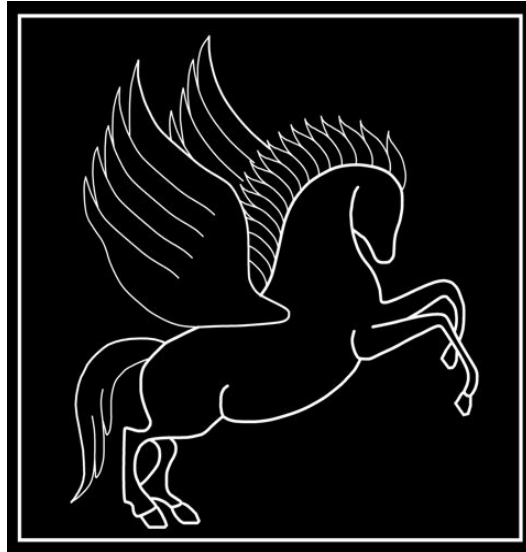


PEGASUS METALS LIMITED

ACN 115 535 030



Half-Year Report

For the half-year ended 31 December 2011

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These interim financial statements do not include all the notes of the type normally included in the annual financial statements. Accordingly, these financial statements are to be read in conjunction with the Annual Report for the year ended 30 June 2011 and any public announcements made by Pegasus Metals Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

DIRECTORS' REPORT

Your Directors are pleased to present their report on the consolidated entity consisting of Pegasus Metals Limited and the entity it controlled at the end of, or during, the half-year ended 31 December 2011.

DIRECTORS

The names of the Directors who held office during or since the end of the half-year, to the date of this report, are:

Stephen Mann (*Chairman*)
Michael Fotios (*Director*)
Graham Anderson (*Director/Company Secretary*)

REVIEW OF OPERATIONS

The company focused on its helicopter assisted diamond drilling operations at the McLarty Range Project, during the half year to 31 December 2011. The McLarty Range Project area is some 110km north of Derby in Western Australia and covers stratigraphy within the Kimberley Basin highly prospective for copper. This is a remote area and operations required sea and helicopter support. Three diamond holes were completed at the Bower Bird prospect which were designed to test the "Mega Gossan" at depth and in a less weathered state. Field Operations were suspended in mid-December for the wet season.

The first two holes encountered weathered and cavernous material representing the down plunge extension of the "Mega Gossan" with the third hole intersecting a fault, which displaced the target. Copper mineralisation was encountered in all three holes with the best intersection being 7m at 1.02% copper. The drilling confirmed the geological concept derived from surface mapping and sampling, and a system endowed with Proterozoic Sedimentary Exhalative and/or replacement mineralisation. A Programme of Work has been approved for an extensive drill programme to further test Bowerbird and the Main Syncline area at McLarty with drilling operations schedule to commence once the Kimberley wet season moderates in May 2012.

Reconnaissance was completed within the Durack Range Project area, North of Halls Creek, confirming historical information and highlighting a walk up drill target at the Carson No9 prospect and significant strike length of highly prospective stratigraphy, with many synergies to the McLarty Range project. With over 1,400 km² of ground currently being explored from the coast north of Derby to east of Halls Creek / Fitzroy Crossing, Pegasus Metals is anticipating considerable success in identifying further copper targets within this extensive tenement holding.

RESULTS OF OPERATIONS

The Company incurred an after tax operating loss for the half-year ended 31 December 2011 of \$2,176,731 (2010: \$1,004,538).

SUBSEQUENT EVENTS

On 24 January 2012, Pegasus Metals announced that it had made a significant copper discovery at its McLarty Range Copper Project in the West Kimberley Region of WA.

The Company has signed Loan Facility Agreements with Delta Resource Management Pty Ltd and Investmet Limited with both facilities for \$500,000. To date, \$32,000 has been drawn down of the Delta Resource Management Pty Ltd loan facility and \$440,000 drawn down of the Investmet Limited loan facility. Refer to Note 13 for further details.

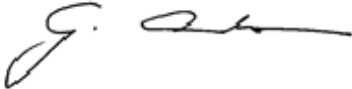
There are no other matters or circumstances that have arisen since 31 December 2011.

DIRECTORS' REPORT (continued)

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 5.

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

A handwritten signature in black ink, appearing to read 'G. Anderson', written in a cursive style.

