

# **Pegmont Mines NL**

ACN 003 331 682

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**FAX TO:** THE STOCK EXCHANGE OF NEWCASTLE LIMITED  
**ATTENTION:** SCOTT EVANS  
**FAX NO:** (02) 4929 1556  
**FROM:** MALCOLM MAYGER  
**SUBJECT:** AUDITED FINANCIAL ACCOUNTS TO 31 DECEMBER 2005  
**DATE:** 22 MARCH 2006

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Dear Scott,

We attach our Audited Financial Report for the year ended 31 December 2005  
Together with the chairman's report, review of operations and directors report.

Yours Sincerely,



Malcolm A Mayger  
Managing Director

**PEGMONT MINES NL**  
**FINANCIAL REPORT**  
**FOR YEAR ENDED**  
**31 December 2005**

## Pegmont Mines NL

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### CHAIRMANS REPORT

We are pleased to report our second consecutive after tax-net profit amounting to \$764,894 for the year ended 31 December 2005. This result was due mainly to investment activities which yielded profits from sale of shares totalling \$2,059,569. In addition there was an unrealised gain in the value of the share portfolio, of \$762,858 not brought to account.

Thus, through share trading, we have taken advantage of buoyant market conditions to cover our corporate overheads, continue exploration of our 100% owned Pegmont lead-zinc deposit, pay income tax; and build the financial strength of the Company.

Whilst we do not expect the continuation of a strong stock market, nevertheless, your Board will endeavor to earn a net profit after exploration costs in the current year. Accordingly we have set a budget of \$1,500,000 for share trading profits during 2006.

Continued demand for basic raw material by China's on-going economic growth has brought about an unprecedented rise in commodity prices; which in turn has induced expansion plans by producers and increased exploration activity. The surge in mining activity to meet China's demand has created bottle-necks in infrastructure, shortage in skilled labour and crucial consumables resulting in rapid cost inflation. We expect the mining industry to experience a squeeze in profit margins as metal prices appear to be topping out. This scenario makes us feel cautious.

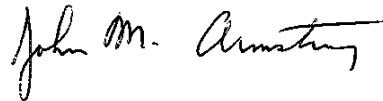
Going forward, we feel that the best way for your Company to generate growth in share value is to:

- Continue to evaluate the Pegmont lead-zinc deposit,
- Select exploration properties with demonstrated mineralisation,
- Maintain financial liquidity to take advantage of corporate deals and or cash flow opportunities; including the acquisition of royalty rights.

Our major concern for shareholders is the lack of market liquidity in our shares and the lack of recognition of our cash/liquidity backing of our shares now standing in excess of 8 cents. During the year a significant shareholder unloaded 3.6 million shares at a price of less than half our cash backing; because of the lack of willing buyer. Your Board is therefore considering a proposal to put a share buy-back scheme to shareholders at the upcoming Annual General Meeting; in order to provide market liquidity, albeit reducing shareholders spread.

Listing the Company's shares on the ASX may help to resolve this problem, but this solution comes at considerable cost; both up-front and for ongoing regulatory issues. The appropriate time for ASX listing will occur when your Board has acquired a significant corporate deal or cash flow opportunity. Such a deal would enable the raising of additional capital (at a better share price) and the creation of sufficient shareholder spread that could create a more liquid market and an opportunity for our next stage of corporate growth.

I wish to thank my fellow Directors, the Company Secretary, Senior Advisor, Consultants and the Company lawyers for their efforts in making 2005 another exceptional year.



John M. Armstrong  
Chairman

## Pegmont Mines NL

### REVIEW OF OPERATIONS

Pegmont's strategy is to generate shareholder value by investing in resource shares and by exploring for economic mineralisation.

Our aim is to be self-sustaining by generating income sufficient to cover our overheads and exploration expenditures.

### Financial Results

During the year 2005, our activities resulted in a net profit after tax of \$764, 894 determined as follows: -

	\$
Investment income	<u>\$2,222,532</u>
Less	
Administration	459, 173
Exploration	351, 369
Provision for share loss	<u>110, 000</u>
	<u>920,542</u>
Pre tax Profit	1,301, 990
Less, Company tax	<u>537,096</u>
Net Profit after tax	<u>764, 894</u>

This profit result allows for the write off of all exploration expenditures incurred during the year and does not include any unrealized gain on the share portfolio at the year end.

Despite writing off all exploration expenditure when incurred, due to its uncertain outcome, we regard focused exploration as the means of creating economic value for the Company. The profit we realized by the sale of shares in Reefway Pty Ltd during 2004 supports this assumption.

### Exploration Activities

		2005	2006
Expenditure	\$000	351,369	54,586
Metres drilled	m	1,072	-

Exploration activities were concentrated on the Pegmont lead-zinc deposit. A program of 15 RC holes for 1072 metres were drilled. The best result came from PMD 056 which interested 41 metres of mineralisation from 0 to 41 metres averaging **9.24% Pb and 2.98% Zn**. This hole was interpreted to have been drilled down dip

with an estimated 6-8 metres of true width; it provided valuable samples for metallurgical test work of oxide, mixed and sulphide mineralisation.

Preliminary standard test work on oxide and intermediate weathered zone material indicates complex mineralogy resulting in low metallurgical recoveries. An innovative approach to further testing will be required. Whereas, treatment of sulphide material has resulted in encouraging recoveries which suggests that it will be straight forward to treat.

Since oxide resources (as estimated by Behre Dolbear Australia Pty Ltd – 1996) constitute about half of the Pegmont Main Lode resource base, ie 4.3 Mt of 7.45% Pb and 2.7% Zn; an early resolution of an economic treatment process could add considerable value to the deposit. A budget of about \$100, 000 has been proposed to resolve this issue.

Test work on Pegmont's sulphide resource totalling 4 Mt of 8.07% Pb and 4.27% Zn will be continued to optimise metal recoveries.

### Economic Assessment of the Pegmont Deposit

An independent Geological Report and Valuation by Terrence Willstead & Associates 2000, estimated a value of \$3.0 million for the Pegmont lead-zinc deposit as a satellite mine associated with one of three then existing mining operations. This value was based on the assumption of being able to mine 0.5 Mt of oxide and 4.0 Mt of sulphide material and using metal prices of US \$450/t Pb, US \$1150/t Zn and an exchange rate of US \$0.60. Based on these assumptions the deposit had an estimated net present value (NPV) of \$6.5 million using a 10% discount rate.

