

1990 ANNUAL REPORT



PEGASUS GOLD
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The cover of this year's annual report features a background shot of the mill at the Montana Tunnels mine and an inset of the old Ruby Gulch Mill at Zortman, Montana, captured on canvas by Marianne Caballero. Marianne, an accomplished artist and employee of Pegasus since 1980, resides in the town of Zortman.



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Corporate Profile

Pegasus Gold Inc., a British Columbia, Canada, corporation, is headquartered in Spokane, Washington. The Company is a major North American gold producer with four mines currently in operation, all of which are situated in the western United States. At present, Pegasus produces in excess of 330,000 ounces of gold annually with significant amounts of silver, zinc, and lead recovered as by-products. With the exception of the Montana Tunnels mine, which is a polymetallic deposit employing conventional milling techniques, all of the Company's mines are open-pit, heap leaching operations. Pegasus was one of the first companies to utilize the heap leaching method of gold recovery and has been an industry leader in the introduction of technological advances and refinements since the method was first employed in 1979 at Zortman/Landusky, the Company's first mine.

Under current plans, Pegasus will bring three additional properties into production over the next three years. These projects are already in various stages of development and are forecast to increase annual gold output to 500,000 ounces or more in 1994. The Company also maintains an ambitious exploration program, which will continue to be focused on the western United States.

The Company is dedicated to maintaining its excellent financial condition. Long-term debt is low compared to industry standards, cash-on-hand and the cash-generating capabilities of Pegasus' operations are such that most of the Company's capital requirements can be generated internally, even at current gold prices. This financial strength also ensures that Pegasus can take full advantage of any acquisitions or joint ventures that could further the interests of the Company.

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



To Our Shareholders

Although there were many bright spots during 1990, the year was a very difficult one. The hardest decision we faced was placing the Basin Creek mine in Montana on care and maintenance. Throughout the year it became more and more apparent that we were facing some problems that we could not solve, especially in light of current gold prices. After extensive studies of various operating alternatives, and a simultaneous deterioration of the quality of the resource, we determined that it was in the best interest of our shareholders to suspend mining and eliminate the drain on cash flow and earnings. We also reached a settlement with Pioneer Metals Corp. rather than continue a protracted legal action. These two events resulted in write-downs of \$34 million and \$8.4 million, respectively, during 1990. In addition, we examined the carrying values of our non-participating minority interests made primarily during 1987 and 1988 and reduced these values where appropriate. The largest adjustment was in our investment in Inland Gold and Silver which was written down by \$4.3 million. These decisions were not taken lightly and the Company will be less attracted to non-participating minority interests in the future.

As a result, Pegasus recorded a net loss for 1990 of \$38.2 million or \$1.55 per share. Excluding the non-recurring, non-cash charges, Pegasus earned \$10.5 million or \$0.43 per share compared to \$14.1 million or \$0.59 per share in the preceding year. Revenues fell by \$8.8 million primarily due to lower gold prices. We realized \$401 per ounce in 1990 compared to \$416 per ounce in 1989. However, in both years our realized price was significantly higher than the COMEX average price as a result of our hedging activities. Gold production of 332,600 ounces was 2.6 percent lower than last year. Although we experienced record production years at Beal Mountain and Florida Canyon, this did not quite offset the winding down of Relief Canyon and the shortfall at Basin Creek.

In the past, we have discussed our dedication to the constant pursuit of lower operating costs. Even though they were unacceptably high at Basin Creek, the Company still managed to reduce cash costs by \$7 to an average for the year of \$235 per ounce. Without Basin Creek, costs at our other operations would have fallen to \$219 per ounce.



John M. Willson, President and
Chief Executive Officer

Recently, after a number of intensive studies, Pegasus has decided to conduct its own mining operations at Montana Tunnels. All mining to date has been performed by a contractor. This location was chosen because of its physical characteristics and its mine life. This action could reduce costs at the mine by as much as \$39 per ounce and approximately \$6 per ounce for the Company as a whole. We will continue to evaluate cost saving measures at each of our operations.

Although we may well see stronger precious metal prices in subsequent years, we recognize that we cannot rely on higher prices for earnings growth. To this end, Pegasus has embarked on what is the most ambitious growth phase in the Company's history. This is a two-fold process. First, we are carrying out intensive studies to optimize each of our existing mining operations. This program has already generated positive results; especially the major improvements at Montana Tunnels. Second, we now have three projects in various stages of development.

The first of these projects, the Black Pine mine in south central Idaho, is scheduled to come on stream during the third quarter of 1991. This should be followed by the Lukas Canyon portion of our Ortiz joint venture with LAC Minerals in New Mexico in the latter half of 1992, and followed in turn by the Zortman Expansion in late 1993 to early 1994. More detailed information on these properties is contained in our development section. Work is also continuing on the Carache Canyon portion of our Ortiz joint venture. This deposit constitutes a large mineral resource and will continue to be the subject of intensive studies to gain a better understanding of the very complex structure. These projects should enable us to achieve our target of producing 500,000 ounces of gold per annum in 1994 and provide a solid foundation to achieve our next goal of 700,000 ounces of gold per annum by the year 2000.

Turning to the financial side, Pegasus completed a very innovative transaction in 1990 and another in the first quarter of 1991 to raise a total of \$53 million. The first of these occurred in February 1990 when we borrowed \$25 million from two insurance companies, Allstate and Guarantee Mutual. We subsequently entered into two swap agreements: the delivery of 4.7 million ounces of silver at \$5.33 per ounce and a fixed to floating rate interest swap that resulted in a net borrowing cost to us of approximately one percent. During the first quarter of 1991, we completed a similar transaction, borrowing \$28 million from Principal Mutual and the ABN Bank. In this instance, a gold swap was employed instead of a silver swap.

Our hedging activities were again successful in 1990 as we managed to achieve an average price of U.S. \$401 per ounce for our gold production. This was \$17 per ounce above the average COMEX spot price and resulted in a gain of approximately \$5.7 million. For 1991, 85 percent of our projected annual output is hedged at a minimum price of \$388 per ounce. This is a much greater percentage than we have sold forward in the past; although, Pegasus has no set policy in this regard. Rather, we believe that a prudent course of action is to secure a portion of our cash requirements that is related to the level of our development plans in the near to medium term. In keeping with this philosophy, the Company entered into a long-term flat price forward sales contract over a term of eight years beginning in 1991. Using the historic gold leasing rate, a total of 240,000 ounces were sold forward at approximately \$544 per ounce.

Another subject I would like to address is our commitment to the environment. At Pegasus we take our environmental responsibilities very seriously. A great deal of time and effort is spent on the planning of our operations to ensure that they cause the minimum of disruption to the local area, and consequently the most appropriate reclamation effort is conducted during and after the operation phase. This focus on the environment has already led to our receiving the Regional Foresters' Award for our Beal Mountain Mine in Montana, and we are one of seven contenders for the 1991 DuPont/Conoco Environmental Leadership Award, soon to be decided.

We believe that we must be leaders in the area of environmental excellence. We, as engineers and scientists, are well qualified to understand the real consequences of our actions. We cannot allow ourselves to be subjected to the whims of ill-informed and emotional interests who will take the leadership if we fail to do so. The only way to be sure this does not happen is to take prudent and balanced initiatives ourselves.

Another important issue facing our industry is the current attack on the General Mining Law, a law which has been the heart of the growth of the industry in the western states. Pegasus has been, and will be, active in bringing together coalitions of businesses and individuals that depend for their existence on access to public lands, and in encouraging unity within the mining industry against changes to this successful and well tested law.

During the year, we made two additions to the management team. Alan Fletcher joined the Company in early August as Vice President and Legal Counsel from the law firm Pruit, Gushee and Fletcher in Salt Lake City, Utah, which specializes in mining law. Mike Steeves, a former investment analyst, also joined the Company in August as Director of Investor Relations. At the Board level, we welcomed William G. Wilson, Executive Vice-President and Chief Financial Officer of Nova Corp. and former President of Cominco Ltd. from 1980 - 1988. Bill's business acumen and experience in the mining industry makes him a valuable addition to our Board of Directors. We regret that two directors have recently resigned from the Board: Norman Anderson, a director since 1987, who has been appointed Chairman of Corona Corporation, and Jack Crabb, a director since 1984. We are grateful to both of them for the excellent advice and guidance they have provided to the Company during their tenure.

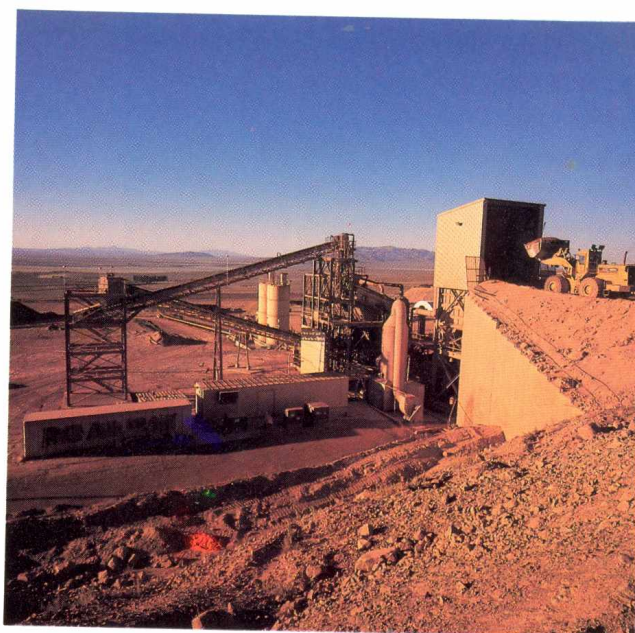
Last year was a demanding one for our people, who responded by delivering record or near record production at all of our ongoing operations. They did this while achieving record safety levels. The health and well-being of our employees is a prime concern at Pegasus. Our safety record is one of the best in the industry, a record of which our people can be justifiably proud. I would like to take this opportunity to thank each and every one of them for their efforts towards safe productivity.

We are embarking on the second ambitious growth phase in the history of Pegasus. The additions to our production capacity will ensure our position as one of the senior precious metals producers in North America. The success of this growth will depend on how each of our people works together with his or her colleagues to form a stable, competent and cohesive team to carry out well focused plans in an ever more complex environment. I am confident that they will meet the challenge.



John M. Willson
March 30, 1991

Operations Review



Crushing operations at the Florida Canyon mine.

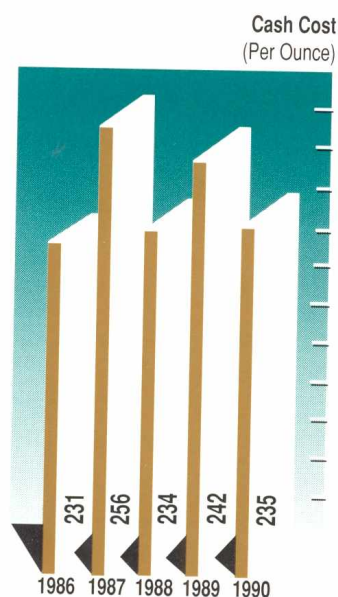
From an operations standpoint 1990 was, for the most part, a very satisfactory year. Two of our mines, Florida Canyon and Beal Mountain, achieved production records of 83,200 and 50,000 ounces of gold, respectively. In addition, Montana Tunnels achieved its target of 59,100 ounces despite a slight decline in gold grades and some down-time incurred carrying out refinements to the mill circuit. The profit contribution from Montana Tunnels far surpassed that achieved in previous years due to implementation of a new mine plan in mid-year, as well as very favorable zinc and lead prices for most of 1990. Zortman/Landusky also slightly exceeded planned production even though the rate of gold recovery was slower than expected throughout most of the year. This was offset by good weather and above average ore grades in September.

In total, Pegasus produced 332,600 ounces of gold in 1990. Although this was slightly less than our target at the beginning of the year, the entire shortfall was attributable to Basin Creek which did not offset the closure of Relief Canyon as planned. Silver production of 1.9 million ounces was more than 40 percent over earlier estimates mainly due to higher than anticipated ore grades at Zortman/Landusky. Zinc and lead production of 34.2 million and 13.3 million pounds, respectively, from Mon-

tana Tunnels was also significantly above anticipated targets, again due to grades slightly above those projected.

Cash operating costs showed an overall decline in 1990 to \$235 per ounce from \$242 per ounce in the preceding year. Although we have achieved a great deal in this area, the Company is committed to reducing cash costs even further. This should be attainable as management has chosen to adopt self-mining at two of our operations.

In keeping with our commitment to growth, development is well underway at Black Pine, which we anticipate placing into production in



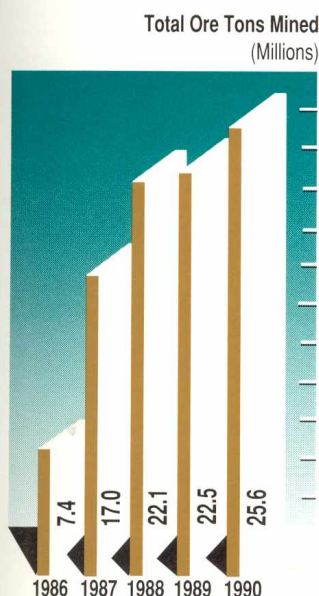
Mine Sites and Office Locations



LEGEND

- ◆ MINE SITES
 1. Zortman/Landusky
 2. Montana Tunnels
 3. Basin Creek
 4. Beal Mountain
 5. Florida Canyon
 6. Relief Canyon
- OFFICES
 - A. Spokane, WA
 - B. Butte, MT
 - C. Reno, NV
 - D. Helena, MT

the latter half of 1991. We are also making good progress at the Lukas Canyon portion of our Ortiz joint venture with LAC Minerals and in the treatment of non-oxide ores at our Zortman Expansion project in Montana. We plan to devote much of our attention in the future to the Carache Canyon portion of the Ortiz project and will continue work at our Quartz Mountain joint venture in Oregon.



Most importantly, Pegasus has been fortunate in assembling a team of operating



Aerial view of the operations at Montana Tunnels.

and development personnel that we believe to be more than equal to the challenges ahead. This should ensure that we succeed not only with our current development projects, but also with our plans for continued growth in the mining industry for the foreseeable future.