Graham Anderson

Director

Perth, Western Australia

15 March 2012

15 March 2012

The Board of Directors
Pegasus Metals Limited
14 Emerald Street
WEST PERTH WA 6008

Dear Sirs,

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

As lead auditor for the review of Pegasus Metals Limited for the half-year ended 31 December 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 review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

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



Phillip Murdoch
Director

BDO Audit (WA) Pty Ltd
Perth, Western Australia

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011**

	Note	Half-year	
		2011 \$	2010 \$
REVENUE FROM CONTINUING OPERATIONS	2	16,281	58,241
EXPENDITURE			
Exploration expenses	2	(1,861,936)	(834,257)
Occupancy expenses		(17,492)	(18,975)
Other expenses		(313,584)	(209,547)
		<hr/>	<hr/>
LOSS BEFORE INCOME TAX		(2,176,731)	(1,004,538)
Income tax expense		-	-
		<hr/>	<hr/>
LOSS FOR THE HALF-YEAR		(2,176,731)	(1,004,538)
		<hr/>	<hr/>
Other comprehensive income for the half-year, net of tax		-	-
		<hr/>	<hr/>
TOTAL COMPREHENSIVE INCOME FOR THE HALF-YEAR ATTRIBUTABLE TO THE OWNERS OF PEGASUS METALS LIMITED		(2,176,731)	(1,004,538)
		<hr/>	<hr/>
Basic loss per share (cents)		(2.41)	(1.81)
Diluted loss per share (cents)		N/A	N/A

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011**

		31 December 2011 \$	30 June 2011 \$
CURRENT ASSETS			
Cash and cash equivalents		61,613	2,198,316
Trade and other receivables		167,594	94,311
Other current assets		3,289	137,028
TOTAL CURRENT ASSETS		232,496	2,429,655
NON-CURRENT ASSETS			
Plant and equipment		28,501	36,714
Capitalised tenement acquisition costs	4	3,926,359	1,499,135
TOTAL NON-CURRENT ASSETS		3,954,860	1,535,849
TOTAL ASSETS		4,187,356	3,965,504
CURRENT LIABILITIES			
Trade and other payables		(719,063)	(516,379)
TOTAL CURRENT LIABILITIES		(719,063)	(516,379)
TOTAL LIABILITIES		(719,063)	(516,379)
NET ASSETS		3,468,293	3,449,125
EQUITY			
Contributed equity	5	10,745,918	9,177,243
Reserve	6	1,931,688	1,304,464
Accumulated losses		(9,209,313)	(7,032,582)
TOTAL EQUITY		3,468,293	3,449,125

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

	Contributed Equity	Accumulated Losses	Reserve	Total Equity
CONSOLIDATED				
Balance 1 July 2011	9,177,243	(7,032,582)	1,304,464	3,449,125
Total comprehensive income for the half year	-	(2,176,731)	-	(2,176,731)
Share based payments	-	-	627,224	627,224
Issue of share capital	1,575,000	-	-	1,575,000
Capital raising costs	(6,325)	-	-	(6,325)
Transactions with equity holders in their capacity as equity holders	1,568,675	-	627,224	2,195,899
Balance 31 December 2011	10,745,918	(9,209,313)	1,931,688	3,468,293

	Contributed Equity	Accumulated Losses	Reserve	Total Equity
CONSOLIDATED				
Balance 1 July 2010	6,339,041	(4,311,872)	106,081	2,133,250
Total comprehensive income for the half year	-	(1,004,538)	-	(1,004,538)
Share based payments	-	-	287,335	287,335
Issue of share capital	456,486	-	-	456,486
Adjustment of capital raising costs	1,386	-	-	1,386
Transactions with equity holders in their capacity as equity holders	457,872	-	287,335	745,207
Balance 31 December 2010	6,796,913	(5,316,410)	393,416	1,873,919

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011**

	Half-year	
	2011 \$	2010 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from debtors	-	43,570
Expenditure on exploration and evaluation	(1,725,495)	(735,592)
Payments to suppliers and employees	(182,914)	(285,966)
Interest received	16,281	27,412
Net cash outflow from operating activities	(1,892,128)	(950,576)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for acquisition of tenement	(225,000)	(100,000)
Payment for purchase of fixed assets	(13,249)	-
Net cash outflow from investing activities	(238,249)	(100,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	-	36,486
Other – capital raising costs adjustment	(6,326)	1,386
Net cash (outflow)/inflow from financing activities	(6,326)	37,872
Net decrease in cash and cash equivalents	(2,136,703)	(1,012,704)
Cash and cash equivalents at the beginning of the half-year	2,198,316	1,525,161
CASH AND CASH EQUIVALENTS AT THE END OF THE HALF-YEAR	61,613	512,457

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**NOTE 1: BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT**

These general purpose financial statements for the interim half-year reporting period ended 31 December 2011 have been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

These half-year financial statements have been prepared under the historical cost basis.

