



QUARTERLY ACTIVITIES REPORT FOR QUARTER ENDING 31 DECEMBER 2017

Pegasus Metals Ltd
ASX: PUN

ASX Announcement
31 January 2018

Shares on Issue
127,174,519

Current Share Price
A\$0.04

Market Capitalisation
A\$5.09m

Board of Directors

Mr Michael Fotios
Non-Executive Director

Mr Alan Still
Non-Executive Director

Mr Neil Porter
Non-Executive Director

Contact Details

24 Mumford Place
Balcatta WA 6021
Ph: 08 6241 1888

Projects

Mt Mulcahy: Cu Zn Ag

HIGHLIGHTS

- Proposed acquisition of Scorpion Minerals Limited announced post Quarter end

SCORPION MINERALS LIMITED DABLO PD-PT-AU-NI-CU PROJECT, Burkina Faso

During the December 2017 quarter, 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.

Post the end of the quarter, on 10 January 2018, the Company announced it had entered into an agreement ("**Agreement**") to acquire Scorpion Minerals Limited ("**Scorpion**") which holds the rights to acquire up to a 70% joint venture interest in the Dablo Pd-Pt-Au-Ni-Cu (palladium-platinum-gold-nickel-copper) exploration project ("**Dablo Project**") located in Burkina Faso ("**Transaction**").

The Dablo Project is a significant ultramafic-mafic complex which could potentially host a large palladium-platinum-gold-nickel-copper deposit. The acquisition of Scorpion provides Pegasus with a first mover advantage in an emerging PGE-Au-Ni-Cu Province. The Dablo Project consists of a large tenement package comprising 4 tenements for a total of 981 km² along the Dablo Main Intrusion (DMI) with a strike length of 6km identified within >35km anomalous trend.

For more detailed geological discussion, refer PUN:ASX announcement on the 10th January 2018 (Pegasus-to-acquire-farm-in-rights-to-Dablo-project)

Scorpion is party to a memorandum of agreement which sets out the key commercial terms of a proposed joint venture with Newgenco Exploration (West Africa) Pty Ltd ("**NEWA**") over the Dablo Project.

Pursuant to the memorandum of agreement and the agreed proposed commercial terms of the JV with NEWA, Scorpion can acquire up to a 70% interest in the Dablo Project in two phases:

- **Phase 1** - Scorpion to spend \$4M on agreed expenditure within 24 months after the date the conditions precedent to the JV agreement are satisfied to earn an initial interest of 51% in the Dablo Project. Scorpion must spend a minimum of \$1.15M within 12 months after the Commencement Date.
- **Phase 2** - On completion of Phase 1, Scorpion can earn up to a further 19% interest (being a cumulative interest of 70%) in the Dablo Project by spending up to a further \$4M on agreed expenditure within the period of 18 months after completion of Phase 1.

On completion of Phase 2, the parties must jointly contribute to expenditure at the Dablo Project in proportion to their ownership interests or dilute on terms that are usual in agreements of this type.

In line with the acquisition of Scorpion, Pegasus will assume all commitments of the Scorpion/NEWA Agreement.

COMMERCIAL TERMS - PEGASUS ACQUISITION OF SCORPION

The commercial terms of the Agreement between Pegasus and Scorpion are summarised below:

- Pegasus is to acquire 100% of the issued capital of Scorpion for A\$0.36M via the issue of a total of 12M fully paid ordinary shares in the capital of Pegasus at an implied price of 3 cents per Share.
- In addition, the promoters/directors of Scorpion will be issued three (3) tranches of unlisted options in the capital of Pegasus to be structured to include a “cashless exercise” alternative (if available):
 - Tranche 1 - 15M Pegasus options with an exercise price of 3 cents per option, expiring 12 months from the date of issue;
 - Tranche 2 - 15M Pegasus options with an exercise price of 5 cents per option, expiring 24 months from the date of issue; and
 - Tranche 3 - 15M Pegasus options with an exercise price of 10 cents per option, expiring 36 months from the date of issue.
- Pegasus will also assume the outstanding loan obligations of Scorpion under the A\$0.5M loan facility with Investmet Limited (“**Investmet**”), an entity associated with Mr Michael Fotios. An amount equal to A\$0.25M (50%) will be repayable to Investmet from the Capital Raising (defined below) to be completed as part of the Transaction. Any amount in excess of A\$0.25M will become repayable in either cash or shares, at Pegasus’ election, once the Pegasus share price has traded as a volume weighted average price (VWAP) above 25 cents per share over a continuous 30-day period.
- At the time of announcing the Transaction, Pegasus will commit to completing a placement to raise a minimum cash amount of A\$0.6M (**Capital Raising**).

