, a carbon tax and the MRRT are continuing to reduce investor interest in resource investments. Accordingly, we have revised the budgeted Net Trading result down from \$1,000,000 to \$500,000 for the year.

5. Budget Review

Upon reviewing the first quarter results to 31 March 2012 we have reviewed the budget of the company for the remainder of the year. This review has resulted in a downward estimate of the sharetrading result by \$500,000, a reduction of \$366,000 in exploration and a reduction of \$168,000 in administration expense. This revision of both income and expenditures attempts to reflect current market conditions affecting the Company.

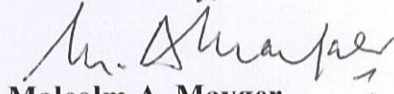
6. Income and Expenditure (cash basis)

Income Received	March 2012 Quarter \$	Revised Budget 2012 \$
Interest/Dividends	13,997	50,000
Net profit (Loss) on sale of shares	22,184	500,000
	<hr/> 36,181	<hr/> 550,000
Add: Increased provisions market value	(24,241)	(24,241)
Net Income from investing activities	<hr/> 11,940	<hr/> 525,759
Placement of Short Fall Entitlement Issue funds received (net)	<u>215,000</u>	<u>215,000</u>
Exploration Expenditure		
Pegmont Deposit - geology and general	26,780	150,000
- metallurgy	-	50,000
Pegmont Regional - geology and drilling	70,063	300,000
New Hope - geology and reports	12,892	100,000
- metallurgy	-	20,000
Other	<hr/> 4,369	<hr/> 14,000
Exploration Expenditure	<hr/> 114,104	<hr/> 634,000
Corporate Expenditure		
Administration	62,363	232,000
Directors & Secretary Fees	90,025	300,000
Share Investment/(Decrease)	373,968	369,336
	<hr/> 526,356	<hr/> 901,336
Net Cash Surplus/(Deficit)	(413,520)	(794,577)
Add: Opening Cash Balances	1,807,001	1,807,001
Closing Cash Balances	<u>1,398,113</u>	<u>1,012,424</u>

Summary

The Company has achieved the first stage assessment of the Pegmont and New Hope deposits by completing a maiden resource estimation on both projects. Future activities will focus on incremental resource expansion and commercial optimisation.

Yours faithfully,



Malcolm A. Mayger
Managing Director