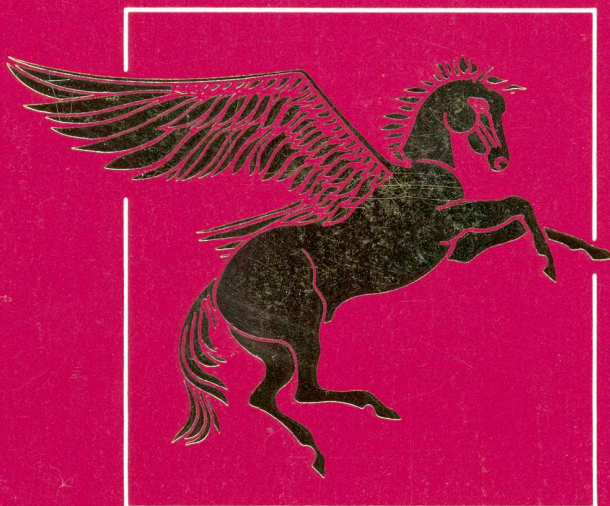


1984

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1984 Annual Report



PEGASUS GOLD INC.

Pegasus Gold Inc. 1984 Annual Report

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Annual Meeting

The Company's Annual General Meeting of Shareholders will be held on Friday, May 31, at the Victoria Regent Hotel in Victoria, British Columbia, commencing at 2:00 p.m. (Victoria Time).



Corporate Profile

Pegasus Gold Inc. was incorporated August 20, 1984, upon the amalgamation of Pegasus Gold Ltd. and Montoro Gold Inc. Pegasus Gold Ltd. was the successor to Pegasus Explorations Ltd., incorporated in 1961, and Argo Gold Mining Inc., incorporated in 1977.

The Company, through its U.S. subsidiary, Pegasus Gold Corporation, operates the Zortman/Landusky Mine, one of the largest heap leaching operations in the world. Since the inception of mining in 1979, the mine has produced 291,000 ounces of gold and 640,000 ounces of silver from 17.9 million tons of ore. In addition, the Company has two properties in the

development stage: Florida Canyon in Nevada, and Beal in Montana. The Florida Canyon project contains 11.8 million tons of 0.032 ounces per ton gold suitable for heap leaching. The indicated reserves are preliminary in nature and subject to further expansion through exploration. Current engineering estimates are based on mining 2 million tons of ore per year, producing in excess of 40,000 ounces of gold annually. A decision to place the property into commercial production may be made in mid-1985. The Beal project would employ conventional mining processes and produce between 40,000 and 50,000 ounces of gold annually. The decision

to place this property into production is ultimately dependent upon an improved precious metals market. Pegasus maintains an active exploration program in the Western United States, focusing on properties which have indications of significant mineralization.

Today, Pegasus is a Canadian company with 4,400 registered shareholders. The Company is listed on the Toronto Stock Exchange (PGU), quoted on the National Association of Stock Dealers Automatic Quotation System (NASDAQ, PGULF) and registered with the Securities and Exchange Commission (SEC).

Mineral Inventory

	Tons	Contained Gold
Zortman/Landusky	43,300,000	910,000
Florida Canyon	11,800,000	377,000
Beal	12,100,000	593,000
Total	<u>67,200,000</u>	<u>1,880,000</u>

Consolidated Highlights

1984

1983

1982

1981

1980

(In Canadian dollars)

Financial Operations:

(000's)

Revenue	\$ 34,907	\$ 37,145	\$ 29,051	\$ 19,029	\$ 23,524
Net Earnings	\$ 2,864	\$ 6,634	\$ 4,930	\$ 860	\$ 4,596
Basic Earnings per Share	\$ 0.33	\$ 0.84	\$ 0.68	\$ 0.13	\$ 0.90
Cash Dividends per Share	—	\$ 0.30	\$ 0.15	—	—

Financial Position:

(000's)

Working Capital	\$ 18,180	\$ 20,604	\$ 13,239	\$ 10,545	\$ 11,301
Shareholders' Equity	\$ 45,117	\$ 40,661	\$ 25,758	\$ 18,697	\$ 16,672
Total Assets	\$ 51,925	\$ 50,624	\$ 33,286	\$ 23,202	\$ 22,998
Long-term Debt:					
Notes and Contracts Payable	\$ 233	\$ 248	\$ 187	\$ 155	\$ 20
Deferred Royalty	\$ 823	\$ 1,094	\$ 833	\$ 730	\$ 544
Deferred Reclamation	\$ 819	\$ 665	\$ 252	\$ 81	\$ 37

Statistical Data:

Shares Outstanding at Year End	8,925,612	8,558,181	7,600,593	6,733,893	5,418,351
Number of Shareholders	4,400	3,800	3,400	2,800	2,600
Market Price — High	\$18.13	\$17.63	\$15.50	\$15.50	\$16.25
Low	\$ 7.75	\$11.00	\$ 1.75	\$ 4.10	\$ 5.38
December 31	\$ 9.13	\$16.50	\$15.50	\$ 4.70	\$13.75

All amounts have been restated to reflect the amalgamation of Pegasus and Montoro on a pooling of interests basis.

To Our Shareholders

Pegasus amalgamated with Montoro Gold Inc. in August 1984, advancing the Company's strategic goal of growth through acquisition and exploration. As a result, the Company acquired the Beal property in Montana and increased its interest in the Florida Canyon property in Nevada to 85 percent. Significant progress on Florida Canyon upgraded the project from the exploration to the development stage with preliminary drill-indicated and inferred reserves of 11.8 million tons. Of perhaps even greater significance, exploration and development work and the acquisition of adjacent property at the Zortman/Landusky Mine increased reported ore reserves by 90 percent.

Early in 1985, Wharf Resources Ltd., the lessor of the Landusky property, exchanged its 37 percent interest in the property for a schedule of lease payments payable in gold. The Company now has a 100 percent working interest in the property. In addition, Wharf has been granted the right to purchase 250,000 shares of Pegasus common stock at \$10.00 per share until July 1, 1987. As a result of the agreement, Wharf has dropped its lawsuit against the Company. The dismissal relieves the Company of the cost to defend the action and allows management to pursue the development of the Landusky property without further interference. Coupled with the increase in ore reserves, this may prove to be one of the most important transactions in the Company's history.

Net income was \$2,864,132, or \$.33 per share, on sales of \$33,248,691. Net income declined as a result of significantly lower gold prices and reduced production. Earnings do not reflect the 420,000 ounces of silver held in inventory which have a current market value of approximately U.S. \$2.6 million. In 1984, Pegasus paid a cash dividend of U.S. \$.06 per share (declared in 1983) and paid a 2 percent stock dividend. Due to the current depressed price of gold and the cash needs of the Company, a cash dividend was not paid at year-end. Future payment of cash dividends will depend upon improvement in the precious metals market.



Gold Pour

The Company registered with the SEC in mid-1984. SEC registration greatly enhances the market for the Company's common stock and adds the United States as a forum for new capital growth. In addition, Pegasus is now quoted on the National Market System of NASDAQ, which is limited to companies meeting certain size and trading volume requirements. Even with the decline in gold price, trading volume was a healthy 10.7 million shares in 1984.

Looking to the future, the Company is strategically situated to adapt to changing market conditions. During 1984, the Company began constructing large capacity "super pads" which facilitate the mining and

processing of larger tonnages of ore while reducing overall costs per ton mined. The increased capacity of the new pads allows the Company to step up production on short notice without major capital outlays. The flexibility to adjust production to take advantage of fluctuating gold prices is a major strength of our mining operation. Recognizing that the commitment to low production costs is our only protection in times of weak market prices, we are studying the feasibility of conducting our own mining to increase the efficiency of our operation. Preliminary results indicate that a significant reduction in operating costs could be achieved.

During the year, Rockne J. Timm, Treasurer, was appointed to the position of Vice President-Finance and Patrick D. McChesney became Controller. In addition, Executive Headquarters were moved to Spokane, Washington from Vancouver, B.C. Three new directors joined the Company: John J. Crabb, Leslie L. Woods and Peter R. Kutney. Messrs. Crabb and Kutney bring with them extensive experience in the resource industries and Mr. Woods is an attorney at law. All three are a welcome addition to our Board.

The Company's profitability is strongly influenced by the price of gold. The average price received per ounce declined from U.S. \$413 in 1983 to U.S. \$364 in 1984. The strength of the U.S. dollar is one of the major contributors to this decline, as indicated by the fact that the price of

gold has actually risen when measured in other currencies. Should the dollar show signs of weakness in the coming year, the price of gold may rise appreciably.

