PEGASUS GOLD INC.

1991 ANNUAL REPORT

About the Cover:

During 1991 Pegasus implemented self-mining at the Montana Tunnels and Zortman/Landusky mines. The cover illustrates this latest transition, an important step in the growth of Pegasus Gold.

Corporate Profile

Pegasus Gold Inc., a major North American gold producer, is a British Columbia, Canada corporation headquartered in Spokane, Washington. The Company produces gold, silver, lead and zinc using open-pit mining methods, heap leaching technology and conventional milling practices. Pegasus currently produces in excess of 315,000 ounces of gold annually from five mines, all of which are located in the western United States. Gold production is expected to increase over the next few years and it is anticipated that Pegasus will reach the 500,000 ounce level in 1994. Ore reserves at present are estimated at four million ounces of contained gold.

The Company has experienced operating and development personnel at each mine site in addition to a seasoned management team. With decreasing production costs and a strong financial position, the Company is balanced to take advantage of new acquisition opportunities.

The common shares of Pegasus Gold Inc. are listed on the American Stock Exchange, the Toronto Stock Exchange and the Montreal Exchange under the symbol PGU. Options on the Company's common shares are traded on the Chicago Board Options Exchange and the Montreal Exchange.

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To Our Shareholders and Employees:

Pegasus will remember 1991 as a year in which it achieved a number of important goals. It was the first year our employees recorded no lost-time accidents. It was a year in which our Company and its people won three important environmental awards. We are proud of these accomplishments. They indicate a company-wide commitment to performance and the responsible husbanding of our resources. My sincere thanks to each one of our employees for this commitment. It has served us well.

During the past year, Pegasus also broke away from its traditional dependence on contractor mining. After years of successful operations with our contractors and following much deliberation, we initiated self-mining operations at two of our largest mines. The results to date have been better than expected and will serve to encourage further pursuit of this important cost-reducing strategy.

I would like to welcome Mr. Douglas R. Cook and Mr. Daniel U. Pekarsky to our Board of Directors. Mr. Cook was formerly Senior Vice President of Freeport McMoran Gold Company and President of Freeport Exploration Company. Mr. Pekarsky is President and Chief Executive Officer of Rothschild Corporation (Canada) Inc. and Vice Chairman of Rothschild Canada Inc. Their respective backgrounds in mining and finance will be of great benefit to the Company. Regrettably, Mr. Donald R. Peoples resigned from the Board, and we thank him for his contribution.

Throughout 1991, the Company has maintained or improved its steady and reliable production performance, despite difficulties caused by cold weather early in the year in Nevada, and in Montana, where heavy rainfall caused excessive dilution of gold-bearing solutions later in the year. A number of remedial actions have been taken to ensure that such weather-related upsets will not endanger reliable performance in the future. Cost reduction initiatives and steady performance have resulted in the lowering of our average cash cost per ounce net of byproduct credits from $229 to $226. While the decrease in cost may appear small, this is a more significant number than it seems, since the Company experienced significantly lower byproduct credits in 1991, and expenses at our Basin Creek mine continued to accrue even though the facility is currently only operating on a care-and-maintenance status.

In the past year, we also faced lower prices for our products. Nevertheless, we are proud of the fact that our financial results were good. Earnings of $9.6 million or $0.37 per share, while a spectacular improvement over

our 1990 results (which included a major write-down), are significant when compared to both our own past performance at much higher prices and that of our peers. Credit for this performance is due both to the cost reductions I have mentioned and to a consistently successful hedging program that is noted in the industry for its innovation. Our Company's price protection programs yielded an increase of $27 per ounce over the average COMEX spot price of $362.

The balance sheet was strengthened during the past year and is now in excellent condition. With about $65 million in cash and equivalents at year-end, we are ready to take advantage of the opportunities that present themselves as the industry weathers continued low metal prices. Our recent involvement with Zapopan NL is a good example of this kind of opportunity which we believe will give us a commanding position with a major new Australian gold producer.

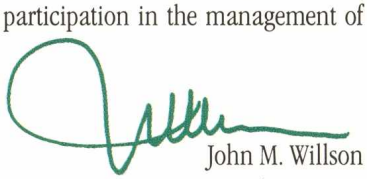
Property development activities progressed in 1991 with the construction of the Black Pine mine in Idaho, a property we expect to yield 50,000 ounces of gold this year. Unfortunately, the project suffered expensive delays as a result of the permitting process. That pattern was repeated at our Zortman Expansion Project in Montana and at our Ortiz joint venture with LAC Minerals in New Mexico. Our industry is the target of many ill-informed groups that seldom reflect the views of local communities. However, we believe that our strong environmental performance, community involvement, and education programs will counteract much of the current anti-mining sentiment. This should result in more timely permitting in the future. Increased information and education are needed to enhance the public's awareness of the importance of mining to the economy and to the American standard of living.

Pegasus has always been a western United States producer. The West has been very good to us. As recently as 1989, we reaffirmed that the Company's focus for the future should rest in the western United States. However, recent attacks on the Mining Law of 1872 and the growing unpredictability of the permitting process have led us to the conclusion that we must divert some of our growth resources off-shore. While we expect to continue to grow in North America and to participate in shaping future mining regulations here, prudence dictates that we begin to gain experience in other areas. It is for these reasons that we have opened a new exploration and business development office in Santiago Chile and pursued participation in Zapopan in Australia.

Our exploration program, now in its fifth year, has yielded some exciting results. We expect to see at least one of our exploration properties in Montana become a mine in the future. We have increased our exploration budget for 1992 and re-emphasized our mine-site exploration on the old belief that the best place to look for ore is around existing deposits.

We believe that 1992 will be a record production year for Pegasus. We also expect 1992 to be a rewarding year in which we will benefit from continued cost reduction on the production side and enjoy the fruits of persistent and intelligent application of our resources on the development and exploration side.

At Pegasus, we recognize that our success depends upon the methodical and intelligent application of our skill to all of the challenges and opportunities that face us in our quest to improve value for our stakeholders. In this dynamic endeavor, the most critical resource we possess is our people. We will be increasing our efforts to more fully utilize our peoples' talents through increased involvement and participation in the management of their work.



John M. Willson
March 30, 1992

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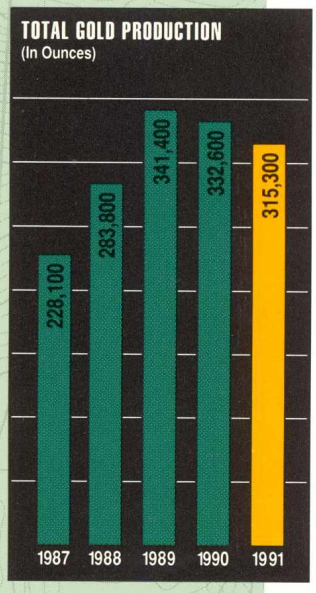


1991 Highlights

(In Thousands of U.S. Dollars, Except Share and Per Share Amounts)

FINANCIAL DATA:	1991	1990	CHANGE (%)
Revenue	$ 156,211	$ 171,213	-8.8
Net Income (loss)	$ 9,599	$ (38,172)	n/a
Cash Provided by Operations	$ 32,559	$ 30,165	+7.9
Total Assets	$ 351,072	$ 276,554	+26.9
Shareholders' Equity	$ 245,651	$ 198,493	+23.8
OPERATING DATA:			
Gold Production (ounces)	315,300	332,600	-5.2
Silver Production (ounces)	2,161,800	1,906,300	+13.4
Zinc Production (tons)	18,271	17,095	+6.9
Lead Production (tons)	7,152	6,649	+7.6
Ore Tons Mined (000's)	25,371	25,600	-0.9
Cash Cost/Oz. Production	$ 226	$ 229	-1.3
Breakeven Cost/Oz. Production	$ 327	$ 331	-1.2
COMMON SHARE DATA:			
Earnings (loss) Per Share Primary/Fully Diluted	$ 0.37	$ (1.55)	n/a
Common Shares Outstanding At December 31	27,856,603	24,701,421	+12.8
Weighted Average	26,236,000	24,652,000	+6.4

1991 Production by Mine

PRODUCTION	ZORTMAN/ LANDUSKY	FLORIDA CANYON	MONTANA TUNNELS	BEAL MOUNTAIN
Gold (oz.)	116,300	80,600	62,600	47,300
Silver (oz.)	954,400	20,900	1,167,300	7,800
Zinc (tons)	-------	-------	18,271	--------
Lead (tons)	-------	-------	7,152	--------
ORE TONS MINED (000)	14,238	9,263	4,271	1,774
GRADE				
Gold (oz./ton)	0.018	0.015	0.019	0.042
Silver (oz./ton)	------	------	0.430	------
Zinc (%)	------	------	0.640	------
Lead (%)	------	------	0.230	------
RECOVERY PERCENTAGE				
Gold	58	65	85	65
Silver	---	---	74	---
Zinc	---	---	86	---
Lead	---	---	89	---
STRIP RATIO	0.42:1	.66:1	1.70:1	1.11:1
CASH COST OF PRODUCTION	$ 214	$ 282	$ 121	$ 245

Selected Historical Data

PRODUCTION	1991	1990	1989	1988	1987
Gold (oz.)	**315,300**	332,600	341,400	283,800	228,100
Silver (oz.)	**2,161,800**	1,906,300	1,510,700	1,361,000	778,000
Zinc (tons)	**18,271**	17,095	16,413	18,416	7,201
Lead (tons)	**7,152**	6,649	7,517	8,404	4,281
Tons Ore Mined	**25,400,000**	25,600,000	22,500,000	22,100,000	17,000,000
FINANCIAL					
Gold Price Realized/oz.	**$ 389**	$ 401	$ 416	$ 436	$ 429
Operating Cost/ton	**$ 4.36**	$ 4.83	$ 5.20	$ 4.71	$ 4.36
Operating Cost/oz.	**226**	229	242	234	256
General & Administrative Costs/oz.	**$ 21**	$ 20	$ 21	$ 23	$ 28
Depreciation, Depletion & Amortization/oz.	**$ 73**	$ 74	$ 70	$ 73	$ 66
Operating Cash Flow	**$ 32,559**	$ 30,165	$ 43,592	$ 43,490	$ 6,654
Net Debt*	**$ 598**	$ 37,788	$ 11,550	$ (16,222)	$ (14,111)
Debt/Total Capitalization (%)	**21**	20	12	13	16
RESERVES AT YEAR END (000)					
Gold (oz.)	**4,021**	4,224	3,093	3,248	2,877
NUMBER OF EMPLOYEES	**630**	520	460	370	344

*(Long Term Debt Less Cash & Cash Equivalents)

Reserves as of January 1,1992

	Proven & Probable			Mineral Inventories		
Mine	Tons (000)	Grade Oz./Ton	Contained Oz. Gold	Tons (000)	Grade Oz./Ton	Indicated Oz. Gold
Zortman/Landusky	110,670	0.018	2,005,752	-	-	-
Florida Canyon	34,039	0.018	614,203	-	-	-
Montana Tunnels	30,283	0.019	574,028	-	-	-
Beal Mountain	9,453	0.052	488,715	-	-	-
Black Pine	15,688	0.022	338,563	-	-	-
Basin Creek	-	-	-	14,691	0.031	455,400
Diamond Hill (1)	-	-	-	2,358	0.038	89,600
Ortiz (2)	-	-	-	19,775	0.044	873,000
Quartz Mountain (3)	-	-	-	25,000	0.030	750,000
Total		0.020	4,021,261	61,824	0.035	2,168,000

(1) Joint venture. Amounts shown reflect Pegasus' 77% share.
(2) Joint venture. Amounts shown reflect Pegasus' 50% share.
(3) Joint venture. Amounts shown reflect Pegasus' 50% share.

Operations Review

From an operations standpoint, 1991 was one of the most successful years in the Company's history. In total, we produced 315,300 ounces of gold for the year, which was quite an accomplishment given the weather related problems we experienced at Florida Canyon in Nevada and at our Beal Mountain mine near Butte, Montana. However, both of these operations had an excellent second half and recouped much of the production lost in the first half.

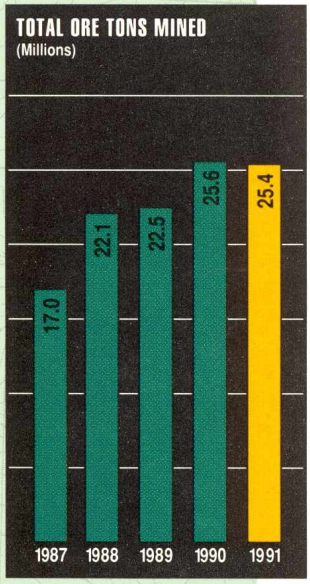
Gold output from our four major mines came to 307,000 ounces during the year, up slightly from the 302,000 ounces contributed from these same mines last year. In fact, production at Zortman/Landusky rose to its highest level ever. Overall production dropped 17,300 ounces as Basin Creek was placed on a care-and-maintenance basis. We had hoped that this would be offset by production from our new Black Pine property, but this unfortunately did not occur due to permitting delays. These delays, however, gave us an opportunity to refine many aspects of the original design.

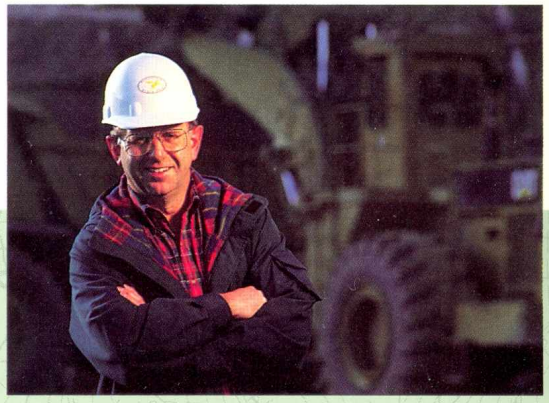
Silver production increased to a record 2.1 million ounces in 1991 as grades at both Zortman/Landusky and Montana Tunnels were higher than projected. Zinc and lead production were also above expectations with both reaching their highest levels since 1988. Again, the principal reason was higher than expected ore grades.

