

PEGASUS METALS LIMITED

ACN 115 535 030



Interim Financial Report

For the half-year ended 31 December 2017

Contents	Page
Directors' Report	3
Auditor's Independence Declaration	6
Consolidated Statement of Profit or Loss and Other Comprehensive Income	7
Consolidated Statement of Financial Position	8
Consolidated Statement of Changes In Equity	9
Consolidated Statement of Cash Flows	10
Notes to the Consolidated Financial Statements	11
Directors' Declaration	18
Independent Auditor's Review Report to the Members	19

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 2017 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 2017.

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
Neil Porter	Non-Executive Director

COMPANY SECRETARY

Shannon Coates

REVIEW OF OPERATIONS

The Mt Mulcahy project hosts the Mount Mulcahy copper-zinc deposit, volcanic-hosted massive sulphide (VMS) zone of mineralisation, with a JORC 2012 Measured, Indicated and Inferred Resource of 647,000 tonnes @ 2.4% copper, 1.8% zinc, and 20g/t Ag at the 'South Limb Pod' (SLP) (refer ASX release dated 25 September 2014). The horizon hosting this mineralisation can be traced for a distance of at least 12 kilometres along strike and excellent potential exists for additional mineralisation to be discovered along this prospective horizon.

During the half-year, the Company applied for a Mining Lease (MLA20/535) to cover tenement E20/422, containing the SLP resources and potential extensions of the VMS horizon. During the December quarter the Department for Mines, Industry regulation and Safety (DMIRS) advised that the new Mining Lease application was considered to be affected by the result of the High Court outcome in Forrest and Forrest Pty Ltd v Wilson (2017). Accordingly, the department advised that E20/422 was considered expired as at 6th April 2017, and the Company has applied for a new exploration lease over the area (ELA 20/931). Planned drilling of down-plunge extensional holes to the current resource at the SLP now awaits the grant of the new licence.

RESULTS OF OPERATIONS

The Group incurred an after tax operating loss for the half-year ended 31 December 2017 of \$76,915 (31 December 2016: \$106,969).

SUBSEQUENT EVENTS

Acquisition of Scorpion Minerals Limited

Background

On 10 January 2018, the Company announced that it had entered into an agreement with Scorpion Minerals Limited (Scorpion) to acquire a 100% interest in Scorpion. Scorpion owns the rights to engage in a joint venture over the Dablo Pd-Pt-Au-Ni-Cu (palladium-platinum-gold-nickel-copper) Project in Burkina Faso (Dablo Project).

The acquisition of Scorpion is subject to shareholder approval.

The Dablo Project comprises four exploration tenements covering 981km² of an early Birmanian age greenstone belt containing a largely unexplored, significant (>35km long) ultramafic-mafic complex in a region which also hosts large-scale Au deposits (Esskane and Inata) and a VMS deposit (Perkoa).

Scorpion holds a right to acquire up to a 70% interest in the Dablo Project in two phases:

- **Phase 1** – Scorpion to spend \$4 million on agreed expenditure within 24 months to earn an initial interest of 51% in the Dablo Project;
- **Phase 2** – Scorpion can earn up to a further 19% interest in the Dablo Project by spending up to a further \$4 million on agreed expenditure within the period of 18 months after the completion of Phase 1.

DIRECTORS' REPORT (continued)

Scorpion must spend a minimum of \$1.15 million within twelve (12) months. Scorpion has spent \$400,000 to date.

Transaction

The Company is to acquire 100% of the issued capital of Scorpion for \$360,000, via the issue to Scorpion shareholders of 12,000,000 fully paid ordinary shares in the capital of the Company at an implied price of \$0.03 per share (Scorpion Acquisition).

In addition, the promoters and directors of Scorpion will be issued three (3) tranches of option in the capital of the Company as follows:

- Tranche 1 – 15,000,000 options with an exercise price of \$0.03 per option, expiring 12 months from the date of issue;
- Tranche 2 – 15,000,000 options with an exercise price of \$0.05 per option, expiring 24 months from the date of issue; and
- Tranche 3 – 15,000,000 options with an exercise price of \$0.10 per option, expiring 36 months from the date of issue.

In connection with the acquisition, the Company will assume the outstanding loan obligations of Scorpion under a \$500,000 loan facility with Investmet Limited (Investmet), an entity associated with Michael Fotios. As part of the transaction, 50% of the loan facility, amounting to \$250,000, will be repayable to Investmet out of funds received by way of a placement of shares in the Company (outlined below). Any amount in excess of \$250,000 will become repayable either in cash or shares, at the Company's election, once the Company's share price has traded as a volume weighted average price above 25 cents per share over a continuous period of thirty (30) days.