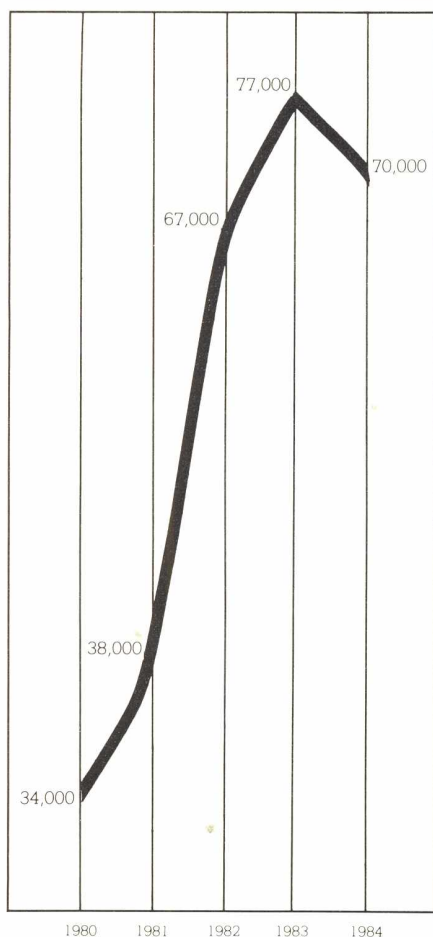
Pegasus has operated profitably since the inception of mining in 1979, despite periods of depressed precious metals prices. A measure of the Company's strength is found in our employees' continued dedication to excellence. We wish to acknowledge their contribution to our success. The Company has made great strides toward our objectives of growth and profitability over the past year through the amalgamation with Montoro, our exploration program, and the increased development of the Zortman/Landusky Mine. With your continued support, we look forward to the challenges of the coming year.

On Behalf of the Board,

Hobart Teneff

Hobart Teneff, President

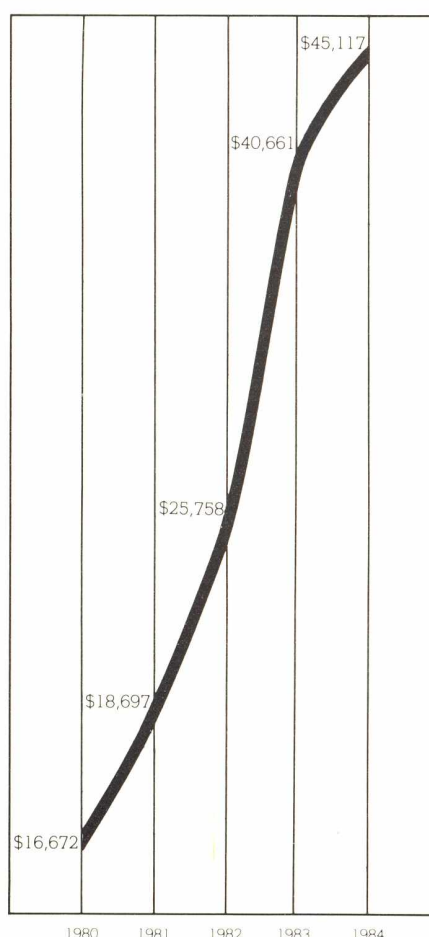
March 15, 1985



Gold (Ounces Produced)



Total Assets



Shareholders' Equity

Report on Operations

The Zortman/Landusky Mine produced 70,000 ounces of gold and 152,000 ounces of silver in 1984. During the 1984 mining season, 5.7 million tons of ore were added to the leach pads. This brings the total amount of ore placed on the leach pads at the end of 1984 to 17.9 million tons.

The construction of large capacity leach pads was initiated in 1984. The Company anticipates that the "super pads" will result in significant reductions in future operating costs due to economies of scale that may amount to as much as \$10 million over the life of the new pads. In addition, current operations are concentrating on a rigorous grade control program which has contributed to a lower waste to ore

ratio, thereby reducing the cost per ton of ore mined. Computerization of the engineering, exploration, accounting and assaying functions at the mine has significantly enhanced mine planning and the ability to evaluate future prospects in a timely and cost effective manner.

Exploration and development work and the acquisition of adjacent property at the Zortman/Landusky operation nearly doubled proven and probable ore reserves at the mine, from 22.7 million tons previously reported (after removing 5.7 million tons mined in 1984) to 43 million tons at the end of 1984. This represents the largest increase in ore reserves in the Company's history. Testing continues

regarding the leachability of sulfide ore found on the property. The property contains some 12 million tons of sulfide material not included in reported reserves.

Pegasus is in the process of finalizing the 1985 mining plan. The Company has considerable flexibility to adapt its operation to the market price of gold. When the price of gold rises, the "super pads" developed in 1984 will allow the Company to increase production to take advantage of the higher prices. On the other hand, the Company has the option of only leaching when gold prices fall, thereby preserving cash flow and the integrity of the operation.

Zortman



Effective March 1, 1984, Mr. Robert Turner, a metallurgical engineer, was promoted to Resident Mine Manager from Assistant Mine Manager. Mr. Turner has been with Pegasus since 1982 and has in excess of 20 years' experience in the mining industry. Mr. Peter Erickson, a mining engineer, joined the Company as Mine Operations Superintendent. Since 1969, Mr. Erickson has held senior positions with various mining operations. Additionally, Mr. Erickson is the Manager of the Beal project.

Senior operating personnel planning 1985 operations. (Left to right) Peter Erickson, Mine Operations Superintendent, Robert Turner, Resident Mine Manager, and Fred Lightner V.P. - Operations.



