PANAEGIS

Annual Report 2007

www.panaegis.com.au

Corporate Directory

Panaegis Gold Mines Limited

ABN 42 111 587 163

REGISTERED OFFICE

Panaegis Gold Mines Limited
Level 16, 379 Collins Street
Melbourne Vic 3000
Tel: +61 3 8614 1000
Fax: +61 3 8614 1039

DIRECTORS

John W Cornelius (Non-Executive Chairman)
Peter I Rudd (Non-Executive Deputy Chairman)
Andrew R Ristrom (Non-Executive Director)
Michael W Trumbull (Non-Executive Director)

CHIEF OPERATING OFFICER & EXPLORATION MANAGER

Dr. John W. Cottle

COMPANY SECRETARIES

Alfonso M G Grillo
Cherie L Harrison

PRINCIPAL LEGAL ADVISER

TressCox Lawyers
Level 9, 469 La Trobe Street
Melbourne Vic 3000
Tel: +61 3 9602 9444
Fax: +61 3 9642 0382
www.tresscox.com.au

AUDITOR AND INDEPENDENT ACCOUNTANT

Deloitte Touche Tohmatsu
180 Lonsdale Street
Melbourne Vic 3000

CORPORATE ADVISER

Domain Capital Pty Ltd
Level 11, 356 Collin Street
Melbourne Vic 3000

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)

PANAEGIS GOLD MINES WEBSITE

www.panaegis.com.au

EMAIL

info@panaegis.com.au

STOCK EXCHANGE LISTING

Home Branch - Melbourne

ASX Code - PAU

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Corporate Profile

Refined focus exploration and development philosophy

Explore for large fine grained gold in sulphides, structurally disseminated within sediments, along substantial strike length mineralised structures.

Specifically target multiple occurrences of 'Pods'** of enhanced tonnes and tenor mineralisation, distributed along major mineralised structures, and occasioned by intersections with enhancing cross structures.

Further, target multiple, proximate, substantial strike extent mineralised structures.

Pursue project development strategies and plans on a 'One Plant, Multiple Proximate Sources' basis.

** Pods: "Mineralised bodies of elongate or lenticular shape"

Quality properties in a historically world class mining province

All tenements have hosted previous gold production.

Victoria has produced over 80 million ounces of gold historically, amounting to approximately 2% of total recorded global gold output.

All tenements exhibit geological indications of structurally disseminated gold in sulphides within sediments. In addition, Heathcote (part), Howqua, Piggoreet, and Wedderburn (part) demonstrate geological indications of gold and, in some instances, base metal mineralisation in volcanics.

Application of exploration methodologies consistent with demonstrated geology

Panaegis recognises the 'nuggety' nature of Victorian gold throughout the scale spectrum;

- on a sample to sample scale,
- locally with enhanced 'Pods' distributed within major mineralised structures, and
- regionally with multiple proximate deposit occurrences.

Accounting for this phenomenon both in exploration and development demonstrates close attention to the actual form and habit of geological assets.

Phased production development and multiple project sources strategy

Resource project focus is prioritised as follows:

Oxide gold extensions at Nagambie and Oxide gold and base metals within other tenements;

Multiple Oxide 'Satellites' at Nagambie and within other tenements;

Oxide associated sulphides at Nagambie and within other tenements.

Experienced Corporate and Technical Resources Industry People

Directors, management and technical staff are well experienced resources industry people, contributing strong exploration, mining, financial, management, and strategic skills to the Company.

Chairman's Letter

18 September 2007

Dear Shareholder

The first full year of Operations of any gold explorer almost invariably has its highlights and disappointments. Panaegis's first year has seen the difficulty faced by much larger Victorian gold producers and explorers adversely impact sentiment toward Victorian explorers. The year also saw booming resource exploration activity chasing drilling and other exploration costs significantly higher and caused resource bottlenecks and consequent delays in items such as mineral assay. These elements have adversely impacted Panaegis programs and budgets in the past year.

However, a year on we review our achievements, adjust and refocus our exploration efforts and budgets to achieve our original goals.

GOALS:

Delineate at lowest possible cost, economic reserves to produce gold at the earliest opportunity.

ACHIEVEMENTS:

Completed 51% earn-in and confirmed as Manager, Nagambie Joint Venture with Perseverance Corporation.

- Achieved a significant understanding of the major influencing geological and structural elements defining mineralisation not only at Nagambie but also at many of our other tenements.
- Located gold mineralisation within all portfolio tenements held.
- Continued to rank and work our portfolio of tenements and evaluate new acquisitions.
- Established an exploration office at Heathcote, Central Victoria, and hired technical staff.

FOCUS:

Our exploration programs currently focus on:

Nagambie Joint Venture

- Oxide gold extensions at Nagambie.
- Multiple Nagambie Oxide 'Satellites'.
- Nagambie and 'Satellites' oxide associated Sulphides.

Non Joint Venture Tenements

- Oxide gold and base metal resource occurrences.
- Multiple Oxide 'Satellites'.
- 'Satellites' associated Sulphide resources.

It is imperative that the work done and the experience gained be harnessed with a cohesive effort to achieve success in the year ahead. The Board and through its direction to management, must be free of distraction, to build further value to our assets, value that will, absent external influences and distractions, be reflected in increased Panaegis share price.

I said last year we have much to look forward to – we certainly do!

JOHN W CORNELIUS
Chairman

Operations Review

OVERVIEW

It's now just over one year since Panaegis listed on the ASX. When we listed late last June we set about exploring our portfolio with the view to evaluating each tenement for its ability to host significant gold mineralisation.

Exploration

The primary focus outlined in our Prospectus, was the Nagambie Project where Panaegis had the right to earn a 51% equity in mining licence MIN5412 (Perseverance Corporation Limited) by undertaking exploration aimed at further evaluating the at depth and lateral extensions of the previously mined gold mineralisation. Additionally, by spending a portion of the agreed earn-in monies in the tenements already held by Panaegis and surrounding MIN5412, Perseverance Corporation Limited could also earn 49% equity in these properties. As detailed below, Panaegis fulfilled all of its earn-in commitments well within the agreed timeframe and based on the results of this programme of exploration quickly moved to increase the landholdings of the joint venture in the Nagambie region. A four phase programme for gold production and on-going exploration was established for the Nagambie joint venture. Exploration programmes in all non-Nagambie tenements have been undertaken during the period with some very positive results obtained in several areas. Particular emphasis has been placed on the Heathcote, Redcastle and Taradale properties and further exploration activities are planned in these areas over the coming months to further identify the style, geometry, grades and initial volumes of the gold and base metal mineralisation discovered.

The exploration programmes completed during this past twelve months have identified gold mineralisation associated with every tenement held by Panaegis. Each exploration programme on every property is in its preliminary phase and in all instances further work and expenditure is required before the Company would be in a position to either commit to a project or relinquish the tenement.

Corporate

Panaegis' actual exploration activities have closely followed the programmes, timing and expenditures set out in the Company's Prospectus. Consequently, and in order to maintain exploration momentum, the on-going exploration and development programmes require adequate funding. To this end the Company has recently raised $2 million by undertaking two placements of shares to two separate "strategic investors". Placements of 10.5 million shares at 9 cents each (raising $945,000) to Beaconsfield Gold NL and 12 million shares to Dr Peter J Woodford (raising $1,080,000) provides the further financial backing necessary to pursue the Company's next focused phase of exploration. Further, the Directors initiated a Shareholder Purchase Plan providing all shareholders the opportunity to take up shares at the same, 9 cents, price as the above placements.

Achievements

One year post-listing it is now appropriate that we look at what we have achieved. During that time the Company has:

- built small, competent, and effective technical teams;
- drilled a total of 9,000 metres of combined reverse circulation (RC: 5110m), diamond drilling (DD: 3,729m) and rotary air blast (RAB: 157m);
- reviewed over 77,000, 5 metre, blastholes drilled by Perseverance during mining;
- collected several thousands of samples for geochemical analysis and assaying;
- evaluated several geophysical exploration processes for their applicability to the mineralisation types and styles that we have encountered;
- significantly refined and developed our predominant exploration focus and strategy for the Nagambie joint venture region, and our other fully owned tenements; and
- applied for 5 new exploration licences, increasing our exploration acreage by over 50% to a total of approximately 1,600 km^2 .

Panaegis has been subject to the industry wide increased costs of exploration due to the enormous increase in demand for contract services (eg. drilling, assaying, etc) and resources. Indeed, in Victoria Panaegis has not escaped the significant sample analysis delays experienced across the industry due to the high demand.

Panaegis' joint venture, development philosophy and regional development strategy for the Nagambie Project as well as its exploration activities in other tenements are summarised below.

REFINING THE FOCUS

Resource Project Focus

Our ultimate resource project focus remains unchanged but now embraces some slight changes in emphasis, especially in recognition of economically inviolate timing considerations and is prioritised as follows, with the Nagambie Joint Venture and Non-Joint Venture properties being progressed simultaneously.

Nagambie Joint Venture

- Oxide gold extensions at Nagambie.
- Multiple Nagambie Oxide 'Satellites'.
- Nagambie and 'Satellites' oxide associated Sulphides.

Non Joint Venture Tenements

- Oxide gold and base metal resource occurrences.
- Multiple Oxide 'Satellites'.
- 'Satellites' associated Sulphide resources.

Technical Developments

Panaegis completed the 'earn-in' requirements for its 51% interest and operatorship in the Nagambie joint venture three months ahead of the 30 June 2007 scheduled date. This reflects the Company's commitment to effective attention to its exploration activities.

Interpretation of the Nagambie drill results has enabled our technical team to identify and delineate significant cross structures in the mine and sulphide mineralisation below the pit floor. These structures are now known to be crucial to the development of substantive mineralisation 'Pods' that significantly enhance both the tenor (grade) and tonnes of mineralisation within, and distributed along, kilometres of the main axial plane, quartz breccia mineralisation zone.

Subsequent to the delineation of these cross structures in the mine, Panaegis has now recognised their significance within the Nagambie area and throughout some of our other Victorian tenements. Renewed ground mapping, geophysical survey interpretations, and the proximate coincidence with surface soil and rock chip sample anomalism, and both outcropping and undercover regional basement highs, provides the evidence for their occurrence and influence on mineralisation.

Development Philosophy

The above phenomena, and particularly the significant regionally occurring cross (or intersecting) structure system, provides the basis for Panaegis to refine its exploration and project development strategy and philosophy as follows:

- Explore for large fine grained gold in sulphides, structurally disseminated within sediments, along substantial strike length mineralised structures.
- Specifically target multiple occurrences of 'Pods' of enhanced tonnes and tenor mineralisation, distributed along the main mineralisation structure, and occasioned by its intersection with enhancing cross structures.
- Further, target multiple, proximate, substantial strike extent mineralised structures.
- Pursue project development strategies and plans on a 'One Plant, Multiple Proximate Sources' basis.

Operations Review (continued)

NAGAMBIE JOINT VENTURE, DEVELOPMENT PHILOSOPHY AND REGIONAL DEVELOPMENT STRATEGY – (Panaegis – 51%, Operator)

Nagambie Gold Mine – MIN5412

Panaegis completed 26 drill holes of combined reverse circulation (RC) pre-collars and diamond-cored tails in exploration of the Nagambie Deposit during the year. These holes targeted continuation of the already mined oxide resources both at depth and on-strike extensions (Figure 1). Selected drill assay intercepts are shown in Table 1.

Nagambie Drill Program

Selected Assay Results

Hole ID	Length (m)	From (m)	To (m)	Au g/t	Sb ppm
NRP 01	5.0	113.0	118.0	2.2	97
NRP 02	26.7	110.0	136.7	5.0	8.8 %
Including					
NRP 02	***7.0***	***110.0***	***117.0***	***7.7***	***13.8 %***
NRP 02	***10.7***	***122.1***	***132.8***	***6.1***	***10.6 %***
NRP 03	2.0	39.0	41.0	2.0	39
NRP 03	4.7	152.8	157.5	2.2	18
NRP 03	1.9	267.6	269.5	2.5	11
NRP 08	2.1	187.5	189.6	2.5	16
NRP 10	3.0	132.7	135.7	2.1	19
NRP 11	15.0	80.0	95.0	2.1	16
NRP 11	4.1	163.6	167.7	2.1	27
NRP 14	4.0	156.0	160.0	2.5	32
NRP 14	8.9	169.6	178.5	2.1	14
NRP 17	5.0	108.0	113.0	2.5	16
NRP 17	4.0	115.0	119.0	2.7	25
NRP 17	10.0	125.0	135.0	2.2	11
NRP 18	24.0	110.0	134.0	2.4	32
Including					
NRP 18	***12.0***	***110.0***	***122.0***	***3.6***	***30***
NRP 18	***3.0***	***131.0***	***134.0***	***2.4***	***30***
NRP 19	8.2	48.0	56.2	3.6	140
NRP 19	4.0	128.0	132.0	3.1	20
NRP 19	7.0	150.0	157.0	2.1	22
NRP 20	5.0	111.0	116.0	2.4	1812
NRP 20	10.0	139.0	149.0	2.7	3
NRP 21	4.0	153.0	157.0	2.3	126
NRP 21	3.0	207.0	210.0	2.4	2715
NRP 22	2.8	112.5	115.3	2.2	699
NRP 22	2.0	135.0	137.0	3.3	124
NRP 22	3.0	141.0	146.0	2.2	62
NRP 25	3.0	112.0	115.0	2.4	10
NRP 25	8.0	132.0	140.0	2.5	25
NRP 26	6.0	74.0	80.0	2.2	276

Table 1. Nagambie selected drill intercept assay results

Interpretation of results from drilling, mapping and soils geochemistry has confirmed and extended the Nagambie mine mineralised structural fault system at depth and along strike and in doing so, has also identified a previously unrecognised major regional mineralised structural system. The system consists of two fault sets, one trending NE-SW and the other approximately NW-SE. Enhancement in grade and tonnage can develop when these fault sets intersect.

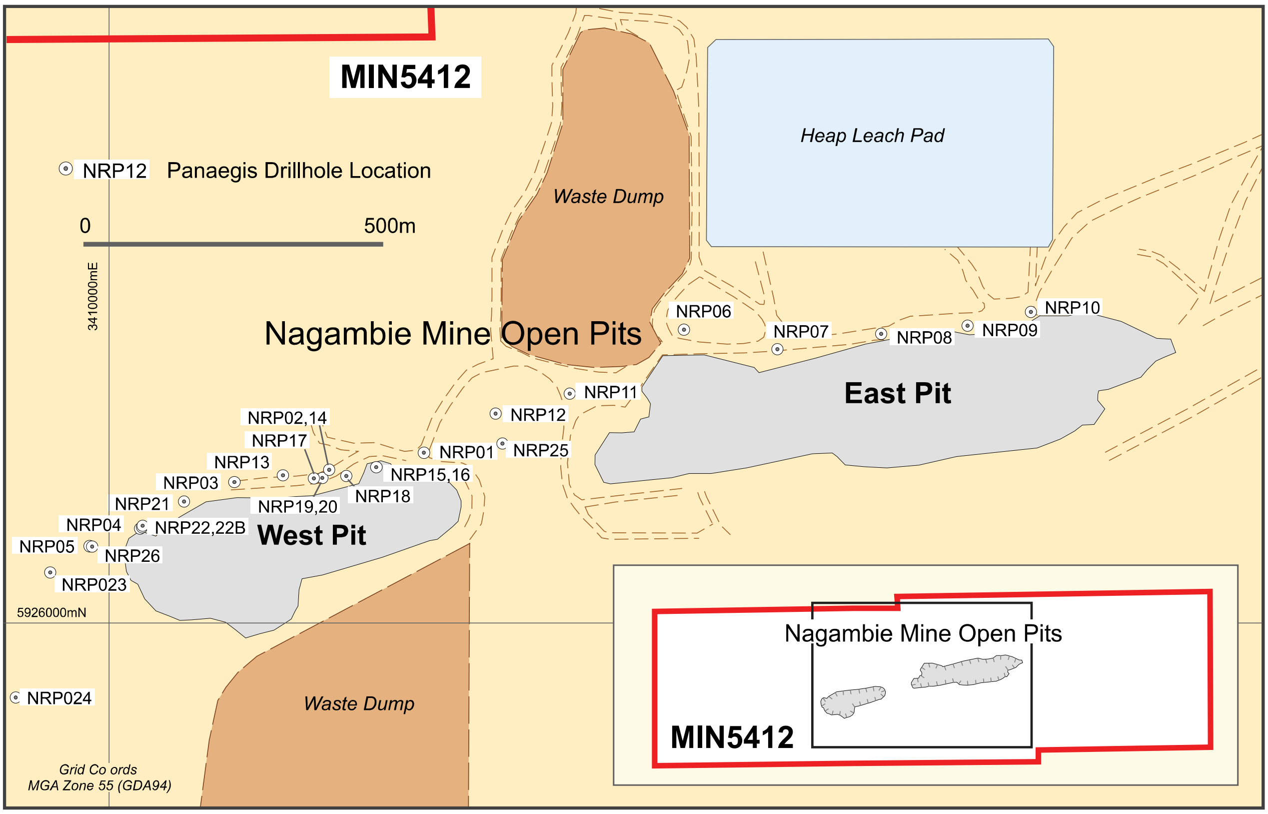

Figure 1: Drill Hole Collar Plan – Nagambie Gold Mine

The presence of several of these features in the mine area, as well as regionally, underlines their crucial importance to exploration and, most importantly, to subsequent project development. While exploration will continue to focus on discovering the main mineralised structures, it will also target the cross-cutting enhancements.

