Pegmont Mines Limited

ABN 97 003 331 682

Corporate Office
65 Hume Street
Crows Nest NSW 2065
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Crows Nest NSW 1585
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22 March 2012

The Manager,
National Stock Exchange of Australia
384 Hunter Street
Newcastle, NSW 2300

Dear Sir,

Pegmont Mines Limited 2011 Annual Report

We attach Pegmont Mines Ltd's Audited Financial Report for the year ended 31 December 2011 together with the Chairman's Report, five year Financial Performance Summary, Review of Operations and Directors' report.

Yours faithfully,

Chris D Leslie
Company Secretary

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Pegmont

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2011 annual report

Figure 1 General Location, Mount Isa - Cloncurry Region, North Queensland

Glossary of Terms

Ag Chemical symbol for Silver

Au Chemical symbol for Gold

Co Chemical symbol for Cobalt

Cu Chemical symbol for Copper

Mo Chemical symbol for Molybdenum

Pb Chemical symbol for Lead

Zn Chemical symbol for Zinc

Re Chemical symbol for Rhenium

U Chemical symbol for Uranium

Mineralisation
Process by which minerals are introduced and concentrated within a host rock, and the product of this process

Orebody
Zone from which a mineral or minerals of economic value can be extracted

JORC
Joint Ore Reserves Committee

DD Diamond Drillhole

RC Reverse Circulation Drillhole

CHAIRMAN'S REPORT

2011 was a difficult year for your company from a financial standpoint but it was also a year of consolidation and laying the groundwork for a more active 2012. We have again made significant progress on the development of our Pegmont and New Hope projects. We completed the year with a successful rights issue to increase our working capital, and we start 2012 with an important and exciting drilling program.

2011 reminded us that we live in a politically and economically volatile world where nothing can be taken for granted. The share market bottomed in October. Our share trading portfolio was decimated as the market for the volatile stocks that we trade froze up. Net share trading loss was $997,243 after a write back of provision for impairment of $1,826,097, compared to a net share trading profit of $244,887 in 2010. Our trading portfolio is now almost clear of legacy positions and we are not at risk of further significant losses. Although the losses are very disappointing, they do need to be seen in the context of several years of very successful share trading which funded all expenditure, both administrative and exploration, including three years in which surplus cash was distributed as dividends. We are hopeful that 2012 will be a better year.

Our share trading losses depleted working capital which necessitated the raising of new capital. A one-for four entitlement issue at 10 cents per share was completed in December. The issue raised $856,192 and a portion of the shortfall was placed to raise an additional $215,000 in February. The shareholder base has been increased to 269 which places the company in an stronger position to list on the Australian Stock Exchange in the future.

Your company has three major assets – the **Pegmont** lead-zinc deposit, the **New Hope** gold-cobalt prospect and the **Reefway** Royalty Tenements. In 2012 our exploration effort will focus on improving the economics of both Pegmont and New Hope.

At Pegmont, we plan to undertake a 1500 metre three drill hole program designed to test large targets associated with complex structures in proximity to known mineralisation:

- The first hole will test a large target (150m x 600m) in the **Sharry Fault Zone** which attractiveness has been enhanced as a result of the reprocessing of earlier geophysical data.
- The **Bonanza Anomaly** which is a prominent magnetic anomaly on the northern margin of the Sharry fault will be tested by two holes.
- A further hole to test the **Mount Lucas-Gossan Lode** area, after completion of an EM survey, could be undertaken.

The goal of the proposed drill program is to find evidence of hydrothermal upgrading from BIF to massive sulfides thus adding a new dimension to the Pegmont project. These holes must be considered to be high to very high risk but the payoff if successful could be very substantial.

At **New Hope**, a 25 hole infill drill program was completed to provide data for a JORC compliant Resource estimate. We will commence shortly a scoping study for a possible open cut mining operation. Our intention is to complete plans for the commercialisation of New Hope in 2012. The high grade nature of this deposit is likely to open up many options for early development.

The **Reefway Royalty Tenements** at Mt Kelly (north of Mount Isa) (Pegmont 76.3% interest) were sold in 2004 for cash/shares and a contingent royalty. The current owners are CST Mining Group Limited who are listed in Hong Kong. The royalty applies after 100,000 tonnes of copper have been recovered. Copper cathode production totalled 26,519 tonnes to 31 December 2011. Recent exploration success is very promising and may eventually lead to royalty production and an income stream for the company.

The buildup of intrinsic value in our exploration projects and potential royalty position is becoming more apparent and appealing to investors. Upon completion of Resource estimates at New Hope, we believe that the company will be in a position to apply for listing on the ASX. We have a solid track record of finding mineralisation and offering significant exploration upside. An independent geological assessment is currently in progress together with ongoing metallurgical studies. The company has been an NSX listed entity since December 2000 and consequently a substantial amount of information about our activities is "on the record".

We look forward to the 2012 year as your company continues its progress towards a more substantial and exciting future.

During the year one of our three directors, Mr Ian Sloan, passed away suddenly. His professionalism, common sense and enthusiasm will be sorely missed. Mr David Curtis has filled the Board vacancy. David brings significant investment and risk management experience and a new perspective to the board.

We thank our shareholders for their support during the year and during the recent entitlement issue which occurred during very difficult market conditions. We also record our appreciation for the dedicated work undertaken by our staff, consultants and contractors.

John M. Armstrong

John M Armstrong
Chairman

2011 PERFORMANCE HIGHLIGHTS

The Company continued to progress towards its goal of listing on the Australian Stock Exchange (ASX). We were able to expand our shareholder members list from 142 to 269, through a series of off market transfers, which will help our ASX listing endeavors. We have commissioned an independent geological review of our tenements and advanced the Pegmont and New Hope projects to resource status.

Exploration activities were directed towards resource evaluation of the Pegmont lead-zinc and New Hope gold-cobalt deposits. A maiden JORC compliant resource estimate of the banded iron formation (BIF) mineralization at Pegmont was completed in February 2011. Field activity including drilling was then concentrated on New Hope to obtain Resource status. Resource estimates are currently in preparation and will be announced shortly. This work completes the first stage of resource evaluation at both projects.

Our financial results reflect a disappointing loss of $997,243 from share trading, increased exploration expenditure of $1,249,513 and administration cost of $844,469. These expenses produced a financial net loss of $3,003,428 for the year; amounting to 72% of current assets of $4,172,091 at 31 December 2010. To partly offset this depletion, a Non Renounceable Rights issue at 10 cents per share raised $856,192 during December 2011, followed by a placement of shortfall shares raising $215,000 in February 2012.

2012 OBJECTIVES

We are very mindful of managing unexpected risks in a volatile world while improving the value of the Company's exploration assets. Consequently we substantially reduced our financial exposure to the sharemarket, by holding 86% of the portfolio in cash at balance date. Both share and commodity markets may have bottomed, with stronger economic data out of the USA. Thus, we are cautiously optimistic that 2012 could provide share trading opportunities to self fund some of our activities.

Our exploration effort will concentrate on improving the economics of both the Pegmont lead-zinc and the New Hope gold-cobalt deposits.

- At Pegmont, drilling will focus on higher grade and large structurally controlled targets associated with the Sharry Fault; exploring for hydrothermally upgraded mineralisation.

- At New Hope, resource studies will evaluate the potential for opencut and early commercialisation of the deposit. Also metallurgical studies to enhance cobalt recovery will continue.

- EPMA 18347 has been granted to the Company. This EPM contains the Irishman copper-gold target, which will be assessed for potential to provide high grade feed to the New Hope project.

The Reefway Royalty tenements continue to provide excellent discovery news under the ownership of CST Mining Group Ltd. Thus, increasing the possibility of a royalty stream to the Company in future years, once production from the tenements exceed 100,000t of Copper.

Corporate opportunities will be considered as the Pegmont and New Hope deposits mature to a more advanced stage in their feasibility studies.

REVIEW OF OPERATIONS

Share trading activity resulted in a net trading loss of $997,243 (profit $244,887 - 2010), after write back of previous provisions.

The consolidated trading results for 2011 are:-

	2011 Actual $,000	2010 Actual $,000
Operating Profit/(loss)	(2,823)	(2,333)
Write back impairment provisions	1,826	2,578
Net Trading Profit/Loss	**(997)**	**245**

Investor interest in second and third tier resource producers (the Company's preferred investment) declined due to heightened price volatility and a sharp decline in metal prices. The proposed introduction of a carbon tax also reduced investor appetite as mining companies are large energy consumers. Consequently turnover froze and it became difficult to liquidate positions without cutting prices.

The consolidated net profit/loss for the year was a loss of $3,003,428 (loss of $1,369,408 - 2010) summarised as follows:-

	2011 $,000	2010 $,000
Net Trading Profit/(Loss)	(997)	245
Investment income	70	80
Other income	18	17
	(909)	**342**
Administration	(844)	(604)
Exploration	(1,250)	(1,107)
Pre-tax profit/(loss)	**(3,003)**	**(1,369)**
Earnings per share (cents)	(5.0)	(2.7)

This result includes the write off of all exploration expenditure incurred during the year.

The provision for share price impairment was reduced by $1,826,097 ($2,578,196-2010) due a deliberate loss-taking on non-performing shares. At 31 December the impairment provision was $183,591 against trading stock and $475,297 against seed capital.

Administration costs increased for the year due mainly to payment of prior year directors fees of $90,000 to the Managing Director and legal fees in relation to the review and updating of records on the Reefway Royalty Tenement areas.

Exploration expenditure increased by 13% due to increased drill cost particularly at New Hope:-

Metres Drilled

	2011	2010
New Hope	2,454	-
Pegmont	-	3,579
Other prospects	662	798
RC/DD metres drilled	3,116	4,377
Expenditure $,000	1,250	1,107
Average cost $/m	401	253

Company tax has not been provided or adjusted against profits as there were carried forward losses of $6,022,567 at 30 June 2011. Exploration and Administration expenses are tax deductable against all income including Net Trading Profit.

