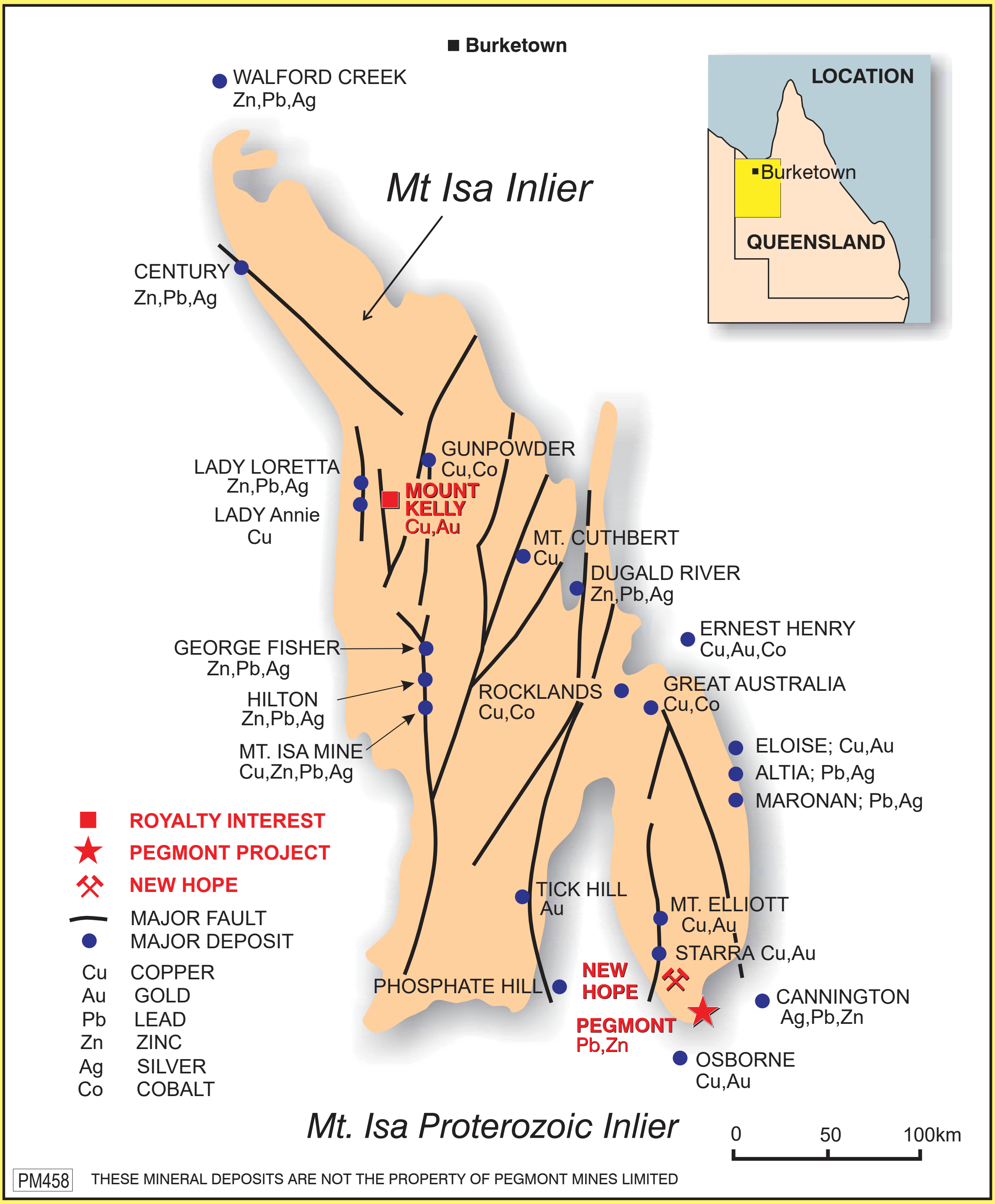
Pegmont

Pegmont Mines Limited

ABN 97 003 331 682

2016 annual report



The Mount Isa province is one of the best endowed Base Metal provinces in the world. It offers a variety of mineral targets from small to large size from low to high grade. These attributes provide an attractive place to operate. The province has:

- Four of the top ten Zn deposits
- Three of the top ten Pb deposits
- Largest silver mine at Cannington
- Three Cu deposits > 1Mt Cu

These deposits are associated with major fault systems

Undeveloped Pb-Zn deposits in Eastern Succession

- Altia; Pb, Zn
- Maronan; Pb, Ag
- Pegmont; Pb, Zn

They are all associated with Banded Iron Formations (BIF) which have a pronounced magnetic signature.

Their target areas extending at depth and may have a muted magnetic (or no magnetic) anomaly under deep cover.

CHAIRMAN'S REVIEW

2016 was a good year for Pegmont and the resources industry, with significant progress made on the development of the Pegmont prospect and with higher mineral prices resulting in a better year for the industry. Improved stock market conditions have made it easier to raise new capital, which is particularly important for our Canadian partner Vendetta.

We are fortunate in having an advanced stage project and option agreement with Vendetta, which meets all Queensland Natural Resources and Mines Department (NRM) expenditure obligations. During the year Vendetta drilled 36 holes for 6,808 metres. To quote Vendetta, "The progress at the Pegmont project has been significant. We have successfully confirmed the shallow potential of the Burke hinge Zone, discovered a high-grade 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."

Vendetta also reported a 3 metre intersection of 3.21% Cu, 0.57 g/t Au at 113 metres down hole with 1 metre @ 5.41% Cu & 1.22g/t Au in PVR 040. An EM survey over this discovery will be undertaken prior to follow-up drilling.

During 2017 Vendetta will infill shallow mineralisation to establish open cut mineralisation. 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 complete in March 2017.

At New Hope, where we have a small high-grade gold-cobalt deposit, we will continue to review opportunities to either sell or move the property into a larger deal. The company does not have any expenditure obligations on this tenement in 2017 other than updating the mining lease.

At our Reefway Royalty Tenements (Pegmont 76.73 % share), the owner and operator CST Mining Group Limited continued heap leach operations to produce 99.9% cathode copper. Total copper sold from the tenements during 2016 was 1,232 tonnes, making a cumulative total of 48,302 tonnes to 31 December 2016. CST Mining has applied for a Mining Lease over the Anthill deposit, said to contain 13.84 m tonnes of Resource assaying 0.7 % copper for 96,000 tonnes of contained copper. Negotiations with Traditional Owners were concluded in July 2015 but no commencement date for the mining of this deposit has been announced.

Net loss for 2016 was $123,955 an improvement on the loss of $222, 274 in 2015. We continued to reduce administration expenses to $196,680, a 5.2% reduction on 2015 expenses. Share trading returned to profitability in 2016 after several years of small losses. Cash balances declined to $217,864 at year-end.

During 2016 the company received its second option payment of $150,000 from Vendetta and the next payment of $350,000 is due on 28 February.

We are more optimistic about prospects for the mining industry because of strong price rises for oil, iron ore, coal and base metals. The near term prospects for the lead-zinc industry are good, as major mines exhaust their reserves and close. Over the 12 months to 31 December 2016 the zinc price in US$ has increased by 60% and the lead price by 10%.

This has resulted in a return of investor interest in the mining sector. Until recently, investors in junior resource companies have been extremely nervous about prices and venture capital has been virtually non-existent. These improved conditions have made it easier for Vendetta to raise capital to fund their exploration program and to make their next option payment of $350,000 on 23 February 2017.

In 2017 the world economy faces interesting and challenging times. Brexit, the election of Donald Trump and the many elections in the EU during the year have introduced considerable uncertainty. China continues to perform well but also faces considerable challenges as its economy slows and the debt level continues to increase. But so far the world's stock markets have responded positively to the prospect of reduced taxes and increased infrastructure spending in the US.

In 2017 we will continue to hold our own costs to a minimum and focus on capital recovery. From a corporate strategy standpoint, your company remains in a "holding pattern" and is reliant upon continued positive results from Vendetta's future activities.

If the Vendetta option is ultimately exercised, your board will:

- Return some of the proceeds to shareholders through a fully franked dividend,
- Renew and strengthen the Board,
- Develop a plan for the future development of your company, and
- Consider ways to improve liquidity for your shares, which could include a listing on the ASX.

We again thank our shareholders for their patience and continuing support during the year. We also record our appreciation for the efforts of our staff, legal advisors, consultants and contractors.

John M. Armstrong

John M Armstrong
Chairman

2016 PERFORMANCE HIGHLIGHTS

Net loss for 2016 was $123,955, an improvement on the loss of $222,274 for 2015.

During 2016, we further reduced administration costs to $196,680, a 5.2% reduction on 2015 expenses of $207,399 after excluding $20,000 legal expense. However, cash balances declined to $217,864, with the receipt of $150,000 Option payment from Vendetta.

2016 marked a return to profitable share trading activity after five years of losses arising from mining and petroleum investments. This result coincides with a return of investor interest in the mining sector after strong price rises in oil, iron ore and zinc. Gold recovered early but came in for selling pressure later in the year.

		2016 31 Dec	**2015** 31 Dec	**Gains** %
Oil	*$US/bbl*	53.95	37.0	45.8
Iron Ore	*$US/t*	78.87	42.9	83.8
LME Index		2,659.6	2,203	20.7
Lead	*$US/t*	1,985	1,802	10.2
Zinc	*$US/t*	2,563	1,600	60.0
Gold	*$US/oz*	1,159.9	1,062	9.2
$A/$US		0.7233	0.7302	(0.9)
All Ords Index		5,719.1	5,344.6	7.0

The daily closing bottom of LME Index was 2,054.5 on 15 January 2016, led by copper at US$4,515/t on 23 November 2015, followed by gold at US$1,052/oz on 3 December 2015. Until then, investors in junior resource companies were extremely nervous about metal prices testing previous GFC lows. Venture capital became non-existent.

Consequently, Vendetta was unable to raise additional capital during the latter part of 2015, necessitating an Amendment to the Call Option to Purchase (the Pegmont) Tenements, deferring the payment of reduced option monies of $150,000 to 28 February 2016. Not until 3 March 2016 were Vendetta able to announce the raising of $1.5 million (subsequently increased to $2.5 million) to fund the recommencement of their evaluation program.

