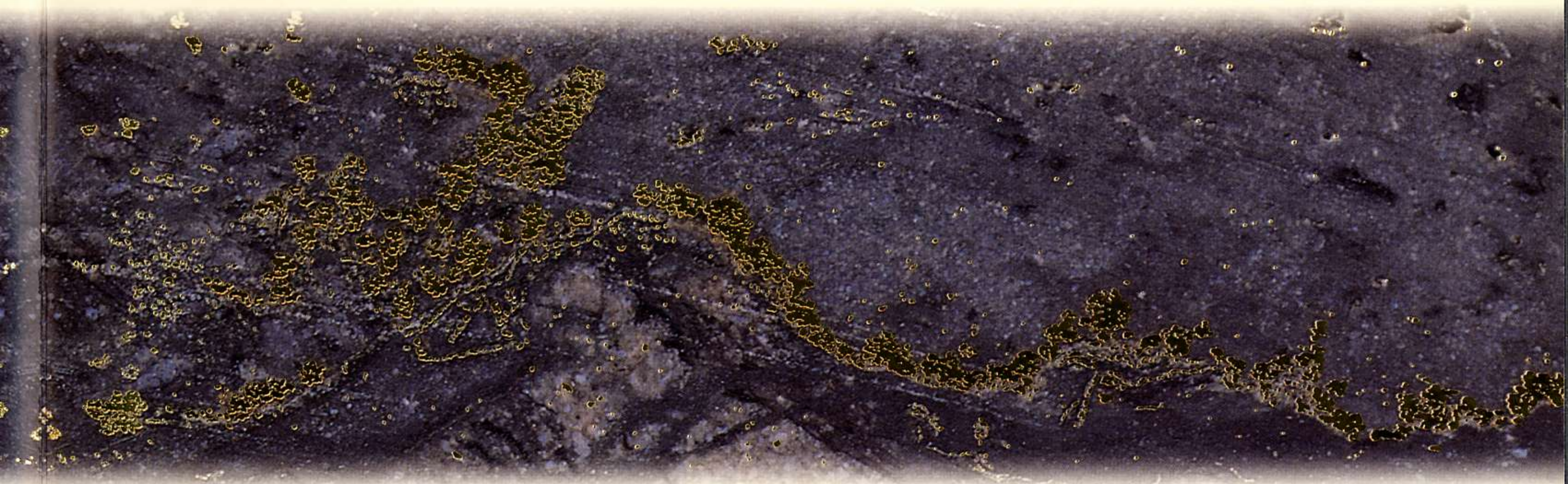
Misty Mountain Gold Limited

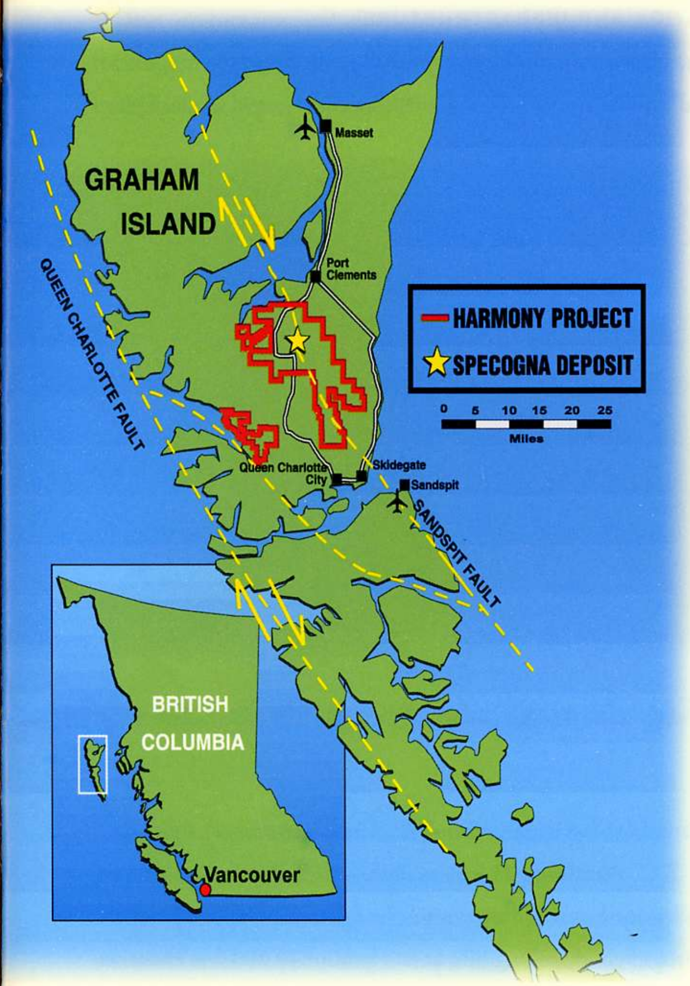
Annual Report 1995



Drilling at the Harmony Gold Project has encountered Bonanza Gold

Corporate Profile

Misty Mountain Gold Limited is focused on the responsible exploration and development of its 100% owned Harmony Gold Property located on Graham Island, British Columbia. The 172 square mile claim holding covers one of the world's premier epithermal-bonanza gold systems including the Specogna Deposit which contains over 2.2 million ounces of gold.



A major campaign has commenced to develop the Specogna Deposit and explore the vast gold system. Initial drilling has intersected spectacular bonanza gold zones. Continued successful results, combined with a cooperative consultation process with regional communities will lead to the engineering and permitting of a substantial gold mine utilizing proven, conventional mine methods that are applicable to epithermal gold production.

Common shares of Misty Mountain Gold Limited trade on The Toronto and Vancouver Stock Exchanges under the symbol MGL. Shareholders are located in Canada, the United States, Europe and Australia.

Report to Shareholders

INTRODUCTION

During 1995, in order to focus all resources on effective development of the Harmony Gold Project, Misty Mountain Gold Limited and Romulus Resources Ltd. merged to form a new Misty Mountain Gold Limited. This business combination and the subsequent purchase by the Company of a royalty interest held by BHP Minerals Canada Ltd. has resulted in Misty Mountain Gold Limited acquiring a 100% interest in substantially all of the Harmony Gold Property.

