

PANAEGIS GOLD MINES LIMITED ABN 42 111 587 163

AND CONTROLLED ENTITIES

INTERIM FINANCIAL REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

PANAEGIS GOLD MINES LIMITED ABN 42 111 587 163
AND CONTROLLED ENTITIES

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PANAEGIS GOLD MINES LIMITED ABN 42 111 587 163
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DIRECTORS' REPORT

Your Directors present their report on the economic entity for the half-year ended 31 December 2005.

Directors

The names of Directors who held office during or since the end of the half-year are:

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

Review of Operations

Panaegis Gold is an unlisted public company, which was incorporated on 29 October 2004. This report is for the half-year ended 31 December 2005.

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

The Company has prepared a draft Prospectus and undertaken due diligence procedures with the aim of completing an underwritten Initial Public Offering and Australian Stock Exchange listing over the next three months. A Lead Manager and Underwriter has been appointed in relation to the proposed initial public offering. The Company will seek to raise \$8 million by way of 40 million shares at \$0.20 per share. In preparation for the proposed initial public offering approval will be sought from existing shareholders at a general meeting to consolidate the existing capital on the basis of one share for every two shares currently held.

The Company's gold and base metal exploration expenditure for the half-year was \$491,601.

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

Significant changes in the State of Affairs

Between 12 August 2005 and 8 September 2005 the Company issued 12,375,000 ordinary fully paid shares at an issue price of 4 cents per share to continue its exploration activity and to prepare a Prospectus for admission to trading on the Australian Stock Exchange.

On 12 August 2005 2,412,000 options were granted to Gillon Securities Limited &/or nominees, as part consideration of their placement fee as broker's to the above mentioned share issue. These options enable Gillon Securities Limited and/or nominees to subscribe for ordinary shares at an exercise price equal to the IPO share price expiring two years from the date the Company is listed on the Australian Stock Exchange.

Acquisition of Sierra Minerals Limited

On 31 August 2005 Panaegis Gold acquired 100% of the ordinary share capital of Sierra Minerals. Sierra Minerals holds Exploration Licences EL4719 Bailieston, EL4721 Wedderburn West, EL4722 Castlemaine, EL4723 Rushworth and EL4718 Nagambie South.

PANAEGIS GOLD MINES LIMITED ABN 42 111 587 163
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DIRECTORS' REPORT

Significant changes in the State of Affairs (continued)

Acquisition of Sierra Minerals Limited (continued)

Under the Share Sale Agreement Panaegis Gold has made a payment to the vendors of \$60,000 (\$10,000 by way of deposit paid in September 2004) on the execution of the Share Sale Agreement. A payment of \$100,000 has also been made to Perseverance Corporation Limited in respect to the Nagambie Farm-in and Joint Venture Agreement between Sierra Minerals and Perseverance Mining Pty Ltd.

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

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

Nagambie Farm-in and Joint Venture Agreement

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

To complete the earning Panaegis Gold, through Sierra Minerals, reimbursed Perseverance Mining \$100,000 exploration costs and may contribute up to \$900,000 to fund further exploration including conducting 1,500 metres of diamond drilling. Sierra Minerals will be Operator of the Joint Venture activity.

On 9 September Panaegis Gold was granted by the Department of Primary Industries Exploration Licence 4887, Avenel an area which is contiguous with EL 4718 Nagambie. Panaegis Gold has reached agreement with Perseverance Mining Pty Ltd to jointly explore EL 4887 and to include EL 4887 in the Nagambie joint venture. Perseverance may earn 49% interest in EL 4887.

Agreement with Mike Garratt Pty Ltd

Panaegis Gold have entered into an agreement with Mike Garratt Pty Ltd for the transfer of Exploration Licence (EL) 4527 Taradale.

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

Panaegis Gold has been awarded EL's 4890, 4894 and 4895. These licences are contiguous with Panaegis Gold's EL 4527 Taradale property.