Using current metal prices of around US \$1150/t Pb, US \$2300 Zn and an exchange rate of US \$0.75, the NPV of the Pegmont deposit has increased to \$15.2 million, after allowing for cost inflation.

## Pegmont Mines NL

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It is apparent from these fluctuating NPV values that the Pegmont deposit could be a very valuable asset to the Company – subject to confirmation of operating and capital costs and of metal recoveries.

Within the deposit environs, there is potential to increase tonnage by further drilling. However, we do not propose to undertake this work until the metallurgical issues have been resolved.

### General Exploration Strategy

The Company will consider exploration in known mineralised areas, particularly within 50km radius of Pegmont.

Also, areas with high mineral endowment within Australia will be considered for exploration. The Company has recently formed a joint venture, in which it will have 60% interest, to apply for bauxite, copper, heavy mineral and uranium in the Kimberley region of Western Australia. In the event of the application areas being granted, the Kimberley region could become an important exploration focus for the Company during 2006 and beyond.

### Mineral Royalty Interest

The Company is also interested in acquiring mineral royalty rights over near-term production areas in addition to that held over the Reefway tenements.

Exploration by CopperCo of the Reefway tenements has expanded known mineralisation and an early “decision to mine” is expected to proceed towards development by late 2006. Any royalty payable to Pegmont would be deferred for some time until certain minimum metal tonnage have been produced. The Company has 76.7% interest in a 1% Net Smelter Return.

## INVESTMENT ACTIVITIES

### Shares Traded

		2005	2004
Proceeds from sale of shares	\$000	8961	2040
Realised Net Profit margin	\$000	2059	510
	%	23.0	25.0

This year has seen a continuation of our policy of investing in resource equities which are supported by advanced exploration projects or production. Rising metal prices have increased the market value of many equities to the benefit of the company. In addition to realised net profits, the unrealised market gain increased by \$762,858 to \$1085,231 which has been carried forward to 2006.

Although stock market conditions are not expected to remain as buoyant as experienced during 2005, we have budgeted for a profit of \$1,500,000.

Our investment policy is to remain selective, holding around 10-13 companies at any one time which may have announced significant discoveries, or have drilling programs on advanced projects, or have the prospect of expanding production. These situations create conditions for rapid share price enhancement.

Our aim is to generate a positive cash flow sufficient to fund exploration activities as well as covering overhead costs plus generating a profit.

Investment activity improves our awareness of other opportunities throughout Australia which could give rise to a broadening of our asset base. We also take minor positions in seed capital raisings.

## Pegmont Mines NL

### Surplus Funds

We hold surplus funds on deposit with banks to earn interest except for minor amounts to meet current payments.

	2005	2004
	\$	\$
Interest on deposits	105,424	10,385
GST credit	8,799	
Reefway sale interest	43,740	
Underwriting fees	5,000	
Reefway management fees		<u>19,800</u>
	<u>162,963</u>	<u>30,185</u>

Income generated from money on deposit increased due to the investment of surplus funds for a whole year compared to a period of only three months during 2004. Also, management has actively sold down shares during uncertain periods during the year thus creating large cash balances from time to time.

Surplus funds are maintained to cover short term liabilities and taxation payments.

### Income and Expenditure Budget

It is our intention to generate another profitable year, after expensing exploration and overhead cost. Our indicative budget for 2006 is detailed as follows:-

Income	\$
Interest on deposits	100,000
Profit on sale of investments	<u>1,500,000</u>
	<u>1,600,000</u>

### Administration

Audit Fees	12,000
Director's Fees	200,000
Officers - Consultants	30,000
Secretarial & Office	<u>108,000</u>
	<u>350,000</u>

### Exploration

Pegmont	300,000
Metallurgy	150,000
Other	<u>150,000</u>
	<u>600,000</u>

Net Operating Surplus before tax	<u>650,000</u>
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Expenditure on metallurgical test-work on Pegmont mineralisation will increase in order to expedite the commencement of feasibility studies. Other exploration depends upon new project generation. Approximately \$80,000 has been expended on the Kimberley joint venture application areas since March 2006.

### Finance

The Company's working capital position improved by \$768,504 to \$4,143,130, represented by:-

Current Assets	\$
Cash at Bank	72,016
Short term deposits	1,199,954
Investments	3,428,900
Other Current Assets	<u>22,991</u>
	<u>4,723,861</u>

### Less Current Liabilities

Payables	154,938
Provision for tax expense	<u>425,793</u>
	<u>580,731</u>

<b>Working Capital</b>	<b><u>\$4,143,130</u></b>
Cents per share	8.2c

The profit from sale of shares financed the increase in share investments, whereas exploration and tax payments were funded by drawing down cash balances. The Working Capital position at balance date represents 8.2 cents per share. Subsequent share sale profits have increased working capital to above 9.0 cents a share since year end.

## Pegmont Mines NL

### EXPLORATION TENEMENTS

TENEMENT	NAME	STATUS	REGISTERED HOLDER	DATE OF GRANT	DATE OF EXPIRY	AREA (ha or Sb)
EPM 15106	Pegmont Extended #1	Appl'n	Pegmont Mines NL	-	-	58Sb
EPM 14491	Pegmont Extended #2	Appl'n	Pegmont Mines NL	-	-	68Sb
ML 2620	Pegmont No. 1	Granted	Pegmont Mines NL	24.01.1974	31.01.2012	129.5ha
ML 2621	Pegmont No. 2	Granted	Pegmont Mines NL	24.01.1974	31.01.2012	129.5ha
ML2623	Pegmont No. 4	Granted	Pegmont Mines NL	24.01.1974	31.01.2012	129.5ha
EPM14784	Trekelano	Appl'n	Queensland Copper Mines NL	-	-	11Sb

The above explanation tenements are 100% owned and are not subject to any joint venture agreement.

