



**PANAEGIS**

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PANAEGIS GOLD MINES LIMITED ABN 42 111 587 163 ACN 111 587 163  
Level 1, 33 Bank Street South Melbourne VIC 3205 Tel: 03 9696 9791 Fax: 03 9696 9911

# **Annual Report**

**for the Period Ending**

**30 June 2005**

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# Corporate Directory :

## Panaegis Gold Mines Limited

ACN 111 587 163

### DIRECTORS:

**John William Cornelius**  
(Non-Executive Chairman)  
FCIS,FAICD Aff(SIA), MPESA

**Ian David Buckingham**  
(Managing Director/CEO)  
FRMIT (Geology,BAppSc(App.Geol), MBA,  
MPESA, MAAPG

**Peter James Cameron**  
(Non-Executive Director)  
BSc (Hons) Geophysics, FAIMM, CP(Man), MPESA

**Peter Ian Rudd**  
(Non-Executive Director)  
BSc, MBA, FSIA, SDIAM

**Michael Ward Trumbull**  
(Non-Executive Director)  
B.E.(Hons) Mining, MBA, FAIMM

### EXPLORATION MANAGER

**Neil (Rex) Motton**  
BSc(Hons) Geology) MAIG, MPAV

### COMPANY SECRETARIES:

**Alfonso M G Grillo**  
BA LLB

**Cherie L Harrison**  
BBus Aff(SIA)

### REGISTERED OFFICE:

Panaegis Gold Mines Limited  
Level 1  
33 Bank Street  
South Melbourne Vic 3205  
Australia  
Tel: + 61 3 9696 9791  
Fax: + 61 3 9696 9911

### PRINCIPAL LEGAL ADVISER TO THE COMPANY:

TressCox Lawyers  
Level 9  
469 La Trobe Street  
Melbourne Vic 3000  
Australia  
Tel: + 61 3 9602 9444  
Fax: + 61 3 9642 0382

### AUDITORS :

BDO  
Ground Floor  
563 Bourke Street  
Melbourne Vic 3000  
Australia  
Tel: + 61 3 9615 8500  
Fax: + 61 3 9615 8700

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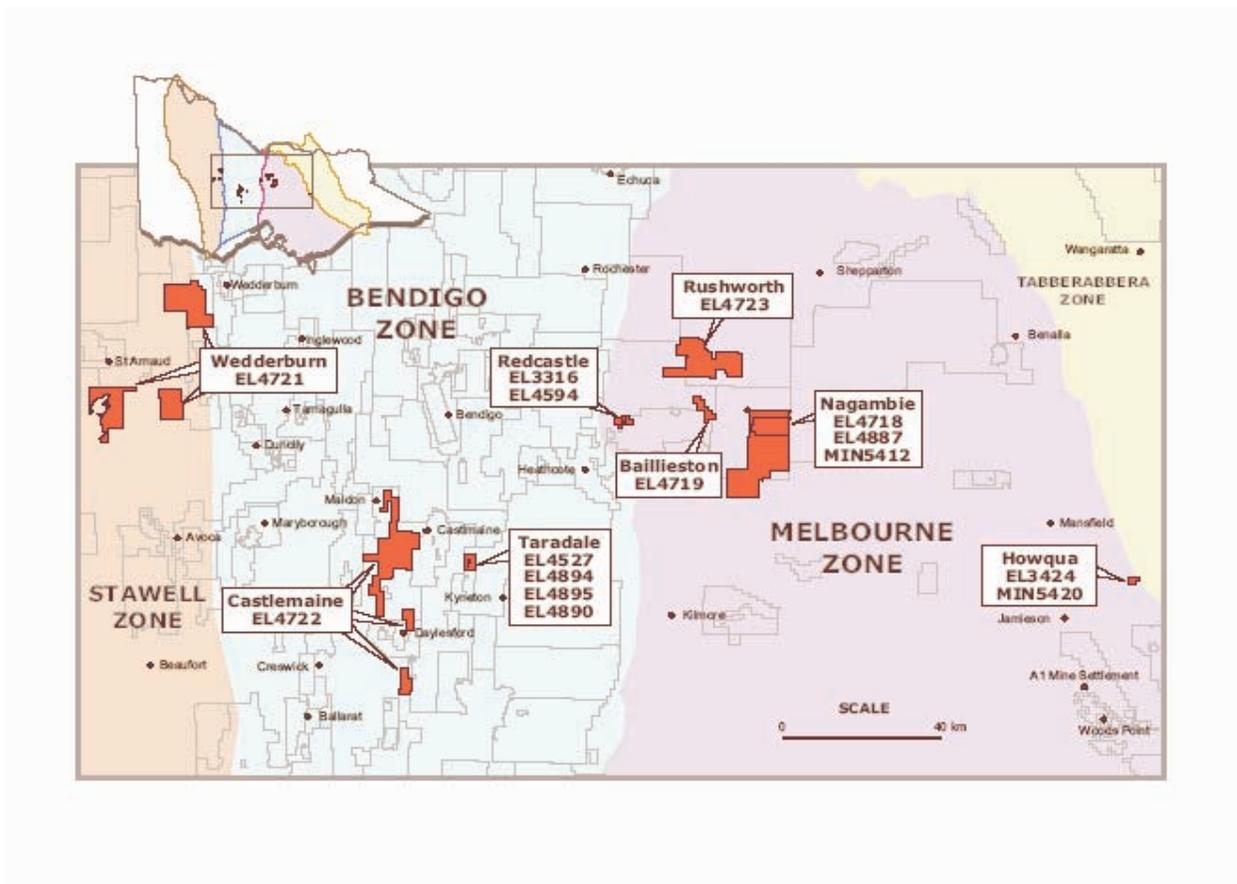
**PANAEGIS**

**PANAEGIS “Global Economic Shield”**

## Corporate Profile :

- **Targeting, Carlin-type - sediment-hosted disseminated gold in sulphide orebodies :**
  - Panaegis is a leader in identifying potential deposits of this type within Victoria. We have acquired properties with these features and have also established a joint venture with Perseverance Corporation Limited, to further develop the disseminated gold in sulphide orebody at the Nagambie Mine;
  - Victorian deposits of sediment hosted disseminated sulphide gold have similarities with “Carlin” type gold mineralisation in Nevada, USA where very large volumes are being mined. These deposits are readily amenable to resource quantification and modern bulk mining techniques, while recent developments in bio-leaching technologies have dramatically improved gold extraction rates and reduced operating costs;
  - Perseverance’s mine at Fosterville, 65 km from Nagambie, is an example of the successful application of new bio-leach technology on a Victorian gold sulphide orebody.
- **Quality properties in a world-class gold mining province :**
  - Victoria has produced approximately two percent (80M oz) of the world’s gold production. Over the past fifty years, however, output has been minimal due to the difficulty of working the traditional high-grade, nuggetty-gold quartz reefs, veins, and alluvial operations. Within the last ten years there has been a significant upsurge in exploration as new explorers identify previously un-recognised gold mineralisation styles.
- **Focused exploration and development programs :**
  - Panaegis has identified advanced projects for immediate drill testing and it is our intention to move quickly to commence definition drilling of the gold resource identified at Nagambie. In addition, drill targets have also been identified for immediate testing at the Howqua and Taradale projects;
  - Exploration undertaken by Panaegis has established significant geochemical gold anomalies in areas untested by previous modern exploration efforts. Further work is proposed to evaluate these anomalies;
  - Panaegis has developed an aggressive exploration program that reflects our desire to develop our properties as speedily and effectively as possible. To this end, our Year 1 program commits over 66% of expenditure to drilling and Year 2 sees 94% of our budget committed to prospect and development evaluation.
  - In addition to developing large tonnage, sediment hosted-disseminated gold in sulphide deposits, Panaegis has acquired several properties with other mineralisation styles that also have the potential to develop into significant gold producing operations.
- **A management team that knows how to operate in Victoria :**
  - Directors and senior management have experience in rapidly advancing exploration and mining projects. Their combined knowledge pool also includes financial resources analyses, public company executive management, liaising with government agencies, the media and local communities.

## Panaegis – Areas of Interest :

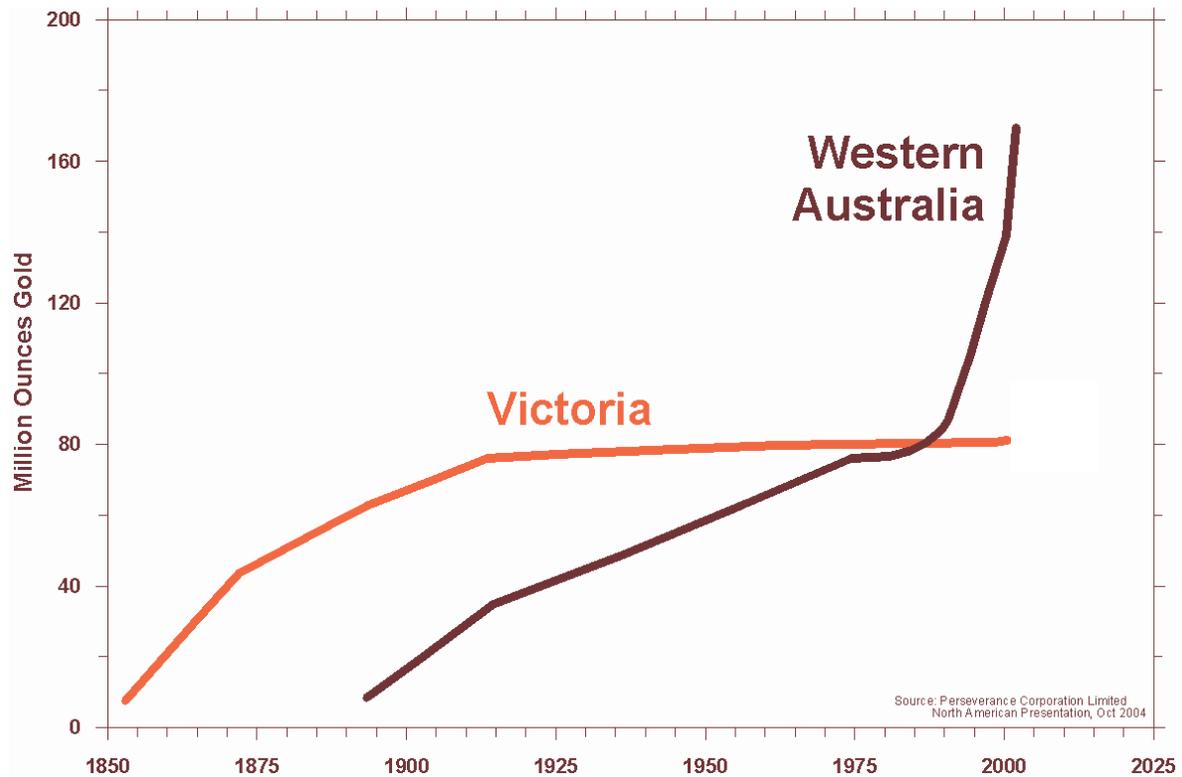


## Schedule of Tenements (as at 7 September 2005) :

Licence	Project	Area (Km <sup>2</sup> )	Equity	Structural Zone	Mineralisation Style
MIN5412	Nagambie	7.7	0.00%	Melbourne	Carlin
EL4718	Nagambie	49	100.00%	Melbourne	Carlin
ELA4887	Nagambie	201	100.00%	Melbourne	Carlin
EL4719	Baillieston	15	100.00%	Melbourne	Carlin & Fault/Qtz Reef
EL3316	Redcastle	6	100.00%	Melbourne	Carlin
EL4594	Redcastle	4	100.00%	Melbourne	Carlin
EL4723	Rushworth	157	100.00%	Melbourne	Carlin
EL4527	Taradale	6	100.00%	Bendigo	Fault/Reef & Vein, Carlin
EL4890	Taradale	0.51	100.00%	Bendigo	Fault/Reef & Vein, Carlin
ELA4894	Taradale	2	100.00%	Bendigo	Fault/Reef & Vein, Carlin
ELA4895	Taradale	7	100.00%	Bendigo	Fault/Reef & Vein, Carlin
EL4722	Castlemaine	201	100.00%	Bendigo	Carlin & Fault/Qtz Reef
EL3424	Howqua	5	100.00%	Melb/Tabb	Stawell
MIN5420	Howqua	0.05	100.00%	Melb/Tabb	Stawell
EL4721	Wedderburn	271	100.00%	Stawell	Stawell, Fault/Qtz Reef
<b>TOTALS</b>		<b>932.26</b>			

Note: EL4718 equity will reduce to 51%, MIN5412 equity will increase to 51%

## Cumulative Gold Production :



*This graph demonstrates the dominance of exploration centred on Western Australia since the early 1900's and the corresponding lack of activity in the Victorian Goldfields which are now re-emerging with renewed vigour. The recent recognition of a variety of gold mineralisation styles, the application of modern exploration techniques and availability of proven production methodologies supports the re-emergence of Victoria as a potential major producer of gold.*



## Chairman's Report :

Dear Shareholder

Since incorporation on 29 October 2004 the Board's focus has been to :-

- (i) Secure targeted exploration portfolio and upgrade the prospectivity of those areas.
- (ii) Develop the team, the processes and the means to mount a major, clearly defined and aggressive exploration and evaluation program.
- (iii) Move effectively to seek ASX listing while maximising potential for a successful Initial Public Offering (IPO).