As part of the agreement, Ms Bronwyn Barnes and Mr Grant Osborne will be appointed to and Mr Michael Fotios will resign from the Board of Directors.

Placement

In connection with the Scorpion Acquisition, the Company announced a placement under ASX Listing Rule 7.1 to sophisticated investors of 20,000,000 shares at an issue price of \$0.03 per share, to raise \$600,000 before costs associated with the issue. As at the date of this report, total proceeds of \$625,500 has been raised under the Placement (inclusive of \$60,000 subject to shareholder approval), representing an oversubscription of \$25,500.

Conditions Precedent

The Scorpion Acquisition is subject to the following conditions precedent:

- Scorpion obtaining all necessary regulatory and shareholder approvals.
- The Company obtaining all necessary shareholder and regulatory approvals to allow the Company to lawfully complete the Scorpion Acquisition.
- The Company currently has outstanding Directors' loans and creditor's balances amounting to approximately \$1,600,000. As part of the Scorpion Acquisition, one half of the outstanding Directors' loans and creditors balances, equating to \$800,000, will be converted into equity in the Company at an implied rate of \$0.03 per share, with the balance to remain outstanding. In addition, repayment terms are to be extended and the Company will be entitled to make repayments in either cash or shares, at the Company's election, once the Company's share price has traded as a volume weighted average price above 25 cents per share over a continuous period of thirty (30) days.

Investmet Options

Subject to satisfaction of the conditions precedent, in consideration for Investmet entering the loan terms outlined above, Investmet will be issued three (3) tranches of option in the capital of the Company (Investmet Options) as follows:

- Tranche 1 – 7,500,000 options with an exercise price of \$0.03 per option, expiring 12 months from date of issue.

DIRECTORS' REPORT (continued)

- Tranche 2 – 7,500,000 options with an exercise price of \$0.05 per option, expiring 24 months from date of issue.
- Tranche 3 – 7,500,000 options with an exercise price of \$0.10 per option, expiring 36 months from date of issue.

There are no other matters or circumstances that have arisen since 31 December 2017 other than as disclosed in Note 12.

CORPORATE

On 27 October 2017, the Company announced it had entered into an agreement with Mr Michael Fotios and associates to provide funding of up to \$1,000,000 to the Company. The previous loan facility agreement was with The Michael Fotios Family Trust which has been superseded by the new loan facility. Refer to note 6 for further detail.

During the 30 June 2017 financial year, the Company received Notices to Wind Up from external consultants. Each of the matters has been settled during the half year.

COMPETENT PERSONS STATEMENT

Mt Mulcahy South Limb Pod Mineral Resource Estimate as at 31 December 2017											
Resource Category	Grade						Contained Metal				
	Tonnes	Cu (%)	Zn (%)	Co (%)	Ag (g/t)	Au (g/t)	Cu (t)	Zn (t)	Co (t)	Ag (oz)	Au (oz)
Measured	193,000	3.0	2.3	0.1	25	0.3	5,800	4,400	220	157,000	2,000
Indicated	372,000	2.2	1.7	0.1	19	0.2	8,200	6,300	330	223,000	2,000
Inferred	82,000	1.5	1.3	0.1	13	0.2	1,200	1,100	60	35,000	
TOTAL	647,000	2.4	1.8	0.1	20	0.2	15,200	11,800	610	415,000	4,000

The information in this Mineral Resource Statement is based on information compiled and/or reviewed by Mr Michael Fotios, whom is a director of Pegasus Metals and a member of the Australasian Institute of Mining and Metallurgy ("AusIMM"). Mr Fotios has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 and 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Fotios consents to the inclusion in this Annual Report of the matters based on his information in the form and context in which it appears. The Annual Mineral Resource Statement as a whole has been approved by Mr Fotios.

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 4.

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
16 March 2018

DECLARATION OF INDEPENDENCE BY NEIL SMITH TO THE DIRECTORS OF PEGASUS METALS LIMITED

As lead auditor for the review of Pegasus Metals Limited for the half-year ended 31 December 2017, 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.