Agreement with Flitegold Pty Ltd

On 10 October 2005 Panaegis Gold entered into an Agreement with Flitegold Pty Ltd for the transfer of Exploration Licence Howqua EL3424, Mining Lease MIN5420 and Exploration Licences Redcastle EL4594 and EL3316. The Agreement provided for an initial payment to Flitegold of \$15,000 on signing of the Agreement, with an additional \$185,000 and the issue of such number of ordinary shares that is equal to \$500,000 pursuant to an IPO on the ASX, payable within 7 days of Panaegis Gold receiving unconditional confirmation from the ASX that Panaegis Gold's shares have been accepted for official quotation on the ASX.

Panaegis Gold has been issued Mining Licence 5420 Howqua.

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

PANAEGIS GOLD MINES LIMITED ABN 42 111 587 163
AND CONTROLLED ENTITIES

DIRECTORS' REPORT

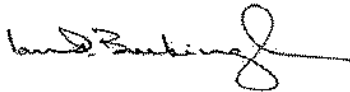
Adoption of Australian equivalents to International Financial Reporting Standards ("AIFRS")

This interim financial report has been prepared under AIFRS. A reconciliation of differences between previous GAAP and AIFRS has been included in Note 1(n) of this report.

Auditor's Independence Declaration

The lead auditor's independence declaration under section 307C of the *Corporations Act 2001* is set out on page 4 for the half-year ended 31 December 2005.

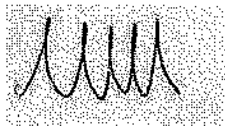
This report is signed in accordance with a resolution of the Board of Directors.



I D Buckingham
Managing Director and Chief Executive Officer



J W Cornelius
Non-Executive Chairman



P I Rudd
Non-Executive Director



P J Cameron
Non-Executive Director



M W Trumbull
Non-Executive Director

Dated this eighth day of March 2006



Chartered Accountants

563 Bourke Street Melbourne 3000
DX 30937 Stock Exchange Melbourne
Telephone (03) 9615 8500
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**AUDITOR'S INDEPENDENCE DECLARATION UNDER
SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF PANAEGIS GOLD MINES LIMITED**

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2005 there have been:

- (a) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

**BDO
Chartered Accountants**

**M J Schofield
Partner**

Melbourne, 8 March 2006

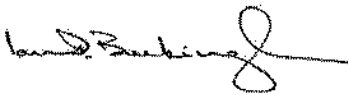
PANAEGIS GOLD MINES LIMITED ABN 42 111 587 163
AND CONTROLLED ENTITIES

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements, comprising the income statement, balance sheet, cash flow statement, statement of changes in equity and accompanying notes are in accordance with the Corporations Act 2001 and:
 - a) comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
 - b) give a true and fair view of the economic entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date.
2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

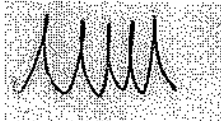
This declaration is made in accordance with a resolution of the Directors and dated this eighth day of March, 2006.



I D Buckingham
Managing Director and Chief Executive Officer



J W Cornelius
Non-Executive Chairman



P I Rudd
Non-Executive Director



P J Cameron
Non-Executive Director



M W Trumbull
Non-Executive Director

PANAEGIS GOLD MINES LIMITED ABN 42 111 587 163
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CONSOLIDATED INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Note	Economic Entity Half-year ended 31.12.2005 \$
Revenues	2	14,660
Administration expenditure	2	(431,079)
Loss before income tax expense		(416,419)
Income tax benefit relating to ordinary activities		-
Loss after related income tax expense		(416,419)
Loss attributable to members of the parent entity		(416,419)
Basic earnings per share (cents per share)	5	(0.8)
Diluted earnings per share (cents per share)	5	(0.8)

The accompanying notes form part of these financial statements.

