

Pegmont Mines Limited

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

Dear Sir,

Quarterly Activity Report to 30 June 2012

We submit the following report for Pegmont Mines Limited for the three months ending 30 June 2012.

1. Summary

- Field Activity commenced on 30 March with a drill program at the Bonanza (Magnetic) Anomaly followed by deep drilling at the Sharry Fault Induced Polarisation (IP) geophysical anomaly, with no significant mineralisation intersected. Down hole Electromagnetic (EM) surveys were carried out on three holes with no indication of massive sulphide mineralisation in proximity to them.
- Bulk Sulphide Flotation test work on 170 kg sulphide composite from 24 Pegmont RC drill samples was successfully undertaken resulting in 43.6 kg of concentrate assaying 22.1% Pb, 7.9%Zn and 37.5 g/t Ag with resultant recoveries of 92.4% Pb, 93.5% Zn and 93.9% Ag. This was a very encouraging result. The bulk concentrate will be used as a pilot plant feed sample to be treated by the EcoTech process to produce commercial grade end products.
- Share trading activity continued to be limited because of unpredictable volatility arising from the Euro banking and sovereign debt crisis. Completed transactions resulted in a realised loss of \$142,515 due to a market sell down in resource stocks. This result was partially offset by a reduction in loss provision of \$12,414.
- The cash position was \$1,162,818 at 30 June 2012, which together with listed shares at market value of \$172,450 resulted in liquid assets at market value of \$1,335,268 or 2.1c per share, compared to \$1,938,838 or 3.1c per share at 31 March 2012. This cash reduction was mainly due to heavy expenditure on exploration of \$379,855 arising from drilling at the Bonanza and Sharry Fault IP anomalies.

2. Exploration Activity

Drilling of geophysical anomalies in the **Pegmont lead-zinc project** area was completed in April with a total of 804m RC and 431m NQ diamond drilling. Results were disappointing, with no significant mineralisation intersected. Downhole EM surveys were carried out on three of the holes with no indication of massive sulphide mineralisation in proximity to them.

The lack of mineralised intersections at the **Bonanza (Magnetic) Anomaly** was totally unexpected, as previous drilling had intersected mineralisation BIF with a best intersection of 5m of 3.7% Zn, 3.1% Pf at 176m vertical depth. The Bonanza Anomaly is obviously more structurally complex than previously thought.

The Sharpy Fault IP Anomaly was identified by the reprocessing of data from 2001 survey which indicated a well defined oval anomaly topping at about 200m below surface, extending laterally with depth; thus indicating a large disseminated sulphide target. Traces of Pyrite, Pyrrhotite and Chalcopyrite were noted on fractures in the drill core and some rare hydrothermal garnet, but no obvious mineralisation. Anomalous Fluorine values were steadily increasing in the last 10 metres of PMRD 260. Drilling was suspended at 400m, at the approximate centre of the anomaly. The hole was cased and capped for possible re-entry at a later date.

Petrological samples from both the Bonanza Anomaly and the Sharpy Fault IP Anomaly were despatched with results awaited.

During the quarter target generation by prospecting and rock chip sampling was also undertaken on the newly granted **EPM 18347** targeting gossans, breccias, surface secondary copper minerals and areas of alteration around the Irishman prospect. Assays have not yet been received.

Reconnaissance work will be extended into the central part of the EPM, where lineaments on satellite imagery may represent structurally favourable sites for mineralisation. Other field work will follow up on anomalous copper and gold values at prospect **SC-8** in **EPM 14491**.

3. Pegmont Metallurgical Test Work

Consideration will be given to additional metallurgical work, following the promising Bulk Sulphide Flotation test work on sulphide mineralisation. A composite sample of 172kg from 156 metres of RC chips from 24 holes was ground with balls in 3kg batches with flotation 17x10kg batch floats to make a bulk sulphide flotation concentrate with emphasis on recovery. No attempt was made to maximise the grade of the concentrate. The combined Pb + Zn concentrate grade was about 30% which made it ideal EcoTech feed because of the 8% sulphur grade. Average recoveries for Pb, Zn, Ag and S were all above 90%.

The bulk concentrate with a silver value of 37 g/t, produced from this flotation test work will be sufficient for a pilot plant campaign (20-40kg) using the EcoTechnology to recover commercially saleable end products, including silver, on site. The prospect of on site processing, using a nearby natural gas energy source could favourably alter the economics of the Pegmont project.

