



PEGASUS METALS LIMITED

ABN 40 115 535 030

Annual Report
30 June 2018

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CORPORATE DIRECTORY

Directors

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

Company Secretary

Brendon Morton

Registered Office

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Solicitors

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Perth WA 6000

Share Registry

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Auditors

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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 2018.

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
Executive Chairman

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 has most recently served as a director of Eastern Goldfields Limited from September 2012 to August 2018, including serving in the role of Executive Chairman. Michael is currently a director of the following ASX listed companies:

- Horseshoe Metals Limited
- Pegasus Metals Limited
- Redbank Copper Limited
- Oklo Resources Limited

Alan Still AMIM
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

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 companies Horseshoe Metals Limited and Redbank Copper Limited.

COMPANY SECRETARY

Brendon Morton B.Bus, CA, ACIS
(appointed 1 July 2018)

Mr Morton holds a Bachelor of Business Degree and has significant experience holding senior finance roles and company secretarial roles for ASX listed companies and unlisted companies. Mr Morton is a Chartered Accountant and Chartered Company Secretary.

Shannon Coates LLB, CSA, GAICD
(resigned 30 June 2018)

DIRECTORS REPORT

PRINCIPAL ACTIVITY

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	22,598,861	-
Alan Still	-	-
Neil Porter	-	-

DIVIDENDS

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During the year, the Company announced that it has entered into an agreement ("**Scorpion 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 ("**Scorpion Transaction**"). As of the date of this report, the Scorpion Transaction remains unapproved and will be voted upon at a meeting of the Company's shareholders to be held 2 October 2018. Further details of the proposed Scorpion Transaction are outlined below.

Dablo Project – Joint Venture Terms

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 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 \$4 million 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 \$1.15 million 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 4 million 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 nature.

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

Commercial Terms – Pegasus Acquisition of Scorpion

The commercial terms of the Agreement between the Company and Scorpion are summarised as follows:

- Pegasus to acquire 100% of the issued capital of Scorpion for A\$0.36 million via the issue of a total of 12 million 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 – 15 million Pegasus options with an exercise price of 3 cents per option, expiring 12 months from the date of issue;
 - Tranche 2 – 15 million Pegasus options with an exercise price of 5 cents per option, expiring 24 months from the date of issue; and
 - Tranche 3 – 15 million 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\$0.5 million loan facility with Investmet Limited ("Investmet"), an entity associated with Mr Michael Fotios. An amount equal to A\$0.25 million (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\$0.25 million will become repayable in either cash or shares, at Pegasus' election, once the Pegasus share price has traded at 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\$0.6 million (Capital Raising).

DIRECTORS REPORT

Capital Raising

In connection with the proposed acquisition, the Company is pleased to announce it will undertake 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 A\$0.6 million 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 \$0.25 million of the loan facility provided by Investmet to Scorpion.

Conditions Precedent

Completion of the Transaction is 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 relieve) 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 \$1.6 million. As part of the Transaction, 50% equating to A\$0.8 million 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 at a VWAP above 25 cents per share over a continuous 30-day period.
- (together, the Conditions)

Subject to the 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 – 7.5 million options with an exercise price of 3 cents per option, expiring 12 months from the date of issue;
- Tranche 2 – 7.5 million options with an exercise price of 5 cents per option, expiring 24 months from the date of issue;
- Tranche 3 – 7.5 million options with an exercise price of 10 cents per option, expiring 36 months from the date of issue;

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.

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.

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) together with the proposed acquisition of Scorpion Minerals Limited.

SCORPION MINERALS LIMITED

Dablo Pd-Pt-Au-Ni-Cu Project, Burkina Faso ("Dablo Project")

The following discussion condenses Pegasus releases to the ASX in relation to the Dablo Pd-Pt-Au-Ni-Cu Project in Burkina Faso in the latter half of the financial year. For further detail refer to the below releases:

- "Pegasus to acquire farm in rights to Dablo Project" -10 January 2018
- "Dablo RC Drilling results"- 19th April 2018
- "Dablo RC Drilling update "- 12th June 2018

DIRECTORS REPORT

Pegasus announced on the 10th January 2018 that it had entered into an agreement to acquire Scorpion Minerals Limited, which holds the rights to enter a 70% joint venture interest in the Dablo exploration project in Burkina Faso, Africa, (refer Figure 1) through Newgenco Exploration (West Africa) Pty Ltd ("NEWA").

The Dablo Project is a significant ultramafic-mafic complex in an emerging Ni-Cu-PGE province, which could potentially host a large palladium-platinum-gold-nickel-copper deposit. The Dablo Project consists of a large tenement package comprising 4 tenements for a total of 981 km² (refer Figure 2) covering the Dablo Main Intrusion (DMI), with a strike length of 6km identified so-far within an anomalous trend of over 35km length. Drilling in the area of focus has confirmed that mineralisation extends for at least 180m in strike, and possibly up to 300m in the small portion of DMI tested-to-date.



Figure 1: Location of the Dablo Project, Burkina Faso

Historically the Dablo Project was the subject of a Joint Venture between Newa/First Quantum with more than AUD\$6M having been spent on exploration activities that included:

- Ground TM Survey
- Airborne VTEM Survey
- Soil geochemistry, geological mapping, and local prospect scale work (rock chipping, IP)
- 4 diamond holes (plus an unsampled metallurgical hole) for 915m completed in 2014 with best result returning 39.00m at 0.87% Ni, 0.27% Cu, 3.77g/t Pt+Pd and 0.74g/t Au from 13m (including 21.7m @ 1.2% Ni, 0.38% Cu, 5.62g/t Pt+Pd and 1.13g/t Au from 22.8m) in Hole DBDD001 (refer Table 1, and Figure 4).

Table 1: Significant results 2014 Diamond Drilling, Dablo Project (≥ 2m @ ≥ 1.0 g/t Pd+Pt+Au);

Hole_ID	From	to	Length	Au_ppm	Pt_ppm	Pd_ppm	Ni_%	Cu_%	Pd+Pt+Au
DBDD001	13.00	52.00	39.00	0.74	1.10	2.67	0.873	0.268	4.51
Including	22.76	44.46	21.70	1.13	1.63	3.99	1.201	0.385	6.75
DBDD002	65.18	69.00	3.82	0.18	0.36	0.79	0.314	0.0775	1.33
DBDD002	142.92	160.38	17.46	0.26	0.38	1.40	0.38	0.0967	2.04
Including	155.00	160.38	5.38	0.34	0.56	2.11	0.427	0.097	3.01
DBDD003	202.00	204.19	2.19	0.03	0.12	0.86	0.216	0.0177	1.01
DBDD004	122.03	135.56	13.53	0.40	0.54	2.11	0.423	0.096	3.05
including	126.26	135.56	9.30	0.50	0.69	2.68	0.444	0.112	3.87

DIRECTORS REPORT

In April Pegasus released Reverse Circulation (RC) drilling results received from eight holes completed in late 2017 (refer ASX:PUN announcement 19th April 2018) at Dablo, designed to test extensions to mineralisation encountered in the 2014 diamond drilling campaign, and to establish the geology and continuity of the mineralisation.

Five of the eight holes intersected significant mineralised intervals (refer Table 2 below, and Figure 4), successfully proved the mineralisation is locally continuous, and confirmed the Dablo target represents a multi-pulse, dynamic mafic-ultramafic intrusion. The results confirmed wide polymetallic intersects, with a best result of 30m @ 2.63 g/t Pd+Pt+Au; 0.51% Ni; 0.13% Cu from 35m in hole DBRC2017-03.

Mineralisation was interpreted as being closely associated with an Induced Polarisation (IP) chargeability anomaly (refer Figure 5), occurring semi-continuously along the contact of a magnetic anomaly. Company geologists speculated that the mineralisation may form an annulus associated with the IP anomaly, highlighting additional mineralisation potential at the untested northern contact defined by the IP.

Table 2: Significant results 2017 RC Drilling, Dablo Project ($\geq 5\text{m}$ @ $\geq 1.0\text{ g/t Pd+Pt+Au}$)
(for a more detailed summary, refer to Table 4).

Hole_ID	From	To	Length	Au_ppm	Pt_ppm	Pd_ppm	Ni_%	Cu_%	Pd+Pt+Au
DBRC2017-01	103	110	7	0.21	0.26	0.89	0.24	0.08	1.36
DBRC2017-02	128	134	6	0.29	0.31	0.96	0.32	0.12	1.56
DBRC2017-03	23	33	10	0.16	0.28	0.82	0.36	0.06	1.26
and	35	65	30	0.3	0.59	1.74	0.51	0.13	2.63
and	165	175	10	0.47	0.38	0.99	0.36	0.13	1.84
DBRC2017-04	129	138	9	0.39	0.37	0.94	0.39	0.1	1.7
DBRC2017-05	154	160	6	0.51	0.29	0.52	0.39	0.14	1.32
DBRC2017-06	NSI								
DBRC2017-07	NSI								
DBRC2017-08	NSI								

NSR= No significant result

Table 3: Location of 2017 Reverse Circulation drill hole collars (WGS84 Z30N datum)

Hole_ID	UTM_E	UTM_N	EL	Az	Dip	Depth
DBRC2017-01	697800	1519910	320	180	-55	200
DBRC2017-02	697800	1519910	320	358	-89	200
DBRC2017-03	697900	1519920	319.5	180	-55	200
DBRC2017-04	697900	1519990	320	180	-55	200
DBRC2017-05	697950	1519950	319.2	180	-55	200
DBRC2017-06	697750	1519870	320	180	-55	200
DBRC2017-07	697650	1519780	320.8	160	-55	200
DBRC2017-08	697570	1519660	320	125	-55	200

