

Pegmont Mines NL ACN 003 331 682

**Notice of General Meeting and
Explanatory Statement**

Date of Meeting: Friday, 20 August 2004

Time of Meeting: 3.45pm

Place of Meeting: The Boardroom, BKR Walker Weyland, Level 8, 55
Hunter Street, Sydney

Pegmont Mines NL (ABN 97 003 331 682) ("the Company")

Notice of General Meeting

Notice is hereby given that a general meeting of the members of the Company will be held on Friday 20 August 2004 at 3.45pm at the Boardroom, BKR Walker Weyland, Level 8, 55 Hunter Street, Sydney to consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"THAT, for the purposes of Listing Rule 6.41 of the Newcastle Stock Exchange Listing Rules and for all other purposes, the sale of all of the issued shares in the capital of Reefway Pty Ltd ("**Reefway**") held by the Company to Avon Resources Limited ("**Avon**") pursuant to the share sale deed entered into between the Company, Pegasus Enterprises Limited, Goldsearch Limited, Avon and Reefway on 17 June 2004 be approved."

Included with this Notice of Meeting is an Explanatory Statement setting out all the information known to the Company that is reasonably necessary to enable the members to vote on the above resolution.

DATE: 15 July 2004

BY ORDER OF THE BOARD

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Company Secretary

Notes:

Entitlement to vote: Persons whose names are set out in the register of members of the Company as at Wednesday, 18 August 2004 at 3.45pm are entitled to attend and vote at the meeting convened by this notice.

Appointment of proxies: Each member may appoint a proxy. If the member is entitled to cast 2 or more votes at the meeting, they may appoint 2 proxies. If the member appoints 2 proxies and the appointment does not specify the proportion or number of votes, the member may exercise half the votes. Fractions of votes will be disregarded. A proxy need not be a member of the Company. To be valid, a proxy must be received by the Company at Level 8, 55 Hunter Street, Sydney (fax: (02) 9921 5454) by **3.45pm on Wednesday 18 August 2004**. For further information see the instructions on the back of the proxy form attached to this Notice of Meeting.

Personal information: Chapter 2C of the *Corporations Act 2001* requires information about you (including your name, address and details of the shares you hold) to be included in the Company's register of members. This information must continue to be included in the Company's register of members if you cease to be a shareholder. Information is collected to administer your shareholding and if some or all of the information is not collected then it might not be possible to administer your shareholding. The Company may disclose this information for purposes related to your shareholding, including in circumstances permitted under the Chapter 2C of the *Corporations Act 2001*. You can obtain access to your personal information in the Company's register of members in accordance with Chapter 2C of the *Corporations Act 2001*.

PROXY FORM

Pegmont Mines NL (ABN 97 003 331 682) ("Company")

Shareholding:

Appointment of Proxy

I/We being a member/s of the Company and entitled to attend and vote hereby appoint

the Chairperson
of the Meeting
(mark with an 'X')

OR

Write here the name of the person
you are appointing if this person is
someone other than the
Chairperson of the Meeting.

or failing the person named, or if no person is named, the Chairperson of the Meeting, as my/our proxy to attend, to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit), and to act generally on my/our behalf, at the General Meeting of the Company to be held at the Boardroom, BKR Walker Weyland, Level 8, 55 Hunter Street, Sydney on Friday 20 August 2004 at 3.45pm and at any adjournment of that meeting.

If two proxies are appointed, the proportion of voting rights this proxy is authorised to exercise is
be supplied by the Company on request.)

%. (An additional proxy form will

Voting directions to your proxy - please mark

X

to indicate your directions

For Against Abstain
 *

Resolution 1: Approval of sale of the Company's shares in Reefway Pty Ltd to Avon Resources Limited

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* If you mark the Abstain box for a particular item, you are directing your proxy **not** to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

Signature of Members

This section *must* be signed in accordance with the instructions overleaf to enable your directions to be implemented.

Individual or Member 1

Sole Director and Sole Company Secretary /
Sole Director (cross out inapplicable capacity)

Member 2 (if joint holding)

Director

Member 3 (if joint holding)

Director / Company Secretary
(cross out inapplicable capacity)

Contact Name

Contact Daytime Telephone

Date

Proxy instructions

Right to appoint proxy / attorney

Each member may appoint a proxy. If the member is entitled to cast 2 or more votes at the meeting, they may appoint 2 proxies. If the member appoints 2 proxies and the appointment does not specify the proportion or number of votes, the member may exercise half the votes. Fractions of votes will be disregarded. A proxy need not be a member of the Company. A proxy or attorney may be appointed for all meetings or for any number of meetings or for a particular purpose.