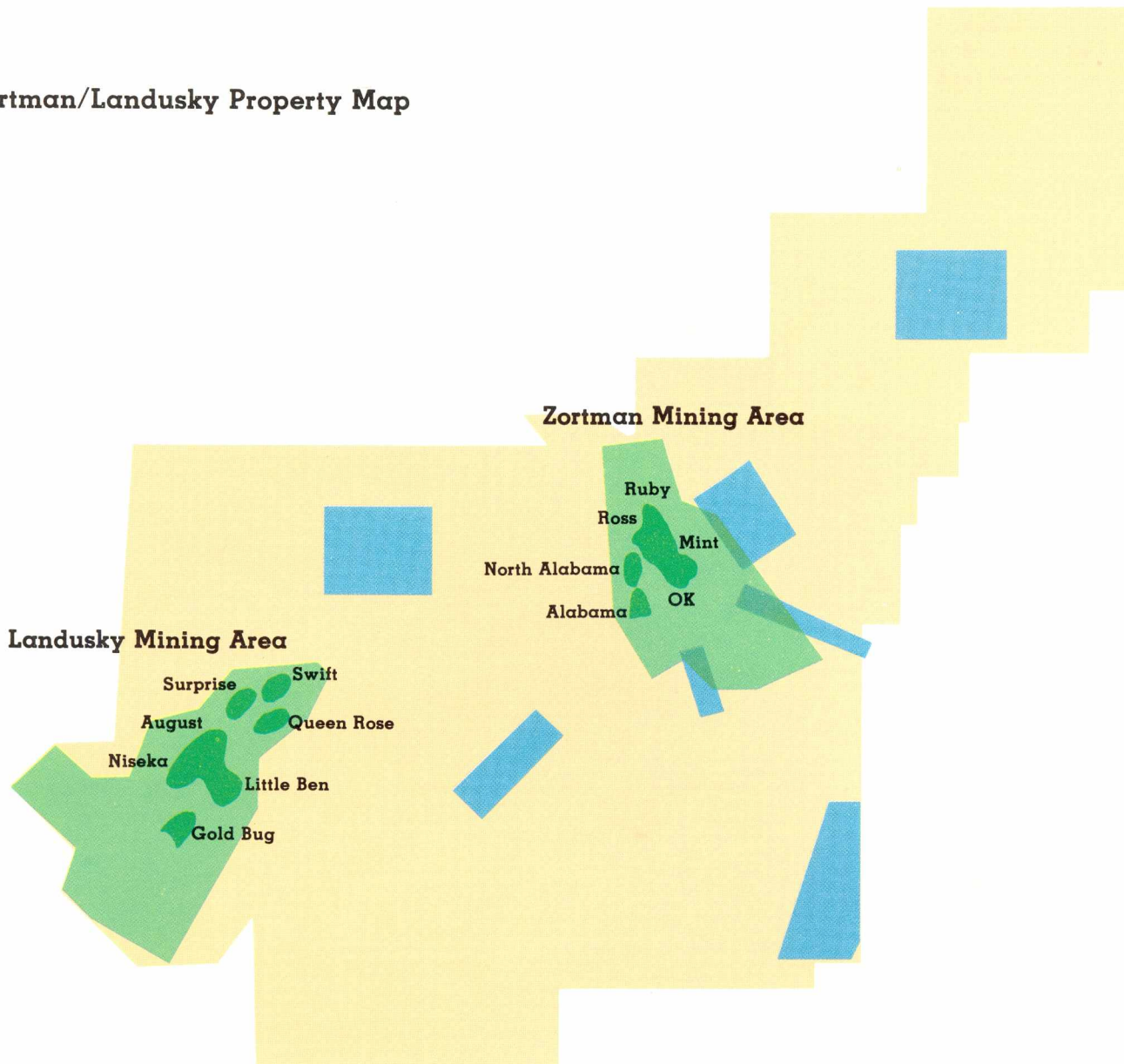
Landusky



Mining and Production Statistics

	1984	1983	1982	1981	1980
Gold (ounces)	70,000	77,000	67,000	38,000	34,000
Silver (ounces)	152,000	178,000	146,000	103,000	53,000
Ore Mined (tons)	5,700,000	4,028,000	3,883,000	2,148,000	1,303,000
Ore Reserves (tons)	43,300,000	28,400,000	31,500,000	33,600,000	35,000,000

Zortman/Landusky Property Map



Legend

- Entire Property
- Mining Areas
- Ore Pits
- Exploration Areas

Scale 1 Inch = 1 Mile

Exploration and Development

During 1984, approximately 200 properties were submitted to the Pegasus exploration department for examination. Twenty-five properties were examined in detail; of these, nine were acquired under option or lease. One of these properties, Green Campbell (Montana), is currently under exploration. In addition, a considerable amount of geologic, field and other investigative work was done to delineate favorable geologic structures where mines or mineral occurrences are known to exist. The Company has two major properties in the development phase, the Florida Canyon and Beal projects.

Beal Pit Area



Beal, Montana

Approximately 10,000 feet of drilling was completed in 1984, which further delineated ore reserves and assisted mine engineering studies. Current indicated reserves are estimated at 12.1 million tons grading 0.049 ounces of gold per ton with a stripping ratio of 1.2 to 1. Preliminary feasibility studies were based on a 3,000 ton per day conventional milling operation with a capital cost of U.S. \$37 million. Current studies are concentrating on lowering the cost to place the property into production using various operating methods. Ultimately, the decision to place this property into production is dependent upon improvement in the precious metals market.



Drilling & Development work on Beal Property



Senior Geological staff reviewing 1984 exploration results. (Left to right) Ronald Richardson, Jerry Harrold, James Hastings, V.P. - Exploration, John Buffa, Calvin McKee, and Thomas Burkhart.

Florida Canyon, Nevada

Florida Canyon is located 80 miles north of Reno, Nevada in Pershing County on the northwest edge of the Humboldt Mountains. During the year, the Company acquired additional acreage and increased its interest in the property from 35 percent to 85 percent. Past and current exploration has been directed toward developing a large tonnage heap leaching operation.

In 1984, 129 holes totalling 43,335 feet were drilled on the property. To date, in excess of 100,000 feet of drilling has been completed. As a result of the 1984 drilling program, preliminary drill-indicated and inferred reserves of 11.8 million tons grading 0.032 ounces per ton gold have been calculated in the West Trend area with an estimated stripping ratio of 1.9 to 1. Encouraging results from drilling on

other parts of the property indicate mineralization over a wide area. The ore grade encountered in 1984 was significantly higher than previously indicated, at depths suitable for open pit mining with favorable waste to ore ratios. The 1985 drilling program is designed to develop known mineralization in the West Trend and to explore other areas for potential development.

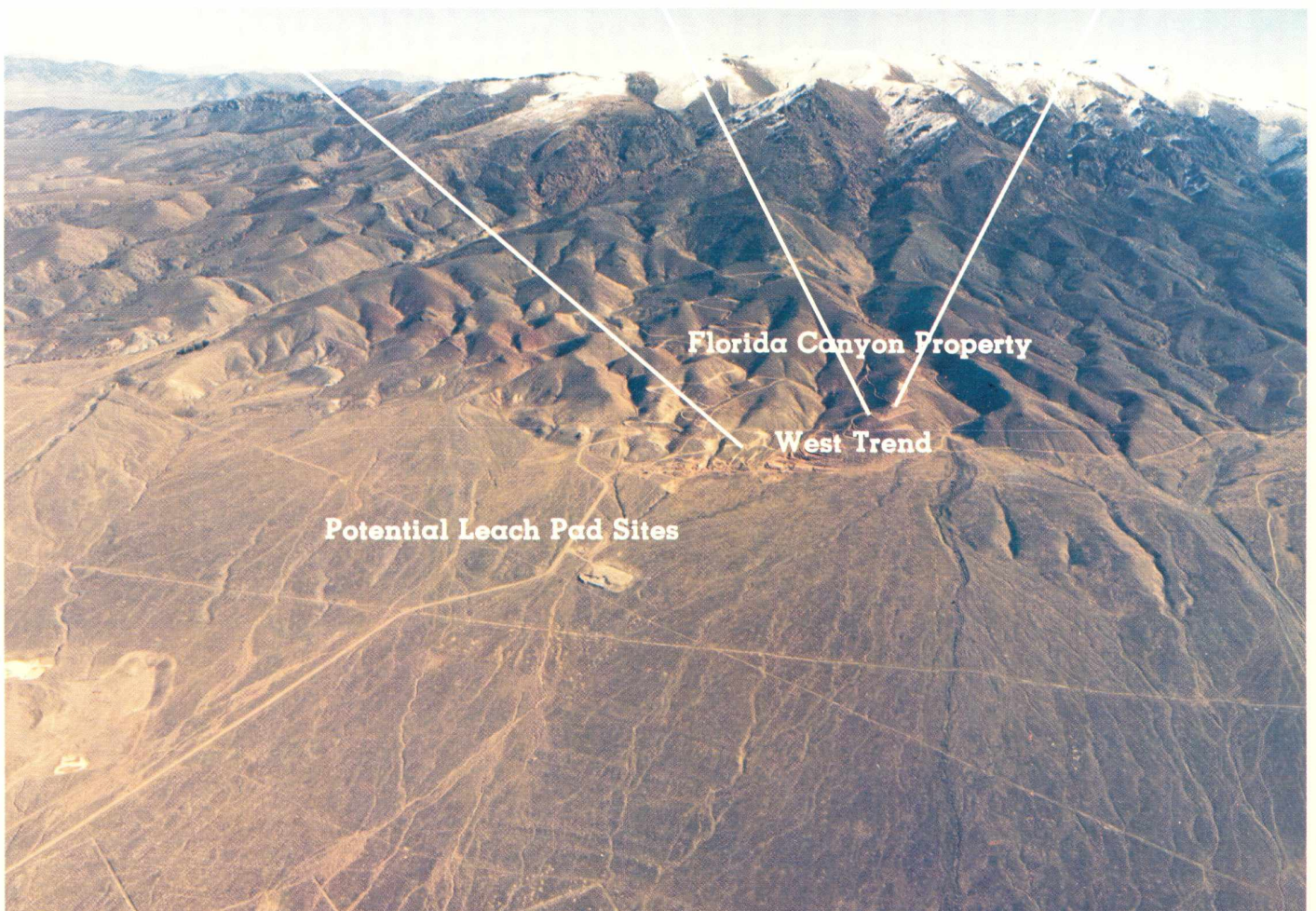
Drilling on the Florida Canyon Project.



Picture taken from Florida Canyon Property.



West trend area



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

1984 versus 1983

Net income for 1984 was \$2,864,132 compared to net income of \$6,633,944 for 1983. Total sales for 1984 were 9 percent or \$3,309,736 lower than sales in 1983. The decline in sales was principally due to lower prices of gold and lower gold production. The average price received per ounce of gold declined from \$509 in 1983 to \$480 in 1984. The Company's profitability is strongly influenced by the price of gold, which fluctuates widely and is affected by numerous factors beyond the Company's control. In addition, the Company's profitability is affected by fluctuations in the Canadian exchange rate for U.S. dollars. Foreign exchange gain increased from \$192,781 in 1983 to \$799,791 in 1984, reflecting a decline in the value of the Canadian dollar.