DIRECTORS REPORT

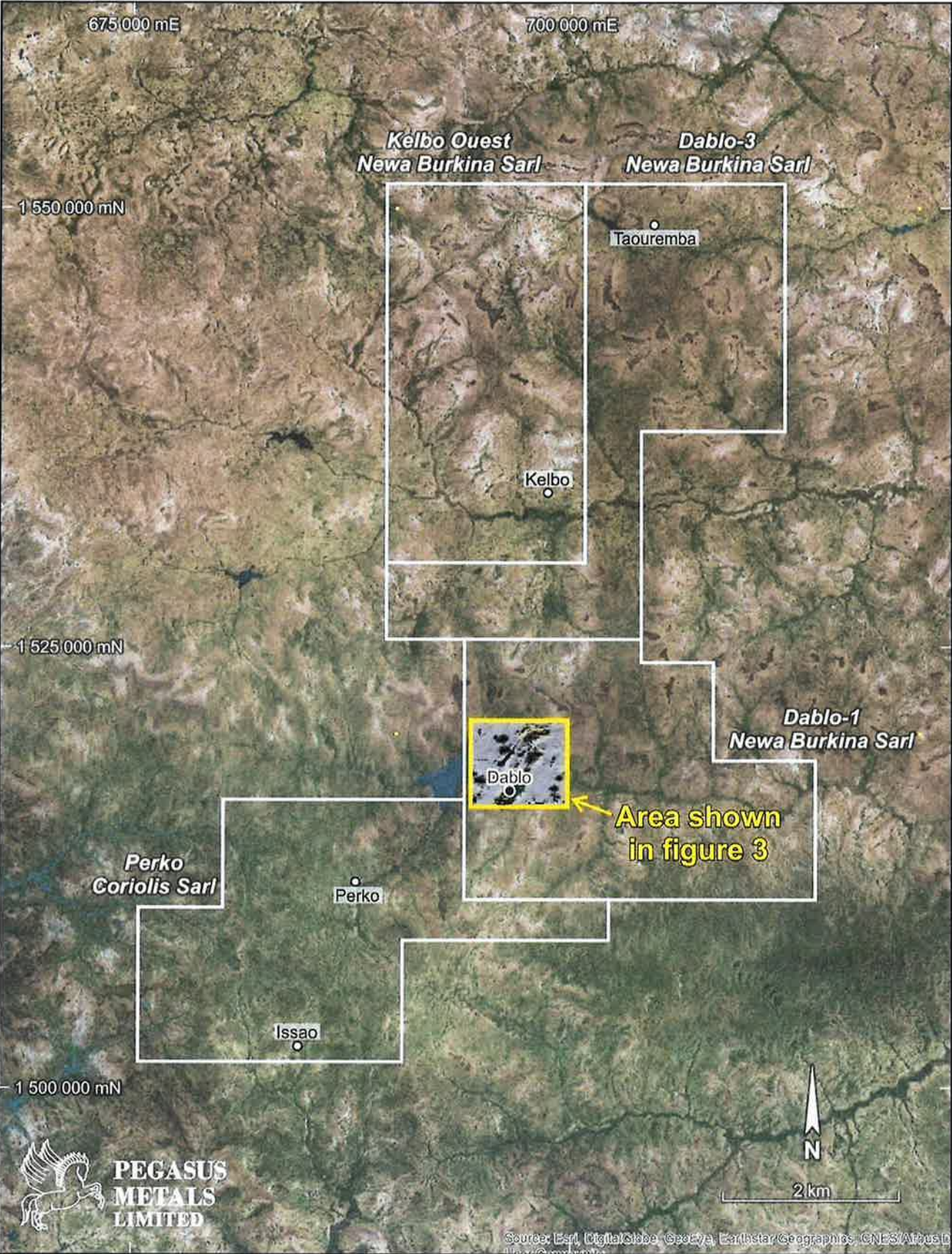


Figure 2: Dablo Project Tenure, highlighting current area of activity

DIRECTORS REPORT

Table 4: Detailed results from 2017 RC Drilling, Dablo Project ($\geq 1\text{m}$ @ $\text{Pd}+\text{Pt} \geq 0.5 \text{ g/t}$).

Hole		From	To	Int	Cu	Ni	Co	Au	Pt	Pd	Pd+Pt	Pd+Pt+Au(3E)
		m	m	m	ppm	ppm	ppm	g/t	g/t	g/t	g/t	g/t
DBRC2017-01		103	110	7	847	2407	114	0.21	0.26	0.89	1.15	1.36
DBRC2017-01	including	103	105	2	1205	3700	155	0.38	0.51	2.07	2.58	2.96
DBRC2017-01		115	116	1	267	2000	94	0.15	0.16	0.35	0.51	0.66
DBRC2017-01		119	121	2	421	2310	105	0.09	0.19	0.48	0.68	0.76
DBRC2017-01		137	140	3	162	3070	146	0.04	0.16	0.73	0.9	0.93
DBRC2017-01		190	191	1	578	3090	142	0.02	0.14	0.47	0.61	0.63
DBRC2017-02		28	31	3	382	3323	141	0.09	0.17	0.57	0.73	0.83
DBRC2017-02		105	109	4	498	3923	155	0.14	0.25	0.71	0.96	1.1
DBRC2017-02		128	134	6	1239	3177	120	0.29	0.31	0.96	1.27	1.56
DBRC2017-03		21	22	1	202	3820	176	0.09	0.14	0.38	0.52	0.61
DBRC2017-03		23	33	10	584	3648	135	0.16	0.28	0.82	1.1	1.26
DBRC2017-03		35	65	30	1332	5064	154	0.3	0.59	1.74	2.34	2.63
DBRC2017-03	including	37	42	5	1086	4726	162	0.35	0.74	1.82	2.56	2.91
DBRC2017-03	including	47	53	6	1204	4993	157	0.45	0.8	2.78	3.58	4.03
DBRC2017-03	including	55	65	10	2286	7781	146	0.44	0.94	2.21	3.15	3.59
DBRC2017-03		71	74	3	273	2583	126	0.01	0.12	0.44	0.56	0.57
DBRC2017-03		165	175	10	1326	3630	105	0.47	0.38	0.99	1.37	1.84
DBRC2017-03	including	167	169	2	2055	5125	138	0.7	0.58	0.58	1.16	1.86
DBRC2017-03	including	172	174	2	1543	4465	109	0.88	0.5	1.27	1.77	2.65
DBRC2017-03		181	182	1	636	2310	100	0.05	0.19	0.39	0.57	0.63
DBRC2017-04		116	126	10	308	2825	134	0.09	0.18	0.48	0.65	0.75
DBRC2017-04		129	138	9	1029	3878	124	0.39	0.37	0.94	1.31	1.7
DBRC2017-04	including	129	132	3	612	3427	133	0.62	0.26	0.6	0.85	1.48
DBRC2017-04	including	134	138	4	1732	5265	128	0.4	0.61	1.59	2.2	2.6
DBRC2017-04		143	146	3	614	2927	122	0.17	0.22	0.58	0.81	0.97
DBRC2017-04		149	150	1	321	2330	115	0.02	0.16	0.39	0.55	0.57
DBRC2017-04		160	164	4	332	2913	137	0.04	0.18	0.66	0.84	0.88
DBRC2017-04		181	183	2	133	3245	133	0.03	0.1	0.4	0.5	0.53
DBRC2017-04		188	189	1	159	3090	159	0.02	0.14	0.5	0.64	0.66
DBRC2017-05		154	160	6	1413	3888	125	0.51	0.29	0.52	0.81	1.32
DBRC2017-05		163	164	1	1165	2980	115	0.11	0.22	0.36	0.58	0.69
DBRC2017-05		183	186	3	977	2770	107	0.11	0.19	0.34	0.53	0.64
DBRC2017-06	NSR											
DBRC2017-07		104	106	2	297	2215	119	0.01	0.16	0.4	0.56	0.57
DBRC2017-07		114	118	4	764	2550	112	0.11	0.25	1.02	1.26	1.38
DBRC2017-07		120	122	2	658	2580	118	0.03	0.29	0.92	1.21	1.24
DBRC2017-07		127	129	2	1077	3100	106	0.07	0.34	1.05	1.39	1.46
DBRC2017-08		161	163	2	268	2515	128	0	0.11	0.55	0.67	0.66

Bold intervals in rows marked "including" are sub-intervals immediately following the main interval. NSR = No significant result

DIRECTORS REPORT

On 12 June 2018, the Company announced the completion of an additional RC drilling programme. A total of 17 holes for 3,152 metres (refer Table 5) were drilled over the Dablo intrusion complex, testing extensions to previous drilling within a kilometre-long zone (Dablo North) previously targeted by the historic focus of activity.

A second phase of the programme was designed to test undrilled regional targets within a 4km long portion of the intrusion to the south of the historic focus (Refer Figure 3).

Specifically:

- Holes DBRC2018-01 to 08 were completed as extensional holes to the previous focus of drilling activity over Dablo North;
- Holes DBRC2018-09 to 11 were drilled in the southern part of the intrusion, south of Dablo village;
- Hole DBRC2018-12 was a single hole drilled to test the magnetic anomaly northwest of Dablo village; and
- Holes DBRC2018-13 to 16W targeted the northern/central extent of the intrusion (refer Figure 3).

Samples were systematically logged and measured for magnetic susceptibility with a Vanta pXRF for quantitative base metal content. Fourteen of the seventeen holes encountered visible sulphides with elevated Cu values from pXRF assessment (refer Table 6). The Company notes that PGE, gold and nickel mineralisation is usually associated with Cu values in previous assaying of mineralisation at the Project

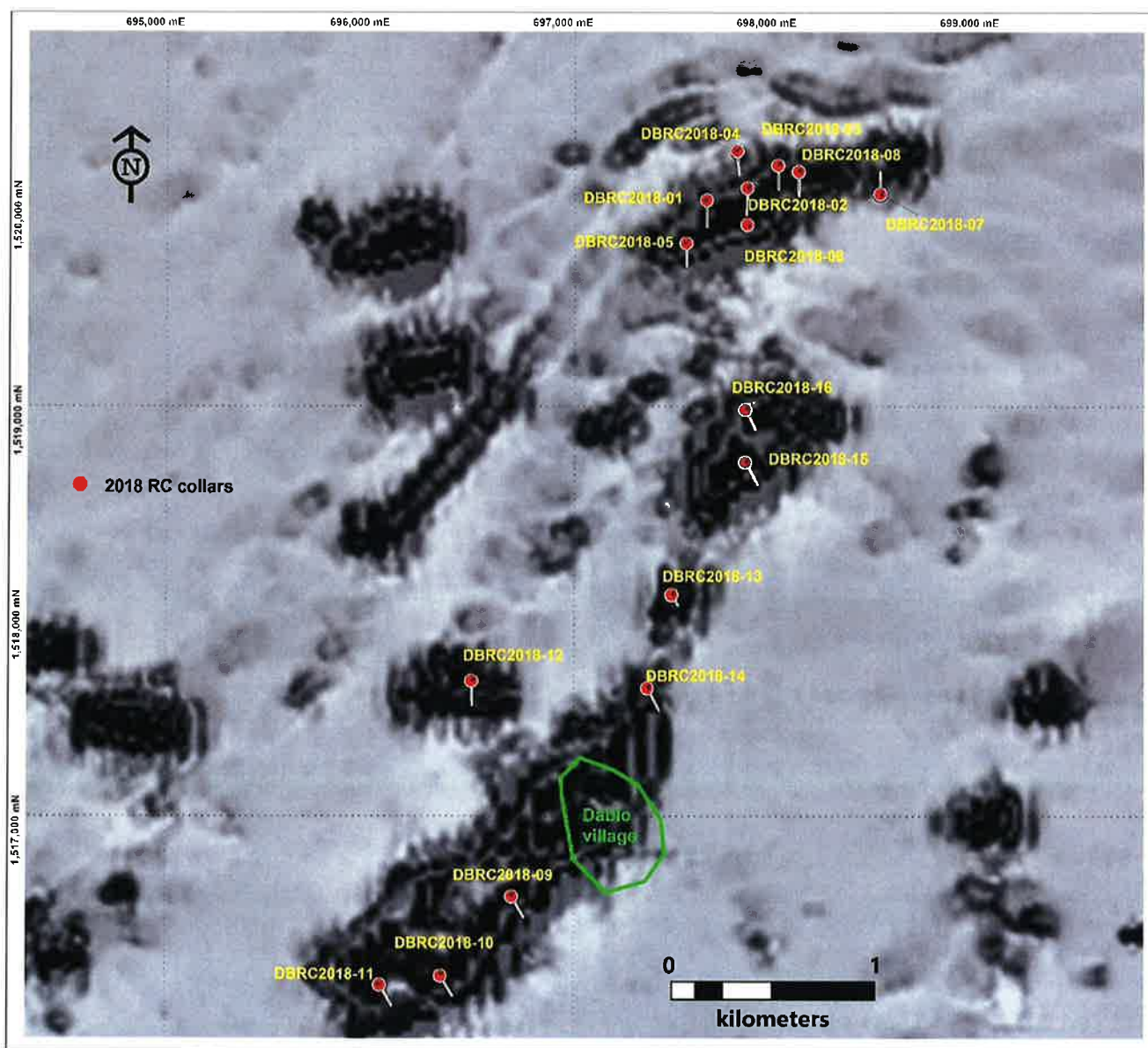


Figure 3: Drill location plan of the 2018 RC drilling collars overlain on modified magnetic first derivative image (1VD), highlighting magnetic nature of the Dablo Main Intrusion (DMI)- Refer Figure 2 for location.