These cross-cutting structures with their enhancement of intersection tenor and tonnes within the mine are shown delineated by the 0.1 g/t gold down hole composites envelope in Figure 2. Preferential distribution of mineralisation occurs not only along the NE-SW axial plane of the Nagambie mineralised anticlinal structure, but also along the NW-SE, approximately 300 degree ('300') cross structures.

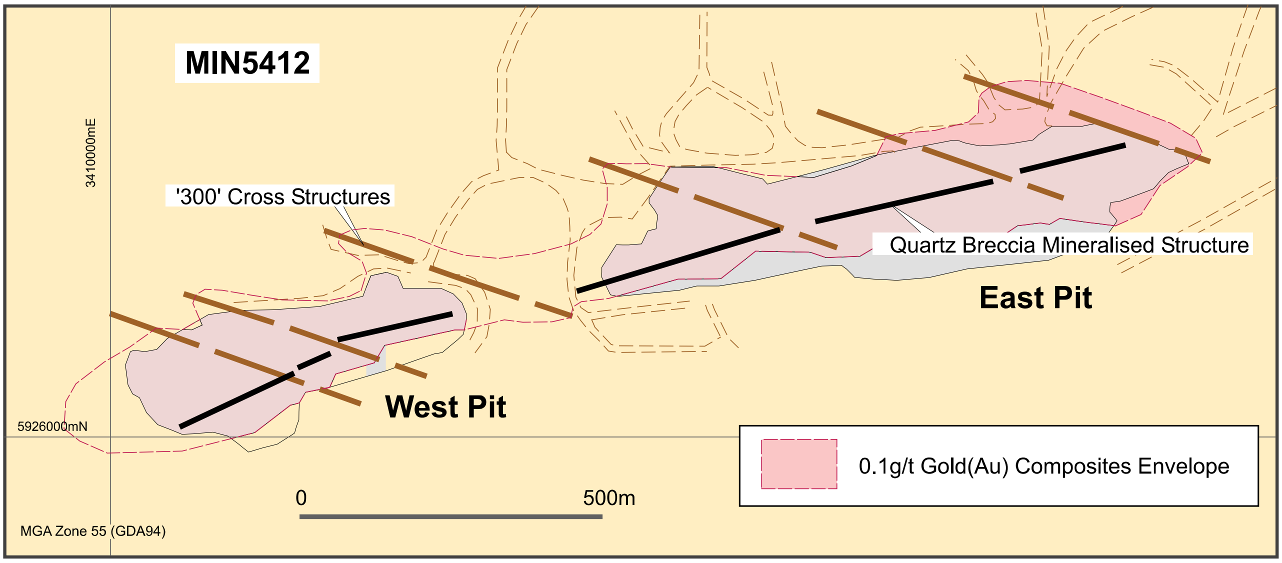

Figure 2: Down hole composites delineated mineralisation envelope and influencing cross-structures plan

A review of over 77,000, 5 metre, blast holes drilled by Perseverance Mining Pty Ltd during historical production from the East Pit, corroborates the presence and mineralising influence of cross-cutting structures. The NW-SE fault systems occur regularly along the strike of the anticlinal axis. In the West Pit, intersection of two structures has created a fault wedge bearing gold and massive antimony, emphasising the structural interpretation.

Operations Review (continued)

Mineralisation Modelling

During the interpretation process composites were plotted and mineralisation bodies interpreted on section and connected between sections. An example of this process is shown in Figure 3 depicting the modelled zones on cross section 41260 mine east.

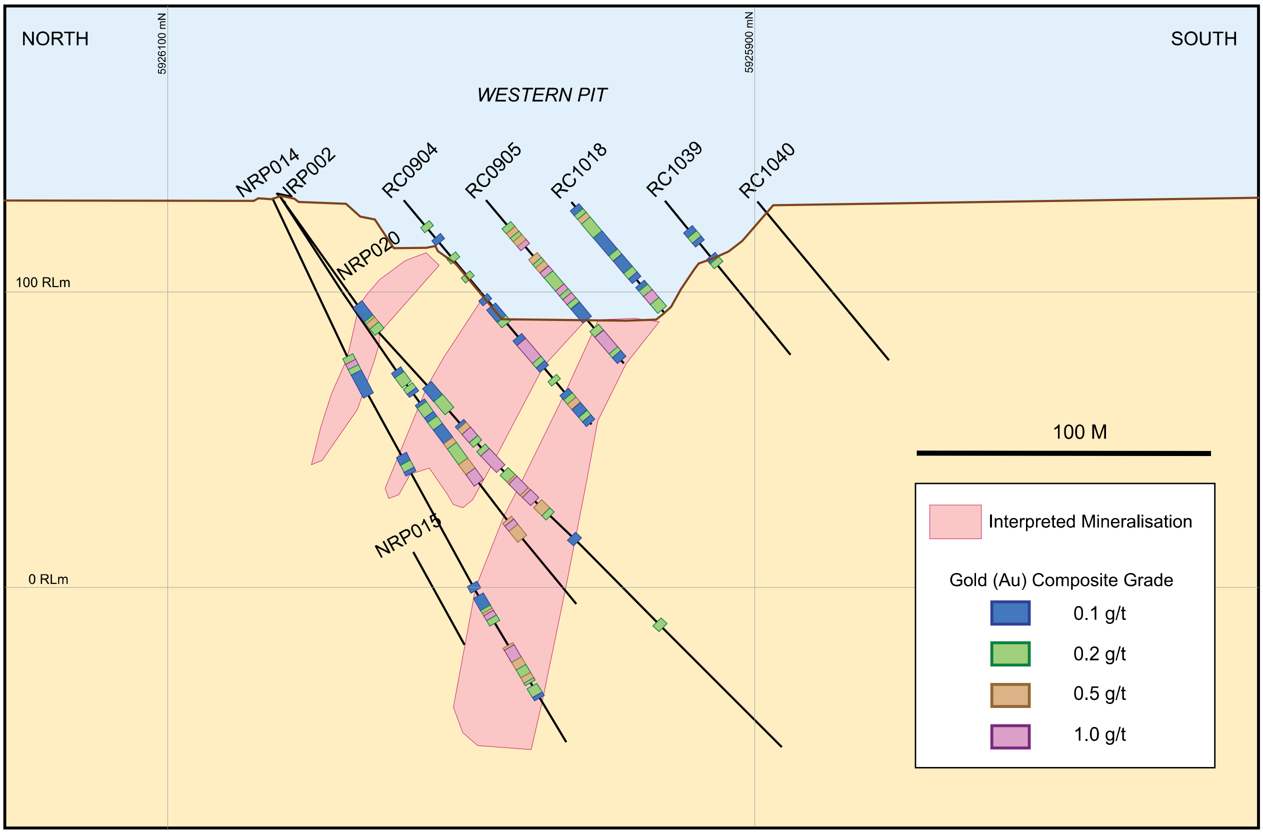

Figure 3. Interpreted Mineralisation Outlines and drill hole composites: Cross Section 41260E

A plan projection of the 3D mineralisation model interpreted within the 0.1 g/t gold cutoff grade envelope is shown in Figure 4.

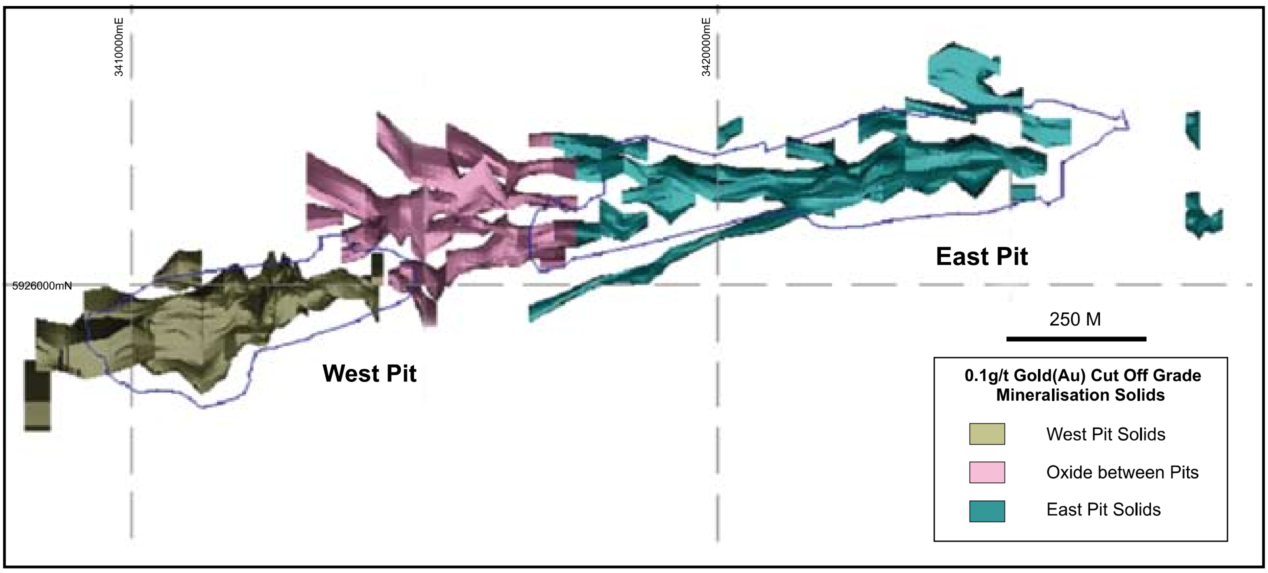

Figure 4. Interpreted 3D mineralisation model within the 0.1 g/t Au cutoff grade envelope: Plan Projection

The above modelled mineralisation bodies encompass both oxides and sulphides interpreted from Panaegis and previous drilling. The superimposed old Pit outlines highlight the lateral and vertical (beneath the Pit floor) mineralisation extensions to that mined previously.

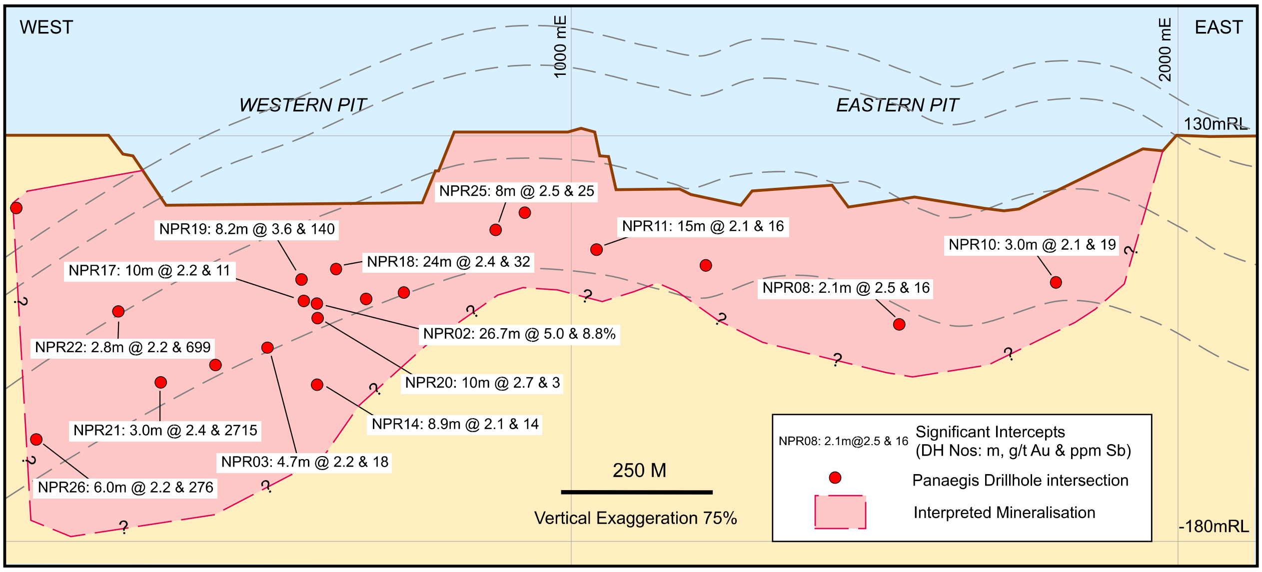

Figure 5. Nagambie Significant Drill Intercept, 0.1 g/t gold cutoff grade envelope: Long Section

The density of the current drilling is not yet considered adequate to enable estimation of JORC compliant resources estimates. However preliminary calculations suggest a mixture of oxide and sulphide resources on the order of the previously mined Nagambie oxide resource, with those resources still open at depth and along strike. Calculations for various cutoff grade shells have been undertaken which provide useful qualitative insights as to the general grade/tonnage relationship(s) that might be expected. A schematic long section plot of the 0.1 g/t gold envelope is shown in Figure 5, along with annotated significant drill hole intercepts. The long section demonstrates that the mineralised system is open both at depth and along strike.

Further Drilling

Given the understanding that the newly defined structural regimes provide, drill spacing and orientation has been re-considered. A second round of closer spaced, in-fill, drilling and deeper drilling into the cross-cutting structure junctions is proposed. This will be accompanied by further along strike, and at-depth extension drilling.

Project Development Strategy

Re-treatment of the Nagambie heap leach pad is being investigated as the initial stage of a planned four stage production development process strategy for the Nagambie area.

Stage 1: Near Term: Re-treatment of the Nagambie heap leach pad (targeting 50,000 ounces of gold)

The heap leach pad has been surveyed both for representative drill sampling collars and for quantity of material. The amount of material in the heap has been estimated at 5.4 million tonnes. Drilling to provide representative samples of the heap materia commenced on 30 August 2007 and was completed 13 September 2007. Preliminary assay results for this drilling have, however, been below the gold grades hoped for by the company. The drilling program has been terminated following completion of a representative drill pattern.

Stage 2: Short term: In-situ Oxide Resources (targeting 80,000+ ounces of gold)

The previous mining operation history will provide the foundations for this stage. Extension and modernisation of existing facilities will be required.7

Stage 3: Mid term: Nagambie Sulphide Resources (targeting 200,000+ ounces of gold), and

This stage requires further exploration asset review, identification and delineation, including mining and metallurgical design, and capital development.

Operations Review (continued)

Stage 4: Longer term: Nagambie region multiple 'satellite' resource discoveries (targeting up to 800,000+ ounces of gold in proximate deposits).

This stage is in progress (see Exploration Targets following) and will be evolved concurrently as the other stages progress.

EXPLORATION TARGETS

Nagambie Region

The major regional NW structural intersection system identified at the Nagambie mine is also interpreted as the focus of the regional soil anomalies identified within the area. With coincident anomalous corridors, gentle regional highs, and supporting geophysical interpretations there is significant encouragement for repetitions of the Nagambie mine system below the alluvial cover of the area (see Figure 6 below).