Located on Graham Island, Queen Charlotte Islands-Haida Gwaii, British Columbia, the Harmony Gold Project encompasses an extensive mineral claim holding covering one of the world's premier epithermal-bonanza gold systems. The Project includes the Specogna Deposit which is central to the property and contains over 2.2 million ounces of gold.

This year, after initiating an ongoing consultation process with local communities, Misty commenced a staged multi-million dollar exploration program to explore for and develop epithermal gold deposits.

The 1995 program included the re-interpretation of voluminous historical data and the completion of regionally extensive geochemical and airborne geophysical surveys. Near year end a major drilling campaign commenced at the Specogna Deposit to begin delineating higher grade gold reserves. Drill results received are indicating that the Specogna Deposit might best be developed as a substantial higher grade gold mine.

The Company's regional exploration work has also identified several other target areas for hosting gold deposits and the Harmony Gold Property now consists of 1,821 claim units covering 172 square miles of prospective terrain.

Misty's planned exploration and development programs will be ongoing through 1996. Continuing successful results combined with an open and cooperative consultation process will lead to engineering, mine planning and the permit application for a substantial gold mine.

LOCATION AND INFRASTRUCTURE

The Harmony Gold Project (including the Specogna Deposit) is located on Graham Island, the northern main island of the Queen Charlotte Islands-Haida Gwaii, B.C. The Islands are 55 miles west of the B.C. mainland, 99 miles southwest of Prince Rupert, and 560 miles northwest of Vancouver. The Specogna Deposit lies within an area of gently rolling hills at an elevation of 600 feet above sea level near the centre of Graham Island, approximately 11 miles south of the town of Port Clements.

Graham Island is readily accessed by commercial ferries, barges and ships from both Vancouver and Prince Rupert, and there are daily commercial airline flights from Vancouver. The Specogna Deposit is easily reached by existing logging roads from the town centres of Port Clements, Masset and Queen Charlotte City.

The climate is moderate, typical of B.C. maritime areas. Average temperature of the coldest month is 35°F while the average for the warmest month is 58°F. Annual precipitation averages 53 inches.

EXPLORATION AND DEVELOPMENT

Since the discovery of the Specogna Deposit in 1970, over $40 million was spent by former operators on trenching, drilling, underground development, bulk sampling, pilot mill testing, environmental programs and feasibility studies.

This work led to former operators reporting a mining reserve for the Deposit of 2.2 million ounces of gold contained within 31.3 million tonnes (34.5 million tons) with a diluted grade averaging 2.2 grams gold/tonne (0.064 oz/ton), mineable in an open pit at a stripping ratio of 1.7 tonnes of waste to 1.0 tonne of ore.

Past exploration and development work was focused almost entirely on outlining a large, low grade gold resource amenable to bulk tonnage, open pit mining. However, Misty's review of past drill results has identified excellent potential to develop higher grade gold reserves within the Specogna Deposit.

The Deposit is located in a near surface hydrothermal hot spring system that developed along a major fault structure. Gold in this type of system often occurs in high grade and bonanza zones.

The Specogna Deposit and related high level intrusions occur at the intersection of the Gold Creek Volcanic Complex and the Specogna-Sandspit Fault system. The Deposit's geology is characterized by the repeated activation of this prospective structural environment. Initial intrusions of hydrothermal fluids into the fault structures caused the formation of a generally low grade but pervasive disseminated gold system. Continued activation along the fault structures allowed the formation of higher grade gold-bearing stockwork fractures and veins within the silicified rocks. Still later, another extensive fracture set developed and was filled by high grade gold-quartz veins.

Detailed geological examination of the Specogna Deposit by Misty has demonstrated that near vertical quartz veins are the dominant control for higher gold grades. Previously, the Deposit had been drilled by vertical holes and angle holes that were mostly drilled parallel to the northeast-southwest strike direction of the gold-rich quartz veins. The orientation of these past drill holes introduced a negative sampling bias which resulted in an underestimation of the Deposit's gold content.

In October 1995, Misty commenced a systematic diamond drilling program of the Specogna Deposit utilizing 2 inch diameter core holes spaced on a 66 feet by 66 feet grid pattern. This program was designed to assess the impact of drill hole orientation versus vein orientation on gold grades and to test for bonanza-grade zones within the Deposit. Drill holes were oriented at 120 degrees and drilled at an angle of minus 45 degrees to cut the steeply northwesterly dipping vein swarms at as high an angle as possible. By March 1996, 32,352 feet of drilling were completed in 49 drill holes which tested an initial 1,000 feet long by 330 feet wide portion of the 2,800 feet long by 800 feet wide Specogna Deposit.

This drilling program was very successful and was highlighted by the intersection of many visible free gold zones including a spectacular free gold intersection of 137 feet grading 1.20 ounces gold/ton. Other exceptional intercepts were 45 feet grading 0.44 ounces gold/ton; 32 feet grading 0.30 ounces gold/ton; 41 feet grading 0.78 ounces gold/ton; 23 feet grading 0.68 ounces gold/ton; 27 feet grading 0.89 ounces gold/ton; 85 feet grading 0.93 ounces gold/ton; 45 feet grading 0.27 ounces gold/ton; 19 feet grading 0.33 ounces

The multi-million dollar program underway is rapidly progressing to expand high grade gold zones within the 172 square mile Harmony Gold Property

Continuing successful results combined with responsible development plans will lead to a permit application for substantial gold production.

old/ton; and 25 feet grading 0.34 ounces gold/ton. This initial drilling has demonstrated that a predominance of the gold in the Specogna Deposit occurs within stockwork and vein zones, secondly that there will be an increase in gold grade for the overall Deposit and thirdly that high grade bonanza gold zones are located throughout the Deposit over a broad range of depths.

During 1996 the Company plans to drill off the balance of the Specogna Deposit to enable mineable gold reserves to be configured and calculated. Representative sample material will also be collected during this program for definitive metallurgical testing.

In addition, during 1995, extensive regional geochemical sampling in conjunction with geological mapping was completed. Also, to trace favourable structures and alteration zones, a high resolution airborne geophysical survey was undertaken totalling 2,700 miles of flight lines over substantially the entire property. This exploration work identified several prospective environments for hosting additional gold deposits outside the Specogna Deposit area.