DIRECTORS REPORT

Table 5: Location of 2018 RC drillhole collars (WGS84 Z30N datum)

Hole_ID	UTM_E	UTM_N	RL	Azimuth	Dip	Max Depth (m)
DBRC2018-01	697650	1520010	TBA	180	-53	200
DBRC2018-02	697850	1520070	TBA	180	-53.5	200
DBRC2018-03	698000	1520180	TBA	180	-56.7	200
DBRC2018-04	697800	1520250	TBA	180	-55.6	200
DBRC2018-05	697550	1519800	TBA	180	-56.6	200
DBRC2018-06	697850	1510890	TBA	180	-55	75
DBRC2018-07	698500	1520040	TBA	360	-60	200
DBRC2018-08	698100	1520150	TBA	180	-56	200
DBRC2018-09	696700	1516610	TBA	150	-56.5	200
DBRC2018-10	696350	1516225	TBA	150	-55	200
DBRC2018-11	696050	1516180	TBA	150	-55.5	200
DBRC2018-12	696500	1517660	TBA	180	-55	200
DBRC2018-13	697480	1518080	TBA	150	-55	114
DBRC2018-14	697360	1517625	TBA	150	-55.5	200
DBRC2018-15	697840	1518730	TBA	150	-56	250
DBRC2018-16	697840	1518985	TBA	150	-55.7	243
DBRC2018-16W	697860	1518945	TBA	0	-90	70

The observations made included:

- Visible sulphides were observed in holes 02, 03, 05, 06 and 08 drilled at Dablo North. Anomalous copper intervals were recorded from pXRF analysis in these respective holes.
- Hole 05 was an RC twin on diamond drill hole DBDD001 (*refer ASX:PUN announcement dated 10 January 2018*) which returned 39m @ 4.5 g/t Pd+Pt+Au, 0.87% Ni and 0.27% Cu from 13m) to check between the two drilling techniques.
- Visible sulphides were observed in holes 09, 10 and 11 drilled south of Dablo Village. Anomalous copper intervals were recorded from pXRF analysis in these respective holes.
- Hole 12 was completed in volcanics and amphibolitised magnetic paragneiss, possibly derived from iron-rich pelites. No anomalous copper values were recorded from pXRF analysis.
- Visible sulphides were observed in holes 13, 14, 15, 16 and 16W drilled at Dablo North. Anomalous copper intervals were recorded from pXRF analysis in these respective holes.
- The Dablo North ultramafic intrusion occupies an area between a volcano-sedimentary sequence and orthogneiss.
- The northern/central extent of the intrusion has orthogneisses and amphibolitic magnetic paragneiss to the west as enclosing rocks, and dry leucogranites (with no biotite alteration) intruding into the ultramafic to the east. The ultramafic intrusion in this area seem to be located within the orthogneiss but near the contact with the volcanosedimentary sequences.
- In the holes south of Dablo village, strong pervasive serpentinisation was observed, with the weathering profile much deeper than observed elsewhere.
- All contacts noted were typically altered and schistose.

Mineralised intervals were selected and samples have been transported to ALS Global in Canada for analysis. The Company noted it will update the market when results become available, which were expected in the following quarter.

DIRECTORS REPORT

Table 6: Summary of geology logging, sulfide observations and pXRF reading.
(NB- PGE, Au and Ni mineralisation is typically associated with elevated Cu values at the project.)

Hole_ID	Simplified geology (Interval from-to in metres)	Sulfides observed 1				Elevated Cu from pXRF 2			Max Depth m
		from m	to m	Type	Quantity	from m	to m	Range ppm	
DBRC2018-01	volcanics/seds 0-112	81	100	Dissem. Py and f.g. undiff	tr-5%				200
	ultramafic 112-200	102	112		tr-2%				
DBRC2018-02	volcanics/gneiss 0-74 ultramafic 74-200	67	71	Dissem. Py	1%-3%	52	76	105-524	200
		91	97	Dissem. f.g. undiff	tr	91	97	137-161	
						141	151	100-233	
		183	200	Dissem. f.g. undiff	tr-1%	187	189	144-985	
DBRC2018-03	volcanics/gabbro 0-115	114	200	Dissem. F.g. undiff. and local patchy Po	tr- 2%	144	153	160-405	200
	ultramafic 115-200					163	197	110-1171	
DBRC2018-04	volcanics/seds 0-200	80	161	Dissem. and veiniform Py	1%-3%	162	179	113-254	200
		161	200	Dissem. and veiniform Py	2%-5%				
DBRC2018-05	ultramafic 0-200	61	200	Dissem. f.g. undiff	tr-0.5%	95	98	100-382	200
						113	120	118-538	
						144	147	106-338	
DBRC2018-06	RC twin on DBDD001	32	61*	Dissem. Cu-bearing goethite*	2%	2	67	167-6164	75
DBRC2018-07	ultramafic 0-24	13	15	Dissem. Cu-bearing goethite*	1%	13	15	578-731	200
	orthogneiss 24-200	125	128		3%				
		138	174		3%-5%				
		182	200		1%-4%				
DBRC2018-08	amphibolite 0-122	75	109	Dissem. Py	1%-2%	181	200	122-503	200
	ultramafic 122-200	122	200	Dissem. Py	tr-1%				
DBRC2018-09	ultramafic 0-200	65	87	Dissem. f.g. undiff	tr-4%	39	42	155-813	200
						66	87	112-2440	
DBRC2018-10	ultramafic 0-36	161	168	Dissem. f.g. undiff	tr-0.5%	14	26	172-1094	200
	orthogneiss 36-54					72	83	226-911	
	ultramafic 54-200					161	168	109-721	
DBRC2018-11	granite/qtz diorite 0-54	77	100	Dissem. Py and f.g. undiff	tr-0.5%				200
	ultramafic 54-200	107	118	Dissem. f.g. undiff	tr				
DBRC2018-12	volcanics/gneiss 0-74	59	200	Dissem. Py	1%-5%				200
DBRC2018-13	ultramafic 0-114	47	51	Dissem. f.g. undiff	tr	1	78	105-2141	114
		75	78	Dissem. f.g. undiff	tr	86	94	182-1321	
DBRC2018-14	ultramafic 0-114	79	127	Dissem. Py and Po	tr-1%	0	34	100-956	200
						78	88	124-1106	
DBRC2018-15	ultramafic 0-114	87	107	Dissem. Py and f.g. undiff	tr-2%	64	66	361-529	250
		157	169	Dissem. Po	tr	157	160	121-514	
		192	201	Dissem. Po	tr	192	201	105-131	
		207	231	Dissem. Py, Cpy	1%-2%	222	231	110-1219	
						234	240	116-262	
DBRC2018-16	ultramafic 0-243	61	72	Dissem. f.g. undiff	tr	0	76	102-1344	243
		100	102	Dissem. Po	tr	92	102	112-188	
		105	134	Dissem. and veiniform Po and f.g. undiff.	tr-1%	105	112	102-176	
						121	129	105-252	
		161	183	Dissem. f.g. undiff	tr	162	177	108-258	
		219	225	Dissem. f.g. undiff	tr	220	223	113-308	
DBRC2018-16W	ultramafic 0-70	49	70		tr	0	20	100-229	70
						26	41	113-328	
						66	69	119-239	

KEY: * relict after sulphide in oxide profile, Py=Pyrite, Po=Pyrrhotite, Cpy=Chalcopyrite, tr =trace, Dissem.= Disseminated, undiff.=undifferentiated

DIRECTORS REPORT

Notes:

1. Estimates of contained sulphide percentages by experienced, competent geoscientists are considered to be reliable and reproducible semi-quantitative estimates of the abundance of minerals present in a sample. Visual estimates of sulphide mineral abundance should, however, never be considered a proxy or substitute for laboratory analyses where metal concentrations or grades are the factor of principal economic interest. The Company will update the market when laboratory analytical results become available.

2. Measurement of drill chips using a semi-qualitative field portable XRF analyser during the first campaign of drilling (refer to ASX release dated 10th January 2018) revealed that anomalous Cu values may indicate the presence of chalcopyrite which is a sulphide mineral known to be closely associated with the PGM. Values above 100ppm Cu from XRF measurements of drill chips are considered anomalous with values above 1000ppm considered highly anomalous. Portable XRF is a powerful instrument which permits rapid testing of working hypotheses made in the field and which enables rapid decisions to be made on-site in real time during drilling programmes. XRF measurements should never be considered a proxy or substitute for laboratory analyses where metal concentrations or grades are the factor of principal economic interest. The Company will update the market when laboratory analytical results become available.

