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ANNUAL

REPORT



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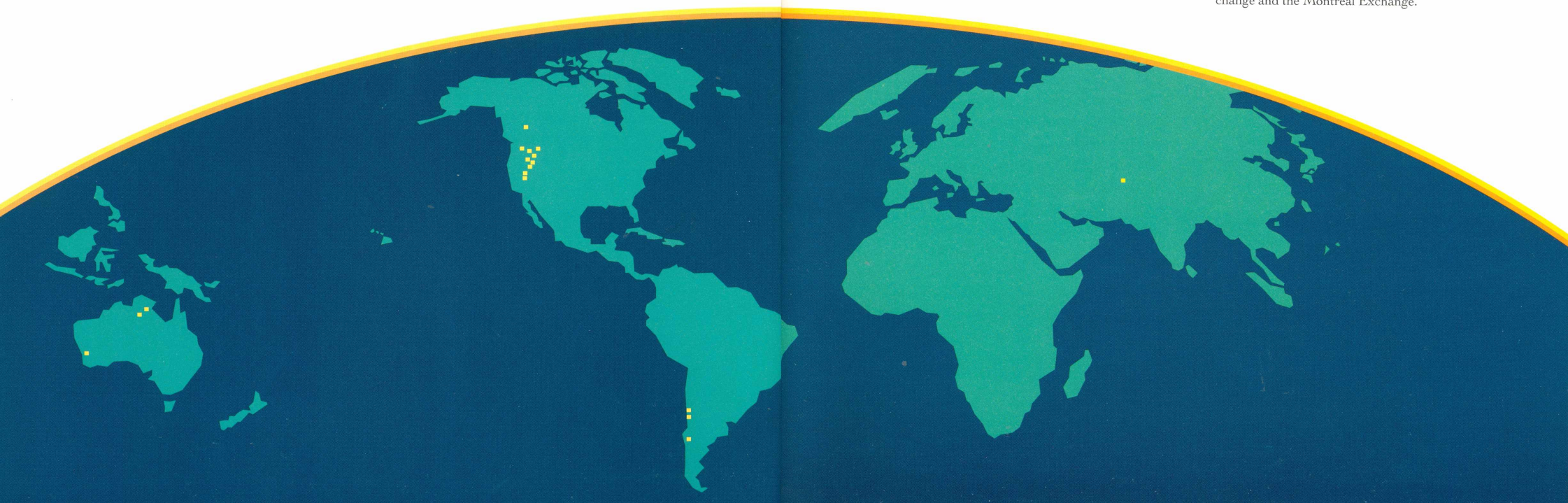
CORPORATE PROFILE

A pioneer of modern heap-leach precious metals mining, Pegasus Gold Inc. produced more than 450,000 ounces of gold in 1993. The Company, with reserves in excess of 5.3 million contained ounces of gold, anticipates producing 500,000 ounces in 1994. Pegasus also maintains an active international exploration program.

The Company uses the open-pit mining method at all of its operations. Montana Tunnels uses a conventional mill to produce gold, silver, zinc and lead; the other operations employ the heap-leach technology.

For the first time, a significant portion of the 1993 production came from outside the United States. In 1993, Pegasus realized 41,100 ounces from its proportional interest in Zapopan N.L. of Australia and began to fully consolidate results as of April. Pegasus Gold's expertise in bulk mining gained an international foothold when Zapopan's Mt. Todd Mine commenced production in late December.

Pegasus Gold Inc. is an international mining company based in Spokane, Washington. The Company's common shares are listed on the American Stock Exchange, the Toronto Stock Exchange and the Montreal Exchange under the symbol PGU. Options on the Company's common shares are traded on the Chicago Board Options Exchange and the Montreal Exchange.



PRESIDENT'S LETTER

Pegasus is committed to growth. Our mission is to maximize long-term financial returns to our shareholders. We will do this by developing and utilizing a skilled and motivated workforce to explore for, develop and efficiently operate precious metal mines.

In our corporate profile, we no longer refer to ourselves as a "major North American gold producer." Pegasus has become a global producer of precious metals with an operating mine in Australia and advanced exploration projects in Chile. The current socio-political climate in the United States has certainly been a factor in the decision to move off-shore. Equally important has been the fact that many developing countries now welcome foreign investment and have streamlined regulatory procedures to allow mining companies to operate efficiently and profitably while maintaining sound environmental practices. We believe that the potential to discover and develop a major deposit is significantly greater outside the United States than within.

We at Pegasus recognize that, to be successful, our international program must be focused and well-planned. To this end, our exploration and business development teams are working to select those projects which meet very stringent criteria in a number of areas including size, technical risk and manageable political and financial risk.

*PEGASUS HAS BECOME A
GLOBAL PRODUCER OF
PRECIOUS METALS WITH
AN OPERATING MINE IN
AUSTRALIA AND
ADVANCED EXPLORATION
PROJECTS IN CHILE.*

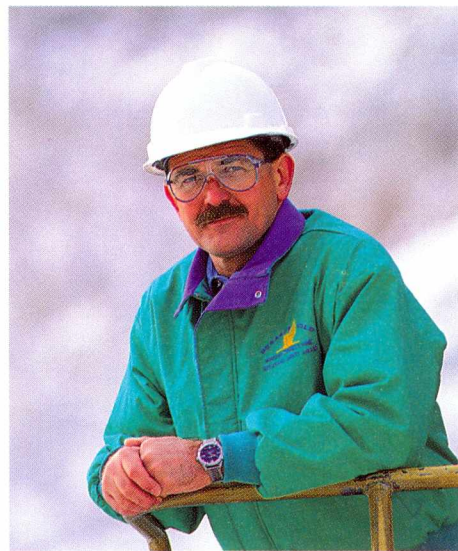
The technical and operating expertise we have developed at our U.S. operations is of crucial importance in transforming Pegasus into a larger, more profitable international precious metal producer. This expertise was demonstrated once again in 1993. Total gold production for the year was 455,700 ounces. Our U.S. mines yielded 414,600 ounces, led by the superb performance of Florida Canyon, which produced more than 109,000 ounces.

The strong foundation provided by our U.S. operations enabled us to aggressively pursue ventures like Mt. Todd in Australia, which poured its first 1,000 ounces of gold in late December. Pegasus owns 53 percent of Zapopan N.L. and our people are integrally involved in the management of Mt. Todd, our first operating mine outside of the United States. Another example is our agreement in principle to acquire El Condor Resources Ltd. of Vancouver, Canada. El Condor's Kemess South deposit would be the largest development project that the Company has ever undertaken. Pegasus has the financial strength and technical ability to take on a project of this size, one that could materially enhance profitability and add significantly to our reserve base.

Turning to financial results, Pegasus recorded net income of \$10 million, or \$0.30 per share for the year, compared to a net loss of \$6.3 million, or \$0.22 per share in 1992. Although earnings were higher than in the previous year, most of the improvement was attributable to gains realized from Zapopan's share placement in December. General and administrative, and exploration expenditures increased in response to our off-shore expansion program. Operating costs were higher due to a combination of severe weather conditions, higher closure costs at Zapopan's Tanami Mine and increased reclamation spending at our Zortman/Landusky Mine in Montana. Net cash provided from operating activities remained strong at \$43.6 million compared to \$45.7 million in the previous year. At year-end, cash and short-term investments totalled \$149.3 million while total debt, both long and short-term, was less than half this amount at \$66.7 million. Our strong financial position gives us the ability to increase exploration and maintain our pro-active business development program.

The next two years will be of critical importance to Pegasus. The favorable political environment outside North America has provided the Company with unparalleled prospects for growth and we intend to take full advantage of this opportunity.

Pegasus has built an excellent management team over the past few years. The latest addition is Phil Baker, who joins Pegasus from Battle Mountain Gold as our Vice President of Finance and Chief Financial Officer. One of Phil's many



achievements prior to joining the Pegasus team was overseeing the financing of the Kori Kollo project, the first major financing of a private sector venture in Bolivia in more than a decade. Paul Zink, formerly of J.P. Morgan, has also joined the Company as our Director of Financial Planning. Both are welcome additions to the Pegasus team and will play major roles in our future growth.

Finally, I would like to thank our employees. They faced extremely difficult operating conditions throughout much of the year and the establishment of a new production record is a tribute to their skill and dedication.

Werner G. Nennecker
President and Chief Executive Officer

1993

HIGHLIGHTS

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

	1993	1992	Change (%)
FINANCIAL DATA			
Revenue	\$ 215,187	\$ 182,171	+18.1
Net Income (loss)	\$ 9,993	\$ (6,341)	n/a
Cash Provided by Operations	\$ 43,623	\$ 45,740	-4.6
Total Assets	\$ 495,233	\$ 394,022	+25.7
Shareholders' Equity	\$ 341,997	\$ 293,139	+16.7
OPERATING DATA			
Gold Production (ounces)	455,700	382,100	+19.3
Silver Production (ounces)	2,014,900	2,165,100	-6.8
Zinc Production (tons)	18,000	19,436	-7.4
Lead Production (tons)	7,000	7,191	-2.7
Ore Tons Mined	29,569,000	27,430,000	+7.8
Cash Cost/Ounce Production	\$ 251	\$ 214	+17.3
Breakeven Cost/Ounce Production	\$ 356	\$ 320	+11.3
COMMON SHARE DATA			
Earnings (loss) Per Share			
Primary/Fully Diluted	\$ 0.30	\$ (0.22)	n/a
Common Shares Outstanding at December 31	34,555,652	31,472,947	+9.8
Weighted Average	33,712,000	28,940,000	+16.5

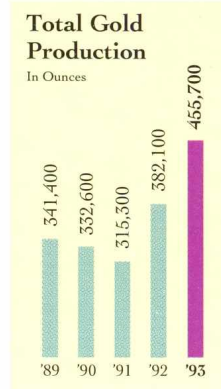
SELECTED

HISTORICAL DATA

	1993	1992	1991	1990	1989
PRODUCTION					
Gold (ounces)	455,700	382,100	315,300	332,600	341,400
Silver (ounces)	2,014,900	2,165,100	2,161,800	1,906,300	1,510,700
Zinc (tons)	18,000	19,436	18,271	17,095	16,413
Lead (tons)	7,000	7,191	7,152	6,649	7,517
Ore Tons Mined	29,569,000	27,430,000	25,400,000	25,600,000	22,500,000
FINANCIAL					
Gold Price Realized/ounce	\$ 382	\$ 382	\$ 389	\$ 401	\$ 416
Operating Cost/ton	\$ 5.27	\$ 4.43	\$ 4.36	\$ 4.83	\$ 5.20
Operating Cost/ounce	\$ 251	\$ 214	\$ 226	\$ 229	\$ 242
General and Administrative Costs/ounce	\$ 25	\$ 25	\$ 21	\$ 20	\$ 21
Depreciation, Depletion and Amortization/ounce	\$ 66	\$ 72	\$ 73	\$ 74	\$ 70
Operating Cash Flow (000)	\$ 43,623	\$ 45,740	\$ 32,559	\$ 30,165	\$ 43,592
Net Debt* (000)	\$ (97,369)	\$ (46,748)	\$ (598)	\$ 37,788	\$ 11,550
Debt/Total Capitalization (%)	16	17	21	20	12
RESERVES AT YEAR-END					
Gold (ounces)	5,314,800	3,765,000	4,021,000	4,224,000	3,093,000
NUMBER OF EMPLOYEES					
	806	654	630	520	460

* (Long-term Debt Less Cash and Short-term Investments)

Improved operating efficiencies contributed to record production levels and continued improvement is planned for 1994.



1993 PRODUCTION

BY MINE

	Zortman/ Landusky	Florida Canyon	Montana Tunnels	Beal Mountain	Black Pine	Zapopan
PRODUCTION						
Gold (ounces)	108,500	109,200	68,700	59,300	66,100	41,100
Silver (ounces)	535,700	37,600	1,400,000	8,600	28,600	-
Zinc (tons)	-	-	18,000	-	-	-
Lead (tons)	-	-	7,000	-	-	-
ORE TONS MINED (000)	12,500	5,500	5,000	1,700	3,600	1,100
GRADE						
Gold (ounces/ton)	0.017	0.021	0.017	0.052	0.024	0.071
Silver (ounces/ton)	-	-	0.44	-	-	-
Zinc (%)	-	-	0.52	-	-	-
Lead (%)	-	-	0.20	-	-	-
RECOVERY PERCENTAGE						
Gold	55.0	73.0	83.8	70.0	80.0	87.1
Silver	-	-	75.3	-	-	-
Zinc	-	-	87.9	-	-	-
Lead	-	-	88.1	-	-	-
STRIPPING RATIO	0.67:1	0.88:1	3.8:1	0.89:1	1.30:1	8.42:1
CASH COST OF PRODUCTION	\$ 273	\$ 222	\$ 179	\$ 211	\$ 244	\$ 319

RESERVES AS OF JANUARY 1, 1994

	Proven & Probable			Mineralized Material		
	Tons	Grade Oz/Ton	Contained Oz Gold	Tons	Grade Oz/Ton	Indicated Oz Gold
Zortman/Landusky	90,069,600	0.019	1,748,500	-	-	-
Florida Canyon	37,833,100	0.018	689,900	-	-	-
Montana Tunnels	35,682,400	0.019	666,700	12,015,400	0.018	211,400
Beal Mountain	8,084,900	0.047	371,600	-	-	-
Black Pine	20,753,200	0.020	415,800	1,414,000	0.023	32,900
Mt. Todd (1)	35,810,900	0.040	1,422,300	20,492,000	0.043	871,200
Basin Creek	-	-	-	14,691,000	0.030	455,400
Talapoosa (2)	-	-	-	27,370,000	0.028	767,900
Diamond Hill (3)	-	-	-	1,173,000	0.271	317,800
Quartz Mountain (4)	-	-	-	25,000,000	0.030	750,000
Total			5,314,800			3,406,600

(1) Pegasus share at 55% interest. (2) Pegasus share at 70% interest. (3) Pegasus share at 100% interest. (4) Pegasus share at 50% interest.

Despite weather-related problems at all of our mines except Florida Canyon, our five U.S. operating properties produced a record 414,600 ounces of gold in 1993. Including the Company's proportional share of Zapopan N.L., gold output was 455,700 ounces. In addition, Pegasus more than replaced ore reserves mined during the year.

Florida Canyon performed particularly well, achieving a record 109,200 ounces of gold production. Our Black Pine and Beal Mountain mines also set new production marks at 66,100 and 59,300 ounces of gold, respectively, while Zortman's production declined moderately to 108,500 ounces. Gold output at Montana Tunnels was down slightly to 68,700 ounces due to mine plan modifications to take advantage of additional ore reserves.

It was the year of the rainstorm in the United States, and extreme precipitation at Zortman, Beal Mountain and Black Pine added millions of gallons of water to the leach solutions. Diluted solutions to the processing plants impacted gold output in the third and early fourth quarters, but by year's end modified operating practices had resulted in plant production returning to normal levels.

Production of other metals was slightly lower in 1993 because of lower ore grades. Silver output totalled more than 2 million ounces, zinc 18,000 tons and lead 7,000 tons.

PEGASUS

SUCCESSFULLY

IMPLEMENTED ITS

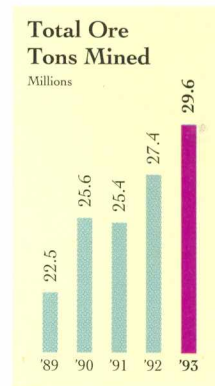
ADVANCED HEAP-

LEACH TECHNOLOGY

AT ZAPOPAN'S

MT. TODD MINE

IN AUSTRALIA.



