

PEGASUS GOLD AUSTRALIA PTY LTD

(SUBJECT TO DEED OF COMPANY ARRANGEMENT)

**EL 9734 DRIFFIELD
MT TODD DISTRICT, NT**

**ANNUAL REPORT FOR EXPLORATION
YEAR TWO OF TENURE
25 OCTOBER 1997 – 24 OCTOBER 1998**

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1. INTRODUCTION

Exploration Licence 9734 (Drifffield) was granted to Pegasus Gold Australia Pty Ltd, as part of the Mt. Todd Further Agreement, on 25 October 1996 for a period of ten (10) years. The licence covers an area of approximately 45km², comprising 14 graticular blocks (see *Figure 1*).

Previous to EL9734 being granted, the area covered by the licence consisted of a number of Exploration Licences and Mineral Claims held by Pegasus and others, and reference to these tenements will be made throughout this report.

Closure of the Mt Todd mine occurred in November 1997 with Pegasus Gold Australia placed under administration, then under Deed of Company Arrangement, from December 1997.

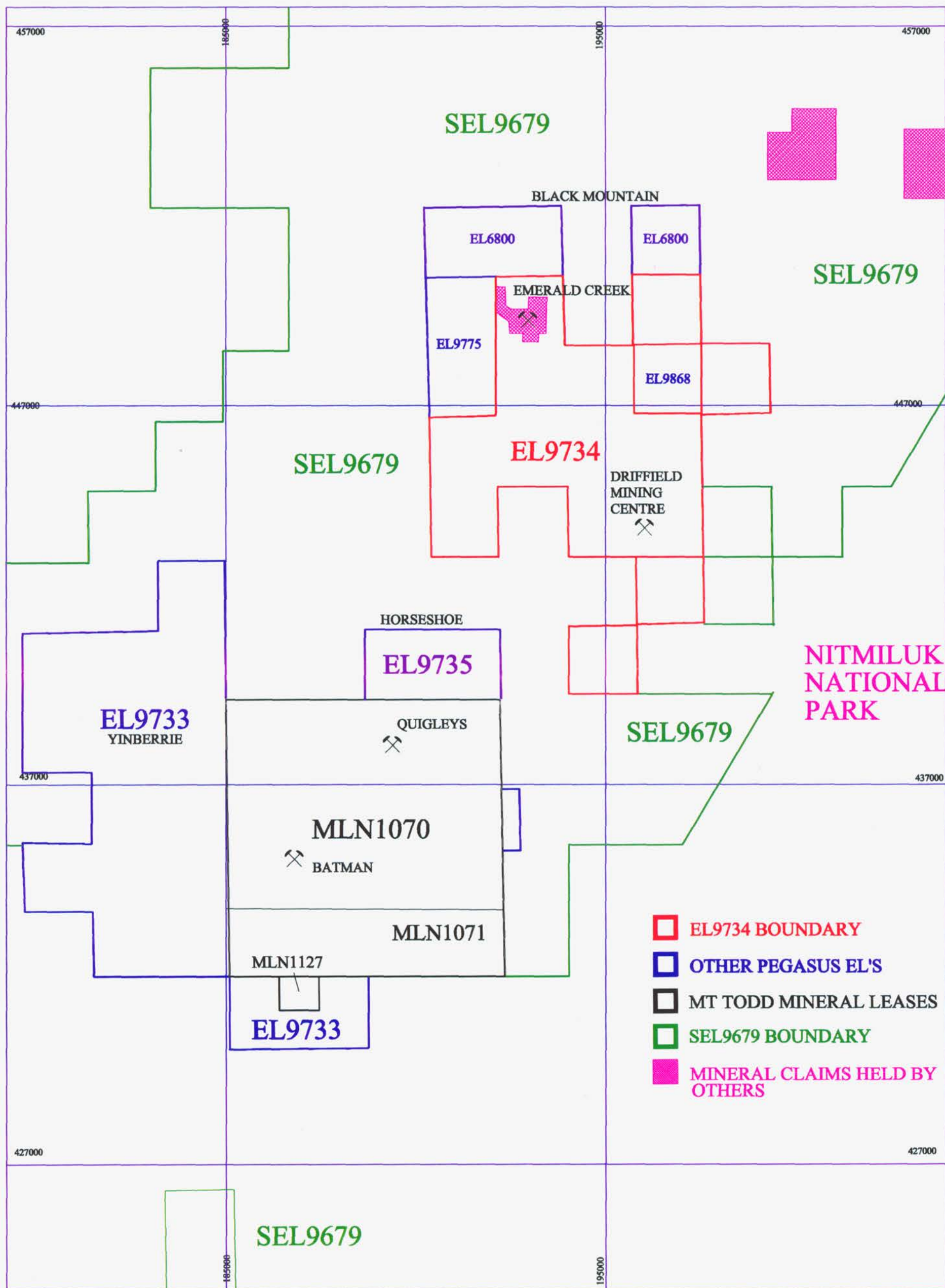
This report summarises all exploration activities conducted by Pegasus within EL9734 during Year 2 of the licence.

2. LOCATION AND ACCESS

EL9734 (Drifffield) is situated approximately 55km north of Katherine and is centred approximately 12km to the northeast of the Mt. Todd Gold Mine (*Figure 1*). Access is gained via Mt. Todd Mine access roads and exploration tracks north from the sealed Edith Falls Road.

Topography within EL9734 is considerably varied, ranging from low relief scree rises and black soil plains in the north and west, to moderate and high relief rocky ridges and deep valleys in the south and east. The licence is traversed by a number of creeks and drainages, including the relatively major Drifffield and Stow Creeks. Most of the licence is lightly timbered.

Within EL9734 is the abandoned Drifffield Mining Centre, which historically was intensely prospected for gold mineralisation. Small-scale underground mining at the Mining Centre produced 5,300oz of gold, and significant unrecorded gold production has been won from alluvial sources. Historical tin workings are common within the licence area; most notably near the Emerald Creek Tin Mine (excluded from EL9734), in the north west of the licence.



- EL9734 BOUNDARY
- OTHER PEGASUS EL'S
- MT TODD MINERAL LEASES
- SEL9679 BOUNDARY
- MINERAL CLAIMS HELD BY OTHERS



3. GEOLOGICAL SETTING

Driffield is located within the southeastern portion of the Early Proterozoic Pine Creek Geosyncline. Metasediments, granitoids, basic intrusives, acid and intermediate volcanic rocks occur within this geological province (*Figure 2*).

Within the Mt. Todd area the oldest outcropping rocks are assigned to the Burrell Creek Formation. These rocks consist primarily of interbedded greywackes, siltstones and shales of turbidite affinity, which are interdispersed with minor volcanics. The formation contains slump structures, flute casts, graded beds and occasional crossbeds.

Rocks of the Burrell Creek Formation have been folded about northerly trending F1 fold axes. The folds are open to closed style and have moderate to steep westerly dipping axial planes, with some rocks being overturned. A later north-south compression event resulted in east-west trending open style upright D2 folds. Metasediments of the Burrell Creek Formation outcrop extensively throughout EL9734. Ridges and creeks host exposures of greywacke and siltstone, with lesser shale and minor tuff and feldspathic sandstone. These rocks have been folded into a series of tight anticlines and synclines with steep, westerly dipping axial planes trending 350° to 020° magnetic. These folds generally plunge steeply to either the south or north, and often have an overturned eastern limb.

Quartz is abundant within the licence area, occurring as both massive, white, "bucky" veins and blows, and thin veinlets or stockworks. Three main structural trends are apparent over EL9734. A northwest structural trend is represented by a moderate to strong vertical joint set or foliation, striking 310° to 340° magnetic. A northeast trend hosts much of the massive white quartz veins, striking 030° to 060° magnetic. The third structural trend is near bedding-parallel, and often results in shearing and brecciation along bedding planes. Quartz veining exists along all of these structural trends. Pyrite pseudomorphs are often associated with sheared and brecciated quartz veins.

Numerous historical small hardrock workings, prospect pits and alluvial diggings are scattered throughout EL9734, with most in and around the Driffield Mining Centre.

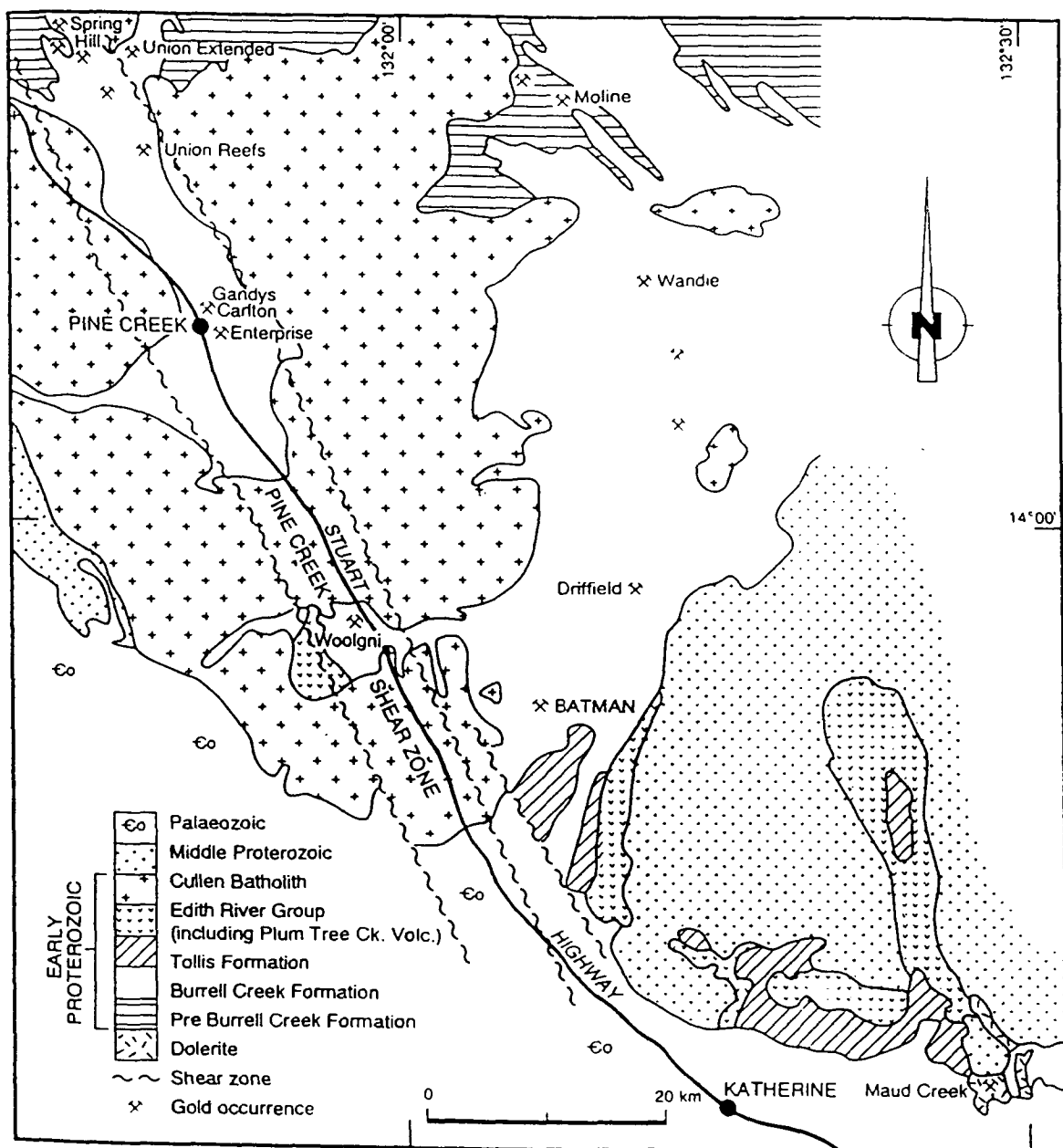


Figure 2. Regional Geological Setting

4. **PREVIOUS EXPLORATION**

Pegasus and other workers have carried out extensive previous exploration on the area now covered by EL9734. Work completed prior to EL9734 being granted consisted of:

- Access establishment
- Geological reconnaissance
- Stream sediment sampling
- Rock chip sampling
- Soil sampling
- Gridding
- Detailed geological mapping
- Bulldozer and excavator costeaning
- RAB drilling
- RC drilling
- Airborne geophysics and radiometrics

This work delineated a number of prospective areas, which were targetted by Pegasus for further exploration under EL9734.

