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MINING ENGINEERING
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SUMMARY REPORT

ON THE

TAY-LP CLAIMS

Ross River Area,

Watson Lake Mining District, Y.T.

N.T.S. 105F/10

Latitude 61° 33'N Longitude 132° 40'W

for PACIFIC COMOX RESOURCES LTD.

by

D.G. Allen, P.Eng. (B.C.)

91-043
QUARTZ MTN. GOLD CORP

YEIP
91-043

June 15, 1990 Vancouver, British Columbia

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SUMMARY

Pacific Comox Resources Ltd. holds the TAY and LP mineral claims, located near the headwaters of Seagull Creek, 150 kilometres northeast of Whitehorse, Yukon. The property lies at moderate elevations and has road access.

The TAY-LP Property is in the Ketza-Seagull district, a 45 by 15 kilometre region defined by two adjacent domal uplifts. Both uplifts are probably underlain by and are related to buried Cretaceous intrusions. At least two significant gold deposits (Canamax's Ketza deposit in the Ketza uplift and the TAY-LP prospect in the Seagull uplift) are roughly centered on these uplifts with peripheral high grade silver-lead-zinc deposits. The district and surrounding area are underlain by late Proterozoic to Triassic miogeoclinal clastic, volcanic and carbonate rocks that were deformed during Mesozoic arc-continent collision, and by Cretaceous intrusions of intermediate composition.

In 1984, the TAY claims were staked by local prospectors to cover an area containing abundant gold-bearing sulfide boulders, and then optioned to Cominco Ltd. who had acquired the adjoining LP claims. An airborne geophysical survey defined 9.25 km of co-incident electromagnetic and magnetic anomalies which appear to partly define the source of the mineralized boulders. Cominco completed additional staking bringing the total property holding to 219 claims covering an area of over 10,000 acres (4100 hectares).

In 1985 and 1987, Cominco completed additional exploration

including the drilling of 16 holes, outlining wide, apparently continuous, gold bearing quartz-pyrrhotite vein structures with similar lithology and mineralogy as noted in the gold-bearing boulders. Bêst assays obtained by Cominco from this work were 0.83 oz/ton gold (28.4 g/t) from an outcrop of massive pyrrhotite, up to 0.80 oz/ton (27 g/t) gold from a quartz-pyrrhotite boulder, 0.63 oz/ton (21.53 g/t) gold from a quartz-pyrite schist boulder and 0.11 oz/ton gold (3.74 g/t) over a 4 metre interval in drilling. Average grade of all boulders sampled was four times greater than the average grade of all drill core assays.

In January 1988, Pacific Comox obtained an option on the property and completed.further ground surveys and a six hole drill program on wide stepouts (to 1 km from Cominco's drilling). Best assays obtained were 0.172 oz/ton (5.85 g/t) gold over 5.0 metres and 0.315 oz/ton (10.7 g/t) gold over 0.7 metres. These intersections are in separate north - south trending quartz pyrrhotite vein systems at the southern end of the presently defined area of interest. Each of these intersections has an untested strike potential of 1.0 km.

Preliminary petrographic work indicates that the gold occurs on the margins of sulfide grains and free in the quartz, and should therefore be readily leachable.

A further exploration program for 1990, consisting primarily of further airborne surveys and reverse circulation drilling is proposed.

INTRODUCTION

Pacific Comox Resources Ltd. holds the TAY-LP property, comprising 219 claims in the Seagull Creek area, Watson Lake Mining District, Yukon. The property is in the Ketza-Seagull uplift, a 45 by 15 kilometre region defined by two adjacent domal uplifts (Ketza and Seagull uplifts) which form a window through the Porcupine-Seagull Thrust Fault. Each uplift has an associated cluster of base and precious metal deposits. Canamax Resources' Ketza River Mine (forecast to produce 34,000 ounces of gold in 1990) lies 19 kilometres to the east, near the center of the Ketza uplift. The TAY-LP property lies in the south central part of the Seagull uplift.

The TAY-LP property was originally staked in 1984 by three prospectors from Faro, to cover a possible source area of gold-bearing quartz and schist boulders. The property was acquired by Cominco who subsequently conducted geological, geophysical and geochemical surveys and diamond drilling. This work indicated that the probable source of the mineralized boulders was a series of subparallel quartz + pyrrhotite +/- chalcopyrite veins which appear to be continuous and traverse the property in a north-south direction over an area of at least 1 by 3 kilometres.

In 1988, Pacific Comox Resources conducted a program of trenching, induced polarization surveys, magnetic and VLF electromagnetic surveys, and 947 metres of diamond drilling in 6 holes. The purpose of this report is to summarize results of exploration work conducted on the property to date.

LOCATION AND ACCESS

The TAY-LP claims lie along the Seagull Creek Valley, 50 kilometres south-southwest of Ross River, and 25 kilometres east of the South Canol road (see Figures 1 and 2). Ross River may be reached from Whitehorse via Carmacks and Highway 9 on a year round basis. During summer months the South Canol road is open from Johnson's Crossing on the Alaska Highway providing a shorter access route. From the South Canol road, 140 km. north of Johnson's Crossing, a 4 wheel drive road traverses Groundhog Creek and over a pass at 5450 feet (Pass Peak, 1160 metres) elevation into the Seagull Creek basin. This route is closed by winter conditions from November to May. Total distance from the South Canol is approximately 30 kilometres.

TOPOGRAPHY AND VEGETATION

Most of the exploration work conducted to date is on the broad valley bottom of Seagull Creek. Elevations in the claim area range from 3600 feet (1100 m) to 5700 feet (1700 m) on the ridge tops.

Seagull Creek is a relatively broad (10 m wide), shallow stream with a gravel bed. Within the property the stream meanders as the grade of the valley flattens and has developed several oxbows and swampy areas.

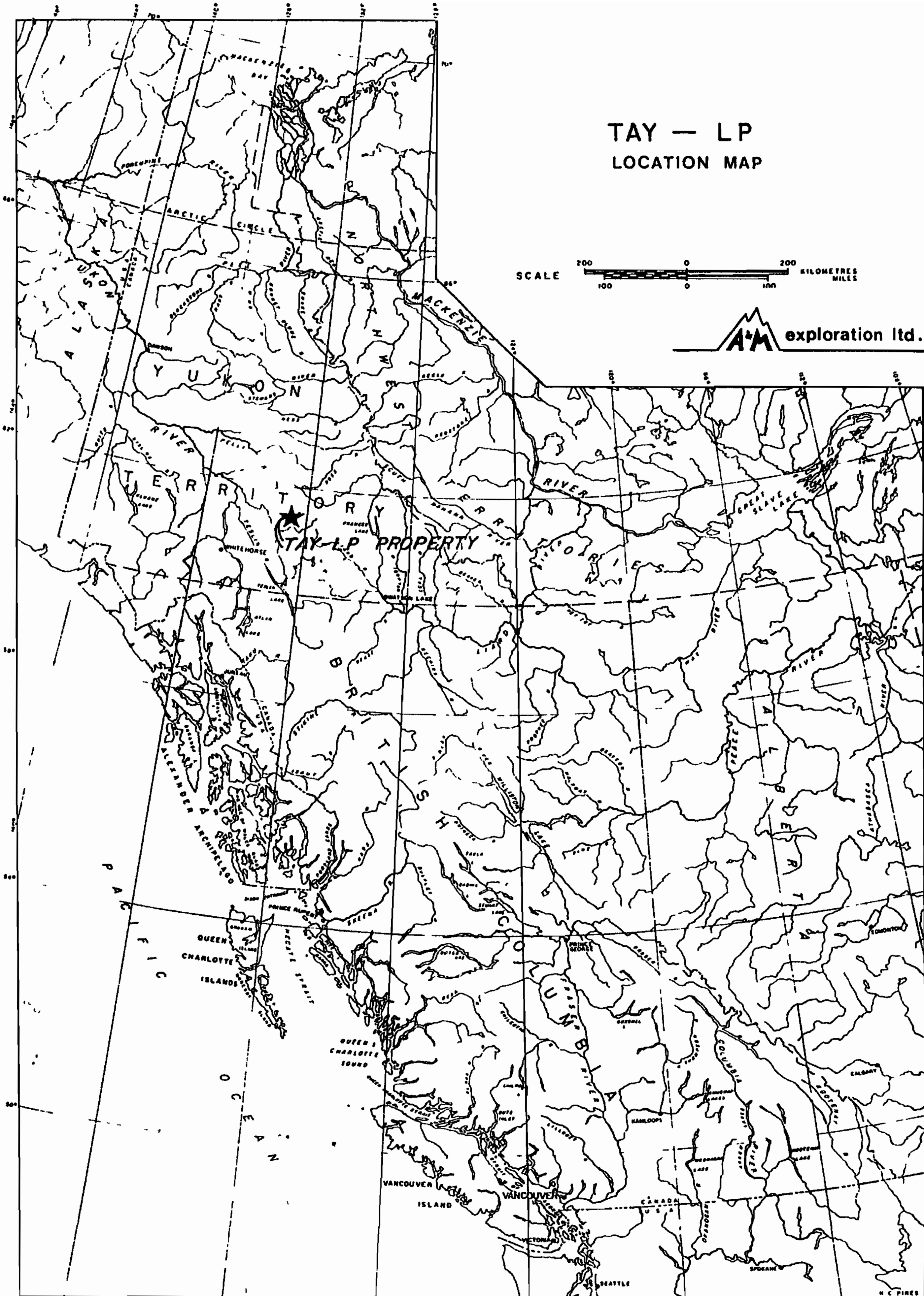
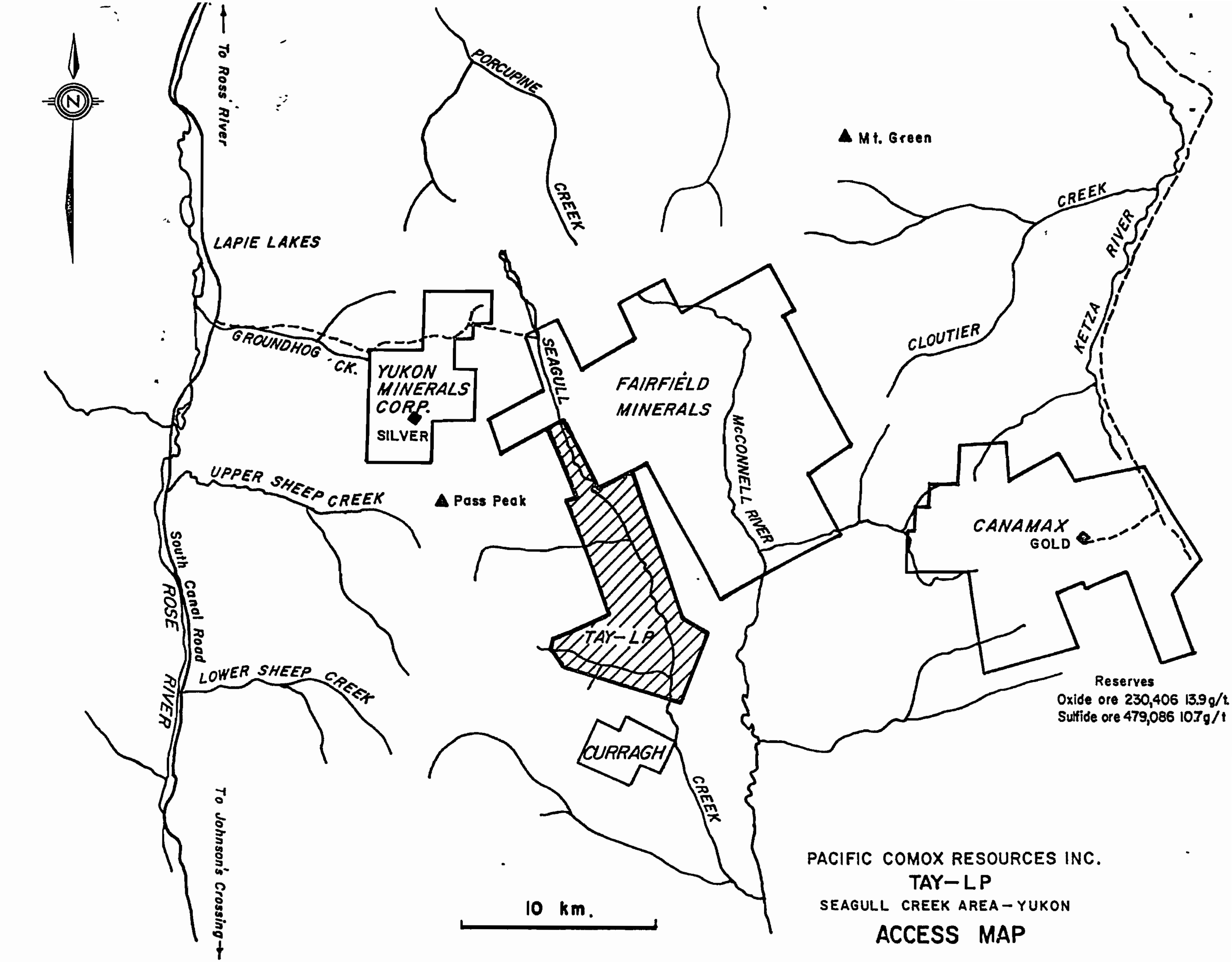

TAY — LP
LOCATION MAP
SCALE
200 0 200 KILOMETRES
100 0 100 MILES
A&M exploration ltd.
TAY-LP PROPERTY
YUKON TERRITORY
NORTHWEST TERRITORIES
BRITISH COLUMBIA
ALBERTA
ALASKA
PACIFIC OCEAN
ARCTIC CIRCLE
MACKENZIE
RIVER
WHITEHORSE
DAWSON
PRINCE RUPERT
PRINCE GEORGE
EDMONTON
CALGARY
KAMLOOPS
VANCOUVER
VICTORIA
SEATTLE
SPOKANE
QUEEN CHARLOTTE ISLANDS
HECATE STRAIT
QUEEN CHARLOTTE SOUND
VANCOUVER ISLAND
ALEXANDER ARCHIPELAGO
GREAT SLAVE LAKE
CANADA
U.S.A.
FRASER RIVER
COLUMBIA
WATSON LAKE

FIGURE – I



To Ross River
PORCUPINE
CREEK
Mt. Green
CREEK
LAPIE LAKES
GROUNDHOG CK.
YUKON MINERALS CORP.
SILVER
SEAGULL
FAIRFIELD MINERALS
CLOUTIER
KETZA RIVER
McCONNELL RIVER
UPPER SHEEP CREEK
Pass Peak
CANAMAX
GOLD
South Canal Road
ROSE RIVER
TAY-LP
LOWER SHEEP CREEK
Reserves
Oxide ore 230,406 13.9g/t
Sulfide ore 479,086 10.7g/t
CURRAGH
CREEK
To Johnson's Crossing
10 km.
PACIFIC COMOX RESOURCES INC.
TAY-LP
SEAGULL CREEK AREA-YUKON
ACCESS MAP

Figure 2

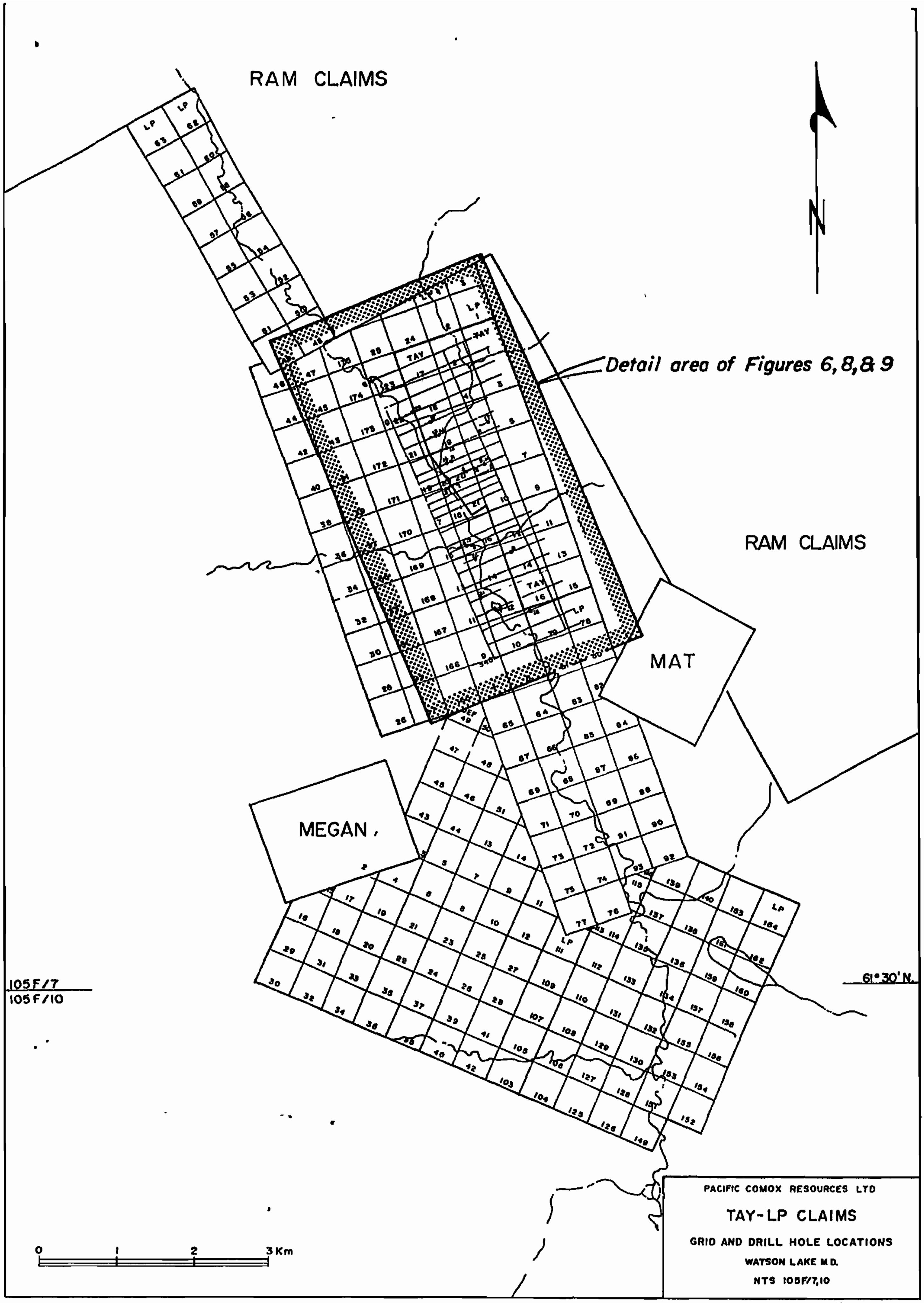
Treeline is at about the 5000 foot (1525 m) level and small to stunted timber (black spruce and birch) extends down to the 3700 foot (1125 m) level. Below about 3700 feet, along the creek valley, tree growth virtually disappears and only scattered small trees exists in the valley bottom. Buck brush is widespread in the valley bottom and on the hill slopes.

Bedrock is obscured, except for rare outcrops along Seagull Creek by glacio-fluvial material and river gravels. Depth of this overburden is indicated by diamond drilling to range from 2 to 14 metres, averaging approximately 8 metres.

PROPERTY DESCRIPTION

The TAY-LP property comprises 219 claims in the Watson Lake Mining District, Yukon as follows (See Figure 3):

Claim Name	Record Number	Record Date	Expiry Date
LP 1-LP4	YA90299-90302	September 27,1985	December 7, 1994
LP7-LP63	YA72530-72586	December 7, 1984	December 7, 1994
LP64-LP93	YA73595-73624	August 2, 1985	December 7, 1994
LP103-LP116	YA73769-73782	September 12, 1985	December 7, 1994
LP125-LP134	YA73791-73800	September 12, 1985	December 7, 1994
LP135-LP140	YA90201-90206	September 12, 1985	December 7, 1994
LP149	YA90215	September 12, 1985	December 7, 1994
LP151-LP175	YA90217-90241	September 12, 1995	December 7, 1994
TAY1-TAY21	YA71482-71502	August 1, 1984	December 7, 1994
JEFF1-JEFF51	YA99784-99834	February 19, 1987	February 19,1994


RAM CLAIMS
Detail area of Figures 6, 8, & 9
RAM CLAIMS
MAT
MEGAN
TAY
LP
105F/7
105F/10
61°30'N.
0 1 2 3 Km
N
PACIFIC COMOX RESOURCES LTD
TAY-LP CLAIMS
GRID AND DRILL HOLE LOCATIONS
WATSON LAKE M.D.
NTS 105F/7,10

The original TAY 1-21 claims were staked by Peter Long, Jim Schnare and Ted Bartsch and were optioned to Cominco Ltd. under an agreement dated March 4, 1985. In contemplation of that option agreement Cominco staked the LP 7-63 claims which were deemed to be part of the property and to be subject to the agreement.

Pacific Comox Resources Ltd. acquired the right to earn an interest in the TAY-LP property in 1988 from Cominco Ltd.

HISTORY

The TAY 1-21 claims were staked in July 1984 by three prospectors, Mssrs. Long, Schnare and Bartsch. The LP 7-63 claims were staked by Cominco in November 1984 in anticipation of an option agreement to be concluded with the prospectors. This agreement was signed as of March 4, 1985 and an additional 115 claims were staked during the summer of 1985.

In 1985, the following work was carried out by Cominco:

1) 161 km. of airborne magnetic and electromagnetic surveys;
2) geological mapping;
3) 41 km. line cutting;
4) 32 km. of horizontal loop electromagnetic and total field magnetic surveys;
5) 18 km. of soil samples (50 metre interval on lines spaced at 200 metre intervals);
6) 40 metres of bulldozer trenching; and
7) 533 metres of diamond drilling in five holes.

During 1987 Cominco entered into an option agreement with Cinnabar Resources Ltd. who financed 961 metres of NQ diamond drilling in 11 holes. This option expired in January, 1988.

In 1988, Pacific Comox Resources Ltd. acquired an option on the property and conducted 19 km. of magnetic and VLF-electromagnetic surveys, 9.5 km. of induced polarization surveys, bulldozer trenching (2 trenches totalling 1250 cubic metres), petrographic studies, core, rock float and soil geochemical studies, and 947 metres of diamond drilling in six holes.

REGIONAL GEOLOGY

The following regional geological setting is taken from GSC Report of Activities Part A. 1977. (Tempelman-Kluit, 1977 Figures 4a and 4b) :

"The shallow marine miogeoclinal sequence found in the Pelly Mountains (Tempelman-Kluit et al., 1975, 1976) occupies an area up to 70 km wide that extends southeast to the Cassiar Mountains in northern British Columbia, a distance of 600 km. This northwest-trending belt of platform carbonates and related rocks ranges in age from Cambrian through Mississippian and has been referred to as the Pelly-Cassiar Platform (Gabrielse, 1967). Northeast of the platform carbonates are time equivalent shales that constitute Selwyn Basin. Southwest of the Platform are metamorphosed shale, quartzite and volcanic rocks, also time equivalents of the carbonates of the Pelly-Cassiar Platform. These metamorphic rocks are covered locally by late Paleozoic serpentinized peridotite, basalt and chert thought to have been thrust over them. The metamorphic rocks and the overthrust peridotite and basalt constitute the Omineca Crystalline belt and its northwestward continuation, the Yukon Crystalline Terrane. In southern Quiet Lake and Finlayson Lake map-areas the metamorphic rocks together with the overthrust ultramafic and mafic rocks are thrust northeastward over upper Triassic rocks at the southwest edge of the Pelly-Cassiar Platform. The Platform itself is

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N.T.S. 105F

REGIONAL GEOLOGY

TAY LP PROPERTY

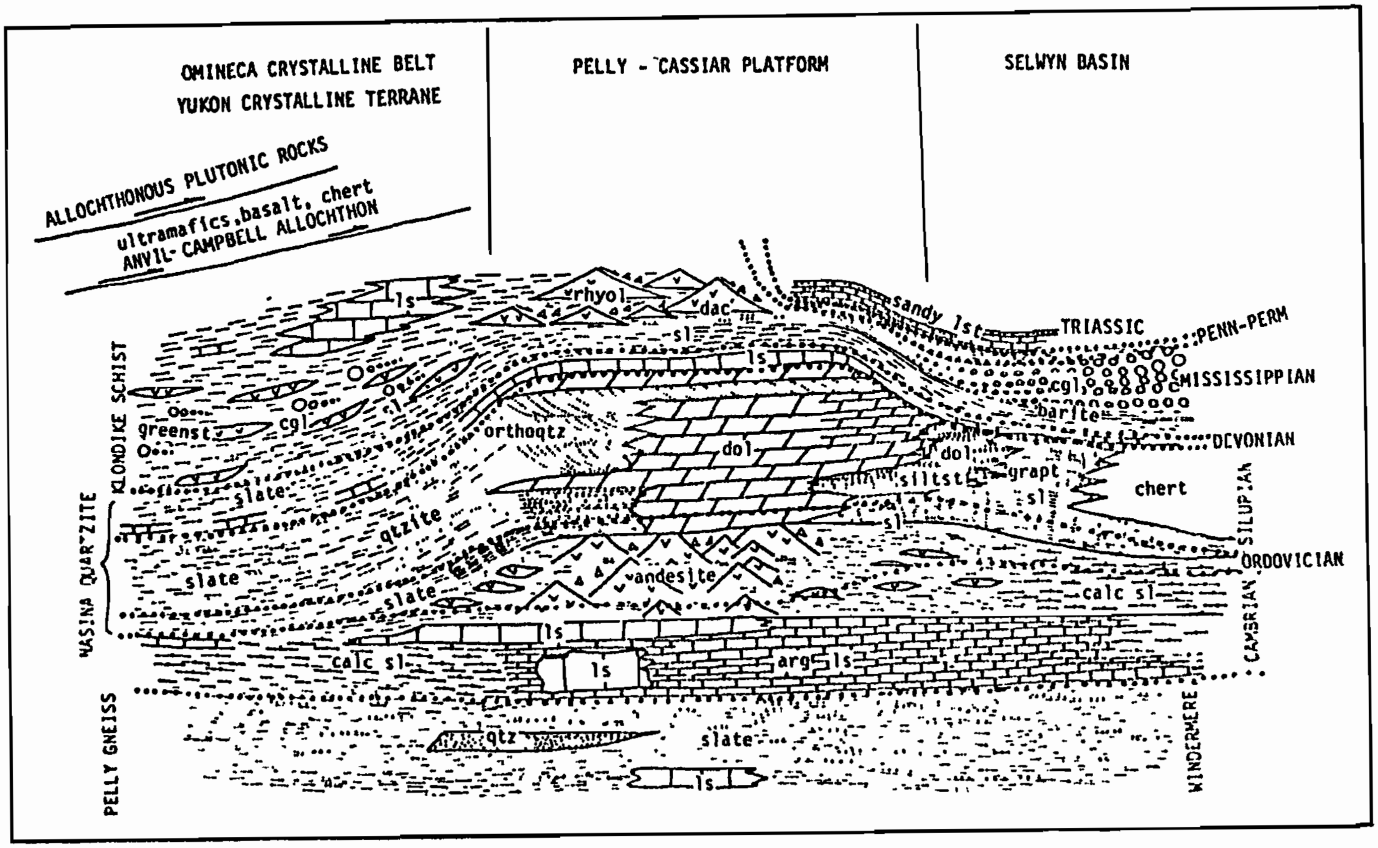
Watson Lake Mining Division - Yukon Territory

SCALE 5 0 5 KILOMETRES MILES 5 0 5

1 : 250,000

A&M exploration ltd

Figure 4a



Restored Section across the Pelly-Cassiar Platform through Quiet Lake map-area to illustrate the facies relations of the main stratigraphic units with those found in the flanking tectonic elements, Selwyn Basin and the Omineca Crystalline Belt-Yukon Crystalline Terrane. Time lines shown by heavy dots across the diagram are only approximately located in the Omineca Crystalline Belt part of the diagram because no diagnostic fossils have been found there.

internally repeated by folds and northeast directed thrust faults which involve Upper Triassic strata. The entire foreshortened assemblage is intruded extensively by mid-Cretaceous granitic rocks. Late Cretaceous right lateral movement of 450 km along the Tintina Fault has displaced the tectonic elements relative to each other."

More recent mapping by Abbott(1986) has defined a structural framework that includes several prominent thrust faults, mainly the McConnell, Porcupine-Seagull-Pass Peak, Cloutier and St. Cyr thrusts and the Ketza-Seagull Arch (Figure 5).

As described by Abbott, the Cloutier Thrust sheet is bounded below by the St. Cyr Thrust sheet, and above by the Porcupine-Seagull Thrust sheet. The Ketza-Seagull Arch is a broad window in which strata in the Cloutier Thrust sheet are exposed beneath the Porcupine-Seagull Thrust. The origin of the window is not certain but it is probably wholly, or in part related to uplift about one or more buried Cretaceous intrusions. Crustal shortening on the Porcupine-Seagull-Pass Peak Thrust is estimated by Abbott to be at least 30 kilometres.

As shown by Map 105 F from GSC Open File 486 (Figure 4a), geology within the TAY-LP property along Seagull Creek valley consists of upper Cambrian to Ordovician, recessive weathering, medium grey, chlorite-muscovite-quartz phyllite with abundant lenses of greenstone. To the northeast these rocks are separated by a wide zone of heterogeneous Mississippian lapilli and sand sized tuff, volcanic breccia and flow rocks ranging from trachyte to andesite, black slaty argillite and siliceous cherty tuff and locally, minor finely crystalline buff limestone. These Mississippian rocks are intruded by massive syenite.

On the west side of the Seagull Creek valley the upper Cambrian-Ordovician schists are in contact with Silurian thin bedded dolomitic siltstone, dolomitic sandstone and silty dolomite. They are overlain by Silurian-Devonian thick bedded dolomite to the northwest of the TAY-LP claims.

Within the claim group the Cambrian-Ordovician schists are intruded by biotite quartz monzonite of Cretaceous age. This monzonite also intrudes Proterozoic-Lower Cambrian silty slate and shaly quartzite which is in apparent fault contact west of the Cambrian Ordovician schists.

MINERAL DEPOSITS OF THE KETZA-SEAGULL DISTRICT

Mineralization in the Ketza-Seagull district has been described by Abbott (1986) and Cathro (1988). Most of the mineral occurrences shown on Figure 5 are veins of galena, sphalerite, quartz and siderite +/- pyrite, pyrrhotite, chalcopyrite and tetrahedrite, usually containing high grade silver values. Most veins are pods or lenses along strong, well defined faults. A second type of deposit are gold bearing manto deposits, exemplified by Canamax's Ketza mine, consisting of pyrrhotite, pyrite +/- arsenopyrite, siderite, galena and sphalerite. Canamax's Peel and Ridge zones are oxidized equivalents of such mantos. These deposits occur near faults and form tubelike lenses along the contact between Lower Cambrian limestone and overlying shale. In the Ketza River area, deposits are zoned about the center of the Ketza uplift. The gold bearing mantos are in the core, silver and galena rich veins are in the eastern and northern flanks and barren pyrrhotite and siderite

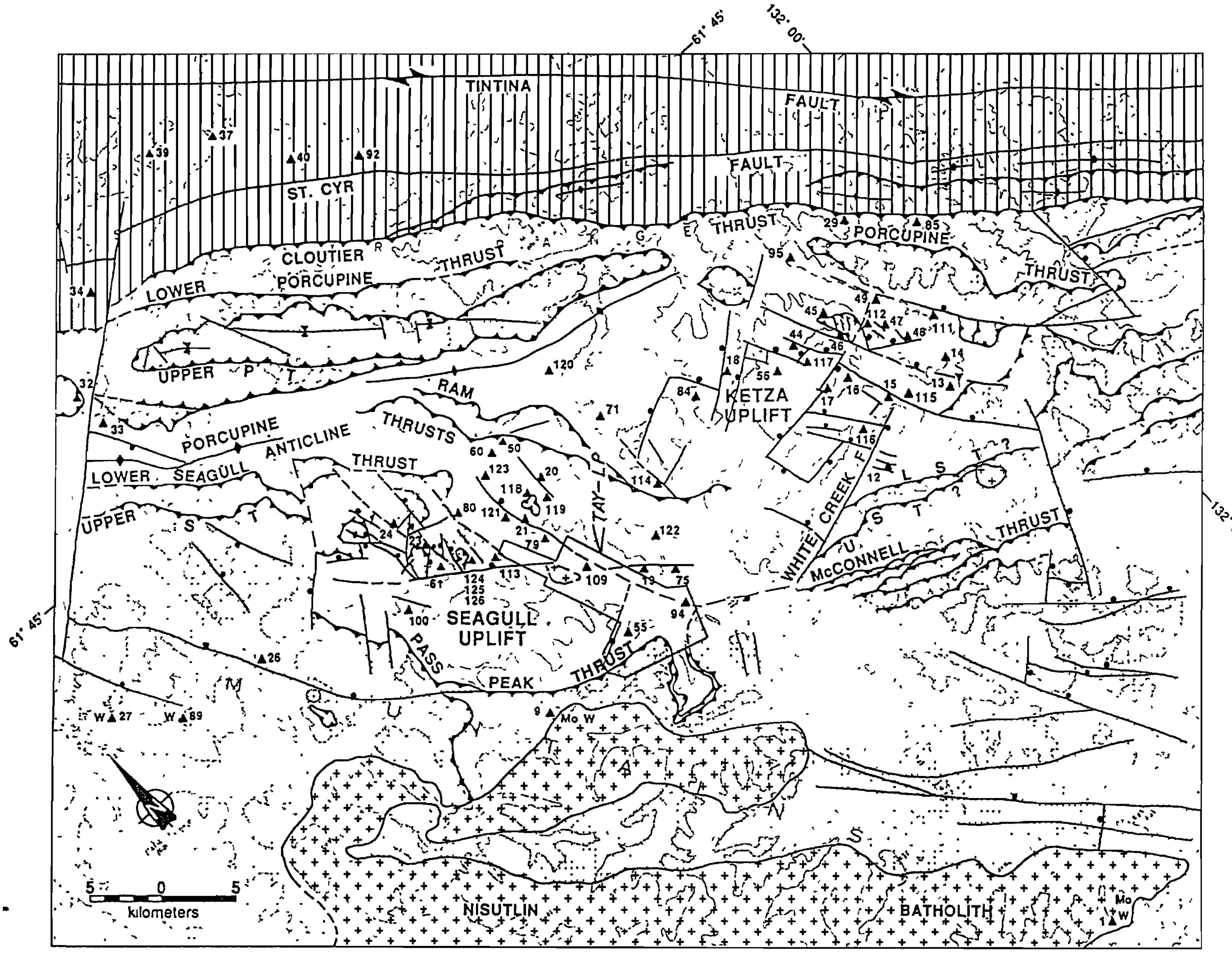

61° 45'
132° 00'
TINTINA
FAULT
FAULT
ST. CYR
THRUST
PORCUPINE
CLOUTIER
THRUST
PORCUPINE
LOWER
UPPER
RAM
THRUSTS
PORCUPINE
ANTICLINE
THRUST
LOWER
SEAGULL
UPPER
KETZA
UPLIFT
TAY-LP
WHITE CREEK F
McCONNELL
THRUST
SEAGULL
UPLIFT
PASS
PEAK
THRUST
NISUTLIN
BATHOLITH
Mo W
kilometers
5
0
5

Figure 5

rich mantos are on the southeast.