These general purpose financial statements do not include all the notes of the type normally included in an annual financial statement. Accordingly, these half-year financial statements are to be read in conjunction with the annual financial statements for the year ended 30 June 2011 and any public announcements made by Pegasus Metals Ltd during the interim period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Going concern

The directors have prepared the financial statements on the basis of going concern, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business. The company recognises it incurred a net loss of \$2,176,731 and a net cash outflow from operating activities of \$1,892,128 in the period ending 31 December 2011.

Post year end, the company received short-term funding in the way of loans amounting to \$452,000 from Investmet Limited and Delta Resource Management Pty Ltd. Refer to Note 11 for further details. The directors are currently looking at undertaking a capital raising in the near future and are confident in successfully completing this raising. The company therefore believes it can continue as a going concern, including facilitating its ongoing exploration activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Half-year	
	31 Dec 2011	31 Dec 2010
	\$	\$
NOTE 2: REVENUE AND EXPENSES		
(a) Revenue		
Interest received	16,281	14,671
Other income	-	43,570
	16,281	58,241
(b) Exploration and evaluation expenditure		
<i>Employment related expenses</i>		
Wages	48,100	6,800
Superannuation	6,522	612
	54,622	7,412
<i>Other exploration expenses</i>		
Direct exploration expenses	1,807,314	826,845
	1,807,314	826,845
	1,861,936	834,257
Total exploration and evaluation expenditure	1,861,936	834,257

NOTE 3: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

	31 Dec 2011	30 June 2011
	\$	\$
NOTE 4: CAPITALISED TENEMENT ACQUISITION COSTS		
Capitalised tenement acquisition costs		
Opening net book amount at the start of the half-year	1,499,135	630,000
Cash payments during the half-year	225,000	105,800
Options issued during the half-year	627,224	476,000
Shares issued during the half-year	1,575,000	287,335
Closing net book amount at the end of the half-year	3,926,359	1,499,135

Ultimate recoupment of exploration expenditure carried forward is dependant on successful development and commercial exploitation, or alternatively, sale of the respective areas.

NOTE 5: CONTRIBUTED EQUITY

	2011	
	Number	\$
Issued Capital		
Fully paid ordinary shares	95,240,339	10,752,244
Capital raising costs	-	(6,326)
	95,240,339	10,745,918

Movements in share capital

	Number	\$
Balance 1 July 2011	88,240,339	9,177,244
Issued during the half-year:		
- Issued shares as consideration for proceeding to stage 2 per Heads of Agreement	7,000,000	1,575,000
Less cost of capital raising	-	(6,326)
Balance 31 December 2011	95,240,339	10,745,918
Balance 1 July 2010	62,402,501	6,365,419
Issued during the half-year:		
- Issued as per terms of the variation of existing heads of agreement	2,000,000	420,000
- Exercise of unlisted options expiring on 31 March 2011 at \$0.10 each	300,000	30,000
- Exercise of unlisted options expiring on 9 Feb 2011 at \$0.15 each	43,243	6,486
Less cost of capital raising	-	(24,992)
Balance 31 December 2010	64,745,744	6,796,913

NOTE 6: OPTION RESERVE

	31 Dec 2011	30 June 2011
	\$	\$
Balance at beginning of period	1,304,464	106,081
Options issued during the period	627,224	1,198,383
Balance end of period	1,931,688	1,304,464

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 7. SHARE BASED PAYMENTS

Grant Date	Expiry Date	Exercise Price	Balance at 1 July 2011	Granted during the year	Exercised during the year	Forfeited during the year	Balance at 31 Dec 2011	Vested and exercisable at 31 Dec 2011
11/10/11	11/4/13	\$0.10	-	2,000,000	-	-	2,000,000	2,000,000
11/10/11	11/4/14	\$0.15	-	2,000,000	-	-	2,000,000	2,000,000
			-	4,000,000	-	-	4,000,000	4,000,000

The weighted average exercise price of the options held at the end of the year is 12.5 cents.

Expenses arising from share based payments

	2011	2010
Options issued to:	\$	\$
Consultants - Kimminco	627,224	-
	<u>627,224</u>	<u>-</u>

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

	10c options	15c options
Life of the option (years)	1.5	3
Share price at grant date (cents)	22.5	22.5
Expected share price volatility	100%	100%
Risk free interest rate	4.50%	4.50%
Total value	\$307,306	\$319,918

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.