Our very strong management group, led by Ian Buckingham (Managing Director) and Rex Motton (Exploration Manager) are supported by a stand-out Board with Peter Rudd, (geologist-resources and investment analyst), Peter Cameron (geophysicist, mining and resources financial analyst) and Mike Trumbull (mining engineer, extensive exploration/development experience).

Our most advanced exploration evaluation targets are at the Nagambie Mine, Taradale and Howqua.

Panaegis Gold is a leader in the identification of Carlin-style gold prospects and has assembled an outstanding portfolio of highly prospective acreage.

Successful mining of Carlin-style ore bodies (sediment hosted disseminated gold in sulphide ore bodies) evolved from the recent economic viability of mining and processing such sulphide ores. The success of Perseverance Corporation at Fosterville moving from oxide to sulphide mining by the successful utilisation of modern biological processing techniques underlines this evolution. Tenements held at Redcastle, Castlemaine, Rushworth and Bailieston support the high prospectivity of the Nagambie Mine and surrounding areas.

More traditional high grade reef-style mineralisation in Victoria has not been neglected. We believe the Bendigo/Ballarat-style prospects at Taradale as well as the Tasmanian Henty-style mineralisation at Howqua provide early drill targets.

An extensive independent technical evaluation combined with environmental and legal assessment is being incorporated into our IPO Prospectus documentation.

Negotiation with potential underwriters for capital raising are ongoing.

With so much happening on a number of fronts, I look forward to meeting you and bringing you up-to-date on the latest developments at the AGM to be held on Friday, 30 September 2005 at 11:00am.

With best regards

Yours sincerely  
PANAEGIS GOLD MINES LIMITED

A handwritten signature in black ink, appearing to read "John W Cornelius", written in a cursive style.

JOHN W CORNELIUS  
Chairman

## Board and Management :

**John Cornelius, FCIS, FAICD Aff (SIA) MPESA (Non-Executive Chairman):** John has been involved in the natural resources and mining industries in various management, corporate and secretarial roles for public companies for more than 35 years since joining the mining-based group, Illingworth & Craig, in 1967. John worked with the oil, gas and mineral group Alliance Oil Development with involvement in the Cooper Basin gas and oil developments before joining stockbrokers, A C Goode & Co, as Manager Corporate where, whilst maintaining a resource industry focus, he also participated in M&A and IPO projects in the industrial and retail sectors.

John joined Elders Resources Limited in late 1985 and was appointed Executive Director Commercial and Legal in April 1986. His involvement included M&A activity across all mining, marketing, oil and gas, timber, pulp and paper, scrap metal divisions. He was a director of Mount Morgan Limited.

In December 1993 John established IMI Consulting Pty Ltd after completing involvement with the purchase of Elders Resources by Carter Holt Harvey of New Zealand and the sell-down by Carter Holt Harvey of non-forest assets in the gold, copper, coal, oil & gas, minerals marketing and scrap metal (Simsmetal) sectors. Over the past ten years IMI has developed and commercialised innovations in the IT, health and agricultural sectors as well as managing resource sector public listing in minerals and oil and gas. John is a director of Essential Petroleum Resources Ltd.

**Ian Buckingham, FRMIT (Geology), B App Sc (Applied Geology), MBA, MPESA, MAAPG (Managing Director & Chief Executive Officer):** Ian has spent all of his working life in the resources industry. He started his career in base metals and gold before moving into engineering geology and then petroleum. He helped establish the Gas & Fuel Corporation of Victoria as a successful explorer before moving onto The Moonie Oil group and then Beach Petroleum as Chief Geologist – Operating Areas. After consulting to several resources companies he joined Kyle Securities, the equities division of the bank Société Générale as an investment adviser and then to CL-May Mellor as Manager, Mining and Energy Research. Accepting an offer from Lakes Oil he became GM of that company and was involved in its Australian and international exploration and production activities before leaving to establish an independent management consulting business specialising in providing technical, financial and management advisory services to resources companies, financial sector clients and governments.

In 1997, as inaugural Managing Director, he joined Anderson & Schwab Australia, a global management consulting business specialising in the resources industry. In this capacity he has managed and participated in a range of specialist projects. These have included: commodity reviews and pricing, development strategies for new commodities, due diligence and valuations for minerals assets and resources companies, strategic development plans for global mining companies, independent valuations or advice during mergers and acquisitions and assisting companies in their investments decision analyses. Ian is a member of the Valmin Committee that has been engaged in re-writing the Valmin Code for the technical assessment and valuation of minerals and petroleum assets.

**Peter Rudd, (B Sc (Geol), MBA, FSIA (Non Executive Director):** Peter has been involved in the Australian resources industry all his working life. Commencing with CRAE he spent five years involved in reconnaissance exploration activities. After completing his MBA, he joined NML (now AXA Australia) as a Mining Analyst where he evaluated listed and non-listed mining companies as part of its direct investment in the Australian resources sector. Peter then moved into Institutional stock broking and research where he spent the next ten years evaluating listed Australian resources companies, providing metals prices and currency forecasting, evaluating trends and developments in mining, finance and commodities, profits forecasting and balance sheet analyses. It was during this period that he authored AC Goode & Co's "The Australian Gold Book", a definitive update on the industry and companies in a global context with emphasis on major listed Australian gold producers and their comparative strengths and weaknesses.

Moving into private client broking and corporate advice Peter spent the next nine years, initially with D&D Tolhurst as Research Manager and then with Tolhurst Noall Corporate as a Resource Analyst before becoming Research and Investments Director at Carroll, Pike & Piercy Pty Ltd. During this period he has evaluated merger and acquisition opportunities, provided corporate advice to medium and smaller resource stocks, guidance on financial structuring of IPOs and assistance in raising seed and other forms of capital. He now selects stocks and manages portfolios for clients with their own superannuation funds. Peter is a Founding Committee Member of Melbourne Mining Club, 2001 is regularly called on by the media for an informed opinion on issues involving the Australian resources industry.

**Peter Cameron**, BSc (Hons) Geophysics, FAIMM, CP(Man), MPESA (**Non-Executive Director**): Peter has over thirty years experience in geoscience, exploration, resource project economics and analysis.

Since 1988, Peter has worked largely as a consultant to the finance and resource sectors providing economic analysis, company research and valuation. He is a co-founder and director of ResourceInvest Pty Ltd, which was established in 2001 to provide commercial, economic, geological and geophysical advice to the oil & gas and mining sectors. Between 1998 and 2000 he was a Director and Head of Research & Client Services at Johnson Taylor & Company Limited (now Bell Potter Securities), responsible for resource sector research and corporate advice with respect to resource company capital raising.

Before joining the finance sector he worked in the exploration industry, as a geophysicist for BHP and as Exploration Manager for Weeks Australia/Peko Oil. Prior to this, Peter spent ten years with the Australian Government in various geophysical capacities.

**Mike Trumbull**, B.E. (Hons) Mining, MBA, FAIMM (**Non-Executive Director**): Mike has over 30 years of broad mining industry experience with companies including MIM, Renison, WMC, CRA, Amax, ACM and Beaconsfield Gold.

From 1983 to 1992, he worked with ACM and ACM Gold as, progressively, Senior Mining Engineer, Project Manager – Westonia Gold Mine, Resident Manager – Westonia Gold Mine and General Manager – Investments.

In 1979, while working for Amax Exploration (Australia), he recommended that company's involvement in resurrecting the historic Beaconsfield gold mine workings and commenced the recovery of the collapsed Hart Shaft. He was one of the founding directors of Beaconsfield Gold when it listed on the ASX in 1993 and raised funds to carry out deep drilling of the Tasmania Reef below the old workings. From March 1993 to November 2004, he was the sole executive director for Beaconsfield Gold, including being the Managing Director from December 2003 to November 2004. He continues as a non-executive director of Beaconsfield Gold, and the only remaining founding director, with over 12 years of continuous service. Since the recommencement of operations in September 1999, the Beaconsfield Mine has produced over 600,000 ounces of gold.

**Neil (Rex) Motton** B.Sc.(Hons) Geology, M.A.I.G. (**Exploration Manager**): Rex is a geologist with over 20 years experience in the gold mining and exploration industry in Australia and internationally. He worked as an exploration geologist for a number of Australian gold exploration companies on various projects and when appropriate, undertook private exploration on gold prospects in Victoria. In Peru he worked with Savage Resources Ltd and in the Philippines with Climax Mining Ltd and Lepanto Consolidated Gold Mines Ltd.

As an exploration geologist his duties involved project generation and assessment, either from 'grass roots' through to more mature exploration projects, later on, as Chief Geologist at Placer Mine, he was involved in the development of resources into open pit mines. Rex has developed open-pit type operations and was in-charge of underground exploration and Resource and Reserve estimation at Lepanto mine, Philippines (11Mt @ 7.2g/t Au).

Rex has a wide geological background encompassing many different gold deposit styles and mineralisation systems. His most recent positions have seen him strongly involved in the technical, legal and financial aspects of project acquisition, exploration, development, and operation, and the risks associated with the various stages. He serves on the VMEC Exploration Committee as a representative of the AIG, and on the Energy and Minerals Industry Advisory Board as a representative of the PMAV.

**Cherie L Harrison** Bachelor of Business (Economics/Business Law) Aff SIA (**Company Secretary**): Cherie has worked for more than 10 years in financial and secretarial roles with public and private Companies in the resources, management consulting, medical and marketing sectors. Ms Harrison was appointed Company Secretary on 29 October 2004.

**Alfonso M G Grillo** (Bachelor of Arts LLB) (**Company Secretary**): Alfonso is a senior Associate with TressCox Lawyers and has expertise in various aspects of commercial law, including company meeting practice and corporate governance procedures, fundraising and fundraising documentation, ASX Listing Rules and mergers and acquisitions.



## Operations Report :

### Exploration and Evaluation Activity

#### ➤ NAGAMBIE SOUTH EL4718 (MIN5412)

The acquisition of Sierra Minerals Limited has been finalised and, as a consequence, the Joint Venture Agreement has been concluded with Perseverance Mining Pty Ltd under which Panaegis will earn 51% in MIN5412 and Perseverance 49% in our surrounding EL4718. Effective from 1 July 2005, Panaegis Gold as Operator, has a commitment to spend \$900,000 over two years with a minimum 1500 metres of diamond drilling per annum.