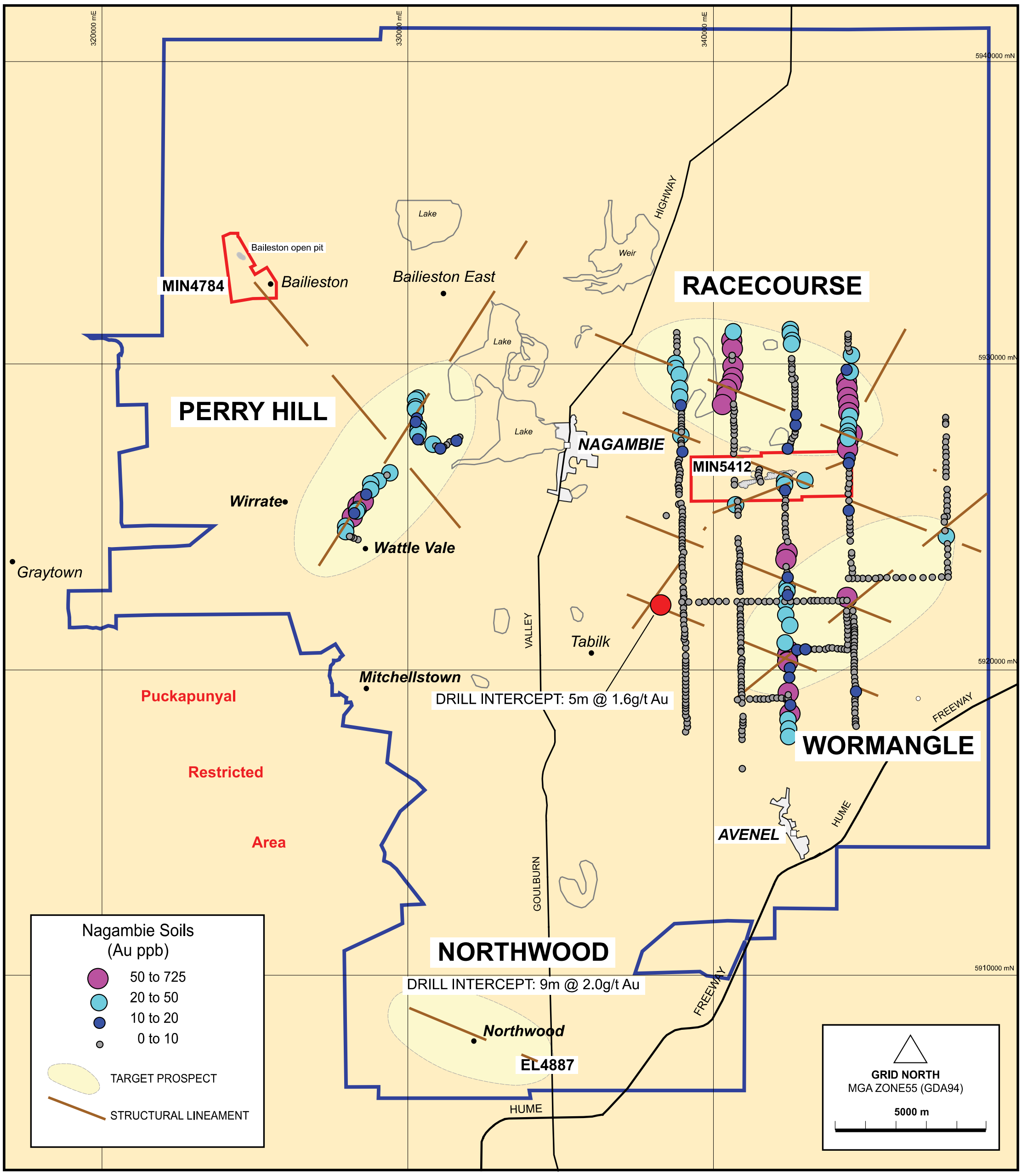

Figure 6: Nagambie regional exploration targets

1. **Perry Hill** prospect is located at the junction of regional thrust faults and a NE-SW anticlinal structure.
2. **Racecourse** prospect is also on a regional anticlinal structure that is intersected by geophysically interpreted NW-SE cross structures. Coincident soil anomalism indicates a 'Nagambie Model' setting.
3. **Wormangle** prospect is an interpreted regional anticlinal structure with coincident soil anomalism (over 10 km of strike) and interpreted geophysical cross-structures, again suggesting a 'Nagambie model' setting.
4. **Northwood Hills** prospect forms part of the Bailieston–Puckapunyal anticlinal structure. Drilling by Perseverance in the late 1980's returned intersections of 9m @ 2.0 g/t gold, 6m @ 1.3 g/t gold, and 8m @ 1.1 g/t gold. Ground geophysics has delineated the structure over a strike length of 3 km.

Heathcote Region

Heathcote tenement EL4941 encompasses 30 km of strike along the Mt William Fault, a major regional thrust zone that contains significant intersecting cross structures. Associated gold and base metal anomalies are evidenced by numerous historic mines and workings in the Heathcote, Redcastle and Costerfield goldfields. Current mapping and interpretation suggests that significant resources still exist in these areas.

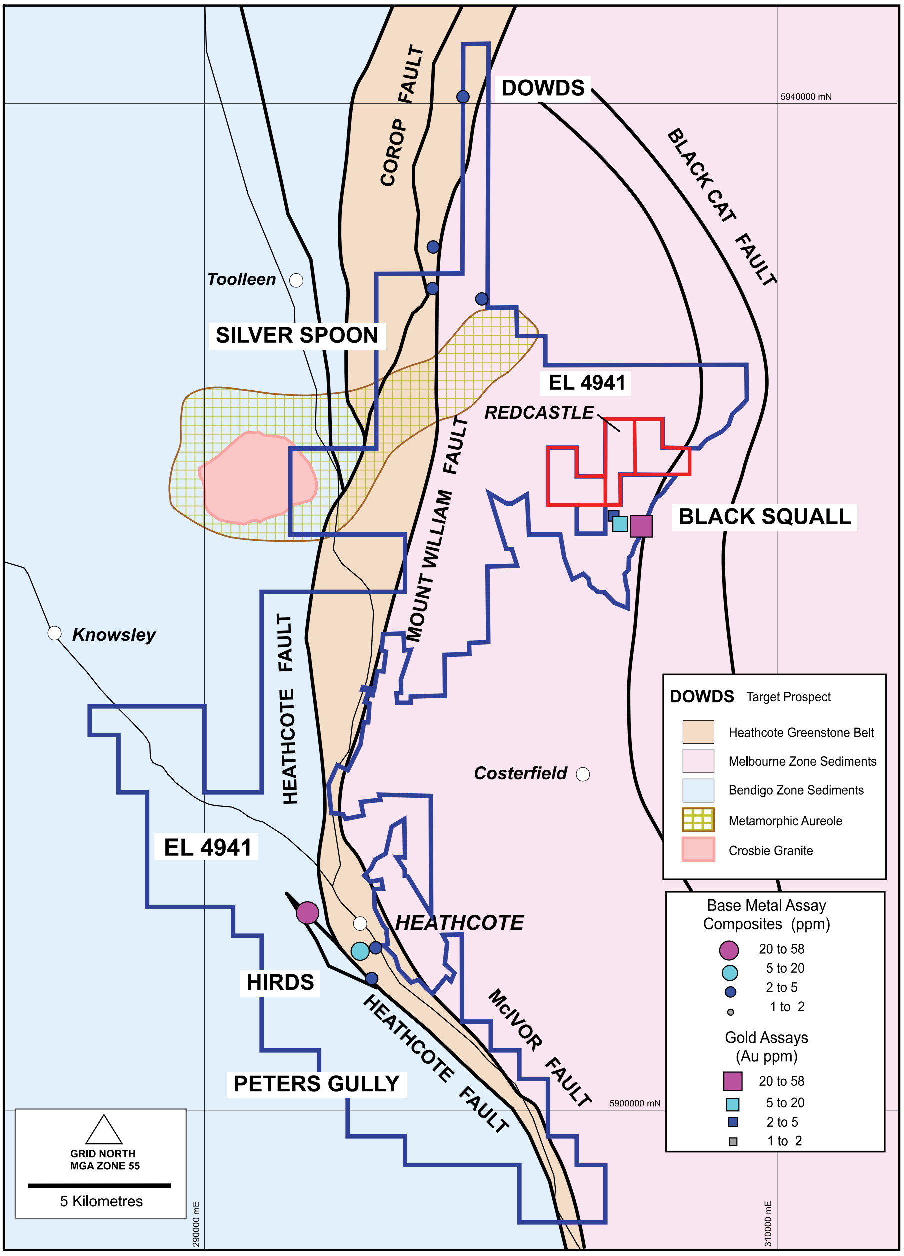

Figure 7 : Heathcote region exploration targets

Operations Review (continued)

1. **Black Squall** prospect contains sub-parallel lines of mineralised shears which extend into the adjacent Redcastle tenements of Panaegis. Soil testing indicates the continuity of these lines, and rock chip sampling of vein material returned assays up to 57 g/t gold. Rock chips from the Chapman and Babbages vein (10 to 100 mm thick) returned repeated assays of between 180 and 210 g/t gold. Throughout this area, mineralised shears appear associated with fold hinges, regional joints, and secondary cross structures that are linked to regional fault systems.
2. **Hirds** mine ceased operations in the late 1990's and was associated with the intersection of a local thrust fault and the Heathcote fault zone. Exploration is targeted to identify and drill major cross structure intersections within the main regional fault zones to intercept high grade gold mineralisation.
3. **Peters Gully** mine was worked for gold mineralisation associated with the Heathcote fault zone where Devonian granodiorite intrudes the Cambrian volcanics. Old reports mention lode widths consistently in excess of 1m and up to 10 m. Again, exploration will target and drill major cross structure intersections to intercept high grade zones of gold mineralisation.
4. **Dowds** prospect is located on the Mt William Fault where anomalous silver, gold, nickel and lead geochemistry is associated with quartz veining. Similar mineralisation occurs at the Silver Spoon prospect (also on the Mt William Fault) some 15 km to the south. Between these two prospects, a 5m wide copper soil anomaly exists along the fault line on the east flank of Mt Camel. At Dowds, historic rotary air blast and percussion drilling returned peak assays of 42 g/t silver, 0.3 g/t gold, 0.19% lead and 0.15% nickel. Shallow diamond drilling samples returned 380 g/t silver, 4.2 g/t gold and 0.7% lead. Diamond drilling is planned to intersect the line of mineralisation in and below the oxidised zone.
5. **Silver Spoon** prospect occurs on the Mt William Fault near Mt Camel (see Dowds above) and is the site of silver-lead-gold mineralisation. The host Cambrian volcanics have been intruded by small granitic intrusions that are thought to be part of, or related to, the Crosbie granite which outcrops nearby.

EXPLORATION

Castlemaine – EL4722 (Panaegis 100%)

The results of soils sampling within the tenement has been disappointing with no anomalous assays being returned and no prospective areas defined. Rock chip samples mainly from old mine dumps in the Golconda, Maldon and Yandoit areas have provided some encouragement. Samples from the Golconda prospect, particularly, showed consistent anomalism with a peak assay of 39 g/t gold. It is intended to undertake intense soil sampling across interpreted strike extensions of exposed quartz veins within the various prospect areas to determine the extent of anomalism and establish the line of reefs/quartz veins.

Graytown – EL5020 (Panaegis 100%)

This tenement was applied for during the year and only preliminary reconnaissance exploration has been possible. Regional stream sediment sample reconnaissance within the western part of the tenement has yielded a few gold values above background. These will be followed up during the coming year. A significant portion of the eastern part of the tenement is designated as restricted crown land and so presents exploration access issues which will also be addressed further in the coming year.

Heathcote – EL4941 (Panaegis 100%)

A regional reconnaissance exploration approach has been undertaken in the Heathcote tenement. Some 260 stream sediment samples were taken from the majority of drainages in the tenement area. These returned a number of anomalous values with the peak value being 1.02 ppm gold. A total of 68 soil samples returned mildly anomalous values in the West Redcastle and Black Squall areas and returns from 47 rock chip samples across the tenement returned peak assays of 193 g/t gold from the Chapman and Babbages vein (12 mm wide) near Redcastle and 57 g/t gold from the Black Squall mine vein.

The tenement embraces several encouraging prospects for gold mineralisation, with further additional prospects in Cambrian volcanic, 'greenstone', lithologies capable of hosting base metal mineralisation (see Exploration Targets above). These prospects will continue to be progressed over the coming year.

Howqua - EL3424 & MIN5420 (Panaegis 100%)

This year's Howqua exploration program was planned for the January – March 2007 summer season due to agreed Department of Sustainability and Environment limits on winter access. However, due to the intense bushfires that swept through the area during the summer, the region was closed for safety reasons and only limited field work comprising a single site visit to review damage was able to be undertaken. Subsequent April rains prevented further access to re-establish the pegged reference grid burnt out during the fires. Returns for the few soil samples taken in the vicinity of Horse Creek during the single site visit were not anomalous. Two rock chip samples from the dumps in the vicinity of the Great Rand mine in MIN5420 returned 13 g/t and 6 g/t gold.

Depending on the outcome of access issues, Howqua exploration will continue to be progressed during the coming year.

Piggoreet - EL4994 (Panaegis 100%)

The Piggoreet project covers an area of 2km2 and is located approximately 35 kilometres southwest of Ballarat, near the township of Scarsdale. Gold returns have been received for all 6 initial drill holes and the results are being evaluated.

A total of 8 reverse circulation holes have been drilled, including 5 at the old Port Arthur mine, and 3 at the Old Hall mine. Encountered higher gold grade intervals, set out in the following table, show the targeted reef structures are mineralised with grades up to 3 to 4 g/t gold, but over relatively low downhole widths of 1 to 3 m (0.5 to 1.5m true width). While OHRC03 intersected quartz over a down hole interval of some 9m, the reef appears to have split into thin (less than the 1m sampling interval) stringers with 1m sampling interval grades often less than 1.0 g/t gold. Only background levels of antimony were returned, apparently due to the higher temperature gold mineralisation normally found in the Bendigo Zone. Selected Piggoreet assay results are shown in Table 2.

Piggoreet Drilling - Selected Assay Results

Hole ID	Length (m)	From (m)	To (m)	Au g/t
Piggoreet				
OHRC01	3.0	65.0	68.0	2.3
OHRC02	3.0	57.0	60.0	2.7
OHRC03	1.0	57.0	58.0	2.3
PRC02	1.0	61.0	62.0	4.2
PRC05	1.0	111.0	112.0	0.8
PRC05	1.0	113.0	114.0	0.6

Table 2. Piggoreet selected drill intercept assay results

Figure 8 on following page shows the drill hole pierce point locations on a long section of the Port Arthur area. While some of these holes appear to have broken into old stopes, hole PRC05 that intersected the position of the reef at a vertical depth of over 100 m indicates that the mineralised reef at Port Arthur also has split into thin stringers at depth.

Operations Review (continued)

While it was expected pre-drilling that the likely size of Piggoreet mineralisation was small, given both previous mining and the small, up to 1m widths of outcropping quartz reefs, it was felt there was a possibility of the occurrence of a number of adjacent high grade (> 10 g/t gold) reefs and potential for significant sulphide mineralisation in the surrounding sediments. Drilling shows this not to be the case. This, together with the existing reefs having been mined out to around 60m depth, indicates that the mineralisation potential within the Piggoreet tenement (EL4994) is small scale in the context of achieving a balance between resource grade and tonnes (or dimensions).