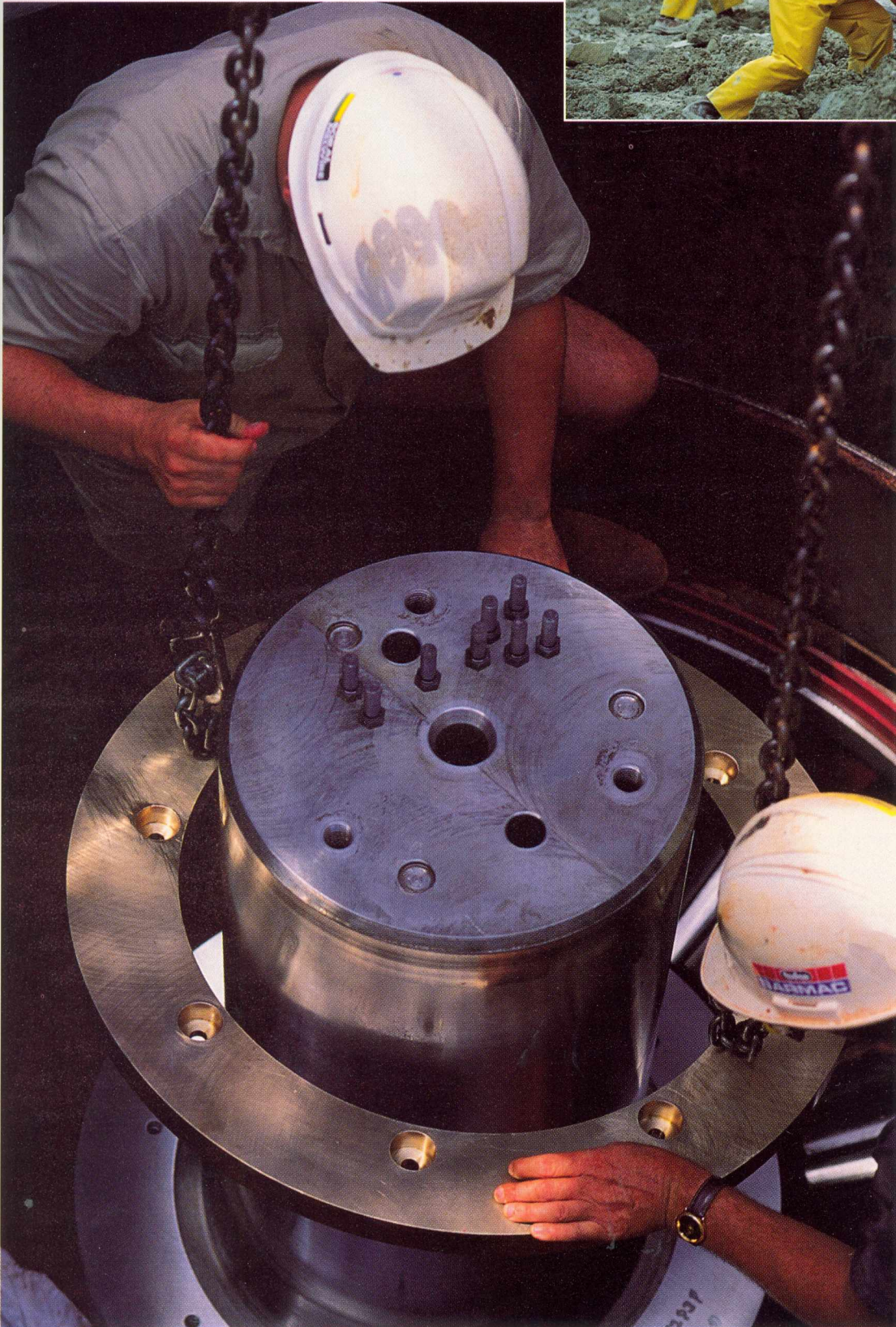
Cash costs increased to \$251 per ounce for the year, primarily due to lower by-product credits for zinc and lead and high closure costs at Zapopan's Tanami Mine in Australia. Additional expenditures associated with abnormal precipitation and reclamation also affected cash costs.

Pegasus successfully implemented its advanced heap-leach technology at Zapopan's Mt. Todd Mine in Australia. Commissioning was completed by year's end, and the first gold was produced in December. A production expansion to 130,000 ounces of gold annually is planned for late 1994.

Zapopan's Tanami Mine will be phased out during the first quarter of 1994. However, an aggressive exploration program is under way in the district.

Improved operating efficiencies contributed to record production levels under severe operating conditions throughout the year; continued improvement is planned for 1994. Our employees are focused on achieving the milestone of 500,000 ounces of gold production in 1994.

*The pit dewatering crew at
Montana Tunnels moves pipe.*



*Scheduling
and performing
maintenance,
like this being
done on the
crusher at
Mt. Todd, is
crucial to all
operations.*

FOR A SECOND CONSECUTIVE YEAR,
FLORIDA CANYON SET NEW
OPERATING RECORDS, PRODUCING
109,200 OUNCES OF GOLD.

NORTH AMERICAN OPERATIONS

ZORTMAN/LANDUSKY

Zortman/Landusky again proved that extremely low-grade ores can be efficiently and successfully mined. A total of 108,500 ounces of gold and 535,700 ounces of silver was recovered during the year from 12.5 million tons of ore at an average grade of 0.017 ounces of gold per ton. This was a significant achievement since extreme summer rainfall diluted the process solution by 250 percent over the normal amount. Production in 1992 was 113,000 ounces of gold and 771,600 ounces of silver from 13 million tons of ore at 0.015 ounces of gold per ton.

Reclamation and environmental protection efforts were accelerated in 1993. Ongoing reclamation continues to be a significant part of the operation at Zortman/Landusky. More than 250 acres of disturbed land have been reclaimed or are in the reclamation process. Of particular note are the innovative technologies applied design, construction and reclamation. These efforts should significantly enhance water quality and prove beneficial in permitting future non-oxide ore. Increased investment in reclamation and other factors raised Zortman's cash costs to \$273 per ounce compared to \$231 per ounce in 1992.

In October, the Montana Department of Health and Environmental Sciences filed a complaint in District Court, alleging that discharges violated the Montana Water Quality Act. The agency requested the mine be operated under a compliance plan to avoid violations of the Water Quality Act and to obtain a particular discharge permit. Although the Company does not agree there has been a violation of the act, Zortman employees are working closely with agency officials to resolve these matters.

A successful development drilling program in 1993 identified an additional 107,000 ounces of recoverable gold in the Landusky oxide reserve.

Current Landusky oxide reserves are 29 million tons of ore at an average grade of 0.0175 ounces of gold per ton. Overall, proven and probable minable reserves at Zortman/Landusky are 90.1 million tons grading 0.019 ounces of gold per ton, or 1.7 million contained ounces. This compares to 96 million tons grading 0.018 ounces of gold per ton, or 1.8 million contained ounces in 1992. A development drilling program is planned on the Landusky side in early 1994 in an effort to increase oxide reserves and provide greater definition of the Landusky non-oxide potential.

The 1994 plan is to mine 12.2 million tons of ore at an average grade of 0.0170 ounces of gold per ton. Precious metal production for the year is estimated to be 115,000 ounces of gold and 425,000 ounces of silver.

The mine is a conventional, open-pit, heap-leach operation. After the ore is blasted, it is hauled and truck-dumped on the leach pads. This ore does not require crushing or agglomeration and is processed as run-of-mine material. This, along with a very low strip ratio and careful cost control, has allowed Zortman/Landusky to profitably mine large tonnages at very low grades.

Since operations began in 1979, the Zortman/Landusky Mine has produced more than 1.2 million ounces of gold. The two deposits are approximately three miles apart in northcentral Montana's Little Rocky Mountains at an elevation of 5,500 feet. Historically, the deposits have been considered a single operation. At present, all mining is on the Landusky side while the Zortman Extension Project is in the permit process.

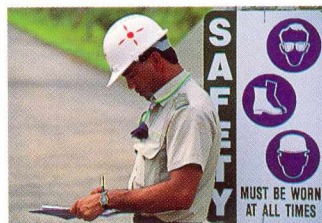


Surveying, metallurgical testing, environmental and other work continue to proceed on the Zortman Mine Life Extension Project.

ZORTMAN EXTENSION PROJECT

During 1993, research and permitting continued on the Zortman Mine Life Extension Project. Regulatory agencies deemed the permit application "complete" in July, which initiated the Environmental Impact Statement (EIS) process. The project continues to move ahead with the main focus on drafting the EIS, which should be completed in mid-1994.

Most of the project's environmental testwork has been completed by a research team at the Zortman Mine. In addition to providing the necessary technical support for permitting, this work may also result in substantial cost savings since the ore will not have to be crushed as finely as initially believed. This change will reduce planned operating and capital costs.



Brian Waldock of Zapopan does a safety check.

Proven and probable reserves for this project remain at 61 million tons at a grade of 0.02 ounces of gold per ton, or 1.2 million contained ounces of gold.

In addition to these efforts at Zortman, development work continues to identify potential non-oxide mineralization at Landusky. The drilling program has identified the continuation of the mineralization and provided a representative metallurgical sample of the material. Metallurgical studies are continuing.

*Chris Harley monitors
the crusher at Mt. Todd.*

*Construction and
commissioning of the
operation were
ahead of schedule.*



FLORIDA CANYON

Florida Canyon simply had a superb year. Employee commitment led to a number of accomplishments, ranging from a nearly 20,000-ounce increase over last year's record production to actually reducing the total acres disturbed by the mine through reclamation.

For the second consecutive year, Florida Canyon set operating records, producing 109,200 ounces of gold from 5.50 million tons of crushed ore and 1.76 million tons of run-of-mine ore. This performance was achieved despite harder, more abrasive ore. Ore grades, strip ratios and metallurgical recoveries all improved during 1993. Ore throughput and plant capacity were expanded. This, together with mining, ore handling and process improvements provided significant unit-cost reductions compared to 1992 and previous years. Cash operating costs at the mine were \$222 per ounce during 1993, \$60 less than the \$282 per-ounce cost in 1992.



*Drilling has increased reserves
at Mt. Todd to 2.59 million
contained ounces.*

Environmental efforts continued to be emphasized in 1993. During the year, Florida Canyon regraded, topsoiled and seeded 122 acres concurrently with the mine's operation, resulting in a net reduction in acres disturbed at the site. The environmental staff began reclaiming a portion of the active leach pad, redefining the term "concurrent reclamation." Plans for 1994 are to continue this very aggressive reclamation program.

Exploration and development work during 1993 included drilling next to existing producing areas and step-outs away from the currently

*ON NOVEMBER 1, MONTANA TUNNELS
COMPLETED FOUR CONSECUTIVE YEARS
WITHOUT A LOST-TIME ACCIDENT.*

active mine areas. Reserve evaluation, design engineering and permit work are still in progress. However, current results delivered a significant increase in reserves that will more than replace ore mined in 1993. At year-end, reserves at Florida Canyon were 37.8 million tons with a grade of 0.018 ounces of gold per ton.

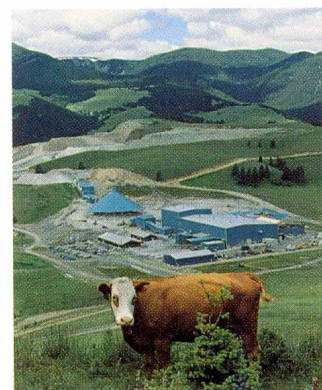
Gold production for 1994 is forecast to rise to 114,500 ounces due to slightly higher ore grades and increased crusher throughput. Site operating costs are anticipated to rise due to an increase in the mine strip ratio. Development drilling completed in 1993 will allow expansion of the current mine pit to the north; gold production from this new ore zone will likely begin in May. Florida Canyon expects 1994 to be another very profitable year.

Florida Canyon is in northwestern Nevada between Lovelock and Winnemucca. The mine started production in the fall of 1986 and more than 553,000 ounces of gold have been recovered through December 1993.

MONTANA TUNNELS

The Montana Tunnels Mine is in a period of slightly lower metals production, due to head grades that are temporarily below the life-of-mine averages. A substantial reserve increase discovered in late 1992 has led to the adoption of a revised mine plan. To reach the deeper reserves, more waste rock and lower grade ore must be mined in the near term. Furthermore, prices received for lead and zinc were lower in 1993 than in 1992. Montana Tunnels minimized those potential negative effects by increasing concentrator throughput to 5.04 million tons, 10 percent more than in 1992.

*Cattle grazing,
wildlife habitat and
other compatible
uses are evident at
Montana Tunnels.*



Mill feed grades averaged 0.0173 ounces of gold per ton, 0.44 ounces of silver per ton, 0.20 percent lead and 0.52 percent zinc.

The lower feed grades and constraints associated with the higher throughput resulted in slightly reduced recoveries. However, the higher throughput did result in lower per-ton processing costs.

Production for 1993 was 68,700 ounces of gold, 1.4 million ounces of silver, 7,000 tons of lead and 18,000 tons of zinc. Recoveries were 84 percent for gold, 75 percent for silver and 88 percent for both lead and zinc. Concentrate quality for both lead and zinc improved as compared to 1992.

Eighty-five additional development holes were drilled during 1993 to better define and increase the ore reserves within the current pit design and to explore for potential mineralization extending at depth. Drilling, improved minesite economics and additions to stockpiled ore increased the year-end ore reserves by 2.5 million tons, to 35.7 million tons grading 0.0187 ounces of gold per ton, 0.32 ounces of silver per ton, 0.60 percent zinc and 0.22 percent lead. The new minable reserve is based on a 0.016 ounce-per-ton gold-equivalent cutoff grade. The material between 0.014 and 0.016 ounce per ton is being stockpiled and will be available for processing if future economics are favorable. This low-grade material is estimated to

*Leonard Hornbarger oils
the gyratory crusher cap
at Florida Canyon.*



total approximately 4 million tons within the current pit design. Reserves within the existing permit boundary are sufficient for at least seven years at current milling rates.

Deep drilling has indicated that the mineralization continues and there is good potential for further pit expansion. Ongoing economic and technical studies, additional drilling work and required permit amendments will determine the feasibility of further increasing ore reserves in 1994.

For 1994, the mine plans to mill approximately 4.8 million tons of ore and produce 69,000 ounces of gold, 1.1 million ounces of silver, 8,000 tons of lead and 19,000 tons of zinc.

Located 25 miles south of Montana's capital city of Helena, the mine began production in March of 1987. Ore processing at Montana Tunnels is by conventional milling methods.

On November 1, Montana Tunnels completed four consecutive years without a lost-time accident. Mine employees worked in excess of 1.45 million hours to achieve this safety milestone.

BEAL MOUNTAIN

Beal Mountain increased gold production in 1993 while maintaining low operating costs. The mine produced 59,300 ounces of gold, compared to the previous high of 52,200 ounces in 1992. The excellent production was particularly satisfying as operating conditions were far from ideal during most of the year. Exceptionally heavy rainfall during much of the operating season produced difficulties in mining, crushing and leaching operations, which were largely overcome through extraordinary efforts by the employees.

Despite the difficulties, the substantial increase in production was accomplished while maintaining the per-ounce cash costs at \$211 in 1993. That was equal to the cash costs achieved in 1992 and down considerably from \$245 in 1991.

Several other positive events occurred during the year. The slide in the pit wall, which hampered mining during the past two years, was successfully managed. This, together with detailed geotechnical studies, provides confidence that the pit can be deepened to recover additional reserves.

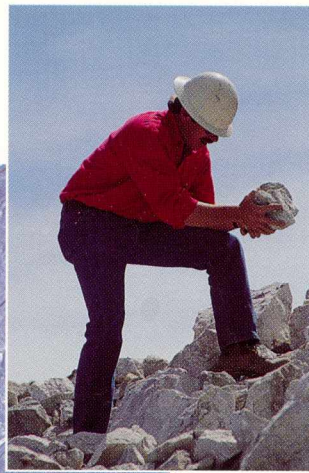
The permit was obtained to mine the nearby South Beal deposit. This added approximately 700,000 tons of minable reserves. Mining was initiated on South Beal late in 1993, with the bulk of the deposit scheduled for mining in 1994.

