

1995 ANNUAL REPORT



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CONTENTS

Financial and Operating Highlights	1
Letter to Shareholders	2
Operating Statistics and Ore Reserve Summary	6
Operations and Development Review	8
Exploration and Evaluation Review	21
Environmental Review	24
Financial Information	27
Management's Discussion and Analysis	28
Financial Statements	36
Common Share Information	59
Ten Year Historical Data	60
Glossary of Mining Terms	62
Corporate Information	66

NOTE ON CURRENCY

All dollar amounts are in United States dollars unless otherwise noted. Australian exchange rate at December 31, 1995 was US\$1=AU\$1.344. Canadian exchange rate at December 31, 1995 was US\$1=CA\$1.3645.

NOTE ON METRIC CONVERSION

For 1995 and thereafter, the Company will report its operating results in metric units. The change is a result of the Company's geographically diversified reserve base. A greater percentage of the reserves are now located in parts of the world where metric units are used for reporting purposes. The following conversions are used:

- 1 acre = 0.4047 hectare
- 1 foot = 0.3048 meters
- 1 mile = 1.6093 kilometers
- 1 ton = 0.9072 tonne
- 1 troy ounce = 31.1034 grams
- 1 ounce per ton = 34.2848 grams per tonne

CORPORATE PROFILE

Pegasus Gold Inc. is an international gold mining company with annual gold production of over 500,000 ounces. A Canadian incorporated company head-quartered in Spokane, Washington, Pegasus operates five mines in the western United States and one in northern Australia. In addition, the Company is constructing a mine in Chile and will be more than tripling the production capacity at the Mt. Todd Mine in Australia.

The Company is in the business of exploring for, developing, mining, and processing gold. All of the current operating mines use conventional open-pit mining methods, but during 1996, the Company will be developing the Diamond Hill property as an underground satellite operation to Montana Tunnels. While the majority of the operations process ore using heap leach technology which the Company pioneered, the Montana Tunnels Mine uses a conventional milling circuit to produce zinc and lead concentrates containing gold and silver. The projects in Australia and Chile that are being developed will include conventional milling.

Pegasus maintains an active international exploration and business development effort. Company offices located in Argentina, Australia, Brazil, Chile, and Guyana support an aggressive growth program to increase future gold production.

Pegasus has 40.9 million shares outstanding as of January 1996, which trade under the symbol "PGU" on the American, Toronto and Montreal stock exchanges. Options of the Company's common shares are traded on the Chicago Board Options Exchange and the Montreal Exchange.

ANNUAL MEETING

The Annual General Meeting of Pegasus Gold Inc. will be held in the Governor General Suite D of the Pan Pacific Hotel, 300 - 999 Canada Place, Vancouver, British Columbia, on Wednesday, April 24, 1996. The meeting will begin at 10:30 a.m. (local time). All shareholders are encouraged to attend.

Seattle Public Library



Selected Financial & Operating Highlights

- Achieved record total gold production of 549,700 ounces
- Increased share of ore reserves by 58 percent
- Realized four-fold increase in cash flow from operations
- Raised \$115 million by issuing Convertible Subordinated Notes
- Completed Zapopan acquisition to gain 100 percent of Mt. Todd
- Announced decisions to develop Pullalli and Phase II of Mt. Todd
- Elected to self-mine at Florida Canyon
- Continued to be an industry leader in safety and environmental protection

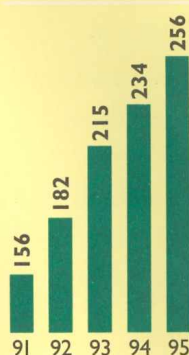
Total Ore Mined

In Millions of Tonnes



Total Sales

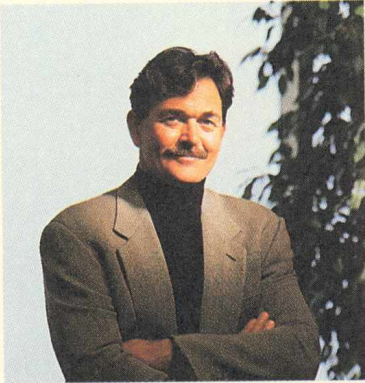
In Millions of U.S. Dollars



(In millions of U.S. Dollars, except per share amounts)	1995	1994	1993
Sales	\$255.6	\$233.6	\$215.2
Net income (loss) before one-time charges	(3.0)	(5.8)	(0.9)
Net income (loss)	(3.0)	(58.7)	10.0
Cash provided by operating activities	48.5	10.9	43.6
Cash and short-term investments	53.0	89.3	149.3
Total assets	580.2	453.3	495.2
Total debt ⁽¹⁾	159.6	58.2	66.7
Shareholder's equity	288.7	292.3	342.0
PER SHARE DATA			
Net income (loss)	\$(0.08)	\$(1.69)	\$0.30
Dividends	-	-	\$0.10
Cash provided by operating activities	\$1.39	\$0.32	\$1.29
SHARES OUTSTANDING			
Weighted average (000's)	34,817	34,702	33,712
Year-end (000's)	34,825	34,630	34,556
PRODUCTION/SALES DATA			
Gold (Total, ounces)	549,700	494,400	480,800
Gold (Pegasus' share, ounces)	534,200	455,000	453,100
Silver (ounces)	1,705,800	1,620,000	2,011,600
Zinc (tons)	21,600	19,800	18,000
Lead (tons)	7,400	9,400	7,000
Operating cost per tonne	\$5.03	\$4.97	\$5.44
Cash cost per ounce	\$262	\$277	\$251
Total cost per ounce	\$347	\$356	\$331
Gold price realized per ounce	\$406	\$407	\$382

1) Includes capital lease obligations

To Our Shareholders



The year 1995 was a very successful year for Pegasus Gold. Our strategy has been to increase gold reserves and production, while reducing costs to position the Company for further profitable growth well into the next century. As a gold exploration and production company, we compete with other producers for high-quality reserves, high-caliber people, and long-term shareholders. I am proud to announce that 1995 saw the Company make significant strides in each and every one of these areas.

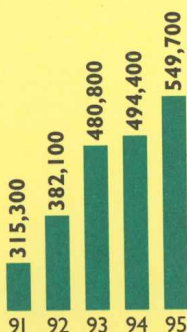
Reserves are the essential fuel for the engine of gold production – production that generates the cash flow to enable your Company to grow and to build shareholder wealth. During 1995, Pegasus saw a 58 percent increase in gold reserves to nearly 7.3 million ounces. This success was driven by our successful mine site exploration program and by the acquisition of the minority interest of Zapopan, giving Pegasus 100 percent of future cash flows at the Mt. Todd Mine. Our aggressive mine and international exploration program, combined with our business development activities and strong Balance Sheet give me confidence that we will continue to grow reserves well into the future.

Gold production of nearly 550,000 ounces made 1995 the best production year in the history of your Company. Nearly every one of the Company's mines experienced increased production from the prior year. The Company's goal remains to profitably produce one million ounces of gold per year by the turn of the century. With the development decisions made during 1995 and the performance of our existing operations, we are well positioned to achieve this aggressive goal. With projects in hand and some further progress on permitting, we expect to produce nearly 725,000 ounces of gold during 1998.

Production growth is not the only objective. We also continually strive to reduce costs. Over the long-term, we will do this by applying our expertise in low cost mining and processing. In the near term, we will reduce costs by doing an even better job of managing our operations. For example, in 1995 we decreased our cash cost per ounce of gold by 5 percent.

During 1995, we also invested heavily in our aggressive international exploration program to build a base for future growth. As a result, our earnings picture improved, although the Company posted a loss of \$3.0 million or \$0.08 per share, compared to a loss of \$58.7 million or \$1.69 per share a year earlier. The 1994 results included a \$52.9 million non-recurring charge; excluding these charges the Company would have posted a net loss of \$5.8 million or \$0.16 per share.

Total Gold Production
In Ounces



The primary reason for improving our earnings picture was the dramatic turnaround in our operations during 1995. The Company was able to generate over four times the operating cash flow generated in the prior year.

During the year, we positioned the Company for significant future growth by making the decision to develop our Pullalli Project in Chile, to move to self-mining at Florida Canyon, to acquire the minority interest in Zapopan and to move forward at Mt. Todd on Phase II of that exciting project.

In July, we acquired the minority interest of Zapopan, giving Pegasus' shareholders 100 percent control over this long-lived reserve and allowing the Company to control its significant cash flow well into the next century. Your Company now has nearly 45 percent of its total reserves in Australia, a country where mining is an attractive growth industry. The decision to move forward on Phase II will allow Mt. Todd to produce more than 260,000 ounces per year for at least 10 years while we continue to explore this multimillion ounce gold district.

At Florida Canyon, we have two very exciting stories moving forward simultaneously. We are building essentially a new mine on top of an existing operation. Our successful mine site exploration program doubled our current gold reserve to 1.4 million ounces and allowed us to move to self-mining. This will dramatically reduce costs at Florida Canyon. In parallel, we are expanding an already aggressive exploration program at this property to begin evaluating some high-grade sulfide intercepts.

Our decision to move forward on the Pullalli Project, the Company's first mine in South America, was based on current proven and probable reserves, its significant exploration potential, and its excellent location. During 1995, most of the drilling was in-fill drilling to enable us to better understand the reserve. During 1996, we will do a significant amount of drilling on other targets adjacent to the Pullalli Project.

Pegasus is committed to environmentally responsible operations everywhere we work. I am pleased to report that we have made substantial progress in our settlement discussions with the EPA, State of Montana, and the Indian Tribes adjacent to our Zortman Mine. We had hoped for resolution during the first quarter of 1996, but the government furlough and budget debate changed our expectations on timing. We now hope to have this litigation resolved during the first half of 1996. The Company can move forward with the Zortman Extension Project as soon as the lawsuits are settled and permits are in hand.

Pegasus remains committed to growing the Company through an aggressive exploration program and through an opportunistic approach to acquisitions. Reflecting on this commitment, we plan on spending nearly \$18 million during 1996 on exploration and evaluation activities.

The significant turnaround at our operations, complemented by the quality of our new development projects, has allowed the Company to significantly strengthen its Balance Sheet during 1995 and the first quarter of 1996. Last April, the Company successfully placed \$115 million in European Convertible Subordinated Notes for the acquisition of the



Left to right: Terry Bauer, Trevor Schultz, Allan Park, Jim Geyer, Bob Lonergan, Werner Nennecker, Phil Baker, Micki Viau, and Eric Ovlen.

minority interest in Zapopan. Consistent with our philosophy to keep your Company's financial position strong in order to take advantage of new opportunities, we successfully placed six million shares, yielding an additional \$93 million, just last month. We are in the final stages of negotiating a \$150 million revolving credit facility to ensure funding for future projects. The fact that this revolving credit thus far has been oversubscribed by nearly \$100 million should be taken as a vote of confidence in our development projects.

The Euroconvertible and the equity placed broadens our shareholder base and allows us better coverage in the world capital markets. The syndicate of high-quality banks proposed for our revolving credit will also enhance the Company's access to capital required for future expansion.

Over the past few years, we have made several enhancements to the Company's management team to better align management's competencies with the aggressive international strategy. I am happy to say that this team is now complete and that I am honored to work with such a high-caliber group of managers and executives. The most recent additions

were: Trevor Schultz, Senior Vice President and Chief Operating Officer, and Robert Lonergan, Vice President, General Counsel and Corporate Secretary. Trevor is a seasoned international mining executive with over 30 years of open pit and underground experience in several locations throughout the world. Bob is an excellent negotiator, with more than 20 years experience in the legal field, including environmental compliance, mergers and acquisitions, and business litigation. In addition, we welcome Lawrence I. Bell, currently President and Chief Executive Officer of Shato Holding Company of Vancouver, B.C., and Michael A. Grandin, currently President and Chief Executive Officer of Sceptre Resources Ltd. of Calgary, Alberta, to our Board of Directors.

Pegasus is a very different company than it was as little as four years ago. We are truly a global competitor now with five operating mines in the U.S., one in Australia, and soon one in Chile. Our successful exploration and business development programs have resulted in active development and construction on three continents concurrently.

After a temporary dip in gold production during 1996, due to the production delays at Zortman and due to tying-in the expansion project at Mt. Todd, Pegasus will see production grow to 600,000 ounces during 1997 and as our new generation of mines hit the first full year of production to more than 725,000 ounces in 1998.

We fully intend to continue to reduce our production costs while realizing the best overall return from our assets. We will maintain a strong financial position to keep the Company well-positioned to take advantage of opportunities as they occur. All of this will be accomplished while adhering to strict investment guidelines, capitalizing on the vast technical abilities resident in our Company and in a manner that incorporates the best environmental practices wherever we operate.

I thank our dedicated employees for building a strong platform from which we will realize significant future growth, and our shareholders for your loyal support.



Werner G. Nennecker
President and Chief Executive Officer
February 29, 1996

Operating Statistics and Ore Reserve Summary

Mine	Year	Mine Production										Non-Cash Cost \$ / oz.		Proven & Probable ⁽⁷⁾			Mineralized Material ⁽⁷⁾			Additional Mineralization ⁽¹⁰⁾		
		Gold (Ounces)	Silver (Ounces)	Ore Mined Tonnes (000's)	Gold Grade (g/t)	Stripping Ratio	Average ⁽¹⁾ Recovery (%)	Cash ⁽⁴⁾ Cost \$ / oz.	Royalty \$ / oz.					Tonnes (000's)	Grade (g/t)	Contained Ounces	Tonnes (000's)	Grade (g/t)	Contained Ounces	Tonnes (000's)	Grade (g/t)	Contained Ounces
Florida Canyon	1995	111,200	62,600	7,640	0.70	1.03:1	66	256	11			32	299	68,523	0.63	1,398	-	-	-	49,267	0.75	1,181
	1994	91,900	25,300	6,530	0.68	1.22:1	69	259	11			27	297	43,973	0.48	693	12,701	0.51	205	42,975	0.48	680
Zortman	1995	110,900	500,500	9,090	0.72	0.77:1	55	279	4			101	384	64,748	0.71	1,468	-	-	-	53,269	0.54	919
	1994	109,500	461,200	13,430	0.58	0.74:1	55	320	13			55	388	70,239	0.69	1,536	-	-	-	91,557	0.48	1,413
Montana Tunnels	1995	89,200	1,073,200	5,100	0.70	3.03:1	85	179	10			139	328	22,185	0.58	411	-	-	-	36,980	0.55	654
	1994	80,200	1,085,700	4,720	0.65	4.07:1	85	173	11			135	319	26,624	0.62	532	7,647	0.55	137	29,005	0.45	416
Mt. Todd (100%)	1995	70,000	-	5,040	1.02	1.19:1	55	346	-			68	414	97,631	1.07	3,344	8,370	1.08	290	89,670	0.97	2,806
	1994	61,200	-	3,450	1.17	1.00:1	56	331	-			47	378	67,329	1.23	2,669	3,445	1.23	136	89,213	0.99	2,820
Beal Mountain	1995	59,900	10,200	1,490	1.72	0.79:1	70	286	10			87	383	1,828	1.58	92	1,457	1.81	85	12,311	1.37	537
	1994	61,200	8,700	1,630	1.68	0.81:1	70	255	11			106	372	2,059	1.65	108	-	-	-	15,365	1.17	576
Black Pine	1995	108,500	59,300	7,050	0.72	1.16:1	59	251	22			40	313	7,232	0.50	116	-	-	-	27,680	0.43	380
	1994	65,700	39,100	5,810	0.69	1.16:1	54	294	24			53	371	12,147	0.65	256	2,264	0.55	41	27,680	0.41	380
Tanami (100%) ⁽⁸⁾	1995	-	-	-	-	-	-	-	-			-	-	-	-	-	-	-	-	-	-	-
	1994	24,700	-	73	2.78	3.22:1	85	231	30			24	285	-	-	-	-	-	-	-	-	-
Pullalli	1995													9,112	1.57	460	-	-	-	2,960	1.19	113
	1994													-	-	-	6,612	1.54	334	2,960	1.17	110
Diamond Hill	1995													-	-	-	491	6.53	103	188	8.28	50
	1994													-	-	-	1,064	9.29	318	-	-	-
Total ^(2, 8)	1995	549,700	1,705,800	35,410				262	10			75	347	271,259	0.84	7,289	10,318	1.44	478	272,325	0.76	6,640
	1994	494,400	1,620,000	35,643				277	13			66	356	222,371	0.75	5,794	61,395	0.93	1,829	298,755	0.65	6,395
Pegasus' Interest ^(1, 8, 9)	1995	534,200	1,705,800					262	10			75	347	271,259	0.84	7,289	10,318	1.44	478	272,325	0.76	6,640
	1994	455,000	1,620,000					277	13			66	356	192,747	0.75	4,621	59,879	0.93	1,769	298,755	0.65	6,395

1) Pegasus' average ownership percentage in Mt. Todd and Tanami (Zapopan) was 55 percent in 1994.

The Company acquired 100 percent of Zapopan in August 1995.

2) Basin Creek has been excluded.

3) Projected ultimate recovery.

4) Cash Cost is net of by-product credits and excludes royalties.

5) Total Cost includes cash cost, royalties, and depreciation and amortization.

6) Operations ceased April 1994.

7) Ore reserves are calculated using a \$400 per ounce gold price.

8) 1994 mineralized material includes 658,000 ounces from Kazgold which is not included in 1995.

9) Pegasus' ownership percentage in Mt. Todd (Zapopan) is 100 percent at year-end 1995 and was 56 percent at year-end 1994.

10) Additional mineralization comparative figures are as of July 26, 1995.

