

# PacMag Metals Limited

## QUARTERLY REPORT 31<sup>st</sup> MARCH 2010

**ASX:PMH**

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PacMag Metals Limited ("PacMag") and TSX listed Entrée Gold Inc ("Entrée") announced a proposed merger transaction whereby Entrée will acquire all of the issued shares and options of PacMag by a scheme of arrangement.

Details of the merger, including details of how PacMag's shareholders and optionholders can vote on the proposed merger, are set out in the Scheme Booklet that will be mailed to PacMag shareholders and optionholders shortly.

Under the share scheme, the offer is approximately one Entrée share for each 9.83 PacMag shares and CAD\$0.0415 for each PacMag share held on the record date. The offer may also be expressed as 0.1018 Entrée share and CAD\$0.0415 cash for each PacMag share.

The following formula can be used to calculate the offer price in Australian dollars:  $(0.1018 \text{ ETG shares} \times \text{ETG share price}^1 \times \text{foreign exchange Rate}^2 + (\text{CAD\$0.0415} \times \text{foreign exchange rate})$  for each PMH share.

By way of example, the offer consideration based on the last trading price of Entrée as at the 29<sup>th</sup> April 2010 is:

$(0.1018 \times \text{CAD\$2.78} \times 1.0722) + (\text{CAD\$0.0415} \times 1.0722) = \text{AUD\$0.35}$  per PMH share.

Note that there have been several previous announcements to the ASX regarding the schemes, including:

- 'Scrip – Cash Offer for PacMag Metals Limited by Entrée Gold Inc', dated 30<sup>th</sup> November 2010;
- 'PMH-ETG Proposal Clarification of Consideration', dated 1<sup>st</sup> December 2010;
- 'Revised Scheme Timetable', dated 16<sup>th</sup> April 2010;
- 'Court Approval Received to Hold Schemes Meetings', dated 22<sup>nd</sup> April 2010;
- 'Notice of Meeting and Scheme Booklet', dated 27<sup>th</sup> April 2010.



## Timetable

An indicative timetable for the merger is detailed below:

Event	Date
Despatch notice of meeting to PacMag Shareholders and PacMag Optionholders	May 7, 2010
Shareholder and Optionholder scheme meetings held	June 4, 2010
Second Court Hearing Dates to obtain Final Court Approvals	June 11, 2010
Lodge Court orders with ASIC (Effective Date)	June 16, 2010
Record Date (5pm on the date which is the Second Court Hearing Date plus 5 Business Days or such other date agreed)	June 23, 2010
Implementation Date (Record Date plus 5 Business Days)	June 30, 2010

<sup>1</sup> Available at the website *finance.yahoo.com* use Entrée code *ETG.TO*.

<sup>2</sup> Based on the nominal noon rate as published by the Bank of Canada on their website.

Note that Entrée will pay the \$CAD entitlement in Australian currency, by determining the Australian currency equivalent with reference to the nominal noon rate as published by the Bank of Canada on the date at which the Schemes become effective.

## ACTIVITIES DURING THE QUARTER

- Receipt of the approval from the US Bureau of Land Administration for the Ann Mason Environmental Assessment for expanded exploration activities.
- Geological mapping at Meadow Valley copper project, Arizona, USA.
- Mystique Joint Venture – tenure granted, geochemical sampling completed, assays awaited.
- Northling Joint Venture – geophysical and geochemical surveys completed confirming robust drill target.

### Corporate

- Current cash and equities total \$3.1 million.
- Refer to Page 1 - Entrée offer to PacMag shareholders.

### Details of Planned Programs

- Blue Hills copper oxide target (Nevada) – geological mapping and drill program design.
- Mystique JV – drilling at Torquata gold prospect.
- Northling JV – drilling planned for June quarter.

## PROJECTS

### ANN MASON

(Nevada, USA) - PacMag 100%

The 100% PacMag owned Ann Mason project in Nevada, USA, boasts a mineral resource of 810 million tonnes @ 0.4% copper, 0.004% molybdenum (7.1 billion pounds of contained copper metal).

*EA approved*

Approval was received from the US Bureau of Land Administration for the Ann Mason Environmental Assessment for expanded exploration activities.

