



***PANAEGIS***

**Annual Financial Report**

**For the year ended 30 June 2008**

## Corporate Directory

### PANAEGIS GOLD MINES LIMITED

ABN 42 111 587 163

#### REGISTERED OFFICE

174b High Street  
Heathcote, Vic 3523  
Tel: (03) 5433 3422  
Fax: (03) 5433 3466

#### MELBOURNE OFFICE

Suite 307, Pacific Tower  
737 Burwood Road  
Hawthorn, Vic 3122  
Tel: (03) 8862 6374  
Fax: (03) 8862 6335  
Web: [www.panaegis.com.au](http://www.panaegis.com.au)  
Email: [info@panaegis.com.au](mailto:info@panaegis.com.au)

#### DIRECTORS

Michael W Trumbull (Non-Executive Chairman)  
Colin Glazebrook (Executive Director)  
Geoff Turner (Non-Executive Director)

#### CHIEF EXECUTIVE OFFICER & EXPLORATION MANAGER

Colin Glazebrook

#### COMPANY SECRETARY

Alfonso M G Grillo

#### CHIEF FINANCIAL OFFICER

Joe Fekete

### AUDITOR AND INDEPENDENT ACCOUNTANT

Deloitte Touche Tohmatsu  
180 Lonsdale Street  
Melbourne Vic 3000

### PRINCIPAL LEGAL ADVISER

TressCox Lawyers  
Level 9, 469 La Trobe Street  
Melbourne Vic 3000  
Tel: (03) 9602 9444  
Fax: (03) 9642 0382  
[www.tresscox.com.au](http://www.tresscox.com.au)

### SHARE REGISTRY

Computershare Investor Services Pty Ltd  
Yarra Falls  
452 Johnston Street  
Abbotsford Vic 3067  
Tel: 1300 850 505 (within Australia) or  
+613 9415 4000 (outside Australia)

### STOCK EXCHANGE LISTING

Home Exchange - Melbourne  
ASX Code – PAU

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## Directors' report

The directors of Panaegis Gold Mines Limited submit herewith the annual financial report of the Company for the financial year ended 30 June 2008. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

### Directors

The names and particulars of the Company directors in office during the financial period and until the date of this report are as follows. The Directors were in office for this entire period unless otherwise stated:

Name	Particulars
<p><b>MICHAEL W TRUMBULL</b> Non-Executive Director Appointed 28 July 2005 Chairman Appointed 20 December 2007</p>	<p>Michael W Trumbull has a degree in mining engineering (first class honours) from the University of Queensland and an MBA from Macquarie University. A Fellow of the Australian Institute of Mining and Metallurgy, he has over 35 years of broad mining industry experience with mines / subsidiaries of MIM, Renison, WMC, CRA, AMAX, Nicron, ACM and Beaconsfield Gold.</p> <p>From 1983 to 1991, he played a senior executive role in expanding the Australian gold production assets of ACM Gold. From 1993 to 2004, he was an Executive Director for Beaconsfield Gold and was involved in the exploration and subsequent mine development at Beaconsfield.</p> <p>Michael is Chairman of the Audit and Compliance Committee</p> <p><i>Other current Directorships of Listed Companies</i></p> <p>Beaconsfield Gold NL – appointed 16 March 1993</p> <p>Allstate Explorations NL - appointed 23 August 2007</p> <p><i>Former Directorships of Listed Companies in last three years</i></p> <p>None</p>
<p><b>COLIN GLAZEBROOK</b> Executive Director Chief Executive Officer Appointed 20 December 2007</p>	<p>Colin Glazebrook is a geologist with a B.Sc. (Geology Hons, Geophysics) and a Fellow and Chartered Professional (Management) of the AusIMM. He has over 45 years experience in the resources industry including 30 years involvement in gold and base metal exploration in all States and Territories in Australia and internationally in New Zealand, the South Pacific, Indonesia and the former Soviet Union. In Victoria, he has directed exploration and mining activities at various gold properties including the Wattle Gully Gold Mine at Castlemaine, the Poverty Reef at Tarnagulla, the A1 Mine at Woods Point, Glen Wills and Cassilis.</p> <p><i>Other Current Directorships of Listed Companies</i></p> <p>None.</p> <p><i>Former Directorships of Listed Companies in last three years</i></p> <p>None.</p>
<p><b>GEOFF TURNER</b> Non-Executive Director Appointed 20 December 2007</p>	<p>Geoff Turner, a geologist with a B.Sc (Hons) &amp; M.Sc (Exploration &amp; Mining Geology), is a Registered Professional Geoscientist with the Australian Institute of Geoscientists (AIG). He has over 30 years experience in mineral exploration in the Lachlan Fold Belt, the Tanami, the West African Shield and the Yilgarn. Since 2000, he has managed his own exploration services company based in Bendigo, Exploration Management Services Pty Ltd, which provides field and technical services to the mineral industry.</p> <p>Geoff is a member of the Audit and Compliance Committee.</p> <p><i>Other Current Directorships of Listed Companies</i></p> <p>Resource Base Ltd - appointed 11 November 2007</p> <p><i>Former Directorships of Listed Companies in last three years</i></p> <p>None.</p>

<p><b>JOHN W CORNELIUS</b> Non-Executive Chairman Appointed 29 October 2004 Resigned 8 October 2007</p>	<p><i>Other current Directorships of Listed Companies</i> Essential Petroleum Resource Limited – appointed 13 November 1999 <i>Former Directorships of Listed Companies in last three years</i> None</p>
<p><b>IAN D BUCKINGHAM</b> Managing Director / CEO Appointed 29 October 2004 Resigned 5 September 2007</p>	<p><i>Other current Directorships of Listed Companies</i> None <i>Former Directorships of Listed Companies in last three years</i> None</p>
<p><b>ANDREW R RISTROM</b> Non-Executive Director Appointed 15 March 2006 Removed 20 December 2007</p>	<p><i>Other Current Directorships of Listed Companies</i> None <i>Former Directorships of Listed Companies in last three years</i> None</p>
<p><b>PETER I RUDD</b> Non-Executive Deputy Chairman Appointed 29 October 2004 Removed 20 December 2007</p>	<p><i>Other Current Directorships of Listed Companies</i> None <i>Former Directorships of Listed Companies in last three years</i> None</p>

The above named directors held office since the end of the financial year except for:

- John W Cornelius who resigned on 8 October 2007
- Ian D Buckingham who resigned on 5 September 2007
- Peter I Rudd who was removed by shareholder vote on 20 December 2007
- Andrew W Ristrom who was removed by shareholder vote on 20 December 2007

**Company secretary**

**ALFONSO M G GRILLO BA LLB**

Alfonso M G Grillo is a Partner at TressCox Lawyers. He holds a Bachelor of Arts and Bachelor of Law degrees. Alfonso has expertise in various aspects of commercial law, including Company meeting practice and corporate governance procedures, fundraising and fundraising documentation, ASX Listing Rules and mergers and acquisitions.

Alfonso advises resource industry companies in relation to mining and exploration projects, acquisition and divestment of assets, joint ventures, due diligence assessments and native title issues.



## Future developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

## Environmental regulations

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

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

## Dividends

No dividends in respect of the current financial period have been paid, declared or recommended for payment.

## Share options

### Share options granted to directors and executives

There were no options granted during the year

### Shares under option or issued on exercise of options

There were no options exercised during the year.

## Indemnification of officers and auditors

During the financial year, the Company paid a premium in respect of a contract insuring the directors of the Company (as named above), the Company secretary and all executive officers of the Company including consultants acting as Chief Financial Officer and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

## Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member).

During the financial year, 10 board meetings and 2 audit committee meetings were held.

Directors	Board of directors		Audit committee	
	Held	Attended	Held	Attended
Michael W Trumbull	10	9	1	1
Colin Glazebrook	4	4	-	-
Geoff Turner	4	4	1	1
John W Cornelius	5	5	1	1
Ian D Buckingham	3	1	-	-
Peter I Rudd	6	6	1	1
Andrew R Ristrom	6	6	1	1

## Directors' shareholdings

The following table sets out each director's relevant interest in shares, debentures, and rights or options in shares or debentures of the Company or a related body corporate as at the date of this report.

Directors	Fully paid ordinary shares Number	Share options Number
Michael W Trumbull	5,550,000	-
Colin Glazebrook	350,000	-
Geoff Turner	100,000	-

## Remuneration report

### Remuneration policy for directors and executives

#### Details of key management personnel

The directors of Panaegis Gold Mines Limited during the year were:

John W Cornelius	Non-Executive Chairman	Appointed 29 October 2004 Resigned 8 October 2007
Ian D Buckingham	Managing Director / CEO	Appointed 29 October 2004 Resigned 5 September 2007
Andrew R Ristrom	Non-Executive Director	Appointed 15 March 2006 Removed 20 December 2007
Peter I Rudd	Non-Executive Deputy Chairman	Appointed 29 October 2004 Removed 20 December 2007
Colin Glazebrook	Executive Director / CEO	Appointed 20 December 2007
Geoff Turner	Non-Executive Director	Appointed 20 December 2007
Michael W Trumbull	Non-Executive Director	Appointed 28 July 2005

The other key management personnel of Panaegis Gold Mines Limited during the year were:

John W Cottle	Exploration Manager (Appointed interim Chief Operating Officer 5 September 2007)	Appointed 1 February 2007 Resigned 20 December 2007
Joe Fekete	Chief Financial Officer	Appointed 20 December 2007

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

There is no direct relationship between the Company's Remuneration Policy and the Company's performance. That is, no portion of the remuneration of Directors, Secretary or Senior Managers 'at risk'. However, in determining the remuneration to be paid in each subsequent financial year, the Board will have regard to the Company's performance. Therefore, the relationship between the Remuneration Policy and the Company's performance is indirect.

No portion of the remuneration of Directors, the Secretary or Senior Managers is dependent on the satisfaction of a performance condition.

#### Relationship between the remuneration policy and company performance

The tables below set out summary information about the consolidated entity's earnings and movements in shareholder wealth for the five years to June 2008: please note that Panaegis Gold Mines Limited listed on 21 June 2006.

	30 June 2008	30 June 2007	30 June 2006	30 June 2005	30 June 2004
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	223	190	36	4	N/A
Net profit before tax	(3,256)	(1,427)	(579)	(176)	N/A
Net profit after tax	(3,256)	(1,427)	(579)	(176)	N/A

\* Panaegis Gold Mines Limited was incorporated on the 29<sup>th</sup> October 2004 and adopted the Australian equivalents to International Financial Reporting Standards with effect from 1 July 2004, which resulted in various changes to its accounting policies from that date. The results for the year ended 30 June 2004 are reported in accordance with Panaegis Gold Mines Limited previous accounting policies as permitted under Australian accounting standards as applicable at that time.

	30 June 2008	30 June 2007	30 June 2006 <sup>1</sup>	30 June 2005 <sup>1</sup>	30 June 2004 <sup>1,2</sup>
Share price at start of year	\$0.09	\$0.12	\$0.00	N/A	N/A
Share price at end of year	\$0.03	\$0.09	\$0.12	N/A	N/A
Interim dividend	NIL	NIL	NIL	NIL	NIL
Final dividend	NIL	NIL	NIL	NIL	NIL
Basic earnings per share	(3.42)	(2.00)	(0.92)	(1.11)	N/A
Diluted earnings per share	(3.42)	(2.00)	(0.92)	(1.11)	N/A



<sup>1</sup> Panaegis Gold Mines Limited was incorporated on the 29<sup>th</sup> October 2004 and listed on the Australian Stock Exchange on 23<sup>rd</sup> June 2006.

