PEGASUS METALS LIMITED

June 30

2014

Annual Report

Contents

Corporate Directory

Directors

Graham Anderson	Chairman
Michael Fotios	Non-Executive Director
Jason Boladeras	Non-Executive Director

Company Secretary
Graham Anderson

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Balcatta WA 6021

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Applecross WA 6153

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Facsimile	08 9315 2233
Email:	registrar@securitytransfer.com.au

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BDO Audit (WA) Pty Ltd
38 Station Street
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Australia

Telephone	08 6382 4600
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Website	www.pegasusmetals.com.au
Email	admin@pegasusmetals.com.au

Directors' Report

Your Directors submit their report on the consolidated entity (referred to hereafter as the Group) consisting of Pegasus Metals Limited and the entity it controlled at the end of or during the financial year ended 30 June 2014.

DIRECTORS

The names and details of the Group's Directors in office during the financial year and until the date of this report are as follows:

Jason Boladeras BEng (Hons)
Non-Executive Director - *Appointed 27 August 2014*
Mr Boladeras has 16 years' experience in exploration and mining predominantly in Western Australia. Of significance is five years as Exploration Manager for Northern Star Resources Ltd 'NST' (2008 to 2013), forming part of their management team which turned NST around from a junior explorer to a successful mid-tier gold producer. He was an integral part of their exploration and resource teams which added over 1 million ounces of gold resources to the NST portfolio.

In addition he has worked for Croesus Mining, Harmony Gold, BHP Billiton Iron Ore (Business Improvement) and is currently Director of Business Development at Thai Goldfields NL; an Australian public unlisted company. In the 3 years immediately before the end of the financial year, Jason Boladeras has not served as a director of a listed entity.

Graham D Anderson BBus,CA
Non-Executive Chairman and Company Secretary
Mr Anderson has over 30 years' commercial experience as a Chartered Accountant. He operates his own specialist accounting and management consultancy practice, providing a range of corporate advisory and audit services to both public and private companies. From 1990 to 1999 he was an audit partner at Horwath Perth.

Mr Anderson is a Company Secretary of a number of other ASX listed companies. In the 3 years immediately before the end of the financial year, Graham Anderson served as a director of the following listed companies:

- Oakajee Corporation Limited*
- APA Financial Services Limited*
- Kangaroo Resources Limited*
- Mako Hydrocarbons Limited*
- Gulf Minerals Corporation Limited*
- Tangiers Petroleum Limited (December 2010 to September 2012)
- Echo Resources Limited (March 2004 to October 2012)
- WAG Limited (May 2013 to October 2013)

* denotes current directorships

Michael Fotios BSc (Hons), MAusIMM
Non-Executive Director

Michael Fotios is a Geologist specialising in Economic Geology with over 29 years extensive experience in exploration throughout Australia for gold, base metals, tantalum, tin and nickel and taking projects from exploration to feasibility.

He previously held positions with Homestake Australia Limited and Sons of Gwalia Limited. He was Managing Director and a Director with Tantalum Australia NL (now ABM Resources Ltd) from December 1992 to October 2005. In the 3 years immediately before the end of the financial year, Michael Fotios served as a director of the following companies:

- Horseshoe Metals Limited*
- Swan Gold Mining Limited*
- Redbank Copper Limited*
- General Mining Corporation Limited*
- Whitestone Minerals Pty Limited*
- Investmet Limited*
- Mulgara Minerals Limited*
- Delta Resource Management Pty Ltd*
- Northern Star Resources Limited (September 2009 to October 2013)

Directors' Report (continued)

Stephen Mann CA
Non-Executive Chairman - *Resigned on 19 August 2014*

Stephen Mann is a Fellow of the Institute of Chartered Accountants of Australia and has more than 32 years of experience in public practice. He was a partner in BDO Chartered Accountants and Advisers (Perth) for 22 years with the last 11 years in the role of managing partner. Stephen established the Corporate Finance division of BDO Perth and was the partner in charge of this division until he retired from practice in 2003.

In the 3 years immediately before the end of the financial year, Stephen Mann served as a director of Target Energy Limited.

PRINCIPAL ACTIVITIY

The principal activity of the Group is exploration for mineral resources.

NTERESTS IN SHARES AND OPTIONS

As at the date of this report, the interests of the directors in the shares and options of Pegasus Metals Limited were:

	Ordinary shares	Options over Ordinary Shares
Graham Anderson	1,758,750	-
Michael Fotios	22,363,861	8,000,000
Jason Boladeras (Appointed 27 August 2014)	-	-
Stephen Mann (Resigned 19 August 2014)	4,644,436	-

DIVIDENDS

There were no dividends recommended or paid during the financial year.

OPERATING AND FINANCIAL REVIEW

REVIEW OF OPERATIONS

Focus of operations was advanced exploration at the Mt Mulcahy copper project (Murchison, WA) including significant drilling and follow-up work which ultimately resulted in the Group's first JORC Resource estimate since listing in 2007.

MT MULCAHY COPPER PROJECT

The Group's flagship Mt Mulcahy Copper Project is located 45km northwest of the small mining town of Cue in the Murchison Province, Western Australia. The project area is considered prospective for Volcanogenic Massive Sulphide ('VMS') style base metal mineralisation and lies in a similar geological setting to the world-class Golden Grove VMS deposits and the Hollandaire copper discovery announced by Silver Lake Resources at its Murchison Project 60km to the southeast.

Previous explorers had defined a mineralised horizon stretching some 10km around the Mt Mulcahy syncline, including drilling which intersected high grade copper, zinc and silver. Pegasus started reverse circulation ('RC') and diamond drill programs in the previous reporting period to test the extent of mineralisation at one of the more advanced exploration targets called South Limb Pod ('SLP'), with considerable success.

RC and diamond drilling continued at SLP during the 2014 reporting period, with the aim of defining the high grade Cu-Zn-Ag zone (with accompanying elevated cobalt + gold values) and collecting required data to achieve a Mineral Resource estimate. Pegasus was proud to announce on 25th September 2014 its first JORC Resource estimate since listing. The SLP total Mineral Resource estimate comprises 647,000 tonnes at: 2.3% Cu for 33.5M pounds (15,200 tonnes) of copper, 1.8% Zn for 26.3M pounds (11,900 tonnes) of zinc, 20g/t Ag for 415,000oz silver (at a lower cut-off grade of 0.5% copper. See Table 1, on page 7). The Mineral Resource estimate has been completed by an external consultant in accordance with the JORC guideline and code for the reporting of Mineral Resource Estimates 2012. Please refer to the ASX announcement dated 25th September 2014 for further information.

OPERATING AND FINANCIAL REVIEW (continued)

The highly prospective horizon hosting the SLP Resource remains underexplored and lacks modern day systematic exploration techniques. A Versatile Time Domain Electromagnetic ('VTEM') survey was carried out over the Mt Mulcahy syncline by a previous explorer. Re-evaluation and interpretation of this survey data defined at least 20 potential VMS targets, of which many contain signatures matching those at SLP. Planning is underway to initially carry out Down Hole Electromagnetic (DHEM) surveys to improve understanding of the Cu-Zn rich sulphide zone's signature, followed by ground EM surveys over selected VTEM anomalies with the aim of generating drill targets.

McLARTY RANGE COPPER PROJECT, WEST KIMBERLY WA

The McLarty Range copper project is located some 250km northeast of Broome, West Kimberley Region, Western Australia and covers a portion of the folded Kimberley Basin. This is a remote area and operations require sea and helicopter support.

Diamond drilling by the company in previous reporting periods confirmed the prospective nature of the copper-bearing sedimentary horizons which outcrop in the project area. Significant intersections at the Bower Bird Prospect include 7m at 1.02% copper. Numerous other targets within the Main Syncline area remain untested by drilling.

During the reporting period, planning began for an airborne geophysical survey to improve definition of identified targets and aid drilling using high resolution magnetic and radiometric data. Due to the steep topography, quotes from contractors were also obtained for acquiring high resolution Digital Elevation ('DEM') data which will aid in processing of geophysical data once received.

EAST KIMBERLEY COPPER PROJECT, EAST KIMBERLY WA

Given the focus on Mt Mulcahy and field reconnaissance not identifying mineralisation similar to McLarty Range, the decision was made to withdraw all exploration licences and licence applications for this project.

Competent Persons Statements

The information in this report that relates to Exploration Results is based on information compiled and/or reviewed by Michael Fotios who is a Director of Pegasus Metals and is a Member of The Australasian Institute of Mining and Metallurgy. Mr Fotios has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Fotios consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Directors' Report (continued)

OPERATING AND FINANCIAL REVIEW (continued)

Financial results for the period

The operating loss after income tax of the Group for the year ended 30 June 2014 was $4,775,932 (2013: $4,244,687).