5. **EXPLORATION BY PEGASUS UNDER EL9734 – YEAR 1**

Exploration undertaken by Pegasus on EL9734 during Year 1 consisted of:

- Collation and validation of all existing data
- Entry of all existing data into a computer database
- Acquisition of digital aerial photography
- Acquisition of digital Landsat imagery
- Grid and access refurbishment
- Reconnaissance and detailed geological mapping
- Rock chip sampling
- Grid soil sampling
- RAB drilling
- RC drilling
- Diamond core drilling

Each exploration prospect area within EL9734 will be dealt with separately in this section. *Figure 3* shows the location of each of these prospects within EL9734.

SEL9679

195000

EL6800

EL6800

EL9775

DRIFFIELD NORTH

Weather Station

EMERALD CREEK

EL9868

447000

447000

EL9734

DRIFFIELD MINING CENTRE

GOLDEN SLIPPER

DRIFFIELD WEST

DRIFFIELD SOUTH

EL9735



QUIGLEYS

SEL9679

195000



DATE: 5 FEBRUARY 1999

SCALE: 1:50,000

EL9734 - DRIFFIELD PROSPECT LOCATION

FIGURE 3

5.1 Driffield Mining Centre

The majority of work undertaken during the first year of EL9734 was centered on the historic Driffield Mining Centre. Previous to the granting of EL9734 this area was covered firstly under EL2044 and finally by twenty Mineral Claims (MCN's 3304 – 3323) held by Kintaro Gold Mines Pty Ltd. A summary of all exploration undertaken on these claims can be found in the Annual and Final Report for Year Six, EL2044, Driffield N.T. (by Eupene Exploration Enterprises Pty. Ltd. for Kintaro Gold Mines Pty. Ltd.).

Work undertaken by Pegasus during Year One at the Driffield Mining Centre involved grid and access reestablishment, grid soil sampling, detailed geological mapping, rock chip sampling, and RAB, RC and diamond core drilling.

Grid and Access Reestablishment

Early in 1997 Arnhem Geological and Exploration Services was contracted by Pegasus to refurbish the 100m x 50m local grid emplaced by Kintaro Gold Mines Pty Ltd in 1989 and 1991. All known existing access tracks within the Driffield Mining Centre were also located at this time.

Extension and Infill Soil Sampling

Grid soil sampling was conducted by Arnhem Geological and Exploration Services in conjunction with the grid refurbishment. Sampling extended 100 metre spaced soil lines, which had been sampled by Kintaro in 1988 and 1989. Infill samples were taken to remove gaps in Kintaro's sampling, and one Kintaro soil line was resampled as a check on the validity of their results. A bulk sample was also taken from an area of black soil alluvium and inserted into the sample sequence periodically as a check on Assay Corp's analytical methods.

Results were mostly below 20ppb Au, but numerous samples returned values over 100ppb Au, defining small highly anomalous zones. A peak value of 2798ppb Au was returned for DMS0114. The check samples of the Kintaro soil line produced results comparable to the original assays.

Soil sample locations and results are shown on *Figure 4*.

Geological Mapping

In order to obtain a reasonable understanding of the complex geological controls on gold mineralisation within the Driffield Mining Centre, detailed geological mapping was completed over the majority of the area previously covered by MCN's 3304 – 3323.

Mapping was completed at 1:1,000 scale, using the 100m x 50m local grid for control.

Rock Chip Sampling

Two hundred and thirty rock chips (DMR001 to DMR230) were taken at the Driffield Mining Centre in association with the geological mapping program. Samples were taken

from outcropping shears/breccia zones, massive and stockwork quartz veins, zones of strong sericite/chlorite alteration, and from rocks containing heavily oxidised sulphides. Results were disappointing, with only seven samples assaying over 1ppm Au, with a maximum Au value of 9.34ppm for DMR075 taken from a small brecciated thrust fault.

Kintaro rock chip sampling at the Driffield Mining Centre returned a best value of 28.6ppm Au from brecciated quartz veining.

Rock chip sample locations are included on *Figure 5*.

RAB Drilling

Sixty-six RAB drillholes (DMRB001 to DMRB066) were drilled on seven lines at the Driffield Mining Centre during Year 1 of exploration on EL9734. Drilling was targeted at areas where mineralised structures were interpreted to exist beneath a cover of alluvium and scree. All holes were drilled to a depth of 21 metres for a total of 1386 metres.

Drilling intersected predominantly strongly oxidised siltstone and greywacke with common massive white quartz, particularly near the top of the drillholes. No remnant sulphide mineralisation was encountered.

Results were very disappointing, with only four samples returning assays of greater than 0.05ppm Au. The highest result came from 0 to 3 metres in DMRB020, returning only 0.11ppm Au. Base metal results were also very flat.

A plan showing the location of the RAB drilling is presented as *Figure 6*.

RC Drilling

Sixty-six RC drillholes (DRC001 to DRC059 and DRC067 to DRC073) were drilled at the Driffield Mining Centre during the first year of exploration on EL9734. Hole depths varied from 60 to 118 metres for a total of 4794 metres drilled. RC drilling was conducted at eight sub-prospects (shown on *Figure 8A*) within the Driffield Mining Centre, using the geological mapping, soil geochemistry and data obtained from previous RC drilling by Kintaro (see *Figure 7*) as targeting guides.

Drilling intersected interbedded sequences of mostly greywacke and siltstone, with lesser feldspathic sandstone/greywacke and rare thin tuff beds. Quartz was common in the drillholes, both as massive, white veins and thin, colourless stockwork veinlets.

Sulphides were also commonly seen, associated with both quartz veining and wall rock, and were predominantly pyrite, with lesser amounts of arsenopyrite and occasional chalcopyrite and pyrrhotite. Alteration consisted mainly of clay, sericite and chlorite, with some minor silicification also noted. The level of oxidation within the drillholes was highly variable, with some drillholes at high elevations not reaching fresh rock for their entire length.

Results were generally very low and did not reflect anomalous values present in the soil geochemistry and rock chip samples. Best results were returned from narrow structures, which were discontinuous, both spatially and in Au grades. A poddy bulking of gold grades appeared to occur at the intersections of north and northwest trending thin shear zones, which were often filled with quartz. The shoots caused by the intersecting shears showed very little depth extension, and gold grades often dropped off with depth.

The best intersections from the RC drilling are summarised in the table below. A map with the RC drillhole locations is presented as *Figure 7*. Full coverage of the RC drilling done by Kintaro can be found in the Annual Report, Driffield Area, MCN's 3304-3323 by Moline Management Pty. Ltd. (January 1992.)

Prospect Name	Hole Number	Grid		From m	To m	Width (m)	Grade (g/t)
		North	East				
Lady Mary	DRC010	9885.00	10747.00	28	33	5	3.11
	DRC011	9840.00	10735.00	23	30	7	2.07
	DRC020	9925.00	10790.00	22	24	2	16.35
The Gorden	DRC014	8993.00	9678.00	11	14	3	3.14
				22	24	2	5.94
	DRC015	8996.00	9664.00	17	19	2	2.63
	DRC031	8950.00	9660.00	42	43	1	1.23
	DRC032	8950.00	9700.00	17	18	1	1.02
Lady Jane East	DRC017	9900.00	10243.00	20	22	2	2.85
	DRC018	9857.00	10280.00	21	24	3	1.79
South Ridge	DRC028	8950.00	10440.00	76	77	1	1.27
	DRC043	8600.00	10550.00	19	20	1	3.49
				80	82	2	1.53
	DRC045	8500.00	10495.00	12	16	4	3.90
	DRC071	8400.00	10480.00	50	53	3	1.24
Lady Jane	DRC048	9915.00	10075.00	22	23	1	1.21
	DRC052	9885.00	10000.00	35	37	2	2.39

Diamond Drilling

One diamond drillhole (DDD001) was drilled at the Driffield Mining Centre and consisted of 50 metre RC precollar and 200 metres of NQ core for a total downhole depth of 250.0 metres. The drillhole was designed to give stratigraphic and structural information and was also targetted at an aeromagnetic high centred near the middle of the Mining Centre.

Drilling intersected tightly folded (often overturned) interbedded greywacke, siltstones, feldspathic sandstones/wackes and minor tuffs. Quartz was common in the drillhole, both as massive, white veins and thin colourless veinlets. Very few sulphides were found in the core, but consisted mostly of pyrite, with lesser chalcopyrite, arsenopyrite and pyrrhotite. The aeromagnetic high was explained by the presence of very fine grains of magnetite within the feldspathic sandstones/wackes. Valuable structural and stratigraphic data was obtained from the orientated core.

Results were poor, with only three samples for the RC precollar assaying above the detection limit at 0.01ppm Au. None of the core returned values above the detection limit. Base metals were also very quiet, particularly Bi (no values above the detection

limit) and As (only 3 samples above 20ppm). The location of DDD001 is shown on *Figure 7*.

5.2 Emerald Creek

Previous to the granting of EL9734 exploration was undertaken by Pegasus at Emerald Creek under the EL8863 tenement. A summary of all previous exploration work is located in the EL8863 – Emerald Creek, Final Report on Exploration, November 1996. Exploration on the Emerald Creek prospect during Year 1 of EL9734 consisted of gridding and –40# soil sampling, geological mapping, and RAB and RC drilling.

Gridding and Soil Sampling

Gridding and grid soil sampling was conducted by Arnhem Geological and Exploration Services on the Emerald Creek prospect in early 1997. Sampling continued south from the 1996 soil sampling on 100m and 200m spaced grid lines.

Results were mixed, with numerous samples returning values over 10ppb Au, defining an approximately 1000m x 300m, northeast trending anomalous zone. Results were generally below 10ppb Au for the southernmost four soil lines. A peak value of 350ppb Au was returned for ECS262.

Soil sample locations and results are shown on *Figure 8*.

Geological Mapping

Geological mapping was conducted over the Emerald Creek prospect at a scale of 1:2,500. Mapping was designed to extend understanding of the geological controls on Au mineralisation in the Emerald Creek area, and to aid in drillhole targeting.

RAB Drilling

One hundred and fifteen RAB drillholes (ECRB001 to ECRB115) were drilled on eight lines at Emerald Creek during Year 1 of exploration on EL9734. Drilling was targeted at areas where mineralised structures were interpreted to exist beneath a cover of alluvium and scree. All holes were drilled to a depth of 21 metres for a total of 2415 metres.