Signature of Members

You must sign this form as follows in the spaces provided:

Individual	where the holding is in one name, the member must sign.
Joint Holding	where the holding is in more than one name, all of the members must sign.
Power of Attorney	to sign under Power of Attorney, either the Power of Attorney must have already been lodged with the Company's Share Registry for notation or the original (or a certified copy) of the Power of Attorney must accompany this document.
Companies	the following person(s) must sign: (a) Australian proprietary company with a sole director who is also the sole company secretary - that person; (b) Australian proprietary company with a sole director and no company secretary - that person; (c) other Australian companies - two directors or one director and one company secretary; (d) foreign company - in accordance with the laws of the jurisdiction of incorporation and constituent documents.

Authority conferred on proxy / attorney

Unless otherwise provided for in the instrument, an instrument appointing a proxy or attorney will be taken to confer authority:

- (a) even though the instrument may refer to specific resolutions and may direct the proxy or attorney how to vote on those resolutions:
 - (i) to vote on any amendment moved to the proposed resolutions and on any motion that the proposed resolutions not be put or any similar motion; and
 - (ii) to vote on any procedural motion, including any motion to elect the Chairman, to vacate the chair or to adjourn the meeting; and
- (b) to speak on any resolution on which the proxy or attorney may vote; and
- (c) to demand or join in demanding a poll on any resolution on which the proxy or attorney may vote.

Deposit of proxy

An instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a copy of that power of attorney certified as a true copy by statutory declaration or a facsimile of the above documents must be deposited at the registered office of the company at Level 8, 55 Hunter Street, Sydney NSW 2000 (fax: (02) 9951 5454) **before 3.45pm on Wednesday 18 August 2004, being no less than 48 hours before the time scheduled for the commencement of the meeting at 3.45pm on Friday 20 August 2004** (or any adjournment of that meeting) at which the person named in the instrument intends to vote.

A facsimile or a written appointment of a proxy or a power of attorney is valid.

Explanatory Statement

This Explanatory Statement has been prepared for the information of the shareholders of the Company in connection with the business to be conducted at the general meeting of shareholders to be held on Friday 20 August 2004 at 3.45pm at the Boardroom, BKR Walker Weyland, Level 8, 55 Hunter Street, Sydney. This Explanatory Statement should be read in conjunction with the accompanying Notice of General Meeting.

1. Sale of shares in Reefway

The Company proposes to sell all of the issued shares in Reefway Pty Ltd A.C.N. 076 289 097 ("**Reefway**") held by the Company to Avon Resources Limited A.C.N. 004 434 904 ("**Avon**").

2. Details of the proposed sale

The issued capital of Reefway comprises 20,947,213 ordinary shares and the current shareholdings in Reefway are as follows:

- (a) the Company - 16,072,213 ordinary shares which represents 76.73% of the issued capital of Reefway;
- (b) Pegasus Enterprises Limited A.C.N. 003 197 788 ("**Pegasus**") - 3,000,000 ordinary shares which represents 14.32% of the issued capital of Reefway; and
- (c) Goldsearch Limited A.C.N. 006 645 754 ("**Goldsearch**") - 1,875,000 ordinary shares which represents 8.95% of the issued capital of Reefway.

Under the Share Sale Deed dated 17 June 2004 between the Company, Pegasus, Goldsearch, Avon and Reefway ("**Share Sale Deed**"), Avon proposes to acquire all of the issued capital in Reefway from the Company, Pegasus and Goldsearch (together the "**Vendors**"). As noted in section 5 below, the sale of the issued capital in Reefway to Avon pursuant to the Share Sale Deed is subject to a number of conditions precedent, including the approval of the shareholders of the Company to the sale.

3. Avon Resources

Avon is a company listed on the Australian Stock Exchange, and as at 30 June 2004, had a market capitalisation of approximately \$8 million.

In an announcement made by Avon to the Australian Stock Exchange on 17 June 2004, Avon announced that it had entered into a number of agreements to acquire:

- (a) 100% of the Lady Anne Project from Buka Minerals Limited;
- (b) 100% of Reefway from the Vendors; and
- (c) 100% of Savannah Resources Pty Ltd from International Base Metals Limited.

A copy of the above announcement was attached to an announcement made by the Company to the Newcastle Stock Exchange on 17 June 2004.

