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1. **INTRODUCTION**

Exploration Licence 7941 (Driffeld West) was granted to Zapopan N.L. (now Pegasus Gold Australia Pty Ltd) on 22 March 1993 for a period of two (2) years, with a successful application for renewal of the licence for a further two years lodged in November 1994. The licence comprises an area of only 2.0km² (see Figure 1).

On 25 October 1996 EL7941 was surrendered and incorporated into the new licence, EL9734, under the Mt. Todd Project Further Agreement. This report summarises all exploration activities conducted by Pegasus within EL7941 during the term of the licence.

2. **LOCATION AND ACCESS**

EL7941 (Driffeld West) is situated approximately 60km north of Katherine and 13km to the northeast of the Mt. Todd Gold Mine (Figure 1). Access is gained via gravel tracks north from the sealed Edith Falls Road.

Topography within EL7941 consists of moderately steep stony ridges to the south, but relatively flat, gently undulating country to the north. Creeks and drainages are well developed to the south, and Driffeld Creek traverses the northern sector of the licence.

The licence is located adjacent to the abandoned Driffeld Mining Centre which historically was intensely prospected for gold mineralisation. Small scale underground mining at Driffeld produced 5,300oz of gold, and significant unrecorded gold production has been won from alluvial sources.

3. **REGIONAL GEOLOGY**

Driffeld West 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 immediate area of EL7941, 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.

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No evidence of historical gold production or prospecting has been located within EL7941. However, the licence abuts the abandoned Driffield Mining Centre which contains numerous old gold workings of shallow depth. Detailed geologic mapping has not been undertaken at EL7941, although quartz veining is known to be prevalent in the area.

4. WORK COMPLETED

Exploration completed by Pegasus at EL7941 during the term of the licence is as follows:

- Access establishment
- Geological reconnaissance
- Stream sediment sampling
- Rock chip sampling
- Gridding
- Soil sampling
- Acquisition of airborne geophysical data
- RC drill targetting

Year 1

A total of 18 stream sediment samples were collected from within EL7941 during the first year of tenure, from generally small creeks and drainages. Approximately 5kg of material was sieved to -2mm in the field and assayed for gold by Assay Corp in Pine Creek using the BLEG technique (0.1ppb detection limit). In addition to this, a -80# fraction was assayed for Cu, Pb, Zn, As and Bi.

Most of the samples collected returned anomalous gold results, with a peak value of 164.0ppb Au achieved. In fact, all samples apart from 3 returned gold assays greater than 4ppb against a district background threshold of 1-2ppb Au. Given the local nature of the small creeks sampled, these results suggested good potential exists for hard rock gold mineralisation within EL7941.

Assay results for Cu, Pb, Zn, As and Bi were more subdued, although significantly anomalous As results to 110ppm were obtained. Cu, Pb, Zn and Bi values showed little response.

Stream sediment sample locations and Au assay results are shown on Figure 3, and complete details of Year 1 exploration are located in the EL7941 Annual Report For Exploration, Year Ending 21 March 1994.
Year 2

As a follow-up to the encouraging stream sediment geochemistry obtained during Year 1 exploration, a broad spaced soil sampling programme was conducted within EL7941. Five soil traverses were run, orientated east-west, ranging in length from 1100m to 1400m, with 200m spacing between traverses.

Soil samples were collected at 10m intervals along the lines and composited to form one sample every 50m. Samples were sieved in the field to -2mm and 2-3kg of material was assayed for Au by Assay Corp using the BLEG technique (0.1ppb detection limit). In addition a -80# fraction was produced at the laboratory and assayed for As to a 1ppm detection limit. A total of 123 samples were processed.

Numerous weak-moderately anomalous gold results were obtained, with a peak value of 51.0ppb Au. Similarly, weak-moderately anomalous arsenic results were produced, with a peak value of 380ppm As above a background of 20-50ppm As. Both the Au and As geochemical results form prominent NNE - NE trending anomalies which are open ended. In particular, a gold anomalous zone was defined at the western margin of EL7941 which is some 800m long x 200m wide.

The location and Au results of the soil sampling are shown on Figure 4.

During the soil sampling programme, 14 rock chip samples were collected from outcrops or subcrops of quartz veins. Samples were taken as composites within a radius of 5m, and weighed 2-3kg. Assaying was undertaken at the Mt. Todd site laboratory for Au only to a 0.01g/t detection limit.

8 of 14 samples returned gold assays greater than 0.20g/t Au, and 4 produced grades greater than 0.50g/t, with a peak value of 1.13g/t Au. Better gold values were associated with brecciated, ferruginous quartz veins.