The same relationship may exist in the Seagull uplift. Gold mineralization on the TAY-LP property occurs in the south central part of the Seagull uplift. Vein type occurrences (numbers 19,24,60,71,75,100,114,120 and 122, Figure 5) on the west, east and north peripheries tend to be sphalerite rich and galena rich and carry high grade silver values.

Also present in the district are skarn type mineralization with weakly anomalous gold values, found on the TAY-LP property and adjacent RAM property (Hylands, 1989), and stratabound base metal mineralization of volcanogenic origin found nearby on Curragh's MM property (Bremnar and Emond, 1988).

PROPERTY GEOLOGY

The following description of the property geology (Figure 6) is taken directly from Paterson (1988):

"The northwesterly trending Seagull Creek Fault bisects the property. This fault juxtaposes Cambro-Ordovician recrystallized limestone and schist to the west against Devono-Mississippian black siltstone, phyllites and volcanics to the east. The fault has been mapped as a thrust (Tempelman-Kluit, 1977), but its actual nature is not well known. It could easily be a normal fault or a strike slip fault.

Cambro-Ordovician (or older) rocks underlie the greater part of the claim group. They consist of a flat-lying sequence of buff weathering banded crystalline limestone, locally interfoliated with greenish quartz + muscovite +/- chlorite +/- calcite +/- magnetite schists. The other main rock type is quartz + muscovite + biotite schist which appears to underlie the limestone.

The Cambro-Ordovician (?) rocks have been intruded by a plug of biotite quartz monzonite well exposed on the mountain to the west of the Tay claims. The intrusive at this locality has undergone pervasive sericitic alteration. Down in the valley of Seagull Creek garnet-diopside skarn rocks are found in close association with limestone and large blocks of quartz monzonite containing quartz + muscovite veins....

LEGEND

MID-CRETACEOUS

Kqm	Biotite quartz mononite
Kpqm	Porphyritic quartz monzonite

MISSISSIPPIAN

Mv	Cherty to sandy tuff and volcanic breccia
Mva	Lapilli and sand-sized tuff, volcanic breccia
My	Syenite

UPPER DEVONIAN AND MISSISSIPPIAN

uDMs	Black siliceous slate, minor chert granule grit; includes undifferentiated volcaniclastic rocks

SILURIAN AND (?) LOWER DEVONIAN

SDdq	Dolomite, dolomitic sandstone
SDd	Dolomitized laminated mudstone, calcarenite
SDdl	Coarsely sucrose dolomite

ORDOVICIAN AND SILURIAN

OSsl	Fissile graptolitic slate

UPPER CAMBRIAN AND ORDOVICIAN

uЄOsl	Quartz phyllite, slaty phyllite
uЄOslv	Chlorite muscovite quartz phyllite with abundant greenstone lenses
Єb	Diabase, diorite sill

LOWER CAMBRIAN

lЄc	Calcareous argillite and siltstone, limestone
lЄCl	Massive limestone, argillaceous limestone

PROTERZOIC AND/OR LOWER CAMBRIAN

PlCqs	Undifferentiated silty slate and shaly quartzite

SYMBOLS

Fault

Geological contact

LEGEND FOR FIGURE 4a

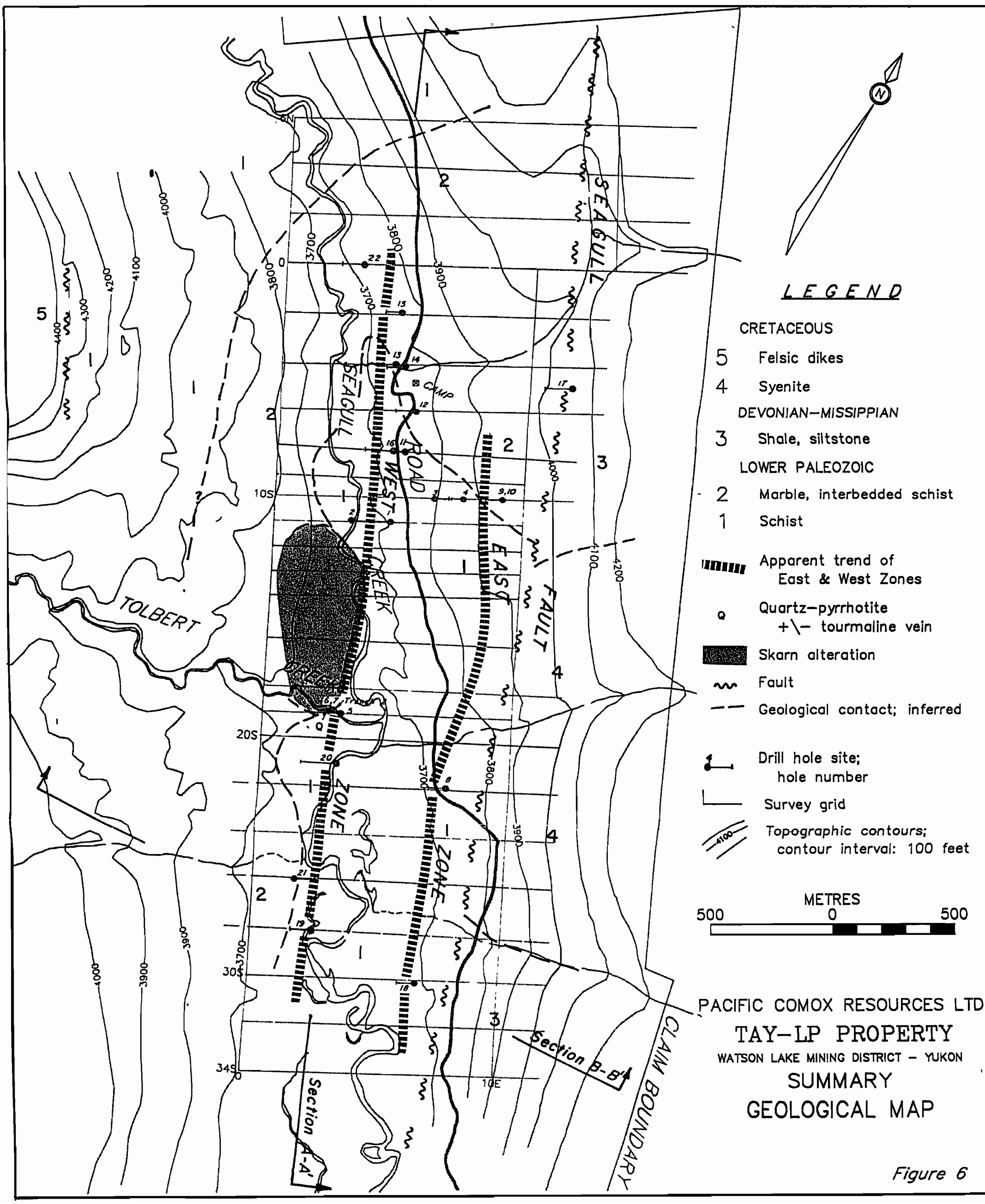
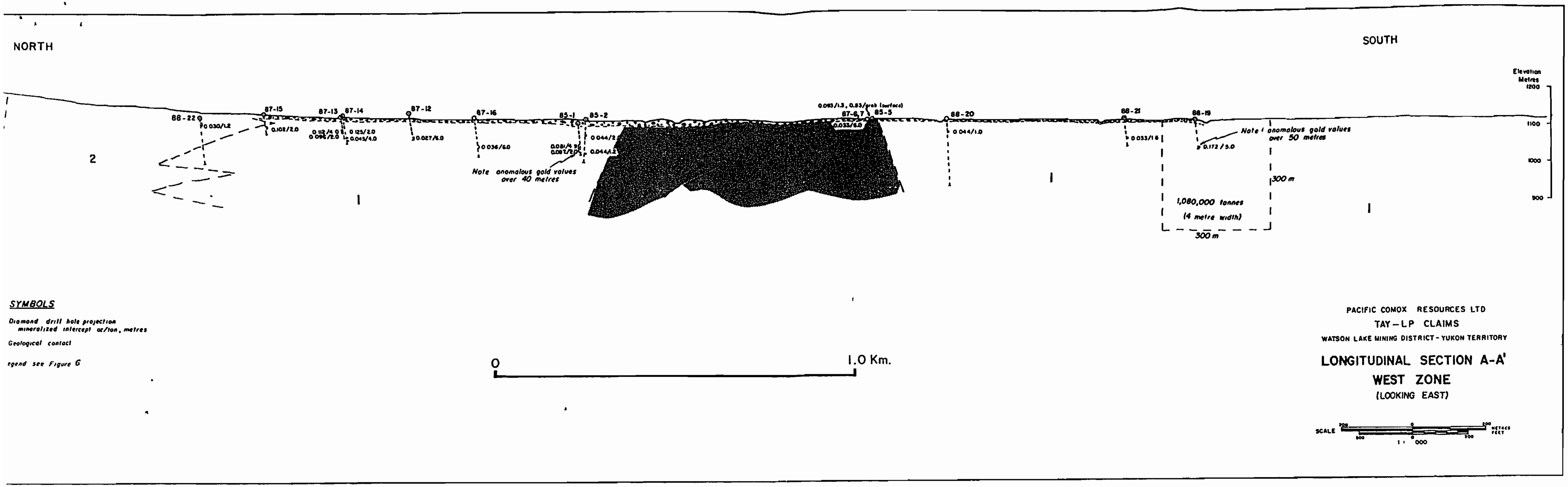

LEGEND
CRETACEOUS
5 Felsic dikes
4 Syenite
DEVONIAN–MISSIPPIAN
3 Shale, siltstone
LOWER PALEOZOIC
2 Marble, interbedded schist
1 Schist
Apparent trend of East & West Zones
Quartz–pyrrhotite +\- tourmaline vein
Skarn alteration
Fault
Geological contact; inferred
Drill hole site; hole number
Survey grid
Topographic contours; contour interval: 100 feet
METRES
500 0 500
PACIFIC COMOX RESOURCES LTD.
TAY–LP PROPERTY
WATSON LAKE MINING DISTRICT – YUKON
SUMMARY GEOLOGICAL MAP
SEAGULL FAULT
SEAGULL CREEK
TOLBERT CREEK
WEST ZONE
EAST ZONE
ROAD
CAMP
CLAIM BOUNDARY
Section A-A'
Section B-B'

Figure 6


NORTH
SOUTH
Elevation
Metres
1200
1100
1000
900
88-22
87-15
87-13
87-14
87-12
87-16
85-1
85-2
87-6,7
85-5
88-20
88-21
88-19
0.030/1.2
0.102/2.0
0.125/2.0
0.045/4.0
0.027/6.0
0.036/6.0
0.044/1.0
0.033/16
0.172 / 5.0
Note anomalous gold values over 40 metres
Note : anomalous gold values over 50 metres
300 m
1,080,000 tonnes
(4 metre width)
2
1
SYMBOLS
Diamond drill hole projection mineralized intercept oz/ton, metres
Geological contact
Legend see Figure 6
0
1.0 Km.
PACIFIC COMOX RESOURCES LTD
TAY-LP CLAIMS
WATSON LAKE MINING DISTRICT-YUKON TERRITORY
LONGITUDINAL SECTION A-A'
WEST ZONE
(LOOKING EAST)
SCALE

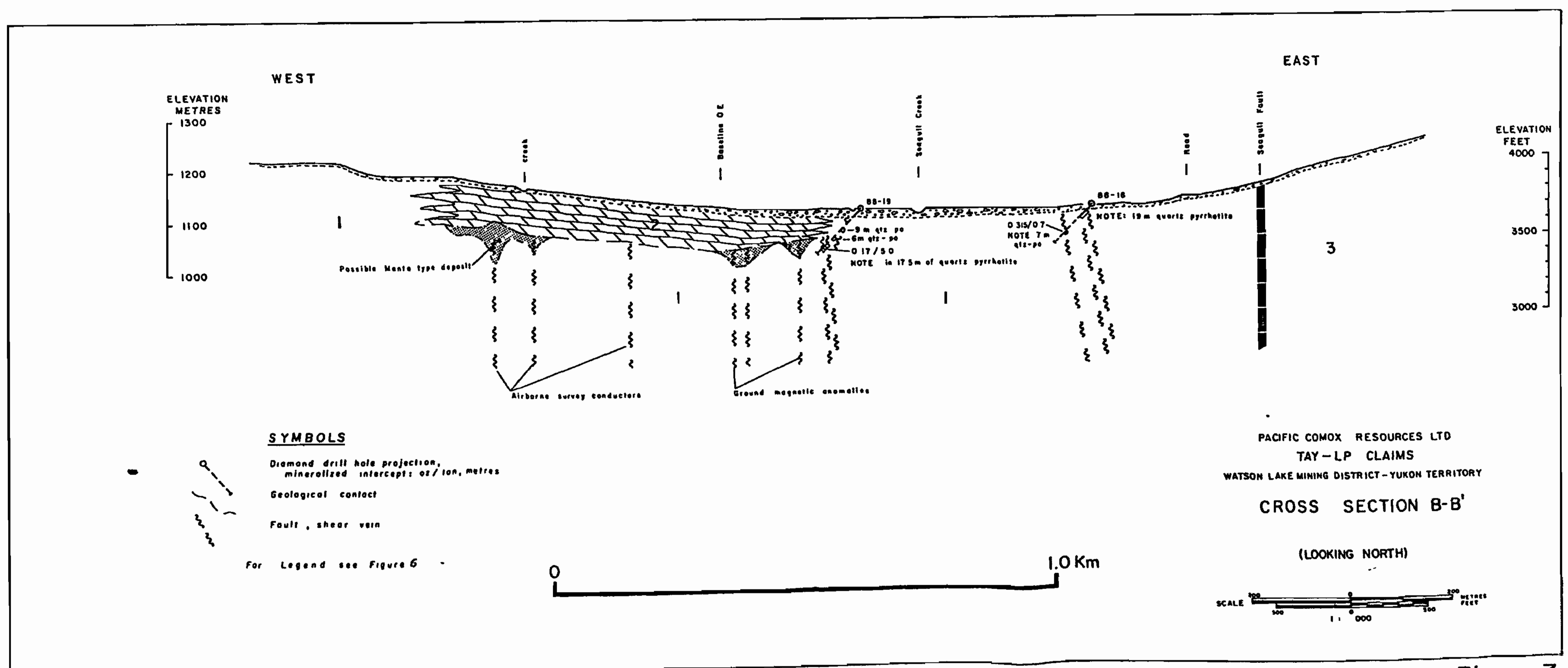

WEST
EAST
ELEVATION
METRES
1300
1200
1100
1000
ELEVATION
FEET
4000
3500
3000
Creek
Baseline 0 E
Seagull Creek
Road
Seagull Fault
88-19
88-16
NOTE: 19 m quartz pyrrhotite
0.17/5.0
NOTE in 17.5 m of quartz pyrrhotite
Possible Manto type deposit
Airborne survey conductors
Ground magnetic anomalies
1
3
SYMBOLS
Diamond drill hole projection, mineralized intercept: oz/ton, metres
Geological contact
Fault, shear vein
For Legend see Figure 6
0
1.0 Km
PACIFIC COMOX RESOURCES LTD
TAY-LP CLAIMS
WATSON LAKE MINING DISTRICT-YUKON TERRITORY
CROSS SECTION B-B'
(LOOKING NORTH)
SCALE

Figure 7

The Devono-Mississippian rocks are poorly exposed. Angular float consisting of grey siltstone, black chert, grey black phyllite or slate and dark grey limestone is found in the southern part of the property where the road crosses the Seagull Fault. In the southeastern part of the claim group the Devono-Mississippian shales have been intruded by a medium-grained hornblende-syenite containing disseminated magnetite. This gives rise to the well developed magnetic anomaly to the east of the Seagull Fault zone."

MINERALIZATION

Because most of the mineralization found on the TAY-LP property lies in the overburden covered valley floor of Seagull Creek, the nature of mineralization is not well understood. Most of the observed mineralization has been in float, drill core and a number of trenches. Geophysical surveys provide the only indication of the extent of mineralization. At least two continuous zones (East and West Zones on Figures 5, 6 and 7) and possibly a number of additional subparallel zones (Figure 9) have been partly defined.

Two main types of mineralization have been identified:

(a) Vein type mineralization

Quartz-pyrrhotite veins containing variable amounts of tourmaline and chalcopyrite, pyrite and trace to minor amounts of marcasite, arsenopyrite, galena, bismuth, bismuthinite, bismuth telluride and gold occur on all scales from 1 centimetre to 12 metres true width. They also occur as stockwork zones up to 30 metres wide in silicified and tourmalinized schist with associated pervasive disseminated to locally massive pyrrhotite. Stockwork zones were encountered, for example, in drill hole LP 87-16 (5 metres of quartz-pyrrhotite veins in 19.4 m of altered

TABLE I

TAY-LP PROJECT

SUMMARY OF BEST DIAMOND DRILL HOLE ASSAYS AND INTERSECTIONS

HOLE NUMBER	BEST ASSAY			BEST INTERSECTION		
	Gold oz/ton	g/t	width (m)	Gold oz/ton	g/t	width (m)
LP 85-1	0.116	3.22	2.0	0.081	2.8	4.9
LP 85-2	0.045	1.5	2.0			
LP 85-3	nil	-				
LP 85-4	0.084	2.8	2.0			
LP 85-5	nil					
LP 87-6	0.075	2.4	2.0	0.038	1.28	8.0
LP 87-7	0.068	2.26	2.0	0.033	1.12	6.0
LP 87-8	nil					
LP 87-9	0.121	4.04	2.0			
LP 87-10	nil					
LP 87-11	0.045	1.53	2.0			
LP 87-12	0.030	1.0	2.0	0.027	0.92	6.0
LP 87-13	0.146	-	2.0	0.111	3.7	4.0
LP 87-14	0.125	4.2	2.0	0.044	1.50	4.0
LP 87-15	0.102	3.4	2.0			
LP 87-16	0.047	1.58	2.0	0.036	1.20	6.0
LP 88-17	0.032	1.10	0.15			
LP 88-18	0.315	10.7	0.70	0.206	7.0	1.2
LP 88-19	0.255	8.67	1.0	0.172	5.85	5.0
LP 88-20	0.044	1.5	1.0			
LP 88-21	0.033	1.12	1.6			
LP 88-22	0.030	1.02	2.2			

schist) and in LP 89-19. Pyrrhotite is erratically distributed in veins, locally constituting up to 80% of the vein. Up to 1% chalcopyrite is also present. Tourmaline generally occurs as selvages along vein walls, in veinlets, and as replacement patches in adjacent schists. Pyrite is common in drill hole LP 85-5 and 88-18 as disseminations in country rock and also in LP 87-14 where it constitutes 6% of the quartz-pyrrhotite vein. Drill hole LP 87-13 intersected a quartz pyrrhotite vein with no pyrite, 30 metres vertically above the intersection in LP 87-14, suggesting the possibility of a mineralogical zonation (i.e. increase in pyrite with depth). It is interesting to note that a quartz boulder with 3% pyrite assayed at 0.63 oz/ton (21.53 g/t) gold implying that significant grades are not necessarily restricted to pyrrhotite-bearing boulders.

Gold mineralization does not occur in all quartz-pyrrhotite veins. For instance, in drill hole LP 87-05, a 7 metre vein intersection gave a value of <10 parts per billion gold despite the nearby presence of outcrop samples of pyrrhotite vein material with grades of 0.83 oz/ton (28.5 g/t) gold and drilled mineralized skarn containing values from 0.6 to 2.4 g/t gold.

In drill hole LP 87-9 a 27.7 metre stockwork zone was essentially barren except for a 2 metre intersection, mainly in altered schist, which contained 0.12 oz /ton (4.0 g/t) gold .

In drill hole LP 88-19, pyrrhotite mineralization grades of to 0.207 oz/ton (7 g/t) and to 0.255 (8.7 g/t) gold were obtained in altered schist in the middle of a 17 metre quartz-pyrrhotite vein intersection.

(b) Replacement mineralization

This type of mineralization occurs along the margins of quartz-pyrrhotite veins and is comprised of pyrrhotite, tourmaline and silica replacement in schists and limestones: it appears stratabound in nature and may have considerable lateral continuity. The best example of replacement of schists occurs in drill hole LP 85-1 where disseminated to locally massive pyrrhotite constitutes 3-25% of core and gives an average of 0.03 oz/ton (1 g/t) gold over 30 metres. Best value in schist was 0.08 oz/ton (2.8 g/t) gold over 4.9 metres. This replacement zone coincides with an excellent electromagnetic anomaly and is cored by two, two meter wide quartz-pyrrhotite veins (one is barren, 60 ppb gold, and the other contains 1.9 g/t over 2 m).

An example of replacement or manto type mineralization associated with limestone occurs in drill holes LP-87-06 and LP-87-07 where a zone of massive pyrrhotite and quartz containing schist and skarn inclusions occurs along the basal contact of a banded skarn zone. This zone is to 6 metres thick and contains gold values in the range 100 ppb to 0.07 oz/ton (2.4 g/t) gold. Hole LP-87-06 was drilled directly under an outcrop which has yielded selected pyrrhotite rich samples containing up to 0.83 oz/ton (28 g/t) gold. This style of mineralization is reminiscent of the manto style mineralization at the Ketza mine, however with no arsenic association as found at Ketza.

A summary of the best diamond drill hole assays and intersections is presented in Table I.

GEOCHEMICAL SURVEYS

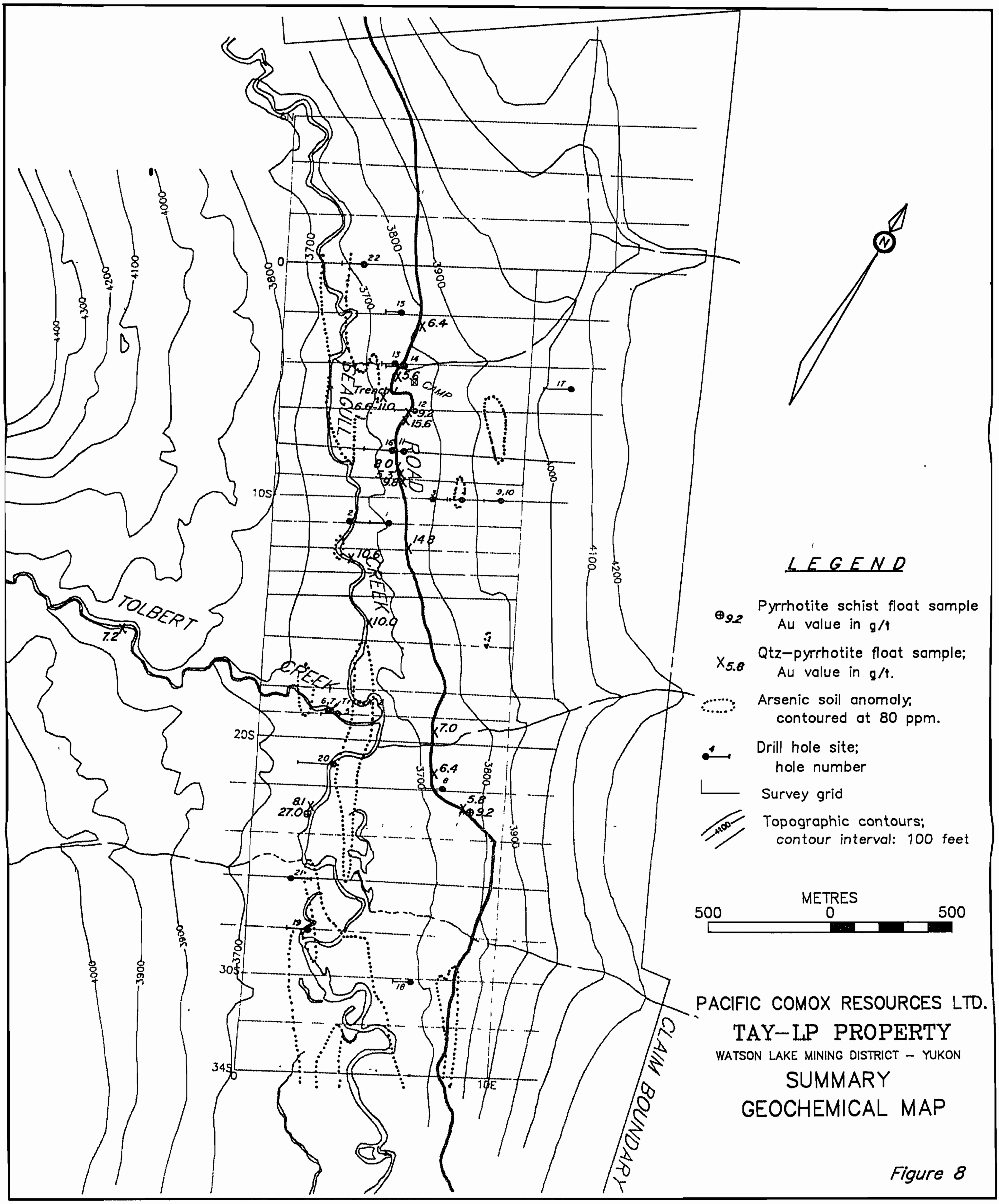
Boulder Geochemistry

A total of 202 boulders were collected by Cominco, and subsequently analyzed for 32 elements. These boulders were collected from the 4 wheel drive road (130 boulders), from the stream bed of Seagull Creek within the grid area (43 boulders), and from the stream bed of Tolbert Creek (29 boulders). Of the total, 15% returned gold values greater than 0.09 ounces per ton (3 g/t). The average gold content of the 130 boulders along the road was 0.05 oz/ton (1.76 g/t) gold with check assay values ranging up to 0.63 oz/ton (21.5 g/t) gold. The average gold content of the 43 boulders from Seagull Creek within the grid area was 0.05 oz/ton (1.74 g/t) with a high of 0.79 oz/ton (27 g/t). The 29 boulders from Tolbert Creek ranged up to 0.21 oz/ton (7.16 g/t) gold and averaged 0.01 oz/ton (0.4 g/t).

Mineralogy of the boulders was classified into 4 types:

1. Quartz-pyrrhotite +/- chalcopyrite +/- tourmaline
2. Biotite + muscovite + quartz + pyrrhotite schist
3. Quartz + arsenopyrite + pyrite +/- sphalerite +/- chalcopyrite +/- galena
4. Quartz + pyrite.

Boulders of types 1 and 2 are relatively numerous, whereas types 3 and 4 are relatively rare. Those containing gold values greater than 5 grams per tonne are plotted on Figure 8, and are listed in TABLE II. Quartz-pyrrhotite-chalcopyrite boulders returned the highest assays with 35% of these boulders containing greater than 0.09 oz/ton (3 g/t) gold .



LEGEND
Pyrrhotite schist float sample Au value in g/t
Qtz-pyrrhotite float sample; Au value in g/t.
Arsenic soil anomaly; contoured at 80 ppm.
Drill hole site; hole number
Survey grid
Topographic contours; contour interval: 100 feet
METRES
500 0 500
TOLBERT CREEK
SEAGULL CREEK
ROAD
CAMP
Trench
CLAIM BOUNDARY
PACIFIC COMOX RESOURCES LTD.
TAY-LP PROPERTY
WATSON LAKE MINING DISTRICT - YUKON
SUMMARY GEOCHEMICAL MAP
Figure 8

Multi-element geochemical studies by Pacific Comox on 222 boulder samples, 5 surface samples and 136 drill core samples indicate:

(1) a good correlation of gold with bismuth;

(2) content of most other elements is low with no evident correlation with gold; and

(3) samples containing arsenopyrite, galena and sphalerite are generally deficient in gold.

Selected multielement geochemical data for gold bearing boulders and drill intersections grading greater than 5 grams per tonne gold are presented in Table II. Also, a comparison of the gold values obtained from sulfide-rich boulders (1608 ppb average of 222 boulders) with sulfide-rich drill intersections (393 ppb average of 251 drill core samples) suggests that drilling to date has not outlined its proportionate number of high grade intersections; i.e. drilling to date has been concentrated in the lower grade portions of the mineralized vein system, assuming the boulders have been derived from the same mineralized system. This assumption appears valid considering that 88% of the high grade boulders with greater than 5000 ppb gold have near identical bismuth/gold ratios, copper, and arsenic contents as the high grade intersections in drill holes LP 88-18 and 19.

Soil Geochemistry

Soil sampling on the TAY-LP property was carried out at 50 metre intervals on lines spaced 200 metres apart. Samples were

TABLE II

Geochemical Characteristics of 21 Float Boulders and 5 Drill Core Intercepts
Containing Greater Than 5000 PPB Gold

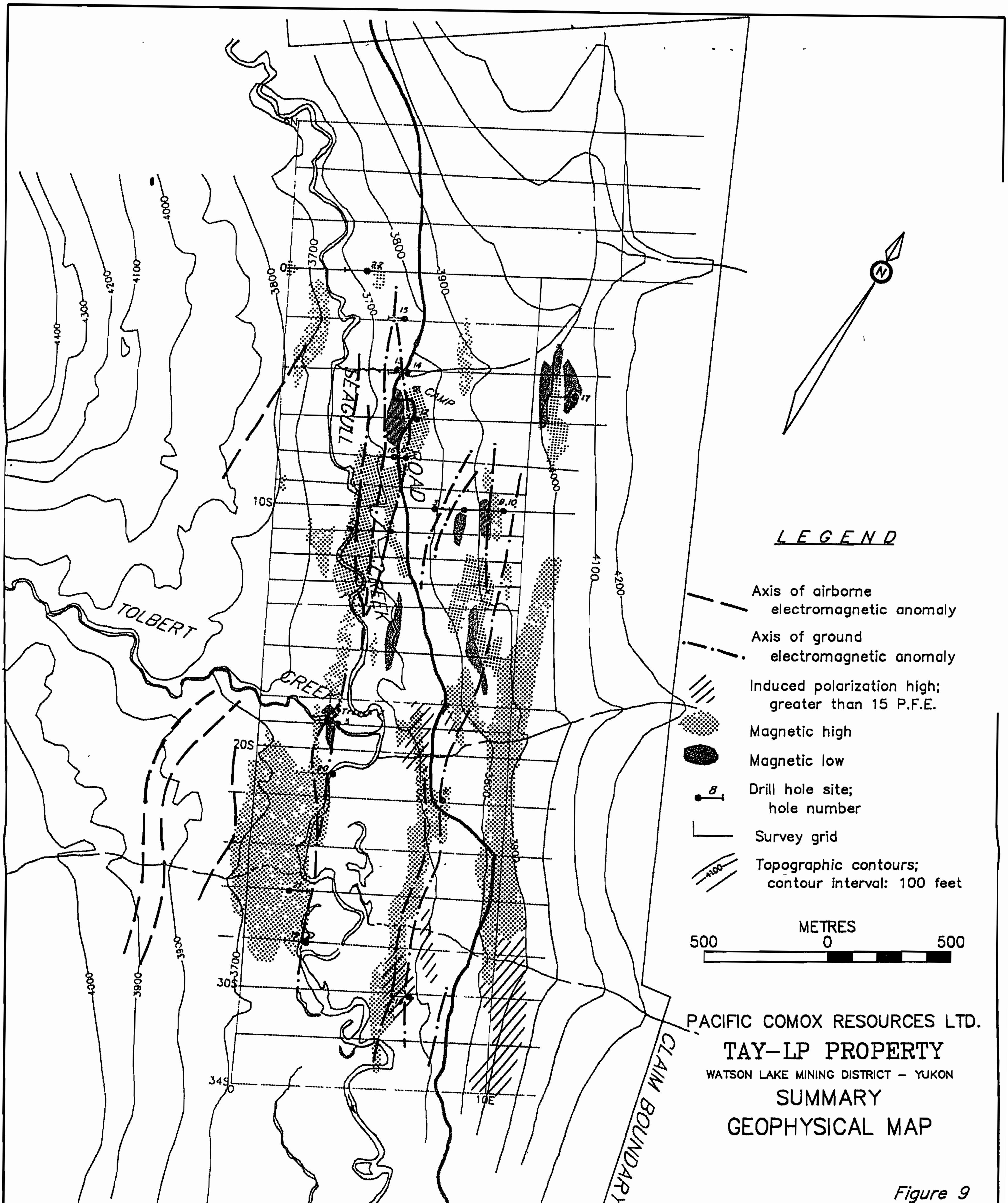
SAMPLE #	COMINCO #	AU PPB	BI PPM	CU PPM	AS PPM	PB PPM	ZN PPM	W PPM	FE %	BI:AU
21 FLOAT BOULDERS										
Z46	R85-9575	5340	372	466	17	22	16	1	10.86	70
J	R85-9544	5640	304	101	32	38	24	71	18.21	54
Z223	R85-9662	5750	284	69	23	23	3	1	15.66	49
Z201	R85-9652	6360	474	817	6	28	22	1	17.54	75
B	R85-9541	6400	1619	637	17	44	24	1	14.49	253
T88-1-10		6600	481	750	762	16	21	2	17.77	73
Z190	R85-9646	7000	333	909	9	24	2	1	17.37	48
GR37	R85-9674	7160	536	383	11	9	8	1	8.38	75
Z23	R85-9563	7960	429	481	8	16	11	7	7.97	54
PR335	R85-14503	8120	2735	522	7	84	2	1	19.16	337
T88-1-16		8700	585	633	37	7	11	2	11.42	67
Z225	R85-9663	9200	495	812	1	36	21	6	20.13	54
V	R85-9549	9200	678	94	24	28	2	445	12.16	74
Z86	R85-9594	9800	588	941	2	7	15	1	8.29	60
PR357	R85-14522	10020	868	105	1	36	8	1	4.57	87
PR391	R85-15047	10620	861	338	4	18	12	1	11.26	81
TR88-1-8		11000	722	967	96	50	21	17	21.19	66
T88-1-14		11000	717	327	126	21	12	297	13.34	65
Z143	R85-9623	14800	1242	437	9	333	15	1	20.01	84
Z97	R85-9599	15600	1212	405	61	6	33	6	18.90	78
PR338	R85-14506	27000	35	999	11	35	18	1	12.75	1
	AVERAGE	9680	741	533	60	42	14	41	14.35	86
5 DRILL CORE INTERCEPTS										
LP19-100		5600	249	526	2	2	3	2	14.01	44
LP19-103		5600	266	154	4	12	3	5	14.99	48
LP19-80		6900	395	644	3	5	9	8	14.40	57
LP19-101		6900	369	453	3	14	4	4	18.56	53
LP18-74		8640	694	600	8	7	119	9	8.35	80
	AVERAGE	6728	395	475	4	8	28	6	14.06	56

collected mainly from the "B" horizon with fresh "C" horizon tills being sampled where possible. The results for gold and bismuth are uniformly low . However arsenic, locally appears to be highly anomalous. A plot of arsenic distribution (greater than 85 parts per million, with peaks at 250 to 430 parts per million arsenic) is presented in Figure 8. Arsenic is normally considered to be a pathfinder element for gold, and high arsenic values are present in the Ketza deposits, however it appears to have a negative correlation with gold on the TAY-LP property (Table II as mentioned above). The anomalies are difficult to interpret because they occur in the valley bottom where some degree of glacial, fluvial and hydromorphic dispersion has undoubtedly occurred. They may reflect some as yet unrecognized target or may have been derived from some distal source, perhaps the strong airborne magnetic anomaly noted on the TAY-LP property 3 kilometers to the south southeast (G.S.C. Map 7005G).