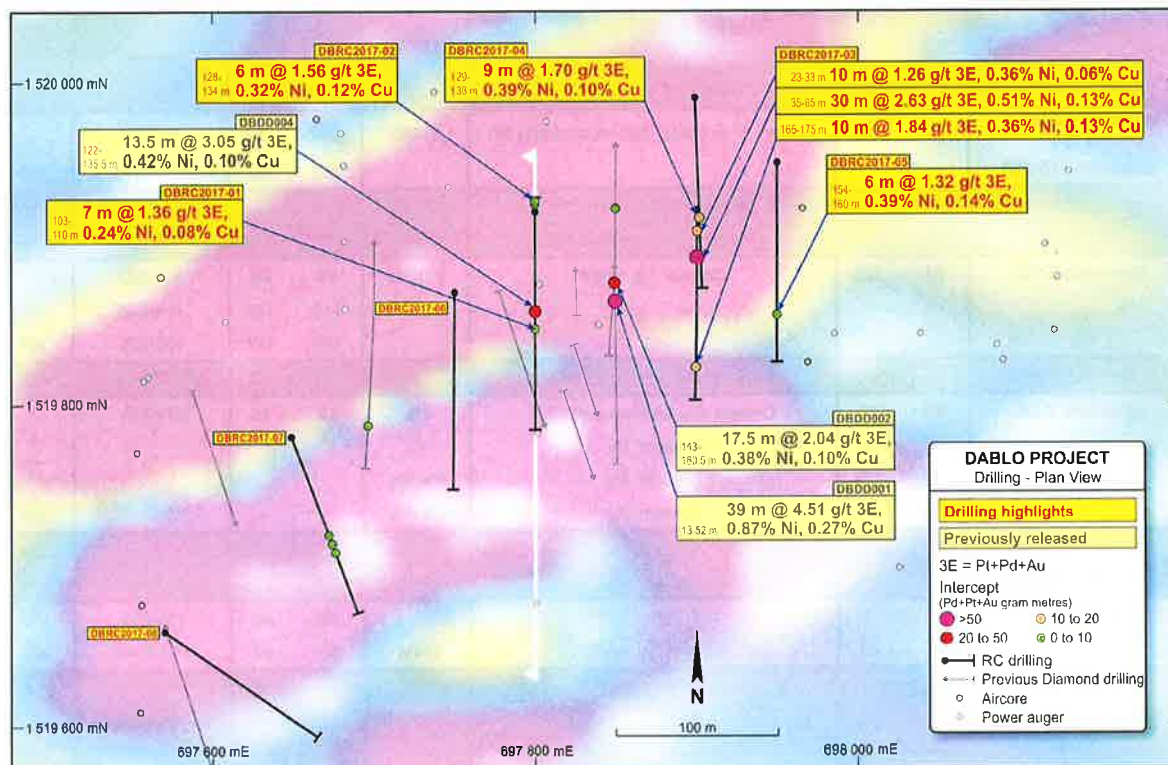


Figure 4: Dablo Project Drill Plan for 2017 RC programme, with recent significant drill intercepts (3E=Pt+Pd+Au g/t) highlighted, set against 1VDRTP magnetic imagery (section line for Figure 5 shown in white). 2014 Diamond Drilling depicted as previously released.

DIRECTORS REPORT

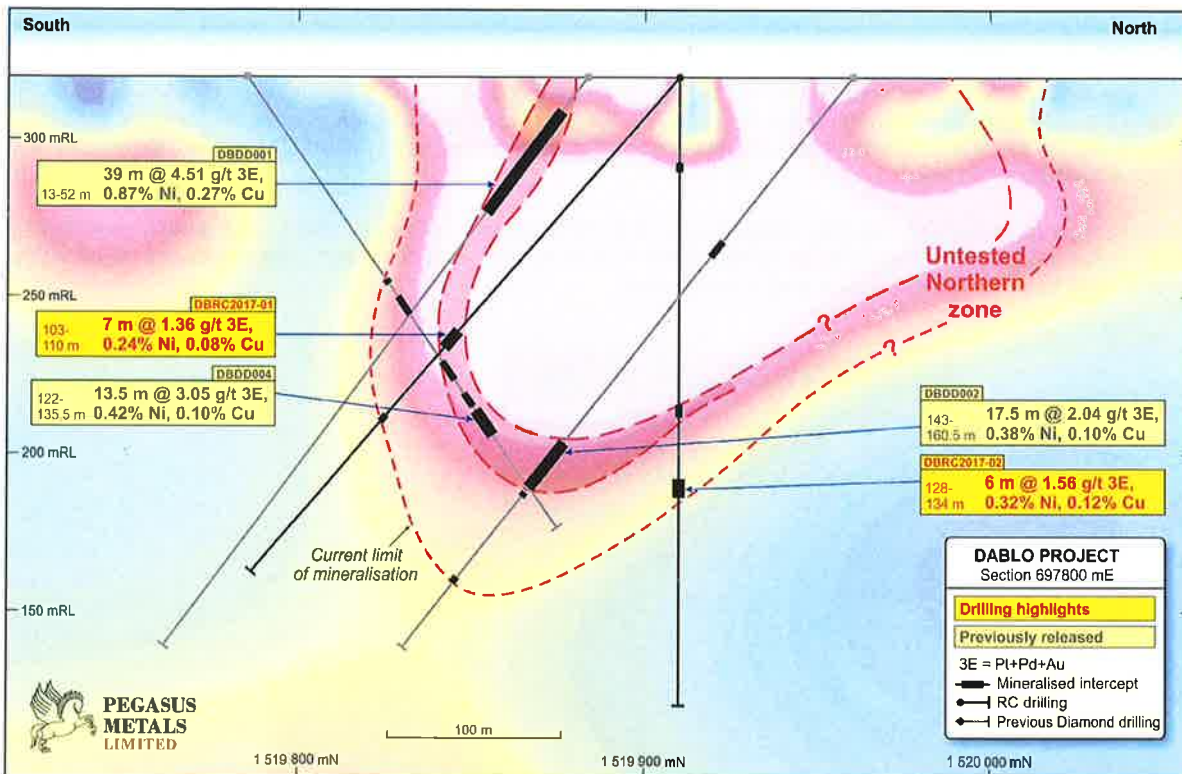


Figure 5: Dablo Project Cross Section 697800mE (+/- 100m, recent RC and DD only), showing the close relationship between mineralisation and IP chargeability anomaly. Interpreted mineralising geometry and significant intersections are highlighted in red and black respectively, with the untested 'northern contact' zone labelled.

DIRECTORS REPORT

Ongoing Regional Exploration

The Company is currently undertaking a geochemical lag survey over the Perko and Dablo 1 permits and over the southern portions of the Dablo 3 and Kelbo-Ouest permits (refer figures 2, 6). Five targeted soil orientation lines will be completed over key anomalous portions of the Dablo northern/central portion of the intrusions, north of Dablo village, to assess the effectiveness of the technique in this area.

The Company also intends to undertake regional mapping over the Perko permit in the near-term, and is also undertaking desktop studies to better understand opportunities in the 2014 VTEM survey; and to better understand the relationship between the disseminated sulphide mineralisation and IP anomalies.

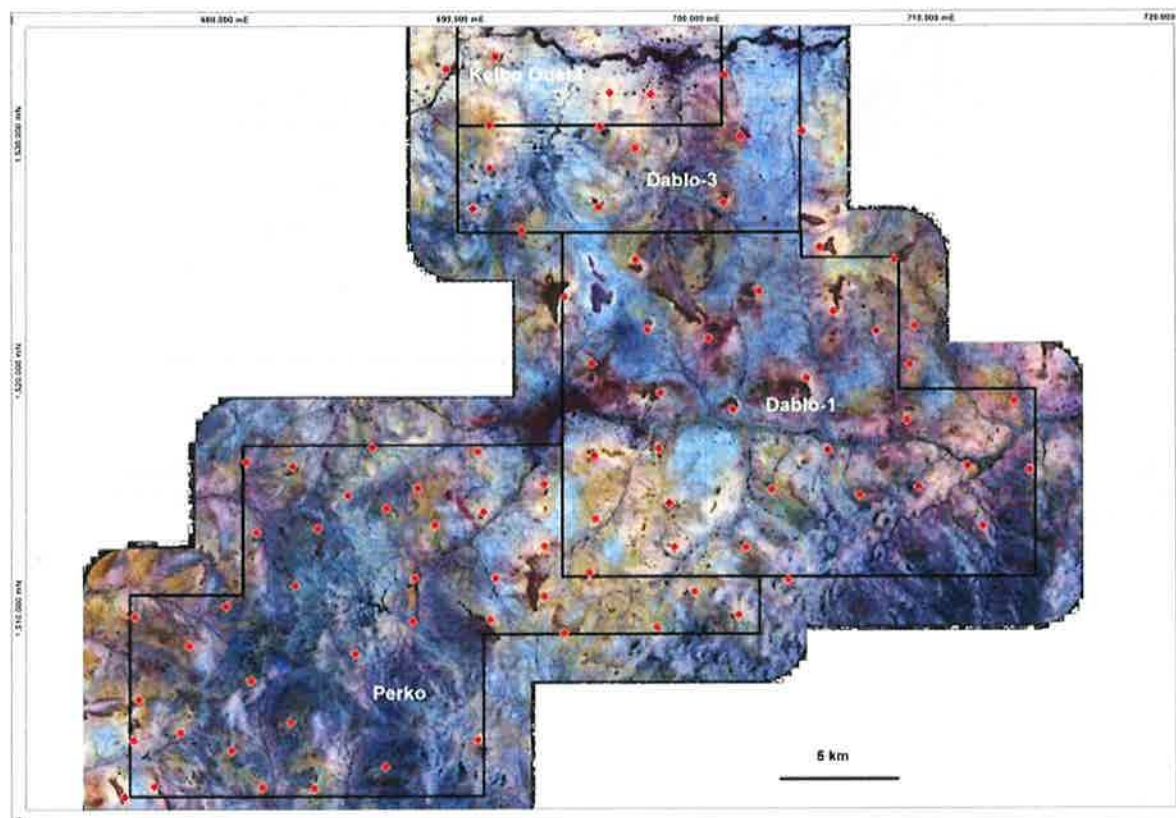


Figure 6: Location of the planned Lag sample points over satellite imagery.

MT MULCAHY COPPER PROJECT Murchison, WA

Geology Discussion:

The Mt Mulcahy project in Western Australia (Refer Figure 7) hosts the Mount Mulcahy copper-zinc deposit, a 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, 0.1% cobalt and 20g/t Ag (refer PUN:ASX release 25 September 2014) at the 'South Limb Pod' (SLP).

The folded horizon hosting this mineralisation forms a regional keel, where the surface expression 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 (refer Figure 10).

The Company is currently awaiting the grant of ELA 20/931. Planned drilling of down-plunge extensional holes (refer Figures 8, 9) to the current resource at the SLP now awaits the grant of the new licence.

The Company is also progressing its applications (P51/3016-17) in the Nowthanna area, some 50km south of Meekatharra, which the Company believes has the potential to host VMS mineralisation.

