

Pegmont

Pegmont Mines Limited

ABN 97 003 331 682

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r e p o r t**

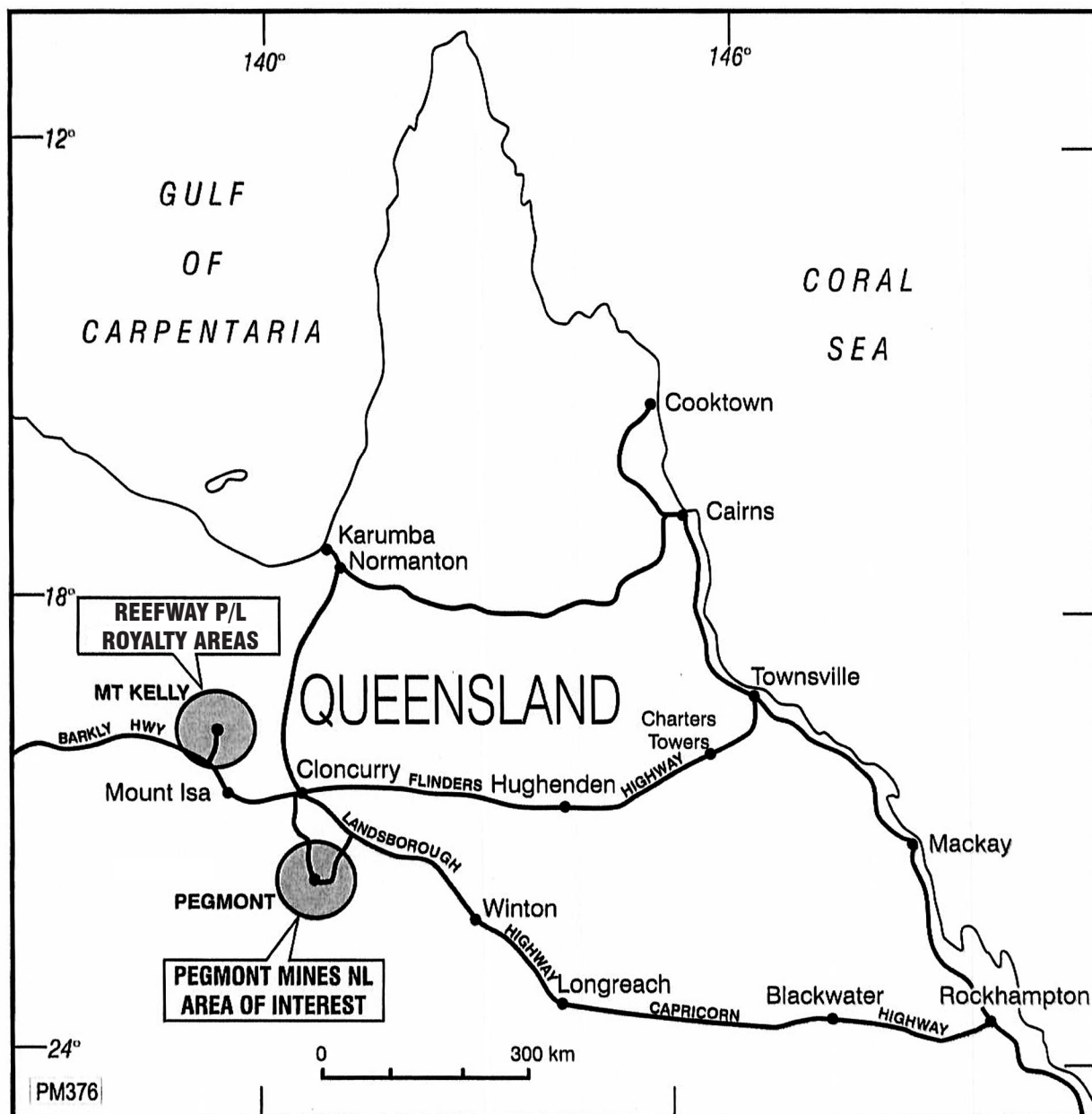


Figure 1 General Location, Mount Isa - Cloncurry Region, North Queensland

Glossary of Terms

Ag	Chemical symbol for Silver
Au	Chemical symbol for Gold
Co	Chemical symbol for Cobalt
Cu	Chemical symbol for Copper
Mo	Chemical symbol for Molybdenum
Pb	Chemical symbol for Lead
Zn	Chemical symbol for Zinc
Re	Chemical symbol for Rhenium
U	Chemical symbol for Uranium

Mineralisation

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

Orebody

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

JORC

Joint Ore Reserves Committee

DD Diamond Drillhole

RC Reverse Circulation Drillhole

CHAIRMAN'S REVIEW

2012 was another difficult year for your company and for the junior end of the mining industry. Our exploration efforts at Pegmont where we tested two large geophysical anomalies were not successful nor were our efforts on other copper –gold targets. A more detailed explanation of the exploration work undertaken during the year and the outcome of that work is covered in the Exploration Section of this report.

Consequently, your directors have taken decisive steps to reduce costs and to bring a strong focus on the long term development of our core assets. While exploration expenditure has been reduced to a minimum, we will continue with a modest drilling program focusing on Pegmont. We will continue to work on ways of realising value of our core Pegmont and New Hope projects.

The 2012 year has hopefully seen the bottom of the world economic cycle and the 2013 year has begun with a more positive tone. However the world still faces many problems, especially in Europe, and prospects for commodity prices are generally subdued. There is a shortage of risk capital for smaller explorers and the larger miners are focusing on cost control rather than greenfield expansion. Gold prices have been in a period of decline. So our short term prospects remain difficult and our focus will be on consolidation and survival.

The result attributable to members for the year was a loss of \$1,462,588 which was less than half of that for the previous year. The largest component of the loss was exploration expenses \$853,777 which was down from \$1,249,513 in the previous year. Administration costs were \$424,192 down from \$844,469 in 2011. Investing activities resulted in a loss of \$184,619.

Your company has three major assets – the **Pegmont** lead-zinc deposit, the **New Hope** gold-cobalt prospect and the **Reefway** Royalty Tenements. In 2013 our exploration effort will focus on improving the economics of both Pegmont and New Hope.

At Pegmont, we plan to undertake a 1,700 meter RC programme designed to confirm

additional mineralised potential for conversion to additional resource.

At New Hope, no immediate exploration activity is planned or required

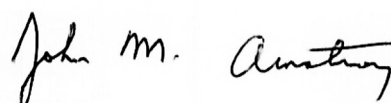
The **Reefway Royalty Tenements** at Mt Kelly - north of Mount Isa (Pegmont 76.3% interest) were sold in 2004 for cash/shares and a contingent royalty. The current owners are CST Mining Group Limited who are listed in Hong Kong. The royalty applies after 100,000 tonnes have been recovered. Copper cathode production totaled 33,040 tonnes to 31 December 2012. Recent exploration success is very promising and may eventually lead to royalty production and an income stream for the company.

In recognition of our difficult short term prospects, your directors have carried out a review of our activities to reduce our cost base as far as possible. Exploration activities have been reduced to the minimum required under our lease obligations. 51 exploration sub-blocks will be relinquished and 18 retained. Director's fees have been reduced and other costs reduced as far as possible.

Ongoing exploration activity will focus on drill targets at Pegmont and the SC-3 and SC-8 prospects.

We continue to look for an option deal on Pegmont that would include a work commitment extending over several years with an exercise price of cash plus royalty. A similar type of arrangement would be considered for New Hope.

We thank our shareholders for their support during the year. We also record our appreciation for the dedicated work undertaken by our staff, consultants and contractors.



John M Armstrong
Chairman

Pegmont Mines Limited

2012 PERFORMANCE HIGHLIGHTS

2012 was a disappointing year for the Company as our major objectives (set out in last year's annual report) were not met.

- At **Pegmont** drilling drew a complete blank when testing two large geophysical anomalies at the **Sharry Fault** and the **Bonanza magnetic** Anomaly. No lead-zinc values were intercepted.
- Consequently, discussions regarding a proposed option deal on the Pegmont Project were terminated by the incoming party.
- Field work on the newly granted **EPMA 18347** indicated only small copper shows along fracture zones, suggesting limited drill target potential. Late year drilling at the **Two Bobs** prospect (under option) yielded narrow copper intercepts which were not encouraging given the limited size of the tenement. Also, drilling at the **Selwyn Airport prospect** in EPM 17052 did not intersect significant mineralisation.
- Although we had reduced our share portfolio, continued market sell down of resource stocks (in favour of bank and utility shares) caused further share losses and write downs totaling \$236,317 (2011 – loss \$997,243).

Our financial result for the year was a consolidated loss of \$1,462,588, arising from exploration expense of \$853,777 (2011, \$1,249,513) administration costs of \$424,192 (2011 - \$844,469) and investing activities loss of \$184, 619 (2011 - \$909,446 loss). Cost cutting resulted in savings of \$816,013.

2013 OBJECTIVES

Cost cutting of all expenditure this year to a net \$600,000 is our primary objective. This is a major reduction from \$1,462,588 during 2012. Our budget for exploration is \$300,000 (2012 \$853,777) and administration \$300,000 (2012 - \$424,192)

- The exploration cutback can only be achieved by a major relinquishment program which we have implemented (see page 12 for details), and a concentrated drill program of **2,000 RC metres at Pegmont, SC-3 and SC-8.**
- Administration Costs will be further reduced by simplification of work process and reduced exploration activity.

Our second objective is to restore the Company's financial position by a combination of an equity raising and sale of either the Pegmont or New Hope deposits.

By the year end our intention is to have the Company in a sound financial condition to take advantage of future resource investment opportunities.

Pegmont Mines Limited

REVIEW OF OPERATIONS

Share trading activity resulted in a net trading loss of \$236,317 (loss \$997,243 - 2011), after provisions.

