

# Pegmont Mines Limited

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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 30 September 2020**

### **1. Summary**

The elevated price of gold has caught investor attention resulting in a surge in market value of gold producers. Consequently, the current year has witnessed a substantial increase in exploration activities in Western Australia which has led to a shortage in drill capacity and delays in assay results. Our Mount Kelly Trend project could offer some gold exposure as it is sometimes associated with copper mineralisation, often in ferruginous-quartz breccia. Our initial field work was directed at mapping and sampling this type of mineralisation on both Battle Creek and Canyon tenements.

- i. Cash balances (including Term Deposits) totalled \$2,485,712 at 30 September 2020, a decline of \$161,061 for the three months due mainly to exploration expenditure of \$86,194 and corporate expense of \$85,918 partially offset by credits of \$11,051.
- ii. Exploration expenditure of \$86,194 targeted the Mount Kelly Trend project, \$58,401 including a reconnaissance program of rock sampling and mapping of both Battle Creek and Canyon tenements. Anomalous assay results resulted in several target areas requiring follow up. Also, mapping confirmed the location of the McNamara Fault Zone and McNamara West fault as running through the Canyon prospect.
- iii. An independent exploration review of Templeton and Mingera tenements has resulted in a proposed option deal, the terms of which have yet to be negotiated. A successful outcome would reduce future expenditure obligations and create additional potential for royalty income.

### **2. Exploration Activity**

Two reconnaissance field programs have been undertaken since grant of Battle Creek (EPM 27255) in April and the Canyon (EPM 27345) tenement in June. These two tenements cover the north and south extension of Magnetic Anomalies thought to be the source of the Mount Kelly copper mineralisation, where there are north-west cross cutting faults through the McNamara Fault Zone. Understanding the complex structural nature of the tenements is still evolving. The second batch of assay results, due by early November, may provide some clues and set the parameters of 2021 work program.

The aim of this exploration project is to define target areas as having economic copper and gold values. We know that the Mount Kelly fault and other nearby faults host economic oxide and sulphide mineralisation containing copper-cobalt and gold values. The present SX-EW extraction plant producing cathode copper is from 2–7 kilometres distant from the Canyon prospect; thus enhancing anything we find.



### 3. Royalty Potential

Currently, Pegmont Mines has two royalty projects. The first being the Reefway royalty tenements including the copper-gold Mount Kelly mining leases and associated outlying exploration permits and secondly, the lead-zinc Pegmont mining leases and exploration tenements.

The Reefway royalty tenements were sold to CopperCo in 2004, the proceeds of which were applied to share trading and subsequent exploration of the Pegmont tenements. A key element of the CopperCo agreement was that no royalty would be payable on the first 100,000 tonnes of copper metal produced from the tenements. To date, some 50,000 tonnes has been produced from oxide ores at Mount Kelly, in addition there are unmined sulphide deposits. At Anthill, some 40 kilometres south of Mount Kelly, there are unmined deposits of oxide mineralisation, which could be trucked to the Mount Kelly plant during favourable price periods. The recent change of ownership may expedite future production plans. A royalty of 1% NSR to Pegmont and others exists over the Reefway tenements.

The Pegmont royalty deal was finalised last year resulting in the sale of the Pegmont tenements to Vendetta Mining Corp; for \$5 million and 1.5% NSR royalty (after the recovery of \$5 million from production from inputted royalty). Vendetta recently announced preliminary Material Sorting tests that indicated a significant increase in lead grades to the mill, reducing capital cost estimates and improved flotation recovery. Although further confirmatory work is required, this work is a significant step towards production.

The Board regards these two royalty projects as having long-term potential for development to production and providing an income to fund the Company's future exploration.

### 4. Commodity Background

The relative growth of China, even during 2020, continues to impact upon commodity prices. The elevated price of iron ore has underpinned the West Australian economy, whilst high gold prices (often 100% above current costs) has caused a major surge in exploration activity and expanded production. We expect this boom activity to continue into 2021 as the gold price partly reflects the ongoing tension between the US and China.