### ROYALTY TENEMENTS

The following tenements in the Mount Isa region are subject to the Reefway Royalty Deed dated 28 September 2004

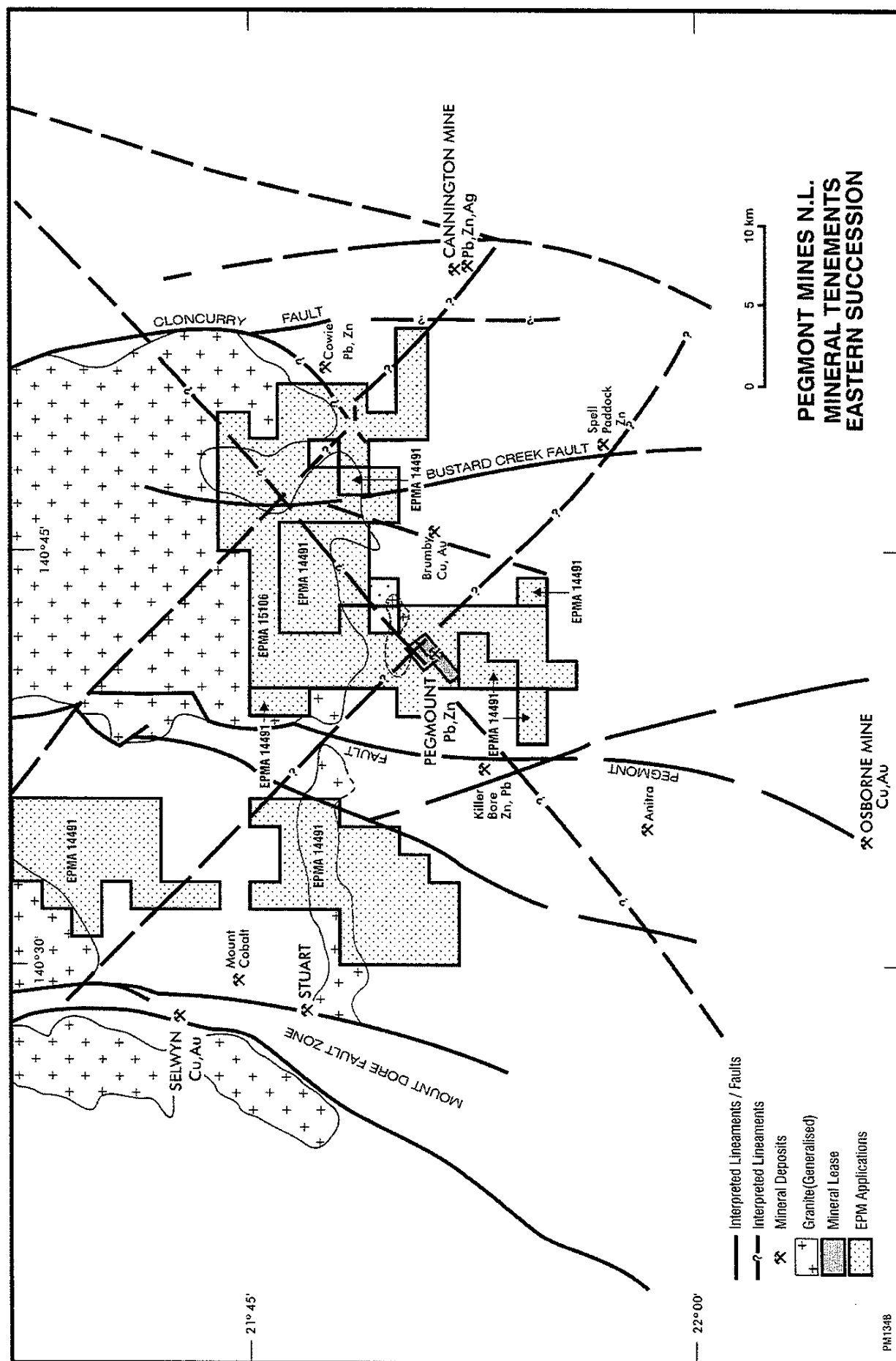
MLs: 5426, 5435, 5446, 5447, 5474, 5476, 5478,  
EPMs: 9916, 11637, 11669, 11670, 11672, 11777, 12589, 13331, 13739, 14112, 14149

The amount of royalty payable on production from the Reefway tenements, listed above, is the greater of the gross royalty payable on certain net payable metals derived from the tenements and a 1% Net Smelter Return in respect of major metals (ie. copper, lead, zinc, silver and gold). The royalty is only payable upon certain accumulation production threshold's of major metals being exceeded, for example 100,000 tonnes of the Net Payable Copper. Since CopperCo is still assessing the Reefway tenements and has yet to make a "decision to mine", any such royalty payments are very indeterminate and no value for them have been brought to account.

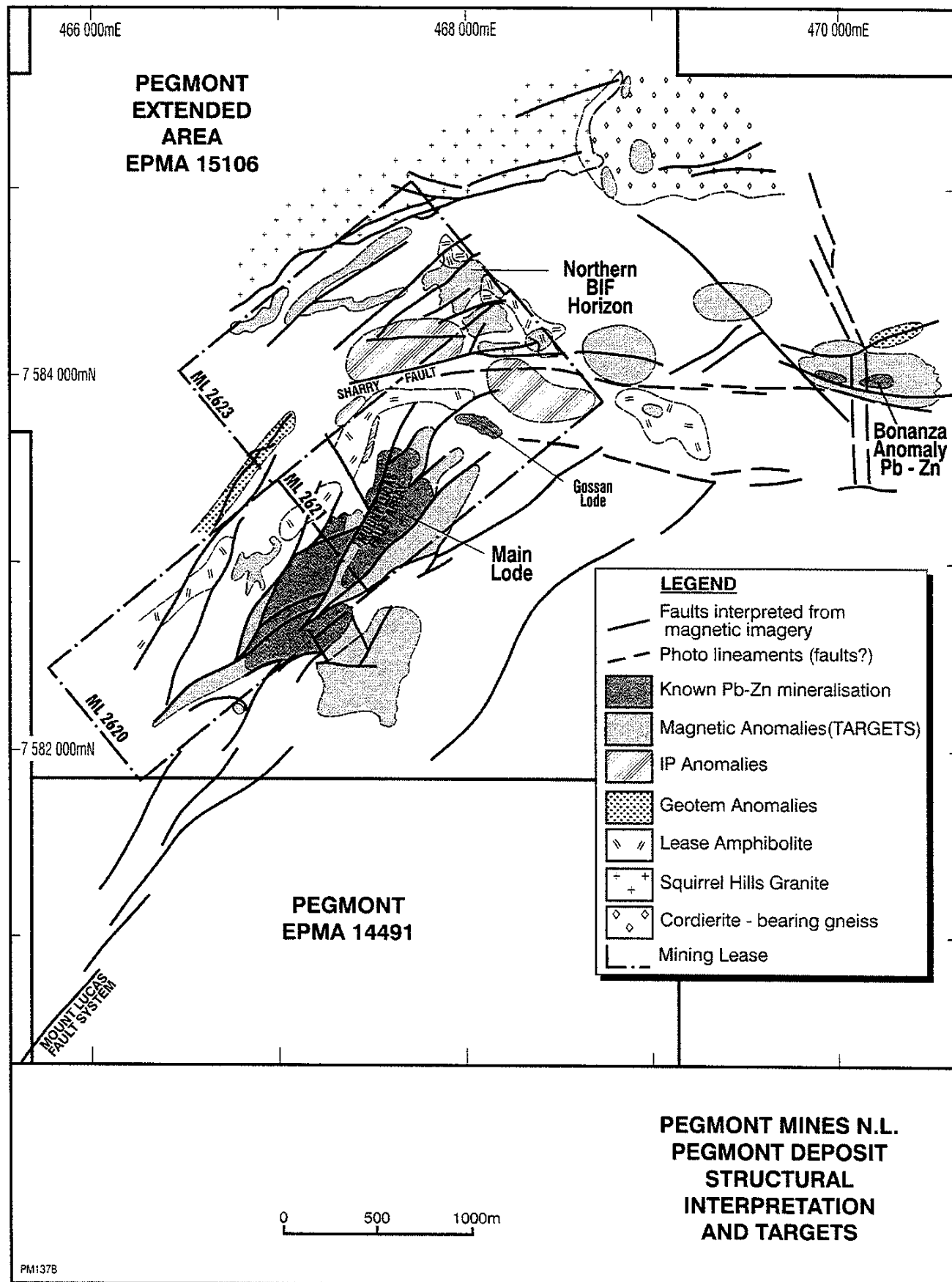
Nevertheless, CopperCo announced on 1<sup>st</sup> March 2006 that The Mount Kelly project copper deposits now contain a combined Mineral Resource of 7.5Mt at 0.8% Cu for 56,200 tonnes of copper metal. This resource is contained within the Reefway tenements.

