PEGASUS METALS LIMITED

ABN 40 115 535 030

ANNUAL REPORT

For the year 30 June 2011

Contents

Corporate Directory

Directors

Stephen Mann	Chairman
Michael Fotios	Non-Executive Director
Graham Anderson	Non-Executive Director & Company Secretary

Group Secretary

Graham Anderson

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Share Registry

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Email: registrar@securitytransfer.com.au

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BDO Audit (WA) Pty Ltd
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Review of Operations

MCLARTY RANGE COPPER PROJECT, West Kimberley (PUN option to earn 100%)

Located some 250 km northeast of Broome, within the West Kimberley region, the McLarty Range Copper Project covers a portion of the folded Proterozoic-aged Kimberley Basin. Of particular interest to Pegasus is a prospective copper-bearing, meta-sedimentary horizon that has been identified and sampled by previous explorers. While selected rock chip samples have returned high copper grades (up to 18% copper) the area has remained untested by drilling.

The McLarty Heritage Impact Assessment clearance survey was completed mid July 2010 and the final Anthropologist report has been received, resulting in the formal signed approval for drill access by the Traditional Owners. Approvals have been received from the Department of Minerals and Petroleum (DMP) for the previously lodged Programs of Work ("POW"). The POW comprises a diamond drill program designed to test targets at 15-20 locations within a zone extending for 13km along strike of the prospective stratigraphy from which high grade copper results were returned during previous / historic rock chip programs. Diamond drilling commenced during September 2011 utilising a heli-portable diamond drill rig specifically designed for low impact operation at McLarty Range.

A series of mapping, rock chip sampling and priority drill site assessment programs were completed. Mapping identified a significant new highly leached gossan horizon at the Bowerbird prospect with rock chip samples returning up to 0.32%Cu. The gossan is up to 27 metres wide (average 3 metres; apparent thickness) with a continuous strike of 250 metres and a further discontinuous strike of 100 metres. The gossan is interpreted to be the leached remnant of massive sulphides, is accessible for diamond drill testing and is in addition to the gossan previously identified at Bowerbird.

Geological mapping and interpretation of the area Bowerbird to Copper Cove has redefined the gossanous horizon to now occur intermittently over a strike length of 3.5km (including the new discovery), situated on both limbs of a gently plunging syncline. This geological setting is important as interpretation suggests the mineralised horizon will continue at depth and down-plunge, with the possibility of a thickened zone adjacent to the axis of the syncline

Geological mapping and rock chip sampling was also completed over the Poulton Chasm, Poulton Gorge, Copper Cliff, Sipa Syncline and Main Syncline areas. A rock chip sample taken along strike SE of Copper Cliff from a chert - limonite gossan with visible copper staining (not previously sampled) returned **1.07% Cu**. Other assay values from mineralised horizons not previously sampled include **0.44% Cu** (Main Syncline), **0.22%, 0.18%** and **0.17% Cu** (Sipa Syncline).

Mapping at Copper Cliff shows the prospective rock unit which hosts the mineralised horizon may be +100m thick whereas previously it was thought to be about 40m thick; increasing the likelihood of finding additional copper enriched zones. Mapping between Copper Cliff and Poulton Chasm highlighted the geological complexity of the area, with at least 2 stratigraphic levels of mineralised beds located. Mapping of the Sipa Syncline confirmed two mineralised horizons exist.

EAST KIMBERLEY COPPER PROJECT, East Kimberley (PUN 100%)

Pegasus announced on the 25th November 2010 the completion of a large ground acquisition program in the East Kimberley. This program was based on experience gained from exploration at the McLarty Range project in the West Kimberley and extrapolating that knowledge to similar geological environments in the East Kimberley.

Pegasus has identified a significant area of the eastern part of the Proterozoic Kimberley Basin containing the equivalent stratigraphy to that found at McLarty Range and thought to be highly prospective for similar styles copper mineralisation. Exploration Licence Applications have been made for an area of 12,950 km^2 that covers the stratigraphic equivalent of the copper mineralised rock units with a minimum strike extent of 800 km. Pegasus has leveraged off exploration concepts developed at McLarty Range to secure other areas thought to be most prospective for copper mineralisation. Historic exploration results from earlier explorers have already identified significant copper mineralisation in many parts of the new East Kimberley Project area. A Programme of Work for a drilling programme to test existing mineralisation has been lodged with the DME and been approved with work expected to commence in the December Quarter 2011.

Competent Person's Statement

The information in this report that relates to Exploration Potential and Results is based on information compiled by Mr Michael Fotios, who is a consultant geologist, director of Pegasus Metals Ltd and a Member of the Australian Institute of Mining and Metallurgy. The information in this report relating to exploration targets should not be misconstrued as an estimate of Mineral Resources or Ore Reserves. Hence the terms Resource(s) or Reserve(s) have not been used in this context. The potential quantity and grade is conceptual in nature since there has been insufficient work completed to define the prospects as anything beyond exploration target. It is uncertain if further exploration will result in the determination of a Mineral Resource. 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 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Fotios consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Directors' Report

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 2011.

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:

Stephen Mann CA
Chairman

Stephen Mann is a Fellow of the Institute of Chartered Accountants of Australia and has more than 30 years of experience in public practice. He was a partner in BDO Chartered Accountants and Advisers (Perth) for 22 years with the last 11 years in the role of managing partner. Stephen established the Corporate Finance division of BDO Perth and was the partner in charge of this division until he retired from practice in 2003.

Since 2003, Stephen has acted as the chief financial officer of the Nacap Asia Pacific Group as well as other consultancy and directorship roles. In the 3 years immediately before the end of the financial year, Stephen Mann served as a director of the following listed company:

- Target Energy Limited*

* denotes current directorships

Michael Fotios BSc (Hons), MAusIMM
Director

Michael Fotios is a Geologist specialising in Economic Geology with over 27 years extensive experience in exploration throughout Australia for gold, base metals, tantalum, tin and nickel and taking projects from exploration to feasibility.

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

- Northern Star Resources Limited*
- Galaxy Resources Limited (April 2006 to December 2008)

* denotes current directorships

Graham D Anderson BBus,CA
Director and Company Secretary

Mr Anderson has over 25 year's commercial experience as a Chartered Accountant. He operates his own specialist accounting and management consultancy practice, providing a range of corporate advisory and audit services to both public and private companies. From 1990 to 1999 he was an audit partner at Horwath Perth.

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

- Mako Energy Limited *
- Echo Resources Limited *
- Tangiers Petroleum Limited*

* denotes current directorships

Directors' Report (continued)

1. PRINCIPAL ACTIVITIY

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

2. 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
Stephen Mann	29,202,993	4,087,205
Michael Fotios	32,360,000	5,332,192
Graham Anderson	1,680,000	1,000,000

3. DIVIDENDS

No dividends were paid or declared during the financial year. No recommendation for payment of dividends has been made.