Gross Trading Revenue declined to $7,234,904 ($18,659,561-2010):-

	2011 $,000	2010 $,000
Gross Trading Revenue	7,235	18,660
Trading Profit/(loss)	(2,823)	(2,333)
Gross margin %	(39.0)	(12.5)

Due to high volatility, trading turnover was limited to specific situations. The trading loss was partially offset by previous impairment provisions made against carried forward positions held in 2010. Most legacy positions were liquidated.

Since October 2011, the sharemarket has firmed which suggests a positive outcome in 2012. However our trading results will be dependent upon no unpleasant surprises and continued growth in World economies.

Liquidity, or working capital (being current assets less current liabilities) declined to $2,024,879 at year end ($4,124,686-2010). This position was due to the net loss of $3,003,428 partly offset by net proceeds from an entitlement issue of $821,984.

The level of working capital is important as it is applied to support current exploration activities, cover administration costs and to support share trading. A balance of $4 to $5 million is more sustainable.

Budget for 2012 (indicative)

For the purpose of providing an assessment of the financial impact of future activities, the following budget is presented:

Trading Profit	**2012** **$000**
Gross share turnover	10,000
Share trading profit	1,000
Margin	10%

Past experience indicates that portfolio turnover is likely to be four to five times working capital (currently $2.0M). Although, profit margins will vary considerably, according to the nature of market volatility and individual stock, we are looking to average 10%. Although, given market and political volatility, this margin is very aspirational.

Investment Income

Because of heightened political risks arising from the possibility of a RRT and now a Carbon Tax, a policy of increased cash holdings has been implemented which together with higher interest rates, suggests that investment income could increase to $50,000.

Administration expense

Administration expense is expected to decline by $100,000 to $750,000.

Exploration

Our exploration budget for 2011 totals $1.0M a reduction of $216,000 which allows for 2,500 metres of RC and DD core drilling and the expenditure of $200,000 on metallurgical test work on the New Hope deposit. Field work will start early March, depending upon weather conditions and access.

Planned expenditures are:

	$000
New Hope metallurgy	200
New Hope evaluation studies	100
General, including drilling	700
	1,000

Our objective is to better understand the treatment process of New Hope ore by an extended metallurgical test program. Drilling at the Bonanza Anomaly, Sharry Fault IP Anomaly and Pegmont will test large targets.

Profit Forecast

At present we are budgeting for a loss of $700,000 as follows:

	$000
Share trading profit	1,000
Write back provisions	-
Investment income	50
	1,050
Administration	(750)
Exploration	(1,000)
Pretax profit/(loss)	(700)

We recognise that the income figures (particularly for share trading) are aspirational and as such are subject to numerous market risks and uncertainties. However, stockmarket conditions appear to be improving, subject to no unpleasant surprises.

Actual results of Company performance could differ materially from those discussed in these forward looking estimates and statements.

The quarterly reports that are forwarded to shareholders aim to update and discuss the ongoing activities of the Company and changes to estimates. Readers are invited to discuss such matters with management.

Although no particular reliance can be placed upon forward projections, they are provided to indicate the direction of management thinking and magnitude of major variables.

WORKING CAPITAL

Since our forecast indicates a cash loss it may be necessary for the Company to raise additional capital during the year in order to maintain an adequate level of working capital.

In summary, until the company can generate an operating income it must depend upon the following source of funds:

- Sharetrading profits
- Equity raisings
- Sale of advanced exploration mineral projects

The board continuously reviews these options.

INVESTMENT ACTIVITIES

The Company invests mainly in resource equities which are in production or have advanced projects with near term production potential. Also, several seed capital positions are maintained which we hope can be realised.

Share Trading

Results for the year were:

	2011	**2010**
	$000	**$000**
Turnover	7,235	18,660
Realised Profit/(loss)	(2,823)	(2,333)
Profit Margin %	(39.0)	(12.5)

These realised losses were substantially offset by impairment provisions carried forward from previous years.

Due to market volatility and high investment uncertainty, share trading activity was significantly reduced during the second half of the year.

Significant losses were incurred to June 2011, due mainly to the loss of investor confidence arising from the prospect of a mining profits tax, imposition of a carbon tax and a rising Australian dollar (effectively another tax!). Overseas investment in second tier mine producers (our preferred investment group) were hit hard. This loss of confidence remains today, causing a sharp contraction in project funding and new equity raising.

Our response was to liquidate long held legacy positions carried over from the GFC as their prospect for a price recovery diminished.

Share Trading – 2011 Results	**First Half $,000**	**Last half $,000**
Turnover	3,640	3,595
Realised Loss	(230)	(2,588)
Net Provision	(613)	2,439
Net Trading Loss	**(843)**	**(149)**

Share trading activity since January 2012 has been minimal, due to ongoing uncertainties. The main drivers of the Australian resource securities are:

- High Australian dollar
- High but declining metal prices
- Economic uncertainties surrounding Greece and the Euro economies
- Slower growth in China
- US and Australian political dysfunction

The market panic on 4 October 2011 marks the secondary bottom of the 2008-2012 bear market, as subsequent events including US economic recovery and the granting of future bailout funds to Greece signal resolution to some of the ongoing problems.

The exploration sector is subject to rising costs, labour shortage and lack of laboratory assaying capacity. Competition for the investment dollar has caused hyperbole to be used in some 'new' mineral announcement headings which could indicate a fairly mature state of the exploration investment cycle.

Recent political comments about excessive mining profits and billionaires working against the national interest suggests a more difficult time ahead for the resource industry.

Share market prospects during 2012 are thought to be improving, subject to possible 'Black Swan' events, particularly in the Middle East.

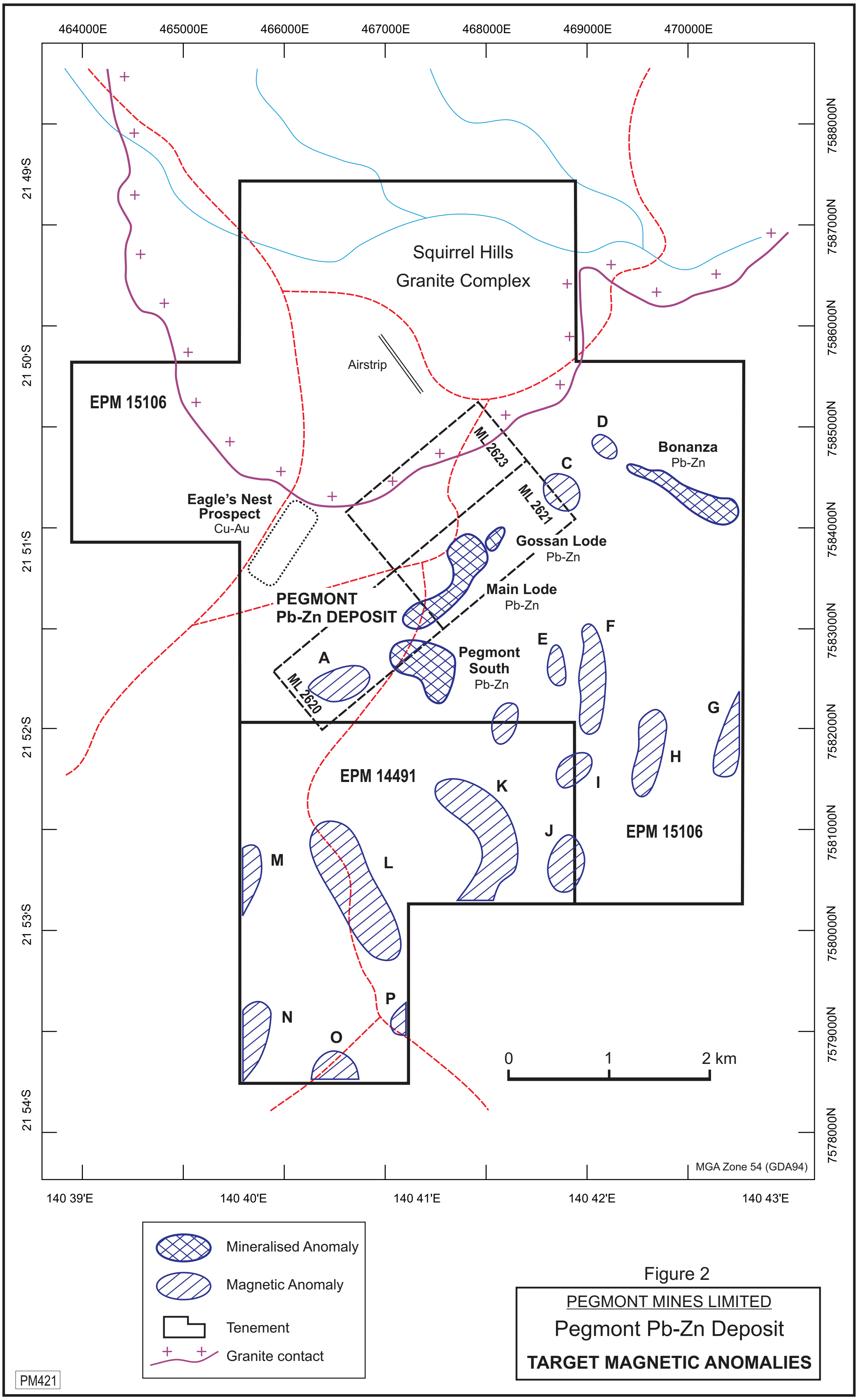


Figure 2

PEGMONT MINES LIMITED

Pegmont Pb-Zn Deposit

TARGET MAGNETIC ANOMALIES

EXPLORATION ACTIVITIES

The Company's exploration activities are focused on North-West Queensland within the Mt Isa-Cloncurry mineral province. This province contains world class base metal and uranium deposits.

The Company's exploration portfolio is concentrated in an area between the Selwyn copper-gold-molybdenum-rhenium belt associated with the Mount Dore Fault Zone and the Cannington high grade silver-lead-zinc deposit to the east.

The portfolio comprises:
- Pegmont lead-zinc deposit
- New Hope gold-cobalt deposit
- Other tenements prospective for copper-gold

During the past two years, considerable exploration effort has focused on upgrading both deposits to Resource status, thereby completing the first stage of their assessment.