### KIMBERLEY JOINT VENTURE (Pegmont 60% interest)

The company is in the process of applying for a number of Exploration Licenses in the Kimberley Region W.A. Upon grant, it is intended to transfer these tenements to Kimberley Ventures Ltd which may then proceed towards listing on a stock exchange in due course.







## Pegmont Mines NL

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### Directors' Report

The Directors present their report on the results of the Company for the year ended 31 Decemeber, 2005 and the state of affairs at the date.

#### Directors

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

Mr John M Armstrong	Non-Executive Chariman
Mr Michael D Leggo	Non-Executive Director
Mr Malcolm A Mayger	Managing Director

#### Principle Activity

The principle activities of the Company in the course of the year were the acquistition and disposal of mineral tenements, mineral exploration and resource investments.

#### Operating Results

The net profit of the Company for the year, after provision for income tax amounted to \$764,894 (2004 - \$2,362,291).

#### Dividends

No dividends were paid during the year and no recommendation is made as to dividends.

#### Review of Operations

Information on the operations of the company during the year and the results of those operations are set out 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.

#### Matter Subsequent to the end of the Financial Year

No matters or circumstances have arisen since the end of the financial year 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 2005 except that the Company has formed a joint venture, in which it has 60% interest, to explore for minerals in the Kimberley region of Western Australia. The Company continued to trade profitably during 2006

#### Options over Unissued Capital

On 31 December 2005, 1,000,000 options exercisable at 10 cents each granted to the Directors, expired. Also, 171, 800 options exercisable at 10 cents each, previously issued to Officers and Consultants expired on 31 December 2005. The number of options issued total 4,129,200.

As at 31 December 2005 and the date of this report, unissued shares of the Company under options issued to Directors are:

Numbers Granted	Exercised Price	Expiry Date
1, 100,000	10 cents each	30 April 2006
1, 280,000	10 cents each	31 December 2006
<u>1, 280,000</u>	10 cents each	31 December 2007
<u>3, 660,000</u>		

## Pegmont Mines NL

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These options do not vest until the Company's shares are listed on the Australian Stock Exchange. They were issued in lieu of deferred remuneration payable to the Directors for the years 2001, 2002 and 2003 as no payment had been made due to liquidity constraints experienced by the Company during those years.

As at 31 December 2005 and the date of this report, unissued shares of the Company under option to the Company Secretary, Senior Advisor and Consultants are:

	Numbers Granted	Exercised Price	Expiry Date
Company Secretary			
	100,000	10 cents each	31 December 2006
	100,000	10 cents each	31 December 2007
Senior Advisor	100,000	10 cents each	31 December 2006
Consultants	<u>169,200</u>	10 cents each	31 December 2007
	<u>469,200</u>		

The holders of unlisted options are not entitled to participate in any share issues of the Company, are not entitled to any voting rights until the options are exercised. No person entitled to exercise any option has or had, by virtue of the option, a right to participate in any share issue of any other body corporate.

The names of all persons who currently hold options are entered in a register kept by the Company pursuant to Section 168 (1) of the Corporations Act 2001, and the register may be inspected free of charge.

### Environmental Issues

The Company would be subject to performance bonds for the rehabilitation of a mining tenement. These performance bonds are required by the Mines Department to cover environmental regulation rehabilitation.

### Auditors' Section 307C Declaration

The Directors

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 review of the 30 June 2005 half yearly financial report; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

Graham R Swan  
Lead Auditor

### Meeting of Directors

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

Mr John M Armstrong	5
Mr Michael D Leggo	5
Mr Malcolm A Mayger	5

## **Pegmont Mines NL**

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### **Directors' Qualifications and Experience**

**ARMSTRONG, John M.** (Non-Executive Chairman). BSc, MBA, ASIA, FAICD

Mr Armstrong, aged 70 is a professional company director with over 30 years 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 66 has over 30 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 substantial investment interests.

**LEGGO, Michael D** (Non-Executive Director) BSc, MSc, PhD, DIC, FAIG, FAusIMM

Mr Leggo, aged 64, is an experienced Geoscientist and has held senior positions with major exploration and mine development companies. He has over 30 years experience in his field. He has held a variety of technical and managerial positions in Australia and overseas and more recently has held senior positions in corporate environmental management.

### **Directors' and Executives' Emoluments**

Since the end of the previous financial year, no Director has received or become entitled to received 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.

The statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by Directors and shown in the Company's accounts, prepared in accordance with the Corporations Regulations, or the fixed salary of a full-time employee.

