



PEGASUS METALS LIMITED

ASX/MEDIA RELEASE

12 October 2009

McLARTY RANGE COPPER PROJECT AND NEW FUNDING

Summary

Pegasus Metals Limited (ASX: PUN) announces that it has agreed to explore the McLarty Range Copper Project, with over \$1,110,000 of new funding to be provided by Investmet Limited and associates ("Investmet").

The vendor option terms, the funding agreement and other ancillary arrangements are all subject to the approval of the shareholders of Pegasus at the Annual General Meeting to be held in late November at a date to be announced. All resolutions in respect of the option, the funding and ancillary arrangements will need to be approved for the project and the funding to proceed. It is planned to send the Notice of Meeting and Explanatory Memorandum to all shareholders by the end of October.

McLarty Range Copper Project

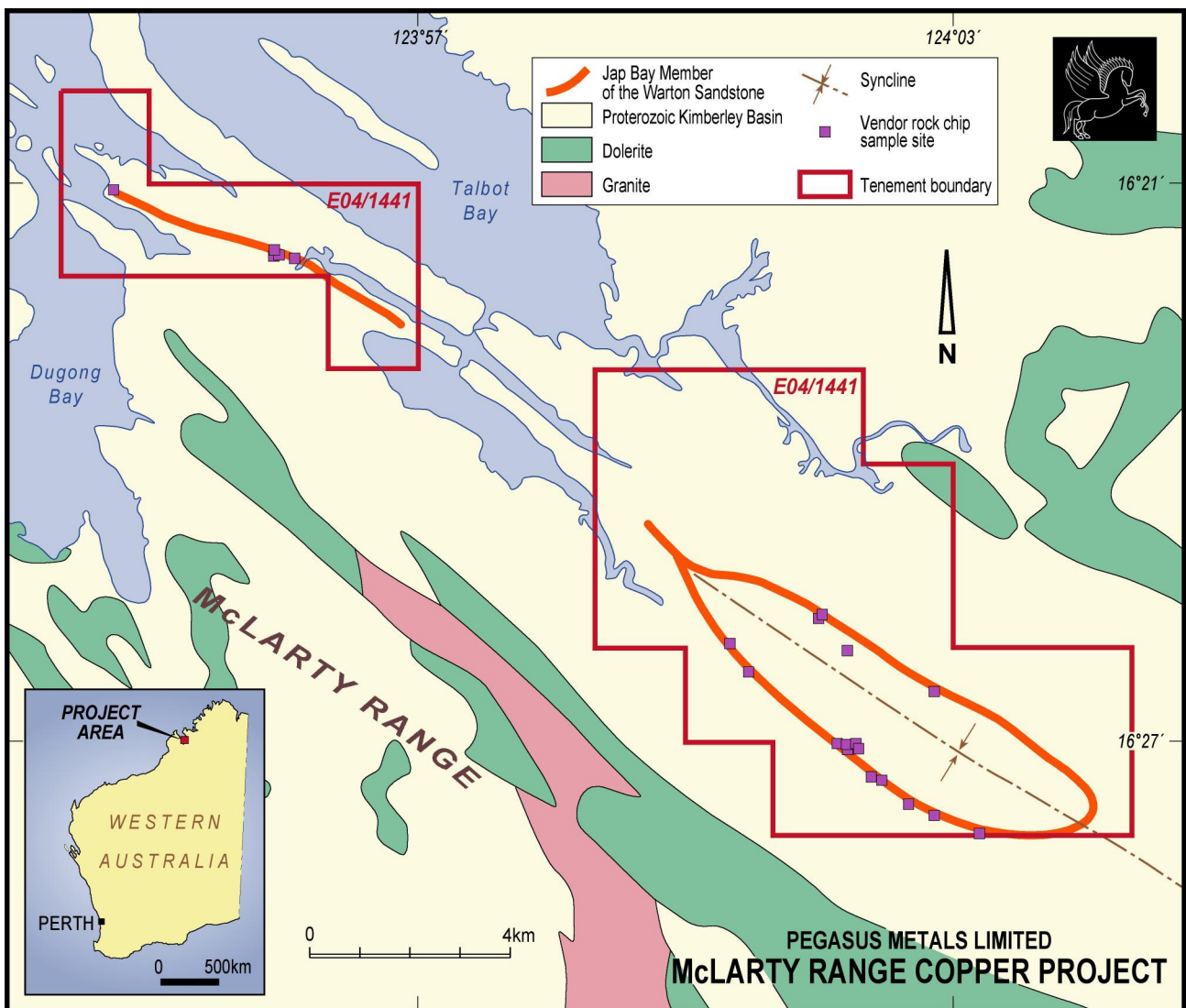
The West Kimberley located McLarty Range Copper Project covers much of the Jap Bay Member of the Warton Sandstone within Proterozoic Kimberley Basin sequences that form a syncline in the eastern part of the project area. Within the Jap Bay Member is a prospective copper-bearing horizon of distinctive fine grained metasediments, comprising finely bedded cherts, chert breccia and ferruginous siltstones.