CAPITAL RAISING

In connection with the proposed acquisition, the Company plans to underake a placement under its ASX Listing Rule 7.1 capacity to sophisticated investors of 20,000,000 ordinary shares at 3 cents per Share, to raise \$0.6M before costs associated with the issue.

The funds raised will be applied to progress the proposed acquisition and exploration of the Dablo Project, exploration activities at the Company's Mt Mulcahy Copper Project, working capital and repaying \$0.25M of the loan facility provided by Investmet to Scorpion.

CONDITIONS PRECEDENT

Completion of the Transaction will be subject to the following conditions precedent:

1. Scorpion obtaining all necessary regulatory and shareholder approvals pursuant to the Corporations Act 2001 (*Cth*) (**Corporations Act**) and any other law (including ASIC relief).
2. Pegasus obtaining all necessary shareholder and regulatory approvals pursuant to the ASX Listing Rules, the Corporations Act, and any other law (including all ASX approvals and waivers and ASIC relief) to allow Pegasus to lawfully complete the Transaction, including but not limited to, approval pursuant to item 7 of section 611 of the Corporations Act in relation to the debt conversion referred to below.
3. Pegasus Director Related Loans are currently A\$1.6M. As part of the Transaction, 50% equating to A\$0.8M will be converted to equity in Pegasus at an implied rate of 3 cents per Share, with the balance to remain outstanding, with repayment terms to be extended and repayment to be made in either cash or shares, at Pegasus' election, once the Pegasus share price has traded as a VWAP above 25 cents per share over a continuous 30-day period.

(together, the **Conditions**).

Subject to satisfaction of the Conditions, in consideration for Investmet entering the loan terms outlined above, Investmet shall be issued three (3) tranches of unlisted options in the capital of Pegasus ("**Investmet Options**") as follows:

- Tranche 1 - 7.5M Pegasus options with an exercise price of 3 cents per option, expiring 12 months from the date of issue;
- Tranche 2 - 7.5M Pegasus options with an exercise price of 5 cents per option, expiring 24 months from the date of issue; and
- Tranche 3 - 7.5M Pegasus options with an exercise price of 10 cents per option, expiring 36 months from the date of issue.

MT MULCAHY COPPER PROJECT, Murchison, WA

Geology Discussion:

The Mt Mulcahy project (Refer Figure 1) hosts the Mount Mulcahy copper-zinc deposit, volcanic-hosted massive sulphide (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.