## Pegmont Mines NL

### Directors' and Executives' Emoluments

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

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

Name	Service	Payment of Deferred Consulting Fee 1996-1998 \$	Accrued Consulting Fees for year ended 31 Dec 2005 \$	Total Remuneration \$	Options issued
M Mayger	Executive Managing Director	150,000	125,000	275,000	NIL
J Armstrong	Non-Executive Chairman	30,000	30,000	60,000	NIL
M Leggo	Non-Executive Director	20,000	15,000	35,000	NIL
Total Directors		200,000	170,000	370,000	
CD Leslie	Company Secretary	10,000	10,000	20,000	NIL

The Company did not have any executive officers other than the Managing Director.

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

		Shares	Options at 10 cents by 30.4.06	Options at 10 cents by 31.12.06	Options at 10 cents by 31.12.07
JM Armstrong	Indirect	350,000	180,000	250,000	250,000
MD Leggo	Direct	-	120,000	130,000	130,000
MA Mayger	Direct	300,000	800,000	900,000	900,000
	Indirect*	30,762,005	-	-	-
		31,712,005	1,100,000	1,280,000	1,280,000

\*Includes Pegasus Enterprises Ltd in which MA Mayger is a controlling shareholder.

Signed at Sydney in accordance with a resolution of Directors.



Malcolm A Mayger  
Managing Director

Dated 20 March 2006

## **Pegmont Mines NL**

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### **Directors' Declaration**

In the opinion of the Directors of Pegmont Mines NL:

- (a) the financial statement and notes, set out on the following pages are in accordance with the Corporations Act 2001, including:
  - i) giving a true and fair view of the financial position of the Company as at 31 December 2005 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date, and
  - ii) complying with Accounting Standards and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debt as and when they become due and payable.

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



Malcolm A Mayger  
Managing Director

Dated 20 March 2006

**Statements of Financial Position**  
**As at 31 December, 2005**

	<b>NOTES</b>	<b>2005</b> <b>\$</b>	<b>2004</b> <b>\$</b>
<b>CURRENT ASSETS</b>			
Receivables	4	22,991	815,922
Investments	5	3,428,900	1,237,204
Cash and cash equivalents	6	1,271,970	2,315,275
<b>TOTAL CURRENT ASSETS</b>		<u>4,723,861</u>	<u>4,368,401</u>
<b>NON-CURRENT ASSETS</b>			
Exploration & Evaluation expenditure	7	3,350,000	3,353,610
<b>TOTAL NON-CURRENT ASSETS</b>		<u>3,350,000</u>	<u>3,353,610</u>
<b>TOTAL ASSETS</b>		<u>8,073,861</u> =====	<u>7,722,011</u> =====
<b>CURRENT LIABILITIES</b>			
Payables	8	154,938	378,139
Provisions	9	425,793	615,636
<b>TOTAL LIABILITIES</b>		<u>580,731</u>	<u>993,775</u>
<b>NET ASSETS</b>		<u>7,493,130</u> =====	<u>6,728,236</u> =====
<b>EQUITY</b>			
Contributed Equity	2	2,833,187	2,833,187
Reserves	3	4,456,193	4,456,193
Retained Profits		203,750	(561,144)
<b>TOTAL EQUITY</b>		<u>7,493,130</u> =====	<u>6,728,236</u> =====

The accompanying notes form part of these statements.

**Statements of Financial Performance**  
**For the year ended 31 December, 2005**

	NOTES	2005 \$	2004 \$
Interest income		149,164	10,385
Profit on sale of shares		2,059,569	510,197
Proceeds on sale of subsidiary		-	2,855,637
Management & Underwriting fees		13,799	19,800
Total revenue from ordinary activities		2,222,532	3,396,019
Audit fees	10	(9,000)	(8,000)
Consultants fees		(20,000)	(20,000)
Directors fees		(370,000)	(270,000)
Exploration written-off		(351,369)	(54,586)
Provision for doubtful debt		(110)	(23,207)
Provision for sharetrading loss		(110,000)	-
Stock exchange fees		(5,959)	(5,895)
Share registry fees		(7,048)	(7,537)
Secretarial and office expenses		(24,249)	(15,770)
Other expenses from ordinary activities		(22,807)	(13,096)
Profit from ordinary activities before related income tax expense		1,301,990	2,977,928
Income tax expense relating to ordinary activities	11	537,096	615,637
Profit/ from ordinary activities after related income tax expense		764,894	2,362,291
Transfer to Capital Profit Reserve		-	(2,000,000)
Retained Profits at the beginning of the financial year		(561,144)	(923,435)
Retained Profits at the end of the financial year		203,750	(561,144)

The accompanying notes form part of these statements.



**Statement of Cash Flows**  
**For the year ended 31 December, 2005**

		<b>Inflow/ (Outflow) 2005 \$</b>	<b>Inflow/ (Outflow) 2004 \$</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash receipts in the course of operations		9,124,489	3,395,669
Cash payments in the course of operations		(7,361,130)	(955,586)
Income tax paid		(537,096)	-
Net Cash Provided (Utilised) by Operating Activities	19	<u>1,226,263</u>	<u>2,440,083</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Payment for Investments		(2,301,696)	(3,366,987)
Repayment Loan to Reefway Pty Ltd		-	198,864
Payment for Exploration and Evaluation		(347,759)	(54,586)
Proceeds from Sale of Reefway Pty Ltd		-	3,059,185
		<u>(2,649,455)</u>	<u>(163,524)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of Shares and Options		-	-
Repayment of borrowings		-	(148,224)
Increase in creditors		(223,201)	302,713
Increase in debtors		792,931	(795,934)
Increase in provision for income tax		(189,843)	615,636
		<u>379,887</u>	<u>(25,809)</u>
Net Increase in Cash Held		(1,043,305)	2,250,750
Cash at 1 January		<u>2,315,275</u>	<u>64,525</u>
Cash at 31 December	19	<u>1,271,970</u> =====	<u>2,315,275</u> =====

Pegmont Mines NL  
 Notes to the Financial Statements  
 For the Year Ended 31 December 2005

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**NOTE 1 - STATEMENT OF ACCOUNTING POLICIES**

This financial report is a general purpose financial report, which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the requirements of the Corporations Act 2001.

This financial report is the first of Pegmont Mines NL to be prepared in accordance with Australian equivalents to International Financial Reporting Standards ('AIFRSs'). AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of the Company until 31 December 2004 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles ('AGAAP'). The Company has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and 139.