Fortunately, the LME Index continued to recover and hit a daily closing high of 2,856.7 on 28 November 2016, with copper at US$5,822.50, lead at US$2,302 and zinc at US$2,767, prices that are attractive to investors of resource development projects like the Pegmont lead-zinc deposit.

2016 share trading activity returned a Net Trading Profit of $17,044, after including provisions. This result was achieved on an opening portfolio value of $15,800 at 31 December 2015 and resulted in a 13.6% margin on proceeds.

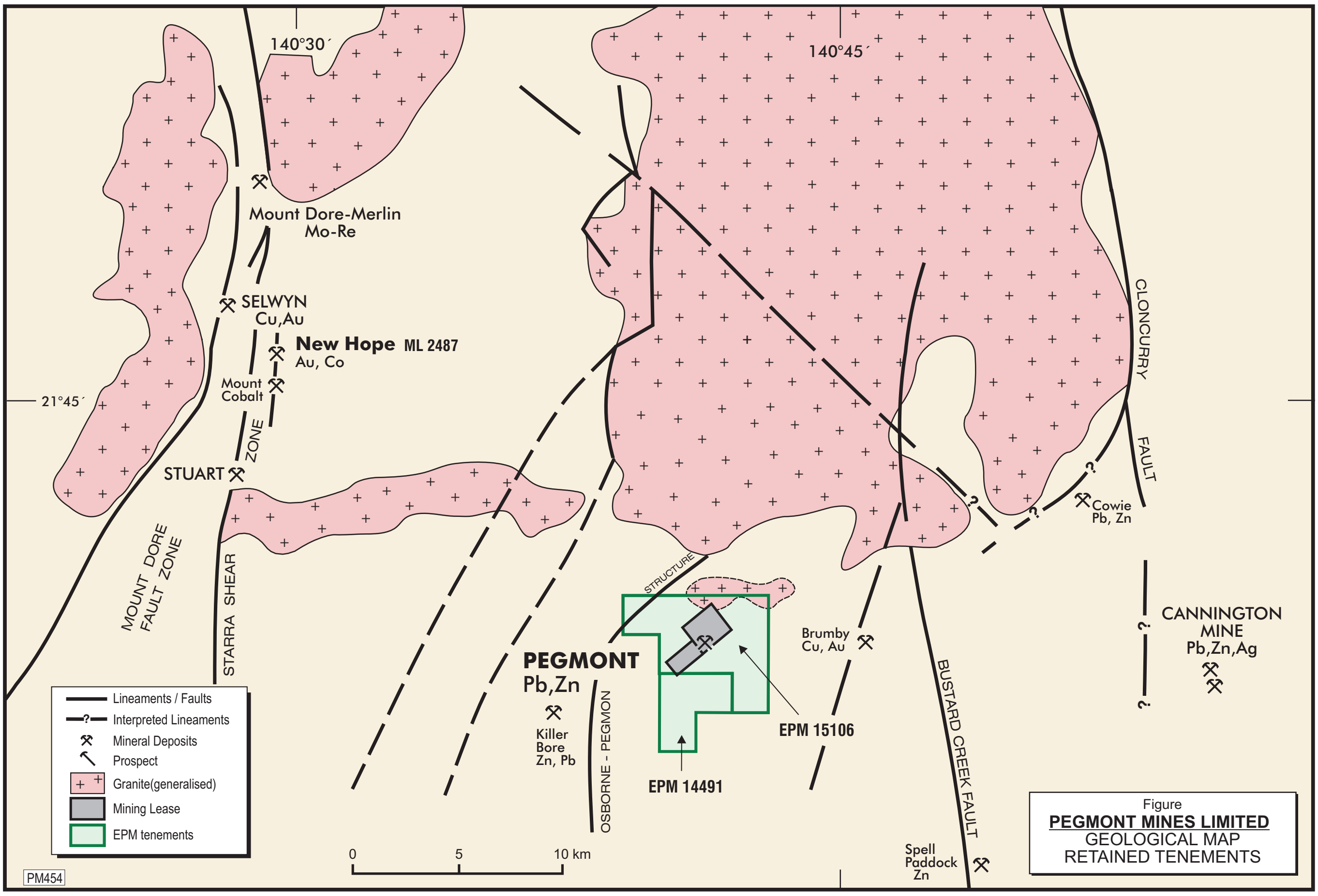


Figure
PEGMONT MINES LIMITED
GEOLOGICAL MAP
RETAINED TENEMENTS

REVIEW OF OPERATIONS

Sharetrading activity during 2016 resulted in a profit of $17,044 (2015 – loss $23,198) as metal commodity prices rose off their cyclical lows of 15 January 2016.

The trading results for 2016 were:

	2016 $000	2015 $000
Gross Trading Revenue	78	44
Realised Profit/(Loss)	11	(67)
Write-back of previous impairment provisions	6	44
Net Trading Profit	**17**	**(23)**

Net Trading Profit of $17,044 was due to the number of positions held in gold producers, partly offset by energy shares. The provision for impairment against the trading portfolio was reduced to $6,480 plus a full provision of $500,297 against previous seed capital situations that were maintained.

Company Tax has not been provided or adjusted against profits as there were carried forward losses in excess of $12 million at 30 June 2016. Exploration and administration expenses are deductible against all income. Option income receivable from the Pegmont Project will be credited as Other Income and therefore offset against carried forward losses. There is a Franking account balance of $4,509,000 credit.

The consolidated net result for 2016 was a loss of $123,955 (2015 – loss $222,274) summarised as follows:

Consolidated Net Result	2016 $000	2015 $000
Net Trading Profit/(Loss)	17	(23)
Investment income	3	8
Net Income from Investing Activities	**20**	**(15)**
Pegmont Option Receipt	150	–
Exploration refunds	–	46
Administration	(197)	(207)
Depreciation	(30)	–
Legal expense	(20)	–
Exploration expense	(47)	(46)
Loss before income tax	**(124)**	**(222)**
Earnings per share *cents*	(0.2)	(0.3)

Administration costs increased to $216,680, (2015 – $207,339) due to legal expenses of $20,000, that arose from the amendment of the Vendetta Option Agreement.

Exploration expenditure was $46,971 (2015 – $45,020). Depreciation of the Pegmont Field Camp was $30,000 (2015 – NIL).

We did not conduct any field activities. However, Vendetta drilled 36 holes for 6,804.8 metres.

METRES DRILLED		2016	2015
Pegmont (Pb/Zn)		–	–
Vendetta (Pb/Zn)		6,303	700
(Cu/Au)		502	–
New Hope (Au/Co)		–	–
Other prospects		–	–
Company Expenditure	*$000*	47	46
Vendetta Expenditure	*$000*	1,540	254
Drill cost	*$/m*	262.3	428.6

Based upon drill results Vendetta was able to confirm that the previous interpretation of fault offset between Zones 2 and 3 was in fact caused by a compressional "drag" or Z fold which are locations of significant grade concentration. Consequently, a reinterpretation of the entire deposit is ongoing in preparation for an updated Mineral Resource Estimate due in March 2017. An EM Survey over the recent copper discovery will be undertaken prior to follow up drilling.

Vendetta's view is that zinc grades will increase down dip and plunge towards parity with lead values in Zone 5.

CORPORATE REVIEW

Our Corporate goal is to build a financially strong, independent and self-sustaining resource company.

We do not borrow, or use futures, options or derivatives to undertake investments, but instead rely upon the use of surplus funds to make timely investment decisions.

The Board's policy is to be self-funding which means that we attempt to limit our expenditure to our income. The last time we achieved profitable sharetrading was during 2010. On 14 February 2011, commodity markets entered into a five year bear market until January 2016.

We survived this period with our exploration assets intact by cutting costs and reaching an Option deal with Vendetta to fund exploration costs and make Option payments to us. Our near future will be directed at regaining financial strength. Since concluding the Option Agreement of September 2014, Vendetta has drilled 11,328 metres at a cost of $2,644,000 and paid Pegmont $400,000 in Option fees. Their work at Pegmont during 2016 yielded very encouraging results.

CORPORATE STRATEGY – 2017

In accordance with the Vendetta Option Agreement we can look forward to additional drilling being undertaken on the Southern Lode (Zones 4 and 5) and to the revision of the Pegmont resource estimates. Consequently, our Corporate Strategy during 2017 will be to sit tight and await results from Vendetta's exploration program at Pegmont.

Meanwhile, we will continue to monitor other company activities in the Mount Isa region to assess emerging opportunities, preferably in regard to possible farm-in deals on known high-grade mineralisation. Our response to new opportunities will depend upon Vendetta's success at Pegmont.

Donald Trump's activities to increase America's GDP growth rate from 2.5% to about 4.0%pa, which if achieved, could spell higher commodity prices and make it easier for Vendetta to finalise the Pegmont Tenement acquisition.

In regard to **New Hope**, where we have a small high-grade gold-cobalt deposit, we will continue to review opportunities to either sell or deal the property into a larger situation. Meanwhile, the Company does not have any expenditure obligations on this tenement during 2017 other than updating the Mining Lease.

Overall, our strategy is to increase net cash resources within the Company to at least $750,000 or 1 cent per share over the next year or so.

VENDETTA OPTION AGREEMENT

Due to very difficult venture capital conditions during 2015, an Amendment to the Call Option to Purchase (the Pegmont) Tenements was agreed between the Company and Vendetta Mining Corp (Vendetta), as announced to the National Stock Exchange, Australia (NSXA) on 7 December 2015. The Amendments are summarised as follows:

1. Reduction of $750,000 to $5,250,000 in preproduction payments by Vendetta to the Company with a revised schedule

Date	**Cash Payments** $
September 2014 – paid	250,000
28 February 2016 – paid	150,000
28 February 2017 – paid	350,000
28 February 2018	500,000
6 November 2018	1,000,000
Upon exercise of the Call Option as pre-paid Royalty	3,000,000
	5,250,000

2. A minimum of 17,000 metres of drilling must be completed prior to 10 August 2018, including 4,218 metres completed at the Agreement date and a minimum of 3,000 metres during 2016. In fact Vendetta completed 6,804.8 metres during 2016.
3. Vendetta's purpose for this drilling was to update the N1 43-101 Mineral Resource estimate of 8.163Mt of Indicated and Inferred Resource (AMC Consultants, February 2014) to a total of 10Mt resource of all material types by 28 February 2017, at a 3% Pb+Zn cut-off grade for Oxide and Transition Mineralisation and at a 5% Pb+Zn cut-off grade for Sulphide ores.
4. The Option period was reduced to four years to 6 November 2018.
5. To compensate for the cash reduction of $750,000 to Pegmont, the Royalty rate was increased from 1.25% to 1.5% of Net Smelter Return (NSR). Expenditure commitments were increased to $1,000,000 for the year to August 2016 and to $1,200,000 to August 2017 including the drilling of 17,000 metres to August 2018.