In addition, the decision was made to convert from contract to self-mining beginning in 1994. Self-mining has proven very successful at Montana Tunnels and Zortman, and similar results are expected at Beal Mountain.

In 1994, approximately 1.73 million tons of ore will be mined with a gold grade of 0.052 ounces per ton, resulting in gold production of approximately 60,000 ounces. Early in 1994, an application will be submitted to mine the reserves identified in the Beal Extension. Granting of this permit, expected in mid-1995, would allow mining of approximately 4 million tons of ore identified below the existing permitted pit floor in the main Beal pit.

As of December 31, 1993, proven and probable reserves at Beal Mountain totalled approximately 8 million tons grading 0.047 ounces of gold per ton at a very low stripping ratio of 0.58:1. Exploration is continuing on several previously identified targets in the area.

The Beal Mountain Mine is an open-pit, heap-leach operation located high in the Pioneer Mountain Range of southwestern Montana. The mine was constructed in 1988 and production commenced in 1989.



*Black Pine geologist
Jim Carver examines
potential ore.*

*Heavy-duty plastic liner is placed on top of
compacted clay on the Beal Mountain leach pad.*

BLACK PINE

Black Pine experienced an extremely harsh winter with heavy snowfall and abnormally cold temperatures. This was followed by an unusually wet spring. Furthermore, ore grades for the first six months were lower than expected.

Despite these difficulties, Black Pine had a record-setting, 22,400-ounce third quarter and ended the year at 66,100 ounces, compared with 48,700 ounces in 1992.

A total of 3.6 million tons of ore was loaded onto the leach pad at an average grade of 0.024 ounces of gold per ton. The process plant operated at an increased rate during the third and fourth quarters to offset the early production shortfalls. Additional carbon columns were installed at mid-year to increase plant throughput and lessen the effect of feed grade dilution.

Cash costs were \$244 per ounce compared to \$183 per ounce in 1992 because of a reduction in ore grade, increased waste tonnage and difficult weather conditions.

*Christine Johnson
prepares samples for
assaying at Mt. Todd.*



As of December 31, 1993, proven and probable reserves at Black Pine were 20.8 million tons at a grade of 0.020 ounces of gold per ton. The increase in reserves is attributed to aggressive exploration and development drilling programs in 1993. Drilling will continue in 1994.

Somewhat different from the other Pegasus mines, Black Pine is a series of relatively small pits. The mine obtained permits to expand two existing pits in 1993. At present the mine is seeking permits for three new pits with approval expected in early 1994. Also, construction of the third stage of the leach pad will take place in the second quarter of the year.

Gold production increased substantially from 1992 to 1993 and is expected to remain steady in 1994 at 62,000 ounces. Plans for 1994 call for a mining rate of approximately 3.4 million tons at an average gold grade of 0.022 ounces per ton.

The mine is in the Black Pine Mountains of southern Idaho, 10 miles from the Utah border, at an elevation of 5,500 feet. Mining began in July of 1991, with the first gold production the following January.

The Black Pine Mine has not had a lost-time accident since the mine opened more than three years ago, a period of more than 211,000 employee hours.

BASIN CREEK

The Basin Creek Mine remained on a care and maintenance basis during 1993 while studies were carried out to determine the feasibility of reopening the mine. Approximately 2,800 ounces of gold were recovered from previously active heaps.

Feasibility work will continue in 1994 in addition to ongoing reclamation work. Basin Creek is located in southwestern Montana less than 15 miles from the Company's Montana Tunnels Mine.

AUSTRALIAN OPERATIONS

ZAPOPAN N.L.

In early April of 1993, Pegasus purchased an additional 23.6 percent of Zapopan for 1.75 million common shares of Pegasus and MinVen Gold Corp. notes held by Pegasus with a face value of \$4.65 million. This transaction raised the Company's interest in Zapopan to 61 percent and results were consolidated as of April 1, 1993. A

*Jason Warcon adds flux
to a sample at Mt. Todd.*



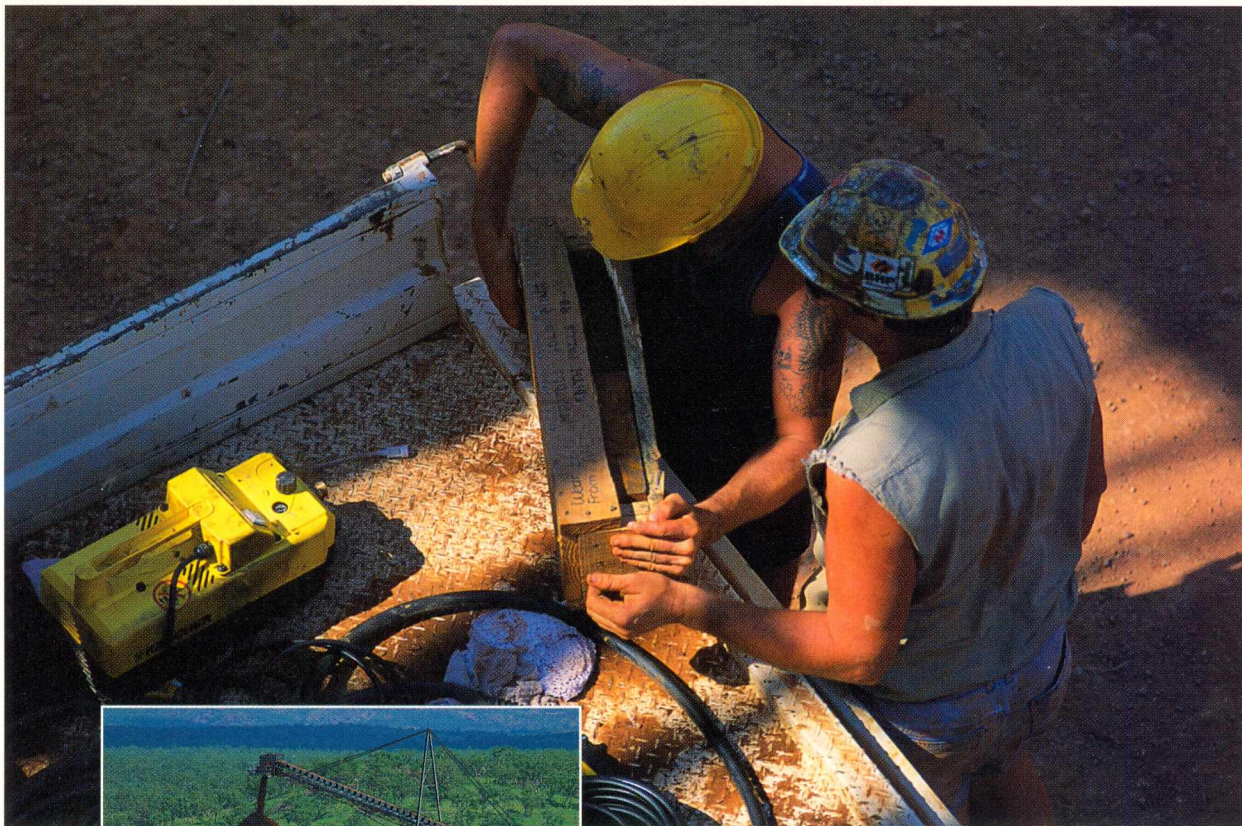
subsequent share placement by Zapopan of 14 million shares in December diluted Pegasus' interest to 53 percent, where it currently stands.

Mt. Todd

The Mt. Todd Mine was constructed during 1993 and the initial gold pour of 1,000 ounces took place in late December. Mt. Todd is located in the Northern Territory of Australia approximately 25 miles north of the town of Katherine.

Phase I of the Mt. Todd project was completed on schedule and within the budget of \$27.4 million (A\$40 million). Initial plans were to process 4.4 million tons per year with average gold production of 100,000 ounces. However, in late 1994, Phase I capacity will be raised to 6.6 million tons of ore with a lower cut-off grade resulting in an annual production rate of approximately 130,000 ounces of gold.

Phase II of Mt. Todd is slated for completion by the end of 1996. Phase II will result in an increase in gold output to between 150,000 and 225,000 ounces per year through expansion of the heap-leach facilities, and/or the addition of a conventional mill. At present, the minable reserve at Mt. Todd is 65.1 million tons at a grade of 0.0397 ounces of gold per ton, sufficient for about 10 years of operation. It is probable that more ore will be



*The crushing unit
at Mt. Todd.*



*Field maintenance is fundamental
to successful operations.*

defined within the Batman pit and many other promising areas exist to the north of the minesite. These deposits, including the Delta, which is the most promising to date, appear to be smaller than Batman but of significantly higher grade.

The success of Mt. Todd is of considerable importance to Pegasus as it is the Company's first off-shore venture.

TANAMI

Production at the Tanami Mine fell to 68,800 ounces of gold in the 12 months ended December 31, 1993, compared to 82,000 ounces in 1992. Gold output was less than forecast due to an unusually long rainy season that disrupted production for almost six weeks.

Unlike Mt. Todd, Tanami is a conventional milling operation with a capacity to treat 1.65 million tons of ore per year. The mine, located 525 miles south of Darwin in the Northern Territory, began production in 1987 and has almost come to the end of its mine life. Mining will cease early in 1994 although milling will continue into April. Approximately 21,000 additional ounces will be recovered before operations are terminated.

Tanami is located on some of the most prospective ground in the Northern Territory. A comprehensive drilling program is under way and several targets of 0.06 ounces of gold per ton and higher have already been discovered. Zapopan's land position around the Tanami Mine covers approximately 2,700 square miles of leases.

To achieve its growth targets, Pegasus has established a comprehensive grassroots exploration program in South America and has also directed its efforts towards advanced business development opportunities in other parts of the world.

To this end, Pegasus has assembled a first-rate team which is focusing on pure gold properties and polymetallic deposits with a majority gold component. We are also concentrating our search for deposits which will materially enhance the Company's profitability. Until 1992, all of the Company's production came from the western United States. However, to be competitive in today's market place, Pegasus Gold is becoming a truly international company, that is, a Company driven by opportunity rather than one confined to specific geographic areas.

Externally, three issues have influenced the Company's global approach.

- One is the increasing difficulty of obtaining permits in the United States on a timely and rational basis. The resulting uncertainty in development schedules makes sound business planning difficult and costly.
- Another is the major emphasis on overhauling the U.S. General Mining Law, including the likely imposition of a royalty. Pegasus has agreed to support reasonable change to the Mining Law, but the final outcome may impose unworkable, burdensome regulations and could include a virtual de facto ban on mineral exploration over much of the western United States.

- The other is the relative maturity of exploration in the United States compared to many other countries. The discovery potential is considered greater outside the United States than within its borders.

For decades, geologic, political and other factors together made the United States one of the least risky places to explore for minerals and develop mines. Today, the risks in the United States are equal to or greater than those in other countries, many of which are actively courting foreign investment.

In 1994, the Company plans to spend \$15.9 million on exploration, up from \$12.1 million in 1993. Seventy percent will be invested in projects outside the United States. By contrast, just two years ago 70 percent of our exploration dollars were invested in the United States.

At present, our grassroots, or generative exploration efforts are primarily focused in South America, where we have exploration offices in Chile and Argentina. Our business development efforts are focused on more advanced projects in North America, Australia and Uzbekistan.

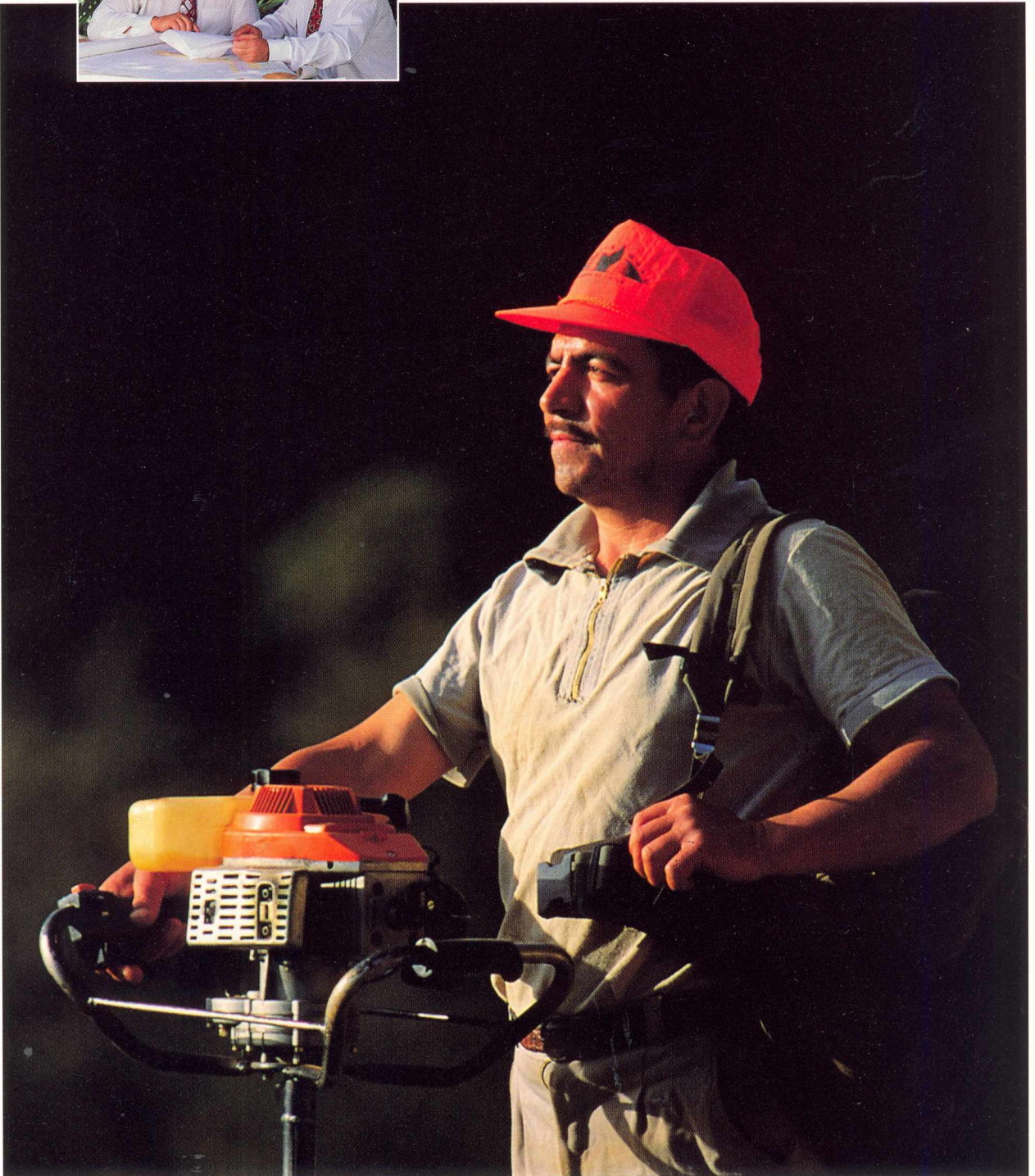
Our strategy is showing results. Pegasus, through its interest in Zapopan, has successfully developed the Mt. Todd deposit in Australia. The Company has also generated two advanced-stage exploration projects in Chile (Pullalli and Llipe) and has acquired a number of less advanced prospects. In January 1994, Pegasus signed an agreement in principal with El Condor Resources Ltd. of Vancouver, British Columbia, Canada. If the two parties reach a final agreement, El Condor's Kemess South deposit in northcentral British Columbia would become the Company's largest mine.

WE INTEND TO FIND HIGHLY PROFITABLE
PROJECTS WITH RELATIVELY LOW LEVELS
OF TECHNICAL RISK THAT CAN BE
FINANCED AT MANAGEABLE RISK TO
PEGASUS SHAREHOLDERS.

*Win Rowe and Ignacio Silva
examine Chilean exploration data.*



*Estamin Morales operates a portable drill at Llape, Chile.
Most of Pegasus' generative exploration is in South America.*



Our work in the emerging countries is opportunity driven. We intend to find highly profitable projects with relatively low levels of technical risk that can be financed at manageable risk to Pegasus shareholders.