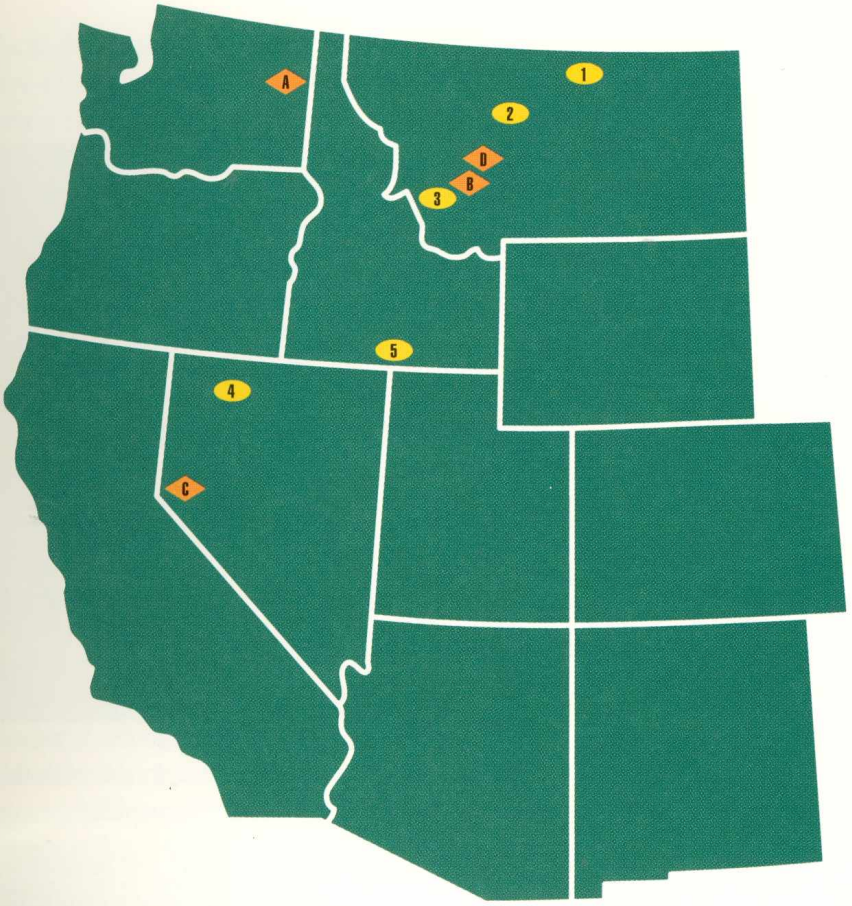
One of the areas where Pegasus has been most successful is in the control of operating costs which have declined substantially over the past two years. Our average cost on a unit or per-ton basis has declined by more than 16 percent over the last two years, and we believe that we can achieve significant reductions from these current levels.

The most important event during the year was the implementation of self-mining, utilizing our own mining teams, first at Montana Tunnels in mid-June, then at Zortman/Landusky in early October. Our mining contractor has served us well over the years at both locations, but we felt we could realize substantial cost savings by taking over this function ourselves, and this has indeed been the case. So far, our own people have met or exceeded every target in our initial projections.

We have made other improvements as well. Although these do not have the impact of self-mining, successful cost control programs often depend almost as much on a number of smaller changes or fine tuning as any major change. These changes have resulted from optimization studies at all of our locations, which are still on-going. At Montana Tunnels, we installed a gravity circuit to increase overall gold rates and to recover more gold up front. In addition, improvements at the concentrator have yielded higher recoveries and allowed us to ship cleaner lead and zinc concentrates. At Florida Canyon, we have installed a







Mine Sites

1 Zortman / Landusky

2 Montana Tunnels

3 Beal Mountain

4 Florida Canyon

5 Black Pine

Offices

A Spokane, WA

B Butte, MT

C Reno, NV

D Helena, MT

new and larger spray system that gives us much greater efficiency and operating flexibility. We continue to study ways to treat more and more ore as run-of-mine material, saving on crushing and agglomeration costs. We doubled the solution handling capacity at Beal with the installation of another bank of carbon columns. Among other improvements planned for this year are an upgrading of the crushing circuit at Beal Mountain and the completion of a study on the economics of self-mining at other Pegasus locations.

Our Black Pine mine southwest of Burley, Idaho is now in full production. This mine started up some four to six months later than originally scheduled due to substantial changes made to the original mine plan. Over this period we worked closely with regulatory authorities to develop a revised mine plan that turned out to be more environmentally sound and may provide greater economic returns as well. We look forward to another successful year in 1992. Gold production should rise to approximately 360,000 ounces at an operating cost equal to or perhaps even less than that of the previous year.

Michael L. Clark
March 30, 1992

Self-mining was first implemented at Montana tunnels where considerable costs savings have already been realized. Limited experience to-date

at Zortman/Landusky indicates that similar successes can be achieved here as well.

ZORTMAN / LANDUSKY

In 1991, the Zortman/Landusky mine achieved its highest production rate since operations first began in 1979. A total of 116,300 ounces of gold and 954,400 ounces of silver were recovered during the year from 14.2 million tons of ore at an average grade of 0.018 ounces of gold per ton. This compares to production of 109,700 ounces of gold and 652,200 ounces of silver from 13 million tons at a grade of 0.016 ounces of gold per ton the previous year.

Zortman/Landusky, located in Phillips County in north central Montana, has been the Company's largest producer since it began operations. In most respects it is a conventional, open-pit, heap leaching operation, except that the ore requires no crushing and/or agglomerating after blasting and can be processed as run-of-mine material. This, along with a very low strip ratio that has generally been less than 0.5:1, has allowed Pegasus to profitably mine large tonnages at very low grades.

The Zortman and Landusky deposits are located approximately three miles apart on either side of Antoine Butte in the Little Rocky Mountains at an elevation of 5,500 feet. Historically, they have been treated as a single operation. In the past, mining has normally been carried out at one deposit while exploration and subsequent development was carried out at the other. At present,

Cheryl Carlson drilling blast holes at Landusky.

mining is taking place on the Landusky side while the Zortman Expansion Project is being completed.

In addition to achieving record gold production, Zortman/Landusky also reduced operating costs a full $41 per ounce or 16 percent from $255 per ounce in 1990 to $214 per ounce in the past year. Costs on a per-ton or unit basis declined by 6 percent. Higher byproduct credits for silver were a contributing factor but this was accomplished mainly by a reduction in mining and processing costs and slightly higher ore grades. Furthermore, these cost savings can be maintained now that Pegasus employees have formally taken over all mining activities from the contractor. The transition to self-mining began on October 4, 1991 and was fully phased in by October 14. It is estimated that this action will result in an annual contribution to net income of $2.6 million.

Oxide reserves at the beginning of the year at Landusky stood at 45.6 million tons. This was re-

Loading operations at Landusky. Self-mining was implemented on October 4, 1991.

placed during the year and mineable oxide reserves were 47.2 million tons at an average grade of 0.015 ounces of gold per ton at year-end. Overall, proven and probable mineable reserves at Zortman/Landusky rose to 2.0 million contained ounces or 110.7 million tons grading 0.018 ounces of gold per ton. This compares to 1.8 million contained ounces or 102.4 million tons at a grade of 0.017 ounces of gold per ton in 1990. The prospects of further increasing ore reserves are very promising, especially on the Landusky side. For 1992, current plans call for the mining of approximately 12 million tons of ore an average grade of 0.015 ounces of gold per ton. Precious metal production for the year is estimated at 110,000 ounces of gold and 700,000 ounces of silver.

Montana Tunnels

The Montana Tunnels mine is located in Jefferson County in southwestern Montana, 25 miles south of Helena, the state capital. The area was first mined for silver as early as 1864. It reached its peak in the years between 1880 and 1900 when three smelters and a number of milling operations processed the high-grade silver, zinc and lead veins found around the current mine site. Montana Tunnels differs from these historic deposits in that it is a large-tonnage, low-grade deposit that contains significant gold mineralization. The mine began commercial production in March of 1987. It is a polymetallic deposit yielding significant quantities of base metals and employs conventional milling as opposed to heap leaching.

Mine site crews usually blast two to three times a week at Montana Tunnels.

In almost every aspect, 1991 turned out to be a much better year than initially projected. Gold production at 62,600 ounces was almost 6,700 ounces over plan and 3,500 ounces more than last year. Silver and zinc production was also significantly above expectations. Lead, although slightly lower than projected, was still ahead of 1990. Originally, a slight decline in ore grades was projected for the year and in fact grades did decline in the first half but returned to normal more quickly than expected. Additionally, improvements at the concentrator increased overall recoveries and the installation of a gravity circuit has not only led to an increase in the overall recovery of gold, but also allows for recovery of more gold as bullion that in turn leads to additional savings in treatment charges.

On June 17, Pegasus employees took over all mining operations from the contractor as planned. Studies indicated that the Company could realize significant cost savings and this has indeed been the case. It is estimated that with in-house mining an average annual

Montana Tunnels' employee, Mike Cuta, tends the lead drum filter.

cost saving in the order of $650,000 can be realized. Unit costs at the mine declined to $8.61 per ton compared to $10.42, a reduction of 17 percent. On a per ounce basis, cash costs increased to $121 per ounce net of byproduct credits from $21 per ounce last year. This was largely attributable to sharply lower zinc prices. Byproduct credits will always have a profound influence on the cost per ounce at Montana Tunnels but continued efforts to control and even reduce these costs will ensure that Montana Tunnels provides even greater financial returns in the future.

At year-end, proven and probable reserves amounted to 30.3 million tons at a grade of 0.019 ounces of gold per ton, 0.29 ounces per ton silver, 0.61 percent zinc and 0.24 percent lead. This is sufficient for a further seven years of operation at the current mining rate of 4.2 million tons ore per annum; a rate that is expected to remain constant over the remaining life of the operation.

For 1992, the operating plan calls for the milling of approximately 4.2 million tons. Gold grades will return to the average reserve grade of 0.019 ounces per ton and correspondingly, production should rise slightly to 63,500 ounces. Silver and lead may decline slightly while zinc is expected to remain virtually unchanged.

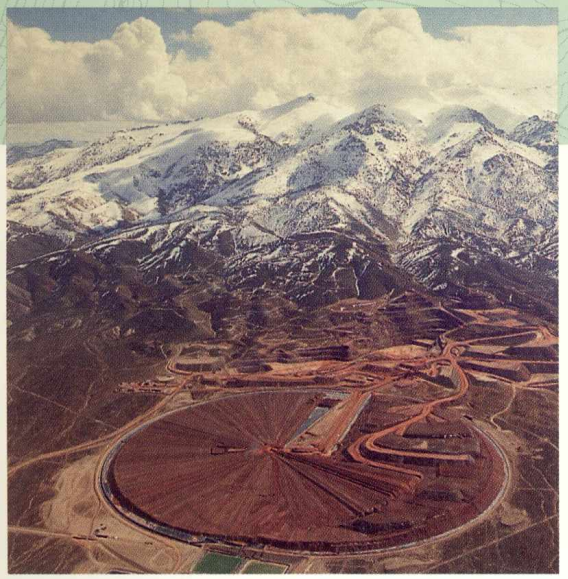
Florida Canyon

A night view of Florida Canyon. Miners work in 10-hour shifts at the mine.

The Florida Canyon mine is located in Pershing County near the town of Imlay, Nevada, 40 miles southwest of Winnemucca. Mining operations at Florida Canyon began in September 1986. This operation has been a successful, but relatively low-grade mine, and had required a number of innovative techniques to keep costs in line and maintain profitability. The mine's circular leach pad and the radial stacker used to convey ore onto the leach pad are unique within the gold mining industry.

In 1991 Florida Canyon overcame a slow start that was caused by unseasonable weather conditions. Extremely low temperatures in December were followed by very wet weather that persisted throughout much of the first quarter. However, gold production rebounded sharply in the second half including 25,400 ounces in the fourth quarter. As a result, overall gold production for the year totalled 80,600 ounces; only 2,600 ounces short of the record 83,200 ounces produced in 1990.

Cash operating costs increased to $282 per ounce in 1991 from $259 per ounce in the preceding year. This was due to an increase in unit costs associated with a



An aerial shot of the circular leach pad with the Humboldt Mountains in the background.

higher stripping ratio. Costs are expected to moderate somewhat in the future.

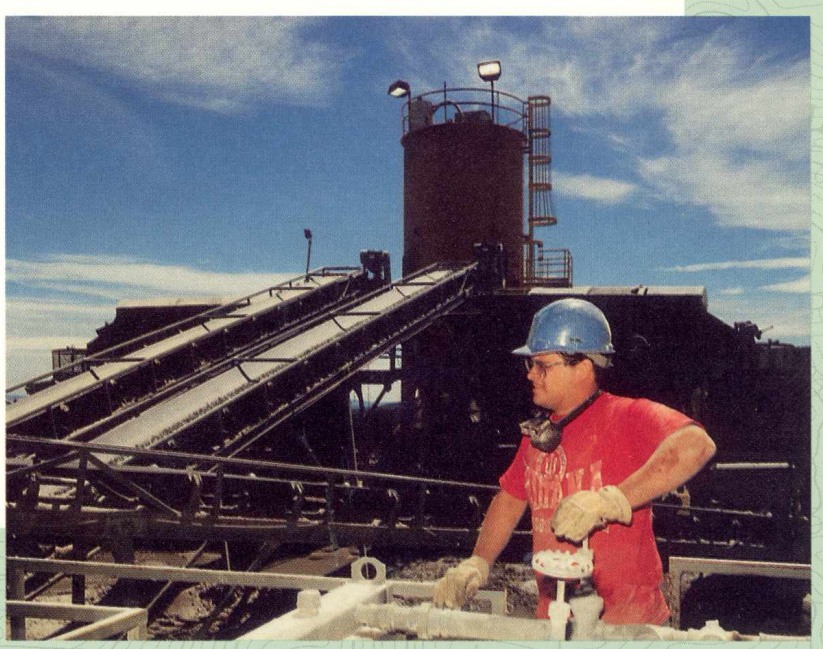
At present, studies are under way at Florida Canyon to optimize the pit design and to reduce the amount of ore that is currently crushed and agglomerated. There are indications that much more of this ore can be treated as run-of-mine material; that is blasted and stacked directly on the leach pad without any form of pretreatment. Additionally, much of the material grading approximately 0.01 ounces of gold per ton has traditionally been treated as waste. As this material must be mined and transported to the waste dump in any event, studies have shown that it may be more economical to treat it as run-of-mine material and leach it instead. To accommodate the large increase in material treated, only one significant change was necessary. The existing solution distribution system was found to be inadequate to treat additional ore, and an upgraded high-capacity system was implemented and in operation by September.