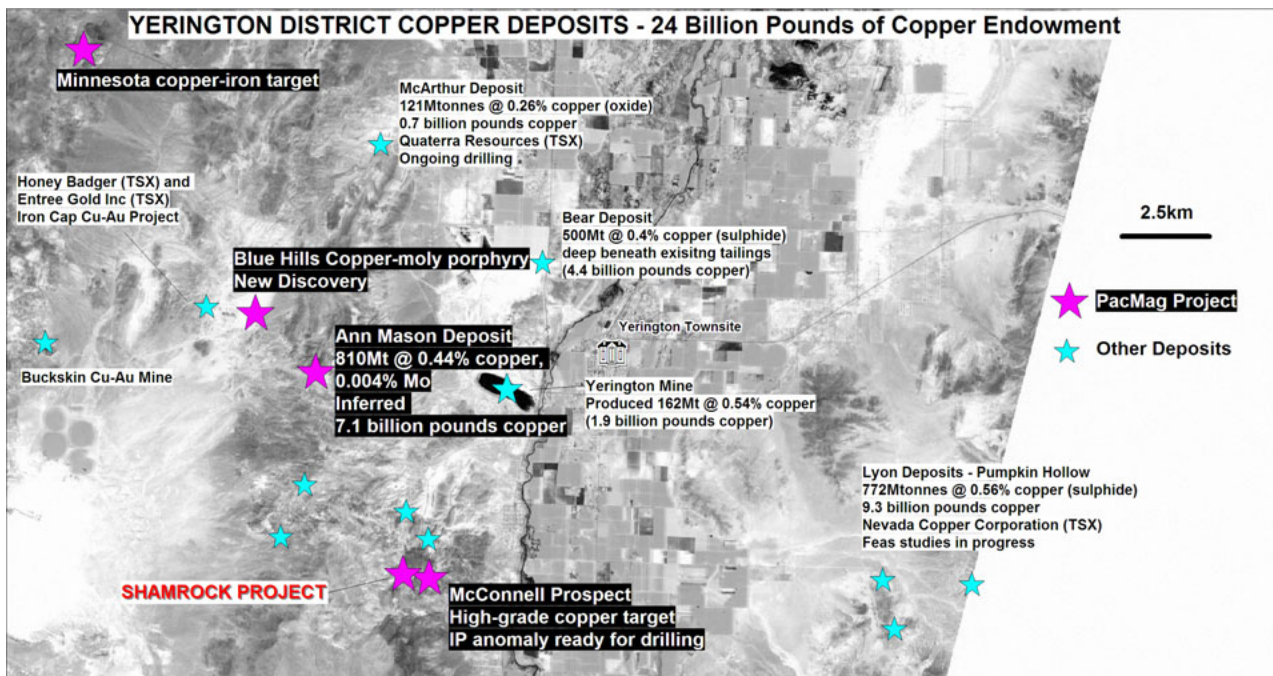


Figure 1: Yerington District – PacMag Projects and Resources

#### Shamrock Copper Prospect

At the Shamrock Project, a high-grade copper project located 5 kilometres south east of Ann Mason, PacMag has confirmed the presence of strong copper oxide mineralisation close to surface (33.6m @ 1.72% copper), whilst holes drilled in the central northern portion of the project intersected strong to moderate copper sulphide mineralisation (22.4m @ 1.08% copper), as previously noted in the PacMag September 2009 Quarterly Report. PacMag drilling tested copper targets over an area of approximately 250m width by 150m of strike, with copper mineralization remaining open along strike to the north.

*High grade copper skarn*

During the quarter, no additional field work was conducted on the project.

#### Blue Hills Oxide Copper

The Company has identified a large coherent copper oxide target south and west of the recently discovered Blue Hills porphyry copper-molybdenum sulphide deposit, 5km south east of the Ann Mason resource. No further work was conducted on the target this quarter.

*Oxide copper target 1.5km x 350m*

Based on PacMag's work, as well as limited previous drilling, field observations and soil assays (up to 0.13% copper), the Company has outlined a copper oxide target zone at Blue Hills over an area 1.5km by 350 metres. Previously reported oxide drill intersections at the northern eastern end of the target zone include; 21.3 metres @ 0.46% copper, 36.3 metres @ 0.46% copper, 32.7 metres @ 0.22% copper and 39.6 metres @ 0.26% copper, defining a continuously mineralised zone over 360m of strike length within the new 1.5km long target.