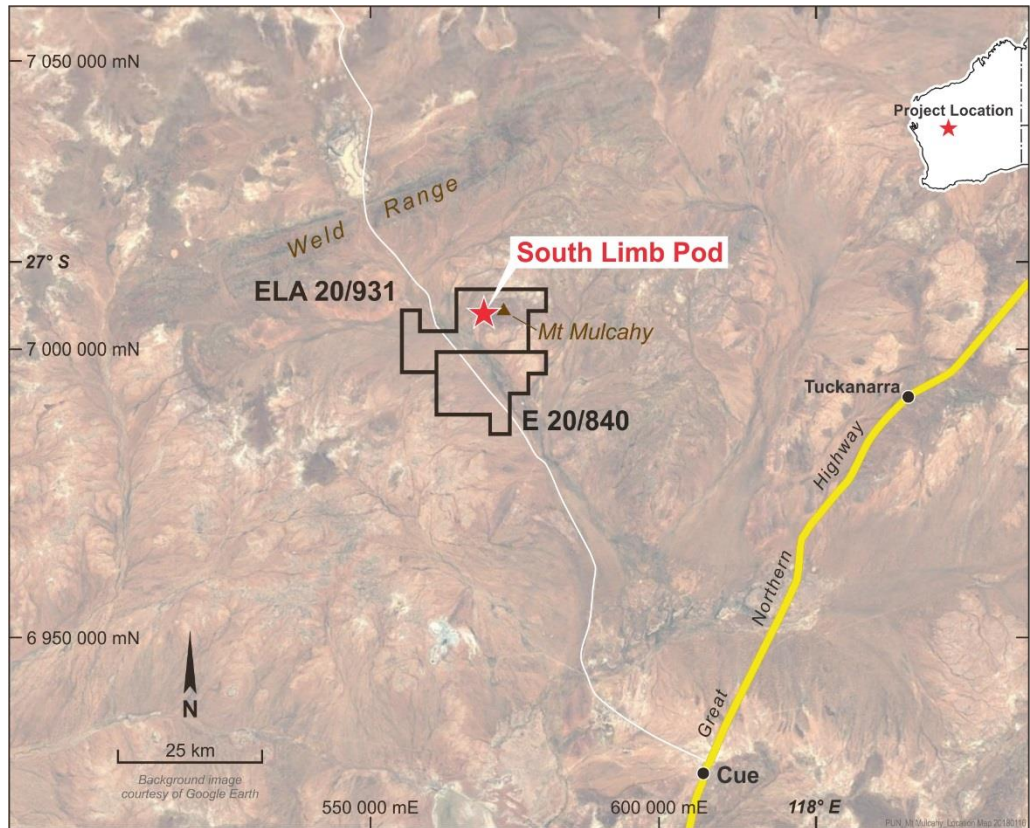


Figure 1. Pegasus Metals location map. MLA20/535 has been applied for over EL20/422

Geology Activities:

As reported in September quarterly report, the Company had applied for a Mining Lease (MLA20/535) to cover tenement E20/422, containing the SLP resources and potential extensions of the VMS horizon.

During the December quarter the Department for Mines, Industry regulation and Safety (DMIRS) advised that the new Mining Lease application was considered affected by the result of the High Court outcome in *Forrest and Forrest Pty Ltd v Wilson* (2017). Accordingly, the department advised that E20/422 was considered expired as at 6th April 2017, and the company has applied for a new exploration lease over the area (ELA 20/931)

Planned drilling of down-plunge extensional holes (refer Figures 2, 3) to the current resource at the SLP now awaits the grant of the new licence.