<sup>2</sup> Panaegis Gold Mines Limited adopted the Australian equivalents to International Financial Reporting Standards with effect from 1 July 2004, which resulted in various changes to its accounting policies from that date.

### Director and executive remuneration

The directors and the two identified Company executives and group executives received the following amounts as compensation for their services as directors and executives of the Company and/or the Group during the year:

Year ended 30 June 2008		Short Term	Post	Share	Other Long	Termin-	Total
		Benefits	Employment	Based	Term	ation	
		Salary and	Super-	Payment	Benefits	Benefits	
		fees	annuation	Options			
		\$	\$	\$	\$	\$	\$
<b>Directors</b>							
		57,500	4,875	-	-	-	62,375
	(8)	101,252	2,752	-	-	-	104,004
	(6)	22,461	1,908	-	-	-	24,369
	(1)	52,530	1,998	-	-	-	54,528
		122,769	7,000	-	-	-	129,769
		20,000	1,800	-	-	-	21,800
	(5)	27,500	2,475	-	-	-	29,975
		404,012	22,808	-	-	-	426,820
<b>Chief Financial Officer</b>							
	(7)	34,411	-	-	-	-	34,411
<b>Exploration Manager</b>							
	(4)	97,090	-	-	-	-	97,090
		131,501	-	-	-	-	131,501

Year ended 30 June 2007		Short Term	Post	Share	Other Long	Termin-	Total
		Benefits	Employment	Based	Term	ation	
		Salary and	Super-	Payment	Benefits	Benefits	
		fees	annuation	Options			
		\$	\$	\$	\$	\$	\$
<b>Directors</b>							
	(1)	110,770	-	-	-	-	110,770
	(2)	180,000	16,200	-	-	-	196,200
		46,774	3,600	-	-	-	50,374
		40,000	3,600	-	-	-	43,600
	(5)	51,000	4,170	-	-	-	55,170
		428,544	27,570	-	-	-	456,114
<b>Exploration Manager</b>							
	(4)	65,835	-	-	-	-	65,835
	(3)	120,936	-	-	-	-	120,936
		186,771	-	-	-	-	186,771

(\*) Colin Glazebrook is employed under a contract which has a three year duration ending on 18 April 2011. The terms of the contract provide that either party may terminate the contract on the giving of 6 months prior notice of termination.

(\*\*) Ian D Buckingham was employed under a contract which had a two year duration ending on 30 June 2008. The terms of the contract provide that either party may terminate the contract on the giving of 6 months prior notice of termination. Ian D Buckingham resigned on 5 September 2007. He continued to be paid at the then current rate of remuneration during a three month transition period.

(\*\*\*) Dr. Cottle was employed under a contract which had a two year duration commencing 1 February 2007. The terms of the contract provide that either party may terminate the contract on the giving of 1 months prior notice of termination.

Apart from the three contracts disclosed above there were no other contracts with management or directors in place during the 2008 fiscal year or the 2007 fiscal year.

(1) During the 2008 financial year John W Cornelius charged \$27,530 (2007: \$35,770) for additional consultancy services provided. These fees were paid to IMI Consulting Pty Ltd, a company controlled by John W Cornelius.

- (2) Issued to Ian D Buckingham on 20 May 2005 which comprise:  
 - 1,000,000 options exercisable at 35 cents expiring 31 December 2007, since expired; and  
 - 1,500,000 options exercisable at 50 cents expiring 30 June 2009.  
 Valued by PKF Corporate Advisory dated 29 August 2005.  
 During the 2008 financial year Ian D Buckingham charged an amount of \$NIL (2007:\$194,363) for additional consultancy services.
- (3) Fees were paid to Flitegold Pty Ltd and Vertigold Pty Ltd for the provision of services of Neil Motton as Exploration Manager.
- (4) Fees were paid to Cotlco Pty Ltd for the provision of services of John W Cottle as Exploration Manager
- (5) During the 2007 financial year Peter Rudd was paid \$6,000 for the provision of services. These fees were paid to Balmerino Pty Ltd, a company controlled by Peter I Rudd.
- (6) During the 2008 financial year Geoff Turner charged an amount of \$1,256 for additional consultancy services provided beyond his scope and role as a director of the company. These fees were paid to Exploration Services Management Pty Ltd.
- (7) Fees were paid to Fekete Management Services Pty Ltd for the ongoing provision of services of Joe Fekete as Chief Financial Officer
- (8) Fees were paid to Glazco Consulting Pty Ltd for the provision of services of Colin Glazebrook as Exploration Manager during the period 20 December 2007 to 17 April 2008, prior to the employment contract being finalized on 18 April 2008.

In accordance with ASX Listing Rule 10.17, the current maximum aggregate compensation payable out of the funds of the Company to Non-Executive Directors for their services as directors is \$250,000. For the year ending 30 June 2007, The Board resolved that the chairman's remuneration be set at \$75,000 and that Non-Executive Director's remuneration be set at \$40,000 per annum with additional amounts payable where a director performs special duties or otherwise performs services outside of the scope of the ordinary duties of a director. These limits do not include consulting fees that are payable when directors and executives perform services that are outside the scope and role as a director of the company.

#### **Elements of compensation of Directors and 5 Named Highest Paid Company Executives Consisting of Securities**

No element of the compensation of the Directors or the Company Secretary consists of the issue of securities.

#### **Compensation Related to Performance of Each Director and the Named Company Executives**

In relation to each person named in this Remuneration Report:

the proportion of compensation that is not related to performance;	100%
proportion of compensation that is related to performance;	0%
the value of options that were granted, lapsed or exercised as part of the compensation; and	Nil – No options granted in financial year 2008
the percentage of the value of the person's compensation for the financial year that consists of options.	0%

#### **Executive Options**

The consolidated entity has an ownership-based remuneration scheme for executives (including executive directors) of the company. In accordance with the provisions of the scheme, as approved by shareholders at a previous annual general meeting, executives with the company may be granted options to purchase parcels of ordinary shares at an exercise price determined at the discretion of the Board of Directors. Each executive share option converts into one ordinary share of Panaegis Gold Mines Limited on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. The number of options granted is at the discretion of the Board of Directors of the Company. The options granted expire approximately two years after their issue, or one month of the resignation of the executive, whichever is the earlier. There are 1,500,000 share options on issue under this plan.

#### **Value of options issued to directors and executives**

The following options were not exercised and expired during the reporting period:

<b>No. of Options</b>	<b>Grant Date</b>	<b>Vesting Date</b>	<b>Expiry Date</b>	<b>Weighted average exercise price</b>
1,000,000	20/05/2005	20/05/2005	31/12/2007	\$0.35
6,137,000	23/06/2006	23/06/2006	30/06/2008	\$0.20

As released on the 16 July 2008, Panaegis Gold Mines Limited proposes to issue options to officers of the company at an exercise price of \$0.10 per share. Final details will be finalised prior to the 2008 Annual General Meeting.

### Proceedings on behalf of the Company

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

### Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 27 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 27 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit Committee, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

### Auditor's independence declaration

The auditor's independence declaration is included on page 22 of the annual report.

Signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors



Michael W Trumbull  
Chairman



Colin Glazebrook  
Executive Director & CEO

Melbourne, 30 September 2008

## Corporate Governance Statement

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

In accordance with the ASX Corporate Governance Council's best practice recommendations (*the Principles*), the corporate governance statement reports on the Company's adoption of the Principles on an exception basis. This statement provides specific information whereby disclosure is required of any recommendations that have not been adopted by the Company, together with the reasons why they have not been adopted. Panaegis' corporate governance principles and policies are therefore structured with reference to the Principles, which are as follows:

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

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

#### ***Recommendation 1.1 Formalise and disclose the functions reserved to the board and those delegated to management***

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

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

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

A statement as to the corporate governance policies adopted by the Company is available at the Company's website.

### 2. Structure the Board to Add Value

#### ***Recommendation 2.1: A majority of the board should be independent directors***

At the date of this statement, the Board comprises of three Directors, one of which, Mr Geoff Turner is deemed an independent Director as defined under the Board policy on Director independence. Mr Michael Trumbull was

previously deemed an independent Director of the company. However, Mr Trumbull is also a non-executive of Beaconsfield Gold NL who became a substantial shareholder of the Company on 22 May 2007 and Mr Trumbull became a substantial shareholder in the Company on 5 September 2008.

The Board is currently of the view that the current composition of the Board is adequate, having regard to the Company's level of operations and cash resources.

***Recommendation 2.2: The chairperson should be an independent director***

Mr John Cornelius, no longer a Director, was the independent Non-Executive chairman from the Company's listing to 8 October 2007. Mr Peter Rudd, also no longer a Director, was the independent Non-Executive chairman from 8 October 2007 to 20 December 2007.

The Chairman from 20 December 2007 to the present, Mr Michael Trumbull, is a Non-Executive Director, however is not deemed to be independent. Following a change to the composition of the Board in the period from September to December 2007, it was resolved by the current Directors, that Mr Michael Trumbull be appointed Chairman having regard to his extensive mining industry experience as both an executive and director of ASX listed companies, the current size of the Board and the Company's current level of operations.

***Recommendation 2.3: The roles of chairperson and chief executive officer should not be exercised by the same person***

Mr Ian Buckingham, no longer a Director, was the Chief Executive Officer from the Company's listing to 5 September 2007.

The Company did not have a chief executive officer from 5 September 2007 until the appointment of Mr Colin Glazebrook as acting Chief Executive Officer on 20 December 2007. Mr Colin Glazebrook was appointed Chief Executive Office on the 18 April 2008.

At the date of this statement, Mr Michael Trumbull is the Chairman of the Board, and Mr Colin Glazebrook is the Chief Executive Officer.

***Recommendation 2.4: The board should establish a nomination committee***

Due to the small size of the Board and the Company's current level of operations, the Company does not have a separate nomination committee.

***Recommendation 2.5: Provide the information indicated in Guide to Reporting on Principle 2***

The 'Guide to Reporting on Principle 2' provides that certain information should be included in the corporate governance section of the Company's Annual Report or be made publicly available ideally on the Company's website.

In accordance with the 'Guide to Reporting on Principle 2', the Company provides the following information:

The skills, experience and expertise relevant to the position of Director held by each Director as at the date of the Annual Report is detailed in the Director's Report.

Mr Geoff Turner is considered by the Board to constitute an independent Director. In assessing whether Director is independent, the Board has regard to the standards it has adopted that reflect the independence requirements of applicable laws, rules and regulations, including the Principles. Mr Michael Trumbull was previously deemed an independent Director. However, he is not deemed to be independent as he is a non-executive director of a substantial shareholder of the Company and he became a substantial shareholder of the Company on 5 September 2008.

Whenever necessary, individual members of the Board may seek independent professional advice at the expense of the Company in relation to fulfilling their duties as Directors. All Directors are encouraged to actively participate in all decision making processes and are given every opportunity to have their opinion heard and respected on all matters.

The term of office held by each Director as at the date of the Annual Report is detailed in the Director's Report.

