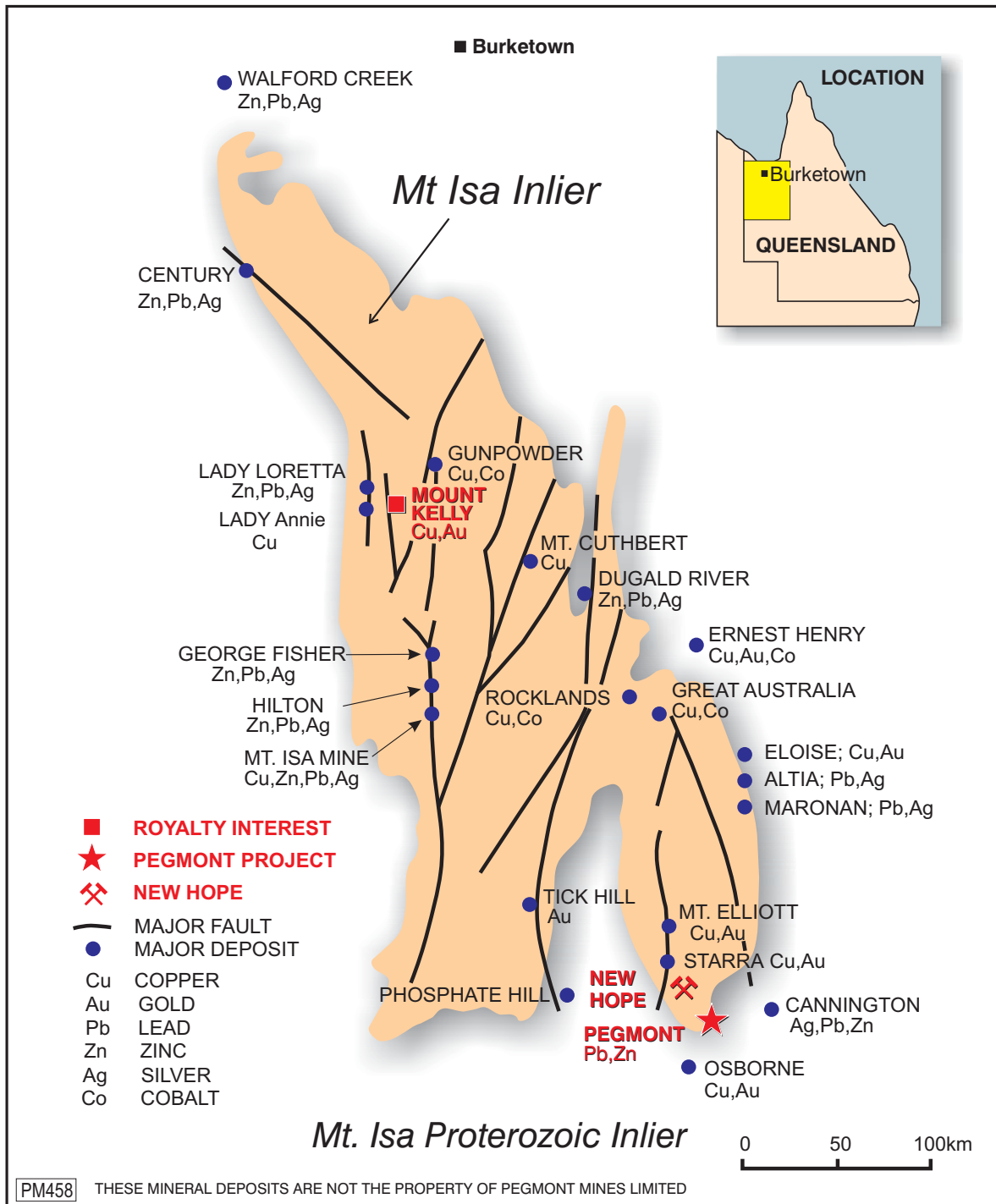


Pegmont

# **Pegmont Mines Limited**

ABN 97 003 331 682

**2 0 1 3   a n n u a l  
r e p o r t**



The Mount Isa province is one of the best endowed Base Metal provinces in the world. It offers a variety of mineral targets from small to large size from low to high grade. These attributes provide an attractive place to operate. The province has:

- Four of the top ten Zn deposits
- Three of the top ten Pb deposits
- Largest silver mine at Cannington
- Three Cu deposits > 1Mt Cu

These deposits are associated with major fault systems

Undeveloped Pb-Zn deposits in Eastern Succession

- Altia; Pb, Zn
- Maronan; Pb, Ag
- **Pegmont;** Pb, Zn

They are all associated with Banded Iron Formations (BIF) which have a pronounced magnetic signature.

Their target areas extending at depth and may have a muted magnetic (or no magnetic) anomaly under deep cover.

## CHAIRMAN'S REVIEW

2013 continued the demanding transition phase for the mining industry as the investment boom in new capacity subsidies and the debt repayment phase commences. Commodity prices for base metals and coal are at the lower end of their cycle, while iron ore prices have weakened as a consequence of China's switch of emphasis from investment led growth to that led by consumers.

These developments affect the small end of the minerals industry. Due to low commodity prices, investor interest has switched from speculative explorers to "safe" income yield stocks. Low interest rates (to counter the declining investment cycle) have sparked a speculative housing boom. This has created a shortage of capital to support the mineral exploration industry. Thus, our own activity has been affected.

Sharetrading activity was limited and resulted in a sell down of positions, incurring a small loss of \$45,405, less interest and other income of \$26,357.

Exploration activity was confined to existing drill ready targets, with 3,000 metres completed at Pegmont and 490 metres at SC-3 and SC-8 in EPM 14491. Total expense was \$388,545. Administration costs were further reduced to \$334,192 resulting in a loss for the year of \$742,180.

As foreshadowed in last year's Annual Report, the Company made an Entitlement Issue to Shareholders on a one for ten basis at 6 cents per share to raise \$376,244. The total amount received from applications was \$223,355. This result is regarded as being a successful outcome and slightly above our expectation of \$200,000. The Board may place the shortfall anytime up to 30 April 2014, at 6 cents per share.

We remain cash constrained. In order to complete our exploration expenditure obligations we need to either offload the obligation to another party or to reduce our expenditure obligations. Our attention is directed at both these possibilities. We have

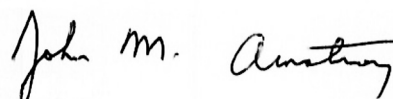
approached the Queensland Mine Department for a reduction in expenditure obligations and we have sought an interested party to progress the Pegmont Project to commercial development.

We have a registered Letter of Interest (L.O.I.) option agreement with Vendetta Mining Corp. of Canada. They are continuing with their due diligence process to assess the Pegmont lead-zinc deposit prior to possibly executing a cash-share and royalty purchase agreement.

In recognition of our difficult short term liquidity prospects, your directors have reduced the cost base. Exploration areas outside the Pegmont Project and the New Hope resource tenements have been relinquished. Only eleven exploration sub-blocks have been retained out of the previous 69 sub-blocks. Also, administration costs, including Directors' fees have been reduced or deferred and the office downsized.

Our prospects are attractive. We are fortunate in having two resource projects at Pegmont (lead-zinc) and at New Hope (gold-cobalt) and a 76.7% interest in a deferred royalty interest over the Reefway tenements, currently in production. Each of these assets has the potential for recapitalising the Company and supporting ongoing activities in the mineral resource industry. While short term issues are receiving the bulk of our attention, we are also well aware of the need to keep in mind the long term corporate development of the Company. We are confident of resolving the short term liquidity challenges.

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

## 2013 PERFORMANCE HIGHLIGHTS

During 2013 we achieved our objectives of reducing costs and initiated decisive steps to reduce future exposure to exploration expenditure.

- Exploration tenements were reduced by 58 sub-blocks to 11. The remaining sub-blocks are all concentrated in one area around the three Pegmont Mining Leases.
- Exploration expenditure declined from \$853,777 in 2012 to \$388,545 during 2013, although metres drilled increased from 1,649 metres to 3,490 metres, resulting in a significantly lower average cost from \$518 to \$111 per metre drilled.
- Administrative and other costs declined from \$424,192 to \$334,587 a reduction of 21.1%.