As part of the processes now underway, a draft resource review by Dr John Cottle of Cotlco Pty Ltd has been received. Using a block model, in order to minimise extrapolation, he suggests that there is plenty of upside to drilling of the sulphide zone in the Nagambie Mine area. At 0.5g/t Au block model cut-off, there is a near surface resource of 2.3 Mt at 1.02g/t Au for approximately 75,000 ounces of contained gold.

#### ➤ AVENEL ELA4887

Panaegis has made application for EL4887, an area of 201 square kilometres surrounding and extending to the south of EL4718. The property is being acquired as previous soil sampling work by other explorers has shown that areas of gold anomalism to be present. Geochemically this anomalism is similar to the style of gold mineralisation that Panaegis is seeking to develop in this region.

Advertising in the local press of our application has been completed with no objections and we are awaiting granting of this licence by the Minister.

#### ➤ REDCASTLE EL3316 & EL4594

First pass regional soil-sampling program completed with 328 samples collected. Soil sampling traverses now cover the entire tenements. A number of anomalies have been delineated, including some new areas, and so additional grid lines are being established as control for follow up evaluation.

A further 43 rock chip samples were collected, mainly in the Long Gully Fault Zone, particularly near the North Empress prospect. As results were sporadic and difficult to interpret, further rock sampling has been carried out in the area. A grid is being constructed in the same area to carry out an infill soil program in order to find extensions to the mineralisation evident in the North Empress drill section.

At the same time, a trenching program consisting of 10 trenches over a total distance of approximately 220 metres was undertaken and 119 samples collected

At the Mullocky prospect all three trenches reported significant results with the best being 18m @ 0.35 ppm Au, over the entire length of the trench, with 2.2 m of fill. A rock grab sample from the footwall of the same trench assayed 55g/t Au. Apart from the fill, all sampling was in basement rock. The prospect constitutes a drill target based upon current data, with mineralisation present for 150m along the line of workings, and up to (or >) 18m wide in places. A soil sample north of the workings has proved anomalous, suggesting that the structure may continue.

At Native Gully North, trench #8 intersected 4m @ 0.34g/t Au associated with a quartz breccia, despite the trench failing to reach bedrock due to thicker cover than anticipated.

**Check sampling of the soil anomalies is being undertaken, with rock chips and soil samples.**

Trench	Length	Prospect	Width	Au ppb	From	To	Cutoff	Au x W	Conclusions
2	16	Mullocky	4	469	8	12	100	1876	Significant mineralisation: southern trench
3	16	Mullocky	8	269	8	16	100	2152	Significant mineralisation: middle trench
6	18	Mullocky	18	352	0	18	100	6336	Significant mineralised zone wider than trench length: northern trench
8	22	Nth Native Gully	4	340	12	16	100	1360	Significant mineralisation, with broad weak mineralisation

**Rock grab samples**

Trench	Sample ID	Prospect	g/t Au	From	To	Lithology
6	Blue C02	Mullocky	55.0	0	2	Rock chip. Si slt with fe veins. FA50g
2	Red D09	Mullocky	25.0	10	12	Cream beige slt & 40mm qtz; rock chip FA50g

The trenching program was a very cost effective rapid reconnaissance method and further targets will be evaluated by this method.

A prospect summary report is currently being drafted, to highlight the respective aspects and potential of the various prospects.

➤ **HOWQUA EL3424 (MIN5420)**

Panaegis Gold has reached agreement with Flitegold Pty Ltd to acquire this exploration property and the mining licence application. Panaegis will own 100% of both licences.

A program of exploration has been planned and budgeted and field work is expected to commence during November 2005. The exploration activities will be dominantly focussed in evaluating the Great Rand Mineralised Corridor which has previously been shown to contain a small gold Resource (approximately 40,000 ounces of gold) in the vicinity of the Great Rand Mine.

➤ **TARADALE EL4527, ELA4890, ELA4894 & ELA4895**

Transfer of EL4527 from Mike Garrett Pty Ltd to Panaegis has been approved by the Department of Primary Industries. Due to compulsory relinquishments, the original area covered by EL4527, has been re-applied for by Panaegis. The Company sees the areas covered by these new applications as being integral to our exploration focus. All new applications have been advertised in local newspapers as required and, to date, no objections registered. It is our understanding that ELA4890 has been recommended by the Department for granting and is awaiting Ministerial approval. ELA's 4894 and 4895 are pending.

Panaegis has now completed all documentation with the previous tenement owners and, as a means of protecting our holding in the area, we have applied for an additional 9.5 blocks. If successful with our applications, we will be in a very good position to protect the geological model that we have developed and are now testing in this highly prospective area.

A soil geochemistry program across our main target line of reefs has shown an excellent anomaly.

➤ **CASTLEMAINE EL4722**

**Maldon /Green Gully Project**

First pass stream sediment program has been completed with the 60 samples collected and assayed outlining areas of anomalism. The largest contiguous anomaly is associated with the workings at Green Gully, an area of significant historical mining activity. An area in the north of the tenement from where seven samples were taken, has reported stibnite (antimony) mineralisation. Another

significant two-sample anomaly was revealed in the vicinity of the Muckleford Fault, in an area with no recorded workings. Other isolated single sample anomalies occur and have been recorded. These will be further evaluated.

A total of fourteen rock chip and dump samples were also taken from the area. Yet to be plotted, assays vary up to 0.96ppm Au. Follow-up rock and soil sampling is proposed.

### **Dry Diggings Project**

First pass stream sediment program has been completed with 51 samples collected and assayed. A belt of gold-arsenic and some antimony anomalism occurs in the western and central part of the tenement suggesting two separate mineralising populations.

Very high anomalism was found in the vicinity of the old Dry Diggings township and this requires further exploration, preferably using additional stream sampling, soil geochemistry and rock chip sampling.

### ➤ **RUSHWORTH EL4723**

During a reconnaissance visit to the area, some 14 rock chip samples were collected. The best was 1.5ppm Au from a small quartz vein at North White Hills. Other anomalous samples from the same area included 0.58ppm Au in altered sediment. Given these encouraging results, a closer review of previous work done in this area will be undertaken.

At Whroo, a review of all previous data has established an east-west trending set of sandstone units at Balaclava Hill with low-grade mineralisation (0.3-0.5 ppm Au).

Truncated by a set of north-north-east striking quartz veins, these intersections have been the main focus of mining in the past. Similar structural settings are therefore highly prospective.

An earlier large grid-based soil-sampling program (741 samples) by New Holland Mining appears to be inconsistent, as later sampling has very poor correlation. As the NHM samples appear incompatible with other data in the area, some orientation sampling and anomaly checking will be required.

The arsenic and antimony soil sampling results appear more consistent, and these anomalous areas will be further evaluated.

A work program submitted to the Department received a response that working in the Whroo Historic Area will require consents from Heritage and Parks/DSE.

In the meantime, it is proposed to stream sediment sample the entire tenement in order to tie down areas of potential disseminated mineralisation.

The structural and geochemical relationship of Whroo to White Hills is poorly understood, and this survey will help create greater overall knowledge.

### ➤ **WEDDERBURN EL4721**

#### **Nine Mile Mine Project**

Underground plans were sourced for the mine from a Geological Survey of Victoria report. Until Panaegis received and we have had an opportunity to review these mine plans, we did not undertake any field work at this project. The information is now being re-plotted and a better understanding of the mine area gained. From this work three target areas requiring further analysis and evaluation have been established.

1. Near surface open pit potential in the immediate vicinity of the old workings
2. The down plunge continuation of the ore shoots previously worked.
3. The continuation of the ore shoots below the fault/dyke, which truncates the mineralisation at 70m level.

## **Emu Project**

A stream sediment first pass program has been completed with 24 samples collected and assayed.

This work has outlined two areas of anomalism. One surrounds the workings of the Royal George mine and the other, to the north-west of Emu, covering an area of 11km<sup>2</sup> and supported by six stream samples, is in the vicinity of the Emu Fault, a major regional structure striking north-west and parallel to the St Arnaud Fault. Field work is planned during late 2005.

## **Leggett's (Golden Crown) Project**

A soil-sampling program of 189 samples was carried out based upon previous stream sediment anomalies established by Golden Triangle Resources NL. Minor anomalous samples were obtained, but no significant anomalism, with the exception of one traverse, which crossed immediately north of the Leggett's Reef workings. Anecdotal information suggests that Leggett's Reef is also known as the Golden Crown. Further research will be undertaken to follow up this prospect.

Panaegis Gold doubts the validity of the Golden Triangle soil sampling and has prepared a stream sediment sampling program to establish the prospectivity of the various areas. This has been done because such an approach has worked so well at Emu.

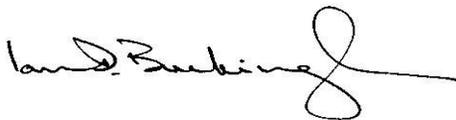
### ➤ **BAILESTON EL4719**

A regional magnetic interpretation has been completed and the available data reviewed. Copies recently obtained of previous drilling data are now being digitised and Panaegis Gold is pleased to note that sulphides have been recorded at depth along this anticlinal trend.

A rock chip geochemical sampling program has been prepared which is designed to evaluate the styles of mineralisation that are present.

We have a very strong team and we are pushing ahead urgently with due caution. I will keep you abreast of our progress.

Best regards



IAN D BUCKINGHAM  
Managing Director/CEO

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## **Financial Report :**

**FINANCIAL REPORT  
FOR  
THE PERIOD FROM DATE OF INCORPORATION (29 OCTOBER 2004)  
TO  
30 JUNE 2005**

## DIRECTORS' REPORT

Your Directors present their report on Panaegis Gold Mines Limited ("Panaegis Gold" or "the Company") for the period ended 30 June 2005.

### Directors

The names of Directors of the Company in office at any time during or since the end of the period are:

Director	Position Held	Date Appointed
J W Cornelius	Non-Executive Chairman	29 October 2004
I D Buckingham	Managing Director and Chief Executive Officer	29 October 2004
P I Rudd	Non-Executive Director	29 October 2004
P J Cameron	Non-Executive Director	17 June 2005
M W Trumbull	Non-Executive Director	12 August 2005

### Company Secretary

The following people hold the position of Company Secretary at the end of the financial period:

Mrs Cherie L Harrison – Bachelor of Business (Economics/Business Law) Aff SIA. Mrs Harrison has worked for more than 10 years in financial and secretarial roles with public and private Companies in the resources, management consulting, medical and marketing sectors. Ms Harrison was appointed Company Secretary on 29 October 2004.

Mr Alfonso M G Grillo – Bachelor of Arts LLB. Mr Grillo is a senior Associate with TressCox Lawyers and has expertise in various aspects of commercial law, including company meeting practice and corporate governance procedures, fundraising and fundraising documentation, ASX Listing Rules and mergers and acquisitions.

### Principal Activities

The principal activity of the Company during the period was exploration for gold and base metal accumulations with the objective of developing economic mines.

### Operating Result

The net loss of the Company for the financial period was \$175,895.

### Dividends Paid or Recommended

No amounts have been paid or declared as dividends during the course of the financial period.

## **DIRECTORS' REPORT**

### **Review of Operations**

Panaegis Gold is an unlisted public company, which was incorporated on 29 October 2004. This report is for the financial period commencing 29 October 2004 to 30 June 2005.

The Company has acquired Exploration Licences and Mining Leases in Central Victoria. It will actively explore these Exploration Licences and Mining Leases with the objective of developing economic mines and seek further exploration opportunities within Australia.

The Company's gold and base metal exploration expenditure for the period was \$309,834.

Further information on likely developments in the operations of the Company and the expected results have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the Company.