At year-end, proven and probable reserves stood at 34 million tons at a grade of 0.018 ounces of gold per ton. This is sufficient for about five years at current operating rates. However, it is expected that additional reserves will be defined to the northeast of the existing deposit. Also more run-of-mine material is expected to be found within existing pits.

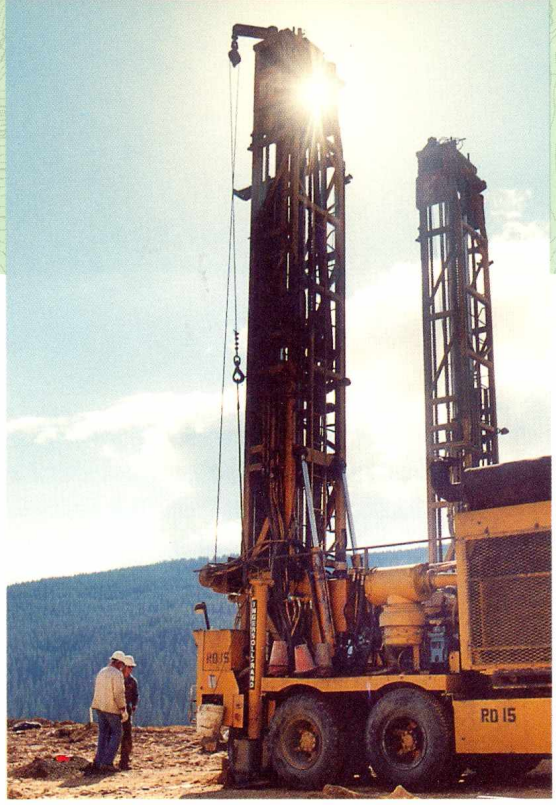
A very ambitious program has been planned for the coming year. Roughly 4.3 million tons of run-of-mine material will be mined, in addition to 5.1 million tons of higher grade ore. As a result, gold production for 1992 is projected to increase to approximately 83,500 ounces.

Beal Mountain

The Beal Mountain mine is situated in Silver Bow county in southwestern Montana between the communities of Butte and Anaconda in the northern Pioneer Mountains. It is an open-pit, heap leaching operation of significantly higher grade than the Company's other properties. Beal Mountain is also located in a very environmentally sensitive area. As a result, Pegasus worked very closely with regulatory authorities during the construction phase to cause minimal disruption to an important wildlife management area. Since its inception, Beal Mountain has



The crushing plant at Beal Mountain. A new upgraded circuit was in operation as of March 1992.



Blast hole drilling at Beal Mountain.

made not only a significant financial contribution to the Company, but also serves to demonstrate the fact that mining operations can be safely carried out in concert with the environment. To date, the mine has received two environmental awards for its performance.

Beal Mountain's output for the first half was well below expectations due to unseasonably heavy precipitation that inhibited operation of the crusher and very nearly doubled solution volumes stored in the leach pad. As a direct result, the gold solution grade was diluted such that less gold was recovered from the leach solutions. To protect against any repetition of this problem, five new carbon columns were installed, doubling solution treatment capacity at a very modest cost. Much of this gold was recovered during the second half as planned, and production overall fell only marginally to 47,300 ounces from the 50,000 ounces recovered in the previous year.

As production returned to more normal levels in the second half, operating costs also began to moderate. In spite of the difficulties faced throughout much of the first six months, cash operating costs fell to $245 in 1991 compared to $251 per ounce in 1990. As mining operations have progressed, one area that still needs to be improved is the crushing circuit. The portable crushing plant was shown to be insufficient to treat the increasing amounts of harder ore found at depth. A new permanent crushing system was installed in early March. Fortunately, much of this harder ore is also higher in grade and it is likely that further reductions in operating costs can be achieved.

As of December 31, 1991, proven and probable reserves at Beal came to a total of 9.5 million tons grading 0.052 ounces of gold per ton. This is sufficient for another five and one half years of mining at projected rates. However, only a small portion of the 6,400 acres have been examined in detail. A systematic exploration program is planned for this year, after preliminary work outlined a number of promising targets. Of all the mine sites, Beal and Black Pine will receive most of the attention in the present year.

1992 projections call for mining approximately 1.8 million tons at an average grade of 0.043 ounces of gold per ton. This should yield close to 50,000 ounces of gold for the year, the level attained in 1990.

Black Pine

Pegasus originally purchased the Black Pine property from Noranda Exploration Inc. in June of 1990. The purchase price was $6.5 million, of which $4.5 million

Black Pine contract crew services drill rig.

was in cash and the remainder in Pegasus common stock. The property is located in Cassia County in southern Idaho, approximately 10 miles from the Utah border. The nearest major center is Burley, Idaho, about 60 miles to the northwest.

The Black Pine deposit is situated in the Black Pine Mountains at an elevation ranging from 5,500 to 6,000 feet. The property consists of 31,500 acres, very little of which has been examined in detail. Mineralization encountered to date occurs in discrete zones hosted in layered sedimentary rocks controlled, at least in part, by regional structural features.

To date, three separate pits have been delineated, the "A", the "B" and the Tallman. Individual pits vary substantially in grade and tonnage. Most of the higher grade material is found in the "B" pit, while the bulk of the tonnage is contained in the "A" pit. Black Pine is a heap leaching operation similar to most of the Company's other operations. In general, snowfall is relatively modest in the area and mining can be carried out throughout the year.

Initially, the Black Pine mine was to begin production in mid-1991. However, after working closely with state regulatory authorities, substantial changes were made in the original mine design. The most significant of these was the decision to build a central valley-fill leach pad as opposed to the original plan of having several smaller leach pads at each of the three pits. Although this did delay the start-up date by as much as six months, it demonstrated the Company's commitment to work with local authorities to develop the most environmentally sound mining plan. In addition, production can now be kept at a relatively constant level from year to year instead of the wide variations in gold output that would have resulted from separate leach pads. Mining has begun initially at Tallman and will then proceed to the "B" pit and finally to the "A" pit.

Black Pine officially began operations early in 1992, although some mining took place in December 1991.

In 1992, 3.8 million tons will be mined at an average grade of 0.022 ounces of gold per ton. Gold production for the year is expected to be in excess of 50,000 ounces.

At year-end, proven and probable reserves were calculated at 15.7 million tons at an average grade of 0.022 ounces of gold per ton. This is sufficient for about four years of mining at current operating rates. However, as previously mentioned, Pegasus has a substantial land position in the area. Initial exploration has already outlined at least one other potential mineralized zone, and work carried out between the previously defined ore bodies has also yielded positive results.

Development Properties

During the past year, Pegasus has made a significant investment of time and resources in the development of several existing properties. It is through the Company's ongoing development and exploration programs, that future production and growth can be assured.

Zortman Expansion

In the past, mining at Zortman and Landusky has been confined to oxide ore and lesser amounts of non-oxidized material. It was generally thought that the non-oxidized material, containing small amounts of pyrite and telluride minerals could not be processed economically. Early studies appeared to confirm this but further testing yielded more positive results. It was found that if the non-oxidized ore was crushed to one-half inch and blended with oxide ore, gold could indeed be recovered economically. This was substantiated by a 50,000 ton leach test that also indicated recoveries might exceed those obtained at present. The economic viability of this project has been further enhanced with the implementation of self-mining at Zortman/Landusky.

To date, proven and probable mineable reserves for the Zortman Expansion Project have been calculated at 61.3 million tons at a grade of 0.020 ounces of gold per ton or 1.2 million contained ounces. The capital cost of construction is not expected to exceed $45 million as the only major capital items will be a crushing circuit, a new leach pad and a conveyor system. Preliminary engineering work has been completed and the next major steps will be to complete an environmental impact study and obtain the necessary permits. Start-up is planned for 1994.

There are indications that it may be possible to develop a non-oxide resource at Landusky as well. More drilling and metallurgical testing will be carried out starting this year in order to confirm this.

Ortiz

The Ortiz joint venture project is located in north central New Mexico, midway between Albuquerque and Santa Fe, the State capital. The property covers an area in excess of 57,000 acres in the Ortiz Mountains where the elevation varies between 6,400 and 8,900 feet. Before a joint venture agreement was concluded, Ortiz was solely owned by LAC Minerals Ltd., of Toronto. Pegasus is currently earning a 50 percent interest with an expenditure of $27.5 million.

To date, a total geologic resource of 39.5 million tons has been outlined at an average grade of 0.044 ounces of gold per ton. This is contained in two separate deposits.

Lukas Canyon, the smaller of the two, comprises about 20 percent of the resource. It is a near-surface skarn type deposit where production will likely begin.

Carache Canyon, the larger deposit, is not quite so straightforward. Gold mineralization occurs in a series of enriched sill-like tabular bodies in a collapsed breccia pipe. There is still insufficient information to determine whether bulk mining methods would be more appropriate at Carache or if a more selective approach should be employed. The joint venture partners have proposed completing a decline into the Carache Canyon deposit and conducting a detailed underground bulk sampling program to resolve this issue. Work on the decline will recommence once the necessary permits have been obtained.

A number of other areas containing near-surface mineralization are known to exist on the property including a zone around the old Ortiz mine. These areas will be examined in more detail in the future.

A typical view of the Ortiz joint venture project in north central New Mexico.

INVESTMENTS

Pegasus holds significant positions in two other gold mining companies. These are USMX Inc. of Lakewood, Colorado and Zapopan NL of Australia.

On March 10, 1992, Pegasus entered into an agreement to purchase 38.5 million treasury shares of Zapopan NL of Australia for $18.7 million (A$25 million) subject to approval by Zapopan shareholders and Australian regulatory authorities.

USMX, INC.

Pegasus made its initial investment in USMX in 1985 and gradually increased its interest to 32.3 percent, where it now stands. Currently, USMX produces gold from the Casino/Winrock and Alligator Ridge mines, both of which are situated in White Pine County in east central Nevada. In addition, the Company owns and operates the Green Springs mine also located in White Pine County. Green Springs was mined out in 1990, although leaching operations continued throughout 1991 and into 1992. Last year USMX produced 42,329 ounces of gold, up slightly from the 41,282 ounces recovered in 1990. Total gold production for 1992 is expected to exceed 50,000 ounces. USMX also holds a royalty interest in Pegasus' Montana Tunnels mine near Helena, Montana for which it received royalty payments of $720,000 in 1991.

In addition to its producing properties, USMX has a number of active exploration projects. The most advanced of these are located around Alligator Ridge. The Company completed an agreement with Placer Dome US Inc. earlier in the year whereby Placer was granted the right to explore and subsequently purchase two blocks of ground for $5 million and $6 million respectively. USMX would also receive a sliding scale net smelter royalty should gold prices exceed $400 per ounce or if gold production exceeds 270,000 or 300,000 ounces respectively from these blocks. If Placer Dome chooses to exercise its purchase options, it would represent less than 6 percent of USMX's land holdings in the Alligator Ridge area.

ZAPOPAN NL

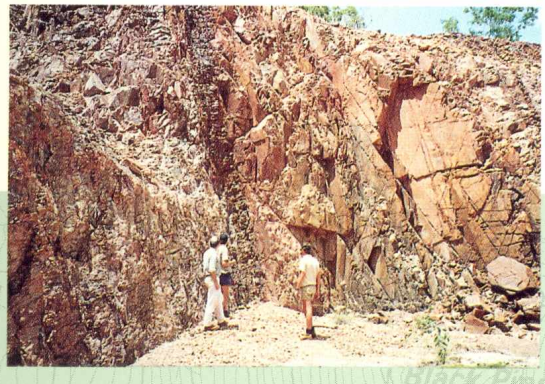
On March 10,1992, Pegasus entered into an agreement to purchase 38.5 million treasury shares of Zapopan NL of Australia for $18.7 million (A$25 million) subject to approval by Zapopan shareholders and Australian regulatory authorities. This would give Pegasus an initial interest of 35 percent which the Company may increase at some point in the future. Proceeds from this transaction would enable Zapopan to retire its long-term debt and fund its earlier purchase of the 50 percent interest in the Mount Todd property previously held by Billiton Australia Gold Pty. Ltd.

Zapopan currently holds three properties, all of which are located in the Northern Territory. The wholly owned Tanami mine is an open-cut, conventional milling operation located approximately 525 miles (850 kilometers) south of Darwin. The mine is expected to produce about 100,000 ounces of gold in calendar 1992 at a cash cost of $260 (A$346) per ounce. As of June 30, 1991, total resources at Tanami amounted to 404,000 ounces of gold.

Zapopan's major asset is its recently acquired 100 percent interest in the Mount Todd project located less than 30 miles (45 kilometers) northeast of the town of Katherine and 180 miles (290 kilometers) south of Darwin. At last report, Mount Todd contained a total resource of 2.43 million ounces of gold in one zone of an extensively mineralized belt. The prospect of defining additional mineralization in the area is excellent. When constructed, Mount Todd would likely be a conventional milling operation of 4.0 to 4.5 million tons per year with an annual production rate in the order of 160,000 ounces of gold. The property is readily accessible by road with sources of electricity and water nearby. The life-of-mine capital cost is projected at $90 million (A$120 million) with a cash operating cost of about $214 (A$285) per ounce.

A view of the Tanami mine in the Northern Territory.

Zapopan also holds property in the Mount Bonnie district, 70 miles (115 kilometers) north of Mount Todd. A resource of 160,000 ounces has been outlined to date in areas around previous workings and an existing mill. Exploration in the area will continue.