Drilling intersected predominantly strongly oxidised siltstone and greywacke with common massive white quartz, particularly near the top of the drillholes. No remnant sulphide mineralisation was encountered.

Results were mostly below 0.50ppm Au, with only five samples returning assays of greater than 1.00ppm Au. Extremely high results (up to 206ppm Au) from ECRB008 and ECRB009 were found to be caused by contamination of the samples during analysis at Assay Corp, and were resampled to obtain correct assays. The best true result came from ECRB030, returning 1.09ppm Au from 2 – 3 metres and 2.17ppm Au from 5 – 6 metres. Zinc assays were elevated throughout most drillholes, but most base metals were flat.

A plan showing the location of the RAB drilling is presented as *Figure 9*.

RC Drilling

Eleven RC drillholes (ECRC006 to ECRC016) were drilled at the Emerald Creek prospect during the first year of exploration on EL9734. All drillholes apart from ECRC013 were drilled to 60 metres depth. ECRC013 was extended to 70 metres depth, giving a total of 670 metres drilled.

Drilling intersected interbedded sequences of greywacke and siltstone. Quartz was common in the drillholes, both as massive, white veins and thin, colourless stockwork veinlets. Sulphides were rare, with minor pyrite and arsenopyrite only seen in ECRC014 and ECRC015. Alteration consisted mainly of clay, which was often strong near the top of drillholes. Most drillholes just managed to intersect fresh rock in the last few metres of the drillhole.

Results were very disappointing, and did not reflect anomalous values present in the soil geochemistry and rock chip samples. The best result came from ECRC007, returning 3 metres at 0.50ppm Au from 12 to 15 metres depth. Only two other drillholes (ECRC011 and ECRC013) yielded any intersections of >0.30ppm Au.

A map with the RC drillhole locations is presented as *Figure 10*.

5.3 Driffield North

Previous to the granting of EL9734 exploration was undertaken by Pegasus at Driffield North under the EL7942 tenement and by Kintaro under EL2044 and later as MCN's 4400 to 4403. A summary of all previous exploration work conducted by Pegasus is located in the EL7942 – Driffield North, Final Report on Exploration, January 1997. A summary of exploration carried out by Kintaro is contained in the Annual and Final Report for Year Six – EL2044 – Driffield NT, January 1993.

Exploration on the Driffield North prospect during Year 1 of EL9734 consisted of –40# soil sampling, geological mapping, rock chip sampling, and RC drilling.

Soil Sampling

Grid soil sampling was conducted by Arnhem Geological and Exploration Services on the Driffield North prospect in mid 1997. Sampling was done along ten grid lines to gain partial soil sample coverage of the area previously held by Kintaro, as MCN's 4400 to 4403.

Results were mixed, with numerous samples returning values over 10ppb Au, defining an approximately 500m x 200m, northerly trending anomalous zone covering an outcropping shear/breccia zone. Three samples (DNS584, DNS612 and DNS729) returned assay values greater than 100ppb Au, with DNS612 yielding the peak value of 184ppb Au.

Soil sample locations and results are shown on *Figure 11*.

Geological Mapping

Geological mapping was conducted over the Driffield North prospect at a scale of 1:2,500. Mapping was designed to extend understanding of the geological controls on Au mineralisation in the Driffield North area, and to aid in drillhole targeting.

Rock Chip Sampling

One hundred and fifteen rock chips (DNRC97/1 to DNRC97/115) were taken in the Driffield North area in association with the geological mapping program. Samples were taken from outcropping shears/breccia zones, massive and stockwork quartz veins, zones of strong sericite/chlorite/siliceous alteration, and from rocks containing heavily oxidised sulphides.

Most samples were anomalous in Au, with ten samples assaying over 1ppm Au, for a maximum Au value of 4.10ppm for DNRC97/85. Base metal values were usually strongly elevated, particularly As, in the highly Au anomalous samples.

Rock chip sample locations are included on *Figure 5*.

RC Drilling

Five RC drillholes (DNRC001 to DNRC005) were drilled at the Driffield North prospect during the first year of exploration on EL9734. All drillholes were drilled to 60 metres depth, for a total of 300 metres drilled.

Drilling intersected interbedded sequences of greywacke and siltstone. Quartz was common in the drillholes, both as massive, white veins and thin, colourless stockwork veinlets. Sulphides were rare, with minor pyrite encountered in DNRC003. Alteration consisted of weak clay near the top of drillholes. Oxidation was variable, but generally the transition zone was struck at a shallow depth, and fresh rock intersected below 50 metres.

Results were disappointing, and did not reflect anomalous values present in the soil geochemistry and rock chip samples. Only two drillholes (DNRC002 and DNRC003) returned any Au anomalous intersections above 0.30ppm. These were DNRC002, 6 – 9 metres, 3 metres @ 0.61ppm Au, and DNRC003, 3 – 6 metres, 3 metres @ 0.33ppm Au.

A map with the RC drillhole locations is presented as *Figure 12*.

5.4 Driffield West

Previous to the granting of EL9734 exploration was undertaken by Pegasus at Driffield West under the EL7941 tenement. A summary of all previous exploration work conducted by Pegasus is located in the EL7941 – Driffield West, Final Report on Exploration, January 1997.

Exploration on the Driffield West prospect during Year 1 of EL9734 consisted of geological mapping, rock chip sampling, and RAB and RC drilling.

Geological Mapping

Geological mapping was conducted over the Driffield West prospect at a scale of 1:2,500.

Mapping was designed to extend understanding of the geological controls on Au mineralisation in the Driffield West area, and to aid in drillhole targetting.

Rock Chip Sampling

Fifty-two rock chips (DW97/1 to DW97/7 and TBRC97/1 to TBRC97/45) were taken in the Driffield West area in association with the geological mapping program. Samples were taken from outcropping shears/breccia zones, massive and stockwork quartz veins, zones of strong alteration, and from rocks containing heavily oxidised sulphides.

Most samples were weakly anomalous in Au, with three samples assaying over 1ppm Au, for a maximum Au value of 2.94ppm for TBRC97/10. Base metal values were usually strongly elevated, particularly As, in the highly Au anomalous samples.

Rock chip sample locations are included on *Figure 5*.

RAB Drilling

Seven RAB drillholes (DWRB001 to DWRB007) were drilled on one line at Driffield West during Year 1 of exploration on EL9734. Drilling was targetted at areas where mineralised structures were interpreted to exist beneath a cover of alluvium and scree.

All holes were drilled to a depth of 21 metres for a total of 147 metres.

Drilling intersected predominantly strongly oxidised siltstone and greywacke with common massive white quartz, particularly near the top of the drillholes. No remnant sulphide mineralisation was encountered.

Results were mostly below 0.10ppm Au, with only one sample returning an assay of greater than 1.00ppm Au (DWRB004, 0 – 3 metres, 3m @ 11.7ppm). Zinc assays were elevated throughout most drillholes, and there was a weak correlation between gold and arsenic, but most base metals were flat.

A plan showing the location of the RAB drilling is presented as *Figure 13*.

RC Drilling

Nine RC drillholes (DWRC001 to DWRC009) were drilled at the Driffield West prospect during the first year of exploration on EL9734. Drillholes ranged in depth from 60 to 82 metres, for a total of 582 metres drilled.

Drilling intersected interbedded sequences of greywacke and siltstone. Quartz was common in the drillholes, both as massive, white veins and thin, colourless stockwork veinlets. Sulphides were rare, with minor pyrite only seen in DWRC003 and DWRC004. Oxidation was variable, with a shallow weathered to transitional change, and fresh rock only intersected near the bottom of some drillholes. Water was only intersected in DWRC003 and DWRC004 at 59 and 53 metres respectively.

Results were generally weakly anomalous, but were not sufficiently high to warrant further work at this stage. The table below summarises the best intercepts gained from the RC drilling.

Hole Number	Grid		From m	To m	Width (m)	Grade (g/t)
	North	East				
DWRC001	9415.00	9425.00	12	33	21	0.46
			45	51	6	0.62
DWRC002	9500.00	9480.00	30	33	3	0.42
DWRC004	9347.00	9391.00	21	27	6	0.57
DWRC006	9401.00	9022.00	54	57	3	0.70
DWRC009	9536.00	9087.00	30	33	3	0.56

A map with the RC drillhole locations is presented as *Figure 14*.

5.5 Golden Slipper

Previous to the granting of EL9734 exploration was undertaken at Golden Slipper by Billiton Australia Gold Pty Ltd, and subsequently by Pegasus under the EL7635 tenement. A summary of all previous exploration work conducted by Billiton and Pegasus is located in the EL7635 – Horseshoe, Final Report on Exploration, January 1997.

Exploration on the Golden Slipper prospect during Year 1 of EL9734 consisted only of RAB drilling.

RAB Drilling

Thirty-four RAB drillholes (GSRB001 to GSRB034) were drilled on two lines at Golden Slipper during Year 1 of exploration on EL9734. Drilling was an extension of RAB drilling conducted by Billiton over a +10ppb Au gold-in-soil anomaly. All holes were drilled to a depth of 21 metres for a total of 714 metres.

Drilling intersected predominantly strongly oxidised siltstone and lesser greywacke with very common massive white quartz, particularly near the top of the drillholes. No remnant sulphide mineralisation was encountered.

The vast majority of results were below 0.10ppm Au, with only one drillhole returning any assays greater than 0.30ppm Au (GSRB008, 0 – 3 metres, 3m @ 2.98ppm and 3 – 6 metres, 3 metres @ 0.46ppm).

A plan showing the location of the RAB drilling is presented as *Figure 15*.

5.6 Driffield South

Previous to the granting of EL9734 exploration was undertaken by Pegasus at Driffield South under EL7756, EL9093 and MCN's 3668 - 3675. A summary of all previous exploration work conducted by Pegasus is located in the EL7941 – Driffield West, Final Report on Exploration, January 1997, the EL9093 – Wild Boar, Annual Report for Exploration, Year Ending 22 August 1996, and the MCN 3668 – 3675 – Stow West,

Final Report on Exploration, January 1997.

Exploration on the Driffield South prospect during Year 1 of EL9734 consisted of geological mapping and rock chip sampling.

Geological Mapping

Geological mapping was conducted over the Driffield South prospect at a scale of 1:5,000. Mapping was designed to extend understanding of the geological controls on Au mineralisation in the Driffield South area, and to aid in future drillhole targetting.

Rock Chip Sampling

One hundred and forty rock chips (DRR001 to DRR140) were taken in the Driffield South area in association with the geological mapping program. Samples were taken from outcropping shears/breccia zones, massive and stockwork quartz veins, zones of strong alteration, and from rocks containing heavily oxidised sulphides.

Results were generally disappointing, with most samples assaying below the detection limit. Only eight samples assayed over 0.50ppm Au. The highest result came from a small, thin, heavily brecciated quartz vein, which returned a strong 141.0ppm Au (DRR081). DRR140 was a check sample of DRR081 and still returned a comparable 97.0ppm Au. Base metals were also strongly elevated, particularly As and Pb, in the highly Au anomalous samples.

Rock chip sample locations are included on *Figure 5*.

5.7 GIS and Remote Sensing Studies

Pegasus completed a thorough compilation of a GIS database through the acquisition of digital data from various government and private companies. Data pertinent to the EL9734 region included combined Landsat/SPOT imagery at 1:50,000 scale and 1:25,000 scale digital photography over the Driffield area. Digital aerial photography at 1:60,000 scale with 5m contours and a regional airborne geophysical survey were obtained for the area north of EL9734 and were useful in defining and recognising regional trends.