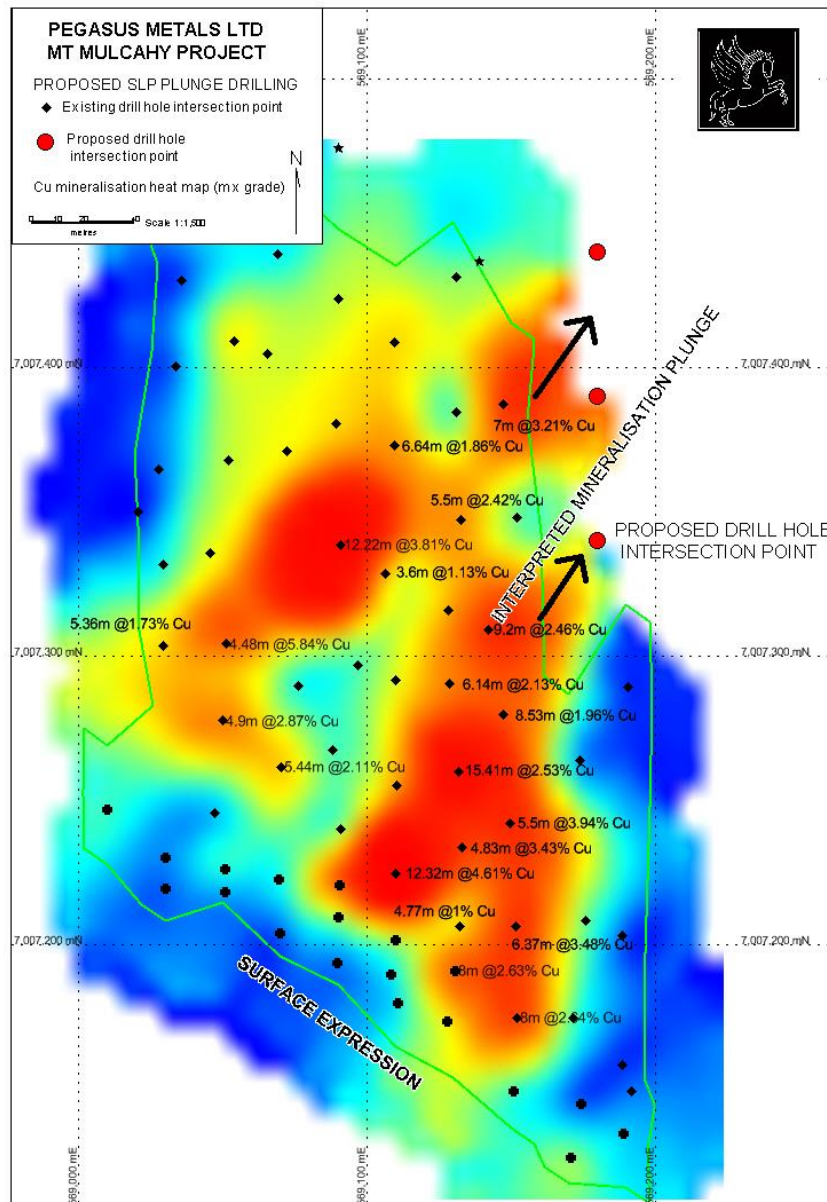


Figure 2: Plan of proposed SLP down plunge drilling.