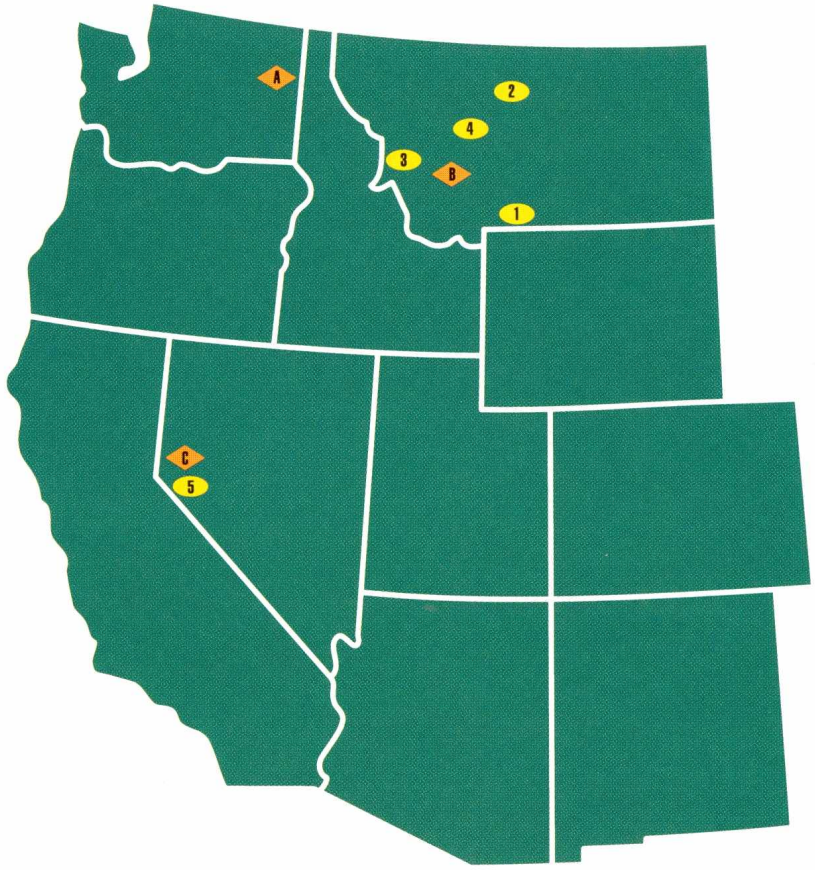


Zapopan executives examine an old pit north of the Batman deposit on the Mount Todd property.

Exploration

Historically, Pegasus has confined most of its exploration work to the western United States, where the Company is experienced and has been the most successful. More specifically, the focus has been on the discovery of large, heap leachable, open-pit deposits, where the Company is widely recognized for its operating expertise.

Pegasus has a very ambitious growth plan in place, and a successful exploration program will be a key element in achieving its goals. This will not be an



Exploration Properties

1 Emigrant

2 Miller Mountain

3 Garnet

4 Diamond Hill

5 Talapoosa

Offices

A Spokane, WA

B Butte, MT

C Reno, NV

easy task. Competition for properties has increased dramatically, especially in established gold mining districts. Major new discoveries will almost certainly continue to be made in these areas but will become increasingly more difficult to find and develop. In addition, as environmental concerns and regulatory requirements become more stringent, exploration costs will rise, and an increasingly greater amount of time will be spent in obtaining the necessary permits. These restrictions are not insurmountable but will materially affect the cost and the lead time required to make an economic discovery.

In light of these restrictions, Pegasus has changed its exploration philosophy in two ways. First, more effort will be directed to increasing reserves at existing operations. Infrastructure is already in place and it is usually much less expensive to expand an operation than to construct a new, stand-alone facility. Second, after much deliberation, Pegasus has decided that it can best meet its exploration goals by taking a more global approach. To this end, the Company has set up a South American office in Santiago, Chile.

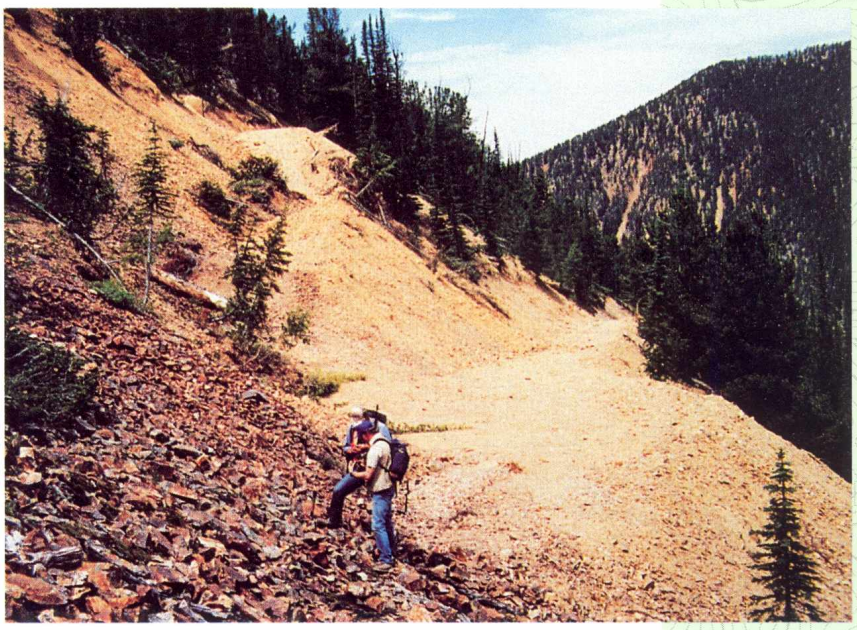
Exploration spending amounted to $5.8 million in 1991. For 1992, it is projected to increase to $7.3 million. Approximately $6.3 million is to be spent in North America, and a further $1 million has been allocated to the Chilean office.

Pegasus has a large number of active exploration projects underway. Five of these, four in Montana and one in Nevada, are all in more advanced stages and will be discussed in greater detail.

EMIGRANT

The Emigrant property is located about 30 miles south of the town of Livingston in south-central Montana. Pegasus has the right to earn a 77 percent interest in the property by taking the project through to feasibility. Fisher-Watt Gold Company would hold the balance of 23 percent.

The property is underlain by a series of altered volcanic rocks that host a number of zones containing gold or gold-copper mineralization usually associated with major structural features. The property consists of 7,900 acres and has the potential to host several bulk tonnage deposits. The limited amount of drilling and surface exploration work done so far has been very encouraging. Emigrant is a high priority project and $1.2 million has been allocated for land payments, geologic mapping, geophysics, sampling and additional drilling.



Field geologists working on the St. Julian zone at the Emigrant joint venture property.

Miller Mountain

The Miller Mountain property is located about 35 miles southeast of Helena, the state capital of Montana. At current spending levels, Pegasus will earn its 50 percent interest in the property by the end of 1993. Miller Mountain would then become a 50/50 joint venture between the Company and FMC Gold Company, with Pegasus becoming the operator should the deposit be placed in production.

Gold mineralization in the area is most commonly associated with quartz veining within granitic intrusives and at contacts with the adjacent sedimentary rocks. This is the most advanced of the Company's exploration projects where a large, low grade geologic resource has already been delineated. About $860,000 is budgeted to be spent in 1992, primarily on metallurgical testing and on in-fill drilling to convert a sizable portion of this resource into a mineable reserve. Some step-out drilling is also planned and environmental baseline studies will be initiated.

Garnet

The Garnet property is located 32 miles east of Missoula, Montana. Pegasus can earn a 70 percent interest in the property with a total expenditure of $5 million by June 30, 1995. The remaining 30 percent is held by Garnet Mining Corporation and Trans-Global Resources N.L. (Australia).

Garnet is an old underground mining district where the gold was associated with quartz veins and large shear zones. Gold-copper skarn mineralization also occurs locally around the contacts of large granitic intrusives and the surrounding sedimentary rocks. The property has potential for several bulk tonnage gold deposits ranging from 0.035 to 0.065 ounces of gold per ton. Approximately $1 million will be spent on the property in 1992, mostly on further drilling.

In addition to its promising exploration projects, the Company plans to conduct more exploration work around its existing mine sites.

Diamond Hill

The Diamond Hill prospect is located eight miles west of Townsend in southwestern Montana, in the same general region as the Montana Tunnels mine and the Miller Mountain property. Pegasus holds a 77 percent interest while Broadwater Developments Inc. owns the balance.

Gold mineralization at Diamond Hill is usually associated with skarn bodies found at the contact of granitic intrusives and the surrounding Elkhorn volcanics. A modest, potentially open-pittable geologic resource has been outlined by past work. However, more recent studies have defined additional targets and have indicated possible underground targets as well.

Talapoosa

In January of 1992, Pegasus reached an agreement with Athena Gold Corporation to earn a 70 percent interest in the Talapoosa project. The property is located in Lyon County, Nevada, 45 highway miles southeast of Reno.

A previous study by independent consultants calculated a drill indicated resource of 19.6 million tons at a grade of 0.045 ounces of gold and 0.610 ounces of silver per ton. Pegasus is drilling to confirm and expand these reserves and is conducting metallurgical testing to determine rates of recovery. The property, consisting of over 9,600 acres, has good potential to expand the existing resource and to discover other volcanic-hosted gold-silver deposits.

Environment

The last two years have been challenging ones for the mining industry. Companies faced both declining metal prices and unprecedented attacks on the mining industry from legislators and special interest groups. Specifically, these have included proposals to significantly increase the industry's tax burden, to impose a much more complicated regulatory environment and diminishing access to land for mining and other resource industries. The permitting process has become more rigorous and more time consuming, with unpredictable delays leading to significant increases in the capital cost of new projects. Pegasus will continue its efforts to preserve the General Mining Law of 1872 as it now stands. Proposed changes to this act threaten the very existence of mining in the country as well as individuals and groups whose livelihoods depend on access to public lands.

In spite of these difficulties, the mining industry has made progress in addressing environmental concerns. Pre-planning has minimized the number of acres disturbed by mining operations. Modern mines can now operate as closed systems, and the few potentially harmful materials used can be recycled. A greater effort is also being made to develop and maintain a close spirit of cooperation between the mine sites and local regulatory authorities. And finally, the industry has devoted more time and effort to educating the public about the importance of mining to this country, and how it can coexist in harmony with our environment.

Pegasus is proud of its leadership in environmental issues and will continue its strong commitment to this cause. The Company's efforts were recognized by being the recipient of three environmental awards during 1991. The first was the Nevada Excellence in Mining Recla-

Ken Eickerman of Zortman/Landusky examines a reclaimed area near the mine site.

The staff at the Beal Mountain mine display their DuPont/ Conoco environmental awards.

mation Award received for the Company's comprehensive reclamation at the Relief Canyon mine. In conjunction with this effort, Pegasus Florida Canyon employees, John Leahy, General Manager, and Nancy Logue, Environmental Engineer, received the Attorney General's Silver State Citizen Award for their achievements. Beal Mountain, previously recognized for its environmental excellence in 1988, received special recognition as "the cleanest, best organized mine" in the first annual DuPont/Conoco Environmental Leadership Award. The mine placed second overall. The Zortman/Landusky mine in Montana was granted a special award for reclamation by the Phillips Conservation District. This award is a very prestigious one. It is not given out annually but only on those occasions when the Board of Supervisors believe that special recognition is merited.

Environmental leadership is an ongoing commitment and, to this end, Pegasus is proud to announce that it is once again a finalist in the 1992 DuPont/Conoco Environmental Leadership Award.

Montana Tunnels reclamation crew carries out hydro-seeding program.

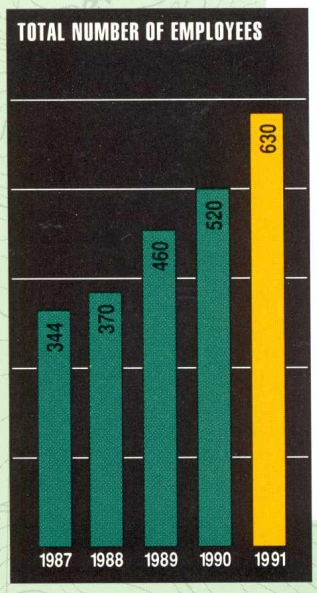
Through changes in operating practices, extensive training programs at all sites and the enthusiastic cooperation of the Company's employees, Pegasus completed 1991 without a single lost-time accident.

SAFETY

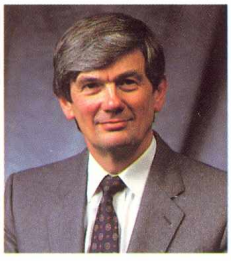
Over the past few years, one of the Company's major objectives has been to significantly improve safety standards at all operations. More specifically, measures were taken to reduce both the frequency and severity of accidents, which, at the time, were at the national average for surface mines in the United States. Through changes in operating practices, extensive training programs at all sites and the enthusiastic cooperation of the Company's employees, Pegasus completed 1991 without a single lost-time accident. A lost-time accident is defined as one in which an employee incurs an injury severe enough to miss work for one or more days. The last such accident suffered by a Pegasus employee was April 21, 1990, a period covering a total of 2.1 million employee hours. In 1991, the national rate for lost-time accidents at surface mines was 3.73 incidents for every 200,000 hours worked. Furthermore, Beal Mountain has never had a lost-time accident since the mine first entered production in 1988. The Montana Tunnels mine near Helena, Montana, is the Company's largest mine in terms of personnel and has not had a lost-time accident for over two years.

The Mine Safety and Health Administration (MSHA) national safety statistics for 1991 showed an average incident rating of 6.02 reportable accidents for every 200,000 hours worked. In comparison, the rate for Pegasus employees was only 1.82 reportable accidents per 200,000 hours worked which is a remarkable achievement. It will be a challenge to maintain this record, and improve on it. Pegasus will continue to devote considerable time, effort and resources to maintain safe working practices and provide intensive safety training to all its employees.

Education and training are the cornerstones of our community relations and safety programs.

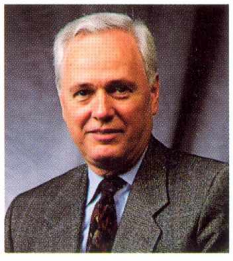


BOARD OF DIRECTORS



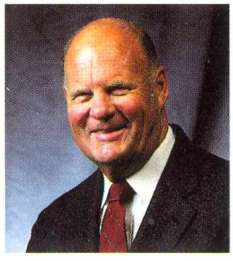
JOHN M. WILLSON

L. JACK SMITH



WILLIAM G. WILSON

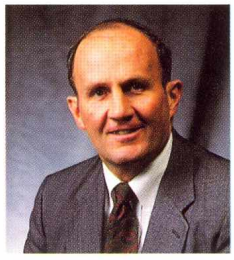
PAUL H. ATKINSON



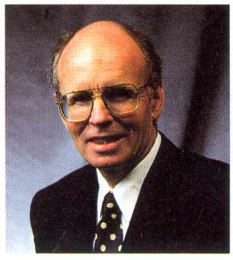
DOUGLAS R. COOK

PETER R. KUTNEY

LINDSAY D. NORMAN



DONALD R. PEOPLES



JAMES S. REDPATH

Financial Review

The cornerstone of Pegasus' financial strategy is to provide financial stability and strength, which allows the Company to grow unimpeded by immediate capital raising needs.