The consolidated trading results for 2012 are:-

	2012	2011
	Actual	Actual
	\$,000	\$,000
Operating Profit/(loss)	(132)	(2,823)
Write back impairment provisions	(104)	1,826
Net Trading Profit/Loss	(236)	(997)

Investor interest in second and third tier resource producers (the Company's preferred investment) continued to decline due to lower metal prices. The introduction of a carbon tax and MRRT also reduced investor appetite. Consequently, turnover froze and it became difficult to liquidate positions without cutting prices.

The consolidated net profit/loss for the year was a loss of \$1,462,588 (loss of \$3,003,428 - 2011) summarised as follows:-

	2012	2011
	\$,000	\$,000
Net Trading Profit/(Loss)	(236)	(997)
Investment income	49	70
Other income	2	18
	(185)	(909)
Administration	(424)	(844)
Exploration	(854)	(1,250)
Pre-tax profit/(loss)	(1,463)	(3,003)
Earnings per share - cents	(2.3)	(5.0)

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

The provision for share price impairment was \$104,035 (\$1,826,097 credit - 2011) due to continued weakness in resource shares. At 31 December the impairment provision was \$262,631 against trading positions and \$500,297 against seed capital.

Administration costs were reduced by \$420,277 due to a cut in directors' fees of \$188,375 and \$231,902 in office and other costs.

Exploration expenditure declined by \$395,736 to \$853,777 due to reduced drill activity.

Metres Drilled

	2012	2011
New Hope	-	2,454
Pegmont	1,235	-
Other prospects	414	662
RC/DD metres drilled	<u>1,649</u>	<u>3,116</u>
Expenditure \$,000	<u>854</u>	<u>1,250</u>
Average cost \$/m	518	401

Drill metreage costs increased due to diamond drilling and higher unit costs.

Company tax has not been provided or adjusted against profits as there were carried forward losses of \$10,565,439 at 30 June 2012. Exploration and Administration expenses are tax deductible against all income.

Gross Trading Revenue declined to \$1,835,143 (\$7,234,904-2011):-

	2012	2011
	\$,000	\$,000
Gross Trading Revenue	1,835	7,235
Trading Profit/(loss)	(132)	(2,823)
Gross margin %	(7.2)	(39.0)

Due to high risk volatility, trading turnover was limited to specific situations.

The share market bottomed on 4 June 2012 led by banks and utilities. However, investors continued to sell down resource issues, except for the majors. Consequently, our trading results continued to suffer.

Liquidity, our working capital (being current assets less current liabilities) declined to \$743,500 at year end (\$2,024,879-2011). This position was due to the net loss of \$1,462,588 partly offset by net proceeds from an entitlement issue of \$214,929 and a write back of depreciation of \$33,720.

The level of working capital is important as it is applied to support current exploration activities, cover administration costs and to support share trading activities. The current level of less than \$2 million is unsustainable to support meaningful exploration, and investing activities.

Pegmont Mines Limited

Budget for 2013 (indicative)

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

	2013	2012
Trading Profit	\$000	\$000
Gross share turnover	1,000	1,835
Share trading profit/(loss)	50	(132)
Margin %	5	(7.2)

Past experience indicates that portfolio turnover is likely to be four to five times the trading portfolio (currently \$0.25M). Although, profit margins will vary considerably, according to the nature of market volatility and the individual stock, we are looking to average 5%. Although, given market and political volatility, this margin is very aspirational.

Investment Income

Due to a much reduced working capital position, investment income will be minimal.

Administration expense

Administration expense will be reduced by \$124,000 to \$300,000.

Exploration

Our exploration budget for 2013 totals \$0.3M a reduction of \$553,777 which allows for 2,000 metres of RC drilling on the Pegmont deposit SC-3 and SC-8 prospects. Field work will be restricted to the drill program

Planned expenditures are:

	\$000
Pegmont resource drilling	255
SC-3, SC-8 drilling	45
	<u>300</u>

Our objective is to extend known mineralization at Pegmont and to commence a program of converting mineral potential into resources. SC-3 and SC-8 are two copper-gold prospects that could provide incremental tonnage to the New Hope gold-cobalt deposit.

Profit Forecast

At present we are budgeting for a loss of \$550,000 as follows:

	2013	2012
	\$000	\$000
Share trading profit/(loss)	50	(236)
Write back provisions	-	-
Investment income	-	51
	<u>50</u>	<u>(185)</u>
Administration	(300)	(424)
Exploration	(300)	(854)
Pretax profit/(loss)	<u>(550)</u>	<u>(1,463)</u>

We are hopeful that the income figures (particularly for share trading) can become a positive contribution as the stock market sentiment appears to be improving, subject to no unpleasant surprises.

Actual results of Company performance could differ materially from those discussed in these forward looking estimates and statements. However, the emphasis is firmly on cost reduction and limiting our exposure to risk.

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

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

WORKING CAPITAL

Since our forecast indicates a further cash loss it will be necessary for the Company to raise additional capital during the year in order to maintain an adequate level of working capital, unless asset sales can be achieved.

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

- Equity raisings
- Sale of advanced exploration mineral projects

The board continuously reviews these options.

INVESTMENT ACTIVITIES

The Company has limited its investing activities to a trading portfolio of \$250,000.

Share Trading

Results for the year were:

	2012	2011
	\$000	\$000
Turnover	1,835	7,235
Realised Profit/(loss)	(132)	(2,823)
Profit Margin %	(7.2)	(39.0)

Realised losses were the result of being invested in junior resource positions that were ignored by the market in favour of bank shares and other high income yielding securities.

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

There was a loss of investor confidence arising from the imposition of a Mining Resource Rent Tax (MRRT), and a Carbon Tax, a rising Australian dollar (effectively another tax!) and decline in commodity prices. Overseas investment in second tier mine producers (our preferred investment group) were hit hard. This loss of confidence remains today, causing a sharp contraction in project funding and new equity raising.

Our response to this confluence of negative factors was to liquidate long held legacy positions as their prospect for a price recovery diminished.

Share trading activity since January 2013 has been minimal, due to ongoing uncertainties. The main drivers of the Australian resource securities are:

- High Australian dollar
- High but declining metal prices
- Economic uncertainties in Europe
- US and Australian political dysfunction

The market panic on 4 June 2012 marked a retest of the 4 October 2011 secondary bottom of the 2008-2012 bear market. The current bull market, is led by the US economic recovery and the stabilisation of the Euro economies. However, investor sentiment remains fragile and regards ongoing monetary stimulation (ie QEI III) as being essential to economic recovery.

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

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

Share market prospects during 2013 are improving, subject to possible 'Black Swan' political events, particularly in the Middle East and Europe. The rising tension between China and Japan has the potential for causing great uncertainty, particularly for Australia.

EXPLORATION ACTIVITIES

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

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

The portfolio comprises:

- Pegmont lead-zinc deposit
- New Hope gold-cobalt deposit
- Other tenements prospective for copper-gold

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

NEW HOPE GOLD-COBALT DEPOSIT

At New Hope, 58 drill holes, including 8DD holes totaling 2,121 metres have been drilled into a strike length of 100 meters. This work resulted in a Resource Estimation of 93,500 tonnes of 6.8g/t Au and 0.2% Co. (J. M. Geological Consulting Pty ltd – 28 May 2012.)

The following table lists the M + I + I Resources above a 1.0 g/t Au cut-off.

Category	Tonnes	Au g/t	Au oz	Co %	Co Tonnes
Measured	27,500	7.37	6,500	0.22	60
Indicated	56,000	6.49	11,700	0.17	95
Inferred	10,000	6.9	2,200	0.2	16
M+I+I	93,500	6.8	20,400	0.2	171

Cobalt was not modeled as a specific domain, so the cobalt resources are estimated from within the gold domain (thus, additional cobalt mineralization exists outside the gold domain which may become accessible from mine development). Metallurgical recoveries for gold and cobalt have been indicated to be of the order of up to 95% for Au and 30-35% for Co. Significant portion of gold is coarse and may be recovered as gravity concentrate.

There exists additional mineral potential along strike (to the south) and to depth. This potential will be tested when additional funds become available.

PEGMONT LEAD-ZINC PROJECT

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

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

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

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

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

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

Cutting across the BIF units in an east-west direction and separating the main Lode and Gossan Lode from the Northern BIF and Bonanza Anomaly is the Sandy Creek Shear Zone, having a low magnetic signature.

Future drill programs will include all three types of targets:

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

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

We are looking for a suitable party to undertake this work and advance the project towards development. Meanwhile we will concentrate drilling into higher grade infill target zones that may deliver economic tonnage at lower cost in a shorter period of time.

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

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

Two holes (641 metres) were drilled without any visible sign of mineralization. Also, a down hole EM survey did not reveal any anomalous readings. The Sharry fault anomaly is thought to be explained by disseminated graphite intersected in the last 10 metres of PMRD 26 (390-400m) which may explain the IP anomaly.

The **Bonanza Anomaly** provides a prominent magnetic anomaly reflecting mineralized BIF units that sit on the northern margin of the Sandy Creek Shear Zone.

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

Four holes (594 meters) were drilled into the Bonanza magnetic Anomaly. Although drilling intersected interpreted faults and unexpected granite supporting a more complex structure, no lead-zinc mineralization was located. Down hole EM surveys on three holes did not indicate proximity of massive sulphide mineralisation.

In summary, the drill program undertaken at the Sharry Fault IP Anomaly and at the Bonanza Magnetic Anomaly was very disappointing. Future drilling will be confined to extensional drilling of both the Main Lode and Pegmont South mineralized anomalies. Drill testing of other magnetic anomalies to confirm additional resources will be undertaken when funds become available.

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

Metallurgical test work included a bulk sample of 170 kg of mixed Pegmont sulphide ore from 24 holes. This sample was subject to standard flotation test to produce two rougher concentrates of around 30% combined lead-zinc values for a combined recovery of 92.4% for lead 93.6% for zinc and 94.2% for silver. Also, about 1 g/t gold was reported in the concentrate together with a Silver grade of 37 g/t.

