

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 31 March 2021

1. Summary

During the March quarter, our exploration activity was focused on designing the upcoming Canyon drill program to test for mineralisation associated with the McNamara Fault and the intersecting cross NW-SE fault to replicate the mineralisation at Mount Kelly. This drill program of 10–12 RC holes for 1,000–1,200 metres is expected to be undertaken during mid-May to mid-June 2021.

- i. Cash balances (including Term Deposits) totalled \$1,946,611 at 31 March 2021, a decline of \$257,835 due mainly to the final repayment of \$200,000 (previously advanced by a Director), administration \$50,364 and exploration \$6,464.
- ii. Exploration expenditure of \$6,464 reviewed drill results of previous explorers in the Canyon tenement to optimise the upcoming RC drill program.
- iii. Negotiations on an Option Agreement with South 32 Limited were successfully concluded on the Templeton and Mingera Tenements.
- iv. A five-year Corporate Review of Pegmont's financial position highlighted an income gap until royalty receipts may be expected. Interest on current bank deposits is not expected to cover administration costs.
- v. Future royalty receipts on our three royalty agreements are uncertain but could have substantial intangible value should metal prices continue at current (elevated) levels.
- vi. Current metal prices remain firm.

2. Exploration Activity

Exploration activity was confined to desktop review of previous work due to the prevailing 'wet season' which precludes field work. However, previous explorers had conducted considerable RC drilling in the Canyon tenement looking for extensive oxide resources deposited by hydrothermal fluids in sedimentary beds/formations. Most of their holes were shallow (down to 10 metres) despite some intersections at greater than 60 metres associated with the McNamara Fault. Reflecting upon previous success at Mount Kelly for both oxide Cu + Co and sulphide Cu + Au + Co targets it became apparent that various faults in the Canyon area are the primary targets as conduits for (hydrothermal fluid) emplaced mineralisation with both halo and primary characteristics.

A Plan of Operations has been prepared for presentation to the Mines Department, the Landholders and Native Title interest in the coming weeks.

3. Option Deal with South 32 Limited

A four-year option deal was executed with South 32 Limited on 25 February 2021, who may withdraw at any time or extend the option period for an additional two years by paying an extension fee of A\$500,000. South 32 may exercise the option to acquire the Templeton and Mingera tenements by paying A\$1,000,000 and granting to Pegmont a 1% Net Smelter Royalty (NSR) on all mineral or metallic product extracted from the tenements.

This option deal adds to our existing portfolio of Royalty interest over the Reefway tenements (copper + cobalt + gold) and also over the Pegmont tenements (lead-zinc + silver).

4. Corporate Review 2021 – 2025

Whilst the Board is optimistic about the outcome of the 2021 drill program, it does not want to run down the Company's liquid funds much below \$1.5 million forecast at December 2021. But instead to develop a lower risk strategy of 'Patient Investing' in high quality, well managed ASX listed companies with a strong growth profile whilst waiting for a royalty stream to develop. The Board has resolved to allocate an initial \$200,000 towards this activity, overseen by an investment committee with strict guidelines.

5. Directorate – John Armstrong

Mr John Armstrong has notified the Board that he does not intend to seek re-election at the forthcoming AGM to be held on 27 May. He has been Chairman of Pegmont since 1998 and presided over the development of a progressive investment policy of exploration activity resulting in a series of tenement option deals to assure the long-term future of the Company. This activity combined with share investment activity has resulted in dividend payments amounting to 66% of Paid Capital to shareholders. The Board extends their gratitude to his dedication in successfully guiding and progressing the activities of the Company.

6. Commodity Background

The relative growth of China, 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 30–40% margin above current costs) has caused a major surge in exploration activity and expanded production. This boom activity has continued into 2021, resulting in demand for skilled labour and longer turnaround time in assay results.

