PEGASUS METALS LIMITED

June 30

2017

Annual Report

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Corporate Directory

Directors

Michael Fotios	Non-Executive Director
Alan Still	Non-Executive Director
Neil Porter	Non-Executive Director

Company Secretary
Shannon Coates

Registered Office
Level 1, 24 Mumford Place
Balcatta WA 6021

Telephone 08 6241 1877
Facsimile 08 6241 1811

Solicitors
Lavan Legal
Squires Patton Boggs

Share Registry
Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross WA 6153

Telephone 08 9315 2333
Facsimile 08 9315 2233
Email: registrar@securitytransfer.com.au

Auditors
BDO Audit (WA) Pty Ltd
38 Station Street
Subiaco WA 6008
Australia

Telephone 08 6382 4600
Facsimile 08 6382 4601

ASX Code PUN
Website www.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 2017.

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:

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

Michael Fotios is a Geologist specialising in Economic Geology with over 30 years' extensive experience in exploration throughout Australia for gold, base metals, tantalum, tin and nickel and taking projects from exploration to feasibility.

Michael previously held positions with Homestake Australia Limited, Sons of Gwalia Limited and Tantalum Australia NL (now ABM Resources NL). He also served as a Non-Executive Director of Northern Star Resources Limited from September 2009 to October 2013, General Mining Corporation Limited from June 2012 until November 2012 and Galaxy Resources Limited from August 2016 until December 2016. Michael is currently a director of the following ASX listed companies:

- Horseshoe Metals Limited
- Eastern Goldfields Limited
- Redbank Copper Limited
- Oklo Resources Limited

Alan Still
Non-Executive Director
Alan Still is a Metallurgist with over 41 years' experience in a variety of commodities.

Alan is currently a Non-Executive Director of ASX listed, Eastern Goldfields Limited and Horseshoe Metals Limited. Alan also served as a Non-Executive Director of General Mining Corporation Limited until August 2016.

Neil Porter
Non-Executive Director - *Appointed 31 August 2016; Resigned 29 November 2016; Re-appointed 13 January 2017*
Neil Porter is a Commercial Manager with over 20 years' experience specialising in supply and logistics across all facets of the mining industry. He has created and operated two logistics and supply companies (SLR Australia and National Supply Partners) servicing the mining and industrial sectors.

Neil is currently a Non-Executive Director of ASX listed Horseshoe Metals Limited.

Michael Jardine
Non-Executive Director - *Resigned 31 August 2016*
Michael Jardine is an Honours Degree graduate in Commerce from the University of Western Australia with over 11 years' experience in Corporate Finance & Development including debt & equity raisings, M&A transactions and strategy development in both Perth and London, UK.

Directors' Report (continued)

Company Secretary

Shannon Coates LLB, CSA, GAICD
Appointed 23 October 2015

Ms Coates holds a Bachelor of Laws from Murdoch University and has over 20 years' experience in corporate law and compliance. She is a director of Perth based corporate advisory firm Evolution Corporate Services Pty Ltd, which specialises in the provision of corporate services to ASX, JSE and AIM listed companies. Ms Coates is a Chartered Secretary, an Associate Member of both the Institute of Chartered Secretaries & Administrators and the Governance Institute of Australia and a graduate of the Australian Institute of Company Directors.

PRINCIPAL ACTIVITIY

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

INTERESTS 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
Michael Fotios	22,363,861	-
Alan Still	-	-
Neil Porter	-	-

DIVIDENDS

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

OPERATING AND FINANCIAL REVIEW

GOING CONCERN

The Group auditor has inserted an emphasis of matter in the audit report regarding going concern. The Directors believe it is appropriate to prepare the financial statements on a going concern basis as there are no matters that exist at the date of the report that indicate the Group will be unable to manage the matters referred to in the Note 1 for the next 12 months.

REVIEW OF OPERATIONS

The focus of operations was the Mt Mulcahy Copper Project (Murchison, WA).

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 (refer Figure 1).

EXPLORATION REVIEW

The Company's focus is to define sufficient sulphide resources to warrant the initiation of a feasibility study to investigate the scale and viability of future mining and processing operations.

The Mt Mulcahy Project hosts the Mount Mulcahy copper-zinc deposit, a VMS zone of mineralisation with a JORC 2012 Measured, Indicated and Inferred Resource of 647,000 tonnes @ 2.4% copper, 1.8% zinc, and 20g/t Ag (refer ASX release 25 September 2014) at the 'South Limb Pod' (SLP). The horizon hosting this mineralisation can be traced for a distance of at least 12 kilometres along strike and excellent potential exists for additional mineralisation to be discovered along this prospective horizon.