Shareholder returns

	2014	2013
Basic and diluted loss per share (cents)	3.88	3.50

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Apart from the above or as noted elsewhere in this report no significant changes in the state of affairs of the Group occurred during the financial year.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Since 30 June 2014 the Group is pleased to have reported a Mineral Resource Estimate for the South Limb Pod ('SLP') mineralisation, Mt Mulcahy Project in Western Australia. The SLP total Mineral Resource estimate comprises 647,000 tonnes at: 2.3% Cu for 33.5M pounds (15,200 tonnes) of copper, 1.8% Zn for 26.3M pounds (11,900 tonnes) of zinc, 20g/t Ag for 415,000oz silver (at a lower cut-off grade of 0.5% copper; see Table 1 below).

Table 1. South Limb Pod Mineral Resource Estimate, based on a 0.5% copper cut-off grade.

South Limb Pod Mineral Resource, Mt Mulcahy Project – 25 September 2014											
Resource Category	Tonnes	Grade					Contained Metal				
		Cu (%)	Zn (%)	Co (%)	Ag (g/t)	Au (g/t)	Cu (Pounds)	Zn (Pounds)	Co (Pounds)	Ag (Ounces)	Au (Ounces)
Measured	192,590	3.01	2.28	0.11	25.31	0.26	12,774,000	9,689,000	484,000	157,000	2,000
Indicated	372,150	2.2	1.7	0.1	18.7	0.2	17,972,000	14,346,000	723,000	223,000	2,000
Inferred	82,492	1.5	1.3	0.1	13.1	0.2	2,760,000	2,276,000	129,000	35,000	-
TOTAL RESOURCES	**647,232**	**2.35**	**1.84**	**0.09**	**19.94**	**0.22**	**33,506,000**	**26,311,000**	**1,335,000**	**415,000**	**5,000**

Note

1. *Rounding may result in apparent summation differences between tonnes, grade and contained metal content;*
2. *Significant figures do not imply an added level of precision*.

Please refer to the announcement dated 25th September 2014 for further information.

On 30 September 2014, the loan agreement entered into with Michael Fotios ATF the Michael Fotios Family Trust was revised to the amount of $1,000,000 or such other greater sum as the parties may agree in writing.

There have not been any other matters that have arisen since 30 June 2014 that have significantly affected, or may significantly affect, the operations of the Group, the results of the operations or the state of affairs of the Group in future years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report. Comments on certain operations of the Group are included in this annual report under the operating and financial review on activities on page 5.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group's operations are subject to environmental regulation in respect to its mineral tenements relating to exploration activities on those tenements. No breaches of any environmental restrictions were recorded during the financial year. The Group has not yet fully reviewed the reporting requirements under the Energy Efficient Opportunities Act 2006 or the National Greenhouse and Energy Reporting Act 2007, but believes it has adequate systems in place to ensure compliance with these Acts having regard to the scale and nature of current operations.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED)

Directors and key management personnel disclosed in this report (see page 4 for details about each director). During the financial year there were no key management personnel other than the Directors.

Name	***Position***
Graham Anderson	Non-Executive Chairman & Company Secretary
Michael Fotios	Non-Executive Director
Jason Boladeras	Non-Executive Director (Appointed 27 August 2014)
Stephen Mann	Non-Executive Director (Resigned 19 August 2014)

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

Remuneration governance

The role of the Remuneration Committee has been assumed by the full Board. The Board's policy for determining the nature and amount of remuneration for board members and senior Executives of the Group (if any) is as follows:

Remuneration Policies for Non-Executive Directors

The Board will adopt remuneration policies for Non-Executive Directors (including fees, travel and other benefits). In adopting such policies the Board will take into account the following guidelines:

- Non-Executive Directors should be remunerated by way of fees – in the form of cash, non-cash benefits or superannuation contributions;
- Non-Executive Directors should not participate in schemes designed for remuneration of executives;
- Non-Executive Directors should not receive bonus payments;
- Non-Executive Directors should not be provided with retirement benefits other than statutory superannuation; and
- The maximum aggregate annual remuneration is approved by shareholders.

The maximum aggregate amount of fees that can be paid to Non-Executive Directors is currently $200,000 which was approved through a General Meeting held on 22 January 2008. Fees for Non-Executive Directors are not linked to the performance of the Group. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Group and are able to participate in employee option plans.

Remuneration Policies for Executive Directors and Executive Management

1. The Board will adopt remuneration policies for Executive Directors and Executive Management, including:
   (a) Fixed annual remuneration (including superannuation) and short term and long term incentive awards (including performance targets);
   (b) Any termination payments (which are to be agreed in advance and include provisions in case of early termination); and
   (c) Offers of equity under Board approved employee equity plans. Any issue of Company shares or options (if any) made to Executive Directors are to be placed before shareholders for approval.

2. The Board's objectives are that the remuneration policies:
   (a) Motivate Executive Directors and Executive Management to pursue the long term growth and success of the Company;
   (b) Demonstrate a clear relationship between performance and remuneration; and
   (c) Involve an appropriate balance between fixed and incentive remuneration, reflecting the short and long-term performance objectives appropriate to the Company's circumstances and goals.

Performance based remuneration

There was no performance-based remuneration paid to Directors during the financial year. Based upon the present stage of development of the Company, performance based remuneration is not considered appropriate.

Group performance, shareholder wealth and directors' and executives' remuneration

The remuneration policy has been tailored to increase the direct positive relationship between shareholders' investment objectives and Directors and Executives' performance. Currently, this is facilitated through the issue of options to Executives to encourage the alignment of personal and shareholder interests. No market based performance remuneration has been paid in the current year.

Directors' Report (continued)

Voting and comments made at the Group's 2013 Annual General Meeting

The Company received 90% of 'yes' votes on its Remuneration Report for the 2013 year and no comments were made.

Details of remuneration

The amount of remuneration of the Directors (as defined in AASB 124 Related Party Disclosures) is set out below. During the financial year there were no key management personnel other than the Directors.

	Short-Term	**Post-Employment**	**Share-based Payments**		**Total**
	Salary & Fees	Superannuation	Options	Remuneration consisting options	
	$	**$**	**$**	**%**	**$**
Directors					
Graham Anderson					
2014	36,000*	-	-	-	36,000
2013	75,500	-	-	-	75,500
Michael Fotios					
2014	36,000*	-	-	-	36,000
2013	36,000	-	-	-	36,000
Jason Boladeras (Appointed 27 August 2014)					
2014	-	-	-	-	-
2013	-	-	-	-	-
Stephen Mann (Resigned 19 August 2014)					
2014	55,046*	5,091	-	-	60,137
2013	55,046	4,954	-	-	60,000
Total key management personnel compensation					
2014	**127,046**	**5,091**	**-**	**-**	**132,137**
2013	**166,546**	**4,954**	**-**	**-**	**171,500**

***No salary or fees were paid during the year and are outstanding as at 30 June 2014.**

There are no cash bonuses or non-monetary benefits relating to any of the Directors and Key Management Personnel during the year.

Shareholdings of Key Management Personnel

	Balance 1 July 13	**Granted as remuneration**	**On exercise of options**	**Net change Other** (2)	**Balance 30 June 14**
Graham Anderson	1,758,750	-	-	-	1,758,750
Michael Fotios	46,995,790 (1)	-	-	(24,631,929)	22,363,861
Jason Boladeras	-	-	-	-	-
Stephen Mann	1,398,368	-	-	3,246,068	4,644,436
	50,152,908	-	-	(21,385,861)	28,767,047

Option holdings of Key Management Personnel

	Balance 1 July 13	**Granted as remuneration**	**On exercise of options**	**On lapsing of options**	**Balance 30 June 14**
Graham Anderson	1,000,000	-	-	(1,000,000)	-
Michael Fotios	11,000,0000	-	-	(3,000,000)	8,000,000
Jason Boladeras	-	-	-	-	-
Stephen Mann	2,000,000	-	-	(2,000,000)	-
	14,000,000			(6,000,000)	8,000,000

(1) Included in this holding are 41,641,331 shares held indirectly through Investmet Limited

(2) The change in shares is a result of a buy-back arrangement between Investmet Limited and its shareholders. The arrangement was approved by Investmet shareholders on 11 June 2014 and the consideration for the buy-back included shares in Pegasus Limited.

Directors' Report (continued)

Service agreements

As at the date of this report there are no executives or key management personnel, other than the Directors, engaged by the Company. Directors serve on a month to month basis with no formal employment contracts and there are no termination payments payable.

Other Transactions with Key Management Personnel

During the year, GDA Corporate (GDA) has provided company secretarial and accounting services to the Group. Graham Anderson is a Director of GDA. Total amount payable to GDA for the year is $42,500 excl. of GST (2013: $40,192).

Investmet Limited (Investmet) provides consulting services to the Group. Michael Fotios is a Director and substantial shareholder of Investmet. No amounts were paid to Investmet during the year (2013: $36,000). As at 30 June 2014, there is balance of $161,225 excl. of GST outstanding.

The Group has entered into an administrative services management agreement with Delta Resource Management Pty Ltd (Delta), an entity associated with Director Michael Fotios. No amounts were paid to Delta for the year (2013: $355,596). As at 30 June 2014, there is balance of $619,091 excl. of GST outstanding.

Whitestone Minerals Limited (Whitestone) is a related party of Michael Fotios who is a Director of the Company. An amount of $80,000 was paid to Whitestone during the year (2013: $1,660,829). As at 30 June 2014, there is balance of $406,369 excl. of GST outstanding.