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

		2020 31 Dec	2021 31 Mar	(Decline) on 31.12.20 %
Oil	\$US/bbl	48.8	60.5	24.0
Iron ore (62% Fe fines)	\$US/t	155.7	163.7	5.1
LME Index		3,459.6	3,781.9	9.3
Lead	\$US/t	1,972.0	1,946.7	(1.3)
Zinc	\$US/t	2,723.5	2,795.0	2.6
Copper	\$US/t	7,741.5	8,770.2	13.3
Gold	\$US/oz	1,891.0	1,684.8	(10.9)
\$A/\$US		0.7657	0.7608	(0.6)
All Ords Index		6,850.6	7,017.0	2.4
Gold Index (ASX 200)		7,334.2	6,217.0	(15.2)

Iron Ore has since risen to US\$180/t its highest level since 2011 and West Texas oil quotes have firmed on increased tension in the Middle East. The 'lock-down' economy is having a very detrimental effect on European activity. Investor confidence is rising in USA with profit results and greater vaccination coverage. Political tension between USA and China over Taiwan coincides with a firming gold price. Industry exploration activity continues to concentrate on the search for gold, although majors are interested in copper and gold in low grade bulk deposits offering plus 20 year LOM. Merger and acquisition activity in Lithium producers as the industry consolidates.

7. Income and Expenditure Summary (cash basis)

	Mar 2021 Quarter \$	Budget Year Dec 2021 \$
Income Received		
Interest/Dividends/Other	8,992	9,000
Realised (loss) from sale of shares	—	—
	8,992	9,000
Less, Provision to market	(1,142)	—
Net Income from investing activities	7,850	9,000
Net Income	7,850	9,000
Expenditures (cash basis)		
Exploration		
Templeton – EPM 26647	420	5,000
Mingera – EPM 27113	—	—
Mount Kelly Trend Project	5,157	233,000
Other	887	11,000
	(6,464)	(249,000)
Corporate		
Administration	7,864	151,000
Audit Fees	10,000	20,000
Directors' Fees	32,500	130,000
	(50,364)	(301,000)
Net Operating Surplus/Deficit	(48,978)	(541,000)
Working Capital, net receipts	(208,861)	(200,000)
Net Cash Surplus/(Deficit)	(257,839)	(741,000)
Add: Opening Cash Balance	2,204,450	2,204,450
Closing Cash Balances	1,946,611	1,463,450

The Company's cash balance at 31 March 2021 is \$1,946,611 after repayment of \$200,000 advanced by Malcolm A Mayger Pty Limited since 2013/14. Exploration expenditure for the quarter to 31 March 2021 was \$6,464. Administration costs were \$50,364.

8. Exploration Map Attachments

- Figure 1 Provides a location of the Company's 100% owned tenements in the Mount Kelly area. The Company's current area of interest lies within "Canyon" between Mount Kelly and McLeod Hill.
- Figure 2 Indicates known mineralisation at Mount Kelly and McLeod Hill to be associated with fault structures. There is a two kilometre target zone on the western branch of the McNamara Fault within the Canyon tenement, part of which will be divided in the June quarter.
- Figure 3 Shows the proximity of the target zone to existing processing infrastructure (owned by another party) at Mount Kelly.