All the digital data was manipulated in ARCVIEW with all geochemical and drill data in a GEMCOM PCXPLORE database.

6. EXPLORATION – YEAR 2

GIS and Remote Sensing

Continuation of the GIS compilation program was undertaken with the generation of 5m contours for the digital orthophoto (see *Figure 16*), addition of 1997-98 Pegasus exploration data and the initial input of CAD geological mapping. Interpretation of the various datasets was initiated during the year.

Enclosed within *Appendix 1* are the Driffield digital aerial photography image, 5m contours and DTM data. Details for the various files are listed below:

MEDIA	FILE	DESCRIPTION
CD1	Pegres.tif	Aerial Photography Image
	Final.dxf	5m Contour Plan
	DTM.dxf	Digital terrain model data

Soil Sampling

Soil sampling was undertaken to test two anomalies, one located during Year 1 of tenure and the second generated during the original GIS compilation. Samples were collected at the two prospects by a contract field crew (Arnhem Exploration) with details listed below.

Prospect	Sample No.
Sergio	98SG001-57
Sergio West	98SG058-123

All samples (total 123) were collected at 50m spacing along regional grid lines and sieved to -40# size fraction in the field. Samples were dispatched to Assaycorp Pine Creek and analysed for Au by low level fire assay techniques (1ppb detection limit).

Gridding for the sampling programmes totalled 7.3 line km.

Maximum values for the geochemical sampling at the two prospects are shown below:

Sergio	12 ppb Au
Sergio West	18, 12 ppb Au

Soil sample locations and Au assay results are shown on *Figures 17 & 18* with full assay results listed in *Appendix 2*.

7. **REHABILITATION**

All RAB drill holes within EL9734 were backfilled and sealed immediately after drilling was completed. No PVC collar pipe or plastic sample bags were used during RAB drilling.

RC drilling generally required access and pad preparation by D6 bulldozer. All PVC collars and sample plastics were removed and the drillholes sealed below ground level. All drill pads were fully rehabilitated in December 1997.

8. **CONCLUSIONS AND RECOMMENDATIONS**

Exploration by Pegasus within EL9734 has targetted previously defined anomalous surface geochemistry in several areas.

Geological mapping, rock chip sampling and soil sampling has delineated several areas which require further investigation. Many of these areas were not followed up during Year 1 or 2 exploration on EL9734 and significant potential still exists for significant discoveries. Also, much of EL9734 is still relatively unexplored even at a grass roots level, which only adds to the potential of the tenement which is located in a major gold bearing region.

A large portion of EL9734 is covered by alluvial soils and weathered scree, with RAB drilling required to fully evaluate covered areas, particularly those that hide interpreted mineralised structures. RC drilling of the more advanced targets in EL9734 produced significant results in the Driffield Mining Centre and Driffield West regions, but is yet to delineate a mineable resource. The poddy, discontinuous nature of the Au mineralisation makes resource definition difficult in these areas. However, RC drilling was relatively limited, both in extent and in depth, and much potential remains on EL9734 for the discovery of a significant resource.

A two pronged, systematic exploration approach is recommended for Year Three exploration on EL9734. This would compose (i) further drilling of advanced targets to define potential resources and (ii) more grass roots exploration, including geochemical sampling, geological mapping and RAB drilling, on newly discovered and hidden anomalies.

9. **FORWARD PROGRAM**

Exploration proposed at EL9734 during the forthcoming year is as follows:

▪ Expanded Soil Sampling	\$ 5,000
▪ Geological Mapping and Rock Chip Sampling	\$ 5,000
▪ RAB Drilling (500m)	\$ 12,500
▪ RC Drilling (1000m)	<u>\$ 50,000</u>
TOTAL	\$ 72,500

10. **EXPENDITURE STATEMENT**

EL9734 - DRIFFIELD

Total Expenditure for period 25th October 1997 - 24th October 1998

COST DESCRIPTION	EXPENDITURE
Salaries and Wages	26,267
Travel and Accommodation	4,608
Vehicles and Fuel	2,390
Consultants – Geology	6,760
Contract Geologist	700
Contract Field Crew	2,753
Assays	1,063
Consumables	343
Office Supplies	259
Tenement Consultant	1,750
Earthmoving/Rehabilitation	13,600
Administration (15%)	9,074
TOTAL EXPENDITURE	\$69,567

11. **REFERENCES**

- Burn, N. (1996) EL8863-Emerald Creek, Final Report on Exploration
for Pegasus Gold Australia Pty Ltd
- Manouge, P. (1997) EL9093-Wild Boar, Annual Report for Exploration, Year ending
22 August 1996, for Pegasus Gold Australia Pty Ltd
- Manouge, P. (1997) EL7635-Horseshoe, Final Report on Exploration
For Pegasus Gold Australia Pty Ltd
- Manouge, P. (1997) EL7941-Driffield West, Final Report on Exploration
For Pegasus Gold Australia Pty Ltd
- Manouge, P. (1997) EL7942-Driffield North, Final Report on Exploration
For Pegasus Gold Australia Pty Ltd
- Manouge, P. (1997) MCN3668-3675 Stow West, Final Report on Exploration
For Pegasus Gold Australia Pty Ltd
- Moline Management Pty Ltd (1991) Annual Report, Driffield Area, MCN's 3304-
3323
- Sheldon, T. (1993) Annual and Final Report for Year Six, EL2044-Driffield
By Eupene Exploration Enterprises Pty Ltd for Kintaro Gold
Mines Pty Ltd

PEGASUS GOLD AUSTRALIA PTY LTD

(SUBJECT TO DEED OF COMPANY ARRANGEMENT)

**EL9734 DRIFFIELD
MT TODD DISTRICT, NT**

**ANNUAL REPORT FOR EXPLORATION
YEAR TWO OF TENURE
25 OCTOBER 1997 – 24 OCTOBER 1998**

**APPENDIX 1
DIGITAL AERIAL PHOTOGRAPHY**

PEGASUS GOLD AUSTRALIA PTY LTD

(SUBJECT TO DEED OF COMPANY ARRANGEMENT)

**EL9734 DRIFFIELD
MT TODD DISTRICT, NT**

**ANNUAL REPORT FOR EXPLORATION
YEAR TWO OF TENURE
25 OCTOBER 1997 – 24 OCTOBER 1998**

**APPENDIX 2
SOIL SAMPLE ASSAY RESULTS**



ASSAYCORP

RECEIVED

05 AUG 1998

Report Code: AC 42524

Samples Received: 27/07/98

Number of Samples: 57

Pegasus Gold Exploration

PO BOX 971

KATHERINE 0852

Assaycorp Pty Ltd

A.C.N. 052 982 911

174 Ward St

Pine Creek NT 0847

Ph (08) 8978 1262

Fax (08) 8978 1310

Report Distribution

Nick Burn

Reference: 1543

Project:

Cost Code:

Page 1 of 4

Sample Preparation:

Assay Data:

Analysis	Analytical Method	Digest	Technique	Precision & Accuracy	Detection Limit	Data Units
Au	FALL	FA	AAS	Acc. \pm 15 %	1	ppb
Au(R)	FALL	FA	AAS	Acc. \pm 15 %	1	ppb

EL9734
Sergio

Report Comment: This cover sheet is an integral part of the report. This report can only be reproduced in full.

Authorisation: Ray Woodbridge

Report Dated: 31/07/98



ASSAYCORP

ASSAY CODE: AC 42524

Page 2 of 4

Sample	Au (ppb)	Au(R) (ppb)
98SG01	2	
98SG02	1	
98SG03	1	
98SG04	2	
98SG05	1	
98SG06	3	
98SG07	2	1
98SG08	1	
98SG09	3	
98SG10	2	
98SG11	1	
98SG12	3	
98SG13	1	2
98SG14	1	
98SG15	1	
98SG16	1	
98SG17	1	
98SG18	1	
98SG19	1	
98SG20	<1	
98SG21	3	
98SG22	2	
98SG23	2	
98SG24	1	
98SG25	1	
Method	FALL	FALL



ASSAYCORP

ASSAY CODE: AC 42524

Page 3 of 4

Sample	Au (ppb)	Au(R) (ppb)
98SG26	1	1
98SG27	1	
98SG28	2	
98SG29	1	
98SG30	4	4
98SG31	10	8
98SG32	1	
98SG33	2	
98SG34	2	
98SG35	3	
98SG36	1	<1
98SG37	3	3
98SG38	6	
98SG39	1	
98SG40	1	
98SG41	1	
98SG42	1	
98SG43	1	
98SG44	2	
98SG45	1	
98SG46	1	2
98SG47	1	
98SG48	1	
98SG49	2	
98SG50	1	
Method	FALL	FALL



ASSAYCORP

ASSAY CODE: AC 42524

Page 4 of 4

Sample	Au (ppb)	Au(R) (ppb)
98SG51	1	
98SG52	3	
98SG53	1	2
98SG54	2	
98SG55	12	12
98SG56	3	4
98SG57	2	
Method	FALL	FALL



ASSAYCORP

Report Code: AC 43331
Samples Received: 23/09/98
Number of Samples: 370

Pegasus Gold Exploration

PMB 400
KATHERINE 0852

Reference: 1551
Project:
Cost Code:

Assaycorp Pty Ltd
A.C.N. 052 982 911
174 Ward St
PINE CREEK NT 0847
Ph (08) 8976 1262
Fax (08) 8976 1310

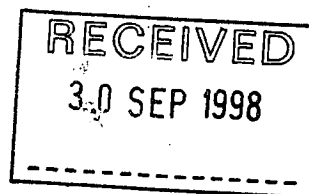
Report Distribution
Nick Burn

Page 1 of 16

Sample Preparation:

Assay Data:

Analysis	Analytical Method	Digest	Technique	Precision & Accuracy	Detection Limit	Data Units
Au	FALL	FA	AAS	Acc. $\pm 15\%$	1	ppb
Au(R)	FALL	FA	AAS	Acc. $\pm 15\%$	1	ppb
Au(R)	FALL	FA	AAS	Acc. $\pm 15\%$	1	ppb



Report Comment: This cover sheet is an integral part of the report. This report can only be reproduced in full.