### **Financial Position**

The net assets of the Company at 30 June 2005 are \$931,680. This has been largely influenced by share issue raisings of \$1,107,575 after share issue costs.

The Directors believe the Company is in a strong and stable financial position to expand and grow its current operations.

### **Significant changes in the State of Affairs**

The following significant changes to the state of the affairs of the Company occurred during the financial period:

- On 29 October 2004 the Company was incorporated and 4,000 ordinary fully paid shares at an issue price of \$1.00 each.
- On 17 December 2004 the Company split the issued capital into 400,000 ordinary fully paid shares at 1 cent each.
- On 17 December 2004 the Company issued 11,000,000 ordinary fully paid shares to its founding members for establishing the Company.
- From 20 May 2005 to the end of the financial period the Company issued 29,850,000 ordinary fully paid shares at an issue price of 4 cents each to commence its exploration activities and prepare a Prospectus for admission to trading on the Australian Stock Exchange.

The state of affairs of the Company was not affected by any other significant changes during the financial period.

### **After Balance Date Events**

Since 30 June 2005 the Company has issued 11,875,000 ordinary fully paid shares at an issue price of 4 cents per share to continue its exploration activity and to prepare a Prospectus for admission to trading on the Australian Stock Exchange.

On 12 August 2005 2,272,000 options were granted to Gillon Securities Limited &/or nominees, as part consideration of their placement fee as broker's to the above mentioned share issue. These options enable Gillon Securities Limited and/or nominees to subscribe for ordinary shares at an exercise price equal to the IPO share price expiring two years from the date the Company is listed on the Australian Stock Exchange.

## **DIRECTORS' REPORT**

### **After Balance Date Events (cont'd)**

#### ***Acquisition of Sierra Minerals Limited***

Since 30 June 2005 Panaegis Gold has acquired 100% of the ordinary share capital of Sierra Minerals. Sierra Minerals holds Exploration Licences EL4719 Bailieston, EL4721 Wedderburn West, EL4722 Castlemaine, EL4723 Rushworth and EL4718 Nagambie South.

Under the Share Sale Agreement Panaegis Gold has made a payment to the vendors of \$50,000 (\$10,000 by way of deposit paid in September 2004) on the execution of the Share Sale Agreement. A payment of \$100,000 has also been made to Perseverance Corporation Limited in respect to the Nagambie Farmin and Joint Venture Agreement between Sierra Minerals and Perseverance Mining Pty Ltd.

Under the Share Sale Agreement a further payment of \$300,000 and the issue of Panaegis Gold shares at IPO price to the value of \$1,200,000 will be due on the listing of Panaegis Gold on the ASX.

If the Agreement conditions precedent are not fulfilled by 3 July 2006, or extended by mutual agreement, the Agreement will be terminated.

#### ***Nagambie Farmin and Joint Venture Agreement***

Sierra Minerals Limited has entered into agreements with Perseverance Mining Pty Ltd under which Perseverance Mining will earn 49% interest in EL4718 Nagambie South and Sierra Minerals, as a wholly owned subsidiary of Panaegis Gold, on completion of the Sierra Share Sale Agreement will earn 51% of Perseverance Mining's ML5412 Nagambie Mine area.

To complete the earning Panaegis Gold, through Sierra Minerals, has reimbursed Perseverance Mining \$100,000 of premium exploration costs and may contribute \$900,000 to exploration including conducting 1,500 metres of diamond drilling in each of the areas in years commencing 1 July 2005. Sierra Minerals will be Operator of the Joint Venture activity.

#### ***Agreement with Mike Garratt Pty Ltd***

Since 30 June 2005 the Company has entered into an agreement with Mike Garratt Pty Ltd for the transfer of Exploration Licence (EL) 4527 Taradale.

The Agreement with Mike Garratt Pty Ltd provided for an initial payment of \$150,000 for the transfer of the Taradale Exploration Licence with an additional \$300,000 payable within 7 days of Panaegis Gold receiving unconditional confirmation from the ASX that Panaegis Gold's shares have been accepted for official quotation on the ASX. Panaegis Gold will also issue within 7 days of ASX listing to Mike Garratt Pty Ltd or its nominee 4,750,000 fully paid ordinary shares or such number of ordinary shares that equals \$950,000 pursuant to an Initial Public Offering (IPO) and listing on the ASX.

There has not been any other matter or circumstance that has arisen since the end of the financial period that has significantly affected, or may significantly affect, the operations of the Company, the results of these operations, or the state of affairs of the Company.

## **Future Developments, Prospects and Business Strategies**

#### ***Agreement with Flitegold Pty Ltd***

An Agreement with Flitegold Pty Ltd for the transfer of Exploration Licence Howqua EL3424, Mining Lease MIN5420 and Exploration Licences Redcastle EL4594 and EL3316 provides for an initial payment to Flitegold of \$15,000 on signing of the Agreement, with an additional \$185,000 and the issue of such number of ordinary shares that is equal to \$500,000 pursuant to an IPO on the ASX, payable within 7 days of Panaegis Gold receiving unconditional confirmation from the ASX that Panaegis Gold's shares have been accepted for official quotation on the ASX.

## **DIRECTORS' REPORT**

### **Environmental Issues**

Panaegis Gold's exploration tenements are located in Victoria. The operation of these tenements is subject to compliance with the respective Victorian mining and environmental regulations and legislation.

Licence requirements relating to ground disturbance, rehabilitation and waste disposal exist for all tenements held. The Directors are not aware of any breaches of mining and environmental regulations and legislation during the period covered by this report.

### **Corporate Governance Policy**

The Directors are responsible for the corporate governance of Panaegis Gold and for protecting the rights and interests of shareholders. The Board, when appointing committees, will determine the terms of reference and reporting accountability. In general terms, all committees will be responsible to the Board which will ratify committee findings and decisions.

It is the policy of the Board to maintain a majority of non-executive Directors and implement a number of corporate governance practices through the following specialist committees:

During the period under review, the full Board exercised review of all facets of the Company's operations including Audit and Compliance. Since 30 June the Board has implemented best practice recommendations and has appointed an Audit and Compliance Committee.

- **Audit and Compliance Committee**

This Committee is chaired by Mr M W Trumbull and comprises Non-Executive Directors Mr P I Rudd and Mr J W Cornelius. The Company's external auditor attends by invitation.

- **Other Committees**

From time to time, additional Governance, Remuneration and Benefits and other ad hoc or permanent committees will be appointed to overview functions or make findings on behalf of the Company.

### **Details of Remuneration for the Period Ended 30 June 2005**

#### **Remuneration Policy**

The Board is responsible for determining and reviewing the remuneration of the Directors, the Managing Director and the executive officers of the Company. This process requires consideration of the levels and form of remuneration appropriate to securing, motivating and retaining executives with the skills to manage the Company's operations. In order to retain and attract executives of sufficient calibre to facilitate the efficient and effective management of the Company's operations, the Board seeks the advice of external advisers in connection with the structure of remuneration packages. The Board also recommends the levels and form of remuneration for Non-Executive Directors with reference to performance, relevant comparative remuneration and independent expert advice. The total sum of remuneration payable to Non-Executive Directors shall not exceed the sum fixed by members of the Company in general meeting.

## DIRECTORS' REPORT

### Details of Remuneration for the Period Ended 30 June 2005 (cont'd)

The remuneration for each Director of the Company during the period was as follows:

	Salary, Fees & Commissions	Superannuation Contributions	Non-cash Benefits	Superannuation	Options	Total
	\$	\$	\$	\$	\$	\$
<b>Non-Executive</b>						
J W Cornelius	-	-	-	-	-	0
P I Rudd	-	-	-	-	-	0
P J Cameron	-	-	-	-	-	0
M W Trumbull	-	-	-	-	-	0
<b>Executive</b>						
I D Buckingham	90,000	-	-	-	5,735	95,735
	90,000	0	0	0	5,735	95,735

The maximum aggregate remuneration for Non-Executive Directors was fixed by Shareholders at \$250,000. The Board has resolved that the Company will not pay directors fees until the Company is listed on the Australian Stock Exchange.

Options issued to each Director of the Company as part of their remuneration during the period were as follows:

	Granted No.	Options Granted as Part of Remuneration	Total Remuneration Represented by Options	Options Exercised	Options Lapsed	Total
		\$	%	\$	(\$)	\$
I D Buckingham	2,500,000	5,735	4	-	-	5,735
Total	2,500,000	5,735	4	0	0	5,735

### Meetings of Directors

The number of meetings of the Company's board of Directors held during the period ended 30 June 2005, and the number attended by Directors were:

Director	Meetings of Directors	Directors Meetings held during period of office
Number of meetings held:	8	8
Number of meetings attended:		
J W Cornelius	8	8
I D Buckingham	8	8
P I Rudd	8	8
P J Cameron	1	1
M W Trumbull	-	-

## DIRECTORS' REPORT

### Information on Directors

Director	Experience	Special Responsibilities	Particulars of Directors Interests in Shares* and Options	
			Ordinary shares	Options
J W Cornelius	Has been involved in the natural resources and mining industries in public company accounting, corporate secretarial and management roles for more than 35 years.  John has been a Director and Chairman of Essential Petroleum Resources Limited since 1999.	Non-executive Chairman  Member of the Audit and Compliance Committee  Member of the Due Diligence Committee	3,700,000	-
I D Buckingham	Has had over 30 years experience in all aspects of the resources and mining industry.	Managing Director and Chief Executive Officer  Member of the Due Diligence Committee	5,600,000	2,500,000
P I Rudd	Geologist with 30 years extensive gold mining analytical and research skills	Member of the Audit and Compliance Committee	2,100,000	-
P J Cameron	Geophysicist with research and financial skills.		-	-
M W Trumbull	Mining engineer with extensive management experience across a variety of mineral and mining activities.  Michael has been a Director of Beaconsfield Gold NL since 1993.	Chairman of the Audit and Compliance Committee  Member of the Due Diligence Committee	1,250,000	-

\*Held directly and indirectly

### Options

At the date of this report, the unissued ordinary shares of Panaegis Gold under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number under Option
20 May 2005	31 December 2007	\$0.35	1,000,000
20 May 2005	30 June 2009	\$0.50	1,500,000
20 May 2005	2 years from date of the Company's listing on the ASX	IPO issue price	1,725,000
12 August 2005		IPO issue price	2,272,000
			6,497,000

### Indemnifying Officers

The Company has paid premiums to insure each of the Directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Director of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The terms and conditions of the insurance are confidential and cannot be disclosed.

## DIRECTORS' REPORT

### Proceedings on Behalf of the Company

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of these proceedings.

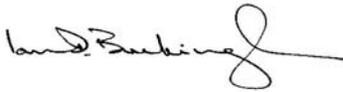
### Non Audit Services

No non-audit services were provided from the Company's auditors BDO during the financial period ended 30 June 2005.

### Auditor's Independence Declaration

The lead auditor's independence declaration for the financial period ended 30 June 2005 has been received and can be found on page 8 of the Director's Report.

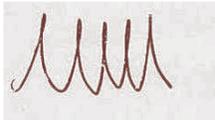
This report is made in accordance with a resolution of the Directors and dated this 5th day of September, 2005.



**I D Buckingham**  
Managing Director and Chief Executive Officer



**J W Cornelius**  
Non-Executive Chairman



**P I Rudd**  
Non-Executive Director



**P J Cameron**  
Non-Executive Director



**M W Trumbull**  
Non-Executive Director

**AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF  
PANAEGIS GOLD MINES LIMITED**

In relation to our audit of the financial report of Panaegis Gold Mines Limited for the financial period ended 30 June 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

**BDO**

**BDO  
Chartered Accountants**

A handwritten signature in black ink, appearing to read 'C M J Bryan', with a long horizontal flourish extending to the right.