**PANAEGIS GOLD MINES LIMITED ABN 42 111 587 163
AND CONTROLLED ENTITIES**

**CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2005**

	Economic Entity	
	31.12.2005	30.6.2005
	\$	\$
CURRENT ASSETS		
Cash and cash equivalents	287,258	810,190
Trade and other receivables	63,894	42,630
Other current assets	122,177	27,896
	<u>473,329</u>	<u>880,716</u>
NON CURRENT ASSETS		
Plant and equipment	6,589	1,463
Exploration and evaluation expenditure	664,083	309,834
	<u>670,672</u>	<u>311,297</u>
TOTAL NON CURRENT ASSETS		
	<u>670,672</u>	<u>311,297</u>
TOTAL ASSETS	<u>1,144,001</u>	<u>1,192,013</u>
CURRENT LIABILITIES		
Trade and other payables	130,232	260,333
	<u>130,232</u>	<u>260,333</u>
TOTAL CURRENT LIABILITIES		
	<u>130,232</u>	<u>260,333</u>
TOTAL LIABILITIES	<u>130,232</u>	<u>260,333</u>
NET ASSETS	<u>1,013,769</u>	<u>931,680</u>
EQUITY		
Issued capital	5 1,610,205	1,111,697
Accumulated losses	(596,436)	(180,017)
	<u>1,013,769</u>	<u>931,680</u>
TOTAL EQUITY	<u>1,013,769</u>	<u>931,680</u>

The accompanying notes form part of these financial statements.

**PANAEGIS GOLD MINES LIMITED ABN 42 111 587 163
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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

	Note	\$ Share Capital	\$ Accumulated Losses	\$ Total
Balance at 29.10.2004		-	-	-
Shares issued during the period		1,107,575	-	1,107,575
Cost of share-based payments		4,122	-	4,122
Loss attributable to members of the parent entity		-	(180,017)	(180,017)
Balance at 30.6.2005		<u>1,111,697</u>	<u>(180,017)</u>	<u>931,680</u>
Balance at 1.7.2005		1,111,697	(180,017)	931,680
Shares issued during the half-year		480,450	-	480,450
Cost of share-based payments		18,058	-	18,058
Loss attributable to members of the parent entity		-	(416,419)	(416,419)
Balance at 31.12.2005	5	<u>1,610,205</u>	<u>(596,436)</u>	<u>1,013,769</u>

The accompanying notes form part of these financial statements.

PANAEGIS GOLD MINES LIMITED ABN 42 111 587 163
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CONSOLIDATED CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Half-year ended 31.12.2005 \$
CASH FLOWS FROM OPERATING ACTIVITIES	
Payments to suppliers and employees	(472,930)
Payments for capitalised exploration and development expenditure	(491,601)
Interest received	14,660
	<hr/>
Net cash used in Operating activities	(949,871)
CASH FLOWS FROM INVESTING ACTIVITIES	
Payment for plant and equipment	(5,500)
	<hr/>
Net cash used in Investing activities	(5,500)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from share issues	495,000
Payment of share issue costs	(14,550)
Prepayment of proposed IPO-related share issue costs	(48,011)
	<hr/>
Net cash provided by Financing activities	432,439
	<hr/>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(522,932)
	<hr/>
Cash and cash equivalents held at 1 July 2005	810,190
	<hr/>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER 2005	287,258

The accompanying notes form part of these financial statements.

PANAEGIS GOLD MINES LIMITED ABN 42 111 587 163
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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standard AASB 134: Interim Financial Reporting, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

Panaegis Gold is an unlisted public company, incorporated and domiciled in Australia. The Company was incorporated and commenced operations on 29 October 2004. Comparatives for the period from 29 October 2004 to 31 December 2004 have been excluded from this financial report as the Directors have determined that comparatives in the income statement are not relevant for the users of this financial report.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2005 and any public announcements made by Panaegis Gold Mines Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

As this is the first interim financial report prepared under Australian equivalents to International Financial Reporting Standards ("AIFRS"), the accounting policies applied are inconsistent with those applied in the 30 June 2005 annual report as this report was presented under previous Australian Generally Accepted Accounting Principles ("AGAAP"). Accordingly, a summary of the significant accounting policies under AIFRS has been included below. A reconciliation of equity and profit and loss between previous GAAP and AIFRS has been prepared per Note 1(n).