Operations and
Development
Review

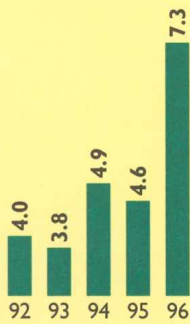


In 1995, the Company's six operating mines achieved record gold production totaling 549,700 ounces of which 534,200 ounces were attributable to Pegasus. Gold production has increased 74 percent since 1991, while ore reserves have increased 130 percent. The Company's share of ore reserves increased by almost 58 percent with the successful acquisition of Zapopan, exploration successes at Florida Canyon and Mt. Todd, and the decisions to develop Pullalli and Phase II of Mt. Todd. This represents the largest ore reserve increase in the history of the Company. At December 31, 1995, ore reserves were 7.3 million ounces of gold.



Gold
Reserves

In Millions of Ounces
As of January 1



In addition, 478,000 ounces of gold were classified as mineralized material at year-end 1995. Mineralized material declined from 1994 because Pullalli's ounces moved into reserves, Diamond Hill became a smaller project and the largest single factor was that Kazgold has been removed, since the Company is no longer involved in the project.

During 1995, the Company expanded its disclosure to include additional mineralization in order for investors to accurately evaluate the potential of the properties. Pegasus' definition of proven and probable reserves, mineralized material, and additional mineralization is equivalent to the total of the Australian measured, indicated, and inferred categories. At year-end the Company had 6.6 million ounces of gold in additional mineralization.

The cash cost decreased more than 5 percent from \$277 per ounce in 1994 to \$262 per ounce, in 1995, better than the Company's forecast of \$263 per ounce for the year. The cash cost decline in 1995 is a result of the record production from the U.S. mines, partially offset by higher costs at Mt. Todd and lower by-product credits per ounce of production. The Company mined 35.4 million tonnes (39.0 million tons) of ore during the year which was equivalent to the 1994 levels, while the operating cost per tonne increased by \$0.06 to \$5.03 per tonne in 1995 as a result of higher crushing and grinding costs during the year.

The Company in 1996 expects to mine 31.3 million tonnes (34.5 million tons) of ore at an average cost of \$5.43 per tonne. Ore mined in 1996 will be less than 1995 levels because no mining will occur at Zortman due to the depletion of the permitted reserves and there will be a minimum of two months downtime at Mt. Todd to tie the new facilities into the existing circuits. Some of the reduction is offset by an increase in the mining rate at Florida Canyon which will operate the existing crusher and a newly constructed crusher during 1996. Gold production for 1996 is expected to drop to about 495,000 ounces at a cash cost of \$270 per ounce for the year.

The **FLORIDA CANYON MINE**, located in northwestern Nevada, went through some major changes during 1995. The mine successfully doubled its minable ore reserves to approximately 1.4 million ounces of gold through exploration and development drilling. Florida Canyon now has a mine life of over six years and has a very good chance of increasing this even further from exploring the multiple exploration targets identified.

During 1995, 7.6 million tonnes (8.4 million tons) of ore were mined, 17 percent more than in 1994, producing a record 111,200 ounces of gold and 62,600 ounces of silver. Gold production was up 21 percent over 1994 levels as a result of gold recovered from the slower leaching, clayey ore

FLORIDA CANYON

Year Ended December 31	1995	1994	1993	1992	1991
CRUSHED ORE:					
Ore mined (tonnes 000's)	5,320	4,990	4,990	4,610	4,620
Average gold grade (g/t)	0.84	0.79	0.72	0.62	0.65
Gold recovery (%)	75.0	77.8	76.5	65.0	73.0
RUN-OF-MINE ORE:					
Ore mined (tonnes 000's)	2,320	1,540	1,360	4,010	3,790
Average gold grade (g/t)	0.37	0.34	0.38	0.34	0.34
Gold recovery (%)	45.0	47.5	52.4	49.0	55.0
Stripping ratio	1.03:1	1.22:1	0.88:1	1.22:1	1.20:1
Ounces of gold recovered	111,200	91,900	109,200	90,000	80,600
Ounces of silver recovered	62,600	25,300	37,600	37,800	20,900
COST PER OUNCE:					
Net cash cost	\$256	\$259	\$222	\$282	\$282
Depreciation and amortization	32	27	47	54	43
Royalties	11	11	18	12	9
Total operating cost per ounce	\$299	\$297	\$287	\$348	\$334

placed on the heap leach pad in 1994 and from higher grades mined in 1995. Cash costs declined to \$256 per ounce and are expected to decrease further to \$235 per ounce in 1996.

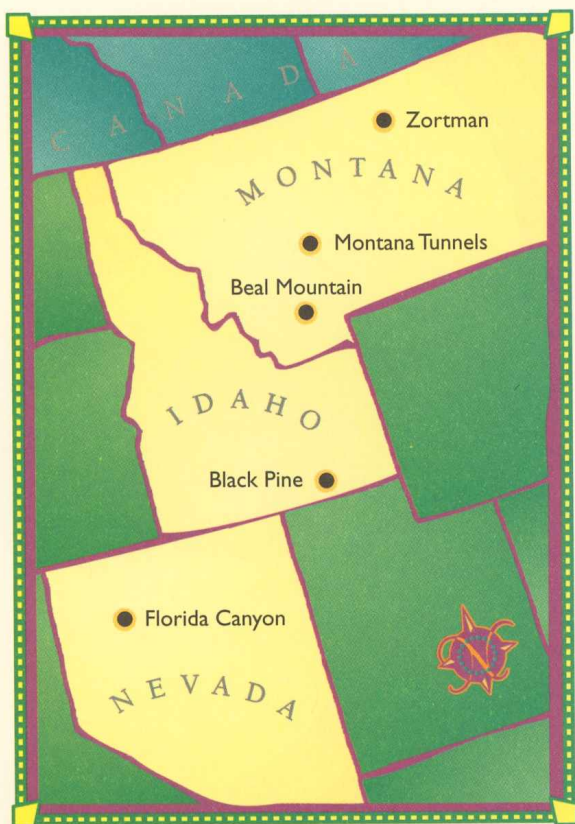
In order to lower operating costs and improve the operating efficiencies at Florida Canyon, many changes were made. In July, the decision was made to lease a new larger mining fleet to change to self-mining. The transition from contract mining to Company mining also incorporated leasing larger equipment. The 77 tonne (85 ton) haulage trucks were replaced with 136 tonne (150 ton) trucks and the 10.3 cubic meter (13.5 cubic yard) front end loaders were replaced with 18.0 cubic meter (23.5 cubic yard) hydraulic shovels. Other improvements in 1995 include building a new crushing and screening plant that will increase crushed ore production by 27 percent and the installation of a carbon plant (moved from the Basin Creek Mine) to complement the existing Merrill-Crowe recovery plant. The carbon plant is expected to increase gold recovery from lower grade solutions from the heap leach pad. A leach pad

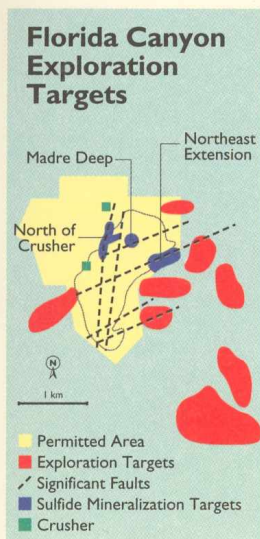
expansion which added 28.3 hectares (70 acres) of new leach pad space was completed during 1995. During 1995, capital expenditures totaled \$20.5 million at Florida Canyon excluding the leased equipment costs.

Exploration drilling discovered, in addition to the new oxide reserves, sulfide mineralization. The zone of sulfide mineralization discovered, is referred to as the North of Crusher Zone, and is located along a north/south structure on the western margins of the Main and Madre Pits, north of the existing crusher. At present, drilling within this zone has outlined 489,000 ounces contained in 7.2 million tonnes (8.0 million tons) grading 2.09 grams per tonne (0.061 ounces per ton) which is classified as additional mineralization. Within the North of Crusher Zone, there is a segment which is ten times higher grade than the average grade of the ore mined at Florida Canyon in the past ten years. The North of Crusher Zone has a strike length of approximately 365 meters (1,200 feet) and is open along strike to the north and at depth. The sulfide mineralization

will most likely require a flotation process plant to recover the gold.

Consequently, the Company is evaluating the feasibility of a small milling operation ranging from 1,800 to 2,700 tonnes (2,000 to 3,000 tons) per day to treat the sulfides. A flotation concentrate could be





produced for sale to one of the several autoclave processing facilities within the Winnemucca/Elko area. Additional exploration drilling is required to confirm the quantity of mineralization, as well as metallurgical testing to confirm a gold recovery method and design of facilities. The mine will also need additional permits, therefore, the sulfide mineralization will not achieve reserve status in 1996.

Florida Canyon is planning to spend at least \$3.6 million, in 1996, on exploration and development drilling, which will consist of 60,000 meters (196,900 feet) of reverse circulation drilling and 4,000 meters (13,100 feet) of diamond drilling. The initial exploration focus of the 1996 exploration program will be to extend the North of Crusher sulfide zone, expand the mineralization in the eastern highwall of the Main Pit, continue to expand the oxide ore in the Northeast Extension Pit, expand mineralization to the south and west of the Main Pit, and advance the Northeast Extension sulfide mineralization.

Outside of the existing permitted mining areas, exploration potential for more oxide and sulfide material has also been identified. There is the potential for higher grade sulfide mineralization at depth, below and adjacent to the existing mining areas. These targets are scheduled to be tested in 1996.

During 1996, the mine will operate the new crusher and the existing crusher in combination to produce approximately 195,000 ounces of gold. Capital expenditures in 1996 are expected to be \$14.6 million to complete the expansion.

The **ZORTMAN MINE**, in north-central Montana, achieved a safety milestone during 1995, operating one million man hours without any lost-time accidents. In 1995, the mine produced 110,900 ounces of gold at an average cash cost of \$279 per ounce. Gold production exceeded the 1994 production levels, even though 32 percent less ore was mined in 1995, because of higher gold grades. The average grade mined in 1995 was 0.72 grams per tonne (0.021 ounces per ton), a 24 percent increase. The cash cost declined 13 percent from 1994 and can be attributed to the reduction in tonnage. The majority of the permitted reserves were mined out at Zortman in 1995.

Since no mining will take place at Zortman in 1996, the mine expects to recover 35,000 ounces of gold from leaching the existing ore previously placed on the heap leach pads. As a result, the Company has laid off more than 100 workers, primarily those involved in mining. Most of those workers could be rehired for the Extension Project. Some of the idle mining equipment from Zortman will be moved for use at the Company's other mines.

During 1995, the permitting process advanced on the Zortman Extension Project. In August, the Company received the Draft Environmental Impact Statement (DEIS) which recommends mining the Zortman Extension. Ore would be conveyed to a new facility on Goslin Flats for treatment and the waste generated would be placed over the existing disturbed areas in Zortman. During September 1995, public meetings were held in the local communities and the period for public comment on the DEIS closed in November. The Company now expects the Record of Decision on the Zortman Extension Project in the second quarter of 1996, which will enable the Company to commence construction.

ZORTMAN

Year Ended December 31	1995	1994	1993	1992	1991
RUN-OF-MINE ORE:					
Ore mined (tonnes 000's)	9,090	13,430	11,340	11,770	12,920
Stripping ratio	0.77:1	0.74:1	0.67:1	0.45:1	0.42:1
Average gold grade (g/t)	0.72	0.58	0.58	0.51	0.62
Gold recovery (%)	55.0	55.0	55.0	55.0	58.0
Ounces of gold recovered	110,900	109,500	108,500	113,000	116,300
Ounces of silver recovered	500,500	461,200	535,700	771,600	954,400
COST PER OUNCE:					
Cash cost	\$279	\$320	\$273	\$231	\$214
Depreciation and amortization	101	55	50	47	39
Royalties	4	13	2	5	3
Total operating cost per ounce	\$384	\$388	\$325	\$283	\$256

The new permit would allow the Company to mine 72 million tonnes (80 million tons) of ore and the associated 54 million tonnes (60 million tons) of waste. Ore reserves for the Extension Project currently are 60 million tonnes (66 million tons) grading 0.71 grams per tonne (0.02 ounces per ton) containing about 1.4 million ounces of gold. Exploration potential exists in the mining district and further development drilling at depth below the current pit bottoms could add additional reserves.

The capital projection for the Zortman Extension Project has been reduced. The areas of potential savings include the elimination of the pad stacking system, flowsheet simplification, and the possible postponement of the construction of the stripping plant and gold room. Presently, the estimated capital for the Extension Project is \$45 million, of which \$32.6 million is planned for 1996, assuming the permits are received in the second quarter. The Company remains committed to the development of the Zortman Extension Project.

While the Company continues to be pleased with progress in negotiations to settle the outstanding lawsuits, the attempt to include all claims by all parties into one settlement, as well as the furlough of federal employees, has delayed the completion of a Consent Decree for presentation to the Court. The Company remains hopeful that a resolution can be reached in the next two or three months.





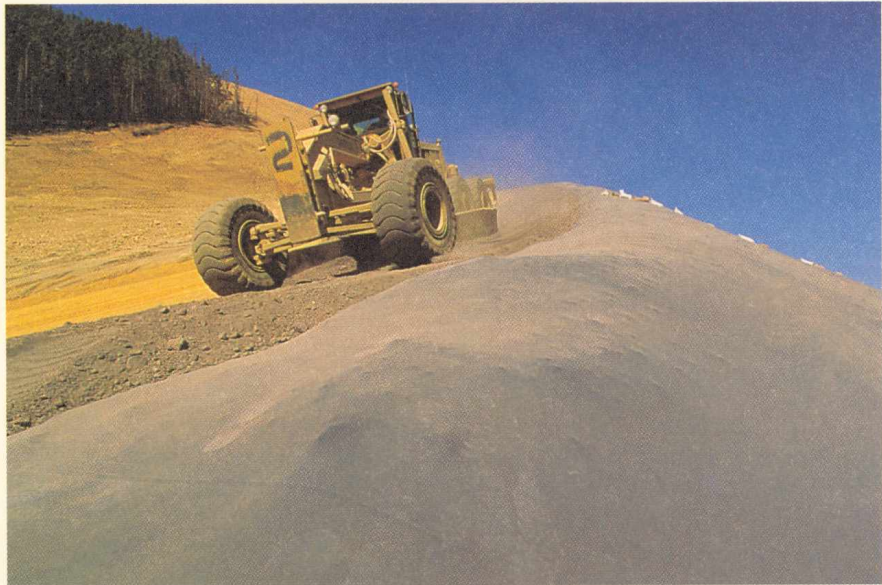
During 1996, capital expenditures at Zortman will total \$40.2 million. Approximately \$7.6 million will be spent on environmental treatment facilities and sustaining capital with the balance to be spent on the Zortman Extension Project, assuming the timely receipt of the permits.

The **MONTANA TUNNELS MINE**, located in central Montana, mined and processed a record amount of ore in 1995. The mine processes ore using one of the most efficient conventional mills in the world, which includes flotation and gravity circuits to treat low-grade ores. It is this technical expertise that Pegasus will use at other mines around the world such as Mt. Todd in Australia.

MONTANA TUNNELS

Year Ended December 31	1995	1994	1993	1992	1991
MILLED ORE:					
Ore mined (tonnes 000's)	5,100	4,720	4,170	4,150	3,870
Stripping ratio	3.0:1	4.1:1	3.8:1	2.0:1	1.7:1
Average gold grade (g/t)	0.70	0.65	0.58	0.69	0.65
Average silver grade (g/t)	10.76	10.97	15.08	15.08	14.74
Average percent lead	0.20	0.24	0.20	0.22	0.23
Average percent zinc	0.58	0.56	0.52	0.61	0.64
Gold recovery (%)	85	85	84	87	85
Silver recovery (%)	76	76	75	77	74
Lead recovery (%)	88	88	88	90	89
Zinc recovery (%)	85	86	88	90	86
Ounces of gold recovered	89,200	80,200	68,900	74,700	62,600
Ounces of silver recovered	1,073,200	1,085,700	1,401,100	1,325,700	1,166,300
Tons of lead recovered	7,400	9,400	7,000	7,200	7,200
Tons of zinc recovered	21,600	19,800	18,000	19,400	18,300
COST PER OUNCE:					
Net cash cost	\$179	\$173	\$178	\$115	\$121
Depreciation and amortization	139	135	121	102	150
Royalty	10	11	13	12	14
Total operating cost per ounce	\$328	\$319	\$312	\$229	\$285

The benefits of the larger mining equipment and increased mill capacity put in place in 1994 were realized in 1995 as 5.1 million tonnes (5.6 million tons) of ore were mined and 5.0 million tonnes (5.5 million tons) of ore were processed to achieve record gold and zinc production of 89,200 ounces and 21,600 tons, respectively, and 1.1 million ounces of silver, and 7,400 tons of lead. The mine successfully reduced its operating costs per tonne of ore milled by 4 percent to \$9.61 per tonne, compared



to \$10.03 per tonne in 1994. A large part of the decrease came from a reduction in the mining costs. While more ore was mined during the year, mining costs decreased at the same time by 18 percent to \$2.89 per tonne of ore from the prior year. The cash cost in 1995 was higher at \$179 per ounce net of by-product credits compared to \$173 per ounce last year due primarily to lower by-product credits per ounce of production.

Mining in 1996 will be carried out in the lower-grade upper portions of the open pit to gain access to the bottom levels of the pit for future mining. The mine is expected to produce approximately 75,000 ounces of gold, 1 million ounces of silver, 8,300 tons of lead, and 22,000 tons of zinc. Capital expenditures are projected to be \$1.4 million.