At **Pegmont**, Indicated and Inferred Resources are estimated at 8.8Mt @ 5% Pb + Zn using a 3% Pb + Zn cut-off grade based on 381 drill holes totaling 40,409 metres. In addition, Mineralised Potential is between 9Mt and 15Mt at between 4% and 5% combined Pb + Zn at a 3% Pb + Zn cut-off (JM Geological consulting Pty Ltd – 7 February 2011).

Mineral Potential exists where mineralized drill intersections are too sparse to support Resource estimation; but where infill drilling is likely to be successful.

At New Hope, 58 drill holes, including 8DD holes totaling 2,121metres have been drilled into a strike length of 100 meters. Results are being assessed and likely to result in a Resource statement shortly.

Starting from 2012, exploration work at Pegmont will focus on discovering larger and higher grade mineralized areas. At New Hope, metallurgical work to recover cobalt will form an important part of future feasibility studies.

The Company's other tenements are situated in close proximity to the Pegmont and New Hope deposits. These areas remain at the prospect stage requiring further detailed mapping and sampling, although SC7, EMU and MMA prospects have had some drilling.

PEGMONT LEAD-ZINC PROJECT

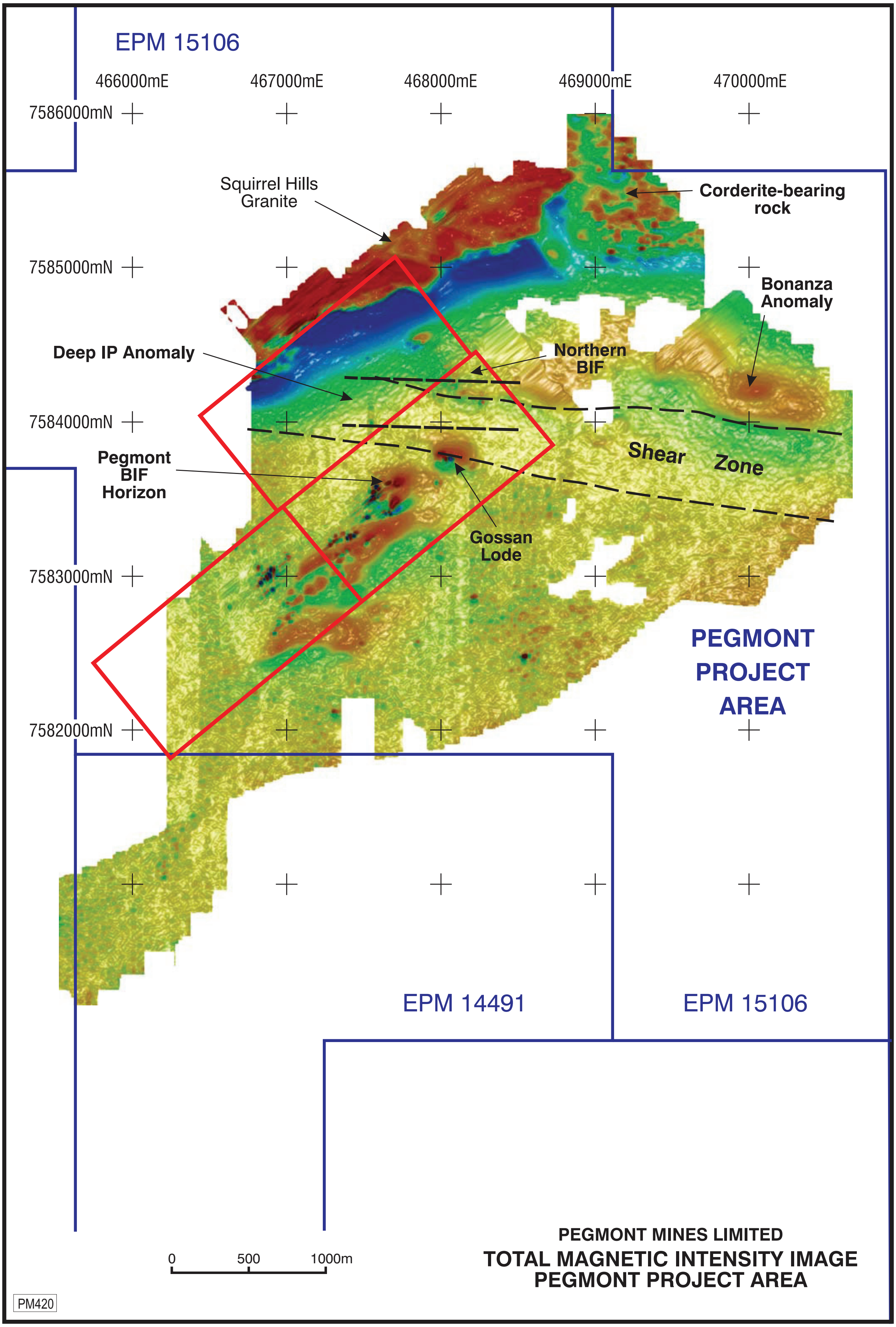
The Pegmont mineralization is largely stratiform hosted within a single magnetic banded iron formation (BIF) of up to 10 metres thick. Increasing evidence suggests that it was formed in a series of sub-basins spread over a considerable area (the BIF limits are not yet defined to the south or east-west directions). Since formation it has been subject to faulting, folding and other structural changes. Outcrop occurs at the Northern Lodes, Mount Lucas and at the Gossan Lode. Due to its association with magnetite, mineralization generally has a strong magnetic character, although it may extend beyond magnetic anomalies under cover, at depth.

BIF mineralisation has been drilled over a distance of 3km north-south and 3km east to west in a series of magnetic anomalies (page 6). There are a number of such anomalies which remain untested. Drilling to date, has largely concentrated on shallow easterly dipping magnetic anomalies with a fair degree of success.

Drilling to date, has delineated an Indicated and Inferred Resource estimate at 8.8Mt @ 5% Pb + Zn, using a 3% Pb + Zn cut-off grade. In addition, there is a Mineralised Potential estimated at between 9Mt and 15Mt of similar grade. These estimates do not include mineralisation intersected at the Bonanza Anomaly, nor the possibility of mineralisation being associated with many known magnetic anomalies. By taking these possibilities in to account there exists lots of opportunity to significantly expand current Resource estimates.

Extensional drilling will become more expensive as the mineralized horizon dips to greater depths. Therefore, future drill emphasis will focus on higher grade target areas with potential for enhanced thickness.

Cutting across the BIF units in an east-west direction and separating the main Lode and Gossan Lode from the Northern BIF and


EPM 15106
466000mE
467000mE
468000mE
469000mE
470000mE
7586000mN
7585000mN
7584000mN
7583000mN
7582000mN
Squirrel Hills Granite
Corderite-bearing rock
Bonanza Anomaly
Deep IP Anomaly
Northern BIF
Shear Zone
Pegmont BIF Horizon
Gossan Lode
PEGMONT PROJECT AREA
EPM 14491
EPM 15106
0
500
1000m
PM420
PEGMONT MINES LIMITED
TOTAL MAGNETIC INTENSITY IMAGE
PEGMONT PROJECT AREA

Bonanza Anomaly is the Sandy Creek Shear Zone, having a low magnetic signature.

Future drill programs will include all three types of targets:

- Extensional and infill drilling of known mineralisation.
- Magnetic targets to open up new areas
- Structural drilling into shear zones and fault structures for upgraded non-BIF style mineralisation.

The scoping out of Pegmont's BIF mineral potential will take time and dollars; possibly another 40,000 metres and $10 million spread over the next four years.

Alternatively, concentrated drilling into higher grade infill target zones may deliver economic tonnage at lower cost in a shorter period of time. This is our preferred option when combined with structural drilling to create new opportunities.

There is considerable potential to explore for a new style of higher grade mineralization in shear zones and fault structures. These structures could have provided the plumbing system for hydrothermal activity during periods of metamorphic events, including emplacement of nearby granites.

The **Sandy Creek Shear Zone** is a priority structure as it is characterized by a low magnetic intensity (perhaps indicative of hydrothermal silicification) cutting across the Pegmont BIF units. Within this Shear Zone, a large IP anomaly adjacent to the **Sharry Fault** has been identified. The target area lies at some 200m depth having dimensions of 200m x 600m at 400 metre depth. A weak EM anomaly is associated within this IP anomaly.

Some 2,000 metres west of the Sharry Fault IP Anomaly, the **Bonanza Anomaly** provides a prominent magnetic anomaly reflecting mineralized BIF units that sit on the northern margin of the Sandy Creek Shear Zone.

Previous drilling in PMD 037 intersected an 80m thick package of altered and mineralized rocks including 5m of 6.8% Pb + Zn from 203m. The substantial size of the Bonanza magnetic anomaly (500m x 400m), indicates potential to host a large target.

The current drill program of 1,500 metres will test the Sharry Fault and the Bonanza Anomaly in March. These holes are designed to test large targets associated with complex structures in proximity to known mineralisation.

In summary, the Pegmont Project has considerable exploration potential including:

- Extensional drilling of both the Main Lode and Pegmont South mineralized anomalies.
- Drill testing of other magnetic anomalies (page 6) including the mineralized Bonanza Anomaly.
- The Sandy Creek Shear Zone along its 3km strike and 600m width; including the Sharry Fault IP Anomaly.
- The Northern BIF units and associated magnetic anomalies that extend 2km towards the Bonanza Anomaly.

Since there are a number of drill targets with intersections of greater than 8% Pb + Zn that require follow up, we expect the average sulphide grades to 'increase over time'.

NEW HOPE GOLD-COBALT PROJECT

The New Hope gold-cobalt deposit absorbed most of our effort during 2011.

Drilling was undertaken in two phases. During late June to August, twenty (20) RC holes totaling 2,084 metres were completed, with significant values in 12 holes, the best holes, were NHP 036 with 11m @ 18.0g/t Au from 34 metres and NHP 046 with 3m @ 38.8g/t fom 99 metres.

The second drill program of five (5) holes totaling 370metres, including 250m of HQ drill core were targeted at the shallow 30-60 metre supergene zone.