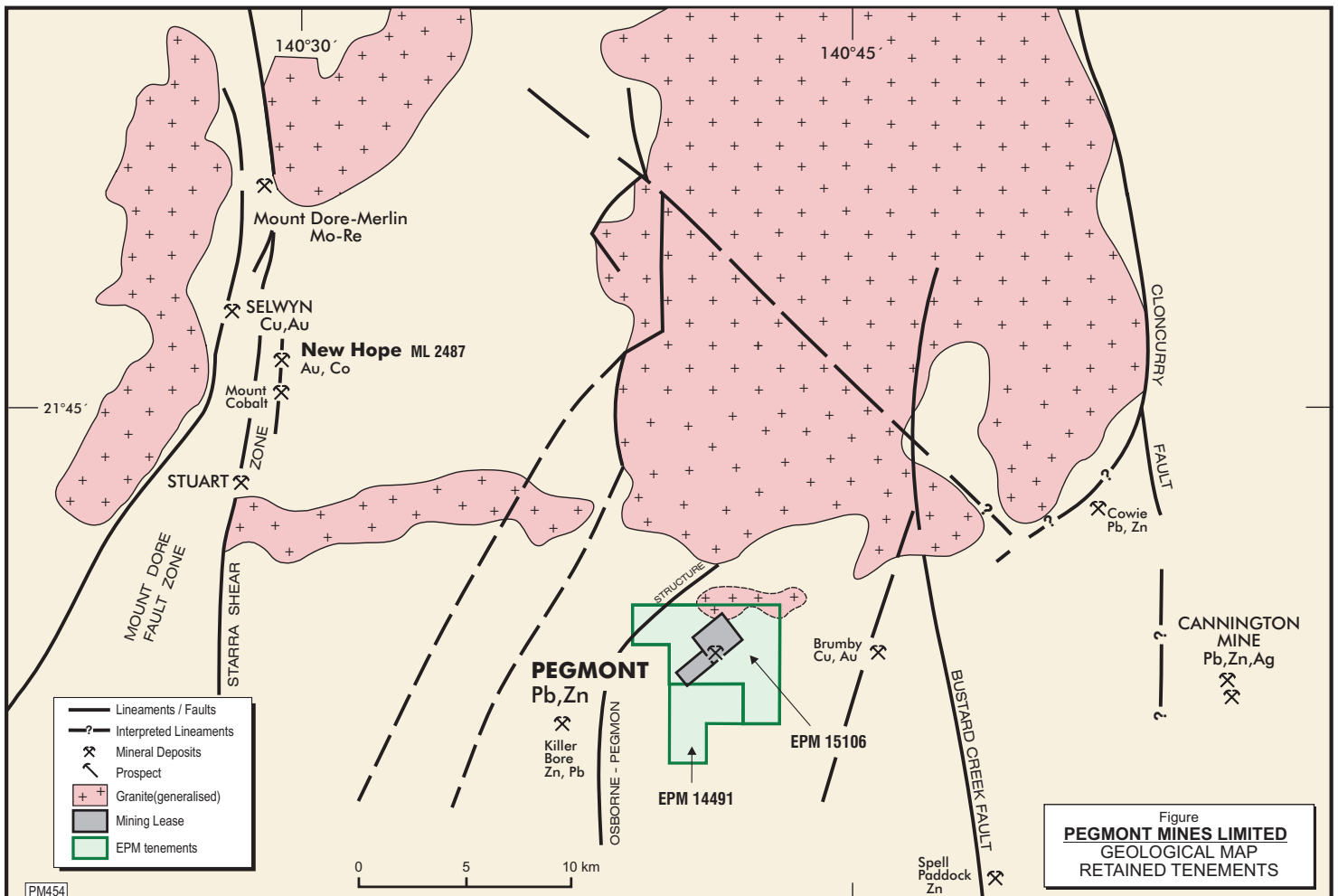
Our financial result for the year was a loss of \$742,180 down 49.3%. Cost cutting resulted in savings of \$720,408, despite increased drill activity.

## 2014 OBJECTIVES

Our goals are to rebuild the Company's working capital position to above \$250,000 by the year end; to finalise an option agreement on the Pegmont lead-zinc tenements to alleviate our expenditure obligations and generate sharetrading profits to reduce net administration costs.

## RETAINED TENEMENTS

The Company's retained exploration tenements are the Pegmont Mining Leases and surrounding EPM sub-blocks together with a small ML at New Hope held 180km south of Cloncurry, N-W Queensland.



## REVIEW OF OPERATIONS

Sharetrading activity during 2013 was curtailed as general investor interest in resource situations wilted because of declining commodity prices, excessively high Australian dollar exchange rate and a negative political/union attitude towards the mining industry. Investors turned their attention to less speculative high yield bank and utility issues.

The trading results for 2013 were:

	2013 Actual \$000	2012 Actual \$000
Gross Trading Revenue	296	1,835
Realised Profit/(Loss)	(221)	(132)
Write-back of previous impairment provisions	176	(104)
<b>Net Trading Loss</b>	<b>(45)</b>	<b>(236)</b>

During the latter part of 2013 and early 2014, a little more interest was shown in metal producers and mine operators as commodity prices bottomed.

**The consolidated net profit/loss** for the year was a loss of \$742,180 (2011- loss \$1,462,588) summarised as follows:

	2013 \$000	2012 \$000
Net Trading Profit/(Loss)	(45)	(236)
Investment income	12	49
Other income	14	2
	<b>(19)</b>	<b>(185)</b>
Administration	(334)	(424)
Exploration	(389)	(854)
<b>Loss before income tax</b>	<b>(742)</b>	<b>(1,463)</b>
Earnings per share-cents	(1.2)	(2.3)

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

**Net Trading Loss** of \$45,405 was due mainly to realisation of previous loss positions to provide ongoing liquidity to fund exploration and administration expenditures. The provision for impairment was reduced by \$176,303 to \$586,625, comprising \$86,328 against the trading portfolio and \$500,297 against seed capital situations.

**Administration costs** were reduced by \$90,000 due to a cut of \$45,000 in Directors' fees and \$45,000 in office and other expenses.

**Exploration expenditure** declined by \$465,232 due to reduced field time and concentration on prepared drill ready targets.

### Metres Drilled

	2013	2012
New Hope	-	-
Pegmont	3,000	1,235
Other prospects	490	414
RC/DD metres	3,490	1,649

Expenditure	\$000	389	854
Drill cost	\$/m	111.5	517.9

Drill meterage cost was significantly reduced by limiting RC drilling to an average depth of 125 metres.

**Company tax** has not been provided or adjusted against profits as there were carried forward losses of \$11,382,000 at 30 June 2013. Exploration and administration expenses are deductible against all income. Furthermore, the Franking account balance is \$4,509,000, equivalent to 6.8 cents per share.

Thus there is a real tax incentive to return the Company's operations to profit. This could be achieved by the disposal of the Pegmont tenements for cash.

# Pegmont Mines Limited

**Gross Trading Revenue** declined to \$296,137 (2012 - \$1,835,143) which realised a loss of \$221,708 (2012 - \$132,282) before write-back of previous provisions for price impairment, \$176,303. Net trading loss was \$45,405 (2012 - \$236,317).

The sharemarket experienced a volatile 2013. The All Ordinaries Index range traded between 4700 and 5400 for most of the year, peaking at 5437 in November and closed at 5353 on 31 December 2013, for a gain of 14.2% for the year. The Materials Index was down 5.26% for the year. However, since the commencement of 2014, the Financials (ex REIT) index was about steady with materials showing some early gains, followed by weakness.

The recent revival of interest in resource producers appears to be a reaction to excessively oversold situations during 2013. The ASX Small Resource Index weekly 10 year chart (see below) suggests that a major bottom at around 2000 has been reached, which was below the crash level of 2008! (vide the following chart)

In summary, 2013 is likely to have found a major bottom for resource issues. That is not to say that share prices will consistently improve from here as the adjustment process following a major boom has yet to work itself out. However, the survivors at year end are likely to experience appreciable price gains on their 2013 lows.

Our investment strategy going forward is to single out a few key resource equities with good management and quality assets, to ride their future price growth.

**Liquidity**, as defined by working capital (being current assets less current liabilities), declined to an unsustainable level of \$10,320 at year end (2012 - \$743,500). This position was due to a net loss of \$742,180 during the year offset by equity increase of \$9,000.

The Board has sought to rectify this situation by since raising \$223,355 (before costs) from one for ten Rights Issue. Furthermore, the Board has the capacity to raise additional equity from placement of shortfall or other shares.



## **CORPORATE REVIEW**

Our Corporate goal is to build a financially strong, independent and self-sustaining resource company.

We do not borrow, or use futures, options or derivatives to undertake investments, but instead rely upon making timely investment decisions.

The Board's policy is to be self-funding which means that we attempt to limit our expenditure to our income. During 2004-2007 this was not difficult as investing income comfortably exceeded expenses. However, 2009 witnessed the collapse of both the equity and commodity markets which resulted in substantial losses for the Company and the withdrawal of Cloncurry Metals Limited from their option to purchase the Pegmont deposit.

This meant that responsibility for developing the Pegmont Project came back to the Company. Our first priority was to evacuate and compile large amounts of geological and geophysical data generated by CLU and BHPB into a JORC resource, completed in February 2011. The regaining of responsibility for Pegmont has exposed the Company to increased expenditure commitments at a time of reduced funding ability.

There are three main pathways for developing the Pegmont Project:

- For the Pegmont deposit to become a satellite mine feeding ore to the Cannington mill (BHPB). This route may reopen when commodity prices improve.
- To develop an independent large scale one million tonne a year lead-zinc operation using standard technology. This option would be very costly and beyond the foreseeable financial resources of the Company or;

- Develop a small stand alone open cut operation within the current Pegmont MLs using modern leach technologies to produce a commercial end product on site. Our metallurgical test work since 2010 has indicated that high temperature leaching may be possible and that the process would be suitable for small scale operations. Further work, including pilot plant testing is required to validate the leaching process.

This option could have considerable appeal to an incoming party as there already exists a medium grade resource within a Mining Lease plus considerable potential in EPM 15106.

During 2014, we intend to drill test grid section 4100N at 100 metre spacing to PMR 141 for continuity of two zones of mineralisation. If successful; Potential Mineralisation of up to 9Mt would extend some 350 metres east of our nearest mineralised hole at 5250E, considerably adding to the Intrinsic Value of the Pegmont Project.

Meanwhile our investing activities will be directed towards short term trades in keeping with the choppy nature of the market.

## **CORPORATE STRATEGY - 2014**

- Our exploration focus is on improving the Intrinsic Value of the Pegmont lead-zinc deposit.
- Our immediate aim is to option/lease out this project to alleviate our exploration expenditure obligations.
- Thereby releasing liquidity to regain critical mass in our share investment activity.

# Pegmont Mines Limited

---

## 2014 PROPOSED ACTIVITIES

The following indicative comments about 2014 proposed activities are provided for shareholder and investor information.

Future activities will continue to involve:

- Sharetrading in order to generate income and;
- Exploration activities to provide capital growth opportunities.

## SHARETRADING

Due to limited working capital; sharetrading activity is likely to be very constrained and confined to resource producers with proven management and high quality assets.

	2014 \$000	2013 \$000
Gross share turnover	400	296
Share trading profit/(loss)	40	(45)
Dividends and interest	10	12
Net trading income after provisions	50	(33)

The new year has started positively with renewed investor interest in a few resource producers, particularly in the gold and petroleum sectors. Continued interest is expected as tension between Russia and Western Europe over the Ukraine may not be resolved quickly.

## EXPLORATION ACTIVITY

Since the Company's tenement portfolio is now concentrated around the Pegmont MLs, future activity will be focused on delineating sulphide resources sufficient to support a commercial operation of one million tonnes per year.