Authorisation: Ray Wooldridge
Report Dated: 28/09/98



ASSAYCORP

ASSAY CODE: AC 43331

Page 14 of 16

Sample	Au (ppb)	Au(R) (ppb)	Au(R) (ppb)
98BJ 743			
98BJ 744			
98BJ 745			
98BJ 746			
98SG 058	3		
98SG 059	2		
98SG 060	3		
98SG 061	2		
98SG 062	1		
98SG 063	1	1	
98SG 064	2		
98SG 065	2		
98SG 066	5		
98SG 067	3		
98SG 068	4		
98SG 069	5		
98SG 070	5		
98SG 071	4	4	
98SG 072	4		
98SG 073	3		
98SG 074	9	8	
98SG 075	6		
98SG 076	3	3	
98SG 077	8		
98SG 078	7		
Method	FALL	FALL	FALL



ASSAYCORP

ASSAY CODE: AC 43331

Page 15 of 16

Sample	Au (ppb)	Au(R) (ppb)	Au(R) (ppb)
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98SG 079	7		
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98SG 080	2		
----------	---	--	--

98SG 081	2		
----------	---	--	--

98SG 082	9	9	
----------	---	---	--

98SG 083	1		
----------	---	--	--

98SG 084	5		
----------	---	--	--

98SG 085	4	4	
----------	---	---	--

98SG 086	5		
----------	---	--	--

98SG 087	4		
----------	---	--	--

98SG 088	7		
----------	---	--	--

98SG 089	8		
----------	---	--	--

98SG 090	3		
----------	---	--	--

98SG 091	4		
----------	---	--	--

98SG 092	4		
----------	---	--	--

98SG 093	2		
----------	---	--	--

98SG 094	2		
----------	---	--	--

98SG 095	11	9	
----------	----	---	--

98SG 096	3		
----------	---	--	--

98SG 097	12	11	
----------	----	----	--

98SG 098	1		
----------	---	--	--

98SG 099	6		
----------	---	--	--

98SG 100	21	15	
----------	----	----	--

98SG 101	3		
----------	---	--	--

98SG 102	2		
----------	---	--	--

98SG 103	2		
----------	---	--	--

Method	FALL	FALL	FALL
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ASSAYCORP

ASSAY CODE: AC 43331

Page 16 of 16

Sample	Au (ppb)	Au(R) (ppb)	Au(R) (ppb)
--------	-------------	----------------	----------------