Also, 237 samples with gold assay values of above 0.5g/t were check assayed using the screen fire technique (which will be used for resource estimation). For these samples the average weighted grade reduced from the standard assay by 4.9% to 16.4g/t. However resource grades are

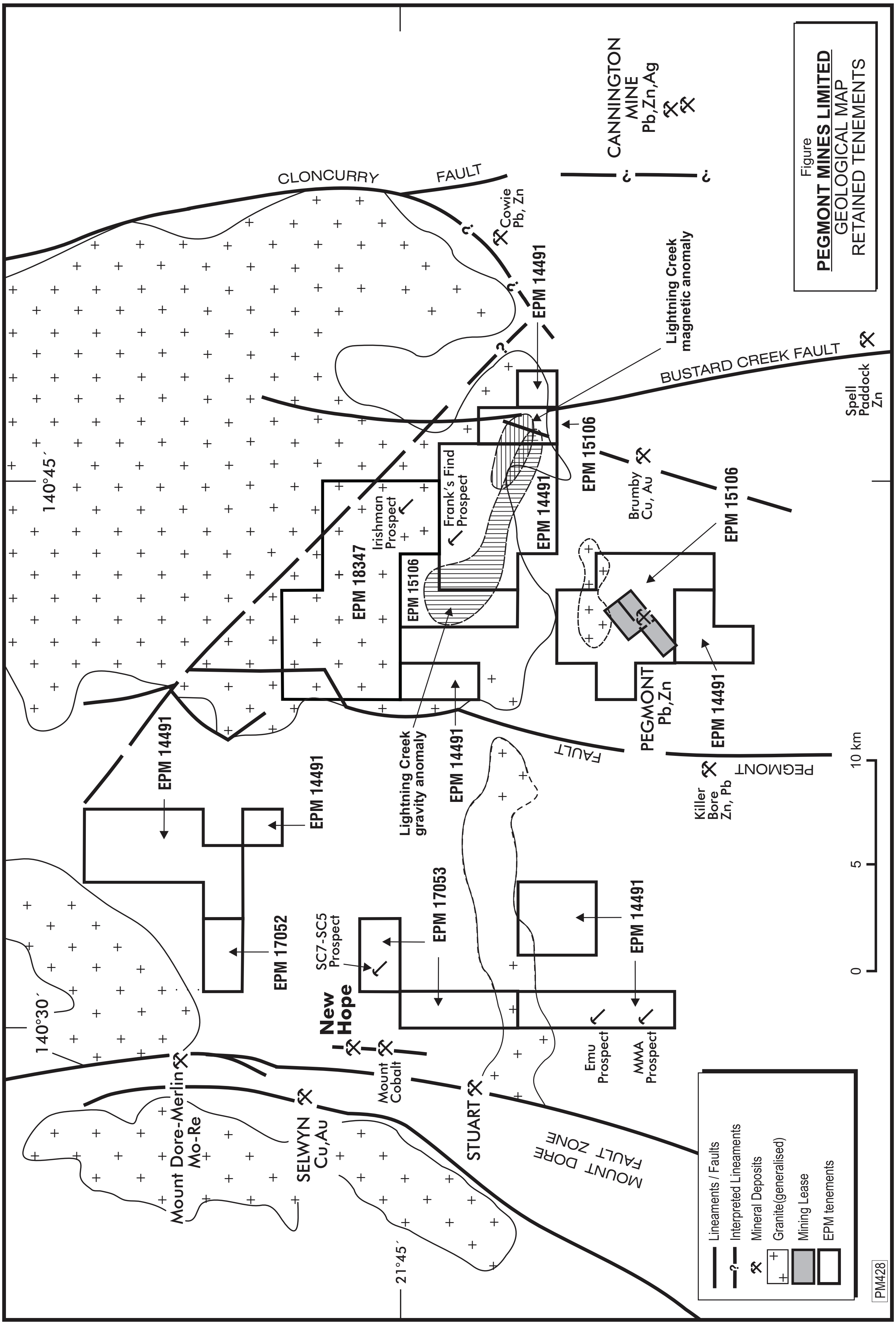


Figure
PEGMONT MINES LIMITED
GEOLOGICAL MAP
RETAINED TENEMENTS
CANNINGTON MINE Pb,Zn,Ag
CLONCURRY FAULT
Cowie Pb, Zn
EPM 14491
Lightning Creek magnetic anomaly
BUSTARD CREEK FAULT
Spell Paddock Zn
EPM 15106
Brumby Cu, Au
Frank's Find Prospect
Irishman Prospect
EPM 18347
Lightning Creek gravity anomaly
PEGMONT Pb,Zn
PEGMONT FAULT
Killer Bore Zn, Pb
EPM 17053
SC7-SC5 Prospect
EPM 17052
New Hope
Mount Cobalt
Emu Prospect
MMA Prospect
STUART
SELWYN Cu,Au
Mount Dore-Merlin Mo-Re
MOUNT DORE FAULT ZONE
140°45´
140°30´
21°45´
0
5
10 km
Lineaments / Faults
Interpreted Lineaments
Mineral Deposits
Granite(generalised)
Mining Lease
EPM tenements
PM428

likely to be reduced by the inclusion of dilution in the block model.

Resource estimation is now in progress, including shallow material that may be amenable for open cut mining.

Metallurgical research on cobalt recovery continues, but test results above 30% remain elusive.

OTHER PROSPECTS

Eagle's Nest (EPM 15106) – 2 RC holes for 146 metres were drilled without intersecting mineralisation. Since this prospect has a 600m gossanous structure with elevated Cu-Au values, additional drill testing will be undertaken.

MMA (EPM 14491) – 2 RC holes for 336 metres were drilled into a water bearing fault structure, an intersection of 1m @1.3% Pb + Zn was made. It requires follow up work, including ground geophysics and further mapping.

EMU (EPM 14491) – three (3) RC holes for 180 metres into carbonaceous shales did not confirm Cu-Au surface values. More detailed mapping is required.

EPM 18347 was granted on 7 February for a term of five years. This tenement contains the **Irishman Cu-Au prospect**, with promising rock chip values.

ACTIVITY SUMMARY

Exploration Activity		**2011**	**2010**
Metres Drilled	**m**	3,116	4,377
Average drill cost	**$/m**	401	253
Number of Holes:			
- Pegmont		-	51
- New Hope		25	-
- Frank's Find		-	4
- SC7		-	4
- MMA		2	-
- EMU		3	-
- Eagle's Nest		2	-
Metallurgical expense	**$,000**	182	-
Total Expenditure	**$,000**	**1,250**	**1,107**

2012 EXPLORATION PROGRAM

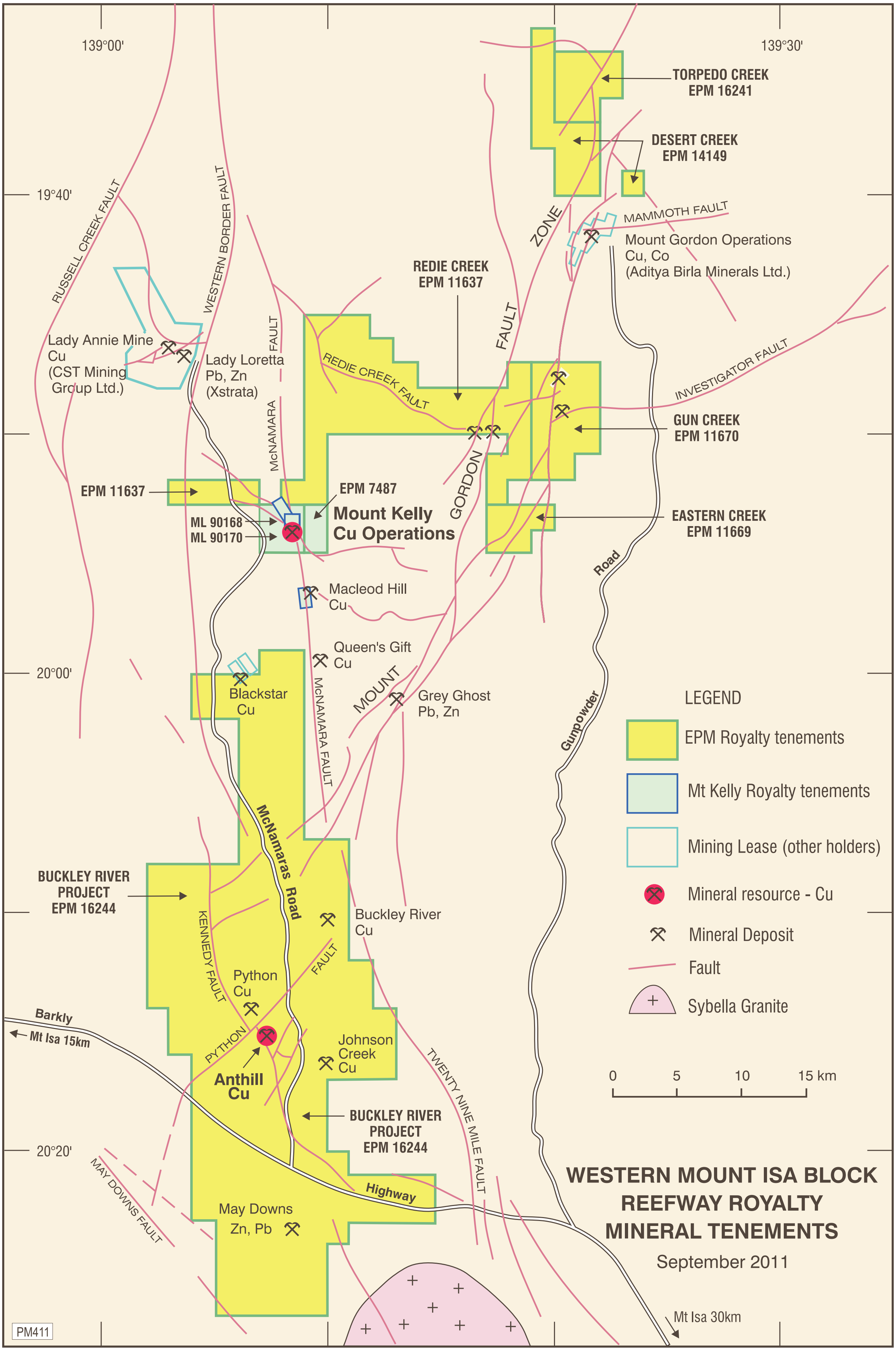
The upcoming exploration program during 2012 will concentrate on developing our two main projects.