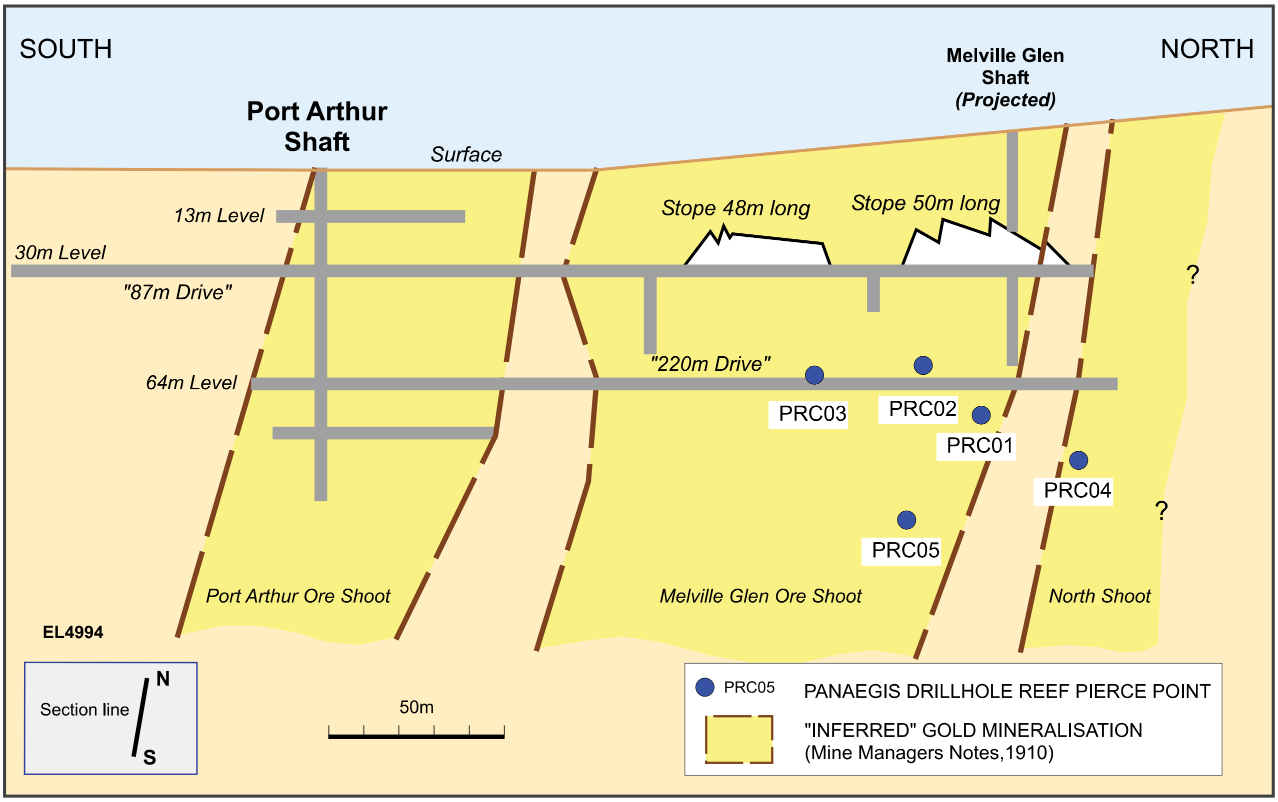

Figure 8. Port Arthur long section drill hole pierce points

Redcastle – EL3316 and EL4594 (Panaegis 100%)

A total of 47 drill holes for 1783 metres of reverse circulation (RC) drilling was carried out on ten prospects at Redcastle during the year. Rock chip and trench sampling confirmed gold mineralisation soil sampling anomalies and established a combined strike length of over 4,000 meters. The project area is 9.5km^2 and many of the structures strike into the surrounding ground of Panaegis' Heathcote exploration licence (EL4941), which abuts the property to the north, south and west.

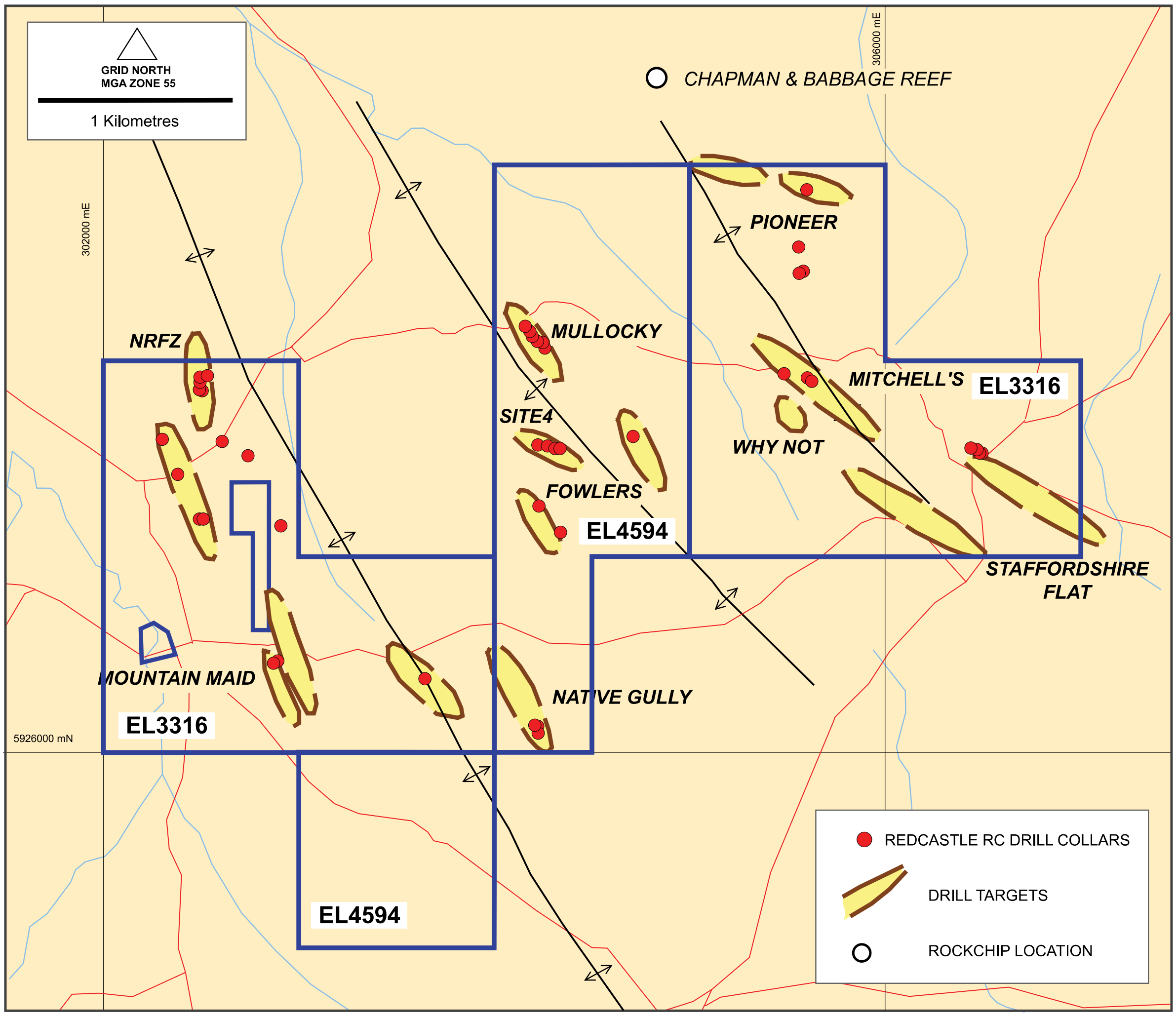

Figure 9. Redcastle prospects and reverse circulation drill collars

Drilling, as shown in Table 3, has yielded some very encouraging assay results. At the Mullocky prospect, drill hole RRC26 intersected 10m @ 2.5g/t gold while at the North Redcastle Fault Zone (NRFZ) drill hole RRC41 assayed 8m @ 5.2g/t gold from 36 to 44m.

Redcastle Drill Program – Selected Assay Results

Prospect	Hole ID	Length (m)	From (m)	To (m)	Au g/t	Sb ppm
Mullocky	RRC08	7.0	16.0	23.0	2.0	521
Site 4	RRC17	3.0	12.0	15.0	3.3	117
Native Gully	RRC20	3.0	23.0	26.0	2.5	197
Mullocky	RRC24	4.0	27.0	31.0	2.0	805
Mullocky	RRC26	10.0	22.0	32.0	2.5	331
Mullocky	RRC28	2.0	36.0	38.0	3.1	447
NRFZ	RRC41	8.0	36.0	44.0	5.2	73

NRFZ: North Redcastle Fault Zone

Table 3. Redcastle selected drill intercept assay results

Operations Review (continued)

Taradale - EL4527, EL4894, and EL4895 (Panaegis 100%)

As shown in Figure 10, 2 diamond holes were drilled at Taradale during the year to test the extension of the United Kingdom Anticline in the vicinity of the United Kingdom Extended Mine. As the hole traces demonstrate, the United Kingdom Anticline was intersected with sections indicating the axial plane dipping approximately 86 degrees to the west. While the holes have traversed the anticlinal structure, displaying thin intercept indications of mineralised horizons, no substantial saddle-reef mineralisation was intersected. Now that the anticlinal structure has been accurately located, further follow-up drilling is planned to more closely target potential saddle-reef locations within the anticlinal hinge zone.

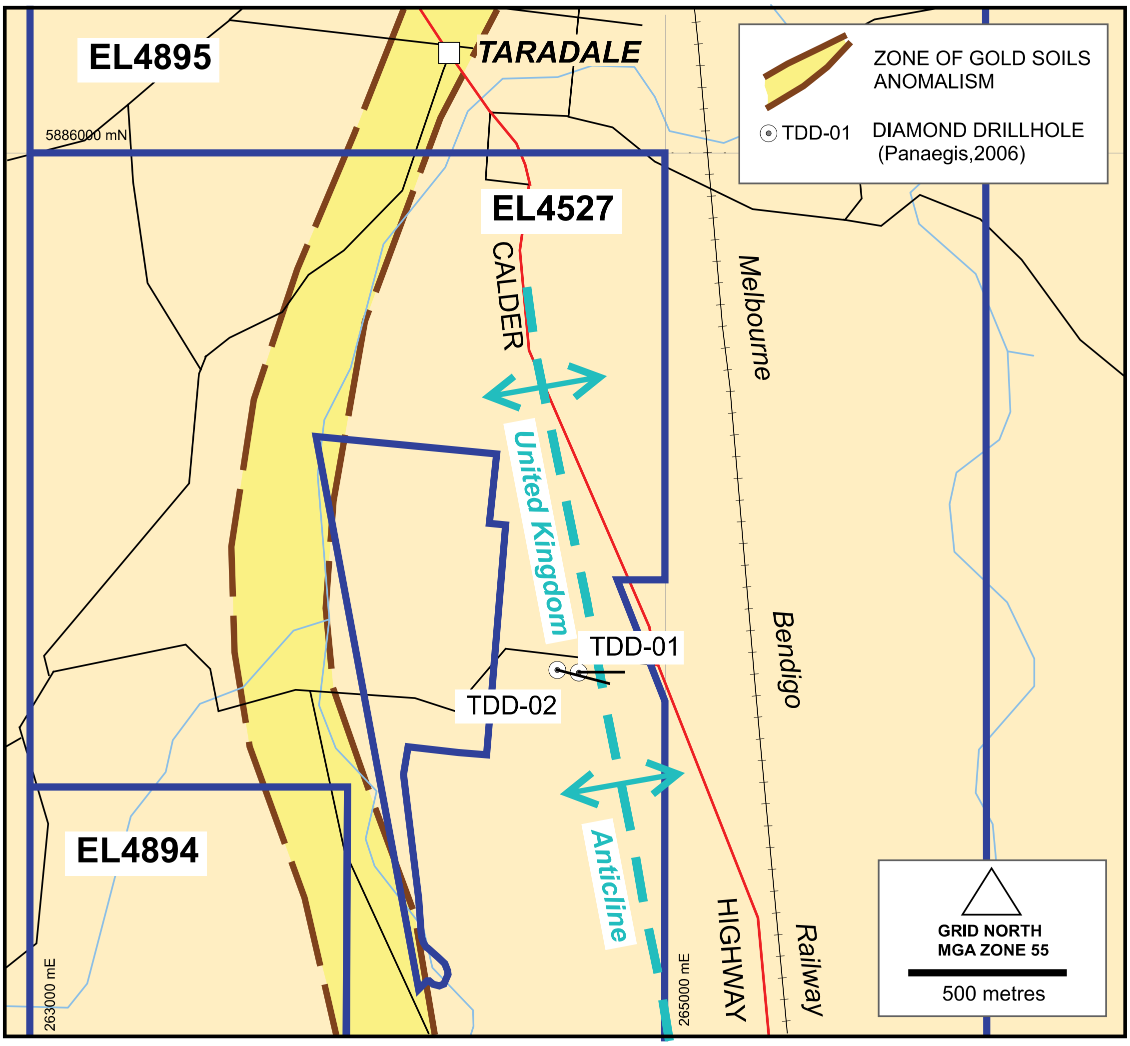

Figure 10: Taradale drill hole traces and anomalous soils geochemistry schematic

Rushworth – EL4723 (Panaegis 100%)

Work undertaken during the year included mine dump mapping and sampling in the Rushworth and Whroo areas, and soil sampling traverses across the Whroo Anticline in the south of the tenement. Of 360 soil samples taken across prospects at Whroo and White Hills, only one returned a value greater than 0.1 ppm gold (0.107 ppm gold). Preliminary interpretation of the soils data suggests a broad relationship with the Whroo anticline, but no definitive indication of a more strongly mineralised structure associated with the anticlinal axis.

A total 556 rock chips samples, mostly from mine dumps but also from occasional quartz veins, were taken from prospects at Whroo, White Hills and from around the Rushworth township. A total of 28 of these returned assays in excess of 1 g/t gold, with the peak value being 41.5 g/t gold from a 5 cm vein at Whroo.

Refinement of the areal scope of exploration and generation of mineralisation targets for drilling will continue during the coming year.

NEW TENEMENTS

During the year and based on results and opportunities identified from its drilling and exploration programmes Panaegis applied for a number of new tenements. These include EL5020 (Graytown), EL5023 (Nagambie), EL5027 (Nagambie West), EL5049 (Mitchellstown), and EL5080 (Nagambie North). Mitchellstown and Nagambie North are still in the final approvals stage, while all others have been granted.

Panaegis also applied for inclusion of 4 expired Mining Licences in the vicinity of the Hird's mine at Heathcote within Panaegis' tenement EL4941 (Heathcote). Three of these expired licences have been included, while a fourth, which was renewed after its expiry, is the subject of discussions between Panaegis and the Department of Primary Industries.

Panaegis believes that there are opportunities within these tenements to develop near-surface, large-tonnage, low-grade, open cut operations.

Panaegis' current tenements and application position is shown below.

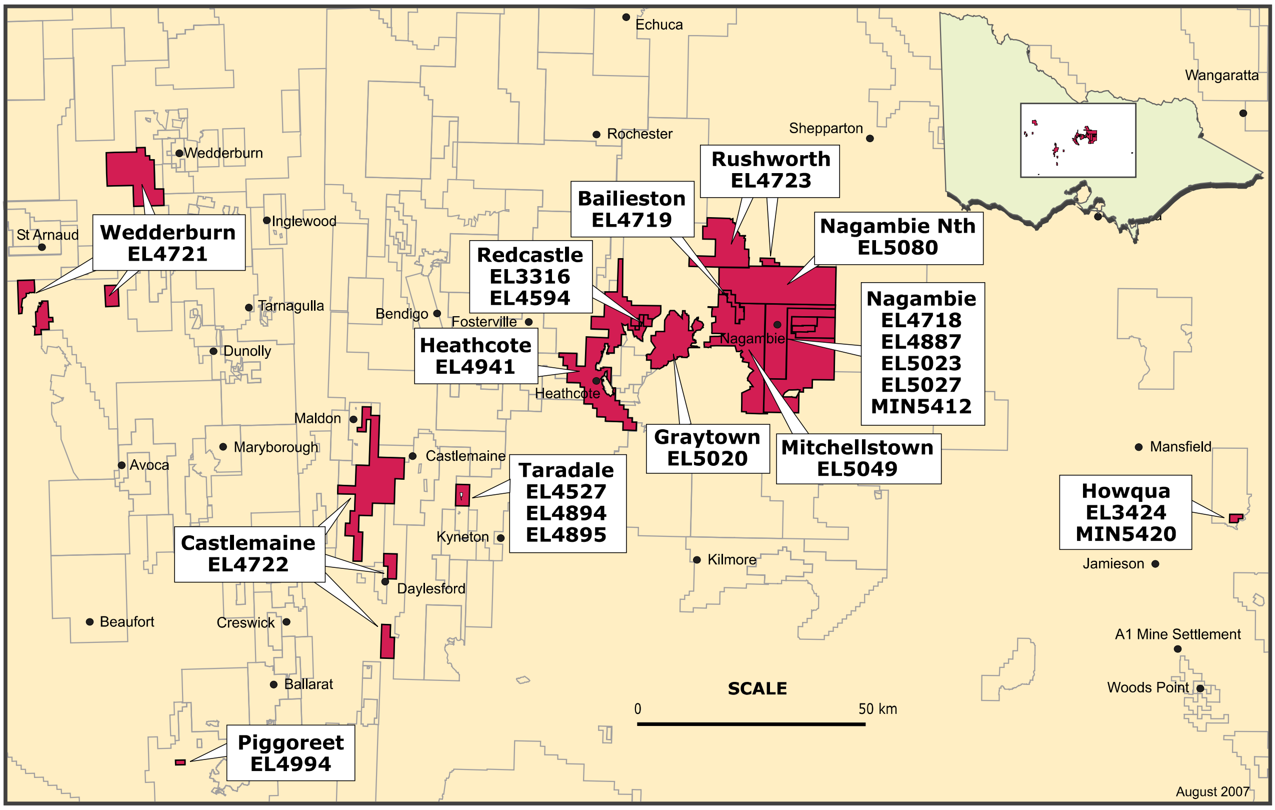

Figure 11: Current Panaegis tenements and new application areas

EXPLORATION OPPORTUNITIES

Panaegis continues to review external exploration opportunities for both gold and base metals, elsewhere within Australia and overseas.