1990 HIGHLIGHTS

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

FINANCIAL DATA:	1990	1989	CHANGE (%)
Revenue	\$ 169,579	\$ 178,362	- 4.9
Net Income (loss)	\$ (38,172)	\$ 9,763	n/a
Cash Provided by Operations	\$ 30,165	\$ 43,592	- 30.8
Total Assets	\$ 276,554	\$ 289,460	- 4.5
Shareholders' Equity	\$ 198,493	\$ 233,207	- 14.9

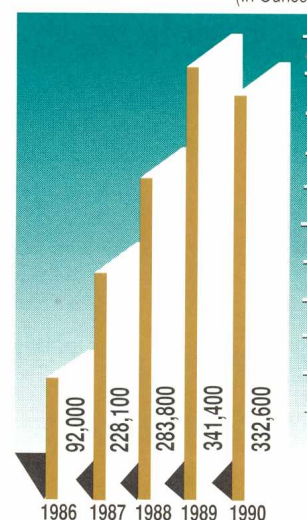
OPERATING DATA:

Gold Production (ounces)	332,600	341,400	- 2.6
Silver Production (ounces)	1,906,300	1,510,700	+ 26.2
Zinc Production (tons)	17,095	16,413	+ 4.2
Lead Production (tons)	6,649	7,517	- 11.6
Ore Tons Mined (000's)	25,600	22,500	+ 13.9
Cash Cost/Oz. Production	\$ 235	\$ 242	- 2.9
Breakeven Cost/Oz. Production	\$ 337	\$ 357	- 5.6

COMMON SHARE DATA:

Earnings (loss) Per Share			
Primary/Fully Diluted	\$ (1.55)	\$ 0.41	n/a
Common Shares Outstanding			
At December 31	24,701,421	24,151,105	+ 2.3
Weighted Average	24,652,000	23,986,000	+ 2.8

Total Gold Production
(In Ounces)



1990 PRODUCTION BY MINE

	Zortman/ Landusky	Florida Canyon	Relief Canyon	Montana Tunnels	Beal Mountain	Basin Creek
PRODUCTION						
Gold (oz.)	109,700	83,200	4,100	59,100	50,000	26,500
Silver (oz.)	652,200	19,300	6,400	1,191,400	9,800	27,200
Zinc (tons)	-	-	-	17,095	-	-
Lead (tons)	-	-	-	6,649	-	-
ORE TONS MINED (000)	13,020	5,106	-	4,153	1,916	1,404
GRADE						
Gold (oz./ton)	0.016	0.017	-	0.019	0.041	0.030
Silver (oz./ton)	0.200	0.014	-	0.390	0.021	0.080
Zinc (%)	-	-	-	0.620	-	-
Lead (%)	-	-	-	0.240	-	-
CUTOFF GRADE	0.008	0.008	-	0.014 *	0.015	0.015
RECOVERY PERCENTAGE						
Gold	60	78	-	84	65	75
Silver	25	27	-	73	25	38
Zinc	-	-	-	84	-	-
Lead	-	-	-	84	-	-
STRIP RATIO	0.35:1	1.63:1	-	1.40:1	1.38:1	2.24:1
CASH COST OF PRODUCTION	\$258	\$259	\$438	\$48	\$251	\$421

*Gold Equivalent

SELECTED HISTORICAL DATA

	1990	1989	1988	1987	1986
Production					
Gold (oz.)	332,600	341,400	283,800	228,100	92,400
Silver (oz.)	1,906,300	1,510,700	1,361,000	778,000	229,000
Zinc (tons)	17,095	16,413	18,416	7,201	-
Lead (tons)	6,649	7,517	8,404	4,281	-
Gold Equivalent (oz.)	422,900	430,100	370,200	259,600	95,500
Tons Ore Mined	25,600,000	22,500,000	22,100,000	17,000,000	7,400,000
Financial					
Gold Price Realized/ oz.	\$ 401	\$ 416	\$ 436	\$ 429	\$ 381
Operating Cost/ ton	\$ 4.74	\$ 5.20	\$ 4.75	\$ 4.36	\$ 3.98
Operating Cost/ oz.	\$ 235	\$ 242	\$ 234	\$ 256	\$ 231
General & Administrative Costs/ oz.	\$ 20	\$ 21	\$ 23	\$ 28	\$ 38
Depreciation, Depletion & Amortization/ oz.	\$ 74	\$ 70	\$ 73	\$ 66	\$ 53
Operating Cash Flow	\$30,165	\$43,592	\$ 43,490	\$ 6,654	\$12,141
Net Debt*	\$37,788	\$11,550	\$ (16,189)	\$ (17,956)	\$50,411
Debt/ Total Capitalization (%)	20	12	13	15	52
Reserves At Year End					
Gold (oz.)	4,224	3,093	3,248	2,877	3,042
Gold Equivalent (oz.)	4,716	4,338	4,543	3,705	3,805
Number of Employees	520	460	370	344	245
*(Long Term Debt Less Cash & Cash Equivalents)					

RESERVES AS OF JANUARY 1, 1991

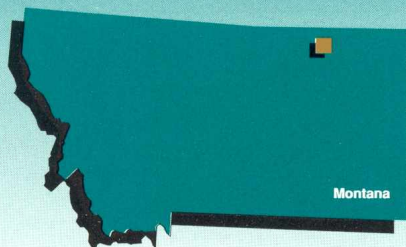
Mine	Proven & Probable			Mineral Inventories		
	Tons (000)	Grade Oz./Ton	Contained Oz. Gold	Tons (000)	Grade Oz./Ton	Indicated Oz. Gold
Zortman/Landusky	102,369	0.017	1,760,300	-	-	-
Florida Canyon	48,275	0.017	819,300	-	-	-
Montana Tunnels	34,300	0.019	641,400	-	-	-
Beal Mountain	11,227	0.050	565,300	-	-	-
Basin Creek	-	-	-	14,691	0.031	455,400
Black Pine	15,841	0.028	437,800	-	-	-
Diamond Hill (1)	-	-	-	2,358	0.038	89,600
Ortiz (2)	-	-	-	19,775	0.044	873,000
Quartz Mountain (3)	-	-	-	25,000	0.030	750,000
Total	212,012	0.020	4,224,100	61,824	0.035	2,168,000

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

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

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

Zortman/Landusky



Aerial view of Landusky. The "valley-fill" leach pad is shown in the foreground.

The Zortman/Landusky mine is an open-pit, heap leach mining operation located in the Little Rocky Mountains of Phillips County in north central Montana, roughly 150 miles northeast of Billings. The Little Rockies is one of the truly historic mining camps in the northwestern United States. Mining first began shortly after gold was discovered at Alder Gulch in 1864 and continued intermittently

**Since 1979,
Zortman/Landusky
has produced in excess
of 860,000 ounces
of gold.**

until 1951. Pegasus recommenced mining operations in 1979 based on the premise that very large volumes of low-grade material could be treated economically. Gold production has risen steadily and first surpassed the 100,000 ounce mark in 1987. The mine has already far exceeded initial expectations and, in many ways, the outlook is now more promising than at any time since our initial start-up. This is largely due to our planned Zortman Expansion project which will be discussed in detail in the development section.

In 1990, this operation accounted for roughly 33 percent of total gold and silver output at 109,700 ounces and 652,200 ounces, respectively. We mined 13 million tons during the year at an average ore grade of 0.016 ounces per ton for gold and 0.20 ounces per ton for silver. Gold production actually exceeded plan by a small amount even though recoveries proceeded at a slower rate than usual as we were near the final lift on the current leach pad. Subsequently, more gold was produced in the final quarter than is normally the case. In this instance, we were fortunate that the weather at Zortman/Landusky was unseasonably mild, allowing leaching to take place longer than usual. Silver production was almost two and one-half times what we had originally projected as grades proved to be much higher than anticipated.

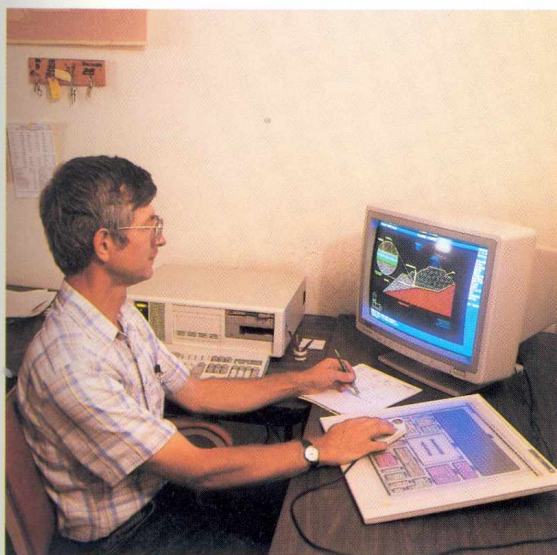
Cash operating costs for 1990 totaled \$258 per ounce, a reduction of \$17 per ounce from the preceding year despite a slight decline in ore grades. This was mainly attributable to a drop in the stripping ratio from 0.55:1 in 1989 to 0.35:1 during the current year, and a first-rate job by our minesite team that managed to reduce unit costs to \$2.35 per ton as opposed to \$2.93 per ton in 1989. The grade is expected to improve somewhat in 1991 and, as a direct result, cash operating costs could moderate even further.

Low stripping ratios are of critical importance at Zortman/Landusky as we successfully mine material that is lower than the cut-off grades of many other heap leaching operations. Other contributing factors are the unique blasting characteristics of the ore and the lack of any pre-treatment requirements before it is loaded onto the pads.

The outlook at Zortman/Landusky is now more promising than at any time since the initial start-up.

During the year, we completed construction of a new leach pad on the Landusky side with a capacity of 60 million tons. This is more than sufficient to handle the existing reserve of oxide ore as it now stands. Furthermore, it is unlikely that we will have a repetition of the slower than expected recoveries experienced last year. Most of the ore to be processed in 1991 will be loaded onto the new pad and the lower lifts tend to leach much more readily.

At present, we have an oxide reserve of 45.6 million tons on the Landusky side of our Zortman/Landusky operation. Development drilling was



Dave Ryzak, Mine Geologist uses C.A.D. programming at Zortman/Landusky.

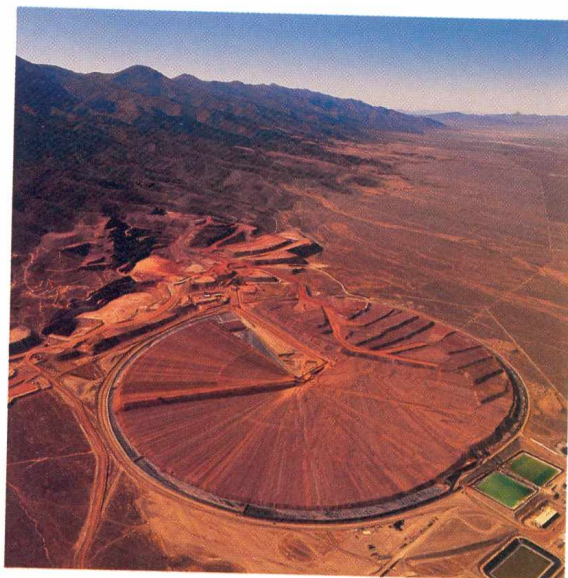
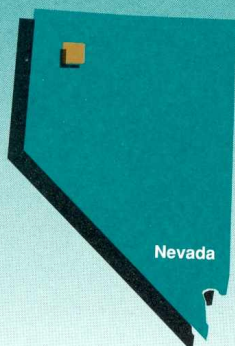


Percussion drill rigs at work in Landusky's Gold Bug pit with blastholes shown prior to loading and shooting.

largely successful in replacing what was mined in 1990 as we managed to add in excess of 10 million tons of ore at a grade of 0.015 ounces of gold per ton to the reserve base. In addition, we completed our preliminary feasibility study on the Zortman Expansion and, were able to add a total of 56.8 million tons at an average grade of 0.019 ounces of gold per ton to probable reserves. Pending receipt of necessary permits, we plan to conduct a much more detailed evaluation of the Landusky side to discover more oxide ore and hopefully define reserves of non-oxide ore as we have done on the Zortman side.

During 1991, we expect to mine approximately 12 million tons at Landusky with anticipated production of between 115,000 and 120,000 ounces of gold and approximately 500,000 ounces of silver.

Florida Canyon



Aerial view of the stacker-conveyor and circular leach pad at Florida Canyon.

Our Florida Canyon mine is an open-pit, heap leach operation located approximately 30 miles west of Winnemucca in Pershing County, Nevada. Although it is a traditional operation in many ways, Pegasus has introduced some unique innovations such as a circular leach pad and radial stacker-conveyor system used to load the ore on the pad. The deposit is also different in one other respect. Unlike our other heap leach mines, Florida Canyon is able to operate year-around due to its more southerly latitude, lower elevation and the natural occurrence of hot water at depth which enhances the ability to leach during colder weather.

Florida Canyon actually began operations in late 1986 and produced 4,200 ounces that year. Production rose to 47,800 ounces in 1987 even though the mine was still in a start-up mode during the early part of the year. As is the case with most heap leach mines, it took a good deal of time and effort to arrive at the optimum methods of ore treatment we employ today. These refinements ranged from a modification of our blasting practices, to the determination of the optimal crushing size and agglomeration techniques. At present, we are crushing to 90 percent minus 3/4 inch and agglomerating with approximately four pounds of cement per ton.

Since operations began, annual gold production at Florida Canyon has steadily increased. Last year, it achieved yet another record of 83,200 ounces of gold with some 19,300 ounces of silver. This was almost 4,000 ounces above plan as slightly more tons were added to the leach pad than original projections.

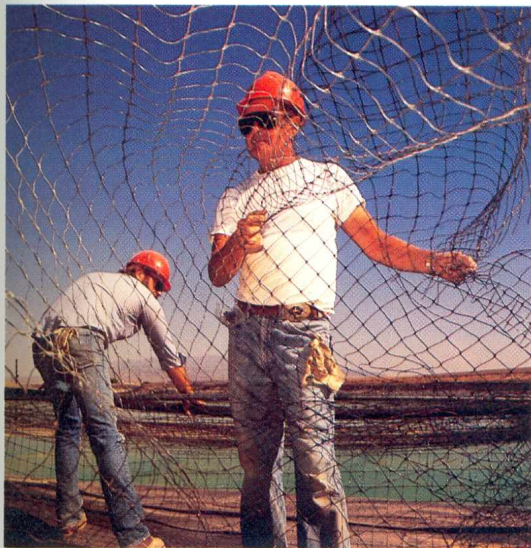
**Gold production of
83,200 ounces in 1990
set a new record at
Florida Canyon.**

Unit costs rose to \$4.67 per ton from \$4.30 per ton in 1989, which equates to an increase of \$19 on a per ounce basis. The increase was due almost solely to the increase in the strip ratio which rose from 0.88:1 last year to 1.63:1; significantly higher than the 1.38:1 we had projected at the beginning of the year. Given the magnitude of the rise in the stripping ratio, it is no small tribute to our employees that they were able to contain costs as effectively as they did. Next year we anticipate that the stripping ratio will return to approximately 1.4:1 and correspondingly, operating costs could post a modest decline.

Florida Canyon is yet another example of our corporate goal to optimize our existing operations. Since it first came into production, we have instituted a number of changes at the mine that have led to greater operating efficiencies and a considerable improvement in recoveries. Further testing over the past two years led to another major development when we found that it is more beneficial from an economic standpoint to leach large volumes of low-grade material as run of mine material rather than treating it as waste, which would have to be mined and hauled out of the pit in any event. The success

**It is readily apparent
that Florida Canyon is
not the finite deposit we
once thought it was.**

of this course of action could well have a very substantial impact on the life of the deposit. More specifically, we have increased the production level by some 12,000 to 13,000 ounces on an annual basis by loading 2.5 to 3 million tons of low grade material in addition to the approximately 5 million tons of primary ore. It is possible that we may be able to increase production even further over time as we are studying ways to upgrade our crushing ca-

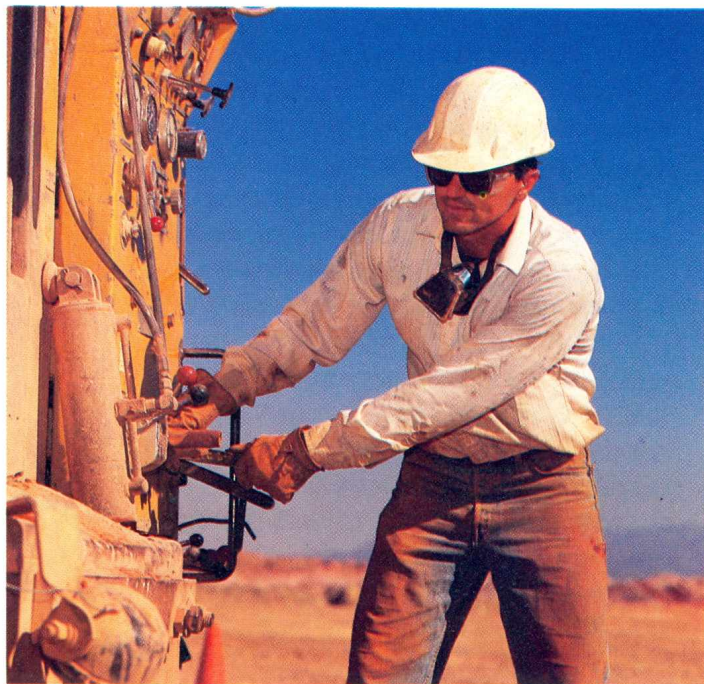


Nets were installed over all solution ponds at Florida Canyon as a wildlife safety precaution.

capacity. In addition, there would appear to be more exploration potential at Florida Canyon than once was thought as ore grade material has been intersected to the south and to the north east of the existing deposit. However, more drilling will be required before the significance of these discoveries can be fully evaluated.