At **Pegmont**, drilling will commence at the **Sharry Fault IP Anomaly** (which has been known since 2001). This is a large geophysical target within the Sandy Creek Shear Zone. It appears to be fault controlled with BIF mineralization on three sides.

The drill program will also test several targets at the **Bonanza Anomaly** which lies on the northern edge of the Sandy Creek Shear Zone.

At **New Hope**, assessment of drill data from 58 holes, including JORC Compliant Resource estimation will be undertaken. Based on these studies various options for early commercialisation or aggregation deals with other parties will be considered.

Field work, including mapping rock chip sampling and ground geophysics will assess tenements in the Selwyn sector (EPMs 14491, 17052 and 17053) and the newly granted EPM 18347, in order to firm up copper-gold targets.



139°00'
139°30'
19°40'
20°00'
20°20'
TORPEDO CREEK
EPM 16241
DESERT CREEK
EPM 14149
MAMMOTH FAULT
Mount Gordon Operations
Cu, Co
(Aditya Birla Minerals Ltd.)
REDIE CREEK
EPM 11637
RUSSELL CREEK FAULT
WESTERN BORDER FAULT
Lady Annie Mine
Cu
(CST Mining
Group Ltd.)
Lady Loretta
Pb, Zn
(Xstrata)
McNAMARA FAULT
REDIE CREEK FAULT
GORDON FAULT ZONE
INVESTIGATOR FAULT
GUN CREEK
EPM 11670
EPM 11637
EPM 7487
Mount Kelly
Cu Operations
ML 90168
ML 90170
EASTERN CREEK
EPM 11669
Macleod Hill
Cu
Queen's Gift
Cu
MOUNT
Grey Ghost
Pb, Zn
Blackstar
Cu
McNAMARA FAULT
Gunpowder Road
McNamaras Road
BUCKLEY RIVER
PROJECT
EPM 16244
Buckley River
Cu
KENNEDY FAULT
Python
Cu
FAULT
PYTHON
Anthill
Cu
Johnson
Creek
Cu
Barkly
Mt Isa 15km
Highway
BUCKLEY RIVER
PROJECT
EPM 16244
TWENTY NINE MILE FAULT
MAY DOWNS FAULT
May Downs
Zn, Pb
Mt Isa 30km
PM411
LEGEND
EPM Royalty tenements
Mt Kelly Royalty tenements
Mining Lease (other holders)
Mineral resource - Cu
Mineral Deposit
Fault
Sybella Granite
0
5
10
15 km
WESTERN MOUNT ISA BLOCK
REEFWAY ROYALTY
MINERAL TENEMENTS
September 2011

REEFWAY ROYALTY TENEMENTS (Pegmont 76.73% Royalty Interest)

The current owner and operator of the Reefway Royalty Tenements, CST Mining Group Limited (CST Mining) conducted an aggressive exploration program during 2011 on the Reefway Tenements. This work resulted in the following announcements:

7 June; Review of exploration data at **Anthill** provided a revision of compliant Mineral Resource Estimate in May 2011 of 6.5Mt @ 0.86% Cu for 55.9K of contained Cu, utilizing a 0.3% Cu cut-off. This estimate includes 5.15Mt @ 0.87% Cu of oxide material.

1 August; At **Mt. Kelly**, excellent drill results were received. A new zone of mineralisation named **Lady Colleen** was discovered; north-west of the Mt. Kelly mining area. This discovery was confirmed by the release of further detailed results on 12 October 2011 and 27 October 2011 with an announcement of an initial Mineral Resource Estimate by Q2, 2012.

14 December; Exploration drilling at the **Mt. Clarke West** pit had identified significant copper and cobalt transition and sulphide mineralisation below the current pit with potential to add significant Resource tonnes.

4 January; CST Mining announced a new discovery of the A**nthill West Deposit**, with potential to significantly increase the mineral resource inventory at Anthill. The Anthill discovery area is 45km to the south of the Lady Annie Operations, Mt. Kelly copper processing plant (capacity of 20,000-25,000t Cu cathode annually).

Further mineral resource extensional drilling is planned at **Lady Colleen, Mt Clarke, Flying Horse and Anthill** during 2012 with Mineral Resource Estimates anticipated through Q1 and Q2 of 2012. This is expected to substantially increase total mineral Resource above 232.9kt of contained Cu as at October 2010 within the Reefway Royalty Tenements (see map on page 12).

It should be noted that the conversion of Mineral Resource to metal production will depend upon numerous factors, including, copper prices, recoveries, strip ratio and operating costs.

The Reefway Royalty Agreement of 28 September 2004, allows for the payment of 1% NSR royalty after the production of 100,000 tonnes of copper. At 31 December 2011, cumulative production was 26,501.5 tonnes of cathode copper (21,118.5t – 2010).

A nominal value for this contingent royalty interest of $100,000 is included in the Company's Accounts at 31 December 2011.

No attempt to revalue this contingent asset has been made as the receipt of any future royalty payment is uncertain and beyond the control of the Company. However, should a substantial resource be delineated at the Anthill Prospect, which then leads CST Mining Group Limited to be granted a Mining Lease, a review of this contingent asset will be undertaken by the Board as it may have a more probable value.

The stated objective of CST Mining Group Limited is to increase the life of mine (LOM) to eight years plus in the oxide mine. (Resource Roadhouse, Lady Annie operations site visit April 2011). Furthermore:

"There are other opportunities in the form of transitional material and Sulphides."

"There is Sulphide sitting underneath all of our pits and also under the regional tenure. It has never been systematically explored."

"The company (CST Mining) is confident the Sulphide resources at these locations could underpin a 10 to 20 years plus LOM."

In a move to increase resources and extend the LOM, CST Mining allocated US$20 million drill program for 2011, which was to comprise 95,000m of RC drilling, 28,000m DD core drilling and 28,500m of rotary air blast (RAB) drilling. The resultant flow of discovery news is a result of this drilling program.

EXPLORATION TENEMENTS

TENEMENT	NAME	STATUS	REGISTERED HOLER	DATE OF GRANT	DATE OF EXPIRY	AREA (sq-km)
EPM 15106	Pegmont Extended	Granted	Pegmont Mines Ltd	11.08.2006	10.08.2011	57.2
EPM 14491	Pegmont Extended #2	Granted	Pegmont Mines Ltd	11.08.2006	10.08.2011	108.8
ML 2620	Pegmont No. 1	Granted	Pegmont Mines Ltd	24.01.1974	31.01.2012	1.3
ML 2621	Pegmont No. 2	Granted	Pegmont Mines Ltd	24.01.1974	31.01.2012	1.3
ML 2623	Pegmont No. 4	Granted	Pegmont Mines Ltd	24.01.1974	31.01.2012	1.3
ML 2487	New Hope	Granted	Pegmont Mines Ltd	03.09.2009	01.01.2019	0.8
EMP 17052	Mort River North	Granted	Pegmont Mines Ltd	03.09.2010	02.02.2014	1.2
EMP 17053	Mort River South	Granted	Pegmont Mines Ltd	03.09.2010	02.02.2014	1.5
EMP 18347	Squirrel Hills	Granted	Pegmont Mines Ltd	07.02.2012	06.02.2017	84.4

The above exploration tenements are 100% owned by Pegmont Mines Limited.

REEFWAY ROYALTY TENEMENTS

The following tenements in the Mount Isa region are subject to the Reefway Royalty Deed dated 28 September 2004, now owned and operated by CST Mining Group Limited.

MLs: 5426, 5435, 5446, 5447, 5474, 5476, 5478
EPMs: 11637, 11669, 11670, 11672, 14149, 16244 (page 12).

Note: EPMs 9916, 11777, 12589, 13331, 13739, and 14112 have been consolidated into EPM 16244

ROYALTY STRATEGY

The Company's longer term objective is to build a portfolio of Royalty Tenements over active production centers (such as the Reefway tenements) in order to create a royalty cash flow to fund future exploration activities.

TENEMENTS EXPIRY & RENEWAL

The company's key tenements being EPM 14491 and 15106 expired on 10 August 2011; MLs 2620, 2621 and 2623 have expired on 31 January 2012. Applications for renewal of all these tenements have been made. Since conditions of renewal have been met, the company is allowed to continue exploration activities of the tenements until the formal process of renewal has been completed. The company has not received any indication from the appropriate Queensland Departments that renewal of the tenements will not be granted.

FINANCIAL CONDITION

Corporate Assets

The Company's **Net Assets at 31 December 2011** were $5,686,584 ($7,834,527 – 2010) made up as follows:

	2011	2010
	$000	$000
Current Assets	2,079	4,172
Current Liabilities	(55)	(47)
Working Capital	2,024	4,125
Non Current Assets	3,662	3,710
Non Current Liabilities	-	-
Net Assets	**5,686**	**7,835**

The Net Asset difference between the two years represents the Net Loss after Tax of $3,003,428 largely offset by the issue of shares amounting to $855,485, a decline of $2,147,943.

The placement of 2,150,000 shortfall shares at 10 cents each on 4 February 2012, raised $215,000.

The Company's working capital position was $2,024,879 at 31 December 2011, as represented by Current Assets less Current Liabilities.

Current Assets	2011	2010
	$,000	$,000
Receivables	104	150
Available for sale financial assets	168	1,872
Cash and cash equivalents	1,807	2,150
	2,079	4,172
Less:		
Current Liabilities		
Payables	(55)	(47)
Provision for tax expenses	-	-
Working Capital	**2,024**	**4,125**
cents per share	3.4	8.0

Cash balances declined during the year because of increased exploration and administration expense, not covered by share trading activities.

Unless our working capital position improves, a review of expenditures will be made during June 2012.

Non-Current Assets	2011	2010
	$000	$000
Pegmont Field Camp	66	114
Pegmont Deposit	3,000	3,000
Regional tenements	350	350
Reefway royalty	100	100
New Hope deposit	145	145
	3,661	**3,709**

Non-current assets decreased by $48,136 due to net depreciation of the Pegmont field camp.

Since all exploration expenditure is written off when incurred, the carried forward values of the Company's tenements have remained constant.