Neil Smith

Director

BDO Audit (WA) Pty Ltd

Perth, 16 March 2018

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

		Half-year	
	Note	2017 \$	2016 \$
CONTINUING OPERATIONS			
Other income	2	110,227	171
Exploration expenses		(9,726)	(52,009)
Depreciation expense		-	(333)
Other expenses	2	(177,416)	(54,798)
		<u>(76,915)</u>	<u>(106,969)</u>
LOSS BEFORE INCOME TAX			
Income tax expense		-	-
		<u>(76,915)</u>	<u>(106,969)</u>
LOSS AFTER INCOME TAX FOR THE HALF-YEAR			
Other comprehensive income for the half-year, net of tax		-	-
		<u>(76,915)</u>	<u>(106,969)</u>
TOTAL COMPREHENSIVE LOSS FOR THE HALF-YEAR ATTRIBUTABLE TO THE OWNERS OF PEGASUS METALS LIMITED			
		<u>(76,915)</u>	<u>(106,969)</u>
Loss per share attributable to the ordinary equity holders of the Parent:			
Basic and diluted (cents per share)		(0.06)	(0.08)

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 2017**

	Note	31 December 2017 \$	30 June 2017 \$
CURRENT ASSETS			
Cash and cash equivalents		1,024	614
Trade and other receivables		411,278	284,819
Other current assets		17,856	17,856
TOTAL CURRENT ASSETS		<u>430,158</u>	<u>303,289</u>
NON-CURRENT ASSETS			
Capitalised tenement acquisition costs	4	<u>2,060,027</u>	<u>2,060,027</u>
TOTAL NON-CURRENT ASSETS		<u>2,060,027</u>	<u>2,060,027</u>
TOTAL ASSETS		<u>2,490,185</u>	<u>2,363,316</u>
CURRENT LIABILITIES			
Trade and other payables	5	2,054,584	1,972,780
Borrowings	6	432,492	310,512
TOTAL CURRENT LIABILITIES		<u>2,487,076</u>	<u>2,283,292</u>
TOTAL LIABILITIES		<u>2,487,076</u>	<u>2,283,292</u>
NET ASSETS		<u>3,109</u>	<u>80,024</u>
EQUITY			
Issued capital	7	18,189,063	18,189,063
Accumulated losses		(18,185,954)	(20,738,660)
Reserves	8	-	2,629,621
TOTAL EQUITY		<u>3,109</u>	<u>80,024</u>

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 2017**

	Issued Capital	Accumulated Losses	Reserve	Total Equity
CONSOLIDATED				
Balance 1 July 2017	18,189,063	(20,738,660)	2,629,621	80,024
Loss for the half-year	-	(76,915)	-	(76,915)
Total comprehensive loss for the half year	-	(76,915)	-	(76,915)
Transfer on expiry of options		2,629,621	(2,629,621)	-
Balance 31 December 2017	18,189,063	(18,185,954)	-	3,109

	Issued Capital	Accumulated Losses	Reserve	Total Equity
CONSOLIDATED				
Balance 1 July 2016	18,189,063	(20,286,470)	2,629,621	532,214
Loss for the half-year	-	(106,969)	-	(106,969)
Total comprehensive loss for the half year	-	(106,969)	-	(106,969)
Balance 31 December 2016	18,189,063	(20,393,439)	2,629,621	425,245

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 2017**

	Half-year	
	2017	2016
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Research and development tax refund	110,148	-
Expenditure on exploration and evaluation	(34,119)	(7,804)
Payments to suppliers and employees	(197,678)	(103,205)
Interest received	79	95
Interest paid	-	(406)
Net cash outflow from operating activities	(121,570)	(111,320)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	121,980	116,392
Net cash inflow from financing activities	121,980	116,392
Net increase in cash and cash equivalents	410	5,072
Cash and cash equivalents at the beginning of the half-year	614	1,805
CASH AND CASH EQUIVALENTS AT THE END OF THE HALF-YEAR	1,024	6,877

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 2017 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 2017 annual financial report for the financial year ended 30 June 2017. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Going concern

The Group incurred a net loss of \$76,915 (31 December 2016: \$106,969) and incurred net cash outflows from operating activities of \$121,570 for the half year ended 31 December 2017 (31 December 2016: \$111,320 outflow), and had a working capital deficiency of \$2,056,918 at 31 December 2017.

At 16 March 2018, the Group has a cash balance of \$815,871. The ability of the Group to pay its debts as and when they become due is dependent upon the continuation of the loan facility entered into with Michael Fotios and his associated entities, their ability to meet the pledge of continuing financial support under that loan facility as and when required, and letters of support obtained from related party creditors and negotiating deferred terms of repayment with third party creditors.

