

Future Growth

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Challenges



1994 ANNUAL REPORT

Contents

FINANCIAL AND OPERATING HIGHLIGHTS ...	1
LETTER TO SHAREHOLDERS	2
OPERATING STATISTICS AND ORE RESERVE SUMMARY	5
OPERATIONS REVIEW	7
ADVANCED PROJECTS REVIEW	15
EXPLORATION REVIEW	18
ENVIRONMENTAL REVIEW	21
FINANCIAL INFORMATION	23
MANAGEMENT'S DISCUSSION AND ANALYSIS	24
FINANCIAL STATEMENTS	31
TEN YEAR HISTORICAL DATA	50
GLOSSARY OF MINING TERMS	52
COMMON SHARE INFORMATION	54
DIRECTORS AND OFFICERS AND CORPORATE INFORMATION	INSIDE BACK COVER

Annual Meeting

The Annual General Meeting of Pegasus Gold Inc. will be held in the Aspen Room of the Four Seasons Hotel, 791 West Georgia Street, Vancouver, British Columbia, on Thursday, April 27, 1995. The meeting will begin at 10:30 A.M. (local time). All shareholders are encouraged to attend.

NOTE ON CURRENCY - All dollar amounts are in United States dollars unless otherwise noted. Australian exchange rate at December 31, 1994 was U.S.\$1.00 = A\$1.287.

Corporate Profile

Pegasus Gold Inc. is an international

gold mining company with annual gold production of about 500,000 ounces. A British Columbia company headquartered in Spokane, Washington, Pegasus operates five mines in the western United States and one in northern Australia through Zapopan N.L., its 58 percent owned subsidiary.

The Company is in the business of developing, mining, processing and exploring for precious metals. All of the operating mines use conventional open-pit mining, but the Company is exploring underground at Diamond Hill. While the majority of the operations process ore using heap leach technology, which was pioneered by the Company, the Montana Tunnels Mine, uses a conventional milling circuit to produce zinc and lead concentrates containing gold and silver. A number of other milling projects are being evaluated.

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

Pegasus has 34.6 million shares outstanding which trade under the symbol "PGU" on the American, Toronto and Montreal stock exchanges. Options on the Company's common shares are traded on the Chicago Board Options Exchange and the Montreal Exchange.

In 1994, the Company achieved record total gold production of 494,400 ounces.

Selected Financial and Operating Highlights

Total Sales

In Millions of U.S. Dollars



Total Ore Tons Mined

In Millions of Tons



(in millions of U.S. dollars, except per share amount)	1994	1993	1992
Sales	\$233.6	\$215.2	\$182.2
Net income (loss) before one-time charges	(5.8)	(0.9)	13.2
Net income (loss)	(58.7)	10.0	(6.3)
Cash provided by operating activities	10.9	43.6	45.7
Cash and short-term investments	89.3	149.3	109.8
Total assets	453.3	495.2	394.0
Total debt	58.2	66.7	63.0
Shareholders' equity	292.3	342.0	293.1
Per Share Data:			
Net income (loss)	\$ (1.69)	\$ 0.30	\$ (0.22)
Dividends	\$ -	\$ 0.10	\$ 0.10
Shares Outstanding:			
Weighted average (000)	34,702	33,712	28,940
Year-end (000)	34,630	34,556	31,473
Production Data:			
Gold (Total, ounces)	494,400	480,800	382,100
Gold (Pegasus' interest, ounces)	455,000	453,100	382,100
Silver (ounces)	1,620,000	2,011,600	2,165,100
Zinc (tons)	19,814	18,046	19,436
Lead (tons)	9,374	6,994	7,191
Operating cost per ton	\$ 4.51	\$ 4.94	\$ 4.24
Cash cost per ounce	\$ 277	\$ 251	\$ 214
Total cost per ounce	\$ 356	\$ 331	\$ 296
Gold price realized per ounce	\$ 407	\$ 382	\$ 382

To Our Shareholders

When I became chief executive officer of Pegasus in late 1992, it was clear that the gold industry was changing dramatically. We needed to reshape the Company from a U.S. operator with declining reserves into a global competitor with a geographically diversified, low cost, long-lived reserve base providing a strong platform for future growth. We knew that in order to meet this challenge, a sustained commitment to mine development throughout the world, advanced exploration, acquisitions, and lower production costs would be required over the next several years. We would also need a focused management team willing to sacrifice, where necessary, short-term success for long-term enhancement of shareholder value.

After 26 months of work, we can begin to take stock of our progress as well as the considerable challenges that still lie ahead as we develop an exciting new generation of mines. Reflecting that we are in the early stages of our transformation, 1994 was a year of poor financial results; but progress made on our commitments, and our recent initiatives, confirm our ability to meet the long-term challenge.

Record gold production In 1994, we achieved total gold production of 494,000 ounces, a record for the Company, compared to 481,000 ounces in 1993. Combined with higher gold prices realized – \$407 per ounce compared to \$382 per ounce in 1993 – we increased revenues for the year to \$233.6 million from \$215.2 million in the year-earlier period. We intend to continue our production momentum and post a new record number of ounces in 1995.

Higher cash costs Short-term operating challenges resulted in unacceptably high cash costs per ounce – \$277 versus \$251 in 1993. Costs were impacted by higher stripping ratios, higher processing costs, slower recoveries, and a difficult start-up at the Mt. Todd Mine, operated by our 58 percent subsidiary, Zapopan N.L. in Australia. In particular, we underestimated the solution inventory that had built up at the U.S. mines from the heavy rainfalls in late 1993. Diluted solution going to the processing plants affected gold output early in the year. However, we did move more tons than ever before and at a lower cost per ton than last year. With this experience, we expect lower costs in 1995 as grades increase and stripping ratios decline.

Acceleration of international exploration program In 1994, our higher revenues and gold production were offset by significantly higher exploration expenditures as we pursued our critical quest for new growth opportunities. We devoted 75 percent of our exploration and development budget to international activities, including grassroots programs. We continued our efforts in Chile and initiated programs in Argentina, Guyana, and western Australia. We continue to believe that the potential to discover and develop a major deposit is significantly greater outside the United States than within.



“Our goal is to maximize opportunities at the mines we currently own and to extend our reach through selective international alliances and acquisitions.”

In addition, we are pleased with the progress our Company and Goldbelt Resources Ltd. have made on Kazgold, our venture in Kazakhstan. We continue to see potential in creative ventures and partnerships that require limited up-front capital and yet provide us with considerable experience and on-the-ground exposure.

Provision for projected closure costs We took a one-time charge during the second quarter to reduce the

carrying value of certain mines and to provide for additional reclamation and closure costs based on today's regulations and technology. While negatively impacting financial results in the short-term, the write-off removed impaired assets from our balance sheet, and will lower future depreciation charges, and improve the quality of our future earnings.

For 1994, we reported a loss of \$58.7 million, or \$1.69 per share, which included non-cash charges of \$52.9 million, or \$1.53 per share, compared to net income of \$10.0 million, or \$0.30 per share a year earlier (which included a \$10.9 million non-recurring gain from Zapopan's share placement). Excluding the charges taken in the second quarter of 1994, the Company would have posted a net loss of \$5.8 million, or \$0.16 per share.

Careful resource management At year-end, cash and short-term investments totalled \$89.3 million while total debt was \$58.2 million. Although we are in a financially strong cash position, we are conserving our financial resources so that we can satisfy the capital needs of major projects aimed at generating growth. Another area of potential growth is through exploration, where we have made a substantial commitment. For this reason, we elected not to declare Pegasus' traditional year-end dividend. We believe this is a prudent and essential channeling of our resources in order to deliver sustained earnings and cash flow over the long term.

The Company was also pleased to announce in September that Anthony J. Petrina had joined the Board of Directors to fill a vacancy created when James S. Redpath resigned from the Board. The Company wishes to thank Jim for his wise counsel over the past four and a half years.

Outlook

While our financial performance for the year fell short of expectations, we have mapped out a solid blueprint for the future. Our goal is to maximize opportunities at the mines we currently own and to extend our reach through selective international alliances and acquisitions. We are not limiting ourselves to any particular part of the world, but will look at projects on an opportunistic basis, as long as they have manageable political, social, and technical risks. Investing our cash balances and future cash flows into acquisitions, mine exploration, exploration and development will help us achieve our growth objectives. Our international exploration

efforts give us access to promising investment and exploration opportunities which we intend to pursue vigorously in 1995. Balancing the desire for near-term earnings with the need for ongoing investment in future growth will be a key challenge.

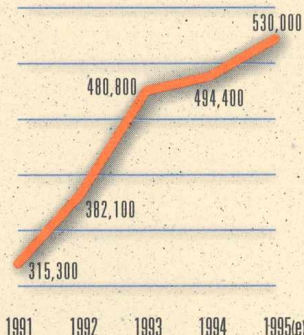
We expect to report a 7 percent increase in total gold production in 1995, to approximately 530,000 ounces, or 485,000 net to Pegasus. We have made the reduction of cash costs a priority objective in 1995. To do this we will expand throughput, mine higher grades with lower stripping ratios, introduce larger mining equipment at select sites, and possibly institute self-mining at Florida Canyon.

Once again, I would like to thank our employees for their achievements during 1994. They understand what we need to accomplish, are supportive of our ambitious plans for growth, and contribute to our progress with great skill and dedication. This report showcases a number of our employees.

While we still face near-term challenges as we create a new-gold asset mix for Pegasus, we are on the right track and are confident in our ability to create long-term value for our shareholders.

Total Gold Production

In Ounces



Werner G. Nennecker
President and Chief Executive Officer
February 15, 1995

Operating Statistics and Ore Reserve Summary

MINE PRODUCTION

Mine	Year	Gold (ounces)	Silver (ounces)	Ore Tons Mined (000's)	Gold Grade (Oz/Ton)	Stripping Ratio	Average Recovery (%)	Cash Cost ⁽³⁾ \$/oz	Roy- alty \$/oz	Total Cost ⁽⁴⁾ \$/oz
Zortman	1994	109,500	461,200	14,800	0.017	0.74:1	55	320	13	388
	1993	108,500	535,700	12,500	0.017	0.67:1	55	273	2	325
Florida Canyon	1994	91,900	25,300	7,200	0.020	1.22:1	69	259	11	297
	1993	109,200	37,600	7,000	0.021	0.88:1	73	222	18	287
Montana Tunnels	1994	80,200	1,085,700	5,200	0.019	4.07:1	85	173	11	319
	1993	68,900	1,401,100	4,600	0.017	3.80:1	84	178	13	312
Black Pine	1994	65,700	39,100	6,400	0.020	1.16:1	54	294	24	371
	1993	66,100	28,600	3,600	0.024	1.30:1	80	244	20	347
Beal Mountain	1994	61,200	8,700	1,800	0.049	0.81:1	70	255	11	372
	1993	59,300	8,600	1,700	0.052	0.89:1	70	211	10	314
Mt. Todd (100%)	1994	61,200	-	3,800	0.034	1.00:1	56	331	-	378
	1993	-	-	-	-	-	-	-	-	-
Tanami (100%)	1994	24,700	-	80	0.081	3.22:1	85	231	30	285
	1993	68,800	-	1,300	0.073	10.59:1	87	319	26	374
Total ⁽²⁾	1994	494,400	1,620,000	39,280				277	13	356
	1993	480,800	2,011,600	30,700				251	14	331
Pegasus' Interest ^(1,2)	1994	455,000	1,620,000	37,534				277	13	356
	1993	453,100	2,011,600	30,193				251	14	331

1) Pegasus average ownership percentage in Zapopan was 55 percent in 1994 and 60 percent in 1993.

2) Basin Creek has been excluded.

3) Cash cost is net of by-product credits.

4) Total cost includes cash cost, royalties, and depreciation and amortization.

ORE RESERVES^(1,3)

Mine	Year	Proven & Probable			Mineralized Material		
		Tons (000's)	Grade (Oz/Ton)	Ounces (000's)	Tons (000's)	Grade (Oz/Ton)	Ounces (000's)
Zortman	1994	77,424	0.020	1,536	-	-	-
	1993	82,618	0.020	1,644	-	-	-
Florida Canyon	1994	48,471	0.014	693	14,000	0.015	205
	1993	35,100	0.018	627	-	-	-
Montana Tunnels	1994	29,348	0.018	532	8,429	0.016	137
	1993	32,912	0.019	617	12,015	0.018	211
Black Pine	1994	13,390	0.019	256	2,496	0.016	41
	1993	19,686	0.018	346	1,414	0.023	33
Beal Mountain	1994	2,270	0.048	108	-	-	-
	1993	3,264	0.049	159	-	-	-
Mt. Todd (100%)	1994	74,217	0.036	2,669	3,797	0.036	136
	1993	78,336	0.035	2,791	20,492	0.043	871
Pullalli	1994	-	-	-	7,288	0.045	334
	1993	-	-	-	-	-	-
Diamond Hill	1994	-	-	-	1,173	0.271	318
	1993	-	-	-	1,173	0.271	318
Kazgold (27%)	1994	-	-	-	30,493	0.022	658
	1993	-	-	-	-	-	-
Total	1994	245,120	0.022	5,794	67,676	0.027	1,829
	1993	251,916	0.023	6,184	35,094	0.030	1,433
Pegasus' Interest ⁽²⁾	1994	212,465	0.022	4,621	66,005	0.027	1,769
	1993	216,665	0.023	4,928	27,102	0.030	1,093

1) 1994 Proven and Probable Reserves are as of December 31, 1994 and 1993 Proven and Probable Reserves are as of July 1, 1994 reflecting the revision done in the second quarter of 1994.

