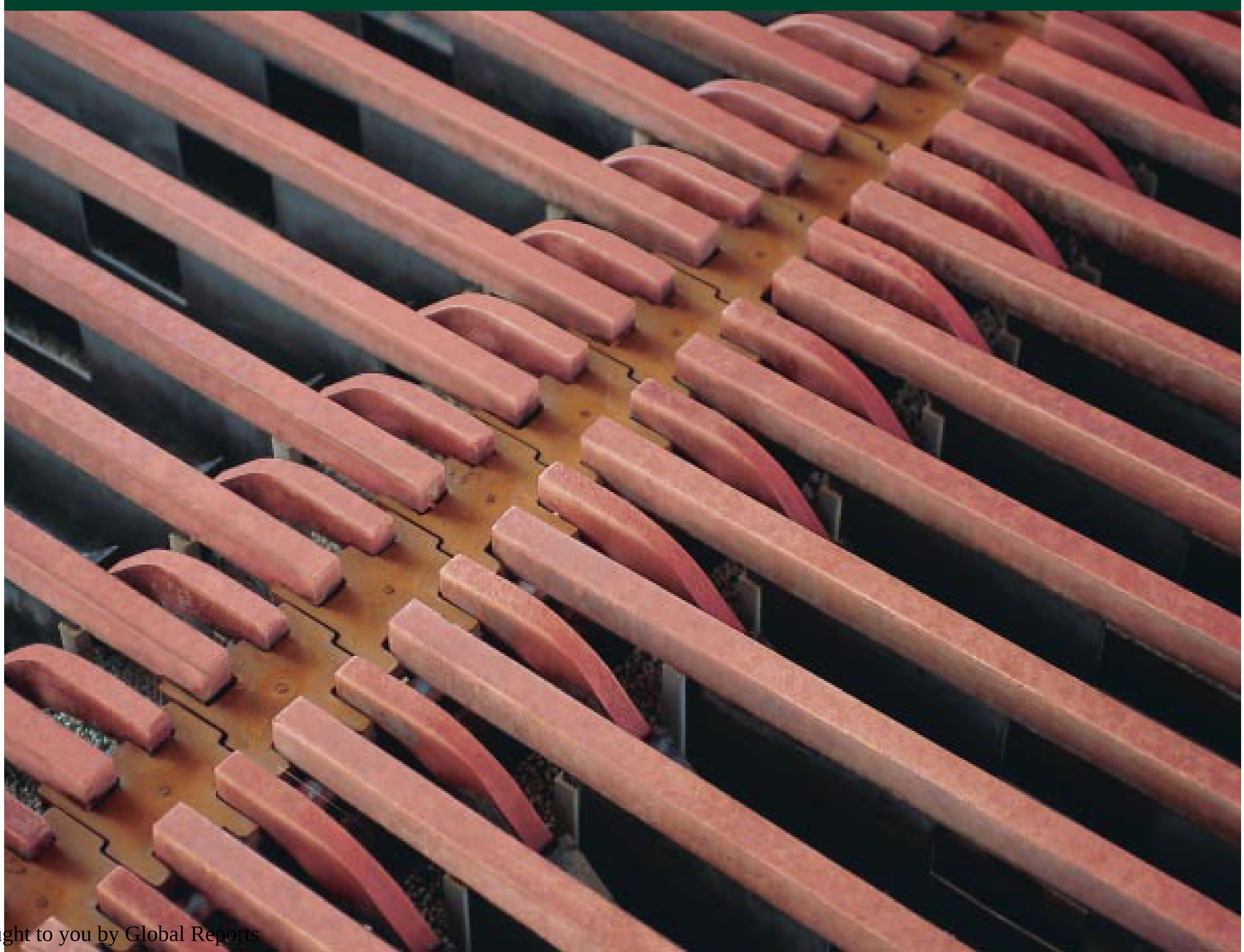
INDOCHINA GOLDFIELDS LTD.

1997 Annual Report



# Production Plans and Prospects

*Indochina Goldfields Ltd.*

Indochina Goldfields Ltd. has a solid portfolio of near-production and developmental-stage mineral projects in the Asia-Pacific region.

Production will commence in 1998 at the company's major new SX-EW copper mine at the Monywa complex in Myanmar, which is destined to become one of the largest copper producers in Asia. Monywa's Phase I Sabetaung & Kyisintaung Mine is designed to produce 55 million pounds of cathode copper a year. Following completion of the Phase II expansion, planned for the nearby Letpadaung deposit, the Monywa complex will be capable of producing a total of 330 million pounds of copper a year.

Indochina Goldfields has an 86% interest in the Bakyrchik gold mine in Kazakhstan. With a resource estimated at more than 13 million ounces, Bakyrchik is one of the world's largest, undeveloped gold deposits.

Indochina Goldfields is the largest shareholder in Emperor Mines Limited, which owns and operates the Emperor Gold Mine in Fiji. Indochina Goldfields is also pursuing its own exploration projects in Indonesia, Thailand, South Korea and Myanmar. The company has defined a number of targets that have considerable economic potential. Many of these prospects have been advanced to the drilling stage and are scheduled for testing in 1998.

**CONTENTS**



*Cover: Pure copper forms on a bank of electrowinning cathodes in the SX-EW pilot plant at the Monywa project.*

# Summary of Highlights

***Indochina Goldfields Ltd.***

### Monywa Copper / Myanmar

Project financing of US$90 million completed for construction of Phase I Sabetaung & Kyisintaung (S&K) Mine.

Construction of S&K Mine started in July. Production to begin in 1998.

Mineable reserves for S&K Mine expanded to 1.6 billion pounds of copper.

A resource and mining study of Phase II Letpadaung deposit increased mineable reserves by 90% to eight billion pounds.

### Financial Highlights

Private placement of five million special warrants completed raising CDN$90 million.

### Bakyrchik Gold / Kazakhstan

Feasibility study completed, outlining Phase I annual production of 125,000 ounces of gold at a cash cost of approximately US$200 an ounce.

Ownership restructuring of Bakyrchik gold mine completed, expanding Indochina Goldfields' combined direct and indirect interest in the project to 86%.

### Exploration in Asia

Three sixth-generation Contracts of Work signed for mineral exploration on three million hectares in Northeast Kalimantan, Indonesia.

Ten Special Prospecting Licenses and two additional exploration concessions granted in Thailand.