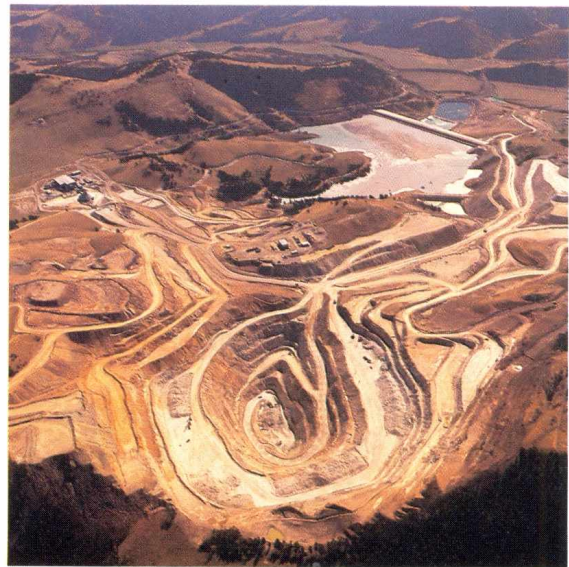
At present, proven and probable reserves at Florida Canyon are 48.3 million tons at a grade of 0.017 ounces of gold per ton. This includes approximately 16.1 million tons of run of mine material grading 0.010 ounces of gold per ton. At present, reserves are sufficient for another six to seven years of mining at current production rates.

Gold production in 1991 is most likely to remain around last year's level with perhaps a slight increase. However, cash operating costs should moderate somewhat due to the lower stripping ratio.



Precise blast hole drilling is the first step in controlling costs at Florida Canyon.

Montana Tunnels



Aerial view of the open pit at Montana Tunnels.

When we first brought Montana Tunnels into production in March 1987, it represented something of a departure for Pegasus. First, it was a polymetallic deposit with recoverable zinc and lead as well as gold and silver. Secondly, although it is an open-pit deposit, Montana Tunnels processes the ore by means of a conventional flotation mill as opposed to the heap leach method. The mine itself is located in Jefferson County, Montana, between Butte and Helena, the state capital.

Both zinc and lead concentrates are produced at Montana Tunnels. The lead concentrate, which contains the majority of the precious metals, is sent to Asarco's East Helena smelter, about 20 miles northeast of the mine site. The bulk of the zinc concentrate is trucked to Helena and then sent 530 miles northwest by rail to the Cominco smelter in Trail, British Columbia.

Since we first commenced operations, Montana Tunnels has proven to be somewhat of a challenge. The ore turned out to be much harder than expected and grades, especially for precious metals, were both lower and more erratic than initial studies had indicated. This necessitated a major adjustment in the mining plan and modifications to the mill circuit. In September of 1990, we adopted a revised mining plan developed by the

staff at Montana Tunnels that greatly enhances the property's return. In brief, it was found that by redesigning the pit, the stripping ratio could be cut by more than one-half from 3.3:1 to 1.4:1 over the life of the mine with only a 10 percent drop in recoverable ounces of gold and approximately half that amount on a gold equivalent basis. As a direct result, we believe that cash costs, after deduction of by-product credits, could be reduced by as much as 40 percent over this period. Other positive changes that were implemented included the addition of more flotation cells, enclosing the primary crusher, and the installation of a clast reject system in the ball mill.

In 1990, we processed 4.2 million tons of ore at Montana Tunnels or roughly 100,000 tons more than 1989. Production amounted to 59,100 ounces of gold, 1,191,400 ounces of silver, 17,095 tons of zinc and 6,649 tons of lead. On a year-to-year comparison with the previous year, zinc production rose, lead production declined, and silver remained virtually unchanged. Gold output was almost 3,500 ounces lower than the preceding year due to an anticipated drop in grade.

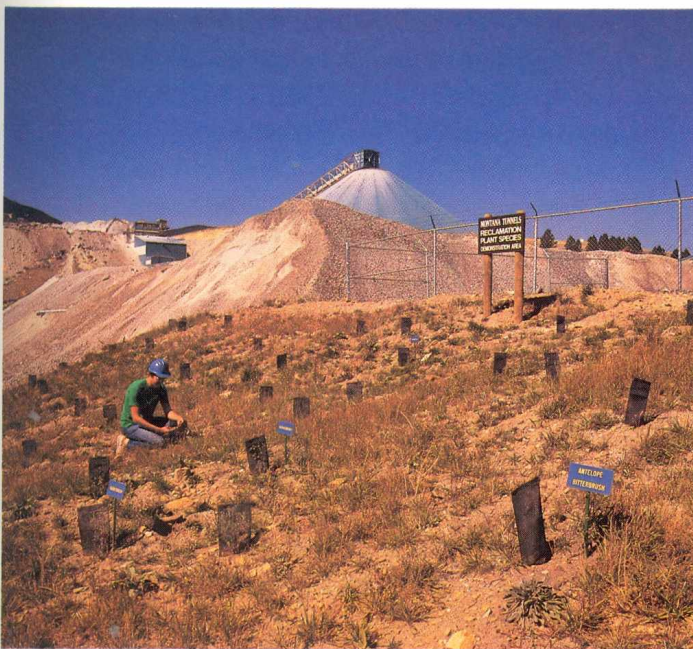
Unit costs at Montana Tunnels posted a decline of over 9 percent during the year from \$11.36 per ton to \$10.42. This equated to a cash cost per ounce of gold produced net of by product credits of \$48 per ounce compared to \$164 per ounce in 1989. The

major savings were in flotation costs and off-site treatment charges. The change per ounce was also influenced by increased zinc production coupled with higher lead prices that remained strong most of the year before declining sharply in the last quarter. Costs on a per ounce basis have been and will remain largely dependent on by-product credits; including the price factor over which we have minimal control. However, we will continue to strive to reduce our unit costs at Montana Tunnels through greater operating efficiencies

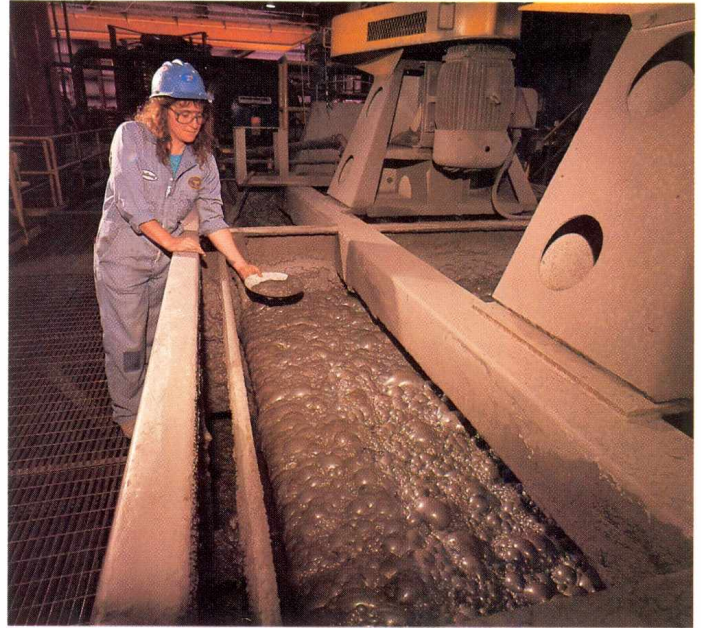
A revised mine plan implemented in September has greatly enhanced this property's return.

such as the installation of a gravity circuit and as previously mentioned, the replacement of contractors with our own mining people.

Our employees at Montana Tunnels deserve a special vote of thanks. They have worked long and hard, often under very trying circumstances, and the success of this operation is a tribute to their efforts.



Larry Rohde, Reclamation/Hydrology Engineer checks growth progress in the reclamation demonstration area at Montana Tunnels.

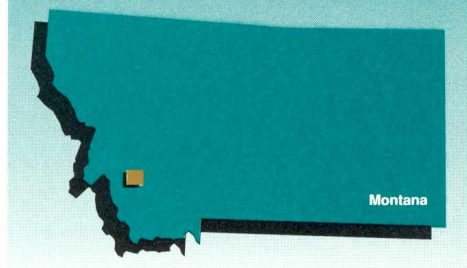


Metallurgist Mary Anne Antonioli monitors zinc recovery.

As of December 31, 1990, proven and probable reserves were calculated at 34.3 million tons grading 0.019 ounces gold per ton, 0.31 ounces per ton of silver, 0.60 percent zinc and 0.24 percent lead. This is sufficient for slightly more than eight years of mining at the current rate. It is possible that some additional ore will yet be discovered but it appears at this time that we have substantially defined the limits of economic mineralization.

For 1991, we do not foresee any major changes at Montana Tunnels. Under current plans we expect to mine approximately 4.1 million tons to produce 59,000 ounces of gold, 900,000 ounces of silver, 16,000 tons of zinc and 6,700 tons of lead.

Beal Mountain



Aerial view of the Beal Mountain mine.

Our Beal Mountain mine is located near the town of Anaconda in southwestern Montana. The nearest major center is the historic mining community of Butte, some 20 miles to the east of the mine site. The mine itself is a straightforward open-pit, heap leaching operation with recovery of gold and silver by carbon adsorption and electrowinning.

Beal Mountain has the distinction of making the smoothest transition from development project to operating mine of any of our properties. We first applied for permits in February of 1988, began construction in July and actually started leaching

Beal Mountain has the distinction of making the smoothest transition from development project to operating mine of any of our properties.

ore in November of the same year, although commercial production did not begin until May of 1989. What is even more remarkable is that we were faced with a number of environmental hurdles since Beal is situated in a very environmentally sensitive area. The staff at Beal Mountain not only completed construction on time but did so in a manner that

resulted in such minimal disruption to the surrounding landscape that we were awarded the Regional Foresters' Excellence Award from the U.S. Forest Service. This would be a much more difficult task under the current regulatory environment. Indeed, we would consider ourselves fortunate to accomplish in two years what took only six months a short time ago.

We mined 1.9 million tons of ore at Beal Mountain last year compared to 1.3 million tons in 1989. Gold production rose from 37,200 ounces in 1989 to 50,000 ounces in 1990. Silver also rose to 9,800 ounces from 8,100 in the preceding year. Gold production was more than 7,500 ounces above plan, although this was due almost entirely to the greater volume of material treated.

The cash operating cost per ton rose to \$6.73 compared to \$6.30 in 1989. This equated to a cash cost of \$251 per ounce as opposed to \$190 per ounce in the previous year. Mining, crushing, and agglomerating costs all increased, as did most other on-site charges due to harder and more abrasive ore. Costs are expected to remain at this level for 1991, as increased treatment charges will be offset by a projected decline in the stripping ratio from 1.38:1 to approximately 1.1:1. Cash operating costs are estimated to average about \$230 per ounce over the life of the mine, but as at our other operations, we



Engineering Manager Tad Dale and Mine Engineer Bill Jenkins discuss production scheduling.

will continue to search for ways to reduce costs even further. One such change that we have made recently at Beal is to take over the crushing operation from the contractor, which we believe will lead to cost savings and greater operating efficiencies.

At year end, proven and probable mineable reserves at Beal were 11.2 million tons at a grade of 0.050 ounces of gold per ton. This is sufficient for another six to six and one-half years of mining at anticipated production rates. We have already identified a number of promising exploration targets on the 6,000-acre property, which we plan to

In an effort to control costs and achieve greater efficiencies, Pegasus has taken over the crushing operations at Beal.

examine in more detail in the future. Furthermore, our reserve base at the mine is calculated solely on the current pit design, which stops at the water table even though we have already determined that economic mineralization continues at depth. However, further environmental and cost studies as well as an amendment to our existing permits would be required before we would be in a position to extract this deeper material.

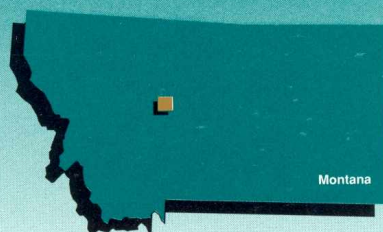
In the coming year, we plan to process approximately 1.8 million tons at Beal Mountain. This is expected to yield in excess of 47,000 ounces of gold, although ore grades may prove to be somewhat higher than earlier projections. If so, production will be roughly the same level as that of 1990.



TOP: Lab Technical Matt Buckley prepares blasthole samples for gold assays.

BOTTOM: Lead Mechanic Mike Skocilich fabricates E-Cell Hangers for plating gold on steel wool.

Basin Creek



Aerial view of the Basin Creek mine. Problems encountered in 1990 have led to the suspension of operations at this mine for the 1991 season.

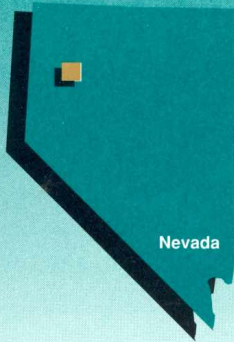
The Basin Creek property is situated approximately 18 miles southwest of Helena, Montana, only about 12 miles away from our operations at Montana Tunnels. Pegasus first bid on the property, then known as Paupers Dream, in late April 1989. The transaction was completed with Pangea Resources on June 29th of that year at a cost to Pegasus of \$25 million.

During 1990, gold and silver production from the property amounted to 26,500 ounces and 27,200 ounces, respectfully, compared to 26,500 ounces of gold and 21,200 ounces of silver credited to 1989 subsequent to the acquisition. Cash costs increased to \$421 per ounce from \$280 per ounce in the preceding year due in large measure to an increase in the stripping ratio and a variety of other difficulties.

After a reasonable year in 1989, we began to experience a number of operating problems, most of which were attributable to the existing leach pad, which became plugged as a result of previous agglomeration practices. We believe that the previous operators used too little cement and did not allow for enough curing time before loading the ore onto the pad. We also believed that this problem would be solved with the construction of a new leach pad, which was completed in 1990.

However, as the year progressed, we began to encounter more serious problems. The ore was not as continuous as we had expected and the actual ore grades that we encountered were approximately 30 percent less than forecast, due in part to greater dilution but also to factors that are still not fully understood. In short, Basin Creek had become a drain on earnings and management time, that was compounded by falling gold prices. Given these circumstances, we decided to suspend mining for 1991, which in turn led to our decision to write-off the property's carrying value of \$34 million. However, we will continue to leach in the coming year and expect to recover between 5,000 and 6,000 ounces of gold.

Relief Canyon



Reclamation work at the now closed Relief Canyon mine in Pershing County, Nevada. This waste dump will be reseeded after contouring is completed.

The Relief Canyon mine is situated in Pershing County, Nevada, 20 miles east of the town of Lovelock and 40 miles south of our Florida Canyon property. Due to its close proximity, it was operated as a unit of Florida Canyon. The property was acquired from Lacana Mining Corporation in July of 1986 after operations had temporarily ceased due to poor gold recoveries.

After a thorough study, Pegasus determined that mining could be carried out profitably by crushing and agglomerating the ore as opposed to treating it as run of mine material. Operations began anew in November of 1986 and since that time, the contribution from Relief Canyon has repaid our initial investment many times over.

During its mine life, Relief Canyon produced approximately 118,000 ounces of gold with peak output in 1987 and 1988 of 42,000 ounces and 40,000 ounces, respectively. Mining operations terminated as planned in the third quarter of 1989, although leaching continued until August, 1990. A total of 4,100 ounces were recovered in 1990.

Extensive reclamation work at the site commenced in the fall of 1990. Leach pads were rinsed and the Company started a comprehensive program of contouring roads and waste dumps, replacing the topsoil, and seeding the area with indigenous vegetation. Reclamation work will continue into 1991,

which in all likelihood, will be completed by the end of the first quarter. The success we enjoyed at Relief Canyon is a tribute to our employees who demonstrated strong technical expertise while establishing one of the best safety records of all our operations.