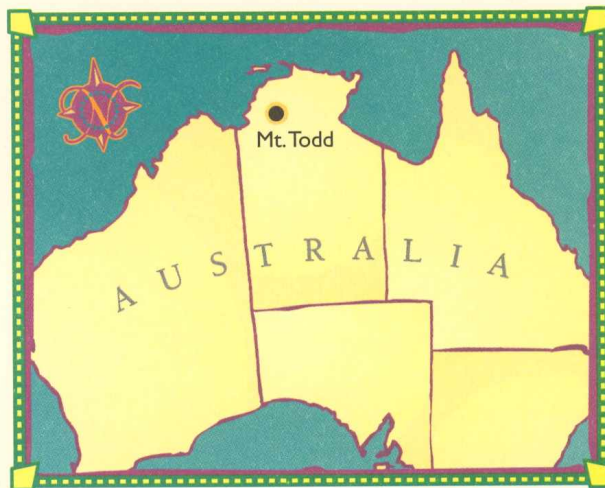
During 1995, the **DIAMOND HILL PROJECT** test milled a 4,540 tonne (5,000 ton) bulk sample at a milling facility in Philipsburg, Montana. Because the results generated from the test were favorable, the Company has decided to proceed with the project as a satellite of Montana Tunnels. In order to keep the capital requirements low, the Company plans to use contractors to mine and crush the ore since only 103,000 ounces of gold are contained in the mineralized material category. The plan is to mine 450 tonnes per day (500 tons) beginning in the second quarter



upon receipt of the permits. The ore will be trucked 92 kilometers (57 miles) to Montana Tunnels, stockpiled and processed on a batch basis through the Tunnels' mill facility. Approximately 82,600 tonnes (91,000 tons) of high-grade ore will be processed in 1996.

The sulfide concentrate produced will be refined at the Asarco refinery in Helena, Montana. A portion of the gold is expected to be recovered in the gravity circuit of Montana Tunnels. Gold production for 1996 is expected to be 23,000 ounces, at an average cash cost of \$201 per ounce. The exploration and development program is currently limited to identifying ore just prior to production, so little development of proven and probable ore is expected. The permitting process is proceeding well and the operating permit is expected in the first half of 1996. Diamond Hill will be Pegasus' first underground development and will extend the life of the Montana Tunnels operation.

The **Mt. Todd Mine**, located in the Northern Territory of Australia, became a wholly owned asset of the Company upon the successful completion of the Zapopan acquisition in 1995. Acquiring the minority interest of this world class asset is strategically important because Pegasus now has access to 100 percent of the cash flow from its single largest reserve. Based on proven and probable reserves, Mt. Todd is the fifth largest gold mine in Australia.



As a result of the acquisition and successful exploration, Pegasus' share of the Mt. Todd's reserves increased to 3.3 million ounces of gold which represents over 45 percent of the Company's ore reserves.

Gold production totaled a record 70,000 ounces of which 54,500 ounces were Pegasus' share. During the year, 5.0 million tonnes (5.6 million tons) of ore were mined and processed which was below plan because of the continuing problems with the secondary crushing circuit. While the performance improved over the second half, the Company has decided, for the long-term performance of Phase II, to replace the existing secondary crushers at an estimated cost of \$8.2 million (A\$11 million). The mine's cash cost during 1995 was \$346 per ounce due to the lower than expected gold production because of lower tonnes and grade. The lower grade is a result of mining in the more erratic north part of the Batman Pit. When

mining in the core of the deposit, which represents 80 percent of the reserves, grades are as expected. As the Pit gets deeper with mining, the ore type changes from oxide to transition ore. Currently oxide, transition, and primary ores are available for mining. While cash costs increased in 1995, the cost per tonne decreased to \$5.44, compared to \$5.74 a year earlier.

Several improvements were made at the mine to increase efficiency and lower costs. These include the construction of a tertiary surge stockpile which will increase the crusher and ore stacker availability during the wet season. The addition of two new carbon columns to the wet plant circuit, which allowed for increased flows through the carbon column train, and upgrading the stripping plant resulted in a 20 percent increase in the quality of the doré bars shipped.

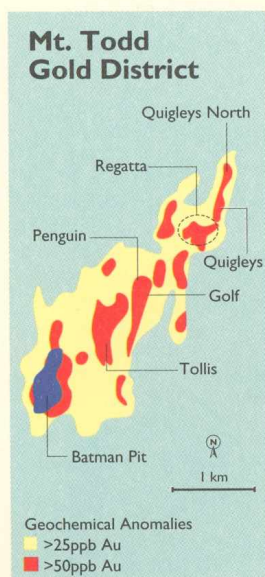
A \$2.3 million exploration program is planned at Mt. Todd in 1996, which includes 17,500 meters (57,400 feet) of reverse circulation drilling and 2,000 meters (6,600 feet) diamond drilling. The drilling will concentrate on North Batman, North Tollis, North Golf, Penguin, the Quigleys area, Horseshoe and Driffield. The goal is to add to the minable reserves and to identify higher grade material that could be processed in the mill at an early stage of Phase II.

During 1996, Mt. Todd is expected to produce 70,000 ounces of gold. There will be approximately two months of downtime when the new facilities under construction are tied into the existing ones and the secondary crushers are replaced. Capital expenditures are projected to be about \$137 million nearly all of which will be on the Phase II expansion of the mine.

Approval for the construction of **Mt. Todd Phase II** was announced in August 1995. The Phase II facilities will increase average annual gold production to 260,000 ounces.

Phase II consists of building a milling circuit which includes flotation, regrinding, leaching, and a four-stage crushing circuit. The design of the milling and crushing circuit provides significant power savings, since grid power is relatively expensive in the Northern Territory. The feasibility study includes \$19 million for the construction of a 35 megawatt gas turbine power plant, in the total projected capital of approximately \$163 million for Phase II. Other infrastructure additions for Phase II include a tailings dam, and accommodation facilities for staff in Katherine.

Phase II will expand the existing crushing plant at Mt. Todd by adding a parallel circuit to enable the mine to crush 8 million tonnes (8.8 million tons) per year. A fourth stage of crushing will be added to reduce the ore to 3 millimeters. The crushed ore will be fed to grinding mills and the material will be ground to about the same size as the ore treated at the Company's Montana Tunnels operation. The ground material is floated and the flotation concentrate is reground to liberate



MT. TODD

Year Ended December 31

CRUSHED ORE:

Ore mined (tonnes 000's)

Stripping ratio

Average gold grade (g/t)

Gold recovery (%)

Ounces of gold recovered

Pegasus' share

1995

1994

5,040

3,450

1.19:1

1.00:1

1.02

1.17

55.0

56.0

70,000

61,200

54,500

33,200

COST PER OUNCE:

Net cash cost

Depreciation and amortization

Royalty

Total operating cost per ounce

\$346

\$331

68

47

-

-

\$414

\$378

the gold which is leached within a CIL circuit. The flotation tails will be leached in a standard CIL circuit for residual gold recovery. Carbon stripping, electrowinning, and doré refining will be done in a common facility on site. The design of this circuit will result in 4 percent higher

recovery than a conventional CIL circuit. Total gold recovery after leaching both the flotation tails and the concentrate is expected to be 84 percent.

On average, Mt. Todd will mine 25 million tonnes (27.6 million tons) annually of ore, waste, and low-grade material, at an average stripping ratio of 2.1 to 1. The projected cash cost per ounce using

the feasibility study parameters is \$265 which compares to other Australian operations of similar size and grades. The Company feels there is some potential to reduce the cash cost by optimizing the pit walls, minimizing ore dilution, and focusing on higher grade material.

The new mill is expected to begin commissioning in late 1996. To date, the project is on track and within the feasibility cost estimate. The water supply dam has been completed and all civil work has been completed along with the scheduled concrete foundation work. The 35 megawatt power station has been ordered as well as long lead time milling and crushing equipment.

At the **BEAL MOUNTAIN MINE**, in southwestern Montana, 59,900 ounces of gold was produced in 1995. During the year, the mine successfully managed the leach pad solution inventory despite high levels of precipitation. Additionally, Beal managed to mine around an area of instability in the pit to safely recover the majority of the ore reserves included in the plan. Although 8 percent less ore was mined during the year, the cash cost increased to \$286 per ounce due to higher processing costs and an increase in mining costs associated with managing the instability of the hanging wall.

The Company continues to focus on increasing the efficiency of the operation. Operating improvements included the initiation of leaching the heap side slopes, adding cyanide at the pug mill before the ore is placed on the heap leach pad to improve recovery and the enclosing of the portable carbon plant to allow year-round operation.

During the year, Beal completed mining the permitted reserves in the South Beal Pit and the pit has been partially backfilled and reclaimed. Additionally, the mine obtained two permits late in 1995, which allowed Beal to add approximately 66,000 contained ounces of gold, which brings

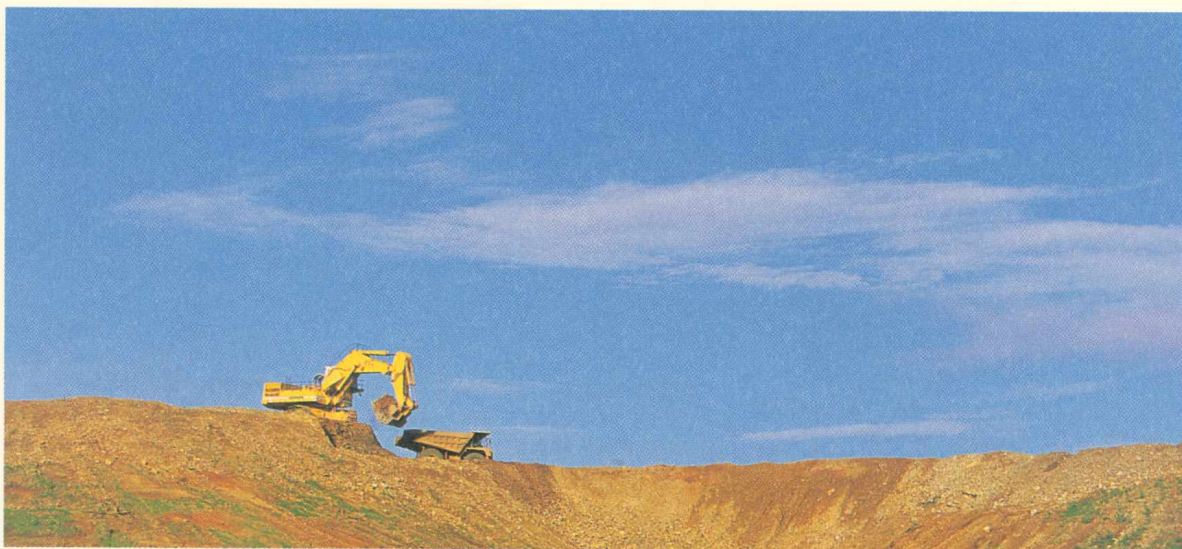


BEAL MOUNTAIN

Year Ended December 31	1995	1994	1993	1992	1991
RUN-OF-MINE ORE:					
Ore mined (tonnes 000's)	1,490	1,630	1,540	1,520	1,610
Stripping ratio	0.79:1	0.81:1	0.89:1	1.30:1	1.11:1
Average gold grade (g/t)	1.72	1.68	1.78	1.47	1.44
Gold recovery (%)	70.0	70.0	70.0	72.6	65.0
Ounces of gold recovered	59,900	61,200	59,300	52,200	47,300
Ounces of silver recovered	10,200	8,700	8,600	8,000	7,800
COST PER OUNCE:					
Net cash cost	\$286	\$255	\$211	\$211	\$245
Depreciation and amortization	87	106	93	89	98
Royalty	10	11	10	4	4
Total operating cost per ounce	\$383	\$372	\$314	\$304	\$347

ore reserves to 92,000 ounces of gold at year-end. The mine is working on additional permits that, if approved, could extend the mine life beyond 1996. The mine is expected to produce about 55,000 ounces of gold in 1996. Capital expenditures are anticipated to be approximately \$800,000.

The **BLACK PINE MINE** located in southeastern Idaho, produced a record 108,500 ounces of gold during the year. A record total of 7.0 million tonnes (7.8 million tons) were mined in 1995 at an average grade of 0.72 grams per tonne (0.021 ounces per ton), an increase in tonnage of 21 percent from 1994 levels. Gold grades averaged 4 percent higher than 1994 as a



result of mining the higher grade "E" Pit. Recoveries improved to 59 percent from 54 percent due to an improved leach distribution system put in place in late 1994. As a result, the cash cost declined 15 percent in 1995 to \$251 per ounce from 1994.

Black Pine has an excellent safety record. In October 1995, the mine achieved five years without a lost-time accident. Additionally, Jay Thorton, a contractor used at Black Pine for reclamation work, was recognized as "Idaho Reclamation Contractor of the Year" for reclamation efforts at Black Pine.

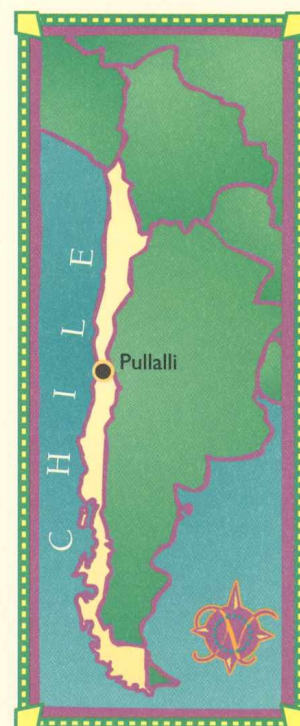
During the year, exploration added about 24,000 ounces of gold from existing pit expansions and the addition of the "I" Pit. The current ore reserves of 116,000 ounces of gold will be exhausted by year-end 1996. With the completion of mining of the "E" Pit in 1995, ounces of gold to the pad will decrease in 1996. Gold production is expected to be about 65,000 ounces. Capital expenditures will be approximately \$300,000.

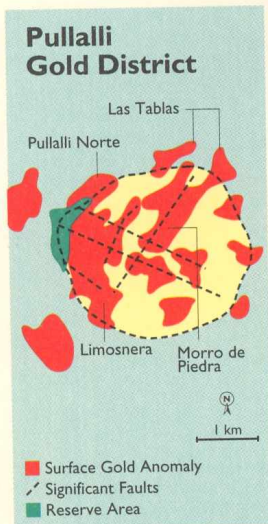
BLACK PINE

Year Ended December 31	1995	1994	1993	1992
RUN-OF-MINE ORE:				
Ore mined (tonnes 000's)	7,050	5,810	3,270	2,850
Stripping ratio	1.16:1	1.16:1	1.30:1	1.93:1
Average gold grade (g/t)	0.72	0.69	0.82	1.20
Gold recovery (%)	59.0	54.0	80.0	65.0
Ounces of gold recovered	108,500	65,700	66,100	48,700
Ounces of silver recovered	59,300	39,100	28,600	14,900
COST PER OUNCE:				
Net cash cost	\$251	\$294	\$244	\$183
Depreciation and amortization	40	53	83	109
Royalty	22	24	20	18
Total operating cost per ounce	\$313	\$371	\$347	\$310

At the **PULLALLI PROJECT** located 150 kilometers (90 miles) north of Santiago, Chile, the Company made a production and development decision in July. Capital costs are estimated to be \$50 million for construction of the project. During 1995, conceptual engineering and a prefeasibility study were completed resulting in upgrading the previous mineralized material to proven and probable reserves containing 460,000 ounces of gold.

The Company plans to build a combination valley fill heap leach and CIP milling facility to recover gold. Open-pit mining will be conducted at a rate of 2.3 million tonnes (2.5 million tons) of ore per year. A crushing plant will be constructed to crush 1.5 million tonnes (1.65 million tons) of ore for heap leaching and 0.77 million tonnes (0.85 million tons) for milling. The mill is expected to operate at a rate of 2,000 tonnes (2,200 tons) per day. Mining is expected to begin in late 1996 with road construction, prestripping of waste, and construction of dump sites. Mill start-up is expected in late 1997, or early 1998. At full production, the mine is forecast to produce about 90,000 ounces of gold annually at a cash cost of approximately \$220 per ounce.





The Company has a large land position at Pullalli, controlling the mineral rights for about 11,600 hectares (28,700 acres) of which 5,600 hectares (13,800 acres) contains the Reserve Area, the planned site for the new facilities and multiple exploration targets. During 1996, the exploration expenditures are expected to be \$1.6 million which includes 10,500 meters (34,500 feet) of drilling. The main emphasis will be to extend the existing reserves to the north, test the Limosnera area for high-grade ore, drill the Las Tablas anomalies, extend mineralization encountered at the Morro de Piedra anomaly and to test several anomalies east of the Reserve Area. In 1996, capital expenditures are expected to be about \$24.8 million.

During 1995, Pegasus decided to sell its position in the **KAZGOLD PROJECT** and to no longer contribute to the joint venture. At the end of the second quarter, the Company informed Goldbelt Resources Ltd. that it was relinquishing operatorship of the Kazgold Project. The Company's decision not to proceed with Kazgold has taken 658,000 ounces out of the mineralized material category. The Company incurred approximately \$3.4 million of evaluation expenditures on the project of which \$2.4 million were expensed in the second quarter.

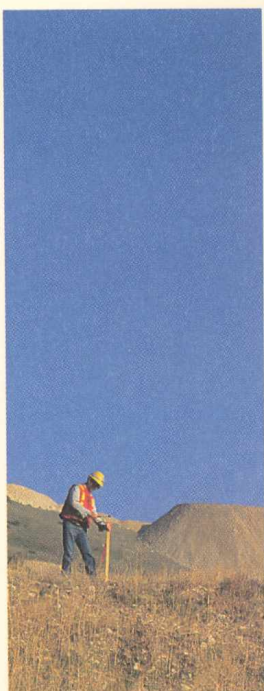
Exploration and Evaluation Review



The exploration and evaluation program is the fundamental building block for the growth of the Company. At Pegasus, the exploration and evaluation program is directed toward both the short-term and the long-term growth. The short-term growth program focuses on acquisitions and mine exploration where reserves can be added and placed into production within two years or less. The longer term growth program is oriented toward more generative projects that will require three to five years to find and place new reserves into production. Both aspects of an exploration program are important for the successful growth of the Company.