On 14 March 2014, a loan agreement was negotiated with Michael Fotios ATF the Michael Fotios Family Trust to the amount of $500,000 or such other greater sum as the parties may agree in writing. The purpose of the loan is to provide working capital to the Group to fund its immediate operational requirements. As at 30 June 2014, there is a drawdown of $208,001 under the loan agreement and the undrawn balance is $291,999. Please refer to Note 11 for details of the terms and conditions set out in the loan agreement.

The above transactions are based on normal commercial terms and conditions and at arm's length. There are no loans to key management personnel as at 30 June 2014 (2013: nil).

Share-based compensation

There were no options issued to Directors and Executives as part of their remuneration during the year.

Additional information

The table below sets out information about the Group's earnings and movements in shareholder wealth of the periods since listing:

	30 June 2014	30 June 2013	30 June 2012	30 June 2011	30 June 2010
	$	$	$	$	$
Revenue	19,625	72,201	27,286	70,099	40,890
Net Loss before tax	(4,775,932)	(4,244,687)	(2,837,117)	(2,720,710)	(817,610)
Share price at year-end	0.01	0.15	0.15	0.27	0.07

Use of remuneration consultants

There were no remuneration consultants engaged by the Group during the financial year.

This is the end of the audited remuneration report.

Directors' Report (continued)

DIRECTORS' MEETINGS

During the year the Group held four meetings of Directors. The attendance of Directors at meetings of the Board was:

	Directors' Meetings	
	A	**B**
Graham Anderson	4	4
Michael Fotios	4	4
Stephen Mann (Resigned 19 August 2014)	4	4
Jason Boladeras (Appointed 27 August 2014)	-	-

Notes

A - Number of meetings attended B - Number of meetings held during the time the Director held office during the year

SHARES UNDER OPTION

At the date of this report there 10,000,000 unlisted options outstanding.

	Number of options
Balance at the beginning of the year	**17,000,000**
Movements of share options during the year	
Lapsing of unlisted options at 45 cents each expired on 10 June 2014	(6,000,000)
Lapsing of unlisted options at 15 cents each expired on 16 December 2013	(1,000,000)
Total number of options outstanding as at the date of this report	**10,000,000**

The balance is comprised of the following:

Expiry date	Exercise price (cents)	Number of options
11 October 2014	15	2,000,000
31 December 2015	35	8,000,000
Total number of options outstanding at the date of this report		**10,000,000**

PROCEEDINGS ON BEHALF OF GROUP

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Group with leave of the Court under section 237 of the *Corporations Act 2001.*

INSURANCE OF DIRECTORS AND OFFICERS

During or since the financial year, the Group has paid premiums insuring all the directors of Pegasus Metals Limited against costs incurred in defending proceedings for conduct involving:

- a wilful breach of duty; or
- a contravention of sections 182 or 183 of the *Corporations Act 2001*, as permitted by section 199B of the *Corporations Act 2001*.

The total amount of insurance contract premiums paid is confidential under the terms of the insurance policy. The Group has entered into a Deed of Indemnity, Insurance and Access with each Director. In summary the Deed provides for:

- Access to corporate records for each Director for a period after ceasing to hold office in the Group,
- The provision of Directors and Officers Liability Insurance, and
- Indemnity for legal costs incurred by Directors in carrying out the business affairs of the Group.

Directors' Report (continued)

NON-AUDIT SERVICES

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

The board of Directors has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditors, as set out below, did not compromise the auditors independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 11- Code of Ethics for Professional Accountants.

No non-audit services were provided by BDO Audit (WA) Pty Ltd during the current financial year.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 13.

Signed in accordance with a resolution of the directors, and on behalf of the board by

GRAHAM ANDERSON
Director

West Perth, Western Australia
30 September 2014

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DECLARATION OF INDEPENDENCE BY PHILLIP MURDOCH TO THE DIRECTORS OF PEGASUS METALS LIMITED

As lead auditor of Pegasus Metals Limited for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Pegasus Metals Limited and the entities it controlled during the period.

Phillip Murdoch

Director

BDO Audit (WA) Pty Ltd

Perth, 30 September 2014

Consolidated Statement of Profit and Loss and Other Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2014	Notes	2014	2013
		$	$
REVENUE	2	19,625	72,201
Exploration expenses		(339,135)	(3,394,611)
Impairment of exploration acquisition costs capitalised	9	(4,001,359)	-
Occupancy expenses		(33,000)	(36,094)
Other expenses	3	(246,112)	(532,253)
Director fees		(127,046)	(127,046)
Consultant expenses		(40,425)	(216,539)
Depreciation expense		(8,480)	(10,345)
Loss before income tax		(4,775,932)	(4,244,687)
Income tax benefit/(expense)	4	-	-
Loss for the year		(4,775,932)	(4,244,687)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		(4,775,932)	(4,244,687)
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO OWNERS OF PEGASUS METALS LIMITED	13	(4,775,932)	(4,244,687)
Loss per share for loss attributable to ordinary equity holders of the Group:			
Basic and diluted loss per share (cents per share)	16	(3.88)	(3.50)

The above Consolidated Statement of Profit and Loss and Other Comprehensive Income should be read in conjunction with the Notes to the Financial Statements.

Consolidated Statement of Financial Position

AS AT 30 JUNE 2014	Notes	2014	2013
		$	$
CURRENT ASSETS			
Cash and cash equivalents	5	11,807	172,986
Trade and other receivables	6	192,010	229,187
Other current assets	7	10,760	33,895
TOTAL CURRENT ASSETS		214,577	436,068
NON-CURRENT ASSETS			
Property, plant and equipment	8	30,584	47,881
Capitalised exploration expenditure	9	3,747,933	7,749,292
TOTAL NON-CURRENT ASSETS		3,778,517	7,797,173
TOTAL ASSETS		3,993,094	8,233,241
CURRENT LIABILITIES			
Trade and other payables	10	1,856,727	1,528,943
Borrowings	11	208,001	-
TOTAL CURRENT LIABILITIES		2,064,728	1,528,943
TOTAL LIABILITIES		2,064,728	1,528,943
NET ASSETS		1,928,366	6,704,298
EQUITY			
Contributed equity	12	18,189,063	18,189,063
Accumulated losses	13	(18,890,318)	(14,114,386)
Reserves	14	2,629,621	2,629,621
TOTAL EQUITY		1,928,366	6,704,298

The above Consolidated Statement of Financial Position should be read in conjunction with the Notes to the Financial Statements.

Consolidated Statement of Changes in Equity

AS AT 30 JUNE 2014

	Note	Contributed Equity	Accumulated Losses	Share-based Payments Reserve	Total Equity
		$	$	$	$
BALANCE AT 1 JULY 2013		**18,189,063**	**(14,114,386)**	**2,629,621**	**6,704,298**
Loss for the year	13	-	(4,775,932)	-	(4,775,932)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**-**	(4,775,932)	**-**	(4,775,932)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS		-	-	-	-
BALANCE AT 30 JUNE 2014		18,189,063	(18,890,318)	2,629,621	1,928,366

	Note	Contributed Equity	Accumulated Losses	Share-based Payments Reserve	Total Equity
		$	$	$	$
BALANCE AT 1 JULY 2012		**15,184,152**	**(9,869,699)**	**1,931,688**	**7,246,141**
Loss for the year	13	-	(4,244,687)	-	(4,244,687)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**-**	(4,244,687)	**-**	(4,244,687)
Share based payments	14	-	-	697,933	697,933
Issued share capital	12	815,000	-	-	815,000
Shares to be issued	12	2,200,000	-	-	2,200,000
Capital raising costs		(10,089)	-	-	(10,089)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS		3,004,911		697,933	3,702,844
BALANCE AT 30 JUNE 2013		18,189,063	(14,114,386)	2,629,621	6,704,298

The above Consolidated Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements.

Consolidated Statement of Cash Flows

YEAR ENDED 30 JUNE 2014	Notes	2014 $	2013 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from debtors		5,315	7,803
Payments to suppliers and employees		(296,062)	(1,317,037)
Payments for exploration		(97,108)	(2,066,319)
Interest received		1,348	67,228
NET CASH (OUTFLOW) FROM OPERATING ACTIVITIES	27	(386,507)	(3,308,325)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		-	(27,386)
Proceeds from sale of property, plant and equipment		17,327	-
NET CASH (OUTFLOW) FROM INVESTING ACTIVITIES		17,327	(27,386)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of shares		-	15,000
Payment of share issue costs		-	(10,089)
Proceeds from borrowings	11	208,001	-
NET CASH INFLOW FROM FINANCING ACTIVITIES		208,001	4,911
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(161,179)	(3,330,800)
Cash and cash equivalents at the beginning of the year		**172,986**	**3,503,786**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5	**11,807**	**172,986**

The above Consolidated Statement of Cash Flows should be read in conjunction with the Notes to the Financial Statements.

Notes to the Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the financial information included in this report have been set out below.

(a) Basis of preparation of historical financial information

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Boards, Australian Accounting Interpretations and the *Corporations Act 2001*. These financial statements have been prepared on a historical cost basis.