Conclusion

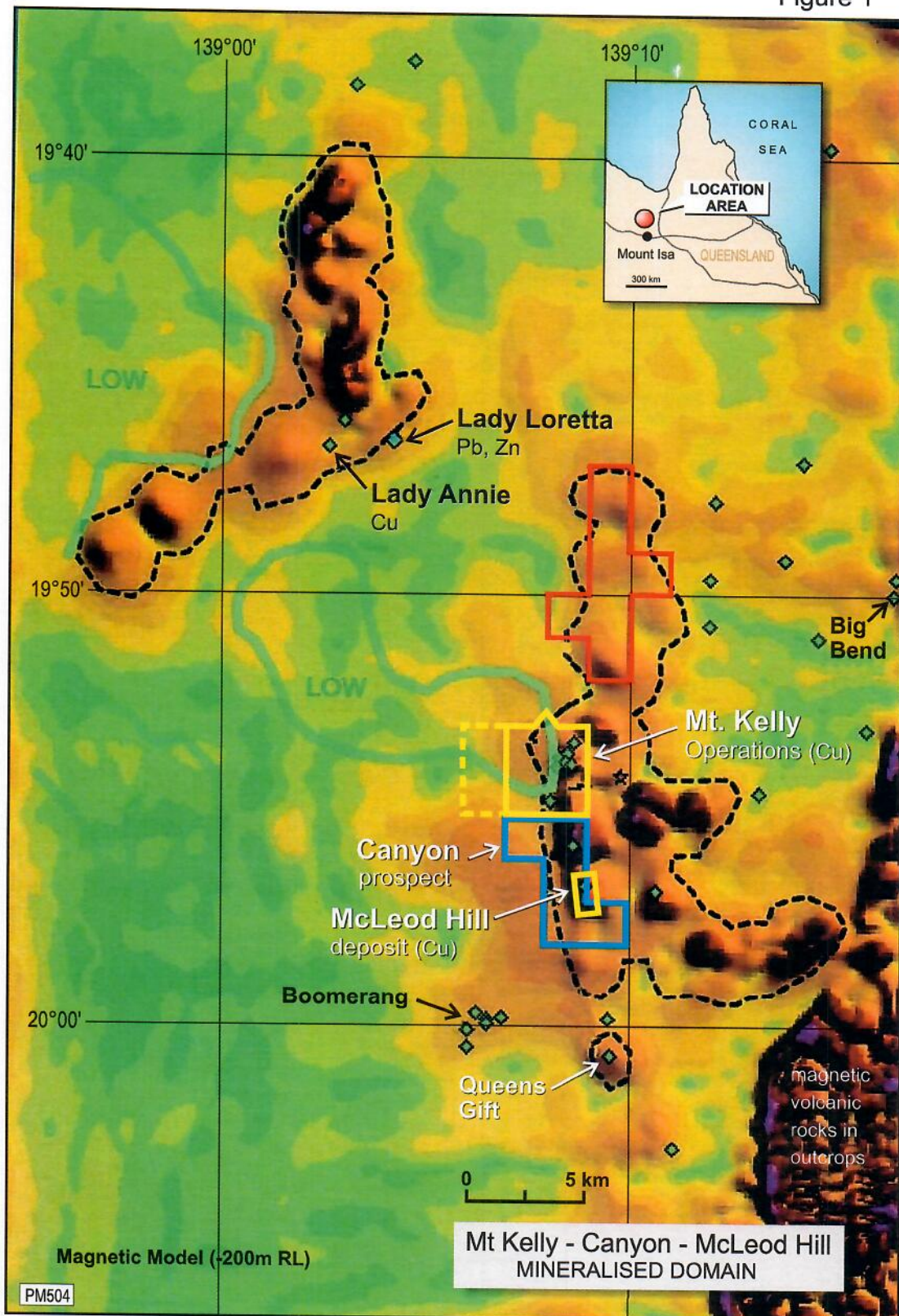
Our Corporate Strategy for 2021 is to drill up to 1,200 metres into the extension of the McNamara Fault, north of McLeod Hill MLs Figure 2. Unless exploration results are outstanding, our strategy would continue to option out tenements, to reduce expenditure obligations (and maintain an adequate cash position) and to build a future royalty revenue stream for a more sustainable future.