OTHER PROSPECTS

Selwyn Airstrip (EPM 17052) – 2 RC holes for 150 metres were drilled into 300m copper-gold rock chip anomaly of promising rock types, including gossans, quartz iron stone breccias, malachite stained outcrop etc. some pyrite was intersected at 48m and minor copper values to 3020 ppm Cu were present. These results were not regarded to be sufficiently encouraging in a fiscally constrained climate, EPM 17052 has been surrendered.

Two Bobs (ML 7560) under option

Three RC holes were drilled (264m) into a ferruginous quartzite breccia which is host to a number of copper mines in the area. Only sporadic low copper values were intersected, which given the small size of the tenement did not warrant the exercise of the option.

EPM 18347 was granted on 7 February 2012 for a term of five years. This tenement contains the **Irishman Cu-Au prospect**. An extensive program of rock chip sampling and detailed field mapping revealed multiple narrow shear zones with limited strike length. Upon review, it was decided to surrender this EPM.

ACTIVITY SUMMARY

<u>Exploration Activity</u>		<u>2012</u>	<u>2011</u>
Metres Drilled	m	1,649	3,116
Average drill cost	\$/m	518	401
Number of Holes:			
- Pegmont		6	-
- New Hope		-	25
- Two Bobs		3	-
- Selwyn Airstrip		2	-
- MMA		-	2
- EMU		-	3
- Eagle's Nest		-	2
Metallurgical expense	\$/,000	20	182
Total Expenditure	\$/,000	854	1,250

2013 EXPLORATION PROGRAM

The upcoming exploration program during 2013 will concentrate on **Pegmont (1,700m)**.

REEFWAY ROYALTY TENEMENTS (Pegmont 76.73% Royalty Interest)

The current owner and operator of the Reefway Royalty Tenements, CST Mining Group Limited (CST Mining) continued to conduct an aggressive exploration program during 2012 on the Reefway Tenements. This work resulted in the following announcements:

30 January 2012, Exploration activity for Q1 2012 continued to focus on resource definition resulting in revised Mineral Resource Estimates for Lady Colleen, Mt Clarke West Anthill and Anthill West prospects. CST Mining was confident of stabilizing 2012 (copper) production at around 23,000 tonnes (at a cost of US\$2.21 lb. Anthill West Prospect appeared to look like a significant discovery.

2 May, for the first time CST Mining met and exceeded Lady Annie production targets. Trial production-processing of relatively low-grade transition ore (0.76% Cu) gave promising results. Drill activity totalling 315 holes for 40,099m were completed to 31 March at the Mount Kelly Mining Area, significant deeper sulphide ore potential at Lady Colleen discovery may encourage further expansion of the resource base. Drill continuity was established between Anthill and Anthill West prospects.

13 July provided details on excellent drill hole intersections from Anthill West prospect and that a Mining Lease application had been lodged.

17 July, indicated that the **Anthill Project** had progressed very well and that a provisional time line for completion of environmental studies was March 2014. Also, Lady Colleen prospect at **Mount Kelly** continued to provide significant copper intersections.

2 August, provided a new global copper Mineral Resource estimate of 71 Mt @ 0.71% Cu for 503.0kt contained copper metal for its Lady Annie operations. Of this estimated total some 62.7% occurs in the Reefway Royalty Tenements, or 300kt, subject to a recovery factor of 60-65%. Further, upward revisions to the Anthill estimates are expected.

31 October, production capacity has expanded to around 25,000tpa of copper metal in 99.99% electrowon cathodes.

20 November, updated Anthill Resource estimate is 13.8Mt @ 0.70% Cu for 96,600t of contained copper metal.

31 January 2013, indicated an exciting year of exploratory in 2013 at a number of prospects including Anthill, Python and Taipan in Reefway Royalty tenements. 2013 Production guidance of the Lady Annie Operations is 23,300 tonnes of copper cathode at approximately US\$2.48/lb cash cost.

Thus production at Mount Kelly from Reefway Tenements could total 5,000-5,500 tonnes during 2013, thus making cumulative production of 38,000 tonnes of Cu metal by the end of 2013.

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

The Reefway Royalty Agreement of 28 September 2004, allows for the payment of 1% NSR royalty after the production of 100,000 tonnes of copper. At 31 December 2012, cumulative production was 33,040 tonnes of cathode copper.

A nominal value for this contingent royalty interest of \$100,000 is included in the Company's Accounts at 31 December 2012.

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

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

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

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

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

So far, CST Mining is achieving exploration success, particularly in the Reefway Royalty Tenements. When the Buckley River Mining Lease is granted, CST Mining will be able to consider a step up in production that would increase our expectancy of a royalty income within a five year period.

Pegmont Mines Limited

EXPLORATION TENEMENTS (INCLUDING MINING LEASES)

TENEMENT	NAME	STATUS	REGISTERED HOLER	DATE OF GRANT	DATE OF EXPIRY	AREA (sq-km)
EPM 15106	Pegmont Extended	Granted ¹	Pegmont Mines Ltd	11.08.2006	10.08.2016	57.2
EPM 14491	Pegmont Extended #2	Granted ¹	Pegmont Mines Ltd	11.08.2006	10.08.2016	108.8
ML 2620	Pegmont No. 1	Granted	Pegmont Mines Ltd	24.01.1974	31.01.2012	1.3
ML 2621	Pegmont No. 2	Granted	Pegmont Mines Ltd	24.01.1974	31.01.2012	1.3
ML 2623	Pegmont No. 4	Granted	Pegmont Mines Ltd	24.01.1974	31.01.2012	1.3
ML 2487	New Hope	Granted	Pegmont Mines Ltd	03.09.2009	31.12.2018	0.8
EMP 17052	Mort River North	²	Pegmont Mines Ltd	03.09.2010	02.02.2014	1.2
EMP 17053	Mort River South	²	Pegmont Mines Ltd	03.09.2010	02.02.2014	1.5
EMP 18347	Squirrel Hills	²	Pegmont Mines Ltd	07.02.2012	06.02.2017	84.4

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

¹ Partial relinquishment applications have been made.

² Full relinquishment applications have been made.

A map on page 12 depicts the Company's tenements holding after relinquishments have been granted.

REEFWAY ROYALTY TENEMENTS

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

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

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

ROYALTY STRATEGY

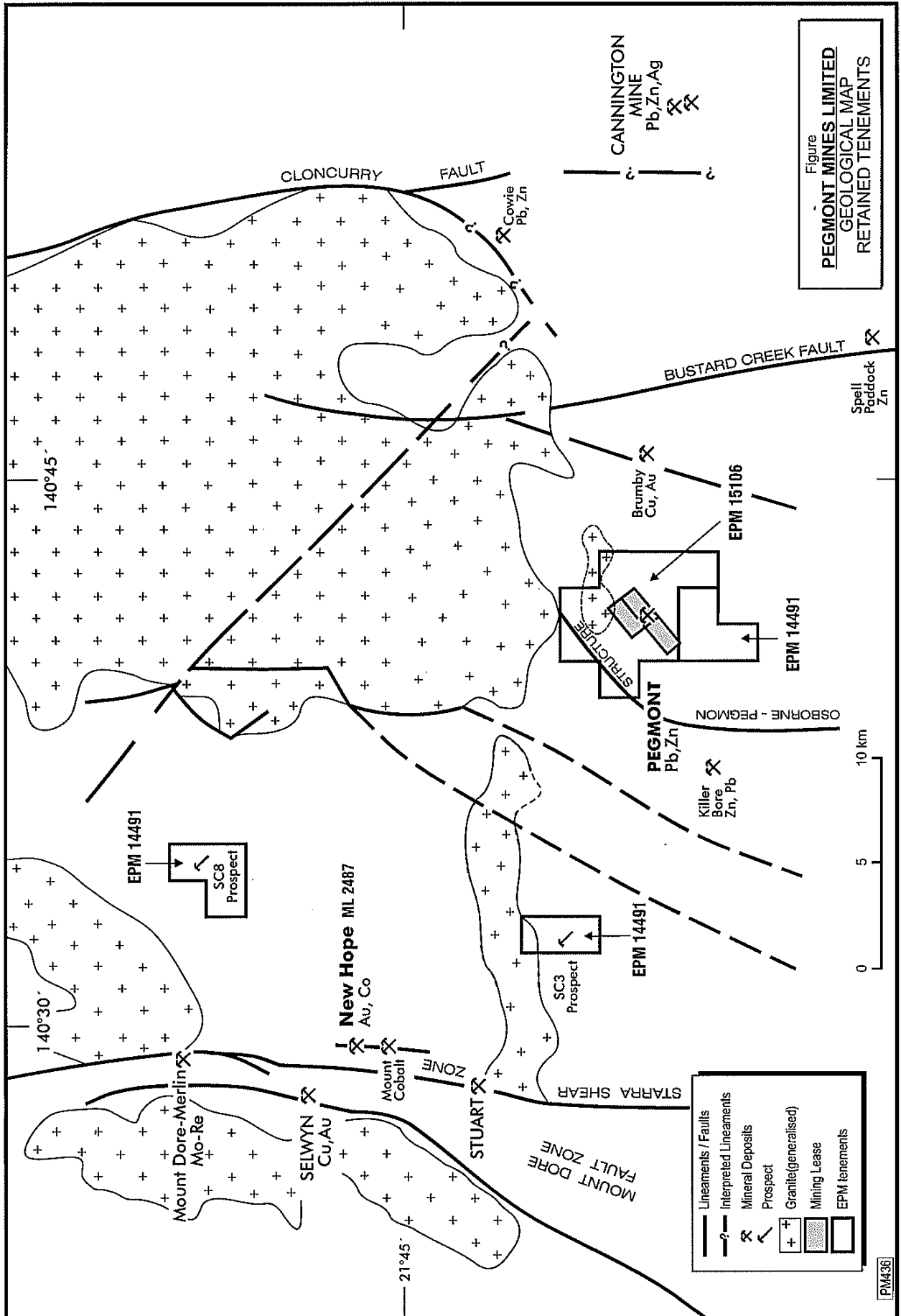
The Company's longer term objective is to build a portfolio of Royalty Tenements over active production centers (such as the Reefway tenements) in order to create a royalty cash flow to fund future exploration activities.