Pegasus conducts its search for new reserves and resources internationally, focusing on pure gold properties and polymetallic deposits with a majority gold component. The Company's exploration activities are headquartered in Spokane, Washington, with district exploration offices in Mendoza, Argentina; Perth, Australia; Santiago, Chile; and Georgetown, Guyana; and a recently opened office in Rio de Janeiro, Brazil. The exploration group consists of 36 people including geologists and support staff. The Company's primary focus is in Latin America and Australia, but the Company does not exclude searching in any country that it feels the political and financial risks are manageable.



During 1995, Pegasus' exploration and evaluation expenditures totaled \$26.4 million, including \$18.6 million which was expensed. The primary focus was on international exploration; approximately 75 percent of the spending occurred outside of the United States. International exploration and evaluation totaled \$19.4 million during the year, including \$7.4 million in Chile (\$5.9 million on Pullalli), \$4.4 million in Australia (\$2.3 million on Mt. Todd), \$1.8 million in Argentina, \$3.5 million in the CIS and \$2.3 million on other international projects.

Capitalized exploration at the Company's mines, including the Pullalli Project in Chile, totaled \$7.8 million during the year and successfully added reserves and resources. At the Florida Canyon Mine and the Mt. Todd Mine, exploration added close to a million ounces of gold reserves at each site. Pullalli exploration upgraded 460,000 ounces of mineralization into the minable category. Also several favorable targets have been outlined at Montana Tunnels, Beal Mountain, and at Black Pine, and are scheduled for drilling in 1996.

During the year, exploration programs continued in Argentina, Australia, Chile, Guyana, and were initiated in Brazil. Work in Argentina focused on exploration and property submittal reviews to establish land positions in geologically attractive areas. In the Santa Cruz province the Company secured the La Esperanza prospect which has favorable surface anomalies. In addition, land positions were achieved in the provinces of Salta, Catamarca, La Rioja, Jujuy, San Luis, Mendoza, Chubut, and Rio Negro.

In Australia, outside of the Mt. Todd Mine area, the exploration program concentrated on opportunities in the Precambrian Greenstone Belts in Western Australia and in the Tanami Region of the Northern Territory.

The Company encountered ore-grade mineralization in drill holes on the Mt. Eureka Project in Western Australia. Work is scheduled to continue in 1996 on these targets. The Company received an offer from a third party to purchase the Tanami exploration leases and data base for \$3.6 million (A\$4.9 million) with two contingent payments of \$0.75 million (A\$1.0 million) each due upon definition of additional reserves. The sale is contingent on various approvals and legal documentation.

In Chile, outside of the work carried out at Pullalli, the exploration program focused on the North Central Depression east of Antofagasta and the Atacama Fault paralleling the Coast Range. Several targets were identified, and follow-up work is in progress.

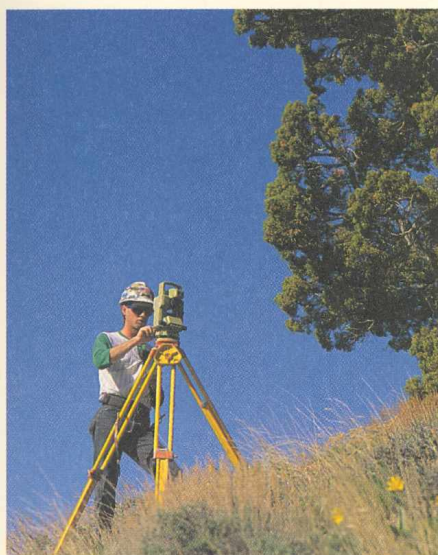
In Guyana, the Company secured two exploration concessions, the Blackwater and Deer Creek concessions about 30 kilometers southwest of the Omai Mine. An exploration program was initiated on the properties, and mapping and sampling was conducted. A number of drill targets were successfully identified. To maximize the exploration effort and to properly follow up these targets, the Company has decided to seek a partner to continue the exploration on these sites for 1996.

In 1996, total exploration and evaluation spending is expected to be \$18 million of which more than 75 percent will be spent on projects outside of the United States. The portion which will be expensed will decline to \$13.0 million as the focus shifts to expanding resources and reserves at the mine and development sites. Aggressive mine exploration utilizing new geologic interpretations will be conducted at Mt. Todd, Pullalli, and all the U.S. operations. Approximately \$5 million of the 1996 budget will be directed to the mines and, as successes occur, additional funds could be directed to the sites.

The major exploration emphasis in 1996, outside of the mines, will be focused on advanced opportunities that have a predefined drill target with ore-grade values. These targets must have a potential for developing a minimum of one million minable ounces of gold.

Most of the generative work will be done in Argentina where few advanced opportunities exist. Generative targets must have surface anomalies of sufficient size to host a million ounce deposit and must have surface geochemical values in excess of 1.0 grams gold per tonne (0.029 ounces per ton).

While lowering expenditures, the 1996 exploration and evaluation program is expected to have good results because strong targets at existing facilities allow rapid reserve additions.



Environmental Review



A cornerstone of Pegasus' business strategy is its commitment to environmental protection as a fundamental operating responsibility. It is as important to the Company's success as employee safety and bottom-line profit. Whether at a new project, a currently producing mine, or a site being decommissioned, sound environmental planning clearly serves the best interests of the Company's shareholders, employees, and neighboring communities.



Throughout Pegasus, professional staff with expertise in mining, metallurgical and civil engineering, environmental science, geology, hydrology, biology, agronomy, law, and other technical disciplines work together to ensure environmental protection receives primary consideration as facilities are designed, constructed, operated, and closed.

In 1995, over \$12.1 million was spent by the Company on reclamation and environmental programs, applying state-of-the-art science to ensure protection of valuable air, water, and wildlife resources. In addition, estimates of the costs to close the Company's U.S. operations underwent an annual review to assess the adequacy of applicable accruals. Adjustments to these accounts are required periodically to reflect changes in regulatory requirements and mine conditions, and to recognize the evolution of land-use planning applicable to surrounding areas. The resulting estimate of future (post-1995) closure costs was determined to be approximately \$64.2 million, of which \$32.8 million has been accrued. Individual site accounts were revised as necessary to ensure accrual of the balance over the remaining mine lives.

At every Pegasus operation, sound environmental planning continues to be an integral part of overall site performance. At Zortman, as current operations come to a close, and as efforts to permit the Extension Project continue, new facilities are being designed and constructed as part of a \$10 million comprehensive water quality protection program. Reclamation techniques and water management schemes, which are clearly some of the most aggressive in the industry, are successfully improving water quality across the site and supporting efforts to settle lawsuits which have hampered the mine's ability to reach its full potential for over two years.

At Montana Tunnels, innovative waste rock storage and tailings impoundment designs have achieved exemplary air, water, and wildlife resource protection in a challenging mountainous environment. For example, local elk herds have continued to increase markedly since the mine was commissioned, directly as a result of the site's proactive game management programs.

Wildlife has also become the beneficiary of attentive environmental management at the Beal Mountain Mine where a pure strain of West Slope cutthroat trout prospers (its numbers have actually increased) in German Gulch, a stream which originates adjacent to the mine operations. Measures to protect water quality at the mine have not only enhanced fish habitat, but have also allowed re-consideration of reserves which were written off by the Company in 1994. An innovative production scheme, which makes maximum use of clean waste rock as backfill for a pit excavated below the water table, allows the operation to meet the Company's strict standard for environmental protection and pursue a plan which will enable gold production throughout 1996 and into 1997, two years longer than previously thought.

Because many of Pegasus' operations are located in areas where mining has been a major industry since the beginning of the century, reclaiming disturbance left by historic operators has also become a significant part of the Company's environmental commitment. At Black Pine, a project to remove arsenic-laden tailings, left by an earlier miner in an adjacent stream bed, was successfully completed in 1995. Black Pine has also worked closely with state and federal agencies to develop reclamation techniques particularly suited to the challenging steep terrain where the mine is located. Notably, the contractor who completed much of this steep-slope reclamation was given the "State of Idaho's Outstanding Reclamation Contractor Award," reflecting the high quality of the effort.

The Florida Canyon Mine successfully completed expansion of its ore crushing and heap leaching facilities during 1995. Its ability to proceed with this expansion on a reasonable schedule was largely the result of a several-year commitment to aggressive concurrent reclamation. This program demonstrates the operation's ability to manage its net disturbance at levels consistent with protection of the surrounding environment. In

fact, Florida Canyon received the "1995 Excellence in Reclamation Award" presented jointly by the U.S. Bureau of Land Management, U.S.D.A. Forest Service, the Nevada Division of Wildlife, the Nevada Division of Minerals, and the Nevada Division of Environmental Protection.

At the Company's Mt. Todd Mine in the Northern Territory of Australia, studies continue to demonstrate no negative impact on the Gouldian Finch population whose habitat lies adjacent to the mine. Protecting this species was a major concern at the time of permitting, and the site's success demonstrates the effectiveness of cooperative programs which encourage conduct of mining operations consistent with other resource values.

The Company's only full mine closure project continued at the former Basin Creek Mine. Over \$3.1 million was committed to the project in 1995, during which the major earth moving was approximately 50 percent completed. In the next few years, after all remedial construction is complete and vegetation is reestablished, Basin Creek will provide firm demonstration of how an area disturbed by mining can continue to be a productive part of long-term regional land use following closure.

Financial Information

CONTENTS

Management's Discussion & Analysis	28
Report of Independent Accountants	35
Management's Responsibility for Financial Reporting	35
Consolidated Balance Sheets	36
Consolidated Statements of Operations	37
Consolidated Statements of Cash Flows	38
Consolidated Statements of Changes in Shareholders' Equity	39
Notes to Consolidated Financial Statements	40
Common Share Information	59
Ten Year Historical Data	60
Glossary of Mining Terms	62



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

OVERVIEW

For the year ended December 31, 1995, the Company recorded a net loss of \$3.0 million, or \$0.08 per share, compared to a net loss of \$58.7 million, or \$1.69 per share, in 1994, and net income of \$10.0 million in 1993, or \$0.30 per share. Included in the net loss for 1994 are the effects of property write-downs and other non-cash charges amounting to \$52.9 million, or \$1.53 per share. In 1993, the Company recorded a gain of \$10.9 million, or \$0.32 per share, resulting from the issuance of additional shares by Pegasus Gold Australia Pty Ltd. ("PGA," formerly Zapopan NL), the Company's then 56 percent owned subsidiary. Excluding the effects of the above, the net losses for 1994 and 1993 would have been \$5.8 million, or \$0.16 per share, and \$0.9 million, or \$0.03 per share, respectively.

The improvement in the net loss incurred in 1995 over 1994 (excluding the effects of the write-downs) results from an 11 percent increase in gold production and a 5 percent reduction in the cash cost per ounce, offset by increased depreciation and amortization charges due to increased reclamation estimates, and the Company's proportionate share of losses incurred by its affiliates.

The following table highlights certain key financial statistics:

	1995	1994	1993
Gold sales (ounces)	549,700	495,100	483,600
Gold revenue realized per ounce	\$406	\$407	\$382
Average COMEX price per ounce	\$384	\$384	\$360
Cash production cost per ounce	\$262	\$277	\$251
Total mine cost per ounce	\$347	\$356	\$331

REVENUES

Gold. The Company's primary source of revenue is the sale of gold produced by the Company's six mines located in the western United States and Australia. Revenue from the sale of gold increased 11 percent in 1995 to \$223 million, compared to \$201.3 million in 1994 (\$184.7 million in 1993). Production in 1995 increased 11 percent, 21 percent, 65 percent, and 14 percent over 1994 at Montana Tunnels, Florida Canyon, Black Pine, and Mt. Todd, respectively; offset by the loss of production from the Tanami Mine which ceased operations in the first quarter of 1994. Total gold production increased to 549,700 ounces compared to 495,100 ounces in 1994 (483,600 ounces in 1993). The Company expects to produce 495,000 ounces of gold in 1996.

The average realized gold price was \$406 per ounce, compared to \$407 per ounce in 1994, and \$382 per ounce in 1993. The average COMEX gold price per ounce was \$384 in 1995 and 1994, and \$360 in 1993. The use of forward sales and other hedging programs added \$12.3 million to revenue in 1995, \$10.0 million in 1994, and \$13.6 million in 1993.

Other metals. Montana Tunnels produces most of the Company's silver, and all of its zinc and lead. Small quantities of silver are produced at the Company's other U.S. mines. In 1995, the sale of other metals contributed 13 percent of total revenue, compared to 14 percent in 1994 and 1993. In 1995, sales of other metals were essentially flat, increasing 1 percent to \$32.6 million from \$32.3 million in 1994 (\$30.5 million in 1993). Increased production of silver and zinc were offset by lower lead production. The average realized prices for 1995 were \$4.96 per ounce, \$0.46 per pound, and \$0.29 per pound, for silver, zinc, and lead, respectively; compared to \$4.87 per ounce, \$0.49 per pound, and \$0.27 per pound, respectively, in 1994 (\$5.73 per ounce, \$0.45 per pound, and \$0.19 per pound, respectively, in 1993).

Gold Prices Realized

In U.S. Dollars Per Ounce



OPERATING COSTS

The average cash cost of production decreased 5 percent to \$262 per ounce of gold in 1995 compared to \$277 per ounce in 1994 (\$251 in 1993). The lower cash cost resulted from an overall increase in production from U.S. operations, offset by no production from the closed Tanami Mine, increased costs at the Mt. Todd Mine, and lower by-product credits per ounce. Cash costs per ounce decreased at the Zortman and Black Pine mines as a result of increased grades; Black Pine also had improved recovery. The cost per ounce at Florida Canyon decreased as a result of increased production. Montana Tunnels cost per ounce is higher than in 1994 because of lower by-product credits offsetting a \$1.00 per tonne reduction in operating costs. The cost per ounce at Beal Mountain has increased as a result of an increase in the strip ratio and costs associated with the instability of the pit highwall. At Mt. Todd, cash costs have increased because of lower grade and continued problems with crushed ore particle size and crusher throughput. As a result, the secondary crushers at Mt. Todd will be replaced as part of the Phase II expansion.

On a consolidated basis, the cash cost per ounce in 1994 was higher than 1993 as a result of generally higher stripping ratios, lower grades, higher processing costs, slower recoveries, and a difficult start-up at Mt. Todd. The Company's average cash cost of production is expected to be \$270 per ounce in 1996.

Depreciation and amortization charges of \$75 per ounce for 1995 increased from \$66 per ounce incurred in 1994 (\$66 per ounce in 1993). The increase is the result of higher charges for amortization of reclamation and mine closure costs, primarily at the Zortman Mine and increased leach pad amortization at Mt. Todd. Royalty expense was \$10 per ounce compared to \$13 per ounce for 1994 (\$14 per ounce in 1993), as a result of the cessation of mining at the Tanami Mine in Australia and a reduction in royalty payments at the Zortman Mine. The Company expects total cost per ounce to be \$366 in 1996.

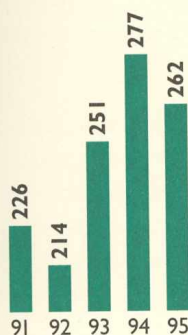
EXPLORATION

Exploration and evaluation expenses increased \$1.6 million to \$26.4 million, \$18.6 million of which was expensed, compared to \$24.8 million in 1994, \$20.7 million of which was expensed (1993 - \$13.7 million, \$12.1 million expensed). Expensed exploration is lower as a result of a decrease in program expenditures in the U.S. and Australia, a decrease in expensed exploration expenditures in Chile with the decision to develop Pullalli, offset by a charge of \$2.4 million for expenditures relating to the Company's interest in the Leninogorsk Gold Tailings Project in Kazakhstan. Total expenditures for 1995 include \$4.4 million of expenditures capitalized in connection with the development of the Pullalli Project in Chile.

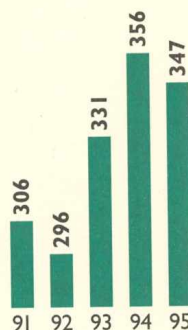
The expensing of the Leninogorsk Tailings Project was triggered by the Company's decision to no longer contribute to the project. The \$3.4 million carrying value of the Company's 12.5 percent interest in the project was reduced to \$1.0 million in the second quarter. Goldbelt Resources Ltd., the Company's former joint venture partner in the project, has assumed responsibility for the management of the project with the intention of continuing development.

Approximately half of the Company's exploration program for 1996 will be directed toward the addition of new minable reserves and resources through exploration around existing operations. Aggressive mine site exploration utilizing new geologic interpretations will be conducted at Mt. Todd, Pullalli, and all U.S. operations. In addition, the Company will focus on an evaluation of advanced exploration opportunities, that have a potential for developing a minimum of one million ounces of gold. This program will be primarily

Cash Cost
In U.S. Dollars Per Ounce



Total Cost
In U.S. Dollars Per Ounce



international with a strong emphasis in Argentina, Brazil, Chile, and Western Australia. In 1996, the Company expects to spend \$18.0 million on exploration and business development, \$13.0 million of which is expected to be expensed. Actual exploration and evaluation expenditures will vary as a result of the acquisition of new properties and the success of exploration activities on existing properties. Spending on advanced projects and acquisitions, which depends on opportunities and discoveries, cannot be projected.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses decreased 9 percent to \$13.2 million from \$14.5 million in 1994 (\$14.2 million in 1993), primarily because of decreased travel and other costs and lower corporate overhead incurred by the Company's Australian operations. The slight increase between 1994 and 1993 related primarily to costs related to foreign business development efforts.