Total cost of sales and other direct production costs increased 18 percent or \$4,079,792 in 1984 compared to 1983 primarily due to the increased number of tons mined and processed. The increase in general and administrative expenses in 1984 compared to 1983 is due primarily to the following: the inclusion of a full year of administration activity at the Company's exploration office in Reno, Nevada; increased legal and accounting fees incurred in connection with the registration of the Company with the Securities and Exchange Commission; the amalgamation of Pegasus Gold Ltd. and Montoro Gold Inc. and the inclusion of general and administrative expenses incurred by Montoro prior to the amalgamation. Net profits royalties to the owners of the Zortman/Landusky Mine decreased due to the decline in net income of the mine. The net benefit for income taxes in 1984 was \$361,985 compared to the net provision for taxes of \$1,864,823 in 1983. The current year benefit results primarily from percentage depletion and the utilization of investment tax credits. At December 31, 1984, the Company has net operating loss and investment tax credit carryforwards of approximately \$7,258,000 and \$115,000, respectively, available to offset future taxable income and income tax expense.

1983 versus 1982

Net income for 1983 was \$6,633,944 compared to \$4,929,760 in 1982. Sales increased 29 percent, or \$8,146,336, due to an increase in gold sales of 10,000 ounces and higher gold prices. The average price received per ounce sold increased from \$439 in 1982 to \$509 in 1983.

Cost of sales and other direct production costs increased by \$3,113,037 in 1983 over 1982 due to the increased number of tons mined and processed. The increase in the net profits royalties paid to the owners of the Zortman/Landusky Mine is due to the increased profitability of the mine. General and administrative expense increased from \$919,870 in 1982 to \$1,499,639 in 1983,

reflecting increased corporate staff, new projects initiated in 1983 and the establishment of an exploration office in Reno, Nevada, in conjunction with the Company's exploration program. As a result of the establishment of the exploration program, exploration expenditures rose from \$1,193 in 1982 to \$1,103,866 in 1983. Income tax expense increased from \$1,078,921 in 1982 to \$1,864,823 in 1983 due to the corresponding increase in net income.

Financial Condition

The Company's primary sources of liquidity are internally-generated funds and a bank line of credit of U.S. \$5,000,000. At the end of 1984, the Company had assets of \$52 million, liabilities of \$7 million and shareholders' equity of \$45 million. The Company had 420,000 ounces of silver inventory at the end of 1984 compared to 311,000 ounces at the end of 1983. The operation at the Zortman/Landusky Mine presently represents the Company's main source of internally-generated working capital. During the year, working capital decreased from \$20,604,477 at the end of 1983 to \$18,180,107 at the end of 1984. The decline in working capital is principally due to capital expenditures incurred at the Zortman/Landusky Mine for large capacity leach pads built in 1984. There are no major capital expenditures planned for 1985.

Another source of liquidity is the Company's investment in deferred mining costs. These costs represent the ounces of gold and silver placed on the leach pads as of December 31, 1984, which will be recovered in the future over a leaching cycle of approximately five years. The direct costs related to the mining and transportation of the precious metals on the pad have been incurred as of December 31, 1984. However, additional leaching costs will be incurred before the recovery process is complete.

In January of 1985, the Company entered into an agreement with Wharf, the lessor of the Landusky property, whereby Wharf exchanged its royalty and working interests in the property for a fixed schedule of lease payments payable in gold. This agreement is expected to increase the working capital generated by the Zortman/Landusky Mine.

During 1984, the Company initiated the construction of large capacity "super pads." The "super pads" facilitate the mining of substantially larger ore tonnages over a period of several years at reduced operating costs per ton. The increased capacity of the new pads allows the Company to step up production without considerable implementation time and without a corresponding increase in capital outlay. This flexibility allows the Company to react to changes in the precious metals market by altering the optimum level of production. In addition, the Company has the option of halting production and only leaching in

order to preserve cash flow and the integrity of the mining operation in periods of declining gold prices.

Faced with the probability of a continuing decline in the price of gold, the Company has instituted various cost saving measures including tight controls on general and administrative and other costs, a freeze on hiring, a reduced budget for capital expenditures and cutbacks in exploration and development. The Beal project has been placed on hold until gold prices improve, although development work will continue at the Florida Canyon property. During 1984, the Company acquired a property adjacent to the Zortman/Landusky Mine which substantially increased ore reserves. As a result of the acquisition, additional planning is required in order to optimize the development of the total ore body. In light of the long-term planning required and the depressed price of gold, fewer tons of ore will be mined in 1985.

The Company's revenues, profitability and cash flow, and the ability to generate working capital internally are strongly influenced by the price of gold and the relationship of the gold price to the cost of production. The price of gold is determined by world markets and is affected by numerous factors beyond the Company's control, including general economic expectations, political and economic crises, and speculative activities in the commodities futures market. The cost of production, on the other hand, is relatively fixed in the short-term, although generally subject to the same inflationary pressures experienced by the economy as a whole. As a result, the Company's profits are largely dependent upon the price of gold. In order to increase the Company's liquidity, in early 1984, the Board of Directors changed the Company's dividend policy from quarterly cash payments to semi-annual payments, one of which would be in the form of a stock dividend and the other a cash dividend. Based upon the price of gold and the cash requirements of the Company, the Board of Directors elected to forego the declaration of a cash dividend in 1984.

The seasonality of the Company's business requires that significant working capital be available to sustain operations during the winter when the Company generates nominal revenues. The Company utilizes its line of credit to fund the cash requirements of the Company during this period.

The Company's financial position remains strong with adequate working capital and relatively insignificant long-term debt. The Company believes that internally-generated working capital and the line of credit are sufficient to finance the Company's current operations and capital expenditures. Any substantial expansion of the Company's operations in connection with the development of additional mining operations would be funded through a common stock placement or other financing methods.

Consolidated Balance Sheets at December 31, 1984 and 1983

(In Canadian dollars)

Assets		1984	1983
Current Assets			
Cash and cash equivalents		\$ 1,227,126	\$ 9,742,661
Due from sales of product		70,851	3,021,548
Other receivables		312,587	528,191
Note receivable (note 8)		—	420,496
Inventories of gold and silver		4,099,547	2,453,018
Deferred mining costs		16,205,650	12,119,742
Income taxes recoverable (note 7)		313,444	—
Prepaid expenses		25,752	101,539
Total current assets		22,254,957	28,387,195
Property, Plant and Equipment (note 5)		29,188,315	22,236,956
Loans to Officers and Directors (note 6)		385,976	—
Organization Costs		95,475	—
Total assets		<u>\$51,924,723</u>	<u>\$50,624,151</u>
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		\$ 1,088,442	\$ 1,156,057
Income taxes (note 7)		—	2,231,623
Mining taxes		832,008	846,857
Dividends payable		—	528,974
Royalties payable (note 8)		2,039,545	2,850,599
Current portion of notes and contracts payable		114,855	168,608
Total current liabilities		4,074,850	7,782,718
Notes and Contracts Payable		232,784	248,138
Deferred Royalty Payable (note 12)		822,695	1,093,771
Deferred Reclamation Costs		819,385	664,854
Deferred Income Taxes (note 7)		857,941	173,606
Total liabilities		6,807,655	9,963,087
Commitments and Contingent Liabilities (note 11)			
Shareholders' Equity			
Common Stock , no par value;			
Authorized - 30,000,000 shares			
Issued and outstanding -			
1984 - 8,925,612 shares			
1983 - 8,558,181 shares			
(notes 6 and 11(c))			
		29,923,959	26,574,656
Retained Earnings		15,193,109	14,086,408
Total shareholders' equity		45,117,068	40,661,064
Total liabilities and shareholders' equity		<u>\$51,924,723</u>	<u>\$50,624,151</u>

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

Approved by the Directors

Robert Luff

Director

John H. Jones

Director

Consolidated Statement of Changes in Shareholders' Equity For the Years Ended December 31, 1984, 1983 and 1982

(In Canadian dollars)