# Indochina Goldfields' Project Locations

**BAKYRCHIK GOLD MINE / KAZAKHSTAN**

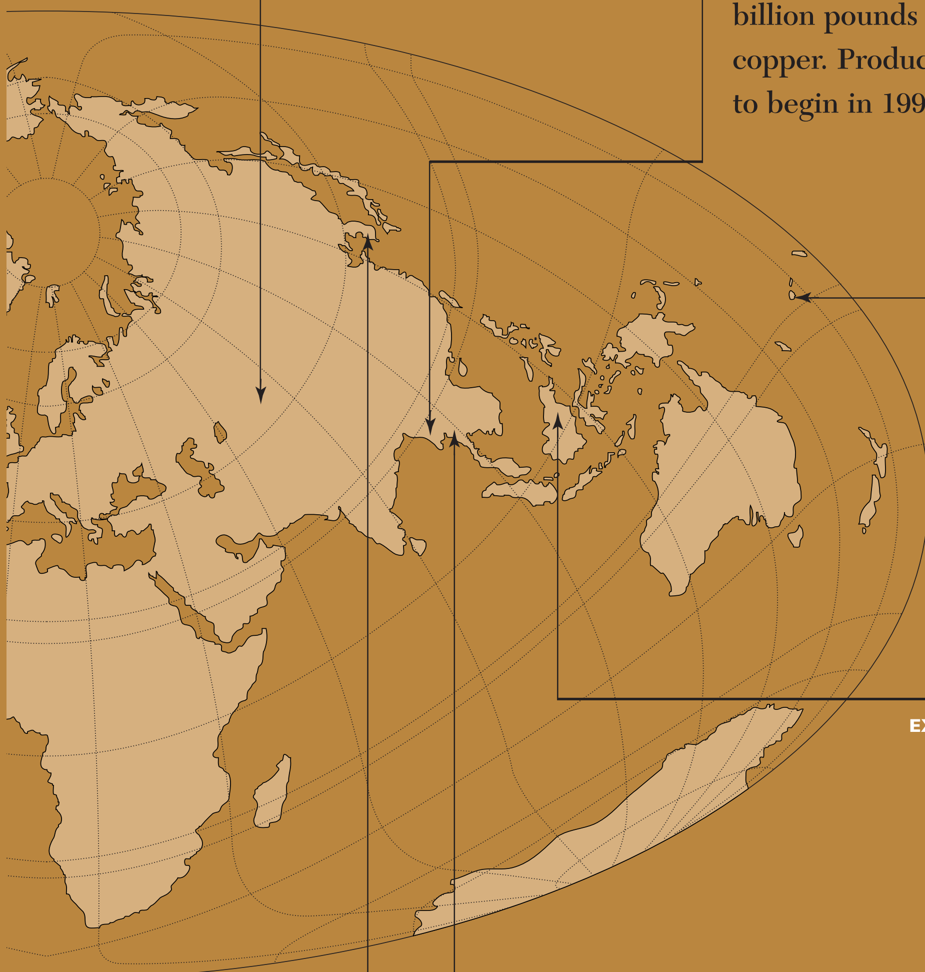
An 86% interest in the Bakyrchik gold project, which contains a drill-indicated resource of more than 13 million ounces.

**MONYWA COPPER PROJECT / MYANMAR**

A 50% interest in the Monywa copper project, which has a reserve of 9.6 billion pounds of copper. Production to begin in 1998.

**EXPLORATION / MYANMAR**

Mineral concessions covering approximately 4,282 square kilometres.



**EMPEROR GOLD MINE / FIJI**

A 15% equity interest in Emperor Mines Limited, whose mine produced 122,000 ounces of gold in 1997.

**EXPLORATION / INDONESIA**

A 90% interest in three Contracts of Work, providing exploration rights to three million hectares in Kalimantan. Drilling is underway.

**EXPLORATION / THAILAND**

Ten Special Prospecting Licenses. Drilling is scheduled in 1998.

**EXPLORATION / SOUTH KOREA**

A 90% interest in 7,290 hectares of exploration ground. Several gold prospects will be drill tested in 1998.

# Letter to Shareholders

*of Indochina Goldfields Ltd.*

Indochina Goldfields completed its first full year as a publicly traded company in 1997. Our company now stands at the threshold of its emergence as a globally significant metal producer–a landmark development that will be achieved in 1998.

The past year was a turbulent time for the mining industry in general and one that none of us in the business will forget. Like virtually all metal mining companies we were buffeted by market forces and negative investor sentiment beyond our control. As a result, today, beneath the surface there exists enormous hidden value to be realized in the medium to long term.

During the fourth quarter of 1997, the management of Indochina Goldfields thoroughly evaluated the company's mining properties and related assets. Faced with the dramatic drop in the price of gold during the year, and the subsequent decline in gold-related equities, we decided in early 1998 that the carrying values of our gold properties should be written down. We announced a total write-down of US$90.3 million, of which US$77.9 million is for the Bakyrchik gold mine and our shareholding of BKG Resources PLC, and US$12.4 million is for shares of Emperor Mines Limited.

One of our primary goals is to reduce risk and create opportunity out of adversity. In late 1997, with no recovery in the price of gold in sight, we reviewed Bakyrchik's status and decided to place the mine on a care and maintenance program. In a related transaction, we benefited from the collapsing gold market through the sale of a gold-hedging position initially established to facilitate construction financing for the mine. With the gold price at US$278/ounce in January 1998, we sold one half of our million-ounce put-option position to recover the entire US$14 million cost. We subsequently closed out the remaining options at approximately US$290/ounce, for a total net profit of US$10.4 million.

After acknowledging our disappointment with the performance of gold through 1997, we take note of some of our achievements in several key areas of endeavour. We are particularly pleased to report on the substantial progress we made toward our goal of becoming an important producer of copper and gold in the Asia-Pacific region.

Our accomplishments included:

➛ The project financing and initiation of construction of the Phase I mine at the Monywa Copper Complex in Myanmar. A successful start-up this year will complete our transition from explorer to producer.

➛ The doubling of mineable reserves at Monywa's Phase II Letpadaung deposit, to more than eight billion pounds of copper metal in-situ, establishing it as one of the largest copper deposits in Asia.

➛ The acquisition of the majority interest and control of the Bakyrchik gold mine in Kazakhstan, one of the largest, proven, undeveloped gold resources in the world.

➛ The advancement of the company's most promising exploration properties from initial reconnaissance to the drilling stage.

These achievements occurred during a period of declining commodity prices, collapsing share prices and a major fraud involving an unrelated exploration company – a succession of negative developments which rocked the entire industry. In February 1997, prior to the Bre-X debacle, we were fortunate to raise CDN$90 million through the private placement of five million special warrants at a share price of CDN$18. The proceeds from this sale are being used to advance the Monywa project toward production and to sustain our exploration efforts.