4. Reefway Royalty Tenements (Pegmont 76.7% interest)

CST Mining Group Limited, owner of the Reefway Royalty Tenements, announced on 17 July 2012 copper drilling results of up to 15.1m @ 9.57% Cu from 45m (oxide) from **Anthill** and 16.8m @ 3.28% Cu from 74.2m (oxide) from **Anthill West Prospect** within the Royalty Tenements. A Mining Lease application has been lodged by CST Mining with the Queensland Government over the Anthill and Anthill West deposits.

An initial Reserve Statement is pending on grant of the Mining Lease. A provisional time line for completion of environmental studies is March 2014. Development of a new production centre at Anthill and Anthill West prospects would enhance the eventual receipt of a royalty payment stream to the Company. Meanwhile CST Mining continues to increase copper cathode production at Mt Kelly.

5. Corporate Activities

Discussions with several parties potentially interested in the Pegmont project have commenced with the provision of information subject to a Confidentiality Agreement. Our goal is to reach an option agreement before the year end. However, at this stage, no certainty exists as to such an outcome.

Meanwhile exploration activities will be constrained to mapping and rock chip sampling on granted tenements for target generation.

6. Investment Activities

Net Trading loss for the three months to 30 June 2012 was \$130,101 resulting in a loss of \$132,158 for the six months; after allowing for an increase in provision for loss on quoted shares of \$11,827.

Investment Activity Summary

Shares Traded	June Quarter 2012 \$'000	Half Year to June 2012 \$'000	Half Year to June 2011 \$'000	Budget Year 2012 \$'000	Revised Budget 2012 \$'000
Proceeds	1,093	1,757	3,640	10,000	3,500
Cost	1,235	1,877	3,875	9,000	3,600
Profits	17	39	90	1,000	100
Losses	(159)	(159)	(325)	-	(200)
Realised Profit/(Loss)	(142)	(120)	(235)	1,000	(100)
Net Provision	12	(12)	(613)	-	-
Net Trading Profit/(Loss)	(130)	(132)	(848)	1,000	(100)

During the June quarter the All Ordinaries index declined 6.5% from 4420.0 (30/3) to 4135.5 (29/6) whereas BHP, representing the resource sector declined by 9.14% from \$34.61 to \$31.45. Many junior resource shares declined in excess of 30%, particularly during the panic sell out arising from the French and Greek election results. These external influences were exacerbated by falling commodity prices, high Aussie dollar, and implementation of the Carbon Tax. Defensive stocks, including real estate trusts, utilities and banks, all offering high yields, were bought up by investors, whereas junior miners and exploration stocks were dumped. Accordingly, we have further reduced our portfolio exposure and have become very circumspect about the market's future.

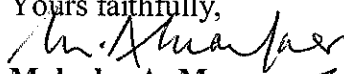
7. Income and Expenditure (cash basis)

Income Received	June 2012 Quarter \$	Half Year 2012 \$	Revised Budget 2012 \$
Interest/Dividends	18,052	32,057	50,000
Net profit (Loss) on sale of shares	(142,515)	(120,331)	(100,000)
Other Income	-	-	-
	(124,463)	(88,274)	(50,000)
Add: Increased provisions market value	12,414	(11,827)	-
Net Income from investing activities	(112,049)	(100,101)	(50,000)
Placement of Short Fall Entitlement Issue funds received (net)	-	215,000	215,000
Income Received	(112,049)	114,899	165,000
Exploration Expenditure			
Pegmont Deposit - Sharry Fault:			
- geology and drilling	186,227	213,007	263,000
- Metallurgy	18,182	18,181	68,000
Pegmont Regional - Bonanza:			
- geology and drilling	121,202	192,288	250,000
New Hope - geology and reports	53,744	66,636	66,636
- metallurgy	500	500	500
Other	-	4,369	11,864
Exploration Expenditure	379,855	494,981	660,000
Corporate Expenditure			
Administration	46,794	109,157	210,000
Directors & Secretary Fees	26,800	116,825	180,000
Share Investment/(Decrease)	(330,203)	38,119	(77,999)
	(256,609)	264,101	312,001
Net Cash Surplus/(Deficit)	(235,295)	(644,183)	(807,001)
Add: Opening Cash Balances	1,398,113	1,807,001	1,807,001
Closing Cash Balances	1,162,818	1,162,818	1,000,000

Summary

Since share trading estimates have been revised down, we will continue to press down on administration and exploration costs in order to conserve cash.

Yours faithfully,


Malcolm A. Mayger
 Managing Director