



PEGASUS METALS LIMITED

ASX/MEDIA RELEASE

31 January 2011

ASX: PUN

QUARTERLY REPORT TO 31 DECEMBER 2010

- **East Kimberly ground acquisition program completed**
- **Minimum 800 strike kilometers of McLarty Range Copper bearing stratigraphy in new Easy Kimberley Exploration Licence Applications**
- **McLarty Heli-rig drilling program logistics commenced**
- **McLarty Range Agreement extended**

McLARTY RANGE COPPER PROJECT, West Kimberley (PUN option to earn 100%)

Located some 250 km northeast of Broome, within the West Kimberley region, the McLarty Range Copper Project covers a portion of the folded Proterozoic-aged Kimberley Basin. Of particular interest to Pegasus is a prospective copper-bearing, meta-sedimentary horizon that has been identified and sampled by previous explorers. While selected rock chip samples have returned high copper grades (up to 18% copper) the area has remained untested by drilling.

Activities focussed on logistic preparation for the low impact heli-drilling programmes which are planned to commence on cessation of the wet season in the West Kimberley.

EAST KIMBERLEY COPPER PROJECT, East Kimberley (PUN 100%)

Pegasus announced on the 25th November 2010 the completion of a large ground acquisition program in the East Kimberley. This program was based on experience gained from exploration at the McLarty Range project in the West Kimberley and extrapolating that knowledge to similar geological environments in the East Kimberley.

Pegasus has identified a significant area of the eastern part of the Proterozoic Kimberley Basin containing the equivalent stratigraphy to that found at McLarty Range and thought to be highly prospective for similar styles copper mineralisation. Exploration Licence Applications have been made for an area of 12,950 km² that covers the stratigraphic equivalent of the copper mineralised rock units with a minimum strike extent of 800 km. Exploration completed at McLarty Range this year has confirmed the geologic model for copper mineralisation and highlighted that there could be repetitions of the mineralisation styles seen at McLarty Range in other parts of the Proterozoic Kimberley Basin.

Pegasus has leveraged off these exploration concepts to secure the areas thought to be most prospective for copper mineralisation. Historic exploration results from earlier explorers have already identified significant copper mineralisation in many parts of the new East Kimberley Project area. However Pegasus believes the prospective rock units within the sequence have not been adequately tested for the most significant of the McLarty type copper mineralisation styles.

STURT PALAEOCHANNEL & McCLINTOCK RANGE AREAS, East Kimberley

A helicopter supported field program was completed in October to reassess key gold and base metal prospects over the tenement package. Geological mapping at Christmas Creek defined lithology and structure hosting previously mapped quartz veins anomalous in gold. Minor rock chip sampling returned no significant results.

Skarn style zinc and copper mineralisation previously located at the McClintock prospect was also reassessed. The most prospective areas host only narrow and discontinuous mineralisation.

NEW OPPORTUNITIES

Pegasus is in the process of evaluating several Kimberley copper – gold opportunities.

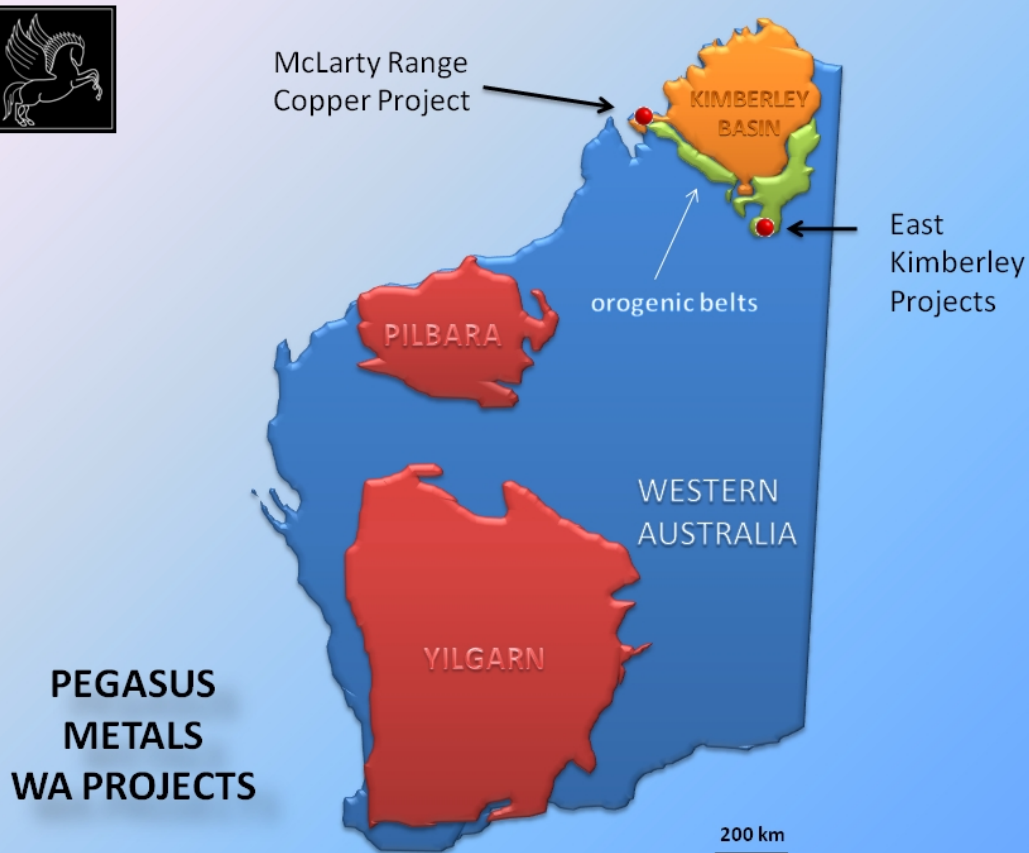
CORPORATE

Pegasus also announced on the 25th November 2010 that it had reached agreement with Kimminco Pty Limited to vary the existing Heads of Agreement (“HoA”) to allow for extension of the election to proceed to Stage 2 (refer ASX announcement dated 12 October 2009) until 90 days after commencement of drilling at the project or 30 June 2011, whichever is the earlier.

In consideration of the extension of time the Company has agreed to pay to Kimminco (or nominee), exclusive of GST:

- (i) a cash payment of \$25,000;
- (ii) 2,000,000 fully paid ordinary shares in the Company;
- (iii) 1,000,000 options exercisable at \$0.10 each within 18 months of issue, and
- (iv) 1,000,000 options exercisable at \$0.15 each within 3 years of issue.

The shares and options issued above form part of the 9,000,000 shares, 3,000,000 options exercisable at 10 cents each within 18 months of issue and 3,000,000 options exercisable at 15 cents each within 3 years of issue, due on the election to proceed to Stage 2 as per the original HoA. The definition of ‘Tenements’ in the HoA has also been amended to include the new licence applications.



The information in this report that relates to Exploration Potential and Results is based on information compiled by Mr Jason Boladeras, who is a geologist for Pegasus Metals Ltd, a Member of the Australian Institute of Geoscientists and is employed by Geoarc Pty Ltd. Mr Boladeras 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'. Mr Boladeras consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Pegasus Metals Limited is a metals explorer, based in Western Australia.

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