2) Pegasus ownership percentage in Zapopan (Mt. Todd) is 56 percent at year-end 1994, 53 percent at year-end 1993 and 55 percent at July 1, 1994.

3) Ore reserves are based on a \$400 per ounce gold price.



Operations Review

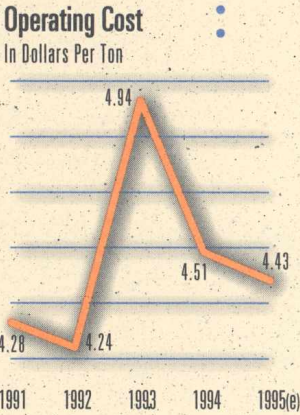
In 1994, the Company's six operating mines achieved a record gold production of 494,400 ounces, of which 455,000 ounces are attributable to Pegasus. From 1991 to 1994, the Company increased its gold production 57 percent by developing new operations and improving existing ones. Another 7 percent increase in gold production is expected in 1995, as Mt. Todd's Phase I expansion operates for a full year. The gold production comes from a total proven and probable ore reserve base of 5.79 million ounces of contained gold, of which Pegasus' attributable share is 4.62 million ounces. In addition, 1.83 million ounces, including 1.77 million ounces attributable to Pegasus, are classified as mineralized material. In 1994, the Company changed its definition of mineralized material in order to provide more reliable data by requiring a conceptual mine plan on these ounces. Pending favorable development decisions on at least four of its properties in 1995, a portion of the mineralized material could be upgraded into the proven and probable category.

During 1994, the Company mined 30 percent more tons than in 1993. The operating cost per ton decreased over 8 percent, from \$4.94 in 1993 to \$4.51 in 1994. Self-mining, the introduction of larger equipment and higher throughputs helped reduce costs in 1994, but did not result in lower cash cost per ounce because of slower recoveries, start-up difficulties at

Mt. Todd and higher stripping ratios. The cash cost in 1994 was \$277 per ounce.

Environmental protection is a fundamental part of Pegasus' operations. During 1994, the Company spent \$1.2 million for capital improvements associated with environmental projects. An additional \$7.2 million was spent to manage and operate environmental programs, including concurrent reclamation and the protection of water, air and wildlife resources.

In 1995, the Company expects to mine 41 million tons at an average cost per ton of \$4.43. Mining plans for the year indicate that, in general, stripping ratios will be lower and mined grades will be higher. Gold production is expected to be about 530,000 ounces, including 485,000 ounces attributable to Pegasus, at a cash cost of \$263 per ounce.



Zortman

The Zortman Mine, in northeastern Montana, produced 109,500 ounces of gold in 1994, at a cash cost of \$320 per ounce. During the first half of 1994, the mine continued to experience the residual effect of the record rainfall in 1993, which raised solution volumes two to three times the normal amount.

OPPOSITE PAGE:
Wayne Dillon
Safety Director
Zortman Mine

Processing costs increased, reflecting both the demand for electricity to move higher volumes of solutions, and the higher quantities of reagents required to treat the excess solution. The record 14.8 million tons of ore which were mined in 1994, with an average gold grade of 0.017 ounces per ton, also increased mining and processing costs. Higher-than-planned ore tonnage was placed on the heap leach pads late in the year – too late for gold recovery in 1994. This gold is expected to be recovered in the first part of 1995. Zortman's ore is slow leaching, with ultimate recovery requiring up to five years. Current heap heights are approaching 400 feet, further slowing the recovery and decreasing the predictability of the heaps.

During 1994, the major capital projects completed at the mine included construction of a 2,500 gallon per minute Merrill Crowe Plant, a water treatment plant, leach pad expansion, and installation of tailgates

on the haul trucks. The water treatment plant, part of a long-term water quality improvement program, began

operating in July; it significantly improved the water quality in the area.

Gold production for 1995 is expected to reach 110,000 ounces at an average cash cost of \$295 per ounce. Mining will be completed on Zortman's Landusky deposit during 1995, and permitted reserves will be exhausted during the first half of 1996.

Capital spending in 1995 is expected to be \$2.7 million, of which \$1.6 million is projected for the Zortman Extension Project.

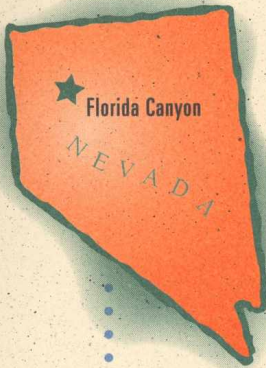
Zortman Extension Project

Since 1989, Pegasus has worked towards bringing the Zortman Extension into production. During the third quarter of 1994, the Montana Department of State Lands issued a schedule which indicated the draft Environmental Impact Statement for the Zortman Extension Project will be released in June 1995. Assuming no further delays, a record of decision could be received by January 1996, followed by an 11-month construction period. Gold production from the Extension Project could begin in 1997.

The permit and construction schedule is likely to interrupt mine production for at least four months before the Extension Project's 1997 start-up. Taking into account the anticipated interruption in operations, as well as the fact that gold recovery would continue from the existing heap leach pads at substantially reduced levels, the mine is expected to produce 40,000 ounces of gold in 1996.

Proven and probable reserves for the Extension Project remain at 61.3 million tons at a grade of 0.02 ounces per ton gold, or 1.2 million contained ounces of gold. While there is potential for expanding the reserves, no exploration drilling was carried out in 1994, and additional exploration will not commence until the Extension Project permits have been received.





Florida Canyon

The Florida Canyon Mine, located in northwestern Nevada, successfully identified through exploration drilling a downdip

extension to the west containing 205,000 ounces of gold which is classified as mineralized material. In addition, drilling continues on the northeast extension. There is excellent potential to add reserves in both the western downdip extension and the northeast extension. Exploration drilling in 1995 will focus on infill drilling to reclassify the mineralized material into the proven and probable ore reserve category.

In 1994, 7.2 million tons of ore were mined, 3 percent more than in 1993. Although a higher tonnage was mined, gold production was lower at 91,900 ounces, and cash costs were higher, at \$259 per ounce, because of delayed gold recovery. Recovery was affected by the high clay content in the ore, low solution application rates and a leach pad height of 200 feet. Solution application rates increased toward year-end, but the affect on gold production will not be realized until 1995. The gold contained in the slower leaching, clayey ore is expected to be recovered throughout 1995.

The mine is expected to produce 100,000 ounces of gold in 1995, at a cash cost of \$275 per ounce. An increase in the tonnage mined and a decrease in the ore grade, both of which are anticipated for 1995, will cause the cash cost to rise.

Planned capital expenditures of \$15.1 million in 1995 include (1) the possible conversion to self mining by the end of 1995, (2) leach pad expansion, which should be completed by the end of June, (3) crusher modifications to increase throughput by 25 percent, and (4) the potential crusher relocation to reduce the haul distance to the new leach pad and to allow for potential pit expansion.

Montana Tunnels

The Montana Tunnels Mine, located in central Montana, increased mill throughput and introduced larger mining equipment, thereby lowering costs and achieving a record production of gold, lead, and zinc in 1994. Production for the year reached 80,200 ounces of gold, 1.1 million ounces of silver, 19,800 tons of zinc, and 9,400 tons of lead. Silver production was lower than 1993 levels due to the mining of lower grade ore at the fringes of the ore body. The cash cost in 1994 was \$173 per ounce net of by-product credits.

Mill throughput increased during the year to 5.4 million tons per year, while maintaining recoveries. In late 1994, a portion of the mine fleet was replaced with 150 ton trucks to transport ore from the open pit. The full benefit of the larger mining fleet will not be realized until 1995.



The open pit has now been expanded to the maximum pit outline, and mining will take place in the core of the pit during 1995. Although this location yields a harder ore, the grade is more consistent; mill operations are therefore expected to continue to operate at the 1994 levels and produce 90,000 ounces of gold, 1.1 million ounces of silver, 20,000 tons of zinc and 8,700 tons of lead. Cash costs, net of by-product credits, are expected to be \$160 per ounce, and capital spending is projected at \$4 million.

Beal Mountain

At Beal Mountain, in southwestern Montana, a record 61,200 ounces of gold was produced in 1994, along with 8,700 ounces of

silver. Due to an early weather-related delay in mining the higher grade South Beal pit,

the average cash cost was \$255 per ounce, up 21 percent from 1993.

After completing a hydrological study in 1994 and considering currently enforced water quality standards, the Company determined that the Beal Extension project carried too great an environmental risk to proceed with its development. As a result, the ore reserves were reduced by 185,000 ounces and the carrying value of the mine was written down by \$12.1 million.

While mining and crushing operations typically are halted from

December through February, mining of the north layback in the main Beal pit will continue through the winter of 1994/1995. The winter operation will improve the management of a known slide area and could provide access to higher-grade mineralization. This extension of the mining operation will add slightly to the cash costs.

During 1995, the mine is expected to produce 60,000 ounces of gold by mining 1.7 million tons at a grade of 0.052 ounces per ton. The average cash cost is estimated at \$260 per ounce. Without development of techniques to ensure water quality protection and revision of regulatory standards, it is expected that the mine will exhaust its ore reserves by mid-year 1996.

Anticipated capital expenditures of approximately \$600,000 will chiefly be used to build storm water retention ponds.

Black Pine

The Black Pine Mine, located in southeastern Idaho, produced 65,700 ounces of gold in 1994 at a cash cost of \$294 per ounce. More than 40 percent of the year's production was achieved in the fourth quarter by increasing the tonnages mined and upgrading the solution distribution system.

During 1994, the mine secured permits to access and mine a higher grade area later than it had planned. While the higher



grade ore is targeted for mining in 1995, cash costs and production for 1994 were negatively affected by the lower grade of material mined early in the year. A total of 6.4 million tons of ore was mined in 1994 at an average grade of 0.020 ounces of gold per ton.

In the second quarter of 1994, the Company determined from economic evaluations and a reassessment of the mining plan that it would not fully recover its investment in the Black Pine Mine. Consequently, a charge of \$17.4 million was recorded to reduce the carrying value of the mine.

Gold production in 1995 is expected to be 65,000 ounces at a cash cost of \$320 per ounce. Operating costs per ton are expected to decrease, reflecting optimization of the solution distribution system and mining of higher grade material. Capital expenditures are estimated to be \$660,000. The current ore-reserves will be exhausted by the third quarter of 1996.

Basin Creek

A feasibility study for reopening the Basin Creek Mine as a run-of-mine heap leach operation was completed in the second quarter. The study concluded that the project would be uneconomic; therefore, the Company wrote off the remaining book value and accrued final closure costs of \$5.8 million.

During 1994, site activities focused on reclamation and closure. An aggressive reclamation plan, which includes relocating the waste dump into a mined-out pit, continued. Approximately 740 ounces of gold

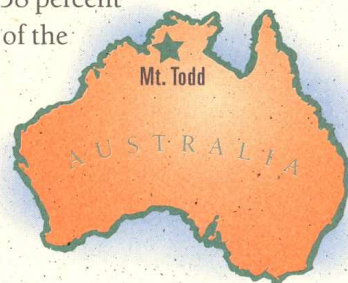
were recovered from previously active heaps. During 1995, pit backfilling and leach pad reclamation will continue toward final closure.

Mt. Todd

The Mt. Todd Mine, located in the Northern Territory of Australia, is operated by Zapopan N.L., an Australian company in which Pegasus holds a 58 percent interest. Phase I of the project, which consists of heap leaching the oxide zone of mineralization, went into commercial production in April 1994. Gold production for the remainder of the year totalled 61,200 ounces, of which 33,200 ounces were Pegasus' share.

The Phase I Expansion, which increased the capacity of the crushing plant from 4.4 million tons per year to 6.7 million tons per year, was completed and commissioned in December. The total cost of \$7.7 million was \$0.8 million under budget. The expansion tie-in caused gold production to be lower in the fourth quarter due to 25 days of downtime. By the end of the year, however, the plant was consistently achieving design throughput of 880 tons per hour.

The first year of operation at Mt. Todd proved challenging. Start-up was plagued by adverse weather conditions and persistent equipment design failures in the



crushing plant. Delays in equipment delivery caused a three-month delay in the plant expansion. As a result, 1994 cash cost averaged \$331 per ounce.

Heap leach recoveries remain in line with expectations. Continuing metallurgical testing of crusher product has indicated that the ultimate recoveries for the coarser 1994 ore will be slightly lower than expected. With the expanded crushing circuit, some improvement in crusher product is anticipated. Projected recoveries for 1995 are 62 percent for weathered ore, 60 percent for transition ore and 50 percent for primary ore.