During 1996, aggressive exploration of prospective areas is planned to ready several gold deposit targets for drilling.

Misty's claims now cover approximately 16 miles of strike length of the key Sandspit Fault, 9 miles of the Specogna Fault as well as other parallel and subsidiary fault structures. Claims have also been staked to cover 6 miles of strike length of the parallel Rennell Sound Fault system to the west.

Misty owns 100 percent of the entire Harmony Project claim holdings except for a single property option agreement to earn a 75 percent interest in 8 mineral claims which cover a gold showing located 4 miles south of the Specogna Deposit.

ENVIRONMENTAL AND SOCIOECONOMIC

The total population of the Queen Charlotte Islands is just over 6,000, of which approximately one-third are Haida Nation people. There are two main Haida Bands – the Masset Band and the Skidegate Band. The community of Masset, at the northern end of Graham Island, is the largest town (1,500 people) and Queen Charlotte City (1,000 people) is the administrative centre. Port Clements (600 people) is predominantly a logging town and the commercial airport is located in Sandspit (600 people). Another paved airstrip is also located at Masset.

Logging is the main industry on the Islands and the largest operators are MacMillan Bloedel (Graham Island) and TimberWest Forest Industries (Moresby Island). Fishing is important to the Haida, and to commercial and recreational operators, while government and tourism services account for the other main business activities.

Recently, both the forestry and fishing industries on the Islands have declined dramatically at the same time as the former largest employer on the Islands, the Canadian Department of Defence, is closing down its operations. The unemployment rate in the region currently exceeds 50 percent.

The principal factors which have delayed development of the Specogna Deposit to date were environmental concerns about potential acid rock drainage and the low metallurgical recoveries from the low grade gold ore. However, review of the extensive historical data base indicates that both the metallurgical and environmental difficulties may have resulted from the former operator's assumption that the Deposit was best developed as a large scale, open pit mine treating low grade ore.

Previous metallurgical test work has shown that the amount of gold not recovered by processing is fixed irrespective of the grade, suggesting that gold recoveries should improve with the processing of higher grade material. Also, previous test work on samples composited to represent the low grade ore, expected from the large open pit planned at that time, may not have properly evaluated the fact that there are at least two main ore types; low grade disseminated ore and higher grade vein type ore. Recoveries of gold from low grade ore were below 80 percent; however, laboratory scale test work that was completed on high grade samples produced gold recoveries in excess of 90 percent. Importantly, visible free gold has been logged over most of Misty's higher gold grade drill hole intersections.

In the past, former industrial proponents have apparently not always worked in cooperation and consultation with local community members. Previously proposed mine plans did not mitigate concerns of potential acid rock drainage from waste rock sites located in relatively close proximity to the Yakoun River, an important salmon resource. Hence, that mine plan was a concern of First Nation and other community people. Nevertheless, local citizens have never prevented any developmental work and the Specogna Deposit area has been extensively logged.

Misty has initiated base line environmental monitoring studies, including wildlife, fisheries, climate, hydrology and vegetation. These studies commenced prior to the exploration fieldwork in order to establish Misty's desire for the utmost integrity of the data base and in order to establish a firm foundation for future mine permitting.

Misty's exploration and development team is confident that in the months ahead, as continuing successful exploration results are returned, an environmentally responsible development will be planned that will maximize benefits to the region. This will be accomplished through an open, cooperative consultation process with local community members. Proven, conventional mining methods applicable to epithermal gold production, combined with Misty's modern progressive mining attitude, will ensure proper environmental stewardship.

FINANCIAL

During 1995 a strong financial base was achieved by Misty Mountain Gold Limited. Effective November 6, 1995, all of the necessary approvals were received by the Company to merge with Romulus Resources Ltd. After consolidating its share capital on a 10 old for 1 new basis, the Company issued 4,343,158 post-consolidation common shares in consideration for all of the outstanding common shares of Romulus.

This business combination has been accounted for as a reverse takeover and the purchase method of accounting has been applied. Consequently, the financial statements reflect the results of operations and changes in the financial position of Romulus, the legal subsidiary, for the year ended December 31, 1995, combined with those of New Misty, the legal parent, from November 6, 1995, being the effective date of the business combination.

During 1995, $2.55 million was expended on Harmony Project exploration work and a net of $0.57 million was expended on corporate operations. At year end, working capital was $3.99 million and Misty is debt free. The Company has available tax pools and operating losses for tax purposes in excess of $60 million which may be utilized to reduce future potential taxable income from the Harmony Project.

During December 1995 the Company received private placement subscriptions for 1,053,325 special warrants at $4.00 per special warrant for a total offering of $4.2 million. In connection with this offering the Company agreed to pay agents' fees totalling $138,965.

The special warrants will be converted into units comprised of a flow-through or non-flow-through common share and one share purchase warrant upon issuance of prospectus receipts by the regulatory authorities. On April 2, 1996, the Company filed a preliminary prospectus to qualify the common shares and share purchase warrants for issuance.

At December 31, 1995, there were 7,713,977 shares issued. In addition, there were outstanding 728,262 share purchase options at prices averaging $3.66 per share and share purchase warrants totalling 1,005,000 at prices averaging $2.92 per share.

Exercise of these share purchase options, share purchase warrants, and the warrants attached to the December 1995 private placement will result in a $9.6 million cash infusion to the Company upon the issuance of a further 2,724,087 common shares.

To April 8, 1996, 409,712 share purchase options and 7,500 of the warrants attached to the special warrants were exercised for total proceeds of $1.48 million.

During 1995, Old Misty incurred expenditures totalling $329,374 with respect to certain mineral properties located in Peru. However, in order to focus all resources on the Harmony Gold Project, the Company sold its Peruvian property rights to El Misti Gold Ltd. for 1,317,500 of its common shares and a 1% Net Smelter Return Royalty, to a maximum of $2 million from any production revenues earned. Misty has granted an option to two directors to purchase its El Misti Gold shares for $0.375 per share until October 30, 1997.

In February 1996, Misty purchased for $450,000 the Net Smelter Returns Royalty held by BHP Minerals Canada Ltd. on claims which cover the Specogna Deposit. The Royalty was a sliding scale royalty varying from 0.5% to 5.0% over a gold price range from US $300 to US $800 per ounce. Misty Mountain Gold Limited now owns a 100% interest in all claims covering the Specogna Deposit area with no underlying interest whatsoever.