**Acid soluble copper assays returned average recovery of 80%**

Potential exists for the development of a substantial horizontal, near-surface copper oxide zone, developed within a zone of deep weathering which extends to depths in excess of 120 metres. The widths, tenor and depth to mineralisation intersected by PacMag at Blue Hills are consistent with that of the nearby MacArthur copper-oxide deposit, located approximately 7km north-east of Blue Hills, where TSX-listed Quaterra Resources Inc is currently undertaking resource drilling. The target lies within relatively flat, open terrain allowing easy access for drill testing.

**Widths and tenor of oxide copper similar to nearby McArthur deposit**

No additional field work was conducted at Blue Hills this quarter.

### **Blue Hills - Porphyry Copper-Molybdenum Discovery**

The Blue Hills porphyry copper discovery contains drill intersections including; 73.2 metres @ 0.57% copper equivalent and 100.6 metres @ 0.41% copper equivalent. The potential size of the Blue Hills mineralisation is highlighted by the massive lower-grade mineralised halo that extends from 152 metres below surface to the end of hole (BH08001) grading 526 metres at 0.3% copper equivalent. No further work was conducted at Blue Hills during the quarter.

**Large porphyry copper system discovered, drilling required to test extents of system.**

Copper and molybdenum in both holes is located within disseminated and sheeted vein-style mineralisation, hosted within porphyritic quartz monzonite. Mineralisation remains open to the east and south as well as at depth to the north and west, with relatively flat open terrain allowing easy access in all directions.

The alteration and sulphide species logged in each of the Blue Hills holes confirm a large porphyry copper-molybdenum system had been defined, but that neither the core of the system nor its extents have been determined. The Company has not yet ascribed a target size to the discovery, but wishes to point out that the known porphyry copper-molybdenum sulphide deposits within the district range in size from 162 to 810 million tonnes.

Three RC pre-collars remain to be extended with diamond drilling, with an initial aim of scoping the size of the mineralised system. Drilling is planned, following drill testing of the near surface copper oxide target lying above this target.

## **SENTINEL URANIUM-GERMANIUM-MOLYBDENUM PROJECT**

**(North Dakota, USA) – PacMag 100%**

The Sentinel project located in North Dakota, USA, contains the Church Deposit; the first area drill tested within the Sentinel Project, and represents only a small portion of the total prospective project area. The Church area has become a test area to assess the continuity, grade and metallurgical characteristics of the uranium, molybdenum and germanium mineralisation hosted within regionally continuous lignite seams.

Resource drilling by the Company has shown that the mineralisation in the district is continuous over mineable widths and lengths. An initial insitu Inferred Resource for the Church Deposit was reported to the ASX on the 12 August 2009:

**Initial inferred resource at the Church prospect**

<b>Cut-off Grade</b>	<b>Wet Tonnes</b>	<b>Dry Tonnes</b>	<b>U<sub>3</sub>O<sub>8</sub> (%)</b>	<b>MoO<sub>3</sub> (%)</b>
50 ppm U <sub>3</sub> O <sub>8</sub>	3,439,000	2,353,000	0.0165	0.0221
200ppm U <sub>3</sub> O <sub>8</sub>	841,000	580,000	0.035	0.039

The Company believes that there is considerable upside in both grade and tonnes reported in the Church deposit, as the initial Resource estimate.

**Strong resource upside**

Initial scoping level financial modelling indicates a conceptual project that is operating cash flow positive under a range of development scenarios.

The Company has ascribed an Exploration Target for its regional landholdings of between 3 to 6 million dry tonnes at grades of 0.05% to 0.1%  $U_3O_8$  and 0.05% to 0.1%  $MoO_3$  (5 – 10 million pounds  $U_3O_8$ ), with 6 – 18 million tonnes of germanium rich lignite at grades of 65 to 100 g/t  $GeO_2$  (450 – 1350 tonnes  $GeO_2$ ).

