

Pegmont Mines Limited

ABN 97 033 331 682

Corporate Office

13 Oden Street
Port Macquarie NSW 2444

Telephone: 6583 7747
Email: pegmont@hotmail.com

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The Manager
The National Stock Exchange of Australia
Level 3
1 Bligh Street
SYDNEY NSW 2000

Dear Sir,

Quarterly Activity Report 31 December 2018

We are pleased to submit the following Quarterly Activity Report of Pegmont Mines Limited (the Company) for the three months to 31 December 2018.

1. Summary

- Cash balances (excluding guarantees and environmental bonds) at 31 December 2018 were \$1,653,941 an increase of \$1,019,636 on the cash balances of \$634,305 at 30 September 2018.
- No field exploration activity in Templeton EPM 26647 was undertaken during the quarter.
- Vendetta Mining Corp made the \$1,000,000 Option payment due on 6 November 2018 and paid a fee of \$100,000 to extend the period of the exercise payment of \$3 million to 31 March 2019 in regard to the acquisition of the Pegmont tenements.

2. Cash – \$1,653,941

Cash balances have increased by \$1,019,636 due to the receipt of \$1,100,000 from Vendetta relating to their Option to acquire the Pegmont lead-zinc Project tenements, plus \$46,366 reimbursement of tenement expenses. There was additional income of \$5,527, less expenditures on administration of \$62,757 exploration of \$69,150 including Templeton and Working Capital movement of \$55,107.

3. Vendetta Activity Announcements at Pegmont

The Company has extended Vendetta's Option exercise to 31 March 2019 upon the payment of \$1.0 million payment due 6 November and an extension fee of \$100,000. Also, the total amount of recoverable production prepayments was reduced to \$5,000,000 before royalty payments.

Vendetta has made the following announcements during the quarter:

- 8 November 2018 – Final (drill) results from 2018 Pegmont Lead-Zinc Project with High Grade intersections in New Zone 3 Structure
- Corporate Presentation of 27 pages in slides

For viewing, go to Google: Vendetta Mining Corp TSXV:VTT

4. New Hope ML 2487 – Gold

Chinova advised on 20 December that it had exercised its Option to acquire 100% interest in ML 2487. On Friday 18 January, the Company received a gross payment of \$632,500 (including 10% GST) from Chinova. Transfer documents, financial assurance and expense adjustments have yet to be completed.

5. EPMA 27113 Mingera

The Queensland Department of Natural Resources, Mines and Energy has **approved the work program** for EPM 27113 (Mingera) – 100 sub-blocks for a total period of five (5) years with 40% relinquishment of sub-blocks at end of year 3 and 50% relinquishment is required if a renewal of the permit is required. This application is adjacent to and North-West of Templeton.

| | | |
|--------------------------|---|--------------------|
| Year 1 | The approved expenditure program is (including 1,000 metres of RC drilling) | \$215,000 |
| Year 2 | Approval expenditure program is (including 1,000 metres of RC drilling) | \$214,500 |
| Year 3 | Approval expenditure program is (including 1,000 metres of RC drilling) | \$270,000 |
| Year 4 | Approval expenditure program is (including 1,000 metres of RC drilling) | \$270,000 |
| Year 5 | Approval expenditure program is (including 1,000 metres of RC drilling) | \$270,000 |
| Total Expenditure | | \$1,239,500 |

6. Commodity Background

During 2018, mineral and petroleum commodity prices have retreated significantly, with the LME Index off 18.1% and Oil (WTI) down 25.3%. However, gold fell marginally, whilst the gold index rose 11.08%, as producers generally increased production at higher prices.