The successful evaluation of properties has always entailed a meshing of geology, metallurgy, engineering and economics. Today a host of other factors must also be considered. At Pegasus, a thorough assessment of a project is done by a team of highly qualified individuals from all disciplines - exploration, finance, operations, environmental, governmental and legal.

We are keenly aware that the successful companies in the late 1990s and beyond will be those whose strategies are pro-active and designed to take advantage of existing opportunities.

NORTH AMERICA

TALAPOOSA

The Talapoosa Project is in Lyon County, Nevada, approximately 45 miles southeast of Reno. Pegasus is earning a 70-percent interest in the property with the balance held by Athena Gold Corporation of Vancouver, Canada.

Drilling to date has outlined mineralized material of 39.1 million tons grading 0.028 ounces of gold and 0.39 ounces of silver per ton. This equates to approximately 1.1 million contained ounces of gold and 15.3 million contained ounces of silver.

The project progressed to the prefeasibility stage in 1993 through additional drilling, metallurgical testing, environmental baseline monitoring and cost updating. Results to date have been encouraging and a decision whether or not to proceed with development will be made in 1994. Potential changes to the mining law could impact the economics of this project as it is located on federal land.

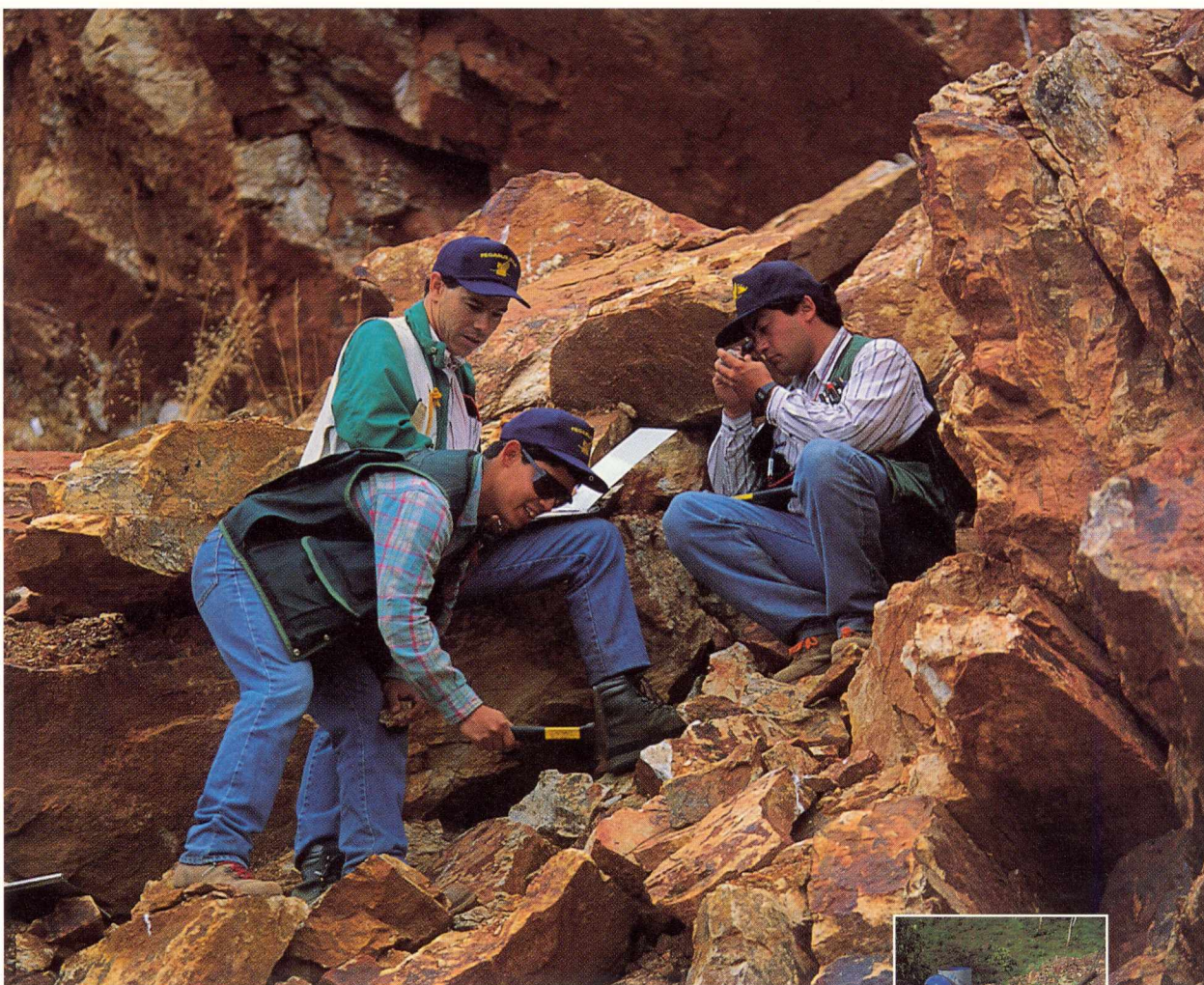
DIAMOND HILL

Drilling in 1993 confirmed the presence of high-grade gold veins and indicated minable reserves in excess of 300,000 ounces. There is excellent potential for increasing reserves at depth. During the year, comprehensive metallurgical and environmental studies yielded encouraging results. Work is continuing.

Diamond Hill is in Broadwater County, Montana, some 40 miles east of Montana Tunnel and is situated entirely on patented ground. Unlike the Company's existing mines and most development projects, Diamond Hill's potential is as an underground mine. Pegasus has a 100-percent interest in the property subject to a 15-percent net-profits royalty payable to Broadwater Development.

KEMESS SOUTH

In January 1994, Pegasus agreed in principle to acquire El Condor Resources Ltd. of Vancouver, Canada. El Condor's primary asset is its 60-percent interest in the Kemess South gold/copper deposit in northcentral British Columbia.



Wilfredo Pincheira, Senior Geologist José Manuel Soffia and Sergio Giglio at Pullalli.

Core samples are drilled, catalogued and marked for later evaluation.



A 1993 prefeasibility study calculated a minable reserve of 220.9 million tons at an average grade of 0.018 ounces of gold per ton (4 million contained ounces) and 0.22 percent copper. The study projected production in excess of 200,000 ounces of gold and 58 million pounds of copper annually over a 15-year mine life.

The agreement in principle has been approved by the boards of directors of both compa-

nies but is subject to further due diligence by Pegasus, a definitive agreement, and approval by El Condor's shareholders. Under the agreement, the Company will offer C\$108 million (US\$82.3 million) payable in common shares of Pegasus, at C\$7.50 for each common share of El Condor.

*Stephen McNamara
surveys at Mt. Todd.*



SOUTH AMERICA

Exploration in South America was originally focused on Chile, where two of our most promising projects, Pullalli and Llipe, are located. However, Pegasus has since extended its activities to Argentina with an office in Mendoza and to selected areas of the Guyana Shield. In view of the promising geology and what the Company believes to be manageable political risk, Pegasus will conduct most of its grassroots exploration in South America.

PULLALLI, CHILE

The 1993 drilling program at Pullalli increased the drill-indicated gold resource to 15 million tons grading 0.036 ounces of gold per ton or 530,000 contained ounces. Five new geochemical anomalies were identified during 1993 and will be drilled this year.

In addition to very promising geology, Pullalli enjoys a number of other advantages. The property is situated at a relatively low elevation only 100 miles north of Santiago and is close to a

power line and the Pan American highway. Furthermore, preliminary metallurgical studies suggest excellent heap-leach recoveries.

Pegasus has a large land position at Pullalli, obtained through concessions and purchase option agreements. The Company now controls approximately 23 square miles with virtually all work to date focused on a 3.5 square mile area. Pegasus is confident that additional discoveries will be made.

LLIPE, CHILE

Llipe is another very promising prospect that is located adjacent to the historic El Roble placer deposits. It is not as advanced a project as Pullalli but is a large property with numerous surface gold anomalies. Work has confirmed a geologic resource of more than 200,000 ounces of gold and preliminary metallurgical studies indicate excellent recoveries. Mapping and surface sampling carried out in 1993 identified seven new anomalies which are potentially much larger and of higher grade than the previous discovery.

Llipe is located in southern Chile, 30 miles east of Valdivia. It is similar to Pullalli in that it is easily accessible and at a relatively low elevation.

AUSTRALIA

The Company is examining a number of business development opportunities in Australia. The success of our Zapopan investment has indicated that there are still excellent opportunities in Australia, especially for the development of large, open-pit, heap-leach deposits.

CENTRAL ASIA

UZBEKISTAN

Pegasus has signed a protocol agreement with the government of Uzbekistan and is currently evaluating prospects in the Angren district. Here again, the Company is focusing on large, low-cost deposits in advanced stages of exploration.

EMERGING MARKETS GOLD FUND

Pegasus has joined ranks with the NM Rothschild & Sons and the IFC, a private sector affiliate of the World Bank, as a lead investor to form the Emerging Markets Gold Fund Limited. Each of the lead investors will contribute \$20 million, payable in four equal tranches. Total capitalization of the fund at year-end was \$75 million but is expected to be over \$100 million by mid-1994. Pegasus has already contributed its first tranche of \$5 million.

The Emerging Markets Gold Fund was formed to acquire direct equity and equity related investments in gold projects in emerging markets outside of North America and Australia. Pegasus has a preferential right to joint venture and/or operate properties brought into the fund. The Company believes that the fund is an excellent investment and will provide experience and technical data in areas in which it may take a more direct role in the future.

Pegasus Gold regards environmental protection as one of its most important long-term commitments to which the Company has devoted considerable time, effort and money. The cornerstone of Pegasus Gold's Environmental Protection Policy is: "Environmental protection is equally as important as earning an acceptable return for our shareholders and providing a safe work place for our employees." This policy also recognizes that mining and ore processing do impact the environment. However, this can be minimized by sound planning, continuous monitoring, responsible reclamation, careful operating practices and attentive management. Pegasus strongly believes that mining can co-exist with other land use requirements and can be carried out while protecting and in some cases, enhancing the surrounding environment.

The future of Pegasus and the mining industry will depend a great deal on the ability to design and operate environmentally sound projects. At each Pegasus operation, commitment, common sense and on-the-ground experience are combined with academic research and innovative ideas to produce environmental programs that are among the most efficient and effective in the industry.



Environmental leadership is an ongoing commitment, and Pegasus is proud of the recognition it has received.

Some examples of this commitment are as follows:

- Specially designed dry-dams have been constructed at Black Pine to capture historic mine tailings in an environment that is subject to infrequent, but often intense, storms. Although these tailings were the result of mining many years prior to Pegasus' arrival, the current clean-up project was voluntarily undertaken by the Company.
- To expedite water recovery and consolidation of the tailings storage facility, Montana Tunnels employs a special wick drain technology. This ensures efficient use of the area's water resources as well as the quickest, safest and most effective method to reclaim the tailings.
- Wildlife management practices at Beal Mountain are an excellent example of the Company's ability to operate mines safely and responsibly in an environmentally sensitive area.
- Concurrent reclamation programs are now fully integrated at all of our active operations to minimize the effects of mining. At Florida Canyon, sections of the leach pad are already being re-contoured for final reclamation.

*"ENVIRONMENTAL
PROTECTION IS EQUALLY
AS IMPORTANT AS
EARNING AN
ACCEPTABLE RETURN
FOR OUR SHAREHOLDERS
AND PROVIDING A SAFE
WORK PLACE FOR OUR
EMPLOYEES."*

*John Morrison examines
nursery plants at Mt. Todd.
As with Pegasus' operations,
reclamation is an integral
part of Zapopan operations.*



- Crews removed approximately 100,000 tons of historic mine tailings from nearby drainage at the Zortman operation. The tailings, deposited prior to the mid-1930s, were placed in a waste rock repository. Impermeable caps of compacted clay and plastic liners are being placed on all waste repositories to ensure future reclamation success.

- At Zapopan's Mt. Todd Mine in the Northern Territory of Australia, extensive studies were carried out to identify the habitat of the Gouldian Finch. The location, design and construction of all buildings and facilities was carefully planned to minimize any impact on the Gouldian Finch and other wildlife in the area.

Pegasus' exploration personnel have done an exemplary job of expressing, through action, the Company's core commitment to environmental protection.

Potential changes to the U.S. General Mining Law would have a modest impact on Pegasus as only 17 percent of the Company's reserves are located on federal lands. However, the future of hardrock mining in the United States largely rests in the hands of a House-Senate Conference Committee. Scheduled to begin its work this spring, the committee will attempt to reconcile the numerous and substantial differences between a bill passed by the House of Representatives (HR 322) and another passed by the Senate (S 775). The House version, sponsored by Representative Nick Rahall of West Virginia, would virtually decimate the U.S. mining industry; the Senate bill, sponsored by Senator Larry Craig of Idaho, is considered by industry to be an acceptable compromise. Major issues in dispute between the bills are:

ROYALTIES

The House bill would require mining companies to pay the federal government 8 percent of the gross value of locatable minerals extracted from public lands with a small deduction for transportation. In contrast, the Senate version calls for a 2 percent net royalty. Industry favors the Senate proposal because it bases the royalty calculation on the profitability of the mine.

RECLAMATION AND ENVIRONMENTAL MANAGEMENT

The House bill would establish a comprehensive and complex web of additional federal environmental regulations on top of existing state environmental safeguards. A mining company attempting to develop or operate a property on federal lands would face a duplicative and, potentially, conflicting set of environmental standards. In addition, the House bill would create a much more cumbersome permit process that includes a review of the landscape's "suitability" for mining and grant the Secretary of Interior sweeping authority to prohibit mining on public lands. In contrast, the Senate bill would continue the states' existing role as the authority responsible for environmental management and reclamation. The state would thus be able to tailor mine permit requirements to meet the unique environmental conditions found at the minesite.

PATENTS

HR 322 would end the practice of patenting which allows the conversion of mining claims that contain a viable ore deposit into private land, subject to state law and tax requirements. S 775 would continue the patenting process but require mining companies to pay fair market value for the surface of the land in lieu of the relatively low patenting fee contained in existing law.

Major American mining companies, including Pegasus, have responded to the threat they see in proposals to revise the General Mining Law by redirecting exploration and acquisition efforts to other countries. Pegasus and other American

HOPEFULLY,
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TO PROTECT THE
INDUSTRY TO THE
SAME DEGREE THAT
IT SEEKS TO
PROTECT FEDERAL
LANDS.



mining companies have encountered a warm reception in both Australia and the nations of Latin America which are aggressively seeking mining investment. While the United States considers imposing a royalty on hard rock mining, Mexico, for example, has repealed its national severance tax.

U.S. public policy makers in Congress have been slow to recognize that mining is a global business which confers substantial economic benefits through investment, employment and taxes on the communities and states where it operates. There is nothing less than the very existence of the American metal mining industry at stake. Hopefully, Congress will have the wisdom to protect the industry to the same degree that it seeks to protect federal lands.

In addition to the Congressional efforts to reform the General Mining Law, it is also expected that 1994 will see action to amend and reauthorize the federal Water Pollution Control Act. The initial version of the proposed legislation, S 1114, was introduced by Senator Max Baucus of Montana. It

contains a very broad grant of authority to the U.S. Environmental Protection Agency ("EPA") which would effectively allow the EPA to dictate production decisions for private businesses by additionally regulating or banning the use of a particular technology, process, or raw material. The proposed act also would designate a large number of streams and other bodies of water as Outstanding Natural Resource Waters ("ONRW"), a protective classification which would prohibit man-related changes in water quality. The ONRW proposal has drawn strong opposition from municipal water systems, mining, agriculture and other commodity producers as being overly restrictive and which would severely limit commodity production from both public and private lands throughout the western United States.

Irrespective of how the Mining Law and other debates ultimately are settled, the industry will face a more costly, complex and cumbersome operating environment. The only question is, to what degree?