**Relief Canyon has
returned \$13.6 million in
cash flow on an initial
investment of
\$2.7 million.**

DEVELOPMENT PROPERTIES

BLACK PINE

The Black Pine property is located in Cassia County in south central Idaho, less than 10 miles north of the Utah border. The nearest major center is Burley, Idaho, 60 miles to the northwest. The deposit itself is situated in the Black Pine Mountains at an elevation of between 5,500 and 6,000 feet above sea level in a sequence of calcareous siltstones and sandstones. Although Black Pine will be a seasonal operation to some extent, prolonged periods of cold weather occur only sporadically. Therefore, mining can take place for eight or nine months of the year with leaching continuing throughout most of the year.

As of January 1, 1991, proven and probable reserves were calculated at 15,841,000 tons at an average grade of 0.028 ounces of gold per ton with minor amounts of silver. This may be further broken up into 7,714,000 tons of primary ore with a gold grade of 0.042 ounces per ton and 8,127,000 tons of run of mine material at a grade of 0.014 ounces of gold per ton.

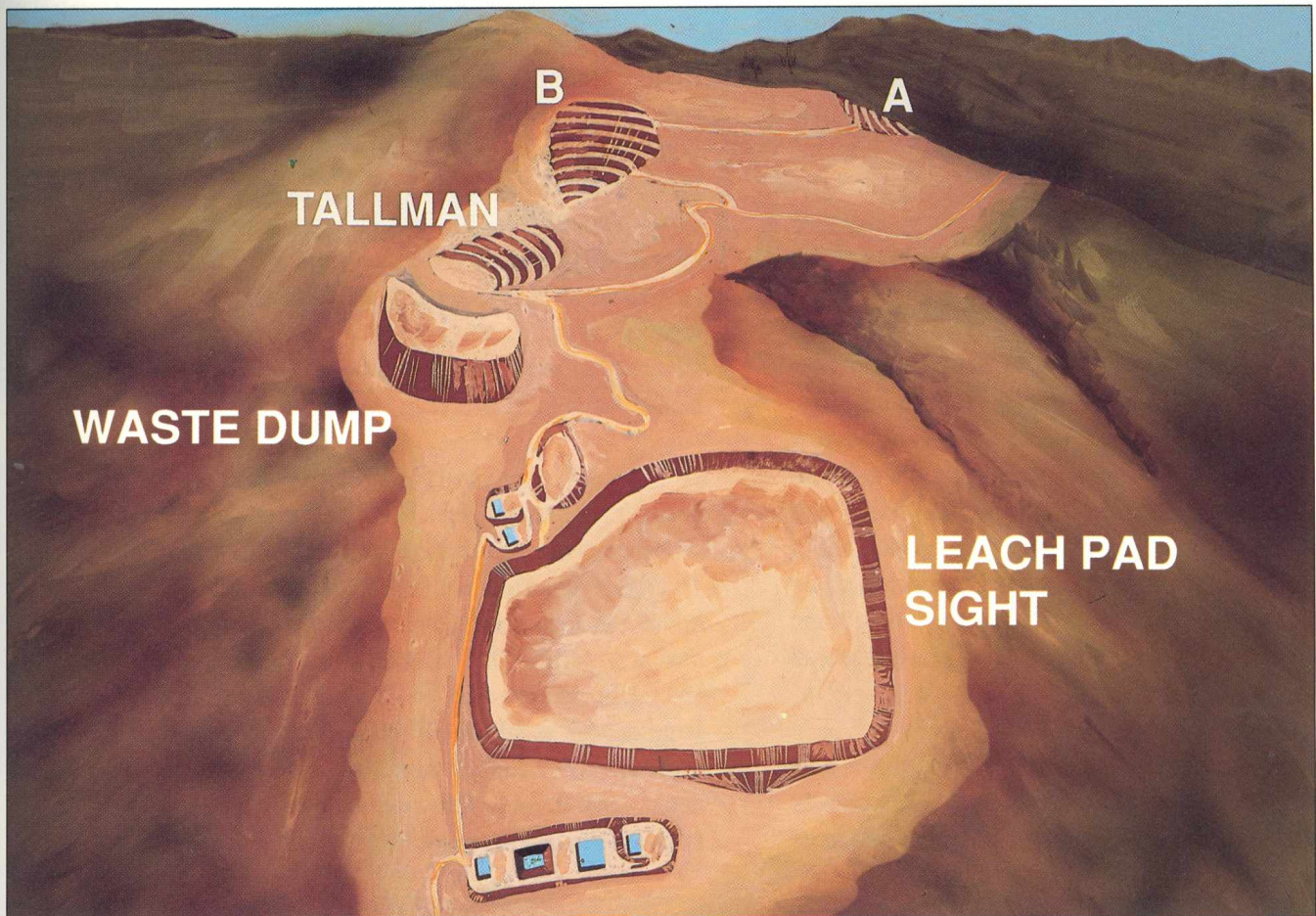
As the deposit now stands, three separate pits, the A, B and Tallman have been outlined, although current work and ongoing exploration will likely define additional mineralization.

The individual pits vary substantially in terms of tonnage and grade with the bulk of the high grade material to be found in the "B" pit, while most of the tonnage is contained in the lower grade "A" pit. To date, reserves are sufficient for at least four years of operations assuming an average annual production rate of 60,000 ounces over the life of the deposit. However, under the initial mining plan, annual output would vary between 40,000 and 80,000 ounces in any given year. Alternative mining plans are currently under study whereby we may choose to mine from two or more pits simultaneously in an effort to smooth out the production profile.

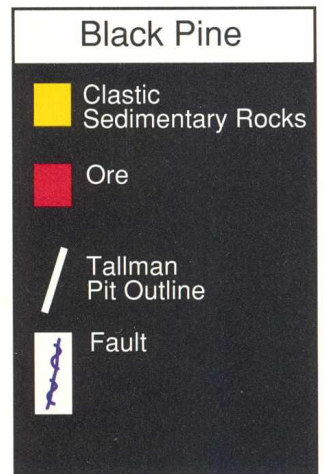
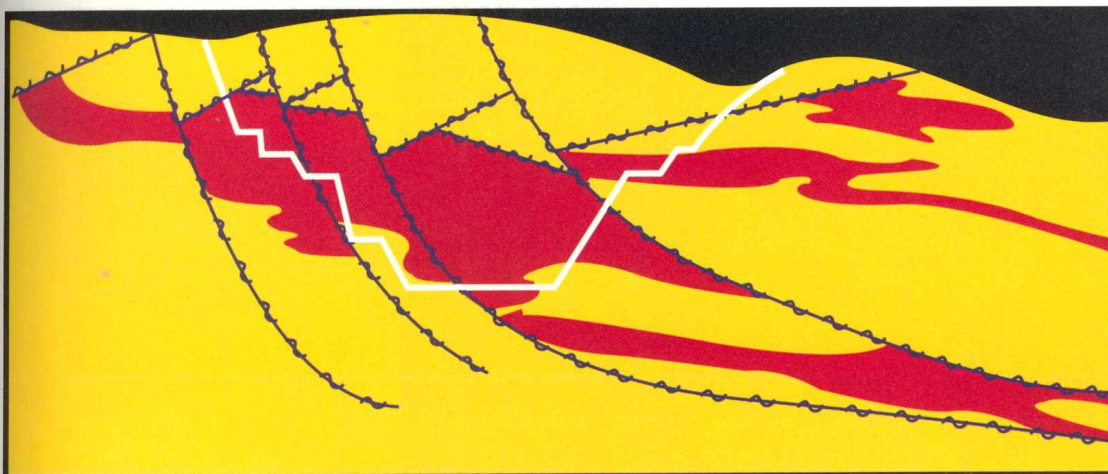
Construction at Black Pine is proceeding on schedule. The administration building has been completed, the laboratory is nearly finished, and the process buildings will be finished in April. Access roads are 75 percent completed and haul roads are currently under construction. Construction of the leach pad has been delayed by as much as 90 days to allow for regulatory approval of significant changes in size and design. Mining will first commence at either the Tallman or "B" pit and it is anticipated that in excess of one million tons will be loaded onto the pad during the current year, starting in August. Gold production for 1991 is still likely to be approximately 18,000 ounces despite a somewhat later start.



Construction began at Black Pine in November, 1990. Workers completing the foundation for the lab building.



Site plan of Black Pine with leach pad and the A, B and Tallman pits.



Cross section of the Tallman pit with projected pit boundary.

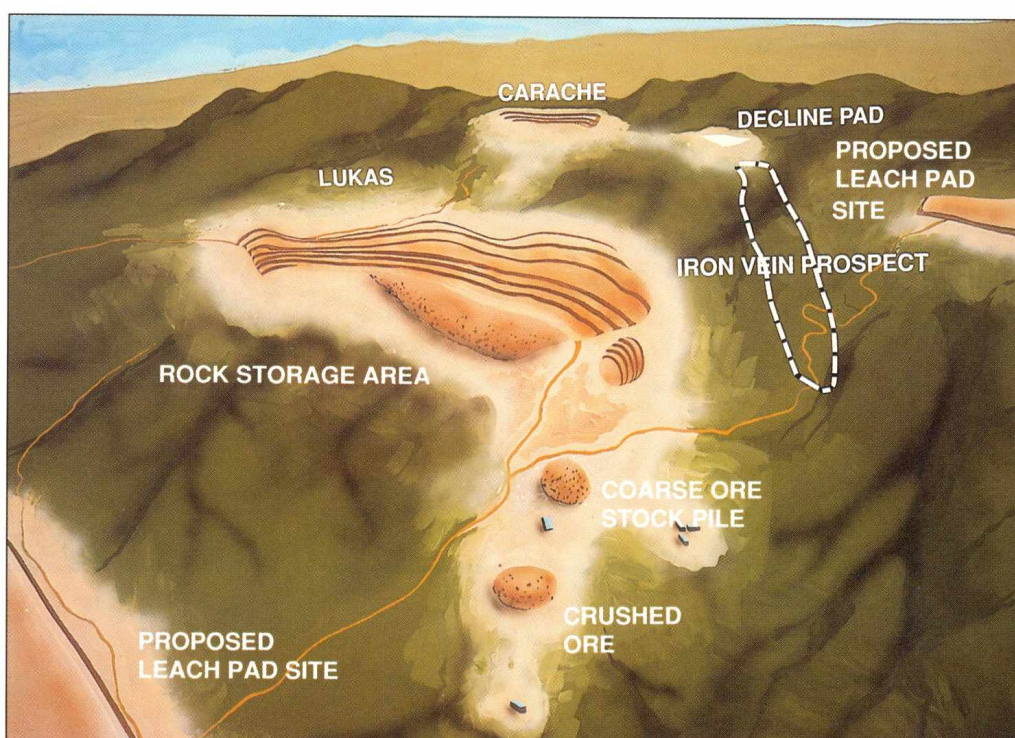
ORTIZ PROJECT

The Ortiz project is a joint venture between Pegasus and LAC Minerals. Pegasus is required to spend \$27.5 million to earn its 50 percent interest in the property. Ortiz is located in north central New Mexico, an almost equal distance between Albuquerque, some 30 road miles to the southwest, and Santa Fe, roughly 35 miles to the northeast. The Ortiz property consists of over 57,000 acres of high mountain desert plateau and the much more rugged terrain of the Ortiz Mountains. Elevations range from 6,400 to 8,900 feet above sea level but, as low temperatures occur only sporadically, heap leaching can take place on a year around basis with minimal disruptions due to weather. A number of mineralized zones have already been identified on the property, but at this time detailed work is being confined to the Lukas Canyon and Carache Canyon deposits.

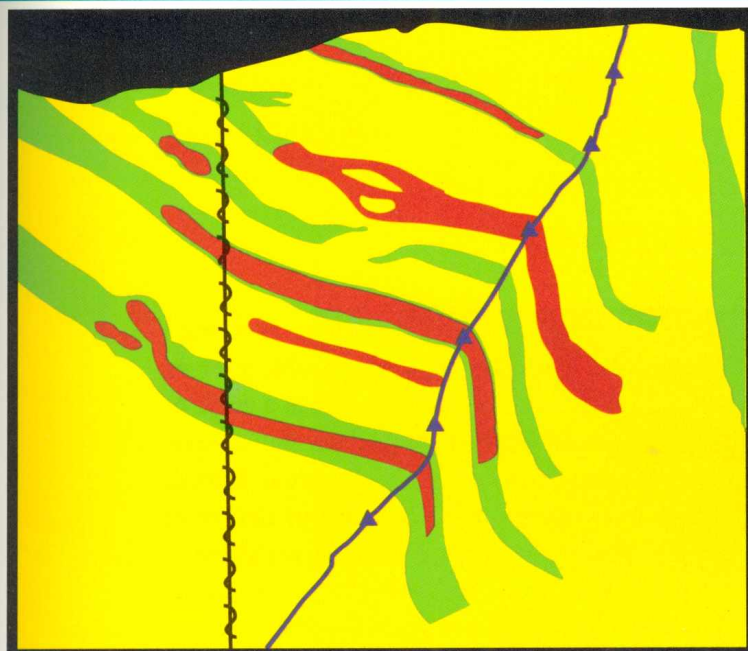
A total mineral resource of 10.6 million tons grading 0.033 ounces of gold per ton has already been outlined at Lukas Canyon. It is likely that some

additional mineralization will be added when a new reserve calculation is completed, but the dimensions of this deposit have been fairly well established. Pending the receipt of necessary permits, Lukas Canyon is scheduled to commence production as a heap leach operation in the latter half of 1992 at a rate of two million tons per year. With a projected recovery rate of 70 percent, this would net each joint venture partner roughly 23,000 ounces of gold per annum for at least five years.

Carache Canyon is a far more complex deposit. It is a mineralized breccia pipe intruded by a sequence of enriched latite-andesite porphyry sills. This has resulted in a number of tabular, stacked ore bodies. A total geologic resource of 16.7 million tons at a grade of 0.07 ounces of gold per ton has been delineated to date, but the evaluation of this large deposit is still in its relatively early stages. More advanced studies must also be conducted to determine if Carache Canyon should be treated as a large tonnage low grade deposit or a smaller



Site plan of the Ortiz joint venture project showing Lukas Canyon, Carache Canyon and the Iron Vein prospect.



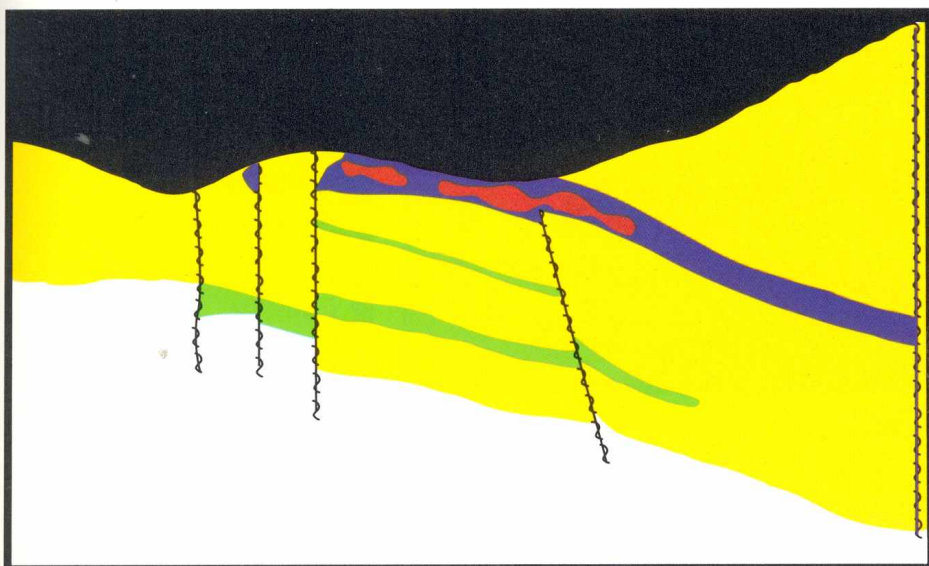
Carache Canyon

- Clastic Sedimentary Rocks
- Andesite sills
- Mineralization
- Fault
- Fold Axis

Cross section of Carache Canyon showing the stacked arrangement of enriched sills.

tonnage higher grade property. In addition, it has been found that while the material is readily leachable, a significant portion of the contained mineralization is coarse gold which can be recovered by gravity separation. Based on current data, Carache Canyon will likely reach production about three years after Lucas Canyon although the appropriate mining method has yet to be determined.