During 2013, the Company was able to drill 3,000 metres at Pegmont at an average cost of \$111 per metre. Cost increase to \$115 per metre during 2014 is likely. Thus, a budget of \$350,000 has been set, excluding \$25,000 for a new low level aeromagnetic survey.

In the event that Vendetta Mining Corp decides to proceed with their L.O.I., then they would bear the above costs.

## ADMINISTRATION COSTS

Although future savings are expected, administration fees have already been cut to the bone:

	2014 \$000
Audit and Directors Fees	135
Stock exchange and registry	25
Secretarial and office expenses	50
Other expenses	65
	<u>275</u>

Thus, indicative income and expenditure for 2014 are forecast to be:

	2014 \$000	2013 \$000
Sharetrading profit/(loss)	50	(45)
Other income	-	26
	<u>50</u>	<u>(19)</u>
Exploration	(375)	(389)
Administration	(275)	(334)
Net expenditures	<u>(600)</u>	<u>(742)</u>

Actual results of Company performance could differ materially from these forward looking estimates. However, the emphasis will remain on cost reduction and limited risk exposure. These estimates are targets and subject to considerable uncertainty.

## WORKING CAPITAL

There is a significant gap between the working capital balance of \$10,320 at 31 December 2013 and our net expenditure forecast of \$600,000 for the year. This deficiency may be overcome by:

- Equity raisings
- Sale of Pegmont

## EQUITY RAISINGS

The company has recently raised \$223,355, before expenses, from a one for ten Rights



Issue. There was a shortfall of \$142,000 which is able to be placed by 30 April at no less than 6 cents per share.

In addition, the Board has placement ability of 15% of the capital of the Company in any one year, totaling some 10 million shares.

The combination of these two facilities exceeds \$700,000 at 6 cents per share.

## **SALE OF THE PEGMONT LEAD-ZINC DEPOSIT TO ENHANCE LIQUIDITY**

Not only would the sale of the Pegmont deposit enhance our short term cash position and reduce our immediate exploration outgoings but it could enhance future royalty cash flow and our ability to conduct extended exploration in the Mount Isa region.

Although no reliance can be placed on the L.O.I. with Vendetta Mining Corp proceeding, the Board is of the opinion that the bottom of the junior explorer cycle has been reached and that it is only a matter of time before a deal on the Pegmont project can be struck.

## **The Intrinsic Value of Pegmont**

The lead-zinc industry is faced with several significant mine closures during the next two years, including the Century Mine in N-W Queensland and the Sullivan Mine in Canada. Also, the large Dugald River (Zn, Pb) mine development north of Cloncurry has been deferred. Consequently, industry supply/demand estimates indicate a looming shortage of lead and zinc supplies and an increase in prices for both metals over the next two years.

Meanwhile, average mine grades are dropping around the world to around 5-6% Pb + Zn as new mine developments are brought into production at comparable grades with those at Pegmont.

Future world demand for lead is expected to rise consistently by about +3%p.a. as China promotes consumerism (ie cars and motorised bikes) to continue building its economy and provide jobs to its rural migrants.

Thus, the relative attractiveness of the Pegmont deposit is improving and hence there is a developing interest from overseas investors.

The Pegmont Lead – Zinc deposit has been regarded as a marginal deposit since discovery in 1971; due to

- Limited resources
- Sub-economic grades
- Lack of infrastructure

This perception is changing:

Continued exploratory drilling has indicated that mineralisation is not confined to a single BIF horizon, but may conform to the usual multi-stacked layer model of Broken Hill type deposit. This possibility is emerging in Target Area 2, where there is evidence of multi-mineralised zones in nine (9) holes. This has the potential for significantly increasing tonnage potential.

Furthermore, there is a “similarity between the sulphide-bearing rock unit at Pegmont and the so-called market bands (or MA units) that occur in the hanging wall of the Cannington deposit” – Pat Williams, James Cook University 1997. Also, there is a common occurrence of (low grade) Cu and Au mineralisation dispersed with economic concentrations of Pb + Zn. This is best exemplified by some of the Zn lodes at Cannington. Walters and Bailey (1996) quote grades of 0.11% Cu and 0.27% g/t Au in the “Colwell” style Zn mineralisation, being of similar tenor to that found at the Pegmont Main Lode.

Pb + Zn grade intersected in both Target Areas 1 and 2 indicate a wide variation of up to 8m @ 12.7% Pb + Zn (in PMR 141) in Area 2 and 8m @ 14.1% Pb + Zn (in PMR 109) in Area 1. These are attractive grades and suggest scope for selective mining and treatment, should tonnage increase.

Power (natural gas pipe line within 12km) and water infrastructure is available in the area together with roads and tracks. Upon development Pegmont would have its own airstrip for fly in/fly out.

Thus the Pegmont deposit is emerging as a next generation Lead – Zinc development.

## EXPLORATION REGIONAL POTENTIAL ACTIVITIES

The Company's exploration activities are focused on North-West Queensland within the Mount Isa-Cloncurry mineral province. This province contains World Class base metal deposits; Century (Zn), George Fisher (Zn, Pb), Mount Isa (Cu, Zn, Pb), Ernest Henry (Cu, Au), Cannington (Pb, Ag) and Mount Dore-Merlin (Cu, Au, Mo, Re).

The Pegmont lead-zinc deposit is located in the Eastern Succession of the Mount Isa inlier, south of Cloncurry; within the Selwyn-Cannington-Osborne base metal area.

Near by major deposits are:

Cannington *	47Mt @ 10.7% Pb, 4.6% Zn, 470ppm Ag
Starra *	10.5Mt @ 1.96% Cu, 3.3g/t Au
Mt Elliot/Swan **	264Mt @ 0.62% Cu, 0.36g/t Au
Merlin **	6.9Mt @ 1.4% Mo, 23g/t Re
Osborne *	11.2Mt @ 3.5% Cu, 1.5g/t Au
<b>Pegmont **</b>	<b>8.8Mt @ 5% Pb + Zn (2011)</b>

\* These deposits are in production, tonnage equals past production plus remaining resources.

\*\* These deposits are at the exploration or preproduction stage of development.

The Pegmont region is very prospective and attracts considerable activity. It has the following attributes:

- High incidence of Cu-Au and Pb-Ag-Zn mineralisation.
- Major crustal structures related to known deposits.
- Proximity to major mine infrastructure, roads and access to a natural gas pipeline from the Cooper Basin.

The Company has continuously explored the region since acquiring the Pegmont deposit in 1996. In so doing, it has discovered the high grade New Hope gold-cobalt deposit.

## PEGMONT TENEMENTS

The Pegmont Project tenements comprise:

- MLs 2620, 2621 and 2623
- EPM 15106, eight sub-blocks
- EPM 14491, three sub-blocks

Total area about 38km<sup>2</sup>.

The Company is making application to retain all sub-blocks (see tenement map on page 2).

**Mining Lease** MLs 2620, 2621 and 2623 cover the Pegmont Pb/Zn BIF outcrop discovery. Most resource delineation has occurred on these MLs. However, infill drilling is required to upgrade resource estimates for scoping and feasibility studies.

**EPM 15106** surrounds these MLs, including the down dip extensions of the BIF horizon hosting the Pb - Zn mineralisation. The bulk of the Mineralised Potential of 9-15Mt @ 4.5% Pb+Zn occurs within EPM 15106. Extensional drilling, will be undertaken this year to confirm this potential.

**EPM 14491** lies adjacent to the southern boundary of EPM 15106. Previous work includes ground magnetic surveys and only 220 metres of drilling conducted during 1982 and 1983. No additional work has been undertaken since. These three (3) sub-blocks are a grass roots play based upon interpreted magnetic anomalies (developed from MIM data, dated 1992-4), associated with interpreted structures. An updated and more detailed aeromagnetic survey will be undertaken to better define target areas for drilling. Anomaly K appears most interesting.

## PEGMONT Pb-Zn PROJECT

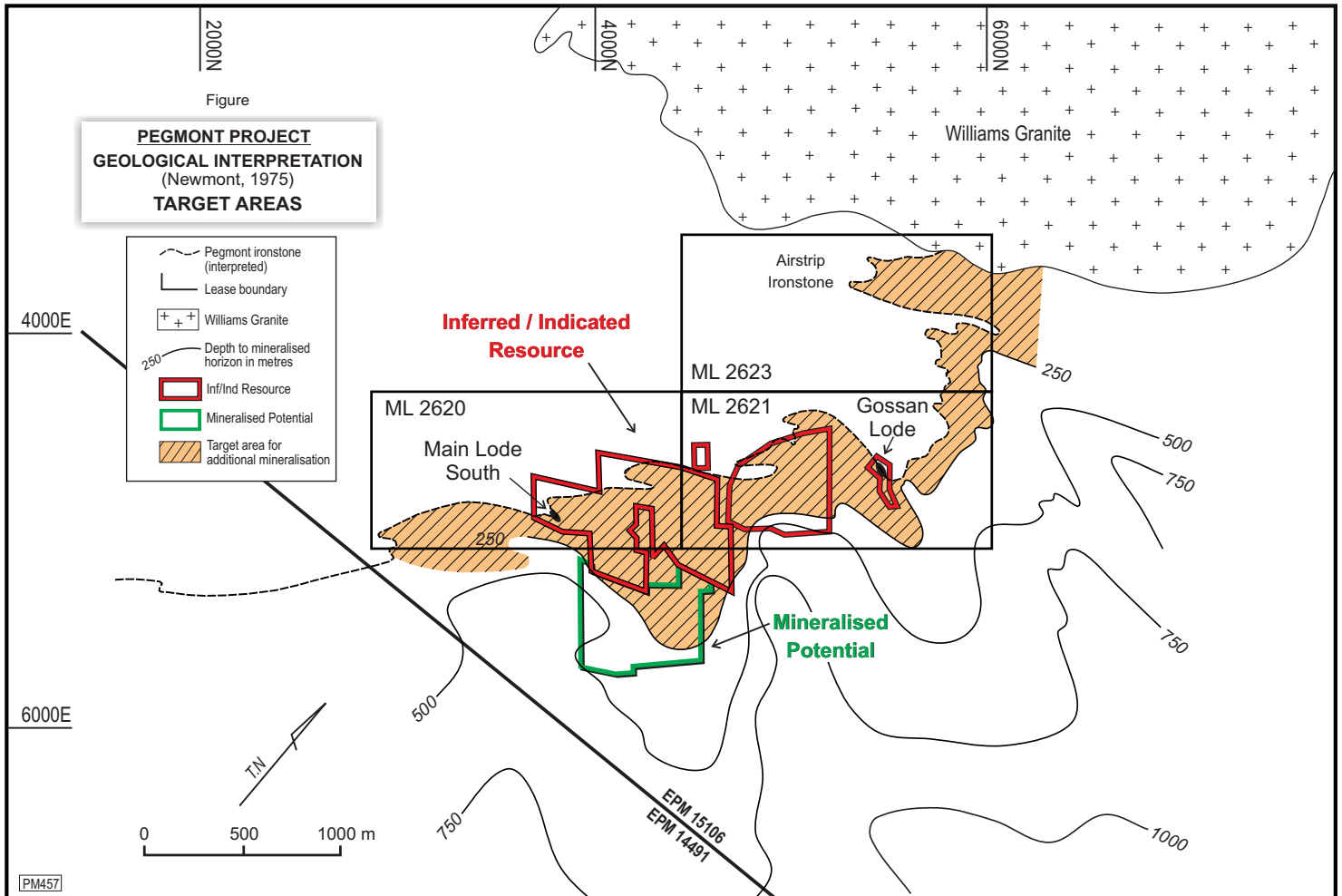
Pegmont was discovered in 1971 by Placer Prospecting (Australia) Pty Ltd and was subsequently acquired by Pegmont Mines Limited in 1996 from a consortium of major companies.