ACKNOWLEDGEMENTS

The Company's successes in 1995 were the result of a dedicated, skilled and cohesive team of employees and consultants. Misty's team members take pride in the contributions they are making to British Columbia. Their spirit and tenacity, combined with a Project the calibre of Harmony is the recipe for growth in the months ahead.

Our sincere gratitude is extended to our loyal shareholders. Without your support the Company's accomplishments would not have been achieved. We look forward to all shareholders participating in the rewards created from the very substantial gold resources being developed by Misty Mountain Gold Limited.

ON BEHALF OF THE BOARD

Robert G. Hunter
Chairman and Chief Executive Officer

Robert A. Dickinson
President and Chief Financial Officer

Consolidated Balance Sheets

(expressed in Canadian dollars)	*December 31* *1995*	*1994*
ASSETS		
Current		
Cash and cash equivalents	$ 4,265,639	$2,728,164
Amounts receivable	138,491	20,232
	4,404,130	2,748,396
Equipment, net of accumulated amortization of $10,198	80,698	–
Investments and reclamation deposits (note 4)	398,875	4,500
Mineral property interests (note 5) (Schedule 2)	16,533,811	203,506
	$21,417,514	$2,956,402
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 418,789	$ 40,660
Shareholders' equity		
Share capital (note 6)		
Authorized		
100,000,000 common shares without par value		
Issued and outstanding		
7,713,977 (1994 – 4,207,656) common shares	21,270,513	6,695,621
Advances on share subscriptions (note 6(e))	4,074,335	–
Deficit accumulated during the development stage	(4,346,123)	(3,779,879)
	20,998,725	2,915,742
Subsequent events (note 9)		
	$21,417,514	$2,956,402

See accompanying notes to consolidated financial statements

Approved by the Directors:

Robert G. Hunter

Robert A. Dickinson

Consolidated Statements of Changes in Financial Position

(expressed in Canadian dollars)	Inception to December 31, 1995	Years ended December 31 1995	1994	1993
CASH PROVIDED BY (USED FOR)				
Operations				
Loss for the period	$ (4,346,123)	$ (566,244)	$ (949,878)	$(1,205,326)
Items not involving cash				
Amortization	15,198	10,198	–	–
Write-down of mineral property interests	2,325,589	–	526,661	1,083,293
Changes in non-cash operating working capital				
Amounts receivable	(96,113)	(75,881)	3,112	(11,462)
Accounts payable and accrued liabilities	406,485	365,825	(4,062)	(5,086)
	(1,694,964)	(266,102)	(424,167)	(138,581)
Financing				
Issuance of common shares for				
Cash, net of share issue costs	6,117,898	411,267	2,951,750	1,103,307
Mineral property interests	629,695	163,625	191,070	50,000
Business combination (note 3)	14,000,000	14,000,000	–	–
Share issue costs	50,625	–	50,625	–
Settlement of debts	472,295	–	–	–
Advances on share subscriptions	4,074,335	4,074,335	–	–
	25,344,848	18,649,227	3,193,445	1,153,307
Investments				
Equipment	(95,896)	(90,896)	–	–
Reclamation deposits	(49,500)	(45,000)	–	(500)
Mineral property acquisition costs				
Common shares issued	(629,695)	(163,625)	(191,070)	(50,000)
Cash	(252,674)	(5,000)	(138,298)	–
Exploration and development expenditures	(4,360,850)	(2,545,499)	(82,928)	(718,554)
Business combination, net of cash (note 3)	(13,995,630)	(13,995,630)	–	–
	(19,384,245)	(16,845,650)	(412,296)	(769,054)
Increase in cash and cash equivalents	4,265,639	1,537,475	2,356,982	245,672
Cash and cash equivalents, beginning of period	–	2,728,164	371,182	125,510
Cash and cash equivalents, end of period	$ 4,265,639	$ 4,265,639	$2,728,164	$ 371,182

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations and Deficit Accumulated During the Development Stage

(expressed in Canadian dollars)	*Inception to December 31, 1995*	*Years ended December 31* 1995	1994	1993
Interest income	$ 240,568	$ 127,942	$ 82,071	$ 8,753
General and administrative expenses (Schedule 1)	2,261,102	694,186	505,288	130,786
Loss before the following	(2,020,534)	(566,244)	(423,217)	(122,033)
Write-down of mineral property interests	(2,325,589)	–	(526,661)	(1,083,293)
Loss for the period	(4,346,123)	(566,244)	(949,878)	(1,205,326)
Deficit accumulated during the development stage, beginning of period	–	(3,779,879)	(2,830,001)	(1,624,675)
Deficit accumulated during the development stage, end of period	$(4,346,123)	$(4,346,123)	$(3,779,879)	$(2,830,001)
Loss per share		$ (0.12)	$ (0.25)	$ (0.45)
Weighted average shares outstanding		4,863,903	3,804,325	2,652,690

See accompanying notes to consolidated financial statements.

Consolidated Schedules of General and Administrative Expenses

(expressed in Canadian dollars)	*Years ended December 31* 1995	1994	1993
Amortization	$ 10,198	$ –	$ –
Conference and travel	50,777	36,450	–
Consulting	6,548	9,734	24,108
Corporation capital tax	5,974	8,150	–
Legal, accounting and audit	128,019	72,778	26,494
Office and administration	55,834	33,355	18,662
Property investigations	–	157,239	–
Rent	58,823	51,807	22,337
Salaries and benefits	163,581	90,288	19,804
Shareholder communication	157,498	24,596	5,574
Telephone	14,904	10,752	6,531
Trust and filing	42,030	10,139	7,276
	$694,186	$505,288	$130,786