Other mineralized zones on the property, such as the Iron Vein, Cunningham and Florencia also show promise and will be examined in more detail when time permits.



Lukas Canyon

- Clastic Sedimentary Rocks
- Greenhorn Limestone (Skarn)
- Andesite Sills
- Mineralization
- Fault

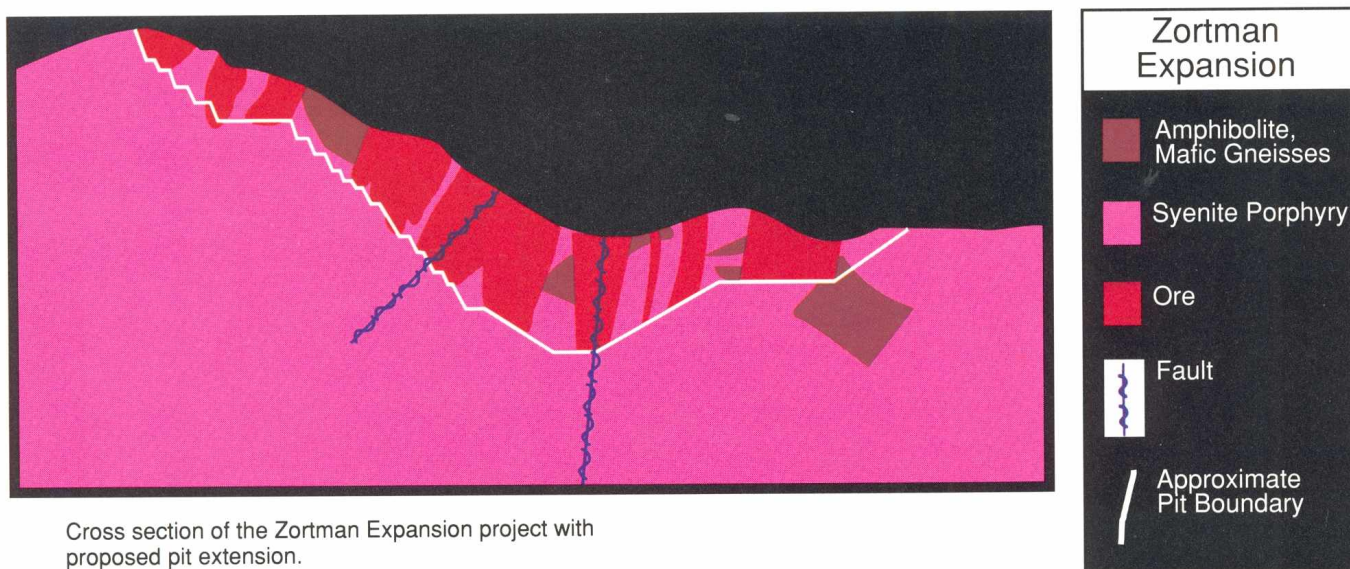
Cross section of the Lukas Canyon deposit depicting mineralized zones in the Greenhorn limestone.

ZORTMAN EXPANSION

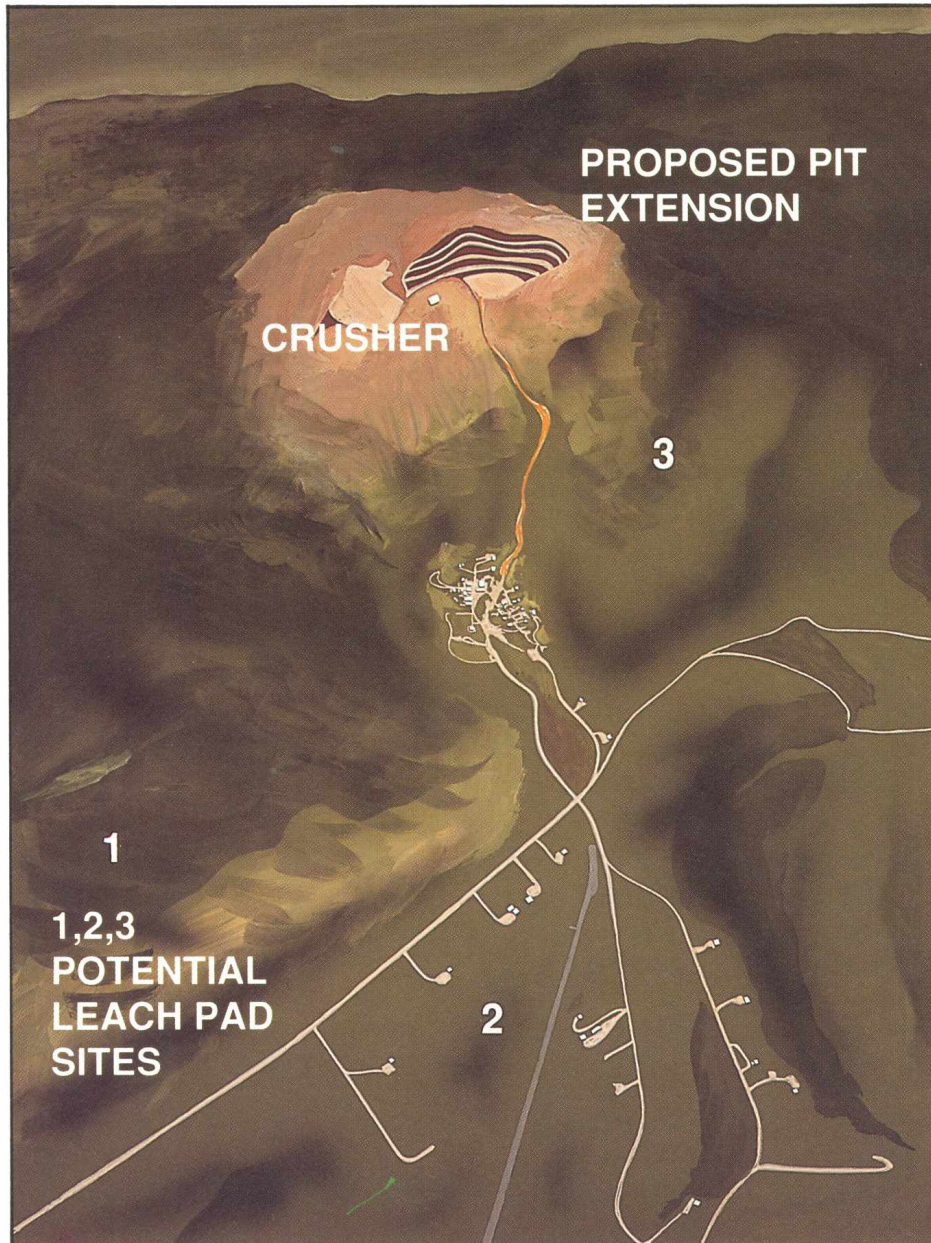
The Zortman Expansion project was a direct result of the Company's efforts to optimize all of its ongoing operations. Over the past few years, exploration around the existing Zortman pit indicated the presence of a significant amount of non-oxide material that contained some sulphide mineralization in the form of pyrite along with minor amounts of telluride minerals. Despite this, subsequent metallurgical testing determined that this material was not refractory as initially feared and, in all probability, could be treated by conventional heap leaching methods. A 50,000 ton leach test was then carried out on a blend of crushed non-oxide and oxide ore. At the end of a 60 day period, approximately 55 percent of the contained gold was recovered before the test was halted due to cold weather. The test will be resumed this spring. The results were a pleasant surprise in light of the fact that the current leach cycle for oxide ore at Zortman/Landusky is at least four years. It is also possible that the overall recovery for this project may be slightly higher than the 60 percent level that is being achieved at present on oxide ores. Furthermore, once it was established that non-oxide ore could be mined profitably, a sizeable amount of associated oxide material became economic as well.

A preliminary feasibility study completed last year established proven and probable reserves of 25.6 million tons of non-oxide ore at a grade of 0.025 ounces of gold per ton and 31.2 million tons of oxide ore at 0.014 ounces of gold per ton. In total, the reserve contains almost 1.1 million ounces of gold. The Zortman Expansion project is slated to begin in late 1993 or early 1994 at an average annual production rate of 125,000 ounces. The projected capital cost is \$35 million and cash operating costs are estimated at \$237 per ounce assuming an average strip ratio of 0.37:1.

A drilling program is also planned for the Landusky side in 1991, where the potential also exists to establish a significant reserve of non-oxide ore.



Cross section of the Zortman Expansion project with proposed pit extension.



Site plan of the Zortman Expansion with potential leach pad sites (1, 2 and 3).

Exploration



Pegasus exploration geologists on site during winter exploration drilling.

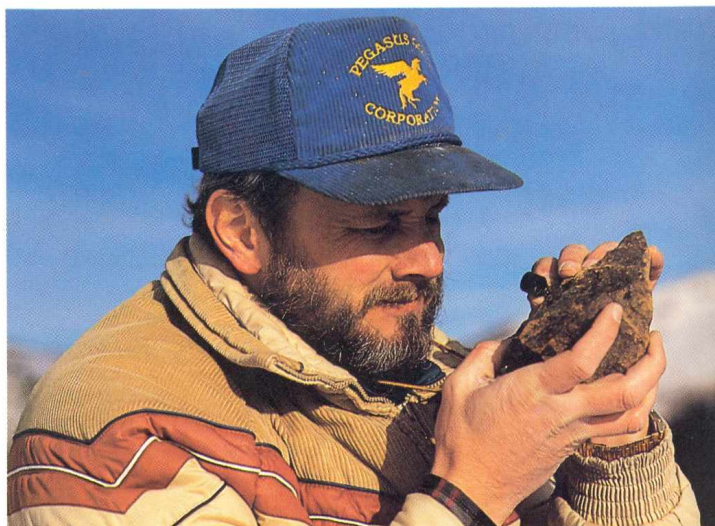
Pegasus plans to continue its strong commitment to exploration. To this end, a number of changes were instituted last year which we believe will be of substantial benefit in our search for economic ore deposits. First, Allan Park, who brings many years of experience both domestically and abroad, joined the Company as Vice President, Exploration and exploration became a separate function. Second, to increase our exposure in Nevada we have hired a regional exploration manager for our Reno office. Third, Jim Lincoln, our Chief Geologist, will continue to work closely with our existing operations but in addition will supervise our Canadian and base metal programs and assist in the possible development of an international exploration effort.

We believe it is especially important to maintain our commitment to exploration.

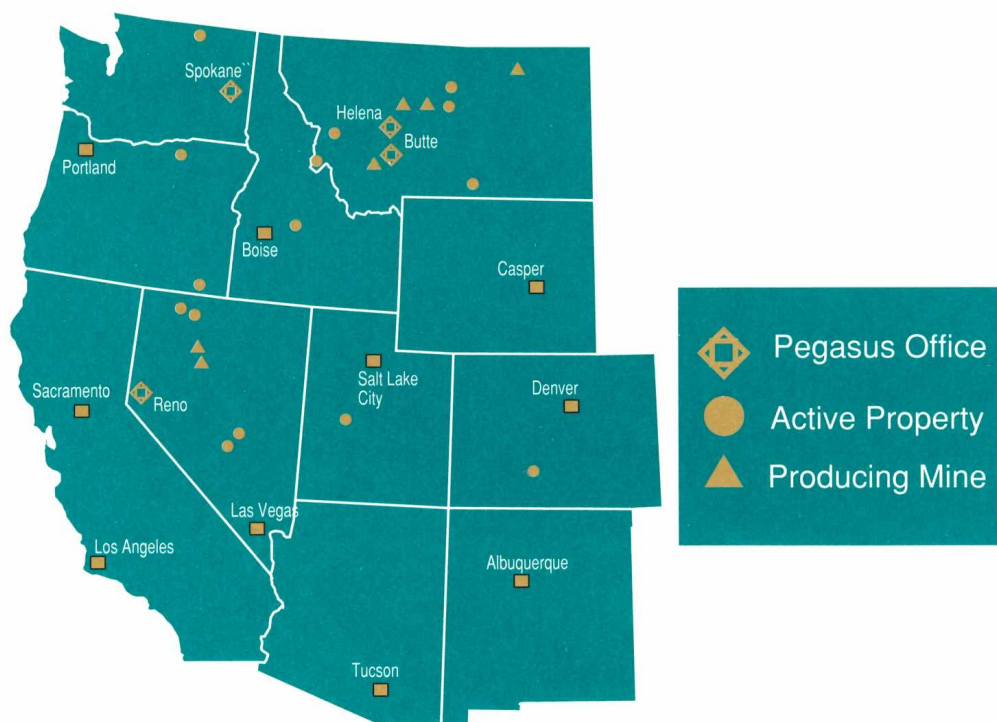
Pegasus will continue to direct most of its efforts towards the discovery of the type of deposit it knows best, large tonnage, open pit, heap leach gold deposits. However, we now have sufficient in-house expertise that we are prepared to consider

base metal, industrial mineral and underground deposits should the opportunity arise. Our interest in base metals and industrial minerals would most likely focus on existing operations or projects in more advanced stages.

In conjunction with our stated corporate objectives, we will continue to concentrate most of our activities on the western United States. We have expanded our North American outlook to include Alaska and Canada, although again we would give priority to more advanced projects in these areas. We are also in the process of evaluating a return to the international arena.



District Geologist Jerry Harrold examines a rock specimen at an exploration property in Montana.



The exploration department has a permanent staff of 25 employees including geologists, landmen and support staff in addition to consultants and contract personnel that are utilized when the need arises. Pegasus spent approximately \$7.4 million on exploration in 1990, \$5.8 million in North America and \$1.2 million in Australia. In North America alone, we examined over 400 submittals, carried out more detailed work on 29 projects, and drilled 270 exploration holes totalling in excess of 85,000 feet. Our staff has delineated potentially economic mineralization at two properties in Montana which will be further evaluated in 1991. Of particular interest is the Miller Mountain property near Helena, Montana, where studies to date have already outlined a sizeable geologic resource.

The exploration budget for the coming year is projected to decline slightly to the \$6 million range. However, we believe it is especially important to maintain our commitment to exploration at this time as quality properties are becoming available at much more reasonable terms in light of current precious metals prices.



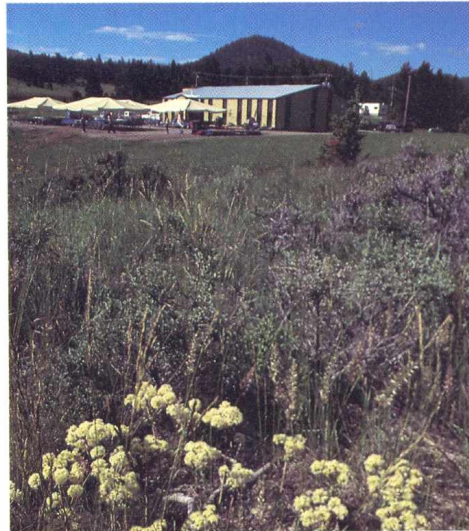
Exploration drilling at the Beal Mountain mine property in Anaconda, Montana. In 1990 Pegasus increased its proven and probable reserves by over 1 million ounces of contained gold.

Environment

At this time, mining and other resource companies are facing two pieces of legislation that, if passed in their present form, would severely limit our access to public lands. We are concerned about this legislation as the proposed restrictions on the use of these lands would seem to suggest that mining cannot co-exist with other land use requirements. We believe this to be untrue.