GEOPHYSICAL SURVEYS

Airborne Survey

In 1985, Aerodat Ltd. on behalf of Cominco completed 161 km. of airborne horizontal loop electromagnetic (HEM), magnetic and VLF-electromagnetic surveys. The HEM survey was effective in outlining the major northerly trending conductors located in the Seagull Creek Valley area, as well as three conductors immediately west of the present ground surveyed grid (Figure 9). The southern limit of the survey was near Line 32S. Further survey work to the south is required to close off the detected



PACIFIC COMOX RESOURCES LTD.

TAY–LP PROPERTY

WATSON LAKE MINING DISTRICT – YUKON

SUMMARY GEOPHYSICAL MAP

Figure 9

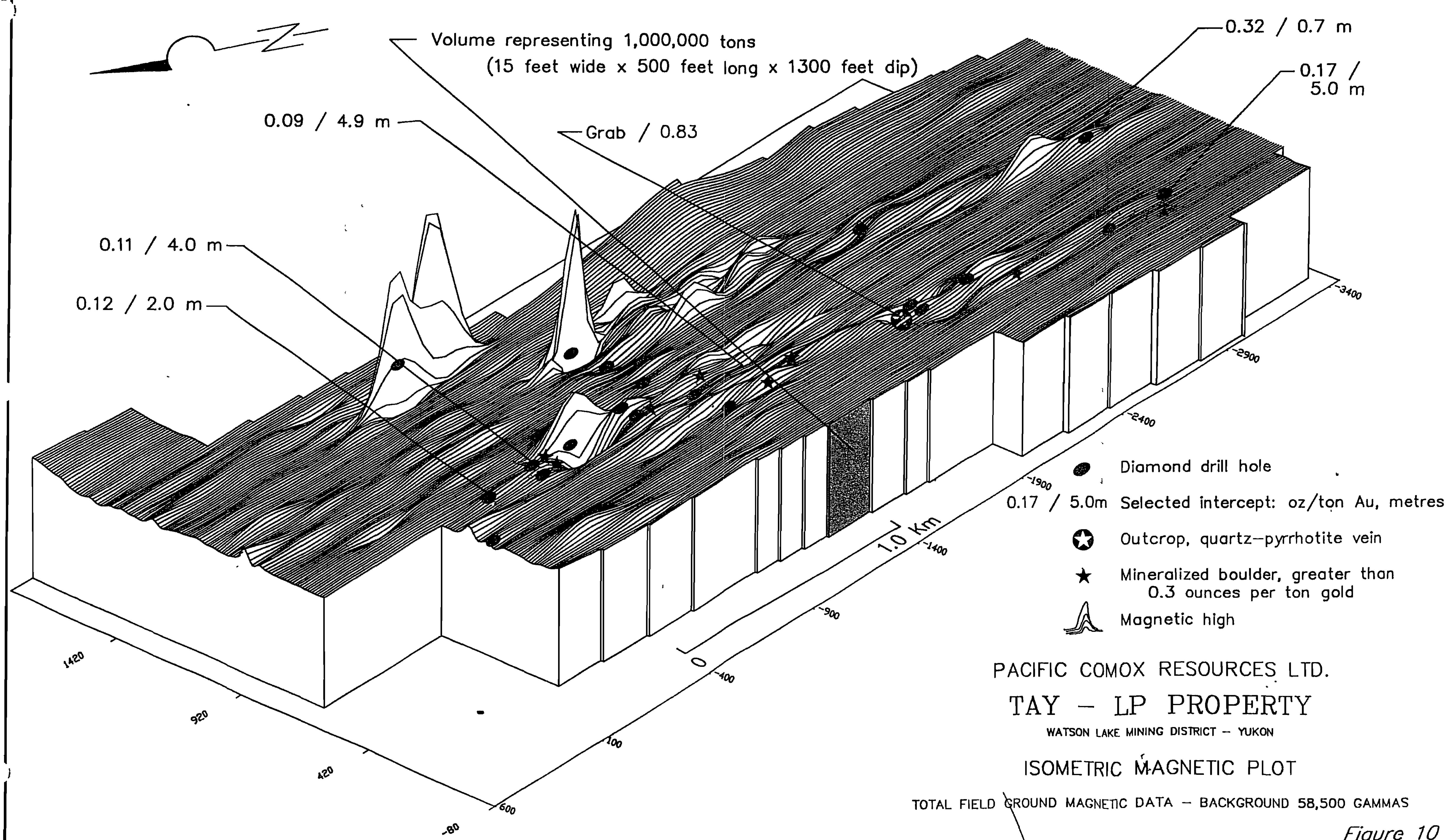

Volume representing 1,000,000 tons
(15 feet wide x 500 feet long x 1300 feet dip)
0.32 / 0.7 m
0.17 / 5.0 m
0.09 / 4.9 m
Grab / 0.83
0.11 / 4.0 m
0.12 / 2.0 m
1.0 Km
0
3400
2900
2400
1900
1400
900
400
100
600
1420
920
420
-80
Diamond drill hole
0.17 / 5.0m Selected intercept: oz/ton Au, metres
Outcrop, quartz–pyrrhotite vein
Mineralized boulder, greater than 0.3 ounces per ton gold
Magnetic high
PACIFIC COMOX RESOURCES LTD.
TAY – LP PROPERTY
WATSON LAKE MINING DISTRICT – YUKON
ISOMETRIC MAGNETIC PLOT
TOTAL FIELD GROUND MAGNETIC DATA – BACKGROUND 58,500 GAMMAS

Figure 10

anomalies. The survey also outlined a strong magnetic high in the area east of Seagull Creek, which is believed to represent a syenitic intrusion.

Two distinct aeromagnetic highs occur on the high level magnetic survey, Quiet Lake Map Sheet (GSC Geophysics Paper 7005G, 1961) in the southern section of the TAY-LP property. The easternmost of these has an amplitude of +120 gammas, a strike length of 1.5 km. and the same northerly strike as noted in the gold bearing pyrrhotite veins outlined to the north (Figure 9). The western anomaly has an amplitude of +200 gammas and is symmetric implying a pod rather than vein type source. Further ground electromagnetic and magnetic surveying of these anomalies, prior to drilling, is required.

Ground Magnetic Survey

A total of 37 km. of total field magnetic data was collected by Cominco and Pacific Comox. Magnetic high and low anomalies are shown on the Geophysical Compilation Map (Figure 9) and in isometric projection on Figure 10.

Total field magnetic values vary from greater than 62,700 gammas to less than 57,500 gammas, a range of more than 5,000 gammas. In general the map is characterized by long linear, northerly trending magnetic highs which have been proven by drilling to represent quartz-pyrrhotite vein or stockwork type mineralization. The linear zones are offset and broken up by several north westerly trending structures, believed to represent shear zones. Generally in the vicinity of the intersection of the linear magnetic anomalies with the cross cutting interpreted shear zones, the magnetic relief becomes higher frequency with large rapid amplitude changes. As gold mineralization is late stage and related to alteration of pyrrhotite to pyrite-marcasite (Payne, 1988) these structures may be very important to the localization of gold bearing fluids.

In the south east corner of the grid, from Lines 11S to 32S, there is a magnetic high feature varying from 58,300 gammas to greater than 58,800 gammas, which Paterson and Gray (1985), and Klein (1985) have interpreted as a syenitic intrusion containing disseminated magnetite.

<u>Electromagnetic Surveys</u>
<u>Ground Horizontal Loop EM and VLF EM Surveys</u>

The grid area was surveyed by Cominco using a MaxMin II horizontal loop electromagnetic system (HEM). The survey covered 30 km. on lines with 100 and 200 metre spacing. In general the conductors were interpreted as being strong with near vertical to steep easterly dips. The axis of the interpreted electromagnetic anomalies are shown on Figure 9. As a result of the large 100 metre loop separation, areas underlain by multiple interpreted conductors may in fact represent stockwork zones rather than discreet conductive zones, such as was noted in drill holes LP 85-1 and LP88-20, 45 metre and 69 metre stockwork intersections, respectively.

A total of 12.5 km. of VLF (very low frequency) electromagnetic surveys were completed in the main grid area by Pacific Comox Resources Ltd. There is a direct correlation between the previously outlined HEM conductors and the interpreted VLF conductors, indicating that the conductors are near surface. In addition several of the HEM conductors have been extended by the VLF survey and several other weaker conductors located. In general the newly located conductive zones occur between and sub parallel to the stronger HEM conductors, inferring a similar although less massive, probably sulfide, source. Several of these newly located zones have no magnetic correlation and are therefore interpreted as pyrite-rich rather than pyrrhotite-rich vein systems.

Induced Polarization Survey:

A total of 9.5 km. of frequency domain I.P. was completed . The induced polarization technique was effective in outlining the quartz-pyrrhotite vein systems and in fact the highest gold assay in drilling to date (0.315 oz/ton (10.7 g/t) gold over 0.7 m) occurred in DDH LP88-18, within the highest amplitude IP anomaly (greater than 40 PFE(Percent Frequency Effect)). Apparent resisitivity surveys were effective in delineating the contacts between unaltered homogeneous schist, mineralized schist and marble.

PFE's vary from a high of 40%, coincident with quartz-pyrrhotite-pyrite mineralization in schist in the vicinity of drill hole LP 88-18 to levels of 6% to 15% over areas of known quartz-pyrrhotite vein and schist mineralization and to a background of 2% to 6% over large areas of the surveyed grid-believed underlain by unmineralized chlorite schist and or marble (values greater than 15%FE are plotted on Figure 9).

In areas underlain by unmineralized, unaltered schist resistivities generally vary from 200 to 700 ohm metres, in altered schist in the vicinity of quartz-pyrrhotite veins from less than 15 to 200 ohm metres; in areas underlain by mixed interbedded schist and marble 700-2000 ohm metres; and in areas predominantly underlain by limestone-marble from 2000 to greater than 9000 ohm metres. The marked resistivity lows are generally co-incident with the HEM conductive zones.

Trenching

Three trenches have been excavated on the TAY-LP property, of which, Trench 88-2 (Trench 2 on Figures 6, 8 and 9) encountered significant mineralization. The trench exposed a zone of quartz-pyrrhotite mineralization in which three grab samples yielded grades ranging from 7.8 to 23 g/t (0.23 to 0.69 oz/ton) gold.

DIAMOND DRILLING

A total of 2441 metres of diamond drilling in 22 holes have been completed to date on the TAY-LP property. Drilling conditions were generally good with core recovery near 100%. Hole lengths ranged from 99 to 219 metres (see drill hole statistics in TABLE III) with the closest hole spacing along strike of 200 metres. Overburden depths varied from 4 to 13 metres (vertical). A summary of the best drill hole assays are presented in TABLE I. Of particular interest are near ore grade intercepts encountered in drill holes 88-18 (0.32 oz/ton gold over 0.7 metres) and 88-19 (0.17 oz/ton gold over 5

TABLE III

SUMMARY OF DRILL HOLE DATA

Hole #	Grid Location N	Grid Location E	True Bearing	Dip (degrees)	Length (m)
LP85-1	11+00S	4+65E	243	-50	120
LP85-2	11+00S	3+07E	063	-50 to -53	136.6
LP85-3	10+00S	6+40E	063	-44	89.9
LP85-4	10+00S	7+55E	243	-45	81.4
LP85-5	19+00S	3+20E	243	-45	104.9
LP87-6	18+85S	2+72E	053	-45	30.8
LP87-7	18+85S	2+71E	-	-90	28.3
LP87-8	22+00S	7+55E	243	-45	99.6
LP87-9	10+00S	9+10E	243	-45	97.7
LP87-10	10+00S	9+11E	-	-90	78.9
LP87-11	8+00S	5+10E	243	-45	63.0
LP87-12	6+00S	5+39E	243	-45	119.5
LP87-13	4+00S	4+54E	243	-45	83.5
LP87-14	4+05S	4+95E	243	-45	111.9
LP87-15	1+90S	4+67E	243	-45	90.5
LP87-16	8+00S	4+60E	243	-45	157.7
LP88-17	4+90S	11+65E	242	-45	152.7
LP88-18	30+10S	6+70E	242	-45	99.4
LP88-19	28+00S	2+50E	242	-45 TO -48	123.7
LP88-20	21+00S	3+00E	242	-45 TO -62	217.9
LP88-21	26+00S	1+65E	062	-45	111.5
LP88-22	[illegible]0+00S	3+10E	242	-45 TO -56	142.0

metres) and anomalous gold values over considerable widths in drill holes 85-1 (40 metres, bottoming in gold values of 0.38 g/t), and drill hole 88-19, (over 51 metres). Since drill holes 88-18 and 88-19 are the most southerly tests of the structures to date and contain the best intercepts to date, it is obvious that additional drilling is warranted to test the southern extensions of the structures.

CONCLUSIONS

Magnetic and electromagnetic surveys to date have defined a number of linear, subparallel anomalies with a total strike length exceeding 9 kilometres, only a small proportion of which have been tested by drilling. In addition, some weaker anomalies, as yet untested, may be significant, in that they may reflect oxidized zones similar to those found at the Ketza Mine. Offsets in the trend of the anomalies suggests the presence of northwesterly trending faults, which in turn suggests that they may have had some control on mineralization.

Statistical analysis of the litho-geochemical data, indicates that the source of the high grade gold boulders is in fact the quartz-pyrrhotite vein structures noted in the drilling.

The outcropping high grade gold mineralization observed in and near Trench 88-2 (0.23 to 0.83 oz/ton Au), the gold values obtained in drill holes LP88-19 (to 0.255 oz/ton Au) and in LP87-13 and 14, (to 0.146 oz/ton Au) occur in quartz-pyrrhotite veins which appear to be at or near the marble - schist contact. This relationship suggests that mineralization may also be present in the form of stratabound "mantos" similar to the Ketza deposits.

RECOMMENDATIONS

A two phase, 1990 exploration program is recommended:

PHASE ONE

1) Carry out reverse circulation drilling of the immediate area of LP88-18, and 19 and Trench 88-2, and between Trench 88-2 and drill holes 85-1 and 2.

2) Extend grid to south along the trend of the presently defined mineralization. Utilize a 50 metre line spacing and 12.5 metre station spacing and survey with combined magnetic and VLF electro-magnetic instrument.

3) Drill test defined co-incident magnetic-electromagnetic anomalies, initially on maximum 500 metre centers, with 30 metre, -50 degree, 4.5" reverse circulation drill holes. Utilize horizontal loop electromagnetic surveys to define precise hole locations. Log holes with downhole geophysics.

4) Assay all drill cuttings for 32 elements including gold. Calculate bismuth to gold ratios for each interval where the gold grades greater than 100 ppb. Calculate average bismuth to gold ratios for each hole and produce contoured plots on 1:5000 scale plan maps of gold and bismuth to gold ratios.

5) Tractor trench along the vein structures in the vicinity of Trench 88-2 where overburden conditions allow. Where possible, wash down bedrock to expose controlling structures and geology. Map at scale of 1:50 and channel sample;

PHASE TWO, dependant on continued positive results from PHASE ONE above:

6) Prepare an orthophoto and topographic base for the entire claim area;

7) Survey the balance of the property with an airborne electromagnetic-magnetic survey, on 200 metre line spacing;

8) Follow up newly defined airborne anomalies by extending present grid lines and completing ground magnetometer, horizontal loop and VLF electromagnetic surveys;

9) Diamond drill stepouts on best intersections from PHASE ONE to confirm grade and delineate tonnage. Continue drilling untested co-incident magnetic-electromagnetic anomalies on maximum 100 metre centers, with 30 metre, -50 degree, 4.5" reverse circulation drill holes.

11) Drill test remaining magnetic anomalies.

ESTIMATED COST OF RECOMMENDATION
PHASE ONE, Drilling

Reverse circulation drilling, Nodwell or rubber tire mounted, all up including mob-demob 1,850 metres @ $60 per metre,	$111,000
Bulldozer, road building, minor trenching & drill site preparation, all up	8,000
Crew transportation, 4x4 vehicle rental, fuel, mobilization	10,000
Geophysical equipment rental, horizontal loop EM and mag-VLF-EM-base station,	4,000
Supervision	
Senior Geologist, 45 man days @ $350 per day,	15,750
Assistants, 90 man days @ $150 per day,	13,500
Room and board 260 man days @ $60 per man day,	15,600
Camp, rental, supplies	3,000
Assays	12,400
	$193,250
Contingency	$16,750
TOTAL PHASE ONE BUDGET	$210,000

PHASE TWO, Follow-up drilling, geophysics
(Contingent on results of PHASE ONE)

Provision for additional rotary drilling and confirmation diamond drilling, all up cost:	
1,000 metres rotary @ $68 per metre,	$ 68,000
1,000 metres diamond drilling @ $122 per metre,	122,000
Airborne HEM survey, including ground follow-up	50,000
Orthophoto Map,	10,000
Supervision, estimate 40 man days, reporting	25,000
	$275,000
Contingency	$ 25,000
TOTAL PHASE TWO BUDGET	$300,000
	========
TOTAL	$510,000

Respectfully submitted,

Donald G. Allen
P.Eng.(B.C.)

PROFESSIONAL
PROVINCE
OF
D. G. ALLEN
BRITISH
COLUMBIA

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CERTIFICATE

I, Donald G. Allen, certify that:

1. I am a Consulting Geological Engineer, at A & M Exploration Ltd. with offices at Suite 704, 850 West Hastings Street, Vancouver, British Columbia, V6C 1E1.

2. I am a graduate of the University of British Columbia with degrees in Geological Engineering (B.A.Sc., 1964; M.A.Sc., 1966).

3. I have been practicing my profession since 1964 in British Columbia, the Yukon, Alaska, various parts of the Western United States and Africa.

4. I am a member in good standing of the Association of Professional Engineers of British Columbia. This report is based on fieldwork conducted by personnel of Cominco Ltd., Pacific Comox Resources Ltd and by R. Robertson. I have not visited the property covered by this report, however I supervised the planning and implementation of the 1988 exploration program.

5. I am a director and shareholder of Pacific Comox Resources Ltd., and as such have an interest in the property covered by this report.

6. I consent to the use of my name and this report in a Statement of Material Facts in connection with the raising of funds for the project covered by this report.

June 15, 1990
Vancouver, B.C.

Donald G. Allen
P. Eng. (B.C.)

CERTIFICATE

I, TERRENCE N. MACAULEY, do hereby certify that:

1. I am a consulting geologist with business address at 2480 Windridge Drive, North Vancouver, British Columbia, V7H 1B7.

2. I am a graduate in geological engineering from Queen's University (B.Sc., 1958) and Michigan Technological University (M.Sc., 1962).

3. I have practiced my profession of mining and exploration geology continuously since graduation, and from 1977 to 1989 was Western Exploration Manager for Newmont Exploration of Canada Limited.

4. I am a Fellow of the Geological Association of Canada and a Member of the Association of Professional Engineers of British Columbia.

5. My knowledge of the property is based on the study of the two reports referred to in my covering letter that document the work of Cominco, Pacific Comox Resources Ltd., and R.Robertson. I have a general familiarity with the area derived from directing exploration programs elsewhere in the region. I have not visited the TAY - LP property.

6. I have not received, nor do I expect to receive, any direct or indirect interest in either the securities of Pacific Comox Resources Ltd. or the TAY - LP mineral claims.

7. I consent to the inclusion of this letter with the Summary Report of D.G. Allen dated June 11, 1990 in a Statement of Material Facts.

DATED at Vancouver, British Columbia, this 24th day of July, 1990

T N Macauley

T.N. Macauley, P. Eng. (B.C.)

OF
COLUMBIA
ENGINEER

T.N. MACAULEY, P. Eng.
2480 Windridge Drive
North Vancouver, B.C.
V7H 1B7

Pacific Comox Resources Ltd.
704 - 850 West Hastings Street
Vancouver, B.C., V6C 1E1

July 24, 1990

Attention: Mr. J.C. Stephen, President

Dear Sir:

Re: TAY - LP Claims, Yukon Territory

At your request, I have reviewed the following two reports on this mining property of Pacific Comox Resources Ltd.:

"Summary Report on the TAY - LP Claims, Ross River Area, Watson Lake Mining District, Y.T." by D.G. Allen, dated June 11, 1990, and "Diamond Drilling, Geophysical and Trenching Report on the TAY - LP Claims" by D.G. Allen, D.R. MacQuarrie and J.C. Stephen, dated June 14, 1989.

I have discussed with the authors various aspects of the geology and exploration work, especially the conclusions, recommendations and cost estimates.

I find that the geology and work done to date have been well documented. I fully concur with the conclusions, recommendations and estimated cost of the proposed work, as outlined in the Summary Report.

Yours truly,

T N Macauley

T.N. Macauley, P.Eng. (B.C.)

TAY-LP PROPERTY TITLE DOCUMENTATION

6 November 1990
Quartz Mountain Gold Corp.
Status Inquiry

CLAIM NAME(S)	GRANT NUMBER(S)	OWNER	EXPIRY DATE
TAY 1-21	YA71482-YA71502	PACIFIC COMOX RESOURCES LTD.	07 DEC 1994
LP 1-4	YA90299-YA90302	"	07 DEC 1994
LP 7-63	YA72530-YA72586	"	07 DEC 1994
LP 64-93	YA73595-YA73624	"	07 DEC 1994
LP 103-116	YA73769-YA73782	"	07 DEC 1994
LP 125-134	YA73791-YA73800	"	07 DEC 1994
LP 135-140	YA90201-YA90206	"	07 DEC 1994
LP 149	YA90215	"	07 DEC 1994
LP 151-175	YA90217-YA90241	"	07 DEC 1994
JEF 1-51	YA99784-YA99834	"	19 FEB 1994
~~TERN 1-28~~	~~YB33262-YB33289~~	~~DONALD G. MOORE~~	~~25 JUL 1991~~
~~MAT 1-3~~	~~YA71135-YA71137~~	~~FAIRFIELD MINERALS LTD.~~	~~31 DEC 1992~~
~~MAT 4-12~~	~~YA91536-YA91544~~	~~"~~	~~31 DEC 1992~~
~~**MEGAN 1-12~~	~~YA99610-YA99621~~	~~GORDON CLARK 25% HARRIS DAVIS 50% KEVIN MCCRORY 25%~~	~~24 NOV 1989~~

****LAPSED CLAIMS**

Patti L. McLeod
Mining Recorder
Watson Lake Mining District

NOTICE

REQUESTS FOR INFORMATION ON MINING CLAIMS

There is no provision in either the Yukon Quartz Mining Act or the Yukon Placer Mining Act for a Mining Recorder to interpret his records to the public. All books of record and documents filed are open for public inspection, free of charge, during office hours.

An enquirer may employ someone to search the records for him, or obtain abstracts of record at a cost of $1.00 for the first entry and 10 cents for each additional entry on each claim.

TAY-LP PROPERTY - PROPOSED WORK PROGRAM

The Tay-LP property covers a very large mineralizing system just west of Canamax's Ketza River Gold Mine. Only a portion of the system has been drill-tested to date. The 1991 work program is designed to both follow-up significant gold zones discovered earlier and continue systematic testing of the mineralized structures over the remainder of the 10 kilometer strike length of the property.

PHASE 1 : June - Low level helicopter aerial magnetic survey over the entire projection of the mineralized structure to outline anomalies associated with the large pyrrhotite-quartz-gold veins.

PHASE 2 : July/August - Linecutting and ground geophysics (magnetics, VLF, HLEM) to accurately define airborne anomalies.
- Trenching to test geophysics in areas of shallow overburden.

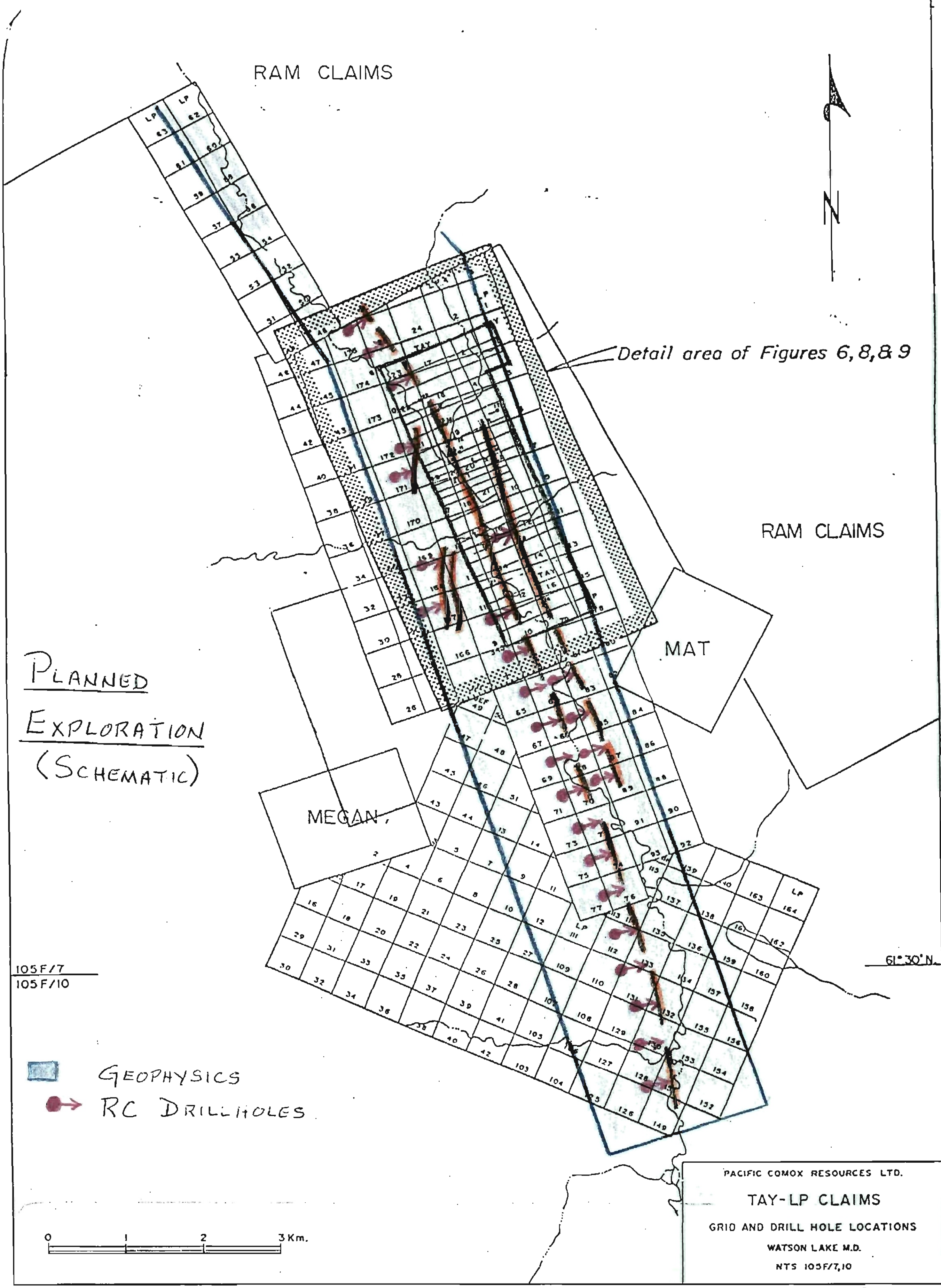
PHASE 3 : August to October - Reverse circulation drilling : 1. To test the extent of earlier significant gold intersections. 2. To test the remainder of the mineralized structures on the property.

The geophysically reactive character of the mineralization allows for easy target definition. The utilization of a reverse circulation drill allows rapid and efficient testing of targets at a very low cost per target. It is felt that this mineralized system has great potential for a world class gold deposit and that the program outlined is a very effective way of testing the target structures.

Personnel who will be involved in the project have extensive experience in the Yukon and include Dr. David Jennings, former chief geologist for Cyprus Anvil during exploration of the Vangorda Plateau sulphide deposits near Faro.

A sketch map of the proposed work program is attached. Drillsites are only schematically shown. Approximately 120 holes are planned in a wide spaced grid over the target structures. Exact location of drillsites will be determined after geological/structural mapping and trenching is complete.

A proposed budget for the 1991 exploration program is also attached.



RAM CLAIMS
Detail area of Figures 6, 8, & 9
RAM CLAIMS
MAT
MEGAN
PLANNED EXPLORATION (SCHEMATIC)
GEOPHYSICS
RC DRILLHOLES
105F/7
105F/10
61°30'N.
0 1 2 3 Km.
N
PACIFIC COMOX RESOURCES LTD.
TAY-LP CLAIMS
GRID AND DRILL HOLE LOCATIONS
WATSON LAKE M.D.
NTS 105F/7,10

Figure 3

TAY-LP CLAIM GROUP

1991 EARN IN BUDGET		$550,000	
ORDER OF MAGNITUDE COSTS			
OPERATOR - Administrative budget 7% of operating budget	$35,000		
TAY-LP Option Payment	16,000	$51,000	G&A
Helicopter control survey for geophysics	15,000		
Helicopter aeromagnetic survey	45,000	$60,000	AMAG
Line Cutting 13.6 km baseline; 44km grid @ $250	$14,400		
Detail grid 30 km @ $200	6,000		
Ground Geophysics VLF-EM, HLEM 74 km @ $200	14,800		
Misc mobilixation costs	1,600	$36,800	L/C
Vehicle rental & mileage 3 months @ $2,000	6,000		
Vehicle operation 10,000 km @ 23¢/km	2,300		
Travel, hotels, airfares, meals	11,000		
Camp equipment, pumps, generators, radio	3,000		
Camp Operation 70 days x 4 men x $35	9,800	$32,100	Camp./Trav
Backhoe or tractor mobilization	2,000		
Trenching, road maintainance 120 hrs x $150/hr	18,000	$20,000	Trench.
Reverse circulation drilling 17,500 ft @ $14.32	$243,500		
Mobilization	9,350		
Unscheduled rig time 40 hrs @ $210	8,400		
Drill camp operation 5 persons x 30 days x $35	5,250		
Cook 30 days @ $150/d	4,500		
Sample collection, bags etc. 1000 samples @ $2.60	2,600		
Sample handling, freight 1000 samples @ $5	5,000		
Sample analysis 1000 samples @ $15.50	15,500		
Geologists 2 x $250/d x 30 days	15,000		
Assistants, samplers 2 x $150/d x 30 days	9,000	$321,600	RVC
Contingencies 6.4% of Operating budget		$32,000	
		$550,000	

Assumptions re drilling:

Average hole depth	150 feet	
Number of holes per day	5	
Total number of holes	117	⇒ 17550' ⇒ 3500 sample
Drilling time	23 days	

Document Separator

Start	Stop
X	

Levels

	1	2	3	4	5	6	7	8
Binder								
Folder								
Staple		X						
Paper Clip								
Binder Clip								
Plastic Protector								
Elastic Bands								
TABS								
OTHER__________								

Special Instructions:

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K for October 15/90.

[X] Annual Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the fiscal year ended July 31, 1990

or

[] Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934.

For the transition period from ____________________ to ____________________

Commission file number 0-15490

QUARTZ MOUNTAIN GOLD CORP.

(Exact name of registrant as specified in its charter)

British Columbia, Canada	None
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Suite 950 789 W. Pender Street Vancouver, B.C., Canada	V6C 1H2
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (604) 662-7557

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	

Securities registered pursuant to section 12(g) of the Act:

Common Stock, No Par Value

(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ______

The aggregate market value of the voting stock of the registrant held by non-affiliates was $3,213,825 as of October 15, 1990.

Shares outstanding as of October 15, 1990: 25,710,603

Documents incorporated by reference: None

Exhibit Index begins on Page 53

QUARTZ MOUNTAIN GOLD CORP.