**C M J Bryan  
Partner**

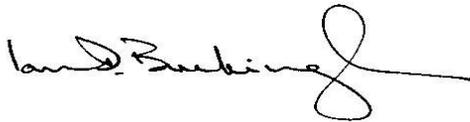
Melbourne, 5 September 2005

## DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements and notes are in accordance with the Corporations Act 2001:
  - a) comply with Accounting Standards and the Corporations Regulations 2001; and
  - b) give a true and fair view of the financial position as at 30 June 2005 and of the performance for the financial period ended on that date of the Company.
2. The Chief Executive Officer has declared that:
  - a) the financial records of the Company for the financial period have been properly maintained in accordance with section 286 of the Corporations Act 2001;
  - b) the financial statements and notes for the financial period comply with the Accounting Standards; and
  - c) the financial statements and notes for the financial period give a true and fair view.
3. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

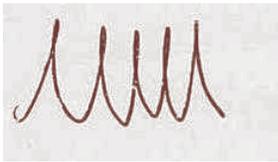
This declaration is made in accordance with a resolution of the Directors and dated this 5th day of September, 2005.



**I D Buckingham**  
Managing Director and Chief Executive Officer



**J W Cornelius**  
Non-Executive Chairman



**P I Rudd**  
Non-Executive Director



**P J Cameron**  
Non-Executive Director



**M W Trumbull**  
Non-Executive Director

**STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE PERIOD FROM 29 OCTOBER 2004 TO 30 JUNE 2005**

	<b>Note</b>	<b>Period from 29 October 2004 to 30 June 2005 \$</b>
Revenues from ordinary activities	2	4,150
Administration expenditure		(179,990)
Borrowing costs expense	3	(55)
		<hr/>
Loss from ordinary activities before income tax expense		(175,895)
Income tax benefit relating to ordinary activities	4	-
		<hr/>
Loss from ordinary activities after related income tax expense		(175,895)
		<hr/>
Net loss attributable to members of the entity		(175,895)
		<hr/>
Total changes in equity other than those resulting from transactions with owners as owners		(175,895)
		<hr/>
Basic earnings per share (cents per share)	12	(1.11)
Diluted earnings per share (cents per share)	12	(1.11)

The accompanying notes form part of these financial statements.

**STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2005**

	<b>Note</b>	<b>2005 \$</b>
<b>CURRENT ASSETS</b>		
Cash assets	5	810,190
Receivables	6	42,630
Other	7	<u>27,896</u>
<b>TOTAL CURRENT ASSETS</b>		<u>880,716</u>
<b>NON CURRENT ASSETS</b>		
Plant and equipment	8	1,463
Exploration, evaluation and development expenditure	9	<u>309,834</u>
<b>TOTAL NON CURRENT ASSETS</b>		<u>311,297</u>
<b>TOTAL ASSETS</b>		<u>1,192,013</u>
<b>CURRENT LIABILITIES</b>		
Payables	10	<u>260,333</u>
<b>TOTAL CURRENT LIABILITIES</b>		<u>260,333</u>
<b>TOTAL LIABILITIES</b>		<u>260,333</u>
<b>NET ASSETS</b>		<u>931,680</u>
<b>EQUITY</b>		
Contributed equity	11	1,107,575
Accumulated losses	13	<u>(175,895)</u>
<b>TOTAL EQUITY</b>		<u>931,680</u>

The accompanying notes form part of these financial statements.

**STATEMENT OF CASH FLOWS  
FOR THE PERIOD ENDED 30 JUNE 2005**

	<b>Note</b>	<b>2005</b> \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Payments to suppliers and employees		(148,026)
Payments for capitalised exploration and development expenditure		(141,908)
Interest paid		(55)
Interest received		<u>4,150</u>
Net cash used in Operating activities	19	<u>(285,839)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payment for plant and equipment		(1,546)
Payment for option to acquire shares in other companies		<u>(10,000)</u>
Net cash used in Investing activities		<u>(11,546)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from share issues		1,198,000
Payment of share issue costs		<u>(90,425)</u>
Net cash provided by Financing activities		<u>1,107,575</u>
<b>NET INCREASE IN CASH HELD</b>		<u>810,190</u>
Cash at beginning of financial period		<u>-</u>
<b>CASH AT 30 JUNE 2005</b>	5	<u>810,190</u>

The accompanying notes form part of these financial statements.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

Panaegis Gold is an unlisted public company, incorporated and domiciled in Australia. The Company was incorporated and commenced operations on 29 October 2004. Therefore this financial report is for the period commencing 29 October 2004 to 30 June 2005.

There were no employees as at 30 June 2005. However, services have been provided by consultants.

The financial report has been prepared on an accrual basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the Company in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

**(a) Income Tax**

The entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences, which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income, are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Future income tax benefits are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future 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.

**(b) Revenue**

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

**(c) Cash**

For the purposes of the statement of cash flows, cash includes cash on hand and in banks (including short term deposits), net of outstanding bank overdrafts.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(d) Receivables**

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

**(e) Plant and Equipment**

Plant and Equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to present values in determining the recoverable amount.

**Depreciation**

The depreciable amount of all fixed assets including any capitalised leased assets are depreciated on a straight line basis over their useful lives to the Company commencing from the time the asset is held ready for use.

<b>Class of Fixed Asset</b>	<b>Depreciation Period</b>
Plant and equipment	2 to 5 years

**(f) Exploration, Evaluation and Development Expenditure**

**Costs carried forward**

Costs arising from exploration and evaluation activities are carried forward provided such costs are expected to be recouped through successful development, or by sale, or where exploration and evaluation activities have not, at reporting date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves.

Costs carried forward in respect of an area of interest that is abandoned are written off in the period in which the decision to abandon is made.

**Amortisation**

Costs on productive areas are amortised over the life of the area of interest to which such costs relate on the production output basis.

**(g) Payables**

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(h) Employee Benefits**

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions are made by the Company to an employee superannuation fund and are charged as expenses when incurred.

The Company operates an ownership based remuneration scheme through the employee option plan, details of which are provided in note 18 to the financial statements. The value of the equity-based compensation scheme is not being recognised as an employee benefits expense.

**(i) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

**(j) Earnings per share**

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- Costs of servicing equity (other than dividends) and preference share dividends;
- The after tax effect of dividends and interest associated with the dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(h) Adoption of Australian Equivalents to International Financial Reporting Standards**

The Company is preparing and managing the transition to Australian Equivalents to International Financial Reporting Standards (AIFRS) effective for financial periods commencing 1 January 2005. The adoption of AIFRS will be reflected in the Company's financial statements for the year ending 30 June 2006 (or for the half-year ending 31 December 2005, if applicable).

On first time adoption of AIFRS, comparatives for the corresponding prior period are required to be restated. The majority of AIFRS transitional adjustments will be made retrospectively against retained earnings as at 29 October 2004, being the date of incorporation.

The Company's management, along with its auditors, has assessed the significance of the expected changes and is preparing for their implementation. An AIFRS committee has been established to oversee and manage the economic entity's transition to AIFRS. The Directors are of the opinion that the key material differences in the Company's accounting policies on conversion to AIFRS and the financial effect of these differences, where known, are as follows. Users of the financial statements should note, however, that the amounts disclosed could change if there are any amendments by Standard-setters to the current AIFRS or if interpretation of the AIFRS requirements changes from the continuing work of the Company's AIFRS committee.

**- Income Tax**

A "balance sheet" approach will be adopted under AIFRSs, replacing the "statement of financial performance" approach currently used by Australian companies. The "balance sheet" method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability, and its tax base. Any initial adjustments to calculate deferred tax assets and liability balances on transition using the new basis will be made through opening balances of retained earnings.

On transition, the financial effect of this impact is assessed as nil.

**- Share-Based Payments**

The Company does not currently recognise an expense for options issued to staff, and shares issued to staff under the Employee Share Scheme. On adoption of AIFRSs, the Company will recognise an expense for all share-based remuneration, including deferred shares and options, and will amortise those expenses over the relevant vesting periods. This will result in additional expenses being recorded and therefore lower earnings. There will be an initial negative impact on earnings when retrospective adjustments are made for options that have not vested by 1 January 2005.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**- Impairment of Assets**

The Company currently assesses the amount of impairment of assets by determining the recoverable amount on the basis of undiscounted cash flows. Under AASB 136 *Impairment of Assets* the Company will be required to determine the recoverable amount as the higher of fair value less costs to sell and value in use (which is determined using discounted cash flows). In the future it is likely that this change in policy and basis for calculation will lead to more impairment losses being recognised and therefore greater volatility in future earnings.

On transition, the financial effect of this impact is assessed as nil.

**- Extractive Industries**

Under AIFRS the exploration and evaluation phase is accounted for under AASB 6 *Exploration for and Evaluation of Mineral Resources*, which continues to follow the previous standard's "area of interest" approach.

On transition, the financial effect of this impact is assessed as nil.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2005**

	<b>2005</b> \$
<b>2. REVENUE</b>	
Operating activities	
Interest received – other persons	4,150
Total Revenue	4,150
<b>3. LOSS FROM ORDINARY ACTIVITIES</b>	
Loss from ordinary activities before income tax has been determined after	
(a) Expenses	
Depreciation – Plant and equipment	83
Borrowing costs – other persons	55
Total borrowing costs	55
Loss from ordinary activities before income tax has been determined after	
<b>4. INCOME TAX</b>	
Prima facie income tax calculated at 30%	(52,768)
Less:	
Tax effect of permanent differences - Non deductible capital expenditure	349
Income tax benefit adjusted for permanent differences	(52,419)
Benefit of current period loss not recognised	52,419
Income tax benefit relating to ordinary activities	-
The Directors estimate that the potential future income tax benefit at 30 June 2005 in respect of tax losses and timing differences is:	52,419
The benefit will only be obtained if:	
(i) the Company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deduction to be realised;	

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2005**

**4. INCOME TAX (cont'd)**

- (ii) the Company continues to comply with the conditions for deductibility imposed by tax legislation; and
- (iii) no changes in tax legislation adversely affect the Company in realising the benefit from the deduction for the losses.

**2005**  
**\$**

**5. CASH ASSETS**

Cash at bank 810,190

**Reconciliation of cash**

Cash at the end of the financial period as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

Cash 810,190

**6. RECEIVABLES**

Other debtors 42,630

**7. OTHER ASSETS**

Prepaid share issue costs relating to the proposed initial public offering 17,896  
Option to acquire Shares in Sierra Minerals Limited 10,000  
27,896

**8. PLANT AND EQUIPMENT**

Office equipment - at cost 1,546  
Accumulated depreciation (83)  
1,463

Total plant and equipment 1,463

(a) Movements in Carrying Amounts

**Total**  
**\$**

Balance at the beginning of the period -  
Additions 1,546  
Depreciation expense (83)  
Carrying amount at the end of the period 1,463

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2005**

	<b>2005</b> <b>\$</b>
<b>9. EXPLORATION, EVALUATION &amp; DEVELOPMENT</b>	
Exploration, evaluation and development costs	309,834
Ultimate recovery of capitalised exploration, evaluation and development costs is dependent upon success in exploration and development or sale or farmout of the exploration interests.	
<b>10. PAYABLES</b>	
Other creditors and accruals	110,333
First instalment for acquisition of Exploration Licences from Mike Garrett Pty Ltd	150,000
	260,333
<b>11. CONTRIBUTED EQUITY</b>	
41,250,000 fully paid ordinary shares	1,107,575
Ordinary shares	
(i) At the beginning of the reporting period	-
Shares issued during the period -	
4,000 on 29 October 2004 (On 17 December 2004 these shares were split into 400,000 ordinary fully paid shares)	4,000
11,000,000 on 17 December 2004 for establishing the company	-
28,850,000 on 20 May 2005	1,154,000
1,000,000 on 17 June 2005	40,000
Transaction costs relating to share issue	(90,425)
	1,107,575
(ii) At the beginning of the reporting period	<b>No.</b>
Shares issued during the period -	
4,000 on 29 October 2004 (On 17 December 2004 these shares were split into 400,000 ordinary fully paid shares)	4,000 396,000
11,000,000 on 17 December 2004	11,000,000
28,850,000 on 20 May 2005	28,850,000
1,000,000 on 17 June 2005	1,000,000
At reporting date	41,250,000

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2005**

**11. CONTRIBUTED EQUITY (cont'd)**

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholders meetings, each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

On the 29 October 2005 the Company was incorporated and 4,000 ordinary fully paid shares at an issue price of \$1.00 each. On 17 December 2004 the Company split the issued shares into 400,000 ordinary fully paid shares at 1 cent each.