Due to the small size of the Board, the Company does not have a separate nomination committee and therefore a charter or an appointment policy has not been created.

As at the date of this statement, the Company is of the view that it has complied with each of the Recommendations under Principle 2, except for Recommendations 2.1 and 2.4. An explanation for the departures from Recommendations 2.1 and 2.4 is set out above.

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

*Recommendation 3.1.1: Establish a code of conduct to guide the directors, the chief executive officer (or equivalent) and any other executives as to the practices necessary to maintain confidence in the company's integrity*

The Board has established a Code of Conduct that provides a framework in which the Company and its representatives conduct their business and activities in a fiscally efficient and socially responsible manner whilst seeking to maximise shareholder returns.

The Code of Conduct outlines how the Company expects Directors, management and employees to behave and conduct business in a range of circumstances. In particular, the Operating Procedures and Policy Guidelines require awareness of, and compliance with laws and regulations relevant to Panaegis' operations including environmental laws and community concerns.

The Code of Conduct adopted by the Company is available at the Company's website.

*Recommendation 3.1.2: Establish a code of conduct to guide the directors, the chief executive officer (or equivalent) and any other executives as to the responsibility and accountability of individuals for reporting and investigating reports of unethical practices*

The Code of Conduct outlines how the Company expects Directors, management and employees to behave responsibly and ethically in a range of circumstances.

All Board members are qualified professionals within their respective industries and accordingly conduct themselves in a professional and ethical manner in both their normal commercial activities and the discharge of their responsibilities as Directors.

***Recommendation 3.2: Disclose the policy concerning trading in company securities by directors, officers and employees***

The Company has a policy concerning trading in the Company's securities by Directors, management and staff that is set out in the Company's 'Code of Conduct'. The main terms of which are summarised below.

Any Director or employee wishing to buy or sell securities in the Company must advise the Chairman (in the case of Directors) or the Chief Executive Officer (in the case of an employee) of their intention beforehand. This applies to any dealings in the Company's securities by family members and other associates of Directors and employees, as well as to personal dealings by the Directors and employees.

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

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

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

**4. Safeguard Integrity in Financial Reporting**

*Recommendation 4.1: Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards*

Mr Ian Buckingham resigned as Chief Executive Officer of the Company effective 5 September 2007. From 5 September 2007 to 20 December 2007, the Company did not have a Chief Executive Officer, Chief Financial Officer or an Executive Officer.

Mr Joe Fekete was appointed the Company's consultant Chief Financial Officer on 20 December 2007.

Mr Colin Glazebrook was appointed as the Company's acting Chief Executive Officer and Exploration Manager effective 20 December 2007 and formally became Chief Executive Officer and Exploration Manager on 18 April 2008.

Mr Colin Glazebrook, as the Company's Chief Executive Officer, and Mr Joe Fekete, as the Company's Chief Financial Officer, have declared to the Board that the financial reports give a true and fair view in all material respects of the Company's financial position and operational results and that they are in accordance with relevant accounting standards.

***Recommendation 4.2: The board should establish an audit committee***

The Board has established an Audit and Compliance Committee.

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

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

**Recommendation 4.3: Structure the audit committee so that it consists of:**

- **only non-executive directors;**
- **a majority of independent directors;**
- **an independent chairperson, who is not chairperson of the board; and**
- **at least three members.**

The current members of the Audit and Compliance Committee are:

- (a) Mr Michael Trumbull; and
- (b) Mr Geoff Turner.

As the previous members of the Audit and Compliance Committee, Mr Peter Rudd, Mr Andrew Ristrom and Mr John Cornelius, ceased to be directors of the Company on 20 December 2007, 20 December 2007 and 8 October 2007 respectively, Mr Michael Trumbull and Mr Geoff Turner were appointed the new members of the Audit and Compliance Committee at the meeting of the Directors held on 28 February 2008.

**Recommendation 4.4: The audit committee should have a formal charter**

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

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

The Audit and Compliance Committee meets when necessary and is responsible for:

- overseeing the implementation and the operation of the Code of Conduct;
- administering continuous disclosure and compliance;
- external financial reporting;
- risk management, internal control structures and compliance with laws and regulations; and
- administering external audit activities.

**Recommendation 4.5: Provide the information indicated in the Guide to Reporting on Principle 4**

The 'Guide to Reporting on Principle 4' provides that certain information should be included in the corporate governance section of the Company's Annual Report or be made publicly available ideally on the Company's website.

In accordance with the 'Guide to Reporting on Principle 4', the Company provides the following information:



**The qualifications of the Audit and Compliance Committee members, Mr Michael Trumbull and Mr Geoff Turner, are detailed in the Directors report.**

**Meetings of the Audit and Compliance Committee during the current reporting period took place on the following dates:**

- (i) *5 September 2007 - Mr John Cornelius, Mr Peter Rudd and Mr Andrew Ristrom were present, all of whom ceased to be directors of the Company on 8 October 2007, 20 December 2007 and 20 December 2007 respectively. Non-members Mr Matthew Schofield of Deloitte Touche Tohmatsu and Mr Robert Frasca of Blueport Consulting were also in attendance; and*
- (ii) 28 February 2008 - Mr Michael Trumbull and Mr Geoff Turner were present, with non-members Mr Colin Glazebrook, Mr Alfonso Grillo and Mr Joe Fekete in attendance.

**The Charter of the Audit Committee adopted by the Company is available at the Company's website; and**

**The Company periodically puts to private tender the appointment of its external auditor. The Company's external audit engagement partner is rotated in consultation with the external auditor, as required by Division 5 of the Corporations Act.**

#### **5. Make Timely and Balanced Disclosure**

***Recommendation 5.1: Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance***

The Board and senior management are aware of the continuous disclosure requirements of the ASX and have written policies and procedures in place, including a 'Continuous Disclosure and Compliance Policy' to disclose any information concerning the Company that a reasonable person would expect to have a material effect on the price of the Company's securities.

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

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

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

If information that would otherwise be disclosed comprises of matters of supposition or is insufficiently definite to warrant disclosure, or if the effect of a disclosure on the value or price of Panaegis' securities is unknown, Panaegis may request that the ASX grant a trading halt or suspend Panaegis' securities from quotation. Management of

Panaegis may consult Panaegis' external professional advisers and the ASX in relation to whether a trading halt or suspension is required.

The written policies and procedures in relation to the Company's continuous disclosure requirements with the ASX is available at the Company's website.

## **6. Respect the Rights of Shareholders**

### ***Recommendation 6.1: Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings***

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

A description of the arrangements the Company has to promote communications with shareholders is detailed in the Code of Conduct available at the Company's website.

### ***Recommendation 6.2: Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and preparation and content of the auditor's report***

The Company has requested that the external auditor attend the Company's annual general meeting and be available to answer shareholder questions about the audit and the preparation and content of the auditor's report.

## **7. Recognise and Manage Risk**

### ***Recommendation 7.1: The board or appropriate board committee should establish policies on risk oversight and management***

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

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

The Audit and Compliance Committee meets regularly to ensure, amongst other things, that the risk management, internal control structures and compliance with laws and regulations are operating effectively.

The Code of Conduct sets out the Company's commitment to maintaining the highest level of integrity and ethical standards in all business practices which is available at the Company's website.

**Recommendation 7.2: The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the board in writing that:**

**7.2.1) the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board; and**

**7.2.2) the company's risk management and internal compliance and control system is operating efficiently and effectively in all material effects**

Mr Colin Glazebrook, as the Company's Chief Executive Officer, and Mr Joe Fekete, as the Company's Chief Financial Officer have declared to the Board that the statement given to the Board regarding the Financial Reports (as discussed under Section 4 of this statement) is founded on a sound system of risk management, internal compliance and control which implements the policies adopted by the Board.

Mr Colin Glazebrook and Mr Joe Fekete have also declared to the Board that the Company's risk management, internal compliance and control system is operating efficiently and effectively in all material respects.

## 8. Encourage Enhanced Performance

**Recommendation 8.1: Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives:**

The performance of the Board, individual Directors and keys executive is reviewed regularly, and has taken place during this reporting period. The Company notes that the following persons ceased to be Directors during the reporting period:

- (a) Mr Ian Buckingham – resigned as a Director on 5 September 2007;
- (b) Mr John Cornelius – resigned as a Director on 8 October 2007; and
- (c) Mr Peter Rudd and Mr Andrew Ristrom – removed by shareholders as directors on 20 December 2007.

The Board has a separate Audit and Compliance Committee. The composition of this committee and its effectiveness is reviewed on a regular basis. The Audit and Compliance Committee comprises of Non-Executive Directors only. Invitations to executives to attend meetings is extended where appropriate.

The Company has not established a Remuneration or Nomination Committee as subcommittees of the Board. Remuneration and nomination issues are discussed and resolved at Board meetings and accordingly, the Board is responsible for determining and reviewing the remuneration of the Directors. This process requires consideration of the levels and form of remuneration appropriate to securing, motivating and retaining executive with the skills to manage the Company's operations. In making decisions regarding the appointment of Directors, the Board as a whole periodically assesses the appropriate mix of skills and experience represented on the Board. The Board may also obtain information from, and consult with management and external advisers, as it considers appropriate.

The remuneration policy for the Directors is disclosed in the Directors' Report.

9. **Remunerate Fairly and Responsibly**

***Recommendation 9.1: Provide disclosure in relation to the company's remuneration policies to enable investors to understand:***

the costs and benefits of those policies; and

the link between remuneration paid to directors and key-executives and corporate performance

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

It is the Company's objective to provide maximum shareholder benefit from the retention of high quality Board members having regard to the Company's level of operations and financial resources. Directors are remunerated with reference to market rates for comparable positions. Remuneration policies for each Non-Executive Director are disclosed in the Directors' Report.

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

***Recommendation 9.2: The board should establish a remuneration committee***

Due to the small size of the Board and the Company's current level of operations, the Company has not established a Remuneration Committee as a subcommittee of the Board. Remuneration issues are discussed and resolved at Board meetings.

***Recommendation 9.3: Clearly distinguish the structure of non-executive director's remuneration from that of executives***

The remuneration structure of Non-Executive Directors and executives is disclosed in the Director's Report in this Annual Report. The remuneration of executives is dependent on the terms of the employment agreement with those executives. The remuneration structure of Non-Executive Directors and executives is clearly distinguishable as required by recommendation 9.3.

***Recommendation 9.4: Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders***

The Company ensures that payment of equity based executive remuneration is made in accordance with the thresholds as approved by shareholders.

In September 2008, the Company issued 200,000 options to employees pursuant to the Company's Employee Option Plan, which was adopted by the Company prior to its ASX listing. In September 2008 the Company also issued 250,000 options each to entities associated with the Company Secretary and Chief Financial Officer who provide services under a consultancy arrangement. These options were issued without shareholder approval under the Company's capacity to issue securities in accordance with the Listing Rules.

**Recommendation 9.5: Provide the information indicated in the Guide to Reporting on Principle 9**

The 'Guide to Reporting on Principle 9' provides that certain information should be included in the corporate governance section of the Company's Annual Report or be made publicly available ideally on the Company's website.

In accordance with the 'Guide to Reporting on Principle 9', the Company provides the following information:

There are no schemes for retirement benefits, other than statutory superannuation, in existence for the Non-Executive Directors.