TABLE OF CONTENTS

PART I

Items 1. & 2. BUSINESS AND PROPERTIES

GENERAL

Quartz Mountain Gold Corp. ("the Registrant") is a Canadian corporation organized on August 3, 1982 under the Company Act of British Columbia. The Registrant was originally incorporated as Wavecrest Resources Ltd., but changed its name to Quartz Mountain Gold Corp. on June 18, 1986. The Company has listed its common shares on the Toronto Stock Exchange and quotes the common shares on the U.S. NASDAQ National Market System. Prior to November 15, 1989 the shares were also listed on the Vancouver Stock Exchange. The Company voluntarily removed its share listing from the Vancouver Stock Exchange at that time.

The Registrant conducts its business affairs through its wholly-owned subsidiaries:- Diamond Head Mines Ltd., a British Columbia corporation, Quartz Mountain Gold Inc., a Nevada corporation, and the latter company's wholly-owned subsidiaries Wavecrest Resources Inc., a Delaware corporation, Quartz Mountain Gold Exploration Inc., a Nevada corporation, and QZM Inc., a California corporation. Unless the context requires otherwise, references to the "Company" shall refer to the Registrant and its subsidiaries. The Company maintains its principal executive offices at 950 - 789 W. Pender Street, Vancouver, B.C. V6C 1H2, Telephone (604) 662-7557. All references to Dollars or ($) are in U.S. dollars unless otherwise specified.

The Registrant and its subsidiaries are engaged in the acquisition, exploration, and, if warranted, development of mineral properties, with a principal concentration on gold and silver. In the first three years of its existence the Company was active in the exploration of small gold and silver prospects in Canada but none of these prospects warranted further development. In 1986 the Company acquired the Quartz Mountain gold property located in south central Oregon and since that time most of the Company's effort has been expended on the exploration of these claims. The Company has interests in mining exploration properties in the Chibougamau area in Quebec, Canada and has done reconnaissance near Salmon, Idaho, U.S.A. Interest in these properties was acquired by direct purchase, lease, options or through joint ventures. Most of the Company's assets are located in the United States, except for certain office furniture and equipment located in Canada.

The Company's Quartz Mountain property (the "Property") consists of approximately 9,700 acres comprising 567 unpatented claims and 177 acres of leased fee land located in south central Oregon, 33 miles west of the town of Lakeview and 22 miles north of the California border. The Property contains the primary Crone Hill and Quartz Butte deposits and additional high grade feeder zone targets under Crone Hill and Quartz Butte. Anaconda Minerals Company ("Anaconda") owned an interest in the property which was purchased by Diamond Head Mines Ltd. and originally made the discovery at Crone Hill but in 1985 decided to disband all of its non-coal minerals exploration operations. Anaconda's drilling outlined an epithermal gold deposit geologically similar to many in the Basin and Range topographic province of the western United States.

The Company's exploration work began on the Crone Hill and Quartz Butte deposits in June 1986. During 1986 a drilling program of 130 rotary and core holes was completed and bulk metallurgical samples for laboratory and column leach tests were collected from surface trenches and core holes. Geological mapping and sampling of additional exploration targets on the property were also performed. A winter drilling campaign was conducted during January and February 1987 and an extensive summer program focusing on Crone Hill, Quartz Butte and Angels Camp resulted in a total of 460 drillholes and 171,537 feet of drilling for the 1987 calendar year. The Crone Hill and Quartz Butte deposits were drilled to 100 foot spacing and initial feasibility work was completed by the Davy McKee Corporation.

The Company focused its attention on the Quartz Mountain property with a view to putting the Crone Hill and Quartz Butte deposits into production, if evaluation indicates development is warranted. There was some high grade mineralization in the Angels Camp deposit which increased exploration activity and drilling on the eastern portion of the property in 1988 and 1989. The Company completed extensive environmental studies, and carried out technical and economic studies of the property. The Company's long range plans call for continued exploration and development, if warranted, of the Quartz Mountain property as well as investigation and acquisition of precious metal deposits with similar development potential. Development of the property continues under the direction of Pegasus Gold Corporation. Pegasus Gold Corporation currently have an option to acquire a 50% interest in the property.

In June 1987 the Company signed a letter agreement, amended from time to time, with Galactic Resources Ltd. ("Galactic") whereby Galactic had the right to acquire a 50% interest in the property. This letter agreement was terminated upon entering into the Galactic Option Agreement described below.

On July 24, 1989 the Company completed the following three transactions related to the property. The following summary of the transactions is qualified in its entirety by reference to the definitive agreements described therein. The terms were arrived at through arm's length negotiations.

(1) the Company acquired the sole and exclusive option (the "Galactic Option") to purchase all of the interest of Capricorn Resources, Inc. ("Capricorn"), a wholly owned subsidiary of Galactic, in the property and, as consideration for the option, paid $1,000,000 cash and issued to Galactic 1,500,000 common shares of the Registrant and a non-transferable warrant for the purchase of an additional 1,500,000 shares at a price of Cdn. $1.20 per share, exercisable at any time up to and including the 45th day after the expiry of the Galactic Option (these warrants were subsequently cancelled after a private placement was made by Galactic Resources Ltd. in December 1989 (see Item 7 - "Management Discussion and Analysis of Financial Condition and Results of Operations; and Item 13 - Certain Relationships and Related Transactions");

(2) Wavecrest Resources Inc. ("Wavecrest"), a wholly owned subsidiary of the Registrant, granted to Pegasus Gold Corporation, a subsidiary of Pegasus Gold Inc. ("Pegasus") for consideration of $1,000,000 cash the sole and exclusive option (the "Pegasus Option") to acquire an undivided 50% interest in the property and agreed that, upon the exercise of this option, the Company, Wavecrest and Pegasus would enter into a joint venture agreement in a form which has been agreed upon among them; and

(3) the Registrant issued 595,450 common shares to Pegasus Gold Inc. at a price of Cdn. $1.00 per share, for total proceeds of Cdn. $595,400 (or $500,000).

Galactic Option

The Company acquired the Galactic Option pursuant to an option agreement (the "Galactic Option Agreement") dated as of July 18, 1989 among the Company, Wavecrest, Galactic, Capricorn and Galactic Resources, Inc., another subsidiary of Galactic. This agreement provides, among other things, that the Company may acquire Capricorn's interest in the Property for a total price of $6,000,000, of which $742,703 was payable and paid at the closing, and is non-refundable. The Galactic Option is exercisable for a period of 24 months, commencing on July 24, 1989, and may, if Pegasus has performed the work program described above and committed to incur further expenditures of at least $500,000 per annum on the property, be extended by the Company for two further periods of one year each upon the Company making additional annual payments of $500,000 each to Capricorn, which payments will be applied to reduce the balance of the purchase price for the aforesaid interest.

The 1,500,000 common shares were subject to a hold period of not less than 12 months, unless transferred by Galactic pursuant to a prospectus or registration statement exemption, a prospectus or a registration statement. The Company has agreed that after the expiry of these resale restrictions it will qualify or register certain of these shares for resale if it files a registration statement or prospectus. The warrants were cancelled as part of a private placement made with Galactic Resources Ltd. in December 1989.

As a condition of acquiring the Galactic Option, the Company and Wavecrest were required to enter into a joint venture agreement with Galactic and Capricorn, which was substantially the same as the joint venture agreement which the Company had agreed to enter into with Pegasus if Pegasus exercises its option to purchase a 50% interest in the property. This joint venture will only come into effect if the Galactic Option is not exercised prior to its termination. Under this joint venture agreement Galactic would be required to pay for the first $500,000 of work on the property.

Standstill Agreement

Pursuant to the Galactic Option Agreement, Galactic had agreed that prior to January 1, 1993, it would not acquire more than 20% of the outstanding voting securities of the Company. Galactic was also required, until January 1, 1993, to vote, and to use its best endeavours to cause any affiliate of Galactic to vote, any shares of the Registrant owned by such persons in the manner directed by Dr. David S. Jennings, so long as he was President of the Company, in the election of directors of the Company and with respect to any amalgamation, merger, plan of arrangement, disposition of all or substantially all of the assets of the Company, or dissolution, or similar transactions ("Extraordinary Transactions"), which he supports.

This standstill and voting agreement was terminated on December 11, 1989 as a result of the further private placement by Galactic Resources Ltd. (see Item 13 - "Certain Relationships and Related Transactions").

Pegasus Option

Wavecrest granted the Pegasus Option pursuant to an option agreement among the Registrant, Wavecrest and Pegasus (the "Pegasus Option Agreement") dated as of July 18, 1989. This agreement provides that Pegasus may acquire an undivided 50% interest in the property from Wavecrest for a purchase price of $6,000,000 of which $1,000,000 was payable and paid at the closing. The agreement further provided that, in order to exercise this option, Pegasus must subscribe for $500,000 of common shares of the Registrant, at a price of Cdn. $1.00 per share, which was done, and complete a minimum work program on the property involving the expenditure of $1,000,000 within twenty-four months from July 19, 1989. This work program will be funded to the extent of $500,000 from the proceeds of the aforesaid private placement.

The Pegasus Option is exercisable for 24 months from the date of execution of the Pegasus Option Agreement, but is subject to the same rights of extension as the Galactic Option.

Upon the exercise of the Pegasus Option, Pegasus will acquire an undivided 50% interest in the property and all related profits and losses, and Pegasus, Wavecrest and the Registrant will be required to enter into a joint venture agreement, which will provide, among other things, that:

(i) Pegasus will be operator of the property; and

(ii) Pegasus will, at the Company's election, provide all pre-production and production financing, which will be repaid from 90% of the Company's share of production. The financing will be repaid at the rate of the U.S. Prime Rate plus 2% per annum calculated and compounded monthly.

Private Placement

As disclosed above, as a condition of exercising the Pegasus Option, Pegasus subscribed for, and the Registrant issued, 595,450 common shares of the Registrant at a price of Cdn. $1.00 each. These were issued to Pegasus on the closing. As the shares are not qualified by a registration statement or prospectus, they are subject to a hold period of at least one year, unless transferred by Pegasus pursuant to a prospectus or registration statement exemption, prospectus or registration statement. The Company has agreed that after the expiry of these resale restrictions it will qualify certain of these shares for resale if it files a registration statement or prospectus.

The proceeds from the issue and sale of the shares to Pegasus were held in trust by Central Guaranty Trust Company and were applied to fund the Pegasus work program on the property to the extent of $500,000 plus related interest.

EMPLOYEES

The Company utilizes the services of management and, in some cases, outside consultants and contractors to acquire, evaluate and explore mining claims. As of October 15, 1990 the Company employed four persons on a full-time basis, one in the Reno, Nevada office and three in the administrative head office in Vancouver, British Columbia (see Item 11 - "Executive Compensation"). The Company believes that its relations with its employees are good and there are no collective agreements covering any group of employees in effect at this time.

FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENT

The Company is principally engaged in the one industry, that is the acquisition, exploration and development of mineral resources. During the last year the major focus of the Company continued to be on the Quartz Mountain property located in south central Oregon, which has been 100% owned by the Company and which is now subject to the option agreements described above. The Company's revenue, net loss and identifiable assets are reported in its annual financial statements included herein.

INDUSTRY OVERVIEW

Use of Gold

Product fabrication and bullion investment are the two principal uses of gold. Within the fabrication category there are a wide variety of end uses, the largest of which is the manufacture of carat jewellery. Other fabrication purposes include official coins, electronics, miscellaneous industrial and decorative uses, dentistry, medals, and medallions. The Company believes that certain purchases of official coins and high-carat, low mark-up jewellery are often motivated in part by investment, so that net private bullion purchases alone do not represent the total investment activity in physical gold during the course of any year.

Gold Price Volatility

The price of gold has experienced volatile and significant price movements over short periods of time, and is affected by numerous factors beyond the Company's control, including international economic trends, expectations for inflation, currency exchange fluctuations (specifically, the U.S. dollar relative to other currencies), interest rates and global or regional consumption patterns (such as the development of gold coin programs), speculative activities and increased production due to improved mining and production methods. The supply of and demand for gold are affected by various factors including political events, economic conditions and production costs in major producing regions including South Africa and the Soviet Union, and governmental policies with respect to gold holdings by a nation or its citizens. There can be no assurance that the price of gold will be such that the Company's properties can be mined economically.

The profitability of the Company's future operations will be directly related to the market price of gold as compared to the cost of production. If the Company's projected future revenue from gold sales falls below its cash cost of production, the Company could determine that it is not economically feasible to engage in commercial production.

The volatility of gold prices is illustrated by the following table of the high and low gold prices per ounce on the London Bullion Market: (Source of Data-Metals Week.)

	London Metals Exchange			London Metals Exchange	
	HIGH	LOW		HIGH	LOW
1979	$ 512	$ 217	1985	$ 341	$ 284
1980	850	482	1986	438	326
1981	599	391	1987	500	392
1982	481	297	1988	484	395
1983	509	374	1989	416	356
1984	406	308	1990 (through September 30)	424	346

On October 15, 1990 the afternoon fixing for gold on the London Bullion Market was $383.79 per ounce. Gold prices on the London Bullion Market are regularly published in most major financial publications and many nationally recognized newspapers.

Sales and Refining

Gold can be readily sold on numerous markets throughout the world and it is not difficult to ascertain its market price at any particular time. Dore bars that may be produced by the Company's future mining operations, if any, would be refined by a commercial refinery and the gold and silver produced would subsequently be purchased on a competitive basis. The Company believes that because of the availability of refiners, each able to supply all services that would be required by the Company, no material adverse effect would result if the Company lost the services of any refiner.

Because of the large number of available gold purchasers, the Company believes that if the Company had gold production, it would not be dependent upon the sale of gold to any customer, the loss of which would have a material adverse effect on the business of the Company.

Future Gold Sale Commitments

The level of future gold sales will depend upon the Company's assessment of gold market conditions, production levels and gold loan commitments. Revenue from such forward sales will be recognized when the gold is delivered. (See Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations").

Competition

Significant and increasing competition exists for the limited number of gold acquisition opportunities available in Canada and the United States. As a result of this competition, some of which is with large established mining companies with substantial capabilities and greater financial and technical resources than the Company, the Company may be unable to acquire attractive gold mining properties on terms it considers acceptable. Accordingly, there can be no assurance that the Company's exploration and acquisition programs will yield any new reserves or result in any commercial mining operation.

Risks of Development, Construction and Mining Operations

Even if the Company, alone or together with a joint venture partner, decides to proceed with development of the Quartz Mountain property, the ability to meet cost estimates and construction and production time estimates cannot be assured. Technical considerations, delay in obtaining governmental approvals, inability to obtain financing or other factors could cause delays in developing the Quartz Mountain property and the Company's other properties. Such delays could materially adversely affect the financial performance of the Company.

The business of gold mining is subject to a variety of risks and hazards, including environmental hazards, industrial accidents, flooding and the discharge of toxic chemicals. Such occurrences may delay construction or production at the Quartz Mountain property. The Company and Pegasus have or will have insurance, in amounts that it considers to be adequate, to protect itself against certain of these risks of mining and processing. However, the Company may become subject to liability for certain hazards which it cannot insure against or which it may elect not to insure against because of premium costs or other reasons. The Company believes that its insurance coverage for its current exploration activities is consistent with normal industry practice. At the present time, it does not conduct any mining operations.

Exploration Programs

The Company is seeking to grow through exploration of its existing properties as well as through acquisitions of interests in new exploration properties or of interests in companies which own such properties. Substantial expenditures may be incurred in an attempt to establish the economic feasibility of mining operations by identifying mineral deposits through drilling and other techniques, developing metallurgical processes to extract metals from ore, designing facilities, and planning mining operations. There can be no assurance that existing or future exploration programs or acquisitions will result in the identification of deposits which can be mined profitably.

Title of Properties

The validity of unpatented mining claims, which constitute the majority of the Company's property holdings in the United States, is often uncertain and may be contested. In accordance with mining industry practice, the Company has attempted to acquire satisfactory title to its properties but does not obtain title insurance with the attendant risk that some titles, particularly titles to undeveloped properties, may be defective. However, the Company makes a conscientious search of mining records to confirm that it has acquired satisfactory title to its properties. The possibility exists that title to one or more of its claims might be defective because of errors or omissions in the chain of title. Should any defect in title be disclosed to the Company, the Company would take all reasonable steps to perfect title to the particular claim(s) in question.

The boundaries of some of the Company's mining properties (other than those in the immediate vicinity of the ore bodies relating to the Quartz Mountain property) have not been surveyed and, therefore, in accordance with the mining laws of the applicable jurisdictions, the precise location and area of these mining properties may be in doubt. The Company is not aware of challenges to the location or area of its unpatented mining claims.

To maintain ownership of the possessory title created by an unpatented mining claim against subsequent locators, after making a discovery the locator or its successor in interest must perform annually a minimum of $100 of labour or improvements (assessment work) for each claim. Assessment years begin and end at noon of September 1 of each year. It has been proposed from time to time that a fee be paid to the federal government in lieu of or in addition to such mandatory assessment work in order to maintain an unpatented mining claim. Annual recording of assessment work with the federal Bureau of Land Management and with the appropriate county recorder is also a prerequisite to maintaining title to unpatented mining claims.

Regulation

The future operations of the Company will require permits from various foreign, federal, state and local governmental authorities and will be governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Companies engaged in the development and operation of mines and related facilities generally experience increased costs as a result of the need to comply with applicable laws, regulations and permits. Permits and studies are necessary prior to operation of the other properties in which the Company has interests and there can be no guarantee that the Company will be able to obtain or maintain all necessary permits that may be required to commence construction or operation of mining facilities at these properties on terms which enable operations to be conducted at economically justifiable costs. The Company believes it is in substantial compliance with all material current laws and regulation which currently apply to its activities. There can be no assurance, however, that all permits which the Company may require for its future operations will be obtainable on reasonable terms or that such laws and regulations would not have an adverse effect on any mining project which the Company might undertake.

Failure to comply with laws and regulations may result in orders being issued thereunder which may cause operations to cease or be curtailed, or may require installation of additional equipment. Violators may be required to compensate those suffering loss or damage by reason of their mining activities and may be fined if convicted of an offense under such legislation.

Amendments to current laws, regulations and permits governing operations and activities of mining companies or more stringent implementation thereof could require increases in capital expenditures or production costs or reduction in levels of production of future mining operations or require delay in development or abandonment of new mining properties.

United States - Legislation is in place for lands under federal jurisdiction or located in certain states which requires agency approval of a plan of operations or similar authorization and provides for the preparation of costly environmental assessments, environmental impact statements or similar reports prior to the commencement of, or during, any mining operation. These reports entail a detailed technical and scientific assessment of the site and surrounding environment as well as a prediction of the impact of proposed development on the environment. Such authorizations and reports may add to the cost and time frame associated with project development at the Quartz Mountain property and other properties.

The Company's future mining operations may generate large quantities of solid waste. One category of solid waste, hazardous waste, is subject to extensive regulation by the United States Environmental Protection Agency (the "EPA") and some state authorities. The Solid Waste Disposal Act Amendments of 1980 temporarily exclude solid waste generated from the extraction, beneficiation and processing of ores and minerals from regulation under the hazardous waste management program of the Federal Solid Waste Disposal Act (the "SWDA", also known as "RCRA") until at least six months after the submission of a Congressionally mandated study of mining waste and promulgation of regulations by the EPA (the "Bevill Exclusion").

EPA'S study of "extraction" and "beneficiation" wastes from mining operations was submitted to Congress at the end of 1985. Six months later, July 3, 1986, EPA issued a determination that the regulation of such wastes under Subtitle C of RCRA was not warranted, and that it intended to develop specific regulations for such wastes under Subtitle D. The process of developing such regulations under Subtitle D has been underway since mid-1986. EPA has indicated that the regulations for these wastes will be more stringent than the current Subtitle D program but less stringent than the hazardous waste regulations under Subtitle C. At the present time, however, there is not a sufficient basis to accurately predict the potential impact of such regulations on the Company.

EPA has not yet completed a study of wastes from the "processing" of ores and minerals. EPA initially adopted a broad interpretation of the exclusion of such wastes from Subtitle C regulation. In response to a subsequent court ruling, EPA promulgated a final rule in the Federal Register on September 1, 1989 setting forth high volume/low hazard criteria, retaining certain processing wastes within the Bevill Exclusion for further study, and conditionally retaining other processing wastes. EPA published a final rule in the Federal Register on January 23, 1990 retaining 15 of the conditionally retained wastes within the Bevill Exclusion. EPA's position is that the five conditionally retained processing wastes that were not retained within the Bevill Exclusion by the January 23, 1990 final rulemaking may become subject to regulation under Subtitle C of RCRA as of July 23, 1990 in those few states that do not have final RCRA Subtitle C authorization. EPA also contends that other mineral processing wastes not retained within the Bevill Exclusion by the September 1, 1989 or January 23, 1990 final rulemakings may be subject to regulation under Subtitle C of RCRA as of March 1, 1990 in those States without final RCRA authorization. In States with RCRA authorization, mineral processing wastes not retained within the Bevill Exclusion by the September 1 and January 23 Final Rules will not become subject to RCRA Subtitle C regulation until the State revises its program to adopt equivalent requirements under State law and receives authorization for these new requirements from EPA. All mineral processing wastes retained within the Bevill Exclusion will be subject to a detailed study by EPA to be submitted to Congress by July 3, 1990.

Six months after submission of this report, the Agency will publish a regulatory determination stating whether regulation of these processing materials is or is not warranted under Subtitle C of RCRA. Some wastes generated by the Company's future mineral processing operations could become subject to the EPA regulations for hazardous waste under Subtitle C of RCRA as a result of these recent rule makings. At the present time, due to the pending study of the subsequent regulation of such wastes, the impact of these rule makings upon the Company cannot reasonably be estimated.

The U.S. Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended ("CERCLA"), along with analogous statutes in certain states impose potential liability on owners and/or operators of facilities which release hazardous substances into the environment. Such liabilities could include the cost of removal or remediation of the release and damages for injury to the natural resources. The Company could own properties which are located in historic mining districts which may include abandoned mining facilities including waste piles, tailings, portals and associated underground and surface workings. Releases from such facilities can form the basis for liability under CERCLA and its analogs. None of the properties owned by the Company are currently listed or proposed for listing on the National Priority List and the Company is not aware of pending or threatened litigation under any substatute which names the Company as a defendant or any of its properties. The Company cannot predict the potential for future CERCLA liability with respect to any of its properties nor can it predict the potential impact or future direction of CERCLA litigation in the area surrounding its properties.

The Company's future surface mining operations may produce large quantities of fugitive dust. In the United States, fugitive dust emissions are subject to regulation under state law. The EPA's regulation do not currently apply to surface mines. The EPA has, however, proposed to add surface coal mines to the list of sources of fugitive emissions subject to its regulations for the prevention of significant deterioration ("PSD") of air quality; and if that proposal should be adopted, the EPA might subsequently decide to add other types of surface mines to the list. It could be very difficult for most new or expanded surface mines to meet the air quality restrictions of the EPA's regulations without substantial limitations on production.

Canada - The gold exploration and mining industry in Canada operates under both federal and provincial legislation governing exploration, development, and production. Such registration relates to the method of acquisition and ownership of mineral rights, labour, health, and safety standards, royalties, mining and income taxes, exports and other matters.

The mining industry is also subject to legislation at both the federal and provincial levels concerned with the protection of the environment. In particular, such legislating imposes high standards on the mining industry to reduce or eliminate the adverse effects of wastes generated by extraction and processing operations. Accordingly, the design of mines and mills and the conduct of extraction and processing operations are subject to the restrictions contained in such legislation. In addition, the construction, development and operations of a mine, mill and refinery typically entail compliance with applicable environmental legislation or review processes and the obtaining and renewal of land use and other permits, water licenses and similar authorizations from various governmental agencies.

It is estimated that compliance with U.S. state and federal and Canadian provincial and federal regulations relating to the discharge of material into the environment, or otherwise relating to the protection of the environment, will not require significant capital expenditures in the fiscal year 1991, but capital expenditures may be required in subsequent years.

GLOSSARY OF MINING TERMS AND DEFINITIONS

A glossary of some of the terms used in the mining industry and referenced herein is:

Core/Diamond Drill - a machine designed to rotate under pressure an annular diamond studded bit to produce a more or less continuous solid core of material that is drilled.

Cut-off grade - means the lowest grade of mineralized rock that qualifies as ore grade in a given deposit, and is also used as the lowest grade below which the mineralized rock currently cannot be profitably exploited. Cut-off grades vary between deposits depending upon the amenability of ore to gold extraction and upon costs of production.

Heap-Leaching/Leaching - a process whereby gold is recovered from ore by "heaping" broken ore on sloping impermeable pads, repeatedly spraying the heaps with a cyanide solution which dissolves the gold content of the ore, collecting the gold-laden solution and stripping the solution of gold. Such gold is melted and recast as dore bullion and is then delivered to commercial refiners for future refining.

Induced Polarization Survey - an exploration technique based on the detection of differing responses that individual rock types or alteration have to an artificially induced electrical charge. The response measured can be either the delay characteristic of the induced charge or the frequency phase changes resulting from the charge.

Milling Operation - generally refers to the grinding and crushing of ore.

Mineralized Deposit - means a mineralized body which has been physically delineated by drilling, underground work, surface trenching and other workings or drill holes and found to contain a sufficient amount of mineralized rock with an average grade sufficient to warrant further evaluation. Such deposit does not qualify as a commercially mineable (or viable) ore body until technical, economic and legal factors have been sufficiently satisfied to classify the mineralized rock as a Reserve.

Mining Claim - that portion of public mineral lands which a party staked or marked out in accordance with provincial or state mining laws to acquire the right to explore for and exploit subsurface minerals.

Net Smelter Return - a royalty based on the actual gold sale price received less the cost of refining.

Open Pit Mining - the process of mining an ore body from the surface in progressively deeper steps. Sufficient waste rock adjacent to the ore body is removed to maintain mining access and to maintain the stability of the resulting pit.

Ore - a natural aggregate of one or more minerals which, at a specific time and place, may be mined and sold at a profit, or from which some part may be profitably separated.

Ounces (troy) - in this report refers to gold having a fineness of at least 995 parts per 1,000 parts.

Oxidized Ore (also referred to as "oxide ore") - mineralized rock which can be profitably mined and in which some of the original gold-bearing sulphide minerals (e.g. pyrite, marcasite) have been leached out by ground water action leaving micron-scale free gold accessible to leaching by dilute cyanide solutions.

Reserve - means that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Reserves are customarily stated in terms of "ore" when dealing with metalliferous minerals.

Reverse Circulation Holes - exploration drill holes in which the fine and coarse rock chips created during drilling are rapidly flushed to surface without contamination so that a representative sample can be obtained.

Stripping Ratio - the ratio of the number of tons of waste to the number of tons of ore which will be extracted during the excavation of an open pit mine.

Sulphide Ore - refers to that part of the orebody that has not been oxidized by near-surface waters; generally contains the mineral pyrite (FeS) and other sulphides.

Tons - dry short tons (2,000 pounds).

Time-domain Electromagnetic Surveying - an exploration technique that measures a rock's resistance to the flow of electrical current; this property is known as resistivity. TDEM differs from other resistivity methods in that the current is induced as a time-varying magnetic field which is generated by current flow through a large square loop of insulated wire laid on the ground.

PROPERTIES

THE QUARTZ MOUNTAIN PROPERTY

Location

The Quartz Mountain property is located in Lake County in south central Oregon, (Figure 1) 33 miles west of Lakeview, the county seat, and 22 miles north of the California-Oregon border. Access is via Highway 140, which cuts across the southwestern part of the property. Logging roads that originate at Highway 140 provide access to the interior of the project site. Pacific Power has two transmission lines running along Highway 140 and a substation could be installed close to the property. Adequate supplies of water are available at the property.

The Quartz Mountain property is situated on several hills of moderate relief, at an average elevation of 6,000 feet and is largely covered by an open forest of pine and fir trees.

Figure 1 shows the various areas of interest on the Quartz Mountain property. Crone Hill and Quartz Butte, on the western half of the claims, have been the focal point of the Company's interest and the site of the majority of the exploration and development work. Other areas of interest are the defined or inferred high-grade feeder zones underneath Quartz Butte and Crone Hill.

Property Ownership

The Quartz Mountain property consists of 567 unpatented lode claims and 177 acres of leased fee land. There is a 5% Net Smelter Royalty attached to the fee land, but there is no known gold mineralization on it. There are no underlying royalties on the unpatented claims where mineralization has been identified. The total area, shown on Figure 1, is approximately 9,700 acres.

The Company presently owns 100% of the above described interest in the Quartz Mountain property, with Pegasus and Galactic each having the right to acquire a 50% interest (described in Items 1 & 2 - "Business and Properties - General"). If Pegasus exercises its right to acquire a 50% interest, the Company would acquire the same interest from Galactic and thereby retain a 50% interest.

History of the Property

The earliest recorded exploration activity in the Quartz Mountain district occurred between 1936 and 1940. In 1949, gold was reportedly being recovered in small amounts from Crone Hill. In 1957, cinnabar occurrences in the Quartz Mountain district were staked. In 1980 some claims were relocated on Crone Hill and Exploration Ventures Company ("Exvenco") of Spokane, Washington acquired a lease-option in 1981. In December 1982, Anaconda Minerals Company ("Anaconda") entered into a joint venture partnership with Exvenco and subsequently enlarged the claim block.

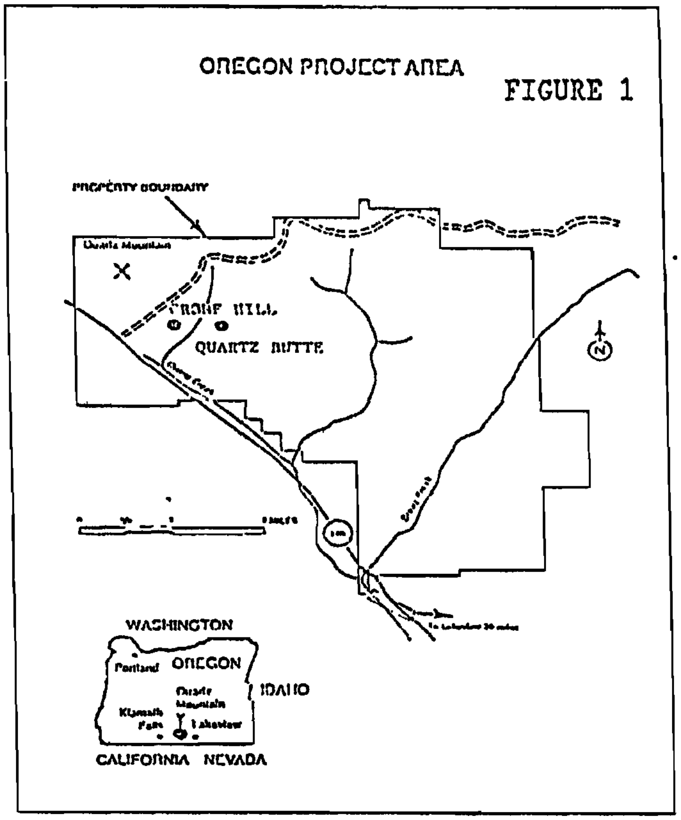
Anaconda geologists carried an exploration program on the Quartz Mountain property which included 33 drillholes, mainly on Crone Hill. In the spring of 1985, ARCO, the parent company of Anaconda, decided to disband their non-coal minerals exploration group and placed the Quartz Mountain property, along with all other properties, up for sale.

In March 1986, the Company acquired a 62% interest in the Quartz Mountain property. In June 1986, the Company acquired the remaining interest in the Quartz Mountain property from Exvenco. Additional claims have been staked since.

Geology

The Quartz Mountain property is a volcanic-hosted, hot spring gold deposit system. Gold mineralization occurs extensively within Late Miocene, endogenous, rhyolite porphyry domes and adjacent basalt flows, tuffs and volcaniclastic country rocks. Disseminated, micron-size, native gold mineralization at the Quartz Mountain property accompanies pervasive silica flooding and quartz veining and is associated with pyrite, marcasite, and stibnite or their oxidized equivalents. The zones measure up to 300 feet in thickness and 3,000 feet in diameter on Crone Hill and up to 150 feet in thickness and 1,000 feet in diameter on Quartz Butte. Gold occurs in: 1) hot-spring sinter vent breccias; 2) quartz vein swarms, stockworks, and silicified hydrothermal breccias within silicic vents and along intrusive and stratigraphic contacts; 3) stratabound zones of replacement mineralization occupying select lapilli tuff and basaltic agglomerate horizons; and 4) high-grade, variably altered, braided and silicified feeder vein networks beneath the disseminated deposits. The primary control on mineralization is the intersection of northwest and northeast trending faults with porous stratigraphic horizons and intrusive contact breccias.

QUARTZ MOUNTAIN PROPERTY



The Company's Exploration Activity

The Company began exploration work on the property in June 1986. Drilling, metallurgical testing and feasibility analysis have been continuous since then.

In 1986, an initial 130 hole program of rotary and core drill holes was completed on Crone Hill and Quartz Butte with a total footage of 49,886 feet. In 1987, 460 drill holes on Crone Hill, Quartz Butte and Angels Camp comprised 171,537 feet of drilling. In 1988, 100 drill holes (including 47 large diameter metallurgical drillcore holes) were completed on Crone Hill, Quartz Butte, Angel East and Drews Dome for a total of 34,778 feet. The Crone Hill and Quartz Butte deposits have been drilled off on at least 100 foot centers.

From May of 1988 to August of 1989 Davy McKee Corporation completed a feasibility study focused on the oxide ore resource contained in the two deposits. From July 1989 to present, development work on the property has continued under the direction of Pegasus.

The Pegasus work program has focused on an integrated, in-house feasibility study of the oxide and sulphide resources in the two deposits. The study will re-evaluate the economics of the oxide resource and seek to develop an economic treatment process for the sulphide-hosted gold resource. Pegasus has reported that the property contains an oxide ore resource of 10 million tons at an average grade of 0.030 ounces of gold per ton. Continuing sulphide test work includes evaluation of bacterial heap leaching as well as conventional flotation followed by bacterial oxidation.