Vendetta News Releases

On 3 March 2016, Vendetta announced to the Toronto Stock Exchange (VTT-TSX:V) that it intended to raise up to $1.5 million by private placement, to advance the development of the Pegmont project. In fact they raised $2.5 million.

On 7 September 2016, Vendetta announced drill results from their initial program to define shallow mineralisation at the Burke Hinge Zone (Gossan Lode) to confirm open pit potential.

A further announcement was made on 21 September regarding drill results on Zones 2, 3 and 5. The results indicated three stacked lenses in Zone 5, confirming the geological model that Pegmont is a Broken Hill type deposit with metal zonation.

On 5 October, Vendetta announced a three metre intersection of Copper-Gold mineralisation assaying 3.21% Cu and 0.57g/t Au.

On 30 November, Vendetta announced further high grade lead-zinc intersections from Zone 5 and successfully tested the Zone 2-3 “Z” fold.

For further information, visit Vendetta’s website or to the Toronto Stock Exchange (VTT-TSX:V).

EXPLORATION ACTIVITY

Although no field work was undertaken by the Company during the 2016 year, there were tenement expenses in regard to both the Reefway Royalty Tenements and the Pegmont Project Tenements.

In regard to the Reefway Royalty Tenements, we need to monitor the maintenance of all tenements currently held and operated by CST Mining.

Pegmont Tenements *(Pegmont 100% Interest)*

The Pegmont Tenements comprise:

3 Mining Leases, MLs 2620, 2621 and 2623 which have an expiry date of 31 January 2022 and

2 EPMs, 14491 and 15106 have been renewed to 11 August 2021

The combined expenditure commitments on both EPMs, stands at $500,000 for the year to August 2017 and $550,000 to August 2018.

Under the Amended Option Agreement, Vendetta must spend $1,000,000 to 10 August 2016, $1,200,000 to 10 August 2017 and meet Mines Department commitments to 10 August 2018.

However, it should be noted that Vendetta may withdraw from the Option Agreement at any time after completing the current year exploration commitment. Vendetta may exercise the Option Agreement at any time on or prior to 6 November 2018 by payment of $5,250,000, including $750,000 paid to date.

REEFWAY ROYALTY TENEMENTS

(Pegmont 76.73 Royalty Interest)

The current owner and operator of the Reefway Royalty Tenements, CST Mining Group Limited (CST Mining) continued heap leach operations to produce cathode 99.99% copper. Total copper sold from the Royalty tenements, during 2016 was 1,232.0 tonnes, making a cumulative total of 48,302 tonnes to 31 December 2016.

CST Mining has applied for a Mining Lease over the Anthill deposit, said to contain 13.84 M tonnes of Resource assaying 0.7% copper (at 31 December 2013) for 96,900 tonnes of contained copper, subject to recovery. Negotiations with Traditional Owners were concluded in July 2015 but no commencement date of mining of this deposit has been announced. Since this deposit is 100% Reefway Royalty Tenement, commencement of copper production would accelerate the realisation of potential royalty payments.

The Reefway Royalty Agreement of 28 September 2004, provides for the payment of 1% NSR royalty after the production of 100,000 tonnes of copper metal has been achieved from the tenements.

The following tenements, subject to the Reefway Royalty Deed, now owned and operated by CST Mining Group Limited, are as follows.

MLs	5426, 5435, 5446, 5447, 5474, 5476, 5478
MLA	90233 (Anthill)
EPMs	11637, 11669, 11670, 11672, 14149, 16244

NEW HOPE

(Pegmont 100% Interest)

The New Hope mining lease ML 2487 contains a small Au-Co deposit discovered by Pegmont.

To date, 58 RC/DD holes totaling 4,923 metres have been drilled into a strike length of 100 metres, resulting in a Resource of 93,500 tonnes (containing 20,440 ounces gold) assaying 6.8g/t Au and 0.2% Co (J.M. Geological Consulting Pty Ltd – May 2012).

Previous metallurgical test work indicated that a high percentage of gold can be recovered by gravity separation with up to 95% total recovery. However, cobalt is difficult, resulting in only 18-25% recoveries. Further metallurgical test work is required to raise Co recovery since it is trading at a five year high of around $US15 a pound on the back of growth of battery demand.

Future development will require more tonnes, and a higher average grade. There is potential for some extra shallow mineralisation but the main potential lies at depth.

EXPLORATION TENEMENTS (including Mining Leases)

Tenement	Name	Status	Registered Holder	Date of Grant	Date of Expiry	Area (sq km)
ML 2620	Pegmont No.1	Granted	Pegmont Mines Ltd	01.02.2012	31.01.2022	1.3
ML 2621	Pegmont No.2	Granted	Pegmont Mines Ltd	01.02.2012	31.01.2022	1.3
ML 2623	Pegmont No.3	Granted	Pegmont Mines Ltd	01.02.2012	31.01.2022	1.3
EPM 14491	Pegmont Extd 2	Renewed	Pegmont Mines Ltd	11.08.2016	10.08.2021	10.2
EPM 15106*	Pegmont Extended	Renewed	Pegmont Mines Ltd	11.08.2016	10.08.2021	25.6
EPMA 26210	Pegmont Consolidated	Application				
ML 2487	New Hope	Granted	Pegmont Mines Ltd	03.09.2009	31.12.2018	0.8

* EPM 15106 is subject to relinquishment in year 14 (2019-20)

A map on page 2 depicts the Company's current tenement holdings

OUTLOOK FOR 2017

The recovery of commodity prices during the first quarter of 2016 has brought renewed investor interest in mining producers and in advanced stage projects such as Pegmont.

Sharetrading Activity

The current market environment for gold producers particularly with strong exploration results continues to attract investor interest. Some gold producers are enjoying good margins through hedging future production, despite a higher Australian dollar and lower gold price.

The mining sector is now attracting new capital to expand and develop advanced stage deposits. Should the Australian dollar further appreciate, cost pressure on margins could spark merger and acquisition activity to eliminate overheads and maintain growth for the survivors.

The company has placed $400,000 surplus funds on monthly rolling deposits, with its bankers. This is expected to yield about $6,000 interest during the year.

Thus, during 2016, results from investing activities are estimated as follows:

	2017 $000	**2016** $000
Gross share turnover	80	78
Sharetrading Profit/(Loss)	18	17
Dividends and interest	6	3
Net Investing income after provisions	24	20

The market value of the trading portfolio increased to $35,493 (including $11,593 cash) at 31 December 2016, due to an investment in a gold producer, (since sold).

Administration Costs

Administration costs for the year were $196,680 (before legal cost of $20,000) compared with a budget of $220,000. This result was a 5.2% reduction on 2015 administration costs of $207,863. An increase to $220,000 is expected in 2017.

	2017 $000	**2016** $000
Auditor and Director Fees	116	114
Legal expense	10	20
Stock exchange and registry	35	33
Secretarial and office expenses	20	17
Other expenses	39	33
	220	**217**

Thus, indicative income and expenditure for 2017 are forecast to be:

	2017 $000	**2016** $000
Sharetrading Profit/(Loss)	18	17
Dividends and interest	6	3
Option proceeds	350	150
Other revenue	–	–
Total income	**374**	**170**
Exploration	50	47
Depreciation	30	30
Administration	220	217
Net Profit/(loss)	**74**	**(124)**

Note: Actual results during 2017 could differ materially from these forward looking estimates, should circumstances change.

Working Capital

Working Capital was only $140,297, defined as the difference between total Current Assets of $300,809 and Current Liabilities of $160,512 at 31 December 2016. However, this position has been augmented by the payment of $350,000 option fee by Vendetta.

FINANCIAL CONDITION

The Company's Net Assets at 31 December 2016 were $3,156,120 (2015–$3,274,076), a decline of $117,956.

	2016 $000	**2015** $000
Current assets	300.8	331.5
Current liabilities	(160.5)	(102.8)
Working capital	140.3	228.7
Non-current assets	3,315.8	3,345.4
Non-current liabilities	(300.0)	(300.0)
Net assets	**3,156.1**	**3,274.1**

The Net Assets difference of $117,955 in 2016 reflects the year's Net Loss of $123,955, and an increase in Issued Capital of $6,000.

Working Capital

The Company's working capital position at 31 December 2016 was $140,297 (2015 – $228,651).

The deterioration in Working Capital of $88,354 was due to:

	2016 $000	**2015** $000
Pre-tax loss	(124)	(222)
Offset by: Proceeds from share issue	6	15
Depreciation	30	–
Increase in other assets	–	(8)
Cash movement	**(88)**	**(215)**

With the receipt of $350,000 option fee the Company presently has sufficient cash to meet its obligations during 2017, without raising additional equity funds. The sale of assets will continue to be considered in order to increase liquidity.

Non-Current Assets

	2016 $000	**2015** $000
Pegmont field camp	70	100
Pegmont deposit (at valuation)	3,000	3,000
Reefway Royalty	100	100
New Hope Deposit	146	145
	3,316	**3,345**

The value of $3.0 million placed on the Pegmont lead-zinc deposit compares with the proposed royalty payment of $4.85 million due by November 2018 per amended Pegmont Option Agreement with Vendetta, announced on 7 December 2015. This value has not changed since 2000 despite considerable expenditure and drilling undertaken since then.

General Comment

The Company's financial position during the year deteriorated because of the reduction of $100,000 in the Option payment made on 28 February 2016. This payment was reduced by agreement with Vendetta to $150,000 due to difficulties experienced by Vendetta in raising the required funds at that time.