OTHER INCOME (EXPENSE) AND TAXES

The Company invests its excess cash in low-risk, short-term investments. Interest income increased \$369,000 over 1994 because of higher average cash and short-term investment balances early in the year and increased investment yields. The average yield was 5.7 percent in 1995, 4.6 percent in 1994, and 2.9 percent in 1993. Interest expense is \$2.5 million higher because of the net interest cost associated with issuing \$115 million of subordinated convertible debentures in connection with the acquisition of the minority interest in PGA. The increase has been partially offset by the capitalization of \$2.3 million in interest costs associated with the acquisition and other construction projects. In 1994, interest expense increased to \$3.5 million from \$2.7 million in 1993, because of interest on debt used to finance the construction of Mt. Todd and an increase in the effective rate paid. The effective rate increased to 7.0 percent in 1995 compared to 5.7 percent in 1994 (5.0 percent in 1993). In addition, gross interest expense was reduced by \$0.4 million and \$0.6 million, respectively, in 1994 and 1993, for interest capitalized against construction projects. In 1996 and 1997, as additional borrowings are required to fund the construction of Mt. Todd Phase II, the Pullalli Project, and the Zortman Extension Project, interest expense and related amounts capitalized are expected to increase accordingly.

The equity in net loss of affiliates is the Company's proportionate share of the losses incurred by the Emerging Markets Gold Fund and USMX in 1995 and income reported by USMX in 1994. Gains and losses on the disposition of assets and investments related primarily to investment write-downs in 1994, and to sales of marketable equity securities and land in 1993.

In 1995 and 1994, the Company recorded net income tax benefits of 16.4 percent and 4.2 percent of each year's respective pre-tax loss. The low effective rate reflects the impact of nondeductible expenses and the inability to fully utilize net operating loss carryforwards generated in 1995 and 1994. See Note 9 to the Consolidated Financial Statements for additional information related to the composition of the tax provision. In the future, the Company's effective tax rate will be highly dependent upon the relative contribution to earnings of its operations in various tax jurisdictions which have significantly different effective tax rates.

MINORITY INTEREST

Minority interest represents the minority shareholders' interest in the losses of the Company's majority owned Australian subsidiary, PGA, during the time period commencing April 1, 1993, the date on which the Company acquired its majority interest, and ending July 17, 1995, the date the Company acquired the remaining minority interest.

PROPERTY WRITE-DOWNS, PROVISION FOR CLOSURE, REMEDIATION AND RELATED COSTS, AND GAIN ON ISSUANCE OF SHARES OF SUBSIDIARY

Property write-downs and other charges taken in 1994 are discussed in Notes 3 and 4 of the Consolidated Financial Statements. The gain on issuance of shares of subsidiary in 1993 is discussed in Note 5.

ENVIRONMENTAL PROTECTION

Environmental protection is a primary consideration in the design, development, and operation of Pegasus' current and future mines, worldwide. A total of \$4.4 million and \$1.2 million was spent during 1995 and 1994, respectively, for capital improvements associated with environmental projects. In addition, \$7.7 million and \$7.2 million was spent during these two years to manage and operate environmental programs including concurrent reclamation.

Major environmental programs undertaken during 1995 included enhanced water quality protection programs at Zortman and Beal Mountain, and nearly 50 percent completion of the major earth work required to close the former Basin Creek operation. The Company completed its annual review of comprehensive reclamation and closure plans at all of its mines. The purpose of these reviews is to ensure that environmental programs adequately address corporate objectives, increasingly stringent regulations, and dynamic environmental conditions at individual operations. Voluntary programs to clean up certain historic mine workings were also implemented at the Company's Montana Tunnels, Basin Creek, Zortman, and Black Pine properties. Internal environmental audits were performed at all the Company's mines during 1995, and action plans were developed in response to audit recommendations.

No major spills, releases, or other significant environmental incidents occurred at the Company's mines during 1995. All minor incidents were promptly addressed and remedied, as appropriate.

At December 31, 1995, the Company estimates the future cost to close and reclaim all of its current mines to be \$64.2 million (see Note 13). Although these estimates are considered adequate to fund the aggregate, reclamation and closure work, future changes in environmental laws and regulations could significantly change program costs. As the Company's mining operations revise and update their closure plans, and as environmental protection laws and administrative policies evolve, the Company will revise the estimate of its aggregate reclamation liability.

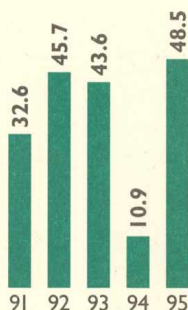
FINANCING, CAPITAL INVESTMENT AND LIQUIDITY

At the end of 1995, the Company had working capital of \$79.0 million and a current ratio of 2.6 to 1, compared to working capital of \$96.6 million and a current ratio of 2.3 to 1 at the end of 1994. Cash and short-term investments totaled \$53.0 million at the end of 1995, compared with \$89.3 million at the end of 1994.

In 1995, operating activities generated \$48.5 million in cash flow, while the issuance of subordinated convertible debt generated an additional \$115 million. The increase in cash flow over 1994 relates primarily to increased production, a lower cash cost per ounce at domestic mine sites, and a reduction in receivables resulting from quicker outturn of bullion from the Company's refiners. During 1995, the Company purchased the remaining minority interest in PGA for \$105.3 million, invested \$51.9 million on capital additions and \$5.0 million in the Emerging Markets Gold Fund. In addition, the Company made debt repayments amounting to \$44.5 million.

Operating Cash Flow

In Millions of U.S. Dollars



In 1994, the Company generated \$10.9 million in cash from operating activities. The reduction in cash flow resulted from a combination of increases in cash cost per ounce, inventory and receivable balances, and general, administrative, and exploration expenses, partially offset by hedging revenue. The Company expended \$43.8 million on capital additions, \$8.0 million on investments in Goldbelt and the Emerging Markets Gold Fund, and \$9.0 million on the acquisition of additional shares of PGA. In addition, the Company paid \$3.5 million in dividends, and repaid debt of \$12.0 million.

In 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, PGA received proceeds of \$20.8 million from the issuance of long-term debt. The Company expended \$44.0 million on capital additions, \$1.6 million on the acquisition of additional shares of PGA, paid \$3.1 million in dividends, and repaid debt of \$21.1 million.

In July 1995, the Company decided to initiate self-mining at its Florida Canyon Mine to increase the long-term profitability of the mine by reducing operating costs. During the fourth quarter, the Company entered into capital leases for \$25.9 million of mining equipment.

In August 1995, the Company announced the approval of construction of Phase II of the Mt. Todd Mine. The Phase II facilities will increase average annual gold production to 260,000 ounces from the current level of 70,000 ounces. Phase II consists of adding a milling circuit which includes flotation, regrinding, leaching, and a parallel crushing circuit with a capacity of handling an additional 2.0 million tonnes of ore annually. Capital costs for Phase II are estimated at \$163.0 million and will be incurred primarily in 1996.

During the second quarter, the Company completed conceptual engineering and a prefeasibility study for the development of the Pullalli open pit gold mine confirming the deposit can be economically developed. Costs of \$4.4 million incurred on this project since April 1995 have been capitalized. Gold will be recovered using a combination of conventional heap leaching and milling methods. Ore reserves total 460,000 ounces of gold (9.1 million tonnes grading 1.57 grams per tonne) with significant potential for expansion. Development and construction costs necessary to put the project into full production are estimated to be \$50 million and will be incurred primarily over the next two years.

The Company expects to spend \$239 million in 1996 on capital additions at operating mines and construction projects, including \$134 million for Mt. Todd Phase II, \$25 million for Pullalli, \$33 million for the Zortman Extension, and \$15 million on capitalized interest and start-up costs. In addition, the Company intends to prepay \$18.8 million in long-term debt. Because of the Company's significant cash flow requirements, the Company did not declare a dividend in 1995 or 1994.

In April 1995, the Company completed an offering of \$115 million of its Convertible Subordinated Notes. The Notes bear interest at 6.25 percent per annum and are convertible into common shares of the Company at a conversion price of \$14.92 per common share. The proceeds of the Notes were used to finance the cost of the acquisition in the minority interest of PGA as discussed above (see Note 5).

In January 1996, the Company completed a public offering in the U.S. and Canada for 6,000,000 Common Shares at a price of C\$21.00 per share (US\$15.38). The net proceeds to the Company, after deducting fees payable to the underwriters, were US\$88.6 million. The proceeds of the offering will be

Total Assets

In Millions of U.S. Dollars



used to fund portions of the Mt. Todd Phase II, Pullalli, and Zortman Extension capital projects. The Company also may use proceeds from this offering for the future acquisition of mineral properties and their subsequent exploration and development, and for other general corporate purposes.

The Company is negotiating a multi-jurisdictional revolving credit facility with a syndicate of banks which would provide for borrowings of up to \$150 million. Borrowings under the facility could be drawn on banks located in the U.S., Canada, and Australia, and could be denominated in U.S., Canadian, or Australian dollars, with certain restrictions. Funds available under the facility would be available for general corporate purposes including the financing of all or a portion of the construction costs at Mt. Todd, Pullalli, and Zortman. The Company expects this facility to be finalized during the first quarter of 1996.

The Company also has available, pursuant to a Shelf Registration Statement filed with the SEC in December 1993, and after the Common Share offering completed in January 1996, up to \$57.7 million of debt securities, common shares, or warrants.

Cash requirements during the next twelve months are expected to substantially exceed operating cash flow. However, the Company believes that cash and short-term investments on hand at the end of 1995, together with cash flows generated from operations, the proceeds of the equity issue, and borrowings available under the revolving credit facility will be adequate to meet its cash requirements during 1996 and 1997. However, if projected cash flows are significantly lower than expected, or the ability to obtain financing is adversely affected, some or all of the projects discussed above could be delayed.

HEDGING

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 many factors beyond the Company's control. Through the use of hedging strategies, the Company manages its exposure to price risk, without eliminating all favorable price exposure. In addition, the Company enters into interest rate swaps and foreign currency exchange agreements to manage fluctuations in interest and foreign exchange rates. See Note 12 to the Consolidated Financial Statements for more information about the Company's financial instruments and risk management.

OUTLOOK

On December 31, 1995, the Company had approximately 7.3 million contained ounces of gold in proven and probable reserves. Of these, approximately 5.3 million ounces are recoverable, which is equivalent to 10 years of production in the United States and 10 years in Australia, at current mining and production rates. 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. Exploration and acquisition activities will continue to be conducted throughout the world; however, investments in mining operations in foreign countries are subject to the additional risks of operating in different political and economic environments. The Company intends to make investments in countries where those risks can be either managed or mitigated, but such risks cannot be eliminated.

The Company's business activities are subject to extensive federal, state, local, and foreign government laws and regulations, which control not only mining and exploration, but also the effects of such activities upon the environment. Legislation has been introduced in prior sessions of the U.S.

Long-term Debt

In Millions of U.S. Dollars



Congress to make significant revisions to the U.S. General Mining Law of 1872, including the imposition of a royalty, stricter environmental standards and conditions, additional reclamation requirements, and new procedural steps which would likely result in further delays in permitting. Although legislation has not been enacted, attempts to amend the Mining Law can be expected to continue. The Company does not believe that the impact of existing permitting requirements or existing environmental laws and regulations will have a material adverse effect on the Company's business, financial condition, or results of operations. However, there can be no assurance that future changes in laws, regulations, and legal challenges to regulatory actions would not result in additional operating and capital expenditures, and in restrictions and delays associated with the development and operation of the Company's properties. The extent of changes that may actually be enacted, and their potential impact on the Company, cannot be predicted.

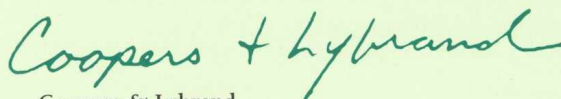
Report of Independent Accountants

BOARD OF DIRECTORS AND SHAREHOLDERS OF PEGASUS GOLD INC.

We have audited the consolidated balance sheets of Pegasus Gold Inc. as of December 31, 1995, and 1994, and the consolidated statements of operations, cash flows, and changes in shareholders' equity for the years ended December 31, 1995, 1994, and 1993. 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, 1995, and 1994, and the results of its operations and its cash flows for the years ended December 31, 1995, 1994, and 1993, 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.



Coopers & Lybrand
Vancouver, B.C., Canada
January 26, 1996

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.

On behalf of the Board of Directors, the Audit Committee provides oversight of management's performance in fulfilling its responsibilities for financial reporting and internal control. The Audit Committee 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, 1995, and 1994
(In Thousands of U.S. Dollars)

	1995	1994
ASSETS		
Current assets:		
Cash and cash equivalents	\$32,907	\$89,316
Short-term investments	20,083	-
Due from sales of products	28,545	33,211
Inventories	38,590	37,041
Other current assets	9,549	8,710
Total current assets	<u>129,674</u>	<u>168,278</u>
Investments	18,679	22,252
Property, plant, and equipment, net	427,112	259,448
Other assets	4,776	3,301
Total assets	<u>\$580,241</u>	<u>\$453,279</u>
LIABILITIES		
Current liabilities:		
Accounts payable and other current liabilities	\$20,281	\$21,287
Accrued salaries, wages, and benefits	9,223	6,336
Mining taxes payable	5,397	4,878
Current portion of long-term debt	12,719	39,151
Current portion of obligations under capital lease	3,015	-
Total current liabilities	<u>50,635</u>	<u>71,652</u>
Long-term debt	121,099	19,038
Obligations under capital lease	22,792	-
Deferred income taxes	44,901	-
Deferred site closure and remediation	38,180	33,618
Deferred revenue	9,188	9,357
Other deferred liabilities	4,742	2,940
Total liabilities	<u>291,537</u>	<u>136,605</u>
Minority interest in consolidated subsidiary	-	24,332
Commitments and contingencies (Note 13)		
SHAREHOLDERS' EQUITY		
Class A preferred stock, Series 1, C\$10 par value:		
Authorized - 20,000,000 shares; none issued		
Common stock, no par value:		
Authorized - 200,000,000 shares; issued		
and outstanding, 1995 - 34,825,203 shares		
and 1994 - 34,629,523 shares	334,214	332,110
Accumulated deficit	(49,131)	(46,178)
Foreign currency translation adjustment	3,621	6,410
Total shareholders' equity	<u>288,704</u>	<u>292,342</u>
Total liabilities and shareholders' equity	<u>\$580,241</u>	<u>\$453,279</u>

Approved by the Board



Lawrence I. Bell
Director



Lindsay D. Norman
Director

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

Consolidated Statements of Operations

For the Years Ended December 31,
1995, 1994, and 1993
(In Thousands of U.S. Dollars,
Except Per Share Amounts)

	1995	1994	1993
Sales	\$255,579	\$233,648	\$215,187
Cost of sales	176,761	169,186	151,686
Depreciation and amortization	41,591	32,652	31,872
	218,352	201,838	183,558
Gross profit	37,227	31,810	31,629
Operating expenses:			
General and administrative	13,161	14,456	14,150
Royalties	5,635	6,277	6,732
Exploration	18,637	20,730	12,087
Property write-downs	-	35,261	-
Provision for closure, remediation, and related costs	1,829	16,161	-
	39,262	92,885	32,969
Loss from operations	(2,035)	(61,075)	(1,340)
Other income (expense):			
Interest and other income	5,509	4,954	3,809
Interest expense, net of amounts capitalized	(6,030)	(3,523)	(2,704)
Equity in net income (loss) of affiliates	(1,881)	71	(740)
Gain (loss) on disposition of assets and investments	(43)	(1,795)	1,185
Gain on issuance of shares of subsidiary	-	-	10,853
	(2,445)	(293)	12,403
Minority interest in loss of subsidiary	948	50	694
Income (loss) before income taxes	(3,532)	(61,318)	11,757
Income tax provision (benefit)	(579)	(2,583)	1,764
Net income (loss)	\$ (2,953)	\$ (58,735)	\$ 9,993
Net income (loss) per share	\$ (0.08)	\$ (1.69)	\$ 0.30
Weighted average common shares outstanding	34,817	34,702	33,712

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

Consolidated Statements of Cash Flows

For the Years Ended December 31,
1995, 1994, and 1993
(In Thousands of U.S. Dollars)

	1995	1994	1993
Operating activities:			
Net income (loss)	\$(2,953)	\$(58,735)	\$9,993
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	42,188	33,648	32,582
Gain on issuance of shares of subsidiary	-	-	(10,853)
Property write-downs	-	35,261	-
Provision for closure, remediation and related costs	-	16,161	-
Deferred amounts	1,743	(1,373)	7,268
Other, net	1,662	(675)	2,452
Change in due from sale of products	4,617	(5,062)	(3,811)
Change in inventories	(1,682)	(5,058)	(1,614)
Change in other current assets	441	(4,464)	3,046
Change in accounts payable and accrued liabilities	2,516	1,246	4,560
Net cash provided by operating activities	48,532	10,949	43,623
Investing activities:			
Additions to property, plant, and equipment	(51,866)	(43,792)	(44,017)
Acquisition of additional investment in subsidiary	(105,309)	(8,972)	(1,569)
Purchase of other investments	(2,000)	(8,068)	(29,834)
Proceeds from maturities of (purchase of) short-term investments	(20,083)	96,903	4,802
Net cash provided by (used in) investing activities	(179,258)	36,071	(70,618)
Financing activities:			
Proceeds from issuance of long-term debt, net	117,209	734	20,853
Proceeds from issuance of common stock	2,104	917	17,072
Payments of long-term debt	(44,483)	(11,991)	(21,119)
Dividend paid	-	(3,456)	(3,146)
Proceeds from issuance of shares of subsidiary	-	-	24,832
Net cash provided by (used in) financing activities	74,830	(13,796)	38,492
Effect of exchange rate changes on cash and cash equivalents	(513)	2,798	-
Net increase (decrease) in cash and cash equivalents	(56,409)	36,022	11,497
Cash and cash equivalents, beginning of year	89,316	53,294	41,797
Cash and cash equivalents, end of year	\$32,907	\$89,316	\$53,294
Supplemental disclosure (Note 15)			

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

**Consolidated
Statements of
Changes in
Shareholders'
Equity**

For the Years Ended December 31,
1995, 1994, and 1993
(In Thousands of U.S. Dollars)

	Common Stock		Retained	Foreign Currency
	Number of Shares	Amount	Earnings	Translation Adjustment
Balance, December 31, 1992	31,472,947	\$287,582	\$6,020	\$(463)
Net income	-	-	9,993	-
Cash dividend (\$0.10 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 PGA	1,767,199	26,539	-	-
Foreign currency translation adjustment	-	-	-	(1,290)
Balance, December 31, 1993	34,555,652	\$331,193	\$12,557	\$(1,753)
Net loss	-	-	(58,735)	-
Common stock issued for:				
Stock option plan	53,034	630	-	-
Employee savings plan and other	20,837	287	-	-
Foreign currency translation adjustment	-	-	-	8,163
Balance, December 31, 1994	34,629,523	\$332,110	\$(46,178)	\$6,410
Net loss	-	-	(2,953)	-
Common stock issued for:				
Stock option plan	157,925	1,686	-	-
Employee savings plan and other	37,755	418	-	-
Foreign currency translation adjustment	-	-	-	(2,789)
Balance, December 31, 1995	34,825,203	\$334,214	\$(49,131)	\$3,621

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

Notes to Consolidated Financial Statements

NOTE I.
Summary of
Significant
Accounting
Policies

NATURE OF OPERATIONS

The Company is engaged in gold mining and related activities, including exploration, extraction, processing, refining, and reclamation. Gold bullion, the Company's principal product, is produced and sold in the United States and Australia. The Company is also involved in gold and other mineral exploration principally in North and South America, and Australia.