Summary of Selected Commodity Price Movements December 2017 – December 2018

| | | 2017 29 December | 2018 29 March | 2018 29 June | 2018 28 September | 2018 31 December | Change Since Dec 2017 % |
|----------------------------|----------|---------------------|------------------|-----------------|----------------------|---------------------|----------------------------------|
| Oil | \$US/bbl | 60.41 | 64.86 | 74.08 | 73.11 | 45.10 | (25.3) |
| Iron ore (62% Fe fines) | \$US/t | 72.62 | 64.99 | 64.44 | 68.67 | 72.73 | 0.15 |
| LME Index | | 3,418.5 | 3,204.8 | 3,203.9 | 3,004.3 | 2,801.0 | (18.1) |
| Lead | \$US/t | 2,485.0 | 2,411.0 | 2,432.0 | 2,002.0 | 2,009.0 | (19.2) |
| Zinc | \$US/t | 3,338.0 | 3,332.0 | 2,948.0 | 2,573.0 | 2,510.5 | (24.8) |
| Copper | \$US/t | 7,157.0 | 6,685.0 | 6,646.0 | 6,180.0 | 5,965.0 | (16.7) |
| Nickel | \$US/t | 12,260.0 | 13,245.0 | 14,910.0 | 12,480.0 | 10,595.0 | (13.7) |
| Gold | \$US/oz | 1,295.2 | 1,338.0 | 1,250.2 | 1,182.8 | 1,279.6 | (1.2) |
| \$A/\$US | | 0.7802 | 0.7677 | 0.7388 | 0.7213 | 0.7058 | (9.5) |
| All Ords Index | | 6,167.3 | 5,868.9 | 6,309.9 | 6,325.5 | 5,709.4 | (7.6) |
| Gold Index (ASX 200) | | 4,920.0 | 4,734.7 | 5,249.8 | 4,645.5 | 5,465.3 | 11.08 |

Base metal prices declined during 2018 as economic growth slowed in China, Japan and Europe (including the United Kingdom). Oil prices dropped sharply during Q4 due to rising US output and lower growth in demand elsewhere. Thus, the short-term outlook for commodity prices remains volatile due to political (Brexit) and economic (China – US trade war) factors. Furthermore the prospect of higher US interest rates may also put a cap on bullion prices.

These uncertain economic and political factors suggest a cautious expenditure approach to exploration at Templeton and at Mingera later in 2019. The Board intends to RC drill 1,200-1,500 metres at Templeton during May to test 2-3 magnetic anomalies, and then a further 1,200 metres on another three anomalies during September-October. This program would test half of the anomalies in E1 and E2 structures.

7. Income Summary (cash basis)

| | Actual December Quarter 2018 \$ | Actual Year to 31 December 2018 \$ |
|---|--|--|
| Income Received | | |
| Interest/Dividends/Other | 4,715 | 15,022 |
| Realised profit/(loss) on sale of shares (cost basis) | (2,775) | (975) |
| | 1,940 | 14,047 |
| Add: Increased provisions to market value | 3,587 | (3,063) |
| Net Income/(Loss) from investing activities | 5,527 | 10,984 |
| Add: Chinova Prepayment | — | 150,000 |
| Add: Vendetta Option Proceeds | 1,000,000 | 1,500,000 |
| Payment of extension fees | 90,909 | 100,000 |
| Net Income | 1,096,436 | 1,760,984 |
| Less Expenditures (cash basis) | | |
| Exploration | | |
| Pegmont tenement expenses | — | 3,631 |
| General Investigations | 14,526 | 53,332 |
| New Hope expenses | 8,289 | 25,992 |
| Templeton | 38,494 | 134,637 |
| Mingera Application | 7,841 | 7,841 |
| | 69,150 | 225,433 |
| Corporate | | |
| Administration | 22,257 | 132,485 |
| Audit Fees | 8,000 | 16,000 |
| Directors' Fees | 32,500 | 130,000 |
| Working Capital | (55,107) | (13,777) |
| | 7,650 | 264,708 |
| Net Cash Surplus/(Deficit) | 1,019,636 | 1,270,843 |
| Add: Opening Cash Balances | 634,305 | 383,098 |
| Closing Cash Balances | 1,653,941 | 1,653,941 |

Conclusion

The Company's financial position improved significantly during the quarter with cash up \$1,019,636, and the exercise of Chinova's Option on New Hope resulting in a net (GST) payment of \$575,000 received on 18 January 2019. Thus, total funds and realisable debtors exceed \$2.2 million as we commence 2019. These funds are sufficient for an exciting copper-gold exploration program West of Mount Isa at Templeton and Mingera over several years.

Yours faithfully



Malcolm A Mayger
Managing Director