We concentrated much of our effort in 1997 on the development of the Monywa copper project. Construction of the Phase I S&K Mine, based on the adjacent Sabetaung and Kyisintaung deposits, is now approaching completion. In terms of size, production capacity and potential cash flow, the Monywa project is exceeding our expectations. Monywa's cash costs will be in the lower quartile for the entire copper industry. The mine complex will truly be a company-builder. With production set to start in mid-1998, the S&K Mine will establish Indochina Goldfields among the ranks of significant copper producers. With the equity markets all but dried up for resource companies by late 1997, cash flow from operations is now more important than ever for long-term success in this industry. The cash flow from Monywa's copper revenue stream will help to underwrite the future growth of our company.

The Phase II expansion of the Monywa project looks even more promising in terms of generating value. The enormity of the Letpadaung discovery is only now becoming apparent as we begin to finalize scoping studies and financial models for future production. Located six kilometres south-east of the S&K Mine, Letpadaung has emerged as one of the largest copper deposits in Asia, containing more than 12 billion pounds of copper metal in resource and eight billion pounds as a mineable reserve.

In September, Indochina Goldfields completed the acquisition of a majority interest in the Bakyrchik gold mine in Kazakhstan through a series of transactions and arrangements with the Government of Kazakhstan and our joint-venture partner, BKG Resources. Indochina Goldfields now owns 80% of the project directly, plus an additional 6% indirectly through a 28% equity interest in BKG Resources. As operator of the joint venture, we are directing all planning and development of the project.

Although direct development work at the Bakyrchik site has been temporarily suspended, the company is continuing to advance the project and gain experience with a proprietary, hydro-metallurgical process which has shown great promise in its ability to recover gold from the complex Bakyrchik ores at a significantly lower cost than conventional technology. Trial runs with the new pilot plant have been extremely encouraging.

Going forward, both the Monywa copper project and the Bakyrchik gold mine represent very large, long-lived assets with the capability to generate significant, long-term cash flows for Indochina Goldfields. Collectively, the in-ground value for the company's share of just the currently proven mineable portion of these two assets exceeds US$4 billion. For our management team, the challenge at hand is to convert these mineral deposits, through development and production, into value for our shareholders.

Indochina Goldfields remains committed to exploration. Our exploration team, led by Doug Kirwin, has been successful in defining what we believe will prove to be very significant gold discoveries in Indonesia, Myanmar, Thailand and South Korea. Many of the prospects we have defined exhibit striking similarities to important gold deposits in the region and are of sufficient merit to warrant immediate exploratory drilling. These promising areas of gold mineralization are scheduled for drilling in the second half of 1998.

Indochina Goldfields continues to enjoy a strong balance sheet. We are well funded to meet our objectives for 1998. As the company's financial projections are based on current low commodity prices, we are not dependent on improved metal markets for our financial health – although it is encouraging to note optimistic forecasts which predict a trend to higher gold and base-metal prices. We will continue to experience exceptional leverage to metal prices, in particular to copper. We believe that the share prices within the resource industry are near the bottom of a cycle. Current market conditions create an opportunity for us to seize undervalued or unrecognized opportunities.

In closing, we would like to direct your attention to the people who have built, and are continuing to build, Indochina. Together, they are an extraordinary, talented and hard-working team. With their support, the Year of the Tiger will see us gain confidence in our rock solid assets.

Sincerely,

Signed: Robert M. Friedland

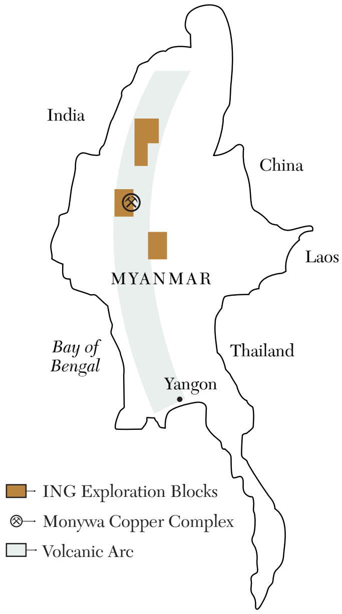
ROBERT M. FRIEDLAND
*Chairman*

Signed: R. Edward Flood

R. EDWARD FLOOD
*President*

*May 8, 1998*

Annual production of 55 million pounds of copper scheduled to begin in 1998 at Phase I S&K Mine at Monywa.




# Monywa Copper Project

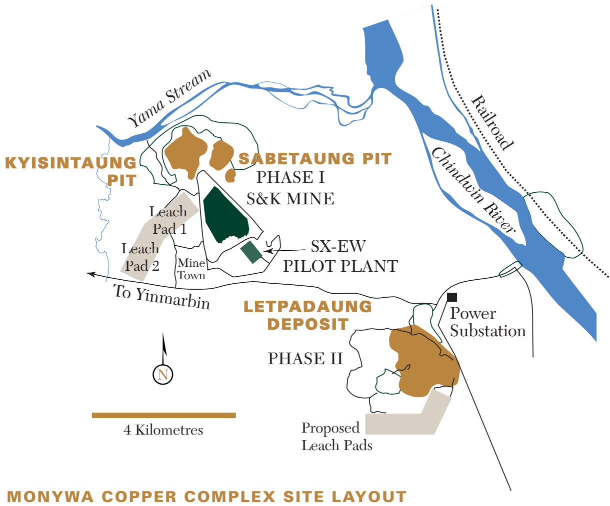
*Monywa, Central Myanmar*

**Overview /** The production of copper from the first phase of the Monywa Copper Complex in West-Central Myanmar will begin in the second half of 1998. The Monywa project, being developed by Indochina Goldfields with its 50% joint-venture partner, Mining Enterprise No. 1, will rank as one of the largest producers of copper in Asia once both phases of the project have been developed; it also will be among the world's lowest-cost copper mines.

The Monywa production plan, to be implemented in two phases, will involve the eventual development of three adjacent and geologically-related copper deposits. Phase I production will begin at the previously mined Sabetaung open pit. Construction of the Phase I S&K Mine – named for the twin deposits, Sabetaung and Kyisintaung– was started in July 1997 and the mine initially will produce at a rate of 25,000 tonnes of cathode copper (55 million pounds) a year. The second phase of the project will develop the nearby Letpadaung deposit, where construction is expected to begin upon successful completion of project financing. Letpadaung is scheduled to produce an additional 125,000 tonnes of copper (275 million pounds) a year.

