



PEGASUS METALS LIMITED

ASX/MEDIA RELEASE

31 October 2012

ASX: PUN

QUARTERLY REPORT TO 30 September 2012

HIGHLIGHTS

- Acquisition of advanced Mt Mulcahy VMS Copper Project located near Cue, WA.
 - Historic diamond drilling at Mt Mulcahy by the vendor intersected 6.80m @ 4.86% Cu and 3.67% Zn (true thickness) from 112.20m in the South Limb Pod ("SLP").
 - Initial diamond drilling at the SLP deposit commenced and intersects high-grade copper with silver and zinc in massive sulphides.
 - Diamond drill hole MMSP004 intersected 4.30m @ 4.48% Cu, 2.88% Zn and 38.1ppm Ag (true thickness).
 - Numerous drill targets identified by geophysics including VTEM surveys.
 - Diamond drilling program ongoing and now focused on delineation of South Limb Pod along strike and down plunge.
 - Further field reconnaissance completed in East Kimberley.
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MT MULCAHY COPPER PROJECT, Murchison (Agreement to purchase 100%)

An agreement to acquire the Mt Mulcahy copper project was announced on 19 July 2012. This announcement includes significant detail on the agreement and the geology/mineralisation at Mt Mulcahy including historic drill intercepts of up to **6.80m true thickness of massive sulphide from 112.20m @ 4.86% Cu and 3.67% Zn** (hole MDM503). Subsequently a further announcement was released on 17 September 2012 reporting results of an ongoing diamond drilling program at Mt Mulcahy including a significant result of **4.3m true thickness from 31.4m to 35.7m down hole averaging 4.48% Cu, 2.88% Zn and 38.1ppm Ag**. Diamond drilling is continuing with two rigs on site targeting the SLP between surface and 100m depth. Assays are awaited.

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. Recent drilling has confirmed the prospective nature of the copper-bearing, meta-sedimentary horizons which have extensive exposure in the project area. Significant intersections at the Bower Bird Prospect include 7m at 1.02 per cent copper, 10.9m at 0.31 per cent copper, 16m at 0.23 per cent copper and 24m at 0.25 per cent copper. Numerous other targets within the Main Syncline area at the McLarty Range Project area remain untested by drilling.

Given the focus on drilling at MT Mulcahy it was decided to focus on planning of remote sensing activities including detailed airborne magnetic surveys and VTEM surveys. This will allow characterisation of the mineralisation already identified and lead to better targeting of future drill holes.

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

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 lodged in November 2010 for an area of 12,950 km² cover the stratigraphic equivalent of the copper mineralised rock units with a minimum strike extent of 800 km. Thirteen of the Exploration Licence Applications were granted during August 2011 and exploration programmes including geological mapping and soil/stream sediment geochemistry have been designed for the current field season.

Further field reconnaissance was undertaken within the East Kimberley project area. This includes the Gibb River, Tablelands, O'Donnell Syncline and Durack Range Project areas. Activities included rock chip sampling, mapping and stream sediment sampling.

NEW OPPORTUNITIES

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

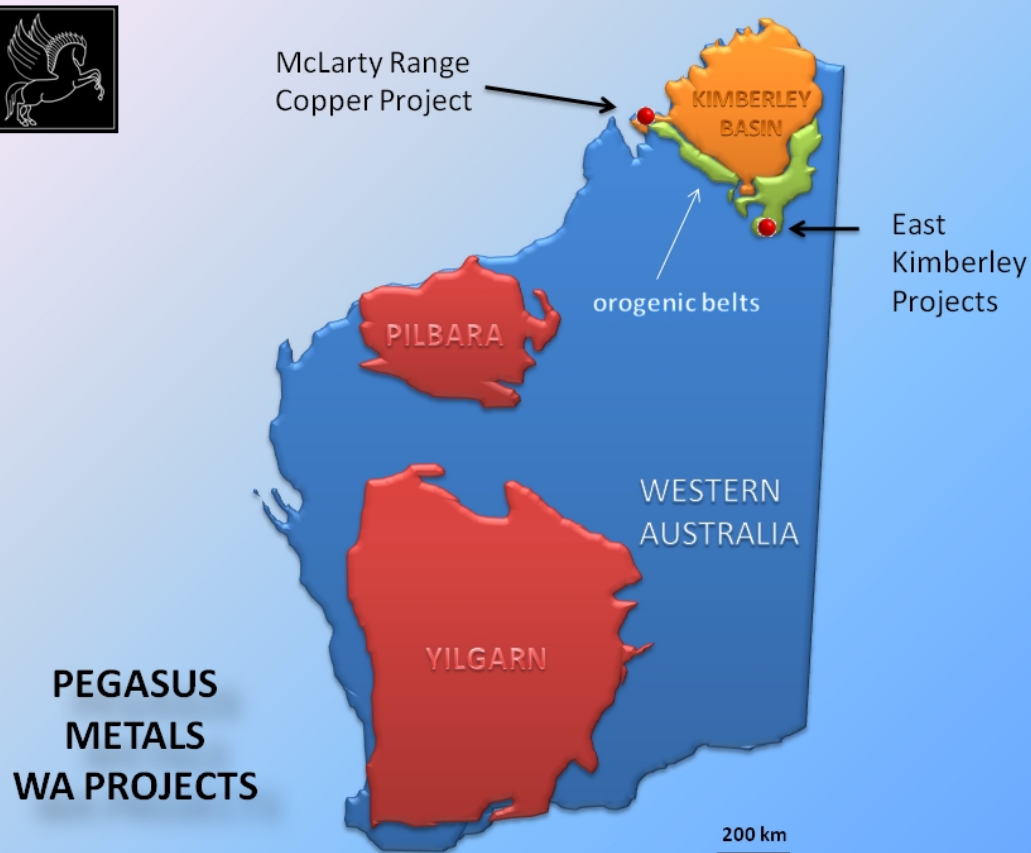
Pegasus Metals Limited is a metals explorer, based in Western Australia.