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

SUMMARY

The Company recorded net income of \$10.0 million (\$0.30 per share) in 1993, compared to a net loss of \$6.3 million (\$0.22 per share) in 1992, and net income of \$9.6 million (\$0.37 per share) in 1991. In 1993, the Company recorded a gain of \$10.9 million resulting from the issuance of additional shares by the Company's 53 percent owned subsidiary, Zapopan N.L. ("Zapopan"). The loss incurred in 1992 was attributable to the termination of the Ortiz joint venture, which resulted in the write-down of all capitalized costs associated with the project in the amount of \$24.6 million. In addition, the results of 1992 have been restated to include the cumulative effect of a change in accounting for income taxes, which increased earnings \$2.0 million.

REVENUES

GOLD

Revenues from the sale of gold increased 27 percent in 1993 to \$184.7 million, compared to \$145.9 in 1992 (\$122.6 million in 1991). Of this increase, 63 percent is attributable to the inclusion of \$24.6 million in revenues on production of 68,800 ounces from Zapopan's Tanami Mine, and the balance is related to increased production from domestic operations. Domestic sales increased to 414,800 ounces in 1993 from 381,700 in 1992 (315,200 in 1991).

In 1993, decreased gold production was experienced at Zortman and Montana Tunnels. Torrential rainfall in Montana increased solution volumes which caused delays in the recovery cycle which accounted for reduced production of 4,500 ounces at Zortman. At Montana Tunnels, flooding in the bottom of the pit redirected mining operations to lower grade portions of the pit which resulted in a production shortfall of 5,300 ounces. Offsetting these production declines were increases at Florida Canyon and Black Pine. Production at Florida Canyon increased 19,200 ounces over 1992, which is due to improved metal recoveries and increased grade. At Black Pine, the increase in production of 17,400 ounces is due to improved recoveries and an increase in ore tons mined, which

was partially offset by a drop in grade. The increase in 1992 production over 1991 was the result of the commencement of operations at Black Pine, which added 48,700 ounces to 1992 sales, and production gains at Montana Tunnels, Florida Canyon, and Beal Mountain. The Company projects that 1994 gold production, including its proportionate share of Zapopan's production, will amount to approximately 500,000 ounces.

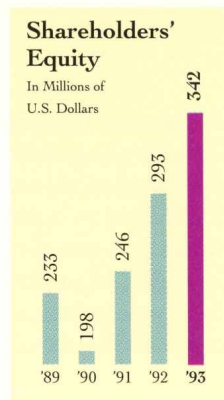
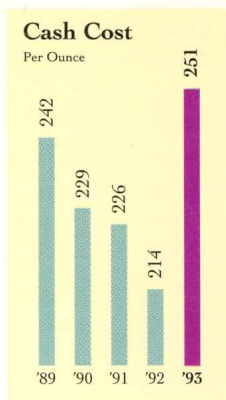
The average realized gold price for both 1993 and 1992 was \$382 per ounce (\$389 in 1991) compared to the average COMEX gold prices of \$360 per ounce in 1993, \$344 per ounce in 1992 and \$362 in 1991. In 1993, the use of forward sales and other hedging techniques added \$13.6 million to revenues compared to \$18.7 million in 1992 and \$12.7 million in 1991.

OTHER METALS

Sales of other metals dropped 16 percent to \$30.5 million from \$36.3 million in 1992 (\$33.6 million in 1991), as a result of production and price declines for zinc and lead. Realized prices were \$5.73 per ounce, \$0.45 per pound, and \$0.19 per pound, for silver, zinc, and lead, respectively; compared to \$5.45, \$0.54, and \$0.25, respectively, in 1992.

OPERATING COSTS

The average cash cost of production (net of by-product revenues) increased 17 percent to \$251 per ounce of gold compared to \$214 in 1992 (\$226 in 1991). Much of the increase is attributable to the inclusion of Zapopan's high cost production from the end of mine-life at the Tanami Mine. Without Zapopan, cash operating costs would have been \$239 per ounce. Cost increases at Montana Tunnels resulted from an increased stripping ratio, lower grade ore mined, lower by-product credits, and increased environmental remediation. Total costs increased at Zortman/Landusky due to an increased stripping ratio, increased reagent usage, and higher concurrent reclamation costs. The cost per ounce increased at Black Pine because of the lower grade ore mined. Costs remained constant at Beal Mountain, and were sharply lower at Florida Canyon due to higher gold production and a lower strip ratio. In 1992, the average cash cost of production (net of by-product revenues) declined by 5 percent compared to 1991 due to increased production, lower mining costs at Zortman and Montana Tunnels, and higher by-product revenues. The average cash cost of production is expected to decline to \$235 per ounce in 1994.



Depreciation declined to \$66 per ounce from \$73 per ounce in 1992 (\$74 in 1991), because of the lower depreciation per ounce at Zapopan's Tanami Mine and increased ore reserves at domestic operations. Royalty expense increased to \$14 per ounce from \$9 per ounce in 1992 (\$7 in 1991), because of the higher production royalties for Florida Canyon and Black Pine.

EXPLORATION

Exploration expense increased to \$12.1 million in 1993 compared to \$9.1 million in 1992 (\$5.8 million in 1991). The increase in exploration is a result of the Company's commitment to an expanded international exploration program. In 1993, \$6.3 million was spent in North America, \$3.0 million was spent in Chile, and \$2.8 million was spent on other foreign projects. The Company's ongoing exploration program is directed at the identification and evaluation of additional commercially exploitable gold reserves. For 1994, 30 percent of the exploration budget of \$17.6 million will be spent on domestic exploration, 25 percent will be spent in South America, and 15 percent will be spent in Australia, which includes \$2.0 million by Zapopan. The balance will be spent on other foreign exploration and new projects. Actual exploration expenditures will vary from budgeted amounts as a result of the acquisition of new properties and the success of exploration activities on existing properties, including the operating mine sites. Spending on advanced projects cannot be projected because this activity depends upon discoveries and acquisitions.

GENERAL AND ADMINISTRATIVE EXPENSES AND TAXES

General and administrative expenses increased \$4.4 million to \$14.1 million from \$9.7 million, following an increase of 37 percent from 1992 over 1991. The increase in 1993 over 1992 related primarily to legal and environmental remediation costs in the amount of \$2.9 million, the inclusion of \$0.7 million of Zapopan's corporate overhead, and severance payments made to em-

ployees. The increase in 1992 over 1991 was due to the addition of personnel, executive severance and outplacement payments, increased director and legal fees, and overhead capitalized against the construction phase of the Black Pine Mine. The Company anticipates that corporate general and administrative expenses will be reduced to approximately \$12.6 million in 1994.

The Company recorded an income tax expense of \$1.8 million in 1993, compared to an income tax benefit of \$3.4 million in 1992, and a provision of \$1.0 million recorded in 1991. The 1992 benefit is the result of the loss incurred on the abandonment of the Ortiz Project, exclusive of the tax benefit provided for the cumulative effect of the change in accounting for deferred income taxes. Net income for 1992 has been increased \$2.0 million to include the cumulative effect of a change in accounting for income taxes, which was adopted in the fourth quarter of 1992, and applied retroactively to January 1, 1992.

PROPERTY WRITE-DOWN AND OTHER GAINS AND LOSSES

During 1993, Zapopan issued shares of its common stock at prices in excess of the Company's per share cost of its investment in Zapopan. As a result, a gain of \$10.9 million was recognized for this difference.

In 1992, the Company attempted to renegotiate the provisions of its Ortiz joint venture agreement with LAC Minerals (USA) Inc. ("LAC") to make the joint venture more economically acceptable to the Company. Since the Company was unable to reach agreement with LAC, the decision was made to terminate the joint venture. As a result, the Company wrote-off all previously deferred costs associated with the Ortiz Project in the amount of \$24.6 million.

The other gains and losses on the disposition of assets relates to sales of marketable equity securities and land in 1993 and to sales of excess and obsolete equipment in 1991. Minority interest is the proportionate share of Zapopan's 1993 loss which is attributable to its minority shareholders and consequently, added back to consolidated net

income. Since April 1, 1993, the date on which the Company acquired its majority interest, Zapopan has recorded net losses of \$1.8 million, \$1.1 million of which is included in the consolidated financial statements, net of minority interest. In addition, the Company has recorded its equity share in Zapopan's net losses prior to April 1, 1993, in the amount of \$1.4 million.

FINANCING, CAPITAL INVESTMENT, AND LIQUIDITY

The Company invests its excess cash in low-risk, short-term investments. The increase in interest income attributable to higher average cash balances has been partially offset by a decline in the yield, which averaged 2.9 percent in 1993, compared to 3.7 percent in 1992 (5.9 percent in 1991). Interest expense declined to \$2.7 million from \$3.5 million in 1992 (\$4.1 million in 1991) because of the repayment of \$21.1 million in long-term debt and a decline in the effective rate paid to 5.0 percent compared to 5.9 percent in 1992 (8.2 percent in 1991). In addition, gross interest expense was reduced by \$0.4 million and \$1.5 million in 1992 and 1991, respectively, for interest capitalized against construction projects. At such time as additional borrowings are required to fund acquisitions or to finance development of advanced projects, interest expense is expected to increase accordingly.

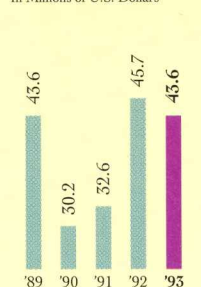
At the end of 1993, the Company had working capital of \$165.1 million and a current ratio of 4.5 to 1, compared to working capital of \$124.5 million at the end of 1992 and a current ratio of 3.8 to 1. Cash and short-term investments totaled \$149.3 million at the end of 1993 compared with \$109.8 million at the end of 1992.

During 1993, the Company generated \$43.6 million in cash from operating activities and received proceeds from the issuance of common stock of \$17.1 million. In addition, Zapopan received proceeds of \$20.8 million from the issuance of long-term debt in connection with the construction of the Mt. Todd Project. The Company expended \$45.6 million on capital additions (including \$29.5 million on Mt. Todd), paid \$3.0 million in dividends, and repaid debt of \$21.1 million. In 1994, the Company expects to spend \$19.3 million on capital additions at U.S. properties and an additional \$12.1 million at Mt. Todd.

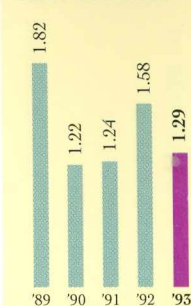
In April 1993, the Company increased its ownership interest in Zapopan from 38 percent to 61 percent in exchange for Common Shares, the Company's interest in certain notes receivable, and cash in the amount of \$8.4 million for a total cost of \$39.6 million. In December, Zapopan issued additional shares which diluted the Company's owner-

Operating Cash Flow

In Millions of U.S. Dollars



Operating Cash Flow Per Share



ship interest to 53 percent. Zapopan's most significant asset is the Mt. Todd Mine in the Northern Territory of Australia. The construction of Phase I of the project was completed in December for a total capital cost of US\$34.2 million. The funding for the project was arranged by Zapopan and consisted of cash proceeds from a rights issue and \$36 million in Australian dollar denominated debt.

On January 28, 1994, the Company and El Condor Resources Ltd. of Vancouver, Canada reached an agreement in principle to merge. The agreement in principle is subject to due diligence, the final approval of the Company's Board of Directors, the execution of a definitive agreement and approval by El Condor's shareholders. Pegasus will offer \$5.70 (C\$7.50) payable in common shares of Pegasus for each common share of El Condor for a total transaction value of \$82.3 million (C\$108 million).

El Condor's principal asset is its 60 percent interest in the Kemess South gold/copper deposit in northcentral British Columbia, Canada. The remaining 40 percent of Kemess South is held by St. Philips Resources Inc. El Condor is the project operator. A prefeasibility study conducted in 1993 by Kilborn Engineering Pacific Ltd. calculated a minable reserve of 220.9 million tons at an average grade of 0.018 ounces of gold per ton (4 million contained ounces) and 0.22 percent copper with a life-of-mine stripping ratio of 1.26:1. The study envisaged a milling operation of 44,000 tons per day to produce an average of 213,000 ounces of gold and 58 million pounds of copper annually over a 15 year mine life. Metallurgical studies conducted to-date show average recoveries of 78.2 percent for gold and 88.3 percent for copper from hypogene ore and 70.2 percent gold and 70.1 percent for copper from supergene ore. Total capital costs, including working capital, are estimated at \$285 million. Total cash operating costs per ounce, net of by-product credits, are estimated to average \$96 over the life of the mine. El Condor also owns 100 percent of the Kemess North deposit, located approximately 4 miles to the north of Kemess South. In addition, El Condor has a land package of approximately 30,000 acres in the area adjacent to the two deposits.

Because the acquisition and development of mineral properties is by nature unpredictable, the Company's need for additional capital will vary depending on the nature and timing of the opportunities available. At December 31, 1993, the Company had \$25 million in committed lines of credit against which no borrowings were outstanding. During 1993, it was determined that the maintenance of the Company's \$50 million line of credit was no longer an efficient method of raising capital given the Company's cash and short-term investment balance and the Company's access to the public and private markets. Consequently, this line of credit was cancelled on September 30, 1993. Pursuant to a Shelf Registration Statement filed with the SEC in December 1993, the Company may, depending on its capital needs, offer debt securities, Common Shares or, warrants in an amount not to exceed \$150 million. The Company believes the resources outlined above, coupled with the Company's cash position, should provide the Company with the ability to quickly respond to any favorable business opportunities which may become available.

ENVIRONMENTAL AND LEGAL PROCEEDINGS

In 1990, the Company purchased on behalf of the Ortiz joint venture with LAC Minerals (USA) Inc. ("LAC"), certain surface and mineral interests in the vicinity of the joint venture from Gold Fields Mining Corporation. Under the terms of that agreement, the purchaser assumed significant environmental liabilities associated with the property. The terms of the joint venture agreement with LAC also provide that LAC owned 100 percent of the joint venture's assets until the Company earned its interest, and that upon termination of the joint venture prior to earn-in, the Company would forfeit all its interest in such assets. Notwithstanding such agreement, after the Company terminated the joint venture in October 1992, LAC filed suit against the Company in the United States District Court in Albuquerque, New Mexico, claiming alternatively that the Company remains liable as the purchaser for 100 percent of the environmental liabilities associated with the Gold Fields property in perpetuity or that the Company agreed to be liable for 50 percent of such liabilities in perpetuity. Discovery is ongoing in this litigation and a trial date has been set for March 14, 1994.

In 1990, the Company determined that continued operation of the Basin Creek Mine under the existing mine plan would be uneconomical. As a result, the Company closed the mine and placed the site on care and maintenance status. Due to the shut down of the operation, D.H. Blattner & Sons Inc. ("Blattner") was no longer needed as the min-

ing contractor and the mining contract was terminated in accordance with its terms. Blattner filed a lawsuit claiming damages incurred as a result of the shut down at Basin Creek. In February, 1994, the parties negotiated a settlement of the action under the terms of which the Company will pay \$750,000 to Blattner and will offer Blattner certain construction and mining work at competitive rates over the next four years.

The status of the Basin Creek Mine is being re-evaluated to determine the most viable operating scenario. The alternatives include continued care and maintenance, a new plan based on results of metallurgical testing, limited operations to recover reclamation costs, and site closure and final reclamation. The current estimate of the cost of reclamation and closure, absent further operations, is approximately \$8 million. Under the second and third alternatives being evaluated, the estimated reclamation and closure costs could be funded out of cash flows generated from operations.

On October 13, 1993, the Department of Health and Environmental Sciences of the State of Montana ("DHES") filed a complaint in Montana First Judicial District Court alleging that the Zortman/Landusky Mine was discharging pollutants in violation of the Montana Water Quality Act. DHES has requested the Court to require the Company to operate the Zortman/Landusky Mine under a compliance plan to avoid violations of the Water Quality Act, to obtain any necessary permits and to pay civil penalties for the alleged violations. The Company has applied for such permits and a civil fine may be imposed.