98SG 104	2		
----------	---	--	--

98SG 105	3		
----------	---	--	--

98SG 106	2		
----------	---	--	--

98SG 107	3		
----------	---	--	--

98SG 108	6		
----------	---	--	--

98SG 109	6	7	
----------	---	---	--

98SG 110	2		
----------	---	--	--

98SG 111	2		
----------	---	--	--

98SG 112	3		
----------	---	--	--

98SG 113	2		
----------	---	--	--

98SG 114	2		
----------	---	--	--

98SG 115	2		
----------	---	--	--

98SG 116	4		
----------	---	--	--

98SG 117	4		
----------	---	--	--

98SG 118	2		
----------	---	--	--

98SG 119	6	5	
----------	---	---	--

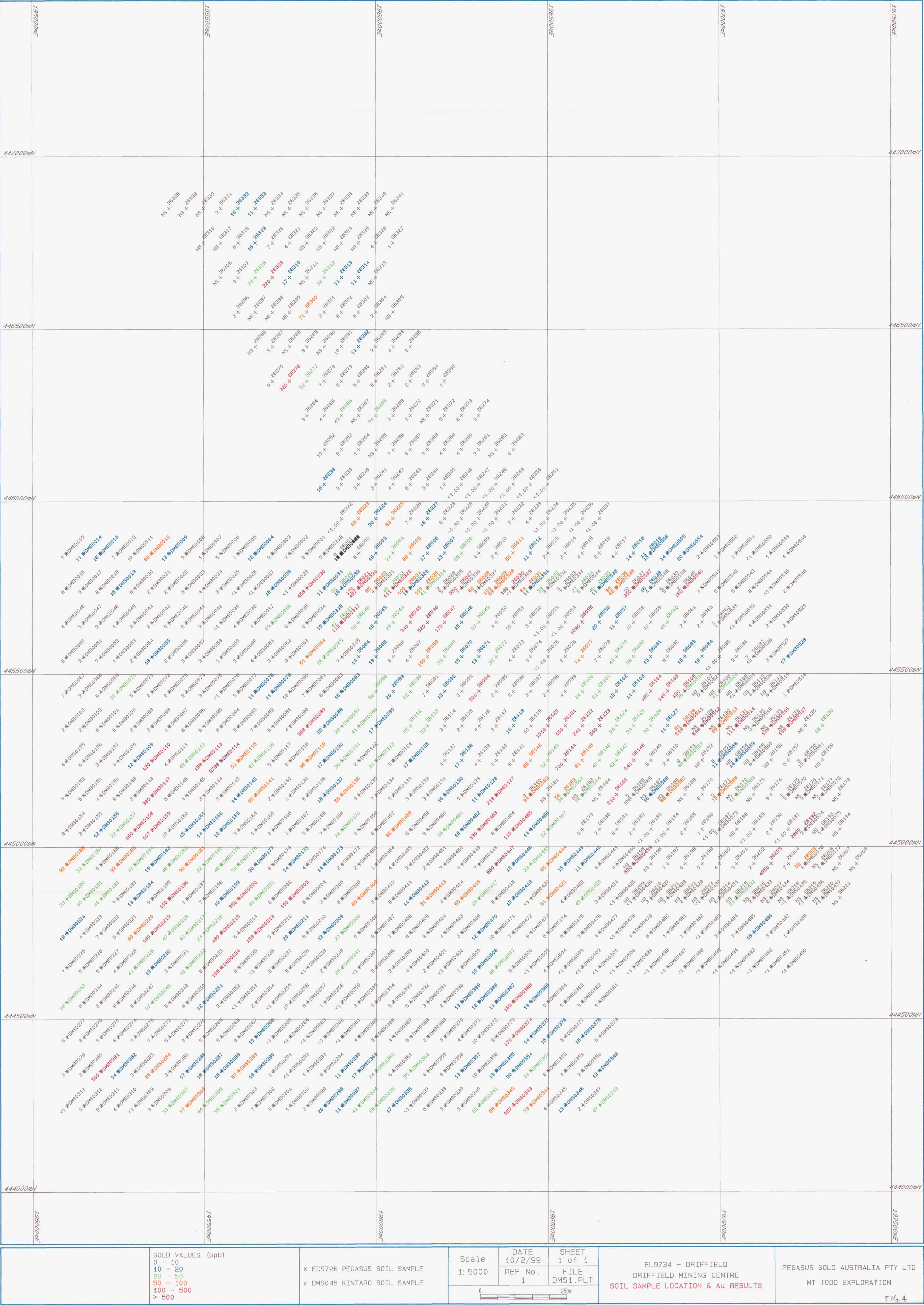
98SG 120	6		
----------	---	--	--

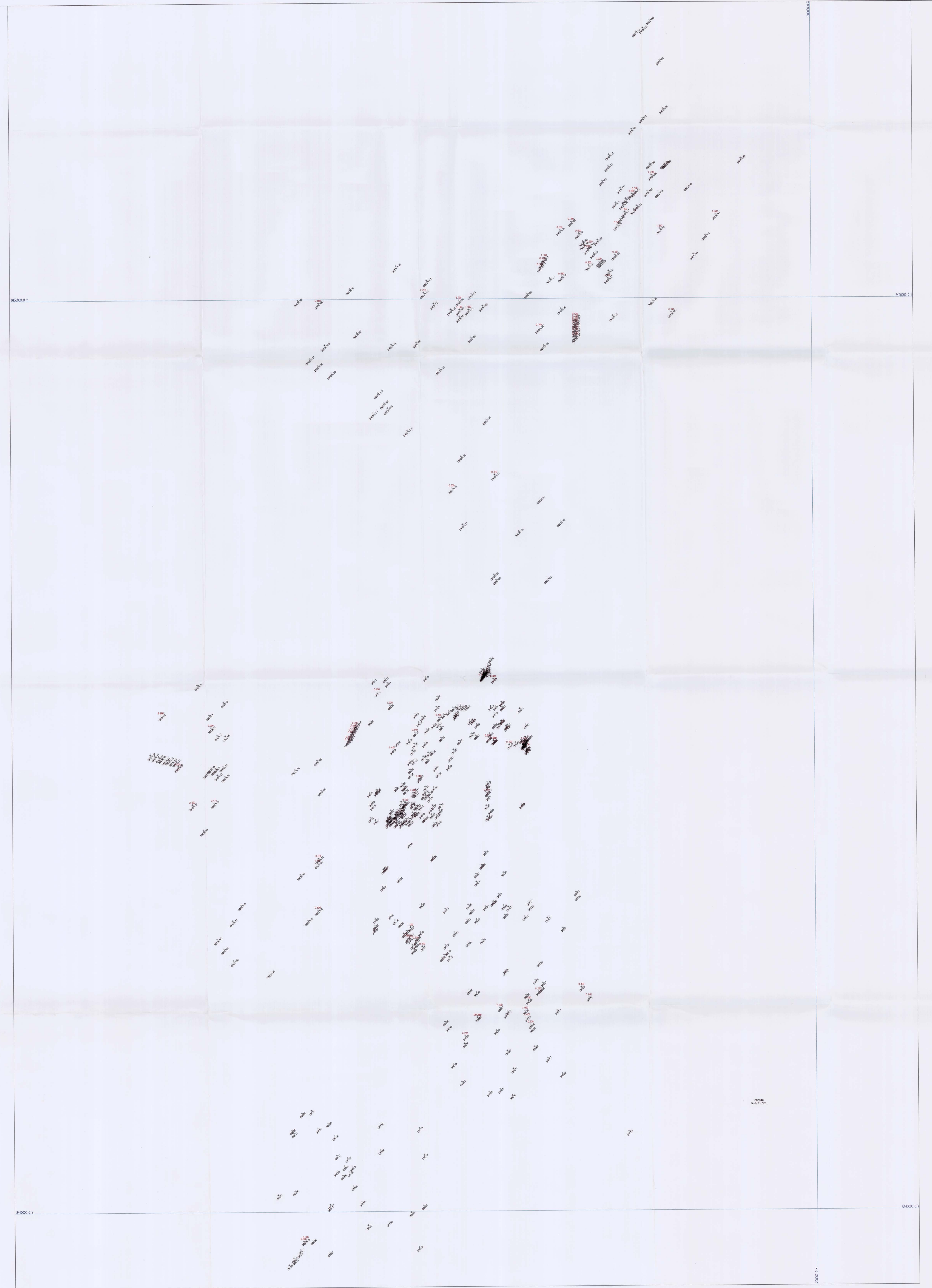
98SG 121	8		
----------	---	--	--

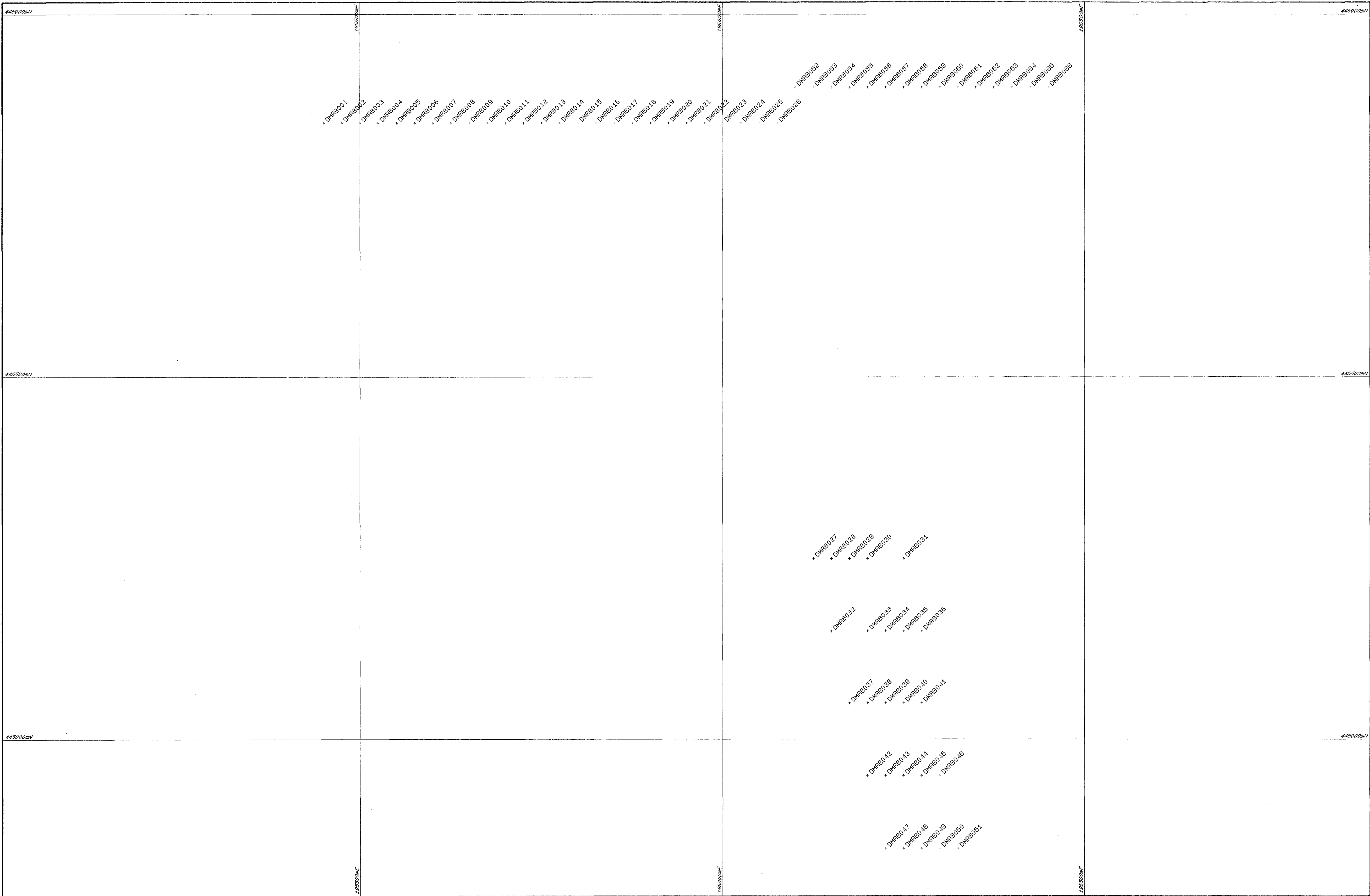
98SG 122	2	1	
----------	---	---	--

98SG 123	1		
----------	---	--	--

Method	FALL	FALL	FALL
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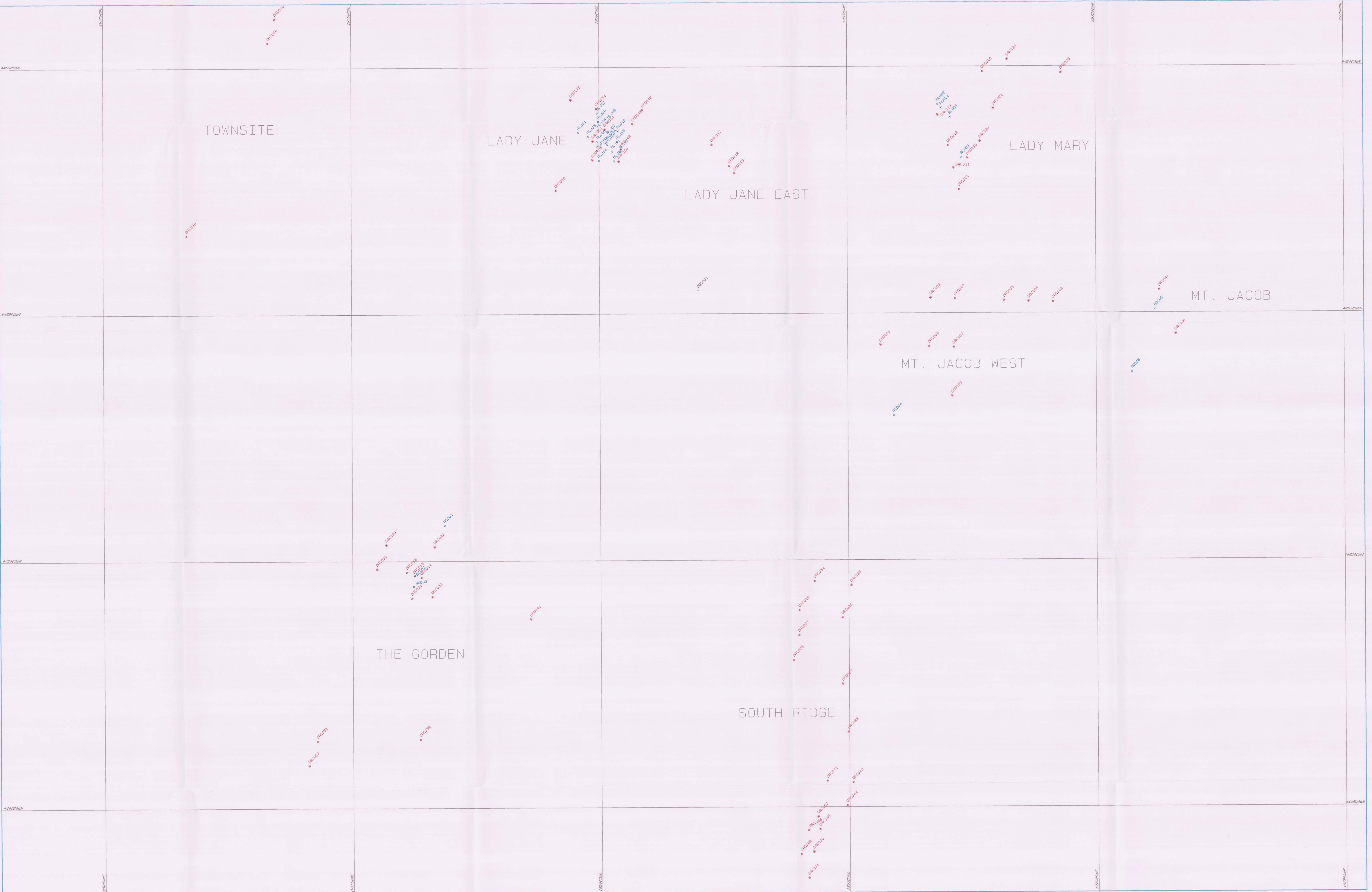
			<div>Scale 1: 2500</div>	<div>DATE 10/2/99</div> <div>REF No. 1</div>	<div>SHEET 1 of 1</div> <div>FILE DMRBP1.PLT</div>	<div>EL9734 - DRIFFIELD</div> <div>DRIFFIELD MINING CENTRE</div> <div>RAB DRILLHOLE LOCATION</div>	<div>Pegasus Gold Australia Pty Ltd</div> <div>Northern Territory Exploration</div> <div>Mount Todd</div>
			<div>0100200m</div> 				

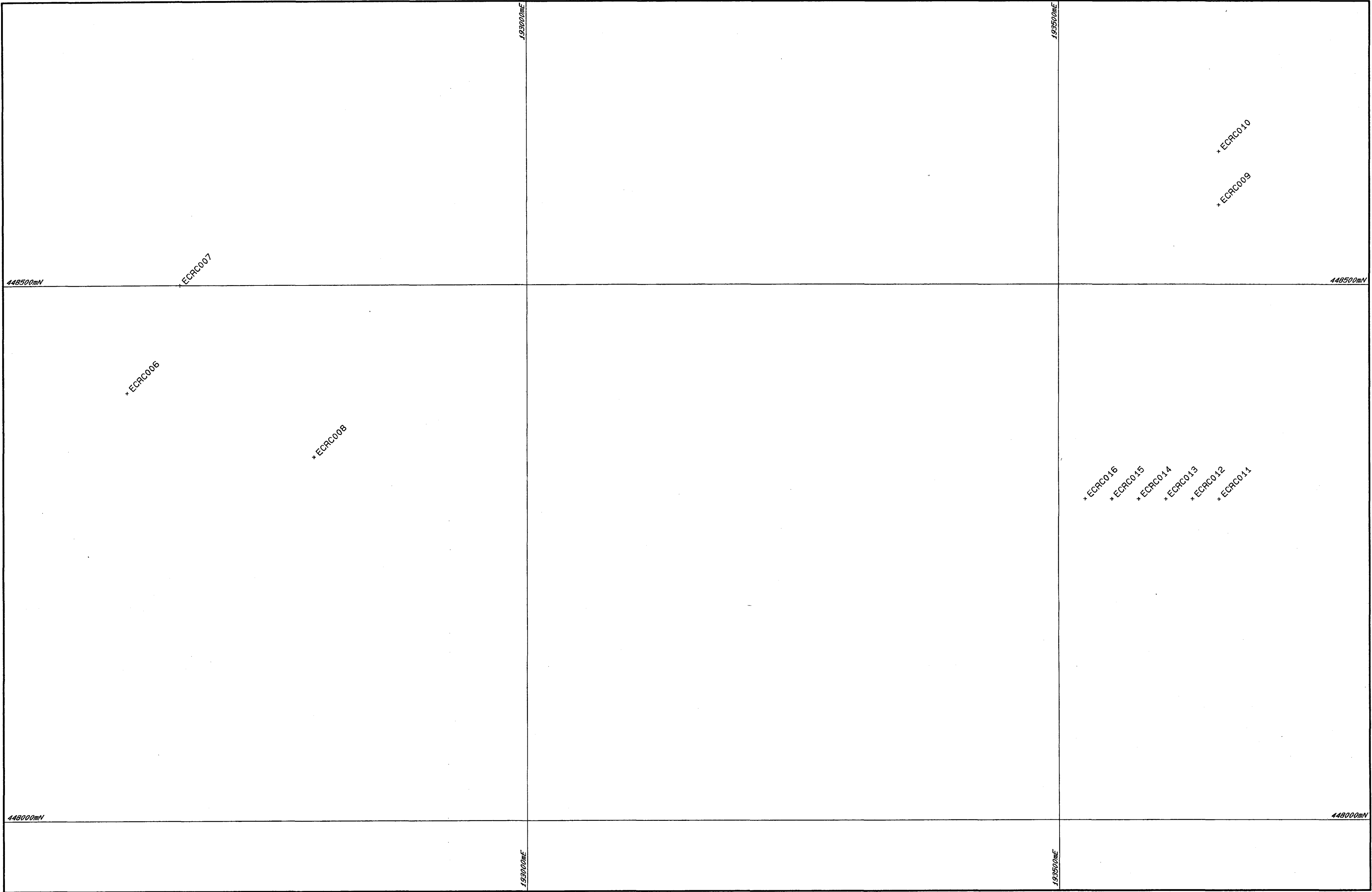
FIG.6

CR99/096
CR99/086



	<p>HOLE ANNOTATION</p> <p>* DR0019 PEGASUS RC DRILLHOLE</p> <p>x DR004 KINTARO RC DRILLHOLE</p> <p>+ DDD001 PEGASUS DIAMOND DRILLHOLE</p>		<p>Scale</p> <p>1: 2500</p>	<p>DATE</p> <p>10/2/99</p>	<p>SHEET</p> <p>1 of 1</p>	<p>EL9734 - DRIFFIELD</p> <p>DRIFFIELD MINING CENTRE</p> <p>RC & DIAMOND DRILLHOLE LOCATION</p>	<p>Pegasus Gold Australia Pty Ltd</p> <p>Northern Territory Exploration</p> <p>Mount Todd</p>
				<p>REF No.</p> <p>1</p>	<p>FILE</p> <p>DRCP1.PLT</p>		
				<p>0 200 400m</p>			

