

Pegmont Mines NL

ACN 003 331 682

Corporate Office
65 Hume Street
Crows Nest NSW 2065
Telephone: 8437 3591
Facsimile: 8437 3599

FAX TO: The Stock Exchange of Newcastle Limited
ATTENTION: Scott Evans
FAX NO: (02) 4929 1556
FROM: Malcolm Mayger
SUBJECT: Audited Final Accounts to 31 December 2004
DATE: 15 March 2005

Dear Scott,

We attach our Audited Financial Report for the year ended 31 December 2004 together with the Chairman's Report, Review of Operations and Directors' Report.

Yours Sincerely,



Malcolm A. Mayger
Managing Director

PEGMONT MINES NL

FINANCIAL REPORT

**FOR YEAR ENDED
31 December 2004**

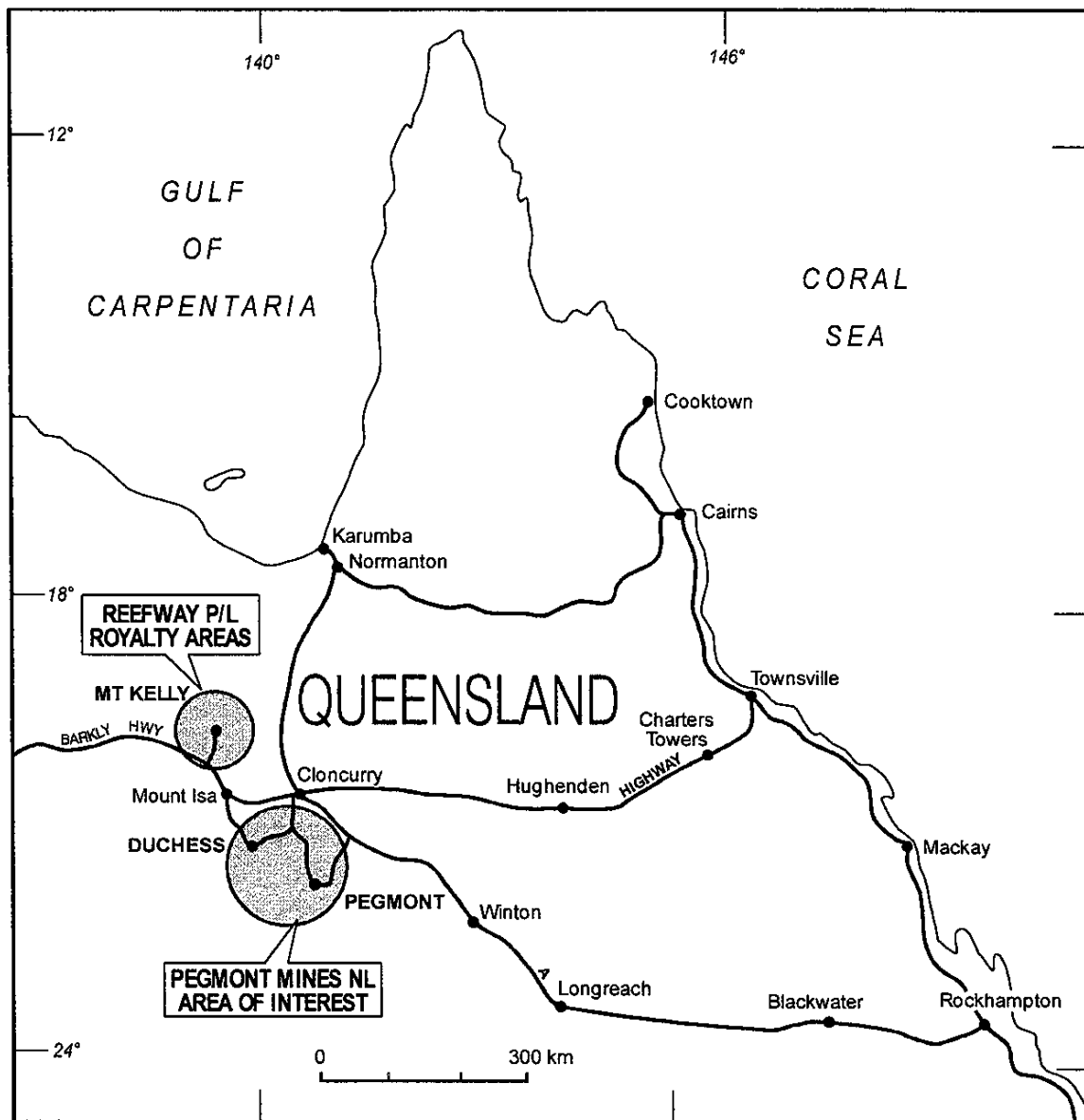


Figure 1 General Location, Mount Isa - Cloncurry Region, North Queensland

Pegmont Mines NL

A Brief Overview

- The Company was incorporated during 1987. It commenced exploration in the Mount Isa region, north-west Queensland during 1996 and listed on The Stock Exchange of Newcastle Limited on 5 December 2000.
- The Company's main exploration asset is its 100% ownership of the Pegmont lead-zinc deposit, some 180km south of Cloncurry where there is an estimated resource of 8.3million tonnes averaging 7.75% Pb and 3.46% Zn containing 643,200 tonnes of lead and 287,400 tonnes of zinc. This deposit is valued in the accounts at \$3.0 million or 5.9 cents per share.
- During the year the Company sold its 76.73% shareholding interest in Reefway Pty Limited for a cash and share consideration of \$4,138,305 plus 76.73% interest in a deferred royalty applicable only after the production of minimum tonnage of certain minerals from the Reefway tenements.
- The Company's total working capital position (ie current assets less current liabilities) has improved from a negative position of \$139,137 in 2003 to a positive balance of \$3,374,626 or 6.65 cents per share.

Calendar of Company Events*

- 1 March 2005 release of Preliminary Final Report to 31 December 2004
- 27 April 2005 Annual General Meeting
- 27 April 2005 release of March quarterly activities report
- 29 July 2005 release of June quarterly activities report
- 26 August 2005 release of Preliminary half yearly report
- 28 October 2005 release of September quarterly activities report
- 27 January 2006 release of December quarterly activities report

* Dates are subject to change.

