

Pegmont Mines Limited

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31 January 2013

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

Dear Sir,

Quarterly Activity Report to 31 December 2012

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

1. Summary

- Exploration field activity included a drill program of five(5) RC holes totalling 414 metres on two prospects, Selwyn Airstrip in EPM 17052 and Two Bobs (under option). Neither prospect yielded results that require follow up work during 2013 and will therefore be relinquished. Additional areas for relinquishment will be considered by the company.
- Discussions with third parties continued on the Pegmont lead-zinc project, including preparation of a draft agreement. However no advance has since been made which may indicate a lack of current interest.
- Future mapping and rock chip sampling was undertaken on the Sc-8 and Sc-2 prospects in EPM 14491. However poor drill results from Selwyn Airstrip anomaly caused the planned drill program to be deferred in favour of a further review of data.
- No Share trading activity was undertaken during the quarter since market interest for resource equities was minimal as yield conscious investors switched to banks and utilities. Unfortunately, this switching process pressured our portfolio, causing it to depreciate by \$53,395 during the quarter to \$254,000.
- The cash position at 31 December 2012 was \$520,328 (a decline of \$329,831) which together with listed shares at market value of \$254,000 resulted in liquid assets of market value of \$774,328 or 1.2 cents per share.

2. Exploration Activity

A reconnaissance RC drill program of 2 holes totalling 150 metres was undertaken on the **Selwyn Airstrip prospect within EPM 17052**. Previous work identified two anomalous areas. Area A was tested by two RC holes. The first hole intersected schist and shale (partly carbonaceous), some pyrite was present below 48m. Cu values were mildly anomalous (up to 879ppm Cu). The second hole passed through psamanite and shale with sporadic quartz veining. Some malachite was present, up to 3020ppm over one metre interval 34-24m. Anomalous gold values of 0.16ppm and 0.20ppm were also intersected. Since these Cu and Au values were not particularly anomalous to support future work, this EPM 17952 will be relinquished.

A three (3) hole RC program totalling 264m was undertaken on the Two Bob Mining Lease (held under option by the Company) of approximately one ha in extent. Despite promising production grades of 11.5% Cu and 26g/t Ag, these results were not confirmed by drilling with only TB 002 intersecting 2 metres of 2.56% Cu and 4.9g/t Ag. The lack of high grade results and the small size of the tenement meant that the option will not be exercised.

Prospects SC-8 and SC-2 Cu-Au anomalies in EPM 14491 were planned to be drill tested, but lack of ground clearance by Native Title holders made them unable to be tested prior to the onset the wet season.

The company is considering further relinquishment of other tenements in the immediate future.

3. Reefway Royalty Tenements

The Reefway Royalty tenements operated by CST Mining Group Limited are subject to a 1% NSR royalty in favour of Pegmont and others, once production of copper metal exceeds 100,000 tonnes. Total reported production to 30 September 2012 was 30,438 tonnes.

Due to current production plans of sourcing only 25% of copper metal (or approximately 5,000t pa) from the Reefway Royalty tenements, it will be a number of years before royalties can be expected. However CST Mining has made a Mining Lease application over the Anthill/Anthill West deposit that maybe granted during the first half of 2014 with ore production planned Q3-Q4 2014. In this event, metal production from Royalty tenements can be expected to increase substantially.

4. Pegmont lead-zinc deposit

Since completion of an initial estimate of 8.85M tonnes of Indicated and Inferred Resource of 5% Pb+Zn at Pegmont (JM Geological Consulting Pty Ltd, 2011), it is the Company's intention to seek an interested party to enter into an option agreement to purchase the project for a combination of cash/shares plus a deferred royalty. The Company is in tentative discussions with one such party, but no firm commitment exists at this date.

Meanwhile, the Company has expenditure obligations with the Queensland Department of Natural Resources to maintain an ongoing exploration program in regard to thirteen (13) sub-blocks in EPMs 14491 and 15106. Maintaining these tenements is our number one exploration priority.