4. OPERATING AND FINANCIAL REVIEW

Operating Results for the Period

The operating loss after income tax of the Group for the year ended 30 June 2011 was $2,720,710 (2010: $763,610)

Shareholder Returns

	2011	2010
Basic and diluted loss per share (cents)	3.94	1.6

5. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

6. SIGNIFICANT EVENTS AFTER THE REPORTING DATE

On 31 August 2011 and 30 September 2011, the Group signed variation agreements to vary the terms of the Heads of Agreement dated 9 October 2009. Refer to details in Note 25.

In the opinion of the Directors there have not been any other matters that have arisen since 30 June 2011 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.

7. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Group.

8. ENVIRONMENTAL REGULATION AND PERFORMANCE

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

Directors' Report (continued)

9. REMUNERATION REPORT

The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration

B Details of remuneration

C Service agreements

D Share-based compensation

E Additional information

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

A Principles used to determine the nature and amount of remuneration (audited)

Remuneration Policy

The remuneration policy of Pegasus Metals Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Group's financial results. The board of Pegasus Metals Limited believes the remuneration policy is appropriate and effective in its ability to attract and retain high calibre executives and directors to run and manage the Group.

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the Group is as follows:

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the board. All executives receive a base salary (which is based on factors such as length of service and experience) and superannuation. The board reviews executive packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The board may exercise discretion in relation to approving incentives, bonuses and options. The policy is designed to attract and retain the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth. Executives are also entitled to participate in the employee share and option arrangements.

The executive directors and other senior executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, may choose to sacrifice part of their salary to increase payments towards superannuation.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is currently $200,000 which was approved through a General Meeting held on 22 January 2008. Fees for non-executive directors are not linked to the performance of the Group. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Group and are able to participate in employee option plans.

Performance based remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders and directors and executives. Currently, this is facilitated through the issue of options to executives to encourage the alignment of personal and shareholder interests. The Group believes this policy will be effective in increasing shareholder wealth. For details of directors and executives interests in options at year end, refer to Note 15 to the financial statements.

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

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

Directors' Report (continued)

B Details of remuneration

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 Related Party Disclosures) of Pegasus Metals Limited are set out in the following table:

There are no other executives which are required to be disclosed per the requirement of the Corporations Act 2011.

	Short-Term	Post Employment	Share-based Payments		Total
	Salary & Fees	Superannuation	Options	Remuneration consisting options	
	$	$	$	%	$
Directors					
Stephen Mann					
2011	55,046	4,954	303,683	83.5	363,683
2010	29,817	2,684	-	-	32,501
Michael Fotios					
2011	36,000	-	151,841	80.83	187,841
2010	19,500	-	-	-	19,500
Graham Anderson*					
2011	74,875	-	151,841	66.97	226,716
2010	52,000	-	-	-	52,000
Craig Munro *Resigned 17th December 2009*					
2011	-	-	-	-	-
2010	16,183	-	-	-	16,183
George Katchan *Resigned 17th December 2009*					
2011	-	-	-	-	-
2010	150,283	13,525	-		163,808
Peter Andrews *Resigned 17th December 2009*					
2011	-	-	-	-	-
2010	13,870	-	-	-	13,870
Total key management personnel compensation					
2011	**165,921**	**4,954**	**607,365**	**231.30**	**778,240**
2010	**281,653**	**16,209**	**-**	**-**	**297,862**

*Graham Anderson is a Director of GDA Corporate Pty Ltd. During the year, GDA Corporate Pty Ltd provided company secretarial, accounting and administration services of $38,875 (2010: $27,000)

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

C Service agreements

There are no service agreements with any Directors or Executives.

D Share-based compensation

Options are issued to directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to the majority of directors and executives of Pegasus Metals Limited to increase goal congruence between executives, directors and shareholders.

Details of options over ordinary shares in the company provided as remuneration to each Director of Pegasus Metals Limited are set out below. When exercisable, each option is convertible into one ordinary share of Pegasus Metals Limited. Further information on the options is set out in Note 26 to the financial statements.

Directors' Report (continued)

Director	Number of options granted during the year	Value of options at grant date*	Number of options vested during the year	Number of options lapsed during the year	Value at lapse date
Stephen Mann	2,000,000	$303,683	2,000,000	-	-
Michael Fotios	1,000,000	$151,841	1,000,000	-	-
Graham Anderson	1,000,000	$151,841	1,000,000	-	-

* The value at grant date calculated in accordance with AASB Share-based Payment of options granted during the year as part of remuneration.

E Additional information

No market based performance bonuses have been paid to key management personnel during the financial year. The table below sets out information about the Group's earnings and movements in shareholder wealth of the periods since listing:

	30 June 2011	30 June 2010	30 June 2009	30 June 2008	30 June 2007
	$	$	$	$	$
Revenue	70,099	40,890	105,204	193,133	78,389
Net Loss before tax	(2,720,710)	(817,610)	(915,438)	(1,208,299)	(1,423,697)
Share price at year-end	0.27	0.07	0.04	0.04	0.19

This is the end of the audited remuneration report.

10. DIRECTORS' MEETINGS

During the year the Group held three meetings of directors. The attendance of directors at meetings of the board was:

	Directors' Meetings	
	A	B
Stephen Mann	4	4
Michael Fotios	4	4
Graham Anderson	4	4

Notes

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

11. SHARES UNDER OPTION

At the date of this report there are 10,962,162 unlisted options outstanding.

	Number of options
Balance at the beginning of the year	**26,600,000**
Movements of share options during the year	
Issued, exercisable at 10 cents, on or before 10 June 2012	1,000,000
Issued, exercisable at 15 cents, on or before 10 December 2013	1,000,000
Issued, exercisable at 45 cents, on or before 16 June 2014	6,000,000
Exercise of unlisted options at 10 cents each expiring 31 March 2011	(23,400,000)
Exercise of unlisted options at 15 cents each expiring 9 February 2013	(237,838)
Total number of options outstanding as at the date of this report	**10,962,162**

Directors' Report (continued)

The balance is comprised of the following:

Expiry date	Exercise price (cents)	Number of options
9 February 2013	10	2,962,162
10 June 2012	10	1,000,000
10 December 2013	15	1,000,000
2 June 2014	45	6,000,000
Total number of options outstanding at the date of this report		**10,962,162**

12. PROCEEDINGS ON BEHALF OF GROUP

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

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

13. INSURANCE OF DIRECTORS AND OFFICERS

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

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

The total amount of insurance contract premiums paid is confidential under the terms of the insurance policy.

The Group has entered into a Deed of Indemnity, Insurance and Access with each Director. In summary the Deed provides for:

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

14. NON-AUDIT SERVICES

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

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

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

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

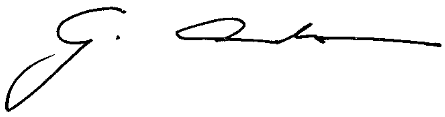
	2011 **$**	**2010** **$**
BDO Audit (WA) Pty Ltd – audit fees	28,771	21,376
BDO Corporate Finance (WA) Pty Ltd	-	16,221
Total remuneration	28,771	37,597

Directors' Report (continued)

15. 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 12.