## PEGMONT “RESOURCE” HISTORY

### Date

1971	Discovered in 1971 by Placer Prospecting (Australia) Pty Ltd	
1975	Ore “Reserve” of 11.1Mt of 7.6% lead, 3.1% zinc, 10g/t silver by Newmont Mining (Reclassified as Inferred Resources under JORC guidelines) Based on 81 RC/DD drill holes totaling 9,469m	Oxide 4.5Mt @ 6.4% Pb, 2.3% Zn Sulphide 6.6Mt @ 8.4% Pb, 3.7% Zn
1996 Dec	Resource Re-assessment: 8.5Mt of 7.75% Pb, 3.46% Zn by Behre Dolbear Indicated: 3.7Mt of 7.35% Pb, 3.77% Zn Inferred: 4.6Mt of 8.07% Pb, 3.22% Zn	Oxide 4.3Mt @ 7.45% Pb, 2.70% Zn Sulphide 4.0Mt @ 8.07% Pb, 4.2% Zn
2011 Feb	Resource Estimate at 3% Pb + Zn cut off: 8.8Mt of 5% Pb + Zn by JM Geological Consulting Pty Ltd Indicated: 1.6Mt of 4.7% Pb + Zn Inferred: 7.2Mt of 5.0% Pb + Zn Based on 381 RC/DD drill holes totaling 40,409m	Oxide 2.8Mt @ 2.9% Pb, 1.3% Zn Sulphide 6.0Mt @ 3.7% Pb, 1.6% Zn

Most of the Resource drilling has focused on shallow mineralisation from outcrop to the 250 metre contour shown as the shaded area in the following map. However, the best opportunity to increase both grade and tonnage lies in the “Mineralised Potential” which extends to grid south. This potential has been estimated at between 9-15Mt of similar grade, subject to drilling. Our 2014 drill program will target this area.



## EXPLORATION ACTIVITY – 2013

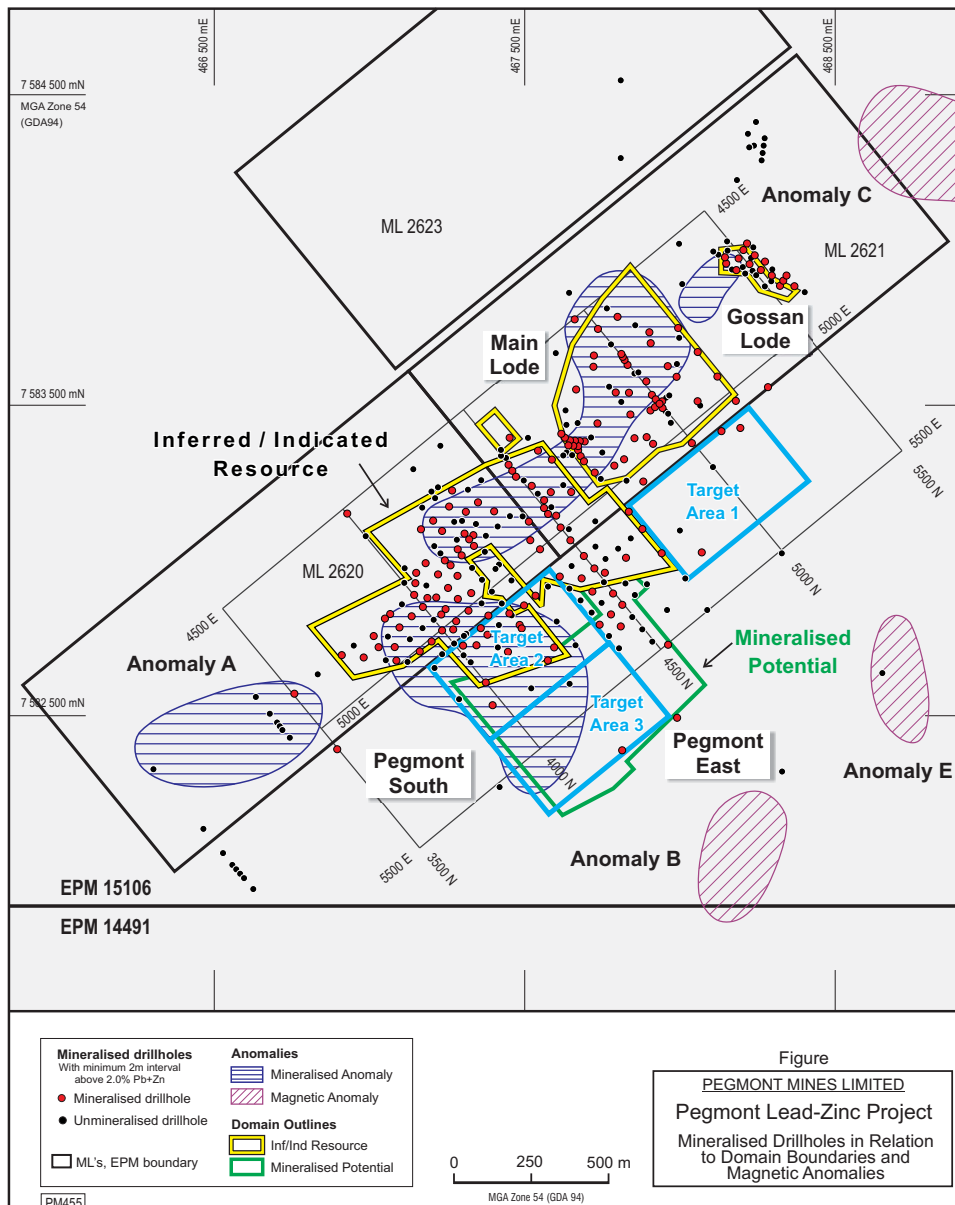
The Company's exploration activity during 2013 was mainly focused on the Pegmont deposit. Extensional RC drilling was between Target Areas 1 and 2 in EPM 15106 as outlined by JM Geological Consulting Pty Ltd in their Pegmont Resource study 2011 – see the following map.

### At Pegmont

An infill and extensional RC drill program of 22 holes totaling 3,000 metres was completed over a strike length of 250 metres, on a 50 metre grid. All holes were vertical. We were a little disappointed that only 8 holes intersected greater than 1% combined Pb and Zn mineralisation (as reported on 30 August 2013). Several holes had intersected

pegmatite at the target depth that may have displaced mineralisation. Also, faulting was evident which indicated greater structural complexity than our modeling anticipated. Future infill drilling may resolve these questions. Two holes also intersected low grade copper and gold values (around 0.3% Cu plus 0.2-0.3 g/t Au) which is suggestive of the presence of an underlying intrusive.

It is worth noting that of the 8 holes intersecting mineralisation, the average intercept was 3.75m at a weighted average grade of 8% Pb+Zn. PMR 275 intersected 5 metres averaging 6.3% Pb and 2.9% Zn from 147 metres at 4700N, 5100E. This result may be indicative of an increasing tenor of mineralisation to grid east.



In **EPM 14491**, 2013 exploration drill tested SC-3 and SC-8 anomalies that had been developed from geophysical targets, mapping and rock chip sample results. Three shallow inclined RC holes were drilled into each prospect totaling 490 metres. Assay results were disappointing compared with surface sampling. Consequently, a decision was made to relinquish these two prospect areas, leaving only three sub-blocks in the Pegmont Project area within EPM 14491 as our focus of activities over the next three years.