Compliance with AIFRS ensures that the financial statements, comprising the notes thereto, comply with International Financial Reporting Standards. Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards (AIFRS). These financial statements are presented in Australian Dollars, which is the Group's functional and presentation currency. Pegasus Metals Limited is a for-profit entity for the purpose of preparing the financial statements.

Going Concern

The Directors have prepared the financial statements on the basis of going concern, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business. Although the Group incurred a net loss of $4,775,932 for the year (2013: $4,244,687) and incurred, cash outflows from operating activities of $386,507 (2013: $3,308,325), the Directors believe that the Group will be able to pay its debts as and when they become due and payable given the loan agreement entered with Michael Fotios ATF the Michael Fotios Family Trust, letters of support obtained from creditors of significant value and the Group's history of successful capital raising to date. The Directors are confident of the Group's ability to raise additional funds and accordingly have prepared the financial statements on a going concern basis.

Notwithstanding the above, should the Group not receive the continued financial support of creditors and/or not be able to raise additional funds, the going concern basis may not be appropriate and the group may not be able to settle its assets and liabilities at the amounts stated in the financial statements.

(b) Revenue Recognition

Sale of Goods and Services

Revenue from sale of goods or services is recognised when the significant risks and rewards of ownership have passed to the buyer and can be reliably measured. Risks and rewards are considered passed to buyer when goods have been delivered to the customer.

Interest

Revenue is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate which is the rate that exactly discounts the estimated future cash receipt over the expected life of the financial asset.

(c) Income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for all temporary differences, between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases, at the tax rates expected to apply when the assets are recovered or liabilities settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. Exceptions are made for certain temporary differences arising on initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit.

Deferred tax assets are only recognised for deductible temporary differences and unused tax loses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Current and deferred tax balances relating to amounts recognised directly in equity are also recognised directly in equity.

(d) Impairment of Assets

At each reporting date the Group assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, the recoverable amount is determined and impairment losses are recognised in the statement of comprehensive income where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purpose of 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. Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

Notes to the Consolidated Financial Statements

(e) Cash and Cash Equivalents
“Cash and cash equivalents” includes cash on hand, deposits held at call with financial institutions, other 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, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

(f) Investments and Other Financial Assets

All investments and other financial assets are initially stated at cost, being the fair value of consideration given plus acquisition costs. Purchases and sales of investments are recognised on trade date which is the date on which the Group commits to purchase or sell the asset. Accounting policies for each category of investments and other financial assets subsequent to initial recognition are set out below.

Loans and receivables
Non-current loans and receivables include loans due from related parties repayable no earlier than 365 days of statement of financial position date. As these are non-interest bearing, fair value at initial recognition requires an adjustment to discount these loans using a market-rate of interest for a similar instrument with a similar credit rating. The discount is credited to the statement of comprehensive income immediately and amortised using the effective interest method. Loans and receivables are carried at amortised costs using the effective interest rate method.

(g) Fair value estimation
Fair values may be used for financial asset and liability measurement and well as for sundry disclosures.

Fair values for financial instruments traded in active markets are based on quoted market prices at statement of financial position date. The quoted market price for financial assets is the current bid price and the quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. Assumptions used are based on observable market prices and rates at reporting date. The fair value of long-term debt instruments is determined using quoted market prices for similar instruments. Estimated discounted cash flows are used to determine fair value of the remaining financial instruments.

The fair value of trade receivables and payables is their normal value less estimated credit adjustments due to their short term nature.

(h) Trade and other payables
Trade and other payables represent liabilities for goods and services provided to the Group prior to the year end and which are unpaid. These amounts are unsecured and have 30-60 day payment terms. They are recognised initially at fair value and subsequently at amortised cost.

(i) Employee Benefits
Wages and Salaries, Annual Leave and Sick Leave
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of statement of financial position date are recognised in respect of employees’ services rendered up to reporting date and measured at amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when leave is taken and measured at the actual rates paid or payable. Liabilities for wages and salaries are included as part of Other Payables and liabilities for annual and sick leave are included as part of Employee Benefits Provisions.

Long Service Leave
Liabilities for long service leave are recognised as part of the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees to the statement of financial position date using the projected future projected unit credit method. Consideration is given to expected future salaries and wages levels, experience of employee departures and periods of service. Expected future payments are discounted using national government bond rates at reporting date with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Retirement Benefit Obligations
The Group does not have a defined contribution superannuation fund. All employees of the group are entitled to receive a superannuation guarantee contribution required by the government which is currently 9.25%.

Notes to the Consolidated Financial Statements

(j) Exploration and evaluation expenditure
Exploration and evaluation expenditure encompasses expenditures incurred by the Group in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Exploration and evaluation expenditure incurred by the Group is accumulated for each area of interest and recorded as an asset if:
(i) the rights to tenure of the area of interest are current; and
(ii) at least one of the following conditions is also met:

(1) the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; and
(2) 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 incurred by the Group are expensed in the year they are incurred.

For each area of interest, expenditure incurred in the acquisition of rights to explore is capitalised, classified as tangible or intangible, and recognised as an exploration and evaluation asset. Exploration and evaluation assets are measured at cost at recognition. Exploration and evaluation incurred by the Group subsequent to acquisition of the rights to explore is expensed as incurred.

The recoverable amount of each area of interest is determined on a bi-annual basis and the provision recorded in respect of that area adjusted so that the net carrying amount does not exceed the recoverable amount. For areas of interest that are not considered to have any commercial value, or where exploration rights are no longer current, the capitalised amounts are written off against the provision and any remaining amounts are charged to profit and loss.

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

(k) Contributed Equity
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(l) Goods and Services Tax
Revenues, expenses and assets are recognised net of GST except where GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

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

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

(m) Leases
Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentive received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the statement of financial position based on their nature.

(n) Provisions
Provisions for legal claims are recognised when the Group has a legal or constructive obligation as a result of past events. It is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(n) Provisions (continued)
Provisions are measured at the present value of management best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(o) Share based payments
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 options over shares ("equity-settled transactions").

The fair value of options is recognised as an expense with a corresponding increase in equity (share-based payments reserve). The fair value is measured at grant date and recognised over the period during which the holder becomes unconditionally entitled to the options. Fair value is determined by an independent valuer using a Black-Scholes option pricing model. In determining fair value, no account is taken of any performance conditions other than those related to the share price of Pegasus Metals ("market conditions").

The cumulative expense recognised between grant date and vesting date is adjusted to reflect the director's best estimate of the number of options that will ultimately vest because of internal conditions of the options, such as the employees having to remain with the Group until vesting date, or such that employees are required to meet internal sales targets. No expense is recognised for options that do not ultimately vest because a market condition was not met.

Where the terms of options are modified, the expense continues to be recognised from grant date to vesting date as if the terms had never been changed. In addition, at the date of the modification, a further expense is recognised for any increase in fair value of the transaction as a result of the change.

Where options are cancelled, they are treated as if vesting occurred on cancellation and any unrecognised expenses are taken immediately to the statement of comprehensive income. However, if new options are substituted for the cancelled options and designated as a replacement on grant date, the combined impact of the cancellation and replacement options are treated as if they were a modification.

(p) Property, Plant and Equipment
Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated on the straight line basis to write off the net cost of each item over its expected useful life. Depreciation rate for plant and equipment is 33%. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

As 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 (note 1(d)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

(q) Earnings per Share
(i) Basic Earnings per Share
Basic earnings per share is determined by dividing the operating loss after income tax by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted Earnings per Share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share by taking into account amounts unpaid on ordinary shares and any reduction in earnings per share that will probably arise from the exercise of partly paid shares or options outstanding during the financial year.

(r) Segment Reporting
Operating segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker, which has been identified by the Group as the Managing Director and other members of the Board of Directors.

(s) Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Pegasus Metals Limited. Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Pegasus Metals Limited. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of asset transferred. Accounting policies of subsidiaries are consistent with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent. Non-controlling interests in the results and equity of subsidiaries are shown separately in the statement of profit and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit and loss.

Joint Ventures
Jointly controlled assets
The proportionate interests in the assets, liabilities and expenses of a joint venture activity have been incorporated in the financial statements under the appropriate headings. Details of the joint ventures are set out in Note 25.

(t) New Accounting Standards and Interpretations
The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2013:

- AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, AASB 128 Investments in Associates and Joint Ventures, AASB 127 Separate Financial Statements and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards;

- AASB 2012-10 Amendments to Australian Accounting Standards - Transition Guidance and other Amendments which provides an exemption from the requirement to disclose the impact of the change in accounting policy on the current period;

- AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13;

- AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011);

- AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle; and

- AASB 2012-2 Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities.

The adoption of the above standards and amendments did not result in adjustments to the amounts recognised in the financial statements and no change to the Group's accounting policy was required.