**Exploration Target 5 – 10 million pounds  $U_3O_8$**

The uranium and molybdenum resources and the Exploration Targets are reported in accordance with the JORC code. Upon further drill testing and evaluation, the Exploration Target may be upgraded to resource status, but until that time the Exploration Targets remain conceptual in nature.

Mapping and localised sampling completed last quarter were completed on large portions of the Company's district tenure. The mapping indicates that several of the southern tenements may be located in rocks that are too high in the stratigraphic sequence to be prospective, whilst those north of the Church Deposit appear to favourably located with respect to the target host sequence. Drilling will be required to definitively test for the presence of the host sequence.

## **MEADOW VALLEY COPPER (ARIZONA- USA)**

### **PacMag 100% on 44 Claims, subject to option and royalty on 6 Claims**

The Meadow Valley project located in southern Arizona, USA, comprising 50 unpatented lode mining claims is situated within the world class Laramide copper province, host to some of the largest copper deposits in the world.

**New porphyry copper target secured in Arizona**

The Company has been advised that limited drilling conducted in 1974-75 by private Texas-based oil interests on the Meadow Valley property intersected significant copper sulphides in five of the eight holes drilled.

Late in the last quarter, both induced polarisation (IP) and ground magnetic geophysical surveying were completed. Results from those surveys have now been processed and integrated with surface geological mapping confirming a robust drill target (Figure 2). The IP survey defined a strong high chargeability zone associated with intense surface alteration (pyrite and sericite) of the host rock sequence (intermediate to felsic volcanic rocks) that are intruded by monzonite dykes and stocks. Selected rock chip sampling (two samples) of copper stained monzonite returned strong copper results averaging 2% copper as well as 0.3g/t gold and 20 g/t silver. The rock samples, although not necessarily representative, do indicate that the mineralising system may potentially contain significant levels of credit metals such as gold and silver.