Prior to the filing of the complaint, the mine had already undertaken an aggressive program to address the conditions related to the alleged violations. Elements of the program include systems to capture and contain the cited drainage, the accelerated reclamation of affected areas to reduce or eliminate possible sources of contamination, and construction of a plant to treat contaminated water. As a result, the Company accelerated its concurrent reclamation and environmental expenditures for 1993 in the amount of \$1.5 million and increased its reclamation accrual for 1993 by approximately \$1.4 million.

On October 22, 1993, the DHES served notice on the Company, and other unrelated companies, that they are "potentially liable persons for hazardous or deleterious substance contamination at Corbin Flats near Jefferson City, Montana." Work on a remediation proposal is ongoing. The Company estimates that the cost of remediation will approximate \$1.7 million and has accrued \$600,000 in 1993 for the costs of environmental remediation. The balance will be accrued on a units of production basis over the proven and probable reserves of

the Montana Tunnels Mine. The Company will be actively pursuing other potentially responsible parties to contribute to the cost of the remediation work.

In connection with the above described actions, the Company has recorded a provision for legal and environmental remediation costs in the amount of \$2.0 million, which the Company believes is adequate based on current estimates.

OUTLOOK

The profitability of the Company is tied directly to the price of gold and, to a lesser extent, the prices of its by-products, particularly zinc. The price of gold is unpredictable and affected by numerous factors beyond the Company's control. In 1993, the spot price of gold averaged \$360 per ounce, but traded in a range of \$326 to \$407. Through the use of hedging strategies, the Company protects itself from much of the market volatility.

At the end of 1993, the Company had approximately 3.9 million contained ounces of gold in domestic reserves and its proportionate share (53 percent) in Zapopan's reserves amounted to 1.4 million contained ounces of gold. Of these, approximately 3.4 million ounces were recoverable, which is equivalent to six years of production in the United States and 10 years in Australia at the current rate. The Company has in place aggressive acquisition and exploration programs, but the competition for the limited number of domestic and foreign acquisition opportunities is significant and increasing.

The location and development of economic ore bodies is subject to certain risks which include the development of appropriate metallurgical processes, the receipt of necessary governmental approvals and permits, and the construction of mining processing facilities. Although the Company has been successful in the past, there can be no assurance that in the future the Company's acquisition and exploration programs will be able to acquire, develop, and permit new reserves to replace and expand current reserves as they are depleted.

Due to the current unfavorable political environment toward the mining industry in the U.S., and the quality of the prospects available offshore, the Company has placed an increased emphasis on international mining opportunities. The Company has opened an exploration office in Mendoza, Argentina, which will provide additional exploration teams to evaluate properties on the east side of the Andes Mountains, complementing the work being done out of the Company's exploration office in Santiago, Chile.

Legislation recently has been adopted by both the U.S. Senate and the U.S. House of Representatives and is presently pending before a joint conference committee of the U.S. Congress to change the General Mining Law under which the Company holds mining claims on public lands in the United States. It is considered likely that the General Mining Law will be replaced by stricter legislation in 1994. The pending legislation contains strict new environmental standards and conditions, additional reclamation requirements and extensive new procedural steps which would likely result in delays in permitting. The pending legislation would also impose a royalty of at least two percent on the value of minerals mined on public lands, payable to the U.S. government. The Company's mines that would be significantly affected by the royalty are the Black Pine and Florida Canyon properties. The extent of any changes that will actually be enacted and the potential impact of such changes on the Company's United States activities is difficult to predict.

BOARD OF DIRECTORS



Douglas R. Cook

President of Cook Ventures, Inc. Previously Senior Vice President and Director of Freeport McMoRan Gold Company. Former President of Freeport Exploration Company. Director for Zapopan N.L., Director for Atlas Corporation. Mr. Cook holds a Doctorate of Science in Mining Geology from Colorado School of Mines and a Masters of Applied Science degree from the University of Toronto.



Paul H. Atkinson

Registered Professional Engineer, President of Coast Technical Services, Goldome Financial Corporation, President of Walden Power Partnership, and Director of Taywin Resources. Former President and owner of MinPro Ltd., a metallurgical processing equipment manufacturer.



Werner G. Nennecker

President and Chief Executive Officer of Pegasus Gold Inc. Previously Executive Vice President and Director of Santa Fe Pacific Minerals Corporation and President of Santa Fe Pacific Gold Corporation. Member of the Board of Directors of Zapopan N.L., USMX Inc., The American Mining Congress, The Gold Institute, and the National Mining Hall of Fame and Museum.



James S. Redpath

President of RME Capital Corporation, an investment company. Chairman of J.S. Redpath Holdings Limited; Director of Skega Limited, Mid-Canada Communications (Canada) Corp., and Redpath McIntosh Engineering Ltd.



Fred C. Schulte

Chairman and Chief Executive Officer of Elgin National Industries. Previously Vice President of Santa Fe Southern Pacific Corporation and Santa Fe Pacific Minerals Corporation. Mr. Schulte has held executive level positions with Kerr McGee and U.S. Gypsum Company.



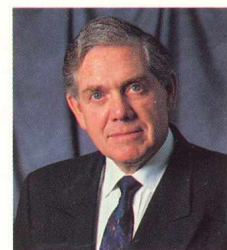
Peter R. Kutney

Oil and gas consultant. Previously Chairman of Canu Resources, Ltd. Former President, Chairman, and Chief Executive Officer of Wharf Resources Ltd. Chairman and former Chief Executive Officer of Coseka Resources Ltd. Member of the Board of Directors of Vintage Resources and Shamrock Resources.



Lindsay D. Norman

President of Montana College of Mineral Science and Technology. Former Vice President and Technical Director of the Chase Manhattan Bank in New York City. Vice President of Jones & Laughlin (LTV) Steel Corp., and Director of the U.S. Bureau of Mines (1979-1981).



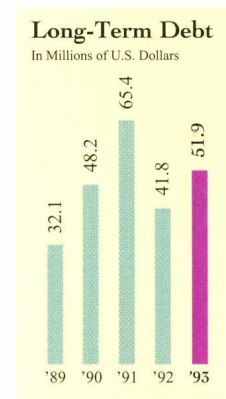
Daniel U. Pekarsky

President of The Corporate Advisory Group Inc. Director of Intensity Resources Ltd., Mr. Jax Fashions Inc., and Westcoast Energy Inc. In addition, from January 1, 1990 to August 31, 1993, Mr. Pekarsky was President and Chief Executive Officer of Rothschild Corporation (Canada) Inc. and Vice Chairman of Rothschild Canada Inc.



L. Jack Smith

Director and Non-Executive Chairman of Pegasus Gold Inc. Management consultant. Member of Canadian International Competition Tribunal. Director and 1st Chairman of Vancouver Hospital & Health Science Centre. Previously President and Chief Executive Officer of Westar Group Ltd. and former Director of Midland Bank Canada Limited.



SELECTED FINANCIAL DATA

(For the Years Ended December 31, 1995, 1992, 1991, 1990, 1989)

(In Thousands, Except Per Share Amounts)

	1993	1992	1991	1990	1989
INCOME STATEMENT DATA					
Sales of gold and other metals	\$215,187	\$ 182,171	\$ 156,211	\$ 171,213	\$ 178,362
Income (loss) before income taxes, cumulative effect of a change in accounting principle, and extraordinary credit	\$ 11,757	\$ (11,751)	\$ 10,603	\$ (39,347)	\$ 15,184
Income (loss) before cumulative effect of a change in accounting principle, and extraordinary credit	\$ 9,993	\$ (8,320)	\$ 9,599	\$ (38,172)	\$ 9,763
Net income (loss)	\$ 9,993	\$ (6,341)	\$ 9,599	\$ (38,172)	\$ 9,763
Net income (loss) per common share:					
Before cumulative effect of a change in accounting principle, and extraordinary credit	\$ 0.30	\$ (0.29)	\$ 0.37	\$ (1.55)	\$ 0.41
Cumulative effect of a change in accounting principle, and extraordinary credit	\$ -	\$ 0.07	\$ -	\$ -	\$ -
Net income (loss) per share	\$ 0.30	\$ (0.22)	\$ 0.37	\$ (1.55)	\$ 0.41
Cash dividends per common share	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.10
BALANCE SHEET DATA					
Cash and short-term investments	\$149,313	\$ 109,753	\$ 64,814	\$ 10,443	\$ 20,515
Total assets	\$495,233	\$ 394,022	\$ 351,072	\$ 276,554	\$ 289,460
Long-term debt	\$ 51,944	\$ 41,799	\$ 65,412	\$ 48,231	\$ 32,065
Shareholders' equity	\$341,997	\$ 293,139	\$ 245,651	\$ 198,493	\$ 233,207
STATISTICAL DATA					
Shares outstanding	34,556	31,473	27,857	24,701	24,151
Number of shareholders	3,760	4,149	4,550	4,880	4,930
Market price per share (U.S. Dollars)					
High	28.12	18.50	14.12	16.00	15.37
Low	12.62	11.38	9.62	9.12	8.87
December 31	22.00	14.75	12.37	13.00	13.50


REPORT OF
INDEPENDENT
ACCOUNTANTS

Board of Directors and Shareholders
Pegasus Gold Inc.

We have audited the consolidated balance sheets of Pegasus Gold Inc. as of December 31, 1993, and 1992, and the consolidated statements of operations, statements of cash flows and statements of changes in shareholders' equity for the years ended December 31, 1993, 1992, and 1991. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of Pegasus Gold Inc. as of December 31, 1993, and 1992, and the results of its operations and its cash flows for the years ended December 31, 1993, 1992, and 1991, in accordance with United States generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a consistent basis, except for the change in the method of accounting for income taxes described in Note 6.



Coopers & Lybrand
Vancouver, B.C., Canada
February 11, 1994

MANAGEMENT'S
RESPONSIBILITY FOR
FINANCIAL REPORTING

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

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

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



Werner G. Nennecker
President and Chief Executive Officer



Phillips S. Baker, Jr.
Vice President, Finance
and Chief Financial Officer

**CONSOLIDATED
BALANCE
SHEETS**

December 31, 1993, and 1992
(In Thousands of U.S. Dollars)

	1993	1992
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 53,294	\$ 41,797
Short-term investments	96,019	67,956
Due from sales of products	28,032	24,221
Inventories	31,413	27,556
Other current assets	4,204	7,039
Total current assets	212,962	168,569
Investments	17,756	47,960
Property, plant, and equipment, net	261,908	175,242
Other assets	2,607	2,251
Total assets	<u>\$ 495,233</u>	<u>\$ 394,022</u>
LIABILITIES		
Current liabilities:		
Accounts payable and other current liabilities	\$ 19,521	\$ 11,455
Accrued salaries, wages and benefits	4,728	3,686
Mining taxes payable	5,377	4,559
Dividends payable	3,456	3,146
Current portion of long-term debt	14,791	21,196
Total current liabilities	47,873	44,042
Long-term debt	51,944	41,799
Deferred reclamation costs	13,072	10,355
Deferred revenue	7,926	2,651
Other deferred liabilities	6,803	2,036
Total liabilities	127,618	100,883
Minority interest in consolidated subsidiary	25,618	-
Commitments and contingencies (Note 9)		
SHAREHOLDERS' EQUITY		
Class A preferred stock, Series 1, \$10 par value:		
Authorized - 20,000,000 shares; none issued		
Common stock, no par value:		
Authorized - 200,000,000 shares; issued		
and outstanding, 1993 - 34,555,652 shares		
and 1992 - 31,472,947 shares	331,193	287,582
Retained earnings	12,557	6,020
Foreign currency translation adjustment	(1,753)	(463)
Total shareholders' equity	341,997	293,139
Total liabilities and shareholders' equity	<u>\$ 495,233</u>	<u>\$ 394,022</u>

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

**CONSOLIDATED
STATEMENTS OF
OPERATIONS**

	1993	1992	1991
Sales	\$ 215,187	\$ 182,171	\$ 156,211
Cost of sales	151,686	118,059	105,258
Depreciation and amortization	31,872	27,766	23,030
	<u>183,558</u>	<u>145,825</u>	<u>128,288</u>
Gross profit	31,629	36,346	27,923
Operating expenses:			
General and administrative	14,150	9,725	7,104
Royalties	6,732	3,581	2,117
Exploration	12,087	9,131	5,843
Property write-down	-	24,608	-
	<u>32,969</u>	<u>47,045</u>	<u>15,064</u>
Income (loss) from operations	(1,340)	(10,699)	12,859
Other income (expense):			
Interest and other income	3,069	2,403	2,909
Interest expense, net of amounts capitalized	(2,704)	(3,455)	(4,079)
Gain (loss) on disposition of assets and investments	1,185	-	(1,086)
Gain on issuance of shares of subsidiary	10,853	-	-
	<u>12,403</u>	<u>(1,052)</u>	<u>(2,256)</u>
Minority interest in loss of subsidiary	694	-	-
Income (loss) before income taxes and cumulative effect of a change in accounting principle	11,757	(11,751)	10,603
Income tax provision (benefit)	1,764	(3,431)	1,004
Income (loss) before cumulative effect of a change in accounting principle	9,993	(8,320)	9,599
Cumulative effect of change in accounting for income taxes	-	1,979	-
Net income (loss)	<u>\$ 9,993</u>	<u>\$ (6,341)</u>	<u>\$ 9,599</u>
Income (loss) per share:			
Before cumulative effect of a change in accounting principle	\$ 0.30	\$ (0.29)	\$ 0.37
Cumulative effect of a change in accounting principle	-	0.07	-
Net income (loss) per share	<u>\$ 0.30</u>	<u>\$ (0.22)</u>	<u>\$ 0.37</u>
Weighted average common shares outstanding	<u>33,712</u>	<u>28,940</u>	<u>26,236</u>

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

**CONSOLIDATED
STATEMENTS OF
CASH FLOWS**

*For the Years Ended December 31, 1993, 1992 and 1991
(In Thousands of U.S. Dollars)*

	1993	1992	1991
Operating activities:			
Net income (loss)	\$ 9,993	\$ (6,341)	\$ 9,599
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	32,582	28,273	23,536
Gain on issuance of shares of subsidiary	(10,853)	-	-
Deferred amounts	7,268	(3,142)	3,796
Property write-down	-	24,608	-
Other, net	2,452	1,741	304
Change in receivables	(3,811)	(1,962)	(1,948)
Change in inventories	(1,614)	122	(1,772)
Change in accounts payable and accrued liabilities	4,560	2,258	(1,019)
Change in other current assets	3,046	183	63
Net cash provided by operating activities	<u>43,623</u>	<u>45,740</u>	<u>32,559</u>
Investing activities:			
Additions to property, plant, and equipment	(45,586)	(27,884)	(38,720)
Purchase of short-term investments	(29,834)	(51,046)	(35,793)
Proceeds from sale of investments	4,802	(220)	390
Net cash applied to investing activities	<u>(70,618)</u>	<u>(79,150)</u>	<u>(74,123)</u>
Financing activities:			
Dividend paid	(3,146)	(2,786)	(2,470)
Proceeds from issuance of long-term debt	20,853	-	28,000
Proceeds from issuance of common stock	17,072	56,975	40,339
Payments of long-term debt	(21,119)	(8,031)	(5,205)
Proceeds from issuance of shares of subsidiary	24,832	-	-
Other, net	-	28	(522)
Net cash provided by financing activities	<u>38,492</u>	<u>46,186</u>	<u>60,142</u>
Net increase in cash and cash equivalents	11,497	12,776	18,578
Cash and cash equivalents, beginning of year	<u>41,797</u>	<u>29,021</u>	<u>10,443</u>
Cash and cash equivalents, end of year	<u>\$ 53,294</u>	<u>\$ 41,797</u>	<u>\$ 29,021</u>

Supplemental disclosure (Note 12)

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

**CONSOLIDATED
STATEMENTS OF
CHANGES IN
SHAREHOLDERS'
EQUITY**

	Common Stock		Retained Earnings	Foreign Currency Translation Adjustment
	Number of Shares	Amount		
Balance, December 31, 1990	24,701,421	\$190,268	\$ 8,694	\$ (469)
Net income	-	-	9,599	-
Cash dividend (\$.10 per share)	-	-	(2,786)	-
Common stock issued for:				
Cash	3,000,000	38,700	-	-
Stock option plan	142,067	1,485	-	-
Employee savings plan and other	13,115	154	-	-
Foreign currency translation adjustment	-	-	-	6
Balance, December 31, 1991	27,856,603	230,607	15,507	(463)
Net loss	-	-	(6,341)	-
Cash dividend (\$.10 per share)	-	-	(3,146)	-
Common stock issued for:				
Cash	3,250,000	53,127	-	-
Stock option plan	363,133	3,802	-	-
Employee savings plan and other	3,211	46	-	-
Balance, December 31, 1992	31,472,947	287,582	6,020	(463)
Net Income	-	-	9,993	-
Cash dividend (\$.10 per share)	-	-	(3,456)	-
Common stock issued for:				
Warrants exercised	967,613	12,846	-	-
Stock option plan	335,108	3,979	-	-
Employee savings plan and other	12,785	247	-	-
Acquisition of investment in Zapopan N.L.	1,767,199	26,539	-	-
Foreign currency translation adjustment	-	-	-	(1,290)
Balance, December 31, 1993	<u>34,555,652</u>	<u>\$331,193</u>	<u>\$ 12,557</u>	<u>\$ (1,753)</u>

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

NOTES TO
CONSOLIDATED
FINANCIAL
STATEMENTS

NOTE 1

SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

BASIS OF PRESENTATION

The consolidated financial statements of Pegasus Gold Inc. (the "Company") include the accounts of the parent company, which is incorporated in British Columbia, its wholly-owned U.S. and foreign subsidiaries and, at December 31, 1993, its 53 percent ownership in Zapopan N.L. ("Zapopan"). The remaining interest in Zapopan is reflected as minority interest in the consolidated financial statements. All significant intercompany accounts and transactions have been eliminated. Certain prior year balances have been reclassified to conform with the current year presentation, which had no effect on net income (loss) or retained earnings as previously reported.