During the 1990 field season 1,657 feet of diamond drilling and 12,510 feet of reverse circulation drilling were completed.

Environmental baseline studies are continuing. Soil and vegetative studies are completed.

During the year $695,368 was expended on the property. This includes the $500,000 deposit in escrow held in trust as part of the option agreement and related interest.

NUMBER NINE PROPERTY

The Number Nine property is located in Mariposa County, California, twelve miles west of the town of Mariposa and has been abandoned by the Company. The Company had leasehold interests in two fee properties and 10 unpatented mining claims which added up to 1622 controlled acres within the Hornitos Mining District.

The Company optioned the property to DRX, Inc. of Denver, Colorado, which had the right, until January 2, 1990, to extend the option until April 30, 1990 by payment of $100,000 to the Company. DRX, Inc. was required to pay all property payments pursuant to the Number Nine property leases during the term of the option.

DRX, Inc. failed to make certain required lease payments resulting in the reversion of the property to the Company. The Company elected not to make the lease payments and has relinquished title to the property. This resulted in a loss on abandonment of $577,365.

Reclamation for work done during the option period with DRX, Inc. is the responsibility of DRX, Inc. At this time there are no disagreements or disputes on any reclamation work that may be required. Any reclamation not done on exploration work done prior to the beginning of the DRX, Inc. option period that may be required will be completed by the Company. The Company believes that all required reclamation has been done.

CHIBOUGAMAU PROPERTY

The Chibougamau property is located in Bignell and McCorkill Townships in the Chibougamau area, Quebec, Canada and consists of 540 claims totalling more than 20,000 acres. The property contains many gold and polymetallic massive sulphide exploration targets defined by 1989 geological reconnaissance. The total expenditure during the year was $30,267.

In July 1990 a joint venture agreement was signed with Societe quebecoise d' exploration miniere, hereinafter referred to as "SOQUEM", of Sainte-Foy, Quebec on the Chibougamau property. SOQUEM has an option to acquire an undivided 50% interest in the property. To earn this interest, SOQUEM must spend Cdn. $300,000 in exploration and development work on the property on or before March 31, 1992 of which i) Cdn. $150,000 is required on or before March 31, 1991, and ii) Cdn. $150,000 on or before March 31, 1992.

The principal target for the 1990 field season is the Lac Eva (copper-zinc polymetallic) massive sulphide discovery made by Quartz Mountain in late 1989. SOQUEM's work program will include line-cutting, geophysics, and trenching of the most favourable massive sulphide targets.

OTHER PROPERTIES

The Company optioned two early stage gold properties in the Salmon, Idaho, U.S.A. area in July 1990. These properties have been evaluated following which the Company terminated its option.

Regional exploration along the Trans Challis Lineament in Idaho has identified several properties which are currently under evaluation. The Company expended $48,522 during the year, including $15,000 on option payments, on all exploration in Idaho.

The Company also owns the Denis mining claim on East Thurlow Island, British Columbia, Canada. This claim is located approximately 50 km. from Campbell River, on the southeast shore of the island immediately north of Hemming Bay. A logging road from this bay runs through the claim. There is a narrow quartz vein on the 4-unit claim that carries high values of gold and silver but no further work is planned on the property.

The Company intends to pursue a policy of obtaining other mineral properties as opportunities arise.

Item 3. LEGAL PROCEEDINGS

Not applicable

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable

PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

The Company's common shares are listed and trade in Canada on The Toronto Stock Exchange under the symbol "QZM", and are quoted in the United States on the National Market System of the National Association of Securities Dealers Automated Quotation System (NASDAQ), under the symbol "QZMGF". The Company was listed and traded in Canada on the Vancouver Stock Exchange but voluntarily delisted on November 15, 1989.

The following table sets forth the high and low sales prices, in Canadian dollars, for the Company's common shares, as reported on The Toronto Stock Exchange for each fiscal quarter for the past two fiscal years.

Period		Ended	Prices (Cdn.$) High	Low
1989	First Quarter	October 31, 1988	$1.50	$0.85
	Second Quarter	January 31, 1989	1.25	0.83
	Third Quarter	April 30, 1989	1.35	0.60
	Fourth Quarter	July 31, 1989	0.80	0.53

Period		Ended	Prices High	Low
1990	First Quarter	October 31, 1989	0.80	0.36
	Second Quarter	January 31, 1990	0.84	0.50
	Third Quarter	April 30, 1990	0.70	0.30
	Fourth Quarter	July 31, 1990	0.49	0.29
1991	First Quarter	To October 15, 1990	0.35	0.12

The following table sets forth the high and low sales prices, in U.S. dollars, for the Company's common shares as quoted on NASDAQ for each fiscal quarter for the past two fiscal years. The quotations reflect only inter-dealer prices, without retail mark-up, mark-down, or commission and may not represent actual transactions.

1989	First Quarter	October 31, 1988	$1.312	$0.687
	Second Quarter	January 31, 1989	1.062	0.687
	Third Quarter	April 30, 1989	1.187	0.437
	Fourth Quarter	July 31, 1989	0.687	0.375
1990	First Quarter	October 31, 1989	0.688	0.313
	Second Quarter	January 31, 1990	0.719	0.375
	Third Quarter	April 30, 1990	0.594	0.281
	Fourth Quarter	July 31, 1990	0.438	0.281
1991	First Quarter	To October 15, 1990	0.344	0.094

As of September 30, 1990 there were approximately 2,082 registered shareholders of record.

The Company has no earnings from operations to date and consequently, the Registrant has not declared or paid a dividend to holders of its Common Shares since its inception. The Registrant does not anticipate that it will do so in the foreseeable future.

There are currently no limitations imposed by Canadian federal or provincial laws on the rights of non-resident or foreign owners of Canadian securities to hold or vote the securities held. There are no such limitations imposed by the Registrant's Memorandum, Articles or contracts, of which the management of the Company is aware. There are no decrees or regulations in Canada or its several provinces that restrict the import or export of capital, including foreign exchange controls, or that affect the remittance of dividends to holders of the Registrant's securities. Any such remittances to United States residents, however, are subject to withholding tax. See "Certain Tax Matters".

CERTAIN TAX MATTERS

The following paragraphs set forth certain Canadian and United States income tax considerations in connection with the ownership of Common Shares of the Registrant.

These tax considerations are stated in general terms. There may be relevant state, provincial or local income tax considerations which are not discussed. Tax considerations may vary from taxpayer to taxpayer depending on his or her or its status, and certain shareholders owning, actually or constructively, 10% or more of the total combined voting power of the Registrant's outstanding shares may be subject to special rules not discussed below. In addition, there are material tax considerations applicable to ownership of common shares if 50% or more of the combined voting power, or total value, of the Registrant's outstanding shares are held, actually or constructively, by U.S. Persons (as defined below). At September 30, 1990, approximately 48% of the Registrant's outstanding shares were held of record by U.S. Persons. Each holder of Common Shares should consult a tax advisor regarding the tax considerations that apply to them.

Canadian Federal Income Tax Considerations

The following summary is restricted to the case of a holder (a "Holder") of one or more Common Shares who for the purposes of the Income Tax Act (Canada) (the "Act") is a non-resident of Canada, holds his Common Shares as capital property and deals at arm's length with the Company.

Dividends

A Holder will be subject to Canadian withholding tax ("Part XIII Tax") equal to 25%, or such lower rate as may be available under an applicable tax treaty, of the gross amount of any dividend paid or deemed to be paid on his Common Shares. Under the Canada-U.S. Income Tax Convention (1980) (the "Treaty") the rate of Part XIII Tax applicable to a dividend on Common Shares paid to a Holder who is a resident of the United States is, if the Holder is a company that beneficially owns at least 10% of the voting stock of the Company, 10% and, in any other case, 15% of the gross amount of the dividend. The Company will be required to withhold the applicable amount of Part XIII Tax from each dividend so paid and remit the withheld amount directly to the Receiver General of Canada for the account of the holder.

Disposition of Common Shares

A Holder who disposes of a Common Share, including by deemed disposition on death, will not be subject to Canadian tax on any capital gain (or capital loss) thereby realized unless the Common Share constituted "taxable Canadian property" as defined by the act. Generally, a Common Share will not constitute taxable Canadian property of a Holder unless he held the Common Share as capital property used by him in carrying a business (other than an insurance business) in Canada, or he or persons with whom he did not deal at arm's length alone or together held or held options to acquire, at any time within the five years preceding the disposition, 25% or more of the shares of any class of the capital stock of the Company.

A Holder who is a resident of the United States and realizes a capital gain on disposition of a Common Share that was taxable Canadian property will nevertheless, by virtue of the Treaty, generally be exempt from Canadian tax thereon unless:

(a) more than 50% of the value of the Common Share is derived from, or from an interest in, Canadian real estate, including Canadian mineral resource properties,

(b) the Common Share formed part of the business property of a permanent establishment that the Holder has or had in Canada within the 12 months preceding disposition, or

(c) the Holder:

  (i) was a resident of Canada at any time within the ten years immediately, and for a total of 120 months during the 20 years preceding the disposition, and

(ii) owned the Common Share when he ceased to be resident in Canada.

Subject to the reserve permitted where payment of any proceeds is deferred, a Holder who is subject to Canadian tax in respect of a capital gain realized on disposition of a Common Share must include three quarters of the capital gain (taxable capital gain) in computing his taxable income earned in Canada. The Holder may, subject to certain limitations, deduct three quarters of any capital loss (allowable capital loss) arising on disposition of taxable Canadian property from taxable capital gains realized in the year of disposition in respect of taxable Canadian property and, to the extent not so deductible, from such taxable capital gains of any of the three preceding years or any subsequent year.

United States Federal Income Tax Considerations

The following discussion relates primarily to citizens or residents of the United States, corporations, partnerships or other entities created or organized in or under the laws of the United States or any political subdivision thereof, or estates or trusts that are subject to United States Federal income taxation regardless of the source of their income ("U.S. Persons").

U.S. Persons receiving dividend distributions (including constructive dividends) with respect to Common Shares are required to include in gross income for United States Federal income tax purposes the gross amount of such distributions, without reduction for any Canadian income tax which will be withheld from such distributions. Such Canadian tax withheld may be credited, subject to certain limitations, against the holder's United States Federal income tax liability or, alternatively, may be deducted in computing the holder's United States Federal income by those who itemize deductions. Dividends paid on the Common Shares will not be eligible for the dividends-received deduction provided to corporations receiving dividends from certain United States corporations. If at any time during a taxable year more than 50% of the total combined voting power or the total value of the Registrant's outstanding shares is owned, actually or constructively, by five or fewer individuals who are U.S. Persons and 60% or more of the Registrant's gross income for such year was derived from certain passive sources (e.g. from dividends received from its subsidiaries), the Company would be treated as a foreign personal holding company. In that event, U.S. Persons that hold Common Shares would be required to include as ordinary income in their gross income for such year their allocable portion of such passive income to the extent the Company does not actually distribute such income. Any amount so included will be treated by such U.S. person as a contribution to the Registrant's capital.

A U.S. Person selling or exchanging Common Shares of the Registrant will recognize a gain or loss for the United States Federal income tax purposes equal to the difference, if any, between the amount realized from the sale or exchange and the tax basis of the Common Shares that are sold. This amount will be treated as long-term capital gain or loss if the common shares were held as capital assets for more than one year. There are currently no preferential tax rates for long-term capital gains. The deduction of capital losses may be subject to limitation.

So long as 50% or more of the combined voting power or total value of the Registrant's outstanding shares is held, actually or constructively, by U.S. Persons, it is possible that the Company might be treated as one defined in Section 1246 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), causing all or part of any gain realized by a U.S. Person selling or exchanging common shares to be treated as ordinary income rather than capital gains.

Passive Foreign Investment Companies

Under the Internal Revenue Code of the United States, the Registrant may be considered a passive foreign investment company (a "PFIC"). A PFIC is a corporation not formed in the United States which earns 75% or more of its income from passive sources such as interest, dividends and certain rents and royalties or which holds at least 50% of the average value (or, if the PFIC elects, the adjusted basis) of its assets for the production of passive income. U.S. shareholders of a company that is a PFIC who held stock after December 31, 1986 are subject to certain adverse tax consequences. For example, a gain recognized on disposition of PFIC stock or on receipt of an excess distribution from a PFIC is considered earned pro rata over the U.S. shareholder's holding period and is treated as ordinary income, taxable at the highest marginal rates in effect during that period. (An excess distribution is the amount of any distribution received by the U.S. shareholder during the taxable year over 125% of the average amount received in respect of the PFIC stock by the U.S. shareholder during the three preceding taxable years, subject to certain adjustments). U.S. shareholders must also pay an interest charge based on the value of tax deferral when the U.S. shareholder disposes of its stock or receives an excess distribution. Additionally, a U.S. shareholder who uses PFIC stock as security for a loan is treated as having disposed of the stock. A transfer of PFIC stock where there is not full recognition of gain will be treated as a taxable disposition in some circumstances, and a U.S. shareholder will not be entitled to a step-up in the basis of the PFIC stock at death.

Shareholder Election and Company Record-Keeping Requirements

These adverse tax consequences, other than the loss of the step-up in basis at death, can be avoided if (i) the U.S. shareholder makes an election to have the PFIC treated as a qualified electing fund (a "QEF") with respect to that U.S. shareholder and (ii) the Registrant complies with reporting requirements to be prescribed by the Secretary of the Treasury.

The shareholder election must be filed by the due date (plus extension) for filing the U.S. shareholder's income tax return for any year in which the U.S. shareholder held stock in a PFIC. A U.S. shareholder makes a QEF election by filing a "Shareholder Section 1295 Election Statement" a "PFIC" Annual Information Statement" and Form 8621 with its tax return and with the Philadelphia Internal Revenue Service Center. Once the election is made with respect to the Registrant, it cannot be revoked without permission from the Secretary of the Treasury.

In the event the Registrant is deemed a PFIC, the Registrant intends to comply with the reporting requirements that will be prescribed in Treasury regulations. In particular, the Registrant will maintain information so that the ordinary earnings and net capital gain of the Company may be determined. However, the regulations, when issued, may contain reporting and record-keeping requirements that are so onerous that it would not be practicable for the Registrant to comply. If, after review of the requirements, the Registrant decides not to comply with the PFIC record-keeping requirements, the Registrant will so notify its shareholders.

Qualified Electing Funds

U.S. shareholders of a QEF are taxable currently on their pro rata share of the QEF's ordinary income and long term capital gain, unless they elect to defer payments of tax on amounts included in income for which no distribution has been received (subject to an interest charge). Such taxable share also shall increase the shareholders' basis in such shares.

When a PFIC becomes a QEF with respect to a U.S. shareholder, the U.S. shareholder may elect to recognize gain as if it had sold the QEF stock on the first day of the taxable year in which the QEF election is made, if (i) the U.S. shareholder holds stock in the PFIC on that day and (ii) the U.S. shareholder can establish the fair market value of the PFIC stock on that day.

BECAUSE THE REGISTRANT MAY BE A PFIC FOR 1990, EACH U.S. SHAREHOLDER OF THE REGISTRANT SHOULD CONSULT ITS TAX ADVISOR TO DETERMINE WHETHER IT WISHES TO MAKE THE QEF ELECTION PRIOR TO ANY TRANSFER, PLEDGE OR OTHER DISPOSITION OF THE REGISTRANT'S STOCK AND WITH RESPECT TO HOW THE PFIC RULES AFFECT ITS TAX SITUATION GENERALLY.

Item 6. SELECTED FINANCIAL DATA

The following table summarizes selected consolidated financial data for the Company (stated in U.S. Dollars) prepared in accordance with generally accepted accounting principles in Canada and the United States as extracted from the more detailed consolidated financial statements and balance sheets included herein. The following table should be read in conjunction with the consolidated financial statements and related notes included herein.

	For the years ended July 31				
	1990	1989	1988	1987	1986
Current Assets	$ 795,883	$1,652,114	$3,846,941	$3,837,400	$3,654,201
Current Liabilities	226,284	325,247	272,978	619,570	1,121,004
Working Capital *	569,599	1,326,867	3,573,963	3,217,830	2,533,197
Mining Properties and Other Mining Assets	13,023,243	12,501,052	10,937,813	9,036,926	5,883,211
Shareholders' Equity	13,592,842	13,827,919	14,511,776	12,254,756	8,416,408
Net Loss for the Period	1,248,183	1,933,857	2,009,363	839,569	324,505
Loss per Common Share	$ .05	$ .09	$ .10	$ .09	$ .03

* Working capital is equal to Current Assets Less Current Liabilities

Item 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

1. Liquidity and Capital Resources

At July 31, 1990, the Company's cash and cash equivalents amounted to $479,519, a decrease of $333,375 from the prior year end.

The major contributors to the change in net cash position during the year ended July 31, 1990 were:

- A private placement completed in the third quarter of 2,000,000 units at a price per unit of Cdn. $0.60 yielded the Company $1,013,106. Each unit consisted of one common share and one warrant, which enables the holder to purchase one common share of the Company for Cdn. $0.75. The warrants expire in December 1990 and February 1991. A further 25,000 common shares were issued as commission.

- Operations, which utilized net cash of $169,474.

- Decrease in accounts receivable of $37,264

- Decreases in prepaid expenses and deposits of $485,592, primarily as a result of the utilization of the deposit in escrow for exploration expenses as per the option agreement.

- Expenditures on mining properties of $767,186 including approximately $695,368 spent on the Quartz Mountain project in Oregon. This included the deposit of $500,000 and related interest earned on the deposit in escrow.

Based on the current status of the feasibility studies and exploration work being carried out by Pegasus, the Company does not expect to generate revenue from operations before 1993 at the earliest on the Quartz Mountain property and it is not known at this time if or when mining will commence. The Company does not have sufficient capital to fully explore, and if warranted, develop any of its mineral holdings. Although the Company has sufficient working capital to fund administrative costs and limited exploration work for the next twelve months, additional working capital will be required to fund any new acquisitions and any unanticipated exploration activities on existing properties. The mining industry is capital intensive and there can be no certainty that the Company's existing cash balances or the proceeds from any sale of the Company's common shares will provide sufficient funds for all of the Company's requirements. Should the need arise, the Company may pursue other financing options or rely on joint venture partners to supply some of the funds required to explore and develop its properties. There can be no assurance that the Company will be successful in obtaining the funds it may require for its programs or that the terms of any financing obtained will be favourable. At this time, the Company does not have any unused banking commitments or lines of credit which could provide sufficient increases in its working capital. The Company holds 100,000 shares of Galactic Resources Ltd., with a market value of $293,750 at July 31, 1990 which are available for resale. Currently, as part of the option agreement, Pegasus is making all lease payments on the Quartz Mountain property. If Pegasus does not exercise its option before July 1991 and does not extend their option period under the terms of the option agreement, then the Company will be responsible for lease payments on the property, after Galactic Resources Ltd. funds the first $500,000 of a work program on the property.

In July 1989 the Company acquired an option to reacquire Galactic's interest in the Quartz Mountain project and granted a simultaneous option to Pegasus to acquire this interest. In order to exercise this option, Pegasus subscribed for 595,450 of the common shares of the Registrant at a price of Cdn. $1.00 per share, must complete a minimum work program on the property involving the expenditure of $1,000,000 within two years, and must make the final $500,000 payment to Galactic on behalf of Quartz. The work program was funded to the extent of $500,000 by the end of July 1990 from the proceeds of the aforesaid private placement. If the option is exercised, funding of exploration and development cost will be shared equally between Pegasus and the Company with Pegasus providing loans to the Company through to production. The pre-production loan and production loan will be repaid, at the rate of the U.S. Prime Rate plus 2% per annum calculated and compounded monthly, from the delivery to Pegasus of 90% of the Company's share of the ore and minerals, precious and base, which may lawfully be explored for, mined and sold, from, on or under the Quartz Mountain property.

In July 1990 a joint venture option agreement was signed with Societe quebecoise d'exploration minere ("SOQUEM") of Sainte-Foy, Quebec on the Chibougamau property in Quebec. SOQUEM has an option to acquire an undivided 50% interest in the property. To earn an interest, SOQUEM must expend a cumulative Cdn. $300,000 in exploration and development work on the property on or before March 31, 1992 of which: i) Cdn. $150,000 is required on or before March 31, 1991, and ii) Cdn. $150,000 on or before March 31, 1992. The Company expended $30,267 on this property during the year.

The Company's primary focus continues to be the Quartz Mountain property in Oregon.

The Company continues to actively pursue property acquisitions.

The Company concentrated on decreasing its general and administrative expenses in 1990. The expenses decreased from $1,111,396 in 1989 to $770,504 in 1990, a decrease of $340,892. It is anticipated that office overhead will not change substantially in the next year unless there are significant changes such as a major property acquisition.

2. Results of Operations

The Company is in the exploration and development stage and has not earned any revenue from mining operations. It is not known at this time if or when revenue from mining operations will be generated. In prior years the Company followed the accounting practice of deferring all costs associated with the acquisition, exploration and administration of mining properties. During the year ended July 31, 1990, pursuant to the recommendations of a Canadian Institute of Chartered Accountants research study, the Company began charging all administrative expenses to operations as incurred, a method of accounting which is also in compliance with accounting principles generally accepted in the United States. In accordance with Canadian accounting practice, this charge has been accounted for retroactively and has been incorporated into the following discussion.

1990 compared to 1989:-

Significant factors contributing to the difference between the net loss for the year ended July 31, 1990 of $1,248,183 and the net loss of $1,933,857 for the year ended July 31, 1989 are:

- A reduction of net administrative expenses between 1990 and 1989 of $361,617. The principal reasons for this net reduction were an increase in interest income of $20,725, a decrease in accounting and legal expenses of $42,984, a decrease in office costs of $49,859, a decrease in salaries and benefits of $132,800, a decrease of $80,124 in shareholder information costs and a decrease of $39,508 in travel costs.

- In 1989, a write-down of the Company's investment in the common shares of Galactic Resources Ltd. and a loss on the sale of some of these shares for a total of $538,552, with no write-down on the remaining shares held in 1990.

- A write-off of $577,365, the Company's carrying costs of the Number Nine Property, on abandonment in 1989 of that property. (See Items 1 & 2 - "Business and Properties - Number Nine Property").

1989 compared to 1988:

Significant factors contributing to the difference between the net loss of $1,933,857 incurred during the year ended July 31, 1989 and the net loss of $2,009,363 incurred during the year ended July 31, 1988 were:

- A decrease in salaries and benefits of $233,455, a decrease in office costs of $109,564, a decrease in shareholder information costs of $131,808 and a decrease in travel costs of $105,512. The decreases were due to reduced use of public relations, consultants and increased head office control of expenditure.

- A decrease in interest revenue of $139,587 due to reduced working capital available for investment in short-term deposits during that period.

- An increase of $270,923 in the loss and decrease on the sale and write-down of marketable securities held by the Company.

- An increase of $66,323 in the write-off of deferred exploration costs on the abandonment of mining property interests.

Accounting Principles

The above discussion of results of operations is based on the Company's consolidated financial statements for the year ended July 31, 1990 included herein, which are prepared using accounting principles generally accepted in Canada. Note 10 of the Company's consolidated financial statements explains material differences between these principles and accounting principles generally accepted in the United States.

Inflation and Price Changes

As with most other companies in the mining industry, the Company may be adversely affected by inflationary pressures influencing both future costs and the price the Company will realize from the sale of future gold production.

Item 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Consolidated Financial Statements as at July 31, 1990 and the auditors' report to the shareholders are filed as part of this report.

Item 9 CHANGES IN REGISTRANTS CERTIFYING ACCOUNTANT

Not applicable

PART III

Item 10 DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages, principal occupations, other directorships, experience and periods of service of all directors and executive officers stated below.

Name	Age	Position with Registrant
David S. Jennings(1)	48	Director since August 1986 Chairman of the Board since January 1989 President and Chief Executive Officer since May 1988, Chief Financial Officer since March 1989
Harvey A. McDiarmid(1)	73	Director since June 1989
Charles J.G. Russell(1)	55	Director since December 1989
Kenneth G. Hanna	53	Director from September 1989 to December 1989 Director since June 1990 Secretary since February 1989
Shannon M. Ross	38	Vice-President, Corporate Affairs since February 1990

(1) Member of the Audit Committee

Directors are elected to serve until the next annual meeting of shareholders. Executive Officers are appointed by the Board of Directors to serve until terminated by the Board of Directors or until their successors are appointed.

David S. Jennings is a director of Cornucopia Resources Ltd. and Charles J.G. Russell is a director of Galactic Resources Ltd. companies with a class of securities registered pursuant to Section 12 of the U.S. Securities Exchange Act of 1934 or subject to the requirements of Section 15 (d) of such Act.

There are no family relationships between any director, executive officer or any nominee to be a director or executive officer.

On October 1, 1990, Mr. Gerald R. Wyman resigned from the Registrant's Board of Directors. Mr. Wyman was one of two representatives appointed to the Board of Directors by Galactic Resources Ltd., a major shareholder. Mr. Wyman resigned from Galactic Resources Ltd., and as a consequence, has resigned from the Registrant's Board of Directors. At this time, Galactic Resources Ltd. has not designated a second nominee to the Board of Directors. Galactic Resources Ltd. has the right to appoint two directors. (See Item 13 - "Certain Relationships and Related Transactions")

Business Experience

David S. Jennings has been President and Chief Executive Officer of the Company since June 1988. From November 1985 to May 1988 he was President and a Director of Aston Resources Ltd. (formerly Caledonia Resources Ltd.), and from June 1983 to May 1988 he was Vice President and a Director of Northern Dynasty Explorations Ltd. Dr. Jennings is currently a Director of Cornucopia Resources Ltd., Northern Dynasty Explorations Ltd., Pacific Comox Resources Ltd. and Athena Gold Corporation.

Harvey A. McDiarmid has been the Chairman and Director of Colonial Oil and Gas Limited since January 1981. From 1972 to December 1980 he was President and a Director for the same company. He has been a principal and a Director of Lougheed Developments Ltd. since 1976. He was a Director of Giant Mascot Mines Ltd. from 1966 to 1972.

Charles J.G. Russell has been a Senior Vice President and a Director of Galactic Resources Ltd. and President and Director of All North Resources Ltd. since 1987. Prior to that, he was involved in the mining industry for more than 30 years including serving as General Manager of Ashanti Goldfields in Ghana and General Manager of National Iron Ore Company in Liberia.

Kenneth G. Hanna, Secretary of the Company has been Associate Counsel at Russell & DuMoulin, Barristers & Solicitors since July 1, 1989. From January 2, 1988 to June 30, 1989 he was a Partner at Lyall McKercher and Hanna, Barristers & Solicitors and previously Partner at Hanna, Forth & Scott, Barristers & Solicitors. Mr. Hanna is a director of Altex Resources Ltd., Fairfield Minerals Ltd., Kingsvale Resources Ltd., and an officer of Regional Resources Ltd.

Shannon M. Ross has been Vice-President, Corporate Affairs of the Company since February 1990. From September 1988 to December 1989, she was Controller and Treasurer of Cornucopia Resources Ltd. From October 1987 to July 1988 she was Assistant Director of Finance, Corporation of the District of West Vancouver. From January 1985 to October 1987 she was Senior Internal Auditor and Supervisor, Internal Audit with Cominco Ltd.

Item 11. EXECUTIVE COMPENSATION

Cash Compensation

The following table shows the cash compensation paid to any executive officer whose cash compensation was $60,000 or more, and to all executive officers as a group, for services in all capacities to the Registrant and its subsidiaries during the year ended July 31, 1990.

CASH COMPENSATION TABLE

Name of individual or number in group	Capacities in which served	Cash compensation(1)
David S. Jennings	Chairman, President and Chief Executive Officer	Cdn. $ 84,000
All executive officers of the Registrant as a group (2 persons)		Cdn. $106,917

(1) Cash compensation does not include outstanding incentive stock options.

The aggregate value of all other non-cash compensation paid to executive officers of the Company as a group, or to any one of them during 1990 did not exceed 10% of the aggregate cash compensation paid to such executive officers as a group or to that officer, respectively.

Compensation of Directors

Directors of the Company do not receive any fee or other compensation for attending meetings of the Board of Directors. The Directors may however be reimbursed for actual expenses incurred in connection with attending such meetings. Directors are eligible to receive options to purchase common shares of the Registrant (See "Stock Incentive Plan").

Stock Incentive Plan

On December 10, 1987 the shareholders of the Registrant approved the adoption of a Stock Incentive Plan which was subsequently approved by the Vancouver and Toronto Stock Exchanges. At the January 31, 1989 annual general meeting, certain amendments to the Stock Incentive Plan were approved by the Shareholders. The Stock Incentive Plan consists of a Share Purchase Plan, a Share Option Plan and a Share Bonus Plan for directors, executive officers and employees of the Company. The purpose of the Stock Incentive Plan is to encourage equity participation in the Company by directors, executive officers and employees of the Company through acquisition of Common Shares.

Subject to certain limits stated in the Share Option Plan and the Share Bonus Plan, the number of Common Shares available or made available for the Share Purchase Plan, the Share Option Plan and the Share Bonus Plan, individually and collectively, will be determined from time to time by the Board of Directors but the aggregate maximum number of Common Shares which the Registrant may at any time reserve for issuance under the Stock Incentive Plan, as a whole, will not exceed 10% of the issued and outstanding Common Shares of the Registrant at such time.

The Stock Incentive Plan is administered by the Board of Directors of the Registrant. The Board of Directors has the right to amend, modify or terminate the Stock Incentive Plan, in whole or in part, at the time if and when it is advisable in the absolute discretion of the Board of Directors. However, any amendments of the Stock Incentive Plan which would materially modify the requirements as to eligibility for participation in any plan comprising the Stock Incentive Plan or would materially change the number or value of Common Shares that may be granted under the Share Option Plan will be effective only upon the approval of the shareholders of the Registrant, and any amendment to the Stock Incentive Plan will require any necessary approval of any regulatory body having jurisdiction over the securities of the Registrant.

It is presently contemplated that future stock options by the Registrant will be granted pursuant to the Share Option Plan. The Registrant does not have any immediate plans to implement the Share Purchase Plan.

(a) Share Purchase Plan

Participants in the Share Purchase Plan are to be full-time employees of the Company who have completed at least one year (or less, at the Option of the Board of Directors of the Registrant) of continuous service and who have been designated by the Board of Directors of the Registrant as participants in the Share Purchase Plan.

An employee may contribute up to 10 per cent of his annual basic salary to the Share Purchase Plan. The Company makes contributions based on a proportion of the employee's contribution on a quarterly basis. During the first year of the employee's participation, the Company's contribution will equal one-sixth of the participant's contribution and, thereafter, will increase to one-third of the participant's contribution.

At the end of each calendar quarter each participant will then be issued Common Shares of the Registrant having a value equal to the amount contributed to the date by the participant and the Company to the Share Purchase Plan. Common Shares issued to a participant will be held in safekeeping and delivered to the participant six months after issue.

If, prior to the delivery of such Common Shares, the participant's employment is terminated other than due to death, disability or normal retirement (in which cases the Common Shares will be delivered), such Common Shares will be purchased for cancellation or sold at market and the participant will receive, without interest, an amount equal in value to the lesser of (i) his contribution and (ii) a portion of the proceeds of any sale of such shares equal to six-sevenths of the proceeds if the shares were issued during the first year of participation, or three-quarters of the proceeds if the shares were issued thereafter. Any portion of a participant's contribution then held in trust for a participant will be returned to him or his estate, as the case may be, in the event of his termination of employment, for any reason.

(b) Share Option Plan

The Share Option Plan authorizes the grant of options to acquire up to 2,000,000 Common Shares of which 1,000,000 have been reserved for issuance, subject to adjustment in the event of a subdivision or consolidation of the Common Shares, a reorganization of the Registrant or certain other events affecting the Common Shares. Options granted pursuant to the Share Option Plan are to be either options intended to qualify under Section 422A of the United States Internal Revenue Code (the "Code") or options designated by the Registrant that do not so qualify.

Participants in the Share Option Plan may be directors of the Registrant or its subsidiaries, or full-time or part-time employees of the Company who, by the nature of their jobs, are, in the opinion of the Board of Directors of the Registrant, in a position to contribute to the success of the Company or who, by virtue of their length of service to the Company, are, in the opinion of the Board of Directors of the Registrant, worthy of special recognition.

In determining the number of optioned Common Shares that may be granted to each participant pursuant to an option, consideration is given to the participant's present and potential contribution to the success of the Company, the prevailing policies of the stock exchange on which the Common Shares are then listed, and the relevant provisions of the Code, if applicable. The date of grant, the number of Common Shares, the exercise price per Common Share and certain other terms of options are determined by the Board of Directors of the Registrant. The exercise price will not be less than the fair market value per Common Share on the date of grant, except as permitted by the rules and policies of the stock exchange on which the Common Shares are then listed in the case of options which are not intended to qualify as "incentive stock options" within the meaning of the Code. In order to ensure that the registrant will receive the benefits intended from the grant of options, no option is exercisable until it has vested. The vesting schedule for each option is specified by the Board of Directors at the time of grant of the option. A participant may be granted only one option at any one time, whether granted under or outside the Share Option Plan.

An option is exercisable for any period specified by the Board of Directors of the Registrant up to a maximum of five years after the date of grant. Any Common Shares not purchased pursuant to an option prior to this participant's termination of employment of directorship or death may be exercised, to the extent entitled, within 30 days after the termination of employment or directorship or within up to one year after death (as specified in his option agreement). An option is not transferable, except by will or the laws of descent and distribution.

(c) Share Bonus Plan

The Share Bonus Plan permits the Board of Directors of the Registrant to enter into agreements for the issuance of Common Shares of the Registrant to full-time or seasonal full-time employees of the Company who have rendered meritorious service which contributed to the success of the Company. The Board of Directors shall determine in its sole and absolute discretion to enter into agreements with such full-time or seasonal full-time employees, on any terms and conditions, subject to any provisions and restrictions, and for such cash consideration, if any, as the Board may determine for the issuance of any number of Common Shares to any such employee. No shares can be issued pursuant to the Share Bonus Plan unless the employee has entered into such an agreement with the Board of Directors.