In an announcement made by Avon to the Australian Stock Exchange on 25 June 2004, Avon indicated that it would seek to raise \$11 million through an equity capital raising and that it had already secured commitments in respect of a minimum of \$8 million.

4. Consideration for the sale

In consideration for the sale of all of the issued capital in Reefway to Avon:

- (a) Avon will pay \$3,060,000 to the Vendors at Completion in proportion to their shareholdings in Reefway;
- (b) Avon will pay a further \$1,000,000 to the Vendors on 30 June 2005 (plus interest on that amount accruing in the period from the date of Completion until 30 June 2005, calculated at the Australian cash rate (average 11am call) as published in the Australian Financial Review plus 2% per annum ("**Specified Rate**") in proportion to their shareholdings in Reefway ("**Final Instalment**"); and
- (c) Avon will issue 66,666,666 Avon ordinary shares to the Vendors at Completion in proportion to their shareholdings in Reefway.

Accordingly, in consideration for the sale of its shares in Reefway to Avon the Company will receive \$2,347,938 on Completion, \$767,300 (plus interest on that amount calculated at the Specified Rate and accruing in the period from the date of Completion until 30 June 2005) on 30 June 2005, and 51,153,333 ordinary shares in the issued capital of Avon. Based on the share price of \$0.031 per Avon ordinary share as at 12 July 2004, the value of the Avon ordinary shares to be issued to the Company at Completion is \$1,585,753 and the total value of the consideration payable to the Company for the sale of its Reefway shares to Avon is approximately \$4,700,000. The shareholders should bear in mind that the Avon share price is influenced by a whole range of factors some of which, such as Avon's strategy, are within the control of Avon management and some of which, such as share market volatility, investor perception of the resources sector and international economic factors, are beyond the control of Avon. The ability of the Company to sell any Avon shares held is also influenced by the depth of the market for, and liquidity of, Avon shares at the relevant time. Shareholders should also be aware of the possibility that Avon shares could be escrowed as described in more detail in section 7 of this Explanatory Memorandum which would also impact on the ability of the Company to realise the value of the Avon shares held by it.

In addition at Completion Avon, Reefway and the Vendors will enter into a Royalty Deed ("**Royalty Deed**") pursuant to which Reefway will pay a royalty to the Vendors. The terms of the Royalty Deed are described in further detail in section 6.

Completion is scheduled to take place within 10 business days after the satisfaction of the conditions precedent set out in section 5 below, or such other date as may be agreed between the parties. At Completion the Vendors and Avon will enter into a Share Mortgage Deed ("**Share Mortgage Deed**") pursuant to which Avon will grant a mortgage over its shares in Reefway as security for the payment by it of the Final Instalment plus interest at the Specified Rate payable on any portion of the Final Instalment that is not paid to the Vendors on or before 30 June 2005 ("**Interest**"). The terms of the Share Mortgage are described in further detail in section 6.

5. Conditions Precedent to the sale

Completion of the proposed acquisition is dependent upon the following conditions precedent being satisfied or waived by 15 September 2004 or such other date as may be agreed between the parties:

- (a) Avon completing due diligence on Reefway and its assets and this due diligence not revealing any circumstance or event which Avon reasonably considers may have a material adverse effect on the business or financial position of Reefway or the title to, profitability of or value of, the shares in Reefway or any assets of Reefway;
- (b) Avon obtaining shareholder approval for the issue of Avon ordinary shares to the Vendors at a general meeting in accordance with Australian Stock Exchange Listing Rule 7.1;

- (c) Avon obtaining shareholder approval in accordance with section 260B(2) of the Corporations Act 2001 for the transactions contained in the Share Sale Deed and the Royalty Deed and any other necessary approvals for the transactions contained in the Share Sale Deed and the Royalty Deed;
- (d) each of the Company and Pegasus obtaining shareholder approval to the sale of its respective shares in Reefway on the terms contained in the Share Sale Deed and the Royalty Deed;
- (e) Reefway obtaining shareholder approval in accordance with section 260B(1) of the Corporations Act 2001 to the transactions contained in the Share Sale Deed and the Royalty Deed; and
- (f) Avon raising a minimum of \$2,000,000 in equity by the issue of Avon ordinary shares at a share price of not less than \$0.015 per share.