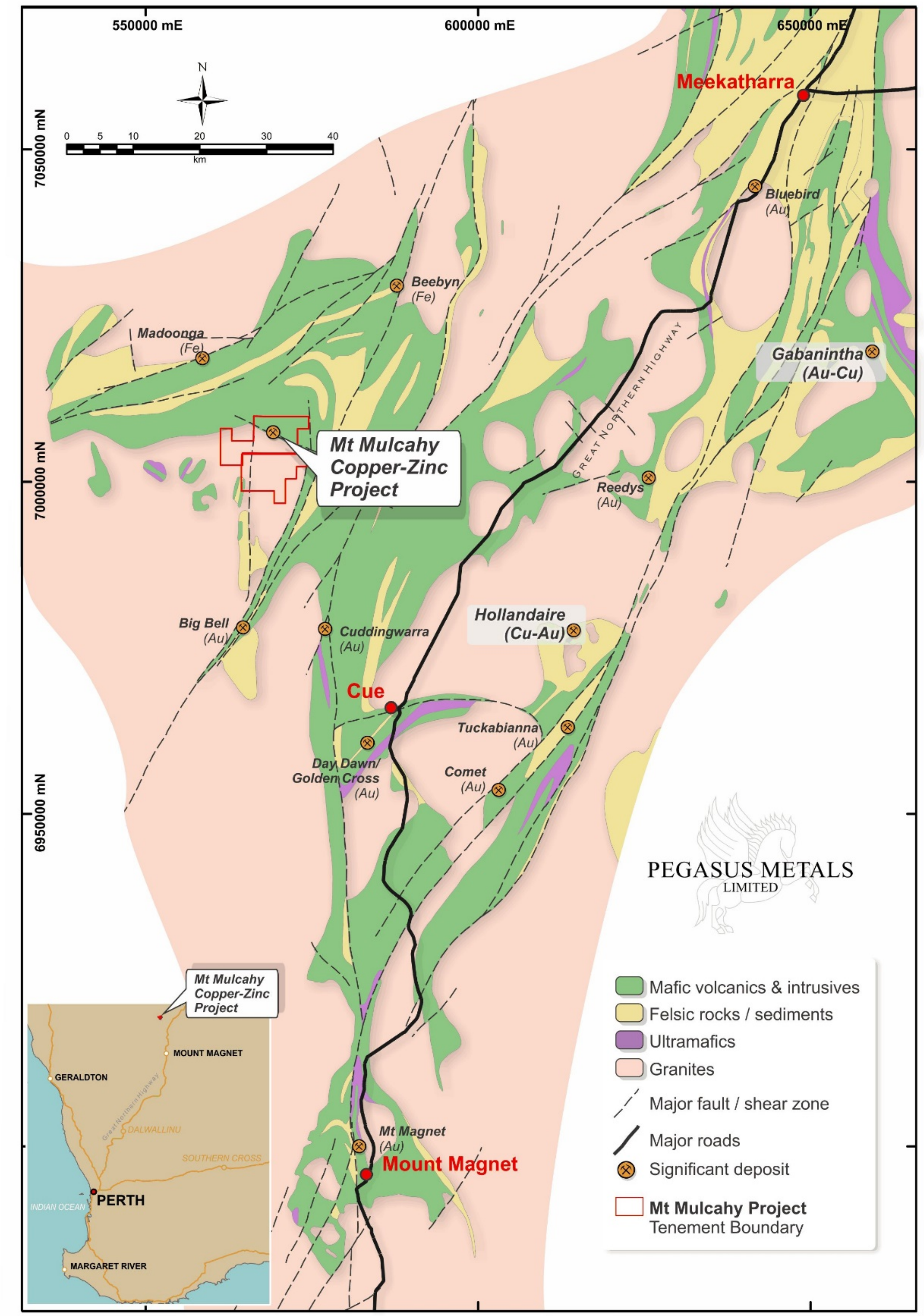

Figure 1. Pegasus Metals location and tenure map

The company has applied to the Department of Mines, Industry Regulation and Safety (DMIRS) for a mining lease MLA 20/535 covering EL20/422, and is awaiting the outcome of this process. The company has planned drilling of down-plunge extensional holes to the current resource at the SLP, to better understand mineralising controls, and apply them to additional targets (refer Figure 3).

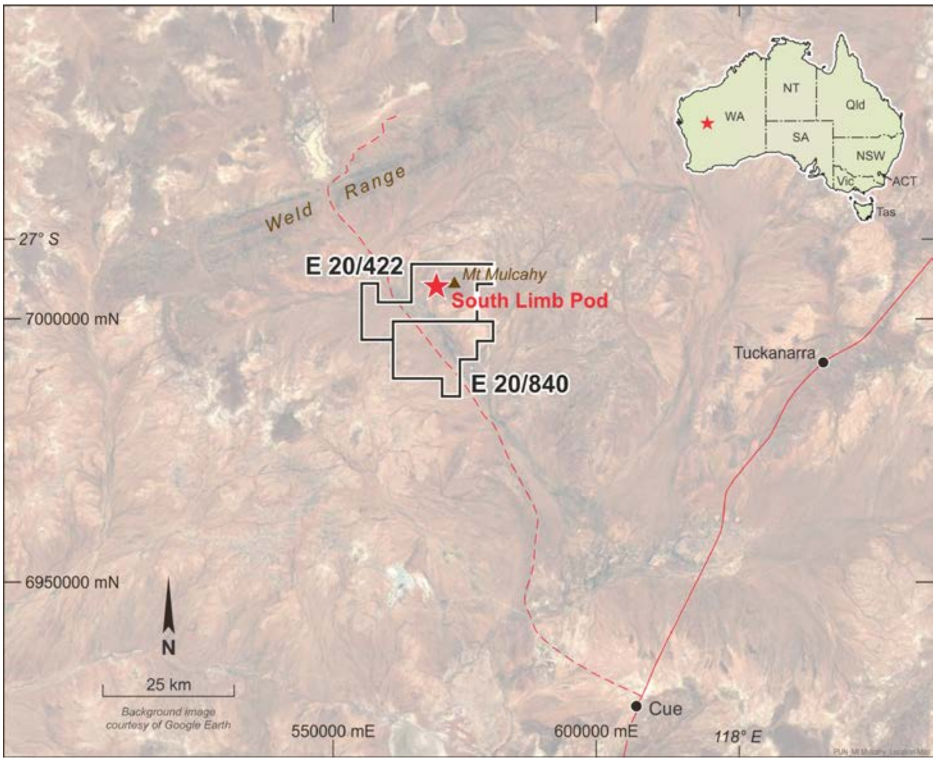

Figure 2. Pegasus Metals location map, MLA20/535 has been applied for over EL20/422

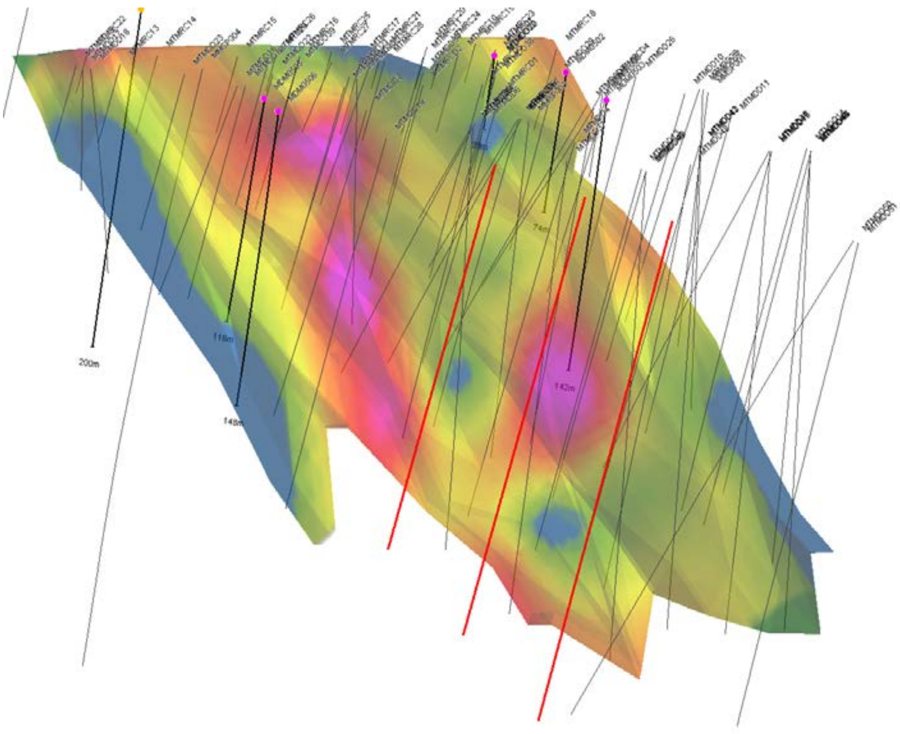

Figure 3: Oblique section of proposed SLP down-plunge drilling (red traces), viewed from North East. Previous drilling defining the current resource denoted by grey or black traces.

LIKELY DEVELOPMENTS

Ongoing exploration at Mt Mulcahy is planned. The company has applied for two prospecting licenses in the Quinns VMS discovery area at Nowthanna southeast of Mt Magnet, and intends to undertake drilling in the area.

During the year, Pegasus Metals continued to look for growth opportunities that would benefit shareholders, including potential company mergers and advanced exploration or mining project acquisitions, with a particular focus on copper and other base metals.

Projects located in the Murchison district, that further support the development of the Company's Mt Mulcahy Project, are a particular focus of the Board in its ongoing assessment of new opportunities.

In the opinion of the Directors, there is no additional information available as at the date of this report on any likely developments which may materially affect the operations of the Group and the expected results of those operations in subsequent years.