Schedule 1

Consolidated Schedules of Mineral Property Interests

(expressed in Canadian dollars)	*Years ended December 31* *1995*	*1994*	*1993*
Acquisition costs			
Balance, beginning of year	$ 138,298	$ –	$ 122,205
Costs during the year	168,625	329,368	50,000
Fair value of mineral property interests on business combination (note 3)	13,616,181	–	–
Write-down of mineral property interests	–	(191,070)	(172,205)
Balance, end of year	13,923,104	138,298	–
Exploration and development expenditures			
Assays and analysis	253,967	177	30,709
Camp services	111,421	–	24,631
Consulting	–	–	109,454
Drafting	38,399	14,253	8,545
Drilling	621,037	–	357,642
Environmental	93,364	–	–
Equipment rental	205,627	8,080	10,047
Field contractors	53,329	–	–
Freight and transport	36,188	12,109	15,983
Geological and geophysical	478,369	–	38,632
Geotechnical	9,891	–	–
Project engineering	54,601	8,150	–
Property fees	51,454	12,207	46,140
Salaries and benefits	370,445	26,306	68,673
Supplies and consumables	65,112	–	–
Travel and accommodation	102,295	1,646	8,098
	2,545,499	82,928	718,554
Balance, beginning of year	65,208	317,871	510,405
Write-down of mineral property interests	–	(335,591)	(911,088)
Balance, end of year	2,610,707	65,208	317,871
Mineral property interests	$16,533,811	$ 203,506	$ 317,871

Schedule 2

(expressed in Canadian dollars)

1. NATURE OF OPERATIONS

Misty Mountain Gold Limited (the "Company") is incorporated under the laws of British Columbia and its principal business activity is the exploration and development of mineral properties, with its principal mineral property comprising various claims on Graham Island, British Columbia (the "Harmony Gold Property") (note 5(a)).

The underlying value of the Company's mineral properties and the recoverability of the amounts shown for mineral property interests are entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the development of the mineral properties, and upon future profitable production or proceeds from the disposition of the properties.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These financial statements have been prepared in accordance with accounting principles and practices generally accepted in Canada which, except as disclosed in note 10, are also in accordance, in all material respects, with those in the United States. For United States reporting purposes, the Company is considered to be in the development stage and the accompanying financial statements are those of a development stage enterprise.

The consolidated financial statements as at and for the year ended December 31, 1995, include the accounts of the Company and its wholly-owned subsidiaries Romulus Resources Ltd. ("Romulus") and CRC Finance Inc. All significant intercompany accounts and transactions have been eliminated.

Effective November 6, 1995, the Company completed the acquisition of 100% of the outstanding common shares of Romulus. As Romulus shareholders obtained control of the Company through the exchange of their shares of Romulus, the acquisition of Romulus has been accounted for as a reverse takeover. Consequently, the consolidated statements of operations and deficit and changes in financial position reflect the results from operations and changes in financial position of Romulus, the legal subsidiary, for the year ended December 31, 1995, combined with those of Misty Mountain Gold Limited, the legal parent, from November 6, 1995, in accordance with generally accepted accounting principles for reverse takeovers. In addition, the comparative figures presented are those of Romulus, the legal subsidiary.

In these notes to consolidated financial statements, the corporate entity Misty Mountain Gold Limited, prior to the business combination, is referred to as "Old Misty" and after completion of the share consolidation and business combination, is referred to as "New Misty".

(b) Cash equivalents

Cash equivalents are highly liquid investments, such as term deposits with major financial institutions, having original maturities of three months or less, that are readily convertible to contracted amounts of cash.

(c) Equipment

Equipment is recorded at cost less accumulated amortization. Amortization is provided using the declining balance method at annual rates of between 20% and 30%.

(d) Mineral property interests

Mineral property acquisition costs and related exploration and development expenditures are deferred until the property is placed into production, sold or abandoned. These costs will be amortized over the estimated life of the property following commencement of commercial production or written off if the property is sold, allowed to lapse or abandoned.

Mineral property acquisition costs include the cash consideration and the fair market value of common shares issued for mineral property interests. A property acquired under an option agreement or by joint venture, where payments are made at the sole discretion of the Company, is recorded in the accounts at the time of payment.

Administrative expenditures are expensed in the period incurred.

(e) Investments and reclamation deposits

Investments capable of reasonably prompt liquidation are carried at the lower of cost and quoted market value. Investments where the Company has the ability to exercise significant influence are accounted for on the equity basis where the investment is initially recorded at cost and subsequently adjusted for the Company's share of the income or loss and capital transactions of the investee, less provision, if any, for permanent impairment in value. Reclamation deposits are recorded at cost.

(f) Share capital

Common shares issued for non-monetary consideration are recorded at the fair market value based upon the trading price of the shares on the date of the agreement to issue the shares.

The proceeds from common shares issued pursuant to flow-through share financing agreements are credited to share capital and the tax benefits of these exploration expenditures are transferred to the purchaser of the shares.

Costs incurred to issue common shares are deducted from share capital.

(g) Loss per share

Loss per share has been calculated using the weighted average number of common shares outstanding during the year, after restating prior years comparative amounts to reflect the weighted average number of common shares outstanding as if the exchange of Romulus shares into shares of Old Misty (note 3) took place on inception. Fully diluted loss per share has not been presented as the effect on basic loss per share would be anti-dilutive.

(h) Comparative figures

Certain of the prior years' comparative figures have been reclassified to conform to the presentation adopted for the current year.

3. BUSINESS COMBINATION

Effective November 6, 1995, the Company received all of the necessary approvals to complete its agreements to merge with Romulus. The Company issued 4,343,158 post-consolidation common shares in consideration for all of the issued and outstanding common shares of Romulus on the basis of 0.425 post-consolidation common shares of the Company for each common share of Romulus (note 6(b)). As the former shareholders of Romulus obtained control of the Company through the share exchange, this transaction has been accounted for as a reverse takeover and the purchase method of accounting has been applied. Under reverse takeover accounting, Romulus is considered to have acquired Old Misty with the results of Old Misty's operations included in the consolidated financial statements from the date of acquisition. Romulus is considered the continuing entity and consequently, the comparative figures are those of Romulus.

The acquisition has been recorded at the estimated fair value of the consideration given which, under reverse takeover accounting, is the fair value of the total number of shares of Romulus that would have had to be issued in order to provide the same percentage of ownership of the combined company to the shareholders of Old Misty as they have in the combined company as a result of the reverse takeover. The acquisition details are as follows:

Net assets acquired, at fair values	
Cash	$ 4,370
Net working capital	30,074
Investments and reclamation deposits	349,375
Mineral property interests	13,616,181
	$14,000,000
Consideration given for net assets acquired	
Common shares issued	$14,000,000

As the continuing entity is deemed to be Romulus, share capital of Old Misty totalling $54,316,237 has been eliminated as a result of accounting for this combination as a reverse takeover (note 6(b)).