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

**CASH EQUIVALENTS AND
SHORT-TERM INVESTMENTS**

Cash equivalents consist of highly liquid debt instruments such as certificates of deposit, commercial paper, and money market accounts purchased with an original maturity date of three months or less. Short-term investments consist of similar investments which mature in more than three months from purchase. The Company's policy is to invest cash in conservative, highly rated instruments and limit the amount of credit exposure to any one institution. Cash equivalents and short-term investments are stated at cost plus accrued interest which approximates market value.

INVENTORIES

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

PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment are stated at cost. Mining properties and equipment are depreciated using the units of production method based upon proven and probable reserves. Other assets are depreciated using the straight-line method over estimated useful lives of 5 to 40 years. Replacements and major improvements are capitalized. Maintenance and repairs are charged to expense based on average estimated equipment usage.

EXPLORATION AND DEVELOPMENT COSTS

All exploration expenditures are expensed as incurred. Significant property payments for active exploration properties are capitalized. If no minable ore body is discovered, previously capitalized costs are expensed in the period the property is abandoned. Expenditures for the development of new mines, to define further mineralization in existing ore bodies, and to expand the capacity of operating mines, are capitalized and amortized on a units of production basis over proven and probable reserves.

DEFERRED STRIPPING COSTS

Significant mining costs associated with waste rock removal are deferred as development costs and charged to operations on a units of production basis over the life of the mine.

INVESTMENTS

The Company uses the equity method of accounting for investments in the common stock of companies in which it owns a 20 to 50 percent interest. Investments in marketable equity securities which are less than 20 percent owned are recorded at the lower of cost or market value; other investments are recorded at cost. Impairments in investment value are recognized in the results of operations.

REVENUE RECOGNITION

Sales are recorded when products (doré and concentrates) are shipped to refineries or smelters. All of the Company's sales are delivered against contracts with a small number of metals brokers and smelters. Due to the nature of the precious metals market, the Company is not dependent on its significant customers to provide a market for its refined gold and silver. However, if the Company had to replace

(continued)

the smelters to which zinc and lead concentrates are shipped, the additional transportation costs could be considerable. Although it is possible that the Company could be directly affected by weakness in the metals processing business, the Company monitors the financial condition of its customers and considers the risk of loss to be remote.

HEDGING TRANSACTIONS

In order to hedge the effect of price changes on the products it produces, the Company enters into forward sales, swaps, and options contracts. Option premiums, swap payments, and gains and losses on hedging arrangements are recognized in sales when the related production is delivered.

RECLAMATION COSTS

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

FOREIGN CURRENCIES

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

NET INCOME (LOSS) PER SHARE

Net income (loss) per share is calculated based upon the weighted average number of shares of common stock and common stock equivalents outstanding during the year, unless the addition of common stock equivalents would be anti-dilutive. The difference between primary and fully diluted net income per share was not material in any year.

INCOME TAXES

In 1992, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under the liability method, deferred tax assets and liabilities are determined based on the difference between the financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse (see Note 6).

Prior to 1992, the Company followed the requirements of Accounting Principles Board Opinion No. 11 which based the provision for income taxes on income and expenses included in the accompanying consolidated statements of operations. Under the deferred method, differences between taxes so computed and taxes payable under applicable statutes and regulations were classified as deferred taxes arising from timing differences.

NOTE 2

INVENTORIES

(Thousands of U.S. Dollars)	1993	1992
Processed metal	\$ 98	\$ 119
Stockpiled ore	3,071	636
Deferred mining costs	22,253	22,501
Materials and supplies	5,991	4,300
	<u>\$ 31,413</u>	<u>\$ 27,556</u>

The direct production costs associated with ore on leach pads are deferred and amortized as the contained gold is recovered. Gold is recovered over a five-year period at the Zortman/Landusky Mine, and over six to twelve-month periods at all other heap leach operations. Based upon actual metal recoveries and operating plans, the Company continuously evaluates and refines estimates used in determining the amortization and carrying value of deferred mining costs associated with ore under leach. Approximately 65 percent of the unrecovered gold on all leach pads at December 31, 1993, is expected to be recovered in the next year.

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NOTE 3

PROPERTY, PLANT,
AND EQUIPMENT

(Thousands of U.S. Dollars)	1993	1992
Mining properties and development costs	\$ 250,808	\$ 166,300
Plant and equipment	179,098	152,018
Construction in progress	4,153	4,050
	<u>434,059</u>	<u>322,368</u>
Less accumulated depreciation, depletion and amortization	172,151	147,126
	<u>\$ 261,908</u>	<u>\$ 175,242</u>

Interest costs of \$424,000 and \$1,934,000 were capitalized as part of development projects during 1992 and 1991, respectively.

In August 1989, the Company entered into a joint venture agreement with LAC Minerals (USA) Inc. ("LAC") providing for the exploration and development of the Ortiz gold project in northcentral New Mexico. In 1992, the development of the project was delayed because of the project's inability to obtain certain permits from the State of New Mexico and the opposition of the owner of the surface estate to the Company's efforts to develop its mineral rights.

During 1992, the Company attempted to renegotiate the ownership vesting and other provisions of its agreement with LAC to make the joint venture more economically acceptable to the Company. The Company was unable to reach an acceptable agreement with LAC and the decision was made to terminate the joint venture agreement as of the end of October 1992. As a result, the Company wrote off all previously deferred development costs associated with the Ortiz project in the amount of \$24,608,000 (see Note 9).

NOTE 4

INVESTMENTS

	1993		1992	
(Thousands of U.S. Dollars)	Carrying Value	Market Value	Carrying Value	Market Value
Equity investments:				
USMX, Inc.				
(31%)	\$15,486	\$19,304	\$16,045	\$12,369
Zapopan N.L.				
(38%)	-	-	20,912	20,711
	<u>15,486</u>	<u>19,304</u>	<u>36,957</u>	<u>33,080</u>
Marketable equity securities	2,270	2,014	2,354	1,864
Notes receivable	-	-	8,649	8,649
	<u>\$17,756</u>	<u>\$21,318</u>	<u>\$47,960</u>	<u>\$43,593</u>

ZAPOPAN

In April 1993, the Company increased its ownership interest in Zapopan from 38 percent to 61 percent in exchange for Common Shares, the Company's interest in certain notes receivable, and cash in the amount of \$8,403,000 for a total cost of \$39,612,000. This acquisition has been accounted for as a purchase and, accordingly, the operating results of Zapopan have been included in consolidated results of operations subsequent to the date of acquisition. For periods prior to April 1, 1993, the Company recorded its interest in Zapopan's results of operations using the equity method of accounting. The excess of the purchase price over the underlying net book value of the net assets acquired of \$40,712,000 has been allocated to property and mineral rights and will be amortized using the units of production method over the estimated recoverable ounces of the Mt. Todd Mine.

In December 1993, Zapopan issued and sold 14 million shares in a public offering for A\$2.45 per share, a price in excess of the Company's per share cost, and realized US\$24,674,000 based upon exchange rates in effect at the time of the offering. The offering and the exercise of certain stock options reduced the Company's ownership to 53 percent. As a result, a gain totalling \$10,853,000 was recognized in 1993 on this transaction.

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The following pro forma summary presents the consolidated results of operations as if the acquisition had occurred on January 1, 1993:

<i>(Thousands of U.S. Dollars)</i>	1993
Net sales	\$ 220,152
Net income	\$ 10,485
Net income per share	\$ 0.31

USMX

At December 31, 1993, the remaining unamortized excess cost of the investment in USMX, Inc. ("USMX") over its underlying net book value was \$8,065,000. This amount is being amortized using the units of production method over the estimated ore reserves at the Montana Tunnels Mine. Montana Tunnels is operated by the Company subject to the underlying royalty interest of USMX.

NOTE 5

**LONG-TERM
DEBT**

<i>(Thousands of U.S. Dollars)</i>	1993	1992
9.71 percent note due 1995, unsecured	\$ 25,000	\$ 25,000
9.22 percent note due 1992-1996, unsecured	10,800	14,400
6.55 percent note due 1994-1998, secured (Zapopan)	24,935	-
Bank term loan due 1992-1996, unsecured	6,000	8,000
7.5 percent gold-convertible bonds due 1993	-	11,180
5 percent gold-convertible bonds due 1993	-	4,415
	<u>66,735</u>	<u>62,995</u>
Less current portion	<u>(14,791)</u>	<u>(21,196)</u>
	<u>\$ 51,944</u>	<u>\$ 41,799</u>

LONG-TERM DEBT

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

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

In 1991, the Company entered into a \$10,000,000 five-year term loan. The loan is due in five equal annual installments beginning in March 1992, and bears interest based on the London Interbank Offered Rate ("LIBOR") plus 0.88 percent (4.19 percent at December 31, 1993).

In 1993, Zapopan entered into a five-year term loan with an original face value of A\$36,000,000 (US\$24,935,000). The note is due in sixteen quarterly installments beginning in June 1994, and bears interest at a fixed rate of 6.55 percent per annum, payable quarterly. The loan is collateralized by the underlying assets of Zapopan and its subsidiary.

At December 31, 1993, long-term debt matures as follows:

<i>(Thousands of U.S. Dollars)</i>	
1994	\$ 14,791
1995	38,033
1996	8,370
1997	4,865
1998	676
	<u>\$ 66,735</u>

INTEREST RATE SWAPS

The Company has entered into interest rate swap agreements which effectively convert the 9.71 percent and 9.22 percent notes to variable rate debt with a weighted average interest rate of 4.0 percent for the year ended December 31, 1993. The differential paid or received on interest rate swaps is charged or credited to interest expense over the life of the agreements. The Company is exposed to credit risk to the extent of nonperformance by the counterparties to its interest rate swaps. However, the Company regularly monitors the credit rating of its counterparties and considers the risk of default to be remote.

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FAIR VALUES

The fair values of the Company's long-term debt instruments at December 31, 1993, are estimated based on the current rates offered to the Company for debt of the same remaining maturities and the fair value of swap agreements are based upon estimated close-out values, as follows:

<i>(Thousands of U.S. Dollars)</i>	1993
9.71 percent note due 1995, unsecured	\$ 27,000
9.22 percent note due 1992-1996, unsecured	12,400
6.55 percent note due 1993-1998, secured	24,935
Bank term loan due 1992-1996, unsecured	6,000
	70,335
Interest rate swaps	(2,700)
	<u>\$ 67,635</u>

REVOLVING CREDIT FACILITY

The Company has entered into a \$25,000,000 short-term working capital revolving line of credit. Under the terms of this facility, the Company can borrow up to \$25,000,000 until July 30, 1995. Borrowings bear interest at floating rates for periods of up to 120 days. The Company must reduce its outstanding borrowings under this facility to zero for a minimum period of 30 consecutive days in each 12-month period. A commitment fee is payable on the unused portion of the facility at a rate of .25 of 1 percent. At December 31, 1993, there were no borrowings outstanding under this facility.

The Company's notes and credit facility contain certain financial covenants which include the maintenance of minimum levels of tangible net worth and cash flow, and limitations on the incurrence of additional indebtedness. At December 31, 1993, the Company was in compliance with the terms of all debt covenants.

NOTE 6

**INCOME
TAXES**

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

<i>(Thousands of U.S. Dollars)</i>	1993	1992	1991
Current			
United States	\$ 495	\$ (3,272)	\$ 147
Foreign	(331)	495	221
	<u>164</u>	<u>(2,777)</u>	<u>368</u>
Deferred			
United States	2,546	-	790
Foreign	(946)	(654)	(154)
	<u>1,600</u>	<u>(654)</u>	<u>636</u>
	<u>\$ 1,764</u>	<u>\$ (3,431)</u>	<u>\$ 1,004</u>

Effective January 1, 1992, the Company prospectively adopted the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). As of January 1, 1992, the Company recorded a tax benefit of \$1,979,000 or \$0.07 per share, which amount represents the net decrease to the deferred tax liability as of that date. This amount has been reflected in the consolidated statement of operations as the cumulative effect of a change in accounting principle.

The components of the net deferred tax (liability) asset as of December 31, 1993, and 1992 were as follows:

<i>(Thousands of U.S. Dollars)</i>	1993	1992
Deferred tax assets:		
Net operating loss		
carryforwards	\$ 20,172	\$ 15,266
Investments	1,298	243
Exploration expenditures	2,078	3,265
Miscellaneous foreign		
deductions	1,600	2,014
Deferred reclamation	1,008	1,021
Deferred maintenance	1,035	-
Investment tax credits	-	195
Other	1,936	1,160
Valuation allowance	(18,457)	(14,640)
	<u>10,670</u>	<u>8,524</u>
Deferred tax liability:		
Property, plant, and equipment	(9,070)	(7,870)
Other	(2,546)	-
	<u>\$ (946)</u>	<u>\$ 654</u>

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As of December 31, 1993, and 1992, valuation allowances of \$18,457,000 and \$14,640,000, respectively, have been recognized to offset certain related deferred tax assets due to management's uncertainty of realizing the benefits of these items. The net change of \$3,817,000 for the year relates primarily to increased net operating loss carryforwards and temporary differences, offset by a reduction of \$1,408,000 in the valuation allowance applied to Canadian future deductible amounts. Management has estimated there will be sufficient future income in Canada to fully realize the benefit of these amounts.