The copper-bearing ore at the Monywa project is amenable to low-cost, efficient extraction using an acid leaching and solvent extraction-electrowinning (SX-EW) process. This widely used process has been proven effective at Monywa through the operation of an on-site pilot plant which has produced approximately one tonne of LME-grade copper per day over the past two years from a variety of ore sizes and classifications. Overall recovery of 81% of total copper is projected for the Phase I S&K Mine and the Phase II expansion at the Letpadaung deposit.

**Phase I Project Financing /** In August 1997 the company and its joint-venture partner awarded contracts to provide a US$90 million project loan for financing, construction and copper marketing for the Phase I S&K Mine at the Monywa complex. The contracts went to a group of Japanese trading houses, including Marubeni Corporation and Nissho Iwai Corporation, as well as Chiyoda Corporation, a Japanese engineering and construction company. Marubeni and the other




MONYWA COPPER COMPLEX SITE LAYOUT

companies responsible for the construction and commissioning have provided completion and performance guarantees regarding the start date, plant capacity and quality of the copper that will be produced at the mine. Marubeni also was awarded a long-term sales contract covering copper that will be produced during the first seven years of operation. Indochina Goldfields retains the right to hedge any of this production.

**Phase I Mineable Reserves & Production Plan /** As development of the first phase of the Monywa project advanced during the past year, pit optimization work was completed by Resource Service Group of Perth, Australia, resulting in a 60% increase in mineable reserves at the Sabetaung deposit. The updated mineable reserve at the S&K Mine is 154.9 million tonnes, grading 0.47% copper. This increased reserve is contained within a measured, indicated and inferred resource of 400 million tonnes, grading 0.36% copper. The results of the study will have a large, beneficial economic impact on operations planned under the first phase of the project. The larger reserve extends the potential life of the Sabetaung pit by five years, to approximately 10 years. This lowers the non-cash cost per pound of copper produced and generates a lower waste-to-ore ratio, which results in a lower cash operating cost per pound of copper produced. The productive life of the S&K Mine is now more than 25 years, assuming a rate of 55 million pounds a year and a cash cost of US$0.48 a pound.

*Modern ore-crushing facility at S&K Mine with 15,000-tonne-per-day capacity.*

**Phase II Mineable Reserves & Production Plan /** Development of the Letpadaung deposit was initiated while the company was in the advanced stages of feasibility work on the S&K Mine. An intensive drilling program conducted through 1996 outlined a deposit with a mineable reserve of 408 million tonnes, grading 0.47% copper. Minproc Engineers of Perth, Australia, and Mineral

## MONYWA COPPER COMPLEX RESERVES AND RESOURCES

### PHASE I / S&K MINE / 0.15% CUT-OFF GRADE

| | Ore (x1000 t) | Grade (% Cu) | Contained Cu (tonnes) | Contained Cu (x1000 pounds) |
|---|---|---|---|---|
| SABETAUNG MEASURED & INDICATED | 66,806 | 0.435 | 290,606 | 640,670 |
| INFERRED | 54,541 | 0.306 | 166,895 | 367,937 |
| KYISINTAUNG MEASURED & INDICATED | 179,000 | 0.403 | 721,370 | 1,590,332 |
| INFERRED | 100,000 | 0.265 | 265,000 | 584,219 |
| TOTAL RESOURCES | 400,347 | 0.361 | 1,443,871 | 3,183,158 |

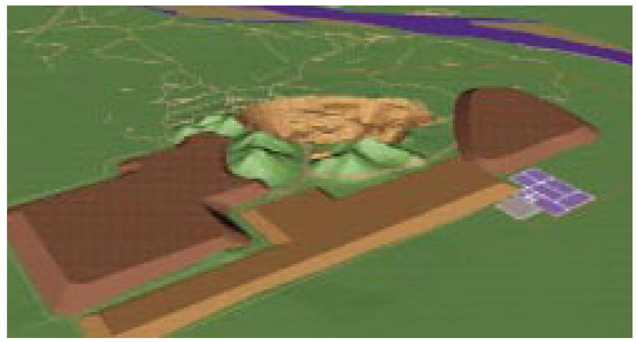
### PHASE II / LETPADAUNG DEPOSIT / 0.10% CUT-OFF GRADE

| | Ore (x1000 t) | Grade (% Cu) | Contained Cu (tonnes) | Contained Cu (x1000 pounds) |
|---|---|---|---|---|
| LETPADAUNG MEASURED & INDICATED | 1,069,000 | 0.40 | 4,276,000 | 9,426,870 |
| INFERRED | 409,000 | 0.31 | 1,267,900 | 2,795,212 |
| TOTAL RESOURCES | 1,478,000 | 0.37 | 5,468,600 | 12,056,076 |

Resource Development Incorporated, of San Mateo, California, were commissioned to complete a feasibility study based upon this resource. The study concluded that the initially defined reserve would support production of 63,500 tonnes of copper (140 million pounds) a year at a cash cost of US$0.43 a pound and a capital cost of approximately US$250 million. The feasibility work also allowed for an expansion of both the deposit and the production rate.

A second study, also contracted to Minproc, was commissioned by Indochina Goldfields to explore the potential for an increase in reserves, an expansion of production rates and an optimization

*Copper ore stockpile at S&K Mine.*



*Schematic design of future Letpadaung Mine. Proposed pit deposit diameter is 2.3 kilometres.*

of the capital estimate. The second study raised mineable reserves at the Letpadaung deposit to 905 million tonnes, grading 0.40% copper, within a larger measured, indicated and inferred resource of 1.48 billion tonnes, grading 0.37% copper. The second study also raised the production rate to 125,000 tonnes (275 million pounds) of copper a year at a lower cash cost of US$0.40 a pound. The increased reserves and revised pit designs generated by the new study indicate that the higher production rate would significantly increase the value of the project.

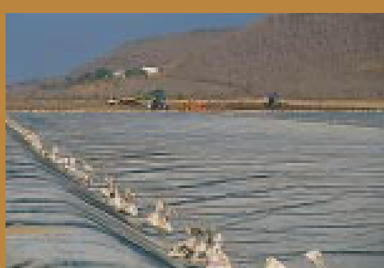
When both planned phases are built, it is expected that annual production capacity from the entire Monywa Copper Complex will reach 150,000 tonnes (330 million pounds) of copper.