In 1991, two financings were completed to help accomplish this objective. During the first quarter, two private placements totalling $28 million were successfully carried out. Both were supplemented with gold swaps to reduce the effective after-tax cost of capital. Mid-year, the Company issued three million units consisting of common shares and warrants for common shares which yielded net proceeds of $38.7 million. These transactions have increased our cash position to $65 million, which makes the Company net debt-free.

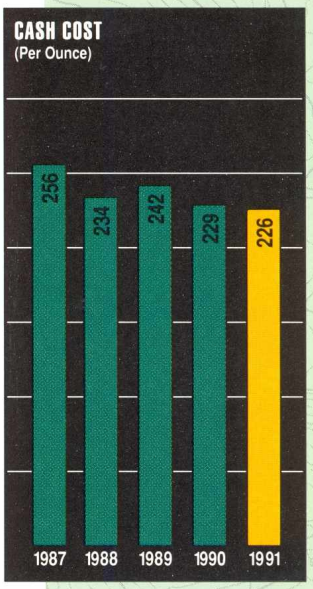
The performance of the Company is affected significantly by commodity prices. Our policy is to balance assured cash flows to maintain growth and to allow the investor to gain from increases in the commodity prices. As such, Pegasus does not have a limit or minimum level of production allocated to hedging techniques. We maintain both short and long-term positions in gold, silver, and zinc. Various marketing techniques are used to outperform the market. The marketing is contracted

The current economic and business climate has sharpened the focus on internal controls.

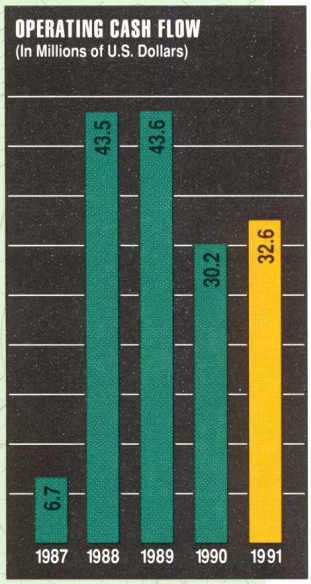
through five trading firms to assure access to the best pricing and to limit our exposure to any one firm. The implementation of our price protection policy has provided the Company with incremental cash flows and earnings when compared to the average spot prices during the year.

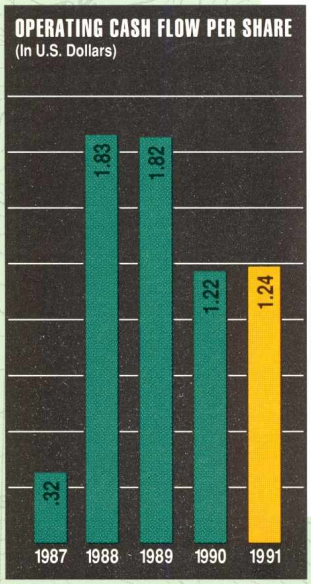
The current economic and business climate has sharpened the focus on internal controls. In 1991, the Committee of Sponsoring Organizations of the Treadway Commission released an exposure draft, "Internal Control - Integrated Framework", which defines the components of an internal control system and sets standards against which to assess a company's system. At Pegasus, our internal control system is built into the basic management philosophy. Information systems are employed to assess the Company's results as they relate to operations, financial reporting, and compliance with laws and regulations. A project carried out in conjunction with our outside auditors gives us confidence we meet the criteria set out by the Commission.

John L. Azlant
March 30, 1992



Management's Discussion and Analysis of Financial Condition and Results of Operations





Summary

Net income for 1991 was $9.6 million ($0.37 per share) compared to a net loss of $38.2 million ($1.55 per share) in 1990 and net income of $9.8 million ($0.41 per share) in 1989. Results for 1990 and 1989 included property and investment losses of $53.1 million and $4.7 million, respectively. Excluding the effects of these non-recurring, non-cash losses (net of taxes), net income for 1990 and 1989 would have been $10.5 million ($0.43 per share) and $14.1 million ($0.59 per share). Cash flow from operations in 1991 increased to $32.6 million compared to $30.2 million in 1990 and $43.6 million in 1989.

Revenue

Gold sales declined 8 percent to $122.6 million in 1991, compared to $133.4 million in 1990 ($141.5 million in 1989). As a result of reduced production at the Basin Creek mine, and a delay in the commencement of commercial operations at the Black Pine mine, gold sales declined 17,700 ounces in 1991 to 315,300 ounces from 333,000 in 1990 (341,300 in 1989). In January 1991, Basin Creek was placed on a care and maintenance status. Consequently, leaching operations continued on ore loaded in previous years, but no new ore was mined or loaded, and gold production fell from 26,500 ounces in 1990 to 8,500 ounces in 1991. Small declines in production at the Florida Canyon and Beal Mountain mines were offset by increased production at Montana Tunnels and Zortman/Landusky. At Zortman/Landusky, production climbed to a record 116,300 ounces. In 1990, net production fell because of the completion of processing at Relief Canyon. With the additional production contributed by Black Pine, the Company projects that 1992 gold production will reach 360,000 ounces.

The average COMEX gold price dropped to $362 per ounce in 1991 compared to $384 in 1990 ($382 in 1989). As a result, the gold price realized by the Company dropped to $389 per ounce in 1991 from $401 in 1990 ($416 in 1989). The success of the Company's hedging program added $27 per ounce to the realized price in 1991, or $8.5 million, as compared to $5.7 million in 1990 and $11.1 million in 1989.

Sales of other metals declined 11 percent to $33.6 million in 1991 compared to $37.8 million in 1990 ($36.9 million in 1989). The overall decline is attributable to price declines for zinc and lead, which has been partially offset by increased production and higher realized silver prices. Since 1990, the realized price of zinc has dropped almost 30 percent from $0.69 per pound in 1990 to $0.49 per pound in 1991 ($0.77 per pound in 1989). Although the average spot price of silver has declined to $3.91 in 1991 versus $4.43 in 1990 ($5.09 in 1989), the Company's silver hedging program has increased the realized price to $5.75 in 1991 compared to $5.53 in 1990. As a result of hedging programs in place, at current prices the Company expects to realize a price of approximately $5.90 for all silver produced in 1992. In addition, the Company has in place a long-term forward sale for 3.8 million ounces of silver deliverable in 1993 through 1998 at a price of $5.57 per ounce.

Operating Costs

Cost of sales declined 8 percent as a result of decreased production, decreased costs per ton of ore mined and a lower average stripping ratio. The average cash cost per ounce, net of byproduct revenues, declined to $226 per ounce from $229 in 1990 ($242 in 1989), despite lower realized byproduct prices. The Company believes that costs will decline even further in 1992 as a result of a full year of self-mining at Montana Tunnels and Zortman/Landusky. In 1991, depreciation, depletion and amortization declined 7 percent compared to 1990. Depreciation per ounce of gold totaled $74 in 1991 compared to $75 in 1990 and $71 in 1989. Royalties declined to $2.1 million in 1991 from $2.4 million in 1990 as a result of the lower production. Royalty expense between 1990 and 1989 declined because the area mined at the Zortman/Landusky mine in 1990 was not subject to a royalty.

Exploration

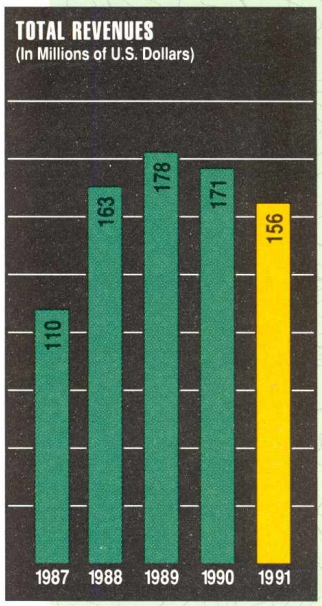
Exploration expense decreased in 1991 to $5.8 million from $7.4 million in 1990 ($5.9 million in 1989) as a result of the Company's decision to shut-down its exploration office in Australia. The Company's ongoing exploration program is directed at the identification and evaluation of additional commercially exploitable gold reserves. For 1992, the exploration budget is $7.3 million, of which $6.3 million will be spent in North America and $1.0 million will be spent in Chile. Actual exploration expenditures will vary from budgeted amounts as a result of the acquisition of new properties and the success of exploration activities on existing properties including the operating mine sites. Spending on advanced projects cannot be projected because this activity depends upon discoveries and acquisitions.

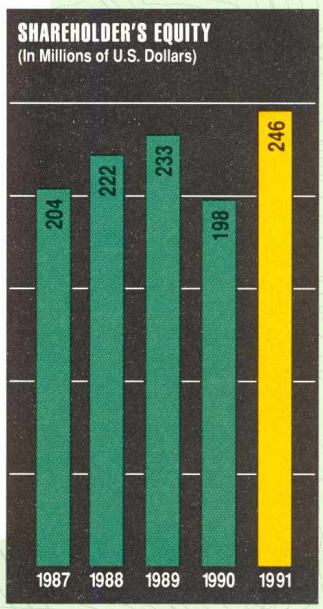
Corporate and Other

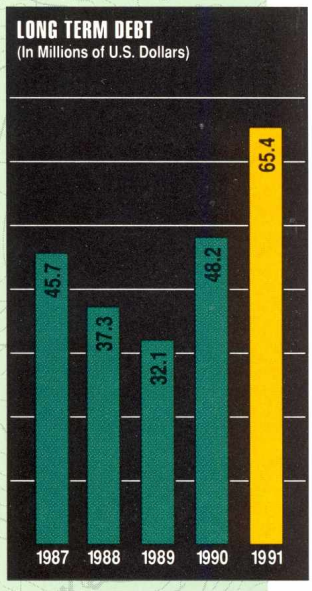
General and administrative expenses remained virtually unchanged at $6.6 million compared to $6.7 million in 1990 ($7.2 million in 1989). Decreased expenses relating to the closure of the Company's Vancouver office and the decision to forego payment of bonuses accrued in 1990, were largely offset by a 5 percent increase in salaries and increased travel expenses. In 1989, general and administrative expenses increased as a result of severance payments made to former officers. As the Company grows, corporate activity and the accompanying expenses could increase to effect and service such growth.

In 1991, the loss on disposition of assets is the result of sales of excess and obsolete equipment. Results for 1990 included production and development property write-downs of $35.1 million, $34.0 million of which related to the closure of the Basin Creek mine, and investment losses of $18 million, which related to Pioneer Metals Corporation, Inland Gold and Silver Corp., investments in joint ventures and other investments. Results for 1989 included a write-down of $4.7 million relating to the investment in Pioneer.

The effective tax rate recorded in 1991 was 9.5 percent, compared to a benefit of 2.8 percent in 1990 and a provision of 35.7 percent in 1989. The decline in the tax provision for 1991 is the result of a reduction in the amount of percentage depletion considered a preference item for purposes of the alternative minimum tax. In 1990, the income tax benefit recorded was less than the statutory rate because most of the losses generated were not tax deductible, or the realizability of the related tax benefit was uncertain. For a reconciliation from the statutory rate to the effective tax rate, see Note 8 to the consolidated financial statements.







FINANCING, CAPITAL INVESTMENT AND LIQUIDITY

The Company invests its excess cash in low risk short-term investments. Interest and other income increased to $2.9 million in 1991 compared to $2.6 million in 1990 ($4.7 million in 1989). The increase in 1991 was attributable to the increase in cash available for investment, mainly as a result of the common stock offering completed in July 1991. The increase in cash was partially offset by lower yields, which averaged 5.9 percent in 1991 and 8.1 percent in 1990.

Interest expense, before reduction for capitalized interest, increased to $6.0 million from $5.3 million in 1990 ($3.6 million in 1989), as a result of the 39 percent increase in average debt outstanding, which amounted to $72.8 million in 1991 compared to $52.4 million in 1990 ($35.8 million in 1989). The increase in long-term debt was partially offset by a decline in the effective interest rate paid to 8.2 percent in 1991 from 10.1 percent in 1990 (10.0 percent in 1989). Interest capitalized on development projects increased to $1.9 million from $1.5 million in 1990 ($1.0 million in 1989). At such time as additional borrowings are required to fund acquisitions or to finance development of advanced projects, interest expense is expected to increase accordingly.

At the end of 1991, the Company had working capital of $96.1 million and a current ratio of 4.7 to 1, compared to working capital of $42.1 million at the end of 1990 and a current ratio of 3.0 to 1. Cash and cash equivalents totaled $64.8 million at the end of 1991 compared with $10.4 million at the end of 1990. The significant increase in cash is due to the proceeds of an equity issue and two debt instruments. During the first quarter, the Company raised $28 million through the issuance of two notes which are repayable in annual installments over the next five years. In July, the Company issued three million units which consisted of one Common Share and one-third of a warrant to purchase one Common Share, for which the Company received proceeds of $38.7 million, net of offering expenses.

During 1991, the Company expended $38.7 on additions to property, plant and equipment which included $16.6 million in capital outlays at operating properties, $12.9 million on the construction of the Black Pine mine, and $7.6 million on development at the Ortiz, Quartz Mountain and Zortman Expansion projects, which were mainly funded by cash flow provided by operating activities. In addition, the Company leased $23.8 million in mining equipment and assumed mining operations from the mining contractors at the Zortman/Landusky and Montana Tunnels mines. In 1992, the Company plans to spend approximately $12 million on capital additions at operating properties and $14 million on the Ortiz and the Zortman Expansion projects, and for development at operating sites. The Company generates adequate internal cash flows to fund these expenditures.

On March 10, 1992, the Company entered into an agreement to acquire 38,461,540 newly issued Common Shares from Zapopan NL, a publicly traded Australian company, for $18.7 million (A$25.0 million). Upon the completion of this transaction, which is subject to the approval of Zapopan shareholders and the Australian regulatory authorities, the Company will own approximately 35 percent of the outstanding common stock of Zapopan.

In 1991, the Company extended and amended its revolving and term loan credit facility and reduced the lenders' commitment to $50 million, in order to reduce the cost of maintaining the credit facility and because of the availability of other sources of financing. In addition, the Company has entered into a $25 million short-term working capital revolving line of credit. At December 31, 1991, there were no borrowings outstanding under

either of these facilities. The Company believes that these unused lines of credit coupled with the Company's cash position should provide the Company with the ability to take advantage of business opportunities as they arise.