**Mapping and geophysical surveys confirm robust drill target**

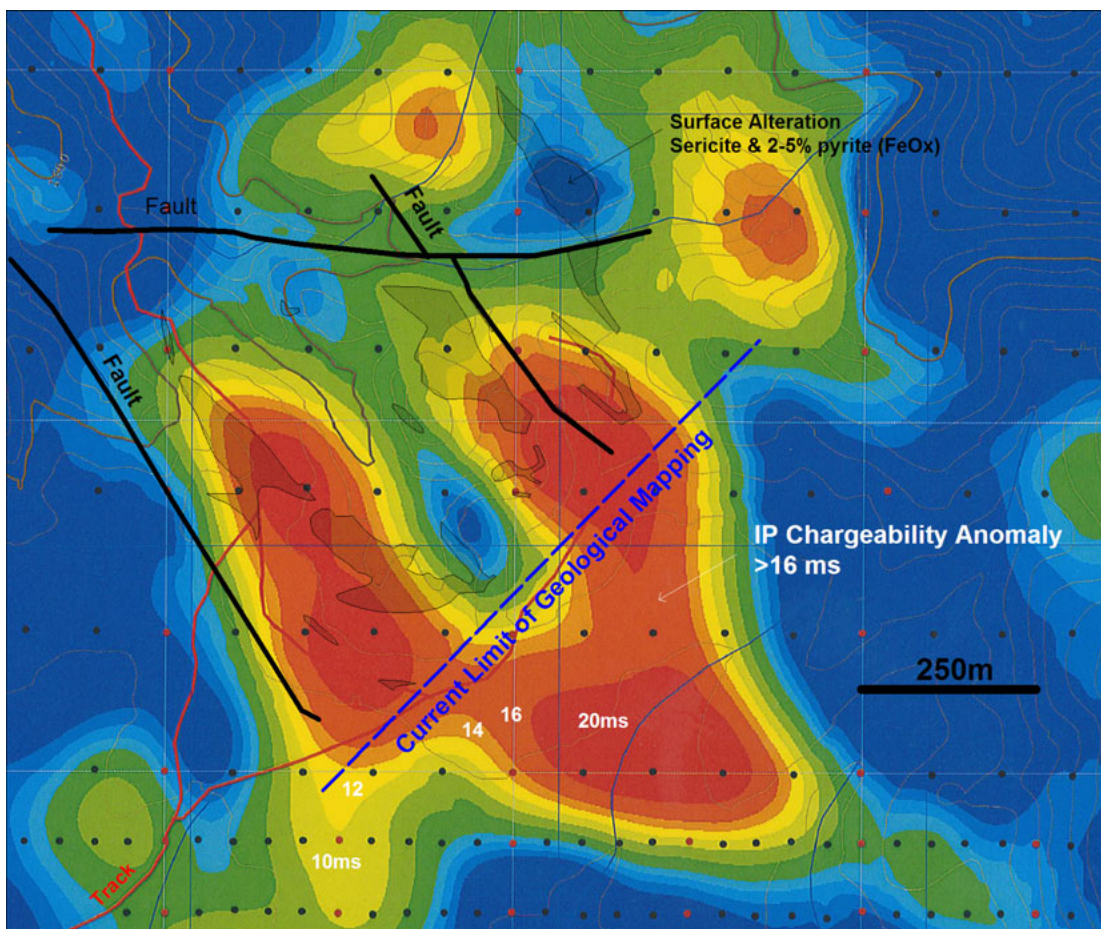


Figure 2: Meadow Valley – IP Geophysical Anomaly (Chargeability at -150m below surface) overlain by alteration zones and mapped faults.

## RAINBOW CANYON GOLD PROJECT

### PacMag 100%

Reconnaissance mapping and rock chip sampling by PacMag geologists at the Rainbow Canyon project, located in Nevada, USA, have identified high-grade gold rock chip samples in epithermal quartz veins associated with historic prospecting pits over an area of ~4 square kilometres. Results previously reported in the September 2009 Quarterly Report include; 20.8 g/t, 13.8 g/t, 11.3 g/t and 10.9 g/t gold with 22 samples returning results greater than 0.5g/t gold from a total of 44 samples collected.

No field work was conducted during the quarter.

**Rock chip sampling to 20.8g/t gold**

## BLUE ROSE JV (SOUTH AUSTRALIA)

### PacMag 51%, Giralia 49% Contributing

PacMag is evaluating the Blue Rose/Olary copper-gold-molybdenum project in South Australia, a joint venture with Giralia Resources NL (Giralia).

#### Blue Rose Oxide Deposit

The Blue Rose oxide deposit contains intersections such as: 46 metres @ 2.2% copper and 0.8 g/t gold from 11 metres depth, (including 28 metres @ 3.0% copper and 0.8 g/t gold).

**Blue Rose copper oxide deposit – Development Agreement executed**

Beneath the oxide zones, drilling has intersected copper-gold-molybdenum sulphide mineralisation, which is open to extension along strike.

On the 3<sup>rd</sup> February 2010, the Company announced to the ASX the execution of a Mineral Development Agreement (MDA) between the Blue Rose JV partners (51% PacMag Metals Limited, 49% Giralia Resources NL) and private group Wasco Mining Pty Ltd (Wasco). The agreement was the culmination of several months of negotiations with the aim of extracting value for shareholders from the relatively small but rich zone of near surface copper mineralisation discovered by Giralia in 2002, and expanded by PacMag in subsequent drilling campaigns within the Blue Rose joint venture tenure in South Australia.

Under the MDA, Wasco will acquire 100% of a 12 km<sup>2</sup> area covering the Blue Rose deposit and the rights to mine and process all mineralisation extracted.

The MDA includes a staged refund (subject to standard industry terms and conditions) of historical exploration costs to the Blue Rose joint venture by Wasco, totalling \$1.95 million and a 1.5% gross revenue royalty payable to the Blue Rose JV partners on the production of metals mined from the deposit.

### **Golden Sophia - Gold**

North of the Blue Rose prospect, limited previous shallow drilling by Battle Mountain (Australia) Inc in 1989 at the Golden Sophia Prospect intersected near surface, widespread, thick zones of low-grade gold mineralisation, in fine to medium grained micaceous sandstones, associated with disseminated pyrite and minor quartz veining. Drilling results include; 60m @ 0.58g/t Au (10 – 70m eoh) incl 6m @ 1.07g/t Au and 2m @ 8.4g/tAu and 30m @ 0.61g/t Au (2 – 32m), incl 5m @ 1.3 g/t Au.