SX-EW

# Recovering Monywa Copper with the Solvent Extraction-Electrowinning Process

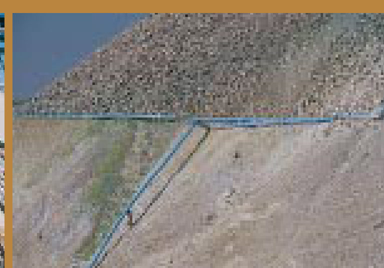
High Grades and Lower Costs / A major advantage of the solvent extraction-electrowinning process (SX-EW) is its ability to directly produce the highest quality (99.999%) cathode copper at a mine site, with low capital and operating costs. The SX-EW process eliminates costly stages involved in the traditional process, which requires the production of concentrate, transportation to a smelter and refining. The SX-EW process is proven, efficient, relatively simple and widely used with minimal environmental impact.

An impermeable, high-density polyethylene liner is put in place to seal a prepared treatment pit.



Mined and crushed copper ore is stacked on the liner and sprayed with a weak, sulphuric-acid solution to dissolve the contained copper.

The leach solution used in the sprinkling system contains 0.5% sulphuric acid. (Vinegar by comparison, is 5.0% acetic acid).



The solution percolates through the ore pile, absorbing copper. The copper-rich solution pools on the plastic liner, where it is collected and pumped to a recovery plant.

Inside the plant, an organic solvent is used to selectively extract copper ions from the leach solution. Further treatment produces a copper-rich electrolyte.

In an electrowinning cell, an electrical current causes the copper ions to migrate from the electrolyte onto stainless steel cathode plates, where they form thin layers of elemental copper.

Sheets of pure cathode copper, produced in electrowinning cells at Indochina Goldfields' Monywa Copper Complex, are shipped directly to market.

More than 1,000 drill holes have defined an orebody containing more than 13 million ounces of gold at Bakyrchik Gold Mine, Kazakhstan.


# Bakyrchik Gold Mine

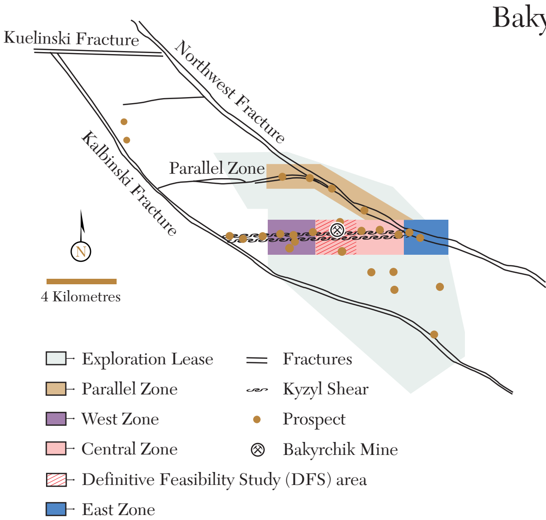
*Northeast Kazakhstan*

**Overview /** The Bakyrchik gold mine, located in Northeast Kazakhstan, is one of the largest, development-stage gold projects in the world. The mine is now owned by the Bakyrchik Mining Venture, in which Indochina Goldfields holds a controlling, direct interest of 80%. As operator of the joint venture, Indochina Goldfields is responsible for the current program to modernize and re-develop the Bakyrchik mine, which was originally built by the former Soviet Union in the mid-1950s.

**Joint Venture Structure /** Indochina Goldfields acquired its initial interest in the Bakyrchik mine in September 1996 through the purchase of an equity interest in BKG Resources PLC (formerly Bakyrchik Gold PLC). BKG Resources was listed on the London Stock Exchange in July 1993 after acquiring a 40% interest in the Bakyrchik mine from the Kazakhstan government. When the government fully privatized the mine in December 1996 by selling its remaining 60% interest to the Bakyrchik Mining Venture, Indochina Goldfields purchased a direct interest of 15% in the project.

In early 1997, Indochina Goldfields increased its equity interest in BKG Resources to 28% by participating in a rights offering and, in September 1997, acquired an additional 65% direct operating interest in the project through an ownership restructuring agreement with BKG Resources. The restructuring increased Indochina Goldfields' direct interest in the mine to 80%, reducing BKG Resources' stake to 20%. Combined with its equity interest in BKG Resources, Indochina Goldfields now holds a total interest of 86% in the Bakyrchik mine.

**Geologic Resource and Production Plan /** The Bakyrchik mine property area covers 86 square kilometres and contains a measured, indicated and inferred resource that has been estimated at more than 13 million ounces of gold. Gold mineralization is hosted in a shear-zone system that has been traced over a length of 17 kilometres. Numerous individual deposits occur along this structure, only a small percentage of which have been fully explored and delineated to date.




**BAKYRCHIK GOLD PROJECT SITE LAYOUT**

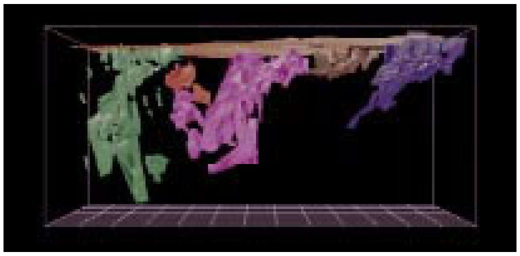
For the development of a large-scale, modern, gold-mining facility, a 4.2-square-kilometre area located on the site of the original mine, and containing the highest concentration of historical drilling information, was selected for a definitive feasibility study (DFS). The current resources at Bakyrchik are defined by a database containing 1,019 Soviet drill holes, as well as 29,000 metres of confirmative drilling by the joint venture using Western equipment and carefully monitored sampling and assaying procedures. The resource consists of 10.74 million ounces within the DFS area, calculated by Minproc Engineers Limited of Perth, Australia, and an additional 2.5 million ounces outside the DFS area, calculated by Western Services Engineering of San Ramon, California. Within the mineralized envelope in the central development area, an initial measured and indicated reserve of nine million tonnes, grading 7.90 g/t, has been calculated, using a mining cut-off grade of 4.48 g/t to yield 2.01 million ounces of recoverable gold. It is important to note that, on average, the Western confirmative drilling completed at Bakyrchik returned ore grades of approximately 9.15 g/t. The average grades from the Western confirmative drilling were 16% to 73% higher than the corresponding average of Soviet results. Based in part on the revised gold grades, there is considerable potential for increasing the total resources within the DFS area.

*New pilot plant being operated at Bakyrchik mine to confirm research indicating that an advanced ore-treatment process could recover 94% of the contained gold.*

The Minproc feasibility study, completed in December 1996, confirmed that the Bakyrchik resource is capable of supporting production of one million tonnes of ore a year, yielding 250,000 ounces of gold at a cash cost of US$164 an ounce. Capital costs for this level of production are estimated to be approximately US$250 million. The study also allowed for eventual expansion of the mine's production to 600,000 ounces of gold a year.