The lack of adequate working capital restricted the Company's exploration and investing activities. Although the current state of the market and economic cycle were largely foreseen and therefore anticipated, never the less, worthwhile investment (resource) opportunities that emerged remained unavailable to the Company. The up tick in gold bullion prices during 2016 indicate a major bottom in the metal price cycle, as China, Japan and Europe all reflate their economies. The US economy continues to create job growth, which could accelerate under the direction of its new president, Mr Donald Trump.

The election of Donald Trump as President of the USA heralds in a new politico-economic era of greater American assertiveness. This paradigm shift will take some time to work its way through the "system" as it will introduce greater uncertainties and unintended consequences. We can expect greater volatility in the financial markets which could lead to new investment and trading opportunities. The gold sector is expected to feature during 2017 and beyond.

The receipt of $350,000 option fee has restored a measure of flexibility which may allow the Company to look around for new opportunities with renewed confidence.

SUMMARY OF FINANCIAL RESULTS

FINANCIAL RESULTS AT 31 DECEMBER		2016 $000	2015 $000	2014 $000	2013 $000	2012 $000
Gross Trading Revenue		78	44	135	296	1,835
Net Trading Profit/(Loss)		17	(23)	(51)	(45)	(236)
Option Receipt		150	–	250	–	–
Exploration		(47)	(46)	(109)	(389)	(854)
Administration		(218)	(207)	(440)	(334)	(424)
Net Profit/(Loss) before tax		(124)	(222)	(346)	(742)	(1,463)
Net Profit/(Loss) after tax		(124)	(222)	(346)	(742)	(1,463)
Cash		217	266	411	19	520
Investments		24	16	32	88	252
Working Capital		140	229	443	10	744
Total Assets		3,616	3,677	3,846	3,502	4,342
Total Liabilities		460	403	357	146	103
Shareholders' Funds		3,156	3,274	3,489	3,356	4,239
Contributed Equity		4,486	4,480	4,465	3,980	3,971
Earning per share (E)	cents	(0.2)	(0.3)	(0.5)	(1.2)	(2.3)
Dividends per share	cents	–	–	–	–	–
Net Tangible Assets per share	cents	4.4	4.6	4.9	5.4	6.8
Working Capital per share	cents	0.2	0.3	0.6	0.0	1.2
Share Price (last sale)	cents		6.0	7.0	6.0	9.0
Price Earnings ration P/E	–	-ve	-ve	-ve	-ve	-ve
Shares on Issue	000	71,392	71,192	71,042	62,699	62,549

COMMENT

Since September 2004, the Company has applied the proceeds from the sale of Reefway Pty Ltd to share investing. This activity generated a total Net Trading Profit of $12,323,000 (after provisions) over eleven years from Gross Trading Revenue of $122,674,000 at an average margin of 10.0% on turnover. During this period the Company has expended funds on exploration $6,448,000, administration $6,528,000, taxation $4,629,000 and distributed dividends of $1,375,000. This activity sustained the Company until 2011 when investment losses were incurred and replacement capital raised.

The current business model of the Company incorporates share trading to generate income to contribute to administration and exploration expenses. However, since the GFC in 2007 (when our Gross Trading Revenue peaked at $36.3 million), share trading activity has declined in keeping with reduced market interest in resource equities and greater volatility caused by intense fiscal and monetary action in major economies.

We are confident that the commodity bear market bottomed during 2016, which has translated into greater investor interest in resource equities. The recent recovery in the LME (base metals) index from a low of 2,054 on 15 January 2016 to around 2,800, a gain of 36% supports this view. Barring unforeseen events, (and there are plenty of "black swans" flying around) we expect a gradual recovery in metal prices during 2017. A successful outcome of this scenario would create growth opportunities for our Company and renewed investor interest in the Pegmont lead-zinc deposit.

CORPORATE GOVERNANCE STATEMENT

This statement outlines the main corporate governance practices that have been revised and updated, and in place since the 1st of July 2005. These corporate governance practices comply with the NSX Corporate Governance Council recommendations unless otherwise stated.

BOARD OF DIRECTORS

Role of the Board

The Board is responsible for ensuring that the Company is managed in a manner which protects and enhances the interests of its shareholders and takes into account the interests of all stakeholders. To fulfill this role, the Board is responsible for setting the strategic directions for the Company, establishing goals for management, monitoring the achievement of these goals and ensuring policies and procedures are applied that facilitate accountability and performance.

Because of the limited size of the Company and its financial affairs and operations, the use of separate committees of the Board of Directors is not considered generally appropriate. All matters that might properly be dealt with by such committees are currently dealt with by the full Board of Directors. Decisions of the Board are, to the extent practicable, unanimous. There were no occasions during the year when decisions were not unanimous.

Composition of the Board

The names and details of the Directors of the Company in office at the date of this Statement are set out in the Directors' Report.

The composition of the Board is determined using the following principles:

- Persons nominated as Non-Executive Directors shall be expected to have skills, experience and expertise of benefit to the Company and to bring an independent view to the Board's deliberations. Persons nominated as Executive Directors must be of sufficient stature and security of employment to express independent views on any matter.
- The Chairperson should ideally be non-executive and independent and be elected by the Board based on his/her suitability for the position. Currently the Chairperson is a Non-Executive Director. The Board believes that this Chairperson is able and does bring quality and independent judgment to all relevant issues falling within the scope of the role of a Chairperson.
- All Non-Executive Directors are expected voluntarily to review their membership of the Board from time-to-time taking into account length of service, age, qualifications and expertise relevant to the Company's then current policy and program, together with the other criteria considered desirable for composition of a balanced Board and the overall interests of the Company.
- Under the Company's Constitution, the minimum number of Directors is three. At each Annual General Meeting, one third of the Directors (excluding the Managing Director) must resign, with Directors resigning by rotation based on the date of their appointment. Directors resigning by rotation may offer themselves for re-election.
- The Directors may appoint a Managing Director for a fixed term not exceeding five (5)years (Article71(a)) unless otherwise approved by members in General Meeting.
- The remuneration of a Managing Director shall not exceed 15 times average weekly Earnings of Employees (AWE) (Article 6.5 (e)).
- The Chairperson and Deputy Chairperson hold office until otherwise determined by Directors, or until they cease to be Directors but in any case for a period not exceeding five (5) years (Article 9.6(a)) unless otherwise approved by members in General Meeting.

The Company considers that the Board should have at least three Directors (minimum required under the Company's constitution) and strives to have a majority of independent Directors but acknowledges that this may not be possible at all times due to the size of the Company. Currently the Board has three Directors, including two non-executive directors of whom one is the Chairman.

The number of Directors is maintained at a level which will enable effective spreading of workload and efficient decision making.

The Board has accepted the following definition of an Independent Director:

"An Independent Director is a Director who is not a member of management (a Non-Executive Director) and who:

1. is not a substantial shareholder of the Company or an officer of, or otherwise associated, directly or indirectly with, a substantial shareholder of the Company;
2. has not within the last three years been employed in an executive capacity by the Company or another group member, or been a Director after ceasing to hold any such employment;
3. is not a principal of a professional adviser to the Company or another group member;
4. is not a significant consultant, supplier or customer of the Company or other group member, or an officer of or otherwise associated, directly or indirectly with, a significant consultant, supplier or customer;
5. has no significant contractual relationship with the Company or another group member other than as a Director of the Company;
6. has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
7. is free from any interest and any business or other relationship which could, or could reasonably be perceived to materially interfere with, the Director's ability to act in the best interests of the Company."

The Company considers a significant consultant, supplier or customer to be material if the total of their annual invoices amounts to more than 5% of the Company's total expenditure in that category.

The composition of the Board is reviewed on an annual basis to ensure the Board has the appropriate mix of expertise and experience. Where a vacancy exists, through what ever cause, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board determines the selection criteria for the position based on the skills deemed necessary for the Board to best carry out its responsibilities and then appoints the most suitable candidate who must stand for election at the next general meeting of shareholders.

Performance of Directors

The performance of all Directors and the Board as a whole is reviewed annually in accordance with the Company's corporate governance guidelines (effective 1 July 2005).

Conflict of Interest

In accordance with the Corporations Act 2001 and the Company's constitution, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes a significant conflict exists, the Director concerned does not receive the relevant Board papers and is not present at the Board meeting whilst the item is considered. Details of Director's related entity transactions with the Company are set out in the related parties note in the financial statements.

Independent Professional Advice and Access to Company Information

Each Director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairperson, may seek independent professional advice at the Company's expense. A copy of advice received by the Director is made available to all other members of the Board.

Remuneration Report

The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001.

Principles used to determine the nature and amount of remuneration

Remuneration Policy

The remuneration policy of Pegmont Mines Limited has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives. The board of Pegmont Mines Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the Company.

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives (if any), was developed by the board. The board reviews executive packages annually by reference to the Company's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The board may exercise discretion in relation to approving incentives, bonuses and options. The policy is designed to attract the highest caliber of executives and reward them for performance that results in long-term growth in shareholder wealth.

Executives are also entitled to participate in the employee share and option arrangements.

All remuneration paid to key management personnel is valued at the cost to the Company and expensed. If options are issued they are valued using the Black-Scholes methodology.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting (currently $100,000). Fees for non-executive directors are not linked to the performance of the Company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company and are able to participate in employee option plans approved by the board.

Performance based remuneration

The Company currently has no performance based remuneration component built into key management personnel remuneration packages.

Company performance, shareholder wealth and key management personnel remuneration

No relationship exists between shareholder wealth, key management personnel remuneration and Company performance.

Use of remuneration consultants

The Company did not employ the services of any remuneration consultants during the financial year ended 31 December 2016.

Voting and comments made at the Company's 2016 Annual General Meeting

The Company received approximately 100% of "yes" votes on its remuneration report for the 2016 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

Details of Remuneration

Details of the remuneration of the directors and the key management personnel of the Company are set out in the Directors' Report.

The key management personnel of Pegmont Mines Limited include the directors.

Board Procedures and Policies

The Board applies the additional following procedures and policies:

The Board promotes ethical and responsible decision making by applying a corporate code of conduct which provides a framework for decisions and actions in relation to ethical conduct in employment. The Board sets guidelines for buying and selling securities in the company.