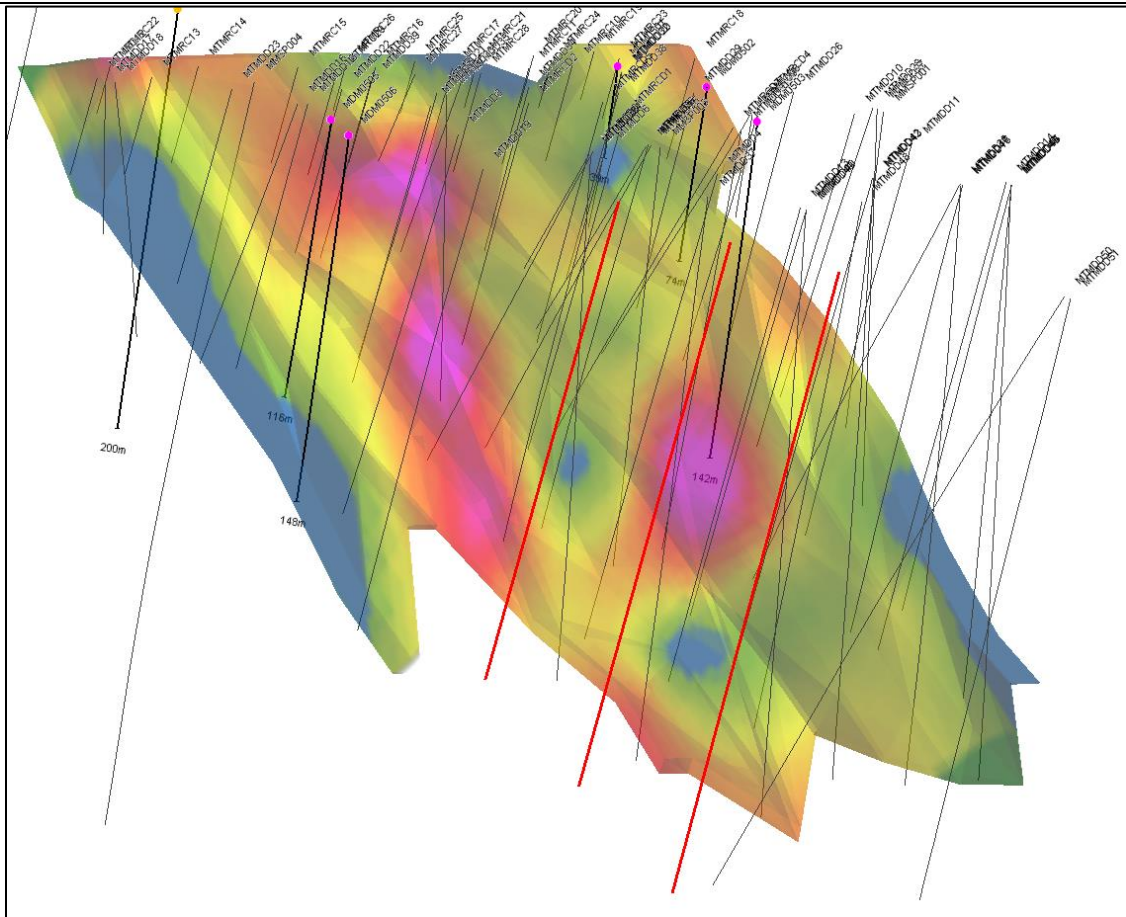


Figure 3: Oblique section of proposed SLP down plunge drilling (red traces), viewed from North East. Previous drilling defining the current resource denoted by grey or black traces.