Potential at Golden Sophia exists for a zone of mineralisation with modest tonnes at low gold grades within the existing soil anomaly, however, further potential lies in the zones along strike under alluvial cover for the discovery of higher grade mineralisation, as well as for mineralisation of a higher tenor associated with the underlying magnetic anomaly (modeled as 500m strike, 150m width, 60m below surface at 0.5% magnetite), that has yet to be tested by deeper drilling. Note, previous drilling has tested to an average of only 30m below surface, with the deepest hole (GS3) drilled to 54m below surface (70m @ -60 degrees).

No field work was undertaken this quarter.

### **Iron Ore**

Reconnaissance mapping and rock chip sampling by PacMag geologists has identified high-grade iron associated with magnetite rich units of the Braemar Iron Formation (host to the Razorback Ridge iron project) within the Blue Rose JV area, along strike from the Razorback Ridge target recently optioned by Royal Resources Limited (some 20km west of the Blue Rose JV tenure). The northern magnetite rich units exposed at surface show variable but locally very high-iron content, up to 50.8% Fe, with two additional discrete, southern iron formation units interpreted to occur beneath alluvium based on the presence of strong aeromagnetic anomalies.

The Blue Rose joint venture partners have continued discussions with selected parties with respect to the divestment of the iron ore rights.

**Golden Sophia Prospect:**

**60m @ 0.58 g/t gold including 2m @ 8.4 g/t gold.**

**Open ended target in altered rocks overlying untested magnetic anomaly.**

**High grade magnetite iron samples on extension of major iron ore project located west of Blue Rose JV**

## **NORTHLING COPPER**

**(Western Australia) - PacMag 100%, Dominion earning up to 80%**

PacMag's Northling Copper Project in central Western Australia is being advanced via joint venture agreement with Dominion Mining Limited (Dominion), whereby Dominion may earn an initial 70% equity in Northling by spending \$750,000 on exploration within 5 years. Once Dominion has met the earn-in, PacMag can contribute its respective interest or elect to convert

**Dominion earning initial 70% for \$750k**

to a 20% free carry to the end of a pre-feasibility study.

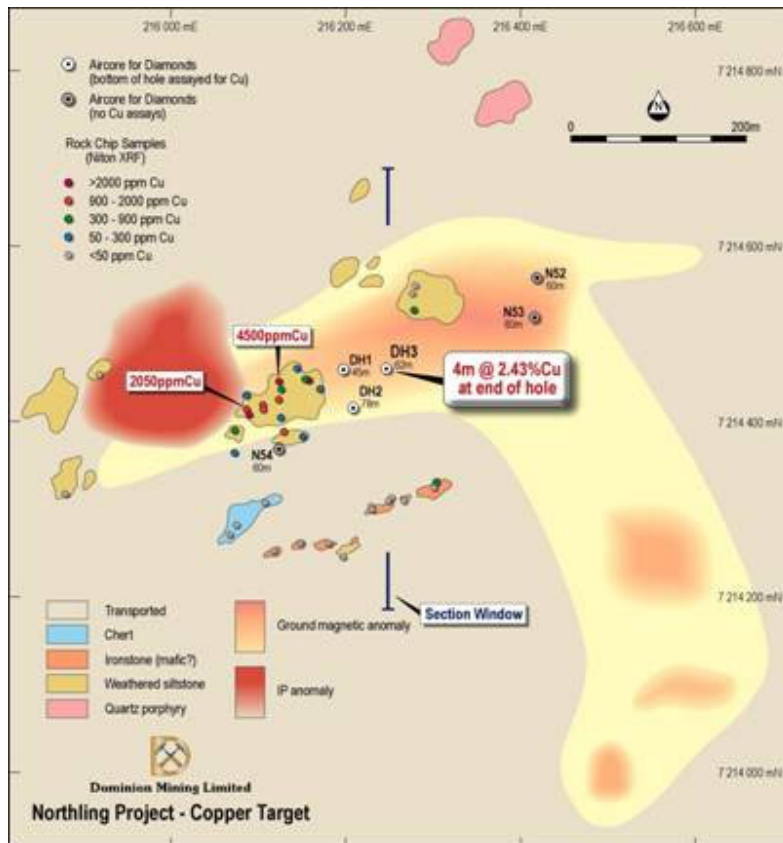
The project, located 170km north of Wiluna in Western Australia, occurs in an area of limited outcrop on the western edge of the Earraheedy Basin within the Stanley Fold Belt. Local geology indicates a folded and steep dipping sedimentary package of rocks.