The Pegmont lead-zinc deposit remains at the exploration phase requiring infill drilling, extensional drilling, metallurgical work and feasibility studies. Its value remains largely indeterminate.

Other Income

	2011	2010
	$000	$000
Interest received	66	65
Dividends received	4	15
Other revenue	18	17
Total	**88**	**97**

Expenses

Administration expenses increased from $604,456 (2010) to $844,469 because of increased Directors Fees ($108,750), Legal Fees ($58,621) and other expenses.

	2011	2010
	$,000	$,000
Audit & Directors Fees	368	259
Secretarial + office	229	188
Other	247	157
	844	**604**
Exploration Expense	1,250	1,106

Directors Fees were increased generally by 10% during the year, after remaining frozen during the previous three years. Also, a payment of $90,000 being outstanding fees payable to the Managing Director since 2008 was made and reinvested in the New Issue Entitlement offer.

Legal expense increased due to a review undertaken on the Reefway Royalty Tenements and updating of records.

Summary of Financial Results

Financial Results		2011	2010	2009	2008	2007
Gross Trading Revenue	$000	7,235	18,660	20,940	7,297	36,314
Profit on share sales	$000	(2,823)	(2,333)	2,105	(1,887)	8,230
Provision for share loss	$000	1,826	2,578	946	(4,563)	(980)
Net Trading Profit	$000	(997)	245	3,051	(6,415)	7,250
Exploration	$000	(1,250)	(1,107)	(806)	(340)	(662)
Administration	$000	(844)	(604)	(617)	(661)	(896)
Net Profit/(Loss) before tax	$000	(3,003)	(1,369)	1,687	(7,138)	6,017
Net Profit/(Loss) after tax	$000	(3,003)	(1,369)	1,687	(6,945)	3,916
Cash	$000	1,807	2,149	1,014	610	4,043
Investments	$000	168	1,872	4,289	3,003	7,528
Working Capital	$000	2,024	4,125	5407	4031	10,913
Total Assets	$000	5,741	7,881	9,206	7,743	15,424
Total Liabilities	$000	55	47	27	17	864
Shareholders' Funds	$000	5,687	7,834	9,179	7,726	14,670
Earnings per share (E)	cents	(5.0)	(2.7)	3.3	(13.6)	7.7
Dividends per share	cents	-	-	0.5	-	1.2
Net Tangible Assets per share	cents	9.4	15.2	17.9	15.1	28.9
Working Capital per share	cents	3.4	8.0	10.5	7.9	21.4
Share Price (last sale)	cents	9.0	10.0	8.0	6.0	18.0
Price Earnings ratio P/E	x	-ve	-ve	2.4	-ve	2.3
Shares on Issue	000	60,374	51,476	51,161	50,887	50,887

Comment

Since September 2004, the Company has applied the proceeds from the sale of Reefway Pty Ltd to share investing. This activity has generated a total Net Trading Profit of $12,661,000 (after provisions) from Gross Trading Revenue of $120,280,000 at an average a margin of 10.5% on turnover. From this trading income the Company has expended funds on exploration $5,003,000, administration $4,892,000, taxation $4,629,000 and distributed dividends of $1,375,000. This activity has sustained the Company.

The current business model of the Company incorporates sharetrading to generate income to cover administration and exploration expenses. However a mark down of the Company's share portfolio occurred during 2011 as investors retreated from equity markets which caused severe losses in several holdings. Consequently, risk exposure was markedly reduced by increasing the Company's cash ratio to 86% of portfolio valuation. This experience has made us cautious despite equity and commodity markets bottoming on 4 October 2011.

Exploration expenditure increased due to greater intensity of effort (including infill drilling and resource studies) directed at advancing the New Hope project to resource status.

Administration costs increased due to a payment of Director's Fees outstanding since 2008. This payment was applied to the recent share entitlement issue.

Shares on issue increased by 8,896,926 due to a Shareholder Entitlements Issue of 8,561,926 and employee/contractor bonus issue of 335,000 shares. None of the Directors were issued shares other than by taking up their New Issue entitlements.

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 fulfil 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-ExecutiveDirector) 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 Board of Directors maintains remuneration policies which are aimed at attracting and retaining a motivated workforce and management team. The intention is to match the outcomes from the remuneration system with the performance of the Company and ultimately the value received by our shareholders on a long-term basis.

As an overall policy, the Company will remunerate in such a way that it:

- motivates Directors and management to pursue the long-term growth and success of the Company; and

- demonstrates a clear relationship between key executive performance and remuneration.

Full details of Directors' and specified executives' remuneration are set out in the Directors' Report and in the Directors' and Executives' Disclosures note in the financial statements.

Due to the limited size of the Company and of its operations and financial affairs, the use of a separate remuneration committee is not considered appropriate for Pegmont.

Non-Executive Directors' fees are paid within an aggregate limit which is approved by the shareholders from time to time, which is currently set at $100,000.

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, 2011 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.David R Curtis 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 $3,003,428 (2010 - loss $1,369,408).

Dividends
No dividend was paid during the year (2010 - 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 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 2011.

Options over Unissued Capital
The total number of options issued as at 31 December 2011 was NIL (2010-NIL). At 31 December 2011 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 2011.

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 31 December 2011 financial report; and

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

Mr. Frank Vrachas
Lead Auditor

Meeting of Directors

During the financial year, 8 meetings of directors were formally held. The number of meetings attended by each director during the year is as follows:

Mr. John M Armstrong	8
Mr. Ian N S Sloan	6 *(retired 10 September 2011)*
Mr. Malcolm A Mayger	8
Mr. David R Curtis	2 (*appointed 18 October 2011)*

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 76 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 72 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.

CURTIS, David R (Non- Executive Director) BBus

Mr. David R Curtis, aged 48, is a finance specialist with experience as a director with Credit Suisse in Australia, Hong Kong and Japan, and Macquarie Bank Ltd, Australia. He was appointed 18 October 2011.

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 The Pitt Street Trust of which Mr. Ian Sloan was a Director and beneficiary.

d) Consulting fees paid to Caml Pty Ltd, of which Mr. David Curtis was a Director and beneficiary.

e) Consulting fees paid to Fonlie Accounting & Investments Pty Limited, an entity of which Mr.Chris Leslie is a Director and shareholder.

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.

Name	Service	Fees for Current year $	Total Remuneration $	Options Issued
M Mayger	Executive Managing Director	181,500	*271,500	NIL
J Armstrong	Non-Executive Chairman	55,000	55,000	NIL
I Sloan	Non-Executive Director	16,500	16,500	NIL
D Curtis	Non-Executive Director	6,250	6,250	NIL
C Leslie	Company Secretary	124,050	124,050	NIL

** Including $90,000 due since 2008.*

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

		Shares at 31/12/2010	Acquired during the year	Shares at 31/12/2011
J M Armstrong	Direct	75,000	13,750	88,750
	Indirect	675,000	75,000	750,000
D R Curtis	Direct	-	412,500	412,500
	Indirect	-	2,050,162	2,050,162
M A Mayger	Direct	300,000	100,000	400,000
	Indirect*	30,719,045	2,740,955	33,460,000
		31,769,045	**5,392,367**	**37,161,412**

Since 31/12/2011 there have been no changes in shareholdings, apart from D R Curtis's indirect shareholding increased by 400,000 shares as a result of the Non-Renounceable Rights Issue shortfall share placement.

*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: 16 March 2012

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 2011 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.

MA Mayger
Director
Sydney, 16 March 2012

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

Income Statement
For The Year Ended 31 December 2011

	Note	Consolidated 2011 $	Consolidated 2010 $	Parent Entity 2011 $	Parent Entity 2010 $
Revenue from continuing operations					
Gross revenue from share trading		7,234,904	18,659,561	6,992,101	17,428,382
Cost of sales		10,058,244	20,992,870	9,621,464	19,634,850
Revenue from sale of shares		(2,823,340)	(2,333,309)	(2,629,363)	(2,206,468)
Write back of provision for shares		1,826,097	2,578,196	1,803,341	2,465,199
Net trading profit after provisions		(997,243)	244,887	(826,022)	258,731
Interest received or due and receivable from other Corporations		66,114	65,355	66,114	65,355
Dividends received		3,943	14,402	3,943	14,402
Other revenue		17,740	17,298	64,255	17,298
		(909,446)	341,942	(691,710)	355,786
Expenses from continuing operations					
Audit fees		(25,000)	(24,000)	(25,000)	(24,000)
Directors fees		(343,750)	(235,000)	(343,750)	(235,000)
Exploration written off		(1,249,513)	(1,106,894)	(1,249,513)	(1,106,894)
Impairment for subsidiaries		-	-	(240,492)	(13,844)
Stock exchange fees		(9,050)	(9,522)	(9,050)	(9,522)
Share registry fees		(7,636)	(8,674)	(7,636)	(8,674)
Secretarial & office expenses		(228,618)	(188,311)	(228,618)	(188,311)
Superannuation		(36,767)	(14,661)	(36,767)	(14,661)
Other expenses from ordinary activities		(193,648)	(124,288)	(170,892)	(124,288)
		(2,093,982)	(1,711,350)	(2,311,718)	(1,725,194)
Profit before income tax		(3,003,428)	(1,369,408)	(3,003,428)	(1,369,408)
Income tax attributable	2	-	-	-	-
Profit attributable to members of Pegmont Mines Ltd		(3,003,428)	(1,369,408)	(3,003,428)	(1,369,408)
Earnings per share for profit attributable to the ordinary equity holders of the Company	19	(0.050)	($0.027)	(0.050)	($0.027)

