

PEGASUS METALS LIMITED

ACN 115 535 030



Interim Financial Report

For the half-year ended 31 December 2015

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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 2015 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 2015.

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:

Michael Fotios	Non-Executive Director
Alan Still	Non-Executive Director
Michael Jardine	Non-Executive Director (<i>appointed 22 July 2015</i>)
Graham Anderson	Chairman (<i>deceased 21 July 2015</i>)

REVIEW OF OPERATIONS

The focus of activities during the half-year ended December 2015 was a critical review of the Mt Mulcahy Copper Project data and exploration strategy by new geological management. After completion, it was considered that:

- Surface based TEM techniques can be used to further refine the targets;
- Detailed geology mapping be used to refine surface expressions; and
- Acquisition of surface geochemistry be made a priority.

Within the review, historical surface geochemistry data was found that had not been previously analysed. This large dataset of 8,443 multi-element soil samples was manually entered, georeferenced, and then analysed using ioGAS software to identify possible multivariate signatures to mineralisation.

The data was also domained by regolith type and levelled to investigate possible anomalies under the transported cover. This has identified robust exploration targets, many of which are coincident, generated from:

- Surface geochemistry anomalies identified by data entry, analysis and interpretation undertaken during the term of the licence;
- VTEM targets generated from work undertaken during the term of the licence; and
- Lithology units and structural trends identified from aeromagnetic data gathered, and interpretation undertaken, during the term of the licence.

As such, future exploration programs are expected to focus on the coincident surface Cu and Zn geochemistry, VTEM targets, and mapped sediment units. As there are some areas lacking surface geochemistry and mapping coverage, such as the core of the syncline, and the eastern extent of the northern limb, infill mapping and sampling of these areas is proposed.

With further refinement of targets likely from the outlined activities, drill planning of exploration targets will be finalised for later in the year.

The Board continues to assess new project opportunities that will potentially assist the Company is growing its mineral assets in the Murchison region.

RESULTS OF OPERATIONS

The Group incurred an after tax operating loss for the half-year ended 31 December 2015 of \$1,841,319 (31 December 2014: \$297,626).

DIRECTORS' REPORT (continued)**SUBSEQUENT EVENTS**

There are no matters or circumstances that have arisen since 31 December 2015 other than as disclosed in Note 12.

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:

**Michael Fotios**

Non-Executive Director

Perth, Western Australia
15 March 2016

DECLARATION OF INDEPENDENCE BY DEAN JUST TO THE DIRECTORS OF PEGASUS METALS LIMITED

As lead auditor for the review of Pegasus Metals Limited for the half-year ended 31 December 2015, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. 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 entities it controlled during the period.



Dean Just
Director

BDO Audit (WA) Pty Ltd
Perth, 15 March 2016

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2015**

	Note	Half-year	
		2015 \$	2014 \$
CONTINUING OPERATIONS			
Revenue	2	42,070	18
Gain on disposal of asset		-	(3,172)
Exploration expenses		(38,992)	(111,545)
Occupancy expenses		(21,273)	(18,000)
Depreciation expense		(1,408)	(2,837)
Impairment expense	4	(1,687,906)	-
Other expenses	2	(133,810)	(162,090)
LOSS BEFORE INCOME TAX		(1,841,319)	(297,626)
Income tax expense		-	-
LOSS AFTER INCOME TAX FOR THE HALF-YEAR		(1,841,319)	(297,626)
Other comprehensive income for the half-year, net of tax		-	-
TOTAL COMPREHENSIVE LOSS FOR THE HALF-YEAR ATTRIBUTABLE TO THE OWNERS OF PEGASUS METALS LIMITED		(1,841,319)	(297,626)
Earnings per share from continuing operations:			
Basic (cents per share)		(1.39)	(0.24)
Diluted (cents per share)		(1.39)	(0.24)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015**

	Note	31 December 2015 \$	30 June 2015 \$
CURRENT ASSETS			
Cash and cash equivalents		11,843	12,967
Trade and other receivables		251,881	1,653,026
Other current assets		10,064	10,086
TOTAL CURRENT ASSETS		273,788	1,676,079
NON-CURRENT ASSETS			
Plant and equipment		6,030	7,438
Capitalised tenement acquisition costs	4	2,060,027	3,747,933
TOTAL NON-CURRENT ASSETS		2,066,057	3,755,371
TOTAL ASSETS		2,339,845	5,431,450
CURRENT LIABILITIES			
Trade and other payables	5	1,543,702	2,452,090
Borrowings	8	13,600	355,498
TOTAL CURRENT LIABILITIES		1,557,302	2,807,588
TOTAL LIABILITIES		1,557,302	2,807,588
NET ASSETS		782,543	2,623,862
EQUITY			
Issued capital	6	18,189,063	18,189,063
Reserve	7	2,629,621	2,629,621
Accumulated losses		(20,036,141)	(18,194,822)
TOTAL EQUITY		782,543	2,623,862