**4m @ 2.43% Cu in shallow end of hole intersection**

Previous exploration in the area has solely been for diamonds, with the most comprehensive work carried out by DeBeers in the early '90s, and subsequently by Northling Pty Ltd, in the mid 90's. Since this time no other exploration is reported to have occurred.

Of interest to Dominion is a magnetic feature in the centre of the tenement. This feature was tested with ground magnetics and drilling by De Beer's in 1991 (they did not assay for copper) and additional drilling by Northling in 1994. One of the Northling RAB holes (DH3) intersected copper sulphide mineralisation at the bottom of the hole grading 4m @ 2.43% copper from 58 – 62 metres (only last 4 metres of hole assayed for copper) associated with a strongly altered chlorite-sericite schist (2009 petrography). The geology above this mineralised interval and also encountered in the other (shallow) holes is a quartz arenite and does not appear to be related to the geology encountered in the mineralised interval. No magnetic susceptibility work has been completed at the bottom of these drill holes and it seems likely that the magnetic anomaly remains undrilled. Modelling of the ground magnetic data supports the concept that the target magnetic feature is dipping to the south just beneath the anomalous intercept.

During the quarter exploration completed by Dominion included geochemical and geophysical surveys (Figure 3).



**Geophysical and geochemical sampling by Dominion confirm robust drill target**

Figure 3: Northling Project Summary of Geology – Geochemistry & Geophysics

Geochemical Orientation Sampling

Initial orientation sampling, comprising 174 sample locations over 5 lines, was designed to obtain a geochemical baseline signature over the ground magnetic anomaly. Ferruginous lag



samples show a strong copper anomaly in the area where previous rock chips identified elevated copper. However, finer fraction soil samples returned less anomalous results, indicating a leaching of copper in the soil profile.

Additional regional surface geochemistry is planned for the June 2010 Quarter to cover the wider tenement area.

#### Ground Geophysics

A 3D IP survey (offset pole dipole) identified a chargeable anomaly directly overlying the copper in soil anomaly, but offset from the copper bearing drill hole. While this is not a strong chargeable feature, resistivity mapping of the area indicates that the surface regolith is conductive. This would limit the effectiveness of the chargeability data in detecting any underlying sulphides.

The presence of strong copper geochemistry overlying a chargeable anomaly and lying adjacent to a drill hole with 4m @ 2.43%Cu (with alteration), still represents a high priority target and reverse circulation drilling is planned for the June quarter.

*Drilling planned for June quarter*

## **CORKTREE JOINT VENTURE**

**(Western Australia) - PacMag earning**

At the Corktree joint venture project (PacMag earning 75%) located 24km east southeast of Sandfire Resources NL's Doolgunna project, reconnaissance mapping and sampling discovered a new copper anomalous zone south of previous drilling at the main Corktree grid.

The new zone of copper rich gossans and ironstones (rock chip results to 0.12% copper,) is hosted in carbonate rocks and although poorly exposed can be traced over a strike of 400m and a width of 5 to 40m. The newly identified zone strikes north-westerly and is orientated sub-parallel to much of the previous drill lines, opening up the possibility that the previous drilling was not orientated correctly to intersect primary copper mineralised zones at Corktree.

No field work was completed during the quarter.

*24km east of Sandfire's Doolgunna copper discovery*

*New copper rich gossans and ironstones discovered south of previous drilling*

## **MYSTIQUE GOLD**

**(Western Australia) - PacMag 100%, Black Fire Energy earning up to 75%**

The Mystique Gold Project in the Tropicana belt, Western Australia, is to be advanced via joint venture with Black Fire Minerals Ltd (Black Fire). Black Fire may earn an initial 60% equity in Mystique by spending \$1 million on exploration within 3 years, and 75% interest through total expenditure of \$2.5 million in 5 years, with a minimum expenditure commitment of \$250,000 before withdrawal.