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

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

Balance Sheet

As At 31 December 2011

	Note	Consolidated 2011 $	Consolidated 2010 $	Parent entity 2011 $	Parent entity 2010 $
Current Assets					
Receivables	3	**104,582**	**150,219**	**104,582**	**149,120**
Available for sale financial assets	4	**167,880**	**1,872,398**	**167,880**	**1,621,784**
Cash and cash equivalents	5	**1,807,003**	**2,149,474**	**1,807,001**	**2,149,472**
Total Current Assets		**2,079,465**	**4,172,091**	**2,079,463**	**3,920,376**
Non-Current Assets					
Held-to-Maturity Investments	6	**-**	**-**	**2**	**251,715**
Property, Plant & Equipment	7	**66,280**	**114,416**	**66,280**	**114,416**
Mineral Tenements	8	**3,595,425**	**3,595,425**	**3,595,425**	**3,595,425**
Total Non-Current Assets		**3,661,705**	**3,709,841**	**3,661,707**	**3,961,556**
Total Assets		**5,741,170**	**7,881,932**	**5,741,170**	**7,881,932**
Current Liabilities					
Payables	9	**54,586**	**47,405**	**54,586**	**47,405**
Total Liabilities		**54,586**	**47,405**	**54,586**	**47,405**
Net Assets		**5,686,584**	**7,834,527**	**5,686,584**	**7,834,527**
Equity					
Contributed equity	10	**3,755,871**	**2,900,386**	**3,755,871**	**2,900,386**
Reserves	11	**4,556,193**	**4,556,193**	**4,556,193**	**4,556,193**
Retained profits	11	**(2,571,213)**	**432,215**	**(2,625,480)**	**377,948**
Total parent entity interest		**5,740,851**	**7,888,794**	**5,686,584**	**7,834,527**
Outside equity interests in controlled entities		**54,267**	**54,267**	**-**	**-**
Total Equity		**5,686,584**	**7,834,527**	**5,686,584**	**7,834,527**

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

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

Statement of Changes in Equity
For the year ended 31 December 2011

	Consolidated		Parent entity	
	2011 $	2010 $	2011 $	2010 $
Total equity at the beginning of the financial year	7,834,527	9,178,735	7,834,527	9,178,735
Total recognised income and expense for the year	(3,003,428)	(1,369,408)	(3,003,428)	(1,369,408)
Transactions with equity holders in their capacity as equity holders:				
Shares issued- note 10	855,485	25,200	855,485	25,200
Total equity at the end of the financial year	5,686,584	7,834,527	5,686,584	7,834,527
Total recognised income and expense for the year is attributable to:				
Members of Pegmont Mines Ltd	(3,003,428)	(1,369,408)	(3,003,428)	(1,369,408)
Minority interests	-	-	-	-
	(3,003,428)	(1,369,408)	(3,003,428)	(1,369,408)

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

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

Cash Flow Statement
For The Year Ended 31 December 2011

	Note	Consolidated 2011 $	Consolidated 2010 $	Parent entity 2011 $	Parent entity 2010 $
Cash Flows from Operating Activities					
Cash receipts in the course of operations		87,797	97,055	87,797	97,055
Cash payments in the course of operations		(3,597,780)	(2,869,279)	(3,334,532)	(2,742,738)
Net cash from operating activities	17	(3,509,983)	(2,772,224)	(3,246,735)	(2,645,683)
Cash Flows from Investing Activities					
Purchase of plant, property & equipment		(21,893)	(6,452)	(21,893)	(6,452)
Payments for investment securities		3,530,615	4,995,469	3,268,466	4,868,407
Exploration expenditure		(1,249,513)	(1,106,894)	(1,249,513)	(1,106,894)
Net cash provided for investing activities		2,259,209	3,882,123	1,997,060	3,755,061
Cash Flows from Financing Activities					
Increase in creditors		7,181	20,160	7,181	20,160
Increase/ decrease in debtors		45,637	(20,114)	44,538	(19,593)
Share issue		855,485	25,200	855,485	25,200
Net cash flow from financing activities		908,303	25,246	907,204	25,767
Net increase (decrease) in cash and cash equivalents		(342,471)	1,135,145	(342,471)	1,135,145
Cash and cash equivalents at the beginning of the financial year		2,149,474	1,014,329	2,149,472	1,014,327
Cash and cash equivalents at the end of the financial year	16	1,807,003	2,149,474	1,807,001	2,149,472

The accompanying notes form part of these financial statements

Notes to the Financial Statements

For The Year Ended 31 December 2011

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 2011 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.

Notes to the Financial Statements

For The Year Ended 31 December 2011

1. **Statement of Accounting Policies (Continued)**

d) **Goods and Services Tax (GST) (continued)**

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.

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).

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. Collectibility 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.

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.

Notes to the Financial Statements

For The Year Ended 31 December 2011

1. **Statement of Accounting Policies (Continued)**

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

Goodwill and intangible assets that have an idefinite 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 demonstratabe economic grade, mineralisation; or

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 likelyhood 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.

Notes to the Financial Statements

For The Year Ended 31 December 2011

1. **Statement of Accounting Policies (Continued)**

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 MinesLtd 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 2011

1. **Statement of 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 expenditureis 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 2011, the carrying value of mineral tenements of the group is $3,595,425 (2010-$3,595,425)

		Consolidated		Parent entity	
		2011	2010	2011	2010
		$	$	$	$
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 from continuing operations before income tax expense	**(3,003,428)**	**(1,369,408)**	**(3,003,428)**	**(1,369,408)**
	Timing and permanent differences	-	-	-	-
	Prima facie tax payable at 30 %	-	-	-	-
	Income tax/(refund) attributable to operating profit	-	-	-	-
3.	**Trade and otherReceivables (Current)**				
	DME security deposits	**32,665**	**25,017**	**32,665**	**25,017**
	Other debtors	**-**	**68,955**	**-**	**67,856**
	GST control account	**57,726**	**49,910**	**57,726**	**49,910**
	Prepayments	**14,191**	**6,337**	**14,191**	**6,337**
		104,582	**150,219**	**104,582**	**149,120**
4.	**Available for sale financial assets (Current)**				
	Quoted Shares	**167,880**	**1,872,398**	**167,880**	**1,621,784**
	Unlisted Investments – at fair value	**-**	**-**	**-**	**-**
	Closing balance at 31 December	**167,880**	**1,872,398**	**167,880**	**1,621,784**
5.	**Cash and cash equivalents (Current)**				
	Cash at bank and on hand	**43,571**	**58,827**	**43,569**	**58,825**
	Cash on deposit	**1,763,432**	**2,090,647**	**1,763,432**	**2,090,647**
		1,807,003	**2,149,474**	**1,807,001**	**2,149,472**

Notes to the Financial Statements
For The Year Ended 31 December 2011

		Consolidated		Parent entity	
		2011	2010	2011	2010
		$	$	$	$
6.	**Held-to-Maturity Investments (Non-current)**				
	Shares in controlled entities	-	-	199,361	199,361
	Loans to (from) subsidiaries				
	Loan to subsidiary	-	-	195,746	206,967
	Loan from subsidiary	-	-	(50,332)	(50,332)
	Provision for non-recovery	-	-	(344,773)	(104,281)
	At fair value 31 December 2011	-	-	2	251,715
7.	**Property, Plant and Equipment**				
	Property, plant & equipment - at cost	369,279	347,386	369,279	347,386
	Less: Accumulated depreciation	(302,999)	(232,970)	(302,999)	(232,970)
		66,280	114,416	66,280	114,416
	Reconciliation of carrying amount				
	Opening balance at 1 January 2011	114,416	176,150	114,416	176,150
	Plant & equipment acquired during year	21,893	6,452	21,893	6,452
	Disposals	-	-	-	-
	Depreciation during year	(70,029)	(68,186)	(70,029)	(68,186)
	Closing balance at 31 December 2011	66,280	114,416	66,280	114,416
8.	**Mineral Tenements (Non-Current)**				
	Pegmont Lead-Zinc project at cost	893,807	893,807	893,807	893,807
	Revaluation	2,106,193	2,106,193	2,106,193	2,106,193
	At fair value	3,000,000	3,000,000	3,000,000	3,000,000
	Pegmont regional exploration areas at fair value	350,000	350,000	350,000	350,000
	Reefway Pty Ltd royalty at fair value	100,000	100,000	100,000	100,000
	New Hope project acquisition at cost	145,425	145,425	145,425	145,425
		3,595,425	3,595,425	3,595,425	3,595,425

The Pegmont regional exploration areas are adjacent to the Pegmont mining leases with mineralisation spreading across the tenement boundaries and are therefore regarded as being part of the same project.

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 decisions in what is known generally as the "Mabo" and the "Wik" cases 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 affect any mining title area whether granted by the State or not.

Notes to the Financial Statements

For The Year Ended 31 December 2011

	Consolidated		Parent entity	
	2011	2010	2011	2010
	$	$	$	$
9. **Trade and other Payables (Current Liabilities)**				
Trade creditors and other loans	54,586	47,405	54,586	47,405

	Parent entity			
	2011		2010	
	Number	$	Number	$
10. **Ordinary shares – Fully paid**	60,373,722	3,755,871	51,476,796	2,900,386

During the year 8,561,926 shares were issued to shareholders under a Non-Renounceable Rights Issue offer at a price of 10 cents per share. The costs incurred totalled $34,208. Subsequent to year end a further 2,150,000 additional shares were allotted at the price of 10 cents per share by the directors, comprising short fall shares of the Non-Renounceable Rights Issue.

In addition, 335,000 shares were issued at a deemed price of 10 cents per share, to contractors and to landowners where the company's exploration projects are located.

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	
	2011	2010	2011	2010
	$	$	$	$
(A) Reserves				
Asset Revaluation Reserve	2,556,193	2,556,193	2,556,193	2,556,193
Capital Profit Reserve	2,000,000	2,000,000	2,000,000	2,000,000
	4,556,193	4,556,193	4,556,193	4,556,193
(B) Retained Earnings				
Balance 1 January	432,215	1,801,622	377,948	1,747,355
Profit for the year after related income tax expense	(3,003,428)	(1,369,407)	(3,003,428)	(1,369,407)
Balance 31 December	(2,571,213)	432,215	(2,625,480)	377,948

(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.

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, Ian N Sloan (deceased) and David R Curtis
.

Executives during year
Christopher Leslie

Notes to the Financial Statements

For The Year Ended 31 December 2011

12(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	**750,000**	**-**	**88,750**	**838,750**
MA Mayger	**31,019,045**	**-**	**2,840,955**	**33,860,000**
DR Curtis	**-**	**-**	**2,462,662**	**2,462,662**
Total shares	**31,769,045**	**-**	**5,392,367**	**37,161,412**

Subsequent to year end Mr D R Curtis's indirect shareholding increased by 400,000 shares as a result of the placement of the short fall shares from the Entitlement Issue to shareholders.