DIRECTORS REPORT

Table 6: Current Mineral Resource Estimate, Mt Mulcahy Project

Mt Mulcahy South Limb Pod Mineral Resource Estimate as at 30 th June 2018											
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

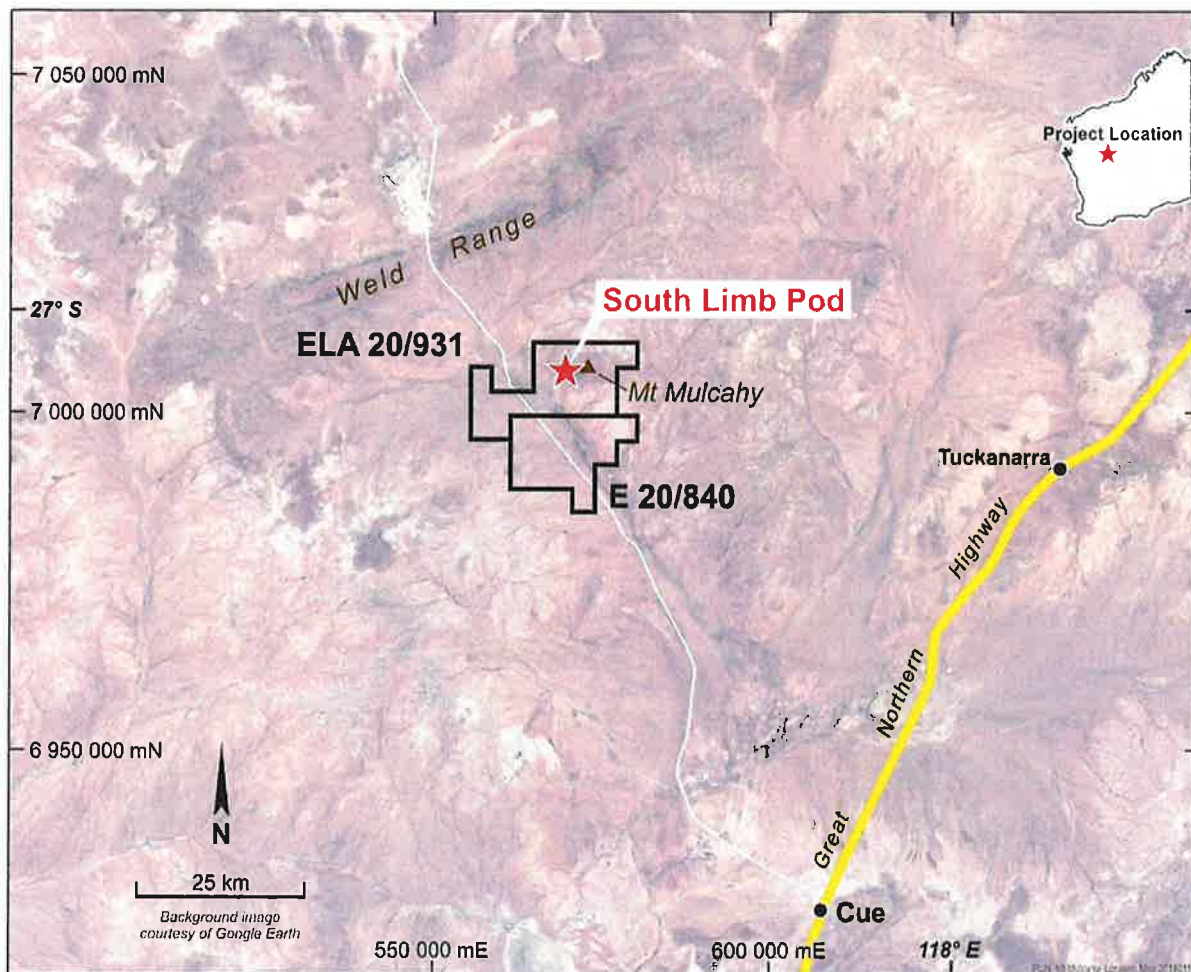


Figure 7: Pegasus Metals Mt Mulcahy location map.

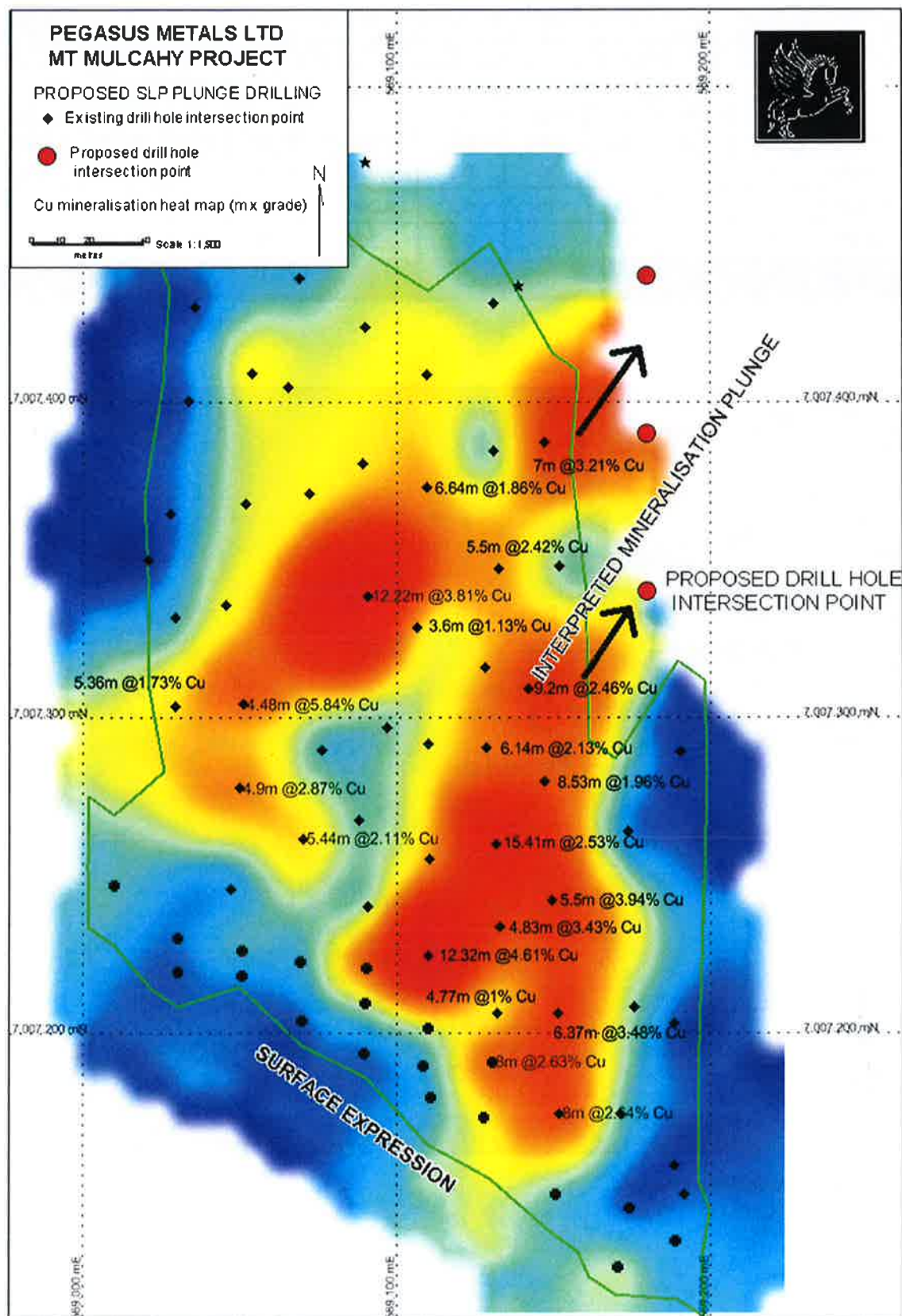


Figure 8: Plan of proposed SLP down plunge drilling.

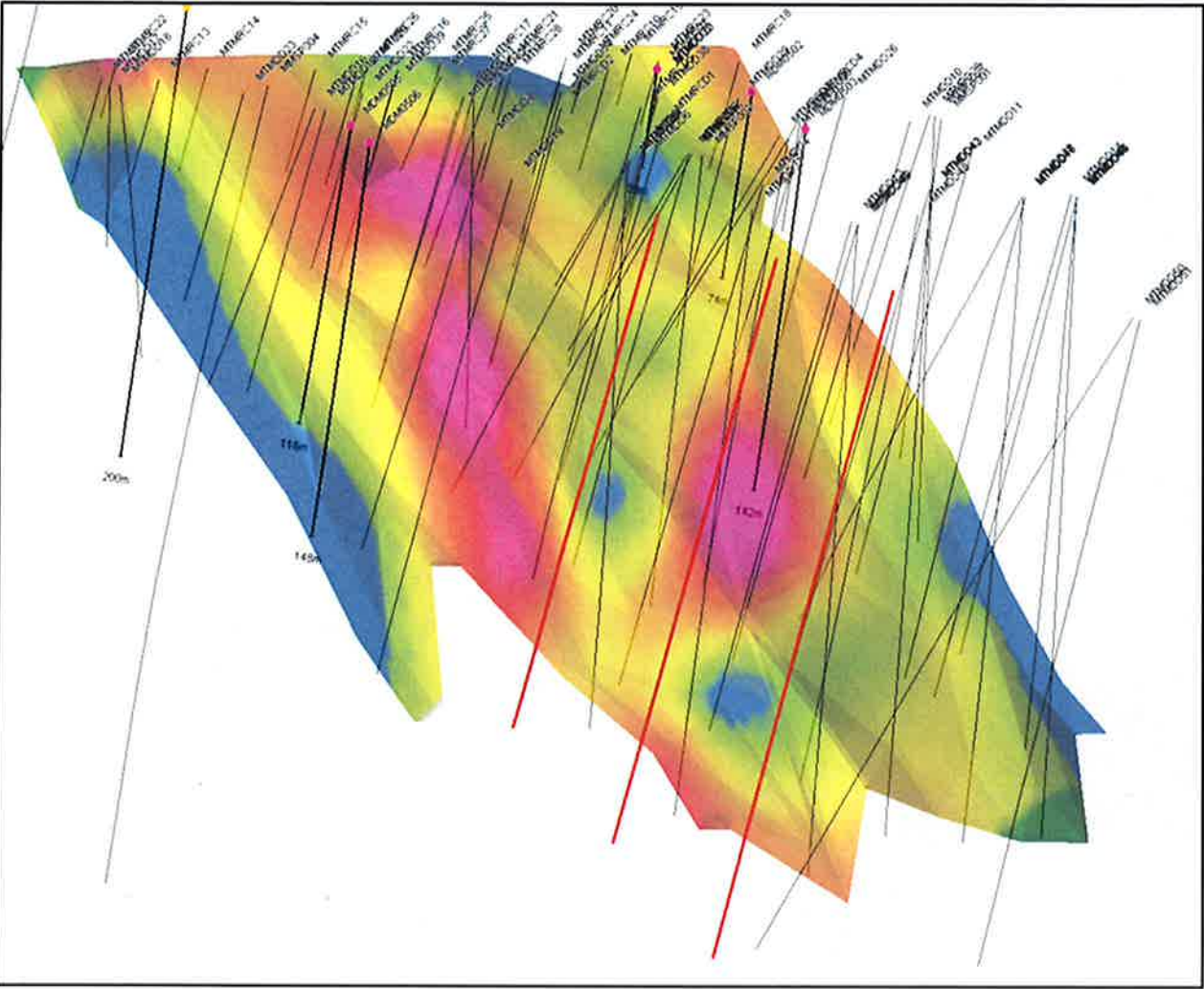


Figure 9: Oblique section of proposed SLP down plunge drilling (red traces), viewed from North East. Previous drilling defining the current resource denoted by grey or black traces.

