PEGASUS METALS LIMITED

ACN 115 535 030

FINANCIAL REPORT

FOR THE HALF-YEAR ENDED

31 DECEMBER 2008

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2008 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*.

Contents

DIRECTORS' REPORT

Your Directors are pleased to present their report on the consolidated entity consisting of Pegasus Metals Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2008.

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:

Craig Munro (Chairman)

Peter Andrews (Non-executive Director)

Graham Anderson (Director/Company Secretary)

George Katchan (Managing Director)

REVIEW OF OPERATIONS

INTRODUCTION

This Review summarises the activities of the Company for the half year to 31 December 2008.
In December 2008 the Company announced a Board restructure and a review of its cash position and operating costs. Board and executive remuneration was cut by over 50% effective 1 January 2009. Various cost saving measures have also been implemented. The option over the Eden Nickel Project was terminated in December 2008 and several Western Australian licences were surrendered.

EDEN NICKEL PROJECT, CANADA (Nickel, Copper, Platinum Group Metals, Gold)

In December 2007, Pegasus entered into an option agreement over the Eden Nickel Project (the Property) located 20 km southwest of Sudbury, Ontario, Canada. The Property comprises 21 unpatented mining claims covering an area of 40 square km. Consisting of a total of 250 claim units, the claims were recorded between June 2006 and October 2008.

The property is considered to be prospective for nickel-copper-platinum group metal sulphide mineralization hosted within an offset dyke setting.

Since the discovery in 1883 of copper- nickel sulphides in the Sudbury area and the start of mining a few years later, Sudbury has produced a major portion of the world's total nickel production and new discoveries continue to be made. Nickel – copper – platinum group metal mineralisation occurs in association with a large 60 km by 27 km elliptical igneous body called the Sudbury Igneous Complex ("SIC"). The SIC together with its related sulphide mineralisation are believed to be the product of a 1.85 billion year old meteorite impact that produced an impact-generated melt sheet. Mineralisation is present within the main elliptical complex, in several distinct environments, as well as in the neighbouring country rocks in close association with dykes ("Offset Dykes"). The offset dykes extend radially away from as well as occur concentric to the SIC. These offset dykes are typically quartz diorites in which the metal-bearing sulphides can be massive, have stringer or disseminated sulphide textures.

The Property is located on what is considered to be a southern extension of the Copper Cliff Offset Dyke, 10 km south of the Kelly Lake property on which Vale are conducting a pre-feasibility study. The reported indicated plus inferred resource at Kelly Lake is 11.4 million tonnes grading 1.72% nickel, 1.41% copper, 0.04% cobalt, 1.42 g/t platinum, 1.86 g/t palladium and 0.52 g/t gold. On the same offset dyke and just to the north of Kelly Lake is Vale's Copper Cliff South Mine which has

DIRECTORS' REPORT (continued)

been in production since 1970 and the Copper Cliff North Mine which has been in intermittent production since 1886.

Exploration work carried out on the Property during the 1970's and 1980's targeted primarily gold mineralization of the style that had been mined, intermittently, between 1909 and 1939 at the Long Lake Gold Mine. The abandoned mine is currently within a patented claim surrounded by but not part of the claims that form the Property.

In the period between the execution of the option agreement in December 2007 and December 2008 the following activities were completed on the Property:

- helicopter-borne time-domain VTEM and magnetic survey
- pole-dipole Induced Polarisation ("IP") survey
- mapping, sampling, geochemical analysis and petrology
- preliminary metallurgical test work on tailings
- opinion on potential viability of the gold tailings deposit

Geotech Ltd completed a helicopter-borne time-domain VTEM and magnetometer survey in early March 2008. The 759 line km survey was flown along E-W lines with a 50m line spacing, targeting potential massive sulphides within the offset dykes. Chargeability anomalies identified by the VTEM were prioritized for follow-up purposes.

A total of 5 chargeability anomalies were selected for inclusion in an IP survey. Quantec Geoscience carried out a total of 7 pole-dipole IP traverses over the 5 anomalies, with 3 traverses completed over the more prospective anomaly and single traverses over the other 4. The data and resultant models indicate that three of the VTEM anomalies have potential basement-related sources with the other 2 most likely being sourced by surface features (e.g. swamps). The anomaly covered by the 3 traverses shows a continuous NW-trending chargeability anomaly that is coincident with an up to 30m wide exposure of what is interpreted to be Sudbury Breccia.

