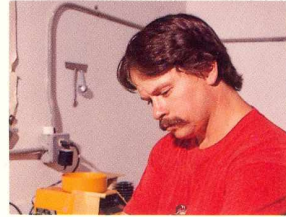
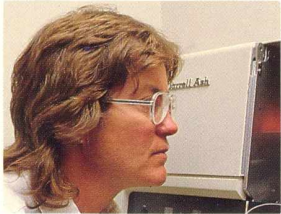


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Annual Reports

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1989 Annual Report

PEGASUS GOLD
I N C.

We intend to be a superior organization that achieves aggressive quality growth principally in the precious metals sector, consistent with high corporate standards. Our purpose is to maximize the long-term financial return to shareholders and to optimize the quality of life for employees through ethical, safe, profitable, efficient, and innovative operations.

Pegasus Gold Inc. Corporate Philosophy

CORPORATE PROFILE

Pegasus Gold is a major North American gold producer. Current annual gold production is approximately 340,000 ounces. The Company produces significant amounts of silver, lead, and zinc as by-products of gold production.

The Company is well positioned for growth during the new decade of the 1990s. The goals are to reach 500,000 ounces of gold production by 1994 and 1 million ounces of gold equivalent production by the year 2000. At present there are five operating mines each with significant remaining reserves and mine life. In addition, four projects are under development including two major joint ventures and a major new source of production at one of our existing mines. These will

provide additional production in the next two to three years. As a source of longer term growth, there is a substantial inventory of properties undergoing evaluation and review and an aggressive exploration program.

The Company's financial condition is excellent. Debt level is low and cash flow is among the strongest in the industry. Pegasus has the ability to move quickly to make acquisitions and take advantage of growth opportunities that present themselves.

With a strong financial position, a solid portfolio of operations, and a development pipeline filled with quality projects, the future of Pegasus Gold is very bright.

FINANCIAL HIGHLIGHTS

	1989	1988	Change
OPERATING			
Production			
Gold (oz.)	341,400	283,800	57,600
Silver (oz.)	1,510,700	1,360,700	149,900
Zinc (tons)	16,400	18,400	(2,000)
Lead (tons)	7,500	8,400	(900)
Ore mined (000 tons)	22,500	22,100	400
Cash cost per ounce of gold production	\$ 242	\$ 256	\$ (14)
Breakeven cost per ounce of gold production	\$ 357	\$ 375	\$ (18)
FINANCIAL			
Revenues (000)	\$178,362	\$162,757	\$15,605
Net income (000)	\$ 9,763	\$ 17,779	\$(8,016)
Earnings per share	\$ 0.41	\$ 0.75	\$ (0.34)
Cash provided by operations (000)	\$ 44,100	\$ 43,100	\$ 1,000
Average gold price realized	\$ 416	\$ 439	\$ (23)
COMMON SHARE DATA			
Shares outstanding at year-end	24,151,000	23,886,000	265,000
Weighted average	23,986,000	23,781,000	205,000

CONTENTS

Letter from the President	2
Operations Overview	4
Production and Reserve Data	6
Zortman/ Landusky	8
Florida Canyon	10
Montana Tunnels	12
Beal Mountain	14
Basin Creek	16
Relief Canyon	18
Business Development	20
Exploration	22
Financial Section	24
Corporate Information	Inside Back Cover



A LETTER FROM THE PRESIDENT

*It is the future
outlook that is
most exciting.*

Dear Shareholder:

The year of 1989 was a successful one for Pegasus Gold. Gold production was greater than any year in the Company's history. Our revenues reached \$178 million (also a record) and our operating cash flow continued to be among the highest of the major North American producers at \$1.84 per share. Although net income was affected by substantially lower gold prices, and write-downs of investments totalling \$4.8 million, our earnings from operations increased by \$3.7 million, attesting to their fundamental strength. Particularly notable was the excellent performance of our Florida Canyon mine that achieved record gold production of 79,300 ounces while reducing its cash costs of production by \$55 per ounce.

But our successes were not limited only to our operations. We also took several steps to fulfill our commitment to quality growth made on the cover of last year's annual report. Our development group brought the new Beal Mountain mine into production during the year and, although Beal Mountain did not officially begin commercial operations until May, its performance has exceeded our expectations. The pilot phase of our project to develop the large mixed oxide/sulfide resource at our Zortman/Landusky mine was completed with positive results.

During the third quarter, we completed three transactions. The first was the

acquisition of Pangea Resources Ltd., including the Basin Creek mine near Helena, Montana. Basin Creek not only gave us an immediate return by producing over 26,000 ounces in 1989 but it also gave us a large property position that holds the promise of additional reserves. Next, we concluded an option agreement with Quartz Mountain Gold Corp. to acquire a 50 percent interest in the Quartz Mountain gold project in southern Oregon. Preliminary studies indicate that it contains about 1.5 million ounces of gold. Finally, we reached a joint venture agreement with LAC Minerals for the development of the Ortiz gold project in central New Mexico. The Ortiz project includes several deposits which together are estimated to contain well in excess of 1 million ounces. A portion of the Ortiz project could be in production in 1991.

Along with the positive aspects of 1989, there were some difficult challenges that had to be met. We addressed these challenges successfully starting, most specifically, with the lower gold price. Through our hedging programs, we added \$11.6 million to revenues. We made adjustments to our Montana Tunnels mine after discovering some previously unknown anomalies in the ore deposit and we have partially mitigated the impact. We took the initiative when the condition of our investment in Pioneer Metals changed and have taken action to protect your interests.

Although we are pleased with our success in 1989, it is the future outlook that is most exciting. We believe that the outlook for the next decade is excellent. Gold prices began to recover in late 1989 and most analysts believe this market should remain strong. We have been diligent in maintaining a low-debt position which allows us to react to opportunities. We are, therefore, well situated to take advantage of improved opportunities as they present themselves and, in the process, enhance the value of this Company and our shareholders' investments.

Our intention, of course, is to continue to grow. We have plans for growth that are clearly set out, with specific objectives and strategies to achieve them. Our current target is annual production of 500,000 ounces of gold by 1994, and

1 million ounces of gold equivalent production, including 700,000 ounces of gold, by the year 2000.

We have built a solid foundation for future growth. During the past few years our production of gold has increased five-fold. Even with this increase in production, our reserve base has nearly doubled since 1985. Our portfolio now includes five solid operations, each with substantial mine life and some with solid potential for further extensions. It also includes four development projects and a number of encouraging exploration properties.

Our concentration is in the minerals industry where our expertise allows us to make informed decisions. We will not become involved in businesses where we have no expertise. Our primary focus will continue to be gold, but we will also explore, on a limited basis, diversification into base metals and industrial minerals.

Our principal source of growth will be acquisitions. We have the ability to manage many types of projects but we will focus on the large-tonnage, open-pit deposits where our experience is greatest. Exploration will, nevertheless, continue to be an integral part of our plan for growth. A steady exploration program offers the best means of adding low-cost reserves to our inventory. We will focus on western North America and Australia, but will always consider opportunities elsewhere. Our existing operations are also a source of potential growth, and we look toward expanding them when expansion makes sense. Advances in technology, as they develop, will be employed wherever possible to increase production or reduce costs. We will also continue to look at investments as a channel for growth.

We are well positioned for growth. However, having plans and means are, by themselves, not sufficient to reach our goals. Those components of growth are only as valuable as the quality of the factor that makes the critical difference—people. We have assembled a very able team of people with the skills and desire needed to implement the plans we have devised and to achieve our goals. John Azlant joined us as Vice President, Finance and Chief Financial

Officer in October and Allan Park joined us as Vice President of Exploration as this report went to press.

Several changes in our Board of Directors occurred during 1989. James H. Foreman, my predecessor as Chief Executive Officer, left the board in keeping with his expressed desire to reduce his involvement in the affairs of the Company. Stanton B. Bennett retired from the board after serving as a Director since 1985. Stan also served as our General Counsel and Corporate Secretary until his retirement. Both Jim and Stan played key roles in the growth and success of this Company. James O'Rourke also left the board in 1989. We are grateful to have had the benefit of his business skills and experience in shaping the future of Pegasus.

We were pleased to have three new and highly qualified Directors join the board. L. Jack Smith joined our board in January 1989, Paul H. Atkinson joined in June, and James S. Redpath was appointed just after year-end. Each of these gentlemen bring outstanding credentials in mining and business to the board. I am certain that their counsel will be of tremendous value as we continue to grow.

If we are to achieve our goals and realize the growth we seek, everyone, from the Directors, minesite personnel, and support staff, must work as a team toward our common goals. During the visits I made to every Pegasus location to explain our plan and goals, I was impressed by the strong commitment that permeates our Company at every level. While space does not permit me to take note of everyone, the photographs on the following pages show a cross-section of the dedicated and talented people who are the real force behind our ability and who will carry us forward to greater success in the future.



John M. Willson
March 30, 1990

***We have assembled
a very able team of
people with the skills
and desire needed
to implement the
plans we have
devised and to
achieve our goals.***

Mike Clark, Vice President, Operations (L), Tom Weitz, Manager of the Montana Tunnels mine (C) and Scott Lawson, Corporate Manager of Human Resources at the Montana Tunnels pit. Close coordination of operations and human resource considerations ensures both efficient operations and high employee motivation.

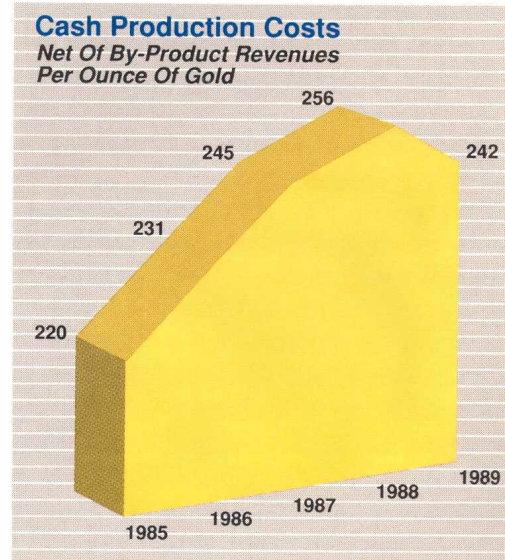
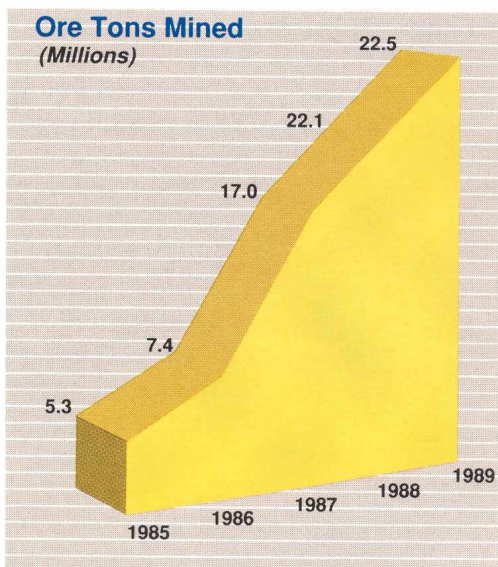


OPERATIONS OVERVIEW

1989 was a full year from an operating point of view. We brought a new mine, Beal Mountain, into commercial production. We also assumed operating control of another mine, Basin Creek, at the end of June. Anomalies encountered at Montana Tunnels early in the year called for a review of that operation, which resulted in a revision to the mine plan and recalculation of reserves. Additionally, some improvements to the plant at Montana Tunnels were made. These required a significant amount of engineering and economic analysis. At two new projects, Ortiz and Quartz Mountain, preliminary evaluation and metallurgical testing got under way.

The progress made on the Zortman/Landusky sulfide project also required that increased attention be given to that project.

Additional production from Beal Mountain and Basin Creek were principally responsible for the increase in our total gold production to a record 341,400 ounces. Record performance from Florida Canyon essentially offset reduced production from Montana Tunnels and Relief Canyon. Zortman/Landusky continued its long record of reliable performance despite the effects of adverse weather conditions in the first quarter.

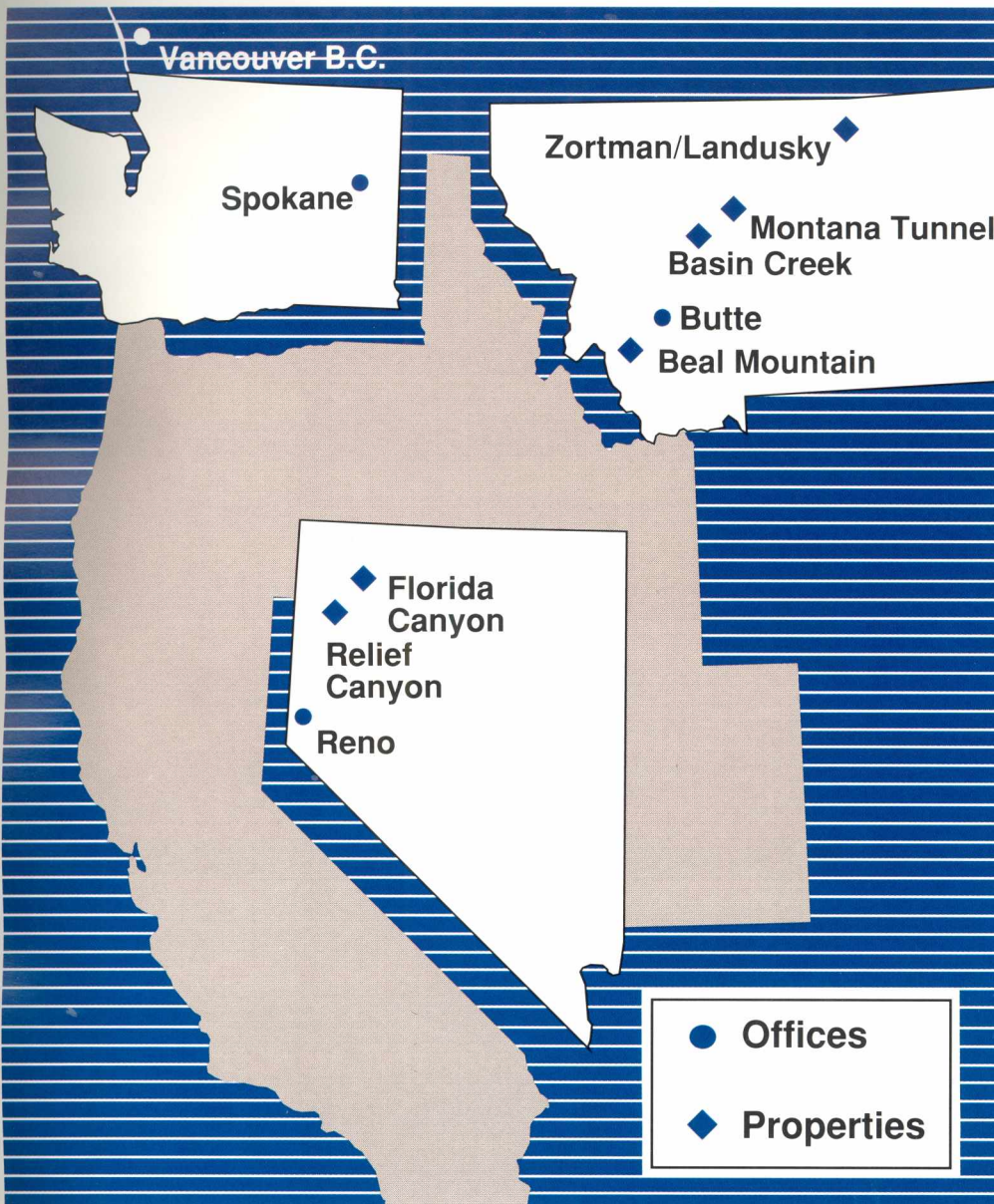


To better meet the increased demands of growth over the next decade, some organizational changes were made in 1989. Most significantly, we strengthened the mine engineering group at our headquarters in Spokane. This group provides technical support to our existing operations and plays a key role in the development of new projects. An added benefit of this group will be its ability to assist with business development activities by being available to help with the assessment of proposed acquisitions. In addition, we increased

the size of the staff dedicated to development of the sulfide ore project at the Zortman/Landusky mine.