TENEMENTS EXPIRY & RENEWAL

The company's key tenements being EPM 14491 and 15106 have been renewed to 10 August 2016; MLs 2620, 2621 and 2623 have expired on 31 January 2012. Applications for renewal of these tenements have been made. Since conditions of renewal have been met, the company is allowed to continue exploration activities of the tenements until the formal process of renewal has been completed. The company has not received any indication from the appropriate Queensland Departments that renewal of the tenements will not be granted.

RELINQUISHMENT OF TENEMENTS

The process of tenement relinquishment involves the completion of geological and environmental reports plus landholder consents on rehabilitation where required. This process may take several months to complete.



Pegmont Mines Limited

FINANCIAL CONDITION

Corporate Assets

The Company's Net Assets at 31 December 2012 were \$4,238,925 (\$5,686,584 – 2011) made up as follows:

	2012	2011
	\$000	\$000
Current Assets	847	2,079
Current Liabilities	(103)	(55)
Working Capital	744	2,024
Non Current Assets	3,495	3,662
Non Current Liabilities	-	-
Net Assets	4,239	5,686

The Net Asset difference of \$1,447,659 between the two years represents the Net Loss after Tax of \$1,462,588 offset by the issue of shares amounting to \$214,929, and a write down of \$200,000 in exploration tenements value.

The placement of 2,150,000 shortfall shares at 10 cents each on 4 February 2012, raised \$214,929.

The Company's working capital position was \$743,500 at 31 December 2012, as represented by Current Assets less Current Liabilities.

Current Assets	2012	2011
	\$,000	\$,000
Receivables	75	104
Available for sale financial assets	252	168
Cash and cash equivalents	520	1,807
	847	2,079
Less:		
Current Liabilities		
Payables	(103)	(55)
Provision for tax expenses	-	-
Working Capital	744	2,024
cents per share	1.2	3.4

Cash balances declined by \$1,286,673 during the year because of exploration and administration expense, and losses from share trading activities.

	2012	2011
	\$,000	\$,000
Expenditure		
- Exploration	(854)	(1,250)
- Administration	(424)	(844)
Share trading loss	(236)	(997)
Other income	51	88
Pre-tax loss	(1,463)	(3,003)
Share Issue	215	856
Working Capital items*	39	1,805
Cash Balance movement	(1,287)	(342)

*Working Capital items include Receivables and Share Trading Portfolio which were reduced to release cash.

Non-Current Assets	2012	2011
	\$000	\$000
Pegmont Field Camp	100	66
Pegmont Deposit	3,000	3,000
Regional tenements	150	350
Reefway royalty	100	100
New Hope deposit	145	145
	3,495	3,661

Non-current assets decreased by \$166,280 due to \$200,000 write back on regional tenements (EPM14491) and reduced depreciation provision on the Pegmont Field camp of \$33,720.

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

Other Income

	2012	2011
	\$000	\$000
Interest received	49	66
Dividends received	-	4
Other revenue	2	18
Total	51	88

Expenses

Administration expenses were reduced from \$844,469 (2011) to \$424,192 including reduced Directors Fees (\$188,375) and lower secretarial and office expense (\$110,627).

	2012	2011
	\$,000	\$,000
Audit & Directors Fees	175	368
Secretarial + office	118	229
Other	131	247
	424	844
Exploration Expense	854	1,250

General Comment

All expense estimates for 2013 have been further reduced to a minimal level on the basis that exploration activities will be focused on the Pegmont lead-zinc deposit (the Company's main asset). Share trading activity is limited by the lack of working capital.

Pegmont Mines Limited

Summary of Financial Results

Financial Results		2012	2011	2010	2009	2008
Gross Trading Revenue	\$000	1,835	7,235	18,660	20,940	7,297
Profit/(Loss) on share sales	\$000	(132)	(2,823)	(2,333)	2,105	(1,887)
Provision for share loss	\$000	(104)	1,826	2,578	946	(4,563)
Net Trading Profit/(Loss)	\$000	(236)	(997)	245	3,051	(6,415)
Exploration	\$000	(854)	(1,250)	(1,107)	(806)	(340)
Administration	\$000	(424)	(844)	(604)	(617)	(661)
Net Profit/(Loss) before tax	\$000	(1,463)	(3,003)	(1,369)	1,687	(7,138)
Net Profit/(Loss) after tax	\$000	(1,463)	(3,003)	(1,369)	1,687	(6,945)
Cash	\$000	520	1,807	2,149	1,014	610
Investments	\$000	252	168	1,872	4,289	3,003
Working Capital	\$000	744	2,024	4,125	5407	4031
Total Assets	\$000	4,342	5,741	7,881	9,206	7,743
Total Liabilities	\$000	103	55	47	27	17
Shareholders' Funds	\$000	4,239	5,687	7,834	9,179	7,726
Earnings per share (E)	cents	(2.3)	(5.0)	(2.7)	3.3	(13.6)
Dividends per share	cents	-	-	-	0.5	-
Net Tangible Assets per share	cents	6.8	9.4	15.2	17.9	15.1
Working Capital per share	cents	1.2	3.4	8.0	10.5	7.9
Share Price (last sale)	cents	9.0	9.0	10.0	8.0	6.0
Price Earnings ratio P/E	x	-ve	-ve	-ve	2.4	-ve
Shares on Issue	000	62,549	60,374	51,476	51,161	50,887

Comment

Since September 2004, the Company has applied the proceeds from the sale of Reefway Pty Ltd to share investing. This activity has generated a total Net Trading Profit of \$12,425,000 (after provisions) over seven years from Gross Trading Revenue of \$122,115,000 at an average a margin of 10.2% on turnover. During this period the Company has expended funds on exploration \$5,857,000, administration \$5,316,000, taxation \$4,629,000 and distributed dividends of \$1,375,000. This activity has sustained the Company.

The current business model of the Company incorporates share trading to generate income to cover administration and exploration expenses. However, since the GFC in 2007 (when our Gross Trading Revenue peaked at \$36.3 million), share trading activity has declined in keeping with heightened market volatility and greater uncertainties caused by intense political (fiscal) and monetary action.

The above Summary also depicts a run down in the Company's financial Resources, particularly from 2009 as trading profits were not able to cover expenditures on exploration and administration. The point has been reached when the company requires a new cash infusion from either the sale of an asset (ie the Pegmont deposit or the New Hope deposit) or from an equity issue, as working capital is now insufficient to support an adequate level of activity.

CORPORATE GOVERNANCE STATEMENT

This statement outlines the main corporate governance practices that have been revised and updated, and in place since the 1st of July 2005. These corporate governance practices comply with the NSX Corporate Governance Council recommendations unless otherwise stated.

BOARD OF DIRECTORS

Role of the Board

The Board is responsible for ensuring that the Company is managed in a manner which protects and enhances the interests of its shareholders and takes into account the interests of all stakeholders. To fulfil this role, the Board is responsible for setting the strategic directions for the Company, establishing goals for management, monitoring the achievement of these goals and ensuring policies and procedures are applied that facilitate accountability and performance.

Because of the limited size of the Company and its financial affairs and operations, the use of separate committees of the Board of Directors is not considered generally appropriate. All matters that might properly be dealt with by such committees are currently dealt with by the full Board of Directors. Decisions of the Board are, to the extent practicable, unanimous. There were no occasions during the year when decisions were not unanimous.

Composition of the Board

The names and details of the Directors of the Company in office at the date of this Statement are set out in the Directors' Report.

The composition of the Board is determined using the following principles:

- Persons nominated as Non-Executive Directors shall be expected to have skills, experience and expertise of benefit to the Company and to bring an independent view to the Board's deliberations. Persons nominated as Executive Directors must be of sufficient stature and security of employment to express independent views on any matter.
- The Chairperson should ideally be non-executive and independent and be elected by the Board based on his/her suitability for the position. Currently the Chairperson is a Non-Executive Director. The Board believes that this Chairperson is able and does bring quality and independent judgment to all relevant issues falling within the scope of the role of a Chairperson.
- All Non-Executive Directors are expected voluntarily to review their membership of the Board from time-to-time taking into account length of service, age, qualifications and expertise relevant to the Company's then current policy and program, together with the other criteria considered desirable for composition of a balanced Board and the overall interests of the Company.
- Under the Company's Constitution, the minimum number of Directors is three. At each Annual General Meeting, one third of the Directors (excluding the Managing Director) must resign, with Directors resigning by rotation based on the date of their appointment. Directors resigning by rotation may offer themselves for re-election.
- The Directors may appoint a Managing Director for a fixed term not exceeding five (5) years (Article 71(a)) unless otherwise approved by members in General Meeting.
- The remuneration of a Managing Director shall not exceed 15 times average weekly Earnings of Employees (AWE) (Article 6.5 (e)).
- The Chairperson and Deputy Chairperson hold office until otherwise determined by Directors, or until they cease to be Directors but in any case for a period not exceeding five (5) years (Article 9.6(a)) unless otherwise approved by members in General Meeting.

The Company considers that the Board should have at least three Directors (minimum required under the Company's constitution) and strives to have a majority of independent Directors but acknowledges that this may not be possible at all times due to the size of the Company. Currently the Board has three Directors, including two non-executive directors of whom one is the Chairman.

The number of Directors is maintained at a level which will enable effective spreading of workload and efficient decision making.

The Board has accepted the following definition of an Independent Director:

“An Independent Director is a Director who is not a member of management (a Non-Executive Director) and who:

1. is not a substantial shareholder of the Company or an officer of, or otherwise associated, directly or indirectly with, a substantial shareholder of the Company;
2. has not within the last three years been employed in an executive capacity by the Company or another group member, or been a Director after ceasing to hold any such employment;
3. is not a principal of a professional adviser to the Company or another group member;
4. is not a significant consultant, supplier or customer of the Company or other group member, or an officer of or otherwise associated, directly or indirectly with, a significant consultant, supplier or customer;
5. has no significant contractual relationship with the Company or another group member other than as a Director of the Company;
6. has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
7. is free from any interest and any business or other relationship which could, or could reasonably be perceived to materially interfere with, the Director's ability to act in the best interests of the Company.”