## Exploration Program – 2014

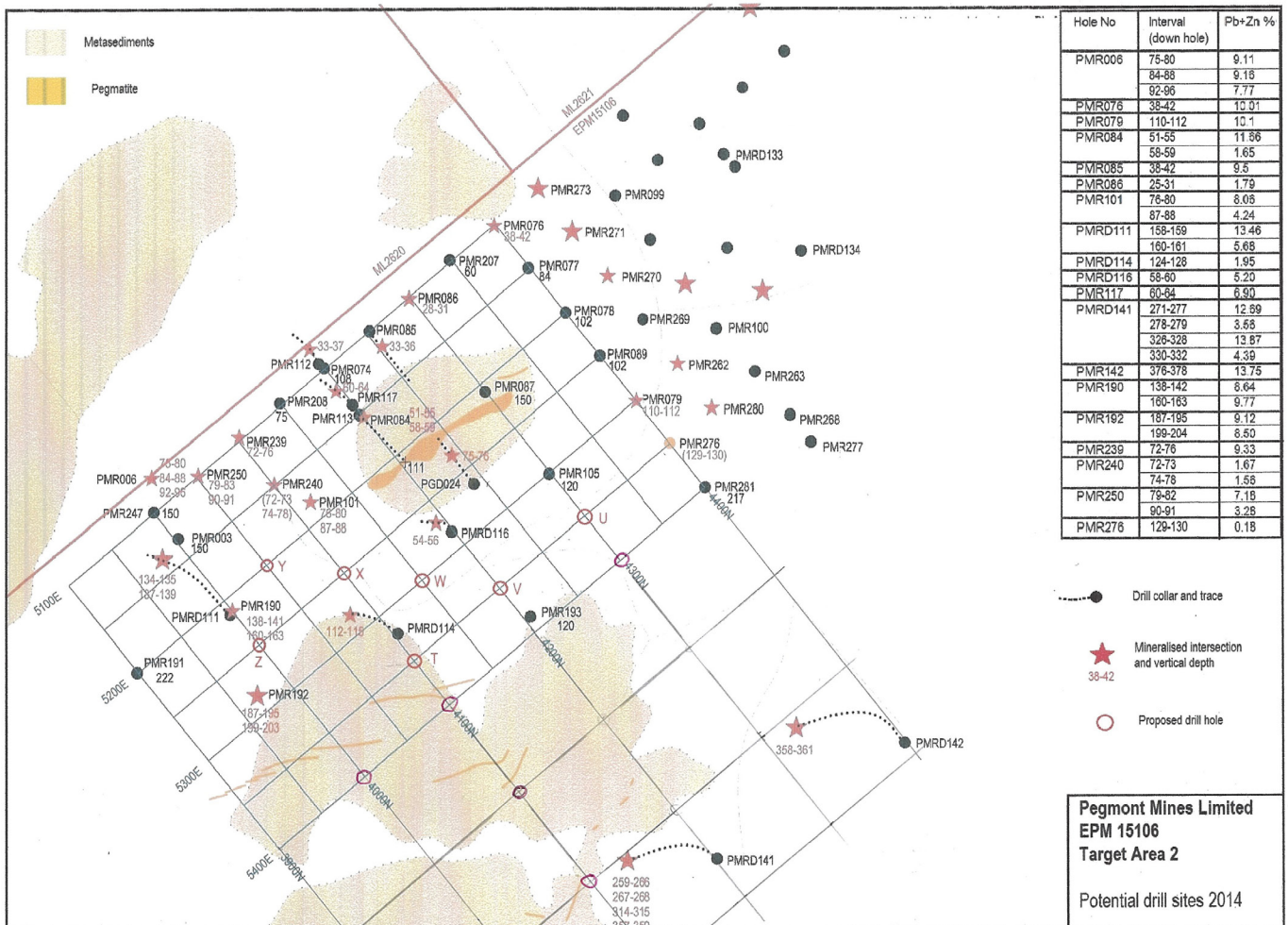
A detailed aeromagnetic survey of 50 metre line spacing covering 42km<sup>2</sup> is planned for April. Interpretation of the generated data will provide the basis for drilling in both EPMS 15106 and 14491. This survey is expected to cost about \$25,000 including interpretation and recommendations.

In **EPM 15106** 2,200 metres of RC drilling will mainly be undertaken in Target Areas 2 and 3 in order to extend previously intersected high grade, (+8% Pb + Zn), mineralisation and to confirm mineralised potential to PMRD 141.

In **Area 1** previous drill results included PMR 275 (5m @ 9.2% Pb + Zn) PMR 138 (4m @ 12.2% Pb + Zn) on 4700N and PMRD 124 (8.0m @ 14.1% Pb + Zn) on 5100N.

In **Area 2**, there are a number of drill holes between 3950N and 4150N which made double intersections having grades of +8% Pb + Zn, generally above 200m depth. This area will be tested by vertical drill holes – see map of mineralised drillholes in relation to Domain Boundaries and Magnetic Anomalies on page 10 and the following map.

Our drill grid will be extended 250 metres east to include deep drilling around PMRD 141 which made three intersections of 6m @12.6% Pb + Zn from 271m, 2m @ 13.9% from 326m and 2m @ 4.4% from 330m.



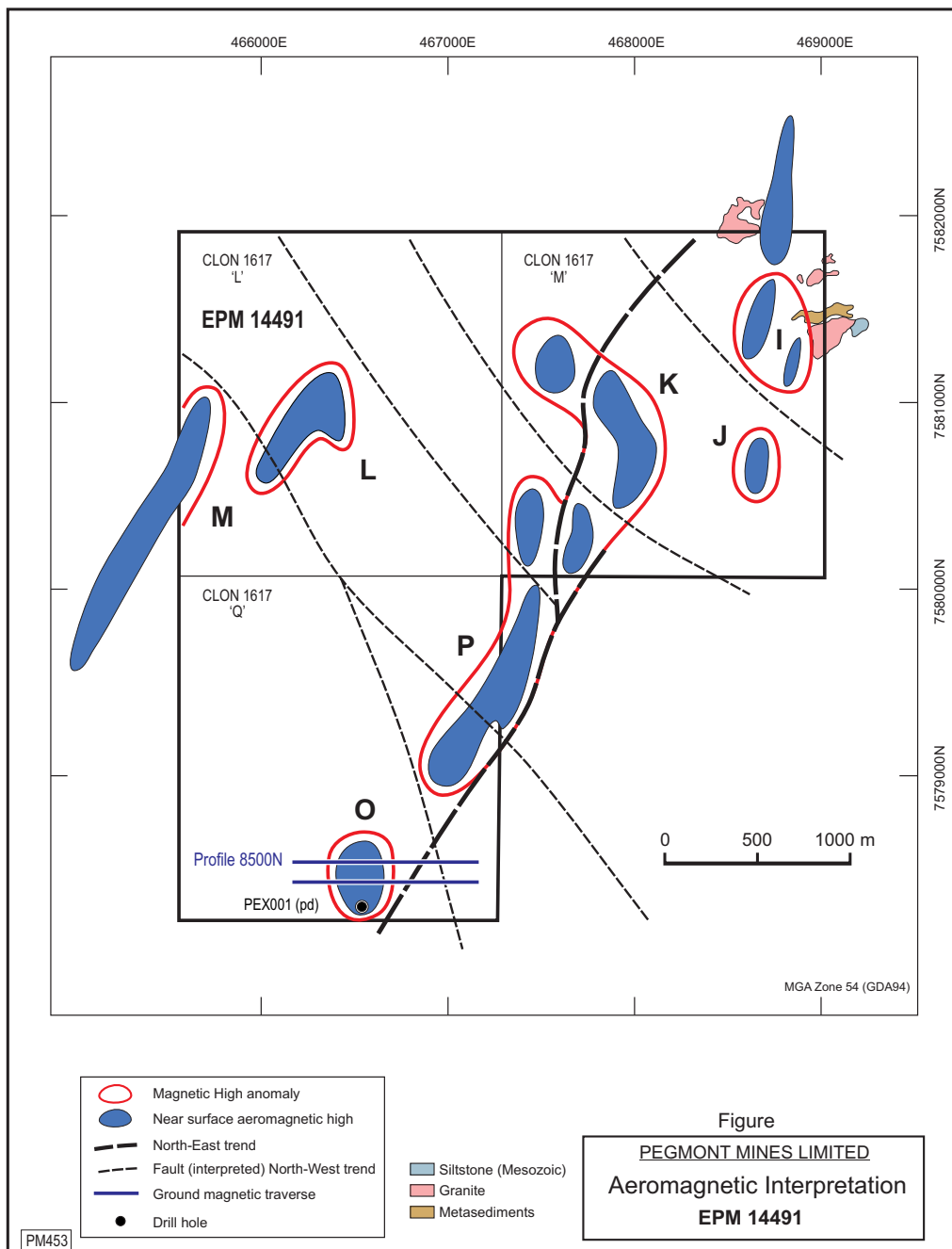
## EPM 14491 - 2014

The three remaining sub-blocks in EPM 14491 have received minimal historic exploration activity including ground magnetic lines and 220 metres of RC drilling at location PEX001 during the 1980s. Subsequent aeromagnetic survey at 400 metre line spacing was flown during 1992-94 which upon reinterpretation has indicated a number of magnetic anomalies, including K, P and O, see the following map.

It is intended to commence a grass-roots program during 2014 by undertaking a low level (45m) aeromagnetic survey at 50m line spacing over all the Pegmont Project area, including the three sub-blocks, to be followed by ground mapping and (rock chip) sampling of anomalies K, P and O for drill target generation.

A follow up program of 6 RC holes totaling 800 metres would then be undertaken.

Should any mineralisation be intersected, it would significantly add to the Pegmont Project potential.



## Pegmont Mines Limited

### 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, particularly around the **Anthill** prospect, some 40km south of their **Mount Kelly operations**.

Current operations mine and leach oxide ores, to produce copper pregnant solutions which are then processed by a Solvent Extraction-Electrowinning (SX-EW) plant to produce Grade "A" cathode copper. Cumulative production from the Reefway Royalty Areas totaled 38,177 tonnes to 31 December 2013 from the Mount Kelly Tenements.

CST Mining has applied for a Mining Lease at Anthill, which when granted could accelerate production from around 5,000 tonnes to 10,000 tonnes of cathode annually. Granting of the ML is expected to be made towards the end of April 2014 and depending upon metal prices and the Aussie exchange rate, approval to commence mine development could be made by year end.

Underlying the oxide ore zones, there are generally higher grade transition zones and

primary sulphide source rocks. CST Mining has commenced an appraisal program of these associated copper mineralised targets to prolong and possibly expand the operational life of the mine.

The Reefway Royalty Agreement of 28 September 2004 provides for the payment of 1% NSR royalty after the production of 100,000 tonnes of copper metal.

Because of the deferred nature of this potential income, a nominal value of \$100,000 is included in the Company's Accounts at 31 December 2013. Should CST Mining be granted a Mining Lease at Anthill and commence mine development, then the board may review this nominal asset value.