As Pegasus grows over the next decade, we will be faced with increasingly diverse operating conditions. The operating team we have assembled and the structure we developed in 1989 will give us the degree of flexibility needed to be successful in developing and operating a variety of projects.

*The operating team
we have assembled...
will give us the
degree of flexibility
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of projects.*



1989 PRODUCTION BY MINE

Production	Zortman/ Landusky	Florida Canyon	Relief Canyon	Montana Tunnels	Beal Mountain	Basin Creek
Gold (oz.)	106,400	79,300	29,900	62,600	37,200	26,000
Silver (oz.)	223,800	23,800	29,800	1,204,000	8,100	21,200
Zinc (tons)	0	0	0	16,400	0	0
Lead (tons)	-	-	-	7,500	0	0
Ore Tons Mined (000)	10,100	4,600	1,600	4,000	1,300	900
Grade						
Gold (oz./ton)	0.019	0.020	0.028	0.021	0.043	0.042
Silver (oz./ton)	0.070	0.017	0.100	0.490	0.100	0.080
Zinc (%)	-	-	-	0.670	-	-
Lead (%)	-	-	-	0.250	-	-
Cutoff Grade	0.010	0.014	0.010	0.018 *	0.015	0.015
Recovery Percentage						
Gold	62	75	62	82	65	75
Silver	25	27	50	67	25	38
Zinc	-	-	-	77	-	-
Lead	-	-	-	84	-	-
Strip Ratio	.55:1	.88:1	1.53:1	3.3:1	1.33:1	1.6:1
Cash Cost of Production	275	240	315	164	190	280

*Gold Equivalent

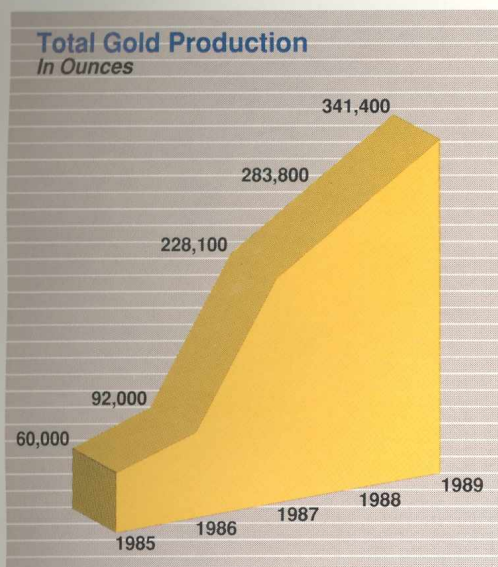
RESERVES AS OF JANUARY 1, 1990

Mine	Proven & Probable			Mineral Inventories		
	Tons (000)	Grade Oz./Ton	Contained Oz. Au	Tons (000)	Grade Oz./Ton	Indicated Oz. Au
Zortman/Landusky	47,800	0.016	765,000	46,000	0.024	1,104,000
Florida Canyon	36,200	0.018	652,000			
Montana Tunnels	37,400	0.021	785,000			
Beal Mountain	11,700	0.048	560,000	300	0.045	14,000
Basin Creek	9,600	0.031	297,000	4,000	0.041	164,000
Ortiz (1)				13,500	0.054	729,000
Quartz Mountain (1)				25,000	0.030	750,000
Diamond Hill (2)	700	0.046	34,000	2,800	0.026	73,000
Total	143,400	0.022	3,093,000	91,600	0.031	2,834,000

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

(2) Joint venture. Amounts shown reflect Pegasus' 60% share.

The Florida Canyon mine's unique radial stacker/conveyor in operation on the circular leach pad.

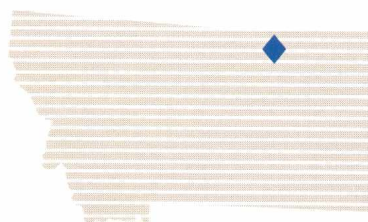


SELECTED HISTORICAL DATA

	1989	1988	1987	1986	1985
Production					
Gold (oz.)	341,400	283,800	228,100	92,000	60,000
Silver (oz.)	1,510,700	1,361,000	778,000	229,000	158,000
Lead (tons)	7,500	8,400	4,300	-	-
Zinc (tons)	16,400	18,400	7,200	-	-
Gold Equivalent (oz.)	430,100	370,200	259,600	95,500	62,900
Tons Ore Mined	22,500,000	22,100,000	17,000,000	7,400,000	5,300,000
Financial					
Gold Price Realized/ oz.	\$ 416	\$ 436	\$ 429	\$ 381	\$ 312
Operating Cost/ ton	\$ 5.20	\$ 4.75	\$ 4.36	\$ 3.98	\$ 3.21
Operating Cost/ oz.	\$ 242	\$ 256	\$ 245	\$ 231	\$ 220
General & Administrative					
Costs/ oz.	\$ 21	\$ 23	\$ 28	\$ 38	\$ 41
Depreciation, Depletion &					
Amortization/ oz.	\$ 70	\$ 73	\$ 66	\$ 53	\$ 45
Operating Cash Flow	\$44,104	\$ 43,073	\$ 6,654	\$12,141	\$ 3,713
Net Debt*	\$11,550	\$ (16,189)	\$ (17,956)	\$50,411	\$11,607
Debt/ Total Capitalization (%)	12	13	15	52	32
Reserves At Year End					
Gold (oz.)	3,093	3,248	2,877	3,042	1,772
Gold Equivalent (oz.)	4,338	4,543	3,705	3,805	3,690
Number of Employees	460	370	344	245	115

* (Long Term Debt Less Cash & Cash Equivalents)

Heavy equipment loading ore for transport directly to the leach pad at Zortman/Landusky. The ability to leach run-of-mine ore keeps costs down at this mine.



Montana

ZORTMAN/ LANDUSKY

***Zortman/ Landusky
marked its eleventh
year of production
in 1989.***



The Zortman/Landusky mine is an open-pit, heap-leach operation located in north central Montana. On average, 10 million tons of ore are mined at Zortman/Landusky annually.

The Zortman/Landusky mine added another page to its history of steady, reliable operations in 1989. Gold production for the year was 106,400 ounces and silver amounted to 223,800 ounces.

Zortman/Landusky marked its eleventh year of production in 1989. That fact is particularly remarkable because Zortman/Landusky is one of the lowest grade operating gold mines in the world. It was, until 1986, Pegasus' only operating mine and served as a "laboratory" for the development of heap-leach technology.

The key to success at Zortman/Landusky has been the ability of Pegasus to leach run-of-mine ore successfully. After blasting, ore is taken from the pit and moved directly to the leach pad, without undergoing any additional processing, and sprayed with leach solution. The ability to eliminate intermediate processing steps reduces mining costs and contributes greatly to the economic feasibility of mining low-grade ore.

Beyond the ore itself, several mining and processing techniques employed at Zortman/Landusky contribute further to its success. The blasting process to a

great extent separates the ore from waste material, thus minimizing ore dilution and waste handling costs. Zortman/Landusky also pioneered the use of valley-fill leach pads. These very large pads, with a capacity of as much as 40 million tons of ore, are sufficient to handle several years of mining operations. This allows economies of scale to be realized in construction costs and the lowest possible mining costs.

Rising prices of caustic soda used to control the pH of the leach solutions and uncertainty over the adequacy of supplies resulted in a switch to the use of lime for pH control on the Zortman section of the mine during 1989. A special application system was designed in-house to meet the specific needs of the mine. The system was up and operating by mid-year and, with some minor fine tuning, has been performing as expected. The system will not only reduce operating costs but will also help ensure that operations are not hampered by supply shortages.

The Landusky section of the mine will be similarly converted in 1990. The experience gained during 1989 will make the conversion smoother and more efficient.

At the end of 1989, the Zortman/Landusky mine had approximately 48 million tons of proven oxide reserves. That is sufficient for almost five years of

operation at the rate of 10 million tons of ore per year. However, Pegasus has been consistently successful in replacing the ore mined each year with new reserves. The mine is located on approximately 17,400 acres in the Little Rocky Mountains of north central Montana. The area has a long history of gold production and there is good potential for additional discoveries. Several targets have been identified on the property. We have not as yet conducted any significant drilling on these targets but will be evaluating them further in 1990.

A project is currently under way at Zortman/Landusky to develop methods for treating the significant sulfide mineralization that is known to be present. The sulfide material has not been included in our proven and probable reserve calculations thus far, pending the outcome of the development project. Although their full extent has yet to be determined, the present estimate of sulfide mineralization is approximately 16 million tons at an average grade of 0.046 ounces per ton.

We completed the pilot phase of the sulfide project in 1989. A 3,000-ton bulk sample was processed by flotation and a concentrate sample produced. Also, a substantial amount of drilling was done to define the deposit, determine its grade, and obtain data to evaluate the economic viability of the project. The results thus far are promising.

In 1990, we will conduct further testing on the concentrate sample to determine the best method for processing it. Tests will be conducted to determine if the concentrate is suitable for direct smelter feed. If the results of these tests are favorable, the concentrate could be sent to smelters without further processing. Tests will also be conducted in 1990 to determine if the concentrate could be further treated by one of several available methods to make it amenable to leaching. If these prove viable, a dore' bullion would be produced from the concentrate.

As important as the sulfide project itself is the fact that the ability to mine the sulfides would provide access to an additional amount of oxide ore. Current estimates indicate that 30 to 40 million additional tons of oxide material with a grade of 0.013 ounces of gold per ton

could become accessible and substantially extend the life of the mine.

As part of the sulfide project in 1990, a program to site the necessary facilities to treat the ore using several different scenarios will be undertaken. This is a preliminary step to a full feasibility study which will begin later in the year and should be completed before year-end.

To ensure that adequate leach pad capacity is available, we have begun the permitting process and plan to begin the phased development of a new valley-fill leach pad in 1990. The pad will ultimately have a capacity of over 50 million tons of ore and will be adequate to handle the currently proven oxide reserves. Approximately \$8 million will be spent on the pad in 1990 because of the preparatory construction required. Expenditures will be significantly lower in future years.

With the very low grades at Zortman/Landusky, attention to every detail is important. The Zortman/Landusky staff has an enviable record of profitably mining material that most people would consider waste. It is clear that without an outstanding staff with superior skills, Zortman/Landusky would not be the success that it is.



Blast drill rigs working in the Zortman/Landusky pit.

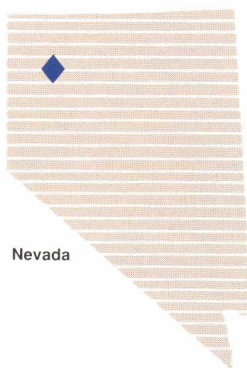
Technician Jim McMillan prepares blast drill hole samples for assay at the Zortman/Landusky lab. Data from these assays is used for ore grade control.





Exterior of the Florida Canyon plant at night. Increased plant capacity helped Florida Canyon achieve record production in 1989.

FLORIDA CANYON



Nevada

Our Florida Canyon mine, located 30 miles west of Winnemucca, Nevada, is an open-pit, heap-leach operation that began in late 1986. Approximately 4 million tons of ore are mined annually at Florida Canyon.

1989 was a banner year for Florida Canyon. Gold production set a record at 79,300 ounces. At the same time, cash production costs at Florida Canyon declined to \$240 per ounce of gold from \$295 per ounce the year before.

The excellent performance of Florida Canyon in 1989 is the result of a combination of factors. The staff at the mine has spent a great deal of time studying the deposit and the manner in which the ore behaves during blasting, crushing, agglomeration, and leaching. The mine staff, through experimentation, has been able to identify a set of parameters that maximizes recovery of metals. These factors include the size to which the ore is crushed, the amount of cement used in the agglomeration process, and the cycle over which the leach solution is applied to the ore.

For example, ore at Florida Canyon is crushed to 90% minus 3/4 inch and then agglomerated with cement and lime to enhance leachability and stabilize fine material that might otherwise impede

leaching. Sodium cyanide is also added during agglomeration. Initially, as much as seven pounds of cement per ton of ore was being used in agglomeration. However, through subsequent testing, it was determined that recoveries improved when a lesser amount of cement was used. Currently, as little as four pounds of cement per ton is used. Of course, the ability to use lesser amounts of supplies also translates into lower operating costs.

Equipment improvements have also played a role in the improved performance at Florida Canyon. Leach solution spray capacity was doubled from 1,100 gallons per minute (GPM) to 2,200 GPM during 1988. The full year results of that improvement were first seen in 1989. Inside the plant, improvements have allowed throughput to increase to 1,050 GPM from its original capacity of 650 GPM without incurring the cost of installing larger tanks. This allowed the plant to accommodate the increased solution flow from the pad and improved the performance of the mine.

During 1989, improvements were also made to Florida Canyon's electrical system that not only added further to spray capacity but also added redundancy to the system, reducing the possibility of unscheduled downtime.

Measures to improve the mine's performance extended to the distinctive circular leach pad in 1989. The full four quadrants of the pad became available during the year. This gave the operating staff additional flexibility to manage the leaching process for optimum efficiency. Having gained a more thorough knowledge of how the ore releases its metal content, the operators know that secondary leaching is more effective if the ore is left to "rest" for a period after primary leaching is complete. With the full area of the pad available, one section of the pad can be left to rest while ore is loaded and leached in other areas, without hindering the overall efficiency of production.

The pad was extended by approximately 300 feet on one side during the year. This addition provides more capacity at relatively low cost. In addition, the new section, when loaded with ore, will reinforce the original pad and allow ore to be loaded to a greater height than originally expected. This, in turn, will reduce the amount of capital required for pad construction over the life of the mine.

Gold production at Florida Canyon is expected to again reach the 79,000-ounce level in 1990. Because the deposit is quite homogeneous, both in terms of geology and ore grade, production will be fairly stable in the future. Although there may be some variations from year to year, we expect Florida Canyon to consistently produce in excess of 70,000 ounces of gold per year.

Production at Florida Canyon was aided for the first time in 1989 by leaching of low-grade, run-of-mine ore. Material containing between 0.008 and 0.014 ounces per ton of gold is not economical to process if crushing and agglomeration are required. However, it was determined that, because of the shorter haul distance to the leach pad than the waste dump, the material could be leached economically if a recovery rate of 40% could be achieved by leaching the run-of-mine material without further processing, and preliminary tests indicated that the necessary recovery could be achieved. During 1989, approximately 760,000 tons of the low-grade, run-of-mine ore were loaded on a portion of the pad and leached. The actual recoveries approached 50% and resulted in an estimated 4,000 additional ounces being produced during the year.