Due to the small size of the Board, the Company does not have a separate Remuneration Committee and therefore a charter or an appointment policy has not been created; and

As at the date of this statement, the Company is of the view that it has complied with each of the Recommendations under Principle 9, except for Recommendation 9.2. An explanation for the departure from Recommendation 9.2 is set out above.

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

**Recommendation 10.1: Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders**

The Board recognises the legitimate interests of shareholders, employees and other stakeholders. The Board has adopted corporate governance policies and practices designed to promote responsible management and conduct of the Company. In particular it has adopted a Corporate Environment Policy and a Cultural Heritage Policy, summaries of which are provided below. A summary of the Company's Corporate Environment Policy is available on the Company's website. The Cultural Heritage Policy is contained in the Code of Conduct which is available on the Company's website.

**Corporate Environment Policy**

Effective environmental management is an integral component in all areas of the Company's operations. Environmental management is included into all activities that could potentially impact upon the surrounding environment, employees and the community. The Company recognises the importance of maintaining the integrity of heritage, conservation and environmental values and all Company employees and contractors are encouraged to become conscious of the Company's Corporate Environment Policy and be aware of their individual environmental responsibilities.

The Company's Corporate Environment Policy provides that the Company is committed to managing its activities in an environmentally responsible manner and will pursue environmental excellence by:

- complying with relevant Australian laws, regulations, standards, due diligence and Company requirements;
- planning and managing activities so as to minimise their effect on the environment while maximising resource viability;
- ensuring through training that every individual is aware of their environmental responsibilities prior to undertaking activities related to their employment;

- minimising land disturbance and ecosystem degradation;
- reducing, reusing and recycling wastes;
- developing innovative approaches to environmental management through scientific research and technology transfer;
- identifying and protecting significant animal and plant species through research, habitat conservation and best practice management;
- minimising pollution of the air, water and land; and
- fostering cooperation and trust through open and pro-active communication with our employees, contractors, the regulatory authorities and the community.

#### **Cultural Heritage Policy**

Panaegis recognises the need to understand the cultural and spiritual significance to the community of the area in which it is licensed to operate. Panaegis works closely with local communities to identify significant sites and any impact the Company's activities may have on them. Panaegis is committed to reaching mutually agreeable outcomes on the effects of its activities on cultural and spiritual values.

Panaegis will specifically undertake to:

- respect and protect cultural heritage sites of regional significance and sites of local spiritual significance;
- embrace the intent and comply with the provisions of the Native Title Act and other relevant legislation;
- communicate openly with Aboriginal peoples and local communities so that all relevant issues may be aired and understood by the participants; and
- involve Aboriginal people in the conduct of Panaegis' operations where these operations impact on cultural and spiritual heritage.

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

The Board of Directors  
Panaegis Gold Mines Limited  
Level 16, 379 Collins Street  
Melbourne VIC 3000

30 September 2008

Dear Board Members

**Panaegis Gold Mines Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Panaegis Gold Mines Limited.

As lead audit partner for the audit of the financial statements of Panaegis Gold Mines Limited for the financial year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

*Deloitte Touche Tohmatsu*

**DELOITTE TOUCHE TOHMATSU**

*M. J. Schofield*

**M J Schofield**  
Partner  
Chartered Accountants

## **Independent Auditor's Report to the Members of Panaegis Gold Mines Limited**

### **Report on the Financial Report**

We have audited the accompanying financial report of Panaegis Gold Mines Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, cash flow statement and statement of changes in equity 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 entity it controlled at the year's end as set out on pages 25 to 54.

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

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 3, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes complies with International Financial Reporting Standards.

#### *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 whether the financial report is free from 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 the auditor's 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, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the compensation disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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



## *Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

## *Auditor's Opinion*

In our opinion:

- (a) the financial report of Panaegis Gold Mines Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 3.

## **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 16 to 18 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A *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.

## *Auditors Opinion*

In our opinion the Remuneration Report of Panaegis Gold Mines Limited for the year ended 30 June 2008, complies with section 300A *Corporations Act 2001*.

*Deloitte Touche Tohmatsu*

**DELOITTE TOUCHE TOHMATSU**

*M. J. Schofield*

**M J Schofield**

Partner

Chartered Accountants

Melbourne, 30 September 2008

## Directors' declaration

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company and the consolidated entity; and
- (c) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



Michael W Trumbull  
Chairman  
Melbourne, 30 September 2008



Colin Glazebrook  
Executive Director & CEO

**Income statement  
for the financial year ended 30 June 2008**

	Note	Consolidated		Company	
		2008 \$	2007 \$	2008 \$	2007 \$
<b>Continuing operations</b>					
Revenue	4	<b>223,241</b>	189,571	<b>221,163</b>	188,491
Administration expenses		<b>(781,411)</b>	(599,998)	<b>(771,125)</b>	(566,272)
Consultants fees		<b>(137,723)</b>	(263,194)	<b>(137,723)</b>	(263,194)
Depreciation and amortisation expense	4	<b>(92,457)</b>	(74,364)	<b>(91,869)</b>	(74,364)
Employee benefits expense	4	<b>(412,584)</b>	(409,765)	<b>(412,584)</b>	(409,765)
Finance costs	4	<b>(14,325)</b>	(11,163)	<b>(14,325)</b>	(11,163)
Impairment of investment in subsidiary		-	-	<b>(1,275,185)</b>	-
Impairment of exploration expenditure		<b>(1,741,338)</b>	(1,145)	<b>(516,321)</b>	(1,145)
Insurance		<b>(84,232)</b>	(58,376)	<b>(84,232)</b>	(58,376)
Legal fees		<b>(133,352)</b>	(38,368)	<b>(128,979)</b>	(38,368)
Printing stationery and supplies		<b>(10,757)</b>	(43,596)	<b>(10,757)</b>	(43,596)
Secretarial		<b>(36,569)</b>	(58,077)	<b>(36,569)</b>	(58,077)
Travel		<b>(34,947)</b>	(58,402)	<b>(34,947)</b>	(54,052)
Total expenses		<b>(3,479,695)</b>	(1,616,448)	<b>(3,514,616)</b>	(1,578,372)
Loss before tax		<b>(3,256,454)</b>	(1,426,877)	<b>(3,293,453)</b>	(1,389,881)
Income tax expense	5	-	-	-	-
<b>Loss for the year</b>		<b>(3,256,454)</b>	(1,426,877)	<b>(3,293,453)</b>	(1,389,881)
Attributable to:					
Equity holders of Panaegis Gold Mines Limited		<b>(3,256,454)</b>	(1,426,877)	<b>(3,293,453)</b>	(1,389,881)
<b>Earnings per share</b>					
Basic (cents per share)	6	(3.47)	(2.00)		
Diluted (cents per share)	6	(3.47)	(2.00)		

Notes to the financial statements are included on pages 30 to 54.

**Balance sheet  
as at 30 June 2008**

	Note	Consolidated		Company	
		2008	2007	2008	2007
		\$	\$	\$	\$
<b>Current assets</b>					
Cash and cash equivalents	15(b)	839,685	1,867,902	839,361	1,867,500
Other receivables	7	64,427	138,584	64,427	138,584
Other assets	8	166,244	252,167	106,542	220,973
<b>Total current assets</b>		<b>1,070,356</b>	<b>2,258,653</b>	<b>1,010,330</b>	<b>2,227,057</b>
<b>Non-current assets</b>					
Property, plant and equipment	9	129,252	227,999	129,252	227,999
Exploration and evaluation assets	10	5,188,287	6,258,989	2,927,647	3,047,301
Other financial assets	11	-	-	2,320,663	3,280,280
<b>Total non-current assets</b>		<b>5,317,539</b>	<b>6,486,988</b>	<b>5,377,562</b>	<b>6,555,580</b>
<b>Total assets</b>		<b>6,387,895</b>	<b>8,745,641</b>	<b>6,387,892</b>	<b>8,782,637</b>
<b>Current liabilities</b>					
Trade and other payables	12	80,397	355,255	80,397	355,255
Borrowings	16	42,283	44,672	42,283	44,672
Provisions	17	16,002	28,748	16,002	28,748
<b>Total current liabilities</b>		<b>138,682</b>	<b>428,675</b>	<b>138,682</b>	<b>428,675</b>
<b>Non-current liabilities</b>					
Borrowings	16	101,396	168,276	101,396	168,276
<b>Total non-current liabilities</b>		<b>101,396</b>	<b>168,276</b>	<b>101,396</b>	<b>168,276</b>
<b>Total liabilities</b>		<b>240,078</b>	<b>596,951</b>	<b>240,078</b>	<b>596,951</b>
<b>Net assets</b>		<b>6,147,817</b>	<b>8,148,690</b>	<b>6,147,814</b>	<b>8,185,686</b>
<b>Equity</b>					
Issued capital	13	11,567,697	10,312,116	11,567,697	10,312,116
Options reserves		22,180	22,180	22,180	22,180
Accumulated losses	14	(5,442,060)	(2,185,606)	(5,442,063)	(2,148,610)
<b>Total equity</b>		<b>6,147,817</b>	<b>8,148,690</b>	<b>6,147,814</b>	<b>8,185,686</b>

Notes to the financial statements are included on pages 30 to 54

## Statement of changes in equity for the financial year ended 30 June 2008

### Consolidated

	Issued capital \$	Equity- settled employee benefits reserve \$	Accumulated Losses \$	Total \$
<b>Balance at 30 June 2006</b>	9,380,078	22,180	(758,729)	8,643,529
Shares issued during the year	945,000	-	-	945,000
Cost of share based payments	-	-	-	-
Share issue costs	(12,962)	-	-	(12,962)
Loss attributable to members of parent entity	-	-	(1,426,877)	(1,426,877)
<b>Balance at 30 June 2007</b>	<b>10,312,116</b>	<b>22,180</b>	<b>(2,185,606)</b>	<b>8,148,690</b>
Shares issued during the year	1,298,781	-	-	1,298,781
Cost of share based payments	-	-	-	-
Share issue costs	(43,200)	-	-	(43,200)
Loss for the period	-	-	(3,256,454)	(3,256,454)
<b>Balance at 30 June 2008</b>	<b>11,567,697</b>	<b>22,180</b>	<b>(5,442,060)</b>	<b>6,147,817</b>

### Company

	Issued capital \$	Equity- settled employee benefits reserve \$	Accumulated Losses \$	Total \$
<b>Balance at 30 June 2006</b>	9,380,078	22,180	(758,729)	8,643,529
Shares issued during the year	945,000	-	-	945,000
Cost of share based payments	-	-	-	-
Share issue costs	(12,962)	-	-	(12,962)
Loss attributable to members of parent entity	-	-	(1,389,881)	(1,389,881)
<b>Balance at 30 June 2007</b>	<b>10,312,116</b>	<b>22,180</b>	<b>(2,148,610)</b>	<b>8,185,686</b>
Shares issued during the year	1,298,781	-	-	1,298,781
Cost of share based payments	-	-	-	-
Share issue costs	(43,200)	-	-	(43,200)
Loss for the period	-	-	(3,293,453)	(3,293,453)
<b>Balance at 30 June 2008</b>	<b>11,567,697</b>	<b>22,180</b>	<b>(5,442,063)</b>	<b>6,147,814</b>