The following tenements 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

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

### EXPLORATION TENEMENTS (including Mining Leases)

Tenement	Name	Status	Registered Holder	Date of Grant	Date of Expiry	Area (sq km)
ML 2620	Pegmont No.1	Granted	Pegmont Mines Ltd	01.02.2012	31.01.2022	1.3
ML 2621	Pegmont No.2	Granted	Pegmont Mines Ltd	01.02.2012	31.01.2022	1.3
ML 2623	Pegmont No.3	Granted	Pegmont Mines Ltd	01.02.2012	31.01.2022	1.3
EPM 14491	Pegmont Extd 2	Granted	Pegmont Mines Ltd	11.08.2006	10.08.2016	10.2
EPM 15106	Pegmont Extended	Granted	Pegmont Mines Ltd	11.08.2006	20.08.2016	25.6
ML 2487	New Hope	Granted	Pegmont Mines Ltd	03.09.2009	31.12.2018	0.8

EPMs 17052, 17053 and 18347 have been relinquished.

A map on page 2 depicts the Company's current tenement holdings after relinquishments.

During the year Mining Lease, ML 2620, 2621 and 2623 were renewed for a further 10 years to 31 January 2022. They cover the outcrop of the Pegmont lead-zinc deposit, whilst the down dip extensions are covered by EPM 15106.

# Pegmont Mines Limited

## FINANCIAL CONDITION

The Company's Net Assets at 31 December 2013 were \$3,355,745 (2012 - \$4,238,925), a decline of \$883,180.

	<b>2013</b>	<b>2012</b>
	<b>\$000</b>	<b>\$000</b>
Current Assets	156	847
Current Liabilities	(146)	(103)
Working Capital	10	744
Non-Current Assets	3,345	3,495
Non-Current Liabilities	-	-
Net Assets	3,355	4,239

The Net Assets difference reflects the year's Net Loss of \$742,180 a write down of \$150,000 in regional exploration tenements and \$9,000 issue of shares to contractors made during the year.

### Working Capital

The Company's working capital position at 31 December 2013 was \$10,320 after including \$80,000 in deferred Directors' fees (being included in current liabilities).

Cash balances declined from \$520,330 to \$18,550, due to a loss before income tax of \$742,180 being partly offset by a reduction in other current assets of \$188,455 and an increase in current liabilities of \$42,945 and an increase in issued capital of \$9,000, summarised as follows.

	<b>2013</b>	<b>2012</b>
	<b>\$000</b>	<b>\$000</b>
Pre Tax Loss	(742)	(1,463)
Less,		
increase in Payables	43	49
reduction in other assets	188	(88)
share issue	9	215
Cash movement	(502)	(1,287)

## Non-Current Assets

	<b>2013</b>	<b>2012</b>
	<b>\$000</b>	<b>\$000</b>
Pegmont field camp	100	100
Pegmont deposit	3,000	3,000
Regional tenements	-	150
Reefway royalty	100	100
New Hope deposit	145	145
	3,345	3,495

Non-current assets decreased by \$150,000 due to the write off of Regional Tenements (at valuation) against Asset Revaluation Reserve. This means that only a value for the Pegmont deposit within the Mining Leases are carried forward in the accounts, since all exploration expenditure is written off when incurred.

The current value of \$3.0 million placed on the Pegmont deposit compares with the Letter of Intent offer by Vendetta Mining Corp of \$3 million plus \$1 million worth of shares plus a deferred 1.25% NSR royalty payable after recoupment of \$4 million.

### General Comment

The Company's financial position has since been strengthened by a Rights Issue which raised \$233,355 (before expenses) to provide interim working capital. Further action is required by either selling the Pegmont deposit or by additional equity raising (by placements) to cover ongoing expenses.



# Pegmont Mines Limited

## SUMMARY OF FINANCIAL RESULTS

Financial Results at 31 December	2013 \$000	2012 \$000	2011 \$000	2010 \$000	2009 \$000
Gross Trading Revenue	296	1,835	7,235	18,660	20,940
Net Trading Profit/(Loss)	(45)	(236)	(997)	245	3,051
Exploration	(389)	(854)	(1,250)	(1,107)	(806)
Administration	(334)	(424)	(844)	(604)	(617)
Net Profit/(Loss) before tax	(742)	(1,463)	(3,003)	(1,369)	1,687
Net Profit/(Loss) after tax	(742)	(1,463)	(3,003)	(1,369)	1,687
Cash	19	520	1,807	2,149	1,014
Investments	88	252	168	1,872	4,289
Working Capital	10	744	2,024	4,125	5,407
Total Assets	3,502	4,342	5,741	7,881	9,206
Total Liabilities	146	103	55	47	27
Shareholders' Funds	3,356	4,239	5,687	7,834	9,179
Contributed Equity	3,980	3,971	3,756	2,900	2,875
Earning per share (E)	cents (1.2)	(2.3)	(5.0)	(2.7)	3.3
Dividends per share	cents -	-	-	-	0.5
Net Tangible Assets per share	cents 5.4	6.8	9.4	15.2	17.9
Working Capital per share	cents 0.0	1.2	3.4	8.0	10.5
Share Price (last sale)	cents 6.0	9.0	9.0	10.0	8.0
Price Earnings ration P/E	-	-ve	-ve	-ve	2.4
Shares on Issue	000 62,699	62,549	60,374	51,476	51,161

## 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 \$12,380,000 (after provisions) over nine years from Gross Trading Revenue of \$122,411,000 at an average margin of 10.1% on turnover. During this period the Company has expended funds on exploration \$6,246,000, administration \$5,650,000, taxation \$4,629,000 and distributed dividends of \$1,375,000. This activity sustained the Company until 2011 when investment losses were incurred and replacement capital raised.

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 reduced market interest in resource equities and greater volatility caused by intense fiscal and monetary action in major economies.

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. A one for ten Rights Issue at 6 cents per share raised \$233,355 in February 2014.

We are confident that world economic growth will continue, led by USA, which should translate into greater investor interest in resource equities.

## **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.

# Pegmont Mines Limited

---

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 2013.

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

The Company received approximately 100% of "yes" votes on its remuneration report for the 2012 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

# Pegmont Mines Limited

---

## **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.

## **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, 2013 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 \$742,180 (2012 - loss \$1,462,588).

### **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 2013.

### **Options over Unissued Capital**

The total number of options issued as at 31 December 2013 was NIL (2011-NIL). At 31 December 2013 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 2013.

# Pegmont Mines Limited

---

## 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 2013 financial report; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

### Mr. Rolf Garda

Lead Auditor

## Meeting of Directors

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

Mr. John M Armstrong	5
Mr. Malcolm A Mayger	5
Mr. David R Curtis	2

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 78 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 74 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 50, 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 Payments	Total
	Salary & Fees	Non Monetary	Superannuation	Retirement benefits		
	\$	\$	\$	\$	\$	\$
<b>Directors</b>						
John Armstrong						
2013	40,000	-	-	-	-	40,000
2012	43,750	-	-	-	-	43,750
Malcolm Mayger						
2013	60,000	-	-	-	-	60,000
2012	90,375	-	-	-	-	90,375
David Curtis						
2013	10,000	-	-	-	-	10,000
2012	21,250	-	-	-	-	21,250
<b>Other key management personnel</b>						
Chris Leslie						
2013	15,150	-	-	-	-	15,150
2012	50,650	-	-	-	-	50,650
<b>Total key management personnel compensation</b>						
2012	125,150	-	-	-	-	125,150
2012	206,025	-	-	-	-	206,025

## Service agreements

Malcolm Mayger, Managing Director:

Pursuant a Service Agreement, which commenced on 25<sup>th</sup> 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 31/12/2012	Acquired/(Disposed) during the year	Shares at 31/12/2013
J M Armstrong	Direct	88,750	-	88,750
	Indirect	750,000	-	750,000
D R Curtis	Direct	412,500	-	412,500
	Indirect	2,450,162	-	2,450,162
M A Mayger	Direct	400,000	-	400,000
	Indirect*	33,460,000	-	33,460,000
		<b>37,561,412</b>	-	<b>37,561,412</b>

\*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: 31 March 2014

## 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 2013 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, 31 March 2014

## FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

### Income Statement

For The Year Ended 31 December 2013

		Consolidated		Parent Entity	
	Note	2013	2012	2013	2012
		\$	\$	\$	\$
<b>Revenue from continuing operations</b>					
Gross revenue from share trading		296,137	1,835,143	296,137	1,835,143
Cost of sales		517,845	1,967,425	517,845	1,967,425
Revenue from sale of shares		(221,708)	(132,282)	(221,708)	(132,282)
Write back (increase) of provision for shares		176,303	(104,035)	176,303	(104,035)
<b>Net trading profit after provisions</b>					
Interest received or due and receivable from other Corporations		12,032	48,948	12,032	48,948
Dividends received		250	-	250	-
Other revenue		14,075	2,750	14,075	12,750
<b>Expenses from continuing operations</b>					
Audit fees		(15,000)	(20,000)	(15,000)	(20,000)
Directors fees		(110,000)	(155,375)	(110,000)	(155,375)
Exploration written off		(388,545)	(853,777)	(388,545)	(853,777)
Impairment for subsidiaries		-	-	(2,500)	(12,500)
Stock exchange fees		(11,830)	(13,297)	(11,830)	(13,297)
Share registry fees		(13,002)	(9,046)	(13,002)	(9,046)
Secretarial & office expenses		(70,978)	(117,991)	(70,978)	(115,491)
Superannuation		(6,377)	(19,481)	(6,377)	(19,481)
Other expenses from ordinary activities		(107,400)	(89,002)	(104,900)	(89,002)
<b>Profit before income tax</b>					
Income tax attributable	2	-	-	-	-
<b>Profit attributable to members of Pegmont Mines Ltd</b>					
Earnings per share for profit attributable to the ordinary equity holders of the Company	19	(0.012)	(0.023)	(0.012)	(0.023)