New standards and interpretations not yet adopted
Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

Notes to the Consolidated Financial Statements

(t) New Accounting Standards and Interpretations

Title of standard	*Nature of change*	*Impact*	*Mandatory application date/ Date adopted by company*
AASB 9 Financial Instruments	AAB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. Since December 2013, it also sets out new rules for hedge accounting.	There will be no impact on the Group's accounting for financial assets and financial liabilities as the new requirements only affect the accounting for available-for-sale financial assets and the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such financial assets or financial liabilities. The new hedging rules align hedge accounting more closely with the company's risk management practices. As a general rule it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation.	Must be applied for financial years commencing on or after 1 January 2017. Application date for the company will be 30 June 2018. The company does not currently have any hedging arrangements in place.
IFRS 15 (issued June 2014) Revenue from contracts with customers	An entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue will be recognised when control of goods or services is transferred, rather than on transfer of risks and rewards as is currently the case under IAS 18 Revenue.	Due to the recent release of this standard the Group has not yet made an assessment of the impact of this standard.	Must be applied for annual reporting periods beginning on or after 1 January 2017. Application date for the company will be 30 June 2018.

(u) Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of capitalised exploration and evaluation expenditure

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

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

Notes to the Consolidated Financial Statements

NOTE 2. REVENUE	2014 $	2013 $
Interest income	1,513	65,215
Other income	18,112	6,986
	19,625	72,201

NOTE 3. OTHER EXPENSES

Employee expenses	5,091	5,502
Administration services	38,793	70,967
Legal fees	30,667	4,230
Accounting and secretarial fees	39,500	39,500
Transfer duty	-	166,089
Other expenses	132,001	245,965
	246,112	532,253

NOTE 4. INCOME TAX

a) Reconciliation of income tax expense to prima facie tax payable

Loss before income tax	(4,775,932)	(4,244,687)
Prima facie income tax at 30%	(1,432,780)	(1,273,406)
Non-deductible expenses	4,229	514
Movement in unrecognised temporary differences	(8,130)	(7,951)
Effect of tax loss not recognised as deferred assets	1,436,681	1,280,843
Income tax (expense)/benefit	-	-

b) Unrecognised deferred tax assets arising on timing differences and losses:

Unrecognised deferred tax asset – tax losses	5,469,602	4,032,921
Unrecognised deferred tax asset - timing	6,208	5,931
Unrecognised deferred tax asset – capital raising costs	8,408	8,555
	5,484,218	4,047,407

NOTE 5. CASH AT BANK

Cash at bank and on hand	11,807	172,986
	11,807	172,986

Information about the Group's exposure to interest rate risk is provided in Note 17

NOTE 6. TRADE AND OTHER RECEIVABLES

GST receivable	174,466	225,050
Other receivables	17,544	4,137
	192,010	229,187

As of 30 June 2014, trade receivables that were past due or impaired was nil (2013: nil). Information about the Group's exposure to credit risk is provided in Note 17.

NOTE 7. OTHER CURRENT ASSETS

Prepayments	365	23,664
Bank guarantee	10,000	10,000
Accrued interest	395	231
	10,760	33,895

NOTE 8. PLANT AND EQUIPMENT	2014 $	2013 $
Plant and equipment	157,272	182,957
Less: accumulated depreciation	(126,688)	(135,075)
	30,584	47,882

(a) Reconciliations of the carrying amounts of plant and equipment

	$
Balance at 1 July 2013	47,882
Disposal	(8,818)
Depreciation expense	(8,480)
Balance at 30 June 2014	30,584
Balance at 1 July 2012	30,841
Additions	27,386
Depreciation expense	(10,345)
Balance at 30 June 2013	47,882

NOTE 9. CAPITALISED EXPLORATION EXPENDITURE	2014	2013
Capitalised tenement acquisition costs	**$**	**$**
Opening net book amount	7,749,292	3,926,359
Impairment during the year	(4,001,359)	-
Cash payments during the year	-	125,000
Shares issued during the year	-	800,000
Shares to be issued	-	2,200,000
Options issued during the year	-	697,933
Closing net book amount	3,747,933	7,749,292

NOTE 10. TRADE AND OTHER PAYABLES		
Trade payables	1,770,447	1,352,974
Accrued expenses	16,000	161,652
Payroll liabilities	70,280	14,317
	1,856,727	1,528,943

NOTE 11: BORROWINGS

On 31 July 2013, the Group entered into a loan agreement with Delta Resource Management Pty Ltd, an entity associated with Director Michael Fotios. On 14 March 2014, a new loan agreement was negotiated with Michael Fotios ATF the Michael Fotios Family Trust to the amount of $500,000 or such other greater sum as the parties may agree in writing. The loan bears no interest and is repayable in full within 7 days of the successful completion of a capital raising which is expected to be within one year. This agreement replaces the loan agreement with Delta Resource Management Pty Ltd.

The purpose of the loan is to provide working capital to the Group to fund its immediate operational requirements. The proceeds from the loan have been used to meet short-term expenditure needs. As at 30 June 2014, there is a drawdown of $208,001 under the loan agreement and the undrawn balance is $291,999.

NOTE 12. CONTRIBUTED EQUITY	2014	
Issued Capital	**Number**	**$**
Fully paid ordinary shares	123,074,519	15,989,063
Shares to be issued	11,000,000	2,200,000
Total Contributed Equity	134,074,519	18,189,063

Notes to the Consolidated Financial Statements

NOTE 12. CONTRIBUTED EQUITY (continued)

	2013	
Issued Capital	**Number**	**$**
Fully paid ordinary shares	123,074,519	15,999,152
Capital raising costs	-	(10,089)
At end of financial year	123,074,519	15,989,063
Shares to be issued	11,000,000	2,200,000
Total Contributed Equity	134,074,519	18,189,063

Movements in share capital

	Number	$
Balance 1 July 2013	134,074,519	18,189,063
Balance at 30 June 2014	**134,074,519**	**18,189,063**

(i) The above shares to be issued represents the deferred consideration payable under the Mt Mulcahy Tenement Sale Agreement.

	Number	$
Balance 1 July 2012	118,924,519	15,184,152
Issued during the year:		
- Issue of shares as consideration of the acquisition of the Mt Mulcahy Project	4,000,000	800,000
- Exercise of unlisted options expiring on 10 June 2012 at $0.10 each	150,000	15,000
Less capital raising costs	-	(10,089)
At end of financial year	123,074,519	15,989,063
Shares to be issued (i)	11,000,000	2,200,000
Balance at 30 June 2013	134,074,519	18,189,063

Movements in options on issue

	Number	$
Balance at 1 July 2013	17,000,000	2,629,621
Issued/(lapsed) during the year:		
- Lapsing of unlisted options expiring on 16 June 2014 at $0.15 each	(1,000,000)	-
- Lapsing of unlisted options expiring on 16 December 2013 at $0.45 each	(6,000,000)	-
Balance at 30 June 2014	10,000,000	2,629,621
Vested and exercisable at end of the year	6,000,000	
Balance at 1 July 2012	11,517,568	1,931,688
Issued/(lapsed) during the year:		
- Issue of unlisted options as consideration of the acquisition of the Mt Mulcahy Copper Project	8,000,000	697,933
- Exercise of unlisted options expiring on 10 June 2012 at $0.10 each	(150,000)	-
- Lapsing of unlisted options expiring on 9 Feb 2011 at $0.15 each	(367,568)	-
- Lapsing of unlisted options expiring on 11 April 2013 at $0.10 each	(2,000,000)	-
Balance at 30 June 2013	17,000,000	2,629,621
Vested and exercisable at end of the year	13,000,000	

Notes to the Consolidated Financial Statements

NOTE 13. ACCUMULATED LOSSES	2014 $	2013 $
Accumulated losses at beginning of year	(14,114,386)	(9,869,699)
Net loss for the year	(4,775,932)	(4,244,687)
Accumulated losses at end of year	(18,890,318)	(14,114,386)

NOTE 14. SHARE BASED PAYMENT RESERVE		
Balance at beginning of year	2,629,621	1,931,688
Issue of unlisted options as consideration of the acquisition of tenement assets	-	697,933
Balance at end of year	2,629,621	2,629,621

Nature and purpose of reserves
Share-based payments reserve
The share-based payments reserve is used to recognise the fair value of shares issued to employees, to directors and for the acquisition of assets.

NOTE 15. COMMITMENTS FOR EXPENDITURE

(a) Exploration Commitments
In order to maintain an interest in the mining and exploration tenements in which the Group is involved, the Group is committed to meet the conditions under which the tenements were granted and the obligations of any joint venture agreements.

Due to the nature of the Company's operations in exploring and evaluating areas of interest, it is difficult to accurately forecast the nature and amount of future expenditure beyond the next year. Expenditure may be reduced by seeking exemption from individual commitments, by relinquishing of tenure or any new joint venture agreements. Expenditure may be increased when new tenements are granted or joint venture agreements amended.

NOTE 16. LOSS PER SHARE	2014 No.	2013 No.
Loss attributable to the members of the company used in calculating basic and diluted loss per share	(4,775,932)	(4,244,687)
Basic and diluted loss per share (cents)	(3.88)	(3.50)
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic loss per share	123,074,519	121,326,442

NOTE 17. FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from their use of financial instruments:

- Credit risk
- Liquidity risk
- Market Risk

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the group through regular reviews of the risks.

