

Pegmont Mines Limited

ABN 97 033 331 682

Corporate Office

13 Oden Street
Port Macquarie NSW 2444

Telephone: 6583 7747
Email: pegmont@hotmail.com

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

Dear Sir,

Quarterly Activity Report 31 December 2016

We submit the following activity report of Pegmont Mines Limited (The Company) for the three months to 31 December 2016.

1. Summary

- No field exploration activities were undertaken by the Company.
- However, Vendetta continued active field work including drilling at Pegmont until 19 October 2016. This activity was summarised in their announcement on 30 November 2016.
- No investing activities were undertaken during the quarter due to economic uncertainties surrounding the US Presidential elections. The Net Trading Profit for the year was \$17,044.
- The Company's cash balances declined by \$36,855 to \$217,863 at 31 December 2016.

2. Pegmont lead-zinc Project – 100% interest

Michael Williams, Vendetta's President and CEO commented in their 30 November announcement to the Toronto Stock Exchange (TSX-V);

"The progress at Pegmont project has been significant. We (i.e. Vendetta) have successfully confirmed the shallow potential of the Burke Hinge Zone, discovered a highgrade fold between Zones 2 and 3. We are able to successfully target mineralisation in Zone 5 and in doing so, have validated the geological model of zinc grade, increasing to the west. We look forward to receipt of metallurgical test work, updating the N1 43-101 resource for release before commencement of the 2017 program in Q1".

Furthermore, Vendetta reported a 3 metre intersection of 3.21% Cu, 0.57 g/t Au at 113 metre down hole with 1 metre @ 5.41% Cu, 1.22 g/t Au within what appears to be silica altered pegmatite in PVR 040. This intersection is of interest to Vendetta and is something they plan to follow up during the next program in 2017.

In summary, during 2016 Vendetta completed a total of 6,804.8 metres in a total of 36 holes. At the Burke Hinge Zone (Gossan Lode), drilling confirmed the presence of two sub-parallel lines that have a kink which is the location of higher grades. During 2017, Vendetta will infill shallow mineralisation to establish open cut mineralisation.

Drilling in Zones 2 and 3 (of the Main Lode) has confirmed the presence of compressional “drag” or Z fold which offer targets of significant grade concentration.

Reinterpretation of the entire deposit is ongoing in preparation for an updated Mineral Resource Estimate supported by additional metallurgical test work. This work is expected to be completed in March 2017.

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 is operating the Reefway Royalty tenements by acid leaching existing copper oxide heaps. They have reported the recovery of 204.19 tonnes during the September 2016 quarter and 271.85 tonnes of cathode copper during the December 2016 quarter, thus making a cumulative total of 48,302.4 tonnes since 2010. Cumulative production needs to exceed 100,000 tonnes before a royalty of 1% NSR becomes payable.

5. Sharetrading Activities

No sharetrading and investment activity was undertaken during the quarter due to difficult political and economic conditions. A Net Trading Profit of \$17,044 after including a write back of loss provisions was made during the year. At 31 December 2016 the market value of the portfolio was \$35,493 (December 2015 \$15,800).

Investor/speculative interest in resource producers continued as commodity prices firmed with the exception of lead (down 5.7%) and gold (down 12.5%).

Summary of Selected Commodity Prices September – December 2016

| | | 2016 31 Dec | 2016 30 Sep | Improvement % |
|----------------------|----------|----------------|----------------|------------------|
| Oil | \$US/bbl | 53.95 | 48.0 | 12.9 |
| Iron ore | \$US/t | 78.87 | 56.1 | 40.6 |
| LME Index | | 2,659.6 | 2,473.8 | 7.5 |
| Lead | \$US/t | 1,985 | 2,105.5 | (5.7) |
| Zinc | \$US/t | 2,563 | 2,378.0 | 7.8 |
| Copper | \$US/t | 5,501 | 4,832.0 | 13.8 |
| Gold | \$US/g | 1,159.9 | 1,325.3 | (12.5) |
| \$A/\$US | | 0.7233 | 0.7603 | (3.6) |
| All Ords Index | | 5,719.1 | 5,525.2 | 3.5 |
| Gold Index (ASX 200) | | 4,080.9 | 4,834.9 | (15.6) |

During the quarter the ASX 200 Gold Index declined 15.6% as commodity traders switched from gold to copper and iron ore producers (including BHP Billiton and Atlas Iron).

The short term outlook for the 2017 mineral metal prices is problematic as the new President of the United States, Mr Donald Trump wants to make “America Great Again” whilst taking a tougher trade stance against China.

6. Income Summary (cash basis)

| | December Quarter 2016 \$ | Actual Year to December \$ | Previous Forecast to December \$ |
|--|--------------------------------|----------------------------------|--|
| Income Received | | | |
| Interest/Dividends/Other | 35 | 2,653 | 3,000 |
| Realised profit/(loss) on sale of shares (cost basis) | – | 10,649 | 12,000 |
| | 35 | 13,302 | 15,000 |
| Add: Reduced provisions to market value | 2,900 | 6,395 | 5,000 |
| Net Income/(Loss) from investing activities | 2,935 | 19,697 | 20,000 |
| Add: Vendetta Option Proceeds | – | 150,000 | 150,000 |
| | 2,935 | 169,697 | 170,000 |

Less Expenditures

| | December Quarter 2016 \$ | Actual Year to December \$ | Previous Forecast to December \$ |
|------------------------------|--------------------------------|----------------------------------|--|
| Exploration | | | |
| Pegmont Resource update | – | 24,651 | 25,000 |
| Pegmont tenement expenses | 613 | 4,297 | 5,000 |
| New Hope expenses | – | 5,788 | 7,500 |
| General Investigations | 1,104 | 6,236 | 7,500 |
| | 1,717 | 40,972 | 45,000 |
| Corporate | | | |
| Administration | (10,367) | 64,728 | 85,000 |
| Audit Fees | 6,000 | 12,000 | 12,000 |
| Directors and Secretary Fees | (4,750) | 57,450 | 75,000 |
| Legal Fees | – | 20,000 | 20,000 |
| Working Capital | 47,190 | 23,131 | (2,000) |
| | 38,073 | 177,309 | 190,000 |
| Net Cash Surplus/(Deficit) | (36,855) | (48,584) | (65,000) |
| Add: Opening Cash Balances | 254,718 | 266,447 | 266,447 |
| Closing Cash Balances | 217,863 | 217,863 | 201,447 |

Conclusion

There has been a significant improvement in investor sentiment towards resource equities since early 2016 which enabled Vendetta to continue their Pegmont option deal with the Company. The continued involvement of Vendetta resulted in the payment of the adjusted option fee of \$150,000.

The next option payment of \$350,000 is due on 28 February 2017.

Yours faithfully



Malcolm A Mayger
Managing Director