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



GRAHAM ANDERSON
Director

West Perth, Western Australia on 30 September 2011

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

30 September 2011

The Directors
Pegasus Metals Limited
Level 1, 24 Mumford Place
BALCATTA WA 6021

Dear Sirs,

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

As lead auditor of Pegasus Metals Limited for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

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

Phillip Murdoch
Director

BDO

BDO Audit (WA) Pty Ltd
Perth, Western Australia

Corporate Governance Statement

The Group has adopted comprehensive systems of control and accountability as the basis for the administration of corporate governance. The Board is committed to administering the policies and procedures with openness and integrity and pursuing the true spirit of corporate governance commensurate with the Group's needs. To the extent they are applicable; the Group has adopted the Eight Essential Corporate Governance Principles and Best Practice Recommendations ("Recommendations") as published by ASX Corporate Governance Council.

As the Group's activities develop in size, nature and scope, the size of the Board and the implementation of additional corporate governance structures will be given further consideration.

The Board sets out below its "if not, why not" report in relation to those matters of corporate governance where the Group's practises depart from the recommendations.

Principle 1 recommendation 1.1

Notification of Departure
The Group has not formally disclosed the functions reserved to the Board and those delegated to management.

Explanation for Departure:
The Board recognises the importance of distinguishing between the respective roles and responsibilities of the Board and management. The Board has established a framework for the management of the Group and the roles and responsibilities of the Board and management.

Previously due to the small size of the Board and of the Group, the Board did not think that is was necessary to formally document the roles of the Board and management as these roles were clearly understood by all members of the Board and management. The Board is responsible for the strategic direction of the Group, establishing goals for management and monitoring the achievement of these goals, monitoring the overall corporate governance of the Group and ensuring that shareholder value is increased.

Principle 2 Recommendation 2.1

Notification of Departure:
The Board does not have a majority of independent Directors.

Explanation for Departure:
The Board has been structured such that its composition and size will enable it to effectively discharge its responsibilities and duties. Each Director has the relevant industry experience and specific expertise relevant to the Group's business and level of operations.

The Board considers that its structure is, and will continue to be, appropriate in the context of the Group's recent history. The Group considers that the non-independent Directors possess the skills and experience suitable for building the Group. Furthermore, the Board considers that in the current phase of the Group's growth, the Group's shareholders are better served by Directors who have a vested interest in the Group. The Board intends to reconsider its composition as the Group's operations evolve, and may appoint independent Directors as it deems appropriate.

Principle 2 Recommendation 2.4

Notification of Departure:
The full Board carries out the role of a nomination committee in the Nomination Committee Charter formalised on 14 February 2009. The Board has not adopted a charter relevant to the specific functions of a nomination committee.

Explanation for Departure:
The Board considers that no efficiencies or other benefits would be gained by establishing a separate nomination committee, in particular at this early stage of the Group's operation, where the Group's focus is on the retention of Directors and senior executives.

Corporate Governance Statement (continued)

Principle 4 Recommendation 4.2, 4.3, 4.4

Notification of Departure:
There is no separate Audit Committee.

Explanation for Departure:
The Group's financial statements are prepared by the Group Secretary and reviewed in detail by the full Board. The Board also relies on the functions and capabilities of its external auditors to ensure proper audit of financial statements. The Board considers this process is sufficient to ensure integrity in financial reporting. The audit committee consists of the current full Board. The Board considers that no efficiencies or other benefits would be gained by establishing a separate audit committee, in particular at this early stage of the Group's operation.

Principle 7 Recommendation 7.1

Notification of Departure:
The Group has an informal risk oversight and management policy and internal compliance and control system.

Explanation for Departure:
The Board is aware of the various risks that affect the Group and its particular business and reviews these risks on a regular basis. As the Group develops, the Board will further develop appropriate procedures to deal with risk oversight and management and internal compliance, taking into account the size of the Group and the stage of development of its projects.

Principle 8 Recommendation 8.1

Notification of Departure:
The Group does not have in place a formal process for evaluation of the Board, its committees, individual Directors and key executives.

Explanation for Departure:
Due to the size and structure of the Board a formal evaluation process is not conducted.

The Group operates with only two full time employees. The Group uses consultants for geological and Group secretarial functions and pays market rates for experienced professionals.

Consolidated Statement of Comprehensive Income

YEAR ENDED 30 JUNE 2011	Notes	2011 $	2010 $
REVENUE	2	70,099	40,890
Exploration expense		(1,345,314)	(385,168)
Occupancy expenses		(46,676)	(37,355)
Other expenses	3	(253,017)	(188,918)
Director fees		(127,046)	(104,369)
Consultant expenses		(107,708)	(88,690)
Share based payment expense		(911,048)	-
Loss before income tax		(2,720,710)	(763,610)
Income tax benefit / (expense)	4	-	-
Loss for the year		(2,720,710)	(763,610)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		(2,720,710)	(763,610)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF PEGASUS METALS LIMITED	12	(2,720,710)	(763,610)
Loss per share for loss attributable to ordinary equity holders of the Group:			
Basic and diluted loss per share (cents per share)	16	3.94	1.64

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

Consolidated Statement of Financial Position

AT 30 JUNE 2011	Notes	2011 $	2010 $
CURRENT ASSETS			
Cash and cash equivalents	5	2,198,316	1,525,161
Trade and other receivables	6	94,311	47,528
Other current assets	7	137,028	12,110
TOTAL CURRENT ASSETS		2,429,655	1,584,799
NON-CURRENT ASSETS			
Property, plant and equipment	8	36,714	29,464
Capitalised tenement acquisition costs	9	1,499,135	630,000
TOTAL NON-CURRENT ASSETS		1,535,849	659,464
TOTAL ASSETS		3,965,504	2,244,263
CURRENT LIABILITIES			
Trade and other payables	10	516,379	111,013
TOTAL CURRENT LIABILITIES		516,379	111,013
TOTAL LIABILITIES		516,379	111,013
NET ASSETS		3,449,125	2,133,250
EQUITY			
Contributed equity	11	9,177,243	6,339,041
Accumulated losses	12	(7,032,582)	(4,311,872)
Reserves	13	1,304,464	106,081
TOTAL EQUITY		3,449,125	2,133,250

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

Consolidated Statement of Changes in Equity

	Note	Contributed Equity $	Accumulated Losses $	Share-based Payments Reserve $	Total Equity $
BALANCE AT 1 JULY 2010		**6,339,041**	**(4,311,872)**	**106,081**	**2,133,250**
Loss for the year	12	-	(2,720,710)	-	(2,720,710)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**-**	(2,720,710)	**-**	(2,720,710)
Share based payments	13	-	-	1,198,383	1,198,383
Issued share capital	11	2,851,676	-	-	2,851,676
Capital raising costs		(13,474)	-	-	(13,474)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS		2,838,202	-	1,198,383	4,036,585
BALANCE AT 30 JUNE 2011		**9,177,243**	**(7,032,582)**	**1,304,464**	**3,449,125**