Competent Persons Statements

The information in this report that relates to Mineral Resources 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.

The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement. The Company confirmed that the form and context in which the Competent Person's findings are presented have not been modified from the original announcement and, in the case of estimates of Mineral Resources, all material assumptions options and technical parameters underpinning the estimates in the initial announcement continue to apply and have not materially changed. This information was prepared and first disclosed under the JORC Code 2004. It has not been updated since to comply with JORC Code 2012 on the basis that the information has not materially changed since it was reported.

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 2017 was $452,190 (2016: loss of $2,091,648).

Shareholder returns

	2017	2016
Basic and diluted loss per share (cents)	(0.36)	(1.75)

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

On 27 October 2017, the Company announced it had entered into an agreement with Mr Michael Fotios (Non-executive Director and substantial shareholder), whereby Mr Fotios and associated entities agreed to provide funding of up to $1,000,000 to the Company.

During the year, the Company received Notices to Wind Up from external consultants. Each of the matters has been settled subsequent to the yearend.

Other than the above, there have not been any matters that have arisen since 30 June 2017 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

The directors are not aware of any likely developments in the operations of the Group and the expected results of those operations that may have a material effect in subsequent years that are not already disclosed. 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***
Michael Fotios	Non-Executive Director
Alan Still	Non-Executive Director
Neil Porter	Non-Executive Director *(Appointed on 31 August 2016; Resigned on 29 November 2016; Re-appointed on 13 January 2017)*
Michael Jardine	Non-Executive Director *(Resigned on 31 August 2016)*

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

Remuneration Committee
The Remuneration Committee of the board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the Directors, the CEO and the executive team. 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 at 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
The Board will adopt remuneration policies for Executive Directors and Executive Management, including:

- Fixed annual remuneration (including superannuation) and short term and long term incentive awards (including performance targets);
- Any termination payments (which are to be agreed in advance and include provisions in case of early termination); and
- 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.

The Board's objectives are that the remuneration policies:

- Motivate Executive Directors and Executive Management to pursue the long term growth and success of the Company;
- Demonstrate a clear relationship between performance and remuneration; and
- Involve an appropriate balance between fixed and incentive remuneration, to reflect 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 2016 Annual General Meeting
At the Group's 2016 Annual General Meeting, Pegasus' Remuneration Report was passed unanimously on a show of hands.

The Board remains confident that the Group's remuneration policy and the level and structure of its executive remuneration are suitable for the Company and its shareholders and hence it has not amended its overall remuneration policy.

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	
	$	**$**	**$**	**$**
Directors				
Michael Fotios				
2017	33,000*	-	-	33,000*
2016	36,000*	-	-	36,000*
Alan Still				
2017	33,000*	-	-	33,000*
2016	32,500*	-	-	32,500*
Neil Porter[1]				
2017	22,839*	-	-	22,839*
2016	-	-	-	-
Michael Jardine[2]				
2017	6,000*	-	-	6,000*
2016	34,000*	-	-	34,000*
Total Key Management Personnel compensation				
2017	**94,839**	-	-	**94,839**
2016	**102,500**	-	-	**102,500**

[1] Appointed 31 August 2016; Resigned 29 November 2016; Re-appointed 13 January 2017

[2] Resigned on 31 August 2016

***Salary or fees were all or partially accrued during the year and are outstanding where unpaid.**

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 16	**Granted as remuneration**	**On exercise of options**	**Net change Other**	**Balance 30 June 17**
Michael Fotios	22,363,861	-	-	-	22,363,861
Alan Still	-	-	-	-	-
Michael Jardine*	-	-	-	-	-
Neil Porter	-	-	-	-	-
	22,363,861	-	-	-	22,363,861

*****Resigned 31 August 2016

Directors' Report (continued)

Option holdings of Key Management Personnel

	Balance 1 July 16	Granted as remuneration	On exercise of options	On lapsing of options	Balance 30 June 17
Michael Fotios	-	-	-	-	-
Alan Still	-	-	-	-	-
Michael Jardine	-	-	-	-	-
Neil Porter	-	-	-	-	-
	-	-	-	-	-

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. Formal appointment letters are in place with Non-Executive Directors, each of which is entitled to a fee of $30,000 per annum effective from 1 January 2017 ($36,000 per annum previous year). There are no termination payments payable.

Other Transactions with Key Management Personnel
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 Limited during the year (2016: nil). As at 30 June 2017, there is balance of $162,443 excl. of GST outstanding (2016: $160,497).

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 Resource Management Pty Ltd for the year (2016: nil). As at 30 June 2017, there is balance of $626,546 excl. of GST outstanding (2016: $543,843)

Whitestone Minerals Limited (Whitestone) is a related party of Michael Fotios who is a Director of the Company. No amounts were paid to Whitestone during the year (2016: nil). As at 30 June 2017, there is balance of $324,348 excl. of GST outstanding (2016: $218,806).

The above transactions are based on normal commercial terms and conditions and at arm's length.

Non-interest loans from related parties
The purpose of the loans with related parties is to provide working capital to the Group to fund its immediate operational requirements. The proceeds from the loans have been used to meet short-term expenditure needs.

The following balance is outstanding at the end of the reporting period:

	2017	2016
Loans advanced during the year	$	$
Loan from Michael Fotios Family Trust*	4,381	22,461
Loans from other related parties	306,131	111,214
End of year	310,512	133,675

* Further information relating to loan from Michael Fotios Family Trust is set out in Note 11.

Share-based compensation
There were no options issued to Directors and Executives as part of their remuneration during the year (2016: nil).

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 17	30 June 2016	30 June 2015	30 June 2014	30 June 2013
	$	$	$	$	$
Revenue	-	-	333	19,625	72,201
Net before tax (loss)/profit	(452,190)	(2,091,648)	695,496	(4,775,932)	(4,244,687)
Share price at year-end	0.030	0.043	0.11	0.010	0.150

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 did not hold any meetings of Directors. All Board decisions were undertaken via circular resolutions signed by all Directors entitled to vote.

SHARES UNDER OPTION

At the date of this report there are nil unlisted options outstanding.

	Number of options
Balance at the beginning of the year	-
Movements of share options during the year	-
Total number of options outstanding as at the date of this report	-

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.

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 would consider the position 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, would not compromise the auditors independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services would be reviewed to ensure they do not impact the impartiality and objectivity of the auditor; and
- 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 15.

Signed in accordance with a resolution of the Directors, and on behalf of the Board by,

MICHAEL FOTIOS
Director

Perth, Western Australia
1 November 2017

Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

DECLARATION OF INDEPENDENCE BY NEIL SMITH TO THE DIRECTORS OF PEGASUS METALS LIMITED

As lead auditor of Pegasus Metals Limited for the year ended 30 June 2017, 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.