The maximum number of Common Shares that may be issued under the Share Bonus Plan, in any calendar year, may not exceed 0.5% of the total number of the Common Shares of the Registrant issued and outstanding on December 31 of the immediately preceding calendar year. Up to 300,000 shares have been reserved for issuance under the Share Bonus Plan.

Stock Incentive Transactions during 1990

The following table sets out information for the year ended July 31, 1990 with respect to all stock options granted to: (i) all executive officers named under "Cash Compensation"; (ii) all of the then executive officers of the Registrant as a group; (iii) all of the then directors of the Registrant who were not executive officers as a group. All of the stock options were granted under the Share Option Plan. No stock options were exercised by directors or executive officers of the Registrant during the year ended July 31, 1990.

Year Ended July 31, 1990

Name of individual or Number in Group	Aggregate Amount of optioned Common Shares Granted	Average Per Share Exercise Price (Cdn. $)
Share Option Plan		
David S. Jennings All executive officers a group (2 persons)	-	-
Directors who were not executive officers as a group (3 persons)	-	-

Share Purchase Plan

During the year ended July 31, 1990, no executive officers or directors of the Registrant were participants in the Share Purchase Plan.

Share Bonus Plan

During the year ended July 31, 1990, no executive officers or directors of the registrant were participants in the Share Bonus Plan.

Pension and Retirement Benefits

No pension or retirement benefits have been instituted by the Registrant and none are proposed at this time.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

(a) Security Ownership of Certain Beneficial Owners

As of September 30, 1990 the following persons, known to the Company, its directors or officers, beneficially owned or exercised control or direction over, more than 5% of the outstanding Common Shares of the company:

Title of Class	Name and address of Beneficial Owner	Amount and nature of Beneficial Ownership	Percent of Class
Voting Common Shares	Galactic Resources Ltd. 935-355 Burrard St. Vancouver, B.C. V6C 2G8	4,891,000 (1)	17.97%
Voting Common Shares	North Lily Mining Company International Mahogany Corp. and Goldsil Resources Ltd. #2470-609 Granville St. Vancouver, B.C. V7Y 1G5	1,594,800 (2)	6.20%

(1) The information with respect to the beneficial ownership of shares by Galactic Resources Ltd. is based upon information contained in the amended statement on Schedule 13D dated December 12, 1989 filed with the U.S. Securities and Exchange Commission. The amount specified includes 1,500,000 shares issuable to Galactic Resources Ltd. upon the exercise of a warrant, which shares are considered to be beneficially owned pursuant to Rule 13d-3 adopted under the U.S. Securities Exchange Act of 1934. (See Item 13 - "Certain Relationships and Related Transactions").

(2) The information with respect to the beneficial ownership of shares by North Lily Mining Company, International Mahogany Corp. and Goldsil Resources Ltd. is based upon information contained in the amended statement on Schedule 13D dated March 8, 1989 filed with the U.S. Securities and Exchange Commission. North Lily Mining Company does not directly own any shares of the Company, however, it is the

controlling shareholder of both Goldsil Resources and International Mahogany Corp. Goldsil Resources Ltd. and International Mahogany Corp. own 709,300 shares and 885,500 shares of the Company, respectively.

(b) Security Ownership of Management

The following table shows, as of October 15, 1990, the number of voting Common Shares of the Company beneficially owned by (i) each director of the Company and (ii) all officers and directors of the Company as a group. The information with respect to beneficial ownership by each director or officer is based upon information furnished by that director or officer as of the date hereof.

Title of Class	Name of beneficial owner	Amount and nature of beneficial ownership	Percent of class
Voting Common Shares	David S. Jennings	256,500 (1)(2)	0.99%
Voting Common Shares	Harvey A. McDiarmid	15,000	0.04%
Voting Common Shares	Kenneth G. Hanna	NIL	N/A
Voting Common Shares	Charles J.G. Russell	4,891,000 (3)	17.97%
Voting Common Shares	All executive officers and directors as a group of (5 persons)	5,162,500 (1)(2)(3)	19.00%

(1) The information with respect to the beneficial ownership by each director or officer is based upon information furnished by that director or officer as of October 15, 1990.

(2) The amounts in the table include shares issuable upon the exercise of options which are to be considered beneficially owned pursuant to Rule 13d - 3 adopted under the U.S. Securities Exchange Act of 1934:

Name	Optioned Shares
David S. Jennings	200,000 shares
Other executive officers	Nil

(3) This includes 3,391,000 shares held by Galactic Resources Ltd. and 1,500,000 shares issuable to Galactic Resources Ltd. upon the exercise of a warrant to December 11, 1990.
expired, not exercised
Mr. Russell disclaims beneficial ownership of these shares.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company has entered into certain transactions with Galactic Resources Ltd. as described in Item 1(a) and 12(a)(1).

In December 1989 Galactic Resources Ltd. ("Galactic") completed a private placement of 1,500,000 units of the Registrant at a price of Cdn. $0.60 per unit, each unit being comprised of one Common Share and one share purchase Warrant exercisable for a one year period for one Common Share at Cdn. $0.60 per share. Galactic surrendered for cancellation its non-transferable warrant exercisable until September 1, 1991 to purchase 1,500,000 Common Shares of the Registrant at Cdn. $1.20 per share. In view of Galactic's significant investment in the Registrant, the Registrant agreed to release Galactic from the voting and standstill agreements of July 1989. The Registrant agreed that two nominees of Galactic would be appointed to a five-man Board of Directors and that the names of two nominees of Galactic would be included in a five-man slate proposed for election at the Registrant's annual general meeting of shareholders.

Kenneth C. Hanna, a Director of the Registrant, is associate counsel to Russell & DuMoulin, Barristers & Solicitors, the law firm that the Company presently retains.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents Financial Statements and Exhibits are filed as part of the Registrant's report on Form 10-K for the year ended July 31, 1990:

2. Financial Statement Schedules

   None

3. Exhibits

   The Exhibits set forth in the following index of Exhibits correspond to the numbers assigned to such exhibits in Item 601 of Regulation S-K. The exhibit numbers noted by an asterisk (*) indicate exhibits actually filed with the Annual Report on Form 10-K. All other exhibits are filed by incorporation by reference into this Annual Report on Form 10-K.

   3.1 Certificate of Incorporation and Memorandum, as amended, June 5, 1986 (incorporated by reference to Exhibit 3 to the Registrant's Registration Statement on Form 10, Commission File No. 0-15490).

3.2 Articles July 28, 1982, (incorporated by reference to Exhibit 3 to the Registrant's Registration Statement on Form 10, Commission File No. 0-15490)

4.1 Articles, July 28, 1982 (incorporated by reference to Exhibit 4 to the Registrant's Registration Statement on Form 10, Commission File No. 0-15490)

4.2 Non-Transferable Warrants dated December 4, 1989 and February 1, 1990 between the Company and the Warrant Holders (incorporated by reference to Exhibit 4.1 of the Form 10-Q for the quarters ended January 31, 1990 and April 30, 1990)

10.1 Letter Agreement dated June 4, 1987, between the Company and Galactic Resources Ltd. (the "Agreement"), as amended June 8, 1987 (incorporated by reference to Exhibit 10 (d) to the Registrant's Registration Statement on Form 10).

10.2 Amendments dated September 4, 1987, December 4, 1987, March 15, 1988, to the Agreement (incorporated by reference to Exhibit 10(b) to the Company's Report on Form 8-K dated March 15, 1988).

10.3 Quartz Mountain Gold Corp. Stock Incentive Plan, as amended, (incorporated by reference to Exhibit 4 to the Registrant's Form S-8 Registration Statement dated November 27, 1989, Commission File No. 33-32388).

10.4 Amendments to the Agreement dated May 25, 1988, June 3, 1988, July 8, 1988, and August 9, 1988, (incorporated by reference to Exhibit 10(d) to the Registrant's Annual Report on Form 10-K for the year ended July 31, 1988).

10.5 Option Agreements dated July 18, 1989 between the Company and Galactic Resources Ltd. and between the Company and Pegasus Gold Corporation (incorporated by reference to Exhibits 10(a) and (b) to the Company's Report on Form 8-K, dated August 4, 1989).

* 10.6 Agreement dated July 17, 1990 between societe quebecoise d'exploration miniere and Quartz Mountain Gold Corp.

10.7 Indemnity Agreement dated February 1989 between the Company and David S. Jennings (incorporated by reference to Exhibit 10(a) to the Registrant's Form S-8 Registration No. 33-32388).

10.8 Indemnity Agreement dated September 5, 1989 between the Company and Kenneth G. Hanna (incorporated by reference to Exhibit 10(c) to the Registrant's Form S-8 Registration No. 33-32388).

10.9 Indemnity Agreement dated June 26, 1989 between the Company and Harvey A. McDiarmid (incorporated by reference to Exhibit 10(d) to the Registrant's Form S-8 Registration No. 33-32388).

* 11.1 Statement regarding computation of per share earnings

* 22.1 Subsidiaries of the Registrant.

* 24.1 Consent of independent auditors of Registrant

(b) Reports on Form 8-K

1. Form 8-K dated November 18, 1989, Item 5: - Voluntary delisting of common shares from the Vancouver Stock Exchange.

2. Form 8-K dated February 27, 1990, Item 4: - Change in Registrant's Certifying Accountants from Deloitte & Touche to Peat Marwick Thorne.

(c) Exhibits

The exhibits listed in Item 14(a)(3) are attached to this Report.

(d) Financial Statement Schedules

Financial statement schedules are omitted because they are not applicable, not required, or because the required information is included in the consolidated financial statements or notes thereto, filed herein.

KPMG Peat Marwick Thorne

Chartered Accountants

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File Ref

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Quartz Mountain Gold Corp. as at July 31, 1990 and the consolidated statements of loss, deficit and cash flows for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at July 31, 1990 and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the changes in the method of accounting for administrative costs as explained in Note 3 to the consolidated financial statements, on a consistent basis.

The consolidated financial statements as at July 31, 1989 and for the two years then ended were examined by other auditors who expressed an opinion without reservation on those statements in their report dated September 6, 1989.

Peat Marwick Thorne

Chartered Accountants
Vancouver, Canada

September 11, 1990

KPMG Peat Marwick Thorne

Chartered Accountants

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File Ref.

COMMENTS BY AUDITORS FOR UNITED STATES READERS ON DIFFERENCES BETWEEN REPORTING STANDARDS IN CANADA AND THE UNITED STATES

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by significant uncertainties such as those described in Note 2 of these consolidated financial statements. Our report to the shareholders dated September 11, 1990 is expressed in accordance with Canadian reporting standards which do not permit a reference to such uncertainties in the auditors' report when the uncertainties are adequately disclosed in the financial statements.

Peat Marwick Thorne

Chartered Accountants
Vancouver, Canada

September 11, 1990

QUARTZ MOUNTAIN GOLD CORP.
(a development stage company)
CONSOLIDATED BALANCE SHEETS
(Stated in U.S. Dollars)

ASSETS

	Note	July 31 1990	July 31 1989
CURRENT ASSETS			
Cash and cash equivalents		$ 479,519	$ 812,894
Marketable securities	4	266,910	266,910
Accounts receivable		15,001	52,265
Prepaid expenses and deposits	5	34,453	520,045
		795,883	1,652,114
INTERESTS IN MINING PROPERTIES AND DEFERRED COSTS	6	12,575,154	12,385,333
RECLAMATION BONDS	7	378,454	6,164
FIXED ASSETS	8	69,635	109,555
		$13,819,126	$14,153,166

See accompanying notes to financial statements

Approved by the Board:

....
Director

....
Director

QUARTZ MOUNTAIN GOLD CORP.
(a development stage company)
CONSOLIDATED BALANCE SHEETS
(Stated in U.S. Dollars)

LIABILITIES

	Note	July 31 1990	July 31 1989
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		$ 226,284	$ 325,247

SHAREHOLDERS' EQUITY

	Note	July 31 1990	July 31 1989
SHARE CAPITAL	9		
Authorized:-			
60,000,000 common shares of no par value			
Issued and fully paid:-			
25,710,603 common shares (July 31, 1989 - 23,685,603 common shares)		20,111,461	19,098,355
DEFICIT ACCUMULATED DURING DEVELOPMENT STAGE	3	(6,518,619)	(5,270,436)
		13,592,842	13,827,919
		$13,819,126	$14,153,166

QUARTZ MOUNTAIN GOLD CORP.
(a development stage company)
CONSOLIDATED STATEMENTS OF LOSS
(Stated in U.S. Dollars)

	YEARS ENDED			
	July 31 1990	July 31 1989	July 31 1988	Incorporation to July 31 1990
		(Restated)	(Restated)	(Restated)
REVENUE				
Interest income	$ 134,614	$ 113,889	$ 253,476	$ 728,382
EXPENSES				
Accounting and legal	200,241	243,225	261,180	959,812
Consulting and management fees	27,313	31,180	72,611	330,015
Depreciation	40,441	42,189	39,905	150,178
Office and other costs	142,192	194,133	303,697	943,733
Salaries and benefits	171,359	304,159	537,614	1,135,630
Shareholder information	120,979	201,103	332,911	849,669
Statutory compliance and transfer agency fees	30,815	28,080	53,101	173,149
Travel	30,657	70,165	175,677	440,198
Exchange (gain) losses	4,425	(2,838)	(103,839)	(116,445)
Abandonment of mining property interests	129,500	-	-	244,962
Loss on sale and abandonment of fixed assets	2,827	9,098	(24)	27,666
Write-off of deferred exploration costs on abandonment of mining property interests	482,048	388,700	322,377	1,431,886
	1,382,797	1,509,194	1,995,210	6,570,453
LOSS BEFORE OTHER ITEMS	1,248,183	1,395,305	1,741,734	5,842,071
Loss (gain) on sale of marketable securities	-	111,698	-	(32,673)
Decrease in market value of securities	-	426,854	267,629	709,221
NET LOSS FOR THE PERIOD	1,248,183	1,933,857	2,009,363	6,518,619
LOSS PER SHARE	$ 0.05	$ 0.09	$ 0.10	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	24,948,103	21,677,463	21,171,552	

See accompanying notes to financial statements

QUARTZ MOUNTAIN GOLD CORP.
(a development stage company)
CONSOLIDATED STATEMENTS OF DEFICIT
(Stated in U.S. Dollars)

	YEARS ENDED			
	July 31 1990	July 31 1989	July 31 1988	Incorporation to July 31 1990
DEFICIT, BEGINNING OF PERIOD	$1,943,357	1,007,007	417,025	-
RESTATEMENT: ADMINISTRATIVE EXPENSE OF PRIOR YEARS	3,327,079	2,329,572	910,191	-
RESTATED DEFICIT BEGINNING OF PERIOD	5,270,346	3,336,579	1,327,216	-
NET LOSS FOR THE PERIOD	1,248,183	1,933,857	2,009,363	6,518,619
DEFICIT, END OF PERIOD	$6,518,619	$5,270,436	$3,336,579	$6,518,619

See accompanying notes to financial statements

QUARTZ MOUNTAIN GOLD CORP.
(a development stage company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Stated in U.S. Dollars)

	YEARS ENDED			
	July 31 1990	July 31 1989 (Restated)	July 31 1988 (Restated)	Incorporation to July 31 1990 (Restated)
OPERATING ACTIVITIES				
Operations				
Net loss for the period	$(1,248,183)	$(1,933,857)	$(2,009,363)	$(6,518,619)
Items not affecting cash flow				
Write-down of investments, accounts receivable and fixed assets	2,827	547,650	267,605	820,421
Abandonment and write-off of mining property interests and deferred costs	611,548	388,700	322,377	1,676,848
Depreciation	40,441	42,189	39,905	150,178
Change in other operating items				
Accounts receivable	37,264	53,661	374,863	(15,001)
Prepaid expenses and deposits	485,592	(282,215)	(146,516)	(34,453)
Accounts payable and accrued liabilities	(98,963)	52,269	(346,592)	226,284
Cash (used for) operating activities	(169,474)	(1,131,603)	(1,497,721)	(3,694,342)
INVESTING ACTIVITIES				
Investments	-	-	(1,542,596)	(1,705,932)
Proceeds on sale of marketable securities	-	486,454	-	762,474
Interest in mining properties	(15,000)	(1,050,449)	(333,958)	(7,498,519)
Deferred costs, net of recoveries	(786,369)	(1,472,682)	(3,183,487)	(8,497,883)
Mining property option proceeds	-	-	1,542,596	1,542,596
Fixed assets	(3,348)	11,475	(62,008)	(161,882)
Reclamation bonds	(372,290)	508,430	(226,288)	(378,454)
Cash (used for) investing activities	(1,177,007)	(1,516,772)	(3,805,741)	(15,937,600)
FINANCING ACTIVITIES				
Issue of common shares				
- for cash	1,013,106	500,000	4,266,383	16,680,489
- for other consideration	-	750,000	-	3,430,972
Cash provided by financing activities	1,013,106	1,250,000	4,266,383	20,111,461
INCREASE (DECREASE) IN CASH	(333,375)	(1,398,375)	(1,037,079)	479,519
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	812,894	2,211,269	3,248,348	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 479,519	$ 812,894	$ 2,211,269	$ 479,519

See accompanying notes to financial statements

QUARTZ MOUNTAIN GOLD CORP.
(a development stage company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Stated in U.S. Dollars)

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, which conform in all material respects with accounting principles generally accepted in the United States of America, except as explained in Note 10 and reflect the following policies:-

(a) Principles of Consolidation - The consolidated financial statements include the accounts of Quartz Mountain Gold Corp., a company incorporated on August 3, 1982 under the Company Act of British Columbia and its wholly-owned subsidiary Diamond Head Mines Ltd., a company incorporated in British Columbia, Quartz Mountain Gold Inc., a wholly-owned subsidiary incorporated in the State of Nevada, and the latter company's wholly-owned subsidiaries, Wavecrest Resources Inc., a company incorporated in the State of Delaware, QZM Inc., a company incorporated in the State of California and Quartz Mountain Gold Exploration, a company incorporated in the State of Nevada (collectively referred to as the "Company").

The Company's operations are in the mining industry and are conducted primarily in the United States.

(b) Marketable Securities - Marketable securities are recorded at the lower of cost and fair market value on the balance sheet date.

(c) Interests in Mining Properties and Deferred Costs - The Company is in the process of exploring and developing its mining properties. Accordingly, property acquisition costs, exploration and development costs are deferred until the property to which they relate is placed into production, sold, or abandoned. These deferred costs will be amortized on the unit-of-production method following commencement of production or written off if the property is sold, abandoned or where there is an impairment in value. Proceeds received on options for mining properties are credited against exploration and development costs of the related mining properties.

(d) Fixed Assets - Fixed assets are recorded at cost and are depreciated over their estimated useful lives on a straight line basis over five years.

(e) Translation of Foreign Currencies - Monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities at the rate in effect at the time of acquisition or issue. Items in the consolidated statements of loss and deficit are translated at rates approximating exchange rates in effect at the time of the transactions. Gains or losses arising on currency translation are included in operations.

(f) Options - Where the Company enters into agreements for the acquisition of interests in mining properties which provide for periodic payments, such amounts unpaid are not recorded as a liability since they are payable entirely at the Company's discretion. Such payments, when made, are recorded as a cost of the property to which they relate. If unpaid, such non-payment will result in the write-off of the related investment in mining properties.

(g) Share Capital - Shares issued for other than cash consideration are valued at the quoted price on The Toronto Stock Exchange on the date agreement to issue the shares was reached.

(h) Loss per Share - The loss per share is computed on the basis of the weighted average number of shares outstanding during the year. Fully diluted loss per share is not presented as it is anti-dilutive.

(i) Cash and Cash Equivalents - For the purpose of these financial statements, the Company considers all liquid investments with original maturities of three months or less to be cash equivalents.

2. OPERATIONS

The Company is in the development stage and has not, as yet, achieved commercial production. The recoverability of the amounts shown for interests in mining properties and deferred costs is dependent upon the quantity of economically recoverable reserves, on the ability of the Company to obtain financing to complete development of the properties, and on future profitable operations or proceeds from the disposition thereof.

3. CHANGE IN ACCOUNTING POLICY

During the year ended July 31, 1990, and pursuant to the recommendations of a research study issued by the Canadian Institute of Chartered Accountants, the Company commenced charging all administrative costs, net of interest income, to operations as incurred. In prior years, the Company had capitalized these net costs as part of mining properties and deferred costs. The change was applied retroactively with the result that the net loss for the years ended July 31, 1989, July 31, 1988 and prior years has increased by $997,507, $1,419,381 and $910,191 respectively, deferred costs have decreased and deficit has increased at those dates by $3,327,079, $2,329,572, and $910,191 respectively. The net loss and deficit for the year ended July 31, 1990 have increased by $633,808 and $3,960,887, respectively, as a result of this change.

QUARTZ MOUNTAIN GOLD CORP.
(a development stage company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)
(Stated in U.S. Dollars)

4. MARKETABLE SECURITIES

Marketable securities include 100,000 common shares of Galactic Resources Ltd. ("Galactic") valued at $266,836. The fair market value of these shares at July 31, 1990 was $293,750.

5. PREPAID EXPENSES AND DEPOSITS

A deposit of $500,000 held in escrow at July 31, 1989 and related interest was withdrawn by Pegasus Gold Corporation ("Pegasus") and applied to exploration costs of $542,907 which had been completed on the Quartz Mountain property at July 31, 1990 as part of the option agreement of July 13, 1989 (See Note 6 (a) (ii)).

6. INTERESTS IN MINING PROPERTIES AND DEFERRED COSTS

	July 31, 1990				July 31, 1989
	Acquisition Costs	Deferred Exploration and Development Costs	Option Proceeds	Total	Total
Mining properties					
Quartz Mountain(a)	$6,618,523	$7,304,302	$(1,542,596)	$12,380,229	$11,684,861
Chibougamau (b)	101,497	34,913	-	136,410	106,143
Shewag/Tincup	15,000	33,522	-	48,522	-
Denis	8,537	-	-	8,537	8,537
Regional Exploration	-	1,456	-	1,456	8,427
Hornitos	-	-	-	-	577,365
	$6,743,557	$7,374,193	$(1,542,596)	$12,575,154	$12,385,333

(a) (i) The Company has a 100% interest in the Quartz Mountain property. In 1987 the Company granted an option for 50% of the Company to Galactic, a major shareholder. In 1989, as part of the agreement with Pegasus the Company acquired an option to pay $5,000,000 for the rights of Galactic to earn a 50% interest in the Quartz Mountain property. To acquire the option the Company paid Galactic $1,000,000 in cash and issued 1,500,000 common shares and a warrant expiring September 1, 1991 to purchase a further 1,500,000 common shares of the Company at Cdn. $1.20 per share. In connection with the private placement in December 1989 the warrant was cancelled and new warrants were issued at Cdn. $0.75 per share, expiring in December 1990. See Note 9.

QUARTZ MOUNTAIN GOLD CORP.
(a development stage company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)
(Stated in U.S. Dollars)

(ii) In a parallel agreement the Company granted Pegasus an option to earn a 50% interest in the Quartz Mountain property for $5,000,000. To acquire this option Pegasus paid the Company $1,000,000 in cash and subscribed for 595,450 common shares of the Company for total proceeds of $500,000.

(iii) Both options mentioned in (i) and (ii) above expire on July 18, 1991, unless extended for two years by annual cash payments of $500,000 and $500,000 in annual property expenditures. If the option is exercised the annual cash payments will be applied to the final option payment of $5,000,000.

(b) The Company granted an option to an arms length third party to earn a 50% interest in the Chibougamau property, which expires March 31, 1992. The option may be exercised through annual property expenditures of $150,000 on the Chibougamau property on or before March 31, 1991 and 1992.

7. RECLAMATION BONDS

As at July 31, 1990, in accordance with the United States Department of Agriculture, Forest Services the Company has bonding requirements of $378,454 (1989 - $514,594) in respect of projects in Lake County, Oregon and Lemhi County, Idaho.

As at July 31, 1990 the Company has satisfied these requirements by assigning bank accounts totalling $378,454. At July 31, 1989 the Company had satisfied the requirements by way of a letter of credit totaling $508,430 together with an assignment of bank accounts of $6,164.

As Galactic advanced one half of the reclamation bonds for Lake County, Oregon, they will receive one half of the amount assigned, $188,300 (1989 - $257,000), when the assignment is not required or if Pegasus exercises their option.

8. FIXED ASSETS

	July 31, 1990			July 31, 1989
	Costs	Accumulated Depreciation	Net Book Value	Net Book Value
Fixed assets	$202,210	$132,575	$ 69,635	$ 109,555

Depreciation expense for the year ended July 31, 1990 is $40,441 (1989 - $42,189).

QUARTZ MOUNTAIN GOLD CORP.
(a development stage company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
(Stated in U.S. Dollars)

9. SHARE CAPITAL

	Number of Shares	Average Price Per Share ($)	Amount
1983			
May			
- Issued for cash	1,800,003	0.059	$ 105,794
- Issued for interest in mining property	2,250,000	0.003	6,104
Balance, July 31, 1983	4,050,003		111,898
September			
- Options exercised - cash	202,500	0.081	16,431
October			
- Options exercised - cash	202,500	0.081	16,438
1984			
March			
- Issued for interest in mining property and equipment	225,000	0.262	59,055
April			
- Issued for interest in mining property	75,000	0.261	19,540
May			
- Issued for cash	900,000	0.124	111,257
Balance, July 31, 1984	5,655,003		334,619
August			
- Issued for cash	300,000	0.281	84,395
September			
- Issued for cash	537,000	0.279	149,814
1985			
April			
- Warrants exercised - cash	900,000	0.142	127,482
May			
- Issued for cash	300,000	0.298	89,409
- Options exercised - cash	90,000	0.291	26,168
June			
- Options exercised - cash	75,000	0.293	21,941
July			
- Issued for cash	1,050,000	0.431	452,899
Balance, July 31, 1985	8,907,003		1,286,727

QUARTZ MOUNTAIN GOLD CORP.
(a development stage company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
(Stated in U.S. Dollars)

9. SHARE CAPITAL Cont'd.

	Number of Shares	Average Price Per Share ($)	Amount
August			
- Options exercised - cash	90,000	0.295	26,523
- Warrants exercised - cash	300,000	0.332	99,462
September			
- Warrants exercised - cash	450,000	0.328	147,789
1986			
January			
- Warrants exercised - cash	1,050,000	0.474	497,689
April			
- Options exercised - cash	360,000	0.288	103,784
- Warrants exercised - cash	300,000	0.355	106,667
May			
- Issued for cash issue costs ($143,551)	3,000,000	0.959	2,734,768
July			
- Issued for interest in mining property	750,000	2.715	2,036,273
- Options exercised - cash	85,000	1.268	107,758
- Issued for cash issue costs ($68,519)	750,000	1.687	1,196,615
Balance, July 31, 1986	16,042,003		8,344,055
August			
- Options exercised - cash	20,000	1.260	25,196
October			
- Options exercised - cash	5,000	1.261	6,303
November			
- Warrants exercised - cash	37,500	1.022	38,327
1987			
February			
- Warrants exercised - cash	285,000	1.062	302,684
March			
- Warrants exercised - cash	315,000	1.074	338,273
- Options exercised - cash	60,000	1.327	79,594
- Warrants exercised - cash	30,000	1.834	55,026
April			
- Warrants exercised - cash	150,000	1.066	159,898
May			
- Warrants exercised - cash	2,212,500	1.056	2,335,768
- Options exercised - cash	10,000	1.305	13,052

QUARTZ MOUNTAIN GOLD CORP.
(a development stage company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
(Stated in U.S. Dollars)

9. SHARE CAPITAL Cont'd.

	Number of Shares	Average Price Per Share ($)	Amount
June			
- Options exercised - cash	3,750	1.531	5,741
July			
- Warrants exercised - cash	720,000	1.750	1,314,189
- Options exercised - cash	2,500	1.546	3,866
Balance, July 31, 1987	19,893,253		13,021,972
August			
- Options exercised - cash	45,000	0.302	13,578
September			
- Options exercised - cash	17,500	2.998	52,470
October			
- Warrants exercised - cash	9,400	3.497	32,876
- Issued on conversion of promissory note	600,000	0.933	560,000
- Issued for cash issue costs ($214,777)	1,000,000	4.315	4,099,988
November			
- Warrants exercised - cash	10,000	3,479	34,794
December			
- Issued for cash	15,000	2.178	32,677
Balance, July 31, 1988	21,590,153		17,848,355
1989			
July			
- Issued for cash - private placement	595,450	0.840	500,000
- Issued for option on interest in mining property	1,500,000	0.500	750,000
Balance, July 31, 1989	23,685,603		19,098,355
December			
- Issued for cash issue costs ($8,470)	1,500,000	0.510	765,125
1990			
February			
- Issued for cash and commission	525,000	0.472	247,981

QUARTZ MOUNTAIN GOLD CORP.
(a development stage company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
(Stated in U.S. Dollars)

9. SHARE CAPITAL Cont'd.

	Number of Shares	Average Price per Share ($)	Amount
Balance, July 31, 1990	25,710,603		$20,111,461

(a) The Company has granted options to certain of its employees and directors to buy 215,000 shares at prices between Cdn. $1.15 and Cdn. $2.05 per share, with expiration dates between December 17, 1991 and October 18, 1993, pursuant to the Share Option Plan.

(b) Warrants to purchase 2,000,000 shares at Cdn. $0.75 per share, 1,500,000 expiring December 1990 and 500,000 expiring February 1991, were outstanding at July 31, 1990.

(c) The Company has a Stock Incentive Plan which was adopted in October 1987. The Plan consists of a Share Option Plan, a Share Bonus Plan, and a Share Purchase Plan, the terms of which, as amended, are described below.

Under the Share Option Plan, participants, who are to be directors and employees of the Company and who, in the opinion of the Board of Directors, are in a position to contribute to the Company's success or are worthy of special recognition, may be granted options to purchase common shares of the Company at a price per share not less than the fair market value of the shares on the date of the grant of the option. No option is exercisable until it has vested according to a vesting schedule specified by the Board of Directors at the time of the grant of the option. An option is exercisable for any period specified by the Board of Directors up to a maximum of ten years after the date of grant. The plan authorizes the grant of options to acquire up to 2,000,000 common shares, of which 1,000,000 have been reserved for issuance.

Under the Share Bonus Plan the Board of Directors may issue common shares to full-time employees in respect of meritorious service. The maximum number of shares that may be issued under the plan in any calendar year may not exceed, in the aggregate, 0.5% of the total number of shares that were issued and outstanding at the end of the preceding calendar year. Up to 300,000 shares have been reserved for issuance under the Share Bonus Plan.

Under the Share Purchase Plan, participants, who are to be full-time employees and have one year of continuous service, may contribute up to 10% of their annual basic salary to the plan for the purpose of purchasing common shares of the Company. The Company will contribute an amount equal to one-sixth of the participant's contribution during the first year of participation and one-third in subsequent years. At the end of each calendar quarter participants are issued common shares based on the contributions made to date, with delivery of the shares to the participants six months after issue.

(Stated in U.S. Dollars)

10. DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN CANADA AND THE UNITED STATES

Generally accepted accounting principles ("GAAP") used in the United States of America require that non-cash investing and financing activities be excluded from the Consolidated Statements of Cash Flows, whereas Canadian GAAP require that those activities be included in the Consolidated Statements of Cash Flows. Had the statements been prepared in accordance with United States GAAP the following transactions would have been excluded:-

	July 31 1990	July 31 1989	July 31 1988	Incorporation to July 31 1990
Investing Activities				
Additions to marketable securities	$ -	$ -	$(1,542,596)	(1,542,596)
Interests in mining properties and equipment	-	(750,000)	-	(2,870,972)
Option proceeds	-	-	1,542,596	1,542,596
Financing Activities				
Issue of common shares for other consideration	-	750,000	-	3,430,972

11. INCOME TAX LOSSES CARRIED FORWARD

The Company has estimated income tax losses available for application against future years' taxable income of approximately $8,400,000 in the United States and Cdn. $65,000 in Canada which, if unused, will predominantly expire after 2003 and 1995 respectively. The potential benefits accruing from these losses have not been recorded in these financial statements.

The Company has an accounting loss carry forward of approximately $6,500,000. The difference between the accounting and tax losses carried forward result primarily from capitalizing certain items for accounting purposes and deducting them for income tax purposes.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

QUARTZ MOUNTAIN GOLD CORP.
(Registrant)

DATE October 26, 1990

By: /s/ David S. Jennings
David S. Jennings
Chairman, President and Chief Executive Officer, (principal financial and accounting officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

DATE October 26, 1990

/s/David S. Jennings
David S. Jennings,
President and Chief Executive Officer (principal financial and accounting officer)

DATE October 26, 1990

/s/ Harvey A. McDiarmid
Harvey A. McDiarmid, Director

DATE October 26, 1990

/s/ Kenneth G. Hanna
Kenneth G. Hanna, Director

DATE October 26, 1990

/s/ Charles J.G. Russell
Charles J.G. Russell, Director

QUARTZ MOUNTAIN GOLD CORP.

Suite 950 - 789 West Pender Street, Vancouver, B.C. V6C 1H2 • (604) 662-7557 • Telecopy: (604) 662-8956 • Telex: 04-507887

Mr. Douglas R. MacQuarrie
Chairman
Pacific Comox Resources Ltd.
Suite 704
850 W. Hastings Street
Vancouver, B.C.
V6C 1E1

November 9, 1990

Dear Doug:

In a continuing attempt to conclude terms of an option agreement between our two companies whereby Quartz Mountain Gold Corp. ("Quartz") may earn a fifty percent (50%) working interest in Pacific Comox's ("Comox") Tay/LP property ("the Property"), we submit the following amended proposal for your consideration. All references to dollars ($) are Canadian dollars.

Terms and Conditions:

1) Quartz to obtain an exclusive option to earn a fifty percent (50%) working interest in the Property by making a $25,000 option payment to Comox on signing this letter agreement. This payment is non-refundable.

2) Quartz to expend a further $550,000 in exploration work on the Property by December 31, 1991 to earn an undivided fifty percent (50%) property interest subject only to the terms and conditions of that certain agreement dated January 13, 1989 between Comox and Cominco Ltd. ("the Cominco Agreement").

   i) No property interest will be earned by Quartz unless the entire $550,000 is expended.

   ii) The project is to be managed by a Management Committee made up of two representatives from each of Quartz and Comox.