The half-year report does not include full disclosures of the type normally included in an annual financial report.

(a) Principles of Consolidation

A controlled entity is an entity Panaegis Gold Mines Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered the economic entity during the year, their operating results have been included from the date control was obtained.

(b) Income Tax

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on the accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

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

(b) **Income Tax (continued)**

relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary difference can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(c) **Revenue**

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

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

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

(d) **Cash and Cash Equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

(e) **Receivables**

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

(f) **Plant and Equipment**

Plant and Equipment is stated at cost less accumulated depreciation and any impairment in value.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining the recoverable amount. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Depreciation

The depreciable amount of all fixed assets including any capitalised lease assets is depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Period	Depreciation Rate
Plant and equipment	2 to 5 years	20-50%

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

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

(g) Exploration, Evaluation and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest including the costs of acquiring leases or other rights of tenure in the areas of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. 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 are determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted for on a prospective basis. In determining the costs of site restoration there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs are determined on the basis that restoration will be completed within one year of abandoning a site.

(h) Payables

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

(i) Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions are made by the Company to a defined-contribution employee superannuation fund and are charged as expenses when incurred.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

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

(j) Share-based Payment Transactions

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

There are currently two plans in place to provide these benefits:

- (i) the Employee Share Plan, and
- (ii) the Employee Option Plan

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Panaegis Gold Mines Limited ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has applied the requirements of AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' in respect of equity-settled awards and has applied AASB 2 'Share-Based Payments' only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

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

(k) Goods and Services Tax (GST)

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

(l) Earnings per share

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

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

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

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

(m) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial period.

(n) Impact of Adoption of AIFRS

There is no impact of adopting AIFRS on the total equity as reported under previous AGAAP.

The impact of adopting AIFRS on the profit before tax as reported under previous AGAAP is illustrated below.

PANAEGIS GOLD MINES LIMITED ABN 42 111 587 163
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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

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

(n) Impact of Adoption of AIFRS (continued)

(i) Reconciliation of profit before tax under previous AGAAP to that under AIFRS

	Economic Entity 29.10.04 to 30.6.05 \$
Prior period loss before tax as previously reported	(175,895)
Share-based payment expense (A)	(4,122)
Prior period loss before tax under AIFRS	(180,017)

(A) Share-based payment costs are charged to the income statement under AASB 2 *Share-based Payment*, but not under previous AGAAP. This has caused an increase in loss for the period.

	Half-year ended 31.12.2005 \$
2. PROFIT FROM ORDINARY ACTIVITIES	
The following revenue and expense items are relevant in explaining the financial performance for the interim period:	
Interest received – other persons	14,660
Depreciation – Plant and equipment	(374)
Borrowing costs – other persons	-

3. ACQUISITION OF SUBSIDIARIES

As reported in the annual financial report, the parent entity acquired 100% of Sierra Minerals Limited on 31 August 2005. Sierra Minerals holds Exploration Licences EL4719 Bailieston, EL4721 Wedderburn West, EL4722 Castlemaine, EL4723 Rushworth and EL4718 Nagambie South.

Under the Share Sale Agreement Panaegis Gold has made a payment to the vendors of \$60,000 (\$10,000 by way of deposit paid in September 2004) on the execution of the Share Sale Agreement. A payment of \$100,000 has also been made to Perseverance Corporation Limited in respect to the Nagambie Farm-in and Joint Venture Agreement between Sierra Minerals and Perseverance Mining Pty Ltd.

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

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

PANAEGIS GOLD MINES LIMITED ABN 42 111 587 163
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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

Half-year
ended
31.12.2005
\$

3. ACQUISITION OF SUBSIDIARIES (CONTINUED)

The purchase price was allocated as follows:

Purchase consideration	160,000
Cash consideration	160,000
Assets and liabilities at acquisition date:	
Cash	412
Receivables	25,000
Exploration and evaluation expenditure	155,519
Payables	(183,350)
	(2,419)
Exploration and evaluation expenditure on consolidation	162,419
Total	160,000

The assets and liabilities arising from the acquisition are recognised at fair value which are equal to their carrying value at acquisition date.