The location and Au results of the rock chip sampling are shown on Figure 3.

Details of Year 2 exploration are contained in the EL7941 Annual Report For Exploration, Year Ending 21 March 1995.

Year 3

During Year 3 of the licence systematic soil sampling was undertaken on a 100m x 50m grid over the total area of the licence. A total of 528 samples were taken along sixteen grid traverses.

Soil samples were collected at 25m spacing along grid lines and sieved to -80# size fraction in the field. Samples were despatched to Assay Corp in Pine Creek and analysed for Au by low level fire assay (1ppb detection limit), and for Cu, Pb, Zn, As and Ni by AAS techniques.
DWD04 • (4.7) Stream sediment sample location and number with Au result (ppb) in brackets.

009 x (0.68) Rock chip sample locations and number (prefix DWR) with Au result (ppm) in brackets.
Numerous anomalous results were obtained, with peak values of 1280, 900, 475 and 400ppb Au. These results further defined a prominent NNE trending anomaly (1000m x 200m) along the western margin of the licence, with a smaller, subparallel anomaly to the east. Isolated anomalous values are located in the north of the licence.

The location and Au results of the Year 3 soil sampling are shown on Figure 4.

A regional airborne geophysical survey, including coverage of EL7941, was completed for Zapopan NL (now Pegasus Gold Australia Pty Ltd) by World Geoscience during June 1995 at 50m flight line spacing. Specifications of the survey are detailed below:

Aircraft VH-ADH C206
Magnetometer Split beam cesium scintrex VIW2321-CS2
Resolution : 0.001 nano Tesla
Cycle Rate : 0.1 seconds
Sample interval : 6.0 metres
Spectrometer Packets Perm. 1000 256 Channel
Volume : 16.56 litres
Cycle Rate : 1.0 seconds
Sample interval : 60 metres
Data Acquisition Packets Pads 1000 digital acquisition system
11 Channel RMS GR33A Chart Recorder
Flight Line Spacing Traverse Lines : 50 metres
Tie Lines : 984 metres
Flight Line Direction Transverse Lines : 270 - 090 degrees
Tie Lines : 000 - 180 degrees
Survey Height 60 metres - mean terrain clearance
Navigation GPS satellite positioning system

See Figure 5 for total field magnetic contours.

Details of Year 3 exploration are contained in the EL7941 Annual Report For Exploration, Year Ending 21 March 1996.

**Year 4**

Exploration undertaken during Year 4 before EL7941 was surrendered, consisted of modelling and analysis of aeromagnetic data, and ground reconnaissance for targeting of RC drill holes planned to test the gold-in-soil anomalies defined in Year 2 and Year 3 exploration.

The planned RC drilling (outlined in the EL7941 Annual Report For Exploration, Year Ending 21 March 1996) was not carried out before EL7941 was incorporated into the new Exploration Licence (EL9734), but will be completed under the new tenure.
5. EXPENDITURE STATEMENT

EL7941 - DRIFFIELD WEST
Total Expenditure for period 22nd March 1996 - 25th October 1996

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<thead>
<tr>
<th>COST DESCRIPTION</th>
<th>EXPENDITURE</th>
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<tbody>
<tr>
<td>Salaries / Wages</td>
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</tr>
<tr>
<td>Vehicle / Fuel</td>
<td>$ 495</td>
</tr>
<tr>
<td>Tenement Consultant</td>
<td>$ 50</td>
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<tr>
<td>Administration (15%)</td>
<td>$ 137</td>
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<tr>
<td><strong>TOTAL EXPENDITURE</strong></td>
<td><strong>$ 1047</strong></td>
</tr>
</tbody>
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6. REHABILITATION

Ground disturbance was kept to a minimum during the term of the licence. No clearing or dozing of tracks was undertaken. Geochemical sampling was undertaken using a light 4 wheel drive vehicle, and hence rehabilitation is not required at this stage.

7. CONCLUSIONS AND RECOMMENDATIONS

Soil sampling during Year 2 and Year 3 exploration has located extensive gold anomalies with a peak value of 1280 ppb Au. A continuous gold anomaly (>5ppb) 1600m long by 200m wide has been defined, coincident with outcropping quartz veins.

EL7941 is underlain by rocks of the Burrell Creek Formation which host the nearby Mt. Todd Gold Mine mineralisation, and is immediately adjacent to the historic Driffield Mining Centre (gold). Quartz veins are prevalent within the licence. Clearly the licence is prospective for significant gold mineralisation, and further systematic exploration under the new tenure is warranted.