

PEGMONT MINES LIMITED

CHAIRMAN'S ADDRESS

16TH ANNUAL GENERAL MEETING

2 May 2012

Welcome to the 16th Annual General Meeting of Pegmont. I know that you have read the Annual Report so I won't cover the same ground again, but I will briefly comment on the 2011 year before we address more recent events and discuss the future.

As outlined in the Annual Report, the 2011 year was a difficult year for the company from a financial standpoint but it was also year in which considerable progress was made. We made a trading loss of \$997,000 and a consolidated net loss of \$3 million, but the largest component of that loss was a write-off of all exploration expenses as is our policy. We moved forward on the development of our Pegmont and New Hope projects which we will discuss later. The prospects for the Reefway Royalty tenements have improved significantly as a result of very promising exploration success which may lead to royalty payments and an income stream for the company. And we completed the year through a successful rights issue to increase our shareholder spread to 269 members..

The difficulties we faced in 2011 reminded us of the volatile world in which we live and that nothing can be taken for granted. We have cleared the decks for the future but are under no illusions that the way ahead will always be smooth sailing.

CURRENT ACTIVITIES

Our Quarterly Activity Report for the first quarter of 2012 has just been released but you would have not yet received it in the mail so I will cover it in more detail. Copies are available. We had a small positive result from investing activities but this was more than offset by write-offs of exploration and administrative expenditure for a negative net cash flow of \$230,000, which was as expected. We had \$1.938 million in liquid assets at the end of March.

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 6.8 grams per tonne gold and 0.2% cobalt. This estimate is based on

237 screen fire assays with the average grade of 16.4 grams per tonne. The calculation of this JORC resource is an important step on the path to the development of New Hope deposit. Already we have commenced optimisation studies as to whether it should be developed by open cut or decline or by a vertical shaft.

The most recent activity was our drilling programme in the Pegmont project area which commenced on 30 March and which has just been completed. Four holes were drilled at the Bonanza prospect and two holes into the Sharpy Fault for a total of 804 meters of RC and 431 meters of core drilling. Evaluation of results is in its preliminary stages but no significant mineralization has been recognized.

The Bonanza Prospect was recognized as a ground magnetic anomaly with a BIF signature under Mesozoic cover. Previously, BHP identified IP and EM targets and drilled one hole which was barren. Norths sited four holes on the magnetic anomaly, three of which intersected mineralized BIF, which was interpreted as being structurally complex.

We drilled three holes on the Bonanza North anomaly. No BIF material was recognized in these holes although garnetiferous rocks which typically occur as selvages to mineralization were present in two of the holes. A fourth hole was drilled to scissor the earlier BHP hole which was interpreted to have stopped short of the source of the EM anomaly. This hole intersected 33 m of granite as well as metasediments under Mesozoic siltstone. There was no obvious source for the EM anomaly. In summary, drilling has been unable to explain magnetic and other geophysical anomalies that exist at the Bonanza Anomaly prospect.

Interpretation of the Sharpy Fault IP anomaly identified a well defined drill target at 200 m below surface, extending laterally with depth. BHP previously drilled two unsuccessful holes within the target area which were considered as too shallow to test the anomaly. We first attempted a relatively shallow east-west hole into the top of the anomaly. Traces of alteration occurred on fractures but there was no obvious mineralization of note. The hole deviated considerably from its initial course but still should have hit the anomaly. The last hole was drilled south to north into the center of the anomaly to a downhole depth of 400m (350 m vertically). It intersected two faults but only traces of sulfide were recognized, generally as fracture coatings. The hole should have entered the core of the anomaly at about 250 m and reached its centre by 400 m. The last 10 metres intersected **pyrrhotite** (an alteration mineral containing sulphide) which provides encouragement for future analysis.

Although we recognized that this drilling carried a high degree of risk, expectations are always high before one starts and then disappointment sets in when no obvious mineralisation is found. We are now in the preliminary assessment stage and detailed logging, petrography, assaying and downhole EM surveys will be carried out in due course to attempt to better understand the

Bonanza Anomaly and the Sharry Fault IP Anomaly. These prospects present large and exciting targets. Their geology is complex and we clearly have more to learn about the area and the relationship between mineralization, structure and metasomatism.

THE FUTURE

We will continue to move forward over a number of fronts in 2012.

- The commencement of scoping studies to commercialise the New Hope deposit will be an important objective during the year.
- We need to move forward on Pegmont while avoiding the expenditure of large additional funds of our own money on the project. This is a large project which will require substantial additional expenditure to bring the project to fruition. While we wish to retain an interest in the potential of the project, we plan to bring in a partner to take on the future development of the project.
- Work will continue to assess the results of the recent drilling program to better understand the prospects for the area.
- We will follow the progress of exploration and development effort on the Reefway royalty tenements which could increase production and bring forward the day when we start to receive royalties from this asset.
- As outlined in the Quarterly report, we have taken steps to reduce expenditure in order to preserve our scarce working capital.
- We will move forward to a listing on the ASX when market conditions are appropriate and are progressively developing Prospectus material including Pegmont regional geological review, completion of maiden resource estimates on both the Pegmont lead-zinc deposit and the New Hope gold-cobalt deposit and commencement of a new phase of exploration for large structurally controlled deposits. Despite lack of obvious mineralisation, the recent drill program has caused us to reexamine previously held geological assumptions which can only be to our advantage.

A new year always brings challenges. Australia and the World may face many uncertainties at the present time but we remain optimistic about our prospects and look forward to the remainder of 2012.

On behalf of the board, I thank our employees, consultants, our shareholders and my fellow directors for their effort and support during the past year.

John M Armstrong
Chairman