The consolidated statements of operations and deficit and changes in financial position reflect the results of operations and changes in financial position of Romulus, the legal subsidiary, for the year ended December 31, 1995, combined with those of New Misty, the legal parent, from November 6, 1995, being the effective date of the acquisition.

Under reverse takeover accounting principles and the purchase method of accounting, the results of operations of Old Misty are included in the consolidated financial statements of the Company only from the effective date of the acquisition. Accordingly, supplementary financial information presenting the results of operations and changes in financial position of Old Misty for the period from July 1, 1995, being the date following the most recent audited balance sheet of Old Misty, to November 6, 1995, being immediately prior to the effective date of the combination, is presented below.

(a) Consolidated Statements of Operations

	Period from July 1 to November 6, 1995	*Year ended June 30, 1995*
Interest income	$ 3,221	$ 43,564
General and administrative expenses (note 3(d))	281,364	555,714
Loss before the following	(278,143)	(512,150)
Write-down of mineral property interests	–	14,463
Loss for the period	$(278,143)	$(526,613)

(b) Consolidated Statements of Changes in Financial Position

	Period from July 1 to November 6, 1995	*Year ended June 30, 1995*
Cash provided by (used for)		
Operations		
Loss for the period	$(278,143)	$(526,613)
Items not involving cash		
Amortization	6,718	6,040
Write-down of mineral property interests	–	14,463
Change in non-cash operating working capital		
Amounts receivable	(16,633)	18,404
Accounts payable and accrued liabilities	(156,128)	(135,486)
	(444,186)	(623,192)
Financing		
Advances payable	–	(362,392)
Common shares issued for cash, net of issue costs	328,494	1,462,500
	328,494	1,100,108
Investments		
Equipment	–	(14,415)
Investments and reclamation deposits	24,804	(354,178)
Mineral property interests	5,445	(151,360)
	30,249	(519,953)
Decrease in cash and cash equivalents	(85,443)	(43,037)
Cash and cash equivalents, beginning of period	89,813	132,850
Cash and cash equivalents, end of period	$ 4,370	$ 89,813

(c) Consolidated Schedules of Mineral Property Interests

	Period from July 1 to November 6, 1995	*Year ended June 30, 1995*
Acquisition costs	$ –	$ 4,009
Exploration and development expenditures (recoveries)		
Assaying and analysis	–	11,206
Drafting	588	16,575
Geological and geophysical	(6,784)	125,309
Pre-feasibility and feasibility	–	15,168
Supplies and consumables	–	15,021
Travel and accommodation	751	14,072
	(5,445)	197,351
Recoveries and option payments received	–	(50,000)
Net expenditures (recoveries) for the period	$ (5,445)	$ 151,360

(d) Consolidated Schedules of General and Administrative Expenses

	Period from July 1 to November 6, 1995	*Year ended June 30, 1995*
Amortization	$ 6,718	$ 6,040
Conference and travel	14,306	39,641
Directors fees	–	7,500
Legal, accounting and audit	135,704	142,577
Office and administration	15,373	97,094
Salaries and benefits	31,061	146,789
Shareholder communication	51,793	57,949
Trust and filing	26,409	58,124
	$281,364	$555,714

4. INVESTMENTS AND RECLAMATION DEPOSITS

	1995	*1994*
Investment in El Misti Gold Ltd.	$329,374	$ –
Reclamation deposits	69,500	4,500
Other investments	1	–
	$398,875	$4,500

(a) Investment in El Misti Gold Ltd.

During 1995 Old Misty made advances and incurred expenditures totalling $329,374 with respect to the acquisition of and exploration on certain mineral properties located in Peru (the "Peruvian Properties"). In May 1995 Old Misty determined that it would not fund additional expenditures on the Peruvian Properties and as a result, Old Misty's President agreed to assume responsibility to arrange funding for the Peruvian Properties from sources other than Old Misty and that the amounts paid or advanced on behalf of the Peruvian operations will be treated as share capital of a new company.

Pursuant to an assignment agreement dated September 30, 1995, in November 1995 Old Misty transferred its rights to the Peruvian Properties to El Misti Gold Ltd. in exchange for 1,317,500 common shares of El Misti Gold Ltd. at an agreed price of $0.25 per share and a 1% net smelter returns royalty, to a maximum of $2 million, from revenues earned from the Peruvian Properties.

In addition, Old Misty granted an option to certain affiliates of Old Misty's President and Chairman, who continue to be directors of the Company, to purchase the shares of El Misti Gold Ltd. held by the Company at a price of $0.375 per share until October 30, 1997.

(b) Other investments

Prior to November 6, 1995, Old Misty had written down its other investments to a nominal amount.

5. MINERAL PROPERTY INTERESTS

	1995	*1994*
Harmony Gold Property	$16,533,811	$203,506

(a) Harmony Gold Property

The Harmony Gold Property (the "Property") is located in the Skeena Mining Division on Graham Island, Queen Charlotte Islands – Haida Gwaii, British Columbia. The Company's initial 100% interest in the Property was acquired by Old Misty in 1977 for $450,000 cash and 300,000 shares of the Company.

During 1979 Old Misty sold a 50% interest in the Property which it subsequently reacquired in 1987 for total costs of $5,400,000, the issue of 1,500,000 common shares of the Company, and a third party net smelter returns royalty graduated from 0.5% to 5% covering a gold price range from U.S. $300 to U.S. $800 per ounce. See note 9(c).

In 1990 and 1991 project plans were considered, but as a result of the then current economic conditions and the results of an evaluation of the project plans, the Company elected not to proceed with further development at that time, and reclamation and clean-up work of the site was undertaken. Old Misty, accordingly, wrote down its accumulated acquisition costs and deferred exploration and development expenditures incurred on the Property by approximately $30,300,000 to $1,000 in 1991 and expensed the minimal expenditures incurred thereafter.