The Company considers a significant consultant, supplier or customer to be material if the total of their annual invoices amounts to more than 5% of the Company's total expenditure in that category.

The composition of the Board is reviewed on an annual basis to ensure the Board has the appropriate mix of expertise and experience. Where a vacancy exists, through what ever cause, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board determines the selection criteria for the position based on the skills deemed necessary for the Board to best carry out its responsibilities and then appoints the most suitable candidate who must stand for election at the next general meeting of shareholders.

Performance of Directors

The performance of all Directors and the Board as a whole is reviewed annually in accordance with the Company's corporate governance guidelines (effective 1 July 2005).

Conflict of Interest

In accordance with the Corporations Act 2001 and the Company's constitution, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes a significant conflict exists, the Director concerned does not receive the relevant Board papers and is not present at the Board meeting whilst the item is considered. Details of Director's related entity transactions with the Company are set out in the related parties note in the financial statements.

Independent Professional Advice and Access to Company Information

Each Director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairperson, may seek independent professional advice at the Company's expense. A copy of advice received by the Director is made available to all other members of the Board.

Remuneration Report

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

Principles used to determine the nature and amount of remuneration

Remuneration Policy

The remuneration policy of Pegmont Mines Limited has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives. The board of Pegmont Mines Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the Company.

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives (if any), was developed by the board. The board reviews executive packages annually by reference to the Company's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The board may exercise discretion in relation to approving incentives, bonuses and options. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Executives are also entitled to participate in the employee share and option arrangements.

All remuneration paid to key management personnel is valued at the cost to the Company and expensed. If options are issued they are valued using the Black-Scholes methodology.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting (currently \$100,000). Fees for non-executive directors are not linked to the performance of the Company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company and are able to participate in employee option plans approved by the board.

Performance based remuneration

The Company currently has no performance based remuneration component built into key management personnel remuneration packages.

Company performance, shareholder wealth and key management personnel remuneration

No relationship exists between shareholder wealth, key management personnel remuneration and Company performance.

Use of remuneration consultants

The Company did not employ the services of any remuneration consultants during the financial year ended 31 December 2012.

Voting and comments made at the Company's 2011 Annual General Meeting

The Company received approximately 99.80% of "yes" votes on its remuneration report for the 2011 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

Details of remuneration

Details of the remuneration of the directors and the key management personnel of the Company are set out in the following table.

The key management personnel of Pegmont Mines Limited include the directors.

The requirement to disclose remuneration for the top five remunerated Company executives was removed by the *Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011*, effective for reporting periods commencing on or after 1 July 2011. For comparative purposes only, the table below includes the remuneration for the 2011 financial year for those personnel who were classified as executives but who do not meet the definition of key management personnel. Hence their remuneration for the 2012 financial year is not disclosed.

Board Procedures and Policies

The Board applies the additional following procedures and policies:

The Board promotes ethical and responsible decision making by applying a corporate code of conduct which provides a framework for decisions and actions in relation to ethical conduct in employment. The Board sets guidelines for buying and selling securities in the company.

The Board safeguards the integrity in financial reporting by requiring the Chief Executive Officer and Chief Financial Officer (or equivalent) to make a statement (at the relevant times) that the Company's financial systems are founded on a system of risk management and internal compliance and control which implements the policies adopted by the board and the company's risk management and internal compliance and control systems is operating efficiently and effectively in all material respect.

The Board ensures the company makes timely and balanced disclosure by adopting a continuous disclosure policy.

The Board respects the rights of shareholders by adopting a shareholder communications strategy which aims to ensure that shareholders are informed of all major developments affecting the Company's state of affairs. The Board requests the external auditor to attend all annual general meetings of the company, to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Board determines the Company's 'risk profile' and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control.

Directors' Report

The Directors' present their report on the results of the Company for the year ended 31 December, 2012 and the state of affairs at that date.

Directors

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

Mr. John M Armstrong Non-Executive Chairman

Mr. David R Curtis Non-Executive Director

Mr. Malcolm A Mayger Managing Director

Principal Activity

The principal activities of the Company in the course of the year were mineral exploration and resource investment.

Operating Results

The consolidated loss after providing for income tax and eliminating minority equity interests amounted to \$1,462,588 (2011 - loss \$3,003,428).

Dividends

No dividend was paid during the year (2011 - Nil).

Review of Operations

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

Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the Company that occurred during the financial year that have not been covered in the 'Review of Operations'.

Matters Subsequent to the end of the Financial Year

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in financial years subsequent to the financial year ended 31 December 2012.

Options over Unissued Capital

The total number of options issued as at 31 December 2012 was NIL (2011-NIL). At 31 December 2012 there were no unissued shares under option.

Environmental Issues

The Company is subject to performance bonds for the rehabilitation of a mining tenement. These performance bonds are required by the Mines Department to ensure that rehabilitation occurs as required under environmental regulation. Surface disturbance has been restored. There were no environmental incidents during the year. Occupational Health and Safety requirements were met through the development of an emergency plan, the provision of formal training to Pegmont contractors, toolbox meetings, site inspections and record keeping. There were no reportable incidents during 2012.

Auditors' Section 307C Declaration

The Directors

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

- i. no contraventions of the auditor independence requirements of the Act in relation to the review of the 31 December 2012 financial report; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

Mr. Frank Vrachas

Lead Auditor

Meeting of Directors

During the financial year, 6 meetings of directors were formally held. The number of meetings attended by each director during the year is as follows:

Mr. John M Armstrong	6
Mr. Malcolm A Mayger	6
Mr. David R Curtis	6

In addition to these meetings, the non-executives directors are continuously updated on current activities.

Directors' Qualifications and Experience

ARMSTRONG, John M (Non-Executive Chairman) BSc, MBA, FFin, FAICD

Mr. Armstrong, aged 77 is a professional company director with over 40 years of experience in investment banking and resource finance at senior management and director levels.

MAYGER, Malcolm A (Executive Managing Director) BCom, CA, FAICD

Mr. Mayger, aged 73 has over 40 years experience in exploration, mining and investment. Malcolm Mayger founded the company in 1987 and has guided its subsequent development from concept to an explorer with investment interests.

CURTIS, David R (Non- Executive Director) BBus

Mr. David R Curtis, aged 49, is a finance specialist with experience as a director with Credit Suisse in Australia, Hong Kong and Japan, and Macquarie Bank Ltd, Australia.

Pegmont Mines Limited

Directors' and Executives' Emoluments

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the accounts or received as the fixed salary of a full-time employee of the Company) by reason of a contract made by the Company or by a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest other than:

- a) Consulting fees paid to Malcolm A Mayger Pty Ltd, an entity of which Mr. Malcolm Mayger is a Director and shareholder.
- b) Consulting fees paid to Armstrong Associates Pty Limited, an entity of which Mr. John Armstrong is a Director and shareholder.
- c) Consulting fees paid to Caml Pty Ltd, an entity of which Mr. David Curtis was a Director and beneficiary.
- d) Consulting fees paid to Fonlie Accounting & Investments Pty Limited, an entity of which Mr. Chris Leslie is a Director and shareholder.

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

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

Key management personnel of Pegmont Mines Limited

	Short-Term		Post Employment		Share-based	Total
	Salary & Fees	Non Monetary	Superannuation	Retirement benefits	Payments	
	\$	\$	\$	\$	\$	\$
Directors						
John Armstrong						
2012	43,750	-	-	-	-	43,750
2011	55,000	-	-	-	-	55,000
Malcolm Mayger						
2012	90,375	-	-	-	-	90,375
2011	271,500	-	-	-	-	271,500
David Curtis						
2012	21,250	-	-	-	-	21,250
2011	6,250	-	-	-	-	6,250
Other key management personnel						
Chris Leslie						
2012	50,650	-	-	-	-	50,650
2011	124,050	-	-	-	-	124,050
Total key management personnel compensation						
2012	206,025	-	-	-	-	206,025
2011	456,800	-	-	-	-	456,800

Service agreements

Malcolm Mayger, Managing Director:

Pursuant a Service Agreement, which commenced on 25th of June 1987, the Directors have arranged for

Pegmont Mines Limited

Malcolm Mayger to provide his services as Managing Director of Pegmont.

Share-based compensation

Where options are issued to key management personnel as part of their remuneration the options are not issued based on performance criteria, but are issued to key management personnel of Pegmont Mines Limited to increase goal congruence between key management personnel and shareholders. The Company does not have a formal policy in relation to the key management personnel limiting their exposure to risk in relation to the securities, but the Board actively discourages key personnel management from obtaining mortgages in securities held in the Company.

There were no options granted to or vesting with key management personnel during the year, and there were no options forfeited during the year.

There were no ordinary shares issued upon exercise of remuneration options to directors or other key management personnel of Pegmont Mines Limited during the year.

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

		Shares at 31/12/2011	Acquired during the year	Shares at 31/12/2012
J M Armstrong	Direct	88,750	-	88,750
	Indirect	750,000	-	750,000
D R Curtis	Direct	412,500	-	412,500
	Indirect	2,050,162	400,000	2,450,162
M A Mayger	Direct	400,000	-	400,000
	Indirect*	33,460,000	-	33,460,000
		37,161,412	400,000	37,561,412

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

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


Malcolm A Mayger

Dated: 7 March 2013

Directors' Declaration

The directors declare that the attached financial statements and notes:

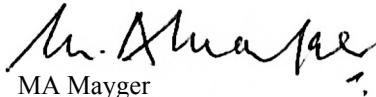
- a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- b) give a true and fair view of the Company's and controlled entities' financial position as at 31 December 2012 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the directors' opinion:

- a) the financial statements and notes are in accordance with the Corporations Act; and
- b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Directors.