The conversion of the balance sheet at 31 December 2004 from AGAAP to AIFRS has not resulted in any material financial impact on balance sheet carrying values or any alteration to the income statement or cashflow.

It has been prepared on the basis of historical costs and except where stated does not take into account changing money values or current valuation of non-current assets. The following specific accounting policies have been consistently applied, unless otherwise stated.

a. Income Tax

The Company adopts the liability method of tax effect accounting whereby the income tax expense shown in the statement of financial performance is based on the operating profit before tax, adjusted for permanent differences. Timing differences which arise due to the different accounting years in which items of revenue and expense are included in the determination of operating profit and taxable income are brought to account as either provision for deferred income tax or an asset described as future income tax benefit. Future income tax benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit. The amount of these benefits is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the Company will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law to permit a future income tax benefit to be obtained. At present, the company does not have any unrecouped expenditure which may give rise to future income tax benefits.

b. Exploration Expenses

Exploration and evaluation costs are written off when incurred in respect of each separate area of interest, until such activities in the area of interest have reached a stage which permits reasonable assessment of the existence of economically recoverable reserves, and a decision to mine has been made.

The company is carrying forward a total valuation of \$3,350,000 in regard to its Pegmont interests where a resource has been delineated by drilling

The ultimate recoupment of the value related to the Pegmont areas is dependent on the successful development and commercial exploitation or sale of the relevant areas.

## Pegmont Mines NL

## Notes to the Financial Statements

For the Year Ended 31 December 2005

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Each area of interest is reviewed annually to determine whether costs should continue to be carried forward in respect of that area of interest. Where it is decided to abandon an area of interest, costs carried forward in respect of that area are written off in full in the year in which the decision is taken. Provision for the cost of restoration of sites is made at the various relevant stages and included in the cost of that stage.

The 'area of interest' principle which is in accordance with AASB 6 *Exploration for and Evaluation of Mineral Resources* continues to allow an area of interest approach to impairment and the standard effectively permits the grandfathering of accounting treatments of exploration and evaluation expenditure. Impairment tests of exploration and evaluation assets will be required once technical feasibility and commercial viability is determinable.

## c. Investments

The Company classifies its investments in the following categories: financial assets at fair value through profit and loss, loans and receivables, held to maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired.

Available-for-sale financial assets comprise marketable equity securities which are recorded at the lower of cost or market value.

## d. 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.

**NOTE 2 – CONTRIBUTED EQUITY**

	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
Issued Capital		
50,686,796 ordinary shares fully paid	2,833,187	2,833,187
	=====	=====

## Terms and conditions of contributed equity

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

**Pegmont Mines NL**  
**Notes to the Financial Statements**  
**For the Year Ended 31 December 2005**

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**Options**

The company has 4,129,200 options on issue exercisable at 10 cents each summarised as follows:

Directors	1,100,000 by 30 April 2006
	1,280,000 by 31 December 2006
	1,280,000 by 31 December 2007
Officers	200,000 exercisable at varying dates to 31 December 2007
Senior Advisor	100,000 exercisable at varying dates to 31 December 2007
Consultants	169,200 exercisable at varying dates to 31 December 2007

**NOTE 3 – RESERVES**

	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
Capital Profit	2,000,000	2,000,000
Asset Revaluation	2,456,193	2,456,193
	<u>4,456,193</u>	<u>4,456,193</u>
	=====	=====

**Nature, Purpose and Movements of Reserves:**

*Capital Profit Reserve:*

The capital profit reserve is used to quarantine profits from the sale of non-current investments. During 2004 the net profit from the sale of the company's investment in Reefway Pty Ltd was transferred in.

*Asset Revaluation Reserve:*

The asset revaluation reserve is used to record increments and decrements in the value of non-current assets. This reserve can only be used to pay dividends in limited circumstances. During the 2004 year \$2,102,966 of the reserve which related to Reefway Pty Ltd was written back against the sale proceeds. The balance of \$2,456,193 arises from the revaluation of the Pegmont tenements.

**NOTE 4 - RECEIVABLES**

DME Security deposit	2,500	2,500
Other Debtors	4,519	769,828
Related party loan	-	16,518
GST Control account	-	9,936
Prepayments	15,972	17,140
	<u>22,991</u>	<u>815,922</u>
	=====	=====

**NOTE 5 - INVESTMENTS**

Available for sale financial assets – listed investments*	3,298,900	1,237,204
Other unlisted investments	130,000	-
	<u>3,428,900</u>	<u>1,237,204</u>
	=====	=====

\* Market value \$4,384,131

The company owns 100% of the issued capital of Queensland Copper Mines Pty Ltd (QCM) the incorporation costs of which have been written off. QCM has been dormant, and has not traded since incorporation as the exploration areas under application have not been granted.

## Pegmont Mines NL

## Notes to the Financial Statements

For the Year Ended 31 December 2005

	2005 \$	2004 \$
<b>NOTE 6 – CASH AND CASH EQUIVALENTS</b>		
Cash at Bank and on hand	72,016	504,890
Short Term Deposits	1,199,954	1,810,385
	<u>1,271,970</u>	<u>2,315,275</u>
	=====	=====

**NOTE 7 – EXPLORATION & EVALUATION EXPENDITURE**

Mineral tenements – at valuation		
Pegmont BIF Project*	3,000,000	3,000,000
Pegmont Regional Application areas*	350,000	350,000
Duchess Application area at cost	-	3,610
	<u>3,350,000</u>	<u>3,353,610</u>
	=====	=====

\*These projects are valued in accordance with the "Low" project value placed on these tenements in an independent Geological Report and Valuation of Mineral Interests prepared by Terence Wilstead & Associates in 2000.

During the year ended 31 December 2005 the Directors reviewed the valuation of the Company's interests in mining tenements to reflect the future exploration and income potential of the areas. This value is dependent upon confirmation of metallurgical recoveries.