DIRECTOR'S REPORT

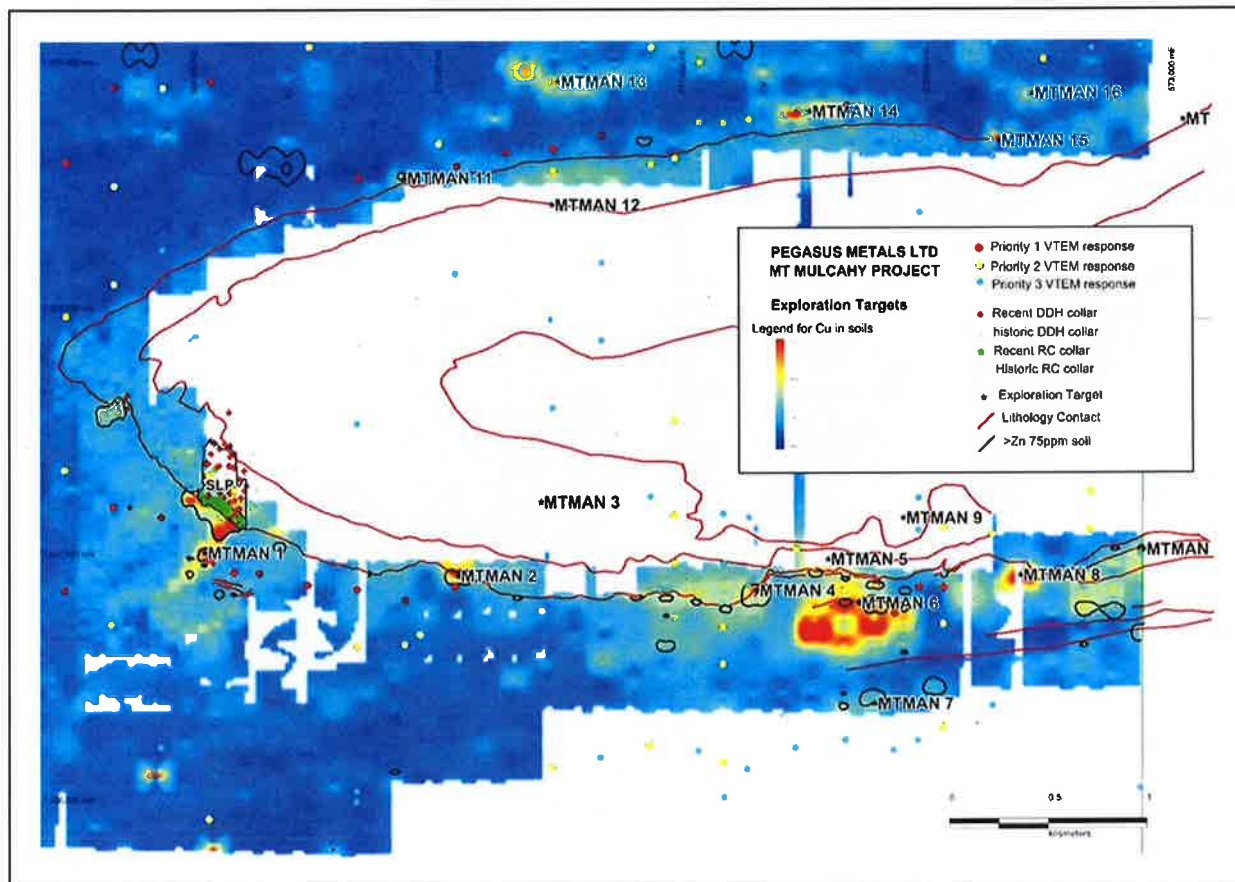


Figure 10: Mt Mulcahy priority exploration areas (MTMAN designation), in relation to South Limb Pod (SLP), shown with soil geochemistry, VTEM anomalies, and lithology contacts

LIKELY DEVELOPMENTS

Ongoing exploration at Dablo is planned, as Scorpion Minerals continue to develop the scope of the Dablo project.

Ongoing exploration at Mt Mulcahy is also planned, following the grant of E20/931.

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.

DIRECTOR'S REPORT

Competent Persons Statements

The information in this report that relates to Exploration Results and 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.

Financial results for the period

The operating loss after income tax of the Group for the year ended 30 June 2018 was \$294,916 (2017: loss of \$452,190).

Shareholder returns

	2018	2017
Basic and diluted loss per share (cents)	(0.22)	(0.36)

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

A notice of meeting was issued by the Company on 31 August 2018 with respect to a general meeting of shareholders to be held on Tuesday 2 October 2018 to vote on resolutions with respect to the Scorpion Transaction ("Scorpion Meeting").

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 2018 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.

CORPORATE GOVERNANCE

The Company has reviewed its corporate governance practices against the Corporate Governance Principles and Recommendations (3rd Edition) as published by the ASX Corporate Governance Council.

The 2018 Corporate Governance Statement is dated as at 30 June 2018 and reflects the corporate governance practices in place throughout the 2018 financial year. A copy of the Company's 2018 Corporate Governance Statement can be accessed at: <http://pegasusmetals.com.au/http-staging-pegasus-indepth-com-au-corporategovernance.html>

DIRECTOR'S REPORT

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

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

Assessing performance and claw-back of remuneration

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.

DIRECTOR'S REPORT

Voting and comments made at the Group's 2017 Annual General Meeting

At the Group's 2017 Annual General Meeting, Pegasus' Remuneration Report was passed 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 Salary & Fees \$	Post-Employment Superannuation \$	Share-based Payments Options \$	Total \$
Directors				
Michael Fotios				
2018	36,000*	-	-	36,000*
2017	33,000*	-	-	33,000*
Alan Still				
2018	30,000*	-	-	30,000*
2017	33,000*	-	-	33,000*
Neil Porter ¹				
2018	30,000*	-	-	30,000*
2017	22,839*	-	-	22,839*
Michael Jardine ²				
2018	-	-	-	-
2017	6,000*	-	-	6,000*
Total Key Management Personnel compensation				
2018	96,000	-	-	96,000
2017	94,839	-	-	94,839

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 17	Granted as remuneration	On exercise of options	Net change Other	Balance 30 June 18
Michael Fotios	22,363,861	-	-	235,000	22,598,861
Alan Still	-	-	-	-	-
Neil Porter	-	-	-	-	-
	22,363,861	-	-	-	22,598,861

Option holdings of Key Management Personnel

	Balance 1 July 17	Granted as remuneration	On exercise of options	On lapsing of options	Balance 30 June 18
Michael Fotios	-	-	-	-	-
Alan Still	-	-	-	-	-
Neil Porter	-	-	-	-	-
	-	-	-	-	-

DIRECTOR'S REPORT

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 letter in place with Mr Fotios as Executive Chairman, who is entitled to a fee of \$36,000 per annum. 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. Amounts totalling \$31,347.50 were paid to Investmet Limited during the year (2017: nil). As at 30 June 2018, there is balance of \$134,134 excl. of GST outstanding (2017: \$162,443).

The Group has entered into an administrative services management agreement with Delta Resource Management Pty Ltd (Delta), an entity associated with Director Michael Fotios. Amounts totalling \$103,740 were paid to Delta Resource Management Pty Ltd for the year (2017: nil). As at 30 June 2018, there is balance of \$750,197 excl. of GST outstanding (2017: \$626,546)

Whitestone Mining Services Pty Ltd (Whitestone) is a related party of Michael Fotios who is a Director of the Company. Amounts totalling \$50,000 were paid to Whitestone during the year (2017: nil). As at 30 June 2018, there is balance of \$286,520 excl. of GST outstanding (2017: \$324,348).

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

Loans from related parties	2018	2017
	\$	\$
<u>Non-interest-bearing loans</u>		
Eastern Goldfields Limited	4,053	39,526
Michael Fotios Family Trust*	-	4,381
	<u>4,053</u>	<u>43,907</u>
<u>Interest-bearing loans</u>		
Delta Resource Management Pty Ltd	8,142	4,416
Investmet Limited	337,549	262,189
Whitestone Mining Services Pty Ltd	4,553	-
	<u>350,244</u>	<u>266,605</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. Further information relating to the loan from Michael Fotios Family Trust is set out in Note 11. Further information in relation to the loan agreement with Michael Fotios (and associated entities) is set out in Note 11.

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

Share-based compensation

There were no options issued to Directors and Executives as part of their remuneration during the year (2017: 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 18	30 June 17	30 June 2016	30 June 2015	30 June 2014
	\$	\$	\$	\$	\$
Revenue	-	-	-	333	19,625
Net before tax (loss)/profit	(294,916)	(452,190)	(2,091,648)	695,496	(4,775,932)
Share price at year-end	0.024	0.030	0.043	0.11	0.010

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

This is the end of the audited remuneration report.

DIRECTOR'S REPORT

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 THE COMPANY

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

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

INSURANCE OF DIRECTORS AND OFFICERS

No amount was paid for Directors and Officer's liability insurance for the year ended 30 June 2018 (30 June 2017: Nil).

The Company has entered into Deeds of Access, Insurance and Indemnity with each of the Directors and Officers of the Company. Under the Deeds of Access, Insurance and Indemnity, the Company will indemnify those Officers against any claim or for any expenses or costs which may arise as a result of work performed in their respective capacities as Directors and Officers of the Company or any related entities.

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.

DIRECTOR'S REPORT

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 27.