The Board safeguards the integrity in financial reporting by requiring the Chief Executive Officer and Chief Financial Officer (or equivalent) to make a statement (at the relevant times) that the Company's financial systems are founded on a system of risk management and internal compliance and control which implements the policies adopted by the board and the company's risk management and internal compliance and control systems is operating efficiently and effectively in all material respect.

The Board ensures the company makes timely and balanced disclosure by adopting a continuous disclosure policy.

The Board respects the rights of shareholders by adopting a shareholder communications strategy which aims to ensure that shareholders are informed of all major developments affecting the Company's state of affairs. The Board requests the external auditor to attend all annual general meetings of the company, to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Board determines the Company's 'risk profile' and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control.

DIRECTORS' REPORT

The Directors' present their report on the results of the Company for the year ended 31 December, 2016 and the state of affairs at that date.

Directors

The names of the Directors in office at the date of this report are:

Mr. John M Armstrong Non-Executive Chairman
Mr. Peter J Read Non-Executive Director
Mr. Malcolm A Mayger Managing Director

Principal Activity

The principal activities of the Company in the course of the year were mineral exploration and resource investment.

Operating Results

The consolidated loss after providing for income tax and eliminating minority equity interests amounted to $123,955 (2015 – loss $222,274).

Dividends

No dividend was paid during the year (2015 – Nil).

Review of Operations

Information on the operations of the company during the year and the results of those operations are set out in the section titled "Review of Operations" in this Annual Report.

Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the Company that occurred during the financial year that have not been covered in the 'Review of Operations'.

Matters Subsequent to the end of the Financial Year

No matters or circumstances have arisen since the end of the financial year other than the receipt of $350,000 option fee from Vendetta Mining Corporation on 23 February 2017, which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in financial years subsequent to the financial year ended 31 December 2016.

Options over Unissued Capital

The total number of options issued as at
31 December 2016 was NIL (2015 – NIL). At
31 December 2016 there were no unissued shares under option.

Environmental Issues

The Company is subject to performance bonds for the rehabilitation of a mining tenement. These performance bonds are required by the Mines Department to ensure that rehabilitation occurs as required under environmental regulation. Surface disturbance has been restored. There were no environmental incidents during the year. Occupational Health and Safety requirements were met through the development of an emergency plan, the provision of formal training to Pegmont contractors, toolbox meetings, site inspections and record keeping. There were no reportable incidents during 2016.

Auditors' Section 307C Declaration

Dear Sirs

In accordance with Section 307C of the *Corporations Act 2001* (the "Act") I hereby declare that to the best of my knowledge and belief there have been:

i) no contraventions of the auditor independence requirements of the Act in relation to the audit of the 31 December 2016 financial statements; and

ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Mr. Graham Swan FCA (Lead Auditor)
Rothsay Auditing

Dated 23 March 2017

Meeting of Directors

During the financial year, 5 meetings of directors were formally held. The number of meetings attended by each director during the year is as follows:

Mr. John M Armstrong	5
Mr. Malcolm A Mayger	5
Mr. Peter J Read	5

In addition to these meetings, the non-executives directors are continuously updated on current activities.

Directors' Qualifications and Experience

ARMSTRONG, John M (Non-Executive Chairman) BSc, MBA, FFin, FAICD

Mr. Armstrong, aged 81 is a professional company director with over 40 years of experience in investment banking and resource finance at senior management and director levels.

MAYGER, Malcolm A (Executive Managing Director) BCom, CA, FAICD

Mr. Mayger, aged 77 has over 40 years experience in exploration, mining and investment. Malcolm Mayger founded the company in 1987 and has guided its subsequent development from concept to an explorer with investment interests.

READ, Peter J (Non-Executive Director) BEc, FAICD

Mr. Peter J Read, aged 77 is a corporate specialist with experience as Managing Director with Drillsearch Energy Ltd and Queensland Resources NL. In addition he has extensive experience in Marketing and Business Consulting.

Directors' and Executives' Emoluments

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the accounts or received as the fixed salary of a full-time employee of the Company) by reason of a contract made by the Company or by a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest other than:

a) Consulting fees paid to Malcolm A Mayger Pty Ltd, an entity of which Mr. Malcolm Mayger is a Director and shareholder.
b) Consulting fees paid to Armstrong Associates Pty Limited, an entity of which Mr. John Armstrong is a Director and shareholder.
c) Consulting fees paid to Fonlie Accounting & Investments Pty Limited, an entity of which Mr. Chris Leslie is a Director and shareholder.
d) Peter Read Consulting fees are paid to a jointly held bank account.

The Company's remuneration policy is disclosed in the Corporate Governance Statement preceding this report.

Details of the nature and amount of each payment to each director and each of the officers of the company receiving emoluments are set out in the following tables.

Key management personnel of Pegmont Mines Limited

	Short-Term		**Post Employment**		**Share-based Payments**	**Total**
	Salary & Fees	Non Monetary	Super -annuation	Retirement benefits		
	$	$	$	$	$	$
Directors						
John Armstrong						
2016	**30,000**	**–**	**–**	**–**	**–**	**30,000**
2015	35,000	–	–	–	–	35,000
Malcolm Mayger						
2016	**50,000**	**–**	**–**	**–**	**–**	**50,000**
2015	50,000	–	–	–	–	50,000
Peter Read						
2016	**20,000**	**–**	**–**	**–**	**–**	**20,000**
2015	20,000	–	–	–	–	20,000
Other key management personnel						
Chris Leslie						
2016	**12,450**	**–**	**–**	**–**	**–**	**12,450**
2015	15,300	–	–	–	–	15,300
Total key management personnel compensation						
2016	**112,450**	**–**	**–**	**–**	**–**	**112,450**
2015	120,300	–	–	–	–	120,300

Service agreements

Malcolm Mayger, Managing Director:

Pursuant a Service Agreement, which commenced on 25th of June 1987, the Directors have arranged for Malcolm Mayger to provide his services as Managing Director of Pegmont.

Share-based compensation

Where options are issued to key management personnel as part of their remuneration the options are not issued based on performance criteria, but are issued to key management personnel of Pegmont Mines Limited to increase goal congruence between key management personnel and shareholders. The Company does not have a formal policy in relation to the key management personnel limiting their exposure to risk in relation to the securities, but the Board actively discourages key personnel management from obtaining mortgages in securities held in the Company.

There were no options granted to or vesting with key management personnel during the year, and there were no options forfeited during the year.

There were no ordinary shares issued upon exercise of remuneration options to directors or other key management personnel of Pegmont Mines Limited during the year.

Directors' Interest, in the Share Capital of the Company as at the date of this report

		Shares at 31/12/2015	Acquired/(Disposed) during the year	Shares at 31/12/2016
J M Armstrong	Direct	99,688	–	99,688
	Indirect	800,000	–	800,000
P J Read	Direct	100,000	–	100,000
	Indirect	–	–	–
M A Mayger	Direct	500,000	–	500,000
	Indirect*	38,543,333	–	38,543,333
		40,043,021	**–**	**40,043,021**

*Includes Pegasus Enterprises Ltd in which M A Mayger is a controlling shareholder.

Signed: at Sydney in accordance with a resolution of Directors.

Malcolm A Mayger

Dated: 23 March 2017

Directors' Declaration

The directors declare that the attached financial statements and notes:

a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

b) give a true and fair view of the Company's and controlled entities' financial position as at 31 December 2016 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the directors' opinion:

a) the financial statements and notes are in accordance with the Corporations Act; and

b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Directors.

Malcolm A Mayger
Director

Sydney
Dated: 23 March 2017

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

Income Statement
For The Year Ended 31 December 2016

		Consolidated		Parent Entity	
	Note	2016	2015	2016	2015
		$	$	$	$
Revenue from continuing operations					
Gross revenue from share trading		77,984	44,412	77,984	44,412
Cost of sales		67,335	111,994	67,335	111,994
Revenue / (loss) from sale of shares		10,649	(67,582)	10,649	(67,582)
Write back (increase) of provision for shares		6,395	44,384	6,395	44,384
Net trading profit / (loss) after provisions		17,044	(23,198)	17,044	(23,198)
Interest received or due and receivable from other Corporations		2,653	8,480	2,653	8,480
Option proceeds		150,000	–	150,000	–
Dividends received		–	25	–	25
Refund of tenement fees		–	45,579	–	45,579
Other revenue		–	–	–	–
		169,697	**30,886**	**169,697**	**30,886**
Expenses from continuing operations					
Audit fees		(14,000)	(16,000)	(14,000)	(16,000)
Directors fees		(100,000)	(110,000)	(100,000)	(110,000)
Exploration written off		(76,971)	(45,820)	(76,971)	(45,820)
Stock exchange fees		(24,105)	(8,302)	(24,105)	(8,302)
Share registry fees		(9,174)	(10,891)	(9,174)	(10,891)
Secretarial & office expenses		(17,226)	(18,327)	(17,226)	(18,327)
Superannuation		–	–	–	–
Other expenses from ordinary activities		(52,176)	(43,820)	(52,176)	(43,820)
		(293,652)	**(253,160)**	**(293,652)**	**(253,160)**
Profit before income tax		**(123,955)**	**(222,274)**	**(123,955)**	**(222,274)**
Income tax attributable	2	–	–	–	–
Profit attributable to members of Pegmont Mines Ltd		**(123,955)**	**(222,274)**	**(123,955)**	**(222,274)**
Earnings per share for profit attributable to the ordinary equity holders of the Company	19	(0.002)	(0.003)	(0.002)	(0.003)

The above income statement should be read in conjunction with the accompanying notes.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