During 1994, the mineralized material reported in the Company's reserve table for Mt. Todd decreased, because the Company requires a conceptual mine plan for ounces to be included as mineralized material. At December 31, 1994, there were 2.1 million ounces of mineral potential outlined from drilling in the Batman, Tollis and Golf deposits, which do not currently fall within a mine plan. Additional exploration drilling will continue in 1995 to move these ounces into the proven and probable category.

In 1994, exploration at the mine concentrated on drilling the northeast extension to the Batman deposit. A significant extension in the hanging wall mineralization has been delineated, having a strike length of over 1,300 feet. The drilling results are being incorporated into an updated reserve estimate which is expected to be completed during the first quarter of 1995. Exploration continued on other prospects including Tollis, Golf and

Penguin, and drill results continue to offer encouragement.

Late in January 1995, the operation experienced a 100-year storm event which caused extensive flooding. Approximately 1,000 feet of the conveyor, used to transport crushed ore to the heap leach pads, was damaged. Replacement conveyor sections were installed in the early part of February, limiting the downtime to 11 days.

In 1995, approximately 5.9 million ore tons, with a gold grade of 0.032 ounces per ton, will be mined, resulting in total gold production of 105,000 ounces at an expected cash cost of \$270 per ounce. Capital and mine exploration expenditures are expected to be \$8.8 million.

Mt. Todd Phase II Development

During 1995, metallurgical work will continue on drill core gathered in 1994, and a bulk sample of the primary ore will be mined for pilot plant testwork. An engineering firm should complete the detailed feasibility study for Phase II by mid-1995. The total capital required for Phase II will be between \$70 and \$100 million, depending on the size of processing facility chosen. Pending a go-ahead decision, construction could get underway during the third quarter resulting in up to \$11.0 million of capital expenditures in 1995.

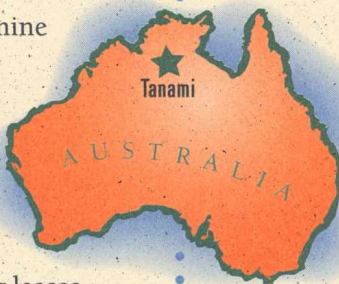
The conceptual plan for Phase II consists of building a 6.6 million ton per year milling circuit to treat the

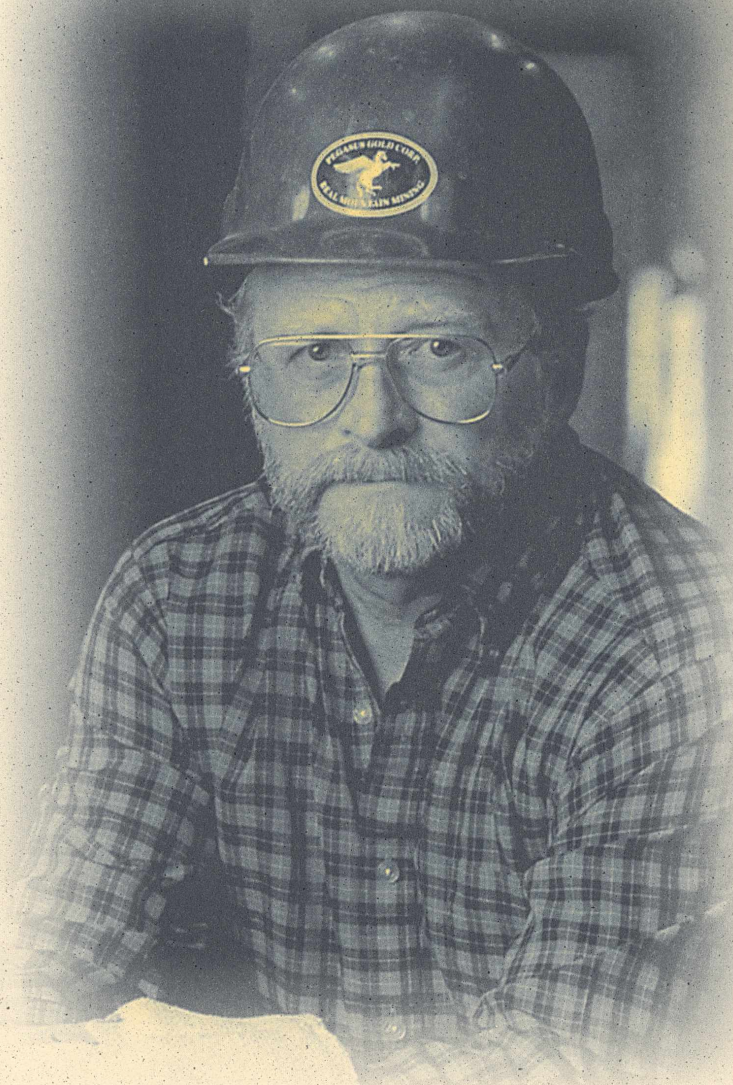
primary ore, although smaller and larger throughputs are under evaluation for operating and capital cost considerations. Metallurgical testwork currently favors a flotation/regrind/leach flowsheet for processing the primary ore. Gold recoveries are expected to be in the 86 to 88 percent range. Annual gold production is expected to be 225,000 to 240,000 ounces per year upon completion of Phase II, which is expected by the end of 1996. Also under consideration is a heap leach circuit of up to 4.4 million tons per year, treating lower grade material. If this proves feasible, the combined annual gold production could increase to 300,000 ounces per year.

Tanami

The Tanami Mine, located in the Northern Territory of Australia, exhausted its remaining ore reserves in the first quarter of 1994, but still produced a total of 24,700 ounces of gold, of which Pegasus' share was 13,300 ounces, at a cash cost of \$231 per ounce. The mine was placed on care and maintenance during the year, after producing a total of 441,000 ounces of gold since it began production in 1987. On January 19, 1995, mining leases covering the mine, plant, equipment, and water rights, as well as any environmental liabilities, were sold subject to a 12 month due diligence period, for \$7.0 million to the Central Desert Joint Venture.

Regional exploration in the Tanami Region continued throughout the year, and the work focused on the Minotaur Prospect. Encouraging results have been generated, and a gold mineralized zone has been outlined over an area of 330 feet by 1,300 feet. This area is still open along strike; further work is planned in 1995. Exploration properties in the area are all located outside of economic trucking distance to the Tanami plant, which has been sold.





OPPOSITE PAGE:
Ed Jones
Senior Refinery Operator
Beal Mountain Mine

Advanced Projects Review

In addition to the advanced projects associated with Zortman, Florida Canyon, and Mt. Todd, Pegasus has a number of other projects in final stages of evaluation. Development decisions are expected on these projects in 1995.

Diamond Hill

The Diamond Hill project, located in southwestern Montana, could become the Company's first underground gold mine. During 1993, mineralized material containing 318,000 ounces of gold was identified. Underground access was established in 1994 by a decline to continue exploration. The 4,000 foot decline, including drill stations and cross cuts, was completed in mid-February, 1995.

Underground drilling is being carried out to confirm grade continuity on the previously identified 318,000 ounces of mineralized material. Drill results have identified the gold mineralization in the upper zones. The deeper high grade ore chutes are being drilled for continuity. The drilling should be completed by the end of March. If grade continuity is confirmed, the 1995 plan includes recovering a bulk sample for test mining and milling, and completion of the feasibility study by mid-year. With a positive outcome from the feasibility study and obtaining the necessary approvals, construction could begin as early as the fourth quarter in 1995. Total capital costs for the project are estimated at \$20 to \$25 million. Pending a favorable

decision in 1995, capital expenditures of \$14.5 million are anticipated.

The conceptual plan would process the ore on site using a 500 ton per day gravity and flotation circuit. A concentrate would be produced and refined off site. The process will not use cyanide, and the tailings would be filtered and used underground as backfill and/or placed in a waste repository.

Kazgold

Kazgold is a company owned 50:50 by Goldbelt Resources Ltd. and the Leninogorsk Polymetallic Combinat (LPC), a state owned Kazakhstan company. Kazgold has the rights to reprocess tailings from an operating lead/zinc mine, located in the northeast of Kazakhstan, to recover contained gold and silver.

Pegasus has advanced \$3 million to Goldbelt and will make an additional loan of \$15 million once all permits are received and third party financing is in place. The loans will convert into 54 percent ownership of Goldbelt. Pegasus has a small additional indirect interest in Goldbelt through the Emerging Markets Gold Fund, which owns 12 percent of Goldbelt.

The Leninogorsk Tailings contain 2.4 million ounces of gold and 18.8 million ounces of silver, of which the Company has included 658,000 ounces of gold (its 27 percent interest) in mineralized material in the reserve table. The estimated recovery is

70 percent, at a cash production cost of approximately \$184 per ounce.

The Company is encouraged by the progress Kazgold is making on various issues. The feasibility study was completed in November 1994 and detailed engineering is underway. In mid-January 1995, Kazgold received a Cabinet Minister Decree authorizing the National Bank of Kazakhstan to negotiate an agreement with Kazgold which would provide the National Bank the option to purchase the gold produced for U.S. dollars at prices based on the London price fix or allowing Kazgold to export the gold for convertible currency. Final project financing negotiations are continuing to cover the \$85 million of the estimated capital before interest and financing costs.

Pullalli

The Pullalli project is situated 100 miles northwest of Santiago, Chile at a low elevation with excellent infrastructure nearby. In 1994, Pegasus increased its land position in the area to over 37,000 acres, covering the entire rhyolite dome complex.

Exploration spending in 1994 totalled \$3.5 million and concentrated on infill drilling the Main Resource area identified in 1993. The 1994 drilling has given the Company a better understanding of the geology and structure which has turned out to be more complex than first thought. The drilling has identified two populations of gold mineralization: a high grade zone averaging 0.041 ounces per ton and a lower

grade halo of 0.008 ounces per ton. Using the high grade population and drill data as of the end of November to calculate a reserve, the Company currently has classified 334,000 ounces in the Main Resource as mineralized material.

The focus during the first quarter of 1995 will be to prove structural and grade continuity within the higher grade zones in the Main Resource and to add additional reserves by drilling other targets. Five drill rigs are presently on the property; three reverse circulation rigs and two core rigs. This program should be completed by the end of March, and a new reserve calculation is expected to be completed by mid-May.

The Company remains positive that the potential for developing an economic deposit is good. Preliminary feasibility work is proceeding and metallurgical testwork has indicated an overall heap leach recovery of 73 percent. The environmental baseline work is continuing in preparation for obtaining operating permits. During 1995, the Company expects to spend \$3.9 million on the project.

OPPOSITE PAGE:
Carolyn Lewis
Senior Lab Technician
Beal Mountain Mine



Exploration Review

In its pursuit of additional gold reserves, Pegasus is focusing its exploration and business development efforts internationally, in areas where the Company feels the political and financial risks are manageable. The exploration group consists of 46 people including geologists and support staff. The group focuses primarily on pure gold properties and polymetallic deposits with a majority gold component which will have a material impact for the Company. These properties or projects should have the potential to produce 100,000 ounces annually and to have a minimum of one million ounces of reserves. They should have a cash cost of \$225 per ounce or less, and a total cost of \$350 per ounce or less.

During 1994, a total of \$22.7 million was spent on exploration and business development. Excluding mine exploration, \$20.7 million was expensed in 1994. Expenditures went from about 54 percent devoted to targets in the United States in 1993 to about 75 percent devoted outside the United States in 1994. Almost half of 1994 expenditures funded four projects on which the Company expects to make development decisions in 1995. Internationally, the Company spent \$14.0 million during the year, including \$5.5 million in Chile (\$3.5 million of which was spent on the Pullalli project), \$3.9 million in Australia (through Zapopan), and \$1.6 million in Argentina.

The exploration group's strategic focus is on both advanced and, to a lesser extent, grassroots programs. During the year, the Company opened exploration offices in Miami, Florida, Mendoza, Argentina, and Georgetown, Guyana, to complement its existing office in Santiago, Chile.

The grassroots program has been active in South America, primarily in Chile, Argentina, and Guyana. In Argentina, Pegasus' 1995 exploration activity will be on six specific target areas in the San Luis, Mendoza, Rio Negro and Santa Cruz provinces. Although the focus in Chile has been on the Pullalli project, the Company has acquired two new promising gold projects which will be explored in 1995. During mid-January 1995, the Company received prospecting licenses on four properties in Guyana. In other parts of the world, such as Africa, Central Asia, and the Far East, the Company is looking for more advanced opportunities, which have reserves and/or resources already outlined.

In 1995, total exploration and business development spending is expected to be \$25.1 million. The portion which will be expensed will decline slightly to \$17.6 million as the focus shifts toward boosting advanced projects to development status, and taking a handful of new projects to the advanced exploration stage.

Pegasus is focusing its exploration and business development efforts

internationally in its pursuit of additional gold reserves.