**NOTE 8 - PAYABLES**

Trade Creditors	100,190	208,139
Accrued Directors' fees	53,750	170,000
Other Loans	998	-
	<u>154,938</u>	<u>378,139</u>
	=====	=====

**NOTE 9 – PROVISIONS**

Income Tax Expense	425,793	615,636
	=====	=====

**NOTE 10 – AUDITORS' REMUNERATION**

Auditors' remuneration		
- auditing the accounts	8,000	7,000
- other services	1,000	1,000
(the auditors received no other benefits)	<u>9,000</u>	<u>8,000</u>
	=====	=====

**NOTE 11 - INCOME TAX EXPENSE**

Prima facie tax on operating profit at 30%	390,597	898,378
Tax losses applied	-	277,742
Timing differences	47,603	-
Under/(over) provision prior year	98,896	-
	<u>537,096</u>	<u>615,636</u>
	=====	=====

A franking credit is created on the payment of the income tax.

## Pegmont Mines NL

## Notes to the Financial Statements

For the Year Ended 31 December 2005

2005	2004
\$	\$

**NOTE 12 - EARNINGS PER SHARE**

Basic earnings per share (cents per share)	1.5	4.7
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	50,686,796	50,686,796

Diluted earnings per share is not disclosed because potential ordinary shares, being options granted, are not dilutive and their conversion to ordinary shares would not demonstrate an inferior view of the earnings performance of the Company.

**NOTE 13 - CAPITAL COMMITMENTS**

In order to maintain current rights of tenure to granted exploration tenements the Company is required to perform minimum exploration work to meet the minimum expenditure requirements specified by the QLD State Government. The estimated exploration and joint venture expenditure commitments for the ensuing year amount to \$165,000 (2004: \$165,000). This expenditure will only be incurred should the Company retain its existing level of interest in its granted exploration areas and provided access to mining tenements is not restricted.

**NOTE 14 - REMUNERATION OF DIRECTORS and OFFICERS**

Name	Service	Accrued Consulting Fees for year ended 31 Dec 2005 \$	Total Remuneration \$	Options issued
M Mayger	Executive Managing Director	125,000	275,000	900,000
J Armstrong	Non-Executive Chairman	30,000	60,000	250,000
M Leggo	Non-Executive Director	15,000	35,000	130,000
Total Directors		170,000	370,000	1,280,000
CD Leslie	Company Secretary	10,000	20,000	100,000

The Company did not have any executive officers other than the Managing Director.

## Pegmont Mines NL

## Notes to the Financial Statements

For the Year Ended 31 December 2005

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**NOTE 15 - RELATED PARTY TRANSACTIONS****Directors and Director Related Entities' Shareholdings**

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

		Shares	Options at 10 cents by 30.4.06	Options at 10 cents by 31.12.06	Options at 10 cents by 31.12.07
JM Armstrong	Indirect	350,000	180,000	250,000	250,000
MD Leggo	Direct	-	120,000	130,000	130,000
MA Mayger	Direct	300,000	800,000	900,000	900,000
	Indirect*	30,762,005	-	-	-
		31,712,005	1,100,000	1,280,000	1,280,000

\*Includes Pegasus Enterprises Ltd in which MA Mayger is a controlling shareholder.

## Pegmont Mines NL

## Notes to the Financial Statements

For the Year Ended 31 December 2005

**NOTE 16 - SEGMENTAL INFORMATION**

The Company derived income from investments.

	Profit Contribution	Tax Provision	Net Contribution
Investment activity and interest income	2,112,533	(666,960)	1,445,573
Exploration	(351,369)	105,410	(245,959)
Administration	(459,173)	123,350	(335,823)
Sub -Total	1,301,991	(438,200)	863,791
Income tax prior year			(98,897)
Net Profit after Tax			764,894

**NOTE 17 – FINANCIAL INSTRUMENTS****Significant Accounting Policies**

Details of significant accounting policies and methods adopted including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the accounts.

**Interest Rate Risk**

The following table details the Company's exposure to interest rate risk as at the reporting date:

2004	Average Interest Rate	Variable Interest Rate 1 Year	Fixed Interest Rate Maturity Less than 1 year	Non-interest Bearing	Total
	%	\$	\$	\$	\$
Cash	4.4	498,056	-	6,834	504,890
Deposits - Cash	5.5	-	1,810,385	-	1,810,385
Receivables	7.0	767,300	-	48,622	815,922
Accounts Payable	-	-	-	378,139	378,139

2005	Average Interest Rate	Variable Interest Rate 1 Year	Fixed Interest Rate Maturity Less than 1 year	Non-interest Bearing	Total
	%	\$	\$	\$	\$
Cash	-	-	-	72,016	72,016
Deposits - Cash	4.6	-	1,199,954	-	1,199,954
Receivables	-	2,500	-	20,491	22,991
Accounts Payable	-	-	-	154,938	154,938

**Credit Risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted the policy of dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company measures credit risk on a fair basis.



## Pegmont Mines NL

## Notes to the Financial Statements

## For the Year Ended 31 December 2005

The Company does not have any significant credit risk exposure to a single counterparty or any group of counterparties having similar characteristics. Cash and cash on deposit is held with major Australian trading banks.

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.

**Net Fair Value**

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in Note 1 to the accounts.

**NOTE 18 - SUBSEQUENT EVENTS**

No matters or circumstances have arisen since the end of the financial year 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 2005 except as disclosed in these accounts and reports attached hereto.

**NOTE 19 - STATEMENT OF CASH FLOWS****RECONCILIATION OF CASH**

For the purposes of this Statement of Cash Flows, cash includes cash on hand and at call deposits with banks or financial institutions, net of bankoverdrafts and investments in money market instruments.

Cash at the end of the year is shown in the statement of financial position as:

	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
Cash at Bank	72,106	504,890
Cash on Deposit	1,199,954	1,810,385
	<u>1,271,970</u>	<u>2,315,275</u>
Cash and cash equivalents	<u>1,271,970</u>	<u>2,315,275</u>

**RECONCILIATION OF CASH FLOWS FROM OPERATIONS WITH OPERATING PROFIT(LOSS) AFTER INCOME TAX**

	<b>Inflow/ (Outflow) 2005</b>	<b>Inflow/ (Outflow) 2004</b>
	<b>\$</b>	<b>\$</b>
Operating Profit(Loss) after Income Tax	764,894	2,362,291
Non Cash Flows in Operating Profit(Loss)		
Provision for doubtful debts	-	23,207
Provision for loss on investments	110,000	-
Non-operating expenses – exploration	351,369	54,585
Net Cash Provided (Utilised) by Operating Activities	<u>1,226,263</u>	<u>2,440,083</u>

## Pegmont Mines NL

## Notes to the Financial Statements

For the Year Ended 31 December 2005

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**20. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRSs**

- (1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS)