These conditions indicate a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore whether it will be able to pay its debts as and when they fall due and realise its assets and extinguish its liabilities in the normal course of business at the amounts stated in the financial report.

Management believe that there are sufficient funds available to continue to meet the Group's working capital requirements as at the date of this report. The financial statements have been prepared on the basis that the Group is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business for the following reasons:

- On 16 February 2018 the company announced to the ASX the placement to sophisticated investors of 12,183,338 fully paid ordinary shares to raise \$365,500. In the same announcement, subject to shareholder approval, the company expects to raise \$60,000 through issue of shares to directors of Scorpion and a further placement to other parties of 5,816,667 ordinary shares to raise \$174,500;
- There exists an undrawn loan balance available to the company with Michael Fotios and associated entities for an amount of \$607,034;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Going concern (continued)

- Letters of confirmation have been obtained in relation to related party creditors (refer Note 5) and related party borrowings (refer Note 6) totalling \$1,798,899 confirming that they do not expect repayment until such time that Pegasus Metals Limited have received the necessary funds for repayment and such a repayment would not impair Pegasus Metals Limited to continue as a going concern; and
- On 16 February 2018 the company issued a prospectus outlining the terms of the agreement to acquire Scorpion Minerals Limited (refer details in Note 12). The acquisition is subject to several conditions precedent, one of which is that one half of amounts owing by the company as directors loans will be converted to equity at an implied rate of \$0.03 cents per share with the balance to remain outstanding.

Should the Group not be able to achieve successful outcomes with the above matters, and including renegotiation of terms with third party creditors, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. The financial report does not include any adjustments relating to the recoverability or classification of recorded asset amounts, nor the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

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 2017.

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 2017, 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 2017. 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.

NOTE 2: OTHER INCOME AND EXPENSES

	Half-year	
	31 December 2017	31 December 2016
	\$	\$
(a) Revenue		
R&D rebate received	110,148	-
Interest received	79	171
	110,227	171
(b) Other expenses		
Other administrative expenses	(39,816)	(30,083)
External professional fees	(81,433)	(22,918)
Directors Fees	(45,000)	13,000
ASX fees	(11,167)	(14,797)
	(177,416)	(54,798)

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.

NOTE 4: CAPITALISED EXPLORATION EXPENDITURE

	31 December 2017	30 June 2017
Capitalised exploration and evaluation		
Opening net book amount	2,060,027	2,060,027
Impairment expense	-	-
Closing net book amount	2,060,027	2,060,027

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

During the half-year, the Company applied for a Mining Lease (MLA20/535) to cover tenement E20/422, containing the SLP resources and potential extensions of the VMS horizon. During the December quarter the Department for Mines, Industry regulation and Safety (DMIRS) advised that the new Mining Lease application was considered to be affected by the result of the High Court outcome in Forrest and Forrest Pty Ltd v Wilson (2017). Accordingly, the department advised that E20/422 was considered expired as at 6th April 2017, and the Company has applied for a new exploration lease over the area (ELA 20/931). Planned drilling of down-plunge extensional holes to the current resource at the SLP now awaits the grant of the new licence.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
NOTE 5: TRADE AND OTHER PAYABLES

	31 December 2017	30 June 2017
	\$	\$
Trade payables	595,949	556,065
Related party creditors ⁽¹⁾	1,366,407	1,332,250
Accrued expenses	59,589	79,374
Payroll liabilities	32,639	5,091
	2,054,584	1,972,780

⁽¹⁾Reconciliation of carrying amount of related party accounts payable

Delta Resource Management	713,866	689,200
Eastern Goldfields Limited	25,079	25,079
Investmet Ltd	178,688	178,688
Michael Fotios Family Trust – non-interest bearing	86,408	82,500
Whitestone Mining Services Pty Ltd	362,366	356,783
	1,366,407	1,332,250

NOTE 6: BORROWINGS

	31 December 2017	30 June 2017
	\$	\$
M Fotios Family Trust – non-interest bearing ⁽¹⁾	-	4,381
M Fotios and Associated Entities ⁽¹⁾	392,966	-
Loans from other related parties ⁽¹⁾	39,526	306,131
	432,492	310,512
Reconciliation of carrying amount of M Fotios and Associated Entities		
Opening amount	4,381	22,461
New associates ⁽¹⁾	266,605	-
Drawdowns during the period	121,980	3,020
Transfer to Delta	-	(21,100)
Closing drawdown balance	392,966	4,381
Closing undrawn balance	607,034	995,619