	Note	Contributed Equity $	Accumulated Losses $	Share-based Payments Reserve $	Total Equity $
BALANCE AT 1 JULY 2009		**4,814,419**	**(3,548,262)**	**52,081**	**1,318,238**
Loss for the year		-	(763,610)	-	(763,610)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**-**	(763,610)	**-**	(763,610)
Share based payments		-	-	54,000	54,000
Issued share capital		1,551,000	-	-	1,551,000
Capital raising costs		(26,378)	-	-	(26,378)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS		1,524,622	-	54,000	1,578,622
BALANCE AT 30 JUNE 2010		**6,339,041**	**(4,311,872)**	**106,081**	**2,133,250**

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

Consolidated Statement of Cash Flows

YEAR ENDED 30 JUNE 2011	Notes	2011 $	2010 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from debtors		43,570	-
Payments to suppliers and employees		(542,854)	(286,353)
Payments for exploration		(1,079,484)	(575,329)
Interest received		26,529	42,523
NET CASH (OUTFLOW) FROM OPERATING ACTIVITIES		(1,552,239)	(819,159)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(31,008)	2,951
Purchase of prospect		(105,800)	
NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES		(136,808)	2,951
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of shares		2,375,676	1,110,000
Payment of share issue costs		(13,474)	(26,378)
NET CASH INFLOW FROM FINANCING ACTIVITIES		2,362,202	1,083,622
NET(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		673,155	267,414
Cash and cash equivalents at the beginning of the year		**1,525,161**	1,257,747
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5	**2,198,316**	**1,525,161**

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

Notes to the Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation of historical financial information

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

Compliance with AIFRS ensures that the financial statements, comprising the notes thereto, comply with International Financial Reporting Standards. Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards (AIFRS). These financial statements are presented in Australian Dollars, which is the Group's functional and presentation currency.

(b) Revenue Recognition

Sale of Goods and Services

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

Interest

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

(c) Income tax

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

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

Deferred tax assets are only recognised for deductible temporary differences and unused tax loses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances relating to amounts recognised directly in equity are also recognised directly in equity.

(d) Impairment of Assets

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

For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

(e) Cash and Cash Equivalents

"Cash and cash equivalents" includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

Notes to the Consolidated Financial Statements

(f) Investments and Other Financial Assets

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

Loans and receivables

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

(g) Fair value estimation

Fair values may be used for financial asset and liability measurement and well as for sundry disclosures.

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

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

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

(h) Trade and other payables

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

(i) Employee Benefits

Wages and Salaries, Annual Leave and Sick Leave

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

Long Service Leave

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

Retirement Benefit Obligations

The Group has a defined contribution superannuation fund. Contributions are recognised as expenses as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(j) Exploration and evaluation expenditure

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

Exploration and evaluation expenditure incurred by the Group is accumulated for each area of interest and recorded as an asset if:

(i) the rights to tenure of the area of interest are current; and
(ii) at least one of the following conditions is also met:

Notes to the Consolidated Financial Statements

(j) Exploration and evaluation expenditure (continued)

(1) the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; and

(2) exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

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

A provision for unsuccessful exploration and evaluation is created against each area of interest by means of a charge to the statement of comprehensive income.

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

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

(k) Contributed Equity

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

(l) Goods and Services Tax

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

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

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

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

(m) Leases

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

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

(n) Provisions

Provisions for legal claims are recognised when the Group has a legal or constructive obligation as a result of past events. It is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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.

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

As asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(d)).

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

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

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

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

(S) Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of the subsidiaries of Pegasus Metals Limited as at 30 June 2011 and the results of all subsidiaries for the year then ended. Pegasus Metals Limited and its subsidiary together are referred to in this report as the group or the consolidated entity.

Notes to the Consolidated Financial Statements

(s) Principles of consolidation (continued)

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

(i) Joint Ventures

Jointly controlled assets

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

(t) New Accounting Standards and Interpretations

In the year ended 30 June 2011, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period. It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2011. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies.

New / revised pronouncement	Superseded pronouncement	Explanation of amendments	Effective date (i.e. annual reporting periods ending on or after)	Impact of new standard on the financial report	Likely impact
Accounting Standards					
AASB 9 Financial Instruments AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9	AASB 139 Financial Instruments: Recognition and Measurement (part)	AASB 9 introduces new requirements for the classification and measurement of financial assets. AASB 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in AASB 139 and removes the impairment requirement for financial assets held at fair value.	31 December 2013	AASB 9 amends the classification and measurement of financial assets; the effect on the entity will be that more assets are held at fair value and the need for impairment testing has been limited to assets held at amortised cost only.	Unlikely to have significant impact.
AASB 2009-13 Amendments to AASB 1 arising from Interpretation 19	Interpretation 19	This standard amends AASB 1 to allow a first-time adopter to use the transitional provisions in Interpretation 19.	30 June 2012	As the entity is not a first-time adopter of IFRS, this standard will not have any impact.	Unlikely to have significant impact.

Notes to the Consolidated Financial Statements

(t) New Accounting Standards and Interpretations (continued)

New / revised pronouncement	Superseded pronouncement	Explanation of amendments	Effective date (i.e. annual reporting periods ending on or after)	Impact of new standard on the financial report	Likely impact
AASB 124 Related Party Disclosures AASB 2009-12 Amendments to Australian Accounting Standards arising from AASB 124.	AASB 124 Related Party Disclosures	This revision amends the disclosure requirements for government related entities and the definition of a related party.	31 December 2011	Since the entity is not a government related entity; there is not expected to be any changes arising from this standard.	Unlikely to have significant impact.
AASB 2010-01 Limited exemption from comparative AASB 7 disclosures for first time adopters (Amendments to AASB 1 and AASB 7)	AASB 1: First-time adoption of Australian Accounting Standards AASB 7 Financial instruments: Disclosures	These amendments principally give effect to extending the transition provisions of AASB 2009-2 Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments to first-time adopters of Australian Accounting Standards.	30 June 2012	As the entity is not a first-time adopter of IFRS, this standard will not have any impact.	Reduced disclosures for first-time adopters.
IFRS Annual Improvements 2010 (May 2010)	Various	Makes various amendments to a number of standards and interpretations.	Application dates either 30 June 2011 or 31 December 2011.	Unlikely to have significant impact on the financial report.	Unlikely to have significant impact.
Australian Accounting Interpretations					
Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	N/A	This interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. These transactions are sometimes referred to as 'debt for equity swaps'.	30 June 2012	As the entity has not renegotiated any financial liabilities into equity instruments this interpretation is not expected to have any impact on the entity's financial report.	Unlikely to have significant impact.
AASB 2009-14 Prepayments of a Minimum Funding Requirement (Amendments to Interpretation 14)	N/A	This amendment to Interpretation 14 addresses the unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan.	31 December 2011	As the entity does not have a defined benefit pension plan this amendment to Interpretation 14 is not expected to have any impact on the entity's financial report.	Unlikely to have significant impact.

(u) Critical Accounting Estimates and Judgements

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

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

Notes to the Consolidated Financial Statements

(u) Critical Accounting Estimates and Judgements (continued)

Income Taxes

The Group is subject to income taxes in Australia and jurisdictions where it had foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the current and deferred tax provisions in the period in which such determination is made.