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, and its wholly-owned subsidiaries. During 1995, the Company acquired the minority interest in its previously majority-owned subsidiary, Pegasus Gold Australia Pty Ltd. ("PGA", formerly Zapopan N.L.). All significant intercompany accounts and transactions have been eliminated. Certain prior year balances have been reclassified to conform with the current year presentation with 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 17.

USE OF ESTIMATES

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and disclosure of contingent liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period.

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 to limit the amount of credit exposure to any one institution. The Company holds no more than \$25,000,000 of its short-term investments in the available-for-sale category, with the balance invested in the held-to-maturity category.

INVENTORIES

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

PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment. Property, plant, and equipment are stated at the lower of cost or estimated net realizable value. 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. Depreciation expense includes the amortization of assets acquired under capital lease. Replacements and major improvements are capitalized. Maintenance and repairs are charged to expense, based on average estimated equipment usage. Interest costs incurred in the construction or acquisition of property, plant, and equipment are capitalized and amortized over the useful lives of the related assets.

Mineral Exploration and Development Costs. All exploration expenditures are expensed as incurred. Significant property acquisition 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 units of production basis over proven and probable reserves.

Deferred Stripping Costs. Mining costs associated with waste rock removal are deferred and charged to operating expenses on the basis of the average stripping ratio for each mine. The average stripping ratio is calculated as a ratio of the tonnes of material estimated to be mined to the estimated tonnes of ore to be mined.

Asset Impairment. In accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," (SFAS 121), management of the Company reviews the net carrying value of each mine and development property on a regular basis. Estimated future net cash flows from each mine are calculated using estimated future prices, operating capital, and reclamation costs on an undiscounted basis. Reductions in the carrying value of each mine are recorded to the extent the net book value of the investment exceeds the estimate of future discounted net cash flows. Upon adoption of SFAS 121 in 1995, there was no impact to the Financial Statements.

The recoverability of the carrying value of development projects is evaluated based upon estimated future net cash flows from each property, determined as described above, using estimates of contained mineralization expected to be classified as proven and probable reserves upon completion of a feasibility study. Reductions in the carrying value of each property are recorded to the extent that the Company's carrying value in each property exceeds its estimate of future discounted net cash flows.

Management's estimates of gold and other metal prices, recoverable proven and probable reserves, operating, capital, and reclamation costs are subject to certain risks and uncertainties which may affect the recoverability of the Company's investment in property, plant, and equipment. Although management has made its best estimate of these factors based on current conditions, it is reasonably possible that changes could occur in the near term which could adversely affect management's estimate of the net cash flow expected to be generated from its operating properties.

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. Impairments in investment value are recognized in the results of operations.

REVENUE RECOGNITION

Sales are recorded when products are shipped. Sales of zinc and lead concentrates are provisionally priced and later adjusted in the month the sales prices are contractually finalized.

HEDGING TRANSACTIONS

In the normal course of its business, the Company uses derivative and financial instruments to reduce interest rate, commodity price, and foreign currency risks. The Company does not hold or issue derivative instruments for trading purposes.

Interest Rate Swaps. The differentials to be received or paid under contracts designated as hedges are recognized in income over the life of the contracts as adjustments to interest expense. Gains and losses on terminations of interest rate contracts are recognized as other income or expense when terminated in conjunction with the retirement of associated debt to the extent that such debt remains outstanding.

Foreign Exchange Contracts. Gains and losses on contracts designated as hedges of identifiable foreign currency firm commitments are deferred and included in the measurement of the related foreign currency transaction.

Commodity Hedging Contracts. Option premiums, swap payments, and gains and losses on hedging arrangements are recognized in sales when the related production is delivered. Losses on commodity contract closeouts are recognized in income currently. Gains are deferred and amortized to revenue over the original term of the associated contract.

RECLAMATION AND ENVIRONMENTAL COSTS

Minimum standards for mine reclamation have been established by various governmental agencies. Reclamation, site restoration, and closure costs for each producing mine are charged to operations over the expected life of the mine using the units of production method. Ongoing reclamation activities are expensed in the period incurred.

FOREIGN CURRENCY TRANSLATION

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 the average exchange rates during the period. 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. On a fully-dilutive basis, both net income (loss) and shares outstanding are adjusted to assume the conversion of the convertible notes.

INCOME TAXES

The Company accounts for income taxes using the liability method 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. 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.

SALES OF STOCK OF A SUBSIDIARY

Gains and losses resulting from the direct sale of unissued shares by a subsidiary are recognized to the extent that the offering price per share differs from the Company's carrying amount per share of subsidiary stock.

STOCK BASED COMPENSATION

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," (SFAS 123), which is effective for periods beginning after December 15, 1995. SFAS 123 requires that companies either recognize

compensation expense for grants of stock, stock options, and other equity instruments based on fair value or provide proforma disclosure of the effect on net income and earnings per share in the Notes to the Financial Statements. The Company will adopt the disclosure provisions of SFAS 123 in 1996.

NOTE 2. Inventories

(In Thousands of U.S. Dollars)	1995	1994
Processed metal	\$107	\$150
Stockpiled ore	3,435	2,619
Deferred mining costs	27,781	27,837
Materials and supplies	7,267	6,435
	<u>\$38,590</u>	<u>\$37,041</u>

The direct production costs associated with ore on heap leach pads are deferred and amortized as the contained gold is recovered. Gold is recovered over a five-year period at the Zortman Mine, and over six to twelve-month periods at all other heap leach operations. Based upon actual metal recoveries, the Company periodically evaluates and refines estimates used in determining the amortization and carrying value of deferred mining costs associated with ore under leach. Approximately 77 percent of the unrecovered gold on all leach pads at December 31, 1995, is expected to be recovered in the next year.

NOTE 3. Property, Plant, and Equipment

(In Thousands of U.S. Dollars)	1995	1994
Mining properties and development costs	\$431,072	\$283,084
Plant and equipment	249,659	203,234
	<u>680,731</u>	<u>486,318</u>
Less accumulated depreciation, depletion and amortization:	(253,619)	(226,870)
	<u>\$427,112</u>	<u>\$259,448</u>

The following is a summary of the net book value of plant and equipment, and of mining properties and deferred development costs by property:

(In Thousands of U.S. Dollars)	Plant and Equipment	Mining Properties and Development Costs	Total 1995	Total 1994
Zortman Mine	\$ 8,528	\$14,215	\$22,743	\$25,557
Montana Tunnels Mine	42,364	24,948	67,312	70,875
Florida Canyon Mine	48,262	9,018	57,280	13,846
Mt. Todd Mine	34,291	218,602	252,893	120,522
Beal Mountain Mine	5,736	3,649	9,385	12,924
Black Pine Mine	2,352	-	2,352	4,290
Corporate and Other	7,778	7,369	15,147	7,701
Tanami Mine	-	-	-	3,733
	<u>\$149,311</u>	<u>\$277,801</u>	<u>\$427,112</u>	<u>\$259,448</u>

Capitalized interest for properties under development was \$2,342,000, \$441,000, and \$610,000 in 1995, 1994, and 1993, respectively.

ASSET WRITE-DOWNS

As a result of property studies and economic evaluations completed in the second quarter of 1994, the Company determined it would not fully recover its investments in the Black Pine, Beal Mountain, and Basin Creek mines, and reduced the carrying value of these properties by \$35,261,000, as follows:

BLACK PINE

During the first six months of 1994, gold production at Black Pine was approximately 60 percent of the amount planned. As a result, the Company revised its ore reserve model late in the second quarter to correct the difference between estimated and actual grade, which decreased the reserve by 30,000 ounces of gold. The decline in reserve ounces, coupled with the lower grade and lower recovery, reduced the expected cash flows for the remaining mine life, which impaired the value of the Black Pine Mine. Consequently, the Company recorded a second quarter charge of \$17,382,000 to reduce the carrying value of Black Pine.

BEAL MOUNTAIN

During the second quarter of 1994, the Company completed a hydrological study related to the permitting of the Beal Extension Project. As a result of that study, the Company determined that the Extension Project carried too great an environmental risk to proceed with its development. This risk results from the stringent water quality standards accompanying the most recent operating permit issued for the Beal Mountain Mine, and the possible impact on water quality in German Gulch associated with the Extension Project. As a result, the ore reserve was reduced by approximately 185,000 ounces, which reduced the expected cash flows for the remaining mine life and impaired the value of the Beal Mountain Mine. Consequently, the carrying value of the mine was reduced by \$12,090,000.

BASIN CREEK

In 1993, the Company initiated a study of the feasibility of reopening Basin Creek as a run-of-mine heap leach operation. In the second quarter of 1994, the study was completed and concluded that such a project would not produce economic results. Consequently, full closure of the mine was accelerated to help decrease the Company's long-term environmental liability. The mine had previously been written down in anticipation of the sale of the property; therefore, the earlier write-down did not include the cost of final closure. The write-down of the remaining book value for the property totaled \$5,789,000.

NOTE 4. Provision for Closure, Remediation, and Related Costs

During the second quarter of 1994, the Company initiated annual comprehensive reviews of reclamation and closure plans at all of its sites. The purpose of these reviews was to ensure that environmental programs address corporate objectives, increasingly stringent regulations, and the dynamic environmental conditions at the Company's operations. In addition, voluntary remediation of historic mine workings has been accelerated at some properties. Because of these actions, the Company provided an additional \$16,161,000 in 1994 for projected closure, remediation, and related costs based on current technology and regulations.

NOTE 5. Acquisition of Pegasus Gold Australia

During 1995, the Company acquired all of the outstanding common shares of PGA it did not already own for approximately \$105,309,000. Two percent of the outstanding common shares were acquired in open market purchases during the first quarter of 1995 and the remaining 42 percent in an offer which closed in July 1995. The acquisition has been accounted for as a purchase and, accordingly, the purchase price has been allocated to assets acquired and liabilities assumed based on the fair value of such assets and liabilities on the date of acquisition. It is the Company's opinion that all of the purchase price in excess of the net book value of assets acquired (which approximates fair value) is attributable to mineral properties at PGA's Mt. Todd Mine. In the aggregate, \$77,812,000 has been allocated to property and mineral rights and will be amortized over the life of the mines on a units of production basis. In accordance with SFAS No. 109, the Company has provided a deferred tax liability of \$47,097,000 (with a corresponding increase in the value assigned to mineral properties) for the deferred tax consequences of the difference between the assigned value of the assets acquired and their tax basis.

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

(In Thousands of U.S. Dollars)	1995	1994	1993
Net sales	\$255,579	\$233,648	\$220,152
Net income (loss)	\$(3,901)	\$(58,785)	\$9,791
Net income (loss) per share	\$(0.11)	\$(1.69)	\$0.29

In December 1993, PGA sold 14.0 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 proceeds of US\$24,674,000. The offering and the exercise of certain stock options diluted the Company's ownership to 53 percent. As a result, the Company recognized a gain totaling US\$10,853,000 on this transaction in 1993.

In April 1993, the Company increased its ownership interest in PGA from 38 percent to 61 percent for a total cost of \$39,612,000. This acquisition has been accounted for as a purchase and, accordingly, the operating results of PGA were 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 PGA's results of operations using the equity method of accounting.

NOTE 6. Investments

(In Thousands of U.S. Dollars)	1995	1994
Equity investments:		
USMX, Inc. (33%)	\$11,609	\$14,473
The Emerging Markets Gold Fund Limited (21%)	7,070	4,779
Note receivable	-	3,000
	<u>\$18,679</u>	<u>\$22,252</u>

USMX

At December 31, 1995, the remaining unamortized excess cost of the investment in USMX, Inc. ("USMX") over its underlying net book value was \$5,715,000. 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. At December 31, 1995, and 1994, market value of the Company's investment in USMX was \$9,502,000 and \$12,065,000, respectively, based on quoted market prices.

THE EMERGING MARKETS GOLD FUND LIMITED

On January 31, 1994, the Company entered into a subscription agreement to purchase 160,000 common shares and 200,000 preferred shares of the Emerging Markets Gold Fund Limited (the "Fund"), a Bermuda limited liability company for \$20,000,000. The Fund was created to invest in direct equity and equity-related investments in pre-development and producing gold mines in emerging markets. The Company owns 21.3 percent of the Fund's outstanding common shares and 26.7 percent of its outstanding preferred shares. The preferred shares pay dividends at 5 percent per annum.

The purchase price is payable in four installments. The first and second installments were paid on January 31, 1994, and January 3, 1995, respectively. Subsequent installments will be paid upon 15 days notice by the Fund manager that 80 percent of the preceding installment has been committed to fund investments.

On December 28, 1995, the Fund gave notice that it would redeem 33,600 of the preferred shares held by the Company for \$99 per share, plus accrued dividends. In order to complete the purchase of the preferred shares and their subsequent redemption, the Fund called for the immediate payment of the third and fourth purchase price installments relating to the redeemed shares. The net amount receivable from the Fund of \$2,383,000, which includes preferred dividends of \$720,000, is included in other current assets on the Consolidated Balance Sheet at December 31, 1995. The Company's ownership interest in the outstanding preferred shares remains at 26.7 percent.

NOTE 7. Long-term Debt

(In Thousands of U.S. Dollars)	1995	1994
Convertible subordinated notes due 2002	\$115,000	\$ -
Bank term loan and overdraft 1994-1998 (PGA)	18,818	21,989
9.71 percent note due 1995, unsecured	-	25,000
9.22 percent note due 1992-1996, unsecured	-	7,200
Bank term loan due 1992-1996, unsecured	-	4,000
	<u>133,818</u>	<u>58,189</u>
Less current portion	<u>(12,719)</u>	<u>(39,151)</u>
	<u>\$121,099</u>	<u>\$19,038</u>

On April 19, 1995, the Company completed a public offering of \$115 million principal amount of 6.25 percent Convertible Subordinated Notes (the "Notes") due April 30, 2002. Interest on the Notes is payable semi-annually on April 30 and October 31 of each year commencing on October 31, 1995. The Notes are convertible into 7,709,067 Common Shares of the Company at a conversion price of \$14.92 per Common Share at any time after June 18, 1995. There is no sinking fund requirement on the Notes, and they may not be redeemed until April 30, 1998. After such date, the Notes are redeemable at 100 percent plus accrued interest to the redemption date. The proceeds were used to finance the cost of the acquisition of the minority interest in PGA (see Note 5).

In 1993, PGA entered into a five-year term loan with an original face value of A\$36,000,000. At December 31, 1995, the amount of the loan outstanding was A\$17,300,000 (US\$12,868,000). The note is due in sixteen quarterly installments beginning in June 1994, and bears interest at the Bank Bill Rate in Australia, plus 1.75 percent (9.27 percent at December 31, 1995), payable quarterly. The loan is collateralized by the underlying assets of PGA. During 1995, PGA entered into an Overdraft Agreement with the same institution under the terms of which an additional A\$8,000,000 (US\$5,950,000) was borrowed to fund working capital requirements. The overdraft is due in 1996 and bears interest at the Bank Bill Rate in Australia, plus 1.25 percent (8.77 percent at December 31, 1995), payable quarterly. The entire amount remains outstanding at December 31, 1995.

In 1991, the Company entered into a \$10,000,000 five-year term loan and a five-year \$18,000,000 note. In 1990, the Company entered into a five-year \$25,000,000 note. All of these notes were repaid in full during 1995.

The weighted average interest rate on long-term debt was 7.0 percent, 5.7 percent, and 5.0 percent in 1995, 1994, and 1993, respectively.

Maturities of long-term debt over the next five years are as follows:

(In Thousands of U.S. Dollars)

1996	\$12,719
1997	5,355
1998	744
1999	0
2000	0

REVOLVING CREDIT FACILITY

The Company has a short-term working capital revolving line of credit, under the terms of which the Company can borrow up to \$25,000,000 until July 31, 1996. 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 0.25 of 1 percent. At December 31, 1995, 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. During 1995, the Company was in compliance with the terms of all debt covenants.

NOTE 8.
Commitments
Under Long-
term Leases

CAPITAL LEASES

On December 28, 1995, the Company entered into seven-year capital leases for certain equipment. Leased equipment included in plant and equipment at December 31, 1995, totaled \$25,914,000. No capital leases were outstanding at December 31, 1994.