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



MICHAEL FOTIOS
Director

Perth, Western Australia
28 September 2018

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 2018, 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, 28 September 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE	Notes	2018	2017
		\$	\$
REVENUE			
Other income	2	110,148	-
Depreciation expense		-	(695)
Director fees		(96,000)	(89,839)
Exploration expenses	3	70,784	(188,592)
Impairment expense		-	(4,001)
Occupancy expenses		(88,400)	18,000
Other expenses	3	(264,752)	(150,424)
Operating loss		(268,220)	(415,551)
Finance income		304	345
Finance costs		(27,000)	(36,984)
Finance costs - net		(26,696)	(36,639)
Loss before income tax		(294,916)	(452,190)
Income tax benefit/(expense)	4	-	-
Loss after income tax for the year		(294,916)	(452,190)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		(294,916)	(452,190)
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO OWNERS OF PEGASUS METALS LIMITED	12	(294,916)	(452,190)
Loss per share for loss attributable to ordinary equity holders of the Group:			
Basic loss per share (cents per share)	14	(0.22)	(0.36)
Diluted loss per share (cents per share)	14	(0.22)	(0.36)

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	Notes	2018 \$	2017 \$
CURRENT ASSETS			
Cash and cash equivalents	5	28,464	614
Trade and other receivables	6	179,969	284,819
Other current assets	7	17,856	17,856
TOTAL CURRENT ASSETS		226,289	303,289
NON-CURRENT ASSETS			
Trade and other receivables	6	400,000	-
Capitalised exploration expenditure	8	2,060,027	2,060,027
TOTAL NON-CURRENT ASSETS		2,460,027	2,060,027
TOTAL ASSETS		2,686,316	2,363,316
CURRENT LIABILITIES			
Trade and other payables	9	1,921,411	1,972,780
Borrowings	10	354,297	310,512
TOTAL CURRENT LIABILITIES		2,275,708	2,283,292
TOTAL LIABILITIES		2,275,708	2,283,292
NET ASSETS		410,609	80,024
EQUITY			
Contributed equity	11	18,814,564	18,189,063
Accumulated losses	12	(21,033,576)	(20,738,660)
Reserves	13	2,629,621	2,629,621
TOTAL EQUITY		410,609	80,024

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

	Note	Contributed Equity	Accumulated Losses	Share-based Payments Reserve	Total Equity
		\$	\$	\$	\$
Balance at 1 July 2017		18,189,063	(20,738,660)	2,629,621	80,024
Loss for the year	12	-	(294,916)	-	(294,916)
Total comprehensive loss for the year		-	(294,916)	-	(294,916)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs		625,501	-	-	625,501
Balance at 30 June 2018		18,814,564	(21,033,576)	2,629,621	(410,609)

	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	12	-	(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

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

	Notes	2018 \$	2017 \$
Cash Flows from operating activities			
Research and development tax refund		110,148	-
Payments to suppliers and employees		(421,818)	(85,880)
Payments for exploration		96,930	(106,089)
Interest paid		(6,945)	-
Interest received		304	278
Net cash outflow from operating activities	25	(221,381)	(191,691)
Cash flows from investing activities			
Payments to Scorpion Minerals Limited	6	(400,000)	-
Net cash outflow from investing activities		(400,000)	-
Cash flows from financing activities			
Proceeds from the issue of shares		565,500	-
Proceeds from share applications not yet issued		60,000	-
Proceeds from borrowings		23,731	190,500
Net cash inflow from financing activities		649,231	190,500
Net increase/(decrease) in cash and cash equivalents		27,850	(1,191)
Cash and cash equivalents at the beginning of the year		614	1,805
Cash and cash equivalents at the end of the year	5	28,464	614

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. Pegasus Metals Limited is a for-profit entity for the purpose of preparing financial statements.

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 \$294,916 for the year (2017: loss of \$452,190) and incurred cash outflows from operating activities of \$221,381 (2017: \$191,691) with a working capital deficiency of \$2,049,419; at 30 June 2018 (2017 working capital deficiency: \$1,980,003) and net assets of \$410,609 (2017: \$80,024). At 28 September 2018, the Group has a cash balance of \$1,117. Included within the working capital deficiency is \$1,640,282 owing to Directors and director-related entities. At 30 June 2018, the group had an undrawn loan facility of \$649,756 as disclosed in Note 10.

The ability of the group to continue as a going concern is dependent upon the continued financial support from its director Michael Fotios and his related entities, the ability of Mr Fotios and his related entities to fund the company under the loan facility in addition to the group's ability to raise funds through issue of equity.

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 its 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 Michael Fotios (and related entities) at 30 June 2018 of \$649,756;
- As of 26 September 2018, the loan facility limit from Michael Fotios (and associated entities) was increased from \$1.0 million to \$1.5 million and the repayment date has been extended to 31 December 2019;
- Letters of support have been obtained from related party creditors totalling \$1,285,985, indicating that there is no intention to collect within the next 12 months; and
- Following completion of the anticipated acquisition of Scorpion, the Group plans to raise funds through a capital raising.

Should the Group not be able to successfully manage the uncertainties inherent in the above, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Deferred tax assets and liabilities are recognised for all temporary differences, between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases, at the tax rates expected to apply when the assets are recovered or liabilities settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction.

Exceptions are made for certain temporary differences arising on initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit. Deferred tax assets are only recognised for deductible temporary differences and unused tax losses 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as incurred. During the financial year, no amounts have been capitalised, as the relevant tenement was in the process of being renewed, and all expenditure was recorded in Profit and Loss.

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

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.

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

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 not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2018 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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.

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.

	2018	2017
	\$	\$
NOTE 2. OTHER INCOME		
R&D incentive rebate	110,148	-
NOTE 3. EXPENSES		
Other expenses		
Accounting and secretarial fees	46,871	71,739
Audit fees	48,353	37,150
Consultants and advisors	23,640	-
Corporate costs	39,270	22,975
Fines & penalties	19,320	61
Legal fees	72,772	9,640
Other expenses	14,526	8,859
	<u>264,752</u>	<u>150,424</u>
Exploration expenses		
Exploration expenditure	33,433	84,017
Mining lease application ¹	(104,217)	104,575
	<u>(70,784)</u>	<u>188,592</u>

¹The Company applied to the Department of Mines, Industry Regulation and Safety (DMIRS) for a mining lease MLA 20/535 covering EL20/422. The application was subsequently revoked and the application funds were refunded to the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2018 \$	2017 \$
NOTE 4. INCOME TAX		
a) Reconciliation of income tax expense to prima facie tax payable		
Loss before income tax	(294,916)	(452,190)
Prima facie income tax at 27.5% (2017: 30%)	(81,102)	(135,657)
Non-deductible expenses	6,401	10,822
Non-assessable income	-	1
Movement in unrecognised temporary differences	(33,688)	1,180
Effect of tax loss not recognised as deferred assets	108,389	123,654
Income tax (expense)/benefit	-	-
b) Unrecognised deferred tax assets arising on timing differences and losses:		
Unrecognised deferred tax asset – tax losses	3,367,135	3,785,697
Unrecognised deferred tax asset - timing	4,234	41,620
Unrecognised deferred tax asset – capital raising costs	-	605
	3,371,369	3,827,317
NOTE 5. CASH AT BANK		
Cash at bank and on hand	28,464	614
	28,464	614
Information about the Group's exposure to interest rate risk is provided in Note 15.		
NOTE 6. TRADE AND OTHER RECEIVABLES		
Current		
GST receivable	177,901	281,536
Accrued interest	-	105
Other receivables	2,068	3,178
	179,969	284,819
Non-current		
Prepayment ¹	400,000	-
Total trade and other receivables	579,969	284,819
¹ The Company has provided funding totalling \$400,000 to Scorpion Minerals Limited ("Scorpion"). Scorpion is a 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 proposed commercial terms of the JV with NEWA, Scorpion can acquire up to a 70% interest in the Dablo Project. Funds have been provided to Scorpion to meet agreed expenditure commitments under the JV with NEWA.		
As of 30 June 2018, trade receivables that were past due or impaired was nil (2017: nil). Information about the Group's exposure to credit risk is provided in Note 15.		
NOTE 7. OTHER CURRENT ASSETS		
Bank guarantees and bonds	17,856	17,856
	17,856	17,856

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8. CAPITALISED EXPLORATION EXPENDITURE

	2018 \$	2017 \$
Capitalised tenement acquisition costs		
Opening net book amount	2,060,027	3,747,933
Impairment	-	(1,687,906)
Closing net book amount	<u>2,060,027</u>	<u>2,060,027</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2018	2017
	\$	\$
NOTE 9. TRADE AND OTHER PAYABLES		
Trade payables	594,848	556,065
Related party creditors	1,311,063	1,332,250
Accrued expenses	15,500	79,374
Payroll liabilities	-	5,091
	<u>1,921,411</u>	<u>1,972,780</u>

Details about the Group's exposure to risks arising from current and non-current liabilities are set out in Note 15.

NOTE 10: BORROWINGS

Current Borrowings (Unsecured)

Michael Fotios Family Trust – non-interest-bearing ¹	-	4,381
Eastern Goldfields Limited – non-interest-bearing	4,053	39,526
Loans from other related parties ²	350,244	266,605
	<u>354,297</u>	<u>310,512</u>

¹Reconciliation of carrying amount of Michael Fotios Family Trust Loan:

Opening amount	4,381	22,461
Drawdowns during the year	-	3,020
Transferred to Delta	-	(21,100)
Repayments during the year	(4,381)	-
Closing drawdown balance	-	4,381
Closing undrawn balance	-	995,619

¹On 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. This agreement was superseded by the agreement described below.

²Reconciliation of carrying amount of loans from other related parties:

Opening amount	266,605	54,405
Drawdowns during the year	130,064	212,200
Interest accrued	20,054	-
Repayments during the year	(66,479)	-
Closing drawdown balance	350,244	266,605
Closing undrawn balance	649,756	-

²On 27 October 2017, the Company announced it had entered into an agreement with Mr Michael Fotios (Director and substantial shareholder), whereby Mr Fotios and associated entities agreed to provide funding of up to \$1,000,000 to the Company. As per the ASX Announcement dated 27 September 2018, a Letter of Variation was executed between the Company and Mr Michael Fotios, whereby Michael Fotios and associated entities agreed to increase the loan facility limit from \$1,000,000 to \$1,500,000. Further information relating to loans from other related parties is set out in Note 22.

Details about the Group's exposure to risks arising from current and non-current borrowings are set out in Note 15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. CONTRIBUTED EQUITY

Issued Capital

Fully paid ordinary shares (a)

Shares to be issued (b)

Total Contributed Equity

2018

Number	\$
135,024,525	16,554,564
13,000,000	2,260,000
148,024,525	18,814,564

2017

Issued Capital

Fully paid ordinary shares

Shares to be issued (i)

Total Contributed Equity

Number	\$
116,174,519	15,989,063
11,000,000	2,200,000
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.

(a) Movements in fully paid ordinary shares

Details

Opening balance 1 July 2016

Balance 30 June 2017

Placement

Balance at 30 June 2018

Number	\$
116,174,519	15,989,063
116,174,519	15,989,063
18,850,006	565,501
135,024,525	16,554,564

(b) Movements in shares to be issued

Details

Opening balance 1 July 2016

Balance 30 June 2017

Placement

Balance at 30 June 2018

Number	\$
11,000,000	2,200,000
11,000,000	2,200,000
2,000,000	60,000
13,000,000	2,260,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2018 \$	2017 \$
NOTE 12. ACCUMULATED LOSSES		
Accumulated losses at beginning of year	(20,738,660)	(20,286,470)
Net loss for the year	(294,916)	(452,190)
Accumulated losses at end of year	(21,033,576)	(20,738,660)

NOTE 13. 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 14. LOSS PER SHARE

Loss attributable to the members of the company used in calculating basic and diluted loss per share	(294,916)	(452,190)
Basic loss per share (cents)	(0.22)	(0.36)
Diluted loss per share (cents)	(0.22)	(0.36)
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic loss per share	133,583,380	127,174,519

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15. 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	
	2018	2017
	\$	\$
Cash and cash equivalents	28,464	614
Other receivables	179,969	284,819
Other current assets	17,856	17,856
	<u>226,289</u>	<u>303,289</u>

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	179,969	284,819
Cash at bank and short-term bank deposits		
AA – S&P rating	46,320	18,470
	<u>226,289</u>	<u>303,289</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

cannot reasonably be predicted, such as natural disasters.