Notes:

Within this statement references to resources and exploration results have been approved for release by Dr John Cottle PhD FAusIMM, CP(Geology), who is a Competent Person as defined by the JORC Code (2004). He has consented to the inclusion of the material in the form and context in which it appears.

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 it is elected and to whom it is accountable.

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

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

1. Lay Solid Foundations for Management and Oversight

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

The Board, therefore, ensures 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 business and Company management, risk management and compliance systems, and monitoring performance. The Board has established certain policies and protocols in relation to the Company's operations, some of which are summarised below.

2. Structure the Board to Add Value

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

The Chairman, John W Cornelius, is a Non-Executive Director. In general, it is the Board's policy that there should be a majority of independent non-executive directors. The Board is currently made up of four (4) directors, four (4) are independent Non-Executive Directors. The role of the Chairperson and CEO are not exercised by the same person.

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

The names of the directors of the Company are:

John W Cornelius	(Non-executive Chairman)
Ian D Buckingham	(Managing Director/CEO)
Andrew R Ristrom	(Non-executive Director)
Peter I Rudd	(Non-executive Deputy Chairman)
Michael W Trumbull	(Non-executive Director)

It is noted at the time of this statement that two shareholders holding in excess of 5% of shares of the Company have convened a meeting, proposing the removal of two directors, John W Cornelius and Ian D Buckingham. Michael W Trumbull has indicated that he is in favour of the proposed resolution. Subsequent to the receipt of the notice, Mr Buckingham has resigned as a director. The balance of the Directors oppose the proposed resolution and are of the view that the Board has an appropriate level of industry experience and business skills. The balance of the Directors have also recommended that shareholders vote against the proposed re-election of Michael W Trumbull as a Non-Executive director of the Company. All Directors acknowledge the need to act in good faith in the interests of stakeholders. Ian D Buckingham resigned at 5 September 2007.

3. Promote Ethical and Responsible Decision-making

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

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

The Company has a policy concerning trading in the Company's securities by Directors, management and staff that is set out and disclosed in the Company's Procedures and Policies Guidelines and comprises the following.

Any Director or employee wishing to buy or sell securities in the Company must advise the Chairman (in the case of Directors) or the Managing Director (in the case of an employee) of their intention 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 Managing Director as the case requires.

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

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

4. Safeguard Integrity in Financial Reporting

Recommendation 4.1 of the ASX Corporate Governance Council's best practice recommendations requires the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) to sign a certificate stating that the financial reports give a true and fair view and are in accordance with accounting standards. As the Company does not employ a CFO, each of the Company's Directors will declare that the financial reports give a true and fair view in all material respects of the Company's financial position and operational results and that they are in accordance with relevant accounting standards.

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

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

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

Peter I Rudd	(Non-executive Deputy Chairman and Chairman of the Audit Committee)
John W Cornelius	(Non-executive director)
Andrew R Ristrom	(Non-executive director)

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

The Audit 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 Committee meets at least every 6 months and is responsible for:

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

5. Make Timely and Balanced Disclosure

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

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

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

Corporate Governance Statement (continued)

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

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

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

6. Respect the Rights of Shareholders

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

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

7. Recognise and Manage Risk

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

The Company is committed to the proper identification and management of risk. Panaegis 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 in place regarding those areas of the business which present financial or operating risks.

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

8. Encourage Enhanced Performance

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

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

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

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

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

9. Remunerate Fairly and Responsibly

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

10. Recognise the Legitimate Interests of Stakeholders

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

Environmental Policy

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

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

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

Panaegis will meet these principles in the following way:-

Social Acceptability:

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

Environmental Responsibility:

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

Economic Viability:

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

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

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

Specifically, Panaegis will :-

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

Cultural Heritage Policy

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

Panaegis will work 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 Acts.
- Communicate openly with local communities so that all relevant issues may be aired and understood by the participants.
- Involve local communities in the conduct of Panaegis's 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.

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 2007. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names and particulars of the directors of the Company during or since the end of the financial year are:

Directors

JOHN W CORNELIUS

Non-Executive Chairman

Appointed 29 October 2004

John W Cornelius has been involved in the natural resources, enterprise development and mining industries in various accounting, corporate secretarial, management and director roles for public companies for almost 40 years. He is a Fellow of the Institute of Chartered Secretaries, Fellow of the Australian Institute of Company Directors, Senior Associate of the Financial Services Institute of Australia and Member of the Petroleum Exploration Society of Australia (PESA).

Member of Audit and Compliance Committee.

Other current Directorships of Listed Companies

Essential Petroleum Resource Limited – appointed 13 November 1999

Former Directorships of Listed Companies in last three years

None

PETER I RUDD

Non Executive Deputy Chairman

Appointed 29 October 2006

Peter I Rudd has been involved in the Australian resources sector for more than 35 years. He has a degree in geology from Melbourne University and spent five years in the field on mineral exploration in a number of different geographical localities and geological terrains in Australia before moving to stock broking as a gold and resources analyst.

He completed an MBA at Melbourne University and is a senior lecturer in the Advanced Mining Analysis course and a Senior Fellow of the Financial Services Institute of Australia, Member of the Securities and Derivatives Industry Association and a founding committee member of the highly successful Melbourne Mining Club of which he is now Chairman.

Peter is Chairman of the Audit and Compliance Committee.

Other Current Directorships of Listed Companies

None.

Former Directorships of Listed Companies in last three years

None

IAN D BUCKINGHAM

Managing Director / CEO

Appointed 29 October 2004

Resigned 5 September 2007

Ian D Buckingham has over 35 years experience in all aspects of exploration and development in both minerals and petroleum. He has held successful senior management positions in resource exploration and consulting. Ian holds a Fellowship Diploma in Geology (RMIT), a Bachelor of Applied Science (Applied Geology) and an MBA. He is a member the Petroleum Exploration Society of Australia and The American Society of Petroleum Geologists.

Ian is a member of the Valmin Committee that recently rewrote the Valmin Code for the technical assessment and valuation of minerals and petroleum assets and a Director of the Victorian Confederation of Sports (VicSport).

Other current Directorships of Listed Companies

None

Former Directorships of Listed Companies in last three years

None

ANDREW R RISTROM

Non Executive Director

Appointed 15 March 2006

Andrew R Ristrom has more than 30 years experience in the stockbroking industry with a particular focus on the resources sector.

Andrew has extensive experience in capital markets.

He was admitted to membership of the Melbourne Stock exchange in 1981. Andrew is a founding shareholder and director of Domain Capital Pty Ltd, a Melbourne based corporate advisory and equity capital markets firm.

Member of Audit and Compliance Committee.

Other Current Directorships of Listed Companies
None.
Former Directorships of Listed Companies in last three years
None

MICHAEL W TRUMBULL

Non Executive Director

Appointed 28 July 2005

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

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.

Other current Directorships of Listed Companies
Beaconsfield Gold NL – appointed 16 March 1993

Former Directorships of Listed Companies in last three years
None

The above named directors held office since the end of the financial year except for:
Ian D Buckingham who resigned on 5 September 2007

Company Secretaries

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.

CHERIE L HARRISON

BB (Law and Economics)

SA Fin

Cherie L Harrison holds a Bachelor of Business degree (Business law and Economics) and is a Senior Associate of the Financial Services Institute of Australia.

Cherie has worked for more than 10 years in financial and secretarial roles with public and private companies in the resources, management consulting, medical and marketing industries.

Exploration Manager

DR. JOHN W. COTTLE

BSc Hons (Applied Geology,) PhD, FAusIMM, CP (Geo)

Dr. John W Cottle has over 30 years experience in exploration, geology, geostatistical reserve estimation, mining, project and corporate analysis, and related computing, of gold, copper, lead, zinc, nickel, alumina, iron ore, coal, uranium, and mineral sands, deposits and producers, both in Australia and internationally.

He received his PhD in Economic Geology and Geostatistics in 1976 and is a Fellow, and Chartered Professional – Geology, of the Australian Institute of Mining and Metallurgy (AusIMM).

At 5 September 2007 Dr John W Cottle was appointed interim Chief Operating Officer of Panaegis.

Directors' Report (continued)

Principal activities

The principal activity of the economic entity during the financial period was exploration for gold and minerals in Victoria.

Review of operations

The Company holds 21 Exploration and Mining Licences in Victoria, a net 4 licence increase during the year raising the area under exploration from 1,243 km2 to 1,648 km2. All tenements have undergone detailed exploration for gold, base metals, and associated minerals as appropriate to Panaegis models and the regional geology.

This exploration included the drilling of 26 holes at the Nagambie Mine to delineate the extension of already mined oxide resources both at depth into the sulphide mineralisation zone, and along strike to both the East and West of the Pits. These holes comprised reverse circulation pre-collars (2165 m) and diamond cored tails (3189 m). At Redcastle a total of 47 reverse circulation holes were drilled (1,784 m) in a scout drilling campaign to test a total of 10 prospects distributed throughout the tenements. This drilling has delineated a number of zones of mineralisation now ready for in-fill drilling and progression to the resource estimation phase of the exploration process. At Taradale, 2 diamond holes (590 m) were drilled to test the United Kingdom Extended Anticline line of saddle-reef mineralisation. The holes traversed the anticlinal structure and showed thin indications of existing mineralised horizons, but did not intersect any substantial saddle-reef occurrences. Further follow-up drilling is planned to more closely target potential indicated saddle-reef locations within the anticline hinge zone.

Project	Tenement	Equity (%)	Area (km^2)	Style
Avenel	EL4887	51	203.8	SHGS
Bailieston	EL4719	100	14.1	SHGS
Castelmaine	EL4722	100	195.3	RFVG
Graytown	EL5020g	100	94.2	SHGS
Heathcote	EL4941	100	241.6	SHGS
Howqua	EL3424	100	5.0	VMS
Howqua MIN	MIN5420	100	0.1	VMS
Mitchellstown	EL5049a	51	190.0	SHGS
Nagambie	EL5023g	51	12.9	SHGS
Nagambie MIN	MIN5412	51	7.7	SHGS
Nagambie North	EL5080a	51	231.9	SHGS
Nagambie South	EL4718	51	34.8	SHGS
Nagambie West	EL5027g	51	100.1	SHGS
Piggoreet	EL4994	100	2.0	RFVG
Redcastle Central	EL4594	100	2.5	SHGS
Redcastle E&W	EL3316	100	6.0	SHGS
Rushworth	EL4723	100	109.8	SHGS
Taradale Central	EL4527	100	5.5	RFVG
Taradale East	EL4895	100	7.0	RFVG
Taradale SW	EL4894	100	2.0	RFVG
Wedderburn	EL4721	100	182.2	VMS
Total Area			1648.4	

51%	Nagambie JV Tenements
a	Current Application
g	New Application Granted
SHGS	Sediment Hosted Gold in Sulphides
RFVG	Reef/Fault & Vein Gold
VMS	Volcanogenic Massive Sulphides

Changes in state of affairs

There was no significant change in the state of affairs of the consolidated entity during the financial year.

Use of funds

The Company has used cash raised in its initial public offering and assets in the form readily convertible to cash in a manner consistent with the business objective of the Company set out in the Company's initial public offering Prospectus.:

Subsequent events

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

(a) Share Issue

On 23 July 2007 a placement of 12,000,000 shares at $0.09 cents for a total of $1,080,000 was made to Dr Peter Woodford. Fees of $47,500 inclusive of GST were paid to P J Woodford Pty Ltd in relation to the placement.

(b) Resignation of Director

Ian D Buckingham has resigned as Managing Director and resigned from the Board effective from 5 September 2007. John W Cottle has been appointed interim Chief Operating Officer.

(c) Requisition of Section 249D General Meeting

Two shareholders have requisitioned a general meeting of shareholders under section 249D of the Corporations Act to consider a resolution to remove John W Cornelius and Ian D Buckingham as Directors.

(d) Share Purchase Plan

A total of 2,430,900 shares will be allotted on 11 September 2007 under the plan raising $218,781. The terms of the plan were issued to shareholders giving them the opportunity to acquire up to 55,500 per holding for a payment of $4,995.

(e) Nagambie Joint Venture

Perserverance Corporation Limited, having approved a technical program for the joint venture has elected not to participate in the budgeted expenditure for the six months ending 31December 2007. Under the terms of the joint venture agreement Panaegis may earn an additional 1% of the joint venture assets for each $100,000 of joint venture expenditure to which Perserverance does not contribute.

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.

Directors' Report (continued)

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 secretaries and all executive officers of the Company 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, 14 board meetings and 2 audit committee meetings were held.

	Board of directors		Audit committee	
Directors	**Held**	**Attended**	**Held**	**Attended**
John W Cornelius	14	14	2	2
Ian D Buckingham	14	14	-	-
Michael J Trumbull*	14	12	-	-
Peter I Rudd	14	13	2	2
Andrew R Ristrom	14	14	2	2

(*) the two meetings Michael W Trumbull did not attend were due to consider the share placement to Beaconsfield Gold of which Michael W Trumbull is a director

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
John W Cornelius	1,911,000	-
Michael W Trumbull	680,500	-
Peter I Rudd	2,161,000	-
Andrew R Ristrom	355,500	(*) 500,000

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

Remuneration Report

Remuneration policy for directors and executives

The Board is responsible for determining and reviewing the compensation of the Directors, the Managing Director, 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, Secretaries or Senior Managers are '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.

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 2007		Short Term Benefits	Post Employment Benefits	Share Based Payment	Other Long Term Benefits	Termination Benefits	Total
		Salary & Fees $	Superannuation $	Options $	$	$	$
Directors							
John W Cornelius	(1)	110,770	-	-	-	-	110,770
Ian D Buckingham (*)	(2)	180,000	16,200	-	-	-	196,200
Michael W Trumbull	(6)	46,774	3,600	-	-	-	50,374
Andrew R Ristrom		40,000	3,600	-	-	-	43,600
Peter I Rudd	(7)	51,000	4,170	-	-	-	55,170
		428,544	27,570	-	-	-	456,114
Exploration Manager							
John W Cottle (**)	(5)	65,835	-	-	-	-	65,835
Neil T Motton	(4)	120,936	-	-	-	-	120,936
		186,771	-	-	-	-	186,771

Remuneration Report (continued)

Year ended 30 June 2006		Short Term Benefits	Post Employment Benefits	Share Based Payment	Other Long Term Benefits	Termination Benefits	Total
		Salary & Fees $	Superannuation $	Options $	$	$	$
Directors							
John W Cornelius	(1)	96,865	-	-	-	-	96,865
Ian D Buckingham	(2)	194,363	-	18,058	-	-	212,421
Michael W Trumbull	(6)	10,725	-	-	-	-	10,725
Andrew R Ristrom		-	-	-	-	-	-
Peter I Rudd	(7)	7,000	-	-	-	-	7,000
Peter J Cameron	(3)	12,469	-	-	-	-	12,469
		321,422	-	18,058	-	-	339,480
Exploration Manager							
Neil T Motton	(4)	175,238	-	-	-	-	175,238
		175,238	-	-	-	-	175,238

(*) Ian D Buckingham is employed under a contract which has 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 has agreed to remain available at the current rate of remuneration during a three month transition period.