Metallurgical test work was carried out at SGS Minerals Services in Lakefield, Ontario, on a group of 7 samples of tailings collected near the abandoned Long Lake Gold Mine. Though the mine workings are covered by patented mining claims the tailings deposits, covering some 8.3 hectares, are within the Property claim group. The mine, consisting of underground workings and a small open cut, was mined, intermittently, between 1909 and 1939; approximately 200,000 tonnes of ore were removed.

Collected by means of a soil auger, the tailings samples ranged in grade between 0.37 and 6.22 g/t gold. Initial gravity separation and flotation results indicated that most of the gold is intimately associated with the sulphide phases (dominantly arsenopyrite and pyrite). SGS conducted 2 separate flotation tests on composited sample material. Cyanide leaching of flotation concentrate yielded an overall gold recovery of 53% whereas leaching of a reground flotation concentrate gave an overall recovery of 59%.

An assessment of the potential viability of tailings retreatment was carried out by consultants, Hatch. While the project was not recommended on a stand-alone basis, it was noted that the gold content of the tailings could offset some of the costs of any rehabilitation work that may be required as part of a larger project on the claims.

Following a review of costs and ongoing exploration commitments Pegasus withdrew from the option agreement in December 2008.

DIRECTORS' REPORT (continued)

URANIUM, GOLD AND BASE METAL PROJECTS, WESTERN AUSTRALIA

Gifford Creek, Hooley and Horse Well are located in the Ashburton-Gascoyne of WA.

There was no field activity on these projects during the reporting period.
Following a review of costs and ongoing commitments the Horse Well and Gifford Creek licences were surrendered.

Sturt Palaeochannel, McClintock Range and Giant Placer are located in the Kimberley of WA.

Prospecting activities were active during the reporting period, though stopped in December due to the onset of the wet season.

The main focus of the Kimberley work program was a regional scale sediment sampling program that involved the collection of dry sediment samples at 170 sites along drainages. At each site three sample types were collected: a heavy mineral concentrate (concentrated by means of panning), a -80 mesh sample (sieved sediment fraction finer than 177 microns), and a -2mm sample for BLEG analysis (bulk leach extractable gold).

Strongly anomalous gold assays were returned by both the -80 mesh and heavy mineral concentrate samples. A total of 37 -80 mesh samples returned gold grades in excess of 0.1 g/t Au (11 with more than 0.5 g/t Au) with a maximum value of 2.2 g/t Au. Heavy mineral concentrates returned a maximum value of 14.5 micrograms of contained gold.

These sediment anomalies are considered to be sourced by Proterozoic aged metamorphic rocks exposed predominantly within the western portions of the licence areas. Follow-up work will target these areas.

From a total of 435 rock chip samples taken during the program, 17 assayed greater than 0.1 g/t Au with a maximum grade of 2.4 g/t Au. The highest grade sample also contained 4.55% Cu. Source rocks are calcsilicate skarn-type altered carbonates (consisting of garnet-epidote-clinopyroxene) as well as gossanous quartz veins.

Soil sampling (75 sites) detected moderate gold anomalism (up to 0.14 g/t Au) over a soil covered magnetic anomaly.

A field program aimed at following up the sediment, soil and rock chip anomalies will commence late in the 1st Quarter 2009.

Following an unsuccessful attempt to find partners for the Giant Placer Project, the tenements were surrendered.

Yandicoogina, Lionel and Kelly Belt are located in the Pilbara, north of Nullagine.

A partial surrender of 50% of the Yandicoogina licence was completed during the reporting period. There were no field activities on the licence area.

A rock chip sampling program at Lionel and Kelly Belt following up some high iron assay results from an earlier program failed to locate any large intervals of mineralization. Both licences were subsequently surrendered.

DIRECTORS' REPORT (continued)

NEW OPPORTUNITIES

Pegasus is continuing to evaluate corporate business opportunities as well as advanced resource projects.

The information in this report which relates to Exploration Results is based on information compiled by George Katchan, who is a Member of the Australasian Institute of Mining and Metallurgy. George Katchan the Managing Director of Pegasus Metals Limited and 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". George Katchan 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 (continued)

RESULTS OF OPERATIONS
The Company incurred an after tax operating loss for the half-year ended 31 December 2008 of $615,376 (2007:$590,256).