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 of mining and exploration for gold and other minerals and investment within Australia.

14. **Remuneration of Directors**

			Consolidated		Parent entity	
	Related party		**2011**	**2010**	**2011**	**2010**
Type of transaction	**-directors**	**Terms and conditions**	**$**	**$**	**$**	**$**
Directors' fees	MA Mayger	Normal commercial	**271,500**	**165,000**	**181,500**	**165,000**
Directors' fees	JM Armstrong	Normal commercial	**55,000**	**50,000**	**55,000**	**50,000**
Directors' fees	IN Sloan	Normal commercial	**16,500**	**20,000**	**16,500**	**20,000**
Directors' fees	DR Curtis	Normal commercial	**6,250**	**-**	**6,250**	**-**

Notes to the Financial Statements

For The Year Ended 31 December 2011

15. **Controlled Entities**

Name	Inc	Class	Book value 2011 $	Book value 2010 $	Equity 2011 %	Equity 2010 %	Contribution to Group 2011 $	Contribution to Group 2010 $
Pilbara Ventures Ltd	NSW	Ord	19,359	19,359	100	100	(91,465)	(13,844)
Queensland Copper Mines Pty Ltd	NSW	Ord	1	1	100	100	-	-
Kimberley Ventures Ltd	NSW	Ord	180,001	180,001	60	60	-	-
			199,361	199,361				
Contribution to Group Profit (Loss) after minorities								
Parent –Pegmont Mines Ltd							(2,911,963)	(1,355,564)
Profit (loss) for year – group							(3,003,428)	(1,369,408)
Loans to (from) subsidiaries			145,414	156,635				
Provision for loss			(344,773)	(104,281)				
Parent net investment in subsidiaries			2	251,715				

	Consolidated 2011 $	Consolidated 2010 $	Parent entity 2011 $	Parent entity 2010 $
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:				
Cash at bank	43,571	58,827	43,569	58,825
Call deposits	1,763,432	2,090,647	1,763,432	2,090,647
	1,807,003	2,149,474	1,807,001	2,149,472

Cash at bank bear a weighted average interest rate of 4.0%

	Consolidated 2011 $	Consolidated 2010 $	Parent entity 2011 $	Parent entity 2010 $
17. Reconciliation Of Net Cash Outflow From Operating Activities To Operating Loss After Income Tax				
Operating Profit (Loss)	(3,003,428)	(1,369,408)	(3,003,428)	(1,369,408)
• Depreciation provision	70,029	68,186	70,029	68,186
• Exploration	1,249,513	1,106,894	1,249,513	1,106,894
• Provision for subsidiaries	-	-	240,492	13,844
• Unrealised loss on investments	(1,826,097)	(2,578,196)	(1,803,341)	(2,465,199)
Net cash provided for operating activities	(3,509,983)	(2,772,224)	(3,246,735)	(2,645,683)

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 2011

18. **Subsequent Events**
No other matter or circumstance has arisen since 31 December 2011 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 2011.

19. **Earnings Per Share(eps)**

	Consolidated 2011 $	Consolidated 2010 $	Parent entity 2011 $	Parent entity 2010 $
(a) Basic (loss) per share				
(Loss) attributable to the ordinary equity holders of the Company	**(0.050)**	**(0.027)**	**(0.050)**	**(0.027)**
(b) Earnings used in calculating earnings per share				
(Loss) attributable to the ordinary equity holders of the Company	**(3,003,428)**	**(1,369,408)**	**(3,003,428)**	**(1,369,408)**
The weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	**60,373,722**	**51,476,796**	**60,373,722**	**51,476,796**

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

	Weighted Average Effective Interest Rate %	Variable Interest $	Fixed Maturity Date Less than 1 year $	Fixed Maturity Date 1 to 2 years $	Non-interest Bearing $	Total $
2011						
Financial assets						
Cash	-	-	-	-	43,571	43,571
Interest bearing deposits	4.4	1,763,432	-	-	-	1,763,432
Receivables	-	-	-	-	104,582	104,582
		1,763,432	-	-	148,153	1,911,585
Financial liabilities						
Accounts payable		-	-	-	54,586	54,586
		-	-	-	54,586	54,586

Notes to the Financial Statements

For The Year Ended 31 December 2011

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	
	2011	**2010**	**2011**	**2010**
	$	**$**	**$**	**$**
Amount received or due and receivable by the auditor for:				
a) **Audit services**				
Audit and review of financial reports under the Corporations Act 2001	**25,000**	**24,000**	**25,000**	**24,000**
b) **Non Audit services**				
Income tax return preparation	**-**	**-**	**-**	**-**
Total remuneration of auditors	**25,000**	**24,000**	**25,000**	**24,000**

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 2012 amounts of approximately $105,000 (2010 $284,000) in respect of tenement lease rentals and exploration expenditures to meet the minimum expenditure requirements of the various Mines Departments in Australia. These obligations will be fulfilled in the normal course of operations.

ROTHSAY

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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF PEGMONT MINES LTD

We have audited the accompanying financial report of Pegmont Mines Ltd (the Company") which comprises the statement of financial position as at 31 December 2011 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the year.

Directors Responsibility for the Financial Report

The Directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and 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. The Directors are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial report is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used in and the reasonableness of accounting estimates made by the directors as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

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

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 the Corporations Act 2001, including:

a) (i) giving a true and fair view of the Company's and the group's financial position as at 31 December 2011 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Interpretations) and the Corporations Regulations 2001; and

b) the consolidated financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the remuneration report included in the Directors' report for the year ended 31 December 2011. 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.

Auditor's Opinion

In our opinion the Remuneration Report of Pegmont Mines Ltd for the year ended 31 December 2011 complies with section 300A of the *Corporations Act 2001*.

Rothsay

Frank Vrachas
Partner

Dated 16 March 2012

SUPPLEMENTARY INFORMATION

1.	**Issued Capital at 31 December 2011:**	**60,373,722**
	Ordinary Shares Fully paid	
	Placement of Shortfall share on 3 February 2012	2,150,000
	Issue of bonus shares to contractors on 1 March 2012	25,000
	Issued Capital at 1st March 2012	**62,548,722**

2. **Share Holdings at 5 March 2012**

(a) **Distribution of Shareholders**

Shareholding	Number of holders	Ordinary Shares
1-1000	1	1,000
1001-5000	1	5,000
5001 - 10,000	85	846,000
10,001 - 100,000	127	4,750,580
100,000 and over	55	56,946,142
	269	62,548,722

(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
Pegasus Enterprises Ltd	16,600,000	26.54
Malcolm A. Mayger Pty Limited	12,340,000	19.73
Malcolm A. Mayger Pty Limited and associates (including Pegasus Enterprises Limited)	33,860,000	54.13
HSBC Custody Nominees (Australia) Ltd	7,171,107	11.46

(c) Interests associated with Malcolm A Mayger Pty Ltd hold 33,860,000 (54.13%) Ordinary fully paid shares.

Directors' Interests

		Shares
J M Armstrong –		
	Direct	88,750
	Indirect	750,000
D R Curtis –		
	Direct	412,500
	Indirect	2,450,162
M A Mayger –		
	Direct	400,000
	Indirect*	33,460,000
Total Shares		37,561,412

*Includes Pegasus Enterprises Limited

Top Twenty Shareholders at 5 March 2012

	Number of Shares	% issued Capital
Pegasus Enterprises Ltd	16,600,000	26.54
Malcolm A Mayger Pty Ltd	12,340,000	19.73
HSBC Custody Nominees (Australia) Ltd	7,171,107	11.46
Lozora Pty Ltd	2,000,000	3.20
Malcolm A Mayger Pty Limited Super Fund	1,395,000	2.23
Bedel and Sowa Corp Pty Ltd	1,187,500	1.90
Scepha Investments Pty Ltd	1,125,000	1.80
Fitel Nominees Limited	1,100,000	1.76
Goldrim Investments Pty Ltd	1,100,000	1.76
Mr I J Holland & Mrs D Holland	859,000	1.37
Perpetual Trustee Company Ltd	750,000	1.20
UBS Wealth Management Nominees P/L	625,000	1.00
Mr Andrew George Poulos	585,000	0.94
Warlam Pty Ltd (Lincoln A/C)	520,000	0.83
Henroth Pty Ltd	500,000	0.80
Robert Jewell	500,000	0.80
WHI Securities Pty Ltd	500,000	0.80
Martin Place Securities Staff Super Fund	450,285	0.72
Mercantile Holdings Toltz Super Fund	437,500	0.70
Mr David Ramsay Curtis	412,500	0.66
	50,157,892	80.20
Other Shareholders	12,390,830	19.80
Total Issued Shares	62,548,722	100%

CORPORATE INFORMATION

PEGMONT MINES LIMITED
ABN 97 003 331 682

Registered Office
C-/- Walker Wayland Services P/L
Level 8, 55 Hunter Street
Sydney NSW 2000
Telephone: (02) 9951 5400
Facsimile: (02) 9951 5454

Corporate Office:
65 Hume Street
Crows Nest NSW 2065
Mail: PO Box 849,
Crows Nest NSW 1585
Phone: (02) 8437 3591
Facsimile: (02) 8437 3599
Website: www.pegmont.com.au

Listed on The National Stock Exchange of Australia
Website: www.nsxa.com.au
Code: PMI

Directors

John M Armstrong	Non-Executive Chairman
David R Curtis	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, 12 O'Connell Street,
Sydney NSW 2000
Telephone: (02) 8815 5400
Facsimile: (02) 8815 5401

Pegmont

PEGMONT MINES LIMITED
ABN 97 003 331 682

Registered Office
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Phone: (02) 8437 3591
Fax: (02) 8437 3599
Website: www.pegmont.com.au

Directors

John M Armstrong	Non-Executive Chairman
David R Curtis	Non-Executive Director
Malcolm A Mayger	Managing Director

Company Secretary
Christopher D Leslie

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

Listed on The National Stock Exchange of Australia
Website: www.nsxa.com.au
Code: PMI