Balance Sheet

As At 31 December 2016

		Consolidated		Parent entity	
	Note	**2016**	**2015**	**2016**	**2015**
		$	$	$	$
Current Assets					
Receivables	3	59,045	49,231	59,045	49,231
Available for sale financial assets	4	23,900	15,800	43,261	35,159
Cash and cash equivalents	5	217,864	266,449	217,862	266,447
Total Current Assets		**300,809**	**331,480**	**320,168**	**350,837**
Non-Current Assets					
Held-to-Maturity Investments	6	–	–	2	2
Property, Plant & Equipment	7	70,000	100,000	70,000	100,000
Mineral Tenements	8	3,245,823	3,245,425	3,245,823	3,245,425
Total Non-Current Assets		**3,315,823**	**3,345,425**	**3,315,823**	**3,345,427**
Total Assets		**3,616,632**	**3,676,904**	**3,635,991**	**3,696,263**
Current Liabilities					
Payables	9	160,512	102,829	160,512	102,829
Total Current Liabilities		**160,512**	**102,829**	**160,512**	**102,829**
Non-Current Liabilities					
Loans		300,000	300,000	300,000	300,000
Total Non-Current Liabilities		**300,000**	**300,000**	**300,000**	**300,000**
Total Liabilities		**460,512**	**402,829**	**460,512**	**402,829**
Net Assets		**3,156,120**	**3,274,076**	**3,175,479**	**3,293,434**
Equity					
Contributed equity	10	4,486,107	4,480,107	4,486,107	4,480,107
Reserves	11	4,206,193	4,206,193	4,206,193	4,206,193
Retained profits	11	(5,536,180)	(5,412,224)	(5,516,821)	(5,392,866)
Total parent entity interest		**3,156,120**	**3,274,076**	**3,175,479**	**3,293,434**
Outside equity interests in controlled entities		–	–	–	–
Total Equity		**3,156,120**	**3,274,076**	**3,175,479**	**3,293,434**

The above balance sheet should be read in conjunction with the accompanying notes.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

Statement of Changes in Equity
For the year ended 31 December 2016

	Consolidated		Parent entity	
	2016	**2015**	**2016**	**2015**
	$	$	$	$
Total equity at the beginning of the financial year	**3,274,075**	**3,488,708**	**3,293,434**	**3,500,708**
Total recognised income and expense for the year	**(123,955)**	**(222,274)**	**(123,955)**	**(222,274)**
Transactions with equity holders in their capacity as equity holders:				
Shares issued- note 10	6,000	15,000	6,000	15,000
Consolidation adjustment to minority interest	–	(7,360)	–	–
Total equity at the end of the financial year	**3,156,120**	**3,274,075**	**3,175,479**	**3,293,434**
Total recognised income and expense for the year is attributable to:				
Members of Pegmont Mines Ltd	(123,955)	(222,274)	(123,955)	(222,274)
	(123,955)	**(222,274)**	**(123,955)**	**(222,274)**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

Cash Flow Statement
For The Year Ended 31 December 2016

		Consolidated		Parent entity	
	Note	**2016**	**2015**	**2016**	**2015**
		$	$	$	$
Cash Flows from Operating Activities					
Cash receipts in the course of operations		230,637	52,917	230,637	52,917
Cash payments in the course of operations		**(284,016)**	**(319,334)**	**(284,016)**	**(319,334)**
Net cash from operating activities	17	**(53,379)**	**(266,417)**	**(53,379)**	**(266,417)**
Cash Flows from Investing Activities					
Financial assets decrease		(2,104)	53,638	(2,104)	82,971
Exploration expenditure		(46,971)	(45,820)	(46,971)	(45,820)
Refund of prior exploration expenditure		–	45,579	–	45,579
Net cash provided for investing activities		**(49,075)**	**53,397**	**(49,075)**	**82,730**
		(102,454)	**(213,020)**	**(102,454)**	**(183,687)**
Cash Flows from Financing Activities					
Increase in creditors		57,683	45,458	57,683	16,125
Increase/decrease in debtors		(9,814)	8,150	(9,814)	8,150
Share issue		6,000	15,000	6,000	15,000
Net cash flow from financing activities		**53,869**	**68,608**	**53,869**	**39,275**
Net increase (decrease) in cash and cash equivalents		**(48,585)**	**(144,412)**	**(48,585)**	**(144,412)**
Cash and cash equivalents at the beginning of the financial year		266,449	410,861	266,447	410,859
Cash and cash equivalents at the end of the financial year	16	**217,864**	**266,449**	**217,862**	**266,447**

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

For The Year Ended 31 December 2016

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Pegmont Mines Ltd ("the Company") as an individual entity and the consolidated entity consisting of Pegmont Mines Ltd and its subsidiaries.

a) Basis of preparation

This general purpose financial report has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations and complies with other requirements of the law.

All amounts are presented in Australian dollars, unless otherwise noted.

Compliance with IFRSs

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (IFRSs). Compliance with AIFRSs ensures that the consolidated financial statements and notes of Pegmont Mines Ltd comply with IFRSs.

Historical cost convention

These financial statements have been prepared under the historical cost. Cost is based on the fair values of the consideration given in exchange for assets.

b) Consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Pegmont Mines Ltd ("the Company") as at 31 December 2016 and the results of all controlled entities for the year then ended. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Pegmont Mines Ltd and its controlled entities are referred to in this financial report as the Group or the consolidated entity.

The effects of all intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated in full.

Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated profit and loss account and balance sheet respectively.

Where control of an entity is obtained during a financial year, its results are included in the consolidated profit and loss account from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control exists.

c) Income Tax

The income tax expense or revenue for the year is the tax payable on the current year's taxable income based on the national income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially accepted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

d) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheet.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Notes to the Financial Statements
For The Year Ended 31 December 2016

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Segment Reporting
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operation in other economic environments.

f) Revenue Recognition
Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties.

Interest income is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

g) Royalties and other mining imposts
Ad valorem royalties and other mining imposts are accrued and charged against earnings when the liability from production or sale of the mineral crystallises. Profit based royalties are accrued on a basis which matches the annual royalty expense with the profits on which the royalties are assessed (after allowing for permanent differences). Since the Company is not in production, no royalties are payable.

h) Cash and cash equivalents
For cash flow statement presentation purposes, cash and cash equivalents include cash on hand and deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

i) Trade and Other Receivables
Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 30 days from the date of recognition. Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the income statement.

j) Fair Value Estimation
The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value, less impairment provision, of trade receivables and payables are assumed to approximate their fair values due to their short term nature.

k) Plant and Equipment
Plant and equipment is stated at historical cost less depreciation. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset during their expected useful life of 3 to 5 years. A net valuation of $70,000 has been applied to the Pegmont field camp in activities. All repairs and maintenance expenses are written off as occurrence.

l) Investments and Other Financial Assets
The Group classifies its investments in the following categories: loan and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition. This designation is re-evaluated at each reporting date.

m) Impairment of assets
Assets are reviewed for impairment at each reporting date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash- generating units).

Non financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

n) Trade Payables
These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. These amounts are unsecured and are usually paid within 30 days of recognition.

o) Provisions
Provisions are recognised when the Company has a present obligation and it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

p) Exploration expenditure
Expenditure on acquisition of tenements relating to an area of interest is carried forward where rights to tenure of the area of interest are current and:

i) the area has demonstrated economic grade, mineralisation; or

Notes to the Financial Statements
For The Year Ended 31 December 2016

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Exploration expenditure (continued)

ii) exploration and evaluation activities are continuing in an area of interest but have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

iii) Exploration expenditure is written off in the year during which it is incurred.

At certain milestones during the course of the evaluation of a project the carrying value is reviewed to a fair value, taking into account the likelihood of commercialisation and additional costs likely to be incurred to reach that stage. The last assessment of the carrying value of the Pegmont mining leases occurred in year 2000. Since then, a considerable amount of drilling has been undertaken which has led to the calculation of a maiden JORC compliant Resource in February 2011. Based on this information a review of the carrying value is being considered.

At the end of each financial year the Directors assess the carrying value of the acquisition expenditure carried forward in respect of each area of interest and where the carried forward carrying value is considered to be in excess of (i) above, the value of the area of interest is written down.

Capitalised acquisition expenditure is considered for impairment based upon areas of interest on an annual basis, depending on the existence of impairment indicators including:

- the period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted or planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area; and
- sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Costs carried forward in respect of an area of interest that is abandoned are written off in the year in which the decision to abandon is made.

q) Mineral Tenements

The Company's activities in the mining industry are subject to regulations and approvals including mining heritage, environmental regulation, the implications of the High Court of Australia decision in what is known generally as the "Mabo" case and any State or Federal legislation regarding native and mining titles. Approvals, although granted in most cases, are discretionary.

The question of native title has yet to be determined and could effect any mining title area whether granted by the State or not.

r) Employee benefits

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in creditors and borrowings in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Long service leave

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with wages and salaries above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits only where there is a reasonable expectation that a liability will be incurred.

Superannuation

The amounts charged to the statement of financial performance for superannuation represents the contributions to superannuation funds in accordance with the statutory superannuation contributions requirements or an employee salary sacrifice arrangement. No liability exists for any further contributions by the Company in respect to any superannuation scheme.

Redundancy

The liability for redundancy is provided in accordance with work place agreements.

s) Contributed Equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

t) Earnings per share

Basic earnings per share is determined by dividing the operating profit after income tax attributable to members of Pegmont Mines Ltd by the weighted average number of ordinary shares outstanding during the year.

u) Share based payments

Where shares or options are issued to employees, including directors, as remuneration for services, the difference between fair value of the shares or options issued and the consideration received, if any, from the employee is expensed. The fair value of the shares or options issued is recorded in contributed equity. No options were issued during the year.