Fair value of share options and assumptions

The fair value of services received in return for share options granted to Directors and employees is measure by reference to the fair value of options granted. The estimate of the fair value of the services is measure based on Black-Scholes options valuation methodology.

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 the level of reserves and resources, future technological changes, costs of drilling and production, production rates, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

Notes to the Consolidated Financial Statements

NOTE 2. REVENUE

	2011 $	2010 $
Interest income	26,529	40,401
Other income	43,570	489
	70,099	40,890

NOTE 3. EXPENSES

Depreciation expense	23,757	26,480
Marketing fees	-	26,480
Accounting and secretarial fees	38,822	57,396
Other expenses	190,438	78,562
	253,017	188,918

NOTE 4. INCOME TAX

a) Income tax expense

Current tax	-	-
Deferred tax	-	-
	-	**-**

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

Loss before income tax	(2,720,710)	(763,610)
Prima facie income tax at 30%	(816,213)	(229,083)
Non-deductible expenses	273,314	-
Movement in unrecognised temporary differences	(13,235)	(17,959)
Effect of tax loss not recognised as deferred assets	556,134	247,042
Income tax expense/(benefit)	-	-

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

Unrecognised deferred tax asset – tax losses	1,896,304	1,336,491
Unrecognised deferred tax asset - timing	6,000	2,400
Unrecognised deferred tax asset – capital raising costs	17,663	-
	1,919,967	1,338,891

NOTE 5. CASH AT BANK

Cash at bank and on hand	2,198,316	1,525,161
	2,198,316	1,525,161

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

NOTE 6. TRADE AND OTHER RECEIVABLES

GST receivable	89,454	42,132
Other receivables	4,857	5,396
	94,311	47,528

As of 30 June 2011, trade receivables that were past due or impaired was nil (2010: nil). Information about the Group's exposure to credit risk is provided in Note 17.

Notes to the Consolidated Financial Statements

NOTE 7. OTHER CURRENT ASSETS	2011 $	2010 $
Prepayments	127,028	12,110
Bank guarantee	10,000	-
	137,028	12,110

NOTE 8. PLANT AND EQUIPMENT		
Plant and equipment	139,836	108,829
Less: accumulated depreciation	(103,122)	(79,365)
	36,714	29,464

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

	$
Balance at 1 July 2009	**58,896**
Additions	-
Disposals	(6,327)
Depreciation expense	(23,105)
Balance at 30 June 2010	**29,464**
Additions	31,007
Disposals	-
Depreciation expense	(23,757)
Balance at 30 June 2011	36,714

NOTE 9. CAPITALISED EXPLORATION EXPENDITURE	2011	2010
Capitalised tenement acquisition costs	$	$
Opening net book amount	630,000	-
Cash payments during the year	105,800	135,000
Shares issued during the year	476,000	441,000
Options issued during the year	287,335	54,000
Closing net book amount	1,499,135	630,000

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.

NOTE 10. TRADE AND OTHER PAYABLES		
Trade payables	485,673	80,837
Accrued expenses	20,000	8,000
Payroll liabilities	10,706	22,176
	516,379	111,013

NOTE 11. CONTRIBUTED EQUITY	2011	
Issued Capital	**Number**	**$**
Fully paid ordinary shares	88,240,339	9,217,095
Capital raising costs	-	(39,852)
	88,240,339	9,177,243

	2010	
Issued Capital	**Number**	**$**
Fully paid ordinary shares	62,402,501	6,365,419
Capital raising costs	-	(26,378)
	62,402,501	6,339,041

Movements in share capital

	Number	$
Balance 1 July 2010	62,402,501	6,339,041
Issued during the year:		
- Issued as per terms of the variation of existing heads of agreement	2,000,000	420,000
- Issue of 200,000 ordinary shares as consideration for acquisition of E80/4377	200,000	56,000
- Exercise of unlisted options expiring on 31 March 2011 at $0.10 each	23,400,000	2,340,000
- Exercise of unlisted options expiring on 9 Feb 2011 at $0.15 each	237,838	35,676
Less capital raising costs	-	(13,474)
Balance 30 June 2011	-	9,177,243

Notes to the Consolidated Financial Statements

	Number	$
Balance 1 July 2009	36,002,501	4,814,419
Issued during the year:		
- Issued as per terms of the placement agreement	4,200,000	441,000
- Issue of 22,200,000 ordinary shares at 5 cents each	22,200,000	1,110,000
Less capital raising costs	-	(26,378)
Balance 30 June 2010	62,402,501	6,339,041

Movements in options on issue

	Number	$
Balance at 1 July 2010	**26,600,000**	**-**
Issued/(lapsed) during the year:		
- Exercise of unlisted options expiring on 31 March 2011 at $0.10 each	(23,400,000)	-
- Exercise of unlisted options expiring on 9 Feb 2011 at $0.15 each	(237,838)	-
- Exercisable at 10 cents, on or before 10 June 2012	1,000,000	-
- Exercisable at 15 cents, on or before 10 December 2013	1,000,000	-
- Exercisable at 45 cents, on or before 2 June 2014	6,000,000	-
Balance at 30 June 2011	10,962,162	-

Balance at 1 July 2009	35,747,501	357,500
Voluntary forfeiture of unlisted options		
- Exercisable at 10 cents, on or before 31 March 2011	23,400,000	-
- Exercisable at 15 cents, on or before 8 February 2011	3,200,000	-
- Lapsed, exercisable at 20 cents, on or before 3 march 2011	(35,747,501)	(357,500)
Balance at 30 June 2010	26,600,000	-

Capital Risk Management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or adjust the capital structure, the Group may issue new shares or reduce its capital, subject to the provisions of the Constitution and any relevant regulatory requirements.

NOTE 12. ACCUMULATED LOSSES	**2011 $**	**2010 $**
Accumulated losses at beginning of year	(4,311,872)	(3,548,262)
Net loss for the year	(2,720,710)	(763,610)
Accumulated losses at end of year	(7,032,582)	(4,311,872)

NOTE 13. SHARE BASED PAYMENT RESERVE		
Balance at beginning of year	106,081	52,081
Options issued during the year	1,198,383	54,000
Balance at end of year	1,304,464	106,081

Nature and purpose of reserves

Share-based payments reserve

The share-based payments reserve is used to recognise:

- the fair value of options issued to employees but not exercised
- the fair value of shares issued to employees
- the fair value of options issued to directors but not exercised
- the fair value of share issued to directors

Notes to the Consolidated Financial Statements

NOTE 14. COMMITMENTS FOR EXPENDITURE

(a) Exploration Commitments

In order to maintain an interest in the mining and exploration tenements in which the Group is involved, the Group is committed to meet the conditions under which the tenements were granted and the obligations of any joint venture agreements. The timing and amount of exploration expenditure commitments and obligations of the Group are subject to the minimum expenditure commitments required as per the Mining Act, as amended, and may vary significantly from the forecast based upon the results of the work performed which will determine the prospectivity of the relevant area of interest.