MA Mayger

Director

Sydney, 7 March 2013

Pegmont Mines Limited

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

Income Statement

For The Year Ended 31 December 2012

	Note	Consolidated		Parent Entity	
		2012 \$	2011 \$	2012 \$	2011 \$
Revenue from continuing operations					
Gross revenue from share trading		1,835,143	7,234,904	1,835,143	6,992,101
Cost of sales		1,967,425	10,058,244	1,967,425	9,621,464
Revenue from sale of shares		(132,282)	(2,823,340)	(132,282)	(2,629,363)
Write back (increase) of provision for shares		(104,035)	1,826,097	(104,035)	1,803,341
Net trading profit after provisions					
Interest received or due and receivable from other Corporations		48,948	66,114	48,948	66,114
Dividends received		-	3,943	-	3,943
Other revenue		2,750	17,740	12,750	64,255
Expenses from continuing operations					
Audit fees		(20,000)	(25,000)	(20,000)	(25,000)
Directors fees		(155,375)	(343,750)	(155,375)	(343,750)
Exploration written off		(853,777)	(1,249,513)	(853,777)	(1,249,513)
Impairment for subsidiaries		-	-	(12,500)	(240,492)
Stock exchange fees		(13,297)	(9,050)	(13,297)	(9,050)
Share registry fees		(9,046)	(7,636)	(9,046)	(7,636)
Secretarial & office expenses		(117,991)	(228,618)	(115,491)	(228,618)
Superannuation		(19,481)	(36,767)	(19,481)	(36,767)
Other expenses from ordinary activities		(89,002)	(193,648)	(89,002)	(170,892)
Profit before income tax					
Income tax attributable	2	(1,462,588)	(3,003,428)	(1,462,588)	(3,003,428)
Profit attributable to members of Pegmont Mines Ltd					
(1,462,588) (3,003,428) (1,462,588) (3,003,428)					
Earnings per share for profit attributable to the ordinary equity holders of the Company	19	(0.023)	(0.050)	(0.023)	(0.050)

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

Pegmont Mines Limited

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

Balance Sheet

As At 31 December 2012

	Note	Consolidated		Parent entity	
		2012	2011	2012	2011
		\$	\$	\$	\$
Current Assets					
Receivables	3	74,402	104,582	74,402	104,582
Available for sale financial assets	4	252,101	167,880	289,933	167,880
Cash and cash equivalents	5	520,330	1,807,003	520,328	1,807,001
Total Current Assets		846,833	2,079,465	884,663	2,079,463
Non-Current Assets					
Held-to-Maturity Investments	6	-	-	2	2
Property, Plant & Equipment	7	100,000	66,280	100,000	66,280
Mineral Tenements	8	3,395,425	3,595,425	3,395,425	3,595,425
Total Non-Current Assets		3,495,425	3,661,705	3,495,427	3,661,707
Total Assets		4,342,258	5,741,170	4,380,090	5,741,170
Current Liabilities					
Payables	9	103,333	54,586	141,165	54,586
Total Liabilities		103,333	54,586	141,165	54,586
Net Assets		4,238,925	5,686,584	4,238,925	5,686,584
Equity					
Contributed equity	10	3,970,800	3,755,871	3,970,800	3,755,871
Reserves	11	4,356,193	4,556,193	4,356,193	4,556,193
Retained profits	11	(4,033,801)	(2,571,213)	(4,088,068)	(2,625,480)
Total parent entity interest		4,293,192	5,740,851	4,238,925	5,686,584
Outside equity interests in controlled entities		54,267	54,267	-	-
Total Equity		4,238,925	5,686,584	4,238,925	5,686,584

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

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

Statement of Changes in Equity

For the year ended 31 December 2012

	Consolidated		Parent entity	
	2012	2011	2012	2011
	\$	\$	\$	\$
Total equity at the beginning of the financial year	5,686,584	7,834,527	5,686,584	7,834,527
Total recognised income and expense for the year	(1,462,588)	(3,003,428)	(1,462,588)	(3,003,428)
Transactions with equity holders in their capacity as equity holders:				
Shares issued- note 10	214,929	855,485	214,929	855,485
Revaluation of exploration areas	(200,000)	-	(200,000)	-
Total equity at the end of the financial year	4,238,925	5,686,584	4,238,925	5,686,584
Total recognised income and expense for the year is attributable to:				
Members of Pegmont Mines Ltd	(1,462,588)	(3,003,428)	(1,462,588)	(3,003,428)
Minority interests	-	-	-	-
	(1,462,588)	(3,003,428)	(1,462,588)	(3,003,428)

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

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

Cash Flow Statement

For The Year Ended 31 December 2012

Note	Consolidated		Parent entity	
	2012	2011	2012	2011
	\$	\$	\$	\$
Cash Flows from Operating Activities				
Cash receipts in the course of operations	51,698	87,797	61,698	87,797
Cash payments in the course of operations	(590,194)	(3,597,780)	(587,694)	(3,334,532)
Net cash from operating activities	17	(538,496)	(525,996)	(3,246,735)
Cash Flows from Investing Activities				
Purchase of plant, property & equipment	-	(21,893)	-	(21,893)
Payments for investment securities	(1,895,810)	3,530,615	(1,908,310)	3,268,466
Exploration expenditure	853,777	(1,249,513)	853,777	(1,249,513)
Net cash provided for investing activities	(1,042,033)	2,259,209	(1,054,533)	1,997,060
Cash Flows from Financing Activities				
Increase in creditors	48,747	7,181	86,579	7,181
Increase/ decrease in debtors	30,180	45,637	30,180	44,538
Share issue	214,929	855,485	214,929	855,485
Net cash flow from financing activities	293,856	908,303	331,688	907,204
Net increase (decrease) in cash and cash equivalents				
	(1,286,673)	(342,471)	(1,286,673)	(342,471)
Cash and cash equivalents at the beginning of the financial year	1,807,003	2,149,474	1,807,001	2,149,472
Cash and cash equivalents at the end of the financial year	16	520,330	520,328	1,807,001

The accompanying notes form part of these financial statements

Notes to the Financial Statements

For The Year Ended 31 December 2012

1. Statement of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below.

These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Pegmont Mines Ltd ("the Company") as an individual entity and the consolidated entity consisting of Pegmont Mines Ltd and its subsidiaries.

a) Basis of preparation

This general purpose financial report has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations and complies with other requirements of the law.

All amounts are presented in Australian dollars, unless otherwise noted.

Compliance with IFRSs

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (IFRSs). Compliance with AIFRSs ensures that the consolidated financial statements and notes of Pegmont Mines Ltd comply with IFRSs.

Historical cost convention

These financial statements have been prepared under the historical cost. Cost is based on the fair values of the consideration given in exchange for assets.

b) Consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Pegmont Mines Ltd ("the Company") as at 31 December 2011 and the results of all controlled entities for the year then ended. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Pegmont Mines Ltd and its controlled entities are referred to in this financial report as the Group or the consolidated entity.

The effects of all intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated in full.

Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated profit and loss account and balance sheet respectively.

Where control of an entity is obtained during a financial year, its results are included in the consolidated profit and loss account from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control exists.

c) Income Tax

The income tax expense or revenue for the year is the tax payable on the current year's taxable income based on the national income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially accepted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

d) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

Notes to the Financial Statements

For The Year Ended 31 December 2012

1. Statement of Accounting Policies (Continued)

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

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheet.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

e) Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operation in other economic environments.

f) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties.

Interest income is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

g) Royalties and other mining imposts

Ad valorem royalties and other mining imposts are accrued and charged against earnings when the liability from production or sale of the mineral crystallises. Profit based royalties are accrued on a basis which matches the annual royalty expense with the profits on which the royalties are assessed (after allowing for permanent differences).

h) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents include cash on hand and deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

i) Trade and Other Receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 30 days from the date of recognition. Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the income statement.

j) Fair Value Estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value, less impairment provision, of trade receivables and payables are assumed to approximate their fair values due to their short term nature.

k) Plant and Equipment

Plant and equipment is stated at historical cost less depreciation. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset during their expected useful life of 3 to 5 years.

l) Investments and Other Financial Assets

The Group classifies its investments in the following categories: loan and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition. This designation is re-evaluated at each reporting date.

Notes to the Financial Statements

For The Year Ended 31 December 2012

1. Statement of Accounting Policies (Continued)

m) Impairment of assets

Assets are reviewed for impairment at each reporting date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

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

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

n) Trade Payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. These amounts are unsecured and are usually paid within 30 days of recognition.

o) Provisions

Provisions are recognised when the Company has a present obligation and it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

p) Exploration expenditure

Expenditure on acquisition of tenements relating to an area of interest is carried forward where rights to tenure of the area of interest are current and:

- i) the area has demonstratable economic grade, mineralisation; or
- ii) exploration and evaluation activities are continuing in an area of interest but have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.
- iii) Exploration expenditure is written off in the year during which it is incurred.

At certain milestones during the course of the evaluation of a project the carrying value is reviewed to a fair value, taking into account the likelihood of commercialisation and additional costs likely to be incurred to reach that stage. The last assessment of the carrying value of the Pegmont mining leases occurred in year 2000. Since then, a considerable amount of drilling has been undertaken which has led to the calculation of a maiden JORC compliant Resource in February 2011. Based on this information a review of the carrying value is being considered.

At the end of each financial year the Directors assess the carrying value of the acquisition expenditure carried forward in respect of each area of interest and where the carried forward carrying value is considered to be in excess of (i) above, the value of the area of interest is written down.

Capitalised acquisition expenditure is considered for impairment based upon areas of interest on an annual basis, depending on the existence of impairment indicators including:

- the period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted or planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area; and
- sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

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

Notes to the Financial Statements

For The Year Ended 31 December 2012

1. Statement of Accounting Policies (Continued)

q) Mineral Tenements

The Company's activities in the mining industry are subject to regulations and approvals including mining heritage, environmental regulation, the implications of the High Court of Australia decision in what is known generally as the "Mabo" case and any State or Federal legislation regarding native and mining titles. Approvals, although granted in most cases, are discretionary. The question of native title has yet to be determined and could effect any mining title area whether granted by the State or not.

r) Employee benefits

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in creditors and borrowings in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Long service leave

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with wages and salaries above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits only where there is a reasonable expectation that a liability will be incurred.