AUDITORS' INDEPENDENCE DECLARATION
A copy of the Auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 9.

This report is made in accordance with a resolution of Directors.

George Katchan
Director

Perth, Western Australia
16 March 2009

BDO Kendalls

BDO Kendalls Audit & Assurance (WA) Pty Ltd
128 Hay St
Subiaco WA 6008
PO Box 700 West Perth WA 6872
Phone 61 8 9380 8400
Fax 61 8 9380 8499
aa.perth@bdo.com.au
www.bdo.com.au

ABN 79 112 284 787

16 March 2009

The Directors
Pegasus Metals Limited
Suite 2, 35-37 Havelock Street
WEST PERTH WA 6005

Dear Sirs

DECLARATION OF INDEPENDENCE BY PETER TOLL TO THE DIRECTORS OF PEGASUS METALS LIMITED

As lead auditor of Pegasus Metals Limited for the half-year ended 31 December 2008, 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
- 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.

Peter Toll
Director

BDO Kendalls

BDO Kendalls Audit & Assurance (WA) Pty Ltd
Perth, Western Australia.

CONSOLIDATED INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

	Note	Half-year 2008 $	2007 $
REVENUE FROM CONTINUING OPERATIONS	**2**	**68,263**	97,648
EXPENDITURE			
Exploration and evaluation expenditure	**2**	**(578,661)**	(485,271)
Depreciation expense		**(13,944)**	(11,512)
Administration expenses		**(66,928)**	(158,277)
Occupancy expenses		**(17,577)**	(15,848)
Share-based payments expense		**(6,529)**	(16,996)
PROFIT / (LOSS) BEFORE INCOME TAX		**(615,376)**	(590,256)
Income tax benefit / (expense)		**-**	-
PROFIT / (LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF COMPANY'S NAME		**(615,376)**	(590,256)
Basic loss per share (cents)		**(1.71)**	(1.65)

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

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2008

	31 December 2008 $	30 June 2008 $
CURRENT ASSETS		
Cash and cash equivalents	**1,495,186**	2,151,640
Trade and other receivables	**66,829**	90,817
Other current assets	**9,228**	21,330
TOTAL CURRENT ASSETS	**1,571,243**	2,263,787
NON-CURRENT ASSETS		
Plant and equipment	**72,839**	86,784
TOTAL NON-CURRENT ASSSETS	**72,839**	86,784
TOTAL ASSETS	**1,644,082**	2,350,571
CURRENT LIABILITIES		
Trade and other payables	**25,737**	123,379
TOTAL CURRENT LIABILITIES	**25,737**	123,379
TOTAL LIABILITIES	**25,737**	123,379
NET ASSETS	**1,618,345**	2,227,192
EQUITY		
Contributed equity	**4,814,419**	4,814,419
Reserves	**52,081**	45,552
Accumulated losses	**(3,248,155)**	(2,632,779)
TOTAL EQUITY	**1,618,345**	2,227,192

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

CONSOLIDATED	Issued capital	Option reserve	Accumulated losses	Total equity
At 1 July 2007	4,785,669	-	(1,424,480)	3,361,189
Capital raising costs	-	-	-	-
Issue of options	-	41,188	-	41,188
Issue of shares	28,750	-	-	28,750
Share-based payments	-	-	-	-
Net income/expense recognised directly in equity	**28,750**	**41,188**	**-**	**69,938**
Loss for the period	-	-	(590,256)	(590,256)
Total recognised gains and losses for the period	**-**	**-**	**(590,256)**	**(590,256)**
At 31 December 2007	4,814,419	41,188	(2,014,736)	2,840,871
At 1 July 2008	4,814,419	45,552	(2,632,779)	2,227,192
Capital raising costs	-	-	-	-
Issue of options	-	-	-	-
Issue of shares	-	-	-	-
Share-based payments	-	6,529	-	6,529
Net income/expense recognised directly in equity	**-**	**6,529**	**-**	**6,529**
Loss for the period	-	-	(615,376)	(615,376)
Total recognised gains and losses for the period	**-**	**-**	**(615,376)**	**(615,376)**
At 31 December 2008	4,814,419	52,081	(3,248,155)	1,618,345