      - During the Quartz earn-in period, Quartz will have the casting vote on the Management Committee;

      - Upon vesting of the Quartz 50 % interest, all decisions of the Management Committee will be by majority vote; tie votes will be resolved by the binding decision of an independent arbitrator.

   iii) Property work programs as determined by the Management Committee are to be implemented by Quartz and Comox personnel or consultants and contractors as required; all applicable fees are to be competitive, industry standard rates.

iv) All results of work programs will be released to Quartz and Comox synchronously.

3) Matters pertaining to Cominco and the Cominco Agreement:

i) Quartz to be named as a party to the Joint Venture Agreement contemplated by the Cominco Agreement subject to the provisions of this letter agreement.

ii) Quartz to be named as Operator for the project subject to the provisions of the Cominco Agreement.

iii) Approval of the Quartz/Comox option agreement by Cominco pursuant to Section 10 of the Cominco Agreement is required before the aforesaid option agreement may proceed. Upon vesting of the Quartz project interest, items 3i) and 3ii) will be included in the Cominco Agreement.

4) Matters pertaining to Quartz and Comox:

i) Comox will sell, at cost, to Quartz one half of the underlying Vendor Net Smelter Return royalty interest in the event the vendor buy out option is exercised by Comox. Quartz will be given the opportunity to exercise the buy out option in the event Comox is not willing to do so.

ii) Quartz and Comox to vote their combined project interests as a block in all matters related to Cominco until Cominco exercises its back-in right.

iii) D.S. Jennings verifies that he intends to remain in his current capacity with Quartz for the foreseeable future and has no outstanding offers of employment, or is seeking alternative employment, or is subject to any dismissal action by Quartz.

iv) Quartz will have right of first refusal on all new financings by Comox after January 15, 1991:

- Comox will notify Quartz of the terms of any public or private debt or equity financing that it requires or proposes to obtain and Quartz will have the right of first refusal to provide any such financing.

- The right of first refusal must be exercised by Quartz within 21 days following the receipt of the notice by notifying Comox that it will provide such financing on the terms set out in the notice.

- If Quartz fails to give notice within 21 days that it will provide such financing upon the terms set out in the notice, Comox will then be free to make other arrangements to obtain financing from another source on the same terms or on terms no less favourable to Comox, subject to obtaining the acceptance of the Regulatory Authorities. In the case of a rights offering, Quartz will retain the right to become guarantor with maximum privileges allowable within regulatory guidelines.

- The right of first refusal will not terminate if, on receipt of any notice from Comox under this Section, Quartz fails to exercise the right.

5) The vendor buy-out price of $1,000,000 must be reduced to $500,000 or this offer may be terminated at the discretion of Quartz.

We believe this offer inures to the best interests of both companies and sincerely hope you concur. In particular the offer provides sustaining capital for Comox, a work commitment more than twice the Comox sunk costs to date in a short time frame and most importantly a focus for renewed interest in Comox --- all in a very difficult market! Please acknowledge your agreement to the above terms and conditions by signing in the space provided below.

This offer is open for acceptance until 4:00 p.m., Friday November 16, 1990.

Quartz Mountain Gold Corp.

By: ______________________
D. S. Jennings
Chairman, President & C.E.O.

Agreed to and accepted by:

Pacific Comox Resources Ltd.

By: ______________________ Nov. 15, 1990
Douglas R. MacQuarrie Date
Chairman

QUARTZ MOUNTAIN GOLD CORP.

Suite 950 - 789 West Pender Street
Vancouver, B.C. V6C 1H2

pacific
comox

Pacific Comox Resources Ltd.
704-850 West Hastings St., Vancouver, B.C. V6C 1E1

FOR IMMEDIATE RELEASE: November 16, 1990

QUARTZ MOUNTAIN GOLD CORP.
CONTACT: Shannon M. Ross
(604) 662-7557

PACIFIC COMOX RESOURCES LTD.
CONTACT: Douglas R. MacQuarrie
(604) 684-5852

MAJOR DRILLING PROGRAM FOR TAY-LP

PACIFIC COMOX RESOURCES LTD. and QUARTZ MOUNTAIN GOLD CORP. announce the signing of an option agreement whereby QUARTZ MOUNTAIN may earn a 50% interest in COMOX'S TAY-LP property, Watson Lake Mining District, Yukon Territory. The 10,000 acre property is located 90 miles (150 km.) northeast of Whitehorse with excellent road access. The agreement calls for QUARTZ MOUNTAIN to make a $25,000 non-refundable option payment and expend $550,000 by December 31, 1991 to earn its interest. QUARTZ MOUNTAIN will be operator and will have the right of first refusal on all financings by PACIFIC COMOX after January 15, 1991. Cominco Ltd. retains an option to purchase a 30% working interest in the project on completion of a positive feasibility study by QUARTZ MOUNTAIN and PACIFIC COMOX.

Exploration to date has substantiated the enormous size and world class deposit potential of the TAY-LP gold mineralizing system. This system will be extensively drill tested during the 1991 field season.

The PACIFIC COMOX/QUARTZ MOUNTAIN agreement is subject to approval by regulatory authorities.

Quartz Mountain Gold Corp. trades on the U.S. NASDAQ System (QZMGF) and is listed on The Toronto Stock Exchange (QZM).

Pacific Comox Resources Ltd. is listed on the Vancouver Stock Exchange (PCM).

D.S. Jennings

David S. Jennings
President, Chief Executive Officer
QUARTZ MOUNTAIN GOLD CORP.

Douglas R. MacQuarrie
Chairman, Chief Executive Officer
PACIFIC COMOX RESOURCES LTD.

Copy of Application for Corporate Registration in Yukon.

QUARTZ MOUNTAIN GOLD CORP.

Suite 950 - 789 West Pender Street, Vancouver, B.C. V6C 1H2 • (604) 662-7557 • Telecopy: (604) 662-8956 • Telex· 04-507887

February 5, 1991

Anton, Campion, MacDonald & Phillips
Suite 200 - 204 Lambert Street
Whitehorse, Yukon
Y1A 3T2

Attention: Susan Alcott

Dear Ms. Alcott:

Re: Quartz Mountain Gold Corp.

Further to our telephone conversation last week relating to the Yukon Business Corporation Act requirements for Extra Territorial Corporations and our need for a notice of attorney for service we are enclosing the following:

1) Two copies of Form 11-01 Statement of Registration
2) Two copies of Form 11-02 Notice of Attorney for Service
3) Two copies of Form 1-03 Notice of Directors and Officers
4) Certified true copies of the Corporation's original incorporating documents
5) A cheque for $218.73 payable to the Yukon Justice - $200.00 for the Registration fee and $18.73 for the publication of the Yukon Gazette notice (including GST)

Our corporate secretary is Mr. Kenneth G. Hanna of Russell & DuMoulin, 1700 - 1075 West Georgia Street, Vancouver, B.C., V6E 3G2.

The company's shareholders have approved a name change and a one for five stock consolidation, but this has not yet been approved by the Toronto Stock Exchange. If the regulatory approvals are received for the consolidation the company will be known as Western Hunter Minerals Ltd.

We are applying for an exploration grant and must be registered before our application will be considered.

Thank you.

Yours truly,

QUARTZ MOUNTAIN GOLD CORP.

SRoss

Shannon M. Ross
Vice President, Corporate Affairs

SMR/ss
Enclosures

Yukon
Justice

YUKON BUSINESS CORPORATIONS ACT
EXTRA-TERRITORIAL CORPORATIONS
(Section 278)

Form 11-01

STATEMENT OF REGISTRATION

1. Name of Corporation:

QUARTZ MOUNTAIN GOLD CORP.

2. Date of Incorporation / Amalgamation / Continuation

YY	MM	DD
82	08	03

3. Jurisdiction of Incorporation, Amalgamation or Continuation:

BRITISH COLUMBIA

4. Registered office address inside or outside the Yukon:

1700 - 1075 WEST GEORGIA STREET
VANCOUVER, B.C. V6E 3G2

5. Principal business of corporation.

MINERAL EXPLORATION and DEVELOPMENT

6. Was this corporation ever incorporated or previously registered in the Yukon? No
If yes, under what name was it incorporated or registered?

Corporate Name:

7. Is this corporation valid and subsisting in its home jurisdiction?

Yes [X] No [ ]

8. Date	Signature	Title
FEBRUARY 1, 1991		VICE PRESIDENT, CORPORATE AFFAIRS

YG(3048Q)F1 REV 06/89

Yukon
Justice

YUKON BUSINESS CORPORATIONS ACT
EXTRA-TERRITORIAL CORPORATIONS
(Sections 278 and 286)

Form 11-02

NOTICE OF ATTORNEY FOR SERVICE OR CHANGE OF ATTORNEY OR ALTERNATE ATTORNEY

1. Name of Corporation:

QUARTZ MOUNTAIN GOLD CORP.

2. [X] First Attorney [X] Alternate Attorney

[ ] Change of Attorney

3. The Board of Directors of the above-mentioned Corporation have appointed

C. BRAIN CAMPION or STEPHEN J. PHILLIPS

as the Corporation's attorney for service.

4. Full address (post office box not sufficient) of attorney:

STE 200 - 204 LAMBERT STREET
WHITEHORSE, YUKON
Y1A 3T2

5. I, ______________________, hereby consent to act as the Attorney of the above named Corporation.

Dated this __________ day of ____________________, 19 ______.

Signature ______________________

Witness: Name ______________________

Address ______________________

Signature ______________________

6. Date	Signature	Title
FEBRUARY 1, 1991		VICE PRESIDENT, CORPORATE AFFAIRS

YG(3049Q)F1 REV.06/89

Yukon
Justice

YUKON BUSINESS CORPORATIONS ACT
(Sections 107, 114, and 290)

Form 1-03

NOTICE OF DIRECTORS AND OFFICERS OR
NOTICE OF CHANGE OF DIRECTORS AND OFFICERS

1. Name of Corporation:

QUARTZ MOUNTAIN GOLD CORP.

2. Notice is given that on the 30 day of JANUARY, 19 91, the following person(s) were appointed Director(s):

Name	Mailing Address
DAVID S. JENNINGS	3615 McKECHNIE AVENUE, WEST VANCOUVER, B.C. V7V 2M5
~~KENNETH G. HANNA~~	~~3460 ROCKVIEW PLACE, WEST VANCOUVER, B.C. V7V 3H3~~
HARVEY A. McDIARMID	#10 - 1190 FALCON DRIVE, COQUITLAM, B.C. V3E 2L1
CHARLES J.G. RUSSELL	10-766 WEST 7th AVENUE, VANCOUVER, B.C. V5Z 1D8

3. Notice is given that on the ______ day of ______, 19___, the following person(s) ceased to hold office as Director(s):

Name	Mailing Address

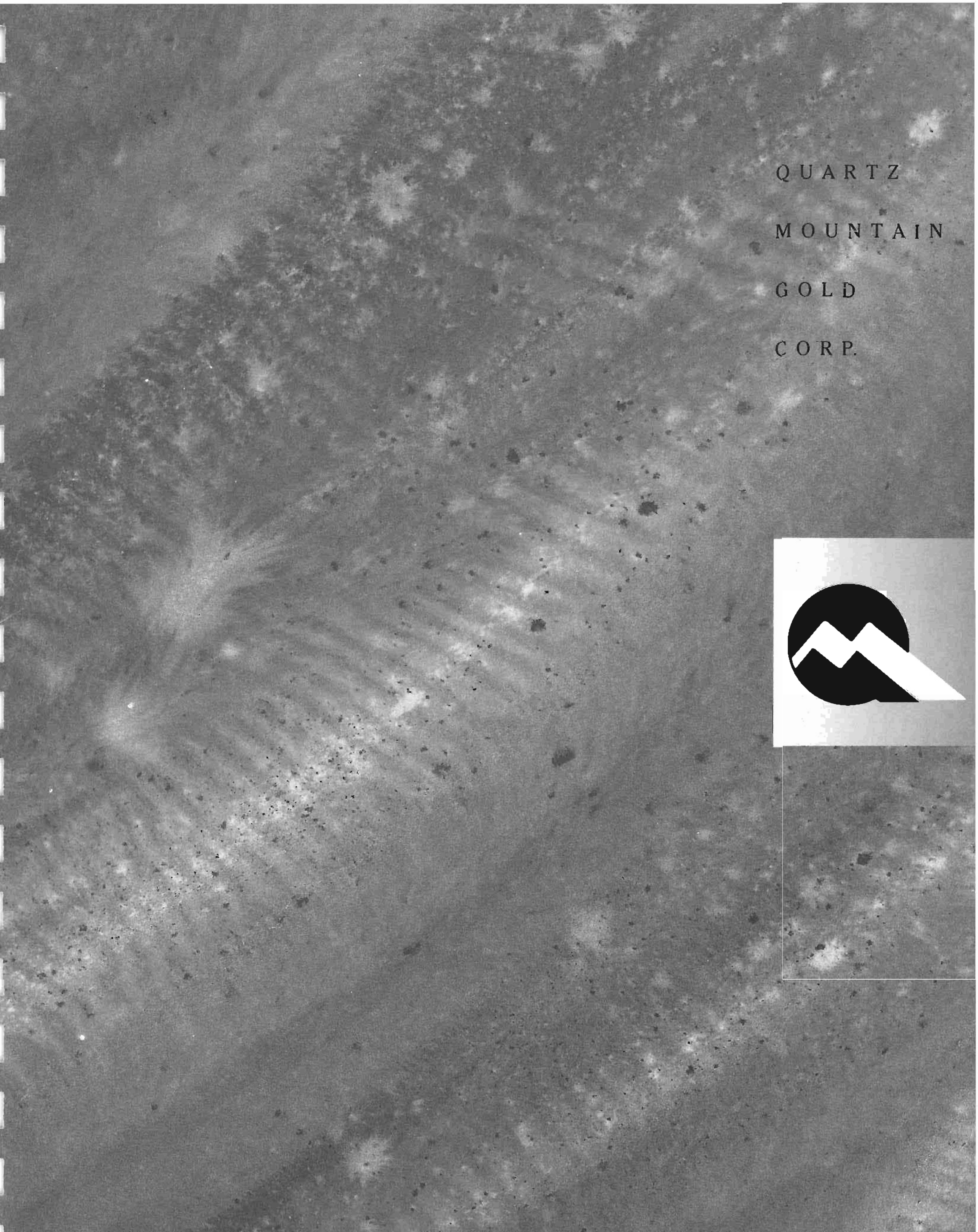
4. The Officers of the corporation as of this date are:

Name	Offices Held
DAVID S. JENNINGS	PRESIDENT and CHIEF EXECUTIVE OFFICER
HENNETH G. HANNA	CORPORATE SECRETARY
SHANNON M. ROSS	VICE-PRESIDENT, CORPORATE AFFAIRS

5. Date	Signature	Title
FEBRUARY 1, 1991		VICE PRESIDENT, CORPORATE AFFAIRS

YG(3037Q)F1 REV 06/89

QUARTZ MOUNTAIN GOLD CORP.



ANNUAL REPORT 1990

CORPORATE PROFILE

Quartz Mountain Gold Corp. is a Canadian public company engaged in the acquisition, exploration and development of mineral deposits. The Company's most significant property is the Quartz Mountain Gold Project in south central Oregon, under option to Pegasus Gold Corporation.

The corporate offices of Quartz Mountain Gold Corp. are located in Vancouver, British Columbia, Canada.

ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders of the Company will be held on Thursday, January 30, 1991 at 10:00 a.m. in Boardroom 15A, Suite 1500, 1075 West Georgia Street, Vancouver, British Columbia, Canada.

FORM 10-K

A Copy of the annual report on Form 10-K, as filed with the U.S. Securities and Exchange Commission, is available to shareholders without charge upon written request to:

Shannon M. Ross
Vice President, Corporate Affairs
Quartz Mountain Gold Corp.
789 West Pender Street
Suite 950
Vancouver, B.C.
Canada V6C 1H2

Quartz Mountain has made significant progress on several fronts since our last report a short nine months ago.

Development work has steadily advanced our Oregon gold project. Pegasus Gold Inc.'s extensive oxide and sulphide metallurgical test programs, metallurgical and exploration drilling, and new mineable resource calculations have enhanced the oxide heap leach portion of the project. The mineable oxide resource has increased by 58% from 8.6 million tons grading 0.032 oz/ton to 13.5 million tons grading 0.026 oz/ton. This represents a drop of less than 19% in grade and an improvement of 28% in contained ounces of oxide gold, or 275,200 to 351,000 ounces. The addition of 5.2 million tons of low grade ore which would otherwise be mined as waste, raises this figure to 403,000 contained ounces, or an improvement of 46%. The overall oxide strip ratio (waste to ore) is 0.73:1 with recoveries of 79% in primary ore and 50% in low grade ore. While all these figures are preliminary estimates and require further refinement, significant improvement in the oxide portion of the project is clear.

The final outcome of metallurgical research on the sulphide gold resource, estimated to be 45 million tons and containing most of the 1.5 to 2.0 million ounces in both deposits, is still unknown. Pegasus continues to explore bio-oxidation coupled with conventional flotation as well as bio-heap leaching techniques to assess its viability. The development of a successful treatment process for the sulphides would dramatically increase the scale and scope of any future mining operations. Preliminary results of the sulphide research program are expected in early 1991. Given the technical complexity, economic sensitivity and lengthy permitting outlook for the project, Pegasus currently estimates that mine construction could begin in 1993 if all other economic factors permit.

Quartz Mountain has continued and will continue to search for other exploration and development opportunities to bridge the time gap to a Pegasus production decision and to build value in the company. We are very pleased to report in the following pages the considerable progress made on our Chibougamau, Quebec venture with SOQUEM and the recent option agreement to participate in the exploration of the enormous Tay-LP gold-quartz system in Yukon Territory. This mineralizing system is similar in scale to many multi-million ounce, world class gold-quartz vein camps and offers Quartz Mountain a most exciting growth opportunity.

The continuing corporate goal is to track the Quartz Mountain project through to production and to become a multi-project exploration company funded by production revenues. Pegasus has advanced the Quartz Mountain project closer to the point where a production decision --- the main goal --- can be made. Recent acquisitions, particularly the Tay-LP property, provide diversity and a major new project focus. Success in advancing new projects from exploration stage to production whether alone or by joint venture, is governed entirely by management's success in raising the necessary venture capital in the marketplace. With continuing and greatly appreciated shareholder support and the dedication of our directors, officers and employees, these goals will be achieved.

D S Jennings

David S. Jennings
President and Chief Executive Officer

MINERAL EXPLORATION AND DEVELOPMENT

Quartz Mountain Gold Corp's commitment is to growth through exploration of mineral properties which can be developed into profitable mines. During the past year, the company has conducted mineral exploration and property evaluation programs throughout the western United States and Canada, and will continue this effort.

QUARTZ MOUNTAIN GOLD PROJECT

The Quartz Mountain gold project located in south central Oregon is in the advanced development stage. Over 250,000 feet of exploration and development drilling have defined a reserve containing between 1.5 and 2.0 million contained ounces of gold in the Crone Hill and Quartz Butte deposits. Property development is continuing under the direction of Pegasus Gold Inc., pursuant to an option agreement whereby Pegasus Gold Inc. may acquire an undivided 50% interest in the property. The option period is for twenty-four months beginning July 18, 1989 and may be extended for two further periods of one year each.

Ore Deposit Geology

On the Quartz Mountain property, a series of rhyolite domes or plugs intrude a 2,000 foot thick, flat lying, basalt flow, breccia and tuff sequence. Gold-bearing ore fluids moved up fracture or fault systems in or along the rhyolite plugs where they encountered porous horizons and spread out laterally through the rhyolites and into the wallrocks. Boiling of the fluids leached and altered the rocks and caused dissolved silica and gold-bearing sulphides to be deposited in them as disseminated mineral deposits. The boiling event also sealed off the feeder zone fractures causing them to solidify into gold-bearing, silica healed fractures and veins.

Since their formation some 5 to 7 million years ago, circulating, oxygenated ground waters have progressively weathered or oxidized the gold-bearing sulphide deposits from the top down to where about 23% of the deposits are oxidized. The weathering breaks down the original sulphide ore leaving micron-scale free gold accessible to recovery by cyanide heap leaching. The original, unoxidized, sulphidic ore requires more complex and expensive treatment such as milling.

Mine Development

Since optioning the property in July 1989, Pegasus has initiated an integrated, in-house feasibility study of the oxide and sulphide resources of the Crone Hill and Quartz Butte deposits. The oxide study has greatly improved the project outlook by expanding the mineable resource to 13.5 million tons grading 0.026 oz/ton gold in primary ores containing 351,000 ounces of gold. With the addition of an estimated 5.2 million tons of low grade that would otherwise be mined as waste, the total contained ounces in oxide ore rises to 403,000. Metallurgical test work on the sulphide resource is on-going with emphasis on flotation and bio-heap leaching. Preliminary results for this work are expected in early 1991.

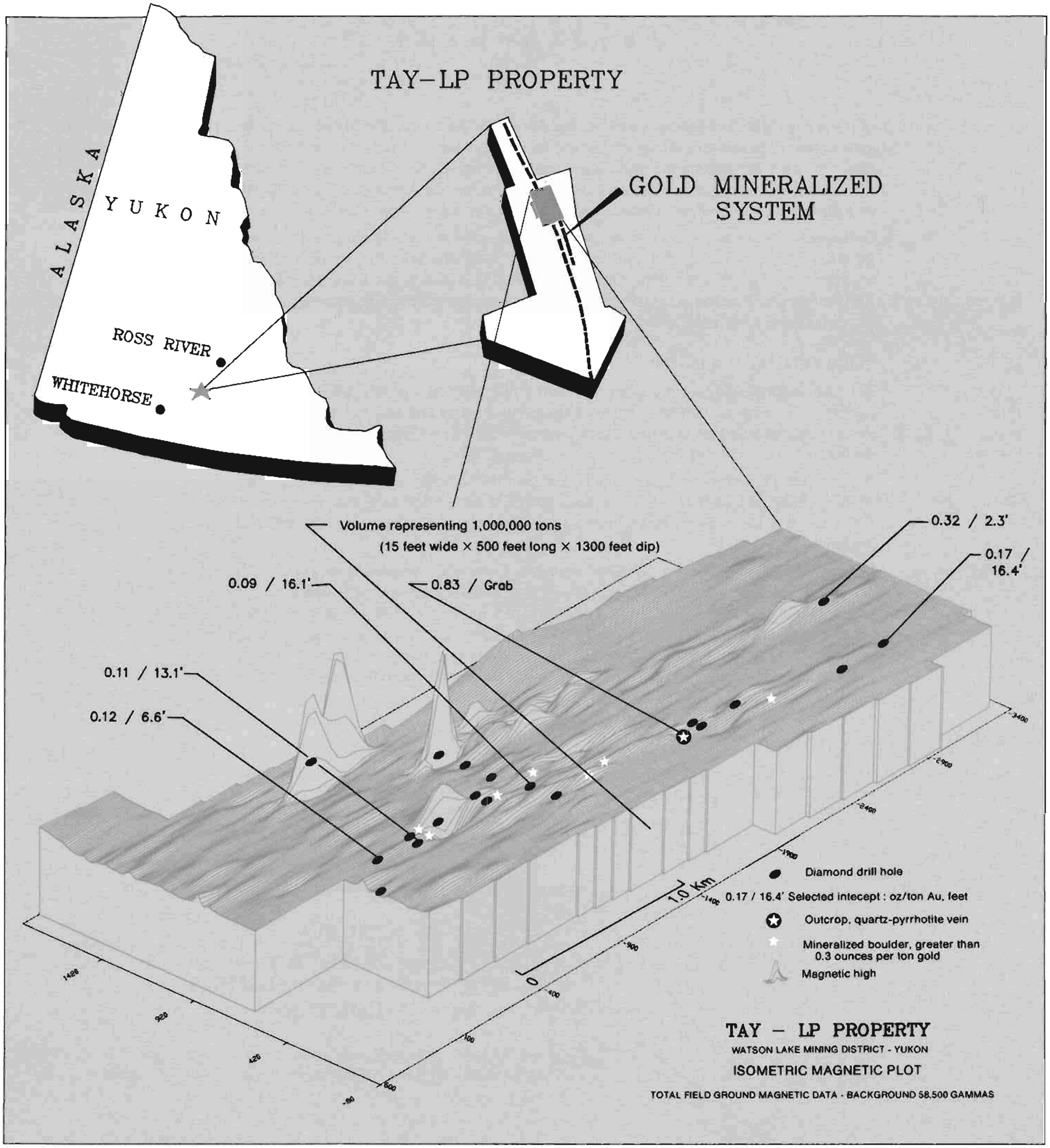
Further exploration and development drilling of the high grade, feeder zone mineralization beneath Quartz Butte and inferred analogues beneath Crone Hill is necessary to determine if underground mining is feasible. An initial three hole program in 1990 on Quartz Butte met with discouraging results.

Permitting

Environmental monitoring continues under Pegasus' direction to augment the environmental baseline study completed in 1988. Soil and vegetation studies have been completed.

TAY-LP PROPERTY

The Tay-LP property (236 claims covering over 10,000 acres) is located in the Watson Lake Mining District of Yukon Territory, Canada and was recently optioned from Pacific Comox Resources Ltd. of Vancouver. This extensive land package covers a large gold mineralizing system cutting lower Paleozoic phyllites and carbonate rocks. Although the property is covered by a thin layer of overburden, exploration has been fueled by the discovery of numerous gold bearing quartz-sulphide boulders in the early 1970's. Of 202 boulders



collected in 1984, 15% assayed between 0.1 and 0.8 oz/ton gold. In 1985, an airborne geophysical survey outlined numerous sub-parallel magnetic electromagnetic anomalies over a six mile strike length on the property. Individual anomalies vary in length but in aggregate represent 20 miles of geophysically defined gold-sulphide drill targets. These anomalies remain open along strike to the north and south. A few of the anomalies were tested by limited trenching and 22 widely spaced drill holes in 1985-88. These holes all intersected quartz-sulphide veins and stockworks varying in width from 6 to 55 feet and averaging 16 feet. Significant gold values were intersected in 18 of the holes with the best intersections assaying 0.172 oz/ton gold over 17 feet and 0.315 oz/ton gold over 2 feet. Most of the anomaly trend remains untested. Past work has shown that the Tay-LP mineralizing system is similar in scale to many multi-million ounce, world class gold-quartz vein camps. There are also indications that significant skarn and manto deposits related to buried intrusive sources may also be present. In this context, the Tay-LP property is being explored as a composite mineralizing system comprising major vein systems, skarns and mantos.

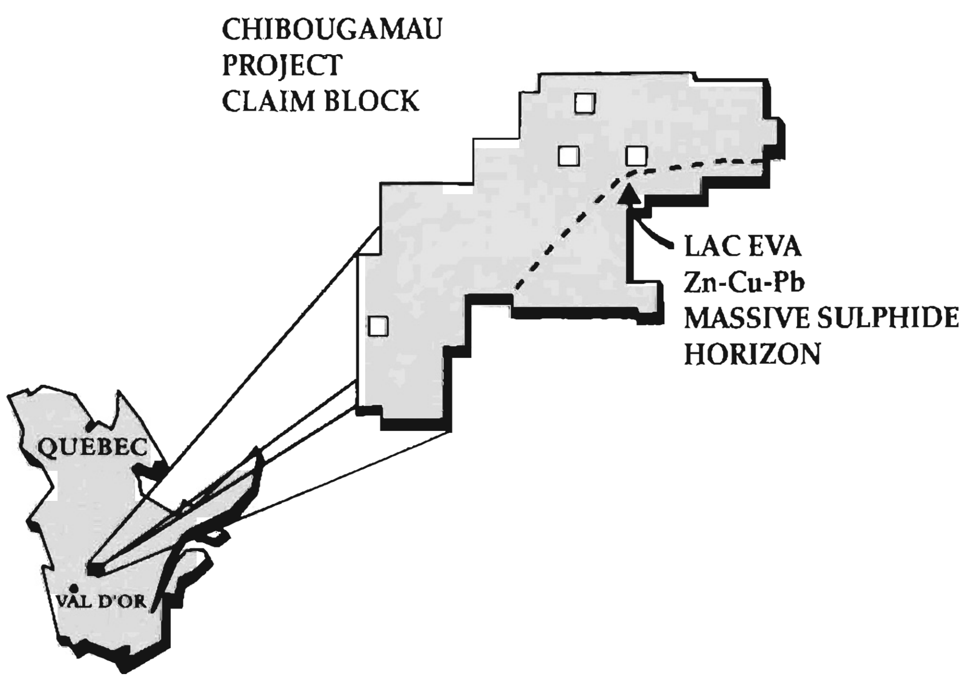
During the 1991 field season, Quartz Mountain plans to complete an initial Cdn. $550,000 program of surface exploration and drilling that will address both high grade and bulk tonnage targets in the overall mineralizing system. The initial focus of this program will be drill testing of the major vein system in the central portion of the property where very encouraging results have already been obtained.

CHIBOUGAMAU PROPERTY

The Chibougamau property is located in Bignell, Richardson and McCorkill townships in Quebec. The property contains numerous gold vein targets and a stratiform copper, zinc (lead) massive sulphide showing which were identified in a 1989 geologic reconnaissance program.

In July 1990 a joint venture agreement was signed with Société québécoise d'exploration minière (SOQUEM) of Sainte-Foy, Quebec. SOQUEM has an option to acquire an undivided 50% interest in the property by completing a work program totalling Cdn. $300,000 by March 31, 1992.

During the 1990 field season, SOQUEM completed over 640 line kilometers (395 line miles) of VLF electromagnetic surveying on the property. Localized IP surveys coupled with prospecting and the VLF data led to the drilling of four short widely spaced diamond drill holes totalling about 1,970 feet. All four drill holes intersected rocks with significant gold and zinc values. Although these initial results are not economic, they are encouraging and indicate the presence of an extensive base metal bearing massive sulphide horizon(s). These targets will be further drill tested in 1991.



SELECTED FINANCIAL DATA

The following table summarizes selected consolidated financial data for the Company (stated in U.S. Dollars) prepared in accordance with generally accepted accounting principles in Canada and the United States as extracted from the more detailed consolidated financial statements and balance sheets included herein. The following table should be read in conjunction with the consolidated financial statements and related notes included herein.

	For the years ended July 31				
	1990	1989	1988	1987	1986
Current Assets	$ 795,883	$ 1,652,114	$ 3,846,941	$ 3,837,400	$ 3,654,201
Current Liabilities	226,284	325,247	272,978	619,570	1,121,004
Working Capital *	569,599	1,326,867	3,573,963	3,217,830	2,533,197
Mining Properties and Other Mining Assets	13,023,243	12,501,052	10,937,813	9,036,926	5,883,211
Shareholders' Equity	13,592,842	13,827,919	14,511,776	12,254,756	8,416,408
Net Loss for the Period	1,248,183	1,933,857	2,009,363	839,569	324,505
Loss per Common Share	$ 0.05	$ 0.09	$ 0.10	$ 0.09	$ 0.03

* Working capital is equal to Current Assets Less Current Liabilities

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

1. LIQUIDITY AND CAPITAL RESOURCES

At July 31, 1990, the Company's cash and cash equivalents amounted to $479,519, a decrease of $333,375 from the prior year end.

The major contributors to the change in net cash position during the year ended July 31, 1990 were:

- A private placement completed in the third quarter of 2,000,000 units at a price per unit of Cdn. $0.60 yielded the Company $1,013,106. Each unit consisted of one common share and one warrant, which enables the holder to purchase one common share of the Company for Cdn. $0.75. The warrants expire in December 1990 and February 1991. A further 25,000 common shares and warrants were issued as commission.
- Operations, which utilized net cash of $169,474.
- Decrease in accounts receivable of $37,264
- Decreases in prepaid expenses and deposits of $485,592, primarily as a result of the utilization of the deposit in escrow for exploration expenses as per the option agreement.
- Expenditures on mining properties of $767,186 including approximately $695,368 spent on the Quartz Mountain project in Oregon. This included the deposit of $500,000 and related interest earned on the deposit in escrow.

Based on the current status of the feasibility studies and exploration work being carried out by Pegasus, the Company does not expect to generate revenue from operations before 1993 at the earliest on the Quartz Mountain property and it is not known at this time if or when mining will commence. The Company does not have sufficient capital to fully explore, and if warranted, develop any of its mineral holdings. Although the Company has sufficient working capital to fund administrative costs and limited exploration work for the next twelve months, additional working capital will be required to fund any new acquisitions and any unanticipated exploration activities on existing properties. The mining industry is capital intensive and there can be no certainty that the Company's existing cash balances or the proceeds from any sale of the Company's common shares will provide sufficient funds for all of the Company's requirements. Should the need arise, the Company may pursue other financing options or rely on joint venture partners to supply some of the funds required to explore and develop its properties. There can be no assurance that the Company will be successful in obtaining the funds it may require for its programs or that the terms of any financing obtained will be favourable. At this time, the Company does not have any unused banking commitments or lines of credit which could provide sufficient increases in its working capital. The Company holds 100,000 shares of Galactic Resources Ltd., with a market value of $293,750 at July 31, 1990 which are available for resale. Currently, as part of the option agreement, Pegasus is making all lease payments on the Quartz Mountain property. If Pegasus does not exercise its option before July 1991 and does not extend its option period under the terms of the option agreement, then the Company will be responsible for lease payments on the property, after Galactic Resources Ltd. funds the first $500,000 of a work program on the property.

In July 1989 the Company acquired an option to reacquire Galactic's interest in the Quartz Mountain project and granted a simultaneous option to Pegasus to acquire this interest. In order to exercise this option, Pegasus subscribed for 595,450 of the common shares of the Company at a price of Cdn. $1.00 per share, must complete a minimum work program on the property involving the expenditure of

$1,000,000 within two years, and must make the final $500,000 payment to Galactic on behalf of Quartz. The work program was funded to the extent of $500,000 by the end of July 1990 from the proceeds of the aforesaid private placement. If the option is exercised, funding of exploration and development cost will be shared equally between Pegasus and the Company with Pegasus providing loans to the Company through to production. The pre-production loan and production loan will be repaid, at the rate of the U.S. Prime Rate plus 2% per annum calculated and compounded monthly, from the delivery to Pegasus of 90% of the Company's share of the ore and minerals, precious and base, which may lawfully be explored for, mined and sold, from, on or under the Quartz Mountain property.