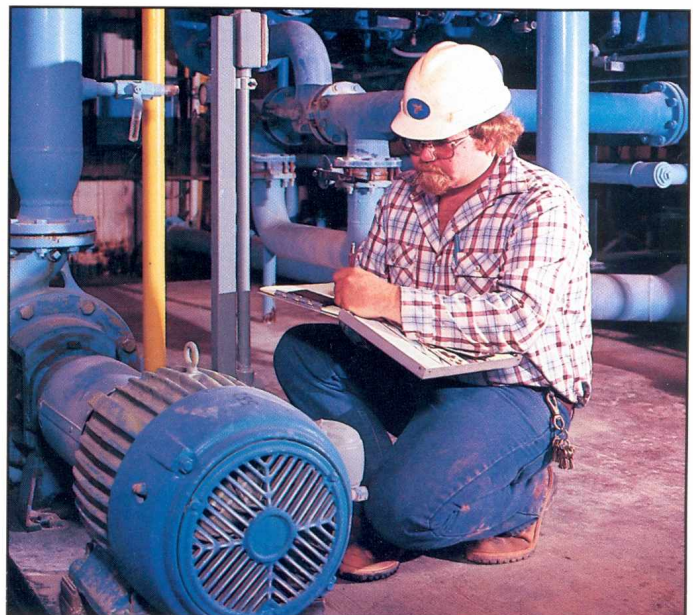
Florida Canyon has 36.2 million tons of reserves identified. This is sufficient for approximately seven more years of mining. Although the deposit is well defined, there is some potential for additional reserves to be developed. Efforts will continue in 1990 to identify additional reserves in an area known as the Northeast Extension.

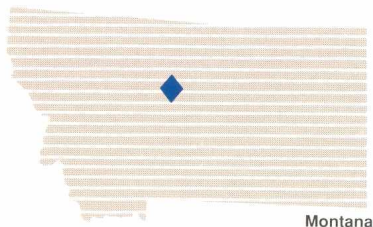
The key to the performance at Florida Canyon is its people. On-site operating staff and support personnel have worked as a team and found the means to improve the mine's performance. This effort has made the difference between the original production estimates made in 1986, of 55,000 ounces per year, and the 1989 reality of nearly 80,000 ounces.

***1989 was a banner
year for
Florida Canyon.***

The unique circular leach pad and radial ore stacker minimize material handling costs at Florida Canyon.

Operations Supervisor Joel Murphy checks the condition of a pump motor inside the Florida Canyon plant. Careful attention to plant maintenance ensures optimal performance.





MONTANA TUNNELS

Jon Pallister, Process Supervisor at Montana Tunnels, monitors plant operations in the control room. Electronic controls allow adjustments to be made quickly in response to subtle changes in the ore.



The Montana Tunnels mine, near Helena, Montana, is one of the few operating polymetallic gold mines in North America. In addition to 62,600 ounces of gold in 1989, Montana Tunnels produced 1.2 million ounces of silver, 16,400 tons of zinc, and 7,500 tons of lead.

1989 was a difficult year for operations at the Montana Tunnels mine. In the first quarter, some anomalies were discovered in certain sections of the ore body. These consisted of ore with a lower gold grade than had been predicted by the computer model and ore that had a hardness greater than expected.

The effect of the anomalies limited gold production at Montana Tunnels for the year to 62,600 ounces. Lower than expected grade and reduced mill throughput due to ore hardness kept production below original estimates for five months. However, our ore-blending efforts were successful in mitigating the effects of the harder ore. Mill throughput was restored nearly to planned levels well before year-end.

However, the cash cost of producing an ounce of gold, net of by-product revenues, remained the lowest of any of our mines. For the year, the cash cost per ounce of gold produced was only \$164 including the effects of the increased life-of-mine strip ratio.

Efforts to keep production costs down continued at Montana Tunnels during 1989. A front shovel was put into operation during the second quarter. This equipment replaced the loaders that had been used because it can be more precise in separating ore from waste, thus preventing dilution of the ore and minimizing waste handling costs. Although the change was relatively small in relation to the scope of the total project, it typifies the necessary attention to operating details that add up to the best possible performance.

The most important development at Montana Tunnels during the year was the response to the changed conditions created by the anomalies in the deposit. As soon as it became evident that the actual situation in the pit was different

than predicted, a program to adapt to the actual conditions was undertaken. We conducted infill drilling to define the anomalies physically and to obtain data regarding their effects on operations and production.

Once the results of the drilling program had been analyzed, we took decisive action. A new mine plan and a new ore reserve estimate were developed. Reserves were recalculated as of January 1, 1989 and lowered slightly from 43.1 million tons to 41.5 million tons. The estimate of life-of-mine gold grade was revised from 0.024 ounces per ton to 0.021 ounces per ton. The gold equivalent grade was changed from 0.038 ounces per ton to 0.036 ounces per ton.

The new mine plan indicated that production will vary more from year to year than previously expected and the average strip ratio over the life of the mine will be somewhat higher. The higher strip ratio recognized that blending of ore would be necessary at

times to compensate for increased ore hardness. Additionally, the height of the benches in the pit was reduced from 30 feet to 20 feet to allow for more selective mining and better grade control.

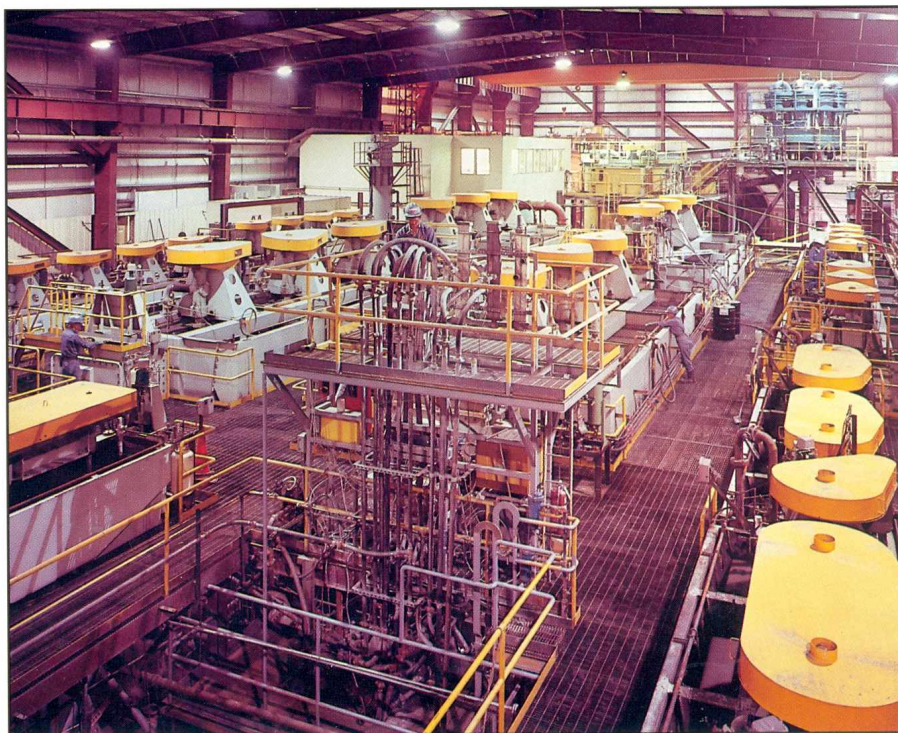
Changes were also made at the plant in response to the new conditions. Additional flotation cells were installed which increased the flotation time in the mill. This allowed higher quality concentrates to be produced. The additional cells allow the amount of lead in the zinc concentrate, where it is considered a contaminant, to be minimized. Further, there is a natural tendency for the precious metals to follow the lead. The higher quality concentrates allow more of the precious metals to be contained in the lead concentrate. This enhances profit because the revenues from sale of the precious metals are greatest when contained in the lead concentrate.

We also installed a small carbon circuit in the Montana Tunnels plant. The tailings solution from the lead flotation circuit is passed through the carbon columns to capture precious metals that have gone into solution as a result of reagents used to suppress pyrite during the lead cleaning process. Although the amounts are fairly small in absolute terms, the capital expenditure needed to install the carbon circuit was not large. The additional ounces of gold will contribute to the overall profitability of Montana Tunnels.

The effects of the changed conditions have been mitigated to a great extent, thanks to the dedication and professionalism of the operating and administrative staff at Montana Tunnels, as well as the corporate engineering staff. Faced with a difficult situation, they have found, and are continuing to find, ways to manage the Montana Tunnels mine for maximum profit under varying conditions.

The outlook for Montana Tunnels is clear. Gold production will range from the 60,000-ounce level in the early years to over 80,000 ounces in the late years of the remaining nine-year life of the property. This is based on present reserves of 37.4 million tons.

Cash costs of production will vary over the life of the mine, generally reflecting the location of mining operations within



Flotation deck of the Montana Tunnels plant. Improvements to the flotation circuit in 1989 helped mitigate the effects of ore body anomalies.

the ore body. Costs are expected to be relatively higher in the 1990-1995 period, when a greater proportion of mining activity will take place in those parts of the ore body where the anomalies occur and gold grades are lower. Costs are expected to peak near \$275 per ounce. From 1995 on, costs are expected to fall as higher grade ore at the center of the deposit becomes accessible.

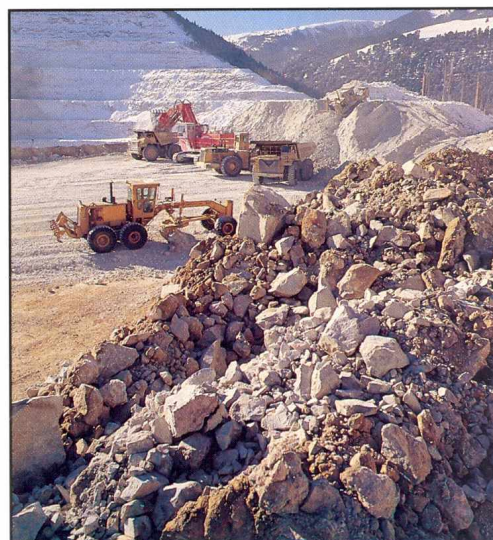
Exploration activities on the Montana Tunnels property and in the vicinity of the mine are continuing. Although our property has been thoroughly investigated and the mineralization fully defined, there is some potential for additional discoveries in the general vicinity.

Because the situation at Montana Tunnels is now stable, it will be possible in 1990 and beyond to look at ways of further improving the operation. It will be easier to isolate and quantify the effects of any changes. There will be continued study in 1990 of various means of improving the plant's performance. Several additional changes to the plant and mine are currently under study.

We are confident that Montana Tunnels will provide a return on investment and will continue to contribute to our growth.

***It will be possible
in 1990 and beyond
to look at ways
of further improving
the operation.***

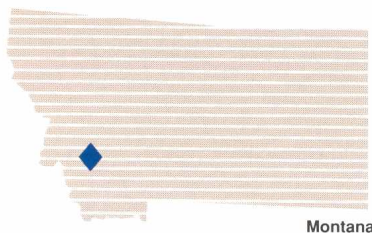
The Montana Tunnels pit. In the background, a front shovel loads ore into haul trucks. The shovel allows more precise mining and reduces ore dilution.





An aerial view of the Beal Mountain mine. Located in an environmentally sensitive area, Pegasus Gold has received awards for its efforts to protect the environment at Beal Mountain.

BEAL MOUNTAIN



Montana

We are particularly proud of our efforts to protect the environment at Beal Mountain.

Beal Mountain is an open-pit, heap-leach operation located near Anaconda, Montana. The mine was developed during 1988 and began commercial production in May 1989.

The commercial operation of the Beal Mountain mine was one of our high points of 1989. The project was developed in a remarkably short 11-month period during 1988 and stood ready for operation by the time shutdown for the 1988-1989 winter season was required. Startup operations began early in the first quarter of 1989 and proceeded smoothly. Commercial production began on May 1, although the mine actually recovered nearly 4,000 ounces during startup and testing.

Operations at Beal Mountain lived up to expectations in every way. The mine produced 37,200 ounces of gold commercially during the year from 1.3 million tons of ore. The grade was 0.043 ounces of gold per ton on average, with some mine production yielding higher than expected ore grade.

Cash costs of production, net of by-product revenues, came in at \$190 per ounce of gold produced. We expect cash costs over the life of the mine to average approximately \$230 per ounce.

In 1990, we expect to increase the level of activity at Beal Mountain. We will mine

about 400,000 more tons than were mined in 1989, bringing the annual amount to 1.7 million tons. Production of gold credited to revenue in 1990 will also increase, both because of the additional tonnage and because the mine will be in commercial operation for the entire year.

As with every Pegasus Gold operation, we are constantly seeking means to improve the Beal Mountain mine and reduce its operating costs. In 1990, Company personnel will take over crushing operations from the contractor. This move will result in a net reduction of operating costs. We regularly review the economics of using mining contractors against the alternative of performing those functions ourselves, while at the same time factoring in the level of flexibility that contractors provide. Our position has always been that we will operate in the manner that makes the most economic and practical sense.

Operations in 1990 and beyond will be directed toward increasing the tonnage mined at Beal Mountain and, consequently, gold production. Our objective is to reach an annual mining rate of 2 million tons per year if, as we proceed, the economics of that level of production justify it.

A key factor in operations at Beal Mountain has always been the environment.

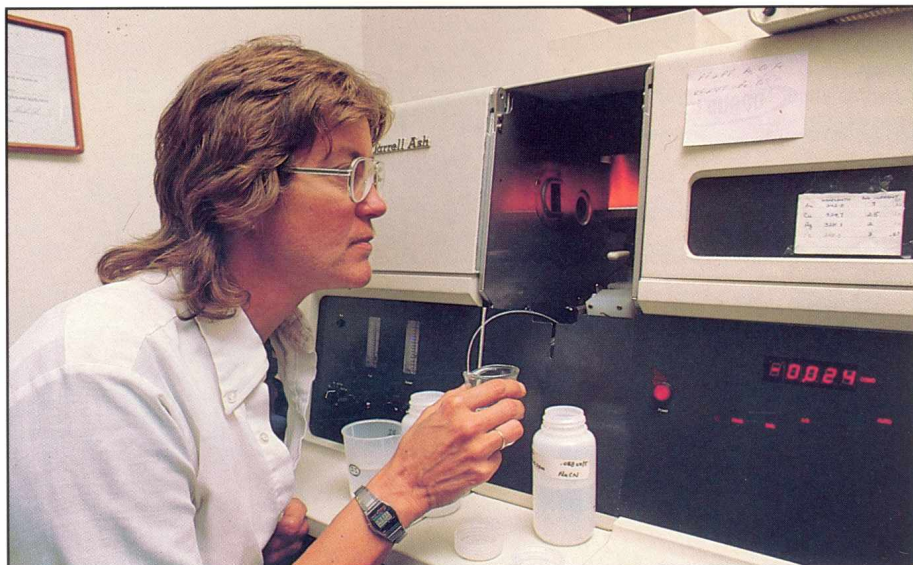
The mine is located in an environmentally sensitive area that includes elk breeding habitat and a stream containing a pure strain of native cutthroat trout. We are particularly proud of our efforts to protect the environment at Beal Mountain, and we are gratified that those efforts have been recognized. In late 1988, we received the Regional Forester's Award from the United States Department of Agriculture Forest Service for our efforts in meeting environmental concerns and, in fact, going beyond the requirements of our permits to ensure that the environment is preserved.