Notes to the Consolidated Financial Statements

NOTE 17. FINANCIAL RISK MANAGEMENT (continued)

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers and investment securities and cash and cash equivalents.

Trade and other receivables

As the Group operates in the mining explorer sector, it does not have trade receivables and therefore is not exposed to credit risk in relation to trade receivables. Presently, the Group undertakes exploration and evaluation activities exclusively in Australia. At the reporting date there were no significant concentrations of credit risk.

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	Carrying Amount	
	2014	**2013**
Cash and cash equivalents	11,807	172,986
Other receivables	27,544	14,137
	39,351	187,123

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Financial assets – counterparties without external credit rating		
Financial assets with no default in past	27,544	14,137
Cash at bank and short-term bank deposits		
AA – S&P rating	11,807	172,986
	39,351	187,123

Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so as to maintain a strong capital base sufficient to maintain future exploration and development of its projects. In order to maintain or adjust the capital structure, the Group may issue new shares or sell assets to reduce debt. The Group's focus has been to raise sufficient funds through equity and to sell surplus assets to fund exploration and evaluation activities. The Group monitors capital on the basis of the gearing ratio; however, there are no external borrowings as at reporting date.

There were no changes in the Group's approach to capital management during the year. Risk management policies and procedures are established with regular monitoring and reporting. Neither the Company nor its subsidiary is subject to externally imposed capital requirements.

Impairment losses

None of the Group's other receivables are past due (2013: nil). There is no impairment loss recognised in 2014.The allowance accounts in respect of other receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly. At 30 June 2014 the Group does not have any collective impairment on its other receivables (2013: nil).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Notes to the Consolidated Financial Statements

NOTE 17. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

30 June 2014

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Trade and other payables	1,856,727	1,856,727	1,856,727	-	-	-	-
Borrowings	208,001	-	-	208,001	-	-	-
	2,064,728	1,856,727	1,856,727	208,001	-	-	-

30 June 2013

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Trade and other payables	1,528,493	1,528,493	1,528,493	-	-	-	-
	1,528,493	1,528,493	1,528,493	-	-	-	-

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Exposure to currency risk

There is no currency exposure risk at reporting date as there was no statement of financial position item as at 30 June 2014 in a currency other than the functional currency of the Group.

Sensitivity analysis

If the interest rates had weakened/strengthen by 1% (based on forward treasury rates) at 30 June 2014, there would be no material impact on the statement of profit or loss and other comprehensive income. There would be no effect on the equity reserves other that those directly related to statement of profit or loss and other comprehensive income movements.

Interest rate risk

Exposure arises predominantly from assets and liabilities bearing variable interest rates as the Group intends to hold fixed rate assets and liabilities to maturity. Interest rate risk is not considered to be material.

	Fixed Interest	Floating Interest	Non-Interest Bearing	Total
Financial Assets	**$**	**$**	**$**	**$**
Cash and cash equivalents	10,000	1,807	-	11,807
Trade and other receivables	-	-	192,010	192,010
Weighted Average Interest Rate	3.00%	-	-	-
Net Financial Assets	10,000	1,807	192,010	203,817
Financial Liabilities				
Trade and other payables	-	-	2,064,728	2,064,728
	-	-	2,064,728	2,064,728
Weighted Average Interest Rate	-	-	-	-
Net Financial Liabilities	-	-	-	-

Fair values

The Group does not have any financial instruments that are subject to recurring fair value measurements. Due to their short-term nature, the carrying amounts of the current receivables and current trade and other payables is assumed to approximate their fair value

NOTE 18. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. The Group does not have any operating segments with discrete financial information. The Group does not have any customers, and all the Group's assets and liabilities are located within Australia.

The Board of Directors review internal management reports on a monthly basis that is consistent with the information provided in the statement of profit or loss and other comprehensive income, statement of financial position and statement of cash flows. As a result no reconciliation is required because the information as presented is what is used by the Board to make strategic decisions.

NOTE 19. CONTINGENT LIABILITIES

The Directors are of the opinion that there are no contingent liabilities as at 30 June 2014 (2013: nil).

NOTE 20. EVENTS OCCURRING AFTER THE REPORTING PERIOD

Since 30 June 2014, the Company is pleased to have reported a Mineral Resource Estimate for the South Limb Pod ('SLP') mineralisation, Mt Mulcahy Project in Western Australia. The SLP total Mineral Resource estimate comprises 647,000 tonnes at: 2.3% Cu for 33.5M pounds (15,200 tonnes) of copper, 1.8% Zn for 26.3M pounds (11,900 tonnes) of zinc, 20g/t Ag for 415,000oz silver (at a lower cut-off grade of 0.5% copper). Refer to the ASX announcement on 25 September 2014 for more details.

On 30 September 2014, the loan agreement entered into with Michael Fotios ATF the Michael Fotios Family Trust was revised to the amount of $1,000,000 or such other greater sum as the parties may agree in writing.

There have not been any other matters that have arisen since 30 June 2014 that have significantly affected, or may significantly affect, the operations of the Group, the results of the operations or the state of affairs of the Group in future years.

	2014	2013
NOTE 21. AUDITOR'S REMUNERATION	**$**	**$**
Amount paid or payable to BDO Audit (WA) Pty Ltd	32,171	35,749
	32,171	35,749

No non-assurance services were provided during the year ended 2014.

NOTE 22. DIVIDENDS

There was no dividend paid during the current and prior years.

NOTE 23. RELATED PARTY TRANSACTIONS	**2014**	**2013**
(a) Summarised Compensation of Key Management Personnel	**$**	**$**
Short-term employee benefits	127,046	166,546
Post-employment benefits	5,091	4,954
	132,137	171,500

(b) Other Transactions with Key Management Personnel

During the year, GDA Corporate (GDA) has provided company secretarial and accounting services to the Group. Graham Anderson is a Director of GDA. Total amount payable to GDA for the year is $42,500 excl. of GST (2013: $40,192).

Investmet Limited (Investmet) provides consulting services to the Group. Michael Fotios is a Director and substantial shareholder of Investmet. No amounts were paid to Investmet during the year (2013: $36,000). As at 30 June 2014, there is balance of $161,225 excl. of GST outstanding.

The Group has entered into an administrative services management agreement with Delta Resource Management Pty Ltd (Delta), an entity associated with Director Michael Fotios. No amounts were paid to Delta for the year (2013: $355,596). As at 30 June 2014, there is balance of $619,091 excl. of GST outstanding.

Whitestone Minerals Limited (Whitestone) is a related party of Michael Fotios who is a Director of the Company. An amount of $80,000 was paid to Whitestone during the year (2013: $1,660,829). As at 30 June 2014, there is balance of $406,369 excl. of GST outstanding.

On 14 March 2014, a loan agreement was negotiated with Michael Fotios ATF the Michael Fotios Family Trust to the amount of $500,000 or such other greater sum as the parties may agree in writing. The purpose of the loan is to provide working capital to the Group to fund its immediate operational requirements.

Notes to the Consolidated Financial Statements

NOTE 23. RELATED PARTY TRANSACTIONS (continued)

As at 30 June 2014, there is a drawdown of $208,001 under the loan agreement and the undrawn balance is $291,999. Please refer to Note 11 for details of the terms and conditions set out in the loan agreement.

The above transactions are based on normal commercial terms and conditions and at arm's length. There were no other related party transactions other than shown in the Directors' Report.

NOTE 24. INVESTMENT IN CONTROLLED ENTITIES

Name of Entity	*Equity Holding*		*Cost of Parent Entity's Investment*	
	2014	**2013**	**2014**	**2013**
	%	**%**	**$**	**$**
Parent Entity				
Pegasus Metals Limited				
Controlled Entity				
Placer Resources Pty Ltd	100	100	700,000	700,000
Less: Impairment loss			(700,000)	(700,000)
			-	-

Pegasus Metals Limited and Placer Resources Pty Ltd are located and incorporated in Australia.

NOTE 25. INTERESTS IN JOINT VENTURE

There has been no change in the Groups interests in any joint venture arrangements during the financial year.