Copper and gold occurrences were discovered by the WA Geological Survey/BMR in 1967 and the 1972 GSWA Report 88 records "*Low-grade copper mineralization extends over a strike length of 36km in the McLarty Range area. The mineralization lies within siltstone and banded ferruginous chert. Within the siltstone, the primary mineralization occurs as disseminations in the ferruginous nodules, interpreted as primary pyrite-chalcopyrite segregations. Supergene redistribution of mineralization has also taken place*" BMR also records surface rock chip sampling results of 3 g/t gold over a true thickness of 26m. In 1972, Amax Exploration Aust Inc reported "*The Jap Bay Member contains a low grade copper mineralization over a total strike length of 36km. This copper bearing formation has good potential for the proving of medium tonnage low to medium grade copper deposits*". Further work was recommended, but none was undertaken.

The age of the copper mineralisation appears to be similar to several of the large Australian base metal mineral deposits, which include Mt Isa, McArthur River, Century and Broken Hill, all of which are of Proterozoic age.

The sedimentary horizon around the syncline has been intermittently prospected since 1975 by the vendor, Richard (Dick) Riley and his company, Kimminco Pty Ltd ("Kimminco"). More recent field trips resulted in Kimminco applying for an exploration licence, which was granted as E04/1441 in August 2005.

Visible copper mineralisation is widespread and the vendor has traced copper occurrences along strike for over 15km in a well defined metasedimentary unit. Geological and geochemical observations indicate strong leaching of the copper-bearing unit and re-deposition of copper into metasediments overlying the primary mineralisation.. Such is the extent of the copper leaching that at least four occurrences of green copper mineralisation on cliffs can be seen from the air.



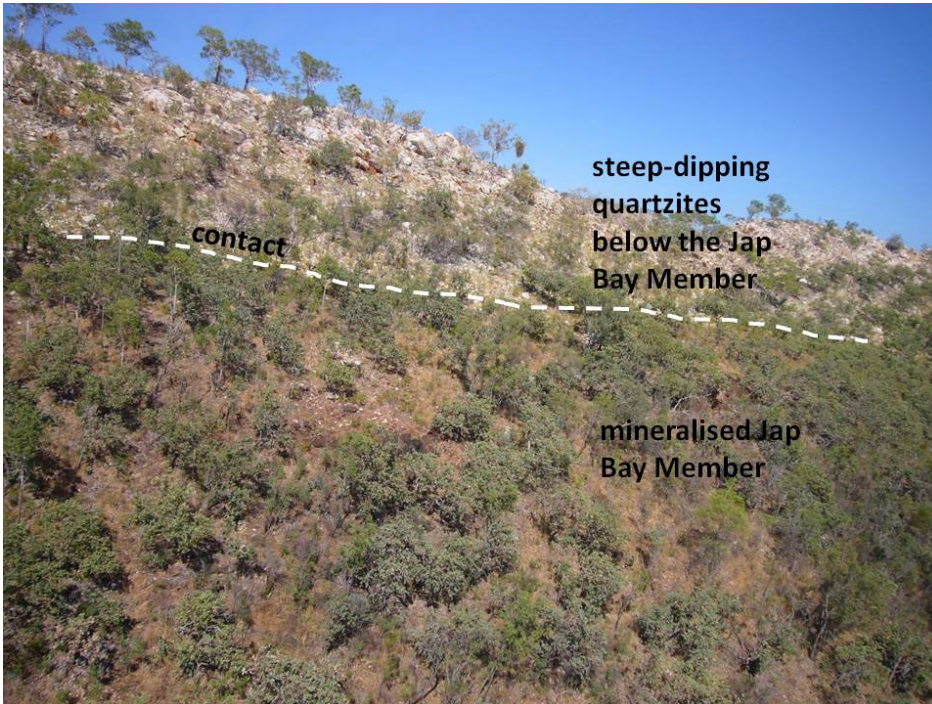
McLarty Range Copper Project
Simplified geology showing the Jap Bay Member and rock sampling locations

The vendor has been unable to examine or sample the full strike length of the mineralised horizon because of dense vegetation and poor exposure due to scree. Six main zones of exposed copper mineralisation have been identified so far. The gold zone, referred to in the GSWA report, is yet to be located.

Over 20 rock chip samples of goethite-haematite gossan and chert-limonite beds have been collected by the vendor. Assays range between 75 ppm Cu and 6.1% Cu, with six over 1.0% Cu.

Selected localities within the project area were recently visited by helicopter. The group included Dick Riley, Investmet’s Michael Fotios, Pegasus Managing Director, George Katchan and Pegasus geologist Miles Smith.

Pegasus geologists took four new samples of the Jap Bay Member, two from outcrop and two from float considered close to source. Assay values range from 0.15% Cu to 0.86% Cu.