Our efforts to work cooperatively with government, area citizens and environmental and sportsman groups resulted in successful development of the Beal Mountain project while maintaining the integrity of an important wildlife area. We are committed to maintaining the environmental quality of the area as we expand the operation, and we are confident that the experience we have gained will assist us in meeting that goal.

Proven reserves at Beal Mountain stand at 9.7 million tons with an average gold grade of 0.046 ounces per ton. This gives the mine a life of approximately seven years. However, an additional 2 million tons of probable reserves await further analysis.

There is substantial potential for additional discoveries in the vicinity of the existing Beal Mountain mine. Our property position surrounding Beal Mountain consists of approximately 6,000 acres. In 1990, we will be continuing our program of exploration on the property. That program will include soil sampling and drilling to identify additional targets.

Beyond this, there may be additional minable ore at depth within the existing pit. We will conduct additional studies over the next few years to determine the extent to which mineralization continues below the current pit design and, if it does, whether it is economically and environmentally feasible to mine it.



In a very real sense, people working as a team have made the difference at Beal Mountain. Our exploration people recognized the merit of the deposit and made a strong case for development despite the fact that it was considered to have too many barriers to development. Our administrative and legal people found ways to meet the concerns of government and area citizens successfully and obtain the permits needed for development in only a few months. Our

Beal Mountain Lab Technician Carolyn Lewis runs a test using an electronic analyzer. The support of skilled employees gives an added advantage to Pegasus operating personnel in maximizing mine efficiency.



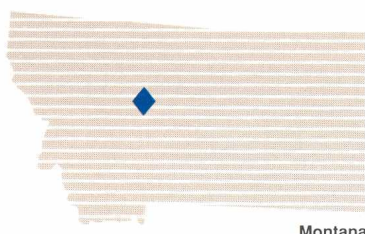
development people managed to complete construction of the facilities before winter set in despite the short construction season at the project's high elevation. The operating staff accomplished startup and achieved commercial production on schedule and without significant problems. And, of course, our financial staff provided the capital needed for development. It was, in every sense, a team effort without which the Beal Mountain mine would not be the exemplary project that it is.

Joe Micheletti, Process Metallurgist, removes an ore sample from the assay furnace at Beal Mountain. Ongoing analysis provides data for both mining operations and advance planning.

Both hand-drawn maps and computer models assist Basin Creek Project Manager Dan Turk and Mine Superintendent Randy Bargelt plan future mining operations.



BASIN CREEK



Montana

Basin Creek is our newest mine. It is an open-pit, heap-leach operation located 18 air miles southwest of Helena, Montana. When we acquired Pangea Resources Ltd. in mid-1989, Basin Creek was an operating mine.

Despite being part of Pegasus for only a portion of the year, Basin Creek contributed 26,000 ounces of gold to our annual production. The amount of ore mined, while we operated the mine, was slightly over 900,000 tons. Basin Creek also produced 21,200 ounces of silver as a by-product. Cash costs of production, net of by-product revenues, were \$280 per ounce of gold for the portion of the year that we operated the property.

The acquisition of Pangea Resources was undertaken principally to obtain the Basin Creek mine and the property position surrounding it. The mine gave us immediate cash flow. The property position of 17,000 acres in prime mineral territory (with which we are already well acquainted) gave us excellent potential for additions to reserves and the discovery of new deposits.

Basin Creek offers significant potential as an operating mine. Our extensive

experience in heap leaching will enable us to reduce operating costs and improve profitability. This can be achieved through both reductions in minesite costs and improvements in recovery rates. Over the life of the mine, we expect to be able to reduce cash operating costs to approximately \$250 per ounce.

Proven reserves at Basin Creek are approximately 6.1 million tons of ore with an average gold grade of 0.031 ounces per ton. In addition, 3.5 million tons of probable reserves, also with a grade of 0.031 ounces per ton, have been identified. Beyond this, mineral inventories of at least another four

million tons of ore exist with an indicated grade of 0.041 ounces of gold per ton.

Because Basin Creek is located at 7,800 feet above sea level, it is a seasonal operation. Weather does not permit mining operations to continue throughout the year. However, leaching can continue because of the installation of equipment that warms the leach solution and distributes it through the ore via buried pipes, rather than sprinklers. This "drip" system was pioneered at our Zortman/Landusky mine and has since become widely accepted as a means of extending the operating season of mines at high elevations and in cold climates. We made a number of other improvements during 1989 that should result in increased production in 1990 and beyond.

Adjustments were made to the crushing and agglomeration processes that improved the amenability of the ore to leaching, thereby improving the recovery rate. Additionally, these changes reduced the amounts of solids that were suspended in the leach solution. These solids had been having an adverse impact on plant efficiency.

We are in the process of increasing ore mined at Basin Creek to approximately 1.6 million tons in 1990. Some additional permitting work will be necessary for this level. We have begun preliminary work to accumulate the data necessary to make application for the required permits. We have been in contact with the appropriate regulatory agencies to determine whether there exist any issues unique to the Basin Creek mine and surrounding area that need to be addressed. As is the practice at all our mines, we have been in contact with area citizens to determine the potential impact of our plans on them. Our experience has shown that making the effort to identify areas of concern early in the process and addressing them from the outset simplifies what can be a complex process.

Further improvements for Basin Creek will be made in 1990. Leach pad capacity will be expanded. The new pad will be situated in a better location than the existing one, making it easier to manage the ore loading and leaching processes. Additionally, we will be investigating alternative methods of moving ore from the crusher to the leach pad to determine if cost savings are available.

The change in control of Basin Creek was accomplished smoothly. The mine staff was kept informed at all times of changes, the reasons for those changes and their expected impact. As a result, most of the personnel at Basin Creek remained after the change in control and they have played an integral part in the further development of the operation. The staff of Basin Creek are the people who will make that operation part of our future success. We are pleased that they are now part of the Pegasus team.

***Basin Creek gave
us excellent potential
for additions to
reserves and
the discovery of
new deposits.***

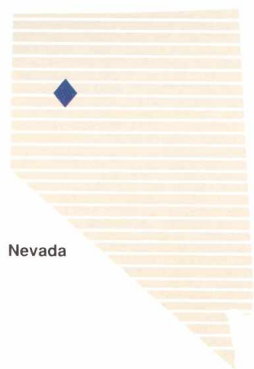


Aerial view of the Basin Creek mine and a portion of the 17,000 acre property surrounding it. Exploration work on the property has already identified additional targets.

Leach solution being sprayed on the Relief Canyon leach pads. Leaching will continue as long as economic recovery of metals continues.



RELIEF CANYON



Nevada

The Relief Canyon mine is an open-pit, heap-leach operation located 20 miles east of Lovelock, Nevada, and 40 miles south of our Florida Canyon mine. We have operated Relief Canyon since 1986. Relief Canyon has been an excellent investment. We have realized a return on our investment in excess of 100 percent every year since we made the acquisition. Although we will not be mining additional ore, we will continue to realize a return during early 1990 from continued leaching of the ore already on the leach pads.

Gold production was 29,900 ounces in 1989. Approximately 1.6 million tons of ore were mined during the year prior to the conclusion of mining operations in late August.

The Relief Canyon deposit, as expected, was mined out during 1989. We recognized at the time we acquired the project in 1986 that it would likely be a relatively short-lived operation. However, we acquired it because the terms were attractive and because we believed that we could improve the operation and make it profitable.

The deposit at Relief Canyon had been known since the late 1970s, and a signifi-

cant amount of development had been done by the previous owners. Mining operations were actually conducted by the previous owners beginning in 1984. However, the process employed during that period resulted in disappointing recovery rates and production below expectations. Mining operations were suspended in late 1985.

We undertook a review of the mine in early 1986. Extensive study indicated that it was possible to improve the recovery rates by changing the method of processing the ore. We acquired the property in July 1986 and made the necessary modifications. These involved crushing and agglomerating the ore prior to leaching rather than attempting to leach run-of-mine ore.

Operations at Relief Canyon resumed using the modified process in November 1986, and 1,800 ounces of gold were produced by year-end. Our analysis of the situation was proven correct in 1987 when gold production jumped to 42,000 ounces of gold and recovery exceeded 65 percent compared with the maximum of 45 percent experienced before the changes were made. The improved performance continued through 1988, when production was 40,000 ounces

from 2.2 million tons of ore until the deposit was exhausted in 1989.

Although extensive exploration work was done on the property surrounding Relief Canyon, no additional economic reserves were encountered. As recoveries taper off, we expect to produce approximately 5,000 ounces of gold at Relief Canyon in 1990. Leaching operations will continue as long as metal is being recovered and continued leaching operations are economically justified. It is unlikely, however, that leaching will continue beyond 1990.

Relief Canyon is a classic example of the importance of people to the success of a project and why we believe that people are the key to growth. Relief Canyon has been a success only because talented, experienced people had the ability to look beyond the operation as it stood in 1986 and see the real potential of the property.

A reclamation plan was developed in 1989 and actual reclamation efforts including contouring of roads, waste

dumps and other disturbed acreage, placement of topsoil, and seeding commenced during the year and will continue in 1990. Reclamation is not expected to have any impact on future earnings since the cost of reclamation was accrued during the life of the mine.

In anticipation of terminating operations, staff reductions were made gradually during 1989 and early 1990. A number of Relief Canyon employees have been transferred to other operations including Florida Canyon, Zortman/Landusky and the Ortiz joint venture project in New Mexico.

***We have realized
a return on our
investment in excess
of 100 percent
every year.***

The Relief Canyon leach pads and plant. Although short-lived, the project generated a return on investment of over 100% per year.



BUSINESS DEVELOPMENT

The objective of the Business Development department at Pegasus Gold is to identify, evaluate, and acquire properties either in operation or at an advanced stage of development. For properties not already in production, we seek those that can be placed into production within two to three years. This acquisition activity is critical to the continued success and growth of Pegasus. We must constantly find new sources of production to replace ore that has been mined.

1989 was a successful year for the Business Development department at Pegasus. Three major transactions, adding nearly 1.8 million ounces of either minable reserves or mineral inventories, were concluded.

Pangea Resources was acquired at mid-year. This acquisition gave us the Basin Creek mine, near Helena, Montana, which produced 26,000 ounces of gold and positive cash flow in 1989. The property is expected to produce approximately 40,000 ounces of gold in 1990. The Basin Creek mine currently has over 9 million tons of proven and probable reserves and an excellent potential to develop additional reserves through exploration activities. The existing proven and probable reserves at Basin Creek contain approximately 300,000 ounces of gold.

In the third quarter, we entered into a joint venture agreement with LAC Minerals for the further exploration and development of the Ortiz project in New Mexico. Pegasus is the operator and can earn a 50 percent interest in the project. Prior to our involvement, over \$7 million had been invested in the property. This investment resulted in the identification of seven lode gold occurrences. The Ortiz project has added approximately 730,000 ounces of gold to our mineral inventory and has the potential to be a major source of future gold production. Production is anticipated from one of the Ortiz project deposits within two years.

Also during the third quarter, we entered into an agreement with Quartz Mountain Gold Corp. for the development of the Quartz Mountain project in southern Oregon. This agreement gives Pegasus the right to earn a 50 percent interest in the property. Pegasus will be the operator. The Quartz Mountain project has

been the site of nearly \$13 million in exploration and evaluation work by other parties over the past several years. The Quartz Mountain project has added 750,000 ounces of gold to Pegasus' mineral inventory. Included within this 750,000 ounces of gold are approximately 240,000 ounces that are amenable to the heap leach extraction process. The heap leach portion of this project is also capable of being in production within two years.

The success in concluding these major transactions reflects the increasing maturity of this Company and the formulation of a strong Business Development organization. In addition, it reflects the recognition within the mining industry that we are a valuable partner in the development of mining properties.

We employ a team approach to evaluating potential acquisitions. This approach allows us to utilize employees from operations, development, exploration and finance who have special skills to assist in a particular evaluation. The team approach also allows for an evaluation to be completed in a fast and efficient manner.

Early in 1989, soft gold prices and a lack of investor confidence prohibited many companies from raising money in the stock market. Particularly hurt by this condition were smaller companies who wanted to fund their on-going projects. Many smaller companies elected to sell equity to larger companies while others elected to joint venture or sell off some of their properties. This situation created opportunities for the more established companies to participate in projects that might not have been available with higher gold prices.

Pegasus had the opportunity to review an estimated 100 potential opportunities in 1989. Of these 100, approximately 25 were considered to be Pegasus targets and received a detailed examination.

Competition for desirable properties was intense in 1989. Among the major factors fueling the competition for gold projects was an increased interest by base metal producers. In 1989, these companies were enjoying strong metal prices and were interested in becoming

involved in precious metals. Also, as gold prices began to rise late in the year, many companies, large and small, found that access to the capital markets had improved. The availability of capital created heated competition for good properties.

Competition for good properties and business opportunities is expected to remain unabated in 1990. We will inevitably find ourselves competing against companies that have substantially greater financial resources. This is an accepted fact. However, through honest dealings with people, adequate sources of capital, and strong operating expertise, we believe that we can compete successfully in this environment. We can also enhance our competitive position by focusing on specific types of opportunities where we believe we have an advantage. This advantage may include types of deposit, geographical location, or our rapid management decision-making process.

Pegasus' corporate strategy is to continue to focus on the identification and acquisition of high-tonnage gold properties, amenable to open-pit mining methods and capable of being in production in a relatively short period of time. We will also continue to pursue opportunities to acquire existing operating gold mines.

Geographically, our focus in 1990 will be western North America and Australia. These are areas where we currently have a presence and can be the most competitive in acquiring properties of merit. However, Pegasus will not hesitate to acquire projects in other parts of the world. These opportunities will be evaluated based on such criteria as host country, project economics, and time to production.

While Pegasus will focus on gold properties, we will begin to devote a portion of our efforts to evaluating potential diversification opportunities. In keeping with Pegasus' corporate strategy, base metal and industrial mineral projects and operations will be examined as part of the diversification effort.

Business development is a critical part of Pegasus' growth strategy. Pegasus' senior management is actively involved in the Business Development process. This



involvement, along with the active support of the Board of Directors, is a continuation of the team concept used in the overall evaluation of business opportunities and helps facilitate communication and rapid decision making.

Pegasus' Business Development staff confers on one of the many opportunities reviewed during 1989. From left to right, Anne Hite, Business Development Analyst, Ritch Hall, Manager of Business Development, and Lyle Beaudoin, Vice President in charge of Business Development.

Pegasus Gold does business on an equitable basis and maintains high standards in all of its dealings. Since the inception of the Business Development department three years ago, Pegasus has strived to be aware of potential business opportunities and to be considered by our peers as a desirable business partner. At the same time, the Business Development staff has attempted to identify those situations that present real opportunities for Pegasus and avoid spending time and effort where potential is lacking, risks are too high, and the chance of success is minimal. As much as anywhere within the Pegasus organization, people from every department are responsible for the business development successes we have achieved. Future success will depend upon the continuation of this overall corporate involvement.

***We can also
enhance our
competitive position
by focusing on
specific types of
opportunities where
we believe we
have an advantage.***



Senior Exploration Geologist Steve Petroni and Geological Technician Mitch Kovnesky conduct field work to evaluate one of the exploration properties in our inventory. Generative exploration plays an important role in the addition of low cost reserves.