There is little doubt that over the next decade our industry will face more stringent and comprehensive environmental regulations. This will probably affect all phases of our operations in the form of greater obstacles in carrying out exploration programs, a much more intensive and time consuming permitting process for new mines, stricter regulation of existing operations and ever increasing reclamation requirements once mining ceases.

All Pegasus employees take their environmental responsibilities very seriously. We are increasing our commitment to public information groups and will continue our policy of complete cooperation with all state and local regulatory authorities. In addition, all of our projects are constructed and operated in accordance with our overall environmental plan. First, all our projects are constructed in a fashion that results in the least amount of disruption to the local environment. Second, we conduct an ongoing reclamation program, contouring and reseeding areas as soon as they are no longer required for current operations. Third, all



Our reclamation efforts are made more effective by comprehensive planning and by causing as little initial disruption to the surrounding area as possible. This is typified by our Beal Mountain mine, shown above.

final reclamation requirements are factored into our formal mine plans at inception so that we can return these lands to other uses as quickly as possible.

These efforts on our part have already met with considerable success. In 1988, we were awarded the Regional Foresters Excellence Award for our Beal Mountain mine in Montana. Furthermore, Pegasus is one of the seven nominees for the first annual DuPont Mining Services/Conoco Environmental Leadership Award. This award is to be presented at the American Mining Congress convention in Salt Lake City to the company that best demonstrates the use of innovative methods to minimize the environmental impact of mining and the integration/application of community concerns for the environment into minesite operations. We are dedicated to maintaining these high standards at all of our mines and development projects. In addition, as of this year, the Pegasus Annual Report will be printed entirely on recycled paper.



One of the many deer found in the area around the Beal Mountain mine near Anaconda, Montana.

Safety



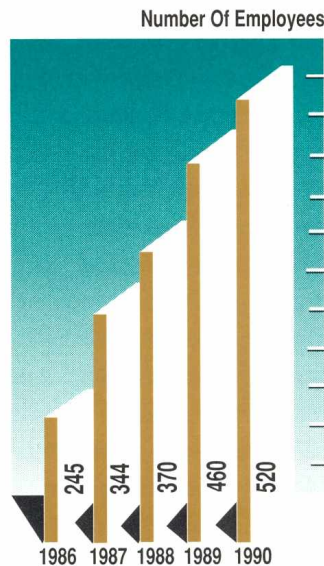
Bill Hoffman, Manager, Operations Administration, and Marlene Atiyeh, Group Mine Engineer, review detailed study of the self mining plan that will be implemented at the Montana Tunnels Mine.

Although we have stated on a number of occasions that our goal is to optimize all of our operations, this in no way lessens our dedication to the safety of our employees. The safety of our employees is the major concern at Pegasus and we have worked hard to reduce the frequency and severity of accidents at all of our operations. These efforts have met with considerable success. Beal has not had a lost time accident since it began production; Relief Canyon was accident-free over its last twenty-seven months of operation and all of our operations have been free from lost time injuries for over 10 months now.

Over the last two years, reportable accidents involving no lost time have declined 49 percent, lost time accidents by 85 percent and total accidents by 65 percent. Perhaps of even greater importance is that the severity of lost time injuries in terms of lost days has been reduced by over 85 percent. In 1990, Pegasus personnel worked a total of 1.3 million manhours during which time there were only thirteen injury incidents. Of these, only three were lost time injuries involving a total of 38 work days lost.

Further improvements in the area of safety will be a challenge. We are now at the point where we not only compare favorably with the rest of the mining industry but in fact find ourselves one of the leaders. However, Pegasus employees are committed to reducing the accident rate even further. We

continue to expand formal training programs to help in this regard. The latest is the Safety Training Observation Program (STOP) which is now underway at all of our properties.



RESULTS OF OPERATIONS

The Company recorded a net loss of \$38.2 million (\$1.55 per share) in 1990, compared to net income of \$9.8 million (\$0.41 per share) in 1989 and \$17.8 million (\$0.75 per share) in 1988. Results for 1990 included production and development property write-downs of \$35.1 million, \$34.0 million of which is attributable to the Basin Creek Mine, and investment losses of \$18.0 million. Results of operations in prior years included an investment loss of \$4.7 million in 1989 and an investment gain of \$5.0 million in 1988.

Excluding the effect of the above non-recurring gains and losses (net of income taxes), the Company would have recorded net income of \$10.5 million (\$0.43 per share) in 1990, compared to \$14.1 million in 1989 (\$0.59 per share) and \$13.8 million (\$0.58 per share) in 1988.

The main reason for the decline in 1990 earnings is the operating loss of \$4.0 million incurred at the Basin Creek Mine and the non-recurring losses described above. After a reasonably successful start-up under the Company's management in 1989, Basin Creek encountered numerous operating problems in 1990. The strip ratio increased; recoveries were hampered on the original leach pad; the ore grade was not as continuous as expected; and the actual ore grade mined was 30 percent lower than had been projected. As a result, the cash cost per ounce increased to \$421 in 1990 from \$280 in 1989. A comprehensive exploration program failed to prove-up additional reserves, and the effect of lower gold prices and higher operating costs required a reduction of previously calculated proven reserves. Given the uncertainty surrounding the ore reserve, the fact that the operation was not generating a positive cash flow and was unlikely to do so in the foreseeable future, the decision was made to shut the operation down and place the property on care and maintenance status.

In 1990, the Company negotiated a settlement of all outstanding claims with Pioneer Metals Corporation, whereby Pioneer agreed to convey its 50 percent interest in an operating mining property to the Company in return for forgiveness of indebtedness associated with a convertible debenture and gold loan, and return of Pioneer common shares and warrants held by the Company. Concurrently, the Company arranged the sale of this property interest to Pioneer's joint venture partner for \$5.9 million. Consequently, the Company has written the carrying value of its investment in Pioneer down to \$5.9 million, recognizing an investment loss of \$8.4 million. In 1989, the Company wrote its investments in the common stock of Pioneer and Gold Reserve Corporation

down to fair market value, recognizing a loss of \$4.7 million. In 1988, the Company sold its investment in Pan Australian Mining Ltd. and realized a gain of \$5 million.

In 1990, the Company reevaluated the carrying value of its other non-participating minority equity interests and joint venture investments, including its equity investment in Inland Gold and Silver Corp. Mining operations at Inland's Toiyabe Mine will cease in early 1991, and exploration efforts to prove-up additional reserves at Toiyabe and other properties have not been successful. As a result, the Company has written its investment in Inland down to its underlying net book value, recognizing a loss in the amount of \$4.3 million. The remaining investment loss consists of the write-down of various joint venture interests and other investments of \$5.3 million, which had sustained permanent declines in value.

REVENUE

Gold sales were \$133.4 million in 1990 compared to \$141.5 million in 1989 (\$124.8 million in 1988). Gold ounces sold declined to 333,004 in 1990 compared to 341,338 in 1989 (286,502 in 1988). The Basin Creek Mine failed to produce as expected and as a result, did not offset the loss of production due to the completion of processing at Relief Canyon. With the exception of Basin Creek, all operating mines performed well with gold production records set at Florida Canyon and Beal Mountain.

The gold price realized declined to \$401 per ounce compared to \$416 in 1989 (\$439 in 1988). The realized price for 1990 exceeded the average spot market price of \$384 per ounce as a result of the success of the Company's hedging strategy. The use of forward sales and options generated an additional \$5.7 million in revenue in 1990 compared to \$11.1 million in 1989. The following chart compares the Comex average gold price over the last three years with the average gold price realized by the Company:

	PEGASUS	COMEX
1990	\$ 401	\$ 384
1989	\$ 416	\$ 382
1988	\$ 436	\$ 437

Sales of other metals were \$36.1 million in 1990 compared to \$36.9 million in 1989 (\$38.0 in 1988). In 1990, price declines for silver and zinc were mainly offset by increased production. In 1989, an increase in the price of

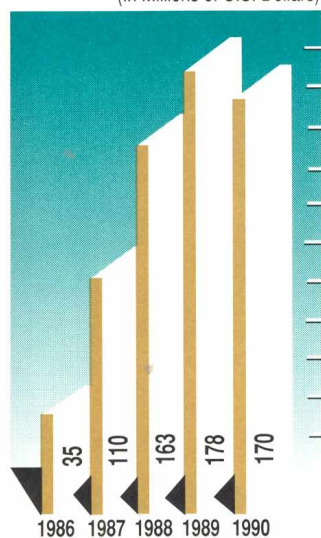
Operating Cash Flow Per Share
(In U. S. Dollars)



Operating Cash Flow
(In Millions of U. S. Dollars)



Total Revenues
(In Millions of U.S. Dollars)



zinc partially offset the effect of decreased production of both zinc and lead, and a decline in the price of silver. Over the last three years, the average realized price of silver has steadily declined from \$6.34 per ounce in 1988 to \$4.67 in 1990. Through February 1991, the price of silver averaged \$3.88 per ounce. In 1990, the Company entered into a silver swap, which effectively hedges 60 percent of the Company's estimated silver production over the next four years at \$5.33 per ounce.

OPERATING COSTS

Cost of sales declined, mainly as a result of lower production. Despite the poor performance at Basin Creek, the average cash cost per ounce of gold (net of by-product credits) improved to \$235 per ounce compared with \$242 in 1989 (\$234 in 1988). Excluding Basin Creek, the average cash cost per ounce was \$219 in 1990 and \$238 in 1989. The Company has decided to conduct its own mining at Montana Tunnels beginning in July 1991 and is evaluating a similar plan at Zortman/Landusky, which should reduce cash costs per ounce in 1991 and future years.

Depreciation, depletion and amortization, which is calculated using the units of production method, increased slightly to \$24.7 million in 1990 from \$24.0 million in 1989 (\$20.7 million in 1987). Depreciation per ounce of gold totaled \$75 in 1990 and \$71 in 1989 (\$73 in 1988). Excluding Basin Creek, depreciation per ounce was \$69 in 1990 and \$66 in 1989. As a result of the write-down of the assets associated with the Basin Creek Mine, depreciation per ounce is expected to decline in 1991 and later years.

Royalties declined to \$2.4 million in 1990 from \$3.5 million in 1989 (\$3.2 million in 1988), because the area mined at the Zortman/Landusky Mine in 1990 was not subject to a royalty. Royalties increased in 1989 over 1988, as a result of increased production. However, the effect of the increase in production in 1989 was largely offset by the lower gold price realized.

EXPLORATION

Exploration expense increased to \$7.4 million in 1990 (compared to \$5.9 million in 1989 and \$6.0 million in 1988), of which \$6.2 million was spent in North America and \$1.2 million was spent in Australia. For 1991, the exploration budget is \$6.0 million. Actual exploration costs may vary as a result of the acquisition of new properties and the results of exploration activities at existing properties. The Company will continue to place emphasis on exploration targets in the western United States, while evaluating advanced opportunities in Alaska and Canada. All exploration activity in Australia has been terminated.

CORPORATE AND OTHER

General and administrative expenses declined to \$6.7 million in 1990 compared to \$7.2 million in 1989 and \$6.4 million in 1988. General and administrative expenses were high in 1989 as a result of severance payments made to former officers.

In 1990, the income tax benefit recorded was less than the statutory rate because the losses generated by the write-down of investments and the Basin Creek Mine were not tax deductible, or the realizability of the related tax benefit was uncertain.

FINANCING, CAPITAL INVESTMENT AND LIQUIDITY

The Company invests its excess cash in low risk short-term investments. Interest and other income declined to \$2.5 million in 1990 from \$4.1 million in 1989 (\$5.9 million in 1988), as a result of reduced cash available for short-term investment. Other income was increased in 1988 by the receipt of dividends from Pan Australian Mining Ltd. of \$1.3 million.

Interest expense declined to \$2.2 million in 1990 from \$2.6 million in 1989 (\$2.7 million in 1988). The reduction is a result of interest capitalized on development projects, a reduction in the effective interest rate paid to 6.8 percent in 1990 from 9.7 percent in 1989 (9.2 percent in 1988), and the redemption of the 8.5 percent bonds in 1990.

The Company ended 1990 with net working capital of \$42.1 million, \$10.4 million of which was in cash and cash equivalents. Net working capital at the end of 1989 was \$45.2 million, including \$20.5 million in cash and cash equivalents. Despite significant capital additions of \$56.4 million, working capital declined only slightly from 1989 to 1990. Major capital outlays in 1990 included new pad construction at the Zortman/Landusky, Beal Mountain and Basin Creek Mines, development of the Ortiz Project, and construction and acquisition costs at the Black Pine Project.

The 1990 capital expenditures were funded by the draw-down of existing cash balances, cash flow provided by operating activities and \$25 million in new private placement debt. In 1990, the Company raised \$25 million through the issuance of five-year notes at 9.7 percent interest. At the same time, the Company entered into interest rate and silver swaps which reduced the effective interest rate on the financing to 1.1 percent.

In 1991, the Company plans to spend approximately \$12 million on capital additions to existing properties, \$8 million on construction at Black Pine, and \$10 million on other projects. In addition, the Company intends to lease approximately \$10 million of mining equipment and assume mining operations at the Montana Tunnels Mine, and may lease an additional \$12 million of mining equipment should the Company decide to conduct its own mining at the Zortman/Landusky Mine.

In January 1991, the Company completed a private placement of \$18 million of five-year equal annual amortizing notes at 9.2 percent, with back to back interest rate and gold swaps. The gold swap is for 45,000 ounces at \$398 per ounce. In addition, the Company has negotiated a \$10 million term loan with a bank, which bears interest based on LIBOR, and will be repayable in five equal annual installments beginning March 1992. The Company intends to enter into a gold swap with a value of \$10 million when an acceptable gold price can be achieved.

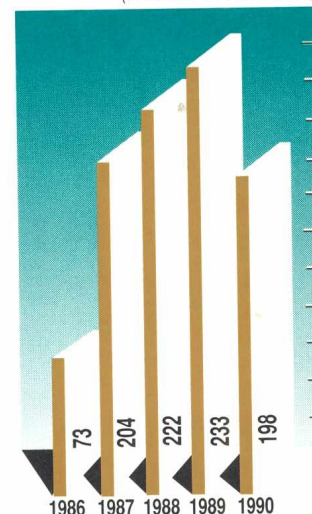
In January 1991, the Company extended and amended its revolving and term loan credit facility and reduced its commitment from \$100 million to \$50 million, or the equivalent in gold. The Company elected to reduce the commitment to reduce the cost of maintaining the credit facility because of the availability of other sources of financing, as described above. In addition, the Company has \$20 million in uncommitted working capital credit facilities. At December 31, 1990, there were no borrowings outstanding under these facilities.

OUTLOOK

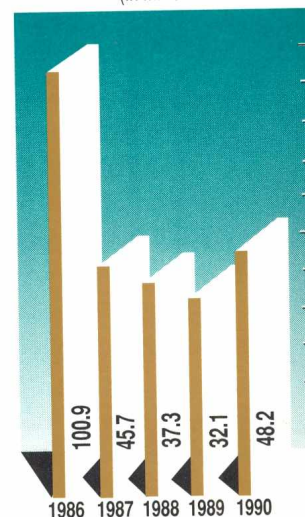
The Company estimates that it will produce approximately 335,000 ounces of gold in 1991. Projects which are currently under development are forecast to increase annual gold production to 500,000 ounces in 1994.

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. The gold price fluctuates widely and is affected by numerous factors beyond the Company's control, including expectations for inflation, the strength of the U.S. dollar, global 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 cost of production 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.