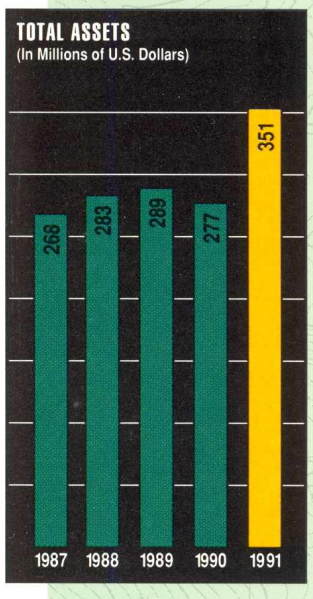
Outlook

The profitability of the Company is tied directly to the price of gold. The price of gold is volatile, although that volatility has been reduced in recent years, and affected by numerous factors beyond the Company's control. Although the costs of production are subject to the same inflationary pressures experienced by the economy as a whole, the Company's net cash cost per ounce of gold produced has actually declined over the last several years. The fluctuation in the price of gold has a much greater impact on the Company's profitability than inflation. Through February 1992, the price of gold averaged $354 per ounce. In order to protect against adverse moves in the gold market, the Company has hedged 75 percent of its estimated 1992 gold production at a minimum average price of $380. This includes forward sales of 114,000 ounces of gold at $420 per ounce and put options on 150,000 ounces at $350 per ounce.

At the end of 1991, the Company had in place approximately 4.0 million contained ounces of gold in reserves. Of these, approximately 2.5 million ounces are recoverable, which is equivalent to seven years of production at the current rate. The Company has in place aggressive acquisition and exploration programs, but competition for the limited number of domestic and foreign gold acquisition opportunities is significant and increasing. As a result, the Company may be unable to acquire attractive gold mining properties on terms it considers acceptable. In addition, the location and development of economic ore bodies is subject to certain risks which include the development of appropriate metallurgical processes, the receipt of necessary governmental approvals and permits and the construction of mining and processing facilities. Although the Company has been successful in the past, there can be no assurance that in the future the Company's acquisition and exploration programs will yield new reserves to replace and expand current reserves as they are depleted.

An uncertainty affecting the Company's outlook is the viability of the Ortiz joint venture. The project is on hold pending the receipt of certain permits from the state of New Mexico. At the current price of gold, the project would be only marginally profitable without additional reserves. If the Ortiz project is not brought into production, the Company will write-off the deferred exploration and development costs associated with the project, which amounted to $13.8 million at the end of 1991.

The Company's operations are subject to extensive governmental regulation for the purpose of protecting the environment. The Company is committed to a program of environmental protection, and constructs and operates its mines in full and willing compliance with all environmental regulations. Although no major capital expenditures or significant increases in operating costs are required to conform to the environmental regulations currently in place, it is possible that additional regulatory requirements could have a material negative impact on the Company's operations. As a result of the Company's commitment to the environment, the Company has received awards for the construction of the Beal Mountain mine, the post-closure reclamation of the Relief Canyon mine, and the ongoing reclamation at Zortman/Landusky.



Selected Financial Data

(For the Years Ended December 31)
(In Thousands of U.S. Dollars, Except Per Share Amounts)

	1991	1990	1989	1988	1987
INCOME STATEMENT DATA:					
Sales of gold and other metals	**$ 156,211**	$ 171,213	$ 178,362	$ 162,757	$ 110,435
Income (loss) before income taxes and extraordinary credit	**$ 10,603**	$ (39,347)	$ 15,184	$ 21,909	$ 17,418
Income (loss) before extraordinary credit	**$ 9,599**	$ (38,172)	$ 9,763	$ 15,606	$ 14,492
Net income (loss)	**$ 9,599**	$ (38,172)	$ 9,763	$ 17,779	$ 14,492
Net income (loss) per common share:					
Before extraordinary credit	**$ 0.37**	$ (1.55)	$ 0.41	$ 0.66	$ 0.70
Extraordinary credit	**-**	-	-	0.09	-
	$ 0.37	$ (1.55)	$ 0.41	$ 0.75	$ 0.70
Cash dividends per common share	**$ 0.10**	$ 0.10	$ 0.10	$ 0.10	$ 0.10
BALANCE SHEET DATA:					
Cash and cash equivalents	**$ 64,814**	$ 10,443	$ 20,515	$ 49,615	$ 54,212
Total assets	**$ 351,072**	$ 276,554	$ 289,460	$ 283,305	$ 267,764
Long-term debt	**$ 65,412**	$ 48,231	$ 32,065	$ 33,393	$ 40,101
Shareholder's equity	**$ 245,651**	$ 198,493	$ 233,207	$ 221,890	$ 203,562
STATISTICAL DATA:					
Shares Outstanding	**27,856,603**	24,701,421	24,151,105	23,886,274	23,508,773
Number of Shareholders	**4,550**	4,880	4,930	4,990	4,650
Market Price (U.S. Dollars)					
High	**14.12**	16.00	15.37	17.25	26.37
Low	**9.62**	9.12	8.87	10.75	5.38
December 31	**12.37**	13.00	13.50	11.50	16.25

In order to protect against adverse moves in the gold market, the Company has hedged 75 percent of its estimated 1992 gold production at a minimum average price of $380.

Report of Independent Accountants

Board of Directors and Shareholders
Pegasus Gold Inc.

We have audited the consolidated balance sheets of Pegasus Gold Inc. as of December 31, 1991 and 1990, and the consolidated statements of operations, statements of cash flows and statements of changes in shareholders' equity for the years ended December 31, 1991, 1990 and 1989. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of Pegasus Gold Inc. as of December 31, 1991 and 1990, and the results of its operations and its cash flows for the years ended December 31, 1991, 1990 and 1989, in accordance with United States generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a consistent basis.

Coopers & Lybrand

Vancouver, B.C., Canada
February 7, 1992, except for Note 13,
which date is March 10, 1992

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Pegasus Gold Inc. have been prepared by and are the responsibility of the management of the Company. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and reflect management's best estimates and judgements based on currently available information. Systems of internal control have been designed and maintained by management to provide reasonable assurance, on a cost effective basis, that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

The external auditors conduct an independent audit of the consolidated financial statements in accordance with generally accepted auditing standards in order to express their opinion on these financial statements. Those standards require that the external auditors plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee of the Board which is composed entirely of outside directors. This Committee meets regularly with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the financial statements before they are presented to the Board of Directors for approval.

John M. Willson
President and Chief Executive Officer

John L. Azlant
Vice President, Finance and Chief Financial Officer

Pegasus Gold Inc.
Consolidated Balance Sheets
December 31, 1991 and 1990

(In Thousands of U.S. Dollars)	1991	1990
ASSETS		
Current assets:		
Cash and cash equivalents	$ 64,814	$ 10,443
Due from sales of products	23,044	18,386
Income tax refundable	2,959	5,669
Inventories	27,678	25,906
Other current assets	3,478	2,627
Total current assets	121,973	63,031
Investments	24,507	26,090
Property, plant and equipment, net	197,310	180,701
Deferred charges and other assets, net	7,282	6,732
Total assets	$351,072	$276,554
LIABILITIES		
Current liabilities:		
Accounts payable	$ 8,323	$ 10,880
Accrued salaries, wages and benefits	3,618	2,636
Mining taxes payable	4,243	3,782
Accrued interest	1,258	1,169
Dividends payable	2,786	2,470
Current portion of long-term debt	5,614	-
Total current liabilities	25,842	20,937
Long-term debt	65,412	48,231
Deferred revenue	3,160	-
Deferred reclamation costs	9,028	7,550
Deferred income taxes	1,979	1,343
Total liabilities	105,421	78,061
Commitments and contingencies (Note 11)		
SHAREHOLDERS' EQUITY		
Class A preferred stock, Series 1, $10 par value: Authorized - 20,000,000 shares; none issued		
Common stock, no par value: Authorized - 50,000,000 shares; Issued and outstanding, 1991 - 27,856,603 shares and 1990 - 24,701,421 shares	230,607	190,268
Retained earnings	15,507	8,694
Foreign currency translation adjustment	(463)	(469)
Total shareholders' equity	245,651	198,493
Total liabilities and shareholders' equity	$351,072	$276,554

Director

Director

The accompanying notes are an integral part of the consolidated financial statements.

Pegasus Gold Inc.
Consolidated Statements of Operations
For the Years Ended December 31, 1991, 1990 and 1989

(In Thousands of U.S. Dollars, Except Per Share Amounts)	1991	1990	1989
Sales of gold and other metals	$156,211	$171,213	$178,362
Cost of sales and other direct production costs	105,258	114,737	119,222
Depreciation, depletion and amortization	23,030	24,705	23,978
	128,288	139,442	143,200
Gross profit	27,923	31,771	35,162
Operating expenses:			
General and administrative	6,598	6,709	7,250
Royalties	2,117	2,449	3,454
Depreciation and amortization	506	331	267
Exploration	5,843	7,409	5,891
Production and development property write-downs		35,078	582
	15,064	51,976	17,444
Income (loss) from operations	12,859	(20,205)	17,718
Other income (expense):			
Interest and other income	2,909	2,631	4,687
Interest expense, net of amounts capitalized	(4,079)	(3,800)	(2,573)
Loss on disposition of assets and investments	(1,086)	(17,973)	(4,648)
	(2,256)	(19,142)	(2,534)
Income (loss) before income taxes	10,603	(39,347)	15,184
Income tax provision (benefit)	1,004	(1,175)	5,421
Net income (loss)	$ 9,599	$ (38,172)	$ 9,763
Net income (loss) per share	$ 0.37	$ (1.55)	$ 0.41
Weighted average common shares outstanding	26,236	24,652	23,986

The accompanying notes are an integral part of the consolidated financial statements.

Pegasus Gold Inc.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 1991, 1990 and 1989

(In Thousands of U.S. Dollars)	1991	1990	1989
Operating activities:			
Net income (loss)	$ 9,599	$ (38,172)	$ 9,763
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	23,536	25,036	24,245
Deferred income taxes	636	(115)	(680)
Production and development property write-downs	-	35,078	582
Loss on investments and disposition of assets	1,086	17,973	4,648
Deferred revenue, net	3,160	-	-
Other, net	304	(1,413)	(180)
Change in receivables	(1,948)	(10,755)	5,631
Change in inventories	(1,772)	1,196	1,981
Change in accounts payable and accrued liabilities	(1,019)	1,222	(3,249)
Change in other current assets	(1,023)	115	851
Net cash provided by operating activities	32,559	30,165	43,592
Investing activities:			
Additions to property, plant and equipment, net	(38,720)	(56,399)	(36,057)
Acquisition of Pangea Resources, net of cash acquired	-	-	(24,899)
Proceeds from sale of investments	-	-	1,146
Purchase of investments	-	(680)	(6,423)
Other, net	390	(805)	1,573
Net cash applied to investing activities	(38,330)	(57,884)	(64,660)
Financing activities:			
Dividend paid	(2,470)	(2,415)	(2,389)
Proceeds from issuance of long-term debt	28,000	25,000	-
Payments of long-term debt	(5,205)	(5,832)	(8,213)
Proceeds from issuance of common stock	40,339	917	2,832
Other, net	(522)	(23)	(262)
Net cash provided by (applied to) financing activities	60,142	17,647	(8,032)
Net increase (decrease) in cash and cash equivalents	54,371	(10,072)	(29,100)
Cash and cash equivalents, beginning of year	10,443	20,515	49,615
Cash and cash equivalents, end of year	$ 64,814	$ 10,443	$ 20,515
Supplemental disclosures:			
Cash paid during the year for:			
Interest (net of amounts capitalized)	$ 3,715	$ 2,918	$ 2,011
Income taxes (net of refunds)	$ (2,435)	$ 5,116	$ 4,177

The accompanying notes are an integral part of the consolidated financial statements.

Pegasus Gold Inc.
Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 1991, 1990 and 1989

(In Thousands of U.S. Dollars)

	Common Stock				
	Number of Shares	Amount	Retained Earnings	Net Unrealized Loss on Marketable Equity Securities	Foreign Currency Translation Adjustment
Balance, December 31, 1988	23,886,274	$ 181,385	$ 41,988	$ (1,016)	$ (467)
Net income			9,763		
Cash dividend ($.10 per share)			(2,415)		
Common stock issued for:					
Conversion of bonds	7,440	85			
Stock option plan	248,900	2,738			
Employee savings plan and other	8,491	94			
Other net changes				1,016	36
Balance, December 31, 1989	24,151,105	184,302	49,336	0	(431)
Net loss			(38,172)		
Cash dividend ($.10 per share)			(2,470)		
Common stock issued for:					
Conversion of bonds	279,186	3,049			
Stock option plan	73,367	738			
Employee savings plan and other	10,409	179			
Acquisition of property	187,354	2,000			
Other net changes					(38)
Balance, December 31, 1990	24,701,421	190,268	8,694	0	(469)
Net income			9,599		
Cash dividend ($.10 per share)			(2,786)		
Common stock issued for:					
Cash	3,000,000	38,700			
Stock option plan	142,067	1,485			
Employee savings plan and other	13,115	154			
Other net changes					6
Balance, December 31, 1991	27,856,603	$ 230,607	$ 15,507	$ 0	$ (463)

The accompanying notes are an integral part of the consolidated financial statements.

Note 1. Summary of Significant Accounting Policies

Basis of presentation

The consolidated financial statements of Pegasus Gold Inc. (the "Company") include the accounts of the parent company, which is incorporated in British Columbia, its subsidiaries, and its proportionate share of the accounts of unincorporated joint ventures in which it participates. Significant operating subsidiaries are wholly-owned U.S. Corporations. All significant intercompany accounts and transactions have been eliminated. Certain prior year balances have been reclassified to conform with the current year presentation.

The consolidated financial statements are presented in U.S. dollars and prepared in accordance with accounting principles generally accepted in the United States, which, as applied in these consolidated financial statements, are consistent in all material respects with accounting principles generally accepted in Canada, except as described in Note 14.

Cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Inventories

Inventories are recorded at the lower of average cost or estimated net realizable value.

Property, plant and equipment

Property, plant and equipment are stated at cost, including costs associated with properties under development. Generally, depreciation, depletion and amortization are determined using the units of production method based upon proven and probable reserves. Buildings, property improvements and those assets with estimated useful lives of less than the mine life are depreciated using the straight-line method over estimated useful lives of five to 40 years. Replacements and major improvements are capitalized. Maintenance and repairs are charged to expense as incurred.