Thus the Company is considering a RC drill program during 2013 of some 2000 metres of infill and extensional drilling to continue the delineation of up to 10M tonnes of Mineralised Potential over a period to 4-5 years, whilst conducting negotiations with interested parties.

5. Investment Activities

Net Trading loss for the three months to 31 December 2012 was \$52,375 due to diminution in market value of share portfolio held for resale.

Investment Activity Summary

| Shares Traded | December Quarter 2012 \$'000 | Year to December 2012 \$'000 | Year to December 2011 \$'000 |
|----------------------------------|---|---|---|
| Proceeds | 0 | 1,825 | 7,235 |
| Cost | 0 | 1,958 | 10,087 |
| Profits | 0 | 41 | 219 |
| Losses | (7) | (174) | (3,071) |
| Realised Profit/(Loss) | (7) | (133) | (2,852) |
| Net Provision | (45) | (111) | 1,826 |
| Net Trading Profit/(Loss) | (52) | (244) | (1,026) |

Comment

Investor confidence gradually returned during the December quarter based on a concerted stimulus package of fiscal and monetary measures undertaken by China, the ECB, USA and more recently by Japan. The economic stabilization of the Euro Block appears to have reduced general investment risk and provided the basis for the ongoing recovery in income yielding equities. Bank stocks, utilities and other sustainable high income investments are preferred over low income growth opportunities, ie mining and resource developers.

Consequently, investors have switched their attention towards industrials and away from resource equities. This has had a damaging effect on our small share portfolio, at a cost of \$52,000 reduction in market value during the quarter. Our intention is to further reduce exposure to this segment of the market and wait for an inevitable market reaction to the recent strong price gains.

Since the investment outlook for the mineral exploration sector continues to remain subdued it can be expected to cause wholesale relinquishment of tenements in the Mount Isa region due to lack of funding and onerous requirements.

The Company intends to cut back exploration activities to its core asset, namely, the Pegmont project area.

7. Income and Expenditure (cash basis)

Income Received

| | December 2012 Quarter | Year Ended 2012 |
|---|--------------------------|--------------------|
| | \$ | \$ |
| Interest/Dividends | 15,118 | 48,948 |
| Net profit (Loss) on sale of shares | (6,714) | (132,282) |
| Other Income | 2,750 | 2,750 |
| | 11,154 | (80,584) |
| Add: Increased provisions to market value | (45,661) | (104,034) |
| Net Income from investing activities | (34,507) | (184,618) |

Placement of Short Fall Entitlement Issue funds received (net)

- 215,000

Income Received

(34,507) 30,382

Exploration Expenditure

| | | | |
|-------------------------|-------------------------|---------|---------|
| Pegmont Deposit | - geology and drilling: | 41,364 | 262,325 |
| | - Metallurgy | - | 20,302 |
| Pegmont Regional | - geology and drilling | 106,321 | 356,162 |
| New Hope | - geology and reports | 1,331 | 88,809 |
| | - metallurgy | - | 553 |
| Two Bob | | 62,915 | 62,915 |
| Other | | - | 4,369 |
| Exploration Expenditure | | 211,931 | 795,435 |


Corporate Expenditure

| | | |
|------------------------------|----------------|----------------|
| Administration | 47,369 | 227,758 |
| Directors & Secretary Fees | 44,150 | 181,025 |
| Share Investment/Increase | (8,126) | 112,837 |
| | 83,393 | 521,620 |
| Net Cash Surplus/(Deficit) | (329,831) | (1,286,673) |
| Add: Opening Cash Balances | 850,159 | 1,807,001 |
| Closing Cash Balances | 520,328 | 520,328 |

Summary

Since share trading resource equities remains difficult we will continue to limit our activities and press down on administration and exploration costs in order to conserve cash.

Yours faithfully,


Malcolm A. Mayger
 Managing Director