Yours faithfully



Malcolm A Mayger
Managing Director

Figure 1



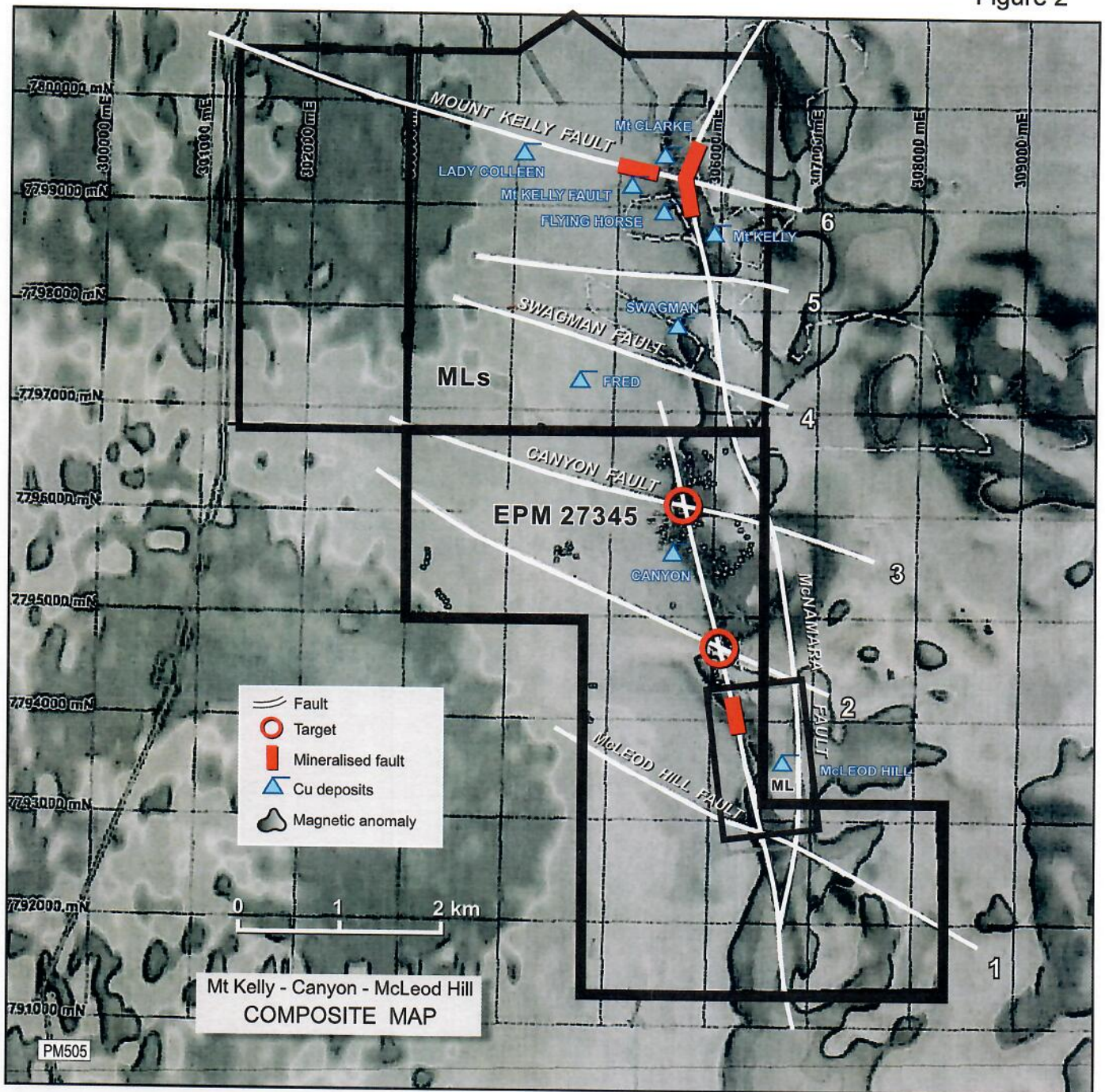
Map showing 'Depth to Magnetic Basement' (= 'depth to magnetic rock bodies under sedimentary strata') with reference elevation of 200m below sea level, prepared by Kate Nelson, using data from MIM survey on lines at 200m spacing.

Dashed black outline : Cluster of 'bulls-eye' type magnetic anomalies (magnetic magmatic intrusives)

Blue : CANYON EPM 27345 ; **Red** : BATTLE CREEK EPM 27255 ;