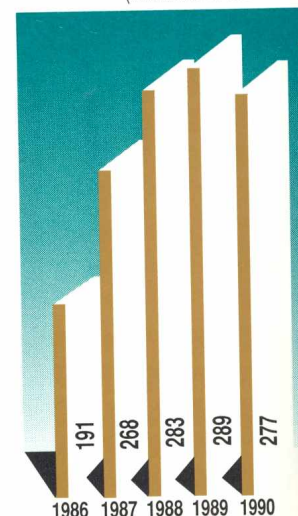
Shareholders' Equity
(In Millions of U.S. Dollars)



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



Total Assets
(In Millions of U.S. Dollars)



Through February 1991, the price of gold averaged \$373. In order to protect against adverse moves in the gold market, the Company employs a variety of hedging strategies, which may include forward sales, options, commodity backed loans and commodity swaps. At February 28, 1991, the Company has priced 49 percent of its estimated 1991 production (335,000 ounces) at \$411 per ounce. The Company has established a floor of \$350 per ounce on another 36 percent.

The Company's costs of production have remained relatively unchanged over the short-run, although they are generally subject to the same inflationary pressures experienced by the economy as a whole. The fluctuation in the market price of products produced by the Company has a much greater impact on the Company's profitability than inflation.

The mining and processing operations of the Company are subject to extensive governmental regulations for the protection of the environment. Changes to current laws and regulations could require additional capital expenditures and increase operating costs. Although the Company is unable to predict what additional legislation, if any, may be proposed or enacted, it is possible that additional regulatory requirements could render certain mining operations uneconomic. As a result of its commitment to the environment, the Company has received the Regional Foresters' Excellence Award from the U.S Forest Service for its efforts to develop an environmentally sound operation at the Beal Mountain Mine. In addition, the Company is one of seven finalists for the 1991 DuPont/Conoco Environmental Leadership Award.

	1990	1989	1988	1987	1986
INCOME STATEMENT DATA: (In thousands of U.S. Dollars except share and per share data)					
Sales of gold and other metals	\$ 169,579	\$ 178,362	\$ 162,757	\$ 110,435	\$ 35,054
Cost of sales	139,442	143,200	131,686	84,085	26,281
Other expenses, net	69,484	19,978	9,162	8,932	4,541
Income (loss) before income taxes and extraordinary credit	<u>\$ (39,347)</u>	<u>\$ 15,184</u>	<u>\$ 21,909</u>	<u>\$ 17,418</u>	<u>\$ 4,232</u>
Net income (loss)	<u>\$ (38,172)</u>	<u>\$ 9,763</u>	<u>\$ 17,779</u>	<u>\$ 14,492</u>	<u>\$ 4,654</u>
Net income (loss) per share:					
Primary	<u>\$ (1.55)</u>	<u>\$ 0.41</u>	<u>\$ 0.75</u>	<u>\$ 0.70</u>	<u>\$ 0.35</u>
Fully diluted	<u>\$ (1.55)</u>	<u>\$ 0.41</u>	<u>\$ 0.75</u>	<u>\$ 0.70</u>	<u>\$ 0.32</u>
Cash dividends per common share	<u>\$ 0.10</u>	<u>\$ 0.10</u>	<u>\$ 0.10</u>	<u>\$ 0.10</u>	
BALANCE SHEET DATA:					
Cash & cash equivalents	\$ 10,443	\$ 20,515	\$ 49,615	\$ 54,212	\$ 28,630
Total assets	\$ 276,554	\$289,460	\$283,305	\$ 267,764	\$191,059
Long-term debt	\$ 48,231	\$ 32,065	\$ 37,282	\$ 45,748	\$100,883
Shareholders' equity	\$ 198,493	\$233,207	\$221,890	\$ 203,562	\$ 72,743
STATISTICAL DATA:					
Shares outstanding at year-end	24,701,421	24,151,105	23,886,274	23,508,773	14,948,593
Number of shareholders at year-end	4,880	4,930	4,990	4,650	5,420
Market price (in U.S. dollars)					
High	\$ 16.00	\$ 15.37	\$ 17.25	\$ 26.37	\$ 11.25
Low	\$ 9.12	\$ 8.87	\$ 10.75	\$ 10.75	\$ 5.38
December 31	\$ 13.00	\$ 13.50	\$ 11.50	\$ 16.25	\$ 11.25

Board of Directors



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

Executive Committee



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

CONSOLIDATED BALANCE SHEETS

December 31, 1990 and 1989

(In Thousands of U.S. Dollars)	1990	1989
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,443	\$ 20,515
Due from sales of products	18,386	13,173
Income tax refundable	5,669	
Other receivables	744	761
Inventories	25,906	28,363
Other current assets	1,883	2,179
Total current assets	63,031	64,991
Investments	26,090	43,600
Property, plant and equipment, net	180,701	175,456
Deferred charges and other assets, net	6,732	5,413
Total assets	<u>\$276,554</u>	<u>\$289,460</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 10,371	\$ 7,703
Accrued salaries, wages and benefits	2,636	1,879
Mining taxes payable	3,782	4,561
Accrued interest	1,169	1,379
Income taxes payable	509	1,871
Dividends payable	2,470	2,415
Total current liabilities	20,937	19,808
Long-term debt	48,231	32,065
Deferred reclamation costs	7,550	3,338
Deferred income taxes	1,343	1,042
Total liabilities	<u>78,061</u>	<u>56,253</u>
Commitments and contingencies (Notes 6 and 11)		
SHAREHOLDERS' EQUITY		
Class A preferred stock, Series 1, \$10 par value:		
Authorized - 20,000,000 shares; none issued		
Common stock, no par value:		
Authorized - 50,000,000 shares; Issued		
and outstanding 1990 - 24,701,421 shares and		
1989 - 24,151,105 shares	190,268	184,302
Retained earnings	8,694	49,336
Less:		
Foreign currency translation adjustment	(469)	(431)
Total shareholders' equity	<u>198,493</u>	<u>233,207</u>
Total liabilities and shareholders' equity	<u>\$276,554</u>	<u>\$289,460</u>

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

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended December 31, 1990, 1989 and 1988

(In Thousands of U.S. Dollars, Except Per Share Amounts)	1990	1989	1988
Sales of gold and other metals	\$169,579	\$178,362	\$162,757
Cost of sales and other direct production costs	114,737	119,222	111,028
Depreciation, depletion and amortization	24,705	23,978	20,658
	139,442	143,200	131,686
Gross profit	30,137	35,162	31,071
Operating expenses:			
General and administrative	6,709	7,250	6,428
Royalties	2,449	3,454	3,167
Depreciation and amortization	331	267	258
Exploration	7,409	5,891	6,043
Production and development property write-downs (Note 2)	35,078	582	1,139
	51,976	17,444	17,035
Income (loss) from operations	(21,839)	17,718	14,036
Other income (expense):			
Interest and other income	2,543	4,138	5,877
Interest expense, net of amounts capitalized	(2,166)	(2,573)	(2,680)
Gain (loss) on investments (Note 5)	(17,973)	(4,648)	4,963
Gain (loss) on foreign currency transactions	(250)	323	320
Equity in net income (loss) of affiliates	338	226	(607)
	(17,508)	(2,534)	7,873
Income (loss) before income taxes and extraordinary credit	(39,347)	15,184	21,909
Income tax provision (benefit)	(1,175)	5,421	6,303
Income (loss) before extraordinary credit	(38,172)	9,763	15,606
Extraordinary credit from utilization of foreign tax loss carryforwards			2,173
Net income (loss)	\$(38,172)	\$ 9,763	\$ 17,779
Net income (loss) per share:			
Before extraordinary credit	\$ (1.55)	\$ 0.41	\$ 0.66
Extraordinary credit			0.09
	\$ (1.55)	\$ 0.41	\$ 0.75
Weighted average common shares outstanding	24,652	23,986	23,781

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 1990, 1989 and 1988

(In Thousands of U.S. Dollars)	1990	1989	1988
Operating activities:			
Net income (loss)	\$(38,172)	\$ 9,763	\$17,779
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	25,036	24,245	20,916
Deferred income taxes	(115)	(680)	(549)
Production and development property write-downs	35,078	582	1,139
(Gain) loss on investments	17,973	4,648	(4,963)
(Gain) loss on foreign currency transactions	250	(323)	(320)
Equity in net (income) loss of affiliates	(338)	(226)	607
Other, net	(1,325)	369	599
	38,387	38,378	35,208
Change in receivables	(10,755)	5,631	(1,949)
Change in inventories	1,196	1,981	6,136
Change in accounts payable and accrued liabilities	1,222	(3,249)	5,468
Change in other current assets	115	851	(1,373)
Net cash provided by operating activities	30,165	43,592	43,490
Investing activities:			
Proceeds from sale of investments		1,146	20,139
Acquisition of Pangea Resources, net of cash acquired		(24,899)	
Additions to property, plant and equipment, net	(56,399)	(36,057)	(34,974)
Purchase of investments	(680)	(6,423)	(25,550)
Other, net	(805)	1,573	(123)
Net cash applied to investing activities	(57,884)	(64,660)	(40,508)
Financing activities:			
Dividend paid	(2,415)	(2,389)	(2,351)
Proceeds from issuance of long-term debt	25,000		
Payments of long-term debt and deferred revenue	(5,832)	(8,213)	(6,966)
Proceeds from issuance of common stock	917	2,832	2,154
Other, net	(23)	(262)	(416)
Net cash provided by (applied to) financing activities	17,647	(8,032)	(7,579)
Net decrease in cash and cash equivalents	(10,072)	(29,100)	(4,597)
Cash and cash equivalents, beginning of year	20,515	49,615	54,212
Cash and cash equivalents, end of year	\$ 10,443	\$20,515	\$ 49,615
Supplemental disclosures (see Note 6):			
Cash paid during the year for:			
Interest (net of amounts capitalized)	\$ 2,918	\$ 2,011	\$ 1,811
Income taxes	5,116	4,177	3,151

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 1990, 1989 and 1988

(In Thousands of U.S. Dollars)

	Common Stock		Retained Earnings	Net Unrealized Loss on Marketable Equity Securities	Foreign Currency Translation Adjustment
	Number of Shares	Amount			
Balance, December 31, 1987	23,508,773	\$177,792	\$26,598	\$ (371)	\$ (457)
Net income			17,779		
Cash dividend (\$.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)
Net income			9,763		
Cash dividend (\$.10 per share)			(2,415)		
Common stock issued for:					
Conversion of bonds	7,440	85			
Stock option plan	248,900	2,738			
Employee savings plan and other	8,491	94			
Other net changes				1,016	36
Balance, December 31, 1989	24,151,105	184,302	49,336	0	(431)
Net loss			(38,172)		
Cash dividend (\$.10 per share)			(2,470)		
Common stock issued for:					
Conversion of bonds	279,186	3,049			
Stock option plan	73,367	738			
Employee savings plan and other	10,409	179			
Acquisition of property	187,354	2,000			
Other net changes					(38)
Balance, December 31, 1990	24,701,421	\$190,268	\$ 8,694	\$ 0	\$ (469)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(ALL TABULAR DOLLAR AMOUNTS IN THOUSANDS OF U.S. DOLLARS)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis Of Presentation

The consolidated financial statements are presented in U.S. dollars and prepared in accordance with accounting principles generally accepted in the United States, which, as applied in these consolidated financial statements, are consistent in all material respects with accounting principles generally accepted in Canada, except as described in Note 13.

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 6). 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.

Exploration And Development Costs

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

Interest costs of \$1,468,000, \$1,016,000 and \$1,223,000 were capitalized as part of development projects during 1990, 1989 and 1988, respectively.

Property, Plant And Equipment

Property, plant and equipment are stated at cost, including costs associated with properties under development. Generally, depreciation, depletion and amortization are determined using the units of production method based upon proven and probable reserves. Depreciation, depletion and amortization rates are reviewed on an annual basis, or more frequently, as changes in ore reserve estimates require. Buildings, property improvements and assets with estimated useful lives of less than the mine life are depreciated using the straight-line method over estimated useful lives of five to 40 years. Replacements and major improvements are capitalized. Maintenance and repairs are charged to expense as incurred.

Revenue Recognition

Sales of concentrates are recorded at estimated prices when shipped to a smelter. Sales of gold are recorded 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 all of its production to several smelters and metals brokers; however, due to the nature of the precious metals market, the Company is not dependent upon these significant customers to provide a market for its products.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(ALL TABULAR DOLLAR AMOUNTS IN THOUSANDS OF U.S. DOLLARS)

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 (Loss) Per Share

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

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 with an original maturity of three months or less to be cash equivalents.

NOTE 2. PRODUCTION AND DEVELOPMENT PROPERTY WRITE-DOWNS

During the fourth quarter of 1990, after extensive operational and financial analysis, management of the Company determined that a permanent impairment in the carrying values of certain of its production and development properties had occurred, resulting in an aggregate nonrecurring charge to income from operations in the amount of \$35,078,000. This charge relates principally to the Basin Creek Mine which has been placed on a care and maintenance status.

The Basin Creek Mine is an open-pit, heap leach gold mine located near Helena, Montana, which was acquired through the acquisition of Pangea Resources Ltd. in June 1989 for approximately \$25,000,000. During 1989, the mine generated a small operating profit, but due to significant capital requirements, cash flow from the property was negative. During 1990, the mine operated at uneconomic levels due to lower than expected ore grades and recovery percentages and a higher than expected strip ratio. In addition, exploration and development drilling failed to upgrade the property's geological reserves to proven reserves, as expected. Moreover, revised economic assumptions, including lower gold prices, eliminated previously estimated proven reserves.

Operating results of the Basin Creek Mine, exclusive of this nonrecurring charge, are included in the Company's consolidated statements of operations as follows:

	1990	1989
Sales of gold	\$ 10,747	\$ 11,179
Cost of sales	(11,318)	(7,536)
Depreciation, depletion and amortization	(3,473)	(3,135)
Gross profit (loss)	<u>\$ (4,044)</u>	<u>\$ 508</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(ALL TABULAR DOLLAR AMOUNTS IN THOUSANDS OF U.S. DOLLARS)

NOTE 3. INVENTORIES

	1990	1989
Stockpiled ore	\$ 1,130	\$ 1,522
Deferred mining costs	20,459	21,768
Processed metal	107	1,638
Materials and supplies	4,210	3,435
	<u>\$ 25,906</u>	<u>\$ 28,363</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 52 percent of the unrecovered gold on all leach pads at December 31, 1990, 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.

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

	1990	1989
Mining properties and development costs	\$125,533	\$128,659
Plant and equipment	127,236	121,050
Construction in progress	20,353	6,291
	<u>273,122</u>	<u>256,000</u>
Less accumulated depreciation, depletion and amortization	92,421	80,544
	<u>\$180,701</u>	<u>\$175,456</u>

NOTE 5. INVESTMENTS

	1990		1989	
	Carrying Value	Market Value	Carrying Value	Market Value
Investments carried on an equity basis:				
USMX, Inc. (35%)	\$17,719	\$ 6,940	\$18,516	\$10,859
Inland Gold and Silver Corp. (20%)	1,992	1,511	6,234	3,691
Artech Recovery Systems, Inc. (42%) ..	320	320	660	626
	<u>20,031</u>	<u>8,771</u>	<u>25,410</u>	<u>15,176</u>
Marketable equity securities	162	162	2,019	2,019
Joint ventures			2,473	2,473
Other investments	5,897	5,897	13,698	13,698
	<u>\$26,090</u>	<u>\$14,830</u>	<u>\$43,600</u>	<u>\$33,366</u>

At December 31, 1990, the remaining unamortized excess of the investment in USMX, Inc. ("USMX") over its underlying net book value was \$12,136,000. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(ALL TABULAR DOLLAR AMOUNTS IN THOUSANDS OF U.S. DOLLARS)

Included in marketable equity securities at December 31, 1989, is the Company's investment in common shares of Pioneer Metals Corporation ("Pioneer"). After comprehensive review of the deteriorating financial condition of Pioneer, the Company determined that the decline in market value of the Pioneer common stock was probably other than temporary. Therefore in 1989, the Company wrote its investment in this common stock down to its fair market value, recognizing a loss in the amount of \$3,752,000. In 1990, the Company determined that its investment in Pioneer common stock had further declined in value and wrote off its remaining investment of \$976,000.