Neil Smith

Director

BDO Audit (WA) Pty Ltd

Perth, 1 November 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2017	Notes	2017 $	2016 $
REVENUE			
Revenue		-	-
Other income	2	345	42,270
Exploration expenses		(187,368)	(103,275)
Interest expense		(36,984)	-
Impairment of exploration acquisition costs capitalised	9	-	(1,687,906)
Occupancy expenses		18,000	(40,500)
Other expenses	3	(160,648)	(198,277)
Director fees		(80,839)	(101,218)
Depreciation expense		(695)	(2,742)
Impairment property, plant and equipment		(4,001)	-
Loss before income tax		(452,190)	(2,091,648)
Income tax benefit/(expense)	4	-	-
Loss after income tax for the year		(452,190)	(2,091,648)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		(452,190)	(2,091,648)
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO OWNERS OF PEGASUS METALS LIMITED	13	(452,190)	(2,091,648)
Loss per share for loss attributable to ordinary equity holders of the Group:			
Basic loss per share (cents per share)	15	(0.36)	(1.75)
Diluted loss per share (cents per share)	15	(0.36)	(1.75)

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

Consolidated Statement of Financial Position

AS AT 30 JUNE 2017	Notes	2017	2016
		$	$
CURRENT ASSETS			
Cash and cash equivalents	5	614	1,805
Other receivables	6	284,819	281,242
Other current assets	7	17,856	17,893
TOTAL CURRENT ASSETS		303,289	300,940
NON-CURRENT ASSETS			
Property, plant and equipment	8	-	4,696
Capitalised exploration expenditure	9	2,060,027	2,060,027
TOTAL NON-CURRENT ASSETS		2,060,027	2,064,723
TOTAL ASSETS		2,363,316	2,365,663
CURRENT LIABILITIES			
Trade and other payables	10	1,972,780	1,699,774
Borrowings	11	310,512	133,675
TOTAL CURRENT LIABILITIES		2,283,292	1,833,449
TOTAL LIABILITIES		2,283,292	1,833,449
NET ASSETS		80,024	532,214
EQUITY			
Contributed equity	12	18,189,063	18,189,063
Accumulated losses	13	(20,738,660)	(20,286,470)
Reserves	14	2,629,621	2,629,621
TOTAL EQUITY		80,024	532,214

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

Consolidated Statement of Changes in Equity

AS AT 30 JUNE 2017	Note	Contributed Equity $	Accumulated Losses $	Share-based Payments Reserve $	Total Equity $
BALANCE AT 1 JULY 2016		**18,189,063**	**(20,286,470)**	**2,629,621**	**532,214**
Loss for the year	13	-	(452,190)	-	(452,190)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		-	(452,190)	-	(452,190)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS		-	-	-	-
BALANCE AT 30 JUNE 2017		**18,189,063**	**(20,738,660)**	**2,629,621**	**80,024**

	Note	Contributed Equity $	Accumulated Losses $	Share-based Payments Reserve $	Total Equity $
BALANCE AT 1 JULY 2015		**18,189,063**	**(18,194,822)**	**2,629,621**	**2,623,862**
Loss for the year	13	-	(2,091,648)	-	(2,091,648)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**-**	(2,091,648)	**-**	(2,091,648)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS		-	-	-	-
BALANCE AT 30 JUNE 2016		**18,189,063**	**(20,286,470)**	**2,629,621**	**532,214**

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

Consolidated Statement of Cash Flows

YEAR ENDED 30 JUNE 2017	Notes	2017 $	2016 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Research and development tax refund		-	1,431,573
Payments to suppliers and employees		(85,880)	(733,644)
Payments for exploration		(106,089)	(512,304)
Interest received		278	42,319
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	26	(191,691)	227,944
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		-	-
NET CASH INFLOW FROM INVESTING ACTIVITIES		-	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		-	(350,321)
Proceeds from borrowings		190,500	111,215
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES		190,500	(239,106)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(1,191)	(11,162)
Cash and cash equivalents at the beginning of the year		**1,805**	**12,967**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5	**614**	**1,805**

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

The financial report complies with Australian Accounting Standards which include International Financial Reporting Standards as adopted in Australia. Compliance with these standards ensure that the consolidated financial statements and notes as presented comply with International Financial Reporting Standards (IFRS).

Going Concern

The Group incurred a loss of $452,190 for the year (2016: loss of $2,091,648) and incurred cash outflows from operating activities of $191,691 (2016: $227,944) with a working capital deficiency of $1,980,003, including long outstanding creditors of $468,497 at 30 June 2017. At 31 October 2017, the Group has a cash balance of $473. The ability of the Group to pay its debts as and when they become due is dependent upon the continuation of the loan facility entered into with Michael Fotios and his associated entities, their ability to meet the pledge of continuing financial support under that loan facility as and when required, and letters of support obtained from related party and negotiating deferred terms of repayment with third party creditors.

These conditions indicate a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore whether it will be able to pay its debts as and when they fall due and realise its assets and extinguish it's liabilities in the normal course of business at the amounts stated in the financial report.

Management believe that there are sufficient funds available to continue to meet the Group's working capital requirements as at the date of this report. The financial statements have been prepared on the basis that the Group is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business for the following reasons:

- There exists an undrawn loan balance with the Fotios Family Trust for $995,619; and
  Letters of support have been obtained from related party creditors totalling $1,097,963, indicating that there is no intention to collect within the next 12 months.
- The company is entering into repayment plans with the long outstanding creditors.

Should the Group not be able to successfully continue with the pledged financial support referred to above, including renegotiation of terms with third party creditors, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. The financial report does not include any adjustments relating to the recoverability or classification of recorded asset amounts, nor the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

(b) Government Grants

Grants from the government are offset against the area where the costs were initially incurred at their fair value where there is a reasonable estimate the grant will be received and the Group will comply with the attached conditions. For research and development relating to exploration and evaluation expenditure, any claim will be offset against this balance.

(c) 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. This 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.

(d) 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.

Notes to the Consolidated Financial Statements

(d) Income tax continued
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.

(e) 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 Profit or Loss and Other 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.

(f) 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.

(g) 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 Profit or Loss and Other Comprehensive Income immediately and amortised using the effective interest method. Loans and receivables are carried at amortised costs using the effective interest rate method.

(h) 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.

(i) Borrowing costs
Borrowing costs are capitalised that are directly attributable to the acquisition, construction or production of qualifying assets where the borrowing cost is added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred

Notes to the Consolidated Financial Statements

(j) 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.

(k) Trade and other receivables
Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Trade receivables are generally due for settlement within periods ranging from 15 days to 30 days.

(k) Trade and other receivables continued
Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms. Factors considered by the Group in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Group. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

The amount of the impairment loss is recognised in the statement of profit or loss and other comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of profit or loss and other comprehensive income.

(l) 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 9.5%.

(m) 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:

1) the right to tenure of the area of interest are current; and
2) at least one of the following conditions is also met:
   a) the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; and
   b) exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing. Exploration and evaluation 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.

Notes to the Consolidated Financial Statements

(m) Exploration and evaluation expenditure continued

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 or 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.

(n) 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.

(o) 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.

(p) 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.

(q) 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.

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.

(r) 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.

Notes to the Consolidated Financial Statements

(r) Share based payments continued
Where options are cancelled, they are treated as if vesting occurred on cancellation and any unrecognised expenses are taken immediately to the Statement of Profit or Loss and Other 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.

(s) 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 derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

(s) Property, Plant and Equipment continued
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(e)).

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.

(t) 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.