Exploration and development costs

Exploration costs incurred on properties with identified ore reserves in potentially economical quantities are capitalized pending the determination of commercial feasibility. All other exploration expenditures are expensed as incurred. Development costs, which include expenditures incurred to develop new ore bodies, to define further mineralization in existing ore bodies and to expand the capacity of operating mines, are capitalized. If a previously capitalized project is determined to be uneconomical, unrecoverable costs are charged to expense.

Deferred stripping costs

Mining costs associated with waste rock removal are deferred as development costs and charged to operations on the basis of the average stripping ratio for the life of the mine.

Investments

The Company uses the equity method of accounting for investments in the common stock of companies in which it owns a 20 to 50 percent interest. Investments in marketable equity securities are recorded at the lower of cost or market value; other investments are recorded at cost. Unrealized losses on non-current marketable equity securities are reported as a reduction of shareholders' equity, except that significant impairments in investment value that are other than temporary are recognized in the determination of net income.

Revenue recognition

Sales of products are recorded when shipped to smelters and refineries. Gains and losses on forward sales, options, commodity loans and other deferred delivery arrangements that effectively establish prices for future production are not recognized in income until reflected in sales revenue when the related production is shipped. Although the Company sells all of its production to several smelters and metals brokers, due to the nature of the precious metals market the Company is not dependent upon these significant customers to provide a market for its products.

Reclamation costs

Post-closure reclamation and site restoration costs are estimated based upon environmental and regulatory requirements and accrued over the life of the mine using the units of production method. Current expenditures relating to ongoing environmental and reclamation programs are expensed as incurred.

Foreign currencies

Assets and liabilities of the Company's Canadian and Australian operations are translated into U.S. dollars at the year-end exchange rates, and revenue and expenses are translated at average exchange rates. Exchange differences arising on translation are disclosed as a separate component of shareholders' equity. Realized gains and losses from foreign currency transactions are reflected in income.

Net income (loss) per share

Net income (loss) per share is calculated based upon the weighted average number of shares of common stock and common stock equivalents outstanding during the year, unless they are anti-dilutive.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash equivalents and trade accounts receivable. The Company places its short-term cash investments with high credit quality financial institutions and, by policy, limits the amount of credit exposure to any one financial institution. Generally these investments mature within 90 days and therefore are subject to minimal risk. The Company sells its products to smelters, refineries and metals brokers. At December 31, 1991, all of the Company's sales were made to 11 customers. Although the Company could be directly affected by weakness in the metals processing business, the Company monitors the financial condition of its customers and considers the risk of loss to be remote.

Note 2. Inventories

	1991	1990
Processed metal	$ 72	$ 107
Stockpiled ore	918	1,130
Deferred mining costs	22,395	20,459
Materials and supplies	4,293	4,210
	$ 27,678	$ 25,906

Mining costs associated with ore under leach are deferred and amortized as the contained gold is recovered. Gold is recovered over a five-year period at the Zortman/Landusky mine, and over six to twelve-month periods at all other heap leach operations. Based upon actual metal recoveries and operating plans, the Company continuously evaluates and refines estimates used in determining the amortization and carrying value of deferred mining costs associated with ore under leach. Approximately 64 percent of the unrecovered gold on all leach pads at December 31, 1991, is expected to be recovered in the next year.

Note 3. Property, Plant and Equipment

	1991	1990
Mining properties and development costs	$ 152,819	$ 136,262
Plant and equipment	134,904	127,236
Construction in progress	19,936	9,624
	307,659	273,122
Less accumulated depreciation, depletion and amortization	110,349	92,421
	$ 197,310	$ 180,701

Interest costs of $1,934,000, $1,468,000 and $1,016,000 were capitalized as part of development projects during 1991, 1990 and 1989, respectively.

During the fourth quarter of 1990, management of the Company determined that a permanent impairment in the carrying value of the Basin Creek mine and certain other properties had occurred, resulting in an aggregate nonrecurring charge to income from operations in the amount of $35,078,000. The Basin Creek mine was placed on a care-and-maintenance status in January 1991 and is currently held for sale.

Note 4. Investments

	1991		1990	
	Carrying Value	**Market Value**	Carrying Value	Market Value
Equity investments:				
USMX, Inc. (32%)	**$16,844**	**$ 6,337**	$17,719	$ 6,940
Inland Gold and Silver Corp. (20%)	**1,685**	**1,090**	1,992	1,511
Artech Recovery Systems, Inc. (42%)	**150**	**150**	320	320
	18,679	**7,577**	20,031	8,771
Marketable equity securities	**1,178**	**911**	162	162
Other investments	**4,650**	**4,650**	5,897	5,897
	$24,507	**$13,138**	$26,090	$14,830

At December 31, 1991, the remaining unamortized excess cost of the investment in USMX, Inc. ("USMX") over its underlying net book value was $10,248,000. This amount is being amortized using the units of production method over the estimated ore reserves at the Montana Tunnels mine. Montana Tunnels is operated by the Company subject to the underlying royalty interest of USMX.

On December 13, 1991, the Company entered into a merger agreement with Inland Gold and Silver Corp. ("Inland"), under the terms of which Inland would merge with a wholly-owned subsidiary of the Company and each outstanding share of Inland would be exchanged for a fractional interest in common shares of the Company valued at $0.50. The proposed merger is subject to the approval of Inland's shareholders.

In 1991, the Company sold its 50 percent interest in the Stibnite property (received in a settlement with Pioneer Metals Corporation) to MinVen Gold Corporation ("MinVen"). The sales price of $5,897,000 consisted of $350,000 in cash, notes in the amount of $4,650,000 and 2,300,000 common shares of MinVen. The notes bear interest at prime and are due in October 1992. The notes are collateralized by 50 percent of the Stibnite property and 3,500,000 common shares of MinVen. In January 1992, the Company entered into discussions with MinVen regarding an additional investment in MinVen through a private placement of equity securities, the terms of which are likely to extend the repayment of the notes or convert them to an equity security. Consequently, the notes are classified as non-current at December 31, 1991.

In 1990, the Company reevaluated the carrying value of its equity investments, other minority interests and joint ventures and determined that declines in value had occurred which were other than temporary. As a result, the Company wrote its investments in Pioneer Metals Corporation, Inland Gold and Silver Corp., certain joint venture interests and other investments down to their net realizable values, recognizing a loss of $17,973,000.

Note 5. Long-Term Debt

	1991	1990
9.71 percent note due 1995, unsecured	**$ 25,000**	$ 25,000
7.5 percent gold-convertible bonds due 1993	**13,237**	18,397
5 percent gold-convertible bonds due 1993	**4,789**	4,834
9.22 percent note due 1992-1996, unsecured	**18,000**	-
Bank term loan due 1992 - 1996, unsecured	**10,000**	-
	71,026	48,231
Less current portion	**(5,614)**	-
	$ 65,412	$ 48,231

In 1990, the Company entered into a five-year note with a face value of $25,000,000. The note is due in February 1995, and bears interest at a fixed rate of 9.71 percent per annum, payable annually in arrears.

At any time prior to maturity, the 7.5 percent and 5 percent bonds may be exchanged for gold at fixed prices of $376 and $331 per ounce, respectively. At December 31, 1991, the Company could be obligated to deliver up to 49,700 ounces of gold pursuant to the conversion of these bonds. The 5 percent bonds are collateralized by certain zero coupon notes whose face value at maturity will equal the original principal of the bonds in the amount of $6,657,000. During 1991, the Company repurchased

approximately $5,200,000 of these bonds in open market transactions. At December 31, 1991, the market price of gold exceeded the conversion price of the 5 percent bonds. Therefore, the liability represented by these bonds is considered to be due currently. Because of the availability of the long-term credit facility described below, these bonds have been classified as non-current liabilities.

In 1991, the Company entered into a five-year note with a face value of $18,000,000. The note is due in five equal annual installments beginning in January 1992, and bears interest at a fixed rate of 9.22 percent per annum, payable annually in arrears.

In 1991, the Company entered into a $10,000,000 five-year term loan. The loan is due in five equal annual installments beginning March 1992, and bears interest based on the London Interbank Borrowing Rate ("LIBOR") plus 0.88 percent (5.44 percent at December 31, 1991).

The Company has entered into interest rate swap agreements which effectively convert $43 million of fixed interest rate debt to variable rate debt with a weighted average interest rate of 5.9 percent at December 31, 1991. The differential to be paid or received on interest rate swaps is accrued as interest rates change and is charged or credited to interest expense over the life of the agreements. The Company is exposed to credit risk to the extent of nonperformance by the counterparties to its interest rate swaps. However, the Company regularly monitors its positions and the credit rating of its counterparties and considers the risk of default to be remote.

At December 31, 1991, long-term debt matures as follows:

1992	$ 5,614
1993	23,612
1994	5,600
1995	30,600
1996	5,600
	$ 71,026

The Company has a revolving and term loan credit facility, under the terms of which the Company can borrow up to $50,000,000 or the equivalent in gold. Amounts may be borrowed on a revolving credit basis through December 1993 and are repayable in ten quarterly installments beginning in March 1994. Dollar borrowings bear interest at floating rates, according to the type of advance. Gold borrowings bear interest based on the banks' cost of borrowing gold plus 1 percent. A commitment fee is payable quarterly on the unused portion of the facility at the rate of 1/4 of 1 percent. In addition, the Company has entered into a $25,000,000 short-term working capital revolving line of credit with two U.S. banks. Under the terms of this facility, the Company can borrow up to $25,000,000 until July 31, 1993. Borrowings bear interest at floating rates for periods of up to 120 days. The Company must reduce its outstanding borrowings under this facility to zero for a minimum period of 30 consecutive days in each 12 month period. A commitment fee is payable quarterly on the unused portion of the facility at a rate of 1/4 of 1 percent. At December 31, 1991, there were no borrowings outstanding under either of these facilities.

The Company's notes and credit facilities contain certain financial covenants which include the maintenance of minimum levels of tangible net worth and cash flow, and limitations on the incurrence of additional indebtedness. At December 31, 1991, the Company was in compliance with the terms of all debt covenants.

Note 6. Deferred Revenue

In 1990, the Company entered into a five-year silver swap under the terms of which the Company agreed to deliver 4,690,000 ounces of silver in February 1995 for a price of $5.33 per ounce. This swap was closed out in 1991 for a gain of $4,388,000. This gain has been deferred and is being amortized as the original ounces hedged are produced and sold.

In 1991, the Company entered into three gold swaps which have been accounted for as production hedges. Under the terms of two of these swaps, the Company has agreed to deliver 45,200 and 27,624 ounces of gold in five equal annual installments beginning in January and June 1992, respectively.

Under the terms of the third swap, the Company has agreed to deliver gold in quarterly installments in the following annualized amounts:

1992	6,000
1993	6,000
1994	12,000
1995	12,000
1996	18,000
1997	18,000
1998	24,000
1999	24,000
	120,000

In exchange, the Company receives quarterly payments based on LIBOR, or a fixed interest rate, less the gold lease rate which is equivalent to the contango on a forward sale. These payments have been deferred and will be recognized as revenue when the hedged gold is delivered. Based on the gold lease rate and LIBOR at December 31, 1991, the Company estimates that total gold revenue under these agreements will approximate $459, $412, and $479 per ounce, respectively.

Note 7. Operating Leases

The Company has entered into operating lease agreements for $23,785,000 of mining equipment to be used in mining operations at the Montana Tunnels and Zortman/Landusky mines for a period of seven years. Under the terms of the lease, the Company has the option after the initial lease term to purchase the equipment at its then fair market value or to renew its lease at the then fair rental value for a period of at least one year. The Company is required to pay all taxes, insurance and maintenance on the leased equipment.

Minimum lease payments are as follows:

1992	$ 4,154,000
1993	4,169,000
1994	4,169,000
1995	4,169,000
1996	4,169,000
Thereafter	7,394,000
	$ 28,224,000

Total rent expense under operating leases amounted to $1,254,000 in 1991.

Note 8. Income Taxes

The income tax provision is based on income (loss) before income taxes as follows:

	1991	1990	1989
United States	$ 2,753	$ (16,062)	$16,597
Foreign	7,850	(23,285)	(1,413)
	$10,603	$ (39,347)	$15,184

The income tax provision (benefit) consists of the following:

	1991	1990	1989
Currently payable (refundable)			
Federal and State	$ 147	$ (1,634)	$ 4,809
Foreign	221	344	1,292
	368	(1,290)	6,101
Deferred provision (benefit)			
Federal and state	790	115	(680)
Foreign	(154)	-	-
	636	115	(680)
	$ 1,004	$ (1,175)	$ 5,421

The deferred income tax provision (benefit) results from timing differences in the recognition of revenue and expense for tax and financial statement reporting purposes. The sources of these differences and the tax effect of each are as follows:

	1991	1990	1989
Development and exploration costs	$ (686)	$ 206	$ (1,358)
Tax over (under) book depreciation	320	369	666
Utilization of tax basis net operating losses and tax credits	-	-	775
Investments accounted for using the equity method	1,002	(460)	(251)
Other, net	-	-	(512)
	$ 636	$ 115	$ (680)

The effective tax rate on income before income taxes varies from the statutory federal income tax rate in the United States as follows:

	1991 %	1990 %	1989 %
Statutory rate	**34.0**	(34.0)	34.0
Percentage depletion, net of alternative minimum tax	**(12.0)**	1.6	(16.5)
Foreign rate differential	**(20.0)**	(2.9)	1.8
Nondeductible items	**9.7**	33.6	11.3
Other, net	**(2.2)**	(1.1)	5.1
Effective rate	**9.5**	(2.8)	35.7

The parent Company and its Australian subsidiaries file separate Canadian and Australian income tax returns. All of the Company's U.S. subsidiaries file as part of a consolidated tax group.

As of December 31, 1991, the Company's U.S. and Australian subsidiaries have tax basis net operating loss carryforwards of approximately $32,400,000 and $3,900,000, respectively, that expire in 1996 and later years. The carryforwards of the U.S. subsidiaries are not available to offset future alternative minimum taxable income. In addition, the Company has Canadian capital loss carryforwards of $29,000,000 which may be carried forward indefinitely. The Company's U.S. subsidiaries have alternative minimum tax credit carryforwards of approximately $1,950,000 available to offset future regular income taxes to the extent that they exceed the alternative minimum tax.