Notes to the financial statements are included on pages 30 to 54

## Cash flow statement for the financial year ended 30 June 2008

	Note	Consolidated		Company	
		2008	2007	2008	2007
		\$	\$	\$	\$
<b>Cash flows from operating activities</b>					
Payments to suppliers and employees		(1,761,032)	(1,730,962)	(1,712,136)	(1,687,887)
Interest received		109,720	163,653	107,642	163,653
Interest paid		(14,325)	(11,163)	(14,325)	(11,163)
<b>Net cash used in operating activities</b>	15(a)	<b>(1,665,637)</b>	<b>(1,578,472)</b>	<b>(1,618,819)</b>	<b>(1,535,397)</b>
<b>Cash flows from investing activities</b>					
Purchase of plant and equipment		(17,914)	(63,564)	(17,914)	(63,564)
Proceeds from Sale of plant & equipment		21,500	-	21,500	-
Payments to acquire exploration licences		-	(220,000)	-	(220,000)
Payment for exploration expenditure		(551,777)	(1,918,681)	(283,647)	(460,198)
Amounts advanced to related parties		-	-	(314,870)	(1,201,480)
Payment for investment in subsidiary		(700)	-	(700)	(300,000)
<b>Net cash used in investing activities</b>		<b>(548,891)</b>	<b>(2,202,245)</b>	<b>(595,631)</b>	<b>(2,245,242)</b>
<b>Cash flows from financing activities</b>					
Repayment of borrowings		(69,270)	(17,610)	(69,270)	(17,610)
Proceeds from issue of ordinary shares		1,298,781	945,000	1,298,781	945,000
Payment regarding Initial Public Offering		-	(157,773)	-	(157,773)
Payment of other share issue costs		(43,200)	-	(43,200)	-
<b>Net cash provided by financing activities</b>		<b>1,186,311</b>	<b>769,617</b>	<b>1,186,311</b>	<b>769,617</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(1,028,217)</b>	<b>(3,011,100)</b>	<b>(1,028,139)</b>	<b>(3,011,022)</b>
Cash and cash equivalents at the beginning of the financial period		1,867,902	4,879,002	1,867,500	4,878,522
<b>Cash and cash equivalents at the end of the financial period</b>	15(b)	<b>839,685</b>	<b>1,867,902</b>	<b>839,361</b>	<b>1,867,500</b>

Notes to the financial statements are included on pages 30 to 54

## **Notes to the financial statements for the financial year ended 30 June 2008**

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## 1. General information

Panaegis Gold Mines Limited (the company) is a listed public company, incorporated in Australia and operating in Victoria.

Panaegis Gold Mines Limited's registered office and its principal place of business are as follows:

<b>Registered office</b> 174B High St Heathcote Vic 3523	<b>Principal place of business</b> 174B High St Heathcote Vic 3523
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## 2. Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial report, a number of standards and Interpretations were in issue but not yet effective.

Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the Group and the company's financial report:

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
<ul style="list-style-type: none"> <li>• AASB 101 'Presentation of Financial Statements' (revised September 2007), AASB 2007-8 'Amendments to Australian Accounting Standards arising from AASB 101'</li> </ul>	1 January 2009	30 June 2010
<ul style="list-style-type: none"> <li>• AASB 8 'Operating Segments', AASB 2007-3 'Amendments to Australian Accounting Standards arising from AASB 8'</li> </ul>	1 January 2009	30 June 2010

Initial application of the following Standards is not expected to have any material impact on the financial report of the Group and the company:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
<ul style="list-style-type: none"> <li>• AASB 123 'Borrowing Costs' (revised), AASB 2007-6 'Amendments to Australian Accounting Standards arising from AASB 123'</li> </ul>	1 January 2009	30 June 2010
<ul style="list-style-type: none"> <li>• AASB 3 'Business Combinations' (2008), AASB 127 'Consolidated and Separate Financial Statements' and AASB 2008-3 'Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127'</li> </ul>	AASB 3 (business combinations occurring after the beginning of annual reporting periods beginning 1 July 2009), AASB 127 and AASB 2008-3 (1 July 2009)	30 June 2010
<ul style="list-style-type: none"> <li>• Amendments to AASB 1 'First-time Adoption of International Financial Reporting Standards' and AASB 127 'Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate'</li> </ul>	1 January 2009	30 June 2010
<ul style="list-style-type: none"> <li>• AASB 2008-1 'Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations'</li> </ul>	1 January 2009	30 June 2010



## 2. Standards and Interpretations in issue not yet adopted (cont'd)

### *Revised AASB 101 "Presentation of Financial Statements"*

The impact of this standard will be on disclosure in the financial statements. All non-owner changes in equity must be presented in one statement of comprehensive income, or in a separate income statement and statement of comprehensive income. Components of comprehensive income may not be presented in the statement of changes in equity. Income tax and reclassification adjustments relating to each component of other comprehensive income have to be disclosed. The titles of financial statements will also change.

### *AASB 3 "Business Combinations" and AASB 127 "Separate and Consolidated Financial Statements"*

The Standard introduces greater emphasis on the use of fair value through increasing the judgement and subjectivity around business combination accounting and requiring greater involvement of valuation experts. Further volatility in the income statement will be introduced through the separate accounting for transaction costs, changes in the fair value of contingent consideration, settlement of pre-existing contracts and share-based payments.

The Standard also focuses on changes in control as a significant economic event, with requirements to remeasure interests to fair value on gaining or losing control, and to recognise all transactions between controlling and non-controlling shareholders whilst control is retained in retained earnings.

### *AASB 2008-1 'Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations'*

The Standard clarifies for share-based payments what are vesting conditions and restricts the definition to include only service conditions and performance conditions. It also amends the definition of performance conditions to require the completion of a service period in addition to specified performance targets and to specify that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

### *Amendments to AASB 1 First-time Adoption of International Financial Reporting Standards and AASB 127 Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

The amendments:

- allow first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements;
- remove the definition of the cost method from AASB 127 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor;
- implement consequential amendments to AASB 136, introducing a new indicator of impairment for investments in subsidiaries, jointly controlled entities and associates where a dividend has been recognised; and
- require the separate financial statements of a new parent formed as the result of a specific type of reorganisation to measure the cost of its investment in the previous parent at the carrying amount of its share of the equity items of the previous parent at the date of the reorganisation.

### 3. Significant accounting policies

#### Statement of compliance

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

The financial report includes the separate financial statements of the company and the consolidated financial statements of the Group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 30 September 2008.

#### Going Concern

Whilst there are uncertainties as to the exact timing and form of the additional equity fund raising necessary to fund the current level of activities of the consolidated entity and the Company for at least the next 12 months, the Directors have reasonable expectations that they can raise the additional cash resources during the period for this purpose. These financial statements have therefore been prepared on a going concern basis which contemplates the continuity of normal business activities and the realization of assets and settlement of liabilities in the ordinary course of business.

To continue as a going concern the company and the consolidated entity require:

- generation of sufficient funds from operating activities; and/or
- the continued support of its shareholders and the investment community.

The Directors believe the going concern basis of preparation to be appropriate given that the Directors have various equity options available to them to ensure the Company has the additional funds necessary to fulfill its exploration obligations over the next 12 months. These equity options are:

- placement of shares to investors under the 15% rule without shareholder approval;
- placement of shares to investors with shareholder approval;
- rights issue to shareholders; and
- a shareholder share purchase plan under which each shareholder can subscribe for up to \$5,000 of new shares in the Company.

The Group has recorded a net loss of \$3,256,454 for the financial year has net cash outflows from operating activities of \$(1,665,457), commitments in the next fiscal year of \$687,250 and has cash reserves of \$839,685 as at 30 June 2008. The Group has a net current asset surplus of \$931,674 as at 30 June 2008.

Having carefully assessed the uncertainties relating to the likelihood of securing additional equity funding and the consolidated entity's and the Company's ability to effectively manage their expenditures and cash flows from operations, the directors believe that the consolidated entity and the Company will continue to operate as going concerns for the foreseeable future and therefore it is appropriate to prepare the financial statements on a going concern basis.

#### Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

#### Adoption of new and revised Accounting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. Details of the impact of the adoption of these new accounting standards are set out in the individual accounting policy notes set out below. The Group has also adopted the following Standards as listed below which only impacted on the Group's financial statements with respect to disclosure:

- AASB 101 'Presentation of Financial Statements (revised October 2006)
- AASB 7 'Financial Instruments: Disclosures'

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

#### (a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries) (referred to as 'the Group' in these financial statements). 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.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

### 3. Significant accounting policies (Cont'd)

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. In the separate financial statements of the Company, intra-group transactions ('common control transactions') are generally accounted for by reference to the existing (consolidated) book value of the items. Where the transaction value of common control transactions differ from their consolidated book value, the difference is recognised as a contribution by or distribution to equity participants by the transacting entities.

#### (b) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### (c) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities and contingent liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 'Business Combinations' are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

#### (d) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

#### (e) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

##### Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

#### (f) Financial assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the company financial statements.

##### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss'.

### 3. Significant accounting policies (Cont'd)

#### Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

Interest is recognised by applying the effective interest rate.

#### Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### **(g) Financial instruments issued by the company**

##### Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

##### Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

#### **(h) Exploration and evaluation assets**

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:

(i) the rights to tenure of the area of interest are current; and

(ii) at least one of the following conditions is also met:

(a) the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or

(b) exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortisation of assets used in exploration and evaluation activities. General and administrative costs are only included in the measure of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (or the cash-generating unit(s) to which it has been allocated, being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Where a decision is made to proceed with the development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance will then be reclassified to development.

### 3. Significant accounting policies (Cont'd)

#### (i) Impairment of tangible and intangible assets other than exploration and evaluation assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### (j) Income tax

##### Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

##### Deferred tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/Group intends to settle its current tax assets and liabilities on a net basis.

##### Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

### 3. Significant accounting policies (Cont'd)

#### (k) Joint venture arrangements

##### Jointly controlled assets

Interests in jointly controlled assets in which the Group is a venturer (and so has joint control) are included in the financial statements by recognising the Group's share of jointly controlled assets (classified according to their nature), the share of liabilities incurred (including those incurred jointly with other venturers) and the Group's share of expenses incurred by or in respect of each joint venture. The Group also recognises income from the sale or use of output from the joint venture in accordance with its revenue policy in note 3(o).

The Group's interests in assets where the Group does not have joint control are accounted for in accordance with the substance of the Group's interest. Where such arrangements give rise to an undivided interest in the individual assets and liabilities of the joint venture, the Group recognises its undivided interest in each asset and liability and classifies and presents those items according to their nature.

#### (l) Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

##### Group as lessor

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

However, contingent rentals arising under operating leases are recognised as income in a manner consistent with the basis on which they are determined.

##### Group as lessee

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Refer to note 3(b). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

##### Lease incentives

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### (m) Property, plant and equipment

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including leasehold improvements.

Depreciation is calculated on a diminishing value and straight line basis so as to write off the net cost amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

The gain or loss arising on disposal or retirement of an item of property, plant or equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit and loss.

#### (n) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.



### 3. Significant accounting policies (Cont'd)

#### (o) Revenue

Revenue is measured at the fair value of the consideration received or receivable.

##### Dividend and interest revenue

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

##### Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. However, contingent rentals arising under operating leases are recognised as income in a manner consistent with the basis on which they are determined.