Although Pegasus' international exploration effort is only a few years old, it has resulted in the Company evaluating a number of promising opportunities, and it has

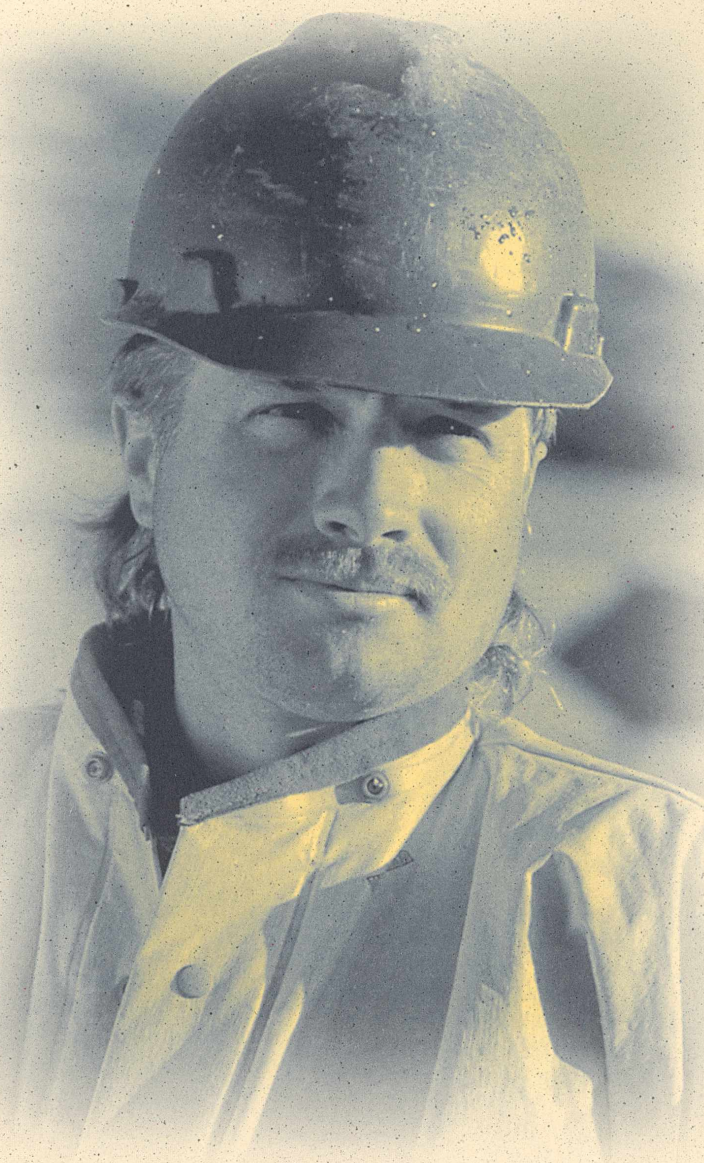
situated the Company in some of the more prospective areas in the world.

Emerging Markets Gold Fund

The Emerging Markets Gold Fund was formed to acquire direct equity and equity-related investments in gold projects in emerging markets outside of North America and Australia. Pegasus, as one of the lead investors, along with the Rothschild Group and the IFC (International Finance Corporation), has committed \$20 million. The Company has contributed \$10 million of this commitment to date. The Fund was established with a capitalization of \$75 million.

Participating in the Fund increases the Company's exposure in areas and countries where it might not otherwise be active. Pegasus has a preferential right to joint venture and/or to operate properties brought into the Fund. The Fund has made the following investments during the year: a 12 percent equity investment in Goldbelt Resources Ltd., (Leninogorsk Gold Tailings); contemporaneous investments in Glencar Explorations PLC and Wassa Holdings, which have a project in Ghana giving the Fund a direct holding of 14.5 percent in Glencar and a 10 percent interest in Wassa; an

investment in preferred shares of a subsidiary of Greenstone Resources Ltd., which converts into common stock of Greenstone or (at the Fund's option) into two substantial project interests; and the acquisition of 3 percent of the outstanding shares of Santa Elina Gold Corporation, which holds a substantial number of gold properties in Brazil. The Fund has a preferential right to future financings for Santa Elina.



OPPOSITE PAGE:
Guy Montgomery
Utility Crew
Black Pine Mine

Environmental Review

Environmental protection is a fundamental part of Pegasus' world-wide operations. It is integrated into every aspect of project planning from exploration through operations and site-closure. All Pegasus' U.S. operating, advanced exploration, and closure sites were reviewed internally during 1994 to ensure that environmental programs adequately address regulatory and corporate expectations. This internal environmental auditing program will extend to world-wide activities in 1995 and will encourage identification and implementation of action plans consistent with the Company's commitment to environmental excellence. In addition, an independent third-party consultant was retained during 1994 to review the Company's overall environmental risk management program for adequacy and to identify possibilities for future program enhancement.

In 1994, the Company spent \$7.2 million to manage and operate environmental programs including concurrent reclamation and protection of water, air and wildlife resources. The total cost to close its current operating sites is estimated by the Company to be \$54.5 million, of which \$25.0 million is accrued as of December 31, 1994. These estimates are considered adequate to fund post-production activities and will be updated and revised as necessary to account for changes in regulatory requirements or site conditions.

At Zortman, negotiations to settle the lawsuit filed by the Montana Department of Health and Environmental Sciences, alleging the Zortman Mine was discharging pollutants in violation of the Montana Water Quality Act, are continuing and could result in a civil fine. Significant progress has been made in formulating a long-term water quality compliance plan, although questions regarding specific compliance standards remain unresolved, which could require construction of additional treatment facilities. The mine's reclamation activities are among the most advanced in the mining industry and, coupled with voluntarily construction and operation of a water treatment plant, have significantly improved surface water quality in the area.

Efforts to maximize concurrent land reclamation have been particularly effective at the Florida Canyon Mine. Well over 90 percent of the land no longer impacted by production activities has been reclaimed. The success of this program has aided the permitting process for the leach pad expansion in 1995. This commitment to accelerate reclamation extends even into the heap leaching operations where final reclamation is an integral part of active heap management. Environmental planning at the site also includes the backfilling of mined-out pits, management of natural surface drainage, and enhancement and extension of

wildlife habitat to encourage the natural productivity of reclaimed areas.

The environmental programs at Montana Tunnels include voluntary clean-up of historic mining sites in the area. The mine is also involved in the clean-up of a historic tailings disposal area under the State of Montana's Comprehensive Environmental Clean-up and Responsibility Act (CECRA). Innovative reclamation and water quality protection plans at the site include material segregation in waste rock dumps and accelerated tailings facility stabilization. In addition, the site's aggressive wildlife management programs have resulted in significant increases in the mine area's resident elk population.

A decision was made during 1994 not to proceed with a previously planned extension of operations at the Beal Mountain Mine. The Company based its decision on the belief that currently imposed surface water quality standards could not be met by the extended operations. Evaluations have been undertaken to determine if variations to extension plans can be identified which would allow reconsideration of continued production. As is the case at Zortman, accelerated reclamation planning and innovative water management have significantly enhanced the site's ability to protect area surface water quality.

Operations at Black Pine employ extensive backfilling of mined-out pits and innovative angle-of-repose waste rock dump reclamation. The site is also involved in a project to

reclaim a historic mill tailings disposal area. An Environmental Assessment for the clean-up project has been completed by the U.S. Forest Service and the Bureau of Land Management, and work will likely begin on the project during 1995.

Decisions to complete closure of the Basin Creek Mine were finalized during 1994. Final reclamation will include waste rock relocation into mined-out pits, aggressive surface water quality protection and reclamation designed to enhance both recreational use of the site and long-term wildlife habitat. Closure will also include reclamation of areas affected by historic mining and milling operations.

Late-stage exploration work was initiated at the Company's Diamond Hill project near Townsend, Montana via construction of a decline. The waste rock from the construction of the decline is placed on a rock dump incorporating state-of-the-art techniques for protection of area surface and ground water resources. Numerous areas affected by historic mining activity have also been reclaimed during the exploration program.

Financial Information

MANAGEMENT'S DISCUSSION AND ANALYSIS	24
REPORT OF INDEPENDENT ACCOUNTANTS	30
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING	30
CONSOLIDATED BALANCE SHEETS	31
CONSOLIDATED STATEMENTS OF OPERATIONS	32
CONSOLIDATED STATEMENTS OF CASH FLOWS	33
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY	34
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	35
TEN YEAR HISTORICAL DATA	50

Management's Discussion and Analysis of

Financial Condition and Results of Operations

RESULTS OF OPERATIONS

Overview

For the year ended December 31, 1994, the Company recorded a net loss of \$58.7 million, or \$1.69 per share, compared to net income of \$10.0 million in 1993, or \$0.30 per share, and a net loss of \$6.3 million, or \$0.22 per share, in 1992. 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 resulting from the issuance of additional shares by Zapopan, the Company's 56 percent owned subsidiary. The loss incurred in 1992 was attributable to the termination of the Ortiz joint venture, which resulted in the write-down of \$24.6 million in capitalized development costs associated with the project. In addition, the results for 1992 have been restated to include the cumulative effect of a change in accounting for income taxes, which increased earnings by \$2.0 million. Excluding the effects of the above, the net loss for 1994 would have been \$5.8 million, or \$0.16 per share, compared to a net loss of \$0.9 million, or \$0.03 per share, in 1993, and net income of \$13.2 million, or \$0.45 per share, in 1992.

Other than the write-down described above, the major factors contributing to the 1994 loss were operational difficulties relating to the start-up of the Mt. Todd Mine, increased costs per ounce at other operations, and increased expenditures relating to the Company's exploration and business development programs.

The following table highlights certain key financial statistics:

	1994	1993	1992
Gold sales (ounces)	495,000	484,000	382,000
Gold revenue realized			
per ounce	\$407	\$382	\$382
Average COMEX price			
per ounce	\$384	\$360	\$344
Cash cost of production			
per ounce, net	\$277	\$251	\$214
Total mine cost			
per ounce ¹⁾	\$356	\$331	\$296

1) Includes cash costs, royalties, and depreciation and amortization.

Revenues

Gold. The Company's primary source of revenue comes from 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 in 1994 increased 9 percent to \$201.3 million, compared to \$184.7 million in 1993 (\$145.9 million in 1992), as a result of a 2 percent increase in ounces sold, and a 6 percent increase in the average gold price realized. The small production increase was attributable to the start-up of the Mt. Todd Mine, offsetting reduced production from the Tanami Mine, which completed mining in late 1993 and production in early 1994. Total gold production increased to 495,000 ounces compared to 484,000 ounces in 1993 (382,000 ounces in 1992). The Company expects to produce 530,000 ounces of gold in 1995.

The average realized gold price was \$407 per ounce, compared to \$382 per ounce realized in both 1993 and 1992. The average COMEX gold price per ounce was \$384 in 1994, \$360 in 1993, and \$344 in 1992. The use of forward sales and other hedging programs added \$10.0 million to revenue in 1994, compared to \$13.6 million and \$18.7 million in 1993 and 1992, respectively. The Company has in place forward sales contracts on 419,000 ounces of gold at an average price of \$419 per ounce, for delivery in 1995.

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

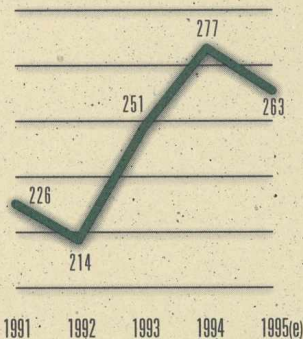
U.S. mines. In 1994 and 1993, the sale of other metals contributed 14 percent of total revenue, compared to 20 percent in 1992. In 1994, sales of other metals increased 6 percent to \$32.3 million from \$30.5 million in 1993 (\$36.3 million in 1992). The production and price increases in 1994 for zinc and lead were partially offset by declines for silver. The average realized prices for 1994 were \$4.87 per ounce, \$0.49 per pound, and \$0.27 per pound, for silver, zinc, and lead, respectively, compared to \$5.73 per ounce, \$0.45 per pound, and \$0.19 per pound, respectively in 1993 (\$5.45 per ounce, \$0.54 per pound, and \$0.25 per pound, in 1992).

Operating Costs

In spite of the fact that more tons were moved at a lower cost per ton (39.6 million tons at \$4.51 per ton in 1994, compared to 30.9 million tons at \$4.94 per ton in 1993), the average cash cost of production increased 10 percent to \$277 per ounce, compared to \$251 per ounce in 1993 (\$214 per ounce in 1992). Costs in 1994 were affected by higher stripping ratios, lower grades, higher processing costs, slower recoveries, and a difficult start-up at Mt. Todd. The cash cost at

Cash Cost

In Dollars Per Ounce

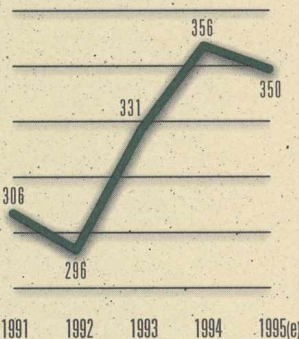


Zortman of \$320 per ounce was 17 percent above 1993 as a result of a higher strip ratio, increased reagent usage, and higher environmental compliance and remediation costs. At Montana Tunnels, the cash cost declined 3 percent, to \$173 per ounce, because of increased throughput and higher production, which resulted in higher by-product credits. Florida Canyon's cash cost increased 17 percent to \$259 per ounce because of a 16 percent decline in production. The cash cost at Beal increased 21 percent to \$255 per ounce because of lower grade, severance accruals related to closure, and increased environmental compliance and remediation costs. At Black Pine, the cash cost of \$294 per ounce

increased 20 percent over 1993 because of poor performance in the first half of the year. However, Black Pine performed beyond expectations in the second half of the year, producing 40 percent of its total production in the fourth quarter. Mt. Todd's cash cost was \$331 per ounce, approximately 50 percent higher than anticipated, because of start-up problems associated with the crusher which continued most of the year. In 1993, the average cash cost of production increased 17 percent over 1992, because of high cost production from the Tanami Mine, and increased costs at Zortman and Montana Tunnels. The Company's average cash cost of production is expected to decline to \$263 per ounce in 1995. Depreciation and royalty expense of \$66 and \$13 per ounce, respectively, were unchanged compared to 1993 costs of \$66 and \$14 per ounce (\$73 and \$9 per ounce in 1992).