On the 17 December 2004 the Company issued 11,000,000 ordinary fully paid shares at an issue price of 4 cents each to its founding members for nil consideration.

From 20 May 2005 to 30 June 2005 the Company issued 29,850,000 ordinary fully paid shares at an issue price of 4 cents each through an Information Memorandum circulated to private investors.

On 20 May 2005 1,725,000 options were granted to Tolhurst Noall Limited &/or nominees as part consideration of their placement fee as broker's to the above mentioned share issue. These options enable Tolhurst Noall Limited and/or nominees to subscribe for ordinary shares at an exercise price equal to the IPO share price expiring two years from the date the Company is listed on the Australian Stock Exchange.

On 20 May 2005 1,000,000 options were granted to the Company's Chief Executive Officer, Ian D Buckingham, to subscribe for ordinary shares at an exercise price of \$0.35 each. The options are exercisable on or before 31 December 2007.

On 20 May 2005 1,500,000 options were granted to the Company's Chief Executive Officer, Mr Ian D Buckingham, to subscribe for ordinary shares at an exercise price of \$0.50 each. The options are exercisable on or before 30 June 2009.

- (i) For information relating to the Company's Employee Option Plan, including details of options issued, exercised and lapsed during the financial period and the options outstanding at period end, refer to note 18.

For information relating to share options issued to Executive Directors during the period, refer to note 14.

- (ii) At 30 June 2005, the Company had on issue the following options to acquire shares in the Company:

	<b>Nos.</b>	<b>Class</b>
Unlisted	1,000,000	Employee options expiring 31 December 2007 exercisable at \$0.35.
Unlisted	1,500,000	Employee options expiring 30 June 2009 exercisable at \$0.50.
Unlisted	1,725,000	Options expiring two years from the date of the Company's listing on the Australian Stock Exchange exercisable at the IPO price.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2005**

<b>12. EARNINGS PER SHARE</b>	<b>2005 \$</b>
(a) Reconciliation of Earnings to Net Loss	
Net Loss	175,895
Net Loss used in calculation of basic EPS	175,895
Net Loss used in calculation of dilutive EPS	175,895
(b) Weighted average number of ordinary shares outstanding during the period used in calculation of basic EPS	
	15,794,286
Weighted average number of ordinary shares outstanding during the period used in calculation of dilutive EPS	
	15,794,286
(c) Classification of Securities	

Diluted earnings per share is calculated after classifying all options on issue and all ownership based remuneration scheme shares remaining unconverted at 30 June 2005 as potential ordinary shares. As at 30 June 2005, the Company has on issue 4,225,000 options over unissued capital and has incurred a net loss. As the notional exercise price of these options is greater than the current market price of the shares they have not been included in the calculations of diluted earnings per share.

<b>13. ACCUMULATED LOSSES</b>	<b>2005 \$</b>
Accumulated losses at the beginning of the financial period	-
Net loss attributable to members of the entity	175,895
Accumulated losses at the end of the financial period	175,895

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2005**

**14. DIRECTORS' AND EXECUTIVES' REMUNERATION**

**(a) Names and positions held of Directors and specified executives in office at any time during the financial period are:**

J W Cornelius – Non-Executive Chairman  
 I D Buckingham – Managing Director and Chief Executive Officer  
 P I Rudd – Non-Executive Director  
 P J Cameron – Non-Executive Director  
 M W Trumbull – Non-Executive Director

**(b) Directors' and Executives' Remuneration**

***Remuneration Policy***

The Board is responsible for determining and reviewing the remuneration of the Directors, the Managing Director and the executive officers of the Company and reviewing the operation of the Company's Employee Option and Employee Share Plans. This process requires consideration of the levels and form of remuneration appropriate to securing, motivating and retaining executives with the skills to manage the Company's operations. In order to retain and attract executives of sufficient calibre to facilitate the efficient and effective management of the Company's operations, the Board seeks the advice of external advisers in connection with the structure of remuneration packages. The Board also recommends the levels and form of remuneration for Non-Executive Directors with reference to performance, relevant comparative remuneration and independent expert advice. The total sum of remuneration payable to Non-Executive Directors shall not exceed the sum fixed by members of the Company in general meeting.

**Non-Executive Directors of Panaegis Gold**

2005	Primary			Post Employment	Equity	Total
	Salary, Fees & Commissions	Superannuation Contributions	Non-cash Benefits	Superannuation	Options	
J W Cornelius	-	-	-	-	-	0
P I Rudd	-	-	-	-	-	0
P J Cameron	-	-	-	-	-	0
M W Trumbull	-	-	-	-	-	0
	0	0	0	0	0	0

The maximum aggregate remuneration for Non-Executive Directors was fixed by Shareholders at \$250,000. The Board has resolved that the Company will not pay directors fees until the Company is listed on the Australian Stock Exchange.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2005**

**14. DIRECTORS' AND EXECUTIVES' REMUNERATION (cont'd)**

**Executive Directors of Panaegis Gold**

2005	Primary			Post	Equity	Total
	Salary, Fees & Commissions \$	Superannuation Contributions \$	Non-cash Benefits \$	Employment Superannuation \$	Options \$	
I D Buckingham	90,000	-	-	-	5,735	95,735
	90,000	0	0	0	5,735	95,735

Mr I D Buckingham is a Director and shareholder of Buckingham Consulting Pty Ltd. Consulting fees payable to Mr I D Buckingham are paid to Buckingham Consulting Pty Ltd.

On the 20 May 2005 the following unlisted options were granted to the Managing Director and Chief Executive Officer Mr I D Buckingham:

- 1,000,000 options to subscribe for ordinary shares at an exercise price of \$0.35 each exercisable on or before 31 December 2007 with a total value of \$39,250.
- 1,500,000 options to subscribe for ordinary shares at an exercise price of \$0.50 each exercisable on or before 30 June 2009 with a total value of \$85,800.

Under ASX Listing Rules all shares and options issued to Directors must be held in escrow and are restricted for a period of two years from date of listing. The valuation of these options assumes a listing date of October 2005.

The amount attributable to the options in the table of remuneration was estimated by an independent expert and reflects the allocation of the fair value of remuneration options at date of grant over the period from grant date to vesting date. The Company's policy is not to treat the fair value as an expense in the calculation of net profit shown in the statement of financial performance.

**(c) Option Holdings of Directors and Specified Executives**

Directors	Balance at the Beginning of the Period 29 Oct 2004 No.	Granted as Remuneration No.	Options Exercised No.	Net Change Other No.	Balance 30 June 2005 No.
J W Cornelius	-	-	-	-	-
I D Buckingham	-	2,500,000	-	-	2,500,000
P I Rudd	-	-	-	-	-
P J Cameron	-	-	-	-	-
M W Trumbull	-	-	-	-	-
Total	0	2,500,000	0	0	2,500,000

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2005**

<b>Directors</b>	<b>Balance 29 October 2004</b>	<b>Net Change Other *</b>	<b>Balance 30 June 2005</b>	<b>Shares acquired since Balance Date **</b>	<b>Balance Held</b>
	<b>Ord</b>	<b>Ord</b>	<b>Ord</b>	<b>Ord</b>	<b>Ord</b>
J W Cornelius	-	3,200,000	3,200,000	500,000	3,700,000
I D Buckingham	-	5,100,000	5,100,000	500,000	5,600,000
P I Rudd	-	1,100,000	1,100,000	1,000,000	2,100,000
P J Cameron	-	-	-	-	-
M W Trumbull	-	-	-	1,250,000	1,250,000
<b>Total</b>	<b>0</b>	<b>9,400,000</b>	<b>9,400,000</b>	<b>3,250,000</b>	<b>12,650,000</b>

**15. REMUNERATION OF AUDITORS**

	<b>2005 \$</b>
Remuneration for audit or review of the financial reports of the Company	
Audit or review services	15,000
Other services	-
	<u>15,000</u>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2005**

**16. COMMITMENTS FOR EXPENDITURE**

**Exploration Commitments**

In order to maintain current rights of tenure to exploration tenements, the Company has the following exploration expenditure requirements up until the expiry of leases. These obligations, which are subject to renegotiation upon expiry of leases, are not provided for in the financial statements and are payable:

	<b>2005</b> \$
Not later than one year	761,750
Later than one year but not later than five years	849,100
	1,610,850

Exploration commitments include all tenements owned by Panaegis Gold as at 30 June 2005 and all tenements that will be formally acquired by Panaegis Gold on finalisation of the Sierra Minerals Limited, Flitegold Pty Ltd and Mike Garrett Pty Ltd acquisitions.

**17. RELATED PARTIES**

**Directors**

The names of the persons who were Directors of Panaegis Gold at any time during the financial period are as follows: J W Cornelius, I D Buckingham, P I Rudd, P J Cameron and M W Trumbull.

**Remuneration Benefits**

Information on remuneration benefits of Directors is disclosed in Note 14.

**Transaction of Directors and Director – Related Entities concerning Shares or Share Options**

Aggregate numbers of shares and share options of Panaegis Gold acquired by the Directors of the Company or their Director-related entities from the Company:

	<b>2005</b> No.
Acquisition of shares for consideration	400,000
Acquisition of shares as consideration for establishing the Company	9,000,000
	9,400,000

Directors and Director-related entities hold directly, indirectly or beneficially as at 30 June 2005 the following equity interests in the Company:

Ordinary shares	9,400,000
Options over ordinary shares	2,500,000
	11,900,000

Since 30 June Directors have acquired an additional 3,250,000 shares at 4 cents per share.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2005**

**17. RELATED PARTIES (cont'd)**

**Other Transactions with Directors and Director-related entities**

A Director, Mr J W Cornelius, is a Director and shareholder of IMI Consulting Pty Ltd and i2i Group Pty Ltd. IMI Consulting Pty Ltd has provided corporate consulting whilst i2i Group Limited has provided marketing and print production services. All transactions have been conducted on normal terms and conditions.

Aggregate amounts of each of the above types of other transactions with the Directors and their Director-related entities.

	<b>2005</b>
	<b>\$</b>
Consulting fees	124,349
Company secretarial	16,000
Marketing and print production	10,218
	150,567

A Director, Mr P I Rudd, a Director of Balmerino Pty Ltd as Trustee for Peter Rudd Superannuation Fund has provided consulting services to the Company on normal terms and conditions. The Company has issued 500,000 fully paid ordinary shares at 4 cents per share (i.e. \$20,000) as consideration for these services.

Aggregate amount of each of the above types of other transactions with the Director and the Director-related entity.

	<b>2005</b>
	<b>\$</b>
Consulting fees	20,000

The Managing Director, Mr I D Buckingham, a Director of Buckingham Consulting Pty Ltd has provided consulting services to the Company on normal terms and conditions. The Company has issued 500,000 fully paid ordinary shares at 4 cents per share (i.e. \$20,000) as part consideration for these services.

Aggregate amount of each of the above types of other transactions with the Director and the Director-related entity.