⁽¹⁾ The loan facility agreement entered into on 27 October 2017 is with M Fotios and associated entities, being Delta Resource Management and Investmet Limited. The previous loan facility agreement was with The Michael Fotios Family Trust which has been superseded by the new loan facility. The revised loan facility incorporates \$266,605, which relates to loan balances outstanding with Delta and Investmet before the revised loan facility was executed. The loan facility with M Fotios and associated entities is to be repaid in cash within 7 days of the successful completion of a capital raising. Prior to a capital raising any lender may convert all or some of the outstanding balance of the loan in ordinary shares at the price at which the capital raising is to be completed. Conversion of the loan to ordinary shares is subject to compliance with the applicable laws and regulations including the requirement to seek shareholder approval for a related party transaction. The loan bears interest of 8% p.a. The undrawn loan balance available to the Company from Michael Fotios and associated entities amounts to \$607,034.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
NOTE 7: ISSUED CAPITAL

	2017	
Issued Capital	Number	\$
Fully paid ordinary shares	127,174,519	18,189,063
Capital raising costs	-	-
	127,174,519	18,189,063
	<hr/>	
<i>Movements in share capital</i>	Number	\$
Balance 1 July 2017	127,174,519	18,189,063
Balance 31 December 2017	127,174,519	18,189,063
	<hr/>	
Balance 1 July 2016	127,174,519	18,189,063
Balance 31 December 2016	127,174,519	18,189,063
	<hr/>	

NOTE 8: OPTION RESERVE

	31 December 2017	30 June 2017
	\$	\$
Balance at beginning of period	-	2,629,621
Balance end of period	-	2,629,621
	<hr/>	

NOTE 9: CONTINGENCIES

At 31 December 2017 there were \$562,206 trade creditors included in current liabilities which were outside their agreed terms of repayment. The company is subject to legal proceedings for demands and claims of \$64,585 of these long outstanding creditors.

The directors expect to enter into repayment plans with their long outstanding third party creditors. The directors believe this will not have an effect on the company's ability to continue as a going concern as detailed further in Note 1

The Directors are of the opinion that there are no material contingent liabilities or contingent assets of the Group at reporting date (31 December 2017: nil).

NOTE 10: COMMITMENTS

There have been no changes in commitments from 30 June 2017.

NOTE 11: DIVIDENDS

There were no dividends paid during the half-year ended 31 December 2017 (30 June 17:Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**NOTE 12: SUBSEQUENT EVENTS*****Acquisition of Scorpion Minerals Limited****Background*

On 10 January 2018, the Company announced that it had entered into an agreement with Scorpion Minerals Limited (Scorpion) to acquire a 100% interest in Scorpion. Scorpion owns the rights to engage in a joint venture over the Dablo Pd-Pt-Au-Ni-Cu (palladium-platinum-gold-nickel-copper) Project in Burkina Faso (Dablo Project).

The acquisition of Scorpion is subject to shareholder approval.

The Dablo Project comprises four exploration tenements covering 981km² of an early Birmanian age greenstone belt containing a largely unexplored, significant (>35km long) ultramafic-mafic complex in a region which also hosts large-scale Au deposits (Esskane and Inata) and a VMS deposit (Perkoa).

Scorpion holds a right to acquire up to a 70% interest in the Dablo Project in two phases:

- **Phase 1** – Scorpion to spend \$4 million on agreed expenditure within 24 months to earn an initial interest of 51% in the Dablo Project;
- **Phase 2** – Scorpion can earn up to a further 19% interest in the Dablo Project by spending up to a further \$4 million on agreed expenditure within the period of 18 months after the completion of Phase 1.

Scorpion must spend a minimum of \$1.15 million within twelve (12) months. Scorpion has currently spent \$400,000 to date.

Transaction

The Company is to acquire 100% of the issued capital of Scorpion for \$360,000, via the issue to Scorpion shareholders of 12,000,000 fully paid ordinary shares in the capital of the Company at an implied price of \$0.03 per share (Scorpion Acquisition).