OPERATING LEASES

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

FUTURE MINIMUM PAYMENTS

Future minimum payments, by year and in the aggregate under capital and operating leases with initial or remaining terms of one year or more consist of the following at December 31, 1995:

(In Thousands of U.S. Dollars)	Capitalized Leases	Operating Leases
Year ending December 31,		
1996	\$4,668	\$7,331
1997	4,668	7,253
1998	4,668	6,009
1999	4,668	2,866
2000	4,668	2,728
Thereafter	9,228	1,226
Total minimum lease payments	\$32,568	<u>\$27,413</u>
Less amount representing interest	(6,761)	
Total present value of minimum payments	25,807	
Less current portion	(3,015)	
Long-term capital lease obligations	<u>\$22,792</u>	

Total rent expense under operating leases amounted to \$7,334,000, \$4,659,000, and \$4,073,000, in 1995, 1994, and 1993, respectively.

NOTE 9.
Income Taxes

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

(In Thousands of U.S. Dollars)	1995	1994	1993
Current			
United States	<u>\$(400)</u>	\$695	\$495
Foreign	<u>-</u>	(280)	(331)
	(400)	415	164
Deferred			
United States	(1,431)	(3,168)	2,546
Foreign	1,252	170	(946)
	(179)	(2,998)	1,600
	<u>\$(579)</u>	<u>\$(2,583)</u>	<u>\$1,764</u>

The components of the net deferred tax asset (liability) as of December 31, 1995, and 1994 were as follows:

(In Thousands of U.S. Dollars)	1995	1994
Deferred tax assets:		
Net operating loss carryforwards	\$37,247	\$29,504
Net capital loss carryforwards	5,709	5,238
Exploration expenditures	5,373	2,468
Miscellaneous foreign deductions	568	1,429
Deferred reclamation	12,560	6,167
Other	3,150	2,934
Valuation allowance	(58,901)	(42,898)
	<u>\$5,706</u>	<u>\$4,842</u>
Deferred tax liabilities:		
Property, plant, and equipment	(3,688)	(2,744)
Excess Purchase Price Allocation	(46,919)	-
	<u>\$(44,901)</u>	<u>\$2,098</u>

As of December 31, 1995, and 1994, valuation allowances of \$58,901,000 and \$42,898,000, respectively, had 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 \$16,003,000 for the year relates primarily to increased net operating loss carryforwards, and changes in temporary differences. Management has estimated that there will be sufficient future income to realize the benefit of the net deferred tax assets.

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

(In Thousands of U.S. Dollars)	1995	1994	1993
United States	\$3,107	\$(63,524)	\$(4,850)
Foreign	(6,639)	2,206	16,607
	<u>\$(3,532)</u>	<u>\$(61,318)</u>	<u>\$11,757</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:

(In Thousands of U.S. Dollars)	1995	1994	1993
Expected tax provision (benefit)	\$(1,200)	\$(20,864)	\$3,997
Effect of alternative minimum tax	-	3,790	(1,530)
Capital loss carryforward utilized	-	-	(3,690)
Foreign tax rate differential	(915)	(1,840)	(570)
Nondeductible items	(3,643)	12,963	3,774
Net operating loss			
carryforward not utilized	5,257	5,062	-
Other, net	(78)	(1,694)	(217)
	<u>\$(579)</u>	<u>\$(2,583)</u>	<u>\$1,764</u>

As of December 31, 1995, the Company's U.S. subsidiaries has regular tax basis net operating loss carryforwards totaling \$87,624,000, and alternative minimum tax net operating loss carryforwards of \$14,205,000 that expire in 1999 and later years. The regular tax loss carryforwards of the U.S. subsidiaries are not available to offset future alternative minimum taxable income. PGA has net operating loss carryforwards totaling \$17,084,000 which may be carried forward indefinitely. Subject to a favorable ruling from the Australian taxing authorities, PGA has available an additional \$26,784,000 of tax benefits,

consisting primarily of net operating losses incurred prior to the Company's acquisition of a majority ownership interest. To the extent that these pre-acquisition tax benefits are realized, the Company will reduce the amount of purchase price allocated to property and mineral rights. The Company has Canadian net operating loss carryforwards of \$2,911,000 that will expire in 2002 and later years and capital loss carryforwards of \$21,378,000 which may be carried forward indefinitely.

NOTE 10. Stock Options

Under the Company's 1987 Stock Option Plan ("1987 Plan") for officers and employees, options to purchase 4,275,000 Common Shares of the Company may be granted for terms up to seven years. On April 27, 1995, the number of shares authorized under the 1987 Plan was increased from 2,775,000 to 4,275,000. 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, 1995 and 1994, options to purchase 425,683 and 378,658 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, 1995, and 1994, options to purchase 5,433 and 48,766 shares, respectively, were available for future grants.

Stock option transactions are summarized as follows:

	Number of Shares	Price Per Share
Outstanding, December 31, 1992	770,376	\$9.88 - \$14.88
Granted	397,900	\$12.50 - \$14.88
Exercised	(335,108)	\$9.88 - \$22.63
Canceled or expired	<u>(28,600)</u>	\$12.50 - \$14.88
Outstanding, December 31, 1993	804,568	\$9.88 - \$22.88
Granted	704,500	\$13.75 - \$22.88
Exercised	(53,034)	\$9.88 - \$17.88
Canceled or expired	<u>(50,500)</u>	\$12.50 - \$22.00
Outstanding, December 31, 1994	1,405,534	\$9.88 - \$22.88
Granted	1,607,133	\$10.13 - \$13.13
Exercised	(157,925)	\$9.88 - \$12.63
Canceled or expired	<u>(132,825)</u>	\$12.50 - \$22.88
Outstanding, December 31, 1995	<u>2,721,917</u>	\$9.88 - \$22.88
Exercisable, December 31, 1995	<u>1,322,267</u>	\$9.88 - \$22.88

NOTE 11. 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 up to 3 percent of the employee's compensation. The Company's contributions vest over a three-year period. 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, 1995, 1994, and 1993, the Company contributed \$875,000, \$857,000, and \$726,000, 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 totaled \$342,000, \$315,000, and \$335,000, in 1995, 1994, and 1993, respectively.

PGA has a superannuation fund which, under Australian law, requires that the Company contribute 5 percent of every employee's base salary. PGA does not guarantee any of the returns or benefits under the fund. Total contributions to the fund were \$314,000, \$366,000, and \$234,000, in 1995, 1994, and 1993, respectively.

NOTE 12. Financial Instruments and Risk Management

RISK MANAGEMENT

The Company reduces its exposure to fluctuations in interest rates, commodity prices, and foreign exchange rates by creating offsetting positions through the use of derivative financial instruments and has established a control environment which includes policies and procedures for risk assessment and the approval, reporting, and monitoring of derivative instrument activities. The Company does not use derivative financial instruments for trading or speculative purposes.

INTEREST RATES

The Company enters into interest rate swap agreements to manage interest rate costs and the risk associated with changing interest rates; these agreements effectively convert underlying fixed rate debt into variable rate debt based on LIBOR. At December 31, 1995 and 1994, the notional principal amount of these agreements totaled \$0 and \$32,200,000, respectively. The notional amount of interest rate swaps is the underlying principal amount used in determining the interest payment exchanged over the life of the swap.

FOREIGN CURRENCIES

The Company enters into foreign exchange contracts to hedge transactions related to firm commitments and contractual obligations denominated in foreign currencies, including debt. The Company regularly monitors its foreign currency exposures and ensures that hedge contract amounts do not exceed the amounts of underlying exposures.

At December 31, 1995, the Company held foreign currency forward contracts with notional amounts totaling \$7,800,000 and option contracts with notional amounts totaling \$28,000,000, all of which mature prior to December 31, 1996. The forward contracts convert \$7,800,000 U.S. dollars to Australian dollars at an average rate of US\$0.747. The option contracts allow the Company the option to convert \$28,000,000 U.S. dollars to Australian dollars at a rate of \$0.680, while providing the counterparty the option to require the Company to convert \$28,000,000 U.S. dollars to Australian dollars at an average rate of \$0.634. The notional amount of forward exchange contracts and options is the amount of foreign currency bought or sold at maturity.

COMMODITY HEDGING CONTRACTS

The Company enters into forward sales, swaps, and option contracts to hedge the effect of price changes on the undeveloped value of its reserves. At December 31, 1995, the Company's hedging program consisted of the following:

		Average Price Per Unit	Delivery Period
GOLD			
Forward sales	682,400 ounces	\$442	1996-1999
Call options sold	228,200 ounces	\$453	1996-1997
Put options purchased	100,000 ounces	\$375	1997
SILVER			
Forward sales	3,221,400 ounces	\$5.20	1996-2001
LEAD			
Forward sales	12,566,200 pounds	\$0.29	1996
ZINC			
Forward sales	25,352,900 pounds	\$0.49	1996

CREDIT AND MARKET RISK

The Company is exposed to certain losses, generally the amount by which the contract price exceeds the spot price of a commodity, in the event of nonperformance by the counterparties to these agreements. The Company attempts to minimize its credit exposure by limiting its counterparties to major financial institutions which meet the Company's credit rating standards, limiting the maximum exposure to any one counterparty, and spreading exposure among a minimum number of counterparties. The Company does not require collateral from its counterparties. Management believes that the risk of incurring losses is remote.

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 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.

The Company is exposed to market risk on interest rate, commodity, and foreign exchange contracts as a result of changes in interest rates, commodity prices, and foreign exchange rates.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Disclosure of the estimated fair value of financial instruments is required under SFAS No. 107, "Disclosure About Fair Value of Financial Instruments." The fair value estimates are made at discrete points in time based on relevant market information and information about the financial instruments. These estimates may be subjective in nature and involve uncertainties and significant judgment and therefore cannot be determined with precision.

Cash and cash equivalents are valued at cost plus accrued interest, which approximates market value. Short-term investments are valued based on quoted market prices for the same or similar instruments with similar maturities. The fair value of long-term debt is estimated based on quoted market prices for the same or similar issues with similar maturities. The fair value of the Company's foreign exchange contracts is estimated based on the quoted market prices of comparable contracts.

The estimated fair values of the Company's financial instruments are as follows:

	December 31, 1995		December 31, 1994	
	Carrying Value	Fair Value	Carrying Value	Fair Value
(In Thousands of U.S. Dollars)				
Assets:				
Cash and cash equivalents	\$32,907	\$32,907	\$89,316	\$89,316
Short-term investments	20,083	20,083	-	-
Liabilities:				
Long-term debt	133,818	148,768	58,189	58,321
Off-Balance Sheet Financial Instruments:				
Interest rate swap agreements	-	-	-	977
Foreign currency contracts	-	2,341	-	3,158

NOTE 13. Commitments and Contingencies

COMMON SHARES ISSUABLE

At December 31, 1995, a total of 10,969,889 shares of authorized common stock were reserved for the following:

Convertible Notes	7,709,067
Stock Options	3,153,033
Employee Savings Plan	107,789
	<u>10,969,889</u>

LEGAL PROCEEDINGS

The Company, through its subsidiaries, is involved in several legal proceedings concerning environmental obligations associated with current and former mining activities as follows:

In September 1995, outstanding litigation between the Company and LAC Minerals USA, Inc. ("LAC"), was settled. Under the settlement, the Company agreed to pay LAC \$3,750,000 to be used for reclamation of the

Ortiz Project and to equally share all reclamation costs to the extent the total costs exceed \$12,000,000. All reclamation will be completed by LAC, subject to a closure plan negotiated by LAC with the state of New Mexico. The accrual for deferred site closure and remediation has been reduced by payments under the agreement. Management believes it is unlikely that total reclamation costs will exceed \$12,000,000.

In 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. On June 6, 1995, a lawsuit filed by the U. S. Environmental Protection Agency ("EPA") in United States District Court for the District of Montana alleged similar violations under the Federal Clean Water Act. On June 6, 1995, the Island Mountain Protectors Association and the Assiniboine and Gros Ventre Tribes filed a citizens' suit in the same court alleging similar violations as well as violations of discharge reporting requirements, and claiming injury to their water rights. Although the Company denies the allegations in the complaints, the Company faces the possibility of a civil fine and additional water control, collection and treatment programs. Construction costs associated with any required compliance program will be capitalized and amortized using the units-of-production method. Each of the three lawsuits has been stayed pending the outcome of ongoing settlement negotiations.

Based upon the Company's best estimate of its potential liability for these and other legal matters, \$5,425,000 and \$8,576,000 are included in deferred site closure and remediation for such liabilities at December 31, 1995, and December 31, 1994, respectively. Technical and legal requirements associated with these matters are evolving as settlement discussions continue. It is reasonably possible that the ultimate liability for these matters could be higher than the amount accrued at December 31, 1995.

RECLAMATION AND ENVIRONMENTAL REMEDIATION

All of the Company's operations are subject to reclamation and closure requirements. Although the ultimate amount of the obligations to be incurred is uncertain, at December 31, 1995, the Company has currently estimated these future costs to be \$64,155,000 of which \$32,755,000 had been accrued. The accrued liability is included in deferred site closure and remediation on the consolidated balance sheet. The remaining \$31,400,000 will be charged to operations, over the remaining lives of its operations, on a units-of-production basis.

At December 31, 1995 and 1994, the Company had letter of credit facilities of \$16,000,000. The facilities collateralize required surety bonds under the Company's reclamation bonding program. As of December 31, 1995, and 1994, the Company had outstanding letters of credit under these facilities, which are renewable annually, totaling \$12,700,000 and \$11,395,000, respectively.

Several of the Company's operating mines and exploration projects are located in historic mining districts in the United States, and the Company controls land in many areas where previous mining has taken place. Although no systematic inventory has been performed, mining products (such as tailings) located at these sites may present a future material liability to the Company as state and federal regulatory agencies search for ways to enforce the cleanup of pollutants left by previous operators.

Based on current environmental regulations and known reclamation requirements, management believes it has included the best estimate of these obligations in its reclamation accruals. However, it is reasonably possible that the Company's estimate of its ultimate reclamation liability could increase in the near term as a result of prospective changes in laws and regulations and changes in cost estimates.

ZORTMAN EXTENSION

At the Zortman Mine, a plan of operation for the Zortman Extension was submitted to the regulatory agencies in May 1992. Issuance of the Record of Decision on the Environmental Impact Statement ("EIS") is anticipated in the second quarter of 1996. Since construction of the Zortman Extension cannot proceed until the EIS is approved, the Company anticipates an interruption of mining operations of up to 12 months at this site from the date approval is received. Gold production will continue from leaching ore previously mined and loaded on the pads, but at a significantly reduced rate. Although the Company believes that it will likely receive approval for the construction and operation of the Zortman Extension, it is possible that an unfavorable decision could be issued, or a favorable decision could be appealed by third parties, creating further delays or causing the project to be abandoned. If the Zortman Extension does not proceed as planned, the Company would be required to write off the deferred exploration and development costs associated with the project, which amounted to \$12,200,000 at December 31, 1995. In addition, the Company would be required to accrue a liability of at least \$15,300,000 for reclamation and the construction of environmental treatment facilities, subject to negotiation and approval of changes to the final reclamation and closure requirements by State and Federal agencies.

PURCHASE COMMITMENTS

At December 31, 1995, the Company had capital expenditure purchase commitments relating to the construction of Phase II at Mt. Todd, of approximately \$48,200,000.

NOTE 14. Shareholders' Equity

SHELF REGISTRATION

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. The amount available under the shelf registration was reduced to \$57,686,000 on January 25, 1996, as a result of the sale of 6,000,000 Common Shares, at a price of \$15.38 (C\$21.00) per share through underwriters in Canada. The net proceeds were \$88,614,000.

SHAREHOLDER PROTECTION RIGHTS PLAN

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 \$0.01 per Right at any time prior to becoming exercisable. The Rights will expire in December 1998.

NOTE 15. Supplemental Cash Flow Information

Supplemental disclosure of cash flow information for the years ended December 31, 1995, 1994, and 1993, is as follows:

(In Thousands of U.S. Dollars)	1995	1994	1993
Cash paid during the year for:			
Interest (net of amounts capitalized)	\$4,293	\$3,872	\$3,156
Income taxes, net of refunds	\$(999)	\$4,220	\$(3,560)
Non-cash financing activities:			
Equipment capital leases	\$25,914	-	-

The consolidated statement of cash flows for December 31, 1995, 1994, and 1993 excludes the effects of certain non-cash investing activities relating to the acquisition of a majority interest in PGA (see Note 5). The following is a summary of the non-cash effects of this transaction:

(In Thousands of U.S. Dollars)	1995	1994	1993
Increase (decrease) in:			
Inventory	\$ -	\$ -	\$ 2,455
Property, plant, and equipment	129,022	7,685	71,586
Investments	-	-	(27,346)
	<u>129,022</u>	<u>7,685</u>	<u>46,695</u>
(Increase) decrease in:			
Accounts payable and accrued liabilities	-	-	(5,585)
Long-term debt	-	-	(3,787)
Deferred income taxes	(47,097)	-	-
Minority interest	23,384	1,287	(12,334)
Common stock	-	-	(26,558)
	<u>(23,713)</u>	<u>1,287</u>	<u>(48,264)</u>
Net decrease in cash and cash equivalents	<u>\$ (105,309)</u>	<u>\$ (8,972)</u>	<u>\$ (1,569)</u>

NOTE 16. Geographic Information

The following is a summary of the Company's operations by geographic area for the years ended December 31, 1995, 1994 and 1993.