	<b>2005</b>
	<b>\$</b>
Consulting fees	90,000

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2005**

**18. EMPLOYEE BENEFITS**

**Employee Share Plan and Employee Option Plan**

The Board of Panaegis Gold may issue shares and options under the Employee Share Plan and Employee Option Plan respectively to any employee of the Company, including Executive Directors and Non-Executive Directors. Each option is to subscribe for one share and, when issued, the share will rank equally with other shares. Options issued under the Employee Option Plan are not transferable.

No shares or options have been issued during the period under these Plans.

	<b>2005</b> \$
<b>19. CASH FLOW INFORMATION</b>	
(a) Reconciliation of cash flow from operations with loss from ordinary activities after income tax	
Loss from ordinary activities after income tax	(175,895)
Non-cash flows in loss from ordinary activities	
Depreciation	83
Changes in assets and liabilities	
Increase in receivables	(42,630)
Increase in prepayments	(17,896)
Increase in exploration, evaluation and development expenditure	(309,834)
Increase in payables	260,333
Cash flows used in operations	(285,839)

**20. FINANCIAL INSTRUMENTS**

(a) Off-balance sheet derivative instruments

The Company does not utilise any off-balance sheet derivative instruments.

(b) Commodity contract

As at 30 June 2005, the Company does not have in place any commodity contracts.

(c) Credit risk exposure

The credit risk on financial assets of the Company, which have been recognised on the statement of financial performance, is generally the carrying amount, net of any provisions for doubtful debts.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2005**

**20. FINANCIAL INSTRUMENTS (cont'd)**

(d) Interest rate risk exposure

The Company's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following table:

	Weighted average interest rate	Fixed interest maturing					Total \$
		Floating interest rate \$	1 yr or less \$	Over 1 yr to 5 yrs \$	More than 5 yrs \$	Non interest bearing \$	
<b>2005</b>							
Financial assets							
Cash	4.80%	810,190	-	-	-	-	810,190
Receivables		-	-	-	-	42,630	42,630
Total financial assets		810,190	-	-	-	42,630	852,820
Financial liabilities							
Trade and other creditors		-	-	-	-	260,333	260,333
Total financial liabilities		-	-	-	-	260,333	260,333
Net financial assets		810,190	-	-	-	(217,703)	592,487

(e) Net fair value of financial assets and liabilities

The net fair value of cash and cash equivalents and non interest bearing monetary financial assets and financial liabilities of the Company approximates their carrying amounts.

**21. CONTINGENT LIABILITIES**

The Company has the following Contingent Liabilities as at 30 June 2005:

**Agreement with Mike Garratt Pty Ltd for the transfer of Exploration Licence (EL) 4527 Taradale**

Since 30 June 2005 the Company has entered into an agreement to acquire Exploration Licence (EL) 4527 Taradale. The Agreement with Mike Garratt Pty Ltd provided for an initial payment of \$150,000 for transfer of the Taradale Exploration Licence. This amount has been included in Payables at 30 June 2005.

The balance payable of \$300,000 is contingent on Panaegis Gold receiving unconditional confirmation from the ASX that Panaegis Gold's shares have been accepted for official quotation on the ASX and the issue to Mike Garratt Pty Ltd or its nominee of 4,750,000 fully paid ordinary shares or such number of ordinary shares that equals \$950,000 pursuant to an Initial Public Offering (IPO) and listing on the ASX.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2005**

**21. CONTINGENT LIABILITIES (cont'd)**

**Agreement with shareholders of Sierra Minerals Limited**

Under the Share Sale Agreement Panaegis Gold has made a payment to the vendors of \$50,000 (\$10,000 by way of deposit paid in September 2004) on the execution of the Share Sale Agreement. A payment of \$100,000 has also been made to Perseverance Corporation Limited in respect to the Nagambie Farmin and Joint Venture Agreement between Sierra Minerals and Perseverance Mining Pty Ltd.

Under the Share Sale Agreement a further payment of \$300,000 and the issue of Panaegis Gold shares at the Initial Public Offering ("IPO") price to the value of \$1,200,000 will be due on the listing of Panaegis Gold on the Australian Stock Exchange ("ASX").

If the Agreement conditions precedent are not fulfilled by 3 July 2006, or extended by mutual agreement, the Agreement will be terminated.

**Nagambie Farmin and Joint Venture Agreement**

Sierra Minerals Limited has entered into agreements with Perseverance Mining Pty Ltd under which Perseverance Mining will earn 49% interest in EL4718 Nagambie South and Sierra Minerals, as a wholly owned subsidiary of Panaegis Gold, on completion of the Sierra Share Sale Agreement will earn 51% of Perseverance Mining's MIN5412 Nagambie Mine area.

To complete the earning Panaegis Gold, through Sierra Minerals, will reimburse Perseverance Mining \$100,000 of premium exploration costs and may contribute \$900,000 to exploration including conducting 1,500 metres of diamond drilling in each of the areas in years commencing 1 July 2005. Sierra Minerals will be Operator of the Joint Venture activity.

**Agreement with Flitegold Pty Ltd**

An Agreement with Flitegold Pty Ltd for the transfer of Exploration Licence Howqua EL3424, Mining Lease MIN5420 and Exploration Licences Redcastle EL4594 and EL3316 provides for an initial payment to Flitegold of \$15,000 on signing of the Agreement, with an additional \$185,000 and the issue of such number of ordinary shares that is equal to \$500,000 pursuant to an IPO on the ASX, payable within 7 days of Panaegis Gold receiving unconditional confirmation from the ASX that Panaegis Gold's shares have been accepted for official quotation on the ASX.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2005**

**22. STATEMENT OF OPERATIONS BY SEGMENTS**

The entity operates in the Australian gold and mineral sector where the Company has actively sought gold exploration and development opportunities.

**23. COMPANY DETAILS**

**The registered office of the Company is:**

Level 1, 33 Bank Street, South Melbourne, Victoria, 3205

**The principal place of business of the Company is:**

Level 1, 33 Bank Street, South Melbourne, Victoria, 3205

**INDEPENDENT AUDIT REPORT  
TO THE MEMBERS OF  
PANAEGIS GOLD MINES LIMITED  
ABN 42 111 587 163**

## Scope

### *The Financial Report and Directors' Responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Panaegis Gold Mines Limited (the company), for the period from 29 October 2004 to 30 June 2005.

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

### *Audit Approach*

We have conducted an independent audit in order to express an opinion 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 judgment, 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, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit 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.

While 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*

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

The independence declaration given to the directors in accordance with section 307C would be in the same terms if it had been given at the date of this report.



***Audit Opinion***

In our opinion, the financial report of Panaegis Gold Mines Limited 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 30 June 2005 and of its performance for the period ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

**BDO**  
Chartered Accountants

**C M J BRYAN**  
Partner

Melbourne: 5<sup>th</sup> September, 2005

## Additional Shareholder Information :

THE TWENTY LARGEST HOLDERS OF FULLY PAID ORDINARY SHARES AT 7 SEPTEMBER 2005 ARE :

Shareholder Name	No. of Shares	%
D & D Nominees Pty Ltd	6,250,000	11.88
Ian David Buckingham	5,100,000	9.69
John William Cornelius	3,100,000	5.89
Rolf Allan	3,000,000	5.70
Smoke & Mirrors Capital Pty Ltd <Smoke & Mirrors Capital Trust A/c>	2,500,000	4.75
Ralph Douglas Russell & Ann Maree Hynes	2,125,000	4.03
Peter Charles Corke	2,000,000	3.80
Ralph Russell & Ann Hynes <The Russell Hynes Superannuation Fund>	1,625,000	3.09
B Mitchell Nominees P/L <The B Mitchell Family A/c>	1,500,000	2.85
Advance Publicity Pty Ltd <Izmar Family A/c>	1,250,000	2.37
Gameday Enterprises Pty Ltd	1,250,000	2.37
Keo Projects Pty Ltd <Superannuation Fund A/c>	1,250,000	2.37
Glenn Anthony Kiernan & Christine Anne Kiernan <Kiernan Super Fund A/c>	1,250,000	2.37
PPT Nominees Pty Ltd	1,250,000	2.37
Ramon Cove Pty Ltd <RC Super Fund>	1,250,000	2.37
Spruzen Corporation Pty Ltd	1,250,000	2.37
Leonie Anne Trumbull	1,250,000	2.37
Peter Ian Rudd	1,100,000	2.09
Balmerino Pty Ltd <ATF Peter Rudd Super>	1,000,000	1.90
John Ray Petersen	1,000,000	1.90
	40,300,000	76.53

### RESTRICTED SECURITIES :

All current shares issued by Panaegis will be subject to restriction upon ASX listing.

“Founders” shares will be subject to a restriction of two years from date of ASX Listing.

“Seed” shares held will be subject to a restriction of the percentage of seed cash paid, ie: 4 cents as relates to the IPO ASX Listing price, ie: proposed price of 20 cents. This will mean that 80% of seed shares held will have restrictions applying for 12 months from the date those seed shares were allotted.

## Corporate Governance Statement :

The Board of Directors of Panaegis Gold Mines Limited (“Panaegis Gold” or “the Company”) is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

In accordance with the ASX Corporate Governance Council’s best practice recommendations, the Corporate Governance Statement must contain specific information and also report on the Company’s adoption of the Council’s best practise recommendations on an exception basis, whereby disclosure is required of any recommendations that have not been adopted by the Company, together with the reasons why they have not been adopted. Panaegis Gold’s corporate governance principles and policies are therefore structured with reference to the Corporate Governance Councils best practice recommendations, which are as follows:-

- 1: Lay solid foundations for management and oversight.
- 2: Structure the board to add value.
- 3: Promote ethical and responsible decision making.
- 4: Safeguard integrity in financial reporting.
- 5: Make timely and balanced disclosure.
- 6: Respect the rights of shareholders.
- 7: Recognise and manage risk.
- 8: Encourage enhanced performance.
- 9: Remunerate fairly and responsibly.
10. Recognise the legitimate interests of stakeholders.

### 1. Lay Solid Foundations for Management and Oversight

The Board is committed to maximising performance, generating appropriate levels of shareholder value and financial return.

The Board is therefore concerned to ensure that the Company is properly managed to protect and enhance Shareholder interests and that the Company, its Directors, officers and employees operate in an appropriate environment of corporate governance.

The Board is responsible for, inter alia, development of strategy, oversight of management, risk management and compliance systems, and monitoring performance. The Board has established certain policies and protocols in relation to the Company’s operations, some of which are summarised below.

### 2. Structure the Board to Add Value

Corporate Governance Council Recommendation 2.1 requires a majority of the Board to be independent directors. Recommendation 2.2 requires the Chairperson to be independent. Recommendation 2.3 requires the role of Chairperson and CEO should not be exercised by the same person.

The Chairman, Mr J W Cornelius, is a non-executive director. In general, it is the Board’s policy that there should be a majority of independent Non-Executive Directors. The Board is currently made up of five (5) directors, four (4) are Non-Executive two (2) of whom are independent Non-Executive Directors. The role of the Chairperson and CEO are not exercised by the same person.

The skills, experience and expertise relevant to the position of each Director who is in office at the date of the annual report are detailed in the Director’s Report.

## CORPORATE GOVERNANCE STATEMENT

The names of the directors of the Company are:

John W Cornelius	(Non-Executive Chairman)
Ian D Buckingham	(Managing Director/CEO)
Peter J Cameron	(Non-Executive Director)
Peter I Rudd	(Non-Executive Director)
Michael W Trumbull	(Non-Executive Director)

The Chairman, Mr Cornelius, and non-executive Director, Mr Peter Rudd, have participated in the formation and structuring of the Company and, as founders, have been issued shares.

Further, Mr Cornelius as a Director and shareholder of IMI Consulting Pty Ltd has, in its formative months, provided on commercial terms services to the Company including the services of Mrs Harrison as Company Secretary, accommodation and secretarial services.