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

30 June 2018

	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	1,921,411	1,921,411	1,921,411	-	-	-	-
Borrowings	354,297	354,297	-	-	354,297	-	-
	2,275,708	2,275,708	1,921,411	-	354,297	-	-

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	-	-	-

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/strengthened by 10% (based on forward treasury rates) at 30 June 2018, 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 than those directly related to statement of profit or loss and other comprehensive income movements.

Interest rate risk

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

	Fixed Interest	Floating Interest	Non-Interest Bearing	Total
2018				
Financial Assets	\$	\$	\$	\$
Cash and cash equivalents	-	28,464	-	28,464
Trade and other receivables	17,856	-	179,969	197,825
Weighted Average Interest Rate	1.90%	-	-	-
Net Financial Assets	17,856	28,464	179,969	226,289
Financial Liabilities				
Trade and other payables and borrowings	350,244	-	1,925,464	2,275,708
	350,244	-	1,925,464	2,275,708
2017				
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 are assumed to approximate their fair value.

NOTE 16. 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 17. CONTINGENT LIABILITIES

At 30 June 2018 there were \$549,072 trade creditors (non-related party) included in current liabilities which were outside their agreed terms of repayment. 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 18. 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:

	2018
	\$
Within one year	<u>30,000</u>

NOTE 19. EVENTS OCCURRING AFTER THE REPORTING PERIOD

A notice of meeting was issued on 31 August 2018 with respect to a general meeting of shareholders to be held on 2 October 2018 to approve the Scorpion Transaction. Please refer to the Director's Report for additional information with respect to the Scorpion Transaction.

As per the ASX Announcement dated 27 September 2018, a Letter of Variation was executed between the Company and Mr Michael Fotios, whereby Michael Fotios and associated entities agreed to increase the loan facility limit from \$1,000,000 to \$1,500,000.

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 2018 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.

NOTE 20. AUDITOR'S REMUNERATION

	2018	2017
	\$	\$
Amount paid or payable to BDO Audit (WA) Pty Ltd for assurance services	<u>60,867</u>	<u>37,150</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21. DIVIDENDS

There were no dividends declared or paid during the current and prior years.

NOTE 22. RELATED PARTY TRANSACTIONS

(a) Summarised Compensation of Key Management Personnel

	2018	2017
	\$	\$
Short-term employee benefits	96,000	94,839
Post-employment benefits	-	-
	96,000	94,839

(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. Amounts totalling \$31,347.50 were paid to Investmet Limited during the year (2017: nil). As at 30 June 2018, there is balance of \$134,134 excl. of GST outstanding (2017: \$162,443).

The Group has entered into an administrative services management agreement with Delta Resource Management Pty Ltd (Delta), an entity associated with Director Michael Fotios. Amounts totalling \$103,740 were paid to Delta Resource Management Pty Ltd for the year (2017: nil). As at 30 June 2018, there is balance of \$750,197 excl. of GST outstanding (2017: \$626,546).

Whitestone Mining Services Pty Ltd (Whitestone) is a related party of Michael Fotios who is a Director of the Company. Amounts totalling \$50,000 were paid to Whitestone during the year (2017: nil). As at 30 June 2018, there is balance of \$286,520 excl. of GST outstanding (2017: \$324,348).

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

Related party creditors

	2018	2017
	\$	\$
Delta Resource Management Pty Ltd	825,217	689,200
Eastern Goldfields Limited	25,079	25,079
Investmet Limited	147,340	178,688
Michael Fotios Family Trust	-	82,500
Whitestone Mining Services Pty Ltd	313,427	356,783
	1,311,063	1,332,250

Loans from related parties

	2018	2017
	\$	\$
<u>Non-interest-bearing loans</u>		
Loan from Eastern Goldfields Limited	4,053	39,526
Loan from Michael Fotios Family Trust*	-	4,381
	4,053	43,907
<u>Interest-bearing loans</u>		
Delta Resource Management Pty Ltd	8,142	4,416
Investmet Limited	337,549	262,189
Whitestone Mining Services Pty Ltd	4,553	-
	350,244	266,605
	354,297	310,512

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. Further information relating to loan from Michael Fotios Family Trust is

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

set out in Note 10.

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

NOTE 23. INVESTMENT IN CONTROLLED ENTITIES

<i>Name of Entity</i>	<i>Equity Holding</i>		<i>Cost of Parent Entity's Investment</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>%</i>	<i>%</i>	<i>\$</i>	<i>\$</i>
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 domiciled and incorporated in Australia.

NOTE 24. SHARE BASED PAYMENTS

There were no share based payments during the financial years ended 30 June 2018 and 30 June 2017.

NOTE 25. STATEMENT OF CASH FLOWS

	<i>2018</i>	<i>2017</i>
	<i>\$</i>	<i>\$</i>
Reconciliation of cash and cash equivalents		
Cash and cash equivalents as shown in the statement of financial position and the statement of cash flows	28,464	614
Operating loss after tax	(294,916)	(452,190)
Depreciation	-	695
Impairment expenses	-	4,001
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	110,324	(3,540)
Increase in borrowings	20,055	-
Increase/(decrease) in trade and other payables	(56,844)	259,343
Net cash (used in) operating activities	(221,381)	(191,691)

There were no non-cash financing and investing activities (2017: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 26. PEGASUS METALS LIMITED PARENT COMPANY INFORMATION

	2018 \$	2017 \$
ASSETS		
Current assets	226,289	303,289
Non-current assets	2,460,027	2,060,027
TOTAL ASSETS	2,686,316	2,363,316
LIABILITIES		
Current liabilities	1,921,411	1,972,780
Borrowings	354,297	310,512
TOTAL LIABILITIES	2,275,708	2,283,292
EQUITY		
Contributed equity	18,814,564	18,189,063
Reserves	2,629,621	2,629,621
Accumulated losses	(21,033,576)	(20,738,660)
TOTAL EQUITY	(410,609)	80,024
FINANCIAL PERFORMANCE		
(Loss) for the year	(294,916)	(452,190)

GUARANTEES ENTERED INTO BY PARENT ENTITY

As at 30 June 2018 and 2017, the Company has not provided any financial guarantees in relation to the debts of its subsidiaries.

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 2018 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
28 September 2018

INDEPENDENT AUDITOR'S REPORT

To the members of Pegasus Metals Limited

Report on the Audit of the Financial Report

We have audited the financial report of Pegasus Metals Limited (the Company) and its subsidiary (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, 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 2018 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(a) 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
<p>As disclosed in Note 8 to the financial report, the carrying value of capitalised exploration and evaluation expenditure represents a significant asset of the Group.</p> <p>In accordance with AASB 6 Exploration for and Evaluation of Mineral Resources (AASB 6), the recoverability of exploration and evaluation expenditure required significant judgement by management in determining whether there are any facts or circumstances that exist to suggest the carrying amount of this asset may exceed its recoverable amount. As a result, this is considered a key audit matter.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining a schedule of the areas of interest held by the Group and assessing the status of the renewal application for the relevant exploration licence; • 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 directors' 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 • Assessing the adequacy of the related disclosures in Note 1(y) and Note 8 to the financial report.

Other information

The directors are responsible for the other information. The other information comprises the information in the Company's annual report for the year ended 30 June 2018, but does not include the financial report and our 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 Company's ability 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 Company 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_responsibilities/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 22 to 24 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Pegasus Metals Ltd, for the year ended 30 June 2018, 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



Neil Smith

Director

Perth, 28 September 2018

ADDITIONAL INFORMATION

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 31 August 2018.

Distribution of quoted security holders

Range	Holders	Units	Percentage
1 - 1,000	30	4,758	0.00%
1,001 - 5,000	93	301,451	0.22%
5,001 - 10,000	69	596,752	0.44%
10,001 - 100,000	245	10,400,134	7.70%
Over 100,000	123	123,721,430	91.63%
TOTAL	560	135,024,525	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	12.60%

Less Than Marketable Parcel

Parcel	Holders	Units	Percentage
Total unmarketable parcel \$500	287	2,668,488	1.98%

ADDITIONAL INFORMATION

Twenty largest shareholders – Ordinary Shares

	Shareholder Name	Units	Percentage
1	INVESTMET LTD	17,009,402	12.60%
2	WYLLIE GRP PL	6,596,465	4.89%
3	PERTH SELECT SEAFOODS PL	5,000,000	3.70%
4	BOTSIS HLDGS PL	4,408,448	3.26%
5	FOTIOS MICHAEL GEORGE	4,341,893	3.22%
6	SHARIC SUPER PL	4,100,658	3.04%
7	NORTHAMPTON MINING PL	4,000,000	2.96%
8	GUNZ PL	3,471,068	2.57%
9	FOTIOS ANTHONY HAROLD	2,781,937	2.06%
10	TARNEY HLDGS PL	2,730,448	2.02%
11	SHARPLESS G J + J L	2,496,229	1.85%
12	SPENCER ANDREW WILLIAM	2,475,545	1.83%
13	OAKMOUNT NOM PL	2,024,805	1.50%
14	REDIMA PL	2,000,000	1.48%
15	JANSEN JOHN + DALE	1,908,781	1.41%
16	CALAMA HLDGS PL	1,799,998	1.33%
17	JEMAYA PL	1,766,667	1.31%
18	MERRILL LYNCH AUST NOM PL	1,691,646	1.25%
19	BNP PARIBAS NOM PL	1,676,668	1.24%
20	DIXJAC PL	1,666,667	1.23%
	TOTAL	73,947,325	54.77%

Corporate Governance Statement

The Company's Corporate Governance Statement for the 2018 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 2018, 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 2018											
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 2017 to 30 June 2018.

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.

ANNUAL MINERAL RESOURCE STATEMENT

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
E20/931 ¹	WA	100	Pegasus Metals Ltd
E20/840	WA	100	Pegasus Metals Ltd
P51/3016 ¹	WA	100	Pegasus Metals Ltd
P51/3017 ¹	WA	100	Pegasus Metals Ltd

¹Under application

COMPETENT PERSONS STATEMENT

The information in this Mineral Resource Statement is based on information compiled and/or reviewed by 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.