These obligations are not provided for in the financial report. With respect to tenements held by Pegasus Metals Limited, Pegasus can, at its absolute discretion, relinquish all or part at any time within a year without any further expenditure commitments. At any time from the commencement date of the signed project agreements, Pegasus Metals Limited may withdraw from any project and any further expenditure commitments on that project by providing 30 days written notice.

Outstanding exploration commitments are as follows (no estimate has been given of expenditure commitments beyond 12 months as this is dependent on the directors' ongoing assessment of operations):

	2011	2010
	$	$
within one year:	2,200,000	70,000

NOTE 15. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key Management Personnel Compensation

Summary of non-executive directors and key management personnel compensation in the following categories are as follows:

	2011	2010
	$	$
Short-term employee benefits (including other services)	165,921	281,653
Post-employment benefits	4,954	16,209
Share based payments	607,365	-
	778,240	297,862

Detailed remuneration disclosures are provided in the remuneration report.

(b) Shareholdings of Non-Executive Directors and Key Management Personnel

Ordinary Shares held at 30 June 2011	Balance 1 July 10	Granted as remuneration	On exercise of options	Net change other	Balance 30 June 11
Stephen Mann	14,580,000	-	14,480,000	77,993	29,137,993(1)
Michael Fotios	16,180,000	-	16,180,000	-	32,360,000(1)
Graham Anderson	2,380,000	-	-	(700,000)	1,680,000
Totals	**33,140,000**	**-**	**30,660,000**	**(622,007)**	**63,177,993**

Ordinary Shares held at 30 June 2010	Balance 1 July 09	Granted as remuneration	On exercise of options	Net change other	Balance 30 June 10
Stephen Mann	-	-	-	14,580,000	14,580,000
Michael Fotios	-	-	-	16,180,000	16,180,000
Graham Anderson	630,000	-	-	1,750,000	2,380,000
Totals	**630,000**	**-**	**-**	**32,510,000**	**33,140,000**

(c) Options Holdings of Non-Executive Directors and Key Management Personnel

Options held at 30 June 2011	Balance 1 July 10	Granted as remuneration	On exercise of options	Net change other	Balance 30 June 11
Stephen Mann	16,567,205	2,000,000	(14,480,000)	-	4,087,205(2)
Michael Fotios	18,512,192	1,000,000	(16,180,000)	2,000,000(3)	5,332,192(2)
Graham Anderson	1,850,000	1,000,000	-	(1,850,000)	1,000,000
Totals	**36,929,397**	**4,000,000**	**(30,660,000)**	150,000	**10,419,397**

Notes to the Consolidated Financial Statements

NOTE 15. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

Options held at 30 June 2010	Balance 1 July 09	Granted as remuneration	On exercise of options	Net change other	Balance 30 June 10
Stephen Mann	-	-	-	16,567,205	16,567,205
Michael Fotios	-	-	-	18,512,192	18,512,192
Graham Anderson	1,850,000	-	-	-	1,850,000
Craig Munro*	1,000,000	-	-	(1,000,000)	-
Peter Andrews*	3,500,000	-	-	(3,500,000)	-
Totals	**6,350,000**	**-**	**-**	**30,579,397**	**36,929,397**

(1) Included in this holding are 27,960,000 shares held indirectly through Investmet Ltd.

(2) Included in this holding are 2,015,136 options held indirectly through Investmet Ltd.

(3) 2,000,000 options were issued to Delta Resource Management Pty Ltd and are held indirectly by Michael Fotios.

* The other changes in the options and shares held relates to these Directors resigning from their respective positions.

All equity transactions with key management personnel have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

(d) Loans to Key Management Personnel
There are no loans to key management personnel as at 30 June 2011 (2010: Nil).

(e) Other Transactions with Key Management Personnel
During the year, GDA Corporate Pty Ltd has provided company secretarial, accounting, tax, and administration services and office facilities to the Group. Graham Anderson is a Director of GDA Corporate Pty Ltd. Total amount paid to GDA Corporate Pty Ltd for the year was $38,875 (2010: $27,000). As at 30 June 2011, there is balance of $3,200 outstanding. Transactions are based on normal commercial terms and conditions and at arm's length.

Investmet Ltd is a related party as a result of the appointment of Michael Fotios and Stephen Mann as Directors. Both Michael Fotios and Stephen Mann are directors and substantial shareholders of Investmet. Investmet provides consulting services to Pegasus Metals Limited. Total amount paid to Investmet Ltd for the year was $72,600 (2010: 38,600). As at 30 June 2011, there is balance of $6,600 outstanding. Transactions are based on normal commercial terms and conditions and at arm's length.

The Group has entered into a technical and administrative services management agreement with Delta Resource Management Pty Ltd, an entity associated with Director Michael Fotios. Total amount paid to Delta Resource Management Pty Ltd for the year was $249,756 (2010: $73,841). As at 30 June 2011, there is balance of $136,191 outstanding. Transactions are based on normal commercial terms and conditions and at arm's length.

There are no other transactions with key management personnel for the year ended 30 June 2011 other than those disclosed above and in the Directors' Remuneration Report.

NOTE 16. LOSS PER SHARE	**2011**	**2010**
Loss attributable to the members of the company used in calculating basic and diluted loss per share	2,720,710	763,610
Basic and diluted loss per share	(3.94)	(1.64)
	No.	**No.**
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic loss per share	69,123,022	46,468,802

NOTE 17. FINANCIAL RISK MANAGEMENT
The Group has exposure to the following risks from their use of financial instruments:

- Credit risk
- Liquidity risk
- Market Risk

Notes to the Consolidated Financial Statements

NOTE 17. FINANCIAL RISK MANAGEMENT (continued)

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	
	2011	**2010**
Cash and cash equivalents	2,198,316	1,525,161
Other receivables	94,311	47,528
	2,292,627	1,572,689

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.

	2011	**2010**
Financial assets – counterparties without external credit rating		
Financial assets with no default in past	94,311	47,528
Cash at bank and short-term bank deposits		
AA – S&P rating	2,198,316	1,525,161
	2,292,627	1,572,689

Capital Risk Management

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

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

Impairment losses

None of the Group's other receivables are past due (2010: nil). There is no impairment loss recognised in 2011.

The allowance accounts in respect of other receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly. At 30 June 2011 the Group does not have any collective impairment on its other receivables (2010: nil).

Liquidity risk

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

Notes to the Consolidated Financial Statements

NOTE 17. FINANCIAL RISK MANAGEMENT (continued)

The Group manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows. The Group's objective is to maintain a balance between continuity of funding and flexibility.

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

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

Consolidated 30 June 2011

	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	516,379	516,379	516,379	-	-	-	-
	516,379	516,379	516,379	-	-	-	-

Consolidated 30 June 2010

	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	111,013	111,013	111,013	-	-	-	-
	111,013	111,013	111,013	-	-	-	-

Market Risk

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

Exposure to currency risk

There is no currency exposure risk at reporting date as there was no statement of financial position item as at 30 June 2011 in a currency other than the functional currency of the Group.