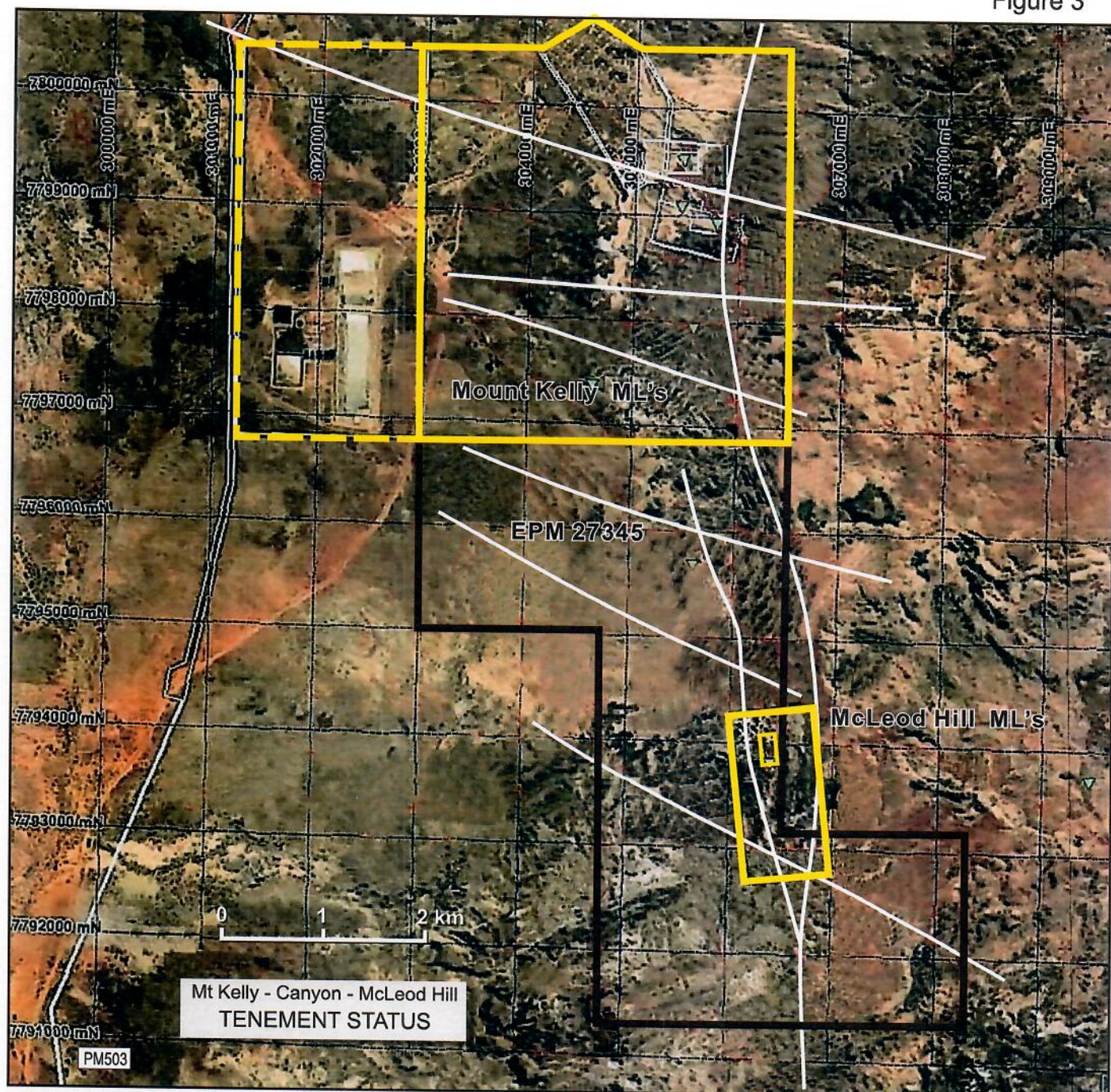
Yellow : Mount Kelly MLs and McLeod Hill MLs (not owned by the Company but subject to Reefway royalty.)

Figure 2



Map showing Magnetic anomalies, main fault structures and mineralised areas.
Mount Kelly MLs and McLeod Hill MLs (not owned by the Company but subject to Reefway royalty.)

Figure 3



Solid Yellow : Mount Kelly MLs and McLeod Hill MLs (not owned by the Company but subject to Reefway royalty.)
Dashed Yellow : Mount Kelly ML not subject to Reefway royalty.