Notes to the Financial Statements
For The Year Ended 31 December 2016

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

v) Critical accounting estimates & judgements

In preparing this Financial Report the Company has been required to make certain estimates and assumptions concerning future occurrences. There is an inherent risk that the resulting accounting estimates will not equate exactly with actual events and results.

i) Significant accounting judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Exploration and evaluation expenditure is written off during the year in which it is incurred.

ii) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Impairment of capitalised acquisition expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on an number of factors, including whether the Company decides to exploit the related lease itself, or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors that could impact the future recoverability include the level of reserves and resources, future technological changes, costs of drilling and production, production rates, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

As at 31 December 2016, the carrying value of mineral tenements of the group is $3,245,823 (2015 – $3,245,425)

Notes to the Financial Statements
For The Year Ended 31 December 2016

		Consolidated		Parent entity	
		2016 $	**2015** $	**2016** $	**2015** $
2.	**Income Tax Expense**				
	a) Income tax expense				
	Current tax	–	–	–	–
	Deferred tax	–	–	–	–
	b) Numerical reconciliation of income tax expense to prima facie tax payable				
	Profit/(Loss) from continuing operations before income tax expense	(123,955)	(222,274)	(123,955)	(222,274)
	Timing and permanent differences	–	–	–	–
	Prima facie tax payable at 30 %	–	–	–	–
	Income tax/(refund) attributable to operating profit	–	–	–	–
3.	**Trade and other Receivables (Current)**				
	Security deposits DME & rental bond	24,434	26,934	24,434	26,934
	Other debtors	32,254	13,083	32,254	13,083
	GST control account	2,357	1,779	2,357	1,779
	Prepayments	–	7,435	–	7,435
		59,045	**49,231**	**59,045**	**49,231**
4.	**Available for sale financial assets (Current)**				
	Quoted Shares	23,900	15,800	23,900	15,800
	Unlisted Investments – at fair value			19,361	19,361
	Closing balance at 31 December	**23,900**	**15,800**	**43,261**	**35,161**
5.	**Cash and cash equivalents (Current)**				
	Cash at bank and on hand	60,988	112,977	60,986	112,975
	Cash on deposit	156,876	153,472	156,876	153,472
		217,864	**266,449**	**217,862**	**266,447**

Notes to the Financial Statements
For The Year Ended 31 December 2016

		Consolidated		Parent entity	
		2016	**2015**	**2016**	**2015**
		$	$	$	$
6.	**Held-to-Maturity Investments (Non-current)**				
	Shares in controlled entities	–	–	2	2
7.	**Property, Plant and Equipment**				
	Property, plant & equipment – at cost	369,279	369,279	369,279	369,279
	Less: Accumulated depreciation	(299,279)	(269,279)	(299,279)	(269,279)
		70,000	**100,000**	**70,000**	**100,000**
	Reconciliation of carrying amount				
	Opening balance at 1 January 2015	100,000	100,000	100,000	100,000
	Plant & equipment acquired during year	–	–	–	–
	Disposals	–	–	–	–
	Depreciation write off during year	30,000	–	30,000	–
	Closing balance at 31 December 2016	**70,000**	**100,000**	**70,000**	**100,000**
8.	**Mineral Tenements (Non-Current)**				
	Pegmont Lead-Zinc project at cost	893,807	893,807	893,807	893,807
	New Hope project at cost	145,823	145,425	145,823	145,425
	At cost	**1,039,630**	**1,039,232**	**1,039,630**	**1,039,232**
	Pegmont Lead-Zinc project at fair value	2,106,193	2,106,193	2,106,193	2,106,193
	Reefway Pty Ltd royalty at fair value	100,000	100,000	100,000	100,000
	At Fair Value	2,206,193	2,206,193	2,206,193	2,206,193
		3,245,823	**3,245,425**	**3,245,823**	**3,245,425**

The total value attributed to the Pegmont Lead-Zinc project of $3,000,000 is based on the value of the current Option Agreement with Vendetta Mining Corp (Vendetta). The agreement was entered into in September 2014 and amended on 11 November 2015. The agreement requires Vendetta to pay Pegmont Mines Limited cash payments totaling $5,250,000 over the period of the option. At 31 December 2016 $400,000 had been received from Vendetta and a further three cash installments are payable with a final payment of $3,000,000 on 6 November 2018 upon exercise of the Call Option and transfer of the mineral tenements to Vendetta.

The Company's activities in the mining industry are subject to regulation and approvals including mining, heritage, environmental regulation, and any State or Federal legislation regarding native and mining titles. Approvals, although granted in the most cases, are discretionary. The question of native title has yet to be determined and could affect any mining title area whether granted by the State or not.

Notes to the Financial Statements
For The Year Ended 31 December 2016

		Consolidated		Parent entity	
		2016	2015	2016	2015
		$	$	$	$
9.	**Trade and other Payables (Current Liabilities)**				
	Trade creditors and other loans	160,512	102,829	160,512	102,829

		Parent entity			
			2016		2015
		Number	$	Number	$
10.	**Ordinary shares – Fully paid**	**71,391,556**	**4,486,107**	**71,291,556**	**4,480,107**

During the year the following issue of shares were made at 6c per share.

Issue to a contractor of 100,000 shares for exploration services provided.

Terms and conditions of ordinary shares:

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder's meetings. In the event of winding up of the company, ordinary shareholders rank after all other shareholders and creditors are fully entitled to any proceeds of liquidations.

11. Reserves and Retained Earnings

		Consolidated		Parent entity	
		2016	2015	2016	2015
		$	$	$	$
(a)	**Reserves**				
	Asset Revaluation Reserve	**2,206,193**	**2,206,193**	**2,206,193**	**2,206,193**
	Capital Profit Reserve	**2,000,000**	**2,000,000**	**2,000,000**	**2,000,000**
		4,206,193	**4,206,193**	**4,206,193**	**4,206,193**
(b)	**Retained Earnings**				
	Balance 1 January	(5,412,224)	(5,155,459)	(5,392,866)	(5,170,593)
	Profit for the year after related income tax expense	(123,955)	(222,273)	(123,955)	(222,273)
	Acquisition of minority interest in subsidiary	–	(34,491)	–	–
	Balance 31 December	**(5,536,180)**	**(5,412,224)**	**(5,516,821)**	**(5,392,866)**

(c) Nature and purpose of reserves

The capital reserve is used to quarantine net realised profits of a capital nature, whilst the asset revaluation reserve is used to accumulate adjustments to fair value after they have been posted through the profit and loss account.

Notes to the Financial Statements
For The Year Ended 31 December 2016

12 Key Management Personnel Disclosure

a) Directors

The names of Directors who have held office during the financial year are:

Pegmont Mines Ltd & Subsidiaries
Malcolm A Mayger, John M Armstrong and Peter J Read
Executives during year – Christopher D Leslie

(b) Directors and Director-Related Entities' Shareholdings

The interests of Directors and their Director related entities in shares and share options at the end of the financial period are as follows:

Name	Balance at the start of the financial period	Issued	Purchased/(Sold)	Balance as the end of the financial period
(1) Shares				
JM Armstrong	899,688	–	–	899,688
MA Mayger	39,043,333	–	–	39,043,333
P J Read	100,000	–	–	100,000
Total shares	**40,043,021**	**–**	**–**	**40,043,021**

c) Key management personnel compensation

The Company has taken advantage of the relief provided by Corporations Regulation 2M.6.04 and has transferred the detailed remuneration disclosures to the Directors' Report. The relevant information can be found in sections A-C of the remuneration report within the Directors' Report.

d) Related party transactions

Other than the transactions disclosed above there are no other transactions between related parties that require disclosure.

13. Segmental Information

The economic entity operates predominantly in one geographic location. The operations of the economic entity consist exploration for gold, lead-zinc and other minerals and equity investments within Australia.

14. Remuneration of Directors

			Consolidated		Parent entity	
Type of transaction	Related party – directors	Terms and conditions	2016 $	2015 $	2016 $	2015 $
Directors' fees	MA Mayger	Normal commercial	**50,000**	**50,000**	**50,000**	**50,000**
Directors' fees	JM Armstrong	Normal commercial	**30,000**	**35,000**	**30,000**	**35,000**
Directors' fees	PJ Read	Normal commercial	**20,000**	**20,000**	**20,000**	**20,000**

Notes to the Financial Statements

For The Year Ended 31 December 2016

15. Controlled Entities

			Book value		Equity		Contribution to Group	
			2016	2015	2016	2015	2016	2015
Name	**Inc**	**Class**	$	$	%	%	$	$
Pilbara Ventures Ltd	NSW	Ord	19,359	19,359	100	100	–	–
Queensland Copper Mines Pty Ltd	NSW	Ord	1	1	100	100	–	–
Kimberley Ventures Ltd	NSW	Ord	192,001	186,001	100	80	–	–
			211,361	**205,361**				
Contribution to Group Profit (Loss) after minorities								
Parent –Pegmont Mines Ltd							(123,955)	(222,273)
Profit (loss) for year – group							**(123,955)**	**(222,273)**
Loans to (from) subsidiaries			–	195,746				
Provision for loss			(192,000)	(387,746)				
Parent net investment in subsidiaries			**19,361**	**19,361**				

	Consolidated		Parent entity	
	2016	2015	2016	2015
	$	$	$	$

16. Reconciliation Of Cash

Cash as at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the balance sheet as follows:

	Consolidated 2016 $	Consolidated 2015 $	Parent entity 2016 $	Parent entity 2015 $
Cash at bank	60,988	112,977	60,986	112,975
Call deposits	156,876	153,472	156,876	153,472
	217,864	**266,449**	**217,862**	**266,447**

17. Reconciliation Of Net Cash Outflow From Operating Activities To Operating Loss After Income Tax

	Consolidated 2016 $	Consolidated 2015 $	Parent entity 2016 $	Parent entity 2015 $
Operating Profit (Loss)	(123,955)	(222,274)	(123,955)	(222,274)
• Exploration	76,971	45,820	76,971	45,820
• Refund of tenement expense	–	(45,579)	–	(45,579)
• Unrealised loss on investments	(6,395)	(44,384)	(6,395)	(44,384)
Net cash provided for operating activities	**(53,379)**	**(266,417)**	**(53,379)**	**(266,417)**

The Company has no credit standby or financing facilities in place other than disclosed on the statement of financial position.

Notes to the Financial Statements
For The Year Ended 31 December 2016

18. Subsequent Events

No matter or circumstance has arisen since 31 December 2016 other than the receipt of $350,000 Option fee from Vendetta Mining Corporation on 23 February 2017, that has or may significantly affect the operations of the Company, the results of the Company, or the state of affairs of the Company in the financial year subsequent to the financial year ended 31 December 2016.

19. Earnings Per Share (eps)

		Consolidated		Parent entity	
		2016 $	2015 $	2016 $	2015 $
(a)	**Basic (loss) per share** (Loss) attributable to the ordinary equity holders of the Company	(0.002)	(0.003)	(0.002)	(0.003)
(b)	**Earnings used in calculating earnings per share** (Loss) attributable to the ordinary equity holders of the Company	(123,955)	(222,274)	(123,955)	(222,274)
	The weighted average number of ordinary shares on issu	**71,391,556**	**71,291,556**	**71,391,556**	**71,291,556**

The diluted earnings per share is not materially different from the basic earnings per share.