7,000,000 fully paid ordinary shares were issued to Kimminco as consideration for proceeding to Stage 2 of the farm-in option to earn a 100 per cent interest in McLarty Range. These shares were valued at the date Pegasus Metals elected to proceed which was 4 October 2011. The underlying security price on this date was \$0.225. Total value recognised for the shares issued as consideration is \$1,575,000.

NOTE 8. LOSS PER SHARE

	2011	2010
Loss attributable to the members of the company used in calculating basic and diluted loss per share	2,176,731	341,671
Basic and diluted loss per share	(2.41)	(1.81)
	No.	No.
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic loss per share	90,191,159	55,549,844

NOTE 9: CONTINGENCIES

The Directors are of the opinion that there are no material contingent liabilities or contingent assets of the Group at reporting date.

NOTE 10: DIVIDENDS

There were no dividends paid during the half-year ended 31 December 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**NOTE 11: SUBSEQUENT EVENTS**

On 24 January 2012, Pegasus Metals announced that it had made a significant copper discovery at its McLarty Range Copper Project in the West Kimberley Region of WA.

The Company has signed Loan Facility Agreements with Delta Resource Management Pty Ltd and Investmet Limited with both facilities for \$500,000. To date, \$32,000 has been drawn down of the Delta Resource Management Pty Ltd loan facility and \$440,000 drawn down of the Investmet Limited loan facility. Refer to Note 13 for further details.

There are no other matters or circumstances that have arisen since 31 December 2011.

NOTE 12: CONTINGENT COMMITMENTS

Pegasus has exercised its option to elect to proceed to Stage 2 and farm-in to earn a 100 per cent interest in McLarty Range, as provided for in the Heads of Agreement with Kimminco Pty Limited ("HoA").

The consideration paid/issued by the Company to Kimminco on proceeding to Stage 2, exclusive of GST, was:

- (i) a cash payment of \$150,000;
- (ii) 7,000,000 fully paid ordinary shares in the Company;
- (iii) 2,000,000 Options exercisable at \$0.10 each within 18 months of issue, and
- (iv) 2,000,000 Options exercisable at \$0.15 each within 3 years of issue.

A third and final annual payment of \$75,000 is payable to Kimminco. The minimum exploration expenditure commitment on E04/1044 is \$2,500,000 between 30 November 2009 and 30 November 2012, of which \$1,500,000 must comprise of reverse circulation and diamond drilling.

NOTE 13: RELATED PARTY TRANSACTIONS

A loan arrangement was entered into with Delta Resource Management Pty Ltd, an entity associated with Director Michael Fotios and Investmet Limited, an entity of which both Michael Fotios and Stephen Mann are directors and substantial shareholders. Both loan facilities are for \$500,000 and as at the date of this report, \$32,000 has been drawn down of the Delta Resource Management Pty Ltd loan facility and \$440,000 drawn down of the Investmet Limited loan facility. The loans are interest free and unsecured and are required to be repaid on or before 30 June 2012.


There are no other changes to related party transactions since 30 June 2011 other than those disclosed above.

DIRECTORS' DECLARATION

In the Directors' opinion:

1. the financial statements and notes set out on pages 6 to 14 are in accordance with the *Corporations Act 2001*, including:
 - (a) complying with the *Corporations Regulations 2001* and Australian Accounting Standard AASB 134 *Interim Financial Reporting* and other mandatory professional requirements of the company; and
 - (b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
2. there are reasonable grounds to believe that Pegasus Metals Limited will be able to pay its debts as and when they become due and payable.

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



Graham Anderson

Director

Perth, Western Australia

15 March 2012

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Pegasus Metals Limited, which comprises the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the disclosing entity and the entity it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Pegasus Minerals Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, 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.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Pegasus Metals Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of Matter

Without modifying our conclusion, we draw attention to Note 1 in the half-year financial report which indicates that Pegasus Metals Limited incurred a net loss of \$2,176,731 and had net operating cash outflows of \$1,892,128 during the half-year ended 31 December 2011 and will need to raise further equity to continue its operations. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the disclosing entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities at the amounts stated in the normal course of business.

BDO Audit (WA) Pty Ltd

BDO

A handwritten signature in black ink, appearing to read 'P. Murdoch', written over a horizontal line.

Phillip Murdoch
Director

Perth, Western Australia
Dated this 15th day of March 2012