Performance at a Glance

		2004	2003	2002	2001	2000
Exploration						
• Metres Drilled	(m)	1,997	3,549	-	611	2,288
• Expenditures						
- Direct	(\$)	54,586	307,739	105,450	287,113	241,970
- Joint Venture	(\$)	308,891	487,903	-	-	177,517
• Ave. Cost per drill metre	(\$/m)	182	224	N/A	470	183
• Profit on Investments	(\$)	510,197	-	-	-	-
• Administration Expense	(\$)	363,505	91,612*	96,351*	81,884*	146,444*
• Shareholder's Equity	(c/share)	13.3	11.2	11.9	12.2	12.9

*includes administration expenses incurred by Reefway Pty Ltd

Pegmont Mines NL

CHAIRMAN'S REPORT

Continued demand for basic raw materials by China's on-going economic growth has brought about an unprecedented rise in commodity prices and boom conditions for resource equities not seen for 35 years. The strong surge in nickel prices during 2003 broadened out to oil, lead, zinc, coking coal, iron ore and uranium during 2004. The surge in mining activity to meet China's demand is now creating bottle-necks in infrastructure, shortage in skilled labour and critical consumables, ie rubber tyres.

This demand led recovery in the base metals industry has provided the basis for a transformation of the Company's financial fortune.

On 28 September 2004, the Board was able to execute a Share Sale Deed for the sale of Reefway Pty Ltd to Avon Resources Ltd / CopperCo Ltd for a cash and share consideration of \$4,138,305 including 51,153,333 shares in CopperCo valued at 2 cents each. In addition, the Company and other vendors of Reefway retained a deferred royalty interest of 1% on payable metal production from the Reefway tenements upon production exceeding certain minimum quantities.

The Share Sale deal realised a pretax profit of \$2,855,637 to the Company after costs.

Furthermore, 50 million shares in CopperCo Ltd were sold to create a share investment fund in resource related companies. The activity resulted in a realised pre-tax profit of \$510,197 to 31 December 2004 plus additional unrealised gains. The cost of the unrealised portfolio stood at \$1,237,204 plus uninvested funds of \$351,310.

The Directors have continued to invest funds into other resource related companies in order to take advantage of current buoyant sharemarket conditions. We are very selective; limiting the number of investments to those which have made significant discoveries or who are advanced in their resource delineation or who are in production. This investment activity is helping us to improve our market

intelligence and identify opportunities for a near term cash flow opportunity to replace Reefway.

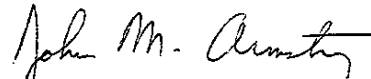
For this reason, we have set aside \$1,800,000 cash on deposit which together with \$767,300 deferred payment from CopperCo (due 30 June 2005) will provide funds for a resource acquisition.

Meanwhile, your Board will endeavour to maintain a positive cash flow from share investment activities to pay for corporate overheads and continued exploration of our Pegmont lead-zinc deposit.

With cash in hand we are now able to set a more confident course for the future. In fact, we are a very different company from last year with a strong desire to participate in Australia's resource growth.

The lack of market liquidity in our shares reflects our past constrained financial situation and low corporate profile. By becoming a resource investor as well as an explorer, we plan to raise our profile in order to attract a broader group of investors to our register of members.

I wish to thank the Directors, the Company Secretary, Senior Adviser, Consultants, and Company Lawyers for their efforts in making 2004 an exceptional year.



John M Armstrong
Chairman

Pegmont Mines NL

REVIEW OF OPERATIONS

Pegmont's strategy has shifted from total reliance upon exploration to generate economic value to one of resource investment where exploration will continue to play a part within the context of a broader participation in the development of Australia's resource industry.

This change of strategic emphasis was due to the lack of exploration risk capital available to the company during the later part of 2003 and most of 2004 which led the Board to consider selling assets in order to refinance corporate activities and stay in the game.

The sale of all shares in Reefway Pty Ltd to Avon Resources Ltd now called CopperCo Ltd on 28 September 2004 has enabled the Company to achieve this change. Future activities will therefore include both exploration work in the Mount Isa region and share investments in other resource based companies.

The Company executed a Share Sale Deed in regard to all of its shares in Reefway Pty Ltd on 28 September 2004 for a cash and share consideration of \$4,138,305 less costs, made upon follows:

	\$
Cash on execution	2,347,938
Deferred payment	767,300
Shares in CopperCo Ltd	<u>1,023,067</u>
	<u>4,138,305</u>

Shares in CopperCo Ltd were then sold to create a share investment fund in resource-related companies.

In addition to the cash and share consideration, the Share Sale Deed provided for a deferred royalty of a 1% net smelter return payment on payable metal production from the Reefway tenements. In respect of major metals, royalty is payable upon production exceeding minimum quantities; eg 100,000 tonnes of net payable copper.

The profit on the Sale of Shares in Reefway was \$2,855,637.

This transaction has changed the nature of Pegmont's activities whereby it can now consider a broader range of investment activities, beside exploration in the Pegmont region.

Focused exploration is still regarded as the means of creating economic value for the Company.

PEGMONT REGION (100% owned)

The Company has three mining leases and two exploration permits for minerals surrounding the **Pegmont lead-zinc deposit**. These tenements are located equidistant from the established mining centres at Cannington (silver-lead-zinc), Selwyn, (copper-gold) and Osborne (copper-gold) – see map PM134

The area is served by a gas pipeline within 10km of Pegmont and nearby road and airfield infrastructure.

Pegmont lead-zinc deposit

The present known mineralization at Pegmont is associated with a Banded Iron Formation (BIF) which has a magnetic signature on account of the presence of magnetite bearing host rock.

The Pegmont BIF horizon is known to contain significant lead-zinc resources. The last review of drill data by independent consultants, Behre Dolbear Australia Pty Ltd reported in 1997 an estimated resource of **8.3million tonnes for the Main Lode averaging 7.75% Pb and 3.46% Zn containing 643,200 tonnes of lead and 287,400 tonnes of zinc at the Main Lode.**

This resource tonnage was estimated as follows:

Inferred: 4.6 Mt @ 8.07% Pb, 3.22% Zn
Indicated: 3.7Mt @ 7.35% Pb, 3.77% Zn

There was an additional 310,000 tonnes at the **Gossan Lode** at a lower grade.

Pegmont Mines NL

They noted that these estimates may have an error factor of 20-30% because of drill hole spacing and uncertainties of geological interpretation. The report also noted that infill drilling would probably increase their resource estimate as well as the confidence level.

Subsequent geological reviews by Dr Ken Maiden, consulting geologist (November 1999, May 2000 and May 2001) have indicated exploration potential for additional lead-zinc mineralisation. However, the challenge is to locate higher grade material which could jump-start the project. This could be achieved by concentrating exploration on fault structures where some drill results have indicated upgraded values eg PGR10, 12.2m @ 6.27% Pb, 7.46% Zn from 56.4m, including 3 m @ 21.75% Zn drilled into the Swager Fault.