However, the size of the capital requirement, and weaker equity markets, prompted the joint venture to examine a smaller-scale start-up of the mine. It commissioned a second Minproc study,

THREE-DIMENSIONAL ILLUSTRATION OF BAKYRCHIK OREBODY



BAKYRCHIK GOLD MINE RESERVES AND RESOURCES / 3 g/t Au CUT-OFF GRADE

| RESOURCE CATEGORY | Tonnage (t) | Grade (g/t Au) | Contained Au (grams) | Contained Au (ounces) |
|---|---|---|---|---|
| MEASURED | 4,540,539 | 8.26 | 37,496,265 | 1,205,513 |
| INDICATED | 7,788,336 | 7.68 | 59,784,704 | 1,922,091 |
| TOTAL MEASURED & INDICATED | 12,328,875 | 7.89 | 97,280,969 | 3,127,603 |
| INFERRED IN DFS AREA | 35,000,000 | 6.56 | 229,600,000 | 7,381,687 |
| INFERRED OUTSIDE DFS AREA | 15,236,000 | 5.62 | 85,679,000 | 2,754,597 |
| TOTAL MEASURED, INDICATED & INFERRED RESOURCE | 62,564,875 | 6.59 | 412,559,969 | 13,263,888 |

completed in February 1997, to examine an alternative, 400,000-tonne-per-year production plan that would yield 120,000 to 130,000 ounces of gold a year, utilizing existing infrastructure and facilities to reduce capital costs. In an engineering study following Minproc's findings, Kvaerner Metals Davy of Toronto, Canada, confirmed that the first phase of the project is capable of supporting annual production at a rate of 125,000 ounces of gold a year, at a cash cost of approximately US$214 an ounce. The capital costs for the smaller scale start-up are approximately US$100 million.

**Project Status /** In January 1998, with the gold price at US$280 an ounce, Indochina Goldfields placed the Bakyrchik project on a sustained care and maintenance program to reduce holding costs at the mine until project financing is secured. While this will delay the commissioning of the mine, the company is continuing to operate a new pilot plant that has been built on the site. The plant, designed by Drinkard Metalox Inc. and built with the assistance of Kvaerner Metals, is testing the application of a proprietary, hydro-metallurgical process that could increase anticipated recoveries of gold from the Bakyrchik ore and eliminate one stage of the planned two-stage roaster in the oxidation circuit. Bench-scale tests completed on the Bakyrchik ores have demonstrated that a successful, commercial-scale Drinkard plant could achieve recoveries of up to 94% – an excellent level of performance which has significant capital and operating cost-savings implications.

*Underground development at Bakyrchik mine.*

Indochina Goldfields remains committed to the Bakyrchik project. The company is pursuing alternative options for development of the mine, including seeking a joint-venture partner to provide project financing.


# Exploration / Indonesia

For the past two years, Indochina Goldfields has been conducting an aggressive exploration program in Northeast Kalimantan, Indonesia. On April 28, 1997, the company finalized its three Contracts of Work (COWs), giving it title to three million hectares of highly prospective ground for a minimum of 30 years. Indochina Goldfields holds a 90% interest in this land position. It is unique in its size and location, straddling the northern extension of the Kalimantan volcanic arc, which hosts multi-million-ounce gold deposits that are currently being worked by the Kelian and Mt. Muro mines.

*Indochina Goldfields' exploration team inspecting a gold-vein system in Northeast Kalimantan.*

In addition, Indochina Goldfields also is participating in a joint venture to explore 1.1 million hectares in Northwest Kalimantan – projects in which it has the right to earn a 51% interest.

In 1998, our Indonesian exploration program will focus on developing our Central and Northern exploration blocks, in Northeast Kalimantan, which contain geological features similar to those found at Kelian and Mt. Muro. Specifically, our exploration teams already have mapped a northeast-trending structural zone which has a spatial relationship to the mineralized areas delineated to date. The relationship is most apparent along a 60-kilometre-long segment within the Central Block, where gold mineralization is found in volcanic rocks as stockworks, breccias, veins and vein swarms, in sedimentary rocks as stockworks and in large disseminated zones associated with silica replacement.

Jelai-Mewet, the first of our drill targets in the Central Block, consists of a series of quartz-rich veins and stockworks zones that outcrop within an area approximately 1.2 X 0.6 kilometres.

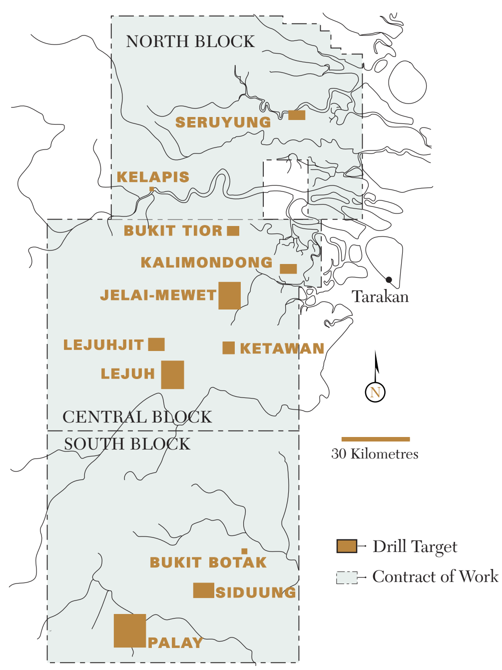
A preliminary, 5000-metre, diamond drilling program commenced in early April 1998. It will probe a specific level of this epithermal system, which has been determined to be the most favourable environment for widespread gold deposition.

During 1998, drill testing is also planned at the Kalimondong and Lejuh prospects in the Central Block, at Kelapis and Seruyung in the North Block, or at others that may advance on the priority list as field work progresses.

*Jelai-Mewet prospect in Northeast Kalimantan will be drilled in 1998 following encouraging results from trench sampling.*

*Rock sample from Lejuh prospect, located in Indochina Goldfields' Central Exploration Block.*

**INDOCHINA GOLDFIELDS EXPLORATION BLOCKS**



# Exploration / Thailand

Indochina Goldfields began its exploration of Thailand in late 1996 with an extensive, aerial reconnaissance program covering four prospective areas where the company has located more than 200 anomalous targets. In 1997, Indochina Goldfields was granted 10 Special Prospecting Licenses (SPLs) by the Thai Government. The company also submitted the winning bid for two gold exploration blocks covering an area equal in size to another 18 SPLs. As a result of follow-up work, the company's exploration team is concentrating on several high-priority prospects.