The Mystique project is located in the Fraser Range province of Western Australia. The province contains the recently discovered AngloGold Ashanti - Independence Group Tropicana Gold Project (5.01 million ounces of gold) as well as numerous high-quality exploration projects that are being advanced by companies such as Dominion Mining Limited and Newmont-Sipa Resources.

During the quarter, both of the tenements that comprise the project (E28/1915 & E28/1916) were granted by the Department of Minerals and Petroleum (DMP) for an initial period of five years thus enabling the commencement of exploration activities.

Due to the potential greater impact of the initial exploration programs proposed for the Torquata Prospect area (AC and RC drilling), which is located within the northern portion of E28/1915, an Aboriginal Heritage survey was required to identify any sites of significance before work commences. The survey was subsequently completed between the 19<sup>th</sup> and 24<sup>th</sup>

*Black Fire earning 60% by spending \$1 million*

*Major, poorly tested gold target*

*Tenure granted*

*Heritage survey completed at Torquata*

April and the Company is currently awaiting the final report.

With the completion of the Aboriginal Heritage survey at the Torquata Prospect, on-ground exploration activities will commence during the coming quarter. These activities will include some infill soil geochemistry between the Torquata and Torquata South Prospects during May and subsequent AC drilling in late June or early July, to test the conceptual "source areas" for the extensive gold soil anomalism.

**Infill geochemical sampling and drilling planned**

#### Eastern Tenement 28/1916 – Calcrete Soil Geochemical Survey

A review of the available historic exploration data for the E28/1916 tenement area indicated no systematic gold exploration had previously been undertaken in the area and therefore a first pass calcrete soil geochemical sampling survey was planned and executed during the quarter.

**Geochemical screening commenced on eastern tenement**

A total of 479 samples were collected on 1,000m line spacings and 500m sample spacings using a 4WD mounted power auger over a period of 5 days during March 2010. The samples have been submitted to Genalysis Laboratory Services in Perth for gold and multielement analysis. All assay results are currently pending, but are expected to be returned in early May 2010.

This survey represents only a first pass "screening tool" and any significant gold anomalies will require infill soil sampling, most likely on 500m x 250m spacings, to confirm prospectivity. Any areas that subsequently warrant drill testing will first require an Aboriginal Heritage survey.

#### Competent Persons Statement - Australia

*The information in this ASX Release that relates to PacMag Exploration Results, Minerals Resources or Ore Reserves, as those terms are defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Resources and Ore Reserves", is based on information compiled by Mr Michael Clifford, who is a full time employee of the Company and a Member of the Australian Institute of Geoscientists. Mr Michael Clifford has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Resources and Ore Reserve". Mr Michael Clifford consents to the inclusion in this ASX Release of the matters based on his information in the form and context in which it appears.*

*The information in this ASX Release that relates to Entree Exploration Results, Minerals Resources or Ore Reserves, as those terms are defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Resources and Ore Reserves", is based on information compiled by Mr Lindsay Bottomer, who is a full time employee of the Company and a Fellow of The Australasian Institute of Mining and Metallurgy. Mr Lindsay Bottomer has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Resources and Ore Reserve". Mr Lindsay Bottomer consents to the inclusion in this ASX Release of the matters based on his information in the form and context in which it appears.*

## CORPORATE

At the end of the quarter the Company has cash of \$1.51 million and equity investments valued at approximately \$1.55 million.

**Michael Clifford**  
Director

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### **ABOUT PACMAG (ASX : PMH)**

*PacMag is an Australian-based exploration company focused on its advanced copper-molybdenum-gold assets at Ann Mason in the USA as well as the Sentinel uranium-germanium-molybdenum project located in North Dakota USA. Ann Mason contains an inferred mineral resource of 810 million tonnes @ 0.4% copper, 0.004% molybdenum (7.1 billion pounds of contained copper metal).*

*PacMag also holds interests in other less advanced copper and gold projects in Australia.*

<b>Capital Structure</b>	(as at 31 <sup>st</sup> March 2010)	<b>Major Shareholders</b>	
Ordinary Shares (PMH)	144,667,639	Giralia Resources NL	10.37%