Sensitivity analysis

If the interest rates had weakened/strengthen by 1% (based on forward treasury rates) at 30 June 2011, there would be no material impact on the statement of comprehensive income. There would be no effect on the equity reserves other that those directly related to statement of comprehensive income movements.

Interest rate risk

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

	Fixed Interest	Floating Interest	Non-Interest Bearing	Total
Financial Assets	$	$	$	$
Cash and cash equivalents	1,785,000	423,105	300	2,208,405
Trade and other receivables	-	-	94,311	94,311
Weighted Average Interest Rate	3.75%	0%	0%	3.37%
Net Financial Assets	1,785,000	423,105	94,611	2,302,716
Financial Liabilities				
Trade and other payables	-	-	516,379	516,379
	-	-	516,379	516,379
Weighted Average Interest Rate	3.75%	0%	0%	3.37%
Net Financial Liabilities	1,785,000	423,105	(421,768)	1,786,337

Notes to the Consolidated Financial Statements

NOTE 17. FINANCIAL RISK MANAGEMENT (continued)

Fair values

All financial assets and liabilities have been recognised at the reporting date at amounts approximating their carrying value due to their short nature.

NOTE 18. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the board of directors that are used to make strategic decisions. The entity 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 comprehensive income, statement of financial position and statement of cash flows. As a result no reconciliation is required because the information as presented is what is used by the Board to make strategic decisions.

NOTE 19. CONTINGENT LIABILITIES

The Directors are of the opinion that there are no contingent liabilities as at 30 June 2011 (2010: nil).

NOTE 20. SUBSEQUENT EVENTS

On 31 August 2011 and 30 September 2011, the Group signed variation agreements to vary the terms of the Heads of Agreement dated 9 October 2009. Refer to details in Note 25.

In the opinion of the Directors there have not been any other matters that have arisen since 30 June 2011 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 21. AUDITOR'S REMUNERATION	**2011 $**	**2010 $**
Amount paid or payable to BDO Audit (WA) Pty Ltd	28,771	21,376
Amount paid or payable to BDO Corporate Finance (WA) Pty Ltd	-	16,221
	28,771	37,597

NOTE 22. DIVIDENDS

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

NOTE 23. RELATED PARTY TRANSACTIONS

There were no related party transactions during the years ended 30 June 2011 and 2010 other than shown in Note 15 and in the Directors' Report.

NOTE 24. INVESTMENT IN CONTROLLED ENTITIES

Name of Entity	**Equity Holding**		**Cost of Parent Entity's Investment**	
	2011 %	**2010 %**	**2011 $**	**2010 $**
Parent Entity				
Pegasus Metals Limited				
Controlled Entity				
Placer Resources Pty Ltd	100	100	700,000	700,000
Less: Impairment loss			(700,000)	(700,000)
			-	-

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

Notes to the Consolidated Financial Statements

NOTE 25. INTERESTS IN JOINT VENTURE

By the Agreement dated 9 October 2009 Pegasus has agreed to accept the grant by Kimminco of an option to earn a 100% interest in exploration licence E04/1441 and associated mining information from Kimminco excluding alluvial and eluvial gold and diamond mineralisation. The option is being granted subject to the Company paying several option fees to Kimminco in stages over time, which allows Pegasus to conduct exploration programs in the 2010 Kimberley field season, before making a decision to proceed with payment of the remaining option fees or whether to withdraw with no further obligation.

Kimminco is the family company of Dick Riley and owns E04/1441. Under the terms of the McClarty Range Copper Project Agreement, Kimminco has been paid a first option fee of $35,000 in cash and a second option of a $100,000 cash payment and the issue of 3,000,000 Shares for Stage 1 which allows Pegasus to explore until 30 September 2010, before making a decision to move to Stage 2.

Subsequently 4 Variations to the Agreement have been signed extending the exercise date for the Stage 2 election until 4 October 2011. The first variation required Pegasus to issue to Kimminco 2,000,000 shares and 2,000,000 options, with half of these options exercisable at 10 cents each within 18 months of their date of issue and the second half exercisable at 15 cents each within 3 years of their date of issue. The shares and options above are to be deducted from the Stage 2 consideration detailed below. In addition an option extension fee of $25,000 was paid.

Pegasus will be required to meet an exploration commitment of $500,000 in the first year and $1,000,000 in each of the next two years if it moves to Stage 2. 60% of the exploration funding will be for RC and diamond drilling. To enter Stage 2, Pegasus will also be required to issue a further 9,000,000 shares and 6,000,000 options, with half of these options exercisable at 10 cents each within 18 months of their date of issue and the second half exercisable at 15 cents each within 3 years of their date of issue.

Kimminco will also be paid $75,000 each year for three years from the date of the AGM approvals and whilst Pegasus is exploring. If Pegasus completes Stages 1 & 2 and the above exploration commitments, it will have the right to 100% of the project by paying Kimminco $10,000,000 on the drawdown of approved funding for mine construction following completion of a bankable feasibility study.

NOTE 26. SHARE BASED PAYMENTS

30 June 2011

Grant Date	Expiry Date	Exercise Price	Balance at 1 July 2010	Granted during the year	Exercised during the year	Forfeited during the year	Balance at 30 June 2011	Vested and exercisable at 30 June 2011
17/12/09	31/3/11	$0.10	1,200,000	-	(1,200,000)	-	-	-
24/11/10	10/06/12	$0.10	-	1,000,000	-	-	1,000,000	1,000,000
24/11/10	10/12/13	$0.15	-	1,000,000	-	-	1,000,000	1,000,000
02/06/11	02/06/14	$0.45	-	6,000,000	-	-	6,000,000	6,000,000
			1,200,000	**8,000,000**	(1,200,000)	**-**	**8,000,000**	**8,000,000**
Weighted average exercise price (cents)			10	36.88	10		36.88	36.88

30 June 2010

Grant Date	Expiry Date	Exercise Price	Balance at 1 July 2009	Granted during the year	Exercised during the year	Forfeited during the year	Balance at 30 June 2010	Vested and exercisable at 30 June 2010
17/12/09	31/3/11	$0.10	-	1,200,000	-	-	1,200,000	1,200,000
			-	**1,200,000**	**-**	**-**	**1,200,000**	**1,200,000**

The weighted average exercise price of the options held at the end of the year is 10 cents.

Expenses arising from share based payments	**2011**	**2010**
Options issued to:	**$**	**$**
Directors	911,048	-
	911,048	-

Notes to the Consolidated Financial Statements

NOTE 26. SHARE BASED PAYMENTS (continued)

Capitalised costs arising from share based payments		
Capitalised tenement acquisition costs	287,335	54,000
	287,335	54,000

No options expired during the periods covered by the above tables. Options granted carry no dividend or voting rights.