Total Cost

In Dollars Per Ounce



Exploration

As a result of a substantial commitment by the Company to international exploration and development efforts, exploration expenditures increased 66 percent to \$22.7 million, \$20.7 million of which was expensed, compared to \$13.7 million, \$12.1 million of which was expensed in 1993 (\$11.1 million – \$9.1 million expensed in 1992). The Company spent \$14 million in 1994 on international exploration programs, \$4.1 million in the U.S., and \$5.0 million on business development and evaluation. Despite the fact that the \$9 million increase in exploration and development expenditures had an adverse impact on results of operations for 1994, management believes that the program will create beneficial impacts for the Company over the long term.

The Company's exploration program for 1995 is directed towards the identification and evaluation of properties which can add to ore reserves and production over the next few years. In 1995, the Company expects to spend \$25.1 million on exploration

Management's Discussion and Analysis, cont.

and business development, \$17.6 million of which is expected to be expensed. The amount expensed is expected to decline as the focus shifts toward moving advanced projects to the development stage. The Company intends to spend \$11.6 million on international exploration, \$3.8 million on U.S. and mine exploration, and \$9.7 million on business development and new projects. Actual exploration and development 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 increased slightly to \$14.5 million from \$14.2 million in 1993, primarily because of increased travel and other costs related to foreign business development efforts (including increased overhead at Zapopan) offset by lower legal costs. The increase of \$4.4 million from 1992 to 1993 related primarily to legal and related remediation costs, the inclusion of Zapopan's corporate overhead, and severance payments.

Other Income (Expense) and Taxes

The Company invests its excess cash in low-risk, short-term investments. The increase in interest income is attributable to higher cash balances available to invest early in the year, coupled with an increase in the yield. The average yield for 1994 was 4.6 percent, compared to 2.9 percent in 1993 and 3.7 percent in 1992. Interest expense increased to \$3.5 million from \$2.7 million in 1993 (\$3.5 million in 1992), 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 5.7 percent in 1994, compared to 5.0 percent in 1993 (5.9 percent in 1992). In addition, gross interest expense was reduced by \$0.4 million, \$0.6 million, and \$0.4 million in 1994, 1993, and 1992, respectively, for interest capitalized against construction projects.

At such time as additional borrowings are required to fund acquisitions, or to finance development of advanced projects, interest expense is expected to increase accordingly. 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 1994, the Company recorded a net income tax benefit of \$2.6 million, or 4.2 percent of the year's 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 the current year. 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 subsidiary, Zapopan, since April 1, 1993, the date on which the Company acquired its majority interest. Before that date, the Company accounted for its investment in Zapopan using the equity method. Since April 1, 1993, the Company's interest in Zapopan has varied from a high of 61 percent to a low of 53 percent.

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 and 1992 are discussed in Notes 4 and 5 to the Consolidated Financial Statements. The gain on issuance of shares of subsidiary in 1993 is discussed in Note 7.

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



Environmental Protection

Environmental protection is a fundamental part of the Company's current and future operations, worldwide. A total of \$1.2 million was spent during 1994 for capital improvements associated with environmental projects, and an additional \$7.2 million was spent to manage and operate environmental programs and to perform concurrent reclamation. The Company estimates the total future cost to close and reclaim its current mine sites to be \$54.5 million, of which \$25.0 million is accrued as of December 31, 1994. These estimates are considered adequate to fund post-production activities and will be updated and revised as necessary to account for changes in regulatory requirements or site conditions.

At Zortman, negotiations to settle the lawsuit filed by the Montana Department of Health and Environmental Sciences, alleging discharge of pollutants in violation of the Montana Water Quality Acts, are continuing, and could result in a civil fine. Significant progress has been made in the formulation of a long-term water quality compliance plan, although questions regarding specific compliance standards remain unresolved, which could require construction of additional treatment facilities. The voluntary construction and operation of a water treatment plant has significantly improved surface water quality in the area.

The Zortman Extension remains on schedule for administrative completion of an Environmental Impact Statement ("EIS") by January 1996, and construction is scheduled to begin shortly thereafter. Since construction cannot proceed until the EIS is approved, the Company anticipates an interruption of mining operations of four months or more at this site. 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 receive approval for the construction and operation of the Zortman Extension, it is possible that an unfavorable decision could be issued, restrictions contained in permits received could render the project uneconomic, or

a favorable decision could be appealed by third parties; any of these possibilities could create further delays or cause the project to be abandoned. If the Zortman Extension does not proceed as planned, the Company will be required to write-off the deferred development costs associated with the project, which amounted to \$12.0 million at the end of 1994, and accrue a liability for additional reclamation costs of up to \$7.0 million.

A decision was made during 1994 not to proceed with the previously planned extension of operations at Beal Mountain. The Company based the decision on its belief that currently imposed surface water quality standards could not be met during the extended operations. Accelerated reclamation planning and innovative water management have significantly enhanced the site's ability to protect the area's surface water quality, and efforts are continuing to identify alternatives to extend operations without causing detrimental environmental effects.

Florida Canyon is one of the first operations to integrate final reclamation into active heap management. More than 90 percent of the land no longer impacted by production activities has been reclaimed at the Florida Canyon Mine. This reduction of the disturbed area surrounding the mine has facilitated the permitting of a planned mine extension. The permit is expected to be received in early 1995.

Environmental planning at Montana Tunnels includes clean-up of historic mining sites in the area, including a turn-of-the-century tailings disposal area under the CECRA program, the State of Montana's superfund style law. The Company estimates the cost of CECRA remediation to be \$1.7 million and has accrued \$1.1 million for this purpose as of December 31, 1994. The balance will be accrued using the units of production method over the mine's proven and probable reserves.

The decision was finalized during 1994 to complete closure of the Basin Creek Mine. Final reclamation planning will include waste rock relocation into mined-out pits, aggressive surface water quality protection and reclamation designed to enhance both recreational use of the site and long-term wildlife habitat.

Management's Discussion and Analysis, cont.

The Black Pine Mine is involved in a project to reclaim an historic mill tailings disposal area. An Environmental Assessment for the project has been completed by the U.S. Forest Service and the Bureau of Land Management, and work will likely commence during 1995. The Company estimates the cost of remediation to be \$300,000.

The Company has been sued by LAC Minerals (USA) Inc. in connection with certain environmental liabilities associated with property purchased on behalf of the former Ortiz Project Joint Venture. The Company believes that the disposition of this suit will not have a material adverse effect on the financial position of the Company or its results of operations.

All of the Company's U.S. operating sites were reviewed internally during 1994 to ensure that environmental programs adequately address regulatory and corporate expectations. In addition, an independent, third-party consultant was retained to review the overall environmental risk management program and to identify possibilities for future program enhancement.

For further information relating to the above discussions see Notes 4 and 13 to the Consolidated Financial Statements.

Financing, Capital Investment and Liquidity

At the end of 1994, the Company had working capital of \$96.6 million and a current ratio of 2.3 to 1, compared to working capital of \$165.1 million and a current ratio of 4.5 to 1 at the end of 1993. Cash and short-term

investments totalled \$89.3 million at the end 1994, compared with \$149.3 million at the end of 1993.

The Company generated \$10.9 million in cash from operating activities in 1994, compared to \$43.6 million in 1993. The reduction in cash flow is 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 ("EMGF"), and \$9.0 million on the acquisition of additional shares of Zapopan. In addition, the Company paid \$3.5 million in dividends, and repaid debt of \$12.0 million.

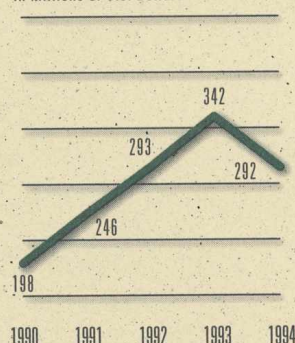
During 1993, the Company generated \$43.6 million in cash from operating activities and received proceeds from the issuance of common stock of \$17.1 million. In addition, Zapopan received proceeds of \$20.8 million from the issuance of long-term debt in connection with the construction of Mt. Todd. The Company expended \$44.0 million on capital additions (including \$29.5 million on Mt. Todd), \$1.6 million on the acquisition of additional shares of Zapopan, paid \$3.1 million in dividends, and repaid debt of \$21.1 million.

During 1993, Zapopan issued shares of its common stock at prices in excess of the Company's per share cost of its investment in Zapopan. As a result, a non-cash gain of \$10.9 million was recognized for this difference. Management believes it is unlikely that similar transactions will occur in future years.

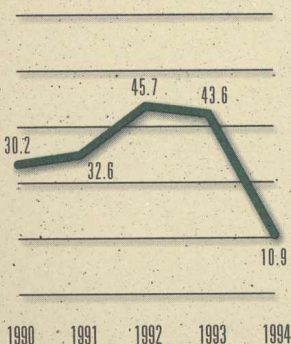
In 1994, the Company expended \$9.0 million to acquire additional shares of Zapopan in order to exercise additional management control of the subsidiary as Mt. Todd went into production. In addition, the Company has spent \$4.8 million to purchase additional shares through February 28, 1995, increasing the Company's ownership interest to 58.3 percent.

The Company expects to spend \$35.3 million in 1995 on capital additions at operating mines, invest \$15.0 million in the EMGF, and make debt repayments of \$39.2 million. In addition, several

Shareholders' Equity
In Millions of U.S. Dollars



Operating Cash Flow
In Millions of U.S. Dollars

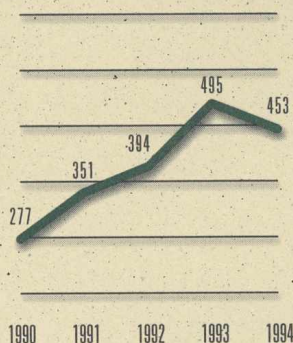


properties have been advanced to the stage where construction and development could commence in 1995 if favorable decisions are made. An additional \$43.8 million in capital expenditures could be required if favorable decisions are made to proceed with the construction of Mt. Todd Phase II, the Diamond Hill project in Montana, and the Kazgold tailings project in Kazakhstan. Because of cash flow requirements relating to development of the above projects, the Company did not declare a dividend in 1994.

At December 31, 1994, the Company had \$89.3 million in cash and a \$25.0 million committed line of credit which was fully available. The Company believes that cash on hand and cash flows from operations will be sufficient to fund the Company's cash requirements through 1995. If additional capital is required beyond the Company's existing cash resources, the committed

Total Assets

In Millions of U.S. Dollars



line of credit could be drawn upon, extended, or replaced by another facility. Pursuant to a Shelf Registration Statement filed with the SEC in December 1993, the Company can, at its option, offer debt securities, common shares, or warrants in an amount not to exceed \$150.0 million.

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 Notes 12 and 13 to the Consolidated Financial Statements for more information about the Company's financial instruments and hedging.

Outlook

On December 31, 1994, the Company had approximately 4.6 million contained ounces of gold in domestic reserves and its proportionate share (56 percent) of Zapopan's reserves. Of these, approximately 3.4 million ounces are recoverable, which is equivalent to six years of production in the United States and ten years in Australia at the current 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. 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.

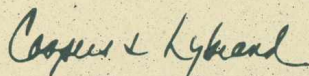
Report of Independent Accountants

*Board of Directors and Shareholders
Pegasus Gold Inc.*

We have audited the consolidated balance sheets of Pegasus Gold Inc. as of December 31, 1994 and 1993, and the consolidated statements of operations, cash flows, and changes in shareholders' equity for the years ended December 31, 1994, 1993, and 1992. 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, 1994 and 1993, and the results of its operations and its cash flows for the years ended December 31, 1994, 1993, and 1992, in accordance with United States generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a consistent basis, except for the change in the method of accounting for income taxes described in Note 9.