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

CONSOLIDATED CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

	Half-year 2008 $	Half-year 2007 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Recipts from debtors	**458**	-
Expenditure on exploration and evaluation	**(606,268)**	(503,967)
Payments to suppliers and employees	**(153,612)**	(68,449)
Interest received	**102,968**	96,711
Net cash outflow from operating activities	**(656,454)**	(475,705)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for plant and equipment	**-**	(28,393)
Net cash outflow from investing activities	**-**	(28,393)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	**-**	500
Net cash inflow from financing activities	**-**	500
Net increase/(decrease) in cash and cash equivalents	**(656,454)**	(503,598)
Cash and cash equivalents at the beginning of the half-year	**2,151,640**	3,300,089
CASH AND CASH EQUIVALENTS AT THE END OF THE HALF-YEAR	**1,495,186**	2,796,491

The above consolidated cash flow statement 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

This general purpose financial report for the interim half-year reporting period ended 31 December 2008 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

These interim financial statements have been prepared under the historical cost basis, except for available-for-sale financial assets that have been measured at fair value. Non-current assets and disposal groups held-for-sale are measured at the lower of carrying amounts and fair value less costs to sell.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2008 and any public announcements made by Pegasus Metals Limited 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Half-year 2008 $	Half-year 2007 $
NOTE 2: REVENUE AND EXPENSES		
(a) Revenue		
Interest received	**67,871**	97,648
Loss on foreign currency exchange	**(1,125)**	-
Other revenue	**1,517**	-
	68,263	97,648
(b) Exploration and evaluation expenditure		
Employment related expenses		
Wages and director fees	**175,892**	140,694
Superannuation	**11,081**	7,950
Annual leave	**(111)**	11,213
Recruiting cost	**-**	13,445
	186,862	173,302
Other exploration expenses		
Direct exploration expenses	**391,799**	311,969
	391,799	311,969
Total exploration and evaluation expenditure	**578,661**	485,271

NOTE 3: SEGMENT INFORMATION

The Company operates in one industry and one geographical segment, namely the mining industry in Australia.

NOTE 4: CHANGES IN EQUITY SECURITIES ON ISSUE

The Directors voluntarily forfeited their Incentive Share Options on 9 December 2008. These total 1,550,000 Unlisted Options exercisable at $0.20 expiring 30 November 2011. As at 31 December 2008, the Company has 36,002,501 Fully Paid Ordinary Shares and 35,747,501 Listed Options exercisable at $0.20 expiring 31 March 2010.

NOTE 5: RELATED PARTY TRANSACTION

During the period, GDA Corporate provided secretarial, accounting and administration services to the Group. Graham Anderson is a director of GDA Corporate. Total amount paid to GDA Corporate for the period was $33,450 (2007: $33,510).

There are no other related party transactions during the period ended 31 December 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6: CONTINGENCIES

The Directors are of the opinion that there are no material contingent liabilities or contingent assets of the Company at balance date

NOTE 7: SUBSEQUENT EVENTS

On 7 March 2009 10,760,001 fully paid ordinary shares were released from escrow. In addition, 540,000 shares which were voluntarily escrowed were also released. As at 7 March 2009 the issued and quoted capital of Pegasus is 36,002,501 shares (PUN) and 35,747,501 options (PUNO).

No other matters or circumstances have arisen since 31 December 2008, which have significantly affected, or may significantly affect the operations of the group, the result of those operations, or the state of affairs of the group in subsequent financial years.

DIRECTORS' DECLARATION

In the Directors' opinion:

1. the financial statements and notes set out on pages 10 to 16 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*
   (b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 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.

George Katchan
Director

Perth, Western Australia
16 March 2009

BDO Kendalls

BDO Kendalls Audit & Assurance (WA) Pty Ltd
128 Hay St
Subiaco WA 6008
PO Box 700 West Perth WA 6872
Phone 61 8 9380 8400
Fax 61 8 9380 8499
aa.perth@bdo.com.au
www.bdo.com.au

ABN 79 112 284 787

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 balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the consolidated entity are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 Interim and Other Financial Reports 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 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 2008 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.

BDO Kendalls

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*.

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 2008 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*.

BDO Kendalls Audit & Assurance (WA) Pty Ltd

BDO Kendalls

Peter Toll
Director

Perth, Western Australia on 16 March 2009