Directors do not consider IMI Consulting as a significant supplier to the Company and the provision of commercial services will diminish in line with Board directives as the Company becomes financially capable of servicing the independent provision of these commercial and secretarial services.

Messrs Cornelius and Rudd, as a result, do not meet generally accepted descriptions of Independent Directors.

Whilst not all recommendations are complied with because of the Company's size and cost considerations, the Board has an appropriate level of industry experience and business skills. It is also important to note that all Directors acknowledge the need to act in good faith in the interests of all shareholders.

### 3. Promote Ethical and Responsible Decision-making

The Board has adopted a series of Operating Procedures and Policy Guidelines. Collectively, these documents provide a framework in which the Company and its representatives operate in a fiscally efficient and socially responsible manner whilst seeking to maximise shareholder returns.

The Panaegis Gold Operating Procedures and Policy Guidelines outline how the Company expects Directors, management and employees are to behave and conduct business in a range of circumstances. In particular, the Code requires awareness of, and compliance with laws and regulations relevant to Panaegis Gold's operations including environmental laws. Directors, management and staff are expected to act ethically and responsibly. All Board members are qualified professionals within their respective industries and accordingly conduct themselves in a professional and ethical manner in both their normal commercial activities and the discharge of their responsibilities as Directors.

Whenever necessary, individual members of the Board may seek independent professional advice at the expense of the Company in relation to fulfilling their duties as Directors.

The Company has a policy concerning trading in the Company's securities by Directors, management and staff. The Company's policy regarding Directors and employees trading in its securities is set by the Directors and disclosed in the Company's Procedures and Policies Guidelines.

Any Director or employee wishing to buy or sell securities in the Company must advise the Chairman (in the case of Directors) or the Managing Director (in the case of an employee) of their intention to do so before buying or selling the securities. This notification obligation operates at all times and applies to dealings in the Company's securities by family members and other associates of Directors and employees, as well as to personal dealings by the Directors and employees.

## CORPORATE GOVERNANCE STATEMENT

Directors and employees must not buy or sell the Company's securities until approval has been given by the Chairman or Managing Director as the case requires.

The ASX Listing Rules require a director to notify the ASX within five (5) business days after any dealing in the Company's securities that results in a change in the relevant interests of the director in the Company's securities.

Investments in other entities by management or staff are not permitted if it is known that the Company has commenced a program to buy or sell investments in that entity.

### 4. Safeguard Integrity in Financial Reporting

Recommendation 4.1 requires the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) to sign a certificate regarding the financial reports giving a true and fair view and are in accordance with accounting standards. The Company does not currently employ a CFO. Each of the Company's Directors will declare that the financial reports give a true and fair view in all material respects, of the Company's financial position and operational results and are in accordance with relevant accounting standards.

In accordance with Recommendation 4.2 the Board has established an Audit Committee.

The Audit Committee monitors and reviews the effectiveness of the Company's controls in the areas of operational and balance sheet risk and financial reporting.

The Audit's Committee's charter provides that the Committee will comprise at least two independent non-executive directors. The current members of the Committee are:

- Michael W Trumbull (Non-Executive Director and Chairman of the Audit Committee)
- Peter I Rudd (Non-Executive Director)
- John W Cornelius (Non-Executive Director)

Members of the management and BDO, the external auditors, attend meetings of the Audit Committee by invitation. The Audit Committee may also have access to financial and legal advisers in accordance with the Board's general policy.

The Audit and Compliance Committee operates under a charter approved by the Board.

It is the Board's responsibility to ensure that an effective internal control framework exists to examine the effectiveness and efficiency of significant business processes such as the safeguarding of assets, the maintenance of proper accounting records and the integrity of financial information, the implementation of quality assurance practices and procedures and ensuring compliance with environmental regulations. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control mechanisms for the management of the Company to the Audit and Compliance Committee.

The Audit and Compliance Committee meets at least every quarter and is responsible for:

- the review of accounting policies;
- the detailed review of the Company's annual, half yearly and quarterly financial reports;
- the effectiveness of accounting and internal control systems;
- addressing the findings of the external auditors;
- the assessment of the scope, quality and cost of the external audit;
- identifying areas of operation, regulatory and legal risk and recommending procedures to the Board to ensure those risks are effectively managed; and
- ensuring that conflicts of interest do not arise from services provided by the Company's external advisors.

## CORPORATE GOVERNANCE STATEMENT

### 5. Make Timely and Balanced Disclosure

The Board and Senior Management are aware of the Continuous Disclosure requirements of the ASX and have procedures in place to disclose any information concerning the Company that a reasonable person would expect to have a material effect on the price of the Company's securities.

Panaegis Gold recognises that it has a legal and moral obligation to immediately disclose to the market any information that a reasonable person would expect to have a material effect on the price or value of Panaegis Gold's securities.

The directors and senior management personnel of Panaegis Gold acknowledge that they each have an obligation to immediately identify and immediately disclose information that may be regarded as material to the price or value of Panaegis Gold's securities.

The Managing Director and Chairman are authorised to make statements and representations on Panaegis Gold's behalf. The Company Secretary is responsible for overseeing and coordinating the disclosure of information to the ASX, analysts, stockbrokers, shareholders, the media and the public. The Secretary must inform the Directors, senior management and employees of Panaegis Gold's continuous disclosure obligations on a quarterly basis.

The Directors and senior management personnel of Panaegis Gold ensure that the Secretary is aware of all information to be presented at briefings with analysts, stockbrokers, shareholders, the media and the public. Prior to being presented, information that has not already been the subject of disclosure to the market and is not generally available to the market is the subject of disclosure to the ASX. Only when confirmation of receipt of the disclosure and release to the market by the ASX is received and after the information is posted on the Company's website may the information be presented.

If information that would otherwise be disclosed comprises of matters of supposition or is insufficiently definite to warrant disclosure, or if the effect of a disclosure on the value or price of Panaegis Gold's securities is unknown, Panaegis Gold may request that the ASX grant a trading halt or suspend Panaegis Gold's securities from quotation. Management of Panaegis Gold may consult Panaegis Gold's external professional advisers and the ASX in relation to whether a trading halt or suspension is required.

### 6. Respect the Rights of Shareholders

The Board aims to ensure in accordance with the Recommendation 6.1 that all shareholders are informed of major developments affecting the affairs of the Company. Information is communicated to the shareholders through the annual and half year reports, disclosures made to the ASX, notices of meetings and occasional letters to shareholders where appropriate.

The external auditor will attend the AGM and be available to answer shareholder questions about the audit and the preparation and content of the auditor's report.

### 7. Recognise and Manage Risk

The Board has procedures in place to recognise and manage risk in accordance with Recommendation 7.1. Monthly reporting of financial performance is in place as are policies to manage credit, foreign exchange and other business risks.

The Company is committed to the proper identification and management of risk. Panaegis Gold regularly undertakes reviews of its risk management procedures which include implementation of a system of internal sign-offs to ensure not only that Panaegis Gold complies with its legal obligations, but that the Board and ultimately Shareholders can take comfort that an appropriate system of checks and balances is in place regarding those areas of the business which present financial or operating risks.

## **CORPORATE GOVERNANCE STATEMENT**

The Company has also adopted a code of conduct which sets out the Company's commitment to maintaining the highest level of integrity and ethical standards in all business practices. The code of conduct sets out for all Directors, management and employees the standards of behaviour expected.

### **8. Encourage Enhanced Performance**

The performance of the Board and key executive is reviewed regularly.

The Board is responsible for determining and reviewing the remuneration of the Directors, the Managing Director and the executive officers of the Company and reviewing the operation of the Company's Employee Share and Option Plans. This process requires consideration of the levels and form of remuneration appropriate to securing, motivating and retaining executive with the skills to manage the Company's operations. In making decisions regarding the appointment of Directors, the Board as a whole periodically assesses the appropriate mix of skills and experience is represented on the Board.

The Board may obtain information form, and consult with management and external advisers, as it considers appropriate.

The remuneration policies for the executive and non-executive directors were set in meetings of Directors and Shareholders respectively on 20 May 2005. The Directors review executive directors' packages annually by reference to company performance, executive performance, comparable information from industry sectors and other listed companies and independent advice. Remuneration policies for non-executive directors are disclosed in the Directors' Report.

The Company has not established a Remuneration or Governance Committee as subcommittees of the Board. Remuneration and Governance issues are discussed and resolved at Board meetings.

Given there are no employees at this stage, a subcommittee is not currently warranted. This situation will be reviewed regularly.

### **9. Remunerate Fairly and Responsibly**

It is the Company's objective to provide maximum shareholder benefit from the retention of high quality Board members and Executives. Directors and Executives are remunerated with reference to market rates for comparable positions. Details of the remuneration of specified directors and executives are contained in the Directors report.

### **10. Recognise the Legitimate Interests of Stakeholders**

The Board recognises the legitimate interests of shareholders, employees and other stakeholders. The Board has adopted corporate governance policies and practices designed to promote responsible management and conduct of the Company.

#### **Environmental Policy**

Panaegis Gold is committed to protecting the environment and safeguarding public and employee health in all aspects of its operations. Environmental protection and safe conduct are both corporate and personal responsibilities of Panaegis Gold, its employees, its alliance partners and suppliers of goods and services.

## CORPORATE GOVERNANCE STATEMENT

Panaegis Gold's business ethos is to operate in a manner which addresses three fundamental principles to achieve balanced outcomes. These fundamental principles are:-

- Social Acceptability;
- Economic Viability; and
- Environmental Responsibility.

Panaegis Gold will meet these principles in the following way:-

### ***Social Acceptability:***

- Compliance;
- Informing and consulting the community;
- Ensuring that its operations are commercially viable.

### ***Environmental Responsibility:***

- Minimising invasive impacts;
- Ensuring, if possible, that its impacts are transient;
- Operations controlled by Environmental Management Plan;
- Collection of only essential data for exploration;
- Intelligent and focussed surveys based on optimising the use of existing data and information.

### ***Economic Viability:***

- Operate the Company in a manner which optimises long term viability and growth through the application of sound and efficient business practices;
- Aim to provide positive rates of return to investors;
- Continue to seek out and acquire access to areas with high gold prospectivity;
- Operations based on sound research and up-to-date technology.

Panaegis Gold commits itself to meeting these objectives, to monitoring the meeting of the objectives, to amending its approach and, if it proves to be inadequate, to continual assessment and auditing to ensure that its activities are complying with its stated intentions and plans.

In addition, it commits itself to the public dissemination of this information.

Specifically, Panaegis Gold will :-

- Comply with all applicable laws, regulations and standards;
- Minimise environmental impact;
- Ensure employees, partner, supplier and public awareness of Panaegis Gold's responsibilities for the environment;
- Ensure adequate management systems and procedures are in place to manage and mitigate the risks to the environment from Panaegis Gold's operations.

### **Cultural Heritage Policy**

Panaegis Gold recognises the need to understand the cultural and spiritual significance to the community of the area in which it is licensed to operate.

Panaegis Gold will work closely with local communities to identify significant sites and any impact the Company's activities may have on them.

Panaegis Gold is committed to reaching mutually agreeable outcomes on the effects of its activities on cultural and spiritual values.

## **CORPORATE GOVERNANCE STATEMENT**

Panaegis Gold will specifically undertake to:

- Respect and protect cultural heritage sites of regional significance and sites of local spiritual significance.
- Embrace the intent and comply with the provisions of the Native Title Act and other relevant Acts.
- Communicate openly with local communities so that all relevant issues may be aired and understood by the participants.
- Involve local communities in the conduct of Panaegis Gold's operations where these operations impact on cultural and spiritual heritage.

Panaegis Gold commits to the ongoing monitoring of the implementation of this policy and to amending its approach if the policy proves to be inadequate.