During 1993 and 1994 a group of investors reviewed all technical information on the Property and concluded that, with an alternative exploration and mining approach, combined with a restructuring of Old Misty's debt and capital structure, it could be possible to economically develop the Property. Accordingly, Old Misty recommenced deferring exploration and development expenditures incurred during that period.

In November 1994 Old Misty granted Romulus an option to earn up to a 50% interest in the Property by acting as operator, making certain option payments and expending up to $15 million on exploration and development expenditures on the Property prior to June 30, 2006. To November 6, 1995, being the effective date of the business combination of Old Misty and Romulus (note 3), Romulus made an option payment of $45,000 to Old Misty and incurred approximately $2 million on exploration and development expenditures.

During 1994 and 1995 Romulus acquired additional claims in the region by staking, acquisition through the issuance of 100,000 common shares of Romulus, and entering into an option agreement that requires, over four years, total cash payments of $25,000 and cumulative exploration expenditures totalling $150,000.

(b) Brenda Property

In 1993, Romulus entered into agreements to earn up to a 100% interest in twenty mineral claims located in the Omineca Mining Division of British Columbia. During 1994, Romulus terminated its agreements based on insufficient evidence to warrant further exploration and wrote-off all related costs.

6. SHARE CAPITAL

(a) Authorized

The Company's authorized share capital consists of 100,000,000 common shares without par value.

During 1995, Old Misty consolidated its authorized share capital on a 10 old for 1 new basis and subsequently increased its authorized share capital from 10,000,000 common shares without par value to 100,000,000 common shares without par value.

(b) Issued and outstanding

A continuity of the Company's issued and outstanding share capital, commencing with Romulus from incorporation on July 9, 1969, to November 6, 1995, being the effective date of the reverse takeover, is as follows:

	Number of shares	*Amount*
Romulus		
Issued during		
1969 to 1972 Cash	1,171,302	$143,196
1969 to 1972 Mineral property interests	750,000	75,000
1973 Cash	174,900	43,725
1974 Cash	88,100	17,590
1981 Cancellation of escrow shares	(750,000)	–
	1,434,302	279,511
Consolidation of shares on a six old for one new basis	(1,195,252)	–
Romulus balance, December 31, 1981	239,050	279,511
Issued during		
1988 Cash	1,250,000	82,500
1988 Settlement of debts	1,297,000	324,250
1989 Cash	148,000	40,200
1990 Cash, net of share issue costs	892,000	495,363
1990 Mineral property interests	150,000	87,500
1991 On settlement of debts	929,634	$ 148,045
1992 Cash	845,000	829,000
1992 Mineral property interests	50,000	62,500
1993 Cash	1,056,000	1,056,000
1993 Finders' fees	47,342	47,307
1993 Mineral property interests	50,000	50,000
Romulus balance, December 31, 1993	6,954,026	3,502,176
Issued during the year for		
Cash, net of share issue costs	2,731,000	2,951,750
Mineral property interests	150,000	150,000
Finders' fees	65,342	91,695
Romulus balance, December 31, 1994	9,900,368 (i)	6,695,621
Issued during the period January 1 to November 6, 1995, for		
Cash on exercise of share purchase options	10,000	17,500
Cash on exercise of share purchase warrants	258,600	389,067
Mineral property interests	50,000	85,000
Romulus balance, November 6, 1995, prior to the arrangement with Old Misty	10,218,968	7,187,188
Exchanged into post-consolidation Misty common shares at 0.425 shares for each Romulus share (note 3)	(5,875,810)	–
Old Misty shares held by Romulus shareholders, at time of business combination (note 3)	4,343,158	$7,187,188
Old Misty		
Old Misty balance, June 30, 1995	32,395,693	$61,174,931
Issued during the period July 1 to November 6, 1995, for		
Cash, net of share issue costs	1,000,000	328,494
Consolidation of shares on a 10 old for 1 new basis	(30,056,124)	–
Old Misty balance, November 6, 1995, prior to arrangement with Romulus	3,339,569	61,503,425
Adjustments to record business combination		
Reduction in the book value of Old Misty's share capital to that of Romulus (note 3)	–	(54,316,237)
	3,339,569	7,187,188

(i) Equivalent to 4,207,656 Old Misty shares after business combination

	Number of shares	Amount
Shares of New Misty issued to acquire shares of Romulus (above), recorded at fair value (note 3)	4,343,158	$14,000,000
New Misty balance November 6, 1995, after business combination	7,682,727	21,187,188
Issued during the period November 7 to December 31, 1995, for		
Cash on exercise of share purchase options	10,000	4,700
Mineral property interests	21,250	78,625
New Misty balance, December 31, 1995	7,713,977	$21,270,513

(c) Share purchase options

Share purchase options outstanding at December 31, 1995, are as follows:

Expiry date	Price per share	Number of shares
April 22, 1996	$4.11	217,600
August 26, 1996	$0.47	36,112
January 22, 1997	$3.20	167,500
April 22, 1997	$6.20	7,500
May 27, 1997	$5.20	7,500
September 11, 1997	$3.17	42,500
November 16, 1997	$4.00	249,550
Total share purchase options		728,262

During the year ended December 31, 1995, all of the outstanding Old Misty share purchase options were consolidated on a 10 old for 1 new basis, with the related exercise price per share increased from $0.32, $0.52 and $0.62 to $3.20, $5.20 and $6.20, respectively.

Of the share purchase options exercisable at $1.75 per share granted by Romulus and outstanding at December 31, 1994, a total of 10,000 were exercised and 33,000 were cancelled prior to the arrangement with Old Misty. All of the share purchase options granted by Romulus that were outstanding at the time of the arrangement with Old Misty were converted into share purchase options of the Company on the basis of 0.425 per share purchase option, with the related exercise price per share increased from $0.20, $1.35 and $1.75 to $0.47, $3.17 and $4.11, respectively. Subsequent to the arrangement with Old Misty, a total of 10,000 of the $0.47 share purchase options were exercised. In addition, New Misty granted 249,550 share purchase options to directors and employees at an exercise price of $4.00 per share that expire November 16, 1997. See note 9(b).