Included in other investments at December 31, 1990, and 1989, is a convertible debenture of Pioneer and a 7,000 ounce gold loan to Pioneer. In November 1989, the Company declared Pioneer in default under the terms of its debenture agreement, and demanded full repayment of amounts owing thereunder. In February 1991, the Company reached a settlement of all outstanding claims with Pioneer, whereby Pioneer agreed to convey its 50 percent interest in an operating mining property to the Company in return for forgiveness of indebtedness associated with the above described debenture and gold loan and the return of all Pioneer common shares and warrants held by the Company. Concurrently, the Company has negotiated the sale of this 50 percent interest in the mining property to Pioneer's joint venture partner for various consideration aggregating \$5,897,000. Consequently, the Company has written its investments in Pioneer down to a carrying value of \$5,897,000, recognizing a loss on investments in 1990 of \$7,463,000, including legal fees associated with the Pioneer settlement.

In addition, the Company reevaluated the carrying value of its other non-participating minority investments in common stock and joint ventures, including its equity investment in Inland Gold and Silver Corp. ("Inland"), and determined that declines in value had occurred which were probably other than temporary. As a result, the Company has written its investment in Inland down to its proportionate share of Inland's underlying net book value, recognizing a loss in the amount of \$4,273,000 in 1990. The remaining investment loss consists of the write-down of various joint venture interests in the amount of \$3,612,000, and other investments in the amount of \$1,649,000.

During 1990, 1989 and 1988, the Company realized gains (losses) on the sale of marketable equity securities of \$(330,000), \$150,000, and \$4,963,000, respectively.

NOTE 6. LONG-TERM DEBT

	1990	1989
9.71 percent notes due 1995, unsecured	\$25,000	
7.5 percent gold-convertible bonds due 1993	18,397	\$21,703
5 percent gold-convertible bonds due 1993	4,834	5,580
8.5 percent convertible bonds due 1992		4,782
	<u>\$48,231</u>	<u>\$32,065</u>

In 1990, the Company entered into a \$25,000,000 five-year interest rate swap, which effectively converts the interest on the 9.71 percent notes to a floating rate. Under the terms of the interest rate swap, the Company makes payments at a variable rate based on London Inter-Bank Offering Rate ("LIBOR") and in return receives payments based on a fixed interest rate. At the same time, the Company entered into a five-year silver swap. Under the terms of the silver swap, the Company has agreed to deliver 4,690,000 ounces of silver in February 1995 for a price of \$5.33 per ounce. In exchange, the Company receives quarterly payments based on LIBOR, less the silver lease rate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(ALL TABULAR DOLLAR AMOUNTS IN THOUSANDS OF U.S. DOLLARS)

The 7.5 percent and 5 percent bonds may be exchanged for gold at fixed prices of \$376 and \$331 per ounce, respectively. At December 31, 1990, the Company could be obligated to deliver up to 63,000 ounces of gold pursuant to the conversion of these bonds. At December 31, 1990, the market price of gold exceeded the conversion prices of both the 5 percent and 7.5 percent bonds and, therefore, the liability represented by these bonds is considered to be due currently. However, these bonds have been classified as non-current liabilities at December 31, 1990, because of the availability of the long-term credit facility described below.

The 5 percent 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 are collateralized by certain zero coupon notes whose face value at maturity will equal the principal amount of the bonds.

During 1990, the holders of the 8.5 percent convertible bonds were notified of the Company's intention to redeem the remaining outstanding bonds. Prior to redemption, the holders of \$3,002,000 face value of the bonds elected to convert their bonds into common shares. All remaining unconverted bonds, with a face value of \$1,780,000, were called and redeemed by the Company at 104.5 plus accrued interest.

The Company has a revolving and term loan credit facility, under the terms of which the Company can borrow up to \$50,000,000 or the equivalent in gold. Amounts may be borrowed on a revolving credit basis through December 1993 and are repayable in ten quarterly installments beginning in March 1994. Dollar borrowings bear interest at floating rates, according to the type of advance. Gold borrowings bear interest based on the banks' cost of borrowing gold plus 1 percent. A commitment fee is payable quarterly on the unused portion of the facility at the rate of 1/4 of 1 percent. At December 31, 1990, there were no borrowings outstanding under this facility.

The Company's notes and credit facility contain certain financial covenants including the maintenance of minimum levels of tangible net worth and cash flow, and limitations on the incurrence of additional indebtedness.

At December 31, 1990, long-term debt matures as follows:

1993	\$ 23,231
1995	25,000
	<u>\$ 48,231</u>

On January 24, 1991, the Company completed the private placement of a five-year note with a face value of \$18,000,000. The note is due in five equal annual installments beginning in January 1992, and bears interest at a fixed rate of 9.22 percent per annum. Concurrently, the Company entered into a \$18,000,000 five-year equal annual amortizing interest rate swap (which effectively converts the interest on the notes to a floating rate), and a five-year gold swap. Under the terms of the gold swap, the Company has agreed to deliver 45,200 ounces of gold in five equal annual installments beginning January 1992 for a price of \$398 per ounce. In exchange, the Company receives quarterly payments based on LIBOR, less the gold lease rate.

The Company is in the process of negotiating a \$10,000,000 five-year term loan with a bank. The loan will be due in five equal annual installments beginning one year from the closing date and will bear interest based on LIBOR. The Company anticipates that at closing, it will enter into a gold swap with a nominal value of \$10,000,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(ALL TABULAR DOLLAR AMOUNTS IN THOUSANDS OF U.S. DOLLARS)

NOTE 7. 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. The exercise price must equal the market value of the stock on the date of grant for incentive stock options, or at least 90 percent of the market value of the stock for non-qualified stock options. Options granted generally become exercisable over the two-year period beginning on the date of grant. At December 31, 1990, and 1989, options to purchase 114,000 and 223,667 common shares, respectively, were available for future grants.

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 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, 1990 and 1989, options to purchase 139,332 and 173,000 shares, respectively, were available for future grant.

Stock option transactions are summarized as follows:

	Number of Shares	Price Per Share
Balance, December 31, 1987	553,540	8.00-30.25(C\$)
Granted	537,500	
Exercised	(152,373)	8.00-17.25(C\$)
Canceled 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\$)
Canceled or expired	<u>(567,500)</u>	
Balance, December 31, 1989	780,600	9.88-13.50(US\$)
Granted	168,668	
Exercised	(73,367)	9.88(US\$)
Canceled or expired	<u>(25,333)</u>	
Balance, December 31, 1990	<u>850,568</u>	<u>9.88-13.50(US\$)</u>
Exercisable, December 31, 1990	<u>608,910</u>	

NOTE 8. INCOME TAXES

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

	1990	1989	1988
United States	<u>\$ (16,062)</u>	\$16,597	\$17,991
Foreign	<u>(23,285)</u>	<u>(1,413)</u>	<u>3,918</u>
	<u>\$ (39,347)</u>	<u>\$15,184</u>	<u>\$21,909</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(ALL TABULAR DOLLAR AMOUNTS IN THOUSANDS OF U.S. DOLLARS)

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

	1990	1989	1988
Currently payable (refundable)			
Federal and State	\$(1,634)	\$ 4,809	\$ 4,679
Foreign	344	1,292	2,173
	(1,290)	6,101	6,852
Deferred provision (benefit)			
Federal and state	115	(680)	(549)
	\$(1,175)	\$ 5,421	\$ 6,303

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:

	1990	1989	1988
Development and exploration costs	\$ 206	\$ (1,358)	\$ (957)
Excess of tax over book depreciation	369	666	66
Utilization of tax basis net operating losses and tax credits		775	314
Investments accounted for using the equity method	(460)	(251)	28
Other, net		(512)	
	\$ 115	\$ (680)	\$ (549)

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

	1990	1989	1988
Statutory rate	(34.0)%	34.0%	34.0%
Percentage depletion, net of alternative minimum tax	1.6	(16.5)	(13.0)
Foreign rate differential	(2.9)	1.8	3.3
Nondeductible losses	33.6	11.3	0.5
Other, net	(1.1)	5.1	4.0
Effective rate	(2.8)%	35.7%	28.8%

Nondeductible losses relate to capital losses generated by the Company's write-down of investments and the Basin Creek Mine, which will be available to offset future capital gains.

The parent company and its 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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(ALL TABULAR DOLLAR AMOUNTS IN THOUSANDS OF U.S. DOLLARS)

As of December 31, 1990, the Company's U.S. and Australian subsidiaries have tax basis net operating loss carryforwards of approximately \$27,900,000 and \$3,900,000, respectively, that expire in 1996 and later years. The carryforwards of the U.S. subsidiaries are not available to offset future alternative minimum taxable income. In addition, the Company has Canadian capital loss carryforwards of \$29,000,000 which may be carried forward indefinitely 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 is not expected to have a significant effect on the Company's financial position or results of operations.

NOTE 9. RELATED PARTY TRANSACTIONS

Fees for rent and legal, engineering and consulting services totalling \$61,000 for the year ended December 31, 1990 (1989 - \$78,000, 1988 - \$96,000) have been paid to a firm in which a director of the Company is an owner.

NOTE 10. EMPLOYEE BENEFIT PLANS

The Company has a savings plan (which qualifies under Section 401(k) of the U.S. Internal Revenue Code) covering all full-time U.S. employees. Under the plan, employees may elect to contribute up to ten percent of their cash compensation, subject to ERISA limitations. 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, 1990, 1989 and 1988, the Company contributed \$511,000, \$356,000 and \$266,000, respectively, to the plan.

During 1990, the Company adopted a defined contribution pension plan covering all of its employees who have completed one year of service. The contribution is based upon a percentage of average annual compensation multiplied by the years of service with the Company. Contributions are 100 percent vested after five years of service and prior service with the Company is considered for vesting purposes. Contributions to the plan totaled \$255,000 in 1990.

NOTE 11. COMMITMENTS AND CONTINGENCIES

Hedged Position

During 1990, the Company entered into a long-term gold forward sales agreement with Manufacturers Hanover Trust ("MHT"). Under the terms of the agreement, the Company will deliver 240,000 ounces of gold to MHT over an eight-year period beginning in March 1991, as follows:

1991	12,000
1992	12,000
1993	24,000
1994	24,000
1995	36,000
1996	36,000
1997	48,000
1998	48,000
	<u>240,000</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(ALL TABULAR DOLLAR AMOUNTS IN THOUSANDS OF U.S. DOLLARS)

Instead of receiving a fixed forward price on the above deliveries, the Company will receive an average price over the life of the agreement which will vary depending upon the gold borrowing rate, LIBOR and the price of gold. The average estimated price to be received, as determined on December 31, 1990, amounted to \$505 per ounce.

At December 31, 1990, the Company has outstanding gold forward sales contracts with other entities which require delivery of 105,000 ounces in 1991 and 21,000 ounces in 1992. Upon delivery, the Company will realize average prices of \$399 and \$423 per ounce, respectively. In addition, the Company has put options for 21,000 ounces of gold exercisable in 1991 at an average exercise price of \$388 per ounce.

Common Shares Issuable

At December 31, 1990, a total of 1,149,392 shares of authorized common stock are reserved for the following:

Stock Options	1,103,900
Employee Savings Plan	45,492
	<u>1,149,392</u>

NOTE 12. SHAREHOLDERS' EQUITY

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

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

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

**NOTE 13. DIFFERENCES BETWEEN U.S. AND CANADIAN
GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

Accounting under United States 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(ALL TABULAR DOLLAR AMOUNTS IN THOUSANDS OF U.S. DOLLARS)

Acquisitions

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

The following table sets out a reconciliation of the differences between U.S. and Canadian GAAP with respect to net income (loss), retained earnings and basic income (loss) per share for the years ended December 31, 1990, 1989 and 1988, and the components of shareholders' equity as reported under Canadian GAAP for the years ended December 31, 1990 and 1989.

	1990	1989	1988
<i>Net income (loss) and retained earnings:</i>			
Net income (loss), U.S. GAAP	\$ (38,172)	\$ 9,763	\$17,779
Amortization of acquisition cost over book value	(763)	(763)	(763)
Capitalization of deferred exchange (gain) loss	22	(303)	
Other	76	(2)	(68)
Net income (loss), Canadian GAAP	(38,837)	8,695	16,948
Retained earnings, beginning of year	47,194	40,914	26,355
Less dividend paid	(2,470)	(2,415)	(2,389)
Retained earnings, end of year	\$ 5,887	\$ 47,194	\$40,914
Basic income (loss) per share	<u>\$ (1.58)</u>	<u>\$ 0.36</u>	<u>\$ 0.72</u>
<i>Shareholders' equity:</i>			
Canadian GAAP			
Common stock	\$194,045	\$188,079	
Retained earnings	5,887	47,194	
Foreign currency translation adjustment	0	0	
Total	<u>\$199,932</u>	<u>\$235,273</u>	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(ALL TABULAR DOLLAR AMOUNTS IN THOUSANDS OF U.S. DOLLARS)

NOTE 14. QUARTERLY DATA (UNAUDITED)

Selected unaudited quarterly data for the years ended December 31, 1990 and 1989, is as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Year Ended December 31, 1990:					
Sales of gold and other					
metals	\$29,826	\$49,088	\$48,301	\$ 42,364	\$169,579
Income (loss) from operations	\$ 612	\$ 4,413	\$ 4,243	\$(31,107)	\$(21,839)
Net income (loss)	\$ 621	\$ 2,202	\$ 3,478	\$(44,473)	\$(38,172)
Net income (loss) per share	\$ 0.03	\$ 0.09	\$ 0.14	\$ (1.81)	\$ (1.55)
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

REPORT OF INDEPENDENT ACCOUNTANTS

Board of Directors and Shareholders
Pegasus Gold Inc.

We have audited the consolidated balance sheets of Pegasus Gold Inc. as of December 31, 1990 and 1989, and the consolidated statements of operations, statements of cash flows and statements of changes in shareholders' equity for the years ended December 31, 1990, 1989 and 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 1990 and 1989, and the results of its operations and its cash flows for the years ended December 31, 1990, 1989 and 1988, in accordance with United States generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a consistent basis.

Vancouver, B.C., Canada
February 8, 1991

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Pegasus Gold Inc. are prepared by the Company's management in conformity with generally accepted accounting principles. Management is responsible for the fairness of the financial statements, which include estimates based on judgements.

The Company maintains accounting and other control systems which management believes provide reasonable assurance that financial records are reliable for the purposes of preparing financial statements and that assets are properly safeguarded and accounted for. Underlying the concept of reasonable assurance is the premise that the cost of control should not be disproportionate to the benefits expected to be derived from control. In addition, the Company's independent accountants have considered the Company's internal control structure to the extent they considered necessary in expressing an opinion on the Company's consolidated financial statements.

The Audit Committee of the Board of Directors, composed entirely of outside directors, meets periodically with management, and the independent auditors to discuss the annual audit, internal control, and financial reporting matters. The independent auditors have direct access to the Audit Committee.

John M. Willson
President and Chief Executive Officer

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

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

William G. Wilson
Calgary, Alberta

OFFICERS

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President & Chief
Executive Officer

Michael L. Clark
Executive Vice
President & Chief
Operating Officer

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

Lyle F. Beaudoin
Vice President,
Business Development

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

Allan M. Park
Vice President,
Exploration

Eric E. Kinneberg
Treasurer

James H. Moore
Controller

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 Mine

Carson J. Rife
General Manager
Beal Mountain Mine

John E. Rice
General Manager
Basin Creek Mine

Peter A. Petrowsky
Project Manager
Black Pine Mine

Terry D. Bauer
Project Manager
Ortiz Project

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American Stock
Exchange - PGU

**Options on Common
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Chicago Board
Options Exchange -
PGU
Montreal Stock
Exchange - PGU

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Spokane, WA

SOLICITORS

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PEGASUS GOLD I N C.

CORPORATE HEADQUARTERS

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