During May 2001, Arctan Services Pty Ltd reported on an IP survey undertaken by the Company to the immediate north of Mount Lucas covering the Sharpy Fault zone and a zone of magnetic quiescence between Mt Lucas – Main Lode magnetic anomalies and contact of the Squirrel Hills Volcanics. This survey demonstrated a significant and coherent low to moderate order chargeable anomaly extending to depth, parallel to the trend of the Sharpy Fault. This anomaly coincides with an area with increased exposure of red rock alteration in outcrop and significant intersections of pyritic schist and bleached and altered albitised feldspar-biotite quartzite with pyrite at depth, but generally low in base metals. The five holes drilled into the anomaly (PGD 028, BHP RPI, BHPRP2, PMR041, PMR042) were not drilled deep enough to test the anomaly. A program of several +500metre holes is planned for 2005.

Drilling at the nearby **Bonanza** magnetic anomaly (800m x 400m) intersected significant sub-grade lead-zinc values, including 5m @ 3.1% Pb, 3.7% Zn from 203m depth. The anomaly is bounded by the Sandy Creek Shear Zone.

Economic Assessment of the Pegmont Deposit.

An independent Geological Report and Valuation of Terrence Willstead & Associated contained in the Company's Prospectus dated 29 September 2000 estimated a valuation of \$3.0 million (p66) for the Pegmont lead-zinc deposit as a potential satellite mine associated with one of the three then existing mining operations in the region. This value was based on the assumption of being able to mine 0.5 mt of oxide and 4.0mt of sulphide material and using metal prices of US\$450/t Pb, US\$1150/t Zn and an exchange rate of US\$0.60. Based on these assumptions the deposit then had an estimated net present value (NPV) of \$6.5million using a 10% discount rate.

Using current metal prices of \$US960 Pb, US \$1380/t Zn and an exchange rate of US \$0.79, the NPV of the Pegmont deposit has increased to \$22.8 million.

It is apparent from these fluctuating NPV figures that the Pegmont deposit could be a very valuable asset, provided it can gain access to ore treatment facilities when metal prices are high.

Until an arrangement for toll treating the Pegmont ore can be finalised, the Board has resolved to retain the current value of \$3 million.

The prospect of a stand alone mine and mill operation is only tenable with increased tonnage and higher average grade, when applying standard pyrometallurgical technology.

Within the deposit environs, there is potential to increase tonnage by further drilling. A program of approximately 2000 metres, intended during 2005 will test this potential.

Also, a metallurgical review to consider alternative treatment processes is underway in order to assess the possibility of reducing operational and capital costs.

Pegmont Mines NL

Alternatively, and additional to exploring for more tonnage of lead-zinc mineralisation, the region has considerable potential for iron oxide copper-gold mineralisation. A regional program of reviewing the copper-gold potential of our exploration application areas and of the area within 50km of Pegmont has begun.

Furthermore, the Company has formed a subsidiary, **Queensland Copper Mines Pty Ltd**, to undertake copper-gold exploration outside the Pegmont area. It has applied for areas near to the Duchess and Trekelano mines (not owned by the Group). These mines were not large but were rich in grade and extended to depth.

Exploration Potential

Assuming that a 500,000t pa treatment plant could cost in the order of \$50-70million, a minimum treatable tonnage would be around 10million tonnes – that's our exploration target.

The attached regional map indicates numerous target areas surrounding known Pb-Zn mineralisation, described as magnetic anomalies, IP anomalies and Geotem anomalies. In aggregate these target areas have the potential to double existing sulphide resources at Pegmont.

Also, exploration could target fault structures for upgraded areas of mineralisation, including along strike from PGR 10 (12.2m @ 6.3% Pb, 7.5% Zn)

Our regional tenements EPM 14008 and EPMA 14491 have multiple target areas for both copper-gold and lead-zinc mineralization. The following map (PMR 136B) of the Lightning Creek Area indicates numerous targets associated with major fault structures. It is thought that the Lightning Creek magnetic anomaly was a centre of major hydrothermal activity which sourced fluids that migrated along fault structures until they came into contact with favourable geochemical conditions conducive to the precipitation of metal.

The **Lightning Creek magnetic anomaly**, lying within the Squirrel Hills Granite, about

8km northeast of Pegmont, is an intense magnetic anomaly covering an area of 5 x 2km. It is due to magnetite veining and alteration with associated trace copper-gold mineralisation.

A study by Perring et al (2000) concluded that hydrothermal fluids emanating out of this centre were hot, hypersaline, oxidised and rich in iron (> 10% Fe) and copper (>1% Cu). The Lightning Creek anomaly occupies a special place with respect to structural intersections. It is situated where the Bustard Creek Fault widens into a zone of fault sprays (including Brumby Fault). It is also associated with a broad zone of east-trending faulting (part of the Yellow Waterhole Corridor), with WNW-trending structures and with the northeast-trending Hopkin Fault which links it to the Pegmont area.

The evidence suggests the view that the Lightning Creek magnetic anomaly was a major focus of hydrothermal fluids radiated out, away from Lightning Creek, along active faults.

The high metal concentrations at Cannington are due to massive upgrading where late stage fluids, possibly emanating from the Squirrel Hills Pluton, interacted with pre-existing stratiform low grade BIF-hosted mineralisation. The same process of fluid movement and metasomatic upgrading may have occurred within the Sharpy Fault which is characterised by disseminated pyrite associated with a magnetic low.

Our Objective is to test this concept and to undertake regional exploration for iron oxide copper-gold deposits in this high potential area.

WESTERN MOUNT ISA AREAS.

Although the Company has sold its shares in Reefway Pty Ltd, it does not mean that the Western Mount Isa areas are not of interest to us.

Our agreement with Avon / CopperCo provides for them to advise us as to any intention they may have of relinquishing any

Pegmont Mines NL

of the Reefway tenement areas. Furthermore, the Company will be monitoring the region for vacant areas suitable for application.

Therefore, it is possible for the Company to rebuild a tenement holding position adjacent to the Reefway tenements, particularly along the Mount Gordon Fault Zone. Any new areas would be put into our wholly owned subsidiary Company, Queensland Copper Mines Pty Ltd.

GENERAL EXPLORATION STRATEGY

The Company will continue to explore the Mount Isa Inlier particularly around the Pegmont lead-zinc deposit where a significant resource remains to be developed.

The Company is also on the look out for investment opportunities within Australia to take minority positions which could expedite the early development of economic deposits.

INVESTMENT ACTIVITIES

The sell down of 50 million shares in CopperCo, valued at 2 cents each, enabled the Company to establish a \$1.0 million investment fund. Our aim is to participate in Australia's ongoing resource boom.

During the three months to 31 December 2004, investments were selectively made in twelve (12) different companies of which five were sold for a pretax profit of \$510,197, summarised as follows:

	\$
Sale of Investments	2,039,795
Cost of Sales	1,529,598
Gross Profit	<u>510,197</u>

At the year end, the portfolio contained eleven (11) companies having an acquisition cost of \$1,237,204. In addition there were net uninvested funds of \$351,310 making a total portfolio of \$1,588,514

Since the year end, some shares have been sold for a profit of \$433,565, whilst the

balance of unsold shares had an unrealized gain of \$347,238.