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

## FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

### Balance Sheet

As At 31 December 2013

	Note	Consolidated		Parent entity	
		2013	2012	2013	2012
		\$	\$	\$	\$
<b>Current Assets</b>					
Receivables	3	50,439	74,402	50,439	74,402
Available for sale financial assets	4	87,609	252,101	122,941	289,933
Cash and cash equivalents	5	18,550	520,330	18,548	520,328
<b>Total Current Assets</b>		<b>156,598</b>	<b>846,833</b>	<b>191,928</b>	<b>884,663</b>
<b>Non-Current Assets</b>					
Held-to-Maturity Investments	6	-	-	2	2
Property, Plant & Equipment	7	100,000	100,000	100,000	100,000
Mineral Tenements	8	3,245,425	3,395,425	3,245,425	3,395,425
<b>Total Non-Current Assets</b>		<b>3,345,425</b>	<b>3,495,425</b>	<b>3,345,427</b>	<b>3,495,427</b>
<b>Total Assets</b>		<b>3,502,023</b>	<b>4,342,258</b>	<b>3,537,355</b>	<b>4,380,090</b>
<b>Current Liabilities</b>					
Payables	9	146,277	103,333	181,610	141,165
<b>Total Liabilities</b>		<b>146,277</b>	<b>103,333</b>	<b>181,610</b>	<b>141,165</b>
<b>Net Assets</b>		<b>3,355,744</b>	<b>4,238,925</b>	<b>3,355,745</b>	<b>4,238,925</b>
<b>Equity</b>					
Contributed equity	10	3,979,800	3,970,800	3,979,800	3,970,800
Reserves	11	4,206,193	4,356,193	4,206,193	4,356,193
Retained profits	11	(4,775,982)	(4,033,801)	(4,830,248)	(4,088,068)
Total parent entity interest		3,410,011	4,293,192	3,355,745	4,238,925
Outside equity interests in controlled entities		54,267	54,267		
<b>Total Equity</b>		<b>3,355,744</b>	<b>4,238,925</b>	<b>3,355,745</b>	<b>4,238,925</b>

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

**FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2013

**Statement of Changes in Equity**

For the year ended 31 December 2013

	Consolidated		Parent entity	
	2013	2012	2013	2012
	\$	\$	\$	\$
<b>Total equity at the beginning of the financial year</b>	<b>4,238,925</b>	<b>5,686,584</b>	<b>4,238,925</b>	<b>5,686,584</b>
<b>Total recognised income and expense for the year</b>	<b>(742,180)</b>	<b>(1,462,588)</b>	<b>(742,180)</b>	<b>(1,462,588)</b>
<b>Transactions with equity holders in their capacity as equity holders:</b>				
Shares issued- note 10	9,000	214,929	9,000	214,929
Revaluation of exploration areas	(150,000)	(200,000)	(150,000)	(200,000)
<b>Total equity at the end of the financial year</b>	<b>3,355,745</b>	<b>4,238,925</b>	<b>3,355,745</b>	<b>4,238,925</b>
Total recognised income and expense for the year is attributable to:				
Members of Pegmont Mines Ltd	(742,180)	(1,462,588)	(742,180)	(1,462,588)
Minority interests	-	-	-	-
	<b>(742,180)</b>	<b>(1,462,588)</b>	<b>(742,180)</b>	<b>(1,462,588)</b>

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

## FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

### Cash Flow Statement

For The Year Ended 31 December 2013

	Note	Consolidated		Parent entity	
		2013	2012	2013	2012
		\$	\$	\$	\$
<b>Cash Flows from Operating Activities</b>					
Cash receipts in the course of operations		26,357	51,698	26,357	61,698
Cash payments in the course of operations		(556,295)	(590,194)	(553,795)	(587,694)
<b>Net cash from operating activities</b>	17	<b>(529,938)</b>	<b>(538,496)</b>	<b>(527,438)</b>	<b>(525,996)</b>
<b>Cash Flows from Investing Activities</b>					
Purchase of plant, property & equipment		-	-	-	-
Payments for investment securities		(436,295)	(1,895,810)	(436,295)	(1,908,310)
Exploration expenditure		388,545	853,777	388,545	853,777
<b>Net cash provided for investing activities</b>		<b>(47,750)</b>	<b>(1,042,033)</b>	<b>(47,750)</b>	<b>(1,054,533)</b>
<b>Cash Flows from Financing Activities</b>					
Increase in creditors		42,945	48,747	40,445	86,579
Increase/ decrease in debtors		23,963	30,180	23,963	30,180
Share issue		9,000	214,929	9,000	214,929
<b>Net cash flow from financing activities</b>		<b>75,908</b>	<b>293,856</b>	<b>73,408</b>	<b>331,688</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(501,780)</b>	<b>(1,286,673)</b>	<b>(501,780)</b>	<b>(1,286,673)</b>
Cash and cash equivalents at the beginning of the financial year		520,330	1,807,003	520,328	1,807,001
<b>Cash and cash equivalents at the end of the financial year</b>	16	<b>18,550</b>	<b>520,330</b>	<b>18,548</b>	<b>520,328</b>

The accompanying notes form part of these financial statements

## Notes to the Financial Statements

For The Year Ended 31 December 2013

### 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 2013 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 2013

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 director's valuation after consideration of any impairment. It is reviewed on an annual basis at balance date, and is no longer depreciated.

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 2013

### 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 demonstrated 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 undertake a revaluation of capitalised exploration expenditure, and assess the carrying value of the acquisition expenditure carried forward in respect of each area of interest. 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 2013

### 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.

Mineral Tenements are revalue annually by the directors, who in doing so, take into consideration whether there is any impairment and base it upon the parameters of AASB 6.

#### 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 2013

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:

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 mineral tenements

The future recoverability of the revalued mineral tenements 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 revalued 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 2013, the carrying value of mineral tenements of the group is \$3,245,425 (2012-\$3,395,425)

## Notes to the Financial Statements

For The Year Ended 31 December 2013

	Consolidated		Parent entity	
	2013	2012	2013	2012
	\$	\$	\$	\$
<b>2. Income Tax Expense</b>				
<b>a) Income tax expense</b>				
Current tax	-	-	-	-
Deferred tax	-	-	-	-
<b>b) Numerical reconciliation of income tax expense to prima facie tax payable</b>				
Profit from continuing operations before income tax expense	(742,180)	(1,462,588)	(742,180)	(1,462,588)
Timing and permanent differences	-	-	-	-
Prima facie tax payable at 30 %	-	-	-	-
<b>Income tax/(refund) attributable to operating profit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>3. Trade and other Receivables (Current)</b>				
Security deposits DME & rental bond	36,328	35,780	36,328	35,780
GST control account	78	23,905	78	23,905
Prepayments	14,033	14,717	14,033	14,717
	<b>50,439</b>	<b>74,402</b>	<b>50,439</b>	<b>74,402</b>
<b>4. Available for sale financial assets (Current)</b>				
Quoted Shares	87,609	252,101	87,609	252,101
Unlisted Investments – at fair value	-	-	35,332	37,832
Closing balance at 31 December	<b>87,609</b>	<b>252,101</b>	<b>122,941</b>	<b>289,933</b>
<b>5. Cash and cash equivalents (Current)</b>				
Cash at bank and on hand	18,550	20,330	18,548	20,328
Cash on deposit	-	500,000	-	500,000
	<b>18,550</b>	<b>520,330</b>	<b>18,548</b>	<b>520,328</b>

## Notes to the Financial Statements

For The Year Ended 31 December 2013

	Consolidated		Parent entity	
	2013	2012	2013	2012
	\$	\$	\$	\$
<b>6. Held-to-Maturity Investments (Non-current)</b>				
Shares in controlled entities	-	-	199,361	199,361
<b>Loans to (from) subsidiaries</b>				
Loan to subsidiary	-	-	195,746	195,746
Loan from subsidiary	-	-	(35,332)	(37,832)
Provision for non-recovery	-	-	(359,773)	(357,273)
At fair value 31 December 2013	-	-	2	2
<b>7. Property, Plant and Equipment</b>				
Property, plant & equipment - at cost	369,279	369,279	369,279	369,279
Less: Accumulated depreciation	(269,279)	(269,279)	(269,279)	(269,279)
Property, Plant & equipment – at Directors’ valuation	100,000	100,000	100,000	100,000
Reconciliation of carrying amount				
Opening balance at 1 January 2012	100,000	66,280	100,000	66,280
Plant & equipment acquired during year	-	-	-	-
Disposals	-	-	-	-
Depreciation write back during year	-	33,720	-	33,720
Closing balance at 31 Dec 2013 – at Directors’ valuation	100,000	100,000	100,000	100,000
Property, plant & equipment comprises the base camp at the Pegmont mineral tenement.				
The annual revaluation was undertaken on 31Dec 2013.				
<b>8. Mineral Tenements (Non-Current)</b>				
Pegmont Lead-Zinc project at cost	893,807	893,807	893,807	893,807
Exploration expenditure during the year	388,545	853,777	388,545	853,777
Exploration expenditure expensed during the year	(388,545)	(853,777)	(388,545)	(853,777)
Revaluation by Directors	2,106,193	2,106,193	2,106,193	2,106,193
At Directors’ valuation	3,000,000	3,000,000	3,000,000	3,000,000
Pegmont regional exploration areas at fair value	-	150,000	-	150,000
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
At Directors’ valuation	3,245,425	3,395,425	3,245,425	3,395,425

A directors’ revaluation, taking into account any impairment, was undertaken on 31 December 2013. It was based on the parameters of AASB 6.

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 "Wiki" 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 2013

	Consolidated		Parent entity	
	2013	2012	2013	2012
	\$	\$	\$	\$
9. <b>Trade and other Payables (Current Liabilities)</b>				
Trade creditors and other loans	146,278	103,333	181,610	141,165

	Number	Parent entity		2012
		2013	Number	
		\$		\$
10. <b>Ordinary shares – Fully paid</b>	62,698,722	3,979,800	62,548,722	3,970,800

During the year, 150,000 shares were issued at a deemed price of 6 cents per share, to contractors and to landowners where the company's exploration projects are located.