4. CONTINGENT LIABILITIES

The Company has the following Contingent Liabilities as at 31 December 2005:

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

The Company entered into an agreement to acquire Exploration Licence (EL) 4527 Taradale. The Agreement with Mike Garratt Pty Ltd provided for an initial payment of \$150,000 for the transfer of the Taradale Exploration Licence. This amount has been paid at 31 December 2005.

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

Agreement with shareholders of Sierra Minerals Limited

Under the Share Sale Agreement Panaegis Gold has made a payment to the vendors of \$60,000 (\$10,000 by way of deposit paid in September 2004) on the execution of the Share Sale Agreement. A payment of \$100,000 has also been made to Perseverance Corporation Limited in respect to the Nagambie Farm-in and Joint Venture Agreement between Sierra Minerals and Perseverance Mining Pty Ltd.

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

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

**PANAEGIS GOLD MINES LIMITED ABN 42 111 587 163
AND CONTROLLED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

4. CONTINGENT LIABILITIES (CONTINUED)

Nagambie Farm-in and Joint Venture Agreement

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

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

Agreement with Flitegold Pty Ltd

On 10 October 2005 Panaegis Gold entered into an Agreement with Flitegold Pty Ltd for the transfer of Exploration Licence Howqua EL3424, Mining Lease MIN5420 and Exploration Licences Redcastle EL4594 and EL3316. The Agreement provided for an initial payment to Flitegold of \$15,000 on signing of the Agreement, with an additional \$185,000 and the issue of such number of ordinary shares that is equal to \$500,000 pursuant to an IPO on the ASX, payable within 7 days of Panaegis Gold receiving unconditional confirmation from the ASX that Panaegis Gold's shares have been accepted for official quotation on the ASX.

5. ISSUED CAPITAL

	31/12/2005 Shares	31/12/2005 \$
Issued and Paid Up Capital		
Ordinary shares fully paid	53,625,000	1,610,205
Movements in shares on issue:		
Ordinary shares on issue at beginning of period	41,250,000	1,111,697
Shares issued during the period	12,375,000	495,000
Share issue costs	-	(14,550)
Cost of share-based payments	-	18,058
Ordinary shares on issue at end of period	53,625,000	1,610,205

6. SEGMENT INFORMATION

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

7. EVENTS SUBSEQUENT TO REPORTING DATE

A Lead Manager and Underwriter has been appointed in relation to the proposed initial public offering. The Company will seek to raise \$8 million by way of 40 million shares at \$0.20 per share. In preparation for the proposed initial public offering approval will be sought from existing shareholders at a general meeting to consolidate the existing capital on the basis of one share for every two shares currently held.



Chartered Accountants

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INDEPENDENT REVIEW REPORT

To the members of Panaegis Gold Mines Limited

Scope

We have reviewed the financial report of Panaegis Gold Mines Limited for the half-year ended 31 December 2005 as set out on pages 6 to 17. The financial report includes the financial statements of the consolidated entity comprising the disclosing entity and the entities it controlled at the end of the half-year or from time to time during the half-year. The disclosing entity's directors are responsible for the financial report. We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 134: Interim Financial Reporting, other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the disclosing entity to lodge the financial report with the Australian Securities & Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the disclosing entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Qualification

Under AASB 134 *Interim Financial Reporting* the income statement is required to present comparatives for the equivalent period in the preceding year. As disclosed in Note 1 to the financial report the comparatives have not been presented.

Statement

Based on our review, which is not an audit, we have not become aware of any matter, except as described above, that makes us believe that the half-year financial report of Panaegis Gold Mines Limited is not in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
- (c) other mandatory professional reporting requirements in Australia.

BDO

BDO
Chartered Accountants

M J Schofield
Partner

Melbourne, 8 March 2006