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The information in this report that relates to Exploration Potential and Results is based on information compiled by Mr Timothy Orme, who is a consultant geologist and a Member of the Australian Institute of Mining and Metallurgy. The information in this report relating to exploration targets should not be misconstrued as an estimate of Mineral Resources or Ore Reserves. Hence the terms Resource(s) or Reserve(s) have not been used in this context. The potential quantity and grade is conceptual in nature since there has been insufficient work completed to define the prospects as anything beyond exploration target. It is uncertain if further exploration will result in the determination of a Mineral Resource. Mr Orme 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 Orme consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96; Origin: Appendix 8; Amended 1/7/97, 1/7/98 and 30/9/2001.

Name of entity

PEGASUS METALS LIMITED

ABN

40 115 535 030

Quarter ended ("current quarter")

30 September 2012

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A'000	Year to date (3 months) \$A'000
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for (a) exploration and evaluation	(66)	(66)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(188)	(188)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	21	21
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other (GST paid to be recouped)	(19)	(19)
Net operating cash flows		(252)	(252)
Cash flows related to investing activities			
1.8	Payment for purchases of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(1)	(1)
1.9	Proceeds from sale of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.10	Loans from other entities	-	-
1.11	Loans repaid to other entities	-	-
1.12	Other (provide details if material)	-	-
Net investing cash flows		(1)	(1)
1.13	Total operating and investing cash flows (carried forward)	(253)	(253)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(253)	(253)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	15	15
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other – capital raising costs	(13)	(13)
	Net financing cash flows	2	2
	Net increase (decrease) in cash held	(251)	(251)
1.20	Cash at beginning of quarter/year to date	3,514	3,514
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	3,263	3,263

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	32
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 **Explanation necessary for an understanding of the transactions**

All payments to Directors and associates are on normal commercial terms.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	500
4.2 Development	-
4.3 Production	-
4.4 Administration	100
Total	600

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	3,242	3,493
5.2 Deposits at call	21	21
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	3,263	3,514

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	Nil			
6.2 Interests in mining tenements acquired or increased	Nil			

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

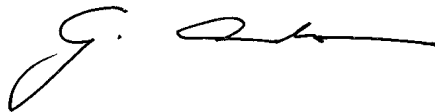
Description includes rate of interest and any redemption or conversion rights together with prices and dates.

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	Preference +securities (description)				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy- backs, redemptions				
7.3	+Ordinary securities	119,074,519	119,074,519		Fully Paid
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy- backs				
7.5	+Convertible debt securities (description)				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	Options (description and conversion factor)	367,567 1,000,000 6,000,000 2,000,000 2,000,000		Exercise price \$0.15 \$0.15 \$0.45 \$0.10 \$0.15	Expiry date 9 February 2013 10 December 2013 16 June 2014 11 April 2013 11 October 2014
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Lapsed during quarter				
7.11	Debentures (totals only)				
7.12	Unsecured notes (totals only)				

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here: Date: 31 October 2012
(Director/Company Secretary)

Print name: GRAHAM ANDERSON

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** - The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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