Our investment policy is to remain selective, holding around 10-12 companies at any one time which may have announced significant discoveries or have drilling programs on advanced projects or who have commenced production.

Our aim is to generate a positive cash flow in excess of \$1.0million per year (being in excess of bank deposit rates) in order to cover our administrative and exploration expenditure

Furthermore, the investment activity improves our awareness of other opportunities in which we may be able to utilize our funds on deposit totalling in excess of \$2.5million

INCOME AND EXPENDITURE BUDGET

It is our intention to generate a gross income of \$1.1million during the year which should cover administrative costs of \$300,000 and exploration expense of \$400,000. Our indicative budget is detailed as follows:

Income	\$
Interest on deposits	100,000
Profit on sale of investments	<u>1,000,000</u>
	<u>1,100,000</u>
 Administration	
Audit Fees	8,000
Directors Fees *	170,000
Officers & Consultants	30,000
Stock Exchange Fees	6,000
Share Registry Costs	10,000
Secretarial and Office	<u>76,000</u>
	<u>300,000</u>

* Including the Managing Director's remuneration

Pegmont Mines NL**Exploration**

Pegmont region	300,000
Pegmont Metallurgy	50,000
Duchess Region	50,000
	<u>400,000</u>
Net operating surplus before tax	<u>400,000</u>

FINANCE

The Company's financial position at the year end improved significantly and reflects the benefits arising from the Share Sale of Reefway Pty Ltd on 28 September 2004, for a cash and share consideration of \$4,138,305 less costs

Total cash received from Avon Resources Ltd were:

	\$
Sale of Reefway Shares	2,347,938
Repayment of Advance to Reefway	150,781
	<u>2,498,719</u>

From these proceed the following payments were made:

Costs of the Reefway sale	198,293
Repayment of loan A/C from Malcolm A Mayger Pty Ltd	201,224
Director's Fees due 1999	100,000
Funds placed on deposit	1,800,000
Working capital	199,202
	<u>2,498,719</u>

Funds placed on deposit were made with our bankers, ANZ Banking Group Limited for 3 and 6 months rollover. These funds are being held in reserve in order to enable the Company to invest into a long term resource opportunity which could replace Reefway.

Interest received from deposits totaled \$10,385. Part of the cash and share proceeds included a deferred payment by Avon Resources Ltd (now called CopperCo Ltd) of \$767,300 plus interest, due 30 June 2005. When this payment is received, it will be added to funds placed on short term deposit thus increasing the deposits to more than \$2.5million.

WORKING CAPITAL

The Company's working capital position at year end was \$3,374,626 after taking account of a provision for tax expense of \$616,636 represented by:-

Current Assets

	\$
Cash at Bank	504,890
Short term deposits	1,810,385
Investments	1,237,204
Other Current Assets	815,922
	<u>4,368,401</u>

Current Liabilities

	\$
Payables	378,139
Provision for tax expense	616,636
	<u>993,775</u>
Net Working Capital	<u>3,374,626</u>

The tax expense arises from the Reefway Share Sale in the current tax year, it will not be payable until after June 2005

Short term liquidity requirements will be met, by drawing down funds employed by investment activities.

DEFERRED ROYALTY

The Reefway Share Sale Agreement provided for the payment of a royalty payable on production from the Reefway tenements, which is the greater of a gross royalty payable on certain net payable metals derived from the tenements and a 1% Net Smelter Return. In respect of major metals (ie copper, lead, zinc, silver and gold), the royalty is only payable upon certain accumulated production threshold's being exceeded, for example 100,000 tonnes of Net Payable Copper. Since CopperCo is still exploring the Reefway tenements and has yet to make a decision to mine, any such royalty payments are not likely to be made (if ever) for at least five or more years. Therefore we have placed a nominal value of \$100,000 on the Company's 76.7% interest in such deferred royalties.

Pegmont Mines NL

EXPLORATION TENEMENTS

TENEMENT	NAME	STATUS	REGISTERED HOLDER	DATE OF GRANT	DATE OF EXPIRY	AREA (ha or Sb)
EPM14008	Pegmont Extended #1	Granted	Pegmont Mines NL	07.07.2003	06.07.2008	58Sb
EPM14491	Pegmont Extended #2	Appl'n	Pegmont Mines NL	—	—	68Sb
ML 2620	Pegmont No. 1	Granted	Pegmont Mines NL	24.01.1974	31.01.2012	129.5ha
ML 2621	Pegmont No. 2	Granted	Pegmont Mines NL	24.01.1974	31.01.2012	129.5ha
ML 2623	Pegmont No. 4	Granted	Pegmont Mines NL	24.01.1974	31.01.2012	129.5ha
EPM14784	Trekelano	Appl'n	Queensland Copper Mines NL	—	—	11Sb

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

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 2004. These corporate governance practices comply with the ASX 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 fulfill this role, the Board is responsible for setting the strategic directions for the Company, establishing goals for management and monitoring the achievement of these goals.

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. The Board believes that the Chairperson is able and brings quality and independent judgment to all relevant issues falling within the scope of the role of a Chairperson and remains up-to-date with current issues facing the Company by frequent contact with the Managing Director.
- 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 programme, 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 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. Currently the Board has three Directors, of which two are independent. The

number of Directors is maintained at a level which enables 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-Executive Director) 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 another 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."

Pegmont 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 whatever 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 2004).

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 Directors 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 Chairman, 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

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. The Board has adopted the following policies of Directors and executives remuneration:

Non-Executive Directors' Remuneration

Non-Executive Directors' fees are paid within an aggregate limit which is approved by the shareholders from time to time. Effective 1 June 2004, any newly appointed Non-Executive Directors will serve in accordance with a standard service contract, drafted by the Company's lawyers, which sets out remuneration arrangements. Retirement payments, if any, are agreed to be determined in accordance with the rules set out in the Corporations Act as at the time of the Director's retirement or termination.

Directors' Report

The Directors present their report on the results of the Company for the year ended 31 December, 2004 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 Michael D Leggo	Non-Executive Director
Mr Malcolm A Mayger	Managing Director

Principal Activity

The principal activities of the Company in the course of the year were the acquisition and disposal of mineral tenements, mineral exploration and investment.

Operating Results

The net profit of the Company for the year, after provision for income tax amounted to \$2,362,291 [2003: loss (\$48,620)].

Dividends

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

Review of Operations

Information on the operations of the company during the year and the results of those operations are set out section titled "Review of Operations" in this Annual Report.

Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the Company that occurred during the financial year other than:

On 28 September 2004 the Company executed a Share Sale Deed in regard to the sale of all its shares in Reefway Pty Ltd for a cash and share consideration of \$4,138,305 less costs made up of:

	\$
Cash on execution	2,347,938
Deferred payment	767,300 (payable at 30 June 2005)
Shares in CopperCo Ltd	1,023,067 (51,153,333 valued at 2cents each)

	4,138,305
	=====

50 million shares in CopperCo Ltd were sold to create a share investment fund in resource related companies. This activity resulted in a realised pretax profit of \$510,197 to 31 December 2004 plus additional unrealised gains. The cost of the unrealised portfolio stood at \$1,237,204 plus uninvested funds of \$351,310.

In addition to the cash and share consideration, the Share Sale Deed provided for a deferred royalty payment on payable metal production from the Reefway tenements upon production exceeding minimum quantities based on the value of net smelter return. Pegmont would have 76.73% of such royalties when payable.

The Directors have continued to invest funds arising from the sale of CopperCo into other resource related companies.

The cash received upon execution of the Share Sale Deed together with a refund of monies advanced to Reefway were used to pay expenses arising from the transaction and other creditors, including the Directors (\$100,000). The balance of the funds were placed on deposit with our bankers.

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 2004.

Likely Developments

The Company intends to continue its exploration programme on its existing tenements, and to acquire further suitable tenements for exploration. Investment activities in other resource companies will continue together with the placement of surplus funds on short term deposit.

Options over Unissued Capital

Following shareholder approval on 22 April 2004, the Company granted 1,280,000 unlisted options exercisable at 10 cents each on or before 31 December 2007 to the Directors or their nominees. These options were issued in order to capitalise the deferred remuneration payable to the Directors for the year ended 31 December 2003 as no payments had been made due to liquidity constraints experienced by the Company. The exercise of these options together with the offsetting remuneration payments are deferred until certain conditions have been met; including the listing of the Company on the Australian Stock Exchange, or acceptance of a takeover or a change in control of the Company whichever occurs first. Since 31 December 2004 and the date of this report no options have been exercised in respect of ordinary shares.

The fair value of the options granted to the Directors was assessed as Nil, using the Black and Scholes pricing model that takes into account the exercise price, the term of the option, the vesting period, the impact of dilution, the then current market price and expected volatility of the underlying share and the risk free interest rate for the term of the option.

On 31 December 2004, 2,000,000 options granted to the Directors expired.

150,000 options exercisable at 10 cents each on or before 31 December 2007 were issued to Officers or Consultants during the year and 160,000 options previously issued to Officers and Consultants expired on 31 December 2004.

As at 31 December 2004 and the date of this report, unissued shares of the Company under option are:

	Number Granted	Exercise Price	Expiry Date
Directors			
	1,000,000	10 cents each	31 December 2005
	1,100,000	10 cents each	30 April 2006
	1,280,000	10 cents each	31 December 2006
	1,280,000	10 cents each	31 December 2007
These options do not vest until the Company's shares are listed on the Australian Stock Exchange.			
Company Secretary			
	100,000	10 cents each	31 December 2005
	100,000	10 cents each	31 December 2006
	100,000	10 cents each	31 December 2007
Senior Advisor and Consultant			
	71,800	10 cents each	31 December 2005
	219,200	10 cents each	31 December 2006
	50,000	10 cents each	31 December 2007

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

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

Environmental Issues

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

Auditors' Section 307C Declaration

The Directors

In accordance with Section 307C of the Corporations Act 2001 (the Act) I hereby declare that to the best of my knowledge and belief there have been:

- i. no contraventions of the auditor independence requirements of the Act in relation to the review of the 31 December 2004 half yearly financial report; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

Graham R Swan
Lead Auditor

Meetings of Directors

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

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

Directors' Qualifications and Experience

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

Mr Armstrong, aged 69 is a professional company director with over 30 years experience in investment banking and resource finance at senior management and director levels.

MAYGER, Mayger A (Executive Managing Director) *BCom, CA*

Mr Mayger, aged 65 is a mineral economist with over 30 years experience in exploration, mining and investment. Malcolm Mayger founded the company in 1987 and has guided its subsequent development from concept to an explorer with substantial interests.

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

Mr Leggo, aged 63, is an experienced Geoscientist and has held senior positions with major exploration and mine development companies. He has over 20 years experience in his field. He has held a variety of technical and managerial positions in Australia and overseas and more recently has held senior positions in corporate environmental management.

Directors' Interests and Benefits

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 Mager Pty Ltd, an entity of which Mr Malcolm Mayger is a Director and shareholder.

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

Directors' and Executives' Emoluments

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

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

Name	Service	Deferred Consulting Fees to 1999 \$	Accrued Consulting Fees for year ended 31 Dec 2004 \$	Total Remuneration \$	Options issued
M Mayger	Executive Managing Director	75,000	125,000	200,000	900,000
J Armstrong	Non-Executive Chairman	15,000	30,000	45,000	250,000
M Leggo	Non-Executive Director	10,000	15,000	25,000	130,000
Total Directors		100,000	170,000	270,000	1,280,000
CD Leslie	Company Secretary	10,000	10,000	20,000	100,000

The Directors did not receive any remuneration for 2003, instead the shareholders in General Meeting resolved to grant options which would vest upon the Company listing on the Australian Stock Exchange. These options are exercisable at 10 cents each on or before 31 december 2007

In addition the shareholders resolved to extend the exercise date of 1,100,000 options previously issued at 10 cents each from 31 December 2004 to 30 April 2006.

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

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

		Shares	Options at 10 cents by 31.12.05	Options at 10 cents by 30.4.05	Options at 10 cents by 31.12.06	Options at 10 cents by 31.12.07
JM Armstrong	Indirect	350,000	150,000	180,000	250,000	250,000
MD Leggo	Direct	-	100,000	120,000	130,000	130,000
MA Mayger	Direct	300,000	750,000	800,000	900,000	900,000
	Indirect*	30,762,005	-	-	-	-
		31,712,005	1,000,000	1,100,000	1,280,000	1,280,000

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

Signed at Sydney in accordance with a resolution of Directors.