#### Summary of Selected Commodity Price Movements – December 2019 – September 2020

		2020 30 Sept	2019 31 Dec	Decline on 31.12.19 %
Oil	\$US/bbl	39.29	61.11	(35.7)
Iron ore (62% Fe fines)	\$US/t	117.70	92.13	27.7
LME Index		2,681.7	2,843.3	(5.7)
Lead	\$US/t	1,823.0	1,926.2	(5.4)
Zinc	\$US/t	2,410.7	2,311.5	4.3
Copper	\$US/t	6,574.0	6,188.0	6.2
Gold	\$US/oz	1,888.7	1,523.0	24.0
\$A/\$US		0.7191	0.7015	2.5
All Ords Index		6,009.3	6,802.4	(11.7)
Gold Index (ASX 200)		8,378.7	6,847.5	22.4

Iron Ore and gold bullion outperformed other bulk mineral commodities and index markets; with West Texas oil quotes collapsing due to a steep fall in demand. The 'lock-down' economy is having a very detrimental effect on World Trade and is reminiscent of the 1971–74 commodity recession when there was a large (4–5%) downward shift in World Commodity demand which took 5–7 years of economic growth to recover.

This subdued economic scenario could put pressure on exploration apart from the search for gold. Since 2016, gold producers have been highly sought after and produced outstanding market value gains. During 2021, investor attention is expected to focus on mergers and acquisitions and promising exploration plays with attention mainly on West Australian activity.

## 5. Income Summary (cash basis)

	Sept 2020 Quarter \$	Nine months Sept 2020 \$	Revised Estimate to December 2020 \$
<b>Income Received</b>			
Interest/Dividends/Other	837	23,527	25,000
Realised profit from sale of shares	—	—	—
	837	23,527	25,000
Less, (increased) provision to market	435	(6,815)	(6,000)
Net Income from investing activities	1,272	16,712	19,000
<b>Net Income</b>	<b>1,272</b>	<b>16,712</b>	<b>19,000</b>
<b>Expenditures (cash basis)</b>			
<b>Exploration</b>			
Templeton – EPM 26647	6,381	23,925	25,000
Mingera – EPM 27113	9,369	79,006	80,000
Mount Kelly Trend Project	58,401	76,534	120,000
Other	12,043	12,431	15,000
	(86,194)	(191,896)	(240,000)
<b>Corporate</b>			
Administration	53,418	97,612	140,000
Audit Fees	—	10,000	20,000
Directors' Fees	32,500	97,500	130,000
	(85,918)	(205,112)	(290,000)
Net Operating Surplus/Deficit	(170,840)	(380,296)	(511,000)
Working Capital, net receipts	9,779	(64,913)	(220,000)
Net Cash Surplus/(Deficit)	(161,061)	(445,209)	(731,000)
Add: Opening Cash Balance	2,646,773	2,930,921	2,930,921
<b>Closing Cash Balances</b>	<b>2,485,712</b>	<b>2,485,712</b>	<b>2,199,921</b>

The Company's expected cash balance at 31 December 2020 is expected to be approximately \$2.2 million after payment of \$120,000 in Deferred Director's fees and \$100,000 advanced by Malcolm A Mayger Pty Limited during 2013/14, leaving a net balance owing of \$200,000. Exploration expenditure should be stable at \$240,000 in 2021, by switching expenditures from Templeton/Mingera to the Mount Kelly Trend project. Administration costs are expected to remain stable in 2020.