#### (p) Share-based payments

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

The above policy is applied to all equity-settled share-based payments that were granted after 7 November 2002 that vested after 1 January 2005. No amount has been recognised in the financial statements in respect of the other equity-settled share-based payments.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

#### (q) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

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

#### (r) Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

##### **Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

##### Exploration and evaluation assets

The recoverability of the carrying amount of exploration and evaluation assets is dependant on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

**4. Revenue and expenses**

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>(a) Revenue</b>				
Revenue from continuing operations consisted of:				
Interest				
Bank deposits	109,720	165,692	107,642	164,612
Rental revenue:				
Sub- rental revenue	100,559	20,405	100,559	20,405
JV Fees recovered	604	-	604	-
Sale of Waste Rock	12,358	-	12,358	-
Profit on sale of asset	-	3,474	-	3,474
<b>Total Revenue</b>	<b>223,241</b>	<b>189,571</b>	<b>221,163</b>	<b>188,491</b>
<b>(b) Loss before income tax</b>				
Loss before income tax has been arrived at after crediting/(charging) the following expenses from continuing operations:				
Depreciation	92,457	74,364	91,869	74,364
Operating lease rental expenses				
Minimum lease payments	-	1,480	-	1,480
Employee benefits expense:				
Employee benefits	361,019	354,697	361,019	354,697
Defined contribution plans	51,565	55,068	51,565	55,068
	412,584	409,765	412,584	409,765
Unwinding of discount on provisions				
Interest on obligations under finance leases	14,325	11,163	14,325	11,163



**5. Income tax**

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
(a) The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period				
Loss from operations	(3,256,454)	(1,426,877)	(3,293,453)	(1,389,881)
Prima facie tax calculated at 30%	(976,936)	(428,063)	(988,036)	(416,964)
Add tax effect of:				
- Non deductible expenses	382,555	-	382,555	-
- Share based payments	-	-	-	-
Less tax effect of:				
- Capital raising costs	43,200	3,889	43,200	3,889
Movement in tax asset not recognised	(43,200)	(3,889)	(43,200)	(3,889)
Current year tax loss not recognised	594,381	428,063	605,481	416,964
	-	-	-	-
(b) <b>Assets</b>				
<b>Non-current</b>				
Deferred tax asset comprises:				
- Capital raising costs	43,200	3,889	43,200	3,889
- Amount not recognised	(43,200)	(3,889)	(43,200)	(3,889)
	-	-	-	-
(c) <b>Reconciliation</b>				
<b>(i) Gross movements</b>				
The overall movement in the deferred tax balances is as follows:				
Opening balance	-	-	-	-
Charge/(credit) to income statement	-	-	-	-
Charge/(credit) to the equity	-	-	-	-
Closing balance	-	-	-	-
<b>(ii) Deferred tax assets</b>				
The movement in the deferred tax asset for each temporary difference during the year is as follows:				
<b>Capital raising costs</b>				
Opening balance	-	-	-	-
Charge to equity	43,200	3,889	43,200	3,889
Amount not recognised	(43,200)	(3,889)	(43,200)	(3,889)
	-	-	-	-
(d) Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in note 3 (j) occur:				
Opening balance	914,719	482,767	903,620	482,767
Temporary differences	43,200	3,889	43,200	3,889
Tax losses - revenue	594,381	428,063	605,481	416,964
Tax losses - capital	382,555	-	382,555	-
Closing balance	1,934,855	914,719	1,934,856	903,620

## 6. Earnings per share

	Consolidated	
	2008	2007
	\$	\$
The following reflects the income and share data used in calculating basic and diluted earnings per share:		
Net loss	3,256,454	1,426,877
Basic earnings per share (cents per share)	(3.47)	(2.00)
Diluted earnings per share (cents per share)	(3.47)	(2.00)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	93,791,016	71,184,418
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	93,791,016	71,148,418

Diluted earnings per share is calculated after classifying all options on issue remaining unconverted at 30 June 2008 as potential ordinary shares. As at 30 June 2008, the Company has 1,500,000 options (2007:8,637,000) over unissued capital on issue. As the notional exercise price of these options is greater than the current market price of the shares they have not been included in the calculation of diluted earnings per share

## 7. Other receivables

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
GST receivable (net)	5,390	91,470	5,390	91,470
Other receivables (i), (ii)	114,140	47,114	114,140	47,114
Allowance for Doubtful Debts	(55,103)	-	(55,103)	-
	64,427	138,584	64,427	138,584

(i) Other receivables are non interest bearing and relate to monies due from Past Tenants, Past Directors, Employees or Officers of Panaegis Gold Mines Limited and have repayment terms of fourteen days.

(ii) Other receivables that have not been provided for in the allowance for doubtful debts are all past due but not impairment as the receivables have either been collected subsequent to 30 June 2008 or the Directors consider recoverable. Further details listed in table below.

### Movement in the allowance for doubtful debts

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Balance at the beginning of the year	-	-	-	-
Impairment losses recognised on receivables	(55,103)	-	(55,103)	-
Balance at end of the year	(55,103)	-	(55,103)	-

All impaired receivables are over 120 days old and have been individually assessed for recoverability. The impairment recognised represents the difference between the carrying amount and the expected proceeds.

### **Schedule of Other Receivables:**

Other Receivables are related to monies due from Past Tenants, Past Directors, Employees or Officers of Panaegis Gold Mines Ltd:

Domain Capital P/L – Tenant Collins St Premises	56,575	Paid Post 30/6/08
CNG-Tm P/L – Tenant Collins St Premises	8,672	-
Dorado Trading P/L – Tenant Collins St Premises	8,424	-
Buckingham Family – Expenses Recovery	2,544	-
IMI Consulting – Tenant & Expense Recovery	22,601	Paid \$4,461 Post 30/6/08
	98,816	

**8. Other assets**

	Consolidated		Company	
	2008 \$	2007 \$	2008 \$	2007 \$
Deposits – environmental bonds	160,241	127,306	101,969	96,112
Rental bond	2,336	113,020	2,336	113,020
Prepayments	3,667	11,841	2,237	11,841
	166,244	252,167	106,542	220,973

**9. Plant and equipment**

	Consolidated					Total
	Plant and equipment	Computer equipment and software	Leasehold improve- ments	Motor vehicles	Leased computer equipment	
	\$	\$	\$	\$	\$	\$
<b>Gross carrying amount</b>						
<b>Balance at 1 July 2006</b>	2,682	10,491	-	-	-	13,173
Additions	14,571	40,492	11,137	190,866	55,597	312,663
Disposals	-	-	-	(31,189)	-	(31,189)
<b>Balance at 1 July 2007</b>	17,253	50,983	11,137	159,677	55,597	294,647
Additions	1,380	16,534	-	-	-	17,914
Disposals	(6,182)	-	(11,137)	(28,832)	-	(46,151)
<b>Balance at 30 June 2008</b>	12,451	67,517	-	130,845	55,597	266,410
<b>Accumulated Depreciation</b>						
<b>Balance at 1 July 2006</b>	-	(1,933)	-	-	-	(1,933)
Disposals	-	-	-	9,649	-	9,649
Depreciation expense	(2,236)	(8,188)	-	(58,066)	(5,874)	(74,364)
<b>Balance at 1 July 2007</b>	(2,236)	(10,121)	-	(48,417)	(5,874)	(66,648)
Disposal	1,144	-	557	20,246	-	21,947
Depreciation expense	(4,832)	(16,852)	(557)	(54,887)	(15,329)	(92,457)
<b>Balance at 30 June 2008</b>	(5,924)	(26,973)	-	(83,058)	(21,203)	(137,158)
<b>Net book value</b>						
As at 30 June 2007	15,017	40,862	11,137	111,260	49,723	227,999
As at 30 June 2008	6,527	40,544	-	47,787	34,394	129,252

**9. Plant and equipment (cont'd)**

	<b>Company</b>					Total
	Plant and equipment	Computer equipment and software	Leasehold improve- ments	Motor vehicles	Leased computer equipment	
	\$	\$	\$	\$	\$	
<b>Gross carrying amount</b>						
<b>Balance at 1 July 2006</b>	2,682	10,491	-	-	-	13,173
Additions	14,571	40,492	11,137	190,866	55,597	312,663
Disposals	-	-	-	(31,189)	-	(31,189)
<b>Balance at 1 July 2007</b>	17,253	50,983	11,137	159,677	55,597	294,647
Additions	1,380	16,534	-	-	-	17,914
Disposals	(6,182)	-	(11,137)	(28,832)	-	(46,151)
<b>Balance at 30 June 2008</b>	12,451	67,517	-	130,845	55,597	266,410
<b>Accumulated Depreciation</b>						
<b>Balance at 1 July 2006</b>	-	(1,933)	-	-	-	(1,933)
Disposals	-	-	-	9,649	-	9,649
Depreciation expense	(2,236)	(8,188)	-	(58,066)	(5,874)	(74,364)
<b>Balance at 1 July 2007</b>	(2,236)	(10,121)	-	(48,417)	(5,874)	(66,648)
Disposal	1,144	-	557	20,246	-	21,947
Depreciation expense	(4,832)	(16,852)	(557)	(54,887)	(15,329)	(92,457)
<b>Balance at 30 June 2008</b>	(5,924)	(26,973)	-	(83,058)	(21,203)	(137,158)
<b>Net book value</b>						
As at 30 June 2007	15,017	40,862	11,137	111,260	49,723	227,999
As at 30 June 2008	6,527	40,544	-	47,787	34,394	129,252

The following useful lives are used in the calculation of depreciation

Plant and equipment	3 - 7 years	Diminishing value method
Computer equipment	2.5 - 4 years	Diminishing value and straight line method
Leasehold improvements	10 years	Straight line method
Motor vehicles	4 years	Diminishing value method
Leased computer equipment and software	4 years	Straight line method

**10. Exploration and evaluation assets**

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Balance at beginning of the period	6,258,989	4,337,931	3,047,301	2,315,197
Additional expenditure carried forward	670,635	1,922,203	396,667	733,249
Impairment losses for the year	(1,741,337)	(1,145)	(516,321)	(1,145)
	5,188,287	6,258,989	2,927,647	3,047,301

During the financial year the group reassessed all the areas and determined the areas to be surrendered and valid exploration and evaluation assets.

The recoverability of the carrying amount of exploration and evaluation assets is dependant on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

Deferred Exploration and Evaluation Costs includes expenditure amounting to \$318,007 (2007: \$1,188,954) incurred at the licence areas through the group's subsidiary.