	Common stock		Retained Earnings
	Number of Shares	Amount	
Balance, December 31, 1981			
As previously reported	5,499,751	\$10,644,163	\$ 5,611,657
Pooling of interests - Montoro Gold Inc. (note 1(a))	<u>1,234,142</u>	<u>2,685,535</u>	<u>(244,488)</u>
As restated	6,733,893	13,329,698	5,367,169
Net earnings	—	—	4,929,760
Cash dividends	—	—	(911,972)
Common stock issued for the acquisition of minority interests (note 3(c))	581,000	1,975,400	—
Common stock issued under stock option plan (note 6)	88,200	273,420	—
Common stock issued for cash	187,500	725,000	—
Common stock issued for services	<u>10,000</u>	<u>70,000</u>	<u>—</u>
Balance, December 31, 1982	7,600,593	16,373,518	9,384,957
Net earnings	—	—	6,633,944
Cash dividends	—	—	(1,932,493)
Common stock issued for the acquisition of subsidiary (note 3(b))	175,000	2,428,125	—
Common stock issued under stock option plan (note 6)	156,988	501,995	—
Common stock issued for cash	<u>625,600</u>	<u>7,271,018</u>	<u>—</u>
Balance, December 31, 1983	8,558,181	26,574,656	14,086,408
Net earnings	—	—	2,864,132
Stock dividend - 2 percent	143,566	1,755,023	(1,755,023)
Cash dividend for fractional shares of stock dividend	—	—	(2,408)
Common stock issued for the acquisition of subsidiary (note 3(a))	50,000	656,250	—
Common stock issued under stock option plan (note 6)	139,865	550,530	—
Common stock issued for properties	<u>34,000</u>	<u>387,500</u>	<u>—</u>
Balance, December 31, 1984	<u>8,925,612</u>	<u>\$29,923,959</u>	<u>\$15,193,109</u>

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

Consolidated Statements of Earnings

For the Years Ended December 31, 1984, 1983 and 1982

(In Canadian dollars)

	1984	1983	1982
Revenue			
Sale of gold and silver	\$33,248,691	\$36,558,427	\$28,412,091
Interest income	755,818	369,765	304,392
Foreign exchange gain	799,791	192,781	317,513
Other income	102,352	24,205	17,222
	<u>34,906,652</u>	<u>37,145,178</u>	<u>29,051,218</u>
Expenses			
Cost of sales and other direct production costs, including depreciation, depletion and amortization 1984 - \$3,313,484 1983 - \$2,667,215 1982 - \$3,059,520 (note 4)	27,336,662	23,256,870	20,143,833
Royalty (note 8)	716,123	2,536,670	2,011,209
Depreciation and amortization	351,733	144,596	115,451
Interest	291,727	104,770	97,436
General and administrative	2,607,376	1,499,639	919,870
Exploration	1,100,884	1,103,866	1,193
	<u>32,404,505</u>	<u>28,646,411</u>	<u>23,288,992</u>
Earnings before minority interests and income taxes	<u>2,502,147</u>	<u>8,498,767</u>	<u>5,762,226</u>
Minority interests in partnerships' loss (note 3(c))	<u>—</u>	<u>—</u>	<u>246,455</u>
Earnings before income taxes	<u>2,502,147</u>	<u>8,498,767</u>	<u>6,008,681</u>
Income tax provision (benefit) (note 7)			
Current	(1,046,320)	2,353,958	1,079,643
Deferred	684,335	(489,135)	(722)
	<u>(361,985)</u>	<u>1,864,823</u>	<u>1,078,921</u>
Net Earnings	<u>\$ 2,864,132</u>	<u>\$ 6,633,944</u>	<u>\$ 4,929,760</u>
Basic Earnings per Share (notes 1(a) and 13)	<u>\$0.33</u>	<u>\$0.84</u>	<u>\$0.68</u>
Cash Dividends per Share (note 1(a))	<u>Nil</u>	<u>\$0.30</u>	<u>\$0.15</u>

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

Consolidated Statements of Changes in Financial Position For the Years Ended December 31, 1984, 1983 and 1982

(In Canadian dollars)

	1984	1983	1982
Sources of Working Capital			
Net earnings	\$ 2,864,132	\$ 6,633,944	\$ 4,929,760
Add (deduct): Items not affecting working capital -			
Depreciation, depletion and amortization	3,665,217	2,811,811	3,174,971
Deferred reclamation costs	154,531	412,708	171,383
Deferred royalty payable	(271,076)	260,755	103,139
Deferred income taxes	684,335	(489,135)	(722)
Exploration	—	1,119,832	—
Minority interests	—	—	(246,455)
From operations	7,097,139	10,749,915	8,132,076
Issuance of common stock for -			
Acquisition of subsidiary companies (notes 3(a) and (b))	656,250	2,428,125	—
Acquisition of properties	387,500	—	—
Stock dividend	1,755,023	—	—
Cash and services	550,530	7,773,013	1,068,420
Purchase of minority interests (note 3(c))	—	—	1,975,400
Increase in notes and contracts payable	31,309	177,627	128,273
	<u>10,477,751</u>	<u>21,128,680</u>	<u>11,304,169</u>
Uses of Working Capital			
Net additions to property, plant and equipment	9,965,174	9,092,238	6,366,968
Non-current assets of acquired company (note 3(b))	—	615,153	—
Purchase price attributed to property and mineral rights (notes 3(a) and (b))	651,402	2,006,146	—
Minority interests acquired (note 3(c))	—	—	1,218,661
Dividends	1,757,431	1,932,493	911,972
Loans to officers and directors (note 6)	385,976	—	—
Notes and contracts paid or currently maturing	46,663	116,886	96,206
Distributions to minority interests	—	—	16,890
Organization costs	95,475	—	—
	<u>12,902,121</u>	<u>13,762,916</u>	<u>8,610,697</u>
Increase (Decrease) in Working Capital	(2,424,370)	7,365,764	2,693,472
Working Capital — Beginning of Year	<u>20,604,477</u>	<u>13,238,713</u>	<u>10,545,241</u>
Working Capital — End of Year	<u>\$18,180,107</u>	<u>\$20,604,477</u>	<u>\$13,238,713</u>

continued

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

Consolidated Statements of Changes in Financial Position (continued)
For the Years Ended December 31, 1984, 1983 and 1982
(In Canadian dollars)

	1984	1983	1982
Changes in Components of Working Capital			
Increase (decrease) in current assets			
Cash and cash equivalents	\$(8,515,535)	\$1,505,579	\$4,618,031
Accounts and other receivables	(3,166,301)	2,882,646	(620,669)
Note receivable	(420,496)	420,496	—
Inventories of gold and silver	1,646,529	1,517,480	(62,858)
Deferred mining costs	4,085,908	3,215,279	3,016,758
Income taxes recoverable	313,444	—	(75,628)
Prepaid expenses	(75,787)	14,499	16,341
	<u>(6,132,238)</u>	<u>9,555,979</u>	<u>6,891,975</u>
Increase (decrease) in current liabilities			
Accounts payable and accrued liabilities	(67,615)	(632,304)	876,044
Income taxes	(2,231,623)	1,748,264	483,359
Mining taxes	(14,849)	57,438	337,949
Dividends payable	(528,974)	73,059	455,915
Royalty payable	(811,054)	840,451	2,010,148
Notes and contracts payable	(53,753)	103,307	35,088
	<u>(3,707,868)</u>	<u>2,190,215</u>	<u>4,198,503</u>
Increase (Decrease) in Working Capital	<u>\$(2,424,370)</u>	<u>\$7,365,764</u>	<u>\$2,693,472</u>

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

Notes to Consolidated Financial Statements For the Years Ended December 31, 1984, 1983 and 1982

(In Canadian dollars)

1. The Company

(a) The Company, through its wholly-owned subsidiaries, operates a gold and silver mine in Montana, U.S.A., and is actively engaged in the exploration and development of precious mineral property in the western United States. The Company was formed August 20, 1984 pursuant to an amalgamation agreement between Pegasus Gold Ltd. (Pegasus) and Montoro Gold Inc. (Montoro). Under the terms of the agreement, each shareholder of Pegasus received one common share of the Company for each share of Pegasus, and each shareholder of Montoro received one common share of the Company for each 2 2/3 common shares of Montoro.