- (a) At the date of transition to AIFRS: 1 January 2004

	1 January 2004
	\$
Total equity under AGAAP	6,468,912
Adjustments for effect of transition to AIFRSs	-
Total equity under AIFRS	<u>6,468,912</u>

- (b) At the end of the last reporting period under previous AGAAP: 31 December 2004

	31 December 2004
	\$
Total equity under AGAAP	6,728,236
Adjustments for effect of transition to AIFRSs	-
Total equity under AIFRS	<u>6,728,236</u>

- (2) Reconciliation of profit reported under previous AGAAP to AIFRS

- (a) Reconciliation of profit for the year ended 31 December 2004

	31 December 2004
	\$
Net profit as reported under AGAAP	2,977,928
Adjustments for effect of transition to AIFRSs	-
Net profit under AIFRS	<u>2,977,928</u>

- (3) Reconciliation of cash flow statement for the year ended 31 December 2004

The adoption of AIFRS has not resulted in any material adjustment to the cash flow statement.

**INDEPENDENT AUDIT REPORT TO THE MEMBERS OF  
PEGMONT MINES NL  
ACN 009 058 646**

**Scope**

The financial report comprises the statement of financial performance, statement of financial position, statement of cashflows, accompanying notes and the directors' declaration for Pegmont Mines NL the company, for the year ended 31 December 2005.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

**Audit approach**

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory professional reporting requirements in Australia a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our opinion on the basis of these procedures, which included:

- examining on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Whilst we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

**Independence**

We are independent of the company, and have met the independence requirements of Australian professional ethical requirements and the Corporations Act 2001.

**Audit opinion**

In our opinion, the financial report of Pegmont Mines Ltd is in accordance with:

- a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's financial position as at 31 December 2005 and its performance for the year ended on that date; and
  - (ii) complying with Accounting Standards and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements.



Rothsay



Graham R Swan

Partner

Dated 20 March 2006

The liability of Rothsay Chartered Accountants is limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW).

**Pegmont Mines PL****SUPPLEMENTARY INFORMATION**

1. Issued Capital at 31 December 2005: **50,686,796 Ordinary Shares Fully paid**  
**4,129,200 Options exercise at 10 cents each**

2. Share Holdings at 1 March 2006

**(a) Distribution of Shareholder's and Option Holders**

Shareholding	Number of holders	Ordinary Shares	Holder of Options	Number of Options
1-1000	1	1,000	-	-
1001-5000	1	5,000	-	-
5001 - 10,000	19	186,000	-	-
10,001 - 100,000	74	3,675,460	2	123,200
100,000 and over	33	819,336	4	4,006,000
	128	50,686,796	6	4,129,200

**(b) Names of Substantial Shareholders shown in the Company's Register are:**

Shareholding	Number of Shares	% Issued Capital
Pegasus Enterprises Ltd	14,592,285	28.79
Malcolm A Mayger Pty Ltd	11,746,760	23.18
J P Morgan Nominees Australia Ltd	4,250,000	8.38
WHI Securities Pty Ltd ( Nominee A/C)	3,320,285	6.55

**(c) Names of Substantial Option Holders in the Company's Register is:**

Malcolm A Mayger 2,600,000

- (d) Interests associated with Malcolm A Mayger Pty Ltd hold 30,762,005 (60.69%)  
Ordinary fully paid shares.

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**Pegmont Mines NL**

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**CORPORATE INFORMATION**

**PEGMONT MINES N.L.**  
**ABN 97 003 331 682**

**Registered Office**

C/-BKR Walker Wayland  
Level 8, 55 Hunter Street  
Sydney NSW 2000  
Telephone: (02) 9951 5400  
Facsimile: (02) 9951 5454

**Corporate Office:**

Mail: PO Box 3596, Sydney, NSW 2001  
Phone: (02) 8437 3591  
Fax: (02) 8437 3599  
Website: [www.pegmont.com.au](http://www.pegmont.com.au)

Listed on The Stock Exchange of Newcastle Limited

Website: [www.newsx.com.au](http://www.newsx.com.au)

Code: PMI

**Directors**

John M Armstrong	Non-Executive Chairman
Michael D Leggo	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 137 328  
Facsimile: 1300 137 341

**Pegmont Mines PL****Directors' Interests**

	<b>Shares</b>	<b>Options @ 10c by 30.4.2006</b>	<b>Options @ 10c by 3.12.2006</b>	<b>Options @ 10c by 3.12.2007</b>
J M Armstrong - Indirect	350,000	180,000	250,000	250,000
M D Legoo - Direct	-	120,000	130,000	130,000
M A Mayger - Direct	300,000	800,000	900,000	900,000
Indirect*	30,762,005			
<b>Total Shares and Options</b>	<b>31,412,005</b>	<b>1,100,000</b>	<b>1,280,000</b>	<b>1,280,000</b>

\*Includes Pegasus Enterprises Limited

**Top Twenty Shareholders at 1 March 2006**

	<b>Number of Shares</b>	<b>% issued Capital</b>
Pegasus Enterprises Ltd	14,592,285	28.79
Malcolm A Mayger Pty Ltd	11,746,760	23.18
J P Morgan Nominees Australia Ltd	4,250,000	8.38
WHI Securities Pty Ltd ( Nominee Pty Ltd )	3,320,285	6.55
Lozora Pty Ltd	1,985,000	3.92
Warlam Pty Ltd A/C Lincoln	1,774,756	3.50
Malcolm A Mayger Pty Ltd Superannuation Fund	1,100,000	2.17
Goldrim Investment Pty Ltd	1,100,000	2.17
Scepha Investments Pty Ltd	1,000,000	1.97
Riomin Australia Gold Pty Ltd	800,000	1.58
Sydney Equities Pty Ltd	455,000	0.90
Bedel and Sowa Corp Pty Ltd	400,000	0.79
N.Anderson	340,000	0.67
T.P.Flower	325,000	0.64
M.A.Mayger	300,000	0.59
Bowmal Pty Ltd	275,000	0.54
Perpetual Trustees Company Limited	262,500	0.52
G.Cameron	250,000	0.49
Henroth Pty Ltd	250,000	0.49
Henroth Investment Pty Ltd	250,000	0.49
	<b>44,776,586</b>	<b>88.34</b>
Other Shareholders	<b>5,910,210</b>	<b>11.66</b>
<b>Total Issued Shares</b>	<b>50,686,796</b>	<b>100%</b>