(u) 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.

(v) Interest-bearing loans and borrowings
All loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowing. Interest calculated using the effective interest rate method is accrued over the period it becomes due and increases the carrying amount of the liability.

(w) 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 or Loss and Other Comprehensive Income.

Notes to the Consolidated Financial Statements

(w) Principles of consolidation continued
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 or Loss 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 or loss.

(x) New, revised or amending Accounting Standards and Interpretations adopted
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2017 and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

AASB 9 Financial Instruments
AASB 9, published in July 2014, replaces the existing guidance in AASB 39 *Financial Instruments: Recognition and Measurement*. AASB 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from AASB 39.

AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 9. The revisions to the classification and measurement requirements and hedging changes are not currently expected to have a significant impact to the Group. Changes in relation to the expected credit loss model for calculating impairment on financial assets are not expected to have a material impact based on the short-term nature of the Group' s assets.

AASB 15 Revenue from Contracts with Customers
AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 18 *Revenue*, AASB 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is assessing the potential impact on of this standard on its consolidated financial statements resulting from the application of AASB 15. The Group does not currently have any revenue so there will not be a material impact.

AASB 16 Leases
The key feature of AASB 16 for (lease accounting) are as follows:

- Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.
- A lessee measures right-of-use asset similarly to other non-financial assets and lease liabilities similar to other financial liabilities.
- Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-lined payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.

AASB 16 contains disclosure requirements for lessees and is effective for annual reporting periods beginning on 1 January 2019, with early adoption permitted. The Group is assessing the potential impact on of this standard on its consolidated financial statements resulting from the application of AASB 16, which has not yet been finalised.

(y) 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.

Notes to the Consolidated Financial Statements

(y) Critical Accounting Estimates and Judgements continued
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.

	2017	2016
NOTE 2. REVENUE	**$**	**$**
Interest income	345	42,270
	345	42,270
NOTE 3. OTHER EXPENSES		
Administration services	37,150	36,595
Legal fees	9,640	35,969
Accounting and secretarial fees	53,133	69,258
Other expenses	51,726	56,455
	151,649	198,277
NOTE 4. INCOME TAX		
a) Reconciliation of income tax expense to prima facie tax payable		
Loss before income tax	(452,190)	(2,091,648)
Prima facie income tax at 30%	(135,657)	(627,494)
Non-deductible expenses	10,822	(773)
Non-assessable income	1	(1)
Movement in unrecognised temporary differences	1,180	472,970
Effect of tax loss not recognised as deferred assets	123,654	1,101,238
Income tax (expense)/benefit	-	-
b) Unrecognised deferred tax assets arising on timing differences and losses:		
Unrecognised deferred tax asset – tax losses	3,785,697	3,662,043
Unrecognised deferred tax asset - timing	41,620	41,641
Unrecognised deferred tax asset – capital raising costs	-	605
	3,827,317	3,704,289
NOTE 5. CASH AT BANK		
Cash at bank and on hand	614	1,805
	614	1,805

Information about the Group's exposure to interest rate risk is provided in Note 16.

Notes to the Consolidated Financial Statements

	2017	2016
	$	$
NOTE 6. TRADE AND OTHER RECEIVABLES		
GST receivable	281,536	260,781
Accrued interest	105	-
Other receivables	3,178	20,461
	284,819	281,242

As of 30 June 2017, trade receivables that were past due or impaired was nil (2016: nil). Information about the Group's exposure to credit risk is provided in Note 16.

	2017	2016
NOTE 7. OTHER CURRENT ASSETS		
Bank guarantee	17,856	17,893
	17,856	17,893

	2017	2016
NOTE 8. PLANT AND EQUIPMENT		
Plant and equipment	137,825	137,825
Less: accumulated depreciation	(133,824)	(133,129)
Less: impairment	(4,001)	-
	-	4,696

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

	$
Balance at 1 July 2016	**4,696**
Depreciation expense	(695)
Impairment	(4,001)
Balance at 30 June 2017	**-**
Balance at 1 July 2015	**7,438**
Depreciation expense	(2,742)
Balance at 30 June 2016	**4,696**

NOTE 9. CAPITALISED EXPLORATION EXPENDITURE	**2017**	**2016**
Capitalised tenement acquisition costs	**$**	**$**
Opening net book amount	2,060,027	3,747,933
Impairment during the year	-	(1,687,906)
Closing net book amount	2,060,027	2,060,027

The ultimate recoverability of the Group's areas of interest is dependent on the successful discovery and commercialisation of the project. The Group follows the guidance of AASB 6 Exploration for and Evaluation of Mineral Resources to determine when capitalised exploration and evaluation expenditure is impaired.

Refer to Note 1(y) for further details.

	2017	**2016**
NOTE 10. TRADE AND OTHER PAYABLES	**$**	**$**
Trade payables	556,065	448,656
Related party creditors	1,332,250	1,097,963
Accrued expenses	79,374	133,748
Payroll liabilities	5,091	19,407
	1,972,780	1,699,774

Notes to the Consolidated Financial Statements

NOTE 11: BORROWINGS

On 14 March 2014, the Group entered into a loan agreement with Michael Fotios ATF the Michael Fotios Family Trust to the amount of $1,000,000 or such other greater sum as the parties may agree in writing. The purpose of the loan facility is to provide working capital to the Group to fund its immediate operational requirements and the loan bears no interest.

	2017	2016
Current Borrowings (Unsecured)	$	$
Michael Fotios Family Trust - non interesting bearing	4,381	22,461
Loans from other related parties*	306,131	111,214
	310,512	133,675

	2017	2016
Reconciliation of carrying amount of Michael Fotios Family Trust Loan:		
Opening amount	22,461	355,498
Drawdowns during the year	3,020	22,461
Transferred to Delta	(21,100)	
Repayments during the year	-	(355,498)
Closing drawdown balance	4,381	22,461
Closing undrawn balance	995,619	977,539

* Further information relating to loans from other related parties is set out in Note 23.

NOTE 12. CONTRIBUTED EQUITY

	2017	
Issued Capital	**Number**	**$**
Fully paid ordinary shares	116,174,519	15,989,063
Shares to be issued (i)	11,000,000	2,200,000
Total Contributed Equity	127,174,519	18,189,063

	2016	
Issued Capital	**Number**	**$**
Fully paid ordinary shares	116,174,519	15,989,063
Shares to be issued (i)	11,000,000	2,200,000
Total Contributed Equity	127,174,519	18,189,063

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

Movements in share capital

	Number	**$**
Balance 1 July 2016	127,174,519	18,189,063
Balance at 30 June 2017	**127,174,519**	**18,189,063**
Balance 1 July 2015	134,074,519	18,189,063
Cancellation of 6,900,000 ordinary shares (ii)	(6,900,000)	-
Balance at 30 June 2016	**127,174,519**	**18,189,063**

(ii) The above shares were cancelled on 27 November 2015 as part settlement of a dispute with the Group's joint venture partner in the McLarty Range Project.