EXPLORATION

***The new structure
will allow expansion
of exploration
efforts as we grow.***

Pegasus Gold's ongoing exploration program has primary emphasis in the western United States, with secondary emphasis in western Canada and in Australia. Our efforts emphasize exploration for high-tonnage, disseminated gold deposits minable by open-pit methods. In addition, we explore for high-grade precious metal occurrences, normally minable by underground methods, as well as base metals and industrial minerals. Our interest in the latter commodities is generally focused on advanced-stage situations of identified reserves or resources.

Our North American exploration activities are headquartered in Spokane, Washington, with district exploration offices located in Butte, Montana, and Reno, Nevada. Exploration activities in Australia are directed by the Company's office in Melbourne, Victoria.

Maintaining a staff of highly skilled, motivated, and experienced personnel is important to the Company's exploration success. Its core staff, composed of geologists, engineers, landmen, and support staff, total 20 in North America and 3 in Australia. In addition, we augment our permanent staff with up to 20 consultants and contract personnel as the need arises. This gives us flexibility in project planning and utilization of specialized expertise on a short-term basis.

The Exploration Department uses up-to-date scientific prospecting techniques, including geological analyses, geochemistry, geophysics, remote sensing, and various types of drilling. We conduct prospecting and reconnaissance exploration in areas where research, or the presence of known mineralization, has targeted a potential for economic mineral deposits.

A significant amount of our exploration efforts are in mining districts discovered long ago by early prospectors and vein miners. In most cases the early miners concentrated on high-grade ores that were mined by underground methods. As these rich vein deposits were mined out, the prospectors and miners moved on to new districts leaving behind the evidence of their activities. In modern times with advances in exploration technology, mineral recovery processes, and improved metal prices, many of these old districts have been revitalized. The high-grade bonanza or vein ores that gave rise to the early mining activity were concentrated in faults and fissures that served as feeder structures. These often produced large bodies of disseminated mineralization in the surrounding wall rocks. These lower grade, higher tonnage mineralized bodies provide opportunities when open-pit gold mining techniques now available are applied. Examples of modern bulk-tonnage deposits being developed in historic vein mining districts include our Zortman/Landusky, Beal Mountain and Montana Tunnels mining operations.

New discoveries are being made each year; however, deposits of sufficient size and grade to make a profitable mine are becoming increasingly difficult to find and acquire. Success in exploration requires the ability for the exploration staff to recognize opportunities of merit and be supported by sufficient financial resources and management commitment to advance such projects and develop them into mining operations. It is important that exploration personnel be located in those areas that we have identified as primary prospecting areas, such as Montana and the Great Basin.

Our exploration staff also serves as part of the team involved in evaluation of new properties, and the review and evaluation

of joint ventures and potential acquisitions. The staff's involvement in project development, ore reserve studies, site engineering, and mine planning assist the Business Development department's evaluation of advanced mineral resource opportunities. It is important that the exploration staff work in close harmony with other departments, including Operations, Business Development and support staff to advance mineral properties as quickly and effectively as possible.

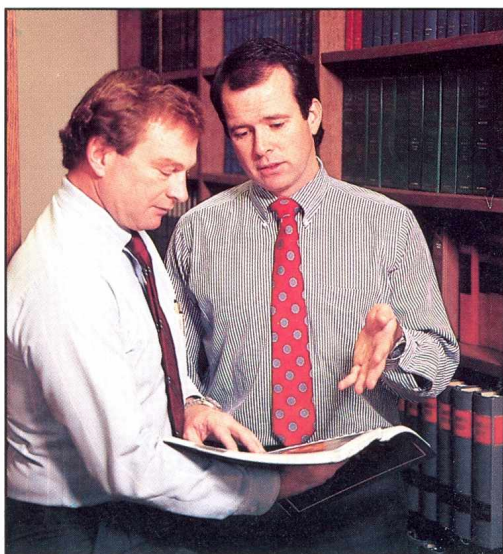
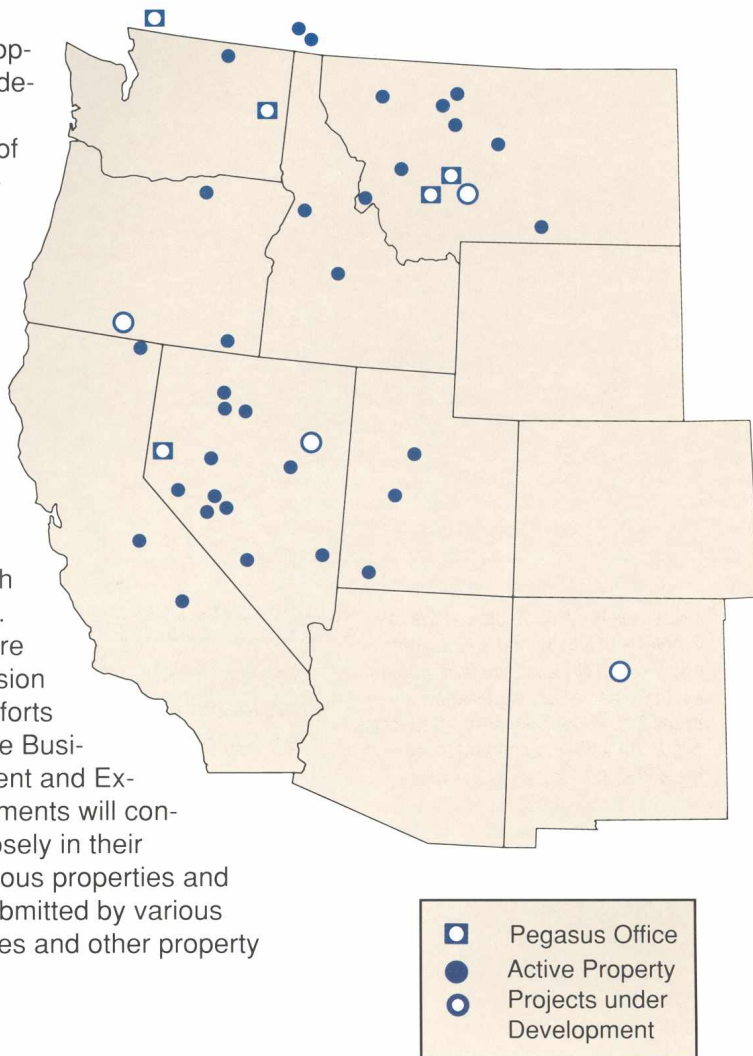
We also conduct exploration at existing mining operations, and during 1989 expanded proven and probable ore reserves at the Florida Canyon and Zortman/ Landusky mine sites. Our mineral inventory increased significantly through involvement in the Ortiz joint venture, the Quartz Mountain joint venture, and development of the Diamond Hill project. The exploration staff is also actively involved in development of the significant sulfide resource at the Zortman/Landusky operation where current research is under way to develop methods to economically extract gold from sulfide ores.

During 1989, generative exploration and review of 450 submittals resulted in the acquisition of 22 new properties in the U.S.A. and Canada. Further, we completed a total of 120,000 feet of exploration drilling. Exploration and business development costs in North America for 1989 totaled \$6.56 million including \$1.40 million in capitalized expenditures. In Australia, the 1989 exploration costs were \$1.92 million, including capitalized expenditures of \$0.61 million.

For 1990, Business Development and Exploration have budgets of \$6.5 million for North America and \$1.3 million for Australia. Our efforts will concentrate on approximately six of the more advanced properties in our inventory. We will continue with exploration and drilling activities on less advanced properties, although expenditures on less advanced properties will decline slightly as efforts on advanced properties increase. We will also be conducting additional reconnaissance in the Great Basin area which includes Nevada and portions of the surrounding states. Beyond this, our intention is to increase our level

of exploration activity in western Canada.

Historically, the Exploration and Business Development departments have been headed by the Vice President of Business Development with each department under the supervision of a manager. Recently, an organizational change was made in which Allan M. Park was named Vice President of Exploration. This change recognizes the role of exploration in the growth of the Company. The new structure will allow expansion of exploration efforts as we grow. The Business Development and Exploration departments will continue to work closely in their review of numerous properties and opportunities submitted by various mining companies and other property owners.



Jim Lincoln, left, Manager of Exploration and Carl Straub, Corporate Counsel, review documents establishing Pegasus' mineral rights on one of our exploration properties. With a lean corporate organization, teamwork among various disciplines is particularly important.

FINANCIAL SECTION CONTENTS

Selected Financial Data	25
Management's Discussion and Analysis of Financial Condition and Results of Operations	26
Consolidated Financial Statements	32
Notes to Consolidated Financial Statements	36
Independent Auditor's Report	47

SELECTED FINANCIAL DATA
In Thousands of U.S. Dollars, Except Per Share Amounts

	1989	1988	1987	1986	1985	1984
INCOME STATEMENT DATA:						
Sales of gold and other metals	\$ 178,362	\$ 162,757	\$ 110,435	\$ 35,054	\$ 18,015	\$ 25,231
Cost of sales	143,200	131,686	84,085	26,281	16,025	21,003
Other expenses, net	19,978	9,162	8,932	4,541	4,314	3,204
Income (loss) before income taxes and extraordinary credit	\$ 15,184	\$ 21,909	\$ 17,418	\$ 4,232	\$ (2,324)	\$ 1,024
Net income (loss)	\$ 9,763	\$ 17,779	\$ 14,492	\$ 4,654	\$ (1,167)	\$ 1,299
Net income (loss) per share:						
Primary	\$ 0.41	\$ 0.75	\$ 0.70	\$ 0.35	\$ (0.11)	\$ 0.14
Fully diluted	\$ 0.41	\$ 0.75	\$ 0.70	\$ 0.32	\$ (0.11)	\$ 0.14
Cash dividends per common share	\$ 0.10	\$ 0.10	\$ 0.10			
BALANCE SHEET DATA:						
Cash & cash equivalents	\$ 20,515	\$ 49,615	\$ 54,212	\$ 28,630	\$ 11,843	\$ 929
Total assets	289,460	283,305	267,764	191,059	80,184	40,531
Long-term debt	32,065	37,282	45,748	100,883	23,486	263
Shareholders' equity	233,207	221,890	203,562	72,743	50,322	35,017
STATISTICAL DATA:						
Shares outstanding at year-end	24,151,105	23,886,274	23,508,773	14,948,593	11,802,472	8,925,612
Number of shareholders at year-end	4,930	4,990	4,650	5,417	5,500	4,400
Market price (in U.S. dollars)						
High	\$ 15.37	\$ 17.25	\$ 26.37	\$ 11.25	\$ 10.25	\$ 14.00
Low	\$ 8.87	\$ 10.75	\$ 10.75	\$ 5.38	\$ 6.13	\$ 5.88
December 31	\$ 13.50	\$ 11.50	\$ 16.25	\$ 11.25	\$ 6.75	\$ 6.75

RESULTS OF OPERATIONS

1989 Compared to 1988

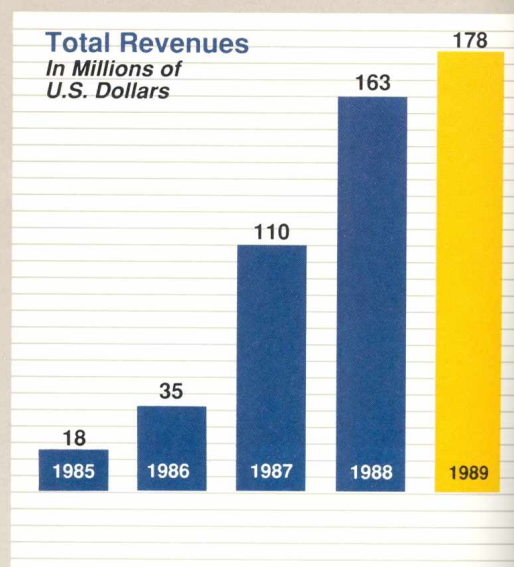
Net income for the year ended December 31, 1989 was \$9.8 million compared to \$17.8 million for 1988. The following table highlights specific financial items:

<i>(In Thousands of U.S. Dollars)</i>	1989	1988	% CHANGE
Sales of gold	\$141,469	\$124,802	13
Sales of other metals:			
Silver	7,706	10,932	
Zinc	25,375	22,754	
Lead	3,812	4,269	
	<u>36,893</u>	<u>37,955</u>	(3)
Total sales	\$178,362	\$162,757	
Cost of sales and other direct production costs	\$119,222	\$111,028	7
Depreciation, depletion and amortization	\$ 23,978	\$ 20,658	16
Gold price realized per ounce	\$ 416	\$ 439	(5)
Gold ounces sold	341,338	286,502	19
Cash cost per ounce, net of by-product revenues	\$ 242	\$ 256	(5)

Gold sales increased during 1989 as a result of the increase in ounces sold, which partially offset the adverse effect of the decline in the average realized gold price. The increase in production came from the Beal Mine, which commenced commercial production in May 1989, and the acquisition of the Basin Creek Mine in June 1989. The average realized gold price for 1989 was higher than the average spot market price of \$382 per ounce as a result of the success of the Company's hedging strategy. The use of forward sales and options generated an additional \$11.6 million in sales revenue.

In total, sales of other metals declined 3%. Although the average realized zinc price increased 24%, from \$0.62 per lb. in 1988 to \$0.77 per lb. in 1989, this gain was offset by an 11% decline in the production of both lead and zinc and a 25% decline in the average realized price of silver.

Cost of sales and other direct production costs increased 7% over 1988 compared to an increase of 19% in ounces sold. This improvement in cost of sales is due primarily to the inventory write-down of \$6.1 million incurred in 1988, which related mainly to ore mined at Zortman/Landusky in 1982-1985. Cost increases at the Montana Tunnels and Relief Canyon Mines were largely offset by cost reductions at Florida Canyon. Operating expenses were higher at Montana Tunnels, due to an increase in the stripping ratio, and at Relief Canyon, where cash production costs per ounce increased due to lower production levels associated with the completion of mining. At Florida Canyon, 1989 production increased 29% over 1988, and cash production costs per ounce declined to \$240 from \$295. In total, depreciation, depletion and amortization increased from \$20.7 million in 1988 to \$24.0 million in 1989 as a result of increased production.



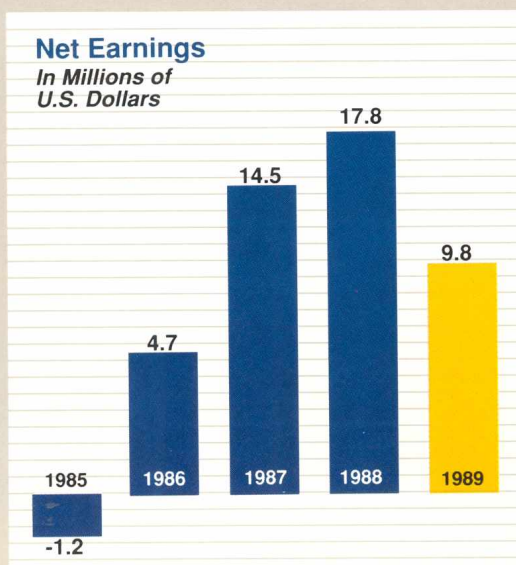
Steve Banning, Manager of Technical Services, left, discusses detail of an operating budget with John Azlant, Vice President, Finance and Chief Financial Officer. Excellent communications between line and staff areas allow us to focus on achieving our goals.