In February 1992, the Financial Accounting Standards Board issued Statement No. 109, "Accounting for Income Taxes," (FAS 109) which requires an asset and liability approach for financial accounting and reporting of income taxes. FAS 109 supersedes APB Opinion No. 11, which requires the deferred method of accounting for income taxes. As permitted by FAS 109, the Company will adopt the new standard prospectively on the required implementation date of January 1, 1993. The Company estimates that the immediate effect of such adoption will be to eliminate the Company's recorded deferred tax liability, because the Company has sufficient available regular tax net operating losses to offset any deferred liability calculated under the provisions of FAS 109. Consequently, the income tax provision in the year of adoption and future years is expected to be limited to amounts currently payable.

Note 9. Stock Options

Under the Company's 1987 Stock Option Plan for officers and key employees, options to purchase 1,200,000 Common Shares of the Company may be granted for terms up to ten years. The exercise price of incentive stock options must equal the market value of the stock on the date of grant, or at least 90 percent of the market value of the stock for non-qualified stock options. Options granted generally become exercisable over the two-year period beginning on the date of grant. At December 31, 1991, and 1990, options to purchase 124,033 and 114,000 Common Shares, respectively, were available for future grants.

The 1989 Non-Employee Directors' Stock Option Plan provides that options to purchase up to 225,000 Common Shares of the Company may be granted to members of the Board of Directors who are not full-time employees of the Company, at an exercise price equal to the market value of the stock on the date of grant. The options are exercisable immediately and generally expire ten years after the date of grant. At December 31, 1991 and 1990, options to purchase 106,666 and 139,332 shares, respectively, were available for future grant.

Stock option transactions are summarized as follows:

	Number of Shares	Price Per Share
Outstanding, December 31, 1988	532,000	9.00-17.75(C$)
Granted	1,065,000	
Exercised	(248,900)	9.88(US$)
Canceled or expired	(567,500)	
Outstanding, December 31, 1989	780,600	9.88-13.50(US$)
Granted	168,668	
Exercised	(73,367)	9.88(US$)
Canceled or expired	(25,333)	
Outstanding, December 31, 1990	850,568	9.88-13.50(US$)
Granted	32,666	
Exercised	(142,067)	9.88-11.25(US$)
Canceled or expired	(10,033)	
Outstanding, December 31, 1991	731,134	9.88-13.50(US$)
Exercisable, December 31, 1991	699,468	9.88-13.50(US$)

Note 10. Employee Benefit Plans

The Company has a savings plan (which qualifies under Section 401(k) of the U.S. Internal Revenue Code) covering all full-time U.S. employees. Under the plan, employees may elect to contribute up to 10 percent of their cash compensation, subject to ERISA limitations. The Company is required to make a matching cash contribution equal to 50 percent of the first 6 percent of the employee's contribution. Employees have the option of investing all or a portion of the total amounts contributed in shares of the Company's common stock. The Company may, at its discretion, make additional contributions to the plan. During the years ended December 31, 1991, 1990 and 1989, the Company contributed $436,000, $408,000 and $356,000, respectively, to the plan.

During 1990, the Company adopted a defined contribution pension plan covering all of its employees who have completed one year of service. The contribution is based upon a percentage of average annual compensation multiplied by the years of service with the Company. Contributions are 100 percent vested after five years of service and prior service with the Company is considered for vesting purposes. Contributions to the plan totaled $240,000 and $148,000 in 1991 and 1990, respectively.

Note 11. Comments and Contingencies

Hedged Production

In order to protect against declines in the price of gold and other metals, the Company enters into forward sales, options and other hedging agreements. Realization under these agreements is dependent upon the ability of the counterparties to perform in accordance with the terms of the agreements. In order to limit its exposure, the Company diversifies its selection of counterparties.

Under the terms of long-term gold forward sales agreements, the Company is obligated to deliver 228,000 ounces of gold as follows:

1992	12,000
1993	24,000
1994	24,000
1995	36,000
1996	36,000
1997	48,000
1998	48,000
	228,000

For the above deliveries, the Company will receive an average price computed over the life of the agreements which will vary depending upon the gold borrowing rate, LIBOR and the price of gold, and which was estimated to be $522 per ounce at December 31, 1991.

As of December 31, 1991, the Company has outstanding gold forward sales contracts with other entities which require delivery of 81,500 ounces in 1992 at an average price of $395 per ounce. In addition, the Company has put options for 150,000 ounces of gold exercisable in 1992 at an average exercise price of $350 per ounce.

The Company is also obligated to deliver 192,824 ounces of gold pursuant to swap agreements as described in Note 6 and 49,700 ounces of gold pursuant to long-term debt agreements as described in Note 5.

In addition, the Company is obligated to deliver 5,200,000 ounces of silver, as follows:

1992	940,000
1993	840,000
1994	840,000
1995	700,000
1996	600,000
1997	840,000
1998	440,000
	5,200,000

For the above deliveries, the Company will receive an average price over the life of the agreement which will vary depending upon the silver borrowing rate, LIBOR and the price of silver, and which is estimated to be $5.57 per ounce at December 31, 1991.

Common Shares Issuable

At December 31, 1991, a total of 1,994,210 shares of authorized common stock are reserved for the following:

Warrants	1,000,000
Stock options	961,833
Employee Savings Plan	32,377
	1,994,210

Note 12. Shareholders' Equity

On July 2, 1991, the Company sold, through underwriters in Canada and Europe, three million units consisting of one Common Share and one-third of a detachable Common Share purchase warrant for a price of C$15.50 (U.S. $13.55) per unit. The warrants are exercisable at C$17.50 per share and expire on July 5, 1993. The net proceeds to the Company after expenses were approximately $38,700,000 (C$44,250,000).

On December 1, 1988, the Board of Directors adopted a Shareholder Protection Rights Plan ("Plan") and declared a dividend of one preferred share purchase right ("Right") for each outstanding share of common stock. The Rights only become exercisable, or transferable apart from the common stock, on the eighth trading day after a person or group ("Acquiring Person") acquires beneficial ownership of, or commences a tender or exchange offer for, 10 percent or more of the Company's common stock, other than pursuant to a permitted bid, as defined in the Plan.

Among other provisions, each Right entitles the holder to purchase one-hundredth of a Class A Preferred Share, Series 1, at an exercise price of $55, subject to adjustment. Thereafter, upon the occurrence of certain events (for example, if the Company is the surviving corporation of a merger with an Acquiring Person), each Right will entitle its holder to purchase common stock with a market value of twice the Right's exercise price. Alternatively, upon the occurrence of certain other events (for example, if the Company is acquired in a merger in which the Company is not the surviving corporation), each Right will entitle its holder to purchase common stock of the Acquiring Person with a market value of twice the Right's exercise price.

The Rights are subject to redemption by the Board of Directors for $.01 per Right at any time prior to becoming exercisable. The Rights will expire in December 1998.

Note 13. Subsequent Event

On March 10, 1992, the Company entered into an agreement to acquire 38,461,540 newly issued common shares from Zapopan NL, a publicly traded Australian company, for $18,685,000 (A$25,000,000). Upon the completion of this transaction, which is subject to the approval of Zapopan shareholders and the Australian regulatory authorities, the Company will own approximately 35 percent of the outstanding common stock of Zapopan. Zapopan has interests in properties located in the Northern Territory of Australia, including a 100 percent interest in the Tanami mine which is expected to produce in excess of 100,000 ounces of gold in 1992, and a 50 percent interest in the Mount Todd joint venture. The proceeds of this private placement will be used by Zapopan to fund the purchase of its joint venture partner's interest in the Mount Todd joint venture and to repay debt.

Note 14. Differences Between U.S. and Canadian Generally Accepted Accounting Principles

Accounting under the United States and Canadian generally accepted accounting principles ("GAAP") is substantially the same, except for the following:

Acquisitions

Under U.S. Securities and Exchange Commission regulations, common shares issued to acquire certain affiliated companies are valued at the historical cost basis of the net assets acquired. Under Canadian GAAP, common shares issued to acquire all companies, including those with affiliations, are valued at the market value of the shares issued.

Foreign Currency Translation

Under U.S. GAAP, foreign currency translation adjustments resulting from translating the Company's Canadian and Austra-

lian operations to U.S. dollars are not included in the determination of net income, but are accumulated and disclosed as a separate component of shareholders' equity. All assets and liabilities are translated using the exchange rate at the balance sheet date. Income and expense items are translated using average exchange rates. Gains and losses from foreign currency transactions are included in net income.

Under Canadian GAAP, monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate at the balance sheet date, and nonmonetary assets and liabilities are translated at the exchange rate in effect at the date of the transaction. Income and expenses are translated using average exchange rates. Exchange gains or losses are included in net income, except for those relating to noncurrent monetary assets and liabilities, which are deferred and amortized over the remaining life of the asset or liability.

Income per share

Under U.S. GAAP, the computation of primary income per share considers the weighted average number of shares outstanding during the year plus common stock equivalents, such as common stock options and warrants. This method requires that primary income per share be computed as if stock options and warrants were exercised at the beginning of the year and as if the funds obtained thereby were used to purchase common stock of the Company at its average market price during the year. Fully diluted income per share is computed as if the proceeds from the exercise of common stock options and warrants were used to purchase the Company's common stock at its market price at the end of the year. Basic income per share under Canadian GAAP is calculated using the weighted average number of shares outstanding during the year. Fully diluted income per share assumes that the options and warrants outstanding at the end of the year had been exercised at the beginning of the year.

The following table sets out a reconciliation of the differences between U.S. and Canadian GAAP with respect to net income (loss), retained earnings and basic income (loss) per share for the years ended December 31, 1991, 1990 and 1989 and the components of shareholders' equity as reported under Canadian GAAP for the years ended December 31, 1991, 1990 and 1989.

	1991	1990	1989
Net income (loss) and retained earnings:			
Net income (loss), U.S. GAAP	**$ 9,599**	$ (38,172)	$ 9,763
Amortization of acquisition cost over book value	**(191)**	(763)	(763)
Capitalization of deferred exchange (gain) loss	**-**	98	(305)
Net income (loss), Canadian GAAP	**9,408**	(38,837)	8,695
Retained earnings, beginning of year	**5,887**	47,194	40,914
Less dividend	**(2,786)**	(2,470)	(2,415)
Retained earnings, end of year	**$ 12,509**	$ 5,887	$ 47,194
Basic income (loss) per share	**$ 0.36**	$ (1.58)	$ 0.36
Shareholders' equity:			
Canadian GAAP			
Common stock	**$234,384**	$194,045	$188,079
Retained earnings	**12,509**	5,887	47,194
Foreign currency translation adjustment	**-**	-	-
	$246,893	$199,932	$235,273

Note 15. Quarterly Data (Unaudited)

Selected unaudited quarterly data for the years ended December 31, 1991 and 1990 is as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Year ended December 31, 1991:					
Sales of gold and other metals	$ 23,272	$ 44,312	$ 46,611	$ 42,016	**$ 156,211**
Gross profit	$ 2,749	$ 9,093	$ 8,417	$ 7,664	**$ 27,923**
Income from operations	$ 106	$ 4,861	$ 4,697	$ 3,195	**$ 12,859**
Net income	$ 378	$ 2,834	$ 3,078	$ 3,309	**$ 9,599**
Net income per share	$ 0.02	$ 0.11	$ 0.11	$ 0.13	**$ 0.37**
Year ended December 31, 1990:					
Sales of gold and other metals	$ 29,826	$ 49,736	$ 48,803	$ 42,848	**$ 171,213**
Gross profit	$ 4,944	$ 10,237	$ 9,074	$ 7,516	**$ 31,771**
Income (loss) from operations	$ 612	$ 5,061	$ 4,745	$(30,623)	**$ (20,205)**
Net income (loss)	$ 621	$ 2,202	$ 3,478	$(44,473)	**$ (38,172)**
Net income (loss) per share	$ 0.03	$ 0.09	$ 0.14	$ (1.81)	**$ (1.55)**

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Reno, Nevada

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Calgary, Alberta

Lindsay D. Norman
Butte, Montana

Daniel U. Pekarsky*
Vancouver, B.C.

Donald R. Peoples**
Butte, Montana

James S. Redpath
North Bay, Ontario

L. Jack Smith
Vancouver, B.C.

John M. Willson
Spokane, Washington

William G. Wilson
County Wexford, Ireland

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Executive Officer

John L. Azlant
Vice President,
Finance & Chief
Financial Officer

Michael L. Clark
Executive Vice
President & Chief
Operating Officer

F. Alan Fletcher
Vice President,
Corporate Secretary
Chief Legal Counsel

Allan M. Park
Vice President,
Exploration

James H. Moore
Controller

Eric E. Kinneberg
Treasurer

Operating Management

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General Manager
Zortman/Landusky
Mine

Thomas J. Weitz
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Mine

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Common Shares
Toronto Stock
Exchange - PGU
American Stock
Exchange - PGU
Montreal Exchange-PGU

Options on Common Shares
Chicago Board
Options Exchange
Montreal Exchange

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Coopers & Lybrand
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Solicitors

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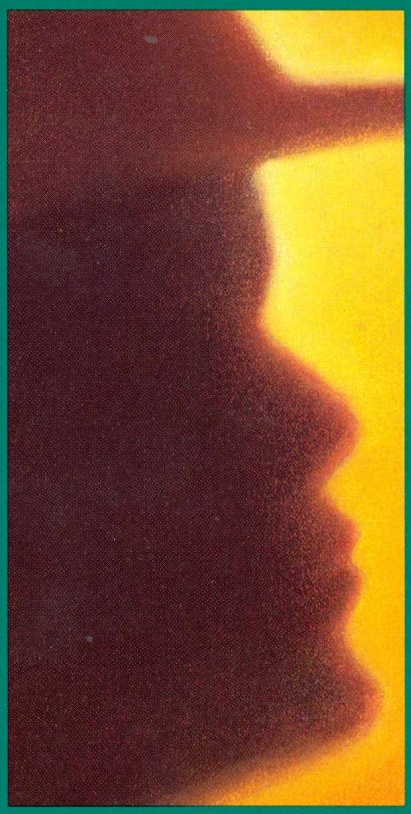
* Daniel U. Pekarsky was appointed 2/18/1992

** Donald R. Peoples resigned 12/3/1991



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