(**) Dr. Cottle is employed under a contract which has 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 month prior notice of termination.

(1) During the 2007 financial year John W Cornelius charged $35,770 (2006: $96,865) for additional consultancy services provided beyond his scope and role as a director of the company. 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; and
- 1,500,000 options exercisable at 50 cents expiring 30 June 2009.

Valued by PKF Corporate Advisory dated 29 August 2005.

During the 2006 financial year Ian D Buckingham charged an amount of $194,363 for additional consultancy services provided beyond his scope and role as a director of the company. These fees were paid to Lisacorp Pty Ltd, a company controlled by Ian D Buckingham.

(3) During the 2006 financial year Peter J Cameron charged $12,469 for additional consultancy services provided beyond his scope and role as a director of the company. These fees were paid to Resource Invest Pty Ltd, a company controlled by Peter J Cameron. Peter J Cameron resigned 13 March 2006.

(4) Fees were paid to Flitegold Pty Ltd and Vertigold Pty Ltd for the provision of services of Neil Motton as Exploration Manager.

(5) Fees were paid to Cotlco Pty Ltd for the provision of services of John W Cottle as Exploration Manager

(6) During the 2006 financial year Michael W Trumbull charged $17,499 for consultancy services in lieu of charging director's fees as agreed with the company. $6,774 of this amount was paid in the 2007 financial year.

(7) During the 2006 financial year Peter I Rudd charged $13,000 for additional consultancy services provided beyond his scope and role as a director of the company. $6,000 of this amount was paid in the 2007 financial year. These fees were paid to Balmerino Pty Ltd, a company controlled by Peter I Rudd.

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.

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 2007
the percentage of the value of the person's compensation for the financial year that consists of options.	0%

Value of options issued to directors and executives

No options were granted, exercised or lapsed during the annual reporting period.

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 30 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

John W Cornelius
Chairman
Melbourne, 18 September 2007

Peter I Rudd
Deputy Chairman

Auditor's Independence Declaration

Deloitte

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060
180 Lonsdale St
Melbourne VIC 3000
GPO Box 78B
Melbourne VIC 3001 Australia
DX 111
Tel: +61 (0) 3 9208 7000
Fax: +61 (0) 3 9208 7001
www.deloitte.com.au

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

18 September 2007

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 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(ii) 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. Schofield

M J Schofield

Partner
Chartered Accountants

Independent Auditor's Report

Deloitte

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060
180 Lonsdale St
Melbourne VIC 3000
GPO Box 78B
Melbourne VIC 3001 Australia
DX 111
Tel: +61 (0) 3 9208 7000
Fax: +61 (0) 3 9208 7001
www.deloitte.com.au

Independent Auditor's Report to the members of Panaegis Gold Mines Limited

Report on the Financial Report and AASB 124 Compensation Disclosures in the Directors' Report

We have audited the accompanying financial report of Panaegis Gold Mines Limited, which comprises the balance sheet as at 30 June 2007, 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 or from time to time during the financial year as set out on pages 33 to 64.

We have also audited the compensation disclosures contained in the directors' report. As permitted by the Corporations Regulations 2001, the company has disclosed information about the compensation of key management personnel ("compensation disclosures") as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 Related Party Disclosures ("AASB 124"), under the heading "remuneration report" on pages 27 to 29 of the directors' report, and not in the financial report.

Directors' Responsibility for the Financial Report and the AASB 124 Compensation Disclosures Contained in the Directors' 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. The directors are also responsible for the compensation disclosures contained in the directors' report. 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 consolidated financial statements and notes, comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report and compensation disclosures contained in the directors' 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 and the compensation disclosures comply with AASB 124.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the compensation disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the compensation disclosures contained in the directors' 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

Independent Auditor's Report (continued)

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 and the compensation disclosures contained in the directors' report.

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

Auditor's Independence Declaration

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

Auditor's Opinion on the Financial Report

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 2007 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 consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 3.

Auditor's Opinion on the AASB 124 Compensation Disclosures Contained in the Directors' Report

In our opinion, the compensation disclosures that are contained on pages 27 to 29 under the heading "remuneration report" of the directors' report comply with paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 Related Party Disclosures.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

M. Schofield

M J Schofield

Partner
Chartered Accountants
Melbourne, 18 September 2007

Liability limited by a scheme approved under Professional Standards Legislation.

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

John W Cornelius
Chairman
Melbourne, 18 September 2007

Peter I Rudd
Deputy Chairman

Income Statement

for the financial year ended 30 June 2007

		Consolidated		Company	
		2007	2006	2007	2006
	Note	$	$	$	$
Continuing operations					
Revenue	4	189,571	35,969	188,491	34,875
Administration expenses		(599,998)	(137,266)	(566,272)	(135,324)
Consultants fees		(263,194)	(217,331)	(263,194)	(217,331)
Depreciation and amortisation expense	4	(74,364)	(1,850)	(74,364)	(1,850)
Employee benefits expense	4	(409,765)	(18,058)	(409,765)	(18,058)
Finance costs	4	(11,163)	-	(11,163)	-
Impairment of loans to subsidiaries		-	-	-	(1,248)
Impairment of exploration expenditure	4	(1,145)	-	(1,145)	-
Insurance		(58,376)	(50,662)	(58,376)	(50,662)
Legal fees		(38,368)	(30,989)	(38,368)	(30,989)
Printing stationery and supplies		(43,596)	(58,472)	(43,596)	(58,472)
Secretarial		(58,077)	(59,119)	(58,077)	(59,119)
Travel		(58,402)	(40,934)	(54,052)	(40,534)
Total expenses	4	(1,616,448)	(614,681)	(1,578,372)	(613,587)
Loss before tax		(1,426,877)	(578,712)	(1,389,881)	(578,712)
Income tax expense	5	-	-	-	-
Loss for the year		(1,426,877)	(578,712)	(1,389,881)	(578,712)
Attributable to:					
Equity holders of Panaegis Gold Mines Limited		(1,426,877)	(578,712)	(1,389,881)	(578,712)
Earnings per share					
Basic (cents per share)	6	(2.00)	(.92)		
Diluted (cents per share)	6	(2.00)	(.92)		

Notes to the financial statements are included on pages 38 to 64.

Balance Sheet

as at 30 June 2007

		Consolidated		Company	
	Note	2007 $	2006 $	2007 $	2006 $
Current assets					
Cash and cash equivalents		1,867,902	4,879,002	1,867,500	4,878,522
Trade and other receivables	7	138,584	47,038	1,758,864	435,367
Other assets	8	252,167	45,268	220,973	20,153
Total current assets		2,258,653	4,971,308	3,847,337	5,334,042
Non-current assets					
Property, plant and equipment	9	227,999	11,240	227,999	11,240
Exploration and evaluation assets	10	6,258,989	4,337,931	3,047,301	2,315,197
Other financial assets	11	-	-	1,660,000	1,660,000
Total non-current assets		6,486,988	4,349,171	4,935,300	3,986,437
Total assets		8,745,641	9,320,479	8,782,637	9,320,479
Current liabilities					
Trade and other payables	12	355,255	676,950	355,255	676,950
Borrowings	16	44,672	-	44,672	-
Provisions	17	28,748	-	28,748	-
Total current liabilities		428,675	676,950	428,675	676,950
Non-current liabilities					
Borrowings	16	168,276	-	168,276	-
Total non-current liabilities		168,276	-	168,276	-
Total liabilities		596,951	676,950	596,951	676,950
Net assets		8,148,690	8,643,529	8,185,686	8,643,529
Equity					
Issued capital	13	10,312,116	9,380,078	10,312,116	9,380,078
Options reserves		22,180	22,180	22,180	22,180
Accumulated losses	14	(2,185,606)	(758,729)	(2,148,610)	(758,729)
Total equity		8,148,690	8,643,529	8,185,686	8,643,529

Notes to the financial statements are included on pages 38 to 64.

Statement of Changes in Equity

for the financial year ended 30 June 2007

Consolidated	**Issued capital**	**Equity-settled employee benefits reserve**	**Retained earnings**	**Total**
	$	**$**	**$**	**$**
Balance at 30 June 2005	1,107,575	4,122	(180,017)	931,680
Shares issued during the year	9,145,000	-	-	9,145,000
Cost of share based payments	-	18,058	-	18,058
Share issue costs	(872,497)	-	-	(872,497)
Loss attributable to members of parent entity	-	-	(578,712)	(578,712)
Balance at 30 June 2006	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 for the period	-	-	(1,426,877)	(1,426,877)
Balance at 30 June 2007	10,312,116	22,180	(2,185,606)	8,148,690

Company	**Issued capital**	**Equity-settled employee benefits reserve**	**Retained earnings**	**Total**
	$	**$**	**$**	**$**
Balance at 30 June 2005	1,107,575	4,122	(180,017)	931,680
Shares issued during the year	9,145,000	-	-	9,145,000
Cost of share based payments	-	18,058	-	18,058
Share issue costs	(872,497)	-	-	(872,497)
Loss attributable to members of parent entity	-	-	(578,712)	(578,712)
Balance at 30 June 2006	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 for the period	-	-	(1,389,881)	(1,389,881)
Balance at 30 June 2007	10,312,116	22,180	(2,148,610)	8,185,686

Notes to the financial statements are included on pages 38 to 64.

Cash Flow Statement

for the financial year ended 30 June 2007

	Note	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Cash flows from operating activities					
Payments to suppliers and employees		(1,748,572)	(670,411)	(1,705,497)	(669,797)
Interest received		163,653	35,969	163,653	34,875
Interest paid		(11,163)	-	(11,163)	-
Net cash flows used in operating activities	15(a)	(1,596,082)	(634,442)	(1,553,007)	(634,922)
Cash flows from investing activities					
Purchase of plant and equipment		(63,564)	(11,627)	(63,564)	(11,627)
Payments to acquire exploration licences		(220,000)	(295,000)	(220,000)	(295,000)
Payment for exploration expenditure		(1,918,681)	(742,883)	(460,198)	(742,883)
Amounts advanced to related parties		-	-	(1,201,480)	-
Payment for investment in subsidiary		-	-	(300,000)	-
Net cash flows used in investing activities		(2,202,245)	(1,049,510)	(2,245,242)	(1,049,510)
Cash flows from financing activities					
Proceeds from issue of ordinary shares		945,000	6,495,000	945,000	6,495,000
Payment regarding Initial Public Offering		(157,773)	(727,686)	(157,773)	(727,686)
Payment of other share issue costs		-	(14,550)	-	(14,550)
Net cash flows from financing activities		787,227	5,752,764	787,227	5,752,764
Net Increase/(decrease) in cash and cash equivalents		(3,011,100)	4,068,812	(3,011,022)	4,068,332
Cash and cash equivalents at the beginning of the financial period		4,879,002	810,190	4,878,522	810,190
Cash and cash equivalents at the end of the financial period	15(b)	1,867,902	4,879,002	1,867,500	4,878,522

Notes to the financial statements are included on pages 38 to 64.

Notes to the financial statements

for the financial year ended 30 June 2007

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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:

Registered office	Principal place of business
Level 16 379 Collins Street Melbourne Victoria 3000	Level 16 379 Collins Street Melbourne Victoria 3000

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 consolidated entity's 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
• AASB 7 'Financial Instruments: Disclosures' and consequential amendments to other accounting standards resulting from its issue	1 January 2007	30 June 2008
• AASB 101 'Presentation of Financial Statements' – revised standard	1 January 2007	30 June 2008
• AASB 2007-7 'Amendments to Australian Accounting Standards'	1 July 2007	30 June 2008
• AASB 8 'Operating Segments'	1 January 2009	30 June 2010

Initial application of the following Standards and Interpretations is not expected to have any material impact to the financial report of the consolidated entity and the company:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB Interpretation 10 'Interim Financial Reporting and Impairment'	1 November 2006	30 June 2008
• AASB Interpretation 11 'AASB 2 – Group and Treasury Share Transactions'	1 March 2007	30 June 2008
• AASB 2007-1 'Amendments to Australian Accounting Standards arising from AASB Interpretation 11'	1 March 2007	30 June 2008
• AASB Interpretation 12 'Service Concession Arrangements'	1 January 2008	30 June 2009
• AASB 2007-2 'Amendments to Australian Accounting Standards arising from AASB Interpretation 12'	1 January 2008	30 June 2009
• AASB 2007-4 'Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments'	1 July 2007	30 June 2008
• AASB Interpretation 13 'Customer Loyalty Programmes'	1 July 2008	30 June 2009
• AASB Interpretation 14 'AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'	1 January 2008	30 June 2009
• AASB 123 'Borrowing Costs' – revised standard	1 January 2009	30 June 2010
• AASB 2007-6 'Amendments to Australian Accounting Standards arising from AASB 123'	1 January 2009	30 June 2010

Notes to the financial statements for the financial year ended 30 June 2007 (continued)

AASB Interpretation 10

AASB 134 'Interim Financial Reporting' requires an entity to apply the same accounting policies in its interim financial report as are applied in its annual financial report. It also states that measurements for interim reporting purposes are made on a year-to-date basis so that the frequency of reporting does not affect an entity's annual reports. AASB Interpretation 10 clarifies that an entity cannot reverse an impairment loss recognised in a previous interim period in relation to goodwill or either an investment in an equity instrument or in a financial asset carried at cost.

This approach is consistent with impairment reversal prohibitions in AASB 136 'Impairment of Assets' and AASB 139 'Financial Instruments: Recognition and Measurement'.

AASB Interpretation 10 is required to be applied prospectively from the date at which the entity first applied AASB 136 (i.e. 1 July 2004) and AASB 139 (i.e. 1 July 2005), for goodwill and investments in either equity instruments or financial assets carried at cost, respectively.

AASB Interpretation 11 and AASB 2007-1

AASB Interpretation 11 clarifies the application of AASB 2 'Share-based Payment' to certain share-based payment arrangements involving the entity's own equity instruments and to arrangements involving equity instruments of the entity's parent. AASB 2007-1 amends AASB 2 to insert transitional provisions of IFRS 2 'Share-based Payment' that had previously been set out in AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards'.

AASB Interpretation 11 and AASB 2007-1 are required to be applied retrospectively.

AASB Interpretation 12 and AASB 2007-2

AASB Interpretation 12 provides guidance on the accounting by operators for public-to-private service concession arrangements. In doing so, it prescribes the following:

- infrastructure that falls within the scope of AASB Interpretation 12 shall not be recognised as property, plant and equipment of the operator because the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the operator
- depending on the terms of the arrangement, the operator will recognise:
    - a financial asset (where the operator has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement); or
    - an intangible asset (where the operator's future cash flows are not specified – e.g. where they will vary according to usage of the infrastructure asset); or
    - both a financial asset and an intangible asset where the operator's return is provided partially by a financial asset and partially by an intangible asset.

AASB 2007-2 makes amendments to a number of Standards arising from AASB Interpretation 12. AASB 2007-2 also amends references to "UIG Interpretations" to "Interpretations".

On adopting AASB Interpretation 12, an entity is required to restate its financial position as though it had always accounted for its service concession arrangements using the method prescribed by the Interpretation.

AASB 2007-4

AASB 2007-4 makes amendments to a number of Australian Accounting Standards to introduce various accounting policy options, delete various disclosures presently required and make a number of editorial amendments.

Whilst a large number of Accounting Standards are amended by AASB 2007-4, key accounting policy options introduced by AASB 2007-4 relate to:

- the measurement and presentation of government grants;
- the accounting for jointly controlled entities using the proportionate consolidation method; and
- the presentation of the cash flow statement.

The consolidated entity does not intend to change any of its current accounting policies on adoption of AASB 2007-4; accordingly, there will no financial impact to the financial report.