6. Share Mortgage Deed, Guarantee and Royalty Deed

Share Mortgage Deed

As noted in section 4 above, at Completion the Vendors and Avon will enter into a Share Mortgage Deed pursuant to which Avon will grant a mortgage over its shares in Reefway as security for the payment by it of the Final Instalment and Interest. The share mortgage will initially be a first ranking mortgage but will rank behind any mortgage or other encumbrance granted by Avon to a bank or financial institution over its Reefway shares as security for any finance provided in connection with Avon or Reefway undertaking a bankable feasibility study or a project on or relating to a deposit of minerals which is the subject of a bankable feasibility study.

Guarantee

Pursuant to the Share Sale Deed, Reefway will guarantee to each of the Vendors the payment by Avon of the Final Instalment and Interest ("**Guarantee**"). If Avon does not pay the Final Instalment and Interest in accordance with its obligations under the Share Sale Deed, Reefway is liable to comply with those obligations on demand from the Vendors and a demand may be made under the Guarantee whether or not the Vendors have made a demand on Avon.

Royalty Deed

As noted in section 4 above, at Completion the Vendors, Avon and Reefway will enter into a Royalty Deed pursuant to which Reefway will grant a royalty to the Vendors based on any amounts received by or on behalf of Reefway in connection with the minerals produced from certain of the tenements held by Reefway at the date of Completion. Pursuant to the Royalty Deed Avon will guarantee the payment of the royalty to the Vendors.

In respect of the major metals of copper, gold, lead, zinc and silver ("**Metals**"), the royalty will be separately calculated in respect of each Metal as the greater of a gross amount applying to each particular Metal and 1% of the net smelter return relating to that Metal. The royalty will only be payable in respect of a particular Metal when the specified accumulated production threshold applying to that Metal has been exceeded, for example, 100,000 tonnes of net payable copper.

A royalty will also be payable on the mineral ores and product which do not comprise the Metals ("**Other Product**"). The royalty payable in respect of Other Product will be equal to 1% of the net smelter return relating to the Other Product. No accumulated production thresholds apply to the Other Product so that the royalty will be payable on any Other Product produced after the date of the Royalty Deed.

The mining tenements which will be the subject of the Royalty Deed comprise each of the tenements held by Reefway at the date of Completion ("**Mining Tenements**"). A number of those tenements are subject to a joint venture agreement entered into between Reefway and Mt Isa Mines Limited which prevents

Reefway from granting any third party rights in those tenements during a specified period ("**Option Period**") without Mt Isa Mines Limited's prior consent. The Royalty Deed will not apply to those tenements until Mt Isa Mines Limited has consented to the Royalty Deed, the Option Period has expired, or Reefway ceases to be bound by the obligations relating to the grant of third party rights. The latest date upon which the Option Period will expire is 2 February 2007.

The Royalty Deed restricts Reefway from assigning the Mining Tenements unless certain conditions are satisfied. Similarly, Avon is restricted from selling its shares in Reefway amounting to a change in control unless certain conditions are met. In addition to the above, the Vendors intend to lodge a caveat over each of the Mining Tenements which are subject to the Royalty Deed.

The Directors of the Company are not able to determine a value of the royalty at the date of this Explanatory Statement and there is no certainty that any future production from the Mining Tenements would exceed the accumulated production thresholds that apply to the payment of the royalty. Accordingly the Directors recommend that for the purpose of considering whether the proposed resolution should be passed, members of the Company should disregard the royalty notwithstanding that the Directors are hopeful that the royalty will give rise to a valuable income stream for the Company in the future.

7. Classification of Avon shares as "restricted securities"

Avon is currently in discussions with the Australian Stock Exchange Limited ("**ASX**") in relation to whether some or all of the Avon ordinary shares to be issued to the Vendors at Completion will be deemed to be "restricted securities". If the shares are deemed to be restricted securities then they will be placed in escrow for a specified period and the Company will be prevented from transferring effective ownership or control of those Avon ordinary shares during that period. Since the Board of Directors of the Company is not privy to the discussions being held between Avon and the Australian Stock Exchange, it is not aware of the likely period during which the Avon ordinary shares may be held in escrow, however, the Board notes that the escrow period is unlikely to exceed 2 years.

The Share Sale Deed provides that Avon must make submissions to ASX that the Avon ordinary shares to be issued to the Vendors at Completion should not be deemed to be restricted securities, and requires Avon to co-operate with the Vendors and do all things reasonably required by the Vendors to ensure that the Avon ordinary shares are not restricted securities.