Notes to the Consolidated Financial Statements

NOTE 12. CONTRIBUTED EQUITY	2017	
Movements in options on issue	**Number**	**$**
Balance at 1 July 2016	-	-
Issued/(lapsed) during the year	-	-
Balance at 30 June 2017	-	-
Vested and exercisable at end of the year	-	
Balance at 1 July 2015	8,000,000	2,629,621
Issued/(lapsed) during the year:		
- Lapsing of unlisted options expiring on 31 December 2015 at $0.35 each	(8,000,000)	(2,629,621)
Balance at 30 June 2016	-	-
Vested and exercisable at end of the year	-	

	2017	2016
NOTE 13. ACCUMULATED LOSSES	**$**	**$**
Accumulated losses at beginning of year	(20,286,470)	(18,194,822)
Net loss for the year	(452,190)	(2,091,648)
Accumulated losses at end of year	(20,738,660)	(20,286,470)
NOTE 14. SHARE BASED PAYMENT RESERVE		
Balance at beginning of year	2,629,621	2,629,621
Issue of unlisted options	-	-
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. There were no unlisted options issued during the year.

NOTE 15. PROFIT/LOSS PER SHARE	2017 $	2016 $
Loss attributable to the members of the company used in calculating basic and diluted loss per share	(452,190)	(2,091,648)
Basic loss per share (cents)	(0.36)	(1.75)
Diluted loss per share (cents)	(0.36)	(1.75)
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic loss per share	127,174,519	119,376,362

Notes to the Consolidated Financial Statements

NOTE 16. 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.

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	
	2017	**2016**
	$	**$**
Cash and cash equivalents	614	1,805
Other receivables	285,319	281,242
Other current assets	17,856	17,893
	303,789	300,940

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	285,319	281,242
Cash at bank and short-term bank deposits		
AA – S&P rating	18,470	19,698
	303,789	300,940

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 the level of funding from related parties and the reliance of such funding on the basis of the gearing ratio.

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.

Gearing levels are reviewed by the Board on a regular basis in line with its target gearing ratio, the cost of capital and the risks associated with each class of capital.

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 16. 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 2017

	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	1,972,780	1,972,780	1,972,780	-	-	-	-
Borrowings	310,512	310,512	-	310,512	-	-	-
	2,283,292	2,283,292	1,972,780	310,512	-	-	-

30 June 2016

	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	1,699,774	1,699,774	1,699,774	-	-	-	-
Borrowings	133,675	133,675	-	133,675	-	-	-
	1,833,449	1,833,449	1,699,774	133,675	-	-	-

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.

Sensitivity analysis

If the interest rates had weakened/strengthen by 10% (based on forward treasury rates) at 30 June 2017, 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.

2017	Fixed Interest	Floating Interest	Non-Interest Bearing	Total
Financial Assets	**$**	**$**	**$**	**$**
Cash and cash equivalents	-	614	-	614
Trade and other receivables	17,856	-	284,819	302,675
Weighted Average Interest Rate	1.90%	-	-	-
Net Financial Assets	17,856	614	284,819	303,289
Financial Liabilities				
Trade and other payables and borrowings	-	-	2,283,292	2,283,292
	-	-	2,283,292	2,283,292

2016	Fixed Interest	Floating Interest	Non-Interest Bearing	Total
Financial Assets				
Cash and cash equivalents	-	1,805	-	1,805
Trade and other receivables	17,893	-	281,242	299,135
Weighted Average Interest Rate	1.90%	-	-	-
Net Financial Assets	17,893	1,805	281,242	300,940
Financial Liabilities				
Trade and other payables and borrowings	-	-	1,833,449	1,833,449
	-	-	1,833,449	1,833,449

NOTE 16. FINANCIAL RISK MANAGEMENT (continued)

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 17. 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 18. CONTINGENT LIABILITIES

At 30 June 2017 there were $468,497 trade creditors included in current liabilities which were outside their agreed terms of repayment. The company is subject to legal proceedings for demands and claims of $56,050 of these long outstanding creditors.

The directors expect to enter into repayment plans with their long outstanding third party creditors. The directors believe this will not have an effect on the company's ability to continue as a going concern as detailed further in Note 1.

NOTE 19. COMMITMENTS

Exploration commitments

The Group has certain obligations to perform minimum exploration work and to spend minimum amounts on exploration tenements. The obligations may be varied from time to time subject to approval and are expected to be fulfilled in the normal course of the operations of the Group.

Due to the nature of the Group'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.

Commitment contracted for at balance date but not recognised as liabilities are as follows:

	2017
	$
Within one year	90,000

NOTE 20. EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 27 October 2017, the Company announced it had entered into an agreement with Mr Michael Fotios (Non-executive Director and substantial shareholder), whereby Mr Fotios and associated entities agreed to provide funding of up to $1,000,000 to the Company. This replaces the company's current loan with the Michael Folios Family Trust.

During the year, the Company received Notices to Wind Up from external consultants. Each of the matters has been settled.

Other than the above, there have not been any matters that have arisen since 30 June 2017 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.

	2017	2016
NOTE 21. AUDITOR'S REMUNERATION	$	$
Amount paid or payable to BDO Audit (WA) Pty Ltd for assurance services	37,150	38,246

NOTE 22. DIVIDENDS

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

Notes to the Consolidated Financial Statements

NOTE 23. RELATED PARTY TRANSACTIONS	**2017**	**2016**
(a) Summarised Compensation of Key Management Personnel	**$**	**$**
Short-term employee benefits	103,839	107,500
Post-employment benefits	-	-
	103,839	107,500

(b) Other Transactions with Key Management Personnel
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 Limited during the year (2016: nil). As at 30 June 2017, there is balance of $162,443 excl. of GST outstanding (2016: $160,497).

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 Resource Management Pty Ltd for the year (2016: nil). As at 30 June 2017, there is balance of $626,546 excl. of GST outstanding (2016: $543,843).

Whitestone Minerals Limited (Whitestone) is a related party of Michael Fotios who is a Director of the Company. No amounts were paid to Whitestone during the year (2016: nil). As at 30 June 2017, there is balance of $324,348 excl. of GST outstanding (2015: $218,806).

Related Party Creditors	**2017**	**2016**
	$	**$**
Delta Resource Management Pty Ltd	689,200	598,228
Eastern Goldfields Limited	25,079	-
Investment Limited	178,688	176,548
Michael Fotios Family Trust	82,500	82,500
Whitestone Minerals Limited	356,783	240,687
	1,332,250	1,097,963

<u>Non-interest loans from related parties</u>
The purpose of the loans with related parties is to provide working capital to the Group to fund its immediate operational requirements. The proceeds from the loans have been used to meet short-term expenditure needs. The following balance is outstanding at the end of the reporting period.

	2017	**2016**
Loans advanced during the year – interest free	**$**	**$**
Loan from Michael Fotios Family Trust*	4,381	22,461
Loans from Michael Fotios's related parties	306,131	111,214
End of year	310,512	133,675

* Further information relating to loan from Michael Fotios Family Trust is set out in Note 11.

The above loans are not expected to be repaid until such a time that Pegasus Metals Limited have received the necessary funds for repayment and such a repayment would not impair Pegasus Metals Limited to continue as a going concern.

NOTE 24. INVESTMENT IN CONTROLLED ENTITIES

Name of Entity	***Equity Holding***		***Cost of Parent Entity's Investment***	
	2017	**2016**	**2017**	**2016**
	%	**%**	**$**	**$**
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.