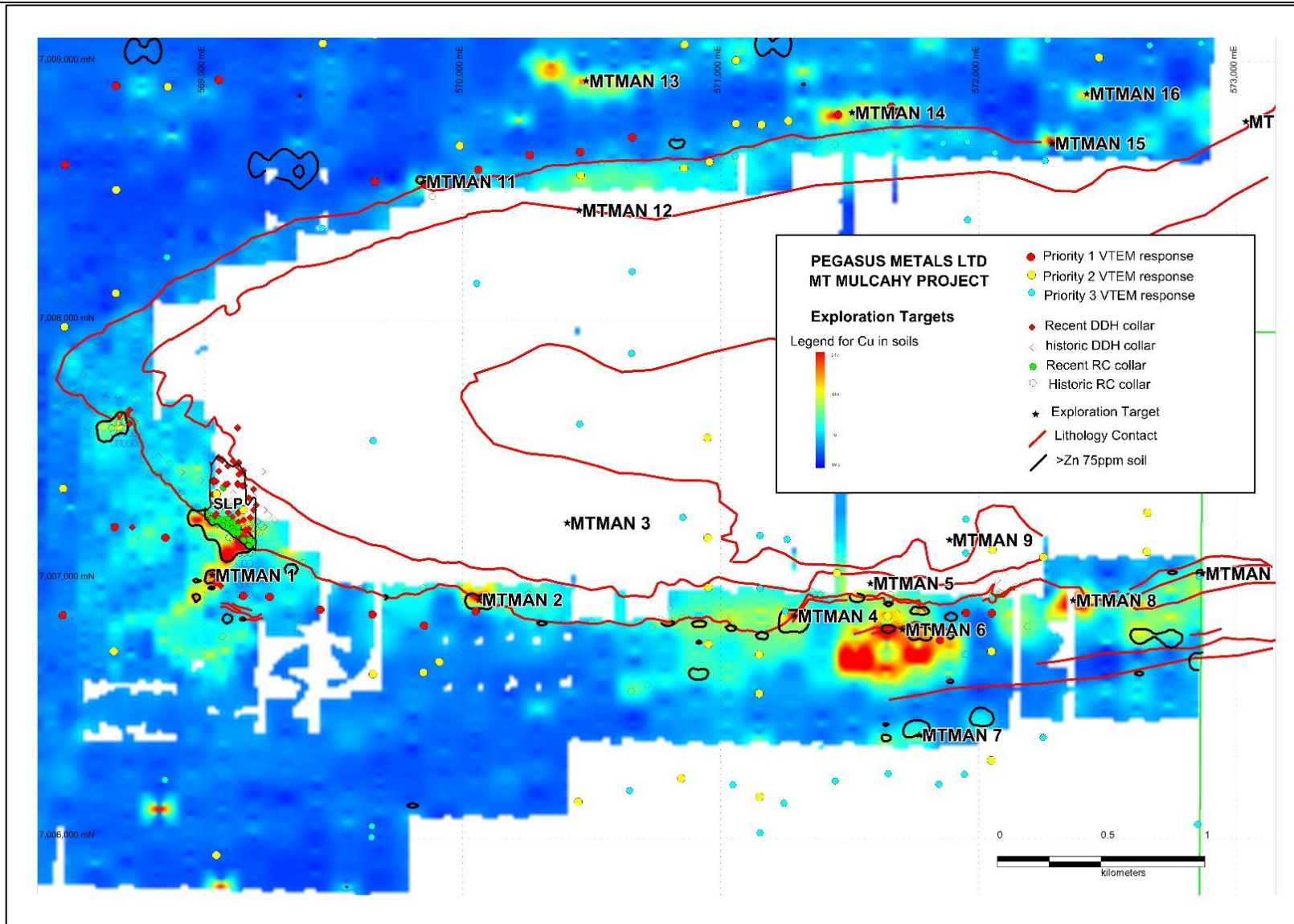


Figure 4: Mt Mulcahy priority exploration areas (MTMAN designation), in relation to South Limb Pod (SLP), shown with soil geochemistry, VTEM anomalies, and lithology contacts.

BOARD CHANGES

Subject to shareholder approval, Ms Bronwyn Barnes and Mr Grant Osborne will be appointed to the Company as Directors.

Mr Michael Fotios will be resigning from the Pegasus Board effective at completion of the acquisition and subject to receipt of shareholder approval for the acquisition of the Dablo Project.

CORPORATE

During the quarter, the Company entered into an unsecured loan agreement for up to \$1,000,000 with entities associated with Mr Michael Fotios, the Company's major shareholder and Non-Executive Director. Refer ASX announcement released on 26 October 2017 for material terms of the agreement.

The Company also released its Annual Financial Report for the year ended 30 June 2017 on 2 November 2017.

On 30 November 2017, the Company held its Annual General Meeting at which all resolutions put to shareholders were carried unanimously by a show of hands.

For further information contact:

Michael Fotios
Non-Executive Director

Pegasus Metals Limited
ABN 40 115 535 030
Telephone: 08 6241 1888
Website: www.pegasusmetals.com.au
Contact: reception@deltaman.com.au



Figure 5: Project location map.

Mt Mulcahy South Limb Pod Mineral Resource Estimate as at 31st December 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

Competent Persons Statements

Information in this announcement that relates to the Mt Mulcahy Mineral Resource estimations has been compiled by Rob Spiers, who was an employee of geological consultants H&S Consultants Pty Ltd at the time of resource reporting and a Member of The Australian Institute of Geoscientists. Mr Spiers 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'. The Company confirms that the form and context in which the information is presented has not been materially modified and it is not aware of any new information or data that materially affects the information included in the relevant market announcements, as detailed in the body of this announcement. All material assumptions and technical parameters underpinning the Mineral Resource estimates continue to apply and have not materially changed.

Information in this announcement that relates to Exploration Results has been compiled by Michael Fotios who is a consultant geologist, Director of Pegasus Metals Limited and a member of the Australian 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 2004 and 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. The Exploration Results were released to ASX on 17 September 2012, 15 November 2012, 24 January 2013, 11 April 2013, 1 May 2013, 15 May 2013, 5 June 2013 and 30 August 2013. The Company confirms that the form and context in which the information is presented has not been materially modified and it is not aware of any new information or data that materially affects the information included in the relevant market announcements, as detailed in the body of this announcement. Mr Fotios consents to the inclusion of the information in this announcement in the form and context in which it appears.