Income (loss) before income taxes consists of the following:

<i>(Thousands of U.S. Dollars)</i>	1993	1992	1991
United States	\$ (4,850)	\$ (21,864)	\$ 2,753
Foreign	<u>16,607</u>	<u>10,113</u>	<u>7,850</u>
	<u>\$ 11,757</u>	<u>\$ (11,751)</u>	<u>\$ 10,603</u>

The consolidated income tax provision (benefit) differs from the amount computed using the United States statutory income tax rate of 34 percent for the reasons set forth below:

<i>(Thousands of U.S. Dollars)</i>	1993	1992	1991
Expected tax provision			
(benefit)	\$ 3,997	\$ (3,995)	\$ 3,605
Effect of percentage			
depletion	(1,530)	4,066	(1,272)
Capital loss carryforward			
utilized	(3,690)	-	-
Foreign tax rate			
differential	(570)	(3,476)	(2,121)
Nondeductible items	3,774	141	1,028
Other, net	<u>(217)</u>	<u>(167)</u>	<u>(236)</u>
	<u>\$ 1,764</u>	<u>\$ (3,431)</u>	<u>\$ 1,004</u>

As of December 31, 1993, the Company's U.S. and Australian subsidiaries have regular tax basis net operating loss carryforwards totalling \$56,736,000 and alternative minimum tax net operating loss carryforwards of \$15,388,000 that expire in 1996 and later years. The regular tax loss carryforwards of the U.S. subsidiaries are not available to offset future alternative minimum taxable income. In addition, the Company has Canadian capital loss carryforwards of \$29,000,000 which may be carried forward indefinitely.

NOTE 7

**STOCK
OPTIONS**

Under the Company's 1987 Stock Option Plan for officers and employees, options to purchase 2,775,000 Common Shares of the Company may be granted for terms up to seven years. The exercise price of incentive stock options must equal the market value of the stock on the date of grant, or at least 90 percent of the market value of the stock for non-qualified stock options. Options granted generally become exercisable over the four-year period beginning on the date of grant. At December 31, 1993, and 1992, options to purchase 960,483 and 1,352,883 common shares, respectively, were available for future grants.

The 1989 Non-Employee Directors' Stock Option Plan provides that options to purchase up to 225,000 Common Shares of the Company may be granted to members of the Board of Directors who are not full-time employees of the Company, at an exercise price equal to the market value of the stock on the date of grant. The options are exercisable immediately and generally expire ten years after the date of grant. At December 31, 1993, and 1992, options to purchase 46,666 and 73,666 shares, respectively, were available for future grants.

Stock option transactions are summarized as follows:

	Number of Shares	Price Per Share
Outstanding, Dec. 31, 1990	850,568	\$9.88-\$13.50
Granted	32,666	
Exercised	(142,067)	\$9.88-\$11.25
Canceled or expired	<u>(10,033)</u>	
Outstanding, Dec. 31, 1991	731,134	\$9.88-\$13.50
Granted	430,400	
Exercised	(363,133)	\$9.88-\$13.50
Canceled or expired	<u>(51,250)</u>	
Outstanding, Dec. 31, 1992	747,151	\$9.88-\$14.88
Granted	419,400	
Exercised	(335,108)	\$9.88-\$22.63
Canceled or expired	<u>(28,300)</u>	
Outstanding, Dec. 31, 1993	<u>803,143</u>	\$9.88-\$22.88
Exercisable, Dec. 31, 1993	<u>477,261</u>	\$9.88-\$22.88

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NOTE 8

EMPLOYEE
BENEFIT PLANS

The Company has a savings plan (which qualifies under Section 401(k) of the U.S. Internal Revenue Code) covering all full-time U.S. employees. Under the plan, employees may elect to contribute up to 12 percent of their cash compensation, subject to ERISA limitations. The Company is required to make a matching cash contribution equal to 50 percent of the employee's contribution or up to three percent of the employee's compensation. Employees have the option of investing all or a portion of the total amounts contributed in shares of the Company's common stock. The Company may, at its discretion, make additional contributions to the plan. During the years ended December 31, 1993, 1992, and 1991, the Company contributed \$726,000, \$662,000, and \$436,000, respectively, to the plan.

The Company has a defined contribution pension plan covering all of its employees who have completed one year of service. The contribution is based upon a percentage of average annual compensation multiplied by the years of service with the Company. Contributions are 100 percent vested after five years of service and prior service with the Company is considered for vesting purposes. Contributions to the plan totalled \$335,000, \$361,000, and \$240,000 in 1993, 1992, and 1991, respectively.

NOTE 9

COMMITMENTS
AND CONTINGENCIES

HEDGED PRODUCTION

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

Gold

As of December 31, 1993, the Company had entered into contractual arrangements to deliver 927,174 ounces of gold over the next six years at prices ranging from \$344 to \$528 per ounce, with an average price of \$439. In addition, the Company had purchased put options on 275,000 ounces at an average price of \$366 per ounce, with various expiry dates over the next two years. The Company has written call options on 500,000 ounces expiring on various dates over the next four years at an average of \$411 per ounce.

Silver

As of December 31, 1993, the Company is obligated to deliver 3,855,000 ounces of silver over the next seven years at an average of \$5.17 per ounce. In addition, the Company has purchased put options which expire over the next two years on 720,000 ounces of silver at an average price of \$4.83 per ounce, and has written calls for 840,000 ounces at an average price of \$5.47 per ounce.

COMMON SHARES ISSUABLE

At December 31, 1993, a total of 1,826,673 shares of authorized common stock were reserved for the following:

Stock options	1,810,292
Employee Savings Plan	16,381
	<u>1,826,673</u>

OPERATING LEASES

The Company leases office space, certain transportation vehicles, and machinery and equipment under operating leases which expire on various dates over the next ten years. All of the agreements contain provisions which provide the Company with the option after the initial lease term either to purchase the property at its then fair value or to renew the lease at the then fair rental value. The Company is required to pay all taxes, insurance, and maintenance on the

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leased equipment. Future minimum rental commitments under existing leases as of December 31, 1993, are as follows:

(Thousands of U.S. Dollars)

1994	\$ 7,028
1995	6,879
1996	6,741
1997	6,741
1998	6,741
Thereafter	7,659
	<u>\$ 41,789</u>

Total rent expense under operating leases amounted to \$4,659,000, \$4,073,000, and \$1,254,000 in 1993, 1992, and 1991, respectively.

LEGAL PROCEEDINGS

In 1990, the Company purchased on behalf of the Ortiz joint venture with LAC Minerals (USA) Inc. ("LAC"), certain surface and mineral interests in the vicinity of the joint venture from Gold Fields Mining Corporation. Under the terms of that agreement, the purchaser assumed significant environmental liabilities associated with the property. The Company terminated the joint venture in October 1992. LAC filed suit against the Company, claiming that the Company remains liable as the purchaser for 100 percent of the environmental liabilities associated with the Gold Fields property in perpetuity or, alternatively, that the Company agreed to be liable for 50 percent of such liabilities in perpetuity. A trial date has been set for March 14, 1994.

On October 13, 1993, the Department of Health and Environmental Sciences of the State of Montana ("DHES") filed a complaint in Montana First Judicial District Court against Pegasus Gold Corporation and Zortman Mining, Inc., alleging that they were discharging pollutants in violation of the Montana

Water Quality Act. The Company has applied for such permit and a civil fine may be imposed.

On October 22, 1993, the DHES served notice on Montana Tunnels Mining, Inc., and other unrelated companies, that they are "potentially liable persons for hazardous or deleterious substance contamination at Corbin Flats near Jefferson City, Montana." Montana Tunnels Mining, Inc. estimates that the cost of remediation will approximate \$1,700,000 and has accrued \$600,000 in 1993 for these costs. The balance will be accrued on a units of production basis over the proven and probable reserves of the Montana Tunnels Mine. The Company will be actively pursuing other potentially responsible parties to contribute to the cost of the remediation work.

In addition to the above, various lawsuits, claims, and proceedings have been or may be instituted or asserted against the Company, including those pertaining to environmental, safety, and health matters. While the amounts claimed may be substantial and the ultimate liability cannot, at this time, be determined, management believes the disposition of the matters described above and other matters that are pending or asserted will not have a material adverse effect on the financial position of the Company or its results of operations.

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NOTE 10

SHAREHOLDERS'
EQUITY

Pursuant to a Shelf Registration Statement filed with the SEC on December 8, 1993, the Company may offer from time to time (1) Debt Securities, (2) guarantees of Debt Securities issued by Pegasus Gold Finance Corporation, an indirect wholly-owned subsidiary of the Company, (3) Common Shares, or (4) Warrants to purchase Debt Securities or Common Shares, at an aggregate initial offering price not to exceed US\$150,000,000.

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

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

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

NOTE 11

SUBSEQUENT
EVENT

On January 28, 1994, the Company reached an agreement in principle to acquire all of the outstanding shares of El Condor Resources Ltd. of Vancouver, Canada. The agreement in principle is subject to due diligence, the final approval of the Company's Board of Directors, the execution of a definitive agreement, and approval by El Condor's shareholders. The Company will offer \$5.70 (C\$7.50) payable in Common Shares for each common share of El Condor for a total estimated transaction value of \$82,300,000 (C\$108,000,000).

El Condor's principal asset is its 60 percent interest in the Kemess South gold/copper deposit in northcentral British Columbia, Canada. The remaining 40 percent of Kemess South is held by St. Philips Resources Inc. El Condor is the project operator. El Condor also owns 100 percent of the Kemess North deposit, located approximately 4 miles to the north of Kemess South. In addition, El Condor has a land package of approximately 30,000 acres in the area adjacent to the two deposits.

NOTE 12

SUPPLEMENTAL
CASH FLOW INFORMATION

The consolidated statement of cash flows for December 31, 1993, excludes the effects of certain non-cash investing activities relating to the acquisi-

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tion of a majority interest in Zapopan (see Note 4). The following is a summary of the non-cash effects of this transaction:

(Thousands of U.S. Dollars)

Increase (decrease) in:	
Inventory	\$ 2,455
Fixed assets	71,586
Investments	(27,346)
	<u>46,695</u>
Increase in:	
Accounts payable and accrued liabilities	5,585
Long-term debt	3,787
Minority interest	12,334
Common stock	26,558
	<u>48,264</u>
Net decrease in cash and cash equivalents	<u>\$ (1,569)</u>

Cash paid during the year for:

(Thousands of U.S. Dollars)	1993	1992	1991
Interest (net of amounts capitalized)	\$ 3,156	\$ 3,703	\$ 3,175
Income taxes, net of refunds	\$(3,560)	\$(1,961)	\$(2,435)

NOTE 13

**GEOGRAPHIC
INFORMATION**

The following is a summary of the Company's operations by geographic area for the year ended December 31, 1993. For the years ended December 31, 1992, and 1991, all consolidated operations were in the United States.

(Thousands of U.S. Dollars)	United States	Australia	Canada & Other	Total
Identifiable assets	\$373,100	\$ 87,500	\$ 34,633	\$ 495,233
Revenues	\$186,800	\$ 24,600	\$ 3,787	\$ 215,187
Net income (loss)	\$ (3,374)	\$ (1,829)	\$ 15,196	\$ 9,993

NOTE 14 DIFFERENCES BETWEEN U.S. AND CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Company prepares its consolidated financial statements in accordance with generally accepted accounting principles (GAAP), in the United States. Significant differences between U.S. GAAP and Canadian GAAP and their effects on net income (loss) and per share amounts are described below:

Under Canadian GAAP the provision for income taxes in 1993 and 1992 would be increased by \$946,000 and \$654,000, respectively, to reverse recognition of deferred tax assets not meeting recognition criteria under the deferred method. As a result, earnings (loss) per share would be reduced by \$0.03 and \$0.02 in 1993 and 1992, respectively. In addition, 1992 tax benefit of \$1,979,000 (\$0.07 per share) would not be recorded (see Note 6).

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NOTE 15

QUARTERLY DATA
(UNAUDITED)

Selected unaudited quarterly data for the years ended December 31, 1993, and 1992 is as follows:

<i>(Thousands of U.S. Dollars, Except Per Share Amounts)</i>	First Quarter ^a	Second Quarter	Third Quarter ^b	Fourth Quarter ^c	Total
Year ended December 31, 1993:					
Sales of gold and other metals	\$ 31,718	\$ 62,345	\$ 59,071	\$ 62,053	\$215,187
Gross profit	\$ 3,331	\$ 11,431	\$ 7,305	\$ 9,562	\$ 31,629
Income (loss) from operations	\$ (1,080)	\$ 4,341	\$ (1,217)	\$ (3,384)	\$ (1,340)
Net income (loss)	\$ (449)	\$ 4,579	\$ 381	\$ 5,482	\$ 9,993
Net income (loss) per share	\$ (0.01)	\$ 0.14	\$ 0.01	\$ 0.16	\$ 0.30
Year ended December 31, 1992:					
Sales of gold and other metals	\$ 33,670	\$ 51,968	\$ 51,581	\$ 44,952	\$182,171
Gross profit	\$ 5,358	\$ 11,411	\$ 9,741	\$ 9,836	\$ 36,346
Income (loss) from operations	\$ 1,553	\$ 5,928	\$ (20,440)	\$ 2,260	\$ (10,699)
Income (loss) before cumulative effect of change in accounting principle	\$ 974	\$ 4,827	\$ (15,337)	\$ 1,256	\$ (8,320)
Cumulative effect of change in accounting for income taxes	1,979	-	-	-	1,979
Net income (loss)	\$ 2,953	\$ 4,827	\$ (15,337)	\$ 1,256	\$ (6,341)
Income (loss) per share:					
Before cumulative effect of change in accounting principle	\$ 0.04	\$ 0.17	\$ (0.54)	\$ 0.04	\$ (0.29)
Cumulative effect of change in accounting principle	0.07	-	-	-	0.07
Net income (loss) per share	\$ 0.11	\$ 0.17	\$ (0.54)	\$ 0.04	\$ (0.22)

(a) Results for the first quarter of 1992 have been restated for adoption of SFAS 109, Accounting for Income Taxes.

(b) In 1992, third quarter results reflect the write-down of the Ortiz Project, (see Note 3).

(c) In 1993 fourth quarter results include a gain on the issuance of shares by Zapopan, (see Note 4).

DIRECTORS

Paul H. Atkinson
Vancouver, B.C.

Douglas R. Cook
Reno, Nevada

Peter R. Kutney
Calgary, Alberta

Werner G. Nennecker
Hayden Lake, Idaho

Lindsay D. Norman
Butte, Montana

Daniel U. Pekarsky
Vancouver, B.C.

James S. Redpath
North Bay, Ontario

Fred C. Schulte
Chicago, Illinois

L. Jack Smith
Chairman of the Board
Vancouver, B.C.

OFFICERS

Werner G. Nennecker
President &
Chief Executive Officer

Phillips S. Baker, Jr.
Vice President
Finance & Chief
Financial Officer

Steven W. Banning
Vice President,
Operations

F. Alan Fletcher
Vice President, General
Counsel and Secretary

Eric E. Kinneberg
Treasurer

Allan M. Park
Vice President,
Exploration

Michelle G. Viau
Controller

OPERATING MANAGEMENT

James P. Geyer
General Manager
U.S. Operations

C. W. Hoffman
General Manager
International Operations

John W. Jewitt, P. E.
General Manager
International Project
Development

Rolin P. Erickson
General Manager
Zortman/Landusky Mine

Wayne G. Loxton
General Manager
Montana Tunnels Mine

Calvin J. McKee
General Manager
Beal Mountain Mine

Peter A. Petrowsky
General Manager
Black Pine Mine

John E. Rice
General Manager
Florida Canyon Mine

EXECUTIVE HEADQUARTERS

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

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SECURITIES LISTINGS

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

**Options on
Common Shares**
Chicago Board
Options Exchange
Montreal Exchange

AUDITORS

Coopers & Lybrand
Vancouver, B.C.

SOLICITORS

**Lawson, Lundell,
Lawson & McIntosh**
Vancouver, B.C.

Shearman & Sterling
San Francisco, CA

TRANSFER AGENT AND REGISTRAR

**Montreal Trust
Company
of Canada**
Stock and Bond
Transfer Services
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510 Burrard Street
Vancouver, B.C.
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CO-TRANSFER AGENTS

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Trust Company**
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