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 2015**

	Issued Capital	Accumulated Losses	Reserve	Total Equity
CONSOLIDATED				
Balance 1 July 2015	18,189,063	(18,194,822)	2,629,621	2,623,862
Loss for the half-year	-	(1,841,319)	-	(1,841,319)
Total comprehensive loss for the half year	-	(1,841,319)	-	(1,841,319)
Balance 31 December 2015	18,189,063	(20,036,141)	2,629,621	782,543

	Issued Capital	Accumulated Losses	Reserve	Total Equity
CONSOLIDATED				
Balance 1 July 2014	18,189,063	(18,890,318)	2,629,621	1,928,366
Loss for the half-year	-	(297,626)	-	(297,626)
Total comprehensive loss for the half year	-	(297,626)	-	(297,626)
Balance 31 December 2014	18,189,063	(19,187,944)	2,629,621	1,630,740

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 2015**

	Half-year	
	2015	2014
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Research and development tax refund	1,430,253	-
Expenditure on exploration and evaluation	(705,217)	(9,108)
Payments to suppliers and employees	(426,357)	(55,965)
Interest received	42,095	323
Net cash outflow from operating activities	340,774	(64,750)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of fixed assets	-	14,380
Net cash outflow from investing activities	-	14,380
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of borrowings	(354,698)	-
Proceeds from borrowings	12,800	45,200
Net cash inflow from financing activities	(341,898)	45,200
Net (decrease)/increase in cash and cash equivalents	(1,124)	(5,170)
Cash and cash equivalents at the beginning of the half-year	12,967	11,807
CASH AND CASH EQUIVALENTS AT THE END OF THE HALF-YEAR	11,843	6,637

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

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the annual financial statements for the year ended 30 June 2015 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*.

Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2015 annual financial report for the financial year ended 30 June 2015. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Significant accounting judgments and key estimates

The preparation of the interim financial reports requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim report, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report for the year ended 30 June 2015.

Changes in accounting policy

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

Adoption of new and revised accounting standards

In the half year ended 31 December 2015, 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 annual reporting periods beginning on or after 1 July 2015. 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 the Group's accounting policies.

The accounting policies and methods of computation adopted are consistent with those of the previous financial year and corresponding interim reporting period. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 Group incurred a net loss of \$1,841,319 (31 December 2014: \$297,626), net cash inflows from operating activities of \$340,774 in the period ended 31 December 2015 (outflows 31 December 2014: \$64,750) and is in a net working capital deficiency position at 31 December 2015 of \$1,283,514 (30 June 2015: \$1,131,509).

The Directors believe that the Group will be able to pay its debts as and when they become due and payable given the undrawn loan facility at 31 December 2015 of \$1M available with Michael Fotios ATF the Michael Fotios Family Trust, letters of support obtained from creditors of significant value to defer amounts payable at balance date until the group has sufficient funds to repay the debts and the Group's history of successful capital raising to date. The Directors are confident of the Group's ability to raise additional funds and accordingly have prepared the financial statements on a going concern basis.

Notwithstanding the above, should the Group not receive the continued financial support of creditors and its financier and/or not be able to raise additional funds, there is a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore the group may not be able to settle its assets and liabilities at the amounts stated in the financial statements. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

NOTE 2: REVENUE AND EXPENSES

	Half-year	
	31 December 2015	31 December 2014
	\$	\$
(a) Revenue		
Interest received	42,072	18
	42,072	18
(b) Other expenses		
Other administrative expenses	(33,115)	(40,552)
External professional fees	(32,114)	(62,249)
Directors Fees	(54,000)	(45,000)
ASX fees	(14,581)	(14,289)
	(133,810)	(162,090)

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 Group does not have any operating segments with discrete financial information. The group does not have any customers, and all the group's assets and liabilities are located within Australia.

The Board of Directors review internal management reports on a monthly basis that is consistent with the information provided in the statement of profit or loss and other comprehensive income, statement of financial position and statement of cash flows. As a result no reconciliation is required because the information as presented is what is used by the Board to make strategic decisions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

	31 December 2015	30 June 2015
	\$	\$
NOTE 4: CAPITALISED TENEMENT ACQUISITION COSTS		
Capitalised tenement acquisition costs		
Opening net book amount	3,747,933	3,747,933
Impairment expense	(1,687,906)	-
Closing net book amount	2,060,027	3,747,933

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

During the peiord, the Group impaired its exploration asset, the fair value of the asset was determined using the market capitalisation approach to determine a fair value less costs of disposal ("FVLCD") and recognised an impairment expense of \$1,687,906. The recoverable amount of the exploration asset is based on the fair value less costs of disposal, categorised as a level 3 fair value within the fair value measurement hierarchy.