Superannuation

The amounts charged to the statement of financial performance for superannuation represents the contributions to superannuation funds in accordance with the statutory superannuation contributions requirements or an employee salary sacrifice arrangement. No liability exists for any further contributions by the Company in respect to any superannuation scheme.

Redundancy

The liability for redundancy is provided in accordance with work place agreements.

s) Contributed Equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

t) Earnings per share

Basic earnings per share is determined by dividing the operating profit after income tax attributable to members of Pegmont Mines Ltd by the weighted average number of ordinary shares outstanding during the year.

u) Share based payments

Where shares or options are issued to employees, including directors, as remuneration for services, the difference between fair value of the shares or options issued and the consideration received, if any, from the employee is expensed. The fair value of the shares or options issued is recorded in contributed equity. No options were issued during the year.

Notes to the Financial Statements

For The Year Ended 31 December 2012

1. Statement of Accounting Policies (Continued)

v. Critical accounting estimates & judgements

In preparing this Financial Report the Company has been required to make certain estimates and assumptions concerning future occurrences. There is an inherent risk that the resulting accounting estimates will not equate exactly with actual events and results.

i) Significant accounting judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements: Exploration and evaluation expenditure is written off during the year in which it is incurred.

ii) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Impairment of capitalised acquisition expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on an number of factors, including whether the Company decides to exploit the related lease itself, or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors that could impact the future recoverability include the level of reserves and resources, future technological changes, costs of drilling and production, production rates, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

As at 31 December 2012, the carrying value of mineral tenements of the group is \$3,395,425 (2011-\$3,595,425)

Notes to the Financial Statements

For The Year Ended 31 December 2012

	Consolidated		Parent entity	
	2012	2011	2012	2011
	\$	\$	\$	\$
2. Income Tax Expense				
a) Income tax expense				
Current tax	-	-	-	-
Deferred tax	-	-	-	-
b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit from continuing operations before income tax expense	(1,462,588)	(3,003,428)	(1,462,588)	(3,003,428)
Timing and permanent differences	-	-	-	-
Prima facie tax payable at 30 %	-	-	-	-
Income tax/(refund) attributable to operating profit	-	-	-	-
3. Trade and other Receivables (Current)				
Security deposits DME & rental bond	35,780	32,665	35,780	32,665
Other debtors	-	-	-	-
GST control account	23,905	57,726	23,905	57,726
Prepayments	14,717	14,191	14,717	14,191
	74,402	104,582	74,402	104,582
4. Available for sale financial assets (Current)				
Quoted Shares	252,101	167,880	252,101	167,880
Unlisted Investments – at fair value	-	-	37,832	-
Closing balance at 31 December	252,101	167,880	289,933	167,880
5. Cash and cash equivalents (Current)				
Cash at bank and on hand	20,328	43,571	20,328	43,569
Cash on deposit	500,000	1,763,432	500,000	1,763,432
	520,328	1,807,003	520,328	1,807,001

Notes to the Financial Statements

For The Year Ended 31 December 2012

	Consolidated		Parent entity	
	2012	2011	2012	2011
	\$	\$	\$	\$
6. Held-to-Maturity Investments (Non-current)				
Shares in controlled entities	-	-	199,361	199,361
Loans to (from) subsidiaries				
Loan to subsidiary	-	-	195,746	195,746
Loan from subsidiary	-	-	(37,832)	(50,332)
Provision for non-recovery	-	-	(357,273)	(344,773)
At fair value 31 December 2012	-	-	2	2
7. Property, Plant and Equipment				
Property, plant & equipment - at cost	369,279	369,279	369,279	369,279
Less: Accumulated depreciation	(269,279)	(302,999)	(269,279)	(302,999)
	100,000	66,280	100,000	66,280
Reconciliation of carrying amount				
Opening balance at 1 January 2011	66,280	114,416	66,280	114,416
Plant & equipment acquired during year	-	21,893	-	21,893
Disposals	-	-	-	-
Depreciation write back during year	33,720	(70,029)	33,720	(70,029)
Closing balance at 31 December 2011	100,000	66,280	100,000	66,280
8. Mineral Tenements (Non-Current)				
Pegmont Lead-Zinc project at cost	893,807	893,807	893,807	893,807
Revaluation	2,106,193	2,106,193	2,106,193	2,106,193
At fair value	3,000,000	3,000,000	3,000,000	3,000,000
Pegmont regional exploration areas at fair value	150,000	350,000	150,000	350,000
Reefway Pty Ltd royalty at fair value	100,000	100,000	100,000	100,000
New Hope project acquisition at cost	145,425	145,425	145,425	145,425
	3,395,425	3,595,425	3,395,425	3,595,425

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

The Company's activities in the mining industry are subject to regulations and approvals including mining, heritage, environmental regulation, the implications of the High Court of Australia decisions in what is known generally as the "Mabo" and the "Wik" cases and any State or Federal legislation regarding native and mining titles. Approvals, although granted in most cases, are discretionary. The question of native title has yet to be determined and could affect any mining title area whether granted by the State or not.

Notes to the Financial Statements

For The Year Ended 31 December 2012

	Consolidated		Parent entity	
	2012	2011	2012	2011
	\$	\$	\$	\$
9. Trade and other Payables (Current Liabilities)				
Trade creditors and other loans	103,333	54,586	141,165	54,586

	Parent entity		Parent entity	
	2012	2011	2012	2011
	Number	\$	Number	\$
10. Ordinary shares – Fully paid	62,548,722	3,970,800	60,373,722	3,755,871

During the year 2,150,000 shares were issued to shareholders for the placement of shortfall shares under a Non-Renounceable Rights Issue offer at a price of 10 cents per share.

In addition, 25,000 shares were issued at a deemed price of 10 cents per share, to contractors and to landowners where the company's exploration projects are located.

Terms and conditions of ordinary shares:

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

11. Reserves and Retained Earnings

	Consolidated		Parent entity	
	2012	2011	2012	2011
	\$	\$	\$	\$
(A) Reserves				
Asset Revaluation Reserve	2,356,193	2,556,193	2,356,193	2,556,193
Capital Profit Reserve	2,000,000	2,000,000	2,000,000	2,000,000
	<u>4,356,193</u>	<u>4,556,193</u>	<u>4,356,193</u>	<u>4,556,193</u>
(B) Retained Earnings				
Balance 1 January	(2,571,213)	432,215	(2,625,480)	377,948
Profit for the year after related income tax expense	(1,462,588)	(3,003,428)	(1,462,588)	(3,003,428)
Balance 31 December	<u>(4,033,801)</u>	<u>(2,571,213)</u>	<u>(4,088,068)</u>	<u>(2,625,480)</u>

(C) Nature and purpose of reserves

The capital reserve is used to quarantine net realised profits of a capital nature, whilst the asset revaluation reserve is used to accumulate adjustments to fair value after they have been posted through the profit and loss account.

12 Key Management Personnel Disclosure

a) Directors

The names of Directors who have held office during the financial year are:

Pegmont Mines Ltd & Subsidiaries

Malcolm A Mayger, John M Armstrong and David R Curtis

Executives during year

Christopher Leslie

Notes to the Financial Statements

For The Year Ended 31 December 2012

12(b) Directors and Director-Related Entities' Shareholdings

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

Name	Balance at the start of the financial period	Issued	Purchased/(Sold)	Balance as the end of the financial period
(1) Shares				
JM Armstrong	838,750	-	-	838,750
MA Mayger	33,860,000	-	-	33,860,000
DR Curtis	2,050,162	400,000	-	2,450,162
Total shares	36,648,912	400,000	-	37,048,912

c) Key management personnel compensation

The Company has taken advantage of the relief provided by Corporations Regulation 2M.6.04 and has transferred the detailed remuneration disclosures to the Directors' Report. The relevant information can be found in sections A-C of the remuneration report within the Directors' Report.

d) Related party transactions

Other than the transactions disclosed above there are no other transactions between related parties that require disclosure.

13. Segmental Information

The economic entity operates predominantly in one geographic location. The operations of the economic entity consist exploration for gold, lead-zinc and other minerals and equity investments within Australia.

14. Remuneration of Directors

Type of transaction	Related party -directors	Terms and conditions	Consolidated		Parent entity	
			2012	2011	2012	2011
			\$	\$	\$	\$
Directors' fees	MA Mayger	Normal commercial	90,375	271,500	90,375	181,500
Directors' fees	JM Armstrong	Normal commercial	43,750	55,000	43,750	55,000
Directors' fees	DR Curtis	Normal commercial	21,250	6,250	21,250	6,250

Notes to the Financial Statements

For The Year Ended 31 December 2012

15. Controlled Entities

Name	Inc	Class	Book value		Equity		Contribution to Group	
			2012	2011	2012	2011	2012	2011
			\$	\$	%	%	\$	\$
Pilbara Ventures Ltd	NSW	Ord	19,359	19,359	100	100	-	(91,465)
Queensland Copper Mines Pty Ltd	NSW	Ord	1	1	100	100	-	-
Kimberley Ventures Ltd	NSW	Ord	180,001	180,001	60	60	(12,500)	-
			<u>199,361</u>	<u>199,361</u>				
Contribution to Group Profit (Loss) after minorities								
Parent –Pegmont Mines Ltd							<u>(1,450,088)</u>	<u>(2,911,963)</u>
Profit (loss) for year – group							<u>(1,462,588)</u>	<u>(3,003,428)</u>
Loans to (from) subsidiaries			157,914	145,414				
Provision for loss			<u>(357,273)</u>	<u>(344,773)</u>				
Parent net investment in subsidiaries			<u>2</u>	<u>2</u>				

Consolidated		Parent entity	
2012	2011	2012	2011
\$	\$	\$	\$

16. Reconciliation Of Cash

Cash as at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the balance sheet as follows:

Cash at bank	20,330	43,571	20,328	43,569
Call deposits	500,000	1,763,432	500,000	1,763,432
	<u>520,330</u>	<u>1,807,003</u>	<u>520,328</u>	<u>1,807,001</u>

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

17. Reconciliation Of Net Cash Outflow From Operating Activities To Operating Loss After Income Tax

Operating Profit (Loss)	(1,462,588)	(3,003,428)	(1,462,588)	(3,003,428)
• Depreciation provision	(33,720)	70,029	(33,720)	70,029
• Exploration	853,777	1,249,513	853,777	1,249,513
• Provision for subsidiaries	-	-	12,500	240,492
• Unrealised loss on investments	104,035	(1,826,097)	104,035	(1,803,341)
Net cash provided for operating activities	<u>(538,496)</u>	<u>(3,509,983)</u>	<u>(525,996)</u>	<u>(3,246,735)</u>

The Company has no credit standby or financing facilities in place other than disclosed on the statement of financial position.