NOTE 26. SHARE BASED PAYMENTS

(a) Share based payment arrangements

30 June 2014

Grant Date	*Expiry Date*	*Exercise Price*	*Balance at 1 July 2013*	*Granted during the year*	*Exercised during the year*	*Forfeited during the year*	*Balance at 30 June 2014*	*Vested and exercisable at 30 June 2014*
24/11/10	10/12/13	$0.15	1,000,000	-	-	(1,000,000)	-	-
02/06/11	02/06/14	$0.45	6,000,000	-	-	(6,000,000)	-	-
30/11/12	31/12/15	$0.35	8,000,000	-	-	-	8,000,000	4,000,000
11/10/11	11/10/14	$0.15	2,000,000	-	-	-	2,000,000	2,000,000
			17,000,000	-	-	(7,000,000)	10,000,000	6,000,000

30 June 2013

Grant Date	*Expiry Date*	*Exercise Price*	*Balance at 1 July 2012*	*Granted during the year*	*Exercised during the year*	*Forfeited during the year*	*Balance at 30 June 2013*	*Vested and exercisable at 30 June 2013*
24/11/10	10/12/13	$0.15	1,000,000	-	-	-	1,000,000	1,000,000
02/06/11	02/06/14	$0.45	6,000,000	-	-	-	6,000,000	6,000,000
30/11/12	31/12/15	$0.35	-	8,000,000	-	-	8,000,000	4,000,000
11/10/11	11/04/13	$0.10	2,000,000	-	-	(2,000,000)	-	-
11/10/11	11/10/14	$0.15	2,000,000	-	-	-	2,000,000	2,000,000
			11,000,000	8,000,000	-	(2,000,000)	17,000,000	13,000,000

Notes to the Consolidated Financial Statements

NOTE 26. SHARE BASED PAYMENTS (continued)

The following table illustrates the number (No.) and weighted average exercise prices of and movements in share options issued during the year:

	2014 No.	*2014 Weighted average exercise price*	*2013 No.*	*2013 Weighted average exercise price*
Outstanding at the beginning of the year	17,000,000	0.35	11,000,000	0.30
Granted during the year	-	-	8,000,000	0.35
Forfeited during period	(7,000,000)	0.41	(2,000,000)	0.10
Outstanding at the end of the year	10,000,000	0.31	17,000,000	0.35
Exercisable at the end of the year	6,000,000	0.28	13,000,000	0.35

The weighted average remaining contractual life for the share options outstanding as at 30 June 2014 is 1.26 years (2013: 1.68).

(b) Expenses arising from share based payments

There were no options issued to Directors or consultants during the financial years 2014 and 2013.

(c) Capitalised costs arising from share based payments	**2014 $**	**2013 $**
Balance at beginning of year	3,697,933	-
Tenement acquisition costs – issue of options	-	697,933
Tenement acquisition costs – issue of shares	-	800,000
Tenement acquisition costs – shares to be issued	-	2,200,000
Balance at end of year	3,697,933	3,697,933

NOTE 27. STATEMENT OF CASH FLOWS

Reconciliation of cash and cash equivalents

Cash and cash equivalents as shown in the statement of financial position and the statement of cash flows	11,807	172,986
Operating (loss) after tax	(4,775,932)	(4,244,687)
Depreciation	8,480	10,345
Impairment expenses	4,001,359	-
Sale of fixed asset	(8,509)	-
Changes in assets and liabilities		
(Increase)/Decrease in trade and other receivables	60,477	(164,297)
Increase/(Decrease) in trade and other payables	327,618	1,090,314
Net cash flow (used in) operating activities	(386,507)	(3,308,325)

NOTE 28. PEGASUS METALS LIMITED PARENT COMPANY INFORMATION	**Company 2014 $**	**Company 2013 $**
ASSETS		
Current assets	214,577	436,068
Non-current assets	3,778,517	7,797,173
TOTAL ASSETS	**3,993,094**	**8,233,241**
LIABILITIES		
Current liabilities	1,856,727	1,528,943
Borrowings	208,001	-
TOTAL LIABILITIES	**2,064,728**	**1,528,943**

Notes to the Consolidated Financial Statements

NOTE 28. PEGASUS METALS LIMITED PARENT COMPANY INFORMATION (continued)

EQUITY		
Contributed equity	18,189,063	18,189,063
Reserves	2,629,621	2,629,621
Accumulated losses	(18,890,318)	(14,114,386)
TOTAL EQUITY	**1,928,366**	**6,704,298**
FINANCIAL PERFORMANCE		
Loss for the year	**4,775,932**	**4,244,687**

CONTINGENT LIABILITIES
As at 30 June 2014 and 2013, the Company had no contingent liabilities.

CONTRACTUAL COMMITMENTS
As at 30 June 2014 and 2013, the Company had no contractual commitments other than exploration commitments disclosed in Note 14.

GUARANTEES ENTERED INTO BY PARENT ENTITY
As at 30 June 2014 and 2013, the Company has not provided any financial guarantees.

Directors' Declaration

The Directors of the Group declare that:

1. The financial statements, comprising the consolidated statement of profit or loss and comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity and Group notes, are in accordance with the *Corporations Act 2001* and:

    a) comply with Accounting Standards and the Corporations Regulations 2001; and

    b) give a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of the performance for the year ended on that date.

2. In the Director's 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.

3. The Directors have been given the declarations by the applicable chief executive officer and chief financial officer required by section 295A

4. The Group has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards (IFRS).

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:

GRAHAM ANDERSON
Director

West Perth, Western Australia
30 September 2014

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INDEPENDENT AUDITOR'S REPORT

To the members of Pegasus Metals Limited

Report on the Financial Report

We have audited the accompanying financial report of Pegasus Metals Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Stat*ements, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Pegasus Metals Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Pegasus Metals Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1(a) in the financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon the future successful raising of necessary funding through equity or debt, loan agreement with Michael Fotios ATF and letters of support from significant creditors. These conditions, along with other matters as set out in Note 1(a), indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Pegasus Metals Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO

Phillip Murdoch

Director

Perth, 30 September 2014

Corporate Governance Statement

Overview

The Company's Board governs the business on behalf of shareholders as a whole with the prime objective of protecting and enhancing shareholder value. The Board is committed to ensuring that the:

- Executive management runs the Group in accordance with the highest level of ethics and integrity;
- Board and management complies with all applicable laws and regulations;
- Company continually reviews the governance framework and practices to ensure it fulfils its corporate governance obligations.

Good corporate governance will evolve with the changing circumstances of the Company and must be tailored to meet these circumstances. The Board endorses the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations* (ASX CGP) however, at this stage of the Company's corporate development, implementation of the ASX CGP is not practical in every instance given the modest size and simplicity of the business.

This statement outlines the main corporate governance practices employed by the Board and where it has not adopted a particular recommendation, an explanation is provided in the body of the document.

The Company acknowledges the Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations* have been revised under Edition 3 and notes that as this Report outlines the Company's corporate governance framework in place for the year ended 30 June 2014, it is reporting against Edition 2. The Company is currently in the process of reviewing its corporate governance framework in light of Edition 3 additions and modifications.

1. Laying solid foundations for management and oversight

The relationship between the Board and senior management is critical to the Company's long term success. The Board is responsible for the performance of the Company in both the short and longer term and seeks to balance sometimes competing objectives in the best interests of the Group as a whole. The key aims of the Board are to enhance the interests of shareholders and other key stakeholders and to ensure the Company is properly managed.

Day to day management of the Company's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Managing Director. The responsibilities of the Board as a whole, the Chairman and individual Directors are set out in the Company's Board Charter and are consistent with ASX CGP 1. A copy of the Board Charter is available in the Corporate Governance section of the Company's website at www.pegasusmetals.com.au

To ensure that Non-Executive Directors clearly understand the requirements of their role, formal letters of appointment will be provided to them. The content of the appointment letter will be consistent with that set out in ASX CGP 1. The majority of the Non-Executive Directors have extensive knowledge of the whole or part of the Company's operations. New Non-Executive Directors are provided with a pack of information and documents relating to the Company including the Constitution, Group structure, financial statements, recent Board papers and the various Board policies and charters.

2. Structure of the Board

Board composition
The Directors determine the composition and size of the Board in accordance with the Company's constitution. The Constitution empowers the Board to set upper and lower limits with the number of Directors not permitted to be less than three. There are currently three Directors appointed to the Board and their skills and experience, qualifications, term of office and independence status is set out in the Directors' Report.

Director independence
Based on the definition of independence published in ASX CGP the Company does not have any independent Directors. Mr Michael Fotios is not deemed independent due to his Executive status, related party interests and substantial shareholding in the Company and Mr Graham Anderson is not deemed independent due to his related party interests in the Company. Mr Jason Boladeras is also not deemed independent based on his relationship with the Company. This is not consistent with ASX CGP 2.1 but the Board deem it appropriate at this point given the Company's size and simplicity.

The role of the Chairman and CEO are not exercised by the same individual.

Independent decision making
While there are no independent directors, all Directors bring to the Board the requisite skills which are complementary to those of the other Directors and enable them to adequately discharge their responsibilities and bring independent judgments to bear on their decisions.

The Board Charter sets out the criteria the Board uses to determine Director independence. Materiality thresholds used to assess Director independence have been established and the Board considers a Director to be independent where he or she is not a member of management and is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the Director's ability to act in the best interests of the Company.

The Board believes that the interests of the shareholders are best served by the current composition of the Board which is regarded as balanced with a complementary range of skills, diversity and experience as detailed in the Directors' Report.

The following measures are in place to ensure the decision making process of the Board is subject to independent judgments:

- Disclosure of relevant interests by the Directors as and when they arise;
- Directors are permitted to seek the advice of independent experts at the Company's expense, subject to the approval of the Chairman; and
- All Directors must act all times in the interest of the Company.

Adoption of these measures ensure that the interests of shareholders, as a whole, are pursued and not jeopardised by a lack of independence.

Committees

Due to the size of the Company, the Board has not established sub-committees to undertake the responsibilities normally undertaken by a Remuneration & Nomination Committee or Audit Committee.

The full Board manages Board succession and approves management remuneration including the allocation of options (if any) and involves itself in the nomination, selection and retirement of Directors.