FIG.7




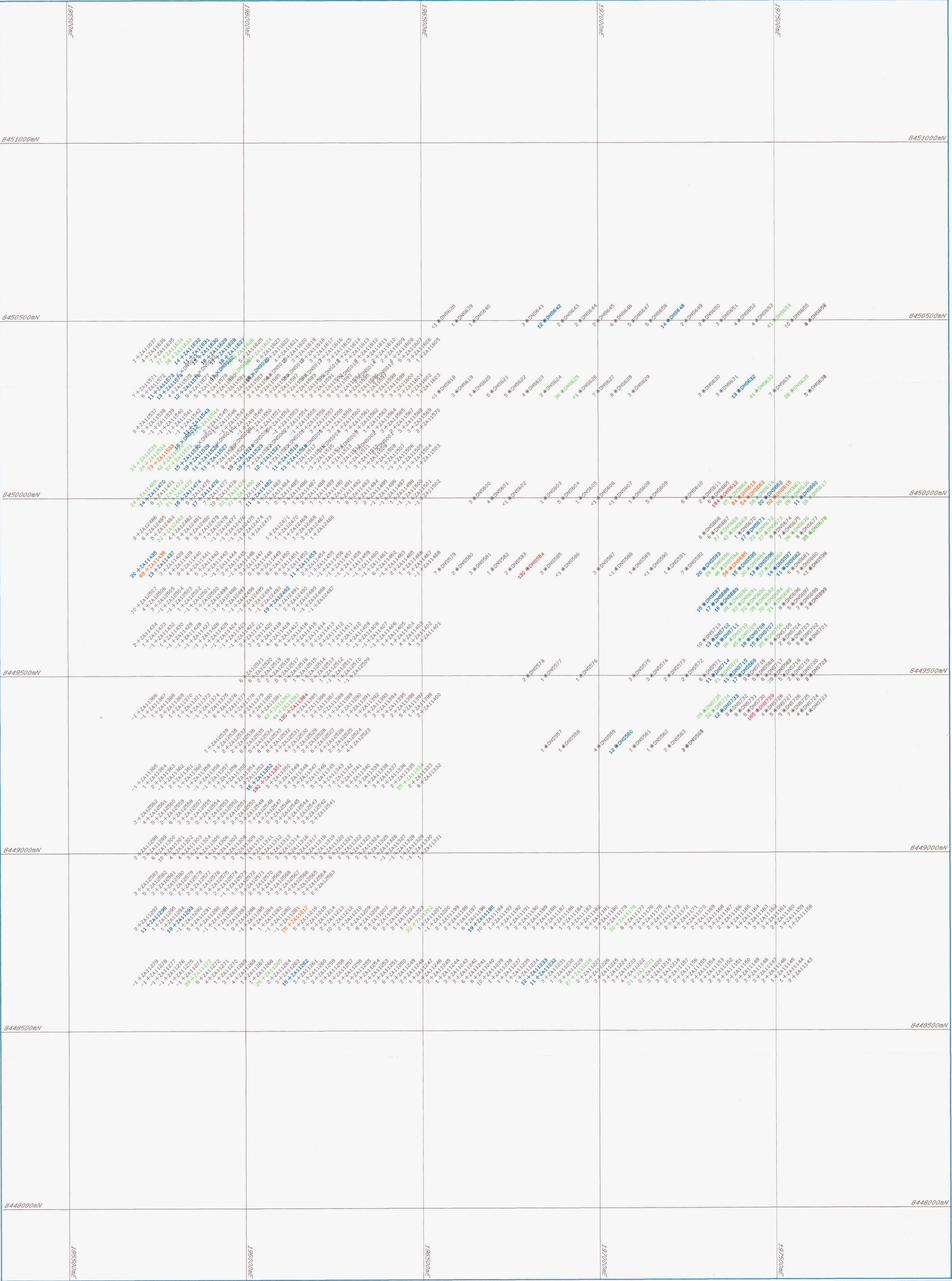
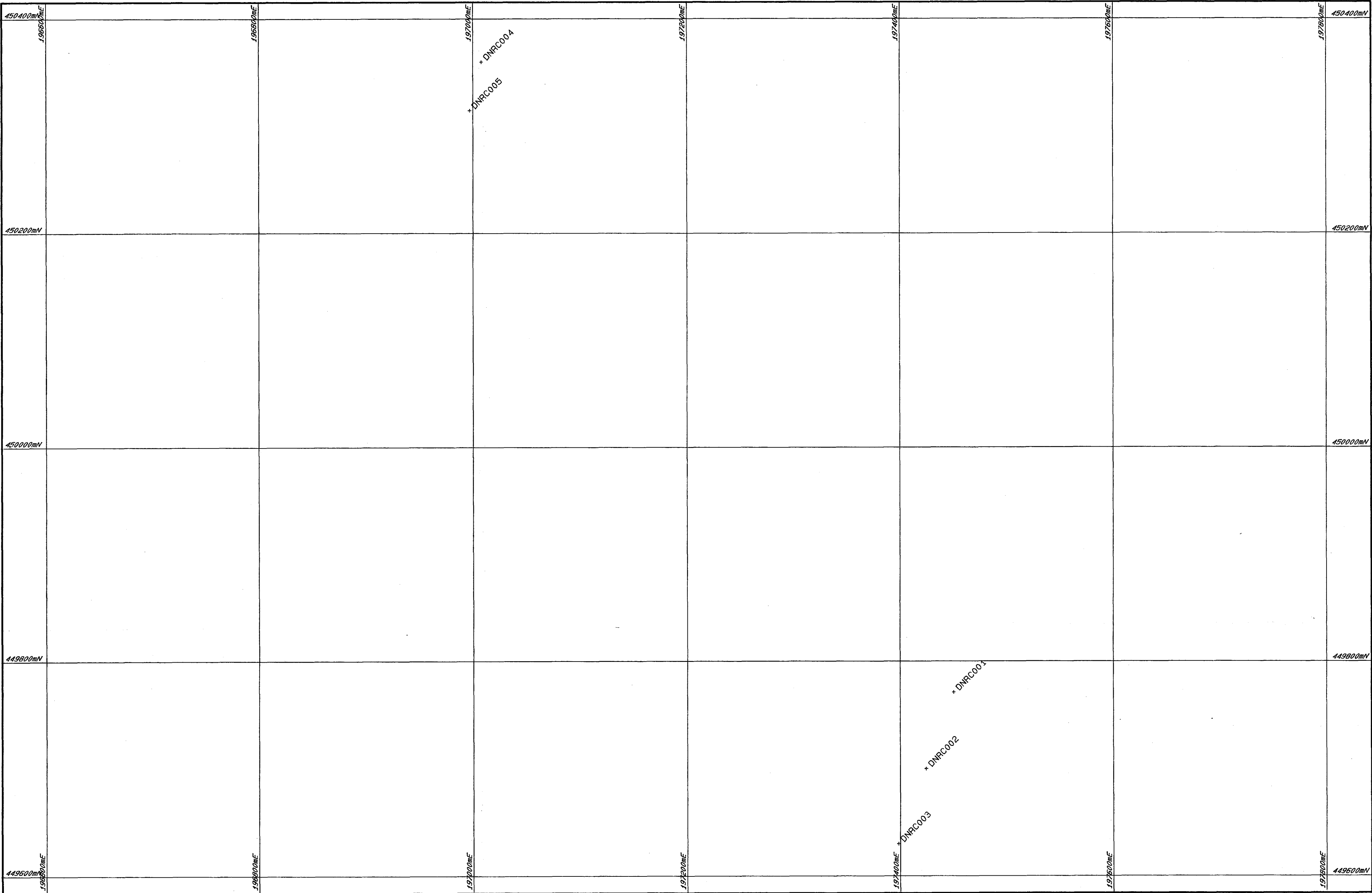

			Scale 1: 2500	DATE 11/2/99	SHEET 1 of 1	EL9734 - DRIFFIELD EMERALD CREEK RC DRILLHOLE LOCATION	Pegasus Gold Australia Pty Ltd Northern Territory Exploration Mount Todd
				REF No. 1	FILE ECRCP1.PLT		
							

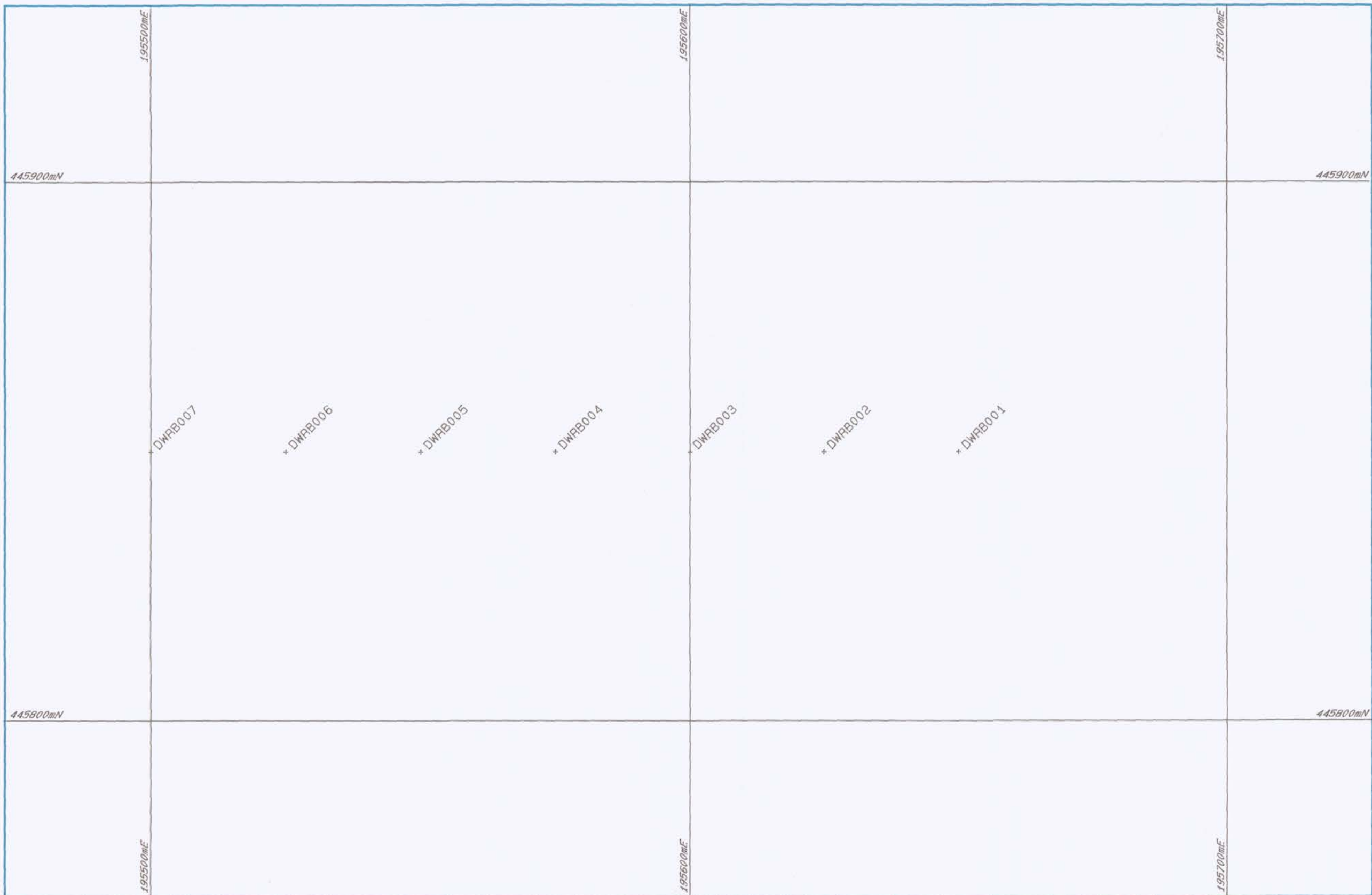
FIG.10



GOLD VALUES (ppb) 0 - 10 10 - 20 20 - 50 50 - 100 100 - 500 > 500	+ DNS021 1994 BLEG SOIL SAMPLES x ZAI1466 1995 -80# SOIL SAMPLES * DNS577 1997 -40# SOIL SAMPLES	Scale 1: 5000 	DATE 11/2/99	SHEET 1 of 1	EL9734 - DRIFFIELD DRIFFIELD NORTH SOIL SAMPLE LOCATION & Au RESULTS	PEGASUS GOLD AUSTRALIA PTY LTD MT TODD EXPLORATION FIG. 11
			REF No. 1	FILE DNS1.PLT		