In addition, the promoters and directors of Scorpion will be issued three (3) tranches of option in the capital of the Company as follows:

- Tranche 1 – 15,000,000 options with an exercise price of \$0.03 per option, expiring 12 months from the date of issue;
- Tranche 2 – 15,000,000 options with an exercise price of \$0.05 per option, expiring 24 months from the date of issue; and
- Tranche 3 – 15,000,000 options with an exercise price of \$0.10 per option, expiring 36 months from the date of issue.

In connection with the acquisition, the Company will assume the outstanding loan obligations of Scorpion under a \$500,000 loan facility with Investmet Limited (Investmet), an entity associated with Michael Fotios. As part of the transaction, 50% of the loan facility, amounting to \$250,000, will be repayable to Investment out of funds received by way of a placement of shares in the Company (outlined below). Any amount in excess of \$250,000 will become repayable either in cash or shares, at the Company's election, once the Company's share price has traded as a volume weighted average price above 25 cents per share over a continuous period of thirty (30) days.

As part of the agreement, Ms Bronwyn Barnes and Mr Grant Osborne will be appointed to and Mr Michael Fotios will resign from the Board of Directors.

Placement

In connection with the Scorpion Acquisition, the Company announced a placement under ASX Listing Rule 7.1 to sophisticated investors of 20,000,000 shares at an issue price of \$0.03 per share, to raise \$600,000 before costs associated with the issue. As at the date of this report, total proceeds of \$625,500 has been raised under the Placement (inclusive of \$60,000 subject to shareholder approval), representing an oversubscription of \$25,500.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**NOTE 12: SUBSEQUENT EVENTS (continued)***Conditions Precedent*

The Scorpion Acquisition is subject to the following conditions precedent:

- Scorpion obtaining all necessary regulatory and shareholder approvals.
- The Company obtaining all necessary shareholder and regulatory approvals to allow the Company to lawfully complete the Scorpion Acquisition.
- The Company currently has outstanding Directors' loans and creditor's balances amounting to approximately \$1,600,000. As part of the Scorpion Acquisition, one half of the outstanding Directors' loans and creditors balances, equating to \$800,000, will be converted into equity in the Company at an implied rate of \$0.03 per share, with the balance to remain outstanding. In addition, repayment terms are to be extended and the Company will be entitled to make repayments in either cash or shares, at the Company's election, once the Company's share price has traded as a volume weighted average price above 25 cents per share over a continuous period of thirty (30) days.

Investmet Options

Subject to satisfaction of the conditions precedent, in consideration for Investmet entering the loan terms outlined above, Investmet will be issued three (3) tranches of option in the capital of the Company (Investmet Options) as follows:

- Tranche 1 – 7,500,000 options with an exercise price of \$0.03 per option, expiring 12 months from date of issue.
- Tranche 2 – 7,500,000 options with an exercise price of \$0.05 per option, expiring 24 months from date of issue.
- Tranche 3 – 7,500,000 options with an exercise price of \$0.10 per option, expiring 36 months from date of issue.

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

NOTE 13: RELATED PARTY TRANSACTIONS

During the half-year ended 31 December 2017, Director Michael Fotios, made payments totalling \$3,908 on the Group's behalf. This amount is payable in full.

During the half-year ended 31 December 2017, Investmet, an entity associated with Director Michael Fotios, made loans totalling \$96,612 to the Company. This amount is payable in full.

During the half-year ended 31 December 2017, Delta Resource Management, an entity associated with Director Michael Fotios, made loans totalling \$21,048 to the Company. This amount is payable in full.

The Michael Fotios Family Trust has provided confirmation it will not call upon any outstanding payable balance and will provide funding as is required by the company to pay its debts as and when they fall due, unless Pegasus Metals Limited is in the position to repay the amount.

At the half-year ended 31 December 2017, Whitestone Mining Services, an entity associated with Director Michael Fotios, had a payable amount of \$362,366 due to it. This amount is payable in full.

Refer to Note 5 and Note 6 regarding related party creditor and loan balances outstanding at 31 December 2017.

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 11 to 17 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 2017 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
16 March 2018

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Pegasus Metals Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Pegasus Metals Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2017, 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 then ended, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

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 the Group is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of matter - Material uncertainty relating to going concern

We draw attention to Note 1 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

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 Group's financial position as at 31 December 2017 and its financial 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 the Group, 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 the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit (WA) Pty Ltd

A handwritten signature in blue ink, appearing to read 'Neil Smith'. Above the signature, the letters 'BDO' are written in a similar blue ink.

Neil Smith

Director

Perth, 16 March 2018