The net assets of the combining companies immediately prior to the amalgamation, net of intercompany transactions, were approximately as follows:

	Total assets	Total liabilities	Net assets
Pegasus Gold Ltd.	<u>\$48,914,000</u>	<u>\$14,123,000</u>	<u>\$34,791,000</u>
Montoro Gold Inc.	<u>\$ 6,886,000</u>	<u>\$ 310,000</u>	<u>\$ 6,576,000</u>

The issued share capital of Pegasus Gold Inc. immediately subsequent to the amalgamation was as follows:

	Number	%
Shares issued to Pegasus shareholders	7,394,761	83
Shares issued to Montoro shareholders	1,498,045	17
	<u>8,892,806</u>	<u>100</u>

The amalgamation has been accounted for as a pooling-of-interests and, accordingly, the financial statements presented herein reflect the combined financial position and results of operations of the two predecessor companies. The revenues and net earnings of Montoro for all years presented herein are immaterial. All cash and common stock dividends presented herein were declared by Pegasus Gold Ltd.

(b) Sales to significant customers as a percentage of total sales were as follows:

	1984	1983	1982
Customer A	99.5%	98.8%	—
Customer B	—	—	96.2%
Other	0.5%	1.2%	3.8%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

2. Summary of Significant Accounting Policies

The Company follows accounting principles generally accepted in Canada which conform to U.S. practice except for the translation of foreign currency and the calculation of earnings per share. These differences are explained in note 13.

(a) Basis of Consolidation

The consolidated financial statements include the accounts of the Company, its proportionate share of the accounts of unincorporated joint ventures in which it participates, and the following direct and indirect wholly-owned subsidiaries:

- Pegasus Gold Corporation
- Landusky Mining, Inc.
- Zortman Mining, Inc.
- L.R.M. Holdings, Inc.
- Majestic Mining Company
- Beal Mining Company

All significant intercompany transactions are eliminated on consolidation.

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(b) Inventories of Gold and Silver

Inventories of gold and silver are valued at the lower of average production cost or net realizable value.

(c) Deferred Mining Costs

Mining costs associated with products being processed are deferred and amortized based on the estimated gold and silver to be recovered. Gold and silver are recovered over a five year period with approximately 50 percent of the recovery occurring in the first year ore is added to the leach pad.

(d) Development and Exploration Costs

Development costs at operating mines and properties not yet producing are capitalized. Exploration costs with respect to operating mines and acquired exploration properties are capitalized pending the determination of the projects' economic viability. Upon commencing production, development and exploration costs are amortized over the estimated ore reserves benefitted. Deferred exploration costs of unsuccessful projects are expensed.

(e) Property, Plant and Equipment

Property, plant and equipment is recorded at cost. Replacements and major improvements are capitalized. Maintenance and repairs are charged to expense as incurred. The cost and related accumulated depreciation of assets sold or otherwise disposed of are removed from the accounts and any resulting gain or loss is charged to operations. Depreciation is provided using straight-line and accelerated methods over the estimated useful lives of the related assets. Leach pad costs and the cost of property and mineral rights are amortized on the units-of-production method over the estimated ore reserves benefitted.

(f) Deferred Royalty Payable

The Company accrues royalty expense based on the rate in a mineral lease agreement and financial statement earnings before royalty expense. The lease provides for deferment of payment of the royalty under certain conditions.

(g) Deferred Reclamation Costs

Deferred reclamation costs relating to mining properties are accrued on the units-of-production method.

(h) Revenue Recognition

Sales of metals are recorded at contractual amounts upon delivery to custom metal traders.

(i) Income Taxes

The Company records income taxes on the tax allocation basis. Deferred income taxes arise principally from depreciation and mine development expenses which are deferred and amortized for financial statement purposes and deducted currently for income tax purposes. Investment and research and development tax credits are accounted for using the flow-through method.

(j) Translation of Foreign Currency

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the balance sheet date, and non-monetary assets and liabilities are translated at the exchange rate in effect at the date of the transaction. Revenues and expenses are translated at the average exchange rate for the year. Exchange gains or losses are included in the determination of net earnings, except for exchange gains or losses relating to non-current monetary assets or liabilities, which are deferred and amortized over the remaining life of the asset or liability.

(k) Organization Costs

Organization costs relating to the amalgamation of Pegasus and Montoro are capitalized and amortized over a 10 year period.

Notes to Consolidated Financial Statements (continued)

3. Acquisitions

- (a) On March 5, 1984, the Company acquired all of the outstanding common shares of Majestic Mining Company (Majestic) in consideration for issuing 215,000 shares of its common stock from time to time as provided for in an agreement dated December 2, 1983. Majestic owned a 22.6 percent interest in the Florida Canyon property located in Nevada, U.S.A. At December 31, 1984, the Company owns an 85 percent interest in the Florida Canyon property.

During 1984, 50,000 common shares of the Company with a market value of \$656,250 were issued to the shareholders of Majestic. The issuance of the remaining 165,000 shares is contingent upon the occurrence of certain events as described in note 11(c). The acquisition has been accounted for using the purchase method. Accordingly, the operations of Majestic from March 5, 1984, which are immaterial, are included in the consolidated statement of earnings. The net assets acquired, consisting primarily of property and mineral rights, approximate the market value of the shares issued.

- (b) On August 2, 1983, the Company acquired all of the outstanding shares of L.R.M. Holdings, Inc. (LRM), which holds a 7.89 percent working interest in the Landusky Mine, by issuing 175,000 common shares of the Company. The market value of the shares issued was \$2,428,125.

The acquisition of LRM has been accounted for using the purchase method. Accordingly, the operations of LRM from August 2, 1983, which are immaterial, are included in the consolidated statements of earnings.

Net assets acquired are as follows:

Current assets	\$ 27,252
Current liabilities	<u>220,426</u>
Working capital deficiency	(193,174)
Non-current assets acquired (net)	<u>615,153</u>
Book value of L.R.M. Holdings, Inc. at August 2, 1983	421,979
Excess of cost over book value of assets acquired	
attributed to property and mineral rights	<u>2,006,146</u>
Market value of shares	<u>\$2,428,125</u>

- (c) On April 30, 1982, a total of 581,000 common shares of the Company were issued to the limited partners of Landusky Partners and Zortman Partners for their 12 percent and 15 percent interests in the partnership, respectively. The market value of the shares issued was \$1,975,400.

The acquisition of these interests was accounted for using the purchase method. Accordingly, the operations relating to the minority interests after April 30, 1982 are included in the consolidated statements of earnings.

	Landusky Partners	Zortman Partners	Total
Market value of shares	\$816,000	\$1,159,400	\$1,975,400
Minority interest at April 30, 1982	<u>678,265</u>	<u>540,396</u>	<u>1,218,661</u>
Excess of cost over book value of minority interest attributed to property and mineral rights	<u>\$137,735</u>	<u>\$ 619,004</u>	<u>\$ 756,739</u>

The partnerships were dissolved, and the subsidiaries now operate the Zortman/Landusky mine directly.

Notes to Consolidated Financial Statements (continued)

4. Changes in Estimates

During 1984, 1983 and 1982, the Company changed certain estimates based on changes in production results and mining plans. In 1984, the Company increased its estimate of the leach pad utilized and modified the method of calculating leach pad amortization. In 1983, the Company decreased its estimate of the amount of gold and silver to be recovered. In 1982, the Company increased its estimate of the amount of gold and silver to be recovered and the estimated cost to complete the leaching cycle, and refined the method used to amortize deferred mining costs. The effect of these changes was to increase (decrease) earnings before income taxes as follows:

Year ended December 31, 1982	<u>\$ (3,333,000)</u>
1983	<u>\$ (1,031,000)</u>
1984	<u>\$ 677,000</u>

5. Property, Plant and Equipment

	1984	1983
In Service		
Property and mineral rights	\$ 5,611,331	\$ 4,802,082
Development costs	10,931,133	6,990,314
Buildings	1,747,054	1,685,161
Machinery and equipment	4,545,326	3,702,607
Leach ponds	1,791,133	1,797,860
Leach pads	13,053,457	10,847,132
Roads	1,409,584	1,414,389
Power line costs	364,686	298,601
Furniture and fixtures	302,095	202,747
	<u>39,755,799</u>	<u>31,740,893</u>
Less: Accumulated depreciation, depletion and amortization	<u>14,764,259</u>	<u>11,099,042</u>
	<u>24,991,540</u>	<u>20,641,851</u>
Construction in Progress		
Leach pads	4,095,413	1,493,338
Land	101,362	101,767
	<u>\$ 29,188,315</u>	<u>\$22,236,956</u>

Notes to Consolidated Financial Statements (continued)

6. Incentive Stock Option Agreements

During 1984, the Company granted certain of its officers, directors and employees options to purchase a total of 116,000 shares of the Company's common stock at exercise prices ranging from \$11.33 to \$12.63. The options expire between January 12, 1989 and May 16, 1994.