In July 1990 a joint venture option agreement was signed with Société québécoise d'exploration minère ("SOQUEM") of Sainte-Foy, Quebec on the Chibougamau property in Quebec. SOQUEM has an option to acquire an undivided 50% interest in the property. To earn an interest, SOQUEM must expend a cumulative Cdn. $300,000 in exploration and development work on the property on or before March 31, 1992 of which: i) Cdn. $150,000 is required on or before March 31, 1991, and ii) Cdn. $150,000 on or before March 31, 1992. The Company expended $30,267 on this property during the year.

The Company's primary focus continues to be the Quartz Mountain property in Oregon.

The Company continues to actively pursue property acquisitions.

The Company concentrated on decreasing its general and administrative expenses in 1990. The expenses decreased from $1,111,396 in 1989 to $770,504 in 1990, a decrease of $340,892. It is anticipated that office overhead will not change substantially in the next year unless there are significant changes such as a major property acquisition.

2. RESULTS OF OPERATIONS

The Company is in the exploration and development stage and has not earned any revenue from mining operations. It is not known at this time if or when revenue from mining operations will be generated. In prior years the Company followed the accounting practice of deferring all costs associated with the acquisition, exploration and administration of mining properties. During the year ended July 31, 1990, pursuant to the recommendations of a Canadian Institute of Chartered Accountants research study, the Company began charging all administrative expenses to operations as incurred, a method of accounting which is also in compliance with accounting principles generally accepted in the United States. In accordance with Canadian accounting practice, this change has been accounted for retroactively and has been incorporated into the following discussion.

1990 compared to 1989:

Significant factors contributing to the difference between the net loss for the year ended July 31, 1990 of $1,248,183 and the net loss of $1,933,857 for the year ended July 31, 1989 are:

- A reduction of net administrative expenses between 1990 and 1989 of $361,617. The principal reasons for this net reduction were an increase in interest income of $20,725, a decrease in accounting and legal expenses of $42,984, a decrease in office costs of $49,859, a decrease in salaries and benefits of $132,800, a decrease of $80,124 in shareholder information costs and a decrease of $39,508 in travel costs.
- In 1989, a write-down of the Company's investment in the common shares of Galactic Resources Ltd. and a loss on the sale of some of these shares for a total of $538,552, with no write-down on the remaining shares held in 1990.
- A write-off of $577,365, the Company's carrying costs of the Number Nine Property, on abandonment in 1989 of that property.

1989 compared to 1988:

Significant factors contributing to the difference between the net loss of $1,933,857 incurred during the year ended July 31, 1989 and the net loss of $2,009,363 incurred during the year ended July 31, 1988 were:

- A decrease in salaries and benefits of $233,455, a decrease in office costs of $109,564, a decrease in shareholder information costs of $131,808 and a decrease in travel costs of $105,512. The decreases were due to reduced use of public relations, consultants and increased head office control of expenditure.
- A decrease in interest revenue of $139,587 due to reduced working capital available for investment in short-term deposits during that period.
- An increase of $270,923 in the loss and decrease on the sale and write-down of marketable securities held by the Company.
- An increase of $66,323 in the write-off of deferred exploration costs on the abandonment of mining property interests.

Accounting Principles

The above discussion of results of operations is based on the Company's consolidated financial statements for the year ended July 31, 1990 included herein, which are prepared using accounting principles generally accepted in Canada. Note 10 of the Company's consolidated financial statements explains material differences between these principles and accounting principles generally accepted in the United States.

Inflation and Price Changes

As with most other companies in the mining industry, the Company may be adversely affected by inflationary pressures influencing both future costs and the price the Company will realize from the sale of future gold production.

The Company's common shares are listed and trade in Canada on The Toronto Stock Exchange under the symbol "QZM", and are quoted in the United States on the National Market System of the National Association of Securities Dealers Automated Quotation System (NASDAQ), under the symbol "QZMGF". The Company was listed and traded in Canada on the Vancouver Stock Exchange but voluntarily delisted on November 15, 1989.

The following table sets forth the high and low sales prices, in Canadian dollars, for the Company's common shares, as reported on The Toronto Stock Exchange for each fiscal quarter for the past two fiscal years.

Period		Ended	High	Low
1989	First Quarter	October 31, 1988	$1.50	$0.85
	Second Quarter	January 31, 1989	1.25	0.83
	Third Quarter	April 30, 1989	1.35	0.60
	Fourth Quarter	July 31, 1989	0.08	0.53
1990	First Quarter	October 31, 1989	0.80	0.36
	Second Quarter	January 31, 1990	0.84	0.50
	Third Quarter	April 30, 1990	0.70	0.30
	Fourth Quarter	July 31, 1990	0.49	0.29
1991	First Quarter	To October 15, 1990	0.35	0.12

The following table sets forth the high and low sales prices, in U.S. dollars, for the Company's common shares as quoted on NASDAQ for each fiscal quarter for the past two fiscal years. The quotations reflect only inter-dealer prices, without retail mark-up, mark-down, or commission and may not represent actual transactions.

Period		Ended	High	Low
1989	First Quarter	October 31, 1988	$1.312	$0.687
	Second Quarter	January 31, 1989	1.062	0.687
	Third Quarter	April 30, 1989	1.187	0.437
	Fourth Quarter	July 31, 1989	0.687	0.375
1990	First Quarter	October 31, 1989	0.688	0.313
	Second Quarter	January 31, 1990	0.719	0.375
	Third Quarter	April 30, 1990	0.594	0.281
	Fourth Quarter	July 31, 1990	0.438	0.281
1991	First Quarter	To October 15, 1990	0.344	0.094

As of September 30, 1990 there were approximately 2,082 registered shareholders of record.

The Company has no earnings from operations to date and consequently, has not declared or paid a dividend to holders of its common shares since its inception. The Company does not anticipate that it will do so in the foreseeable future.

There are currently no limitations imposed by Canadian federal or provincial laws on the rights of non-resident or foreign owners of Canadian securities to hold or vote the securities held. There are no such limitations imposed by the Company's Memorandum, Articles or contracts, of which the management of the Company is aware. There are no decrees or regulations in Canada or its several provinces that restrict the import or export of capital, including foreign exchange controls, or that affect the remittance of dividends to holders of the Company's securities. Any such remittances to United States residents, however, are subject to withholding tax.

A foreign corporation can be treated as a passive foreign investment company (a "PFIC"), as defined in Section 1296 of the United States Internal Revenue Code, depending upon the percentage of its income which is passive or the percentage of its assets which are producing income. In the event a foreign corporation is deemed to be a PFIC, United States citizens, resident aliens or United States corporations, estates or trusts which own common shares of a foreign corporation could be subject to an additional tax and an interest charge based on the value of deferral of tax for the period during which the common shares are owned, in addition to treatment of gain realized on the disposition of common shares as ordinary income rather than capital gain. All U.S. shareholders should consult their tax advisors to determine whether they wish to make an election to have the PFIC treated as a qualified electing fund prior to any transfer pledge or other disposition of the stock and with respect to how the PFIC rules affect their tax situation generally.

The Company believes that it may be a PFIC for the year ended July 31, 1990. The application of the PFIC provisions to the Company for the year ended July 31, 1991 cannot be determined at this time.

MANAGEMENT'S STATEMENT ON FINANCIAL REPORTING

The accompanying financial statements of Quartz Mountain Gold Corp. and its subsidiaries have been prepared in accordance with generally accepted accounting principles considered to be appropriate in the circumstances. The statements and all information contained in the Annual Report are the responsibility of management and are approved by the Board of Directors of Quartz Mountain Gold Corp. Financial and operating information appearing throughout the Annual Report is consistent with that contained in the financial statements. The Consolidated Financial Statements of Quartz Mountain Gold Corp. and its subsidiaries have been examined by its auditors, Peat Marwick Thorne, whose reports follow.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Quartz Mountain Gold Corp. as at July 31, 1990 and the consolidated statements of loss, deficit and cash flows for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at July 31, 1990 and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the changes in the method of accounting for administrative costs as explained in Note 3 to the consolidated financial statements, on a consistent basis.

The consolidated financial statements as at July 31, 1989 and for the two years then ended were examined by other auditors who expressed an opinion without reservation on those statements in their report dated September 6, 1989.

Peat Marwick Thorne

Chartered Accountants
Vancouver, Canada

September 11, 1990

COMMENTS BY AUDITORS FOR UNITED STATES READERS

ON DIFFERENCES BETWEEN REPORTING STANDARDS IN CANADA AND THE UNITED STATES

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by significant uncertainties such as those described in Note 2 of these consolidated financial statements. Our report to the shareholders dated September 11, 1990 is expressed in accordance with Canadian reporting standards which do not permit a reference to such uncertainties in the auditors' report when the uncertainties are adequately disclosed in the financial statements.

Peat Marwick Thorne

Chartered Accountants
Vancouver, Canada

September 11, 1990

CONSOLIDATED BALANCE SHEETS

(STATED IN U.S. DOLLARS)

	Note	July 31 1990	July 31 1989
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		$ 479,519	$ 812,894
Marketable securities	4	266,910	266,910
Accounts receivable		15,001	52,265
Prepaid expenses and deposits	5	34,453	520,045
		795,883	1,652,114
INTERESTS IN MINING PROPERTIES AND DEFERRED COSTS	6	12,575,154	12,385,333
RECLAMATION BONDS	7	378,454	6,164
FIXED ASSETS	8	69,635	109,555
		$13,819,126	$14,153,166
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		$ 226,284	$ 325,247
SHAREHOLDERS' EQUITY			
SHARE CAPITAL	9		
Authorized:			
60,000,000 common shares of no par value			
Issued and fully paid:			
25,710,603 common shares (July 31, 1989 - 23,685,603 common shares)		20,111,461	19,098,355
DEFICIT ACCUMULATED DURING DEVELOPMENT STAGE	3	(6,518,619)	(5,270,436)
		13,592,842	13,827,919
		$13,819,126	$14,153,166

See accompanying notes to financial statements

Approved by the Board:

Director

Director

CONSOLIDATED STATEMENTS OF LOSS

(STATED IN U.S. DOLLARS)

	YEARS ENDED JULY 31			
	1990	1989	1988	Incorporation to July 31 1990
		(Restated)	(Restated)	(Restated)
REVENUE				
Interest income	$ 134,614	$ 113,889	$ 253,476	$ 728,382
EXPENSES				
Accounting and legal	200,241	243,225	261,180	959,812
Consulting and management fees	27,313	31,180	72,611	330,015
Depreciation	40,441	42,189	39,905	150,178
Office and other costs	142,192	194,133	303,697	943,733
Salaries and benefits	171,359	304,159	537,614	1,135,630
Shareholder information	120,979	201,103	332,911	849,669
Statutory compliance and transfer agency fees	30,815	28,080	53,101	173,149
Travel	30,657	70,165	175,677	440,198
Exchange (gain) losses	4,425	(2,838)	(103,839)	(116,445)
Abandonment of mining property interests	129,500	-	-	244,962
Loss on sale and abandonment of fixed assets	2,827	9,098	(24)	27,666
Write-off of deferred exploration costs on abandonment of mining property interests	482,048	388,700	322,377	1,431,886
	1,382,797	1,509,194	1,995,210	6,570,453
LOSS BEFORE OTHER ITEMS	1,248,183	1,395,305	1,741,734	5,842,071
Loss (gain) on sale of marketable securities	-	111,698	-	(32,673)
Decrease in market value of securities	-	426,854	267,629	709,221
NET LOSS FOR THE PERIOD	$ 1,248,183	$ 1,933,857	$ 2,009,363	$ 6,518,619
LOSS PER SHARE	$ 0.05	$ 0.09	$ 0.10	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	24,948,103	21,677,463	21,171,552	

CONSOLIDATED STATEMENTS OF DEFICIT

(STATED IN U.S. DOLLARS)

	YEARS ENDED JULY 31			
	1990	1989	1988	Incorporation to July 31 1990
		(Restated)	(Restated)	(Restated)
DEFICIT, BEGINNING OF PERIOD	$1,943,357	$1,007,007	$ 417,025	$ -
RESTATEMENT: ADMINISTRATIVE EXPENSE OF PRIOR YEARS	3,327,079	2,329,572	910,191	-
RESTATED DEFICIT BEGINNING OF PERIOD	5,270,346	3,336,579	1,327,216	-
NET LOSS FOR THE PERIOD	1,248,183	1,933,857	2,009,363	6,518,619
DEFICIT, END OF PERIOD	$6,518,619	$5,270,436	$3,336,579	$6,518,619

See accompanying notes to financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(STATED IN U.S. DOLLARS)

	YEARS ENDED JULY 31			
	1990	1989	1988	Incorporation to July 31 1990
OPERATING ACTIVITIES		(Restated)	(Restated)	(Restated)
Operations				
Net loss for the period	$(1,248,183)	$(1,933,857)	$(2,009,363)	$(6,518,619)
Items not affecting cash flow				
Write-down of investments, accounts receivable and fixed assets	2,827	547,650	267,605	820,421
Abandonment and write-off of mining property interests and deferred costs	611,548	388,700	322,377	1,676,848
Depreciation	40,441	42,189	39,905	150,178
Change in other operating items				
Accounts receivable	37,264	53,661	374,863	(15,001)
Prepaid expenses and deposits	485,592	(282,215)	(146,516)	(34,453)
Accounts payable and accrued liabilities	(98,963)	52,269	(346,592)	226,284
Cash (used for) operating activities	(169,474)	(1,131,603)	(1,497,721)	(3,694,342)
INVESTING ACTIVITIES				
Investments	-	-	(1,542,596)	(1,705,932)
Proceeds on sale of marketable securities	-	486,454	-	762,474
Interest in mining properties	(15,000)	(1,050,449)	(333,958)	(7,498,519)
Deferred costs, net of recoveries	(786,369)	(1,472,682)	(3,183,487)	(8,497,883)
Mining property option proceeds	-	-	1,542,596	1,542,596
Fixed assets	(3,348)	11,475	(62,008)	(161,882)
Reclamation bonds	(372,290)	508,430	(226,288)	(378,454)
Cash (used for) investing activities	(1,177,007)	(1,516,772)	(3,805,741)	(15,937,600)
FINANCING ACTIVITIES				
Issue of common shares				
- for cash	1,013,106	500,000	4,266,383	16,680,489
- for other consideration	-	750,000	-	3,430,972
Cash provided by financing activities	1,013,106	1,250,000	4,266,383	20,111,461
INCREASE (DECREASE) IN CASH	(333,375)	(1,398,375)	(1,037,079)	479,519
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	812,894	2,211,269	3,248,348	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 479,519	$ 812,894	$ 2,211,269	$ 479,519

See accompanying notes to financial statements

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, which conform in all material respects with accounting principles generally accepted in the United States of America, except as explained in Note 10 and reflect the following policies:

(a) *Principles of Consolidation* - The consolidated financial statements include the accounts of Quartz Mountain Gold Corp., a company incorporated on August 3, 1982 under the Company Act of British Columbia and its wholly-owned subsidiary Diamond Head Mines Ltd., a company incorporated in British Columbia, Quartz Mountain Gold Inc., a wholly-owned subsidiary incorporated in the State of Nevada, and the latter company's wholly-owned subsidiaries, Wavecrest Resources Inc., a company incorporated in the State of Delaware, QZM Inc., a company incorporated in the State of California and Quartz Mountain Gold Exploration, a company incorporated in the State of Nevada (collectively referred to as the "Company").

The Company's operations are in the mining industry and are conducted primarily in the United States.

(b) *Marketable Securities* - Marketable securities are recorded at the lower of cost and fair market value on the balance sheet date.

(c) *Interests in Mining Properties and Deferred Costs* - The Company is in the process of exploring and developing its mining properties. Accordingly, property acquisition costs, exploration and development costs are deferred until the property to which they relate is placed into production, sold, or abandoned. These deferred costs will be amortized on the unit-of-production method following commencement of production or written off if the property is sold, abandoned or where there is an impairment in value. Proceeds received on options for mining properties are credited against exploration and development costs of the related mining properties.

(d) *Fixed Assets* - Fixed assets are recorded at cost and are depreciated over their estimated useful lives on a straight line basis over five years.

(e) *Translation of Foreign Currencies* - Monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities at the rate in effect at the time of acquisition or issue. Items in the consolidated statements of loss and deficit are translated at rates approximating exchange rates in effect at the time of the transactions. Gains or losses arising on currency translation are included in operations.

(f) *Options* - Where the Company enters into agreements for the acquisition of interests in mining properties which provide for periodic payments, such amounts unpaid are not recorded as a liability since they are payable entirely at the Company's discretion. Such payments, when made, are recorded as a cost of the property to which they relate. If unpaid, such non-payment will result in the write-off of the related investment in mining properties.

(g) *Share Capital* - Shares issued for other than cash consideration are valued at the quoted price on The Toronto Stock Exchange on the date agreement to issue the shares was reached.

(h) *Loss per Share* - The loss per share is computed on the basis of the weighted average number of shares outstanding during the year. Fully diluted loss per share is not presented as it is anti-dilutive.

(i) *Cash and Cash Equivalents* - For the purpose of these financial statements, the Company considers all liquid investments with original maturities of three months or less to be cash equivalents.

2. OPERATIONS

The Company is in the development stage and has not, as yet, achieved commercial production. The recoverability of the amounts shown for interests in mining properties and deferred costs is dependent upon the quantity of economically recoverable reserves, on the ability of the Company to obtain financing to complete development of the properties, and on future profitable operations or proceeds from the disposition thereof.

3. CHANGE IN ACCOUNTING POLICY

During the year ended July 31, 1990, and pursuant to the recommendations of a research study issued by the Canadian Institute of Chartered Accountants, the Company commenced charging all administrative costs, net of interest income, to operations as incurred. In prior years, the Company had capitalized these net costs as part of mining properties and deferred costs. The change was applied retroactively with the result that the net loss for the years ended July 31, 1989, July 31, 1988 and prior years has increased by $997,507, $1,419,381 and $910,191 respectively, deferred costs have decreased and deficit has increased at those dates by $3,327,079, $2,329,572, and $910,191 respectively. The net loss and deficit for the year ended July 31, 1990 have increased by $633,808 and $3,960,887, respectively, as a result of this change.

4. MARKETABLE SECURITIES

Marketable securities include 100,000 common shares of Galactic Resources Ltd. ("Galactic") valued at $266,836. The fair market value of these shares at July 31, 1990 was $293,750.

5. PREPAID EXPENSES AND DEPOSITS

A deposit of $500,000 held in escrow at July 31, 1989 and related interest was withdrawn by Pegasus Gold Corporation ("Pegasus") and applied to exploration costs of $542,907 which had been completed on the Quartz Mountain property at July 31, 1990 as part of the option agreement of July 13, 1989 (See Note 6 (a) (ii)).

(STATED IN U.S. DOLLARS)

6. INTERESTS IN MINING PROPERTIES AND DEFERRED COSTS

	July 31, 1990				July 31, 1989
	Acquisition Costs	Deferred Exploration and Develop-ment Costs	Option Proceeds	Total	Total
Mining properties					
Quartz Mountain (a)	$6,618,523	$7,304,302	$(1,542,596)	$12,380,229	$11,684,861
Chibougamau (b)	101,497	34,913	-	136,410	106,143
Shewag/Tincup	15,000	33,522	-	48,522	-
Denis	8,537	-	-	8,537	8,537
Regional Exploration	-	1,456	-	1,456	8,427
Hornitos	-	-	-	-	577,365
	$6,743,557	$7,374,193	$(1,542,596)	$12,575,154	$12,385,333

(a) (i) The Company has a 100% interest in the Quartz Mountain property. In 1987 the Company granted an option for 50% of the Company to Galactic, a major shareholder. In 1989, as part of the agreement with Pegasus the Company acquired an option to pay $5,000,000 for the rights of Galactic to earn a 50% interest in the Quartz Mountain property. To acquire the option the Company paid Galactic $1,000,000 in cash and issued 1,500,000 common shares and a warrant expiring September 1, 1991 to purchase a further 1,500,000 common shares of the Company at Cdn. $1.20 per share. In connection with the private placement in December 1989 the warrant was cancelled and new warrants were issued at Cdn. $0.75 per share, expiring in December 1990. See Note 9.

(ii) In a parallel agreement the Company granted Pegasus an option to earn a 50% interest in the Quartz Mountain property for $5,000,000. To acquire this option Pegasus paid the Company $1,000,000 in cash and subscribed for 595,450 common shares of the Company for total proceeds of $500,000.

(iii) Both options mentioned in (i) and (ii) above expire on July 18, 1991, unless extended for two years by annual cash payments of $500,000 and $500,000 in annual property expenditures. If the option is exercised the annual cash payments will be applied to the final option payment of $5,000,000.

(b) The Company granted an option to an arms length third party to earn a 50% interest in the Chibougamau property, which expires March 31, 1992. The option may be exercised through annual property expenditures of $150,000 on the Chibougamau property on or before March 31, 1991 and 1992.

7. RECLAMATION BONDS

As at July 31, 1990, in accordance with the United States Department of Agriculture, Forest Services the Company has bonding requirements of $378,454 (1989 - $514,594) in respect of projects in Lake County, Oregon and Lemhi County, Idaho.

As at July 31, 1990 the Company has satisfied these requirements by assigning bank accounts totalling $378,454. At July 31, 1989 the Company had satisfied the requirements by way of a letter of credit totaling $508,430 together with an assignment of bank accounts of $6,164.

As Galactic advanced one half of the reclamation bonds for Lake County, Oregon, they will receive one half of the amount assigned, $188,300 (1989 - $257,000), when the assignment is not required or if Pegasus exercises their option.

8. FIXED ASSETS

	July 31, 1990			July 31, 1989
	Costs	Accumulated Depreciation	Net Book Value	Net Book Value
Fixed assets	$202,210	$132,575	$ 69,635	$ 109,555

Depreciation expense for the year ended July 31, 1990 is $40,441 (1989 - $42,189).

(STATED IN U.S. DOLLARS)

9. SHARE CAPITAL

	Number of Shares	Average Price Per Share ($)	Amount
1983			
May			
- Issued for cash	1,800,003	0.059	$ 105,794
- Issued for interest in mining property	2,250,000	0.003	6,104
Balance, July 31, 1983	4,050,003		111,898
September			
- Options exercised - cash	202,500	0.081	16,431
October			
- Options exercised - cash	202,500	0.081	16,438
1984			
March			
- Issued for interest in mining property and equipment	225,000	0.262	59,055
April			
- Issued for interest in mining property	75,000	0.261	19,540
May			
- Issued for cash	900,000	0.124	111,257
Balance, July 31, 1984	5,655,003		334,619
August			
- Issued for cash	300,000	0.281	84,395
September			
- Issued for cash	537,000	0.279	149,814
1985			
April			
- Warrants exercised - cash	900,000	0.142	127,482
May			
- Issued for cash	300,000	0.298	89,409
- Options exercised - cash	90,000	0.291	26,168
June			
- Options exercised - cash	75,000	0.293	21,941
July			
- Issued for cash	1,050,000	0.431	452,899
Balance, July 31, 1985	8,907,003		1,286,727
August			
- Options exercised - cash	90,000	0.295	26,523
- Warrants exercised - cash	300,000	0.332	99,462
September			
- Warrants exercised - cash	450,000	0.328	147,789
1986			
January			
- Warrants exercised - cash	1,050,000	0.474	497,689
April			
- Options exercised - cash	360,000	0.288	103,784
- Warrants exercised - cash	300,000	0.355	106,667
May			
- Issued for cash issue costs ($143,551)	3,000,000	0.959	2,734,768
July			
- Issued for interest in mining property	750,000	2.715	2,036,273
- Options exercised - cash	85,000	2,036,273	
- Options exercised - cash	85,000	1.268	107,758
- Issued for cash issue costs ($68,519)	750,000	1.687	1,196,615
Balance, July 31, 1986	16,042,003		8,344,055

(STATED IN U.S. DOLLARS)

9. SHARE CAPITAL (cont'd)

	Number of Shares	Average Price Per Share ($)	Amount
August			
- Options exercised - cash	20,000	1.260	25,196
October			
- Options exercised - cash	5,000	1.261	6,303
November			
- Warrants exercised - cash	37,500	1.022	38,327
1987			
February			
- Warrants exercised - cash	285,000	1.062	302,684
March			
- Warrants exercised - cash	315,000	1.074	338,273
- Options exercised - cash	60,000	1.327	79,594
- Warrants exercised - cash	30,000	1.834	55,026
April			
- Warrants exercised - cash	150,000	1.066	159,898
May			
- Warrants exercised - cash	2,212,500	1.056	2,335,768
- Options exercised - cash	10,000	1.305	13,052
June			
- Options exercised - cash	3,750	1.531	5,741
July			
- Warrants exercised - cash	720,000	1.750	1,314,189
- Options exercised - cash	2,500	1.546	3,866
Balance, July 31, 1987	19,893,253		13,021,972
August			
- Options exercised - cash	45,000	0.302	13,578
September			
- Options exercised - cash	17,500	2.998	52,470
October			
- Warrants exercised - cash	9,400	3.497	32,876
- Issued on conversion of promissory note	600,000	0.933	560,000
- Issued for cash issue costs ($214,777)	1,000,000	4.315	4,099,988
November			
- Warrants exercised - cash	10,000	3.479	34,794
December			
- Issued for cash	15,000	2.178	32,677
Balance, July 31, 1988	21,590,153		17,848,355
1989			
July			
- Issued for cash private placement	595,450	0.840	500,000
- Issued for option on interest in mining property	1,500,000	0.500	750,000
Balance, July 31, 1989	23,685,603		19,098,355
December			
- Issued for cash issue costs ($8,470)	1,500,000	0.510	765,125
1990			
February			
- Issued for cash and commission	525,000	0.472	247,981
Balance, July 31, 1990	25,710,603		$20,111,461

(STATED IN U.S. DOLLARS)

9. SHARE CAPITAL (cont'd)

(a) The Company has granted options to certain of its employees and directors to buy 215,000 shares at prices between Cdn. $1.15 and Cdn. $2.05 per share, with expiration dates between December 17, 1991 and October 18, 1993, pursuant to the Share Option Plan.

(b) Warrants to purchase 2,000,000 shares at Cdn. $0.75 per share, 1,500,000 expiring December 1990 and 500,000 expiring February 1991, were outstanding at July 31, 1990.

(c) The Company has a Stock Incentive Plan which was adopted in October 1987. The Plan consists of a Share Option Plan, a Share Bonus Plan, and a Share Purchase Plan, the terms of which, as amended, are described below.

Under the Share Option Plan, participants, who are to be directors and employees of the Company and who, in the opinion of the Board of Directors, are in a position to contribute to the Company's success or are worthy of special recognition, may be granted options to purchase common shares of the Company at a price per share not less than the fair market value of the shares on the date of the grant of the option. No option is exercisable until it has vested according to a vesting schedule specified by the Board of Directors at the time of the grant of the option. An option is exercisable for any period specified by the Board of Directors up to a maximum of ten years after the date of grant. The plan authorizes the grant of options to acquire up to 2,000,000 common shares, of which 1,000,000 have been reserved for issuance.

Under the Share Bonus Plan the Board of Directors may issue common shares to full-time employees in respect of meritorious service. The maximum number of shares that may be issued under the plan in any calendar year may not exceed, in the aggregate, 0.5% of the total number of shares that were issued and outstanding at the end of the preceding calendar year. Up to 300,000 shares have been reserved for issuance under the Share Bonus Plan.

Under the Share Purchase Plan, participants, who are to be full-time employees and have one year of continuous service, may contribute up to 10% of their annual basic salary to the plan for the purpose of purchasing common shares of the Company. The Company will contribute an amount equal to one-sixth of the participant's contribution during the first year of participation and one-third in subsequent years. At the end of each calendar quarter participants are issued common shares based on the contributions made to date, with delivery of the shares to the participants six months after issue.

10. DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN CANADA AND THE UNITED STATES

Generally accepted accounting principles ("GAAP") used in the United States of America require that non-cash investing and financing activities be excluded from the Consolidated Statements of Cash Flows, whereas Canadian GAAP require that those activities be included in the Consolidated Statements of Cash Flows. Had the statements been prepared in accordance with United States GAAP the following transactions would have been excluded:-

	July 31 1990	July 31 1989	July 31 1988	Incorporation to July 31 1990
Investing Activities				
Additions to marketable securities	$ -	$ -	$ (1,542,596)	(1,542,596)
Interests in mining properties and equipment	-	(750,000)	-	(2,870,972)
Option proceeds	-	-	1,542,596	1,542,596
Financing Activities				
Issue of common shares for other consideration	-	750,000	-	3,430,972

11. INCOME TAX LOSSES CARRIED FORWARD

The Company has estimated income tax losses available for application against future years' taxable income of approximately $8,400,000 in the United States and Cdn. $65,000 in Canada which, if unused, will predominantly expire after 2003 and 1995 respectively. The potential benefits accruing from these losses have not been recorded in these financial statements.

The Company has an accounting loss carry forward of approximately $6,500,000. The difference between the accounting and tax losses carried forward result primarily from capitalizing certain items for accounting purposes and deducting them for income tax purposes.

CORPORATE INFORMATION

DIRECTORS

Kenneth G. Hanna
Associate Counsel
Russell & DuMoulin

* David S. Jennings
President & Chief Executive Officer
Quartz Mountain Gold Corp.

* Harvey A. McDiarmid
Chairman & Director
Colonial Oil & Gas Ltd.

* Charles J.G. Russell
Senior Vice President
Galactic Resources Ltd.

* Member of Audit Committee

OFFICERS

David S. Jennings
President & Chief Executive Officer

Kenneth G. Hanna
Corporate Secretary

Shannon M. Ross
Vice President, Corporate Affairs

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QZM, Inc.
Quartz Mountain Gold Exploration, Inc.
Wavecrest Resources, Inc.

SHARES LISTED

NASDAQ National Market System (QZMGF)
Toronto Stock Exchange (QZM.T)

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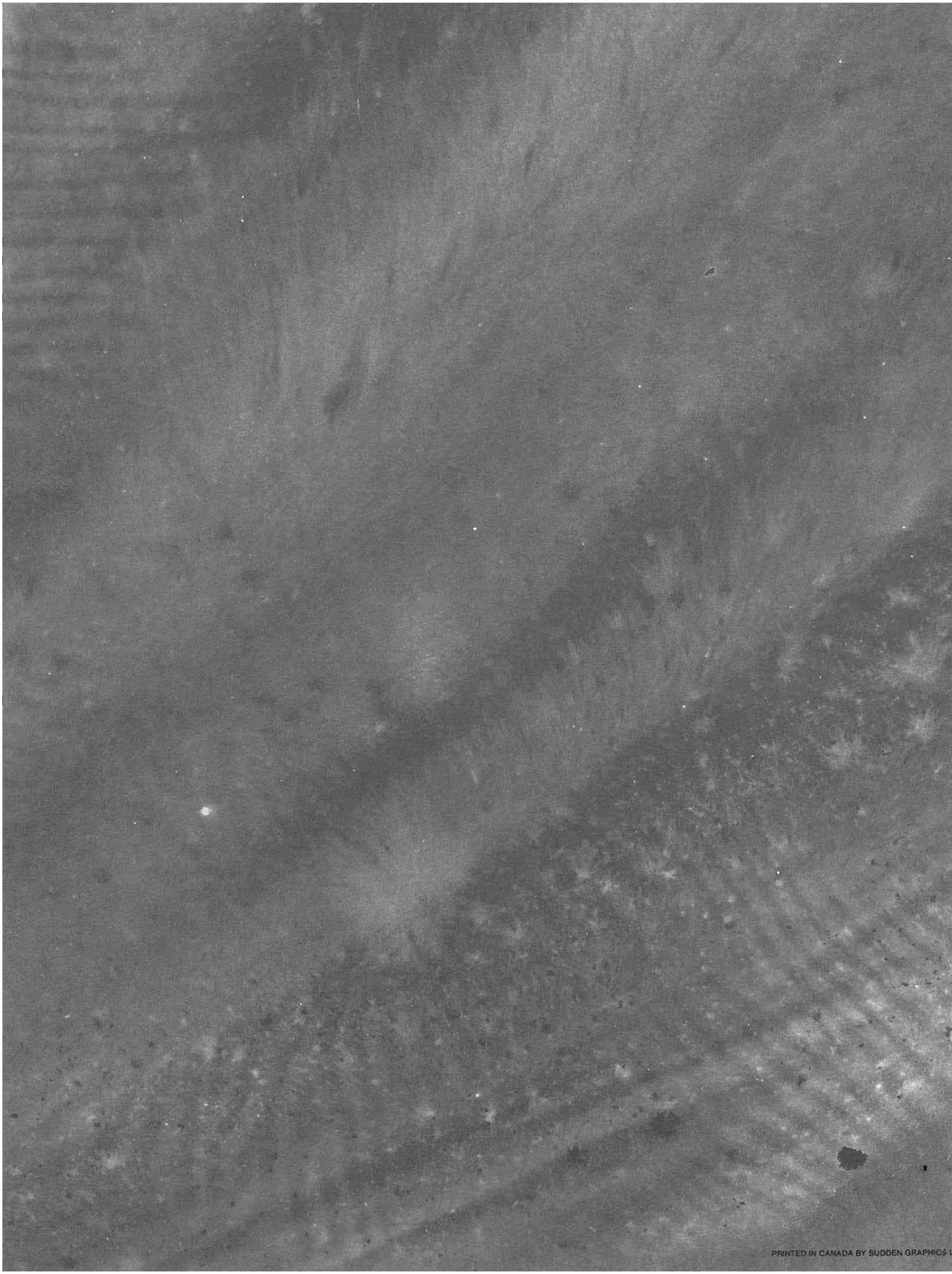

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