(In Thousands of U.S. Dollars)	United States	Australia	Canada and Other	Total
1995				
Identifiable assets	\$224,635	\$259,758	\$95,848	\$580,241
Revenues	\$224,911	\$29,261	\$1,407	\$255,579
Net income (loss)	\$4,936	\$(4,846)	\$(3,043)	\$(2,953)
1994				
Identifiable assets	\$284,688	\$92,701	\$75,890	\$453,279
Revenues	\$195,540	\$35,697	\$2,411	\$233,648
Net income (loss)	\$(58,162)	\$(209)	\$(364)	\$(58,735)
1993				
Identifiable assets	\$332,359	\$87,500	\$75,374	\$495,233
Revenues	\$186,800	\$24,600	\$3,787	\$215,187
Net income (loss)	\$(6,073)	\$(1,829)	\$17,895	\$9,993

NOTE 17. 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 Company would not have recorded the deferred tax consequences associated with the acquisition of the minority interest in PGA (see Note 5). Under Canadian GAAP, property, plant, and equipment would have been \$380,193,000 and deferred income taxes \$0 as of December 31, 1995.

Under Canadian GAAP, the non-cash financing and investing activities discussed in Note 15 would be included in the Statement of Cash Flows. Accordingly, under Canadian GAAP, net cash used in investing activities would be \$205,172,000 and net cash provided by financing activities would be \$100,744,000 in the 1995 Statement of Cash Flows.

Under Canadian GAAP, the provision for income taxes in 1994 and 1993 would be increased by \$498,000 and \$946,000, respectively, to reverse the recognition of deferred tax assets not meeting virtual certainty recognition criteria under the deferral method. As a result, earnings (loss) per share would be \$(1.70), and \$0.27, in 1994 and 1993, respectively.

Under Canadian GAAP, the 1994 property write-downs at Black Pine and Beal Mountain would be lower by \$2,236,000 and \$1,392,000, respectively, to recognize the effect of using future discounted net cash flows to reduce the carrying value of the mine, for U.S. GAAP purposes. Canadian GAAP requires that reductions in the carrying value be recorded on the basis of future undiscounted net cash flows. As a result, the loss per share would have been reduced by \$0.10 in 1994.

NOTE 18.
Quarterly Data
(Unaudited)

Selected unaudited quarterly data for the years ended December 31, 1995, and 1994, are as follows:

(In Thousands of U.S. Dollars, except per share amounts)	First Quarter	Second Quarter ⁽¹⁾	Third Quarter	Fourth Quarter	Total
Year ended December 31, 1995:					
Sales of gold and other metals	\$ 55,360	62,314	69,493	68,412	255,579
Gross profit	\$ 8,501	9,554	9,863	9,309	37,227
Income (loss) from operations	\$ (1,916)	(1,667)	1,138	410	(2,035)
Net income (loss)	\$ (1,810)	(1,203)	106	(46)	(2,953)
Net income (loss) per share	\$ (0.05)	(0.03)	0.00	(0.00)	(0.08)
 Year ended December 31, 1994:					
Sales of gold and other metals	\$ 41,079	59,892	66,136	66,541	233,648
Gross profit	\$ 5,427	4,751	11,419	10,213	31,810
Income (loss) from operations	\$ (2,769)	(57,477)	1,872	(2,701)	(61,075)
Net income (loss)	\$ (1,744)	(57,090)	832	(733)	(58,735)
Net income (loss) per share	\$ (0.05)	(1.65)	0.02	(0.02)	(1.69)

1) Includes the 1994 second quarter write-down of assets and other non-cash charges in the amount of \$52.9 million (see Notes 3 and 4).

Common Share Information

MARKET FOR THE COMPANY'S COMMON SHARES AND RELATED SHAREHOLDER MATTERS

Common Share Prices. The common shares of Pegasus Gold Inc. are listed on the American, Toronto, and Montreal stock exchanges under the symbol "PGU". The American Stock Exchange and the Toronto Stock Exchange are the principal markets in the United States and Canada, respectively, on which the shares are traded.

The accompanying tables show the high, low, and closing prices and the volume traded for the Company's common shares on the American and Toronto exchanges.

The closing price of Pegasus' common shares on December 31, 1995, on the American Stock Exchange was US\$13.88 and on the Toronto Stock Exchange was C\$19.00.

COMMON SHARE DATA

American Stock Exchange (US\$)		High	Low	Close	Volume
1995	First quarter	12.75	10.00	12.25	12,264,300
	Second quarter	13.50	10.00	10.13	17,551,700
	Third quarter	14.38	10.00	13.63	14,053,800
	Fourth quarter	14.75	10.88	13.88	10,597,700

1994	First quarter	24.75	18.00	20.00	11,095,100
	Second quarter	19.75	15.38	16.00	8,645,200
	Third quarter	17.75	13.50	16.50	10,305,400
	Fourth quarter	16.63	10.63	11.38	9,794,600

Toronto Stock Exchange (C\$)

1995	First quarter	17.63	14.13	17.25	6,010,387
	Second quarter	18.50	13.75	13.75	3,246,716
	Third quarter	19.38	13.50	18.25	1,982,773
	Fourth quarter	20.13	14.75	19.00	1,614,563

1994	First quarter	32.75	24.38	27.50	3,798,620
	Second quarter	27.00	21.13	22.00	2,239,250
	Third quarter	24.25	18.63	22.25	2,604,995
	Fourth quarter	22.38	14.75	16.13	2,084,190

DIVIDENDS	1995	1994	1993	1992	1991
Dividends per share (US\$)	\$0.00	\$0.00	\$0.10	\$0.10	\$0.10

The Company does not have a formal dividend policy. Dividends are paid when, in the judgment of the Board of Directors, funds surplus to the Company's needs are available for distribution to the shareholders.

**Ten Year
Historical
Data**

	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
OPERATING RESULTS (000's)										
Sales	\$ 255,579	233,648	215,187	182,171	156,211	171,213	178,362	162,757	110,435	35,054
Earnings (loss) from operations	\$ (2,035)	(61,075)	(1,340)	(10,699)	(12,859)	(20,205)	17,718	14,036	14,694	4,165
Earnings (loss) from operations before income and mining taxes, minority interest	\$ (3,532)	(61,368)	11,063	(11,751)	10,603	(39,347)	15,184	21,909	17,418	4,232
Earnings (loss) for the year	\$ (2,953)	(58,735)	9,993	(6,341)	9,599	(38,172)	9,763	17,779	14,492	4,654
FINANCIAL POSITION (000's except ratio)										
Total assets	\$ 580,241	453,279	495,233	394,022	351,072	276,554	289,460	283,305	267,764	191,059
Total debt	\$ 159,625	58,189	66,735	62,995	71,026	48,231	32,065	33,441	36,311	85,854
Working capital	\$ 79,039	96,626	165,089	124,527	96,131	42,094	45,183	76,146	88,034	37,787
Operating cash flow	\$ 48,532	10,949	43,623	45,740	32,559	30,165	43,592	43,490	6,654	12,141
Capital expenditures	\$ 51,866	43,792	44,017	27,884	38,720	56,399	36,057	34,974	34,152	63,449
Shareholders' equity	\$ 288,704	292,342	341,997	293,139	245,651	198,493	233,207	221,890	203,562	72,743
Ratio of total debt to total debt and equity	0.36:1	0.17:1	0.16:1	0.18:1	0.22:1	0.20:1	0.13:1	0.13:1	0.15:1	0.54:1
OPERATIONAL STATISTICAL DATA										
Gold produced (ounces)										
Total	549,700	494,400	480,800	382,100	315,300	332,600	341,400	283,800	228,100	92,400
Company share	534,100	455,000	453,100	382,100	315,300	332,600	341,400	283,800	228,100	92,400
Operating cost per tonne	\$ 5.03	4.97	5.44	4.67	4.71	5.21	5.73	5.19	4.48	4.39
Cash production cost per ounce	\$ 262	277	251	214	226	229	242	255	244	231
Royalty per ounce	\$ 10	13	14	9	7	7	10	11	12	2
Total cost per ounce	\$ 347	356	331	296	306	310	323	338	324	286
Gold price realized per ounce	\$ 406	407	382	382	389	401	416	436	429	381
Average spot price per ounce of gold	\$ 384	384	360	344	362	384	382	437	447	368
PER SHARE DATA										
Earnings (loss) for the year	\$ (0.08)	(1.69)	0.30	(0.22)	0.37	(1.55)	0.41	0.75	0.70	0.32
Book value per share	\$ 8.29	8.44	9.90	9.31	8.82	8.04	9.66	9.29	8.66	4.87
Operating cash flow	\$ 1.39	0.32	1.26	1.45	1.17	1.22	1.80	1.82	0.28	0.81
Dividends declared per share	\$ -	-	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-
SHAREHOLDERS' DATA										
Number of shares outstanding (000's)	34,825	34,630	34,556	31,473	27,857	24,701	24,151	23,886	23,509	14,949
American Stock Exchange (US\$ per share)										
High	\$ 14.75	24.75	28.13	18.50	14.13	16.00	15.38	17.25	26.38	11.25
Low	\$ 10.00	10.63	12.63	11.38	9.63	9.13	8.87	10.75	10.75	5.38
Close	\$ 13.88	11.38	22.00	14.75	12.38	13.00	13.50	11.50	16.25	11.25

Glossary of Mining Terms

Agglomeration - mixing of mined ore with lime, cyanide, and cement prior to loading on the heap leach pad.

Assay - the tests performed on a sample to determine mineral content.

Backfilling - waste material used to fill the void created by mining an ore body.

Barren pond - a holding area containing chemical solution from which the gold and silver has been removed.

Carbon column circuit - a process to recover soluble gold and silver values from a sodium-cyanide leaching solution by adsorption onto activated carbon particles.

Cash cost per ounce - includes site costs for all mining (except deferred mining and stripping costs), processing, administration, and resource taxes; but does not include royalties, capital, exploration, depreciation, and financing costs. By-product revenues are deducted from total cash costs and divided by payable gold ounces produced to arrive at net cash cost per ounce.

CIL - carbon-in-leach, is a process for the recovery of gold from the ore. Ore is ground finely and mixed with a dilute sodium cyanide solution to dissolve the gold which is absorbed onto carbon. The gold enriched carbon is stripped of the gold and the gold is recovered either through electrolysis or precipitation.

Concentrate - a product containing valuable metal from which most of the waste material in the ore has been removed.

Contained ounces - the estimate of the total number of ounces of gold contained in an ore body, a portion of which are not recoverable.

Crushing and grinding circuits - the process by which ore is broken into small pieces to prepare it for further processing.

Cut-off grade - the lowest grade of mineralized material deemed economic to mine.

Deferred mining costs - the operating costs associated with recoverable gold yet to be recovered from the heap leach pads.

Deferred stripping costs - the mining costs associated with waste rock removal that are capitalized and expensed on the basis of the average stripping ratio for the ore body.

Dilution - an estimate of the amount of waste mined with ore as part of normal mining practices.

Doré - unrefined metal bars consisting of gold, silver, and impurities which will be further refined.

Drilling:

Blasthole drilling - the drilling of holes in rock to insert an explosive charge. The drill holes are usually 3-8 meters apart. The blast breaks up the rock so it can be dug out.

Diamond drilling - drilling with a hollow bit which has a diamond cutting rim to produce a cylindrical core that is used for geological study and assays. Used in exploration.

Infill drilling - drilling at shorter intervals between holes, used to provide greater geological detail and to help establish reserve estimates.

Rotary drilling - drilling with a bit that breaks the rock into chips rather than core. Faster and cheaper than diamond drilling, the chips are forced by water and air to the surface for examination.

Reverse Circulation drilling - a type of rotary drilling that uses a double-walled drill pipe. Compressed air, water, or other drilling medium is forced down the space between the two pipes to the drill bit and the drilled chips are flushed back up to the surface through the center tube of the drill pipe.

Electrowinning - the recovery of metal by electrolysis. An electric current is passed through a solution containing dissolved metals, which causes the metals to be deposited on a cathode.

Exploration - can be divided into three basic categories:

Generative exploration - exploration for ore in an area that has the correct geologic setting, although no ore has been previously found in that setting.

Headframe exploration - exploration for a separate ore body within sight of an existing mine.

Definition exploration - exploration that defines an ore body, or searches for extensions to the ore body, once it has been discovered.

Flotation - a concentration process selectively attaching valuable minerals to air bubbles in a chemical solution.

Grade - the amount of valuable mineral in each tonne of ore, expressed as grams per tonne for precious metals and as a percentage by weight for other metals.

Reserve grade - estimated metal content of an ore body, based on reserve calculations.

Cut-off grade - the minimum content level at which an ore body can be economically mined.

Mill head grade - metal content of mined ore going into a mill for processing.

Recovered grade - actual metal content of ore determined after mining.

Gravity circuit - a process of recovering gold from crushed rock or gravel using gold's high specific gravity to separate it from the lighter material.

Heap leaching - a process of extracting gold by placing broken ore on sloping, impermeable pads and applying a dilute cyanide solution that dissolves a portion of the contained gold, which is then recovered in a carbon column or Merrill-Crowe circuit.

Heap leach pad - a large, impermeable foundation or pad used as a base for ore during heap leaching. The leach solution is collected and does not escape from the circuit.

Merrill-Crowe process - a process utilized to recover soluble gold and silver values from a sodium-cyanide leaching solution by precipitating with zinc dust after the leaching solution is clarified and deoxygenated by vacuum treatment.

Metric conversion:

1 acre = 0.4047 hectare
 1 foot = 0.3048 meters
 1 mile = 1.6093 kilometers
 1 ton = 0.9072 tonne
 1 troy ounce = 31.1034 grams
 1 ounce per ton = 34.2848
 grams per tonne

Mill - a plant where ore is ground and the metals are extracted by physical and/or chemical processes.

Milling circuit - the combination of various processes and systems which separate waste materials from the valuable minerals, producing a concentrate.

Mineral potential (exploration information) - mineral potential includes all estimates for the quantity and quality of mineral deposits when the specific geologic evidence is not sufficient to assume continuity of mineralization or when a conceptual mine plan has not been used to define the estimate. The estimate may or may not be supported by samples and measurements but should be supported by reasonable geo-scientific (geological, geochemical, geophysical, or other) data.

Mining claim - public mineral land which a party has staked or marked out in accordance with federal, provincial, or state mining laws to acquire the right to explore for and exploit the minerals under the surface.

Net profits interest - a royalty based on the profit remaining after recapture of certain operating, capital, and other costs as determined by agreement.

Net smelter return - a royalty based on the actual gold sale price received, less the cost of refining and transportation.

Ore - material that can be economically mined and processed.

Ounce - troy ounce, which is equivalent to 31.1034 grams.

Oxide ore - mineralized rock in which some of the original minerals have been oxidized, making the ore more porous and permitting a more complete permeation of cyanide solutions so that minute particles of gold in the interior of the minerals are more readily dissolved.

Pregnant pond - pond containing cyanide solution impregnated with gold and silver which has percolated through the ore on the pad.

Pug mill - a machine for mixing water and clay.

Recovery rate - percentage of the valuable material recovered in the processing of ore.

Refractory material - mineralization which cannot be recovered using conventional means.

Reserves:

Proven reserves - reserves for which (a) a quantity is computed from dimensions revealed in outcrops, trenches, workings, or drill holes; grade and/or quality are computed from the results of detailed sampling and (b) the sites for inspection, sampling, and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth, and mineral content of reserves are well-established. The Company's proven reserves are within a mine plan, operating plan, and approved mine permit.

Probable reserves - reserves for which quantity and grade and/or quality are computed from information similar to that used for proven reserves, but the sites for inspection, sampling, and measurement are farther apart or otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation. The Company's probable reserves may not be within a mine plan, operating plan, and approved mine permit, but there should be no significant uncertainty concerning the issuance of these permits or resolution of any legal or technical issues.

Mineralized material - a mineralized body which has been physically delineated by drilling, underground work, surface trenching, etc. and found to contain a sufficient amount of mineralized material with an average grade of metal or metals to warrant further exploration expenditures. The Company's reported mineralized material must be defined by a conceptual mine plan and have established geologic continuity but does not qualify as a commercially minable ore body until final legal, technical, and economic factors have been resolved.

Additional mineralization - consists of material that is within the computer block model but outside the ultimate pit limit that defines the reserve. The material is not economic under current economic conditions or is inadequately drilled to calculate a reserve. Better prices, lower costs, or improved metallurgy could move the material to reserve status. Additional drilling could also delineate more mineralization that would combine with the existing material to produce an economic pit.

Run-of-mine - unprocessed ore which is hauled directly to the heap leach pads without being crushed.

Strip (or stripping) ratio - the tonnage of waste material removed to allow the mining of one tonne of ore in an open-pit.

Sulfide ore - mineralization contained in the form of a sulfide.

Tailings - material removed from a milling circuit after separation of the valuable minerals.

Ton (short ton) - 2,000 pounds which is the equivalent of 0.9072 tonnes.

Tonne - a metric ton which is the equivalent of 1.1023 tons.

Corporate Information

DIRECTORS

Lindsay D. Norman
Chairman of the Board
Butte, Montana

Paul H. Atkinson
Vancouver, British Columbia

Lawrence I. Bell
Vancouver, British Columbia

Douglas R. Cook
Reno, Nevada

Michael A. Grandin
Calgary, Alberta

Peter R. Kutney
Calgary, Alberta

Werner G. Nennecker
Spokane, Washington

Anthony J. Petrina
Vancouver, British Columbia

Fred C. Schulte
Chicago, Illinois

OFFICERS

Werner G. Nennecker
President & Chief Executive Officer

Trevor S. Schultz
Senior Vice President &
Chief Operating Officer

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

Terry D. Bauer
Vice President, Environmental
and Governmental Affairs

James P. Geyer
Vice President, Operations

Robert A. Lonergan
Vice President, Secretary
and General Counsel

Eric B. Ovlen
Vice President, Administration

Allan M. Park
Vice President, Exploration

Michelle G. Viau
Controller

EXECUTIVE HEADQUARTERS

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SECURITIES LISTING

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

Options on Common Shares
Chicago Board Options Exchange
Montreal Exchange

TRANSFER AGENT AND REGISTRAR

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AUDITORS

Coopers & Lybrand
Vancouver, B.C.

SOLICITORS

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

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of the Company's 10K, contact:

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