The Company will give consideration at an appropriate time in the Company's development, for the creation of sub-committees.

The Board seeks to ensure that collectively its membership represents an appropriate balance between Directors with experience and knowledge of the Company and Directors with an external or fresh perspective. It shall review the range of expertise of its members on a regular basis and seeks to ensure that it has operational and technical expertise relevant to the operation of the Company.

Directors are re-elected, nominated and appointed to the Board in accordance with the Company's Constitution and ASX Listing Rules. In considering appointments to the Board, the extent to which the skills and experience of potential candidates complement those of the Directors in office is considered.

Board performance

Due to the size of the Board and the Company, the Board undertakes ad hoc self-assessments of its collective performance by way of Board discussion.

Access to information

Directors may access all relevant information required to discharge their duties. With the approval of their Chairman, Directors may seek independent professional advice, as required, at the Company's expense.

3. Ethical and Responsible Decision Making

A Code of Conduct Policy is in place to promote ethical and responsible practices and standards for Directors, employees and consultants of the Company to discharge their responsibilities. This Policy reflects the Directors' and key officers' intention to ensure that their duties and responsibilities to the Company are performed with the utmost integrity. A copy of the Code of Conduct policy is available to all employees and is also available in the Corporate Governance section of the Company's website and the terms are consistent with ASX CGP 3.

Diversity

The Board has established a Diversity Policy, a copy of which is available in the Corporate Governance section of the Company's website. The terms are consistent with ASX CGP 3 however no measurable objectives have been developed or achieved at this time.

Share trading

A Share Trading Policy is in place for Directors, senior Executives and employees. The objective of the policy is to minimise the risk of Directors and employees who may hold material non-public information contravening the laws against insider trading, ensure the Company is able to meet its reporting obligations under the ASX Listing Rules and increase transparency with respect to trading in securities of the Company. A copy of the policy is available on the ASX Market Announcements Platform and the terms of the policy are consistent with ASX CGP3.

4. Integrity of financial reporting

Due to the size of the Company, during the year the Board has not established an Audit Committee. The full Board undertakes all Audit Committee responsibilities which include the following:

- Reviewing and approving statutory financial reports and all other financial information distributed externally;
- Monitoring the effective operation of the risk management and compliance framework;
- Reviewing the effectiveness of the Company's internal control environment including compliance with applicable laws and regulations;
- The nomination of the external auditors and the review of the adequacy of the existing external audit arrangements; and
- Considering whether non audit services provided by the external auditor are consistent with maintaining the external auditor's independence.

The Company will give consideration at an appropriate time in the Company's development, for the creation of an Audit Committee.

The lead audit partner responsible for the Group's external audit is required to attend each Annual General Meeting and to be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

5. Timely and balanced disclosure

The Company has a written policy on information disclosure that focuses on continuous disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price of the Company's securities.

A copy of the Continuous Disclosure Policy is located in the Corporate Governance section of the Company's website and the terms are consistent with ASX CGP 5.

6. Rights of Shareholders

The Company's Shareholder Communications Policy promotes effective communication with the Company's shareholders and encourages shareholder participation at general meetings. A copy of this Policy, which deals with communication through the ASX, the Share Registry, shareholder meetings and the annual report, may be found in the Corporate Governance section of the Company's website. All of the Company's announcements to the market may also be accessed through the Company's website. The Company's annual reports are posted on the Company's website.

Shareholders are provided with the opportunity to question the Board concerning the operation of the Company at the Annual General Meeting. They are also afforded the opportunity to question the Company's auditors at that meeting concerning matters related to the audit of the Company's financial statements.

7. Recognising and Managing Risk

The Board is responsible for ensuring that risks, as well as opportunities are identified on a timely basis and receive an appropriate and measured response, recognising however that no cost effective internal control system will preclude all errors and irregularities. Areas of significant business risk and the effectiveness of internal controls are monitored and reviewed regularly.

The Board has received assurance from the CEO and CFO that the declaration provided in accordance with section 295 of the Corporations Act 2001 is founded on a sound system of risk management and internal control and that the system is operating effectively in all respects in relation to financial reporting risks.

8. Remunerating Fairly and Responsibly

Directors

The annual total fees payable to Non-Executive Directors is set by the Company's shareholders and allocated as Directors' Fees by the Board on the basis of the roles undertaken by the Directors. Full details of Directors' remuneration appear in the Remuneration Report. These fees are inclusive of statutory superannuation contributions. No retirement benefits are paid to Non-Executive Directors and no equity-based remuneration scheme exists for them.

Remuneration
Due to the size of the Company, during the year the Board has not established a Remuneration & Nominations Committee. The full Board approves all management remuneration including the allocation of options and involves itself in the nomination, selection and retirement of Directors.

The Board is kept advised on remuneration and incentive policies and practices generally and makes specific recommendations in relation to compensation arrangements for Executive and Non-Executive Directors and in respect of all equity based remuneration plans.

The remuneration policy states that Executive Directors may participate in share option schemes with the prior approval of shareholders. Other Executives may also participate in employee share option schemes, with any option issues normally being made in accordance with thresholds set in plans approved by shareholders. The Board however, considers it appropriate to retain the flexibility to issue options to Executives outside of any approved employee option plans in appropriate circumstances.

Executive Management
Remuneration packages for Executive management are generally set to be competitive so as to both retain Executives and attract experienced Executives to the Company.

Shareholder Information

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below. The information is current as at 27 October 2014.

Substantial shareholders

Shareholder Name	Units	Percentage
Investmet Ltd	17,009,402	13.82%
Kimminco PL	10,650,000	8.65%
Wyllie Grp PL	6,596,465	5.36%

Less Than Marketable Parcel

Parcel	Holders	Units	Percentage
Total unmarketable parcel $500	430	5,658,121	4.60%

Voting rights
All ordinary shares carry one vote per share without restriction.

Unquoted securities

Securities	Number of Options	Number of Holders	Holder
Unlisted options exercisable at 35 cents each expiring 31 December 2015 (vesting conditions apply to 4,000,000 unlisted options)	8,000,000	1	Mulgara Minerals Ltd

On-market buyback
There is no current on-market buy-back.

Statement in relation to Listing Rule 4.10.19
The Directors of the Group confirm in accordance with ASX Listing Rule 4.10.19 that during the financial year ended 30 June 2014, the Company has used its cash, and assets that are readily convertible to cash, in a way consistent with its business objectives.

Stock Exchange listing
Quotation has been granted for the Company's Ordinary Shares.

Distribution of security holders

Range	Holders	Units	Percentage
1 - 1,000	27	3720	0.00%
1,001 - 5,000	121	398,710	0.32%
5,001 - 10,000	99	871,272	0.71%
10,001 - 100,000	308	12,974,626	10.54%
> 100,000	130	108,826,191	88.42%
Total	**685**	**123,074,519**	**100%**

Twenty largest shareholders – Ordinary Shares

Shareholder Name	Units	Percentage
INVESTMET LTD	17,009,402	13.82%
KIMMINCO PL	10,650,000	8.65%
WYLLIE GRP PL	6,596,465	5.36%
SHARIC SUPER PL	4,370,658	3.55%
FOTIOS MICHAEL GEORGE	4,341,893	3.53%
BLACK RAVEN MINING PL	4,000,000	3.25%
GUNZ PL	3,471,068	2.82%
PERTH SELECT SEAFOODS PL	2,992,915	2.43%
FARRIS P C P + S M P	2,321,263	1.89%
SHARPLESS G J + J L	2,170,464	1.76%
OAKMOUNT NOM PL	2,024,805	1.65%
SORENSEN DANE PEDER EVAN	1,813,896	1.47%
JEMAYA PL	1,756,696	1.43%
MOORE B J + HAMMOND P C	1,623,333	1.32%
COLBY JAMES + PAULA C	1,563,781	1.27%
SORENSEN DANE PEDER EVAN	1,550,000	1.26%
PATEK ROGER W + M H	1,500,000	1.22%
HAMMOND P C + MOORE B J	1,473,333	1.20%
SPENCER ANDREW WILLIAM	1,463,808	1.19%
JANSEN JOHN + DALE L	1,408,781	1.14%
TOTAL	**74,102,561**	**60.21%**

Schedule of Granted Mining Tenements

TENEMENT No.	LOCATION	STATUS	INTEREST %	HOLDER
EL04/1441	WA	Granted	100	Kimminco Pty Ltd[1]
EL04/2267	WA	Granted	100	Kimminco Pty Ltd[1]
EL20/422	WA	Granted	100	Black Raven Mining Pty Ltd[2]

Note 1. 100% beneficial interest earned in the tenement, subject to Kimminco's retained alluvial and eluvial gold and diamond mineralisation. The Group is currently in discussions with Kimminco Pty Ltd in relation to the status of ownership.

Note 2. The Group holds a 100% interest in the tenement pursuant to an executed Tenement Sale Agreement with Black Raven Mining Pty Ltd dated 14 June 2012. Transfer of the tenement to the Group is pending with the remaining step being submission of duty-stamped Tenement Sale Agreement to the DMP.