**11. Other financial assets**

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Investments carried at cost:				
Investment in subsidiaries	-	-	1,660,700	1,660,000
Accumulated impairment	-	-	(1,275,185)	-
	-	-	385,515	1,660,000
Receivable from wholly owned subsidiary	-	-	1,936,396	1,621,528
Accumulated impairment	-	-	(1,248)	(1,248)
	-	-	2,320,663	3,280,280

**12. Trade and other payables**

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Trade payables	76,287	219,165	76,287	219,165
Accrued Expenses	4,110	136,090	4,110	136,090
	80,397	355,255	80,397	355,255

Terms and conditions relating to the above financial instruments:

- (i) Trade payables are non-interest bearing and are usually settled on 30 day terms.
- (ii) Other payables are non-interest bearing and have an average term of 30 days

### 13. Issued capital

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
(a) Issued and paid up capital				
Ordinary shares fully paid	11,567,697	10,312,116	11,567,697	10,312,116

Changes to the Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value. Ordinary shares have the right to receive dividends as declared and, in the event of winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

#### (b) Movements in shares on issue

Details	Year ended 30 June 2008		Year ended 30 June 2007	
	Number of Shares Issued	Issued Capital \$	Number of Shares Issued	Issued Capital \$
	Beginning of the financial year	80,562,500	10,312,116	70,062,500
Movements during the year				
Less: costs of initial public offer share issue	-	-	-	(12,962)
- share placement 22 May 2007	-	-	10,500,000	945,000
- share placement 23 July 2007	12,000,000	1,080,000	-	-
- share placement 5 September 2007	2,430,900	218,781	-	-
Less: cost of placement	-	(43,200)	-	-
<b>Closing balance</b>	<b>94,993,400</b>	<b>11,567,697</b>	<b>80,562,500</b>	<b>10,312,116</b>

#### Share options granted under the employee share option plan

In accordance with the provisions of the employee share option plan, as at 30 June 2008, executives and senior employees have NIL options (2007: 2,500,000) ordinary shares.

Share options granted under the employee share option plan carry no rights to dividends and no voting rights. Further details of the employee share option plan are contained in note 23 to the financial statements.

#### Other share options on issue

As at 30 June 2008, the company has 1,500,000 share options on issue that have been granted exercisable for 1,500,000 ordinary shares of the company (2007: 6,137,000). The options carry no rights to dividends and no voting rights.

Information with respect to the number of all options granted including executive options is as follows:

	30 June 2008		30 June 2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of period	8,637,000	\$0.27	8,637,000	\$0.27
- granted	-	-	-	-
- lapsed/exercised	(7,137,000)	\$0.27	-	-
Balance at end of period	1,500,000	\$0.50	8,637,000	\$0.27

Options held at the beginning and end of the reporting period

No. of Options	Grant Date	Vesting Date	Expiry Date	Weighted average exercise price
1,500,000	20/05/2005	20/05/2005	30/06/2009	\$0.50

**14. Accumulated losses**

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>(a) Accumulated Losses</b>				
Accumulated losses at the beginning of the financial period	2,185,606	758,729	2,148,610	758,729
Net loss attributable to members of Panaegis Gold Mines Limited	3,256,454	1,426,877	3,293,453	1,389,881
Accumulated losses at the end of the financial period	5,442,060	2,185,606	5,442,063	2,148,610

**(b) Franking Credits**

There are no franking credits available for the subsequent financial year.

**15. Notes to the cashflow statement**

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>(a) Reconciliation of loss after tax to net cash flows from operations</b>				
Net loss for the period	(3,256,454)	(1,426,877)	(3,293,453)	(1,389,881)
Depreciation of property, plant and equipment	92,457	74,364	91,869	74,364
Impairment of investment in subsidiaries	-	-	1,275,185	-
Impairment of exploration and evaluation assets	1,741,338	1,145	516,321	1,145
(Gain) on sale or disposal of non-current assets	(2,736)	(3,474)	(2,736)	(3,474)
<i>Changes in assets and liabilities</i>				
(Increase)/Decrease in receivables	(135,028)	(47,115)	(128,456)	(47,115)
Decrease/(Increase) in prepayments	8,874	(11,841)	8,874	(11,841)
Decrease/(Increase) in GST	96,355	(44,431)	96,355	(44,431)
Decrease/(Increase) in rental bond	110,684	(113,020)	110,684	(113,020)
Increase in environmental bonds	(32,935)	(82,038)	(5,858)	(75,959)
(Decrease)/Increase in creditors	(275,446)	46,067	(274,858)	46,067
(Decrease)/Increase in employee provisions	(12,746)	28,748	(12,746)	28,748
<b>Net cash used in operating activities</b>	(1,665,637)	(1,578,472)	(1,618,819)	(1,535,397)
<b>(b) Reconciliation of cash</b>				
Cash and cash equivalents comprise:				
Cash on hand and at call	839,685	1,867,902	839,361	1,867,500
	839,685	1,867,902	839,361	1,867,500
<b>(c) Non-cash financing and investing activities</b>				

During the current financial year, the Group acquired \$NIL (2007:\$228,177) of Plant and Equipment under hire purchase and chattel mortgages agreements. These acquisitions will be reflected in the cash flow statement over the term of the finance lease via lease repayments

**16. Borrowings**

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Secured – at amortised cost</b>				
<u>Current</u>				
Chattel Mortgage (i), (ii)	22,765	25,478	22,765	25,478
Finance lease liabilities (iii)	19,518	19,194	19,518	19,194
<u>Non-current</u>				
Chattel Mortgage (i), (ii)	87,543	134,808	87,543	134,808
Finance lease liabilities (iii)	13,853	33,468	13,853	33,468
	143,679	212,948	143,679	212,948
Disclosed in the financial statements as:				
Current borrowings	42,283	44,672	42,283	44,672
Non-current borrowings	101,396	168,276	101,396	168,276
	143,679	212,948	143,679	212,948

- (i) Fixed rate loans with finance companies with maturity periods not exceeding 5 years. The interest rates on the loans are from 7.5% to 8%p.a.
- (ii) Secured by security over the chattel under finance.
- (iii) Secured by the assets leased. Borrowings are fixed interest rate debt with repayments not exceeding 3 years. The current weighted effective interest rate on the loans is 10.33% p.a.

**17. Provisions**

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<u>Current</u>				
Employee benefits – accrued leave	16,002	28,748	16,002	28,748

**18. Commitments for expenditure**

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>(a) Exploration expenditure commitments</b>				
Not longer than 1 year	687,250	692,100	580,150	310,850
Longer than 1 year and not longer than 5 years	1,682,650	1,483,800	1,544,250	957,000
Longer than 5 years	-	-	-	-
	2,369,900	2,175,900	2,124,400	1,267,850

**(b) Lease commitments**

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in note 19 to the financial statements.

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>(c) Other expenditure commitments</b>				
<u>Property Lease</u>				
Not longer than 1 year	25,220	275,881	25,220	275,881
Longer than 1 year and not longer than 5 years	20,172	1,076,396	20,172	1,076,396
Longer than 5 years	-	-	-	-
	45,392	1,352,277	45,392	1,352,277
Anticipated recoveries from sub-tenants				
Not longer than 1 year	-	(141,511)	-	(141,511)
Longer than 1 year and not longer than 5 years	-	(552,215)	-	(552,215)
Longer than 5 years	-	-	-	-
	-	(693,726)	-	(693,726)
	45,392	658,551	45,392	658,551



**19. Leases**

**Finance leases**

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<u>Chattel mortgage</u>				
Not longer than 1 year	22,765	25,478	22,765	25,478
Longer than 1 year and not longer than 5 years	87,543	134,808	87,543	134,808
Longer than 5 years	-	-	-	-
	110,308	160,286	110,308	160,286

Leasing arrangements

Finance leases relate to computer equipment primarily used in exploration activities.

Finance lease liabilities

	Minimum future lease payments				Present value of minimum future lease payments			
	Consolidated		Company		Consolidated		Company	
	2008	2007	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$	\$	\$
Not longer than 1 year	23,526	23,526	23,526	23,526	19,518	19,194	19,518	19,194
Longer than 1 year and not longer than 5 years	16,626	40,150	16,626	40,150	13,853	33,469	13,853	33,469
Longer than 5 years	-	-	-	-	-	-	-	-
Minimum future lease payments*	40,152	63,678	40,152	63,678	33,371	52,663	33,371	52,663
Less future finance charges	(6,781)	(11,015)	(6,781)	(11,015)	-	-	-	-
Present value of minimum lease payments	33,371	52,663	33,371	52,663	33,371	52,663	33,371	52,663

Included in the financial statements as: (note 16)

Current borrowings	19,518	19,194	19,518	19,194
Non-Current borrowings	13,853	33,469	13,853	33,469
	33,371	52,663	33,371	52,663

\* Minimum future lease payments includes the aggregate of all lease payments and any guaranteed residual.

**Operating leases**

Leasing arrangements

Operating lease relate to a photocopier with a lease term of 3 years. The Company / Group does not have an option to purchase the leased asset at the expiry of the lease period.

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<u>Non cancellable operating lease commitments</u>				
Not longer than 1 year	-	17,754	-	17,754
Longer than 1 year and not longer than 5 years	-	34,028	-	34,028
Longer than 5 years	-	-	-	-
	-	51,782	-	51,782

**20. Jointly controlled assets**

The Group is a venturer in the following jointly controlled operations and assets:

Name of venture	Principal activity	Output interest	
		2008	2007
		%	%
Nagambie Project	Exploration for minerals	51	51

The Group's interest, as a venturer, in assets employed in the above jointly controlled operations and assets is detailed below. The company is involved in the Nagambie Project joint venture with Perseverance Corporation Limited, which is currently in the exploration phase of development. Accordingly, there are no attendant assets or liabilities.

## 21. Subsidiaries

Name of entity	Country of incorporation	Ownership interest	
		2008 %	2007 %
<b>Parent entity</b>			
Panaegis Gold Mines Limited	Australia	-	-
<b>Subsidiaries</b>			
Sierra Minerals Limited	Australia	100	100
Nagambie Developments Pty Ltd	Australia	100	-

## 22. Financial instruments

### (a) Categories of financial instruments

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Financial assets</b>				
Loans and receivables	224,668	265,890	2,108,119	1,967,996
Cash and cash equivalents	839,685	1,867,902	839,361	1,867,500
<b>Financial liabilities</b>				
Amortised cost	224,076	568,203	224,076	568,203

### (b) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern.

The Group's overall strategy remains unchanged from 2007.

The capital structure of the Group consists of cash and cash equivalents and equity holders of the parent, comprising issued capital and reserves as disclosed in note 13 and the statement of changes in equity.

None of the Group's entities are subject to externally imposed capital requirements.

### (c) Interest rate risk management

The company and the Group are exposed to interest rate risk on cash and cash equivalents and environmental bonds.

The company and the Group's exposures to interest rates on financial assets are detailed in the liquidity risk management section of this note.

### Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

At reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's:

- net loss would decrease by \$5,000 and increase by \$5,000 (2007: net profit would increase by \$10,000 and decrease by \$10,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate cash deposits.

The Group's sensitivity to interest rates has decreased during the current period mainly due to a decrease in the level of cash and cash equivalents at balance date.

### (d) Credit risk management

The maximum exposure to credit risk, excluding the value of any collateral or other security at balance date, to recognised financial assets is the carrying amount of those assets, net of any allowances for doubtful debts, as disclosed in the balance sheet and notes to the financial statements.

The group does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the group.

### (e) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Group's funding and liquidity management requirements. The Group manages liquidity risk by maintaining sufficient cash balances.

## 22. Financial instruments (cont'd)

### Liquidity and interest risk tables

The following tables details the Company's and the Group's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Company/Group anticipates that the cash flow will occur in a different period.