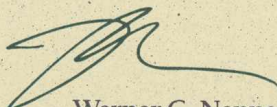
Chartered Accountants
Vancouver, B.C., Canada
January 20, 1995

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

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



Werner G. Nennecker
President and Chief Executive Officer



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

Consolidated Balance SheetsDecember 31, 1994 and 1993
(In Thousands of U.S. Dollars)

	1994	1993
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 89,316	\$ 53,294
Short-term investments	-	96,019
Due from sales of products	33,211	28,032
Inventories	37,041	31,413
Other current assets	8,710	4,204
Total current assets	<u>168,278</u>	<u>212,962</u>
Investments	22,252	17,756
Property, plant, and equipment, net	259,448	261,908
Other assets	3,301	2,607
Total assets	<u>\$453,279</u>	<u>\$495,233</u>
LIABILITIES		
Current liabilities:		
Accounts payable and other current liabilities	\$ 21,287	\$ 19,521
Accrued salaries, wages, and benefits	6,336	4,728
Mining taxes payable	4,878	5,377
Dividends payable	-	3,456
Current portion of long-term debt	39,151	14,791
Total current liabilities	<u>71,652</u>	<u>47,873</u>
Long-term debt	19,038	51,944
Deferred site closure and remediation	33,618	13,072
Deferred revenue	9,357	7,926
Other deferred liabilities	2,940	6,803
Total liabilities	<u>136,605</u>	<u>127,618</u>
Minority interest in consolidated subsidiary	24,332	25,618
Commitments and contingencies (Note 13)		
SHAREHOLDERS' EQUITY		
Class A preferred stock, Series 1, \$10 par value:		
Authorized - 20,000,000 shares; none issued		
Common stock, no par value:		
Authorized - 200,000,000 shares; issued		
and outstanding, 1994 - 34,629,523 shares		
and 1993 - 34,555,652 shares	332,110	331,193
Retained earnings (deficit)	(46,178)	12,557
Foreign currency translation adjustment	6,410	(1,753)
Total shareholders' equity	<u>292,342</u>	<u>341,997</u>
Total liabilities and shareholders' equity	<u>\$453,279</u>	<u>\$495,233</u>

Approved by the Board


L. Jack Smith
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, 1994, 1993, and 1992
(In Thousands of U.S. Dollars, Except Per Share Amounts)

	1994	1993	1992
Sales	\$233,648	\$215,187	\$182,171
Cost of sales	169,186	151,686	118,059
Depreciation and amortization	32,652	31,872	27,766
	<u>201,838</u>	<u>183,558</u>	<u>145,825</u>
Gross profit	<u>31,810</u>	<u>31,629</u>	<u>36,346</u>
Operating expenses:			
General and administrative	14,456	14,150	9,725
Royalties	6,277	6,732	3,581
Exploration	20,730	12,087	9,131
Property write-downs	35,261	-	24,608
Provision for closure, remediation, and related costs	16,161	-	-
	<u>92,885</u>	<u>32,969</u>	<u>47,045</u>
Loss from operations	<u>(61,075)</u>	<u>(1,340)</u>	<u>(10,699)</u>
Other income (expense):			
Interest and other income	5,025	3,069	2,403
Interest expense, net of amounts capitalized	(3,523)	(2,704)	(3,455)
Gain (loss) on disposition of assets and investments	(1,795)	1,185	-
Gain on issuance of shares of subsidiary	-	10,853	-
	<u>(293)</u>	<u>12,403</u>	<u>(1,052)</u>
Minority interest in loss of subsidiary	<u>50</u>	<u>694</u>	<u>-</u>
Income (loss) before income taxes and cumulative effect of a change in accounting principle	(61,318)	11,757	(11,751)
Income tax provision (benefit)	<u>(2,583)</u>	<u>1,764</u>	<u>(3,431)</u>
Income (loss) before cumulative effect of a change in accounting principle	(58,735)	9,993	(8,320)
Cumulative effect of change in accounting for income taxes	-	-	1,979
Net income (loss)	<u>\$ (58,735)</u>	<u>\$ 9,993</u>	<u>\$ (6,341)</u>
Income (loss) per share:			
Before cumulative effect of a change in accounting principle	\$(1.69)	\$0.30	\$(0.29)
Cumulative effect of a change in accounting principle	-	-	0.07
Net income (loss) per share	<u>\$(1.69)</u>	<u>\$0.30</u>	<u>\$(0.22)</u>
Weighted average common shares outstanding (000's)	<u>34,702</u>	<u>33,712</u>	<u>28,940</u>

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

Consolidated Statements of Cash Flows

For the Years Ended December 31, 1994, 1993, and 1992
(In Thousands of U.S. Dollars)

	1994	1993	1992
Operating activities:			
Net income (loss)	\$(58,735)	\$ 9,993	\$(6,341)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	33,648	32,582	28,273
Gain on issuance of shares of subsidiary	-	(10,853)	-
Property write-downs	35,261	-	24,608
Provision for closure, remediation and related costs	16,161	-	-
Deferred amounts	(1,373)	7,268	(3,142)
Other, net	(675)	2,452	1,741
Change in due from sale of products	(5,062)	(3,811)	(1,962)
Change in inventories	(5,058)	(1,614)	122
Change in other current assets	(4,464)	3,046	183
Change in accounts payable and accrued liabilities	1,246	4,560	2,258
Net cash provided by operating activities	10,949	43,623	45,740
Investing activities:			
Additions to property, plant, and equipment	(43,792)	(44,017)	(27,884)
Acquisition of additional investment in subsidiary	(8,972)	(1,569)	-
Purchase of investments	(8,068)	(29,834)	(51,046)
Proceeds from maturities of short-term investments	96,903	4,802	(220)
Net cash provided by (used in) investing activities	36,071	(70,618)	(79,150)
Financing activities:			
Dividend paid	(3,456)	(3,146)	(2,786)
Proceeds from issuance of long-term debt	734	20,853	-
Proceeds from issuance of common stock	917	17,072	56,975
Payments of long-term debt	(11,991)	(21,119)	(8,003)
Proceeds from issuance of shares of subsidiary	-	24,832	-
Net cash provided by (used in) financing activities	(13,796)	38,492	46,186
Effect of exchange rate changes on cash and cash equivalents	2,798	-	-
Net increase in cash and cash equivalents	36,022	11,497	12,776
Cash and cash equivalents, beginning of year	53,294	41,797	29,021
Cash and cash equivalents, end of year	\$ 89,316	\$53,294	\$41,797
Supplemental disclosure (Note 15)			

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

Consolidated Statements of Changes in Shareholders' EquityFor the Years Ended December 31, 1994, 1993, and 1992
(In Thousands of U.S. Dollars)

	Common Stock		Retained Earnings	Foreign Currency Translation Adjustment
	Number of Shares	Amount		
Balance, December 31, 1991	27,856,603	\$230,607	\$ 15,507	\$ (463)
Net loss	-	-	(6,341)	-
Cash dividend (\$0.10 per share)	-	-	(3,146)	-
Common stock issued for:				
Cash	3,250,000	53,127	-	-
Stock option plan	363,133	3,802	-	-
Employee savings plan and other	3,211	46	-	-
Balance, December 31, 1992	31,472,947	287,582	6,020	(463)
Net income	-	-	9,993	-
Cash dividend (\$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 Zapopan N.L.	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

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

Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements of Pegasus Gold Inc. (the "Company") include the accounts of the parent company, which is incorporated in British Columbia, its wholly-owned U.S. and foreign subsidiaries and, at December 31, 1994, its 56 percent ownership in Zapopan N.L. ("Zapopan"). The remaining interest in Zapopan is reflected as minority interest in the consolidated financial statements. All significant intercompany accounts and transactions have been eliminated. Certain prior year balances have been reclassified to conform with the current year presentation 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.

Cash Equivalents and Short-term Investments

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

Effective January 1, 1994, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 115 "Accounting for Certain Investments in Debt and Equity Securities" with no

material effect on the accompanying financial statements. The Company's policy is to hold no more than \$25,000,000 of its short-term investments in the available-for-sale category, with the balance invested in the hold-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 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. Replacements and major improvements are capitalized. Maintenance and repairs are charged to expense based on average estimated equipment usage.

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 (considering historical and current prices, price trends, and related factors) and operating capital and reclamation costs on an undiscounted basis. Reductions in the carrying value of each mine are recorded to the extent the remaining investment exceeds the estimate of future discounted net cash flows.

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.

Notes to Consolidated Financial Statements, cont.***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 a units of production basis over proven and probable reserves.

Deferred Stripping Costs

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

Investments

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

Revenue Recognition

Sales are recorded when products (doré and concentrates) are shipped to refineries or smelters. All of the Company's sales are delivered against contracts with metals brokers and smelters. Due to the nature of the precious metals market, the Company is not dependent on its significant customers to provide a market for its refined gold and silver. However, if the Company had to replace the smelters to which zinc and lead concentrates are shipped, the additional transportation costs could be considerable. Although it is possible that

the Company could be directly affected by weakness in the metals processing business, the Company monitors the financial condition of its customers and considers the risk of loss to be remote.

Hedging Transactions

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

Reclamation 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 Currencies

Assets and liabilities of the Company's foreign operations are translated into U.S. dollars at the year-end exchange rates, and revenue and expenses are translated at 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. There is no difference between primary and fully diluted net income (loss) per share in any year presented.

Income Taxes

In 1992, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under the liability method, deferred tax assets and liabilities are determined based on the difference between the financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse (see Note 9).

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.

2. INVENTORIES

(Thousands of U.S. dollars)	1994	1993
Processed metal	\$ 150	\$ 98
Stockpiled ore	2,619	3,071
Deferred mining costs	27,837	22,253
Materials and supplies	6,435	5,991
	<u>\$ 37,041</u>	<u>\$ 31,413</u>

.....

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

Approximately 73 percent of the unrecovered gold on all leach pads at December 31, 1994, is expected to be recovered in the next year.

3. PROPERTY, PLANT, AND EQUIPMENT

(Thousands of U.S. dollars)	1994	1993
Mining properties and development costs	\$283,084	\$250,808
Plant and equipment	203,234	183,251
	<u>486,318</u>	<u>434,059</u>
Less accumulated depreciation, depletion and amortization	<u>226,870</u>	<u>172,151</u>
	<u>\$259,448</u>	<u>\$261,908</u>

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

(Thousands of U.S. dollars)	Plant and Equipment	Mining Properties and Development Costs	Total 1994	Total 1993
Zortman Mine	\$11,834	\$ 13,723	\$ 25,557	\$ 23,892
Montana Tunnels Mine	43,171	27,704	70,875	64,834
Florida Canyon Mine	8,010	5,836	13,846	14,256
Beal Mountain Mine	8,314	4,610	12,924	29,126
Black Pine Mine	4,290	-	4,290	20,850
Mt. Todd Mine	-	120,522	120,522	93,834
Tanami Mine	3,733	-	3,733	4,024
Corporate and Other	4,583	3,118	7,701	11,092
	<u>\$83,935</u>	<u>\$175,513</u>	<u>\$259,448</u>	<u>\$261,908</u>

Capitalized interest for properties under development was \$441,000, \$610,000, and \$424,000 in 1994, 1993, and 1992, respectively.

Notes to Consolidated Financial Statements, cont.**4. PROPERTY 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, 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 totalled \$5,789,000.

Ortiz

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

5. PROVISION FOR CLOSURE, REMEDIATION, AND RELATED COSTS

During the second quarter of 1994, the Company initiated a comprehensive review of reclamation and closure plans at all of its sites. The purpose of this review 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 for projected closure, remediation, and related costs based on current technology and regulations. The Company has also increased the rate of accrual for future

reclamation at the Zortman Mine to fully recognize the costs associated with the mine's complex water quality issues. See Note 13.

6. INVESTMENTS

(Thousands of U.S. dollars)	1994		1993	
	Carrying Value	Market Value	Carrying Value	Market Value
Equity investments:				
USMX, Inc. (33%)	\$14,473	\$12,065	\$15,486	\$19,304
The Emerging Markets Gold Fund Limited (21%)	4,779	4,779	-	-
Marketable equity securities	-	-	2,270	2,014
Note receivable	3,000	3,000	-	-
	<u>\$22,252</u>	<u>\$19,844</u>	<u>\$17,756</u>	<u>\$21,318</u>

USMX

At December 31, 1994, the remaining unamortized excess cost of the investment in USMX, Inc. ("USMX") over its underlying net book value was \$7,023,000. 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.

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 purchase price is payable in four equal 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. 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.

Notes Receivable

On March 23, 1994, the Company reached a definitive agreement with Goldbelt Resources Ltd. ("Goldbelt") of Vancouver to develop the Leninogorsk Gold Tailings project in the Republic of Kazakhstan ("Tailings Project"). Pursuant to the terms of the agreement, the Company will provide Goldbelt with a convertible loan facility of \$18,000,000 to finance a portion of the development costs of the project. Pursuant to the terms of the agreement, the Company advanced Goldbelt \$3,000,000 on March 23, 1994.

7. ZAPOPAN

In April 1993, the Company increased its ownership interest in Zapopan from 38 percent to 61 percent in exchange for Common Shares, the Company's interest in certain notes receivable, and cash in the amount of \$8,403,000 for a total cost of \$39,612,000. This acquisition has been accounted for as a purchase and, accordingly, the operating results of Zapopan have been included in consolidated results of operations subsequent to the date of acquisition. For periods prior to April 1, 1993, the Company recorded its interest in Zapopan's results of operations using the equity method of accounting.

In December 1993, Zapopan sold 14 million shares in a public offering for A\$2.45 per share, a price in excess of the Company's per share cost, and realized proceeds of US\$24,674,000 based upon exchange rates in effect at the time of the offering. The offering and the exercise of certain stock options diluted the Company's ownership to 53 percent. As a result, the Company recognized a gain totalling \$10,853,000 in 1993 on this transaction. Deferred taxes have not been provided in connection with this gain because of the availability of offsetting capital loss carryforwards.

Notes to Consolidated Financial Statements, cont.