General and administrative expenses increased by \$.8 million over 1988 due primarily to unbudgeted compensation payments and general increases in the cost of labor and purchased services. Royalty expense increased from \$3.2 million in 1988 to \$3.5 million in 1989, although the impact of higher production was largely offset by lower gold prices. Exploration and business development expenditures decreased by \$.7 million from 1988 due primarily to the deferral of costs associated with the Diamond Hill development project in 1989.

Interest and other income decreased \$1.7 million during 1989 due to the receipt of dividends in 1988 in the amount of \$1.3 million and a decline in the amount of excess cash available to invest. Net interest expense decreased from \$2.7 million in 1988 to \$2.6 million in 1989 due to the lower amount of debt outstanding. The Company recorded its proportionate share of the operating results reported by its affiliates in the amount of \$.2 million of income in 1989 and a loss of \$.6 million in 1988.

During 1989, the Company wrote its investments in the common stock of Pioneer Metals and Gold Reserve down to their fair market values, recognizing a loss of \$4.7 million (See Note 7 to the consolidated financial statements). In 1988, the Company sold its remaining investment in Pan Australian Mining Ltd. and recorded a gain of \$5.0 million.



The effective income tax rate increased from 28.8% in 1988 to 35.7% in 1989. The increase in the tax rate is due principally to the effect of certain foreign capital and other losses which are not currently deductible for income tax purposes. In 1988, the Company recorded an extraordinary credit relating to the utilization of all remaining Canadian income tax loss carryforwards.

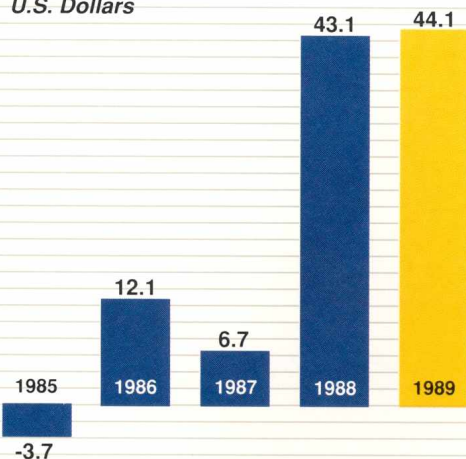
In December 1987, the Financial Accounting Standards Board issued Statement No. 96, "Accounting for Income Taxes" (FAS 96). The Company does not expect to adopt FAS 96 prior to the amended required implementation date of January 1, 1992. Adoption of the new standard will result in a cumulative adjustment that may be reported in either the year FAS 96 is implemented, or in an earlier year if the Company elects to restate prior-period financial statements. The Company has not decided on the method of implementation. The Company continues to analyze the provisions of FAS 96, but has not yet determined the effects of adopting this new standard.

1988 Compared to 1987

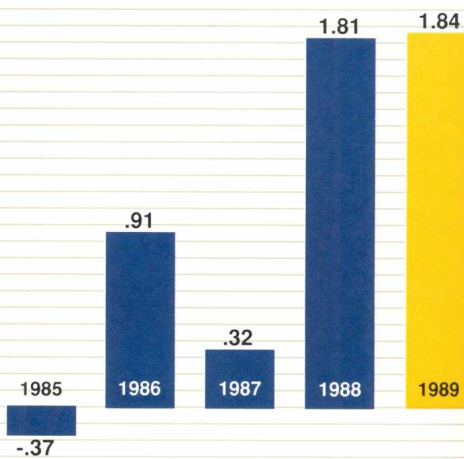
Net income for the year ended December 31, 1988 was \$17.8 million (after the extraordinary credit relating to the utilization of Canadian income tax loss carryforwards), compared to \$14.5 million for 1987. The following table highlights specific financial items:

<i>(In Thousands of U.S. Dollars)</i>	1988	1987	% CHANGE
Sales of gold	\$124,802	\$ 96,609	29
Sales of other metals:			
Silver	10,932	7,290	
Zinc	22,754	4,497	
Lead	4,269	2,039	
	<u>37,955</u>	<u>13,826</u>	175
Total sales	\$162,757	\$110,435	
Cost of sales and other direct production costs	\$111,028	\$ 68,962	61
Depreciation, depletion and amortization	\$ 20,658	\$ 15,123	37
Gold price realized per ounce	\$ 439	\$ 429	2
Gold ounces sold	286,502	224,700	28
Cash cost per ounce, net of by-product revenues	\$ 256	\$ 245	4

Operating Cash Flow *In Millions of U.S. Dollars*



Operating Cash Flow Per Share *In U.S. Dollars*



The increase in total sales is principally the result of an increase in the number of ounces of gold sold and an increase in sales of other metals. The increase in production and revenues is due to the inclusion of a full year of operations at the Montana Tunnels Mine, which was not in production during the first half of 1987.

Pegasus Treasurer Eric Kinneberg, left, and Group Mine Engineer Marlene Beddor Atiyeh, center, pause outside the Company's offices with Jim Moore, Corporate Controller. Our emphasis on teamwork in every facet of our business allows us to move quickly in reaching informed business decisions, having considered both financial and operating impacts.



Cost of sales increased 61% over 1987, compared to an increase of 28% in ounces of gold sold and an increase of 175% in revenues generated by other metals. Net cash cost per ounce increased due to two main factors: (1) the write-down of deferred mining cost taken at the Zortman/Landusky Mine and (2) reduced recoveries and higher production costs at Relief Canyon. The Company's policy is to defer costs associated with ore under leach and to amortize those costs as the ounces are recovered. In 1988 the Company reduced its estimates of the remaining ounces of gold recoverable at the Zortman/Landusky Mine. Consequently, deferred costs amounting to \$6.1 million were charged to cost of sales reflecting the reduced number of ounces in inventory. These costs relate mainly to ounces originally estimated to be recoverable from ore placed on the pads during 1982 through 1985.

General and administrative expenses increased one percent over 1987. The increased costs of salaries and benefits were largely offset by decreased expenditures for outside services, legal fees and public relations. The increase in royalty expense relates primarily to an increase in the royalty rate at the Landusky property.

The increase in exploration expenditures was due to the Company's increased emphasis on exploration and acquisitions. Included in 1988 are \$1.7 million of deferred costs associated with the abandoned Buffalo Hump exploration project in Idaho.

Interest and other income increased from \$2.2 million in 1987 to \$5.9 million in 1988, due to the increase in excess cash available for short-term investment and the receipt of cash dividends from Pan Australian Mining Ltd. (Pan Aust), in the amount of \$1.3 million.

Interest expense, net of amounts capitalized, declined from \$2.8 million in 1987 to \$2.7 million in 1988. Although gross interest expense declined as a result of the reduction in long-term debt, this decrease was offset by the decline in interest capitalized in 1988.

In 1988, the Company sold its remaining investment in Pan Aust and recorded a gain of \$5.0 million. In 1987, the Company recorded a gain of \$2.3 million on the sale of part of its investment in Pan Aust.

The effective income tax rate increased from 16.8 percent in 1987 to 28.8 percent in 1988. The increase is due to the application of the alternative minimum tax in the U.S., and the effect of the differential between the Canadian tax rate of 47 percent and the U.S. alternative minimum tax rate of 20 percent. The increase in the effective tax rate was almost entirely offset by the recognition of an extraordinary credit from the utilization of Canadian tax loss carryforwards.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

At December 31, 1989, the Company had cash and cash equivalents of \$20.5 million, which represents a decrease of \$29.1 million from December 31, 1988. This decrease was primarily attributable to capital additions and investments. During 1989, total capital outlays amounted to \$67.9 million, which includes: additions to property, plant and equipment of \$36.6 million; the acquisition of Pangea in the amount of \$24.9 million; and the purchase of investments of \$6.4 million. The principal sources of funding were existing cash and cash equivalents, and operating cash flows of \$44.1 million, which were also sufficient to fund payments of long-term debt and deferred revenue of \$8.2 million and dividends of \$2.4 million.

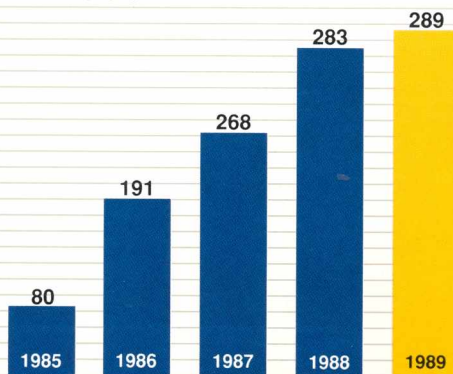
Due to ongoing development and expansion projects, capital spending will be similar in amount in 1990. Expected cash requirements for 1990 include approximately \$24 million for capital additions at existing properties, \$16 million for the development of the Ortiz property and other projects, and \$7 million for exploration. The Company expects to fund these expenditures from existing cash and cash equivalents and cash flow from operations.

Long-term Debt and Lines of Credit

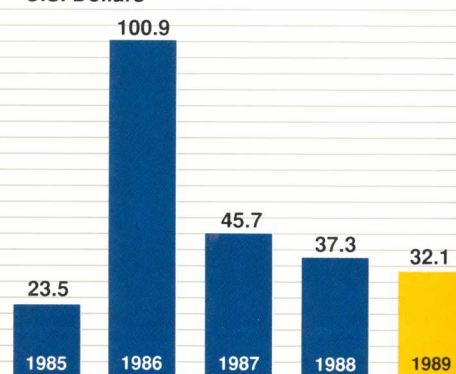
At December 31, 1989, the Company has available a revolving and term loan credit facility of \$100 million and other uncommitted credit lines of \$20 million. There were no borrowings outstanding under these facilities. In addition, in February 1990, the Company completed a private placement of \$25 million of five-year notes coupled with a five-year silver swap for 4.7 million ounces of silver (See Note 14 to the consolidated financial statements).

Subsequent to December 31, 1989, the holders of the 8-1/2 percent convertible bonds were notified of the Company's intention to redeem the remaining outstanding bonds on April 6, 1990. The Company anticipates that the bondholders will elect to convert the bonds into common shares since the market price currently exceeds the bonds' conversion price. A total of 444,726 common shares would be issued upon conversion of all outstanding bonds.

Total Assets
In Millions of
U.S. Dollars



Long-Term Debt
In Millions of
U.S. Dollars



Pursuant to the terms of other convertible bonds, the Company could be obligated to deliver up to 74,200 ounces of gold to satisfy conversion requests.

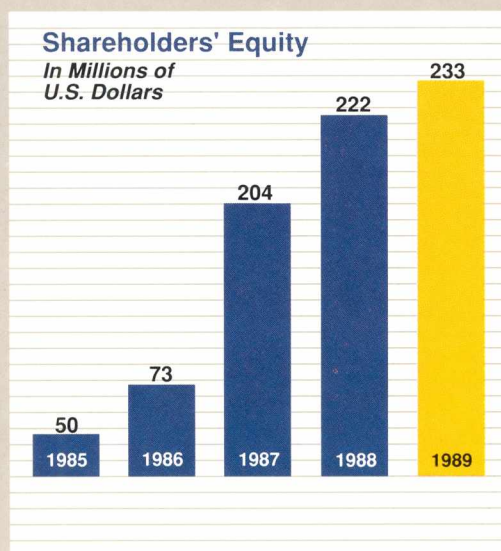
The Company believes that existing cash and cash equivalents, cash flow from operations and the lines of credit should provide the Company with the necessary cash to meet its short and intermediate-term cash needs.

Impact of Changing Metals Prices

The Company's revenues, profitability and cash flow are strongly influenced by the price of gold, and to a lesser extent, the prices of silver, zinc and lead. Gold prices fluctuate widely and are affected by numerous factors beyond the Company's control, including expectations for inflation, the strength of the U.S. dollar, global and regional demand, and political and economic conditions. The aggregate effect of these factors is impossible to predict. If the market price of gold falls below the Company's production costs at a particular mine and remains at such level for any sustained period, the Company will experience losses. Under these circumstances, the Company may suspend certain operations in order to minimize losses.

In order to protect against adverse moves in the gold market the Company employs two basic hedging strategies: forward sales and options. As of March 12, 1990, the Company has committed 22 percent of its projected 1990 production, 20 percent of its 1991 production and 6 percent of its 1992 production for delivery under forward sales contracts at average prices of \$449, \$409 and \$427, per ounce, respectively.

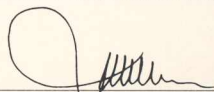
The Company has experienced increased costs because of inflation, but the costs of production remain relatively unchanged over the short-run, although generally subject to the same inflationary pressures experienced by the entire economy. In addition, inflation will affect the interest rates paid by the Company, the effect of which will vary with the amount of the Company's outstanding borrowings at any particular time. However, the fluctuation in market prices for products produced by the Company have a much greater impact than inflation on the Company's revenues and profitability.

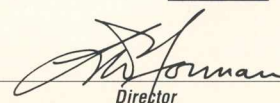


CONSOLIDATED BALANCE SHEETS

In Thousands of U.S. Dollars

December 31,	1989	1988
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 20,515	\$ 49,615
Due from sales of product	13,173	19,050
Other receivables	761	669
Inventories	28,363	28,265
Other current assets	2,179	2,603
Total current assets	64,991	100,202
Investments	41,127	39,862
Property, plant and equipment, net	177,929	136,341
Deferred charges and other assets, net	5,413	6,900
Total assets	<u>\$289,460</u>	<u>\$283,305</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 7,373	\$ 9,697
Accrued salaries, wages and benefits	1,879	1,529
Mining taxes payable	4,561	4,168
Royalties payable	330	247
Accrued interest	1,379	1,459
Income taxes payable	1,871	678
Current portion of long-term debt and deferred revenue		3,889
Dividends payable	2,415	2,389
Total current liabilities	19,808	24,056
Long-term debt	32,065	33,393
Deferred reclamation costs	3,338	2,244
Deferred income taxes	1,042	1,722
Total liabilities	<u>56,253</u>	<u>61,415</u>
Commitments and contingencies		
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 1989 - 24,151,105 and		
1988 - 23,886,274 shares	184,302	181,385
Retained earnings	49,336	41,988
Less:		
Net unrealized loss on marketable equity securities		(1,016)
Foreign currency translation adjustment	(431)	(467)
Total shareholders' equity	<u>233,207</u>	<u>221,890</u>
Total liabilities and shareholders' equity	<u>\$289,460</u>	<u>\$283,305</u>


Director


Director

The accompanying notes are an integral part of the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
In Thousands of U.S. Dollars

Years Ended December 31, 1987, 1988 and 1989

	Common Stock		Retained Earnings	Net Unrealized Loss on Marketable Equity Securities	Foreign Currency Translation Adjustment	Notes Receivable from Sale of Common Stock
	Number of Shares	Amount				
Balance, December 31, 1986	14,948,593	\$ 61,537	\$14,457	\$ -0-	\$ (542)	\$(2,709)
Net income			14,492			
Cash dividend (\$0.10 per share)			(2,351)			
Common stock issued for:						
Cash, net of offering expenses	3,450,000	67,609				
Conversion of bonds	4,688,958	45,484				
Stock option plan	416,200	3,091				
Employee savings plan and other	5,022	71				
Other net changes				(371)	85	2,709
Balance, December 31, 1987	23,508,773	177,792	26,598	(371)	(457)	-0-
Net income			17,779			
Cash dividend (\$0.10 per share)			(2,389)			
Common stock issued for:						
Conversion of bonds	139,500	1,439				
Stock option plan	152,373	1,094				
Exercise of warrants	71,307	848				
Employee savings plan and other	14,321	212				
Other net changes				(645)	(10)	
Balance, December 31, 1988	23,886,274	181,385	41,988	(1,016)	(467)	-0-
Net income			9,763			
Cash dividend (\$0.10 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	<u>24,151,105</u>	<u>\$184,302</u>	<u>\$49,336</u>	<u>\$ -0-</u>	<u>\$ (431)</u>	<u>\$ -0-</u>

The accompanying notes are an integral part of the Consolidated Financial Statements.