Malcolm A Mayger
Managing Director

Dated 14 March 2005

Directors' Declaration

In the opinion of the Directors of Pegmont Mines NL:

- (a) the financial statements and notes, set out on the following pages are in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the financial position of the Company as at 31 December 2004 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date, and
 - ii complying with Accounting Standards and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Malcolm A Mayger
Managing Director

Dated 14 March 2005

Statements of Financial Position
As at 31 December, 2004

	NOTES	2004 \$	2003 \$
CURRENT ASSETS			
Receivables	4	815,922	19,988
Investments	5	1,237,204	-
Cash assets	6	2,315,275	64,525
TOTAL CURRENT ASSETS		<u>4,368,401</u>	<u>84,513</u>
NON-CURRENT ASSETS			
Investments	7	-	3,258,049
Exploration & Evaluation expenditure	8	3,353,610	3,350,000
TOTAL NON-CURRENT ASSETS		<u>3,353,610</u>	<u>6,608,049</u>
TOTAL ASSETS		<u>7,722,011</u> =====	<u>6,692,562</u> =====
CURRENT LIABILITIES			
Payables	9	378,139	223,650
Provisions	10	615,636	-
TOTAL LIABILITIES		<u>993,775</u>	<u>223,650</u>
NET ASSETS		<u>6,728,236</u> =====	<u>6,468,912</u> =====
EQUITY			
Contributed Equity	2	2,833,187	2,833,187
Reserves	3	4,456,193	4,559,159
Accumulated Losses		(561,144)	(923,435)
TOTAL EQUITY		<u>6,728,236</u> =====	<u>6,468,912</u> =====

The accompanying notes form part of these statements.

Statements of Financial Performance
For the year ended 31 December, 2004

	NOTES	2004 \$	2003 \$
Interest income		10,385	5,237
Profit on sale of shares		510,197	-
Proceeds on sale of subsidiary		2,855,637	-
Management fees		19,800	44,000
		<u> </u>	<u> </u>
Total revenue from ordinary activities		3,396,019	49,237
Amortisation cost of share issues		-	(42,906)
Audit fees	11	(8,000)	(2,000)
Consultants fees		(20,000)	-
Directors fees		(270,000)	-
Exploration written-off		(54,586)	(21,951)
Provision for doubtful debt		(23,207)	-
Stock exchange fees		(5,895)	-
Share registry fees		(7,537)	-
Secretarial and office expenses		(15,770)	-
Other expenses from ordinary activities		(13,096)	(31,000)
		<u> </u>	<u> </u>
(Loss) from ordinary activities before related income tax expense		2,977,928	(48,620)
Income tax expense relating to ordinary activities	12	615,637	-
		<u> </u>	<u> </u>
Profit/(Loss) from ordinary activities after related income tax expense		2,362,291	(48,620)
Transfer to Capital Profit Reserve		(2,000,000)	-
Accumulated (Losses) at the beginning of the financial year		(923,435)	(874,815)
		<u> </u>	<u> </u>
Accumulated (Losses) at the end of the financial year		(561,144)	(923,435)
		<u> </u>	<u> </u>

The accompanying notes form part of these statements.

Statement of Cash Flows
For the year ended 31 December, 2004

		Inflow/ (Outflow) 2004 \$	Inflow/ (Outflow) 2003 \$
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts in the course of operations		3,395,669	49,237
Cash payments in the course of operations		(955,586)	(33,001)
		<hr/>	<hr/>
Net Cash Provided (Utilised) by Operating Activities	20	2,440,083	16,236
		<hr/>	<hr/>
CASH FLOW FROM INVESTING ACTIVITIES			
Payment for Investments		(3,366,987)	(186,285)
Repayment Loan to Reefway Pty Ltd		198,864	(62,750)
Payment for Exploration and Evaluation		(54,586)	(21,951)
Proceeds from Sale of Reefway Pty Ltd		3,059,185	-
		<hr/>	<hr/>
		(163,524)	(270,986)
		<hr/>	<hr/>
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of Shares and Options		-	286,286
Repayment of borrowings		(148,224)	22,219
Increase in creditors		302,713	4,607
Increase in debtors		(795,934)	323
Increase in provision for income tax		615,636	-
		<hr/>	<hr/>
		(25,809)	313,435
		<hr/>	<hr/>
Net Increase in Cash Held		2,250,750	58,685
Cash at 1 January		64,525	5,840
		<hr/>	<hr/>
Cash at 31 December	20	2,315,275	64,525
		<hr/>	<hr/>

• Pegmont Mines NL

Notes to the Financial Statements

For the Year Ended 31 December 2004

NOTE 1 - STATEMENT OF ACCOUNTING POLICIES

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

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

a. Income Tax

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

b. Exploration Expenses

Exploration, evaluation and development costs are accumulated in respect of each separate area of interest. Such costs are carried forward where they are expected to be recouped through successful development and exploitation of the area of interest or alternatively, by its sale; or where activities in the area of interest have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves, and active and significant operations in, or in relation to, the area are continuing.

The ultimate recoupment of costs related to areas of interest in the exploration and/or evaluation phase is dependent on the successful development and commercial exploitation or sale of the relevant areas.

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

c. Joint Ventures

The Company's interest in joint ventures is brought to account by including the appropriate proportions of the relevant assets, liabilities, and costs of the joint venture into the respective categories in the accounts of the Company.

Pegmont Mines NL

Notes to the Financial Statements

For the Year Ended 31 December 2004

d. Marketable Securities

Shares in listed companies held as current assets are valued at cost at balance date provided that net unrealised gains exceed losses, otherwise at market value. The gains or losses, whether realised or unrealised, are included in operating profit before income tax.

e. 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.

g. International Accounting Standards

With regard to AASB 1047 Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards, the Company has instigated a continual review of International Accounting Standards and the effects they will have on the Company's future financial statements. The Company does not have any non-current assets which, being subject to an impairment test, and as far as it can be judged at present, will have any significant impact on future financial statements with regard to assets other than exploration tenements.

At present, the Company is not aware of any key differences in accounting policies that are expected to arise from adopting A-IFRS. The company is continuing to monitor the Standards and have a committee in place to evaluate the new Standards and their impact on a continuing basis.

NOTE 2 – CONTRIBUTED EQUITY

	2004	2003
	\$	\$
a. Issued Capital		
50,686,796 ordinary shares fully paid	2,833,187	2,833,187
	=====	=====

Terms and conditions of contributed equity

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

b. Options

The company has 5,301,000 options on issue exercisable at 10 cents each summarised as follows:

Directors	1,000,000 by 31 December 2005
	1,100,000 by 30 April 2006
	1,280,000 by 31 December 2006
	1,280,000 by 31 December 2007
Officers	300,000 exercisable at varying dates to 31 December 2007
Senior Advisor	150,000 exercisable at varying dates to 31 December 2007
Consultants	191,000 exercisable at varying dates to 31 December 2007

Pegmont Mines NL

Notes to the Financial Statements

For the Year Ended 31 December 2004

NOTE 3 – RESERVES

	2004	2003
	\$	\$
Capital Profit	2,000,000	-
Asset Revaluation	2,456,193	4,559,159
	<u>4,456,193</u>	<u>4,559,159</u>
	=====	=====

Nature, Purpose and Movements of Reserves:

Capital Profit Reserve:

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

Asset Revaluation Reserve:

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

NOTE 4 - RECEIVABLES

DME Security deposit	2,500	2,500
Other Debtors	769,828	-
Related party loan	16,518	-
GST Control account	9,936	2,370
Prepayments	17,140	15,118
	<u>815,922</u>	<u>19,988</u>
	=====	=====

NOTE 5 - INVESTMENTS

Shares in Corporations listed on a prescribed stock exchange at cost

1,237,204	-
<u>=====</u>	<u>=====</u>

NOTE 6 – CASH ASSETS

Cash at Bank and on hand	504,890	64,525
Short Term Deposits	1,810,385	-
	<u>2,315,275</u>	<u>64,525</u>
	=====	=====

NOTE 7 – INVESTMENT IN SUBSIDIARY

Shares at cost	-	956,219
At Valuation	-	2,102,966
Advance	-	198,864
	<u>-----</u>	<u>-----</u>
	-	3,258,049
	=====	=====

Pegmont Mines NL

Notes to the Financial Statements

For the Year Ended 31 December 2004

	2004 \$	2003 \$
NOTE 8 – EXPLORATION & EVALUATION EXPENDITURE		
Mineral tenements – at valuation		
Pegmont BIF Project*	3,000,000	3,000,000
Pegmont Regional Application areas*	350,000	350,000
Duchess Application area at cost	3,610	-
	-----	-----
	3,353,610	3,350,000
	=====	=====

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

During the year ended 31 December 2004 the Directors reviewed the valuation of the Company's interests in mining tenements to reflect the future exploration and income potential of the areas.

NOTE 9 - PAYABLES

Trade Creditors	208,139	51,413
Accrued Directors' fees	170,000	-
Loan from Pegasus Enterprises Ltd	-	24,013
Loan from Malcolm A Mayger Pty Ltd	-	148,224
	-----	-----
	378,139	223,650
	=====	=====

NOTE 10 – PROVISIONS

Income Tax Expense	615,636	-
	=====	=====

NOTE 11 – AUDITORS' REMUNERATION

Auditors' remuneration		
- auditing the accounts	7,000	2,000
- other services	1,000	-
(the auditors received no other benefits)	-----	-----
	8,000	2,000
	=====	=====

NOTE 12 - INCOME TAX EXPENSE

Prima facie tax on operating profit at 30%	893,378	(14,586)
Future income tax benefit not brought to account	-	14,586
Tax losses applied	277,742	-
	-----	-----
Income tax attributable to operating loss	615,636	-
	=====	=====

Pegmont Mines NL

Notes to the Financial Statements

For the Year Ended 31 December 2004

	2004 \$	2003 \$
NOTE 13 - EARNINGS PER SHARE		
Basic earnings per share (cents per share)	4.7	(0.01)
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	50,686,796	50,686,796

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

NOTE 14 - CAPITAL COMMITMENTS

In order to maintain current rights of tenure to granted exploration tenements the Company is required to perform minimum exploration work to meet the minimum expenditure requirements specified by the QLD State Government. The estimated exploration and joint venture expenditure commitments for the ensuing year amount to \$165,000 (2003: \$20,000). This expenditure will only be incurred should the Company retain its existing level of interest in its granted exploration areas and provided access to mining tenements is not restricted.

NOTE 15 - REMUNERATION OF DIRECTORS and OFFICERS

Name	Service	Deferred Consulting Fees to 1999 \$	Accrued Consulting Fees for year ended 31 Dec 2004 \$	Total Remuneration \$	Options issued
M Mayger	Executive Managing Director	75,000	125,000	200,000	900,000
J Armstrong	Non-Executive Chairman	15,000	30,000	45,000	250,000
M Leggo	Non-Executive Director	10,000	15,000	25,000	130,000
Total Directors		100,000	170,000	270,000	1,280,000
CD Leslie	Company Secretary	10,000	10,000	20,000	100,000

The Directors did not receive any remuneration for 2003, instead the shareholders in General Meeting resolved to grant options which would vest upon the Company listing on the Australian Stock Exchange. These options are exercisable at 10 cents each on or before 31 december 2007

In addition the shareholders resolved to extend the exercise date of 1,100,000 options previously issued at 10 cents each from 31 December 2004 to 30 April 2006.

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

Pegmont Mines NL

Notes to the Financial Statements

For the Year Ended 31 December 2004

NOTE 16 - RELATED PARTY TRANSACTIONS**Directors and Director Related Entities' Shareholdings**

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

		Shares	Options at 10 cents by 31.12.05	Options at 10 cents by 30.4.05	Options at 10 cents by 31.12.06	Options at 10 cents by 31.12.07
JM Armstrong	Indirect	350,000	150,000	180,000	250,000	250,000
MD Leggo	Direct	-	100,000	120,000	130,000	130,000
MA Mayger	Direct	300,000	750,000	800,000	900,000	900,000
	Indirect*	30,762,005	-	-	-	-
		31,712,005	1,000,000	1,100,000	1,280,000	1,280,000

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

Transactions with Directors and Directors' Interests

Mr Mayger is the sole director of Malcolm A Mayger Pty Ltd. During the year, expenses totalling \$20,189 incurred during the normal course of business were reimbursed, together with the net repayment of \$148,224 previously advanced to the Company interest free. An amount of \$75,000 was paid as deferred consulting fees for the period to December 1999 which had become outstanding in lieu of lapsed options at 31 December 2003. On 22 April 2004 Mr Mayger was granted 900,000 unlisted options, having a nil value, as they do not vest unless the Company becomes listed on the Australian Stock Exchange by 31 December 2007.

Mr Armstrong received \$15,000 director's fee for the period to December 1999 which had become outstanding in lieu of lapsed options at 31 December 2003. On 22 April 2004 Mr Armstrong was granted 250,000 unlisted options, having a nil value, as they do not vest unless the Company becomes listed on the Australian Stock Exchange by 31 December 2007.

Mr Leggo received \$10,000 director's fee for the period to December 1999 which had become outstanding in lieu of lapsed options at 31 December 2003. On 22 April 2004 Mr Leggo was granted 130,000 unlisted options, having a nil value, as they do not vest unless the Company becomes listed on the Australian Stock Exchange by 31 December 2007.

On 22 April 2004, 1,100,000 unlisted options granted to the Directors, had their exercise date extended from 31 December 2004 to April 2006 as follows; Mr Mayger 800,000 Mr Armstrong 180,000 and Mr Leggo 120,000. These options may be exercised, subject to the Company listing on the Australian Stock Exchange.

On 31 December 2004, 2,000,000 unlisted options granted to the Directors lapsed as the Company had not become listed on the Australian Stock Exchange. These options had been issued to Mr Mayger 1,500,000 Mr Armstrong 300,000 and Mr Leggo 200,000.