Set out below are summaries of the options granted:

2011	**Number of options**	**Value per option (cents)**
Series 1		
Exercisable at 10 cents, on or before 10 June 2012	1,000,000	14.03
Series 2		
Exercisable at 15 cents, on or before 10 December 2013	1,000,000	14.71
Series 3		
Exercisable at 45 cents, on or before 2 June 2014	6,000,000	15.18
2010		
Series 1		
Exercisable at 10 cents, on or before 31 March 2011	1,200,000	4.50

The price was calculated by using the Black-Scholes Option Pricing Model applying the following inputs:

		2011		***2010***
	Series 1	***Series 2***	***Series 3***	***Series 1***
Life of the option (years)	1.5	3	3	1.3
Share price at grant date (cents)	21	21	28	12
Expected share price volatility	100%	100%	100%	100%
Risk free interest rate	4.75%	4.75%	4.75%	4.50%

The expected price volatility is based on the historic volatility (based on the remaining life of the options) adjusted for any expected changes to future volatility due to publicly available information.

The weighted average remaining contractual life of the share options outstanding at the end of the year is 2.61 years (2010 – 0.75 years).

NOTE 27. STATEMENT OF CASH FLOWS

	2011 $	**2010 $**
Reconciliation of cash and cash equivalents		
Cash and cash equivalents as shown in the statement of financial position and the statement of cash flows	2,198,316	1,525,161
Operating (loss) after tax	(2,720,710)	(763,610)
Depreciation	23,757	26,480
Share based payments	911,048	-
Changes in assets and liabilities		
(Increase)/Decrease in capitalised tenement acquisition costs	-	(135,000)
(Increase)/Decrease in trade and other receivables	(46,783)	(22,530)
(Increase)/Decrease in other current assets	(124,918)	513
Increase/(Decrease) in trade and other payables	405,367	74,988
Net cash flow (used in) operating activities	(1,552,239)	(819,169)

Non-cash investing and financing activities

During the year, the Company issued 2,200,000 shares (2010: 4,200,000) to the value of $476,000 (2010: $441,000) to acquire interests in exploration tenements.

Notes to the Consolidated Financial Statements

NOTE 28. PEGASUS METALS LIMITED PARENT COMPANY INFORMATION	Company	
	2011	2010
	$	$
ASSETS		
Current assets	2,429,555	1,584,699
Non-current assets	1,535,849	659,464
TOTAL ASSETS	**3,965,404**	**2,244,163**
LIABILITIES		
Current liabilities	512,765	114,626
TOTAL LIABILITIES	512,765	**114,626**
EQUITY		
Contributed equity	9,077,243	6,339,041
Reserves	1,304,464	106,081
Retained earnings	(7,025,641)	(4,318,813)
FINANCIAL PERFORMANCE		
Loss for the year	2,720,710	763,610
Other comprehensive income	-	-
Total comprehensive income	2,720,710	763,610

CONTINGENT LIABILITIES

As at 30 June 2011 and 2010, the Company had no contingent liabilities.

CONTRACTUAL COMMITMENTS

As at 30 June 2011 and 2010, the Company had no contractual commitments other than exploration commitments disclosed in Note 14.

GUARANTEES ENTERED INTO BY PARENT ENTITY

As at 30 June 2011 and 2010, the Company has not provided any financial guarantees.

Directors' Declaration

The Directors of the Group declare that:

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

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

   b) give a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of the performance for the year ended on that date.

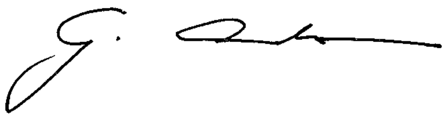
2. In the Director's opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

3. The remuneration disclosures included in the Directors' report (as part of audited Remuneration Report), for the year ended 30 June 2011, comply with section 300A of the *Corporations Act 2001*.

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

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

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



GRAHAM ANDERSON
Director

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30 September 2011

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Australia

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PEGASUS METALS LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Pegasus Metals Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entity it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Independence

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

Opinion

In our opinion:

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

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

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

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

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Pegasus Metals Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO

Phillip Murdoch
Director

Perth, Western Australia
Dated this 30th day of September 2011

ASX Additional Information

SECURITIES EXCHANGE INFORMATION AS AT 19 OCTOBER 2011

DISTRIBUTION OF SHAREHOLDINGS

Size of Holding	Number of Shareholders	%
1 – 1,000	22	3.62
1,001 – 5,000	119	19.60
5,001 – 10,000	75	12.36
10,001 – 100,000	297	48.93
100,001 and above	94	15.49
Total shareholders	607	100

SUBSTANTIAL SHAREHOLDERS

Name	Units	%
Investmet Ltd	27,960,000	29.36
Kimminco Pty Ltd	10,300,000	10.81

VOTING RIGHTS

All ordinary shares issued by the Company carry one vote per share without restriction.

TWENTY LARGEST SHAREHOLDERS

	Name of Shareholder	No of Shares	%
1.	Investmet Ltd	27,960,000	29.36
2.	Kimminco Pty Ltd	10,300,000	10.81
3.	Mr Michael George Fotios	3,600,000	3.78
4.	Mr Peter Andrews &	3,000,000	3.15
5.	Mr Dane Peder Evan Sorensen	1,913,896	2.01
6.	Sharic Superannuation Pty Ltd	1,772,072	1.86
7.	Mr Dane Peder Evan Sorensen	1,700,000	1.78
8.	Perth Select Seafoods Pty Ltd	1,550,000	1.63
9.	Graham Anderson Pty Ltd	1,075,000	1.13
10.	Mr John Jansen &	1,050,000	1.10
11.	Dr Rudolf Heitz &	921,700	0.97
12.	Farris Corporation Pty Ltd	900,000	0.94
13.	Mr Brian Burg	900,000	0.94
14.	Ms Betty Jeanette Moore &	870,000	0.91
15.	Oakmount Nominees Pty Ltd	843,243	0.89
16.	Delta Resource Management Pty Ltd	842,400	0.88
17.	Valentino Nominees Pty Ltd	800,000	0.84
18.	Mr Philip Colin Hammond &	762,792	0.80
19.	Mr Roger Williams Patek &	710,000	0.75
20.	Eureka Town Pty Ltd	700,000	0.73
		62,171,103	**65.26**

ASX Additional Information

SCHEDULE OF MINING TENEMENTS

Tenements	Holder
Western Australia	
E04/1441	Kimminco Pty Ltd
E80/3250	Kimberley Mining Pty Ltd
E80/3374	Kimberley Mining Pty Ltd
E80/3827	Daktyloi Metals Pty Ltd
E80/3829	Daktyloi Metals Pty Ltd
E80/4377	Duketon Consolidated Pty Ltd
E80/4513	Pegasus Metals Limited
E80/4514	Pegasus Metals Limited
E80/4515	Pegasus Metals Limited
E80/4517	Pegasus Metals Limited
E80/4518	Pegasus Metals Limited
E80/4519	Pegasus Metals Limited
E80/4520	Pegasus Metals Limited
E80/4521	Pegasus Metals Limited
E80/4522	Pegasus Metals Limited
E80/4524	Pegasus Metals Limited
E80/4525	Pegasus Metals Limited
E80/4526	Pegasus Metals Limited
E80/4529	Pegasus Metals Limited