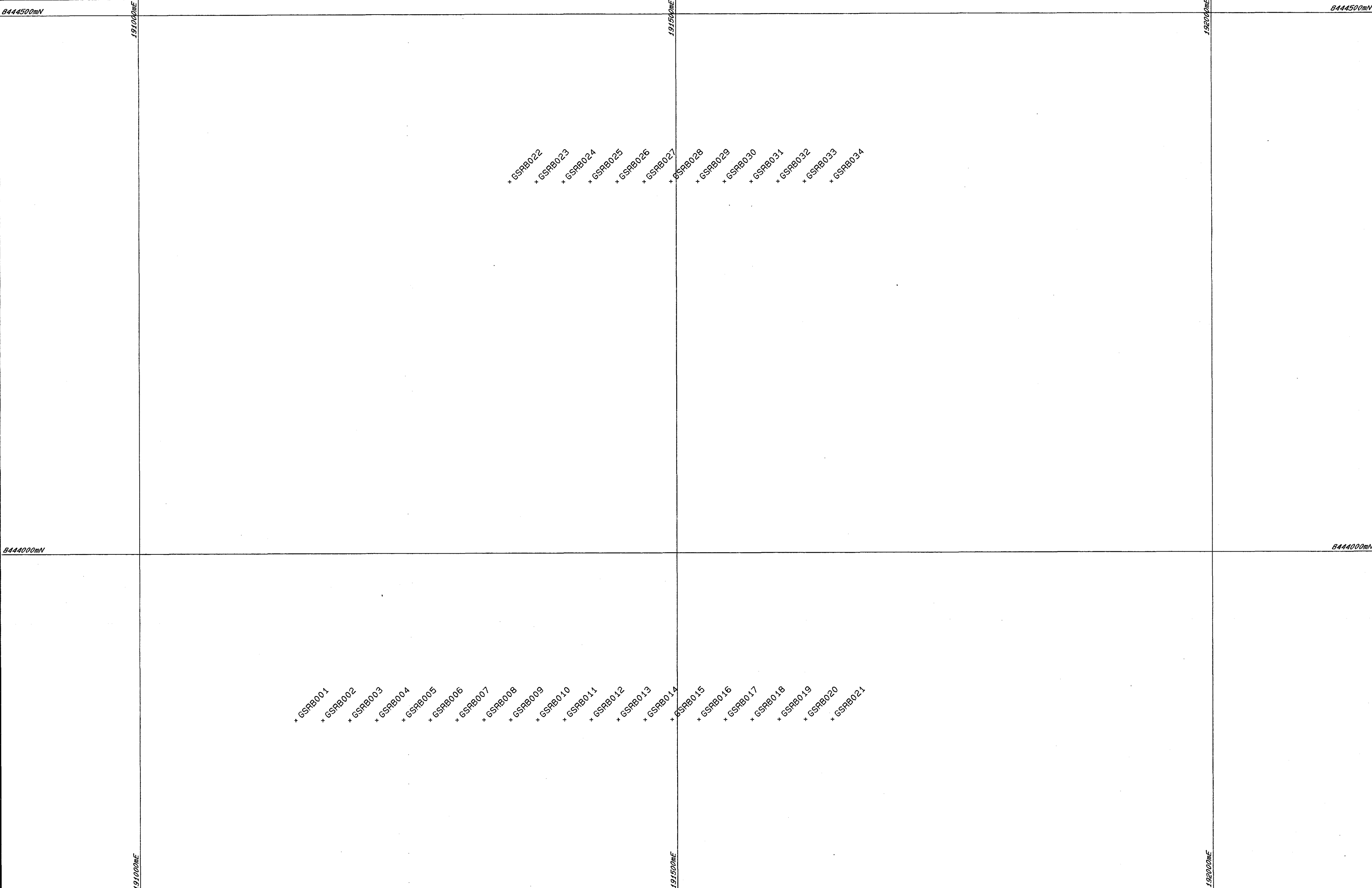
			Scale	DATE	SHEET	EL9734 - DRIFFIELD DRIFFIELD NORTH RC DRILLHOLE LOCATION	Pegasus Gold Australia Pty Ltd Northern Territory Exploration Mount Todd	FIG.12
			1: 2500	11/2/99	1 of 1			
			REF No.	FILE				
			1	1	DNRCP1.PLT			
								




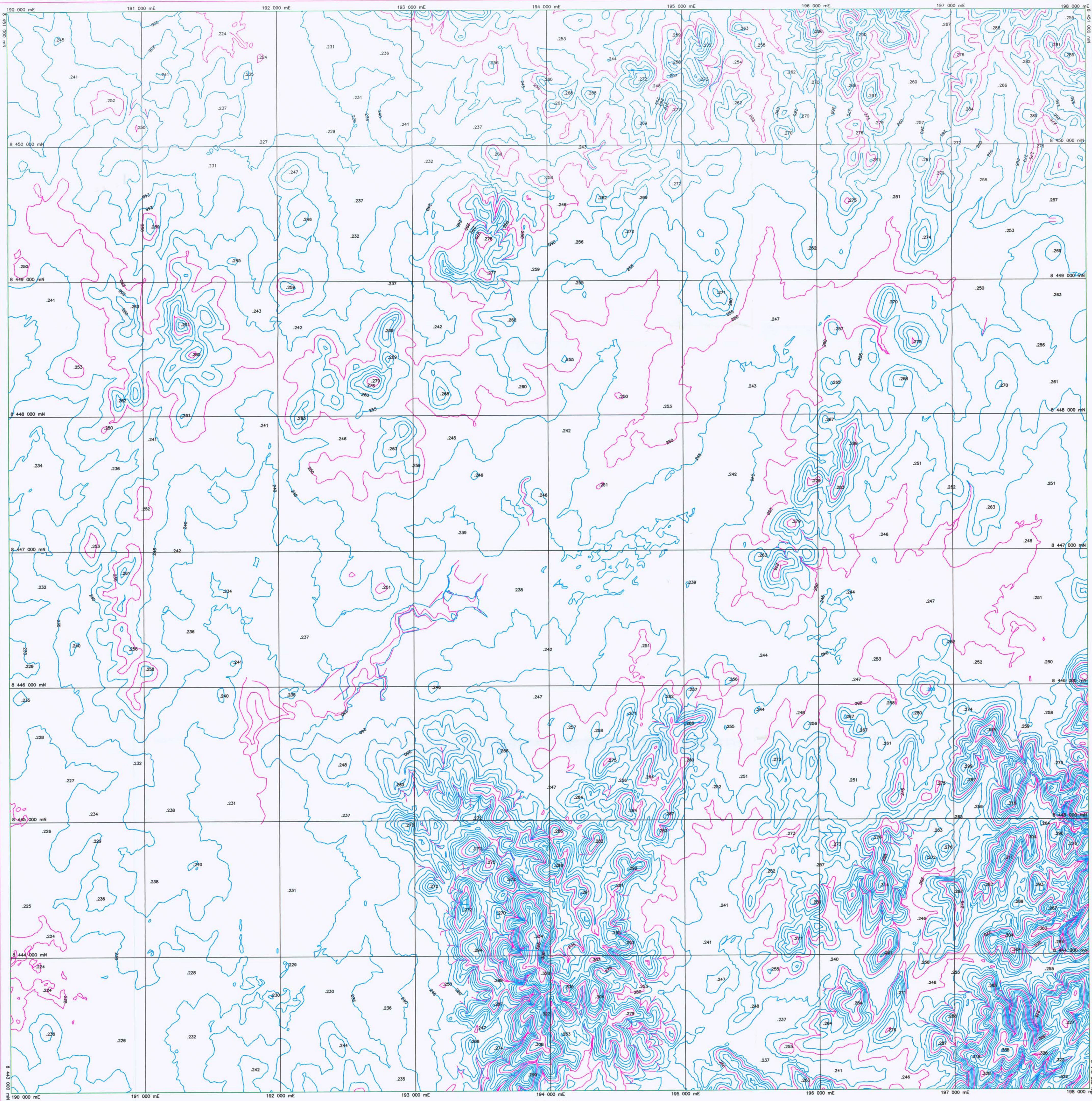
			Scale 1: 750		DATE 11/2/99	SHEET 1 of 1	EL9734 - DRIFFIELD DRIFFIELD WEST RAB DRILLHOLE LOCATION		Pegasus Gold Australia Pty Ltd Northern Territory Exploration Mount Todd	
					REF No. 1	FILE DWRBP1.PLT				

FIG.13





			Scale	DATE	SHEET	EL9734 - DRIFFIELD GOLDEN SLIPPER RAB DRILLHOLE LOCATION	Pegasus Gold Australia Pty Ltd Northern Territory Exploration Mount Todd
			1: 2500	11/2/99	1 of 1		
				REF No.	FILE		
			1	1	GSRBP1.PLT		
							FIG.15



PEGASUS GOLD
AUSTRALIA LTD

**AIRESEARCH
MAPPING PTY. LTD.**
BRISBANE MELBOURNE
PO BOX 55, STANBANK, Q. 4051 PO BOX 504, MONTICLARE, VIC. 3004
PH 07 556 3063 FAX 07 556 3065 PH 03 941 5446 FAX 03 941 5446
DRAFTER
P.O. BOX 106, MARVEL, NT. 0801
PH 080 898 1005 FAX 080 894 3027

DATE OF PHOTOGRAPHY : 08/06/1997
CONTOUR INTERVAL : 5m
VERTICAL DATUM AND
HORIZONTAL DATUM : WGS 84
FILM NUMBER : AM 677
JOB NUMBER : 1000
NOTES : DATA DERIVED BY SFT PHOTOGRAMMETRY AND
RELEVANT PROCEDURES.
DATA IS AVAILABLE IN DIGITAL FORMAT.
DATA ACCURACY MAY BE REDUCED IN
THICKLY VEGETATED AREAS

DRIFFIELD AREA
DIGITAL ORTHOPHOTO

FIG.16

CR99/086