Notes to the Consolidated Financial Statements

NOTE 25. SHARE BASED PAYMENTS

(a) Share based payment arrangements

30 June 2017

Grant Date	*Expiry Date*	*Exercise Price*	*Balance at 1 July 2016*	*Granted during the year*	*Exercised during the year*	*Forfeited during the year*	*Balance at 30 June 2017*	*Vested and exercisable at 30 June 2017*
			-	-	-	-	-	-
			-	-	-	-	-	-

30 June 2016

Grant Date	*Expiry Date*	*Exercise Price*	*Balance at 1 July 2015*	*Granted during the year*	*Exercised during the year*	*Forfeited during the year*	*Balance at 30 June 2016*	*Vested and exercisable at 30 June 2016*
30/11/12	31/12/15	$0.35	8,000,000	-	-	(8,000,000)	-	-
			8,000,000	-	-	(8,000,000)	-	-

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

	2017 No.	*2017 Weighted average exercise price*	*2016 No.*	*2016 Weighted average exercise price*
Outstanding at the beginning of the year	-	-	8,000,000	0.35
Granted during the year	-	-	-	-
Forfeited during period	-	-	(8,000,000)	0.15
Outstanding at the end of the year	-	-	-	-
Exercisable at the end of the year	-	-	-	-

(b) Expenses arising from share based payments

There were no options issued to Directors or consultants during the financial years 2017 and 2016.

NOTE 26. STATEMENT OF CASH FLOWS

	2017 $	**2016 $**
Reconciliation of cash and cash equivalents		
Cash and cash equivalents as shown in the statement of financial position and the statement of cash flows	614	1,805
Operating loss after tax	(452,190)	(2,091,648)
Depreciation	695	2,742
Impairment expenses	4,001	1,687,906
Changes in assets and liabilities		
Increase in trade and other receivables	(3,540)	(7,893)
Increase in trade and other payables	259,343	636,837
Net cash (used in)/inflow operating activities	(191,691)	227,944

There were no non-cash financing and investing activities (2016: nil).

Notes to the Consolidated Financial Statements

NOTE 27. PEGASUS METALS LIMITED PARENT COMPANY INFORMATION	2017 $	2016 $
ASSETS		
Current assets	303,289	300,940
Non-current assets	2,060,027	2,064,723
TOTAL ASSETS	**2,363,316**	**2,365,663**
LIABILITIES		
Current liabilities	1,972,780	1,699,774
Borrowings	310,512	133,675
TOTAL LIABILITIES	**2,283,292**	**1,833,449**
EQUITY		
Contributed equity	18,189,063	18,189,063
Reserves	2,629,621	2,629,621
Accumulated losses	(20,738,660)	(20,286,470)
TOTAL EQUITY	**80,024**	**532,214**
FINANCIAL PERFORMANCE		
(Loss)/profit for the year	**(452,190)**	**(2,091,648)**

GUARANTEES ENTERED INTO BY PARENT ENTITY

As at 30 June 2017 and 2016, the Company has not provided any financial guarantees in relation to the debts of its subsidiaries.

NOTE 28. SUBSEQUENT EVENTS

On 27 October 2017, the Company announced it had entered into an agreement with Mr Michael Fotios (Non-executive Director and substantial shareholder), whereby Mr Fotios and associated entities agreed to provide funding of up to $1,000,000 to the Company.

During the year, the Company received Notices to Wind Up from external consultants. Each of the matters has been settled subsequent to the yearend.

Other than the above, there have not been any matters that have arisen since 30 June 2017 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.

Directors' Declaration

The Directors of the Company declare that:

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

   (a) Comply with Accounting Standards and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

   (b) Give a true and fair view of the financial position as at 30 June 2017 and of the performance for the year ended on that date of the Group.

2. In the Directors' opinion, there are reasonable grounds to believe that the Group 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 Managing Director 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.

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:

MICHAEL FOTIOS
Director

Perth, Western Australia
1 November 2017

Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

INDEPENDENT AUDITOR'S REPORT

To the members of Pegasus Metals Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Pegasus Metals Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the con solidated 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, and notes to the
financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Material uncertainty related to going concern

We draw attention to Note 1 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Accounting for Exploration and Evaluation Assets

Key audit matter	*How the matter was addressed in our audit*
At 30 June 2017 the carrying value of the capitalised exploration and evaluation asset was $2,060,027 (30 June 2016: $2,060,027), as disclosed in Note 9. As the carrying value of the Exploration and Evaluation Asset represents a significant asset of the Group, we considered it necessary to assess whether any facts or circumstances exist to suggest that the carrying amount of this asset may exceed its recoverable amount. Judgement is applied in determining the treatment of exploration expenditure in accordance with Australian Accounting Standard AASB 6 Exploration for and Evaluation of Mineral Resources. In particular: • Whether the conditions for capitalisation are satisfied; • Which elements of exploration and evaluation expenditures qualify for recognition; and • Whether facts and circumstances indicate that the exploration and expenditure assets should be tested for impairment.	Our procedures included, but were not limited to: • Obtaining a schedule of the areas of interest held by the Group and assessing whether the rights to tenure of those areas of interest remained current at balance date; • Considering the status of the ongoing exploration programmes in the respective areas of interest by holding discussions with management, and reviewing the Group's exploration budgets, ASX announcements and director's minutes; • Considering whether any such areas of interest had reached a stage where a reasonable assessment of economically recoverable reserves existed; • Considering whether any facts or circumstances existed to suggest impairment testing was required; and • We also assessed the adequacy of the related disclosures in Note 9 and Note 1(m) to the Financial Statements.

Measurement and Disclosure of Contingent Liabilities

Key audit matter	*How the matter was addressed in our audit*
The group is subject to legal proceedings, which may require management to make significant judgement in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets, for recognition, measurement and disclosure purposes. Refer to Note 18 for disclosure relating to contingencies as at 30 June 2017. Given the nature of the matter and its potential material impact on the financial report of Pegasus Metals Limited, we deem this a key audit matter at 30 June 2017.	Our procedures included, but were not limited to: • Assessing management's position and evaluation of items of legal proceedings and claims in line with the requirements of AASB 137; • Reviewing legal invoices and written representation from solicitors for corroboration against management's assessment of the legal matters; • Reviewing the group's settlement plans for evidence that the information is consistent with management's assessment of the legal matters and claims; and • Assessing the adequacy of disclosure for contingencies in Note 18 to the financial report.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors 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 preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at:

http://www.auasb.gov.au/auditors_files/ar2.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 12 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Pegasus Metals Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

BDO Audit (WA) Pty Ltd

BDO

Neil Smith

Neil Smith

Director

Perth, 1 November 2017

Additional Information for Listed Public Companies

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below. The information is current as at 22 September 2017.

Distribution of quoted security holders

Range	Holders	Units	Percentage
1 - 1,000	29	4,029	0.00%
1,001 - 5,000	100	324,871	0.28%
5,001 - 10,000	72	625,362	0.54%
10,001 - 100,000	258	11,356,809	9.78%
Over 100,000	113	103,863,448	89.40%
TOTAL	**572**	**116,174,519**	**100%**

Voting rights

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

Unquoted securities

Nil.