CONSOLIDATED INCOME STATEMENTS

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

Years Ended December 31,	1989	1988	1987
Sales of gold and other metals	\$178,362	\$162,757	\$110,435
Cost of sales and other direct production costs	119,222	111,028	68,962
Depreciation, depletion and amortization	23,978	20,658	15,123
	143,200	131,686	84,085
Gross profit	35,162	31,071	26,350
Operating expenses:			
General and administrative	7,250	6,428	6,349
Royalties	3,454	3,167	2,807
Depreciation and amortization	267	258	196
Exploration	6,473	7,182	2,304
	17,444	17,035	11,656
Income from operations	17,718	14,036	14,694
Other income (expense):			
Interest and other income	4,138	5,877	2,163
Interest expense, net of amounts capitalized	(2,573)	(2,680)	(2,788)
Gain (loss) on investments	(4,648)	4,963	2,452
Gain on foreign currency transactions	323	320	1,182
Equity in net income (loss) of affiliates	226	(607)	(285)
	(2,534)	7,873	2,724
Income before income taxes and extraordinary credit	15,184	21,909	17,418
Income tax provision	5,421	6,303	2,926
Income before extraordinary credit	9,763	15,606	14,492
Extraordinary credit from utilization of foreign tax loss carryforwards		2,173	
Net income	\$ 9,763	\$ 17,779	\$ 14,492
Net income per share:			
Before extraordinary credit	\$ 0.41	\$ 0.66	\$ 0.70
Extraordinary credit		0.09	
	\$ 0.41	\$ 0.75	\$ 0.70
Weighted average common shares outstanding	23,986	23,781	20,822

The accompanying notes are an integral part of the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In Thousands of U.S. Dollars

Years Ended December 31,	1989	1988	1987
Operating activities:			
Net income	\$ 9,763	\$ 17,779	\$ 14,492
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	24,245	20,916	15,319
Deferred reclamation costs	1,094	722	457
Deferred income taxes	(680)	(549)	1,454
Interest on debt converted to equity			1,531
Gain (loss) on investments	4,648	(4,963)	(2,452)
Gain on foreign currency transactions	(323)	(320)	(1,160)
Equity in net (income) loss of affiliates	(226)	607	285
Other, net	369	599	481
	38,890	34,791	30,407
Change in receivables	5,631	(1,949)	(12,843)
Change in inventories	1,981	6,136	(6,840)
Change in accounts payable and accrued liabilities	(3,249)	5,468	(3,241)
Change in other current assets	851	(1,373)	(829)
Net cash provided by operating activities	44,104	43,073	6,654
Investing activities:			
Proceeds from sale of investments	1,146	20,139	4,939
Acquisition of Pangea Resources, Ltd., net of cash acquired	(24,899)		
Additions to property, plant and equipment, net	(36,569)	(34,557)	(34,152)
Purchase of investments	(6,423)	(25,550)	(17,039)
Other, net	1,573	(123)	(389)
Net cash applied to investing activities	(65,172)	(40,091)	(46,641)
Financing activities:			
Dividend paid	(2,389)	(2,351)	
Proceeds from issuance of long-term debt			13,674
Payments of long-term debt and deferred revenue	(8,213)	(6,966)	(21,455)
Proceeds from issuance of common stock	2,832	2,154	70,771
Repayments of loans to purchase stock			2,709
Other, net	(262)	(416)	(130)
Net cash provided by (applied to) financing activities	(8,032)	(7,579)	65,569
Net increase (decrease) in cash and cash equivalents	(29,100)	(4,597)	25,582
Cash and cash equivalents, beginning of year	49,615	54,212	28,630
Cash and cash equivalents, end of year	<u>\$ 20,515</u>	<u>\$ 49,615</u>	<u>\$ 54,212</u>
Supplemental disclosures (see note 7):			
Cash paid during the year for:			
Interest (net of amounts capitalized)	\$ 2,011	\$ 1,811	\$ 1,452
Income taxes	4,177	3,151	36

The accompanying notes are an integral part of the Consolidated Financial Statements.

1. THE COMPANY AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company, which is incorporated in British Columbia, Canada, is engaged in the mining and processing of, and the exploration for, gold and other precious metals. The consolidated financial statements are presented in U.S. dollars and prepared in accordance with accounting principles generally accepted in the United States.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of consolidation**

The consolidated financial statements include the accounts of the Company, its subsidiaries, and its proportionate share of the accounts of unincorporated joint ventures in which it participates. All subsidiaries except Peggold Overseas Limited are wholly-owned (see Note 7). All significant intercompany accounts and transactions have been eliminated. Certain prior year balances have been reclassified to conform with the current year presentation.

Inventories

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

Development and exploration costs

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. Exploration costs incurred on properties identified as having development potential are also capitalized, pending the determination of commercial feasibility. These capitalized costs are amortized against related production revenues using the units of production method. If a project is determined not to be commercially feasible, unrecoverable costs are expensed when that determination is made. All other exploration costs are charged to expense as incurred. These costs are then capitalized if and when a commercial ore body is discovered.

Interest costs are capitalized as part of the cost of development projects. Interest costs of \$1,016,000, \$1,223,000 and \$2,321,000 were capitalized during 1989, 1988 and 1987, respectively.

Property, plant and equipment

Property, plant and equipment are stated at cost. Generally, depreciation, depletion and amortization are determined using the units of production method based upon estimated proven and probable reserves. Depreciation, depletion and amortization rates are reviewed on an annual basis, or more frequently, as changes in ore reserve estimates require. Assets with an estimated useful life less than the mine life are depreciated using straight-line and accelerated methods. Replacements and major improvements are capitalized. Maintenance and repairs are charged to expense as incurred.

Revenue recognition

Sales of concentrates directly to smelters are recorded at estimated prices when shipped to the smelter. Sales of gold are recorded at contractual amounts when products are shipped to a refinery. The effect of forward sales and option contracts are reflected in revenue at the time the hedged production is sold, or the contracts expire. The Company sells a majority of its production to several metals brokers; however, due to the nature of precious metals, the Company is not dependent upon these significant customers to provide a market for its products.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*(Continued)***Foreign currencies**

The Company's Canadian and Australian operations are translated into U.S. dollars as follows: assets and liabilities are translated 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 per share

Net income per share is calculated based upon the weighted average number of shares of common stock and common stock equivalents outstanding during the year.

Investments

The Company uses the equity method of accounting for investments in the common stock of companies 20 percent to 50 percent owned. Investments in marketable equity securities are recorded at the lower of cost or market value. Other investments are recorded at cost. The cost of investments sold is determined based upon specific identification. Net unrealized losses on non-current marketable equity securities are accumulated as a separate component of shareholders' equity. Impairments in investment value that are other than temporary are reflected in income.

Cash equivalents

For purposes of the statements of cash flows, the Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

3. ACQUISITION OF PANGEA RESOURCES LTD.

In June 1989, the Company acquired all of the outstanding shares of Pangea Resources Ltd. ("Pangea"), a publicly traded Australian company, for \$25,073,000. Pangea's principal asset is the Basin Creek Mine, an open-pit, heap-leach gold operation located near Helena, Montana.

The acquisition of Pangea has been accounted for using the purchase method. Accordingly, the Company's proportional share of the operations of Pangea subsequent to the date of acquisition are included in the consolidated income statement. The allocation of the purchase price and the net assets acquired are summarized as follows:

Current assets	\$ 2,847
Current liabilities	<u>5,969</u>
Working capital deficit	(3,122)
Non-current assets	<u>12,184</u>
Net book value of Pangea	9,062
Excess of purchase price over net book value acquired allocated to:	
Investment in marketable equity securities	125
Property and mineral rights	<u>15,886</u>
	<u>\$25,073</u>

3. ACQUISITION OF PANGEA RESOURCES LTD.*(Continued)*

The unaudited consolidated results of operations on a proforma basis as though Pangea had been acquired January 1, 1988, are as follows:

	1989	1988
Sales of gold and other metals	\$181,206	\$165,323
Net income	\$ 10,125	\$ 14,011
Net income per share	\$ 0.42	\$ 0.59

4. INVENTORIES

	1989	1988
Stockpiled ore	\$ 1,522	\$ 1,548
Deferred mining costs	21,768	24,023
Refined gold and silver	1,638	55
Materials and supplies	3,435	2,639
	<u>\$28,363</u>	<u>\$28,265</u>

Mining costs associated with ore under leach are deferred and amortized as the contained gold is actually recovered. Gold is recovered over a five-year period at the Zortman/Landusky Mine, and over six to nine-month periods at all other heap-leach operations. Approximately 48 percent of the unrecovered gold on all leach pads at December 31, 1989 is expected to be recovered in the next year.

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. During 1988, the Company determined that its estimates of the remaining ounces of gold recoverable from ore on certain leach pads at the Zortman/Landusky Mine were overstated. Accordingly, \$6,120,000 of deferred costs associated with these ounces were charged to cost of sales.

5. PROPERTY, PLANT AND EQUIPMENT

	1989	1988
Mining properties and development costs	\$131,132	\$ 90,834
Plant and equipment	121,050	99,868
Construction in progress	6,291	1,681
	<u>258,473</u>	<u>192,383</u>
Less accumulated depreciation, depletion and amortization	80,544	56,042
	<u>\$177,929</u>	<u>\$136,341</u>

6. INVESTMENTS

	1989		1988	
	Carrying Value	Market Value	Carrying Value	Market Value
Investments carried on an equity basis:				
USMX, Inc. (35% owned)	\$18,516	\$10,859	\$19,046	\$15,685
Inland Gold and Silver Corp. (20% owned)	6,234	3,691	6,712	4,027
Artech Recovery Systems, Inc. (30% owned)	660	626		
	25,410	15,176	25,758	19,712
Marketable equity securities	2,019	2,019	4,062	4,062
Other investments	13,698	13,698	10,042	10,042
	<u>\$41,127</u>	<u>\$30,893</u>	<u>\$39,862</u>	<u>\$33,816</u>

At December 31, 1989, the excess of the investment in USMX, Inc. ("USMX") over its underlying net book value was \$13,437,000. 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. The excess of the investment in Inland Gold and Silver Corp. ("Inland Gold") over its underlying net book value was \$4,340,000. This amount has been attributed to various properties and interests of Inland Gold, and is being amortized based upon estimated ore reserves.

Included in marketable equity securities at December 31, 1989, is the Company's investment in 1,818,494 common shares of Pioneer Metals Corporation ("Pioneer"). After substantive review of the deteriorating financial condition of Pioneer, the Company has determined that the decline in market value of the Pioneer common stock is probably other than temporary. Therefore, the Company has written its investment in this common stock down to its fair market value, recognizing a loss in the amount of \$3,752,000 during 1989. Also included in marketable equity securities is the Company's investment in 540,000 common shares of Gold Reserve Corporation. The Company has written its investment in this common stock down to its fair market value, recognizing a loss in the amount of \$1,046,000 during 1989.

Included in other investments at December 31, 1989 is a convertible debenture of Pioneer with a face value of \$12,000,000 (C\$) (\$10,300,000 [US\$]), and a 7,000 ounce gold loan to Pioneer with a cost of \$2,300,000. The convertible debenture, which bears interest at 9 percent, was issued at par in November 1988 and is convertible into common shares at C\$3.50 per share. The debenture is repayable in equal semiannual installments from 1993 through 1998 and is collateralized by Pioneer's interests in the Stibnite and Bonito properties. The gold loan, which bears interest at 3-1/2 percent, is repayable in three installments in 1991 and 1992. The gold loan is collateralized by a second mortgage on Pioneer's interest in the Premier and Puffy Lake properties.

In November 1989, the Company declared Pioneer in default under the terms of its debenture agreement, and demanded full repayment of amounts owing thereunder. The Company initiated legal proceedings in Idaho to foreclose on its collateral interest in Pioneer's Stibnite property. Pioneer believes it is not in default, and has instituted legal action in British Columbia, Canada claiming that the Company acted negligently and in breach of its debenture agreement when it declared Pioneer in default. Management intends to continue pursuing its foreclosure proceedings in Idaho and counterclaim in British Columbia. The Company believes it will be successful in obtaining a judgment against Pioneer.

During 1989, 1988 and 1987, the Company realized gains on the sale of marketable equity securities of \$150,000, \$4,963,000 and \$2,452,000, respectively. At December 31, 1988, the marketable equity securities portfolio included gross unrealized gains of \$16,000 and gross unrealized losses of \$1,032,000.

7. LONG-TERM DEBT

	1989	1988
8-1/2 percent convertible bonds due 1992	\$ 4,782	\$ 4,862
5 percent gold-convertible bonds due 1993	5,580	5,580
7-1/2 percent gold-convertible bonds due 1993	21,586	22,796
Other borrowings with various interest rates and maturities	117	203
	32,065	33,441
Less current portion		48
	<u>\$32,065</u>	<u>\$33,393</u>

The 8-1/2 percent bonds are convertible into common shares of the Company at a conversion price of \$10.75 per share. The bonds may be called by the Company in whole or in part at 104-1/2 plus accrued interest, decreasing at a rate of 1-1/2 percent per year to par plus accrued interest on August 23, 1992. During 1989 and 1988, \$80,000 and \$1,500,000, respectively, of these bonds were converted by the bondholders into common shares.

Subsequent to December 31, 1989, the holders of the 8-1/2 percent convertible bonds were notified of the Company's intention to redeem the remaining outstanding bonds on April 6, 1990. The Company anticipates that the bondholders will elect to convert the bonds into common shares since the market price currently exceeds the bonds' conversion price. A total of 444,726 common shares would be issued upon conversion of all outstanding bonds.

The 5 percent gold-convertible bonds were issued by Peggold Overseas Limited, an unaffiliated Cayman Islands company, whose accounts have been consolidated with those of the Company at the request of the Securities and Exchange Commission. The bonds may be exchanged for gold at a fixed price of \$331 per ounce. At December 31, 1989, the Company could be obliged to deliver up to 16,800 ounces of gold pursuant to the conversion of the bonds. The bonds are collateralized by certain zero coupon notes, whose face value at maturity will equal the principal amount of the bonds. During 1988, \$319,000 of these bonds were exchanged by the bondholders.

The 7-1/2 percent bonds may be exchanged for gold at a fixed price of \$376 per ounce. At December 31, 1989, the Company could be obliged to deliver up to 57,400 ounces of gold pursuant to the conversion of these bonds. During 1989, the Company purchased and cancelled \$1,210,000 of these bonds. During 1988, \$1,002,000 of these bonds were exchanged by the bondholders.