During 1982, 1983 and 1984, 385,053 shares of the Company's common stock were issued pursuant to stock option agreements as follows:

	Number of shares	Option price per share \$	Expiration date
Balance, December 31, 1981	393,000	5.75 - 11.00	
Cancelled	(393,000)	5.75 - 11.00	
Granted	71,048	4.67 - 6.00	August 8, 1985
Granted	70,875	5.33	December 10, 1987
Granted	503,000	3.10	March 28, 1992
Exercised	<u>(88,200)</u>	3.10	
Balance, December 31, 1982	556,723	3.10 - 6.00	
Granted	15,000	10.95	March 2, 1993
Granted	115,000	11.70 - 13.00	September 23, 1993
Granted	85,000	11.70 - 13.00	November 24, 1993
Exercised	<u>(156,988)</u>	3.10 - 4.67	
Balance, December 31, 1983	614,735	3.10 - 13.00	
Cancelled	(50,000)	11.70 - 13.00	
Granted	15,000	11.33	January 12, 1989
Granted	101,000	11.37 - 12.63	May 16, 1994
Exercised	<u>(139,865)</u>	3.10 - 5.33	
Balance, December 31, 1984	<u>540,870</u>	3.10 - 13.00	

During 1984, the Company adopted a financial assistance plan to enable key employees to purchase common shares of the Company. The loans are repayable in ten equal payments on January 15 of each year commencing no sooner than 350 days from the date of the promissory note. The promissory notes, which bear interest at the prime rate of specified Canadian and U.S. banks are, if required by the Board, collateralized by common shares of the Company (valued at the prevailing market price) equal to 120 percent of the loan balance. The amount receivable under the plan from key employees at December 31, 1984, of \$338,912 is included in Loans to Officers and Directors.

Notes to Consolidated Financial Statements (continued)

7. Income Taxes

The components of the income tax provision (benefit) are:

	1984	1983	1982
Currently payable (recoverable)			
Federal	\$ (909,215)	\$2,047,977	\$ 953,043
State	(137,105)	305,981	126,600
	<u>(1,046,320)</u>	<u>2,353,958</u>	<u>1,079,643</u>
Deferred provision (benefit)			
Federal	606,708	(418,458)	(624)
State	77,627	(70,677)	(98)
	<u>684,335</u>	<u>(489,135)</u>	<u>(722)</u>
	<u>\$ (361,985)</u>	<u>\$1,864,823</u>	<u>\$1,078,921</u>

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

	1984		1983		1982	
	Amount	%	Amount	%	Amount	%
Income tax expense computed at statutory rate	\$1,150,988	46	\$3,909,433	46	\$2,763,993	46
State income taxes, net of federal benefit	(23,478)	(1)	129,849	2	75,488	1
Surtax exemption	27,343	1	(25,606)	(1)	(54,086)	(1)
Investment and research and development tax credits	(306,488)	(13)	(416,508)	(5)	(341,453)	(6)
Percentage depletion, net of preference tax	(602,709)	(25)	(1,633,615)	(19)	(1,409,338)	(23)
Adjustment of prior years' tax estimate	(83,457)	(4)	—	—	—	—
Foreign exchange gain	(524,184)	(18)	(98,730)	(1)	44,317	1
Income tax expense	<u>\$ (361,985)</u>	<u>(14)</u>	<u>\$1,864,823</u>	<u>22</u>	<u>\$1,078,921</u>	<u>18</u>

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

	1984	1983	1982
Development and exploration costs	\$504,989	\$(335,518)	\$35,512
Tax depreciation over (under) book depreciation	(141,360)	37,413	(33,666)
Deferred royalty expense	224,036	(191,980)	(2,232)
Other	96,670	950	(336)
Deferred tax provision (benefit)	<u>\$684,335</u>	<u>\$(489,135)</u>	<u>\$ (722)</u>

Notes to Consolidated Financial Statements (continued)

7. Income Taxes (continued)

The Company and certain U.S. subsidiaries have accumulated losses for tax purposes of approximately \$793,000 and \$6,465,000, respectively, and the U.S. subsidiaries have investment tax credit carryforwards of approximately \$115,000. These carryforwards, for which no future tax benefit has been recognized in the accounts, are available to reduce future taxable income and income taxes payable, and expire as follows:

	Canada	United States	
	Non-Capital Losses	Net Operating Losses	Investment Tax Credits
1987	\$333,000	—	—
1990	357,000	—	—
1991	103,000	—	—
1995	—	\$ 20,000	\$ 1,000
1996	—	1,605,000	26,000
1997	—	617,000	1,000
1998	—	404,000	13,000
1999	—	3,819,000	74,000
	<u>\$793,000</u>	<u>\$6,465,000</u>	<u>\$115,000</u>

8. Related Party Transactions

Fees for rent, legal, engineering and consulting services totalling \$716,687 for the year ended December 31, 1984 (1983 - \$541,249; 1982 - \$349,061) have been paid to firms in which certain officers, directors and employees of the Company are partners or owners.

The current royalty payable includes \$2,039,545 (1983 - \$2,733,384; 1982 - \$2,010,148) due to Gold Reserve Corporation, the lessor of the Zortman Mine. The President of the Company is also President of Gold Reserve Corporation. During the year, the Company incurred royalty expense of \$467,604 (1983 - \$1,975,880; 1982 - \$1,773,802) associated with the Gold Reserve Corporation mineral lease.

At December 31, 1983, the Company had a \$420,496 note receivable bearing interest at 9 percent annually from Gold Reserve Corporation. During 1984, the note was repaid.

On December 1, 1983, the Company and Gold Reserve Corporation formed a joint venture to develop the Florida Canyon property. At December 31, 1984, the working interests are 85 percent and 15 percent, respectively.

Other related party transactions are disclosed in notes 3(a), 11(b) and 12(b) to the consolidated financial statements.

9. Bank Line of Credit

The Company has available a U.S. \$5,000,000 line of credit with First Interstate Bank of Washington. Interest is charged on the amount outstanding at a rate equal to the bank's prime rate plus 1 percent. Any amounts drawn under the line are collateralized by the inventories of gold and silver. There were no amounts outstanding under the line at December 31, 1984 and 1983.

10. Employee Savings Plan

During 1984, the Company adopted an employee savings plan under section 401(k) of the U. S. Internal Revenue Code. Substantially all of the U. S. employees are eligible. Under the plan, employees may elect to contribute up to 6 percent of their base salary and the Company will make a matching contribution equal to 50 percent of the employee's contribution to a maximum of \$132 a month. The Company may, at its option, make additional contributions to the plan. During 1984, the Company contributed \$55,533 to the plan.

Notes to Consolidated Financial Statements (continued)

11. Commitments and Contingent Liabilities

- (a) The Internal Revenue Service (IRS) is presently examining the 1980 federal income tax returns of Zortman Mining, Inc. and Landusky Mining, Inc. The primary issues under examination are the valuation of the Company's common stock issued in payment of mining contract services performed and investment tax credits taken on a company-constructed mining road. Management and legal counsel are of the opinion that the income tax provision is adequate and that the resolution of the IRS examinations will not materially affect the consolidated financial position or results of operations of the Company.
- (b) The Company leases office space under an operating lease. Total rent expense under this lease for the year ended December 31, 1984 was \$142,617. The aggregate minimum lease payments over the next five years are as follows:

1985	\$143,000
1986	143,000
1987	143,000
1988	143,000
1989	36,000
	<u>\$608,000</u>

The payments are due to a partnership in which the President of the Company has a 50 percent interest.

- * (c) The Company has entered into several agreements to acquire an 85 percent interest in the Florida Canyon property. At December 31, 1984, there are 600,625 common shares of the Company to be issued contingent upon the price of gold and the establishment of proven ore reserves, or upon the Company's giving notice of its intention to place the property into commercial production.

12. Subsequent Events

- (a) On February 16, 1984, Wharf Resources Ltd. (Wharf) filed a writ of summons against the Company in the Supreme Court of British Columbia claiming an unspecified amount for damages for breach of contract, including failure to pay monies due and owing, pursuant to the terms of a 1978 mining lease agreement.