On-market buy-back

There is no current on-market buy-back.

Securities Exchange listing

Quotation has been granted for the Company's Ordinary Shares on ASX Limited (Code: PUN).

Substantial shareholders

Shareholder Name	Units	Percentage
Investmet Ltd	17,009,402	14.64%
Wyllie Group Pty Ltd	6,596,465	5.68%

Less Than Marketable Parcel

Parcel	Holders	Units	Percentage
Total unmarketable parcel $500	248	1,613,431	1.39%

Twenty largest shareholders – Ordinary Shares

	Shareholder Name	Units	Percentage
1	INVESTMET LTD	17,009,402	14.64%
2	WYLLIE GRP PL	6,596,465	5.68%
3	BOTSIS HLDGS PL	4,408,448	3.79%
4	FOTIOS MICHAEL GEORGE <MICHAEL FOTIOS FAM>	4,341,893	3.74%
5	SHARIC SUPER PL <FARRIS S/F A/C>	4,100,658	3.53%
6	NORTHAMPTON MINING PL	4,000,000	3.44%
7	GUNZ PL <GUNZ S/F A/C>	3,471,068	2.99%
8	PERTH SELECT SEAFOODS PL	3,000,000	2.58%
9	FOTIOS ANTHONY HAROLD	2,781,937	2.39%
10	SPENCER ANDREW WILLIAM <SPENCER S/F A/C>	2,389,393	2.06%
11	SHARPLESS G J + J L <SHARPLESS INV A/C>	2,214,464	1.91%
12	OAKMOUNT NOM PL <NARROMINE S/F A/C>	2,024,805	1.74%
13	REDIMA PL	2,000,000	1.72%
14	SORENSEN DANE PEDER EVAN	1,813,896	1.56%
15	MCALPINE SANDRA LYNN	1,809,055	1.56%
16	MOORE B J + HAMMOND P C <BJM SUPER FUND A/C>	1,623,333	1.40%
17	COLBY JAMES + PAULA C <COLBY S/F A/C>	1,563,781	1.35%
18	SORENSEN DANE PEDER EVAN	1,550,000	1.33%
19	FEOH PL	1,500,000	1.29%
20	PATEK ROGER W + M H <RWP S/F A/C>	1,500,000	1.29%
	TOTAL	**69,698,598**	**59.99%**

Corporate Governance Statement

The Company's Corporate Governance Statement for the 2017 financial year can be accessed at:
http://pegasusmetals.com.au/http-staging-pegasus-indepth-com-au-corporategovernance.html

ANNUAL MINERAL RESOURCE STATEMENT

In accordance with ASX Listing Rule 5.21, the Company reviews and reports its Mineral Resources at least annually. The date of reporting is 30 June each year, to coincide with the Company's end of financial year balance date. If there are any material changes to its Mineral Resources over the course of the year, the Company is required to promptly report these changes.

In completing the annual review for the year ended 30 June 2017, the historical resource factors were reviewed and found to be relevant and current. The Mount Mulcahy Project has not been converted to an active operation yet and hence no resource depletion has occurred for the review period.

THE MINERAL RESOURCE STATEMENT

The current Mineral Resource Statement for the South Limb Pod ('SLP') at the Mt Mulcahy Copper Project is shown in Table 1 below.

The total Mineral Resource estimate comprises 647,000 tonnes at a grade of 2.3% Cu for 15,200 tonnes of contained copper metal (33.5M lbs); a grade of 1.8% Zn for 11,800 tonnes of contained zinc metal (26.3M lbs); and 20 g/t Ag for 415,000 ounces of contained silver, reported at a lower cut-off grade of 0.5% for copper)

Table 1: Total Mineral Resource Estimate

Mt Mulcahy South Limb Pod Mineral Resource Estimate as at 30 June 2017											
Resource Category	**Grade**						**Contained Metal**				
	Tonnes	**Cu (%)**	**Zn (%)**	**Co (%)**	**Ag (g/t)**	**Au (g/t)**	**Cu (t)**	**Zn (t)**	**Co (t)**	**Ag (oz)**	**Au (oz)**
Measured	**193,000**	3.0	2.3	0.1	25	0.3	5,800	4,400	220	157,000	2,000
Indicated	**372,000**	2.2	1.7	0.1	19	0.2	8,200	6,300	330	223,000	2,000
Inferred	**82,000**	1.5	1.3	0.1	13	0.2	1,200	1,100	60	35,000	
TOTAL	647,000	**2.4**	**1.8**	**0.1**	**20**	**0.2**	**15,200**	**11,800**	**610**	**415,000**	**4,000**

Notes accompanying Mineral Resource Statement

1. Rounding may result in apparent summation differences between tonnes, grade and contained metal content.
2. Rounding is to the nearest 1,000 tonnes, 0.1% Cu, Zn, Co, 1 g/t Ag, 0.1 g/t Au; 100 tonnes for Cu, Zn metal.
3. Significant figures do not imply an added level of precision.
4. Reported at a 0.5% Cu cut-off figure

MATERIAL CHANGES AND RESOURCE STATEMENT COMPARISON

There have been no material changes to the Mineral Resource during the review period from 1 July 2016 to 30 June 2017.

The information in this Annual Report that relates to Mineral Resources was prepared and first disclosed under the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' ("JORC Code") 2004 Edition and has not been updated since to comply with the JORC Code 2012 Edition on the basis that the information has not materially changed since it was last reported. It was first released to ASX on 13 February 2013 and was titled "Prospectus".

The Company is not aware of any new information or data that materially affects the information as previously released on 13 February 2013 and all material assumptions and technical parameters underpinning the estimates continue to apply and have not materially changed.

GOVERNANCE ARRANGEMENTS AND INTERNAL CONTROLS

The Group has ensured that the Mineral Resources quoted are subject to good governance arrangements and internal controls. The Mineral Resources reported have been generated by independent external consultants whom are experienced in best practices in modelling and estimation methods. The consultants have also undertaken reviews of the quality and suitability of the underlying information used to determine the resource estimate. In addition, management carry out regular reviews and audits of internal processes and external contractors that have been engaged by the Company.

TENEMENT SCHEDULE

TENEMENT No.	LOCATION	INTEREST %	HOLDER
E20/422	WA	100	Black Raven Mining Pty Ltd[1]
E20/840	WA	100	Pegasus Metals Ltd
MLA20/535[2]	WA	100	Pegasus Metals Ltd
P51/3016[2]	WA	100	Pegasus Metals Ltd
P51/3017[2]	WA	100	Pegasus Metals Ltd

Note 1: The Group holds a 100% interest in the E20/422 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 and transfer form to the DMP.

Note 2: Applications

COMPETENT PERSONS STATEMENT

The information in this Mineral Resource Statement is based on information compiled and/or reviewed by Mr Mr Michael Fotios, whom is a director of Pegasus Metals and a member of the Australasian Institute of Mining and Metallurgy ("AusIMM"). 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 2004 and 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Fotios consents to the inclusion in this Annual Report of the matters based on his information in the form and context in which it appears. The Annual Mineral Resource Statement as a whole has been approved by Mr Fotios.