In 1994, the Company purchased an additional 4.4 million shares of Zapopan's outstanding common stock at a total cost of \$8,972,000, increasing its ownership interest to 56 percent. The total excess of the purchase price over the underlying net book value of the net assets acquired of \$48,162,000 has been allocated to property and mineral rights and is being amortized using the units of production method over the estimated recoverable ounces of the Mt. Todd Mine.

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

(Thousands of U.S. dollars)	1993
Net sales	\$ 220,152
Net income	\$ 10,485
Net income per share	\$ 0.31

8. LONG-TERM DEBT

(Thousands of U.S. dollars)	1994	1993
9.71 percent note due 1995, unsecured	\$25,000	\$25,000
Bank term loan 1994-1998, (Zapopan)	21,989	24,935
9.22 percent note due 1992-1996, unsecured	7,200	10,800
Bank term loan due 1992-1996, unsecured	4,000	6,000
	58,189	66,735
Less current portion	(39,151)	(14,791)
	<u>\$19,038</u>	<u>\$51,944</u>

Long-Term Debt

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

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

In 1991, the Company entered into a \$10,000,000 five-year term loan. The loan is due in five equal annual installments beginning in March 1992, and bears interest based on the London Interbank Offered Rate ("LIBOR") plus 0.88 percent (5.94 percent at December 31, 1994).

In 1993, Zapopan entered into a five-year term loan with an original face value of A\$36,000,000. At December 31, 1994, the amount of the loan outstanding was A\$28,310,000. 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 prior to project completion and 1.50 percent after project completion (9.95 percent at December 31, 1994), payable quarterly. The loan is collateralized by the underlying assets of Zapopan and its subsidiary.

Pegasus' weighted average interest rate was 5.7 percent, 5.0 percent, and 5.9 percent in 1994, 1993, and 1992, respectively.

At December 31, 1994, the Company's long-term debt matures as follows:

(Thousands of U.S. dollars)	
1995	\$39,151
1996	8,784
1997	5,592
1998	4,662
	<u>\$58,189</u>

Interest Rate Swaps

The Company has entered into interest rate swap agreements which effectively convert the 9.71 percent and 9.22 percent notes to variable rate debt (based on LIBOR) with a weighted average interest rate of 5.11 percent for the year ended December 31, 1994. The differential paid or received on interest rate swaps is charged or credited to interest expense over the life of the agreements. The Company is exposed to credit risk to the extent of nonperformance by the counterparties to its interest rate swaps. However, the Company regularly monitors the credit rating of its counterparties and considers the risk of default to be remote.

Revolving Credit Facility

The Company has entered into a \$25,000,000 short-term working capital revolving line of credit. Under the terms of this facility, the Company can borrow up to \$25,000,000 until July 30, 1995. Borrowings bear interest at floating rates for periods of up to 120 days. The Company must reduce its outstanding borrowings under this facility to zero for a minimum period of 30 consecutive days in each 12 month period. A commitment fee is payable on the unused portion of the facility at a rate of 0.25 of 1 percent. At December 31, 1994, there were no borrowings outstanding under this facility. On January 6, 1995, the Company borrowed \$25,000,000 under the line of credit. The loan was repaid on February 6, 1995.

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 1994, the Company was in compliance with the terms of all debt covenants.

9. INCOME TAXES

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

(Thousands of U.S. dollars)	1994	1993	1992
Current			
U.S.	\$ 695	\$ 495	\$ (3,272)
Foreign	(280)	(331)	495
	<u>415</u>	<u>164</u>	<u>(2,777)</u>
Deferred			
U.S.	(3,168)	2,546	-
Foreign	170	(946)	(654)
	<u>(2,998)</u>	<u>1,600</u>	<u>(654)</u>
	<u>\$ (2,583)</u>	<u>\$ 1,764</u>	<u>\$ (3,431)</u>

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

has been reflected in the consolidated statement of operations as the cumulative effect of a change in accounting principle.

The components of the net deferred tax asset (liability) as of December 31, 1994, and 1993 were as follows:

(Thousands of U.S. dollars)	1994	1993
Deferred tax assets:		
Net operating loss carryforwards	\$ 29,504	\$ 20,172
Net capital loss carryforwards	5,238	-
Exploration expenditures	2,468	2,078
Miscellaneous foreign deductions	1,429	1,600
Deferred reclamation	6,167	1,008
Other	2,934	4,269
Valuation allowance	(42,898)	(18,457)
	<u>4,842</u>	<u>10,670</u>
Deferred tax liability:		
Property, plant, and equipment	(2,744)	(9,070)
Other	-	(2,546)
	<u>\$ 2,098</u>	<u>\$ (946)</u>

As of December 31, 1994 and 1993, valuation allowances of \$42,898,000 and \$18,457,000, 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 \$24,441,000 for the year relates primarily to increased net operating loss carryforwards, the recognition of net capital loss carryforwards not recognized in prior years, and changes in temporary differences, offset by a reduction of \$690,000 in the valuation allowance applied to future deductible amounts. 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:

(Thousands of U.S. dollars)	1994	1993	1992
U.S.	\$ (63,524)	\$ (4,850)	\$ (21,864)
Foreign	2,206	16,607	10,113
	<u>\$ (61,318)</u>	<u>\$ 11,757</u>	<u>\$ (11,751)</u>

Notes to Consolidated Financial Statements, cont.

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:

(Thousands of U.S. dollars)	1994	1993	1992
Expected tax provision (benefit)	\$(20,864)	\$3,997	\$(3,995)
Effect of alternative minimum tax	3,790	(1,530)	4,066
Capital loss carryforward utilized	-	(3,690)	-
Foreign tax rate differential	(1,840)	(570)	(3,476)
Nondeductible property write-downs	12,963	3,774	141
Net operating loss carryforward not utilized	5,062	-	-
Other, net	(1,694)	(217)	(167)
	<u>\$ (2,583)</u>	<u>\$1,764</u>	<u>\$(3,431)</u>

As of December 31, 1994, the Company's U.S. and Australian subsidiaries have regular tax basis net operating loss carryforwards totalling \$110,024,000, and alternative minimum tax net operating loss carryforwards of \$30,928,000 that expire in 1996 and later years. The regular tax loss carryforwards of the U.S. subsidiaries are not available to offset future alternative minimum taxable income. In addition, the Company has Canadian capital loss carryforwards of \$29,000,000 which may be carried forward indefinitely.

10. STOCK OPTIONS

Under the Company's 1987 Stock Option Plan for officers and employees, options to purchase 2,775,000 Common Shares of the Company may be granted for terms up to seven years. The exercise price of incentive stock options must equal the market value of the stock on the date of grant, or at least 90 percent of the market value of the stock for non-qualified stock options. Options granted generally become

exercisable over the four-year period beginning on the date of grant. At December 31, 1994 and 1993, options to purchase 378,658 and 1,006,258 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, 1994 and 1993, options to purchase 48,766 and 75,166 shares, respectively, were available for future grants.

Stock option transactions are summarized as follows:

	Number of Shares	Price Per Share
Outstanding, Dec. 31, 1991	751,134	\$9.88-\$13.50
Granted	441,500	
Exercised	(363,033)	\$9.88-\$13.50
Canceled or expired	(59,225)	
Outstanding, Dec. 31, 1992	770,376	\$9.88-\$14.88
Granted	397,900	
Exercised	(335,108)	\$9.88-\$22.63
Canceled or expired	(28,600)	
Outstanding, Dec. 31, 1993	804,568	\$9.88-\$22.88
Granted	704,500	
Exercised	(53,034)	\$9.88-\$17.88
Canceled or expired	(50,500)	
Outstanding, Dec. 31, 1994	<u>1,405,534</u>	\$9.88-\$22.88
Exercisable, Dec. 31, 1994	<u>779,309</u>	\$9.88-\$22.88

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, 1994, 1993, and 1992, the Company contributed \$857,000, \$726,000, and \$662,000, respectively, to the plan.

The Company has a defined contribution pension plan covering all of its employees who have completed one year of service. The contribution is based upon a percentage of average annual compensation multiplied by the years of service with the Company. Contributions are 100 percent vested after five years of service, and prior service with the Company is considered for vesting purposes. Contributions to the plan totalled \$315,000, \$335,000, and \$361,000 in 1994, 1993, and 1992, respectively.

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Zapopan N.L. has a superannuation fund which, under Australian law, requires that the Company contribute 5 percent of every employee's base salary. Zapopan N.L. does not guarantee any of the returns or benefits under the fund. Total contributions to the fund were \$366,000, \$234,000, and \$143,000, in 1994, 1993, and 1992, respectively.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values for financial instruments under SFAS No. 107, "Disclosures About Fair Value of Financial Instruments," are made at discrete points in time based on relevant market information. These estimates involve uncertainties and 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 the quoted market prices for the same or similar issues offered to the Company for debt of similar maturities.

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

December 31,	1994		1993	
(Thousands of U.S. dollars)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 89,316	\$ 89,316	\$ 53,294	\$ 53,294
Short-term investments	-	-	\$ 96,019	\$ 96,019
Long-term debt	\$(58,189)	\$(58,321)	\$(66,735)	\$(70,335)

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, 1994 and 1993, the notional principal amount of these agreements totalled \$32,200,000 and \$35,800,000, respectively.

Notes to Consolidated Financial Statements, cont.

The Company enters into foreign exchange contracts to hedge foreign currency transactions for periods consistent with its global contractual exposures; the contracts in place effectively convert Australian dollar denominated gold hedges into U.S. dollars. The Company does not engage in foreign currency speculation. The Company's foreign exchange contracts do not subject the Company to risk because of exchange rate movements, since gains and losses on these contracts offset losses and gains on the transactions being hedged. At December 31, 1994 and 1993, the Company had foreign exchange contracts to convert \$32,000,000 U.S. dollars to Australian dollars at a minimum exchange rate of

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US\$0.63, and a maximum exchange rate of US\$0.68. These contracts expire in 1995 and 1996.

The fair value of interest rate swap agreements and foreign exchange contracts are the estimated amounts that the Company would receive (or pay) upon termination of the agreements and contracts at December 31, 1994 and 1993.

The estimated fair value of the Company's off balance sheet financial instruments are as follows:

December 31,	1994	1993
(Thousands of U.S. dollars)	Fair Value	Fair Value
Interest rate		
swap agreements	\$ 977	\$2,700
Forward		
currency contracts	\$3,158	\$ (180)

13. COMMITMENTS AND CONTINGENCIES

Hedged Production

At December 31, 1994, the Company's hedging program consists of the following:

	1995	1996	1997	Thereafter
GOLD				
Forward sales (ounces)	419,233	152,292	83,427	93,000
Average price per ounce	\$419	\$459	\$498	\$488
Call options sold (ounces)	256,250	84,000	76,660	-
Average price per ounce	\$438	\$485	\$414	-
Put options				
purchased (ounces)	134,004	-	-	-
Average price per ounce	\$372	-	-	-
SILVER				
Forward sales (ounces)	676,699	585,716	705,716	1,220,006
Average price per ounce	\$5.18	\$5.20	\$5.26	\$4.98
Call options sold (ounces)	120,000	-	-	-
Average price per ounce	\$5.40	-	-	-

The credit risk exposure related to hedging activities is limited to the unrealized gains on outstanding contracts based on current market prices. The Company believes it has minimized credit risk by monitoring the financial condition of its counterparties and dealing with large, credit-worthy institutions.

Common Shares Issuable

At December 31, 1994, a total of 1,978,502 shares of authorized common stock were reserved for the following:

Stock options	1,832,958
Employee Savings Plan	<u>145,544</u>
	<u>1,978,502</u>

Operating Leases

The Company leases office space, certain transportation vehicles, and machinery and equipment under operating leases which expire on various dates over the next ten years. All of the agreements contain provisions which provide the Company with the option, after the initial lease term, either to purchase the property at its then fair value or to renew the lease at the then fair rental value. The Company is required to pay all taxes, insurance, and maintenance on leased equipment. Future minimum rental commitments under existing leases as of December 31, 1994, are as follows:

(Thousands of U.S. dollars)

1995	\$7,334
1996	7,290
1997	7,485
1998	5,935
Thereafter	<u>7,373</u>
	<u>\$35,417</u>

Total rent expense under operating leases amounted to \$7,008,000, \$4,659,000, and \$4,073,000, in 1994, 1993, and 1992, respectively.

Legal Proceedings

In 1990, the Company purchased on behalf of the Ortiz joint venture with LAC, certain surface and mineral interests in the vicinity of the joint venture from Gold Fields Mining Corporation ("Gold Fields"). Under the terms of that agreement, the purchaser assumed significant environmental liabilities associated with the property. The Company terminated the joint venture in October 1992. LAC filed suit against the

Company, claiming that the Company remains liable as the purchaser for 100 percent of the environmental liabilities associated with the Gold Fields property in perpetuity or, alternatively, that the Company agreed to be liable for 50 percent of such liabilities in perpetuity. Discovery is complete and the parties are awaiting the setting of a trial date. In the meantime, the parties have been attempting to negotiate a settlement of the case.