On January 24, 1985, Wharf and the Company entered into an agreement whereby Wharf agreed to release the Company from any obligations under the terms of the 1978 mining lease agreement and dismissed the writ of summons. At December 31, 1984, the deferred royalty payable is \$822,695. Effective January 1, 1985, the Company leased Wharf's entire working interest in the Landusky Mine for U.S. \$120,000; warrants for 250,000 common shares of the Company exercisable at \$10.00 on or before July 1, 1987; the delivery of 15,000 ounces of gold and 20,000 ounces of silver commencing June 1, 1985 and ending October 1, 1989; and, 1,000 ounces of gold per year commencing in 1990, and continuing until mining operations cease. The net assets acquired, representing Wharf's working interest in the Landusky Mine, are approximately \$1,700,000 at December 31, 1984.

- (b) On March 20, 1985, the Company entered into an agreement to acquire two wholly-owned subsidiaries of Gold Reserve Corporation in exchange for 1,200,000 common shares of the Company. The acquired subsidiaries own a 30 percent interest in the Zortman property and a 15 percent working interest in the Florida Canyon property. The transaction is subject to regulatory approval and approval by shareholders of Gold Reserve Corporation.

Notes to Consolidated Financial Statements (continued)

13. Differences Between Canadian and United States Generally Accepted Accounting Principles

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

(a) Foreign Currency Translation

Under generally accepted accounting principles in Canada, monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the balance sheet date, and non-monetary assets and liabilities are translated at the exchange rate in effect at the date of the transaction. Revenues and expenses are translated at the average exchange rate for the year. Exchange gains or losses are included in the determination of net earnings except for exchange gains or losses relating to non-current monetary assets or liabilities, which are deferred and amortized over the remaining life of the asset or liability.

Under United States generally accepted accounting principles (Statement of Financial Accounting Standards No. 52), foreign currency translation adjustments resulting from translating the Company's United States operations from U.S. dollars to Canadian dollars are not included in the determination of net earnings, but are disclosed and accumulated as a separate component of shareholders' equity. Additionally, all balance sheet accounts, other than common stock and retained earnings, are translated using the current exchange rate at the balance sheet date. For revenues, expenses, gains and losses, the exchange rates at the dates on which those transactions were completed are used. Gains and losses from foreign currency transactions are included in net earnings.

(b) Computation of Earnings per Share

Basic earnings per share under Canadian generally accepted accounting principles are calculated using the weighted average number of shares outstanding during the year restated for the amalgamation of Pegasus Gold Ltd. (Pegasus) and Montoro Gold Inc. (Montoro) (1984 - 8,766,623 shares; 1983 - 7,888,990 shares; 1982 - 7,221,926 shares). Fully diluted earnings per share shows the effect on earnings per share which would result if the options outstanding at the end of the year had been exercised at the beginning of the year, or on the date the options were granted, if later.

Under United States generally accepted accounting principles (Accounting Principles Board Opinion No. 15), the computation of primary earnings per share considers the weighted average number of shares outstanding during the year (as restated for the amalgamation of Pegasus and Montoro) plus common stock equivalents, such as common stock options. This method requires that primary earnings per share be computed as if stock options were exercised at the beginning of the fiscal year (or at the time of issuance, if later), and as if the funds obtained thereby were used to purchase common stock of the Company at the average market price during the year. Fully diluted earnings per share shows the effect on earnings per share which would result if the proceeds from the exercise of common stock options were used to purchase the Company's common stock at its market value at the end of the year.

Notes to Consolidated Financial Statements (continued)

13. Differences Between Canadian and United States Generally Accepted Accounting Principles (continued)

The effects of the differences between Canadian and United States accounting principles on shareholders' equity, statements of earnings, and earnings per share are as follows:

	December 31,		
	1984	1983	1982
Canadian Accounting Principles			
Shareholders' equity —			
Common stock	\$29,923,959	\$26,574,656	\$16,373,518
Retained earnings	15,193,109	14,086,408	9,384,957
	<u>\$45,117,068</u>	<u>\$40,661,064</u>	<u>\$25,758,475</u>
Net earnings	<u>\$ 2,864,132</u>	<u>\$ 6,633,944</u>	<u>\$ 4,929,760</u>
Basic earnings per share	<u>\$0.33</u>	<u>\$0.84</u>	<u>\$0.68</u>
Fully diluted earnings per share	<u>N/A</u>	<u>\$0.83</u>	<u>\$0.68</u>
United States Accounting Principles			
Shareholders' equity —			
Common stock	\$29,923,959	\$26,574,656	\$16,373,518
Retained earnings	13,476,492	13,428,676	8,962,339
Equity adjustment from foreign currency translation	3,390,204	1,074,734	681,941
	<u>\$46,790,655</u>	<u>\$41,078,066</u>	<u>\$26,017,798</u>
Net earnings	<u>\$ 1,805,247</u>	<u>\$ 6,398,830</u>	<u>\$ 4,437,803</u>
Primary earnings per share	<u>\$0.20</u>	<u>\$0.78</u>	<u>\$0.60</u>
Fully diluted earnings per share	<u>\$0.19</u>	<u>\$0.74</u>	<u>\$0.55</u>

Auditors' Report to the Shareholders

We have examined the consolidated balance sheets of Pegasus Gold Inc. as at December 31, 1984 and 1983 and the consolidated statements of earnings, changes in shareholders' equity and changes in financial position for the years ended December 31, 1984, 1983 and 1982. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1984 and 1983, and the results of its operations and the changes in its financial position for the years ended December 31, 1984, 1983 and 1982 in accordance with generally accepted accounting principles in Canada applied on a consistent basis.

Vancouver, B.C.
February 22, 1985
Except note 12(b) which is
dated March 21, 1985

Coopers & Lybrand

Chartered Accountants

Corporate Information

Directors

Hobart Teneff
Spokane, Washington

John C. Crabb
Pender Harbour, B.C.

John J. Crowhurst
Vancouver, B.C.

Peter R. Kutney
Calgary, Alberta

Robert A. Watts
Spokane, Washington

Leslie L. Woods
Spokane, Washington

Milton H. Zink
Vancouver, B.C.

Officers

Hobart Teneff
President & CEO

A. Douglas Belanger
Vice President, Corporate Affairs

James S. Hastings
Vice President, Exploration

Fred H. Lightner
Vice President, Operations

Patrick D. McChesney
Controller

Rockne J. Timm
*Vice President,
Chief Financial Officer*

Robert A. Watts
Executive Vice President

Albert K. F. Wu
Assistant Secretary

Milton H. Zink
Vice President and Secretary

Offices

Executive Headquarters
*Suite 400 - W. 801 Riverside Ave.
Spokane, Washington 99201
(509) 624-4653
Telex: 32-6347 Landzort SPK*

Canadian Office
*200 - 1055 West Hastings Street
Vancouver, B.C. V6E 2E9*

Registered Office
*1710 - 1177 West Hastings Street
Vancouver, B.C. V6E 2L3*

Operations Office
*Robert Turner, Resident Manager
P.O. Box 313
Zortman, Montana 59546*

Exploration Offices
• *Suite 107
1885 S. Arlington Ave.
Reno, Nevada 89509*

• *P.O. Box 4048
Butte, Montana 59702*
• *1143 W. 4th
Winnemucca, Nevada 89445*

Shares Listed

Toronto Stock Exchange - PGU
NASDAQ - PGULF

Transfer Agent & Registrar

The Canada Trust Company
Vancouver, B.C.

The Canada Trust Company
Toronto, Ontario

Auditors

Coopers & Lybrand
*1111 West Hastings Street
Vancouver, B.C. V6E 3R2*

Bankers

Canadian Imperial Bank
of Commerce
*1036 West Georgia Street
Vancouver, British Columbia
V6E 3C7*

First Interstate Bank of Washington
*P.O. Box 337
Spokane, Washington 99210*

Solicitors

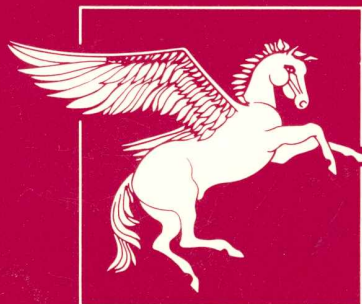
Shearman & Sterling
*Four Embarcadero Center
San Francisco, California 94111*

Tupper, Jonsson & Shroff
*1710 - 1177 West Hastings Street
Vancouver, B.C. V6E 2L3*

For further information and a copy of the
Company's 10K contact:

A. Douglas Belanger
Vice-President
W. 801 Riverside Ave. Suite 400
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1984 Annual Report



PEGASUS GOLD INC.

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