The Company has established a revolving and term loan credit facility under the terms of which, the Company can borrow up to \$100 million or the equivalent in gold. Amounts may be borrowed on a revolving credit basis through December 1990, and are repayable in ten equal quarterly installments beginning in March 1991. 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 1/2 of 1 percent on the first \$35 million, and 1/8 of 1 percent on the remaining \$65 million of revolving credit. At December 31, 1989, there were no borrowings outstanding under this facility.

At December 31, 1989, the market price of gold exceeded the conversion prices of both the 5 percent and 7-1/2 percent gold-convertible bonds. Therefore, the liability represented by these bonds is considered to be due currently. However, because of the availability of the long-term credit facility described above, these bonds have been classified as non-current liabilities at December 31, 1989.

At December 31, 1989, long-term debt matures as follows:

1992	\$ 4,782
Thereafter	27,283
	<u>\$32,065</u>

8. STOCK OPTIONS

The Company has established the 1987 Stock Option Plan for officers and key employees under which options to purchase 1,200,000 common shares of the Company may be granted for terms up to ten years at an exercise price equal to the market value of the stock on the date of grant, for incentive stock options. The exercise price of non-qualified stock options must be at least 90 percent of the market value of the stock on the date of grant. Options granted generally become exercisable ratably over the two-year period beginning with the date of grant. At December 31, 1989 and 1988, options to purchase an additional 223,667 and 69,167 common shares, respectively, were available for future grants under the plan.

In addition, the Company has established the 1989 Non-Employee Directors' Stock Option Plan which provides that options to purchase up to 225,000 common shares of the Company may be granted to members of the Board of Directors of the Company who are not full-time employees of the Company. The exercise price of the options will be 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, 1989, options to purchase 52,000 shares had been granted and 173,000 shares were available for future grant under the plan.

Stock option transactions are summarized as follows:

	Number of Shares	Price Per Share
Balance, December 31, 1986	569,740	8.00-12.63(C\$)
Granted	400,000	
Exercised	<u>(416,200)</u>	8.00-11.00(C\$)
Balance, December 31, 1987	553,540	8.00-30.25(C\$)
Granted	537,500	
Exercised	(152,373)	8.00-17.25(C\$)
Cancelled or expired	<u>(406,667)</u>	
Balance, December 31, 1988	532,000	9.00-17.75(C\$)
Granted	1,065,000	
Exercised	(248,900)	9.88(US\$)
Cancelled or expired	<u>(567,500)</u>	
Balance, December 31, 1989	<u>780,600</u>	9.88-13.50(US\$)

During 1989, the Company cancelled options to purchase 562,500 common shares at an average exercise price of \$16.92 (C\$), and reissued them at an exercise price of \$9.88 (US\$).

9. INCOME TAXES

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

	1989	1988	1987
United States	\$16,597	\$17,991	\$13,937
Foreign	(1,413)	3,918	3,481
	<u>\$15,184</u>	<u>\$21,909</u>	<u>\$17,418</u>

The income tax provision consists of the following:

	1989	1988	1987
Currently payable			
Federal and state	\$ 4,809	\$ 4,679	\$ 1,472
Foreign	<u>1,292</u>	<u>2,173</u>	<u>1,472</u>
	6,101	6,852	1,472
Deferred provision (benefit)			
Federal and state	(680)	(549)	1,454
	<u>\$ 5,421</u>	<u>\$ 6,303</u>	<u>\$ 2,926</u>

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:

	1989	1988	1987
Development and exploration costs	\$ (1,358)	\$ (957)	\$ (332)
Excess of tax over book depreciation	666	66	591
Utilization of tax basis net operating losses and tax credits	775	314	1,003
Foreign currency transaction gain			473
Investments accounted for using the equity method	(251)	28	(213)
Other, net	<u>(512)</u>	<u>28</u>	<u>(68)</u>
	<u>\$ (680)</u>	<u>\$ (549)</u>	<u>\$ 1,454</u>

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

	1989	1988	1987
Statutory rate	34.0%	34.0%	40.0%
Percentage depletion, net of alternative minimum tax	(16.5)	(13.0)	(15.7)
Foreign rate differential	1.8	3.3	
Nondeductible losses	11.3	0.5	(7.9)
Other, net	5.1	4.0	.4
Effective rate	<u>35.7%</u>	<u>28.8%</u>	<u>16.8%</u>

The Company's Canadian parent and Australian subsidiaries file separate Canadian and Australian income tax returns. All of the Company's U.S. subsidiaries, except Basin Creek Mining, Inc., file as part of a consolidated tax group.

During 1988, the Company's Canadian parent utilized approximately \$4,600,000 of financial statement basis net operating loss carryforwards to offset the current foreign income tax provision, resulting in an extraordinary credit of \$2,173,000. During 1988, one of the Company's U.S. subsidiaries utilized approximately \$5,800,000 of acquired tax basis net operating loss carryforwards to reduce income taxes payable. The tax benefits of \$2,200,000 realized from utilizing these carryforwards have been offset against the cost of property and mineral rights.

9. INCOME TAXES*(Continued)*

As of December 31, 1989, the Company's U.S. and Australian subsidiaries have tax basis net operating loss carryforwards of approximately \$14,600,000 and \$1,600,000, 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's Canadian parent has capital loss carryforwards of \$3,752,000 which may be carried forward indefinitely and applied to reduce capital gains in future years. 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 December 1987, the Financial Accounting Standards Board issued Statement No. 96, "Accounting for Income Taxes" (FAS 96). The Company does not expect to adopt FAS 96 prior to the amended required implementation date of January 1, 1992. Adoption of the new standard will result in a cumulative adjustment that may be reported in either the year FAS 96 is implemented, or in an earlier year if the Company elects to restate prior-period financial statements. The Company has not decided on the method of implementation. The Company continues to analyze the provisions of FAS 96, but has not yet determined the effects of adopting this new standard.

**10. RELATED PARTY
TRANSACTIONS**

Fees for rent and legal, engineering and consulting services totalling \$78,000 for the year ended December 31, 1989 (1988-\$96,000, 1987-\$254,000) have been paid to firms in which certain current and former officers, directors and employees of the Company are partners or owners.

11. EMPLOYEE SAVINGS PLAN

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 ten percent of their cash compensation, up to a maximum of \$7,627 for 1989. The Company is required to make a matching contribution equal to 50 percent of the first six 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, 1989, 1988 and 1987, the Company contributed \$356,000, \$266,000 and \$197,000, respectively, to the plan.

12. COMMITMENTS AND CONTINGENCIES

At December 31, 1989, the Company has outstanding gold forward sale contracts with various metals brokers requiring delivery of 164,000 ounces of gold at an average price of \$431.

A total of 1,677,894 shares of authorized common stock are reserved for the following:

Stock options (Note 8)	1,177,267
Employee savings plan (Note 11)	55,901
Convertible bonds (Note 7)	444,726
	<u>1,677,894</u>

13. SHAREHOLDERS' EQUITY

On December 1, 1988, the Board of Directors adopted a Shareholder Protection Rights Plan which entitles each shareholder of the Company's common stock to one Right. The Rights were distributed to shareholders of record as of the close of trading on December 12, 1988, and will attach to each issuance of shares. The Rights are exercisable on the eighth trading day following a person acquiring ten percent or more of the Company's common stock, or making an offer to acquire ten percent or more of the Company's outstanding common stock other than pursuant to a permitted bid as defined in the Plan. Rights entitle the holder to purchase one one-hundredth of a Class A Preferred Share, Series 1 of the Company at an exercise price of \$55. Each whole preferred share has rights and attributes which render it the economic equivalent of 100 common shares of the Company. Upon the occurrence of certain defined events, the Right entitles the holder to purchase that number of one one-hundredths of a preferred share of the Company which has the market value (determined on the basis that the market value of a preferred share is equal to the market value of 100 common shares) equal to twice the exercise price. The Rights are subject to redemption by the Company's Board of Directors for \$.01 per Right at any time prior to the earlier of the expiration of the Rights in December 1998 or the time that any person has acquired, or makes an offer to acquire, beneficial ownership of at least 10 percent of the Company's common stock.

14. SUBSEQUENT EVENT

On February 28, 1990 the Company completed a private placement of \$25,000,000 of five-year notes with two life insurance companies. The notes are due on February 23, 1995, and bear interest at a fixed rate of 9.71 percent per annum. Concurrently, the Company entered into a \$25,000,000 five-year interest rate swap (which effectively converts the interest on the notes to a floating rate), and a five-year silver swap for 4,690,000 ounces of silver (which reduces the effective interest rate on the \$25,000,000 financing).

15. QUARTERLY DATA

(Unaudited)

Selected unaudited quarterly data for the years ended December 31, 1989 and 1988 is as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Year Ended December 31, 1989:					
Sales of gold and other					
metals	\$30,422	\$47,759	\$59,226	\$40,955	\$178,362
Income from operations	\$ 866	\$ 3,074	\$ 9,640	\$ 4,138	\$ 17,718
Net income	\$ 1,768	\$ 2,753	\$ 3,246	\$ 1,996	\$ 9,763
Net income per share	\$ 0.07	\$ 0.12	\$ 0.14	\$ 0.08	\$ 0.41
Year Ended December 31, 1988:					
Sales of gold and other					
metals	\$27,354	\$45,426	\$52,929	\$37,048	\$162,757
Income (loss) from					
operations	\$ 1,708	\$ 8,428	\$ 7,852	\$ (3,952)	\$ 14,036
Income before					
extraordinary credit	\$ 1,686	\$ 7,032	\$ 6,420	\$ 468	\$ 15,606
Net income	\$ 1,686	\$ 7,032	\$ 6,420	\$ 2,641	\$ 17,779
Net income per share:					
Before extraordinary credit	\$ 0.07	\$ 0.30	\$ 0.27	\$ 0.02	\$ 0.66
Extraordinary credit	—	—	—	0.09	0.09
	\$ 0.07	\$ 0.30	\$ 0.27	\$ 0.11	\$ 0.75

During the fourth quarter of 1988, the Company determined that its estimates of the remaining ounces of gold recoverable at certain mines were overstated, and \$6,120,000 of deferred mining costs associated with these ounces were charged to cost of sales.

**16. DIFFERENCES BETWEEN
UNITED STATES AND CANADIAN
GENERALLY ACCEPTED
ACCOUNTING PRINCIPLES**

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

Foreign currency translation

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

Investments

Under U.S. GAAP, investments in marketable equity securities representing an ownership interest of less than 20 percent are carried at the lower of cost or market value. Unless they are judged to be other than temporary, unrealized losses on non-current marketable equity securities are not reflected in income, but are instead accumulated as a separate component of shareholders' equity. Unrealized losses that are judged to be other than temporary are reflected in income.

Under Canadian GAAP, non-current marketable equity securities are carried at cost unless a decline in market value below cost is judged to be other than temporary. If an unrealized loss is judged to be other than temporary, the security is written down to market value, and the write-down is reflected in income.

**16. DIFFERENCES BETWEEN
UNITED STATES AND CANADIAN
GENERALLY ACCEPTED
ACCOUNTING PRINCIPLES**

(Continued)

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 share issued.

Had the consolidated financial statements been prepared in accordance with Canadian GAAP, shareholders' equity, net income, and income per share would have been reported as follows:

	1989	1988	1987
Shareholders' equity:			
Common stock	\$188,079	\$185,162	\$181,569
Retained earnings	47,194	40,914	26,354
Other equity accounts	-	-	(371)
	<u>\$235,273</u>	<u>\$226,076</u>	<u>\$207,552</u>
Net income	<u>\$ 8,695</u>	<u>\$ 16,948</u>	<u>\$ 14,118</u>
Basic income per share	<u>\$ 0.36</u>	<u>\$ 0.72</u>	<u>\$ 0.69</u>
Fully diluted income per share	<u>\$ 0.36</u>	<u>\$ 0.72</u>	<u>\$ 0.66</u>

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders
Pegasus Gold Inc.

We have examined the consolidated balance sheets of Pegasus Gold Inc. and subsidiaries as of December 31, 1989 and 1988 and the related consolidated income statements, statements of changes in shareholders' equity and cash flows for the years ended December 31, 1989, 1988 and 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Pegasus Gold Inc. and subsidiaries as of December 31, 1989 and 1988, and the consolidated results of their operations and their cash flows for the years ended December 31, 1989, 1988 and 1987 in accordance with United States generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

Vancouver, B.C., Canada
February 7, 1990, except for
Note 14, as to which the date
is February 28, 1990

PEGASUS BOARD OF DIRECTORS



Standing left to right:
James S. Redpath, Paul H. Atkinson,
L. Jack Smith, Peter R. Kutney,
John J. Crabb
Seated left to right:
Lindsay D. Norman, John M. Willson,
M. Norman Anderson

PEGASUS EXECUTIVE COMMITTEE



Standing, left to right:
Lyle F. Beaudoin, Scott A. Lawson,
Seated, left to right:
John L. Azlant, John M. Willson,
Michael L. Clark

CORPORATE INFORMATION

DIRECTORS

M. Norman Anderson
Vancouver, B.C.
Paul H. Atkinson
Vancouver, B.C.
John J. Crabb
Madeira Park, B.C.
Peter R. Kutney
Calgary, Alberta
Lindsay D. Norman
Butte, Montana
James S. Redpath
North Bay, Ontario
L. Jack Smith
Vancouver, B.C.
John M. Willson
Spokane, Washington

OFFICERS

John M. Willson
*President & Chief
Executive Officer*
John L. Azlant
*Vice President,
Finance & Chief
Financial Officer*
Lyle F. Beaudoin
*Vice President,
Business
Development,
General Counsel &
Corporate Secretary*
Michael L. Clark
*Vice President,
Operations*
Allan M. Park
*Vice President,
Exploration*
James H. Moore
Controller
Eric E. Kinneberg
Treasurer
Albert K. F. Wu
*Assistant Secretary-
Treasurer*

OPERATING MANAGEMENT

James P. Geyer
*General Manager
Zortman/Landusky
Mine*
Thomas J. Weitz
*General Manager
Montana Tunnels Mine*
John R. Leahy
*General Manager
Florida Canyon/Relief
Canyon Mines*
Carson J. Rife
*General Manager
Beal Mountain Mine*
Daniel J. Turk
*General Manager
Basin Creek Mine*
John E. Rice
*General Manager
Ortiz Project*

EXECUTIVE HEADQUARTERS

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(509) 624-4653*

SECURITIES LISTINGS

Common Shares
*Toronto Stock
Exchange - PGU
American Stock
Exchange - PGU*
**Options on Common
Shares**
*Chicago Board
Options Exchange -
PGU
Montreal Stock
Exchange - PGU*

AUDITORS

Coopers & Lybrand
Spokane, WA

SOLICITORS

Shearman & Sterling
San Francisco, CA
**Lawson, Lundell,
Lawson & McIntosh**
Vancouver, B.C.

TRANSFER AGENT & REGISTRAR

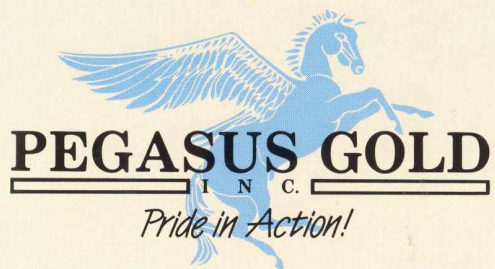
**Central Guaranty Trust
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CO-TRANSFER AGENTS

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and a copy of the
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