#### Consolidated Assets

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years
	%	\$	\$	\$	\$	\$
<b>2008</b>						
Cash & Cash Equivalents	5.99	839,685	-	-	-	-
Enviromental Bonds	6.33	-	-	160,241	-	-
Rental Bonds	-	-	-	2,336	-	-
Other receivables	-	114,140	-	-	-	-
		953,825	-	162,577	-	-
<b>2007</b>						
Cash & Cash Equivalents	5.99	1,867,902	-	-	-	-
Enviromental Bonds	6.33	-	-	127,306	-	-
Rental Bonds	6.60	-	-	113,020	-	-
Other receivables	-	47,114	-	-	-	-
		1,915,016	-	240,326	-	-

#### Company Assets

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years
	%	\$	\$	\$	\$	\$
<b>2008</b>						
Cash & Cash Equivalents	5.99	839,685	-	-	-	-
Enviromental Bonds	6.33	-	-	101,969	-	-
Rental Bonds	-	-	-	2,336	-	-
Other receivables	-	114,140	-	-	-	-
		953,825	-	104,305	-	-
<b>2007</b>						
Cash & Cash Equivalents	5.99	1,867,902	-	-	-	-
Enviromental Bonds	6.33	-	-	127,306	-	-
Rental Bonds	6.60	-	-	113,020	-	-
Other receivables	-	47,114	-	-	-	-
		1,915,016	-	240,326	-	-

The following tables detail the company's and the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

#### Consolidated Liabilities

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years
	%	\$	\$	\$	\$	\$
<b>2008</b>						
Finance Lease Liability	10.13	(1,961)	(3,921)	(17,645)	(16,625)	-
Chattel Mortgage Liabilities	7.77	(2,551)	(5,102)	(21,858)	(95,965)	-
Trade and Other Payables	-	(80,397)	-	-	-	-
		(84,909)	(9,023)	(39,503)	(112,590)	-
<b>2007</b>						
Finance Lease Liability	10.13	(1,961)	(5,102)	(17,645)	(40,151)	-
Chattel Mortgage Liabilities	7.77	(3,077)	(6,154)	(27,693)	(152,202)	-
Trade and Other Payables	-	(355,255)	-	-	-	-
		(360,293)	(11,256)	(45,338)	(192,353)	-

## 22. Financial instruments (cont'd)

### Company Liabilities

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years
	%	\$	\$	\$	\$	\$
<b>2008</b>						
Finance Lease Liability	10.13	(1,961)	(3,921)	(17,645)	(16,625)	-
Chattel Mortgage Liabilities	7.77	(2,551)	(5,102)	(21,858)	(95,965)	-
Trade and other payables	-	(80,397)	-	-	-	-
		(84,909)	(9,023)	(39,503)	(112,590)	-
<b>2007</b>						
Finance Lease Liability	10.13	(1,961)	(5,102)	(17,645)	(40,151)	-
Chattel Mortgage Liabilities	7.77	(3,077)	(6,154)	(27,693)	(152,202)	-
Trade and other payables	-	(355,255)	-	-	-	-
		(360,293)	(11,256)	(45,338)	(192,353)	-

### (f) Fair value of financial instruments

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximates fair value.

## 23. Share-based payments

### Executive Options

The consolidated entity has an ownership-based remuneration scheme for executives (including executive directors) of the company. In accordance with the provisions of the scheme, as approved by shareholders at a previous annual general meeting, executives with the company may be granted options to purchase parcels of ordinary shares at an exercise price determined at the discretion of the Board of Directors. Each executive share option converts into one ordinary share of Panaegis Gold Mines Limited on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. The number of options granted is at the discretion of the Board of Directors of the Company. The options granted expire approximately two years after their issue, or one month of the resignation of the executive, whichever is the earlier. There are 1,500,000 share options on issue under this plan.

Information with respect to the number of all options granted including executive options is as follows:

	30 June 2008		30 June 2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of period	8,637,000	\$0.27	8,637,000	\$0.27
- granted	-	-	-	-
- lapsed/exercised	(7,137,000)	\$0.27	-	-
Balance at end of period	1,500,000	\$0.50	8,637,000	\$0.27

Options held at the beginning and end of the reporting period

No. of Options	Grant Date	Vesting Date	Expiry Date	Weighted average exercise price
1,000,000	20/05/2005	20/05/2005	31/12/2007	\$0.35
6,137,000	23/06/2006	23/06/2006	30/06/2008	\$0.20
1,500,000	20/05/2005	20/05/2005	30/06/2009	\$0.50
<u>8,637,000</u>				<u>\$0.27</u>

There were no options granted for the past year.

### (i) Exercised during the financial year

There were no options exercised during the financial year

### (ii) Equity-settled employee benefits reserve

The equity-settled employee benefits reserve arises on the grant of share options to executives and senior employees under the employee share option plan. Amounts are transferred out of the reserve and into issued capital when the options are exercised.

#### 24. Key management personnel compensation

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Short-term employee benefits	535,513	615,315	535,513	615,315
Post-employment benefits	22,808	27,570	22,808	27,570
Other long-term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share-based payment	-	-	-	-
	558,321	642,885	558,321	642,885

Other non-salaried benefits supplied to Past Directors & Management included Mobile Phones, Car Parking and use of Computer Equipment. Whilst these were not part of their employment contracts, they were authorized by the previous management as a cost of doing business.

**(a) Remuneration Options: Granted and vested during the period**

No options were issued or vested during the reporting period relating to key management personnel

**(b) Share issued on exercise of remuneration options**

No shares were issued on the exercise of remuneration options during the reporting period relating to key management personnel

**(c) Option holdings of key management personnel**

Unlisted options held by key management personnel. Details of options are contained in Note 23

Year ended 30 June 2008	Opening Balance 1 July 2007	Granted as remuneration	Options Exercised	Net Change Other	Closing Balance 30 June 2008	Vested and exercisable at 30 June 2008
Ian D Buckingham -Resigned 5 <sup>th</sup> Sept 2007(*)	2,500,000	-	-	(2,500,000)	-	-
Andrew R Ristrom -Removed 20 <sup>th</sup> Dec 2007(*)	500,000	-	-	(500,000)	-	-
<b>Total</b>	3,000,000	-	-	(3,000,000)	-	-

(\*) Director resigned/removed during period, according to issue of options, options forfeited upon resignation.

Year ended 30 June 2007	Opening Balance 1 July 2006	Granted as remuneration	Options Exercised	Net Change Other	Closing Balance 30 June 2007	Vested and exercisable at 30 June 2007
Ian D Buckingham	2,500,000	-	-	-	2,500,000	2,500,000
Andrew R Ristrom (**)	500,000	-	-	-	500,000	500,000
<b>Total</b>	3,000,000	-	-	-	3,000,000	3,000,000

(\*\*) Granted as a result of a contract entered into prior to the becoming a Director of the Company relating to capital raising activities

## 24. Key management personnel compensation

### (f) Shareholdings of key management personnel

Year ended 30 June 2008	Balance 1 July 2007	Granted as remuneration	On exercise of Options	Net Change Other	Balance 30 June 2008
Ordinary Shares	No.	No.	No.	No.	No.
John W Cornelius*					
-Resigned 8 <sup>th</sup> October 2007	1,800,000	-	-	(1,800,000)	-
Ian D Buckingham*					
-Resigned 5 <sup>th</sup> September 2007	2,800,000	-	-	(2,800,000)	-
Peter I Rudd					
-Removed 20 <sup>th</sup> December 2007	2,050,000	-	-	(2,050,000)	-
Michael W Trumbull	625,000	-	-	375,000	1,000,000
Andrew R Ristrom*					
-Removed 20 <sup>th</sup> December 2007	300,000	-	-	(300,000)	-
Colin Glazebrook					
-Appointed 20 <sup>th</sup> December 2007	-	-	-	350,000	350,000
Geoff Turner					
-Appointed 20 <sup>th</sup> December 2007	-	-	-	100,000	100,000
<b>Total</b>	<b>7,575,000</b>	<b>-</b>	<b>-</b>	<b>(6,125,000)</b>	<b>1,450,000</b>

Year ended 30 June 2007	Balance 1 July 2006	Granted as remuneration	On exercise of Options	Net Change Other	Balance 30 June 2007
Ordinary Shares	No.	No.	No.	No.	No.
John W Cornelius	1,800,000	-	-	-	1,800,000
Ian D Buckingham	2,800,000	-	-	-	2,800,000
Peter I Rudd	2,050,000	-	-	-	2,050,000
Michael W Trumbull	625,000	-	-	-	625,000
Andrew R Ristrom	-	-	-	300,000	300,000
Neil T Motton					
- resigned 1 March 2007	2,500,000	-	-	(2,500,000)	-
<b>Total</b>	<b>9,775,000</b>	<b>-</b>	<b>-</b>	<b>(2,200,000)</b>	<b>7,575,000</b>

All equity transactions with key management personnel other than those arising from the exercise of options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

## 25. Related party transactions

During the 2008 financial year John W Cornelius charged \$199,755 (2007: \$70,605) for consulting and the provision of administrative and clerical staff.

These fees were paid to i2iGroup Pty Ltd & IMI Consulting Pty Ltd, both companies controlled by John W Cornelius.

From 1 June 2007, IMI Consulting Pty Ltd and Domain Capital had committed to a sub-lease for accommodation on premises leased by Panaegis Gold Mines Limited. These accounts had not been paid as at 30<sup>th</sup> June 2008.

The amount owing by Domain Capital Pty Ltd, a company of which Andrew R Ristrom is a director, is \$56,575. This has since been paid in full.

The amount owing by IMI Consulting Group Pty Ltd, a company of which John W Cornelious is a director, for sub-lease and other expenses is \$22,601. We have commenced recovery action to secure these outstandings.

The company has paid legal and consulting fees of \$146,466 (2007: \$40,843) to TressCox Lawyers, a firm of solicitors to which Alfonso M G Grillo acts as a lawyer. Secretarial fees payable to Alfonso M G Grillo are paid to TressCox Lawyers.

The company has paid consulting fees of \$30,963 (2007: \$32,875) to CBH Business Services Pty Ltd, a company controlled by Cherie L Harrison.

The company has paid consulting fees of \$97,090 (2007: NIL) to Cotlco Pty Ltd, a company controlled by John Cottle.

The company has paid consulting fees of \$65,025 (2007: NIL) to Glazco Consultants Pty Ltd, a company controlled by Colin Glazebrook.

The company has paid consulting fees of \$1,256 (2007: NIL) to Exploration Mining Services Pty Ltd, a company controlled by Geoff Turner.

The company has paid consulting fees of \$34,411 (2007: NIL) to Fekete Management Services Pty Ltd, a company controlled by Joe Fekete.

**26. Business and geographical segments**

The Group operates in one principal geographical area – in Victoria, Australia. The composition is exploration for gold and minerals in this area.

**27. Remuneration of auditors**

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Auditor of the parent entity</b>				
Audit or review of the financial report	30,000	30,000	30,000	30,000
Other non-audit services – Tax	18,565	-	18,565	-
	48,565	30,000	48,565	30,000

The auditor of Panaegis Gold Mines Limited is Deloitte Touche Tohmatsu.

**28. Subsequent events**

The following events occurred after balance date that are of significance to the company:

(a) Nagambie Joint Venture

The mining Licence MIN5412, was previously owned 49% Perserverance Corporation Limited and 51% Sierra Minerals P/L, a wholly owned subsidiary of Panaegis Gold Mines Ltd. The 49% owned by Perserverance Mining Ltd, a wholly owned subsidiary of Northgate Australian Ventures Corporation Pty Ltd, was formally transferred to Panaegis Gold Mines Limited on 25 June 2008 subject to ministerial approval which was granted on 16 September 2008.