AASB Interpretation 13

AASB Interpretation 13 addresses the accounting by entities that provide their customers with incentives to buy goods or services by providing awards (i.e. award credits) as part of a sales transaction. AASB Interpretation 13 requires the entity that grants the awards to account for the sales transaction that gives rise to the award credits as a 'multiple element revenue transaction' and allocate the fair value of the consideration received or receivable between the award credits granted and the other components of the revenue transaction.

AASB Interpretation 13 is required to be applied retrospectively.

AASB Interpretation 14

AASB Interpretation 14 addresses three issues for entities that (a) have a defined benefit superannuation plan; and (b) have a defined benefit plan asset:

- if an entity has refunds or reductions in future contributions, when they should be regarded as 'available' in the context of its defined benefit plan assets (paragraph 58 of AASB 119 'Employee Benefits');
- how existing minimum funding requirements might affect the availability of the above reductions; and
- when a minimum funding requirement might give rise to a liability.

AASB Interpretation 14 is required to be applied retrospectively.

AASB 123 (revised) and AASB 2007-6

AASB 123 (July 2004) permits an entity to either expense or capitalise borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets. Under AASB 123 (revised), entities are no longer permitted to choose between alternate treatments and must capitalise borrowing costs relating to qualifying assets. AASB 2007-6 makes amendments to various Accounting Standards arising from the issue of AASB 123 (revised).

AASB 123 (revised) is generally to be applied prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. Accordingly, no restatements will be required in respect of transactions prior to the date of adoption.

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 Group comply with International Financial Reporting Standards ('IFRS'). The parent entity financial statements and notes also comply with IFRS except for the disclosure requirements in IAS 32 'Financial Instruments: Disclosure and Presentation' as the Australian equivalent Accounting Standard, AASB 132 'Financial Instruments: Disclosure and Presentation' does not require such disclosures to be presented by the parent entity where its separate financial statements are presented together with the consolidated financial statements of the Group. The financial statements were authorised for issue by the directors on 18 September 2007.

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. 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

Notes to the financial statements for the financial year ended 30 June 2007 (continued)

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.

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.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(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. Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements.

Other financial assets are classified into the following specified categories: financial assets ‘at fair value through profit or loss’, ‘held-to-maturity investments’, ‘available-for-sale’ financial assets, and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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’.

Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates where that the group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

Available-for-sale financial assets

Certain shares and redeemable notes held by the Group are classified as being available-for-sale and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on available-for-sale equity instruments are recognised in profit and loss when the Group’s right to receive payments is established.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

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.

Notes to the financial statements for the financial year ended 30 June 2007 (continued)

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.

With the exception of available-for-sale equity instruments, 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.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

(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.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in note 22.

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.

(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.

Notes to the financial statements for the financial year ended 30 June 2007 (continued)

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.

(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 freehold buildings but excluding land. Depreciation is calculated on a diminishing value and straight line basis so as to write off the net cost or other revalued 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.

(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.

Costs of site restoration

Costs of site restoration are recognised in full at present value as a non-current liability and an equivalent amount capitalised as part of the cost of the asset when an obligation arises to decommission or restore a site to a certain condition after abandonment as a result of bringing the assets to their present location. The capitalised cost is amortised over the life of the project and the provision is accreted periodically as the discounting of the liability unwinds. The unwinding of the discount is recorded as interest expense. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology. Any changes in the estimates for the costs are accounted on a prospective basis

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(o) Revenue

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

Notes to the financial statements for the financial year ended 30 June 2007 (continued)

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.

(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. Further details on how the fair value of equity-settled share-based transactions has been determined can be found in note 23.

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 shared-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	
	2007 $	2006 $	2007 $	2006 $
(a) Revenue				
Revenue from continuing operations consisted of:				
Interest				
Bank deposits	165,692	35,969	164,612	34,875
Rental revenue:				
Sub- rental revenue	20,405	-	20,405	-
Profit on sale of asset	3,474	-	3,474	-
Total Revenue	189,571	35,969	188,491	34,875

	Consolidated		Company	
	2007 $	2006 $	2007 $	2006 $
(b) Loss before income tax				
Loss before income tax has been arrived at after crediting/ (charging) the following expenses from continuing operations:				
Depreciation	74,364	1,850	74,364	1,850
Operating lease rental expenses				
Minimum lease payments	1,480	-	1,480	-
Impairment of exploration and evaluation expenditure	1,145	-	1,145	-
Employee benefits expense:				
Employee benefits	381,017	18,058	381,017	18,058
Employee benefits – accrual leave expense	28,748	-	28,748	-
	409,765	18,058	409,765	18,058
Unwinding of discount on provisions				
Interest on obligations under finance leases	11,163	-	11,163	-

Notes to the financial statements for the financial year ended 30 June 2007 (continued)

5. Income Tax

	Consolidated		Company	
	2007	2006	2007	2006
	$	$	$	$
(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	(1,426,877)	(578,712)	(1,389,881)	(578,712)
Prima facie tax calculated at 30%	(428,063)	(173,613)	(416,964)	(173,613)
Add tax effect of:				
- Non deductible expenses	-	-	-	-
- Share based payments	-	5,400	-	5,400
Less tax effect of:				
- Capital raising costs	3,889	261,749	3,889	261,749
Movement in tax asset not recognised	(3,889)	(261,749)	(3,889)	(261,749)
Current year tax loss not recognised	428,063	168,213	416,964	168,213
	-	-	-	-
(b) Assets				
Non-current				
Deferred tax asset comprises:				
- Capital raising costs	3,889	261,749	3,889	261,749
- Amount not recognised	(3,889)	(261,749)	(3,889)	(261,749)
	-	-	-	-
(c) Reconciliation				
(i) Gross movements				
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	-	-	-	-
(ii) Deferred tax assets				
The movement in the deferred tax asset for each temporary difference during the year is as follows:				
Capital raising costs				
Opening balance	-	-	-	-
Charge to equity	3,889	261,749	3,889	261,749
Amount not recognised	(3,889)	(261,749)	(3,889)	(261,749)
	-	-	-	-
(d) Deferred tax assets not bought to account, the benefits of which will only be realised if the conditions for deductibility set out in note 1 (j) occur:				
Opening balance	482,767	52,805	482,767	52,805
Temporary differences	3,889	261,749	3,889	261,749
Tax losses (revenue or operating losses)	428,063	168,213	416,964	168,213
Closing balance	914,719	482,767	903,620	482,767

6. Earnings per share

	Consolidated 2007 $	Consolidated 2006 $
The following reflects the income and share data used in calculating basic and diluted earnings per share:		
Net loss	1,426,877	578,712
Basic earnings per share (cents per share)	(2.00)	(.92)
Diluted earnings per share (cents per share)	(2.00)	(.92)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	71,184,418	62,270,833
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	71,184,418	62,270,833

Diluted earnings per share is calculated after classifying all options on issue remaining unconverted at 30 June 2007 as potential ordinary shares. As at 30 June 2007, the Company has 8,637,000 options (2006:8,637,000) 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. Trade and other receivables

	Consolidated		Company	
	2007 $	2006 $	2007 $	2006 $
GST receivable (net)	91,470	47,038	91,470	47,038
Other receivables (i)	47,114	-	47,114	-
Receivable from wholly owned subsidiary (ii), (iii)	-	-	1,621,528	389,577
Accumulated impairment	-	-	(1,248)	(1,248)
	138,584	47,038	1,758,864	435,367

Terms and conditions relating to the above financial instruments

(i) Other receivables are non interest bearing and have repayment terms between eight and ninety days.

(ii) Loans to subsidiary are non-interest bearing and are repayable on demand.

(iii) Ultimate recovery of receivable from wholly owned subsidiary is dependent upon success in exploration and development or sale or farm-out of the subsidiaries' exploration expenditure.

8. Other assets

	Consolidated		Company	
	2007 $	2006 $	2007 $	2006 $
Deposits – environmental bonds	127,306	45,268	96,112	20,153
Rental bond	113,020	-	113,020	-
Prepayments	11,841	-	11,841	-
	252,167	45,268	220,973	20,153

Notes to the financial statements for the financial year ended 30 June 2007 (continued)

9. Plant and equipment

	CONSOLIDATED					
	Plant & equipment	Computer equipment & software	Leasehold improvements	Motor vehicles	Leased computer equipment	Total
	$	$	$	$	$	$
Gross carrying amount						
Balance at 1 July 2005	-	1,546	-	-	-	1,546
Additions	2,682	8,945	-	-	-	11,627
Disposals	-	-	-	-	-	-
Balance at 1 July 2006	2,682	10,491	-	-	-	13,173
Additions	14,571	40,492	11,137	190,866	55,597	312,663
Disposals	-	-	-	(31,189)	-	(31,189)
Balance at 30 June 2007	17,253	50,983	11,137	159,677	55,597	294,647
Accumulated Depreciation						
Balance at 1 July 2005	-	(83)	-	-	-	(83)
Disposals	-	-	-	-	-	-
Depreciation expense	-	(1850)	-	-	-	(1,850)
Balance at 1 July 2006	-	(1,933)	-	-	-	(1,933)
Disposal	-	-	-	9,649	-	9,649
Depreciation expense	(2,236)	(8,188)	-	(58,066)	(5,874)	(74,364)
Balance at 30 June 2007	(2,236)	(10,121)	-	(48,417)	(5,874)	(66,648)
Net book value						
As at 30 June 2006	2,682	8,558	-	-	-	11,240
As at 30 June 2007	15,017	40,862	11,137	111,260	49,723	227,999

	COMPANY					
	Plant & equipment	Computer equipment & software	Leasehold improvements	Motor vehicles	Leased computer equipment	Total
	$	$	$	$	$	$
Gross carrying amount						
Balance at 1 July 2005	-	1,546	-	-	-	1,546
Additions	2,682	8,945	-	-	-	11,627
Disposals	-	-	-	-	-	-
Balance at 1 July 2006	2,682	10,491	-	-	-	13,173
Additions	14,571	40,492	11,137	190,866	55,597	312,663
Disposals	-	-	-	(31,189)	-	(31,189)
Balance at 30 June 2007	17,253	50,983	11,137	159,677	55,597	294,647
Accumulated Depreciation						
Balance at 1 July 2005	-	(83)	-	-	-	(83)
Disposals	-	-	-	-	-	-
Depreciation expense	-	(1850)	-	-	-	(1,850)
Balance at 1 July 2006	-	(1,933)	-	-	-	(1,933)
Disposal	-	-	-	9,649	-	9,649
Depreciation expense	(2,236)	(8,188)	-	(58,066)	(5,874)	(74,364)
Balance at 30 June 2007	(2,236)	(10,121)	-	(48,417)	(5,874)	(66,648)
Net book value						
As at 30 June 2006	2,682	8,558	-	-	-	11,240
As at 30 June 2007	15,017	40,862	11,137	111,260	49,723	227,999

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

Notes to the financial statements for the financial year ended 30 June 2007 (continued)

10. Exploration and evaluation assets

	Consolidated		Company	
	2007 $	2006 $	2007 $	2006 $
Balance at beginning of the period	4,337,931	309,834	2,315,197	309,834
Additional expenditure carried forward	1,922,203	4,028,097	733,249	2,005,363
Impairment losses for the year	(1,145)	-	(1,145)	-
	6,258,989	4,337,931	3,047,301	2,315,197

During the financial year the group assessed that one area was to be surrendered and exploration and evaluation assets for that area have been assessed as impaired.

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 $1,188,954 incurred at the licence areas through the group's subsidiary.

11. Other financial assets

	Consolidated		Company	
	2007 $	2006 $	2007 $	2006 $
Shares in subsidiary at cost	-	-	1,660,000	1,660,000
Accumulated impairment	-	-	-	-
Investment in wholly owned subsidiary	-	-	1,660,000	1,660,000

12. Trade and other payables

	Consolidated		Company	
	2007 $	2006 $	2007 $	2006 $
Trade payables	219,165	154,374	219,165	154,374
Accrued Expenses	136,090	522,576	136,090	522,576
	355,255	676,950	355,255	676,950

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	
	2007 $	2006 $	2007 $	2006 $
(a) Issued and paid up capital				
Ordinary shares fully paid	10,312,116	9,380,078	10,312,116	9,380,078

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.

	Year ended 30 June 2007		Year ended 30 June 2006	
	Number of Shares Issued	Issued Capital $	Number of Shares Issued	Issued Capital $
(b) Movements in shares on issue				
Beginning of the financial year	70,062,500	9,380,078	41,250,000	1,107,575
Movements during the year				
12 August to 8 September 2005	-	-	12,375,000	495,000
12 August 2005 (i)	-	-	4,750,000	950,000
26 August 2005 (ii)	-	-	6,000,000	1,200,000
9 September 2005 (iii)	-	-	2,500,000	500,000
- share consolidation	-	-	(26,812,500)	-
- initial public offer	-	-	30,000,000	6,000,000
Less: costs of initial public offer share issue	-	(12,962)	-	(872,497)
- share placement 22 May 2007	10,500,000	945,000	-	-
Closing balance	80,562,500	10,312,116	70,062,500	9,380,078

Share options granted under the employee share option plan

In accordance with the provisions of the employee share option plan, as at 30 June 2007, executives and senior employees have options over 2,500,000 (2006: 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 2007, the company has 6,137,000 share options on issue that have been granted exercisable on a 1:1 basis for 6,137,000 ordinary shares of the company (2006: 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 2007		30 June 2006	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Balance at beginning of period	8,637,000	$0.27	2,500,000	$0.44
- granted	-	-	6,137,000	$0.20
- lapsed/exercised	-	-	-	-
Balance at end of period	8,637,000	$0.27	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
8,637,000				$0.27

Notes to the financial statements for the financial year ended 30 June 2007 (continued)

14. Accumulated losses

	Consolidated		Company	
	2007 $	2006 $	2007 $	2006 $
(a) Accumulated Losses				
Accumulated losses at the beginning of the financial period	758,729	180,017	758,729	180,017
Net loss attributable to members of Panaegis Gold Mines Limited	1,426,877	578,712	1,389,881	578,712
Accumulated losses at the end of the financial period	2,185,606	758,729	2,148,610	758,729

(b) Franking Credits

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

15. Notes to the cashflow statement

	Consolidated		Company	
	2007 $	2006 $	2007 $	2006 $
(a) Reconciliation of loss after tax to net cash flows from operations				
Net loss for the period	(1,426,877)	(578,712)	(1,389,881)	(578,712)
Depreciation of property, plant and equipment	74,364	1,850	74,364	1,850
Impairment of exploration and evaluation assets	1,145	-	1,145	-
(Gain) on sale or disposal of non-current assets	(3,474)	-	(3,474)	-
Payment for exploration and evaluation assets	-	(537,968)	-	(537,968)
Changes in assets and liabilities				
Decrease/(increase) in trade receivables	(47,115)	42,630	(47,115)	42,630
Decrease/(Increase) in prepayments	(11,841)	17,896	(11,841)	17,896
(Increase) in GST	(44,431)	-	(44,431)	-
(Increase) in rental bond	(113,020)	-	(113,020)	-
(Increase) in environmental bonds	(82,038)	-	(75,959)	-
Increase in creditors	28,457	419,862	28,457	419,862
Increase in employee provisions	28,748	-	28,748	-
Net cash used in operating activities	(1,596,082)	(634,442)	(1,553,007)	(634,442)

(b) Reconciliation of cash

Cash and cash equivalents comprise:				
Cash on hand and at call	1,867,902	879,002	1,867,500	878,522
Term deposits	-	4,000,000	-	4,000,000
	1,867,902	4,879,002	1,867,500	4,878,522

(c) Non-cash financing and investing activities

During the current financial year, the Group acquired $228,177 (2006:$nil) of Plant and Equipment under hire purchase and chattel mortgages agreements. These acquisition will be reflected in the cash flow statement over the term of the finance lease via lease repayments.