8. Application of the sale proceeds by the Company

The value of the Company's investment in Reefway was recorded as \$3,258,049 in the Company's audited accounts as at 31 December 2003 which were included in the Company's 2003 annual report. The total assets of the Company as at 31 December 2003 as recorded in the audited accounts was \$6,692,562. At Completion Reefway will repay to the Company \$120,511.08 advanced to it by the Company together with any further amounts advanced to it by the Company during the period commencing on the date of the Share Sale Deed and ending on the date of Completion which are the subject of a budget agreed between the parties and attached to the Share Sale Deed. The amount to be repaid by Reefway pursuant to the Share Sale Deed on account of shareholder loans will not exceed \$150,000 unless otherwise agreed by Avon.

As noted in section 4, the value of the consideration payable to the Company for the sale by it of all of its shares in Reefway is approximately \$4,700,000 (based on a share price for Avon ordinary shares of \$0.031 per share). The Board has not yet decided how the sale proceeds will be applied but anticipates that the sale proceeds may be applied as follows:

Application of proceeds

- (i) The aggregate of the \$2,347,938 payment payable at Completion, the \$767,300 Final Instalment payable on 30 June 2005 and the

	51,153,333 Avon ordinary shares to be issued to the Company at Completion (which, as at 12 July 2004, were valued at \$1,585,753) could result in a taxable surplus from the disposal of Reefway shares of \$3.6 million above cost. Since this surplus would exceed the Company's accumulated losses of \$1.7 million, a taxable liability of \$0.6 million could arise (at a 30% company tax rate)	\$600,000
(ii)	Repayment of the shareholder loans account totalling \$148,224 at 31 December 2003, other creditors of the Company totalling \$50,000 plus estimated expenses arising from the sale of Reefway shares of approximately \$200,000.	\$400,000
(iii)	The Board is considering a proposal to pay the Directors of the Company salaries of approximately \$100,000 in aggregate in lieu of the expiration of 1,000,000 options that were issued to the Directors and which were exercisable at 10 cents each by 31 December 2003.	\$100,000
(iv)	Expected exploration expenditure relating to the Pegmont lead-zinc deposit includes the following: <ul style="list-style-type: none"> • expenditure relating to a geological review to be undertaken in the 2004 calendar year - \$25,000 • expenditure relating to additional geological & geophysical fieldwork expected to be undertaken in the 2004 calendar year - \$75,000 • expenditure relating drilling to be conducted in the 2004 and 2005 calendar years - \$400,000 	\$500,000
(v)	Expected exploration expenditure relating to the exploration activities to be undertaken in the surrounding areas to the Pegmont deposit including EPMs 14008, 14491 <ul style="list-style-type: none"> • during the 2004 calendar year \$100,000 • during the 2005 calendar year \$200,000 • Other investigations \$200,000 	\$ 500,000
	SUB TOTAL	\$2,100,000
	The surplus amount (including the Final Payment of \$0.767 million and expected proceeds from sale of Avon shares of \$1,585,783) may be applied as Working Capital.	\$2,600,000
	TOTAL EXPECTED SALE PROCEEDS	\$4,700,000

The Board considers that the application of \$1.0 million to exploration in and around the Pegmont deposit (as detailed in items (iv) and (v) above) is a worthwhile risk which could generate significant rewards to the Company's shareholders if successful. The economics of developing the Pegmont deposit are very sensitive to increased tonnage and to the finding of higher grade mineralisation. The Board's strategy is to reposition the economics of the deposit by undertaking further work in order to make it attractive for

joint ventures.

It is the current intention of the Board to maintain a sound financial position, in order to have the option of considering new opportunities that arise from time to time within the mining industry. The Board is of the view that money attracts opportunities.

Furthermore, the Company will now have the opportunity to seek listing on the Australian Stock Exchange, provided that it can increase its shareholder register to include more than 400 members. The Board considers this to be an attainable objective.

9. Requirement for shareholder approval

Listing Rule 6.41 of the Newcastle Stock Exchange Listing Rules relates to transactions that could give rise to a significant change in the nature or scale of a company's activities and provides that the Newcastle Stock Exchange ("**Exchange**") can require a company to obtain the approval of its members to a significant change. Listing Rule 6.43 of the Newcastle Stock Exchange Listing Rules provides that a company listed on the Exchange must obtain the approval of its members if it acquires a substantial asset from, or disposes of a substantial asset to, certain specified entities.

In a letter dated 7 July 2004, the Exchange indicated that it would require the approval of the Company's members to a sale by the Company of its shares in Reefway pursuant to Listing Rule 6.41 and/or 6.43.

10. Directors' recommendation

The board of directors of the Company recommends that members vote in favour of the resolution.

Dated 15 July 2004.