20. Financial Risk Management

The Company's activities expose it to a variety of financial risks.

Credit risk

The Company does not have any significant credit risk exposure to a single counterparty or any group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the Company's maximum exposure to credit risk without taking account of the fair value of any collateral or other security obtained.

Cash flow and fair value interest rate risk

Although the Company has significant interest bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company monitors interest rates to obtain the best terms and mix of cash flow.

Interest rate risk

The Group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following tables

	Fixed Maturity Date					
	Weighted Average Effective Interest Rate %	Variable Interest $	Less than 1 year $	1 to 2 years $	Non-interest Bearing $	Total $
2016						
Financial assets						
Cash	–	–	–	–	60,988	60,988
Interest bearing deposits	2.0	–	156,876	–	–	156,876
Receivables	–	–	–	–	59,045	59,045
		–	**156,876**	**–**	**120,033**	**276,909**
Financial liabilities						
Accounts payable		–	–	–	160,512	160,512
		–	**–**	**–**	**160,512**	**160,512**

Notes to the Financial Statements
For The Year Ended 31 December 2016

Liquidity risk
Prudent liquidity management involves the maintenance of sufficient cash, marketable securities, committed credit facilities and access to capital markets. It is the policy of the board to ensure that the Group is able to meet its financial obligations and maintain the flexibility to pursue attractive investment opportunities through keeping committed credit lines available where possible, ensuring the Group has sufficient working capital and preserving the 15% share issue limit available to the Company under the NSXA Listing Rules.

Financing arrangements
The Company has no financing facilities available to it

21. Auditors' Remuneration

	Consolidated		Parent entity	
	2016	**2015**	**2016**	**2015**
	$	$	$	$
Amount received or due and receivable by the auditor for:				
a) Audit services				
Audit and review of financial reports under the Corporations Act 2001	14,000	16,000	14,000	16,000
b) Non Audit services				
Income tax return preparation	–	–	–	–
Total remuneration of auditors	**14,000**	**16,000**	**14,000**	**16,000**

The auditor of the Company and its subsidiaries is Rothsay Chartered Accountants.
The Company has received notification from the Company's auditor that he satisfies the independence criterion and that there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct in relation to the audit. The Company is satisfied that the non-audit services provided is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

22. Expenditure Commitments
Mineral Tenement Leases
In order to maintain current rights of tenure to mining tenements, the Company will be required to outlay in 2017 amounts of approximately $Nil (2016 $Nil) in respect of exploration expenditures to meet the minimum expenditure requirements of the various Mines Departments in Australia. These obligations will be fulfilled in accordance with the option agreement with Vendetta Mining.

ROTHSAY

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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF PEGMONT MINES LIMITED

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Pegmont Mines Limited ("the Company") and its subsidiaries (the Group) which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended on that date and notes to the financial statements, including a summary of significant accounting policies and the directors' declaration of the Company.

In our opinion the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its financial performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under these standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of this report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the "Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001,* which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter

Mineral Tenements

As the carrying value of mineral tenements represents a significant asset of the Group we considered it necessary to assess whether facts and circumstances exist to suggest that the carrying amount of this asset may exceed its recoverable amount.

In doing so we carried out the following work in accordance with the guidelines set out in AASB 6 *Exploration for and Evaluation of Mineral Resources.* Our procedures included but were not limited to the following:

- We obtained evidence that the Group has valid rights to explore in the areas represented by the mineral tenements by obtaining searches of a sample of the Group's tenement holdings;

- We enquired of management and reviewed work programs to ensure that further expenditure on exploration on the mineral resources in the Group's areas of interest was planned and cross referenced these discussions to NSX announcements and where applicable minutes of directors' meetings;

- We reviewed the agreement with Vendetta Mining Corporation entered into in September 2014 and amended in November 2015 confirming the amounts payable by Vendetta over the period of the option;

- We obtained an understanding of the key processes associated with management's review of the carrying values of the mineral tenements and challenged management's assertion that the carrying amount of the mineral tenements was likely to be recovered in full from successful development or sale;

- We agreed the opening balances to prior year audit workpapers where the expenditure and been substantiated.

We have also assessed the appropriateness of the disclosures included in Notes 1 and 8 to the financial report.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2016, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If based on the work we have performed we conclude there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibility for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with the Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.

Auditor's Responsibility for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatementt, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/Home.aspx

We communicate with the directors regarding, amongst other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe those matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communications.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the remuneration report included in the directors' report for the year ended 31 December 2016.

In our opinion the remuneration report of Pegmont Mines Limited for the year ended 31 December 2016 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Rothsay

Rothsay Auditing

Dated 23rd March 2017

GR Swan

Graham R Swan FCA
Partner

ROTHSAY
Level 1, Lincoln House, 4 Ventnor Avenue, West Perth WA 6005
P.O. Box 8716, Perth Business Centre WA 6849
Phone 9486 7094 www.rothsayresources.com.au

The Directors
Pegmont Mines Ltd
13 Oden Street
Port Macquarie NSW 2444

Dear Sirs

In accordance with Section 307C of the Corporations Act 2001 (the "Act") I hereby declare that to the best of my knowledge and belief there have been:

i) no contraventions of the auditor independence requirements of the Act in relation to the audit of the 31 December 2016 financial statements; and

ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Graham Swan FCA (Lead auditor)

Rothsay Auditing

Dated 23rd March 2017

Chartered Accountants

Liability Limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW).

SUPPLEMENTARY INFORMATION

1. Issued Capital at 31 December 2016: 71,391,556 Ordinary Shares Fully paid

2. Share Holdings at 31 January 2017

(a) Distribution of Shareholders

Shareholding	Number of holders	Ordinary Shares
1 – 1000	1	1,000
1001 – 5000	1	5,000
5001 – 10,000	76	756,000
10,001 – 100,000	132	4,564,289
100,000 and over	58	66,065,267
	268	**71,391,556**

(b) Names of Substantial Shareholders shown in the Company's Register holding 5% or more of the Issued Capital of the Company are:

Shareholding	Number of Shares	% Issued Capital
Malcolm A. Mayger Pty Limited	17,340,000	24.29
Pegasus Enterprises Ltd	16,683,333	23.37
Malcolm A. Mayger Pty Limited and associates (including Pegasus Enterprises Limited)	39,043,333	54.69
HSBC Custody Nominees (Australia) Ltd	4,751,375	6.67
Walter Leonard McDonald and Mrs Margo Jean McDonald (McDonald Family SF Account)	4,726,361	6.62

(c) Interests associated with Malcolm A Mayger Pty Ltd hold 39,043,333 (54.69%) Ordinary fully paid shares.

DIRECTORS' INTERESTS

		Shares
J M Armstrong	Direct	99,688
	Indirect	800,000
P J Read	Direct	100,000
	Indirect	–
M A Mayger	Direct	500,000
	Indirect*	38,543,333
Total Shares		**40,043,021**

*Includes Pegasus Enterprises Limited

Top Twenty Shareholders at 29 February 2017

	Number of Shares	Capital Issued %
Malcolm A Mayger Pty Ltd	17,340,000	24.29
Pegasus Enterprises Ltd	16,683,333	23.37
HSBC Custody Nominees (Australia) Ltd	4,751,375	6.67
Walter Leonard McDonald and Mrs Margo Jean McDonald (McDonald Family SF account)	4,726,361	6.62
Gollum Opportunities	2,450,162	3.43
Lozora Pty Ltd	2,000,000	2.80
Malcolm A Mayger Super Fund	1,395,000	1.95
Bedel & Sowa Corp Pty Ltd	1,187,500	1.67
David Hewitt	1,232,750	1.72
Scepha Investments Pty Ltd	1,125,000	1.58
Longbrow Croft Capital	1,100,000	1.54
Perpetual Trustee Company Ltd	800,000	1.12
Mr I J Holland & Mrs D Holland	759,000	1.06
Mr Andrew George Poulos	585,000	0.82
Henroth Pty Ltd	550,000	0.77
Warlam Pty Ltd (Lincoln A/C)	520,000	0.73
Malcolm A Mayger	500,000	0.70
TCWH Super Fund	500,000	0.70
WHI Securities Pty Ltd	500,000	0.70
Martin Place Securities Staff Super Fund	450,285	0.63
	59,155,766	**82.86**
Other Shareholders	**12,235,790**	**17.14**
Total Issued Shares	**71,391,556**	**100%**

NOTES

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CORPORATE INFORMATION

PEGMONT MINES LIMITED
ABN 97 003 331 682

Registered Office
C-/- Walker Wayland Services P/L
Level 11, 60 Castlereagh Street
Sydney NSW 2000
Telephone: (02) 9951 5400
Facsimile: (02) 9951 5454

Corporate Office:
13 Oden Street
Port Macquarie NSW 2444
Mail: 13 Oden Street,
Port Macquarie NSW 2444
Phone: 0417 023 989
Email: pegmont@hotmail.com
Website: www.pegmont.com.au

Listed on The National Stock Exchange of Australia
Code: PMI

Directors

John M Armstrong	Non-Executive Chairman
Peter J Read	Non-Executive Director
Malcolm A Mayger	Managing Director

Company Secretary
Christopher D Leslie

Share Registry
C/- Computershare Investor Services Pty Ltd
Shareholder enquiries:
Telephone: 1300 850 505
Facsimile: (03) 9473 2500
Email: web.queries@computershare.com.au

Auditors:
Rothsay Chartered Accountants
Level 1, 4 Ventor Avenue,
West Perth WA 6849
Telephone: (08) 9486 7094

Pegmont

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Website: www.pegmont.com.au

Directors

John M Armstrong	Non-Executive Chairman
Peter J Read	Non-Executive Director
Malcolm A Mayger	Managing Director

Company Secretary
Christopher D Leslie

Share Registry:
C/-Computershare Investor Services Pty Ltd
Shareholder enquiries:
Telephone: 1300 850 505
Facsimile: (03) 9473 2500
Website: www.computershare.com

Listed on The National Stock Exchange of Australia
Code: PMI