Forward Looking Statements

Pegasus Metals Ltd has prepared this announcement based on information available to it. No representation or warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness of the information, opinions and conclusions contained in this announcement. To the maximum extent permitted by law, none of Pegasus Metals Ltd, its Directors, employees or agents, advisers, nor any other person accepts any liability, including, without limitation, any liability arising from fault or negligence on the part of any of them or any other person, for any loss arising from the use of this announcement or its contents or otherwise arising in connection with it. This announcement is not an offer, invitation, solicitation or other recommendation with respect to the subscription for, purchase or sale of any security, and neither this announcement nor anything in it shall form the basis of any contract or commitment whatsoever. This announcement may contain forward looking statements that are subject to risk factors associated with exploration, mining and production businesses. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a variety of variables and changes in underlying assumptions which could cause actual results or trends to differ materially, including but not limited to price fluctuations, actual demand, currency fluctuations, drilling and production results, reserve estimations, loss of market, industry competition, environmental risks, physical risks, legislative, fiscal and regulatory changes, economic and financial market conditions in various countries and regions, political risks, project delay or advancement, approvals and cost estimate.



Addendum - Tenement Table ASX Listing Rule 5.3.3

- ***The mining tenements held at the end of each quarter and their location***

➤ **TENEMENT SCHEDULE**

TENEMENT No.	LOCATION	STATUS	INTEREST %	HOLDER
ELA20/931	WA	Application	100	Pegasus Metals Ltd
E20/840	WA	Granted	100	Pegasus Metals Ltd
P51/3016	WA	Application	100	Pegasus Metals Ltd
P51/3017	WA	Application	100	Pegasus Metals Ltd

➤

- ***The mining tenements acquired during the quarter and their location***

Nil

- ***The mining tenements disposed of during the quarter and their location***

Nil

- ***The beneficial percentage interests held in farm-in or farm-out agreements at the end of the quarter***

Nil

- ***The beneficial percentage interests in farm-in or farm-out agreements acquired or disposed of during the quarter***

Nil

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

Name of entity

Pegasus Metals Limited

ABN

40 115 535 030

Quarter ended ("current quarter")

31 December 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(11)	(11)
(b) development	-	-
(c) production	-	-
(d) staff costs	-	-
(e) administration and corporate costs	(71)	(111)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(82)	(122)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	-	-

Mining exploration entity and oil and gas exploration entity quarterly report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
	(d) other non-current assets	-	-
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	-	-
3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	82	122
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	82	122
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1	1
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(82)	(122)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4	Net cash from / (used in) financing activities (item 3.10 above)	82	122
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	1	1

Mining exploration entity and oil and gas exploration entity quarterly report

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	1	1
5.2 Call deposits	-	-
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1	1

6. Payments to directors of the entity and their associates**Current quarter
\$A'000**

6.1 Aggregate amount of payments to these parties included in item 1.2

-

6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3

-

6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

N/A

7. Payments to related entities of the entity and their associates**Current quarter
\$A'000**

7.1 Aggregate amount of payments to these parties included in item 1.2

-

7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3

-

7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

N/A

Mining exploration entity and oil and gas exploration entity quarterly report

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	1,000	393
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

8.1—On 26 October 2017, the Company renewed the loan facility of up to \$1 million with entities associated with Director Mr Michael Fotios.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	100
9.2 Development	-
9.3 Production	-
9.4 Staff costs	-
9.5 Administration and corporate costs	60
9.6 Other (provide details if material)	-
9.7 Total estimated cash outflows	160

1. To be financed through the loan facility in place unless an alternative capital raising is undertaken.

10. Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced	E20/422	Exploration Licence	100%	Nil
10.2 Interests in mining tenements and petroleum tenements acquired or increased	ELA20/931	Exploration Licence (application)	-	100%

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.



31 January 2018

Sign here:.....
 (Director/~~Company secretary~~)

Date:

MICHAEL FOTIOS

Print name:

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.