16. Borrowings

	Consolidated		Company	
	2007 $	2006 $	2007 $	2006 $
Secured – at amortised cost				
Current				
Chattel Mortgage (i), (ii)	25,478	-	25,478	-
Finance lease liabilities (iii)	19,194	-	19,194	-
Non-current				
Chattel Mortgage (i), (ii)	134,808	-	134,808	-
Finance lease liabilities (iii)	33,468	-	33,468	-
	212,948	-	212,948	-
Disclosed in the financial statements as:				
Current borrowings	44,672	-	44,672	-
Non-current borrowings	168,276	-	168,276	-
	212,948	-	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	
	2007 $	2006 $	2007 $	2006 $
Current				
Employee benefits – accrued leave	28,748	-	28,748	-

18. Commitments for expenditure

	Consolidated		Company	
	2007 $	2006 $	2007 $	2006 $
(a) Exploration expenditure commitments				
Not longer than 1 year	692,100	521,750	310,850	521,750
Longer than 1 year and not longer than 5 years	1,483,800	1,777,000	957,000	1,777,000
Longer than 5 years	-	-	-	-
	2,175,900	2,298,750	1,267,850	2,298,750

(b) Lease commitments

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

(c) Other expenditure commitments

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Property Lease				
Not longer than 1 year	275,881	-	275,881	-
Longer than 1 year and not longer than 5 years	1,076,396	-	1,076,396	-
Longer than 5 years	-	-	-	-
	1,352,277	-	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)	-
	658,551	-	658,551	-

Notes to the financial statements for the financial year ended 30 June 2007 (continued)

19. Leases

Finance leases

	Consolidated		Company	
	2007	2006	2007	2006
	$	$	$	$
Chattel mortgage				
Not longer than 1 year	25,478	-	25,478	-
Longer than 1 year and not longer than 5 years	134,808	-	134,808	-
Longer than 5 years	-	-	-	-
	160,286	-	160,286	-

Leasing arrangements

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

Finance lease liabilities

	Minimum future lease payments				Minimum future lease payments			
	Consolidated		Company		Consolidated		Company	
	2007	2006	2007	2006	2007	2006	2007	2006
	$	$	$	$	$	$	$	$
Not longer than 1 year	25,671	-	25,671	-	19,194	-	19,194	-
Longer than 1 year and not longer than 5 years	40,151	-	40,151	-	33,469	-	33,469	-
Longer than 5 years	-	-	-	-		-		-
Minimum future lease payments*	65,822	-	65,822	-	52,663	-	52,663	-
Less future finance charges	(13,159)	-	(13,159)	-		-		-
Present value of minimum lease payments	52,663	-	52,663	-	52,663	-	52,663	-

Included in the financial statements as: (note 16)	19,194	-	19,194	-
Current borrowings	33,469	-	33,469	-
Non-current borrowings	-	-	-	-
	52,663	-	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	
	2007	2006	2007	2006
	$	$	$	$
Non cancellable operating lease commitments				
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:

		Output interest	
		2007	2006
Name of venture	**Principal activity**	**%**	**%**
Nagambie Project	Exploration for minerals	51	0

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. During the current financial year Panaegis paid for $1,081,486 in exploration expenditure which has been capitalised as exploration and evaluation assets. At 30 June 2007 the joint venture is committed to $218,700 of exploration and evaluation expenditure not longer than one year and $819,000 of exploration and evaluation expenditure longer than one year and less than five years. There are no commitments beyond five years.

21. Subsidiaries

		Ownership interest	
	Country of	2007	2006
Name of entity	**incorporation**	**%**	**%**
Parent entity			
Panaegis Gold Mines Limited	Australia	-	-
Subsidiaries			
Sierra Minerals Limited	Australia	100	100

22. Financial instruments

(a) Credit risk exposures

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.

(b) Off-balance sheet derivative instruments

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

(c) Commodity contracts

As at 30 June 2007, the Company does not have any commodity contracts in place

(d) Net Fair Values

All financial assets and liabilities have been recognised at the balance date at lower of cost and realisable value which approximates their net fair value.

(e) Interest rate risk exposures

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out in the following table:

Notes to the financial statements for the financial year ended 30 June 2007 (continued)

30 June 2007 Financial assets

	Note	Weighted average interest rate	Floating interest rate $	Fixed Interest Maturing In: 1 year or less $	over 1 year to 5 years $	5 years or more $	Non-interest bearing $	Total $
Cash and cash equivalents	15(b)	5.99%	1,867,902	-	-	-	-	1,867,902
Trade and other receivables	7	-	-	-	-	-	47,114	47,114
Deposits								
- environmental bonds	8	6.33%	-	127,306	-	-	-	127,306
Rental bond	8	6.60%	-	113,020	-	-	-	113,020
			1,867,902	240,326	-	-	47,114	2,155,342
Financial liabilities								
Trade payables	12	-	-	-	-	-	219,165	219,165
Accrued expenses	12	-	-	-	-	-	136,090	136,090
Chattel Mortgages	16	7.77%	-	-	160,286	-	-	160,286
Finance lease liabilities	16	10.13%	-	-	52,662	-	-	52,662
Employee benefits (accrued leave)	17	-	-	-	-	-	28,748	28,748
Net financial assets/(liabilities)			1,867,902	240,326	(212,948)	-	(336,889)	1,558,391
30 June 2006								
Financial assets								
Cash and cash equivalents	15(b)	5.69%	879,002	4,000,000	-	-	-	4,879,002
Receivables	7	-	-	-	-	-	-	-
Deposits								
- environmental bonds	8	5.80%	-	45,268	-	-	-	45,268
			879,002	4,045,268	-	-	-	4,924,270
Financial liabilities								
Trade payables	12	-	-	-	-	-	154,374	154,374
Accrued expenses	12	-	-				522,576	522,576
Net financial assets/(liabilities)			924,270	4,045,268	-	-	(676,950)	4,247,320

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 2,500,000 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 2007		30 June 2006	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Balance at beginning of period	8,637,000	$0.27	2,500,000	$0.44
- granted	-	-	6,137,000	$0.20
- lapsed/exercised	-	-	-	-
Balance at end of period	8,637,000	$0.27	8,637,000	$0.27

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
8,637,000				$0.27

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

(a) 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
Ian D Buckingham	Managing Director / CEO	Appointed 29 October 2004
		Resigned 5 September 2007
Michael W Trumbull	Non-Executive Director	Appointed 28 July 2005
Andrew R Ristrom	Non-Executive Director	Appointed 15 March 2006
Peter I Rudd	Non-Executive Deputy Chairman	Appointed 29 October 2004

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

Neil T Motton	Exploration Manager	Resigned 1 March 2007
John W Cottle	Exploration Manager	Appointed 1 February 2007

Further, John W Cottle was appointed interim Chief Operating Officer on 5 September 2007.

Requisition of Section 249D General Meeting

Two shareholders have requisitioned a general meeting of shareholders under section 249D of the Corporations Act to consider a resolution to remove John W Cornelius and Ian D Buckingham as Directors. Ian D Buckingham has resigned on 5 September 2007.

Notes to the financial statements for the financial year ended 30 June 2007 (continued)

(b) Key management personnel compensation

	Consolidated		Company	
	2007	2006	2007	2006
	$	$	$	$
Short-term employee benefits	566,771	175,238	566,771	175,238
Post-employment benefits	27,570	-	27,570	-
Other long-term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share-based payment	-	18,058	-	18,058
	594,341	193,296	594,341	193,296

(c) Remuneration Options: Granted and vested during the period

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

(d) 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

(e) 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 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
J W Cornelius	-	-	-	-	-	-
Ian D Buckingham	2,500,000	-	-	-	2,500,000	2,500,000
Michael W Trumbull	-	-	-	-	-	-
Andrew R Ristrom	500,000	-	-	-	500,000	500,000
Peter I Rudd	-	-	-	-	-	-
Neil T Motton - resigned 1 March 2007	-	-	-	-	-	-
John W Cottle - appointed 1 February 2007	-	-	-	-	-	-
Total	3,000,000	-	-	-	3,000,000	3,000,000

Year ended 30 June 2006	Opening Balance 1 July 2005	Granted as remuneration	Options Exercised	Net Change Other	Closing Balance 30 June 2006	Vested and exercisable at 30 June 2006
J W Cornelius	-	-	-	-	-	-
Ian D Buckingham	2,500,000	-	-	-	2,500,000	2,500,000
Michael W Trumbull	-	-	-	-	-	-
Andrew R Ristrom (*)	-	-	-	500,000	500,000	500,000
Peter I Rudd	-	-	-	-	-	-
Peter J Cameron - resigned 13 March 2006	-	-	-	-	-	-
Neil T Motton	-	-	-	-	-	-
Total	2,500,000	-	-	500,000	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

(f) Shareholdings of key management personnel

Year ended 30 June 2007 Ordinary Shares	Balance 1 July 2006 No.	Granted as remuneration No.	On exercise of Options No.	Net Change Other No.	Balance 30 June 2007 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)	-
John W Cottle – appointed 1 February 2007	-	-	-	-	-
Total	9,775,000	-	-	(2,200,000)	7,575,000

Year ended 30 June 2006 Ordinary Shares	Balance 1 July 2005 No.	Granted as remuneration No.	On exercise of Options No.	Net Change Other No.	Balance 30 June 2006 No.
John W Cornelius	1,800,000	-	-	-	1,800,000
Ian D Buckingham	2,800,000	-	-	-	2,800,000
Peter I Rudd	1,050,000	-	-	1,000,000	2,050,000
Michael W Trumbull	-	-	-	625,000	625,000
Peter J Cameron - resigned 13 March 2006	-	-	-	-	-
Neil T Motton	-	-	-	2,500,000	2,500,000
Total	5,650,000	-	-	5,125,000	9,775,000

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 2007 financial year John W Cornelius charged $70,605 (2006: $96,000) for the provision of administrative and clerical staff. These fees were paid to IMI Consulting Pty Ltd, a company controlled by John W Cornelius.

At 30 June 2007 $30,805 is payable to IMI Consulting Pty Ltd, a company controlled by John W Cornelius, which relates to the services described above.

During the 2006 financial year Domain Capital charged an amount of $80,000 that related to an agreement in place with the company regarding the initial public offering. $40,000 of this amount was paid in the 2006 financial year, $40,000 was paid in the 2007 financial year. Andrew R Ristrom is a director of Domain Capital.

From 1 June 2007 IMI Consulting Pty Ltd and Domain Capital have committed to a sub-lease for accommodation on premises leased by Panaegis. The contribution of $42,700 p.a. by IMI Consulting Pty Ltd and $145,000 p.a. by Domain Capital, a company of which Andrew R Ristrom is a director, to Panaegis for the sub-lease includes a percentage of common area. The amount of $47,114 is owing as at 30 June 2007.

The company has paid legal and consulting fees of $40,843 (2006: $165,889) 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 $32,875 (2006: $nil) to CBH Business Services Pty Ltd, a company controlled by Cherie L Harrison.

Notes to the financial statements for the financial year ended 30 June 2007 (continued)

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	
	2007	2006	2007	2006
	$	$	$	$
Auditor of the parent entity				
Audit or review of the financial report	30,000	30,000	30,000	30,000
Other non-audit services – investigating accountants report into initial public offering	-	19,153	-	19,153
	30,000	49,153	30,000	49,153

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) Share Issue

On 23 July 2007 a placement of 12,000,000 shares at $0.09 cents for a total of $1,080,000 was made to Dr Peter Woodford. Fees of $47,500 inclusive of GST were paid to P J Woodford Pty Ltd in relation to the placement.

(b) Resignation of Director

Ian D Buckingham has retired as Managing Director and resigned from the Board effective from 5 September 2007. John W Cottle has been appointed interim Chief Operating Officer.

(c) Requisition of Section 249D General Meeting

Two shareholders have requisitioned a general meeting of shareholders under section 249D of the Corporations Act to consider a resolution to remove John W Cornelius and Ian D Buckingham as Directors.

(d) Share Purchase Plan

A total of 2,430,900 shares will be allotted on 11 September 2007 under the plan raising $218,781. The terms of the plan were issued to shareholders giving them the opportunity to acquire up to 55,500 per holding for a payment of $4,995.

(e) Nagambie Joint Venture

Perserverance Corporation Limited, having approved a technical program for the joint venture have elected not to participate in the budgeted expenditure for the six months ending 31December 2007. Under the terms of the joint venture agreement Panaegis may earn an additional 1% of the joint venture assets for each $100,000 of joint venture expenditure to which Perserverance do not contribute.

Additional Stock Exchange information

as at 31 August 2007

Number of holders of equity securities

Ordinary share capital

84,827,500 fully paid ordinary shares are held by 506 individual shareholders.

There are 5,235,000 ordinary shares held in escrow as restricted securities until 23 June 2008 and 2,500,000 ordinary shares held in voluntary escrow until 22 June 2009.

All issued ordinary shares carry one vote per share.

Options

8,637,000 options are held by 6 individual option holders.

Options do not carry a right to vote.

Distribution of holders of equity securities

	Fully paid ordinary shares	Partly paid ordinary shares	Redeemable preference shares	Converting non-participating preference shares	Convertible notes	Options
1 – 1,000	1,556	-	-	-	-	-
1,001 – 5,000	122,564	-	-	-	-	-
5,001 – 10,000	967,106	-	-	-	-	-
10,001 – 100,000	12,318,384	-	-	-	-	-
100,001 and over	71,417,890	-	-	-	-	8,637,000
	84,827,500	-	-	-	-	8,637,000

Escrow shares	7,735,000	-
Holding less than a marketable parcel	134,926	-

Substantial shareholders

	Fully paid ordinary shares Number
Dr Peter J. Woodford	12,050,000
Beaconsfield Gold Mines Pty Ltd	10,500,000
Mr. Ralph Douglas Russell & Ms Anne-Maree Hynes and <The Russell Hynes S/F A/C>	8,747,265
D & D Nominees Pty Ltd	7,169,089
	38,466,354

Optionholders holding greater than 20% of unquoted options

	Unquoted options number
Mr Ian D Buckingham	2,500,000
Gillon Securities Ltd	2,412,000
Domain Capital Pty Ltd	2,000,000
	6,912,000

Additional Stock Exchange information (continued)

Twenty largest holders of quoted equity securities

Ordinary shareholders	Fully paid ordinary shares Number	Percentage
Dr Peter J. Woodford	12,050,000	14.21
Beaconsfield Gold Mines Pty Ltd	10,500,000	12.38
D & D Nominees Pty Ltd	7,169,089	8.45
Mr. Ralph Douglas Russell & Ms Anne-Maree Hynes	5,800,000	6.84
Mr. Ralph Douglas Russell & Ms Anne-Maree Hynes <The Russell Hynes S/F A/C>	2,947,265	3.47
Mr Mark Saxon	2,287,555	2.70
Mr Rolf Allen	2,064,999	2.43
Mr Michael Hudson	2,000,000	2.36
Australian Executor Trustees Limited <No 1 Account>	1,653,333	1.95
Mr Mike Garrat	1,583,334	1.87
Mr Ray Borchers	1,583,333	1.87
Adare Manor Pty Ltd	1,075,000	1.27
Arinya Investments Pty Ltd	1,000,000	1.18
Mr Peter C. Corke	1,000,000	1.18
Mr Nicholas C. Richards	973,000	1.15
B Mitchell Nominees Pty Ltd <The B Mitchell Family A/C>	750,000	0.88
Mr Bernard J. Thomas & Mrs Doris I. Thomas <Thomas S/F A/C>	737,646	0.87
Mr Robert Pizzari and Mrs Paulette Pizzari	660,000	0.78
Cypron Pty Ltd <M W Trumbull Super Fund A/C>	625,000	0.74
Mr Glen A. Kiernan & Mrs Christine A. Kiernan <Kiernan Super Fund A/C>	625,000	0.74
	57,084,554	67.32

Unquoted equity security holdings

Options over Unissued Shares

Weighted average exercise price	Grant Date	Vesting Date	Expiry Date	Number
$0.35	20/05/2005	20/05/2005	31/12/2007	1,000,000
$0.20	23/06/2006	23/06/2006	30/06/2008	6,137,000
$0.50	20/05/2005	20/05/2005	30/06/2009	1,500,000
				8,637,000

Company secretaries
Alfonso M. G. Grillo
Cherie L. Harrison

Registered office
Level 16
379 Collins Street
Melbourne Victoria 3000
Tel: (03) 8614 1000

Principal administration office
Level 16
379 Collins Street
Melbourne Victoria 3000
Tel: (03) 8614 1000

Share registry
Computershare Investor Services Pty Limited
GPO Box 505
Melbourne Victoria 8060
Tel: 1300 85 05 05