

Pegmont Mines Limited

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

Dear Sir,

Quarterly Activity Report 30 September 2016

We submit the following activity report of Pegmont Mines Limited (The Company) for the three months to 30 September 2016.

1. Summary

- No field exploration activities were undertaken by the Company.
- However, Vendetta Mining Corp (Vendetta) commenced a resource drill program on 1st June in accordance with the revised terms of the Call Option to purchase (the Pegmont) Tenements Agreement.
- A profit of \$9,124 was made from investing activities.
- The Company's cash balances declined by \$15,750 to \$254,718.

2. Pegmont lead-zinc Project – 100% interest

Vendetta has an option to acquire 100% interest in the Pegmont lead-zinc project by meeting all the tenement expenditure obligations, 17,000 metres of drilling (of which 11,320 metres have been drilled) and total payment of \$5.25 million including option payments of \$2.25 million (\$400,000 received to date) and option exercise price of \$3.0 million by 6 November 2018.

Vendetta has commenced a validation exploration program, including metallurgical and resource drilling in order to update the Mineral Resource estimates and also an extensional drilling program to incorporate previously drilled PMR 141 and 142 high grade intersections.

During the September quarter, Vendetta drilled 22 holes for 4,043 metres with emphasis on confirming and then expanding the resource base. Vendetta has released several update reports on their drill program ie 7 September relating to the Burke Hinge Zone, where it is delineating shallow mineralisation with open pit potential; 21 September regarding step out drilling in the deeper Zone 5 and on 19 October indicating the discovery of three metres of high-grade copper-gold mineralisation. For further information please refer to our announcements on the relevant dates.

3. New Hope Gold-Cobalt deposit – 100% interest

No field activity was undertaken during the quarter.

4. Reefway Royalty Tenements (Pegmont 76.5% royalty interest)

CST Mining has advised that copper cathode production from the Reefway Royalty Tenements during the half year to 30 June was 756.9 tonnes, making a cumulative total of 47,826.4 tonnes since 2010. Cumulative production needs to exceed 100,000 tonnes before the royalty becomes payable.

CST Mining has reduced their operations during the current period of depressed copper prices. However, they have applied for a Mining Lease 90233 over the Anthill deposit, which if granted could be used to bridge the shortfall of metal to qualify for royalty payments. Their assessment of the long-term potential of the Reefway Royalty Tenement remains undiminished as there are likely additional deposits at depth below existing open pits.

5. Sharetrading Activities

Sharetrading and investing activity was profitable during the quarter and for the nine months to 30 September. Net income for the September quarter was \$9,124 (profit of \$16,762 for the nine months to September) due mainly to trading gold producers. Funds available for sharetrading have increased to \$31,582.

There has occurred an improvement in investor/speculative interest in resource producers fuelled by firmer commodity prices:

		2015 31 Dec	2016 30 Sep	Improvement %
Oil	\$US/bbl	37.0	48.0	29.7
Iron ore	\$US/t	42.9	56.1	30.8
LME Index		2,203.0	2,473.8	12.3
Lead	\$US/t	1,820	2,105.5	15.7
Zinc	\$US/t	1,600	2,378.0	48.6
Copper	\$US/t	4,702	4,832.0	2.8
Gold	\$US/g	1,062.0	1,325.3	24.8
\$A/\$US		0.7302	0.7603	4.1
All Ords Index		5,344.6	5,525.2	3.4
Gold Index (ASX 200)		2,645.8	4,834.9	82.7

The outstanding performer during the past nine months has been the ASX 200 Gold Index up 82.7% which spiked to 5,691.6 on 11 July, following Brexit. The price surge in Zinc, up 48.6%, has reacted in October, but the prospect of looming metal shortages due to the lack of new mine capacity to replace ore depletion is expected to provide a base price at around US\$1.00/lb. However, lead bullion prices improved during the quarter. This is good news for Vendetta's decision to continue the exploration of the Pegmont lead-zinc deposit.

6. **Income Summary (cash basis)**

Income Received	September Quarter 2016 \$	Actual to September \$	Forecast Year December \$
Interest/Dividends/Other	1,772	2,618	3,000
Realised profit/(loss) on sale of shares	13,770	10,649	12,000
	15,542	13,267	15,000
Add: Reduced provisions to market value	6,418	3,495	5,000
Net Income/(Loss) from investing activities	9,124	16,762	20,000
Add: Vendetta Option Proceeds	–	150,000	150,000
	9,124	166,762	170,000

Less Expenditures

Exploration	September Quarter 2016 \$	Actual to September \$	Forecast Year December \$
Pegmont Resource update	–	24,651	25,000
Pegmont tenement expenses	1,794	3,684	5,000
New Hope expenses	2,852	5,788	7,500
General Investigations	1,100	5,132	7,500
	5,746	39,255	45,000
Corporate			
Administration	42,324	75,095	85,000
Audit Fees	–	6,000	12,000
Directors and Secretary Fees	35,000	62,200	75,000
Legal Fees	–	20,000	20,000
Working Capital	(58,196)	(24,059)	(2,000)
	19,128	139,236	190,000
Net Cash Surplus/(Deficit)	(15,750)	(11,729)	(65,000)
Add: Opening Cash Balances	270,468	266,447	266,447
Closing Cash Balances	254,718	254,718	201,447

Conclusion

There has been a significant improvement in investor sentiment towards resource equities since early 2016 which has enabled Vendetta to raise significant funds to continue their Pegmont option deal with the Company. The continued involvement of Vendetta has resulted in the payment of the adjusted option fee of \$150,000 and future reimbursement of tenement holding costs amounting to \$17,124 this quarter. Added to other expense reductions, the Company's forecast cash position has continued to improve.

Yours faithfully



Malcolm A Mayger
Managing Director