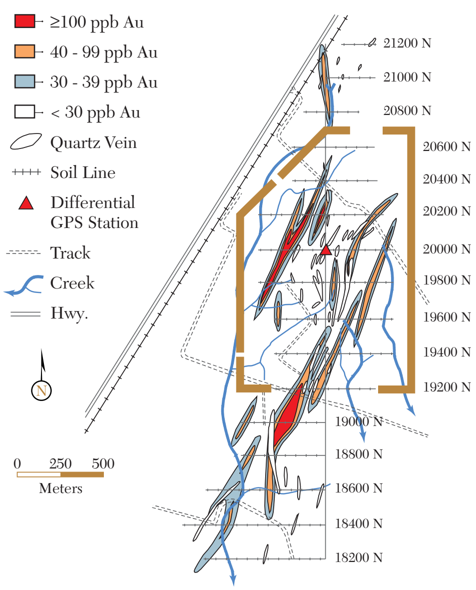
*High-priority drill target at Thung Ta Kaeo, Thailand.*

The most advanced target is the Thung Ta Kaeo prospect, where at least five separate, north-striking, steeply dipping, sub-parallel vein systems extend across a 300-metre width and are traceable over at least an eight-kilometre strike length. Individual veins that have been observed in initial work range from one to seven metres in width and display classic, high-level, adularia-sericite, low-sulphidation epithermal characteristics. A 3000-metre drill program is scheduled for 1998.

Detailed mapping and sampling also has focused on a cluster of gold prospects in the Khao Khieo project area, approximately 150 kilometres north of Thung Ta Kaeo. Work conducted by Indochina Goldfields, including reconnaissance, traversing and rock-chip sampling, in conjunction with field mapping, has led to the discovery of classic, high-level epithermal mineralization and exposed gold values of up to 19 grams per tonne on surface.

The two new gold exploration concessions acquired by tender in November encompass the Kabin Buri district in Southeastern Thailand. At the newly discovered Monk's Hill Prospect, early sampling results have been very encouraging and returned gold values of up to 13 grams per tonne. Results of recent soil geochemistry and a ground magnetic survey suggest an open-ended, east-west-trending mineralized zone extending for four kilometres.

All of the above prospects represent exceptional potential for significant mineral deposit discoveries and place Indochina Goldfields in a highly favourable position to capitalize on recent changes to Thailand's mining law and on its excellent infrastructure.




**THUNG TA KAEO GEOLOGY AND SITE ACCESS**

# Exploration / South Korea

Indochina Goldfields operates in South Korea through a subsidiary, Korean Exploration & Mining Ltd., based in Seoul. This corporate relationship entitles Indochina Goldfields to approximately 90% of any future net profits from operations in South Korea. The company's subsidiary has explored in several areas of the country and currently holds mineral rights and leases covering approximately 7,290 hectares.

*Site of Samga Mine, one of Indochina Goldfields' drill targets.*

Indochina Goldfields has discovered several promising high-level epithermal gold systems through exploration in and around known clay deposits which are scattered throughout much of South Korea.

During 1997, the company's exploration team continued its aggressive program of systematic, country-wide exploration and field checked a further 70 precious metal targets, bringing our total to nearly 300 site inspections in South Korea. Four prospects were initially drill-tested in 1997 but failed to meet our size or grade requirements. Plans for 1998 include drilling two additional targets:

The Samga mine / This intrusive-hosted, sheeted vein swarm with anomalous gold values at surface and bulk mining potential, is located in South Central Korea, in an area of World War II mine workings.

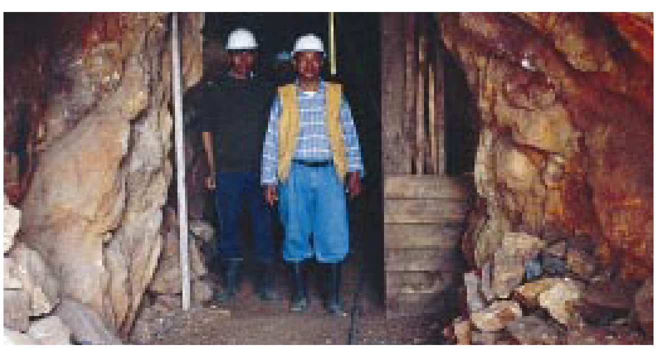
The Kohung prospect / Previously mined for clays, Kohung is a near-surface, high-sulphidation, bulk tonnage target hosted in a complex volcanic and sub-volcanic environment. It is characterized by highly anomalous gold and arsenic values within an extensive hydrothermal alteration system.

It has been estimated that up to 800 small to medium scale gold mines operated in South Korea during the first half of this century. Gold mineralization occurs principally in Cretaceous-age volcanic geology, comparable to the rich, metallogenic belts of Eastern China.

South Korea generally has been neglected during this era of modern, international mineral exploration. It has obvious geological potential, excellent modern infrastructure, as well as a regulatory and fiscal regime that favours cost-effective exploration and development. Equipped with a first-class exploration database and assisted by very capable Korean partners, Indochina Goldfields is strategically positioned to realize the potential of its prospects.

# Exploration / Myanmar

Myanmar has been the site of an aggressive exploration campaign by Indochina Goldfields since work began at Monywa in 1994. After three years of large-scale reconnaissance and prospecting, the company's exploration team progressively narrowed the search to 12 discrete prospects within our exploration blocks. During 1997, we drill-tested and eliminated several of these targets. The focus is now on two of the original exploration-license areas that were acquired by the company in 1994.



*Adit excavated in 1997 provides exploration access to a gold target in Myanmar.*

Block 10 ➛ A series of underground adits have been developed to access a highly fractured and mineralized contact between intrusive diorite and limestone. This has already proven to be a cost-effective way of achieving an understanding of what has been interpreted to be an important, sediment-hosted gold target. The first adit, collared in November 1997, intersected a 5.1-metre section of silica-replaced clastic rocks grading 4.7 grams per tonne of gold. The second adit, further along strike, was commenced in mid-March 1998.

Block 12 ➛ Indochina Goldfields' most recently awarded exploration license in Myanmar covers an area in the Letpadan District, about 120 kilometres northwest of Yangon. It has been the site of recent, small-scale, hard-rock mining and extensive gold panning along a 25-kilometre stretch downstream from the company's primary gold prospects. Here, gold and antimony mineralization is hosted in fractured and variably-silicified mudstones, which represent a significant bulk tonnage, sediment-hosted target. Initial results from surface sampling yielded values as high as 40 grams of gold per tonne from this pervasively mineralized material.