### Conclusion

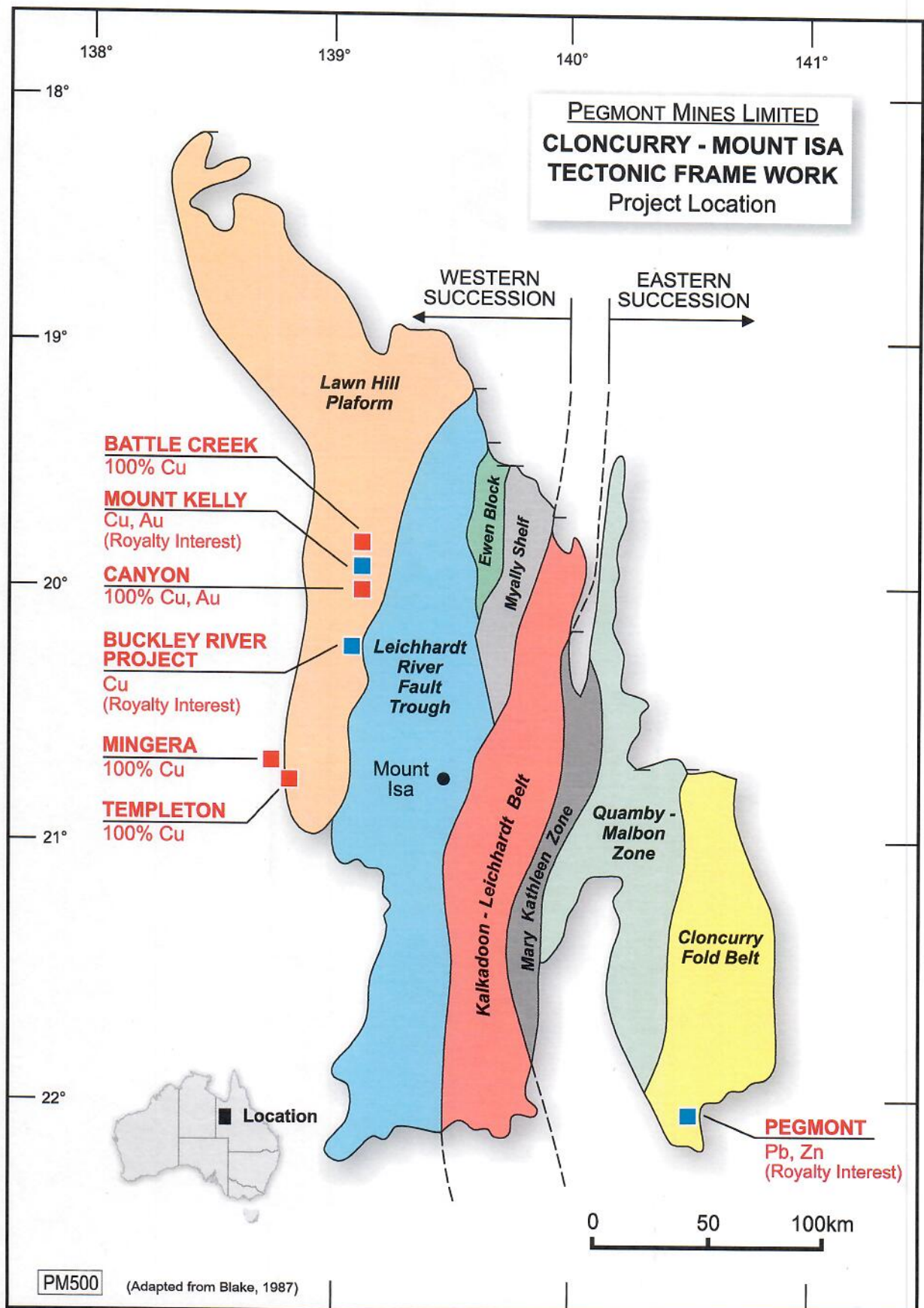
Our Corporate Strategy will be to explore cautiously and conserve our cash position for a more buoyant period of economic recovery and higher metal prices. Unless exploration results are outstanding, our aim will continue to option out tenements, reduce expenditure obligations to maintain cash and to build a future royalty revenue stream for a more sustainable future.

Yours faithfully



Malcolm A Mayger  
Managing Director





The Lawn Hill Platform suite of rocks overlay the older Proterozoic McNamara Group at generally increasing depth to the west.