On 28 November 2013 the Company announced a non-renounceable pro-rata entitlement offer to shareholders of 1 new share for every 10 shares held at an offer price of \$0.06 per new shares. The Entitlement offer closed on 31 January 2014.

### 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	
	2013	2012	2013	2012
	\$	\$	\$	\$
<b>(A) Reserves</b>				
Asset Revaluation Reserve	2,206,193	2,356,193	2,206,193	2,356,193
Capital Profit Reserve	2,000,000	2,000,000	2,000,000	2,000,000
	<u>4,206,193</u>	<u>4,356,193</u>	<u>4,206,193</u>	<u>4,356,193</u>
<b>(B) Retained Earnings</b>				
Balance 1 January	(4,033,801)	(2,571,213)	(4,088,068)	(2,625,480)
Profit for the year after related income tax expense	(742,180)	(1,462,588)	(742,180)	(1,462,588)
Balance 31 December	<u>(4,775,982)</u>	<u>(4,033,801)</u>	<u>(4,830,248)</u>	<u>(4,088,068)</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 2013

### 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
<b>(1) Shares</b>				
JM Armstrong	838,750	-	-	838,750
MA Mayger	33,860,000	-	-	33,860,000
DR Curtis	2,450,162	-	-	2,450,162
<b>Total shares</b>	<b>37,148,912</b>	<b>-</b>	<b>-</b>	<b>37,148,912</b>

### e) Key management personnel compensation

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

### d) Related party transactions

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

### 13. Segmental Information

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

### 14. Remuneration of Directors

Type of transaction	Related party	Terms and conditions	Consolidated		Parent entity	
			2013	2012	2013	2012
Directors' fees	MA Mayger	Normal commercial	\$ 60,000	\$ 90,375	\$ 60,000	\$ 90,375
Directors' fees	JM Armstrong	Normal commercial	40,000	43,750	40,000	43,750
Directors' fees	DR Curtis	Normal commercial	10,000	21,250	10,000	21,250

## Notes to the Financial Statements

For The Year Ended 31 December 2013

### 15. Controlled Entities

Name	Inc	Class	Book value		Equity		Contribution to Group	
			2013	2012	2013	2012	2013	2012
			\$	\$	%	%	\$	\$
Pilbara Ventures Ltd	NSW	Ord	19,359	19,359	100	100	-	-
Queensland Copper Mines Pty Ltd	NSW	Ord	1	1	100	100	-	-
Kimberley Ventures Ltd	NSW	Ord	180,001	180,001	60	60	(2,500)	(12,500)
			<u>199,361</u>	<u>199,361</u>				
Contribution to Group Profit (Loss) after minorities								
Parent –Pegmont Mines Ltd							<u>(739,680)</u>	<u>(1,450,088)</u>
Profit (loss) for year – group							<u>(742,180)</u>	<u>(1,462,588)</u>
Loans to (from) subsidiaries			160,414	157,914				
Provision for loss			<u>(359,773)</u>	<u>(357,273)</u>				
Parent net investment in subsidiaries			<u>2</u>	<u>2</u>				

Consolidated		Parent entity	
2013	2012	2013	2012
\$	\$	\$	\$

### 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	18,550	20,330	18,548	20,328
Call deposits	-	500,000	-	500,000
	<u>18,550</u>	<u>520,330</u>	<u>18,548</u>	<u>520,328</u>

Cash at bank bear a weighted average interest rate of 2.5%

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

Operating Profit (Loss)	(742,180)	(1,462,588)	(742,180)	(1,462,588)
• Depreciation provision	-	(33,720)	-	(33,720)
• Exploration	388,545	853,777	388,545	853,777
• Provision for subsidiaries	-	-	2,500	12,500
• Unrealised loss on investments	(176,303)	104,035	(176,303)	104,035
<b>Net cash provided for operating activities</b>	<u>(529,938)</u>	<u>(538,496)</u>	<u>(527,438)</u>	<u>(525,996)</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 2013

18. **Subsequent Events**

No other matter or circumstance has arisen since 31 December 2013 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 2013.

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

	Consolidated 2013 \$	2012 \$	Parent entity 2013 \$	2012 \$
<b>(a) Basic (loss) per share</b>				
(Loss) attributable to the ordinary equity holders of the Company	(0.012)	(0.023)	(0.012)	(0.023)
<b>(b) Earnings used in calculating earnings per share</b>				
(Loss) attributable to the ordinary equity holders of the Company	(742,180)	(1,462,588)	(742,180)	(1,462,588)
The weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	62,698,722	62,548,722	62,698,722	62,548,722
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 \$		
<b>2013</b>						
<b>Financial assets</b>						
Cash	-	-	-	-	18,550	18,550
Interest bearing deposits	2.5	-	-	-	-	-
Receivables	-	-	-	-	50,439	50,439
					68,989	68,989
<b>Financial liabilities</b>						
Accounts payable		-	-	-	146,277	146,277
		-	-	-	146,277	146,277

## Notes to the Financial Statements

For The Year Ended 31 December 2013

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

### 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	
	2013 \$	2012 \$	2013 \$	2012 \$
Amount received or due and receivable by the auditor for:				
a) <b>Audit services</b>				
Audit and review of financial reports under the Corporations Act 2001	15,000	20,000	15,000	20,000
b) <b>Non Audit services</b>				
Income tax return preparation	-	-	-	-
Total remuneration of auditors	<u>15,000</u>	<u>20,000</u>	<u>15,000</u>	<u>20,000</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. There are no non-audit services provided.

### 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 2014 amounts of approximately \$880,000 subject to relinquishment (2013 \$880,000) 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**

We have audited the accompanying financial report of Pegmont Mines Ltd (the Company") which comprises the statement of financial position as at 31 December 2013 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the year.

### **Directors Responsibility for the Financial Report**

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

### **Auditor's Responsibility**

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

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

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

### **Independence**

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



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 Company's and the group's financial position as at 31 December 2013 and of their performance for the year ended on that date; and  
  
(ii) complying with Australian Accounting Standards (including the Australian Interpretations) and the Corporations Regulations 2001; and
- b) the consolidated financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

#### **Report on the Remuneration Report**

We have audited the remuneration report included in the Directors' report for the year ended 31 December 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report based on our audit conducted in accordance with Australian Auditing Standards.

#### **Auditor's Opinion**

In our opinion the Remuneration Report of Pegmont Mines Ltd for the year ended 31 December 2013 complies with section 300A of the *Corporations Act 2001*.

Rothsay

Rolf Garda  
Partner

Dated 31<sup>st</sup> March 2014

# Pegmont Mines Limited

---

## SUPPLEMENTARY INFORMATION

1. Issued Capital at 31 December 2013: **62,698,722 Ordinary Shares Fully paid**

2. Share Holdings at 17 March 2014

(a) Distribution of Shareholders

Shareholding	Number of holders	Ordinary Shares
1-1000	1	1,000
1001-5000	1	5,000
5001 - 10,000	77	766,000
10,001 - 100,000	131	4,319,289
100,000 and over	56	61,330,017
	266	66,421,306

(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	16,683,333	25.12
Malcolm A. Mayger Pty Limited	14,840,000	22.34
Malcolm A. Mayger Pty Limited and associates (including Pegasus Enterprises Limited)	36,543,333	55.01
HSBC Custody Nominees (Australia) Ltd	9,002,898	13.55

(c) Interests associated with Malcolm A Mayger Pty Ltd hold 36,543,333 (55.01%) Ordinary fully paid shares.

# Pegmont Mines Limited

---

## Directors' Interests

	<b>Shares</b>
J M Armstrong –	
Direct	120,313
Indirect	800,000
D R Curtis-	
Direct	412,500
Indirect	2,450,162
M A Mayger –	
Direct	500,000
Indirect*	36,043,333
<b>Total Shares</b>	<b>40,326,308</b>

\*Includes Pegasus Enterprises Limited

## Top Twenty Shareholders at 17 March 2014

	<b>Number of Shares</b>	<b>% issued Capital</b>
Pegasus Enterprises Ltd	16,683,333	25.12
Malcolm A Mayger Pty Ltd	14,840,000	22.34
HSBC Custody Nominees (Australia) Ltd	9,002,898	13.55
Lozora Pty Ltd	2,000,000	3.01
Malcolm A Mayger Super Fund	1,395,000	2.10
Fitel Nominees Limited	1,200,000	1.81
Bedel & Sowa Corp Pty Ltd	1,187,500	1.79
Scepha Investments Pty Ltd	1,125,000	1.69
Goldrim Investments Pty Ltd	1,100,000	1.66
Mr I J Holland & Mrs D Holland	859,000	1.29
Perpetual Trustee Company Ltd	800,000	1.20
Mr Andrew Geoege Poulos	585,000	0.88
Henroth Pty Ltd	550,000	0.83
Warlam Pty Ltd (Lincoln A/C)	520,000	0.78
Malcolm A Mayger	500,000	0.75
TCWH Super Fund	500,000	0.75
WHI Securities Pty Ltd	500,000	0.75
Martin Place Securities Staff Super Fund	450,285	0.68
Mercantile Holdings Toltz Super Fund	437,500	0.66
Mr David Ramsay Curtis	412,500	0.62
	<hr/>	
	54,648,016	80.26
Other Shareholders	11,773,290	17.74
<b>Total Issued Shares</b>	<b>66,421,306</b>	<b>100%</b>

# Pegmont Mines Limited

---

## CORPORATE INFORMATION

**PEGMONT MINES LIMITED**  
**ABN 97 003 331 682**

### **Registered Office**

C/- Walker Wayland Services P/L  
Level 11, 60 Castlereagh 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](http://www.pegmont.com.au)

Listed on The National Stock Exchange of Australia

Website: [www.nsga.com.au](http://www.nsga.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](mailto: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 11, 60 Castlereagh 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](http://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](http://www.computershare.com)

Listed on The National Stock Exchange of Australia

Website: [www.nsx.com.au](http://www.nsx.com.au)

Code: PMI