	31 December 2015	30 June 2015
	\$	\$
NOTE 5: TRADE AND OTHER PAYABLES		
Trade payables	1,424,749	2,207,603
Accrued expenses	44,500	170,035
Payroll liabilities	74,453	74,452
	1,543,702	2,452,090

NOTE 6: ISSUED CAPITAL

	2015	
	Number	\$
Issued Capital		
Fully paid ordinary shares	127,174,519	18,189,063
Capital raising costs	-	-
	127,174,519	18,189,063
Movements in share capital		
	Number	\$
Balance 1 July 2015	134,074,519	18,189,063
Cancellation of 6,900,000 shares	(6,900,000)	-
Balance 31 December 2015	127,174,519	18,189,063
Balance 1 July 2014	134,074,519	18,189,063
Balance 30 June 2015	134,074,519	18,189,063

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

On 27 November 2015, following shareholder approval at the Group's Annual General Meeting held on that day, 6,900,000 shares were cancelled for nil cash consideration. The share cancellation was negotiated as part settlement of a dispute with the Group's joint venture partner in the McLarty Range Project.

NOTE 7: OPTION RESERVE	31 December 2015	30 June 2015
	\$	\$
Balance at beginning of period	2,629,621	2,629,621
Balance end of period	2,629,621	2,629,621

NOTE 8: BORROWINGS

On 30 September 2015, the Group extended the terms of the loan agreement with Michael Fotios ATF the Michael Fotios. The purpose of the loan is to provide working capital to the Group to fund its immediate operational requirements and the loan bears no interest. During the half-year ended 31 December 2015, the Group repaid the loan amount of \$355,498 in full. At 31 December 2015 there is balance of nil.

During the half-year ended 31 December 2015, Delta Resource Management Pty Ltd (Delta), an entity associated with Director Michael Fotios, made payments totalling \$13,600 on the Group's behalf. This amount is payable in full.

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 (30 June 15: nil).

NOTE 10: 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.

Due to the nature of the Group's operations in exploring and evaluating areas of interest, it is difficult to accurately forecast the nature and amount of future expenditure beyond the next year. Expenditure may be reduced by seeking exemption from individual commitments, by relinquishing of tenure or any new joint venture agreements. Expenditure may be increased when new tenements are granted or joint venture agreements amended.

NOTE 11: FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group does not have any financial instruments that are subject to recurring fair value measurements. Due to their short-term nature, the carrying amounts of the current receivables and current trade and other payables is assumed to approximate their fair value.

NOTE 12: DIVIDENDS

There were no dividends paid during the half-year ended 31 December 2015 (30 June 15: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**NOTE 13: SUBSEQUENT EVENTS**

Subsequent to period end the undrawn loan facility of \$1M with Michael Fotios ATF the Michael Fotios was revised repayable on the completion of a capital raising or by 30 June 2017. Refer to note 8 for conditions of the facility.

There are no other matters or circumstances that have arisen since the half-year ended 31 December 2015.

NOTE 14: RELATED PARTY TRANSACTIONS

On 30 September 2015, the Group extended the terms of the loan agreement with Michael Fotios ATF the Michael Fotios. The purpose of the loan is to provide working capital to the Group to fund its immediate operational requirements and the loan bears no interest. During the half-year ended 31 December 2015, the Group repaid the loan amount of \$355,498 in full. At 31 December 2015 there is balance of nil.

During the half-year ended 31 December 2015, Delta Resource Management Pty Ltd (Delta), an entity associated with Director Michael Fotios, made payments totalling \$13,600 on the Group's behalf. This amount is payable in full.

There are no other changes to related party transactions since the last reporting date.

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 Group; and
 - (b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 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:



Michael Fotios
Non-Executive Director

Perth, Western Australia
15 March 2016

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 2015, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities 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 company 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 2015 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 Metals 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 review 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 2015 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 financial report, which describes the principle conditions that raise doubt about the consolidated entity's ability to continue as a going concern. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the consolidated 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 in the normal course of business.

BDO Audit (WA) Pty Ltd

A handwritten signature in blue ink, appearing to read 'Dean Just', is written over a faint, circular BDO logo watermark.

Dean Just

Director

Perth, 15 March 2016