Mineralised Jap Bay Member in contact with the underlying quartzites; rock units are dipping steeply towards the photographer



Leached mineralised horizon in Jap Bay Member with Pegasus geologist Miles Smith near the 0.15% Cu sample location



Jap Bay Member Gossan outcrop with 1 metre chip sample assaying 0.62% Cu



Copper stained metasediments exposed above the Jap Bay Member mineralised horizon

The Vendor

The vendor, Dick Riley is a qualified geologist with wide Australian and International resource experience gained since the 1960s. He worked as a geologist for Mt Isa Mines on their copper mines in Australia and with Kennecott Copper Corporation in South West Africa. In the early 1970's he worked on Kennecott's base metal exploration programs in Western Australia where he was Project Manager in charge of Kennecott's Pilbara and Kimberley operations. He was jointly responsible for the discovery of the Koongie Park Volcanogenic Massive Sulphide deposit and the drilled the initial holes into it. He has considerable experience in the examination and interpretation of leached cappings overlying sulphide base metal deposits, particularly under Australian weathering conditions.

Project Agreement

Pegasus has agreed to an option to acquire exploration licence E04/1441 from Kimminco in stages, the first of which allows Pegasus to conduct exploration programs in the 2010 Kimberley field season, before making a decision to proceed.

Kimminco is the family company of Dick Riley and owns E04/1441. Kimminco has been paid an amount of \$35,000 and after the approvals at the AGM, Kimminco will be paid a further \$100,000 and will be issued 3,000,000 Pegasus fully paid shares for Stage 1 which allows Pegasus to explore until 30 September 2010, before making a decision to move to Stage 2. Pegasus will be required to meet an exploration commitment of \$500,000 in the first year and \$1,000,000 in each of the next two years if it moves to Stage 2. 60% of the exploration funding will be for RC and diamond drilling. Kimminco will also be paid \$75,000 each year for three years from the date of the AGM approvals and whilst Pegasus is exploring.

To enter Stage 2, Pegasus will be required to issue a further 9,000,000 shares and 6,000,000 options, with half of these options exercisable at 10 cents each within 18 months of their date of issue and the second half exercisable at 15 cents each within 3 years of their date of issue.

If Pegasus completes Stages 1 & 2 and the above exploration commitments, it will have the right to 100% of the project by paying Kimminco \$10,000,000 on the drawdown of approved funding for mine construction following completion of a bankable feasibility study.

Funding Agreement

The Funding Agreement provides Pegasus with an initial cash injection followed by the ability to provide further injections of capital by Investmet exercising short dated options to fund the Company's activities for the next three years.

Investmet has agreed to provide Pegasus with \$1,110,000 of new funding by way of a sophisticated investor placement of 22,200,000 fully paid shares at a price of 5.0 cents each, together with 22,200,000 free options exercisable at 10 cents each on or before 31 March 2011 and 3,200,000 free options exercisable at 15 cents each within 3 years of their date of issue.

Ancillary Arrangements

At the beginning of Stage 1, Dane Sorensen will be issued 1,200,000 fully shares and 1,200,000 options exercisable at 10 cents each on or before 31 March 2011 for his assistance in obtaining the project for Pegasus.

None of the options to be issued to the Kimminco, Investmet or Sorensen will be listed.

There will be Board changes after approval by the Pegasus' shareholders at the AGM. Stephen Mann and Michael Fotios will join the Board as Chairman and Executive Director respectively. Graham Anderson will remain a Director and Company Secretary. Craig Munro, George Katchan and Peter Andrews will step down from the Board. George Katchan will be retained in his technical capacity. Management and administration will move to Balcatta.

Investmet Limited

Investmet is an unlisted public company managed by experienced industry professionals and supported by private high net worth investors (including its directors and management).

Investmet was created to pursue a variety of investment opportunities in mineral resource projects with strong future demand growth and to incubate, develop and enhance the value of these investments through financial, technical and corporate support.

Investmet is managed by Michael Fotios who is a Geologist specialising in Economic and Structural Geology with extensive experience in exploration throughout Australia for gold, base metals, tantalum, tin and nickel and taking projects from exploration to feasibility. Michael was Managing Director and a Director with Tantalum Australia NL (now ABM Resources Ltd) from September 1999 to October 2005. He was Managing Director of Galaxy Resources Limited until November 2008.

Exploration Program

No systematic exploration of the project area has been undertaken and there are no drill holes along the prospective copper mineralised horizons.

The project area is in difficult terrain with no access tracks.. This alone maybe why the area presents such a large unexplored exploration target. The present plan is to access several known occurrences of surface copper by helicopter and follow up by using a small diamond drill rig to test below the gossanous zones. Airborne exploration methods such as aeromagnetics and EM are being considered to provide geophysical coverage of the project area. These methods, together with interpretation of satellite imagery should enhance the detail of the mineralised horizon over a larger area than that already accessed by the vendor.

Moving Forward

The McLarty Range Copper Project is seen by the current Pegasus Board as an exciting opportunity to explore what could be a large new copper province. The exploration will require additional funding by Pegasus and the Board is pleased to welcome the proposed placement from Investmet and the new Board arrangements to take Pegasus forward.

The information in this report which relates to Exploration Results is based on information compiled by George Katchan, who 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.

For further information:

Dr George Katchan MAusMM
Managing Director

Peter Andrews
Director

Pegasus Metals Limited ABN 40 115 535 030
Telephone: 08 9321 1088 Fax: 08 9322 7211
Website: www.pegasusmetals.com.au
Contact: admin@pegasusmetals.com.au