Pegmont Mines NL

Notes to the Financial Statements

For the Year Ended 31 December 2004

NOTE 17 - SEGMENTAL INFORMATION

The Company derived income from investments and from the sale of a subsidiary company less costs of exploration of mining tenements in Queensland.

	Profit Contribution	Tax Provision	Net Contribution
Investment activity and interest income	520,582	(156,175)	364,407
Sale of Subsidiary Company	2,855,637	(855,637)	2,000,000
Exploration	(54,586)	16,376	(38,210)
Administration	(343,705)	102,057	(241,648)
Losses forward	-	277,742	277,742
Total	2,977,928	(615,637)	2,362,291

NOTE 18 - FINANCIAL INSTRUMENTS**Significant Accounting Policies**

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

Interest Rate Risk

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

2003	Average Interest Rate	Variable Interest Rate 1 Year	Fixed Interest Rate Maturity Less than 1 year	Non-interest Bearing	Total
	%	\$	\$	\$	\$
Cash	-	64,525	-	-	64,525
Deposits - Cash	-	-	-	-	-
Receivables	-	-	-	19,988	19,988
Accounts Payable	-	-	-	223,650	223,650

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

Credit Risk

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

Pegmont Mines NL

Notes to the Financial Statements

For the Year Ended 31 December 2004

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

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the Company's maximum exposure to credit risk without taking account of the fair value of any collateral or other security obtained.

Net Fair Value

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

NOTE 19 - SUBSEQUENT EVENTS

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in financial years subsequent to the financial year ended 31 December 2004 except as disclosed in these accounts and reports attached hereto.

NOTE 20 - STATEMENT OF CASH FLOWS**RECONCILIATION OF CASH**

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

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

	2004	2003
	\$	\$
Cash at Bank	504,890	64,525
Cash on Deposit	1,810,385	-
	<u>2,315,275</u>	<u>64,525</u>
	=====	=====

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

	Inflow/ (Outflow) 2004	Inflow/ (Outflow) 2003
	\$	\$
Operating Profit(Loss) after Income Tax	2,362,291	(48,620)
Non Cash Flows in Operating Profit(Loss)		
Amortisation of share issue costs	-	42,906
Provision for doubtful debts	23,207	-
Non-operating expenses – exploration	54,585	21,950
	<u>2,440,083</u>	<u>16,236</u>
	=====	=====
Net Cash Provided (Utilised) by Operating Activities		

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

Scope

The financial report comprises the statement of financial performance, statement of financial position, statement of cashflows, accompanying notes and the directors' declaration for Pegmont Mines NL the company, for the year ended 31 December 2004.

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

Audit approach

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

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

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

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

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

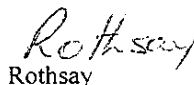
Independence

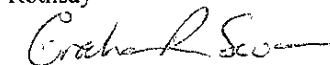
We are independent of the company, and have met the independence requirements of Australian professional ethical requirements and the Corporations Act 2001.

Audit opinion

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

- a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's financial position as at 31 December 2004 and its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements.


Rothsay


Graham R Swan
Partner

Dated 14 March 2005

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

Pegmont Mines NL**SUPPLEMENTARY INFORMATION**

1. **Issued Capital at 31 December 2004** **50,686,796**
2. **Share Holdings at 3 March 2005**

(a) Distribution of Shareholder's and Option Holders

Shareholding	Number of Holders	Ordinary Shares	Holders of Options	Number of Options
1 – 1000	1	1,000	-	-
1001 – 5000	1	5,000	-	-
5001 – 10,000	20	196,000	1	5,400
10,001 – 100,000	81	4,027,960	1	23,200
100,000 and over	31	46,456,836	6	5,372,400
	134	50,686,796	8	5,301,000

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

Shareholding	Number of Shares	% Issued Capital
Pegasus Enterprises Ltd	14,592,285	28.79
Malcolm A Mayger Pty Ltd	11,746,760	23.18
J P Morgan Nominees Australia Ltd	4,250,000	8.38
Billiton Exploration Australia Ltd	3,600,285	7.10

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

Malcolm A Mayger 3,350,000

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

Pegmont Mines NL

Directors' Interests

	Shares	Options @10c by 31.12.2005	Options @10c by 30.4.2006	Options @10c by 31.12.2006	Options @10c by 31.12.2007
J M Armstrong – Indirect	350,000	150,000	180,000	250,000	250,000
M D Leggo – Direct	-	100,000	120,000	130,000	130,000
M A Mayger – Direct	300,000	750,000	800,000	900,000	900,000
Indirect*	30,762,005				
Total Shares and Options	31,412,005	1,000,000	1,100,000	1,280,000	1,280,000

* Includes Pegasus Enterprises Limited

Top Twenty Shareholders at 3 March 2005

	Number of Shares	% Issued Capital
Pegasus Enterprises Ltd	14,592,285	28.79
Malcolm A Mayger Pty Ltd	11,746,760	23.18
J P Morgan Nominees Australia Ltd	4,250,000	8.38
Billiton Exploration Australia Pty Ltd	3,600,285	7.10
Lozora Pty Ltd	1,985,000	3.92
Warlam Pty Ltd A/C Lincoln	1,774,756	3.50
Malcolm A Mayger Pty Ltd Superannuation Fund	1,100,000	2.17
Goldrim Investment Pty Ltd	1,100,000	2.17
Scepha Investments Pty Ltd	1,000,000	1.97
Riomin Australia Gold Pty Ltd	800,000	1.58
Sydney Equities Pty Ltd	455,000	0.90
N Anderson	340,000	0.67
T P Flower	325,000	0.64
M.A. Mayger	300,000	0.59
Bowmal Pty Ltd	275,000	0.54
G. Cameron	250,000	0.49
Henroth Pty Ltd	250,000	0.49
Henroth Investments Pty Ltd	250,000	0.49
D. Hewitt	250,000	0.49
Forbitu Pty Ltd A/C Merite	200,000	0.39
	44,844,086	88.47%
Other Shareholders	5,842,710	11.53%
Total Issued Shares	50,686,796	100%

Pegmont Mines NL

CORPORATE INFORMATION

PEGMONT MINES N.L
ABN 97 003 331 682

Registered Office

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

Corporate Office:

Mail: PO Box 3596, Sydney, NSW 2001
Phone: (02) 8 437 3591
Fax: (02) 8 437 3599
Website: www.pegmont.com.au

Listed on The Stock Exchange of Newcastle Limited

Website: www.newsx.com.au

Code : PMI

Directors:

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

Company Secretary

Christopher D Leslie

Share Registry:

C/- Computershare Investor Services Pty Ltd
Shareholder enquiries:
Telephone: 1300 137 328
Facsimile: 1300 137 341