(d) Share purchase warrants

Share purchase warrants outstanding at December 31, 1995, are as follows:

Expiry date	Price per share	Number of shares
July 11, 1996	$6.00	100,000
July 6, 1997	$4.00	50,000
December 15, 1998	$2.50	855,000
Total share purchase warrants		1,005,000

During the year ended December 31, 1995, Old Misty issued 500,000 share purchase warrants exercisable at $0.40 per share prior to July 6, 1997. These share purchase warrants and all other outstanding Old Misty share purchase warrants were consolidated on a 10 old for 1 new basis, with the related exercise price per share increased from $0.25, $0.40 and $0.60 to $2.50, $4.00 and $6.00, respectively.

Of the share purchase warrants previously issued by Romulus and outstanding at December 31, 1994, a total of 235,250 at $1.50 per share and 23,350 at $1.55 per share were exercised and converted into common shares of Romulus prior to the arrangement with Old Misty. The remaining 775,150 Romulus share purchase warrants outstanding at December 31, 1994, expired unexercised.

(e) Advances on share subscriptions

During December 1995 the Company received private placement subscriptions for 1,053,325 special warrants at $4.00 per special warrant for a total offering of $4,213,300. In connection with this offering, the Company agreed to pay agents' fees totalling $138,965, which have been accrued in accounts payable and accrued liabilities at December 31, 1995.

The 1,053,325 special warrants are composed of 664,075 special warrants convertible into one common share and one non-transferable share purchase warrant that entitles the holder to purchase one additional common share at $4.00 per share; 326,750 flow-through special warrants which are convertible into one flow-through common share and one non-transferrable share purchase warrant with the same terms as aforementioned; and 62,500 special warrants convertible into flow-through shares only.

The special warrants will be converted into units comprised of a flow-through or non-flow-through common share and share purchase warrant upon issuance of prospectus receipts by the regulatory authorities. Should that not occur by May 27, 1996, the Company agreed to issue, as a bonus, 0.1 common shares for each special warrant held. See note 9.

7. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in note 4(a), at December 31, 1995, amounts receivable includes $30,000 due from, and accounts payable and accrued liabilities includes a total of $94,662 (representing actual expense reimbursements at cost) due to, companies with common directors and officers.

8. INCOME TAXES

To December 31, 1995, the Company has available tax pools and operating losses for tax purposes in excess of $60,000,000 which may be carried forward and utilized to reduce future taxable income generated from the Harmony Gold Property. The potential income tax benefits related to these items have not been reflected in the accounts as there is no virtual certainty that the benefits will be realized. These amounts do not include certain of the Company's exploration and development expenditures renounced to investors under flow-through share financing arrangements.

9. SUBSEQUENT EVENTS

(a) Special warrant private placement

In February 1996 the Company received the required approvals for the private placement described in note 6(e) and on April 2, 1996, the Company filed a preliminary prospectus with the Canadian regulatory authorities to qualify the common shares and share purchase warrants for issuance.

(b) Share purchase options and special warrants

Subsequent to December 31, 1995, 275,712 share purchase options and 7,500 of the special warrants, that were outstanding at year-end, were exercised for total proceeds of $988,957.

(c) Harmony Gold Property royalty

In February 1996 the Company purchased the third party net smelter returns royalty on the Harmony Gold Property for $450,000.

10. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

As disclosed in note 2(a), these financial statements have been prepared in accordance with Canadian generally accepted accounting principles which conform in all material respects with those of the United States, except for accounting for income taxes and disclosure in the statement of changes in financial position.

Under the asset and liability method of United States Statement of Financial Accounting Standards No. 109 ("SFAS 109"), deferred income tax assets and liabilities are measured using enacted tax rates for the future income tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. There is no effect of adopting the provisions of SFAS 109 on the Company's financial statements as the recognition criteria for deferred tax assets has not been met.

Under Canadian generally accepted accounting principles, non-cash transactions are included in the determination of financing and investing activities in the statement of changes in financial position. Generally accepted accounting principles in the United States require exclusion of such activities from the determination of financing and investing activities and require the cash amount of interest and income taxes paid to be disclosed in the statement. As a result, under United States generally accepted accounting principles, the values attributable to shares issues for mineral property interests and the business combination would be excluded from financing and investing activities in the statement. In addition, the Company did not pay any interest or income taxes during the years ended December 31, 1995, 1994 and 1993.

Auditors' Report

TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of Misty Mountain Gold Limited (a company in the development stage) as at December 31, 1995 and the consolidated statements of operations and deficit accumulated during the development stage and changes in financial position for the years ended December 31, 1995 and 1993, and from inception to December 31, 1995. 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 financial position of the Company as at December 31, 1995 and the results of its operations and the changes in its financial position for the years ended December 31, 1995 and 1993, and from inception to December 31, 1995, in accordance with generally accepted accounting principles in Canada. As required by the Company Act (British Columbia), we report that, in our opinion, these principles have been applied on a consistent basis.

The financial statements as at December 31, 1994 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated March 17, 1995.

KPMG Peat Marwick Thorne

Chartered Accountants

Vancouver, Canada
March 1, 1996, except as to note 9(a), which is as of April 2, 1996

Corporate Information

OFFICERS

Robert G. Hunter
Chairman and Chief Executive Officer

Raymond J. Soper
Vice-Chairman

Robert A. Dickinson
President and Chief Financial Officer

Jeffrey R. Mason
Secretary/Treasurer

DIRECTORS

David J. Copeland
Scott D. Cousens
Robert A. Dickinson
Robert G. Hunter
Jeffrey R. Mason
Aziz Shariff
Robin Slaughter
Raymond J. Soper
Ronald W. Thiessen

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BANK

Canadian Imperial Bank of Commerce
400 Burrard Street
Vancouver, British Columbia
Canada V6C 3A6

LISTED

The Toronto Stock Exchange (MGL)
The Vancouver Stock Exchange (MGL)

CAPITALIZATION

(at April 8, 1996)

Common shares authorized	100,000,000
Issued shares	8,131,189
Fully diluted shares	11,483,889

ANNUAL GENERAL MEETING:

The Annual General Meeting of the Shareholders of Misty Mountain Gold Limited will be held at 2:00 pm on June 6, 1996, Boardroom, Suite 930 – 800 West Pender Street, Vancouver, British Columbia, V6C 2V6.

FOR FURTHER INFORMATION CONTACT:

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