Notes to the Financial Statements

For The Year Ended 31 December 2012

18. Subsequent Events

No other matter or circumstance has arisen since 31 December 2012 that has or may significantly affect the operations of the Company, the results of the Company, or the state of affairs of the Company in the financial year subsequent to the financial year ended 31 December 2012.

19. Earnings Per Share(eps)

	Consolidated 2012 \$	2011 \$	Parent entity 2012 \$	2011 \$
(a) Basic (loss) per share				
(Loss) attributable to the ordinary equity holders of the Company	(0.023)	(0.050)	(0.023)	(0.050)
(b) Earnings used in calculating earnings per share				
(Loss) attributable to the ordinary equity holders of the Company	(1,462,588)	(3,003,428)	(1,462,588)	(3,003,428)
The weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	62,548,722	60,373,722	62,548,722	60,373,722
The diluted earnings per share is not materially different from the basic earnings per share.				

20. Financial Risk Management

The Company's activities expose it to a variety of financial risks.

Credit risk

The Company does not have any significant credit risk exposure to a single counterparty or any group of counterparties having similar characteristics.

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

Cash flow and fair value interest rate risk

Although the Company has significant interest bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company monitors interest rates to obtain the best terms and mix of cash flow.

Interest rate risk

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

	Weighted Average Effective Interest Rate %	Variable Interest \$	Fixed Maturity Date		Non- interest Bearing \$	Total \$
			Less than 1 year \$	1 to 2 years \$		
2012						
Financial assets						
Cash	-	-	-	-	20,328	20,328
Interest bearing deposits	4.1	500,000	-	-	-	500,000
Receivables	-	-	-	-	74,402	74,402
		500,000	-	-	94,730	594,730
Financial liabilities						
Accounts payable		-	-	-	103,333	103,333
		-	-	-	103,333	103,333

Notes to the Financial Statements

For The Year Ended 31 December 2012

Liquidity risk

Prudent liquidity management involves the maintenance of sufficient cash, marketable securities, committed credit facilities and access to capital markets. It is the policy of the board to ensure that the Group is able to meet its financial obligations and maintain the flexibility to pursue attractive investment opportunities through keeping committed credit lines available where possible, ensuring the Group has sufficient working capital and preserving the 15% share issue limit available to the Company under the NSXA Listing Rules.

Financing arrangements

The Company has no financing facilities available to it

21. Auditors' Remuneration

	Consolidated		Parent entity	
	2012	2011	2012	2011
	\$	\$	\$	\$
Amount received or due and receivable by the auditor for:				
a) Audit services				
Audit and review of financial reports under the Corporations Act 2001	20,000	25,000	20,000	25,000
b) Non Audit services				
Income tax return preparation	-	-	-	-
Total remuneration of auditors	<u>20,000</u>	<u>24,000</u>	<u>20,000</u>	<u>25,000</u>

The auditor of the Company and its subsidiaries is Rothsay Chartered Accountants.

The Company has received notification from the Company's auditor that he satisfies the independence criterion and that there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct in relation to the audit. The Company is satisfied that the non-audit services provided is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

22. Expenditure Commitments

Mineral Tenement Leases

In order to maintain current rights of tenure to mining tenements, the Company will be required to outlay in 2013 amounts of approximately \$880,000 subject to relinquishment (2011 \$105,000) in respect of tenement lease rentals and exploration expenditures to meet the minimum expenditure requirements of the various Mines Departments in Australia. These obligations will be fulfilled in the normal course of operations.

ROTHSAY

Level 1, 12 O'Connell Street, Sydney NSW 2000 G.P.O. Box 2759, Sydney NSW 2001
Phone 8815 5400 Facsimile 8815 5401 E-mail swan2000@bigpond.com

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF PEGMONT MINES LTD

Report on the financial report

We have audited the accompanying financial report of Pegmont Mines Ltd (the Company") which comprises the balance sheet as at 31 December 2012 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the year.

Directors Responsibility for the Financial Report

The Directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The Directors are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's Responsibility

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

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

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

Independence

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



Chartered Accountants

Liability limited by the Accountants Scheme, approved
under the Professional Standards Act 1994 (NSW).



Audit opinion

In our opinion the financial report of Pegmont Mines Ltd is in accordance with the *Corporations Act 2001*, including:

- a) (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of their performance for the year ended on that date; and
(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
- b) the consolidated financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 31 December 2012. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Audit opinion

In our opinion the remuneration report of Pegmont Mines Ltd for the year ended 31 December 2012 complies with section 300A of the *Corporations Act 2001*.

Rothsay

Frank Vrachas
Partner

Dated

7/3/13

SUPPLEMENTARY INFORMATION

1. **Issued Capital at 31 December 2012: 62,548,722 Ordinary Shares Fully paid**
2. **Share Holdings at 1 February 2013**

(a) Distribution of Shareholders

Shareholding	Number of holders	Ordinary Shares
1-1000	1	1,000
1001-5000	1	5,000
5001 - 10,000	85	846,000
10,001 - 100,000	127	4,705,580
100,000 and over	51	56,991,142
	265	62,548,722

- (b) Names of Substantial Shareholders shown in the Company's Register holding 5% or more of the Issued Capital of the Company are:

Shareholding	Number of Shares	% Issued Capital
Pegasus Enterprises Ltd	16,600,000	26.54
Malcolm A. Mayger Pty Limited	12,340,000	19.73
Malcolm A. Mayger Pty Limited and associates (including Pegasus Enterprises Limited)	33,860,000	54.13
HSBC Custody Nominees (Australia) Ltd	8,311,107	13.29

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

Pegmont Mines Limited

Directors' Interests

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

*Includes Pegasus Enterprises Limited

Top Twenty Shareholders at 1 February 2013

	Number of Shares	% issued Capital
Pegasus Enterprises Ltd	16,600,000	26.54
Malcolm A Mayger Pty Ltd	12,340,000	19.73
HSBC Custody Nominees (Australia) Ltd	8,311,107	13.29
Lozora Pty Ltd	2,000,000	3.20
Malcolm A Mayger Pty Limited Super Fund	1,395,000	2.23
Fitel Nominees Limited	1,200,000	1.92
Bedel and Sowa Corp Pty Ltd	1,187,500	1.90
Scepha Investments Pty Ltd	1,125,000	1.80
Goldrim Investments Pty Ltd	1,100,000	1.76
Mr I J Holland & Mrs D Holland	859,000	1.37
Perpetual Trustee Company Ltd	750,000	1.20
Mr Andrew George Poulos	585,000	0.94
Warlam Pty Ltd (Lincoln A/C)	520,000	0.83
Henroth Pty Ltd	500,000	0.80
Robert Jewell	500,000	0.80
WHI Securities Pty Ltd	500,000	0.80
Martin Place Securities Staff Super Fund	450,285	0.72
Mercantile Holdings Toltz Super Fund	437,500	0.70
Mr David Ramsay Curtis	412,500	0.66
Mr Malcolm A Mayger	400,000	0.64
	51,172,892	81.80
Other Shareholders	11,375,830	18.19
Total Issued Shares	62,548,722	100%

Investor Summary

- Listed on the National Stock Exchange of Australia.
- Last sale price 9 cents.
- Market Capitalisation is \$5.6 million.
- Working Capital: \$743,500 at 31 December 2012.
- Issued Capital – Fully Paid 62,548,722

Exploration Strategy

- Focus is on Mount Isa region:
 - Host to world class base metal deposits.
 - Extensively mineralized but under-explored.
 - Large areas of outcrop geology.
 - Exploration experience in Mt Isa region since 1991.
- Acquisition of prospects with demonstrated mineral potential.
- Drill ready targets to upgrade potential.
- Convert Mineralised Potential to Resource at Pegmont.
- Undertake preliminary metallurgical testwork.
- Sell advanced projects to mine operators for cash/shares and royalty.

Pegmont Mines Limited

CORPORATE INFORMATION

PEGMONT MINES LIMITED
ABN 97 003 331 682

Registered Office

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

Corporate Office:

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

Listed on The National Stock Exchange of Australia

Website: www.nsx.com.au

Code: PMI

Directors

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

Company Secretary

Christopher D Leslie

Share Registry

C/- Computershare Investor Services Pty Ltd
Shareholder enquiries:
Telephone: 1300 850 505
Facsimile: (03) 9473 2500
Email: web.queries@computershare.com.au

Auditors:

Rothsay Chartered Accountants
Level 1, 12 O'Connell Street,
Sydney NSW 2000
Telephone: (02) 8815 5400
Facsimile: (02) 8815 5401



Pegmont

PEGMONT MINES LIMITED

ABN 97 003 331 682

Registered Office

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

Corporate Office:

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

Directors

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

Company Secretary

Christopher D Leslie

Share Registry:

C/-Computershare Investor Services Pty Ltd
Shareholder enquiries:
Telephone: 1300 850 505
Facsimile: (03) 9473 2500
Website: www.computershare.com

Listed on The National Stock Exchange of Australia

Website: www.nsx.com.au

Code: PMI