The Friends of Santa Fe County, et al., (an environmental activist group opposed to mining in Santa Fe County), filed a citizens suit on July 1, 1994, against the Company, LAC, and Gold Fields under the federal clean water and resource conservation and recovery acts. The suit relates to the same environmental issues which are the subject of the LAC litigation described above. Discovery is ongoing.

On October 13, 1993, the Department of Health and Environmental Sciences of the State of Montana ("DHES") filed a complaint in Montana First Judicial District Court against Pegasus Gold Corporation and Zortman Mining, Inc., alleging that they were discharging pollutants in violation of the Montana Water Quality Act. Although the Company denies the allegations in the complaint, the Company has applied for such permits and is continuing to pursue settlement of the lawsuit. The Company anticipates a civil fine and required water control, collection, and treatment programs. The Company estimates total remediation costs of approximately \$17,500,000 of which \$7,732,000 has been accrued as of December 31, 1994.

On October 22, 1993, the DHES served notice on the Company, and other unrelated companies, that they are "potentially liable persons for hazardous or deleterious substance contamination at Corbin Flats near Jefferson City, Montana." The Company estimates that the total cost of remediation will approximate \$1,700,000 and has accrued \$1,100,000 for these costs, as of December 31, 1994.

Notes to Consolidated Financial Statements, cont.

With respect to the above pending actions, although the ultimate liability cannot presently be determined, the Company's liability for remediation activities, fines, and compliance programs could be significant. In connection with the above, the Company has accrued a liability of \$8,576,000 for environmental remediation and related costs as of December 31, 1994.

In addition to the above, various lawsuits, claims, and proceedings have been or may be instituted or asserted against the Company, including those pertaining to environmental, safety, and health matters.

While the amounts claimed may be substantial and the ultimate liability cannot, at this time, be determined, management believes the disposition of the matters described above and other matters that are pending or asserted will not have a material adverse effect on the financial position of the Company or its results of operations.

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, the Company has currently estimated these future costs to be \$54,500,000. The Company has accrued \$25,000,000 through December 31, 1994, and will charge the remaining \$29,500,000 to operations, over the remaining lives of its operations, on a units of production basis.

At December 31, 1994 and 1993, the Company had letter of credit facilities of \$16,000,000 and \$10,000,000, respectively. The facilities collateralize required surety bonds under the Company's reclamation bonding program. As of December 31, 1994 and 1993, the Company had outstanding letters of credit under these facilities, which are renewable annually, totalling \$11,395,000 and \$10,000,000 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.

Zortman Extension

At the Zortman Mine, a plan of operation and Environmental Impact Statement ("EIS") for the Zortman Extension was submitted to the regulatory agencies in May 1992. Because of regulatory delays, approval of the EIS is not anticipated until late 1995. Since construction of the Zortman Extension cannot proceed until the EIS is approved, the Company anticipates an interruption of mining operations of four months or more at this site. Gold production will continue from leaching ore previously mined and loaded on the pads, but at a significantly reduced rate. Although the Company is confident that it will 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 will be required to write off the deferred exploration and development costs associated with the project, which amounted to \$12,000,000 at the end of 1994, and accrue a liability for additional reclamation costs of up to \$7,000,000.

14. SHAREHOLDERS' EQUITY

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

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

Among other provisions, each Right entitles the holder to purchase one-hundredth of a Class A Preferred Share, Series 1, at an exercise price of \$55, subject to adjustment. Thereafter, upon the occurrence of certain events (for example, if the Company is the surviving corporation of a merger with an Acquiring Person), each Right will entitle its holder to purchase common stock with a market value of twice the Right's exercise price. Alternatively, upon the occurrence of certain other events (for example, if the Company is acquired in a merger in which the Company is not the surviving corporation), each Right will entitle its holder to purchase common stock of the Acquiring Person with a market value of twice the Right's exercise price. The Rights are subject to redemption by the Board of Directors for \$0.01 per Right at any time prior to becoming exercisable. The Rights will expire in December 1998.

15. SUPPLEMENTAL CASH FLOW INFORMATION

The consolidated statement of cash flows for December 31, 1994 and 1993 excludes the effects of certain non-cash investing activities relating to the acquisition of a majority interest in Zapopan (see Note 7). The following is a summary of the non-cash effects of this transaction:

(Thousands of U.S. dollars)	1994	1993
Increase (decrease) in:		
Inventory	-	\$ 2,455
Fixed assets	7,685	71,586
Investments	-	(27,346)
	<u>7,685</u>	<u>46,695</u>
Increase (decrease) in:		
Accounts payable and accrued liabilities	-	5,585
Long-term debt	-	3,787
Minority interest	(1,287)	12,334
Common stock	-	26,558
	<u>(1,287)</u>	<u>48,264</u>
Net decrease in cash and cash equivalents	<u>\$(8,972)</u>	<u>\$ (1,569)</u>

Cash paid during the year for:

(Thousands of U.S. dollars)	1994	1993	1992
Interest (net of amounts capitalized)	\$3,872	\$ 3,156	\$ 3,703
Income taxes, net of refunds	\$4,220	\$(3,560)	\$(1,961)

Notes to Consolidated Financial Statements, cont.

16. GEOGRAPHIC INFORMATION

The following is a summary of the Company's operations by geographic area for the years ended December 31, 1994 and 1993. For the year ended December 31, 1992, all consolidated operations were in the United States.

(Thousands of U.S. dollars)	United States	Australia	Canada and Other	Total
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

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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 provision for income taxes in 1994, 1993, and 1992 would be increased by \$498,000, \$946,000 and \$654,000, respectively, to reverse recognition of deferred tax assets not meeting recognition criteria under the deferral method. As a result, earnings (loss) per share would be \$(1.70), \$0.27, and \$(0.24) in 1994, 1993, and 1992, respectively. In addition, the 1992 tax benefit of \$1,979,000, or \$0.07 per share, would not be recorded.

Under Canadian GAAP, the property write-downs (Note 4) 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. 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 be reduced by \$0.10 in 1994.

18. QUARTERLY DATA

Selected unaudited quarterly data for the years ended December 31, 1994 and 1993 are as follows:

(Thousands of U.S. dollars)	First Quarter	Second Quarter ¹	Third Quarter	Fourth Quarter ²	Total
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)
Year ended December 31, 1993:					
Sales of gold and other metals	\$31,718	\$ 62,345	\$59,071	\$62,053	\$215,187
Gross profit	\$ 3,331	\$ 11,431	\$ 7,305	\$ 9,562	\$ 31,629
Income (loss) from operations	\$ (1,080)	\$ 4,341	\$ (1,217)	\$ (3,384)	\$ (1,340)
Net income (loss)	\$ (449)	\$ 4,579	\$ 381	\$ 5,482	\$ 9,993
Net income (loss) per share	\$ (0.01)	\$ 0.14	\$ 0.01	\$ 0.16	\$ 0.30

1) Includes 1994 second quarter write-down of assets and other non-cash charges in the amount of \$52.9 million (see Notes 4 and 5).

2) In 1993, fourth quarter results include a gain on the issuance of shares of Zapopan (see Note 7).

Ten Year Historical Data

	1994	1993	1992	1991	1990	1989	1988	1987	1986	1985
Operating Results (000's)										
Sales	\$ 233,648	215,187	182,171	156,211	171,213	178,362	162,757	110,435	35,054	18,015
Earnings (loss) from operations	\$ (61,075)	(1,340)	(10,699)	(12,859)	(20,205)	17,718	14,036	14,694	4,165	(1,835)
Earnings (loss) from operations before income and mining taxes, minority interest	\$ (61,368)	11,063	(11,751)	10,603	(39,347)	15,184	21,909	17,418	4,232	(2,324)
Earnings (loss) for the year	\$ (58,735)	9,993	(6,341)	9,599	(38,172)	9,763	17,779	14,492	4,654	(1,167)
Financial Position (000's except ratio)										
Total assets	\$ 453,279	495,233	394,022	351,072	276,554	289,460	283,305	267,764	191,059	80,184
Total debt	\$ 58,189	66,735	62,995	71,026	48,231	32,065	33,441	36,311	85,854	23,485
Working capital	\$ 96,626	165,089	124,527	96,131	42,094	45,183	76,146	88,034	37,787	29,869
Operating cash flow	\$ 10,949	43,623	45,740	32,559	30,165	43,592	43,490	6,654	12,141	(3,713)
Capital expenditures	\$ 43,792	44,017	27,884	38,720	56,399	36,057	34,974	34,152	63,449	4,294
Shareholders' equity	\$ 292,342	341,997	293,139	245,651	198,493	233,207	221,890	203,562	72,743	50,322
Ratio of total debt to total debt and equity	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	0.32:1
Operational Statistical Data										
Gold produced (ounces)										
Total	494,400	480,800	382,100	315,300	332,600	341,400	283,800	228,100	92,400	60,000
Company share	455,000	453,100	382,100	315,300	332,600	341,400	283,800	228,100	92,400	60,000
Operating cost per ton	\$ 4.51	4.94	4.24	4.28	4.73	5.20	4.71	4.07	3.98	3.21
Cash production cost per ounce	\$ 277	251	214	226	229	242	255	244	231	231
Royalty per ounce	\$ 13	14	9	7	7	10	11	12	2	7
Total cost per ounce	\$ 356	331	296	306	310	323	338	324	286	284
Gold price realized per ounce	\$ 407	382	382	389	401	416	436	429	381	312
Average spot price per ounce of gold	\$ 384	360	344	362	384	382	437	447	368	317
Per Share Data										
Earnings (loss) for the year	\$ (1.69)	0.30	(0.22)	0.37	(1.55)	0.41	0.75	0.70	0.32	(0.11)
Book value per share	\$ 8.44	9.90	9.31	8.82	8.04	9.66	9.29	8.66	4.87	4.26
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)	34,630	34,556	31,473	27,857	24,701	24,151	23,886	23,509	14,949	11,802
American Stock Exchange (US\$ per share)										
High	\$ 24.75	28.13	18.50	14.13	16.00	15.38	17.25	26.38	11.25	10.25
Low	\$ 10.63	12.63	11.38	9.63	9.13	8.87	10.75	10.75	5.38	5.25
Close	\$ 11.38	22.00	14.75	12.38	13.00	13.50	11.50	16.25	11.25	6.75

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 direct site costs for all mining (except deferred mining and stripping costs), processing, administration, and resource taxes; but excludes 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.

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 - 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.

Decline - an inclined tunnel which provides access for exploration or production of an ore body.

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 10 - 25 feet 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:

Grass roots 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 ton of ore, expressed as troy ounces per ton 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.

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 - 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 31.103 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.

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.

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

Stripping (or strip) ratio - the tonnage of waste material removed to allow the mining of one ton 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 0.907 metric tonnes.

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 and low prices and the volume traded of the Company's common shares on the American and Toronto exchanges.

The closing price of Pegasus' common shares on December 31, 1994, on the American Stock Exchange was US\$11.38 and on the Toronto Stock Exchange was Cdn\$16.13.

Common Share Data

American Stock Exchange (US\$)

Period	High	Low	Close	Volume
1994				
First quarter	24.75	18.00	20.00	13,975,600
Second quarter	19.75	15.38	16.00	10,672,500
Third quarter	17.75	13.50	16.50	12,508,500
Fourth quarter	16.63	10.63	11.38	12,199,700
1993				
First quarter	17.63	12.63	16.78	7,339,700
Second quarter	24.63	16.13	23.50	18,735,500
Third quarter	28.13	17.75	18.25	19,870,900
Fourth quarter	23.25	18.00	22.00	11,800,300

Toronto Stock Exchange (Cdn\$)

Period	High	Low	Close	Volume
1994				
First quarter	32.75	24.38	27.75	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
1993				
First quarter	21.75	16.25	21.25	2,610,176
Second quarter	31.38	20.25	30.00	5,652,619
Third quarter	36.00	23.50	24.63	7,369,555
Fourth quarter	30.75	24.13	29.00	3,656,240

Dividends

Period	1994	1993	1992	1991	1990
Dividends per share					
US\$	-	0.10	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.

Corporate Information

Directors

Paul H. Atkinson
Vancouver, British Columbia

Douglas R. Cook
Reno, Nevada

Peter R. Kutney
Calgary, Alberta

Werner G. Nennecker
Spokane, Washington

Lindsay D. Norman
Butte, Montana

Daniel U. Pekarsky
Vancouver, British Columbia

Anthony J. Petrina
Vancouver, British Columbia

Fred C. Schulte
Chicago, Illinois

L. Jack Smith
Chairman of the Board
Vancouver, British Columbia

Officers

Werner G. Nennecker
President &
Chief Executive Officer

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

Steven W. Banning
Vice President,
Operations

Terry D. Bauer
Vice President,
Environmental and
Governmental Affairs

Eric E. Kinneberg
Treasurer

Eric B. Ovlen
Vice President,
Human Resources

Allan M. Park
Vice President,
Exploration

Michelle G. Viau
Controller

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Transfer Agent and Registrar

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Co-Transfer Agents

TranSecurities International, Inc.
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Mellon Securities Trust Company
Stock Transfer Department
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Securities Listings

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

Options on Common Shares
Chicago Board Options Exchange
Montreal Exchange

Auditors

Coopers & Lybrand
Vancouver, British Columbia

Solicitors

Lawson, Lundell,
Lawson & McIntosh
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