Myanmar continues to display excellent potential for the discovery of large, precious and base metal deposits. Considerable progress is expected during 1998 on Indochina Goldfields' numerous discoveries.

# Investment / Fiji

*Emperor Mines Limited*

*Emperor Gold Mine, Fiji, produced more than 122,000 ounces of gold in 1997.*

Indochina Goldfields is the largest shareholder in Emperor Mines Limited, whose gold mine is the largest private employer in the South Pacific nation of Fiji.

During the 1997/98 fiscal year, the underground mine at Vatukoula, on the north coast of Fiji's main island of Viti Levu, produced 122,359 ounces of gold from 706,917 tonnes of ore, at an average head grade of 6.26 g/t. The mine has produced more than five million ounces since 1936 and has a reserve of 3.5 million ounces. It is the only significant producing gold mine in Fiji.

Indochina Goldfields holds a 15% equity interest in the mine's owner/operator, Emperor Mines Limited, whose shares trade on the Australian Stock Exchange.

In 1998, Emperor plans to develop the high-grade R1 orebody, which is expected to significantly reduce cash operating costs per ounce. In addition to the gold currently produced at Vatukoula, Emperor has identified a significant resource at Tuvatu, also located on the island of Viti Levu, where operations are expected to begin as early as 1999 at a capacity of more than 100,000 ounces of gold a year. The company is also continuing further exploration and is currently evaluating the potential for a low-cost underground mine near Fiji's international airport at Nadi.

*Emperor Mine is the largest private employer in Fiji and a mainstay of the country's economy.*

# Global Business, with Community Values

Indochina Goldfields is honouring its commitment to a set of principles that were adopted before our inception as a public company. The principles are a touchstone for the company's responsibilities and obligations toward people and the environment.

In the area of our Monywa copper project, in Myanmar, we have re-equipped a local hospital which serves an area with three million people. We have pledged an ongoing percentage of our annual revenues from the mine to help pay for specific health care and education services. We are providing extensive skills training for local employees on the copper project. In addition, the company's share of all copper produced at the pilot plant during the past two years has been donated to fund children's scholarships.

*In Kazakhstan, Indochina Goldfields operates a kindergarten for children of Bakyrchik mine employees and provides assistance for the community hospital in the town of Auezov.*

In Kazakhstan, we also have implemented initiatives focused on education and health services in the mine community of Auezov. We are providing scholarships for 30 students attending universities and colleges and have funded a program of vaccinations against hepatitis for the children of Auezov. We are upgrading mine employees' skills, operating a kindergarten for employees' children and sponsoring English-language and music schools in Auezov. We have donated road-building machinery to the regional government, in addition to making annual payments to the region for infrastructure works and social development.

Our perspective on global business issues is influenced by the realities experienced by our staff, who work side-by-side with nationals in local communities.

Investment in the development of natural resources creates jobs, which help to provide people with the means to nourish families, to advance aspirations and to strengthen the social and economic underpinnings of community life. Political diversity and freer expression are inevitably enhanced by economic growth.

Our bottom-up approach to fostering humanist values respects all codified, applicable, international trade and investment policies. Selective economic sanctions imposed by the U.S. and Canadian governments against Myanmar in 1997 do not apply in letter or in spirit to Indochina Goldfields' investment in Monywa.

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and related notes thereto which appear elsewhere in this Annual Report.

**Overview /** The Company is an international mineral exploration and development company holding interests in mineral resource projects in Myanmar, Indonesia, Thailand, Kazakhstan, South Korea and Vietnam. The Company is continuing with a strategy of active exploration and development throughout Southeast Asia with a view to establishing itself as a major gold and copper mining company within the next few years. In June 1996, the Company completed an initial public offering of its common shares, raising net proceeds of approximately U.S.$187 million to be used to fund the exploration and development of its mineral properties and to fund acquisitions. In May 1997, the Company completed a special warrants offering raising net proceeds of approximately U.S.$61.9 million.

Indochina Goldfields' policy is to charge all costs related to exploration to operations in the current period. This treatment will continue until such time as projects are deemed to be economically feasible at which time all expenditures going forward are capitalized. Direct costs related to the acquisition of mineral properties are capitalized by project until such time as projects are deemed to be economically unfeasible, at which time the capitalized costs are written-down or written-off to the current period. At December 31, 1997, Indochina Goldfields had capitalized U.S.$56.9 million on the acquisition and development of the Monywa Copper Project in Myanmar, U.S.$6.0 million on Indonesia projects, U.S.$0.1 million on acquisitions in Korea and U.S.$50.2 million on the acquisition in Kazakhstan.

Indochina Goldfields is providing administrative services to First Dynasty Mines Ltd. on projects in Myanmar and exploration services to Ivanhoe Capital Corporation and Danfort Developments Ltd. on project areas in Indonesia. Costs for management of these projects are carried by the respective owners and are reimbursed on a net cost basis at least quarterly to Indochina Goldfields. Ivanhoe Capital PTE, a Singapore company beneficially owned by Robert M. Friedland, provides administrative services in respect of Indochina Goldfields' Singapore office and is reimbursed on a cost basis.

**Operating Results /** The Company had a net loss of U.S.$116.9 million in 1997 compared with a loss of U.S.$17.3 million in 1996, for a loss per share of U.S.$1.68 and U.S.$0.32, respectively. The increase in the net loss was mainly attributable to the write-down (including equity loss) of certain investments and properties, and an increase in exploration activities and expenses in 1997.

At the end of 1997, the Company took a write-down against earnings to reflect the decrease in market value of its investments in shares held in BKG Resources Plc. and Emperor Mines Limited for U.S.$37.9 million and U.S.$12.4 respectively. In late 1997 and in response to gold market prices, the Company took a write-down of U.S.$40 million against earnings to reflect the value of the Bakyrchik Gold Project at then current gold prices and based on recent estimates for operating costs, capital and reserves. All write-downs taken during 1997 totaled U.S.$90.3 million compared to no write-downs in 1996.

Interest income increased from U.S.$5.1 million in 1996 to U.S.$6.1 million in 1997 as a result of investment in money market instruments of the Company's cash resources.

Exploration expenses increased from U.S.$9.0 million in 1996 to U.S.$12.4 million in 1997 due mainly to the increase in exploration activity levels on the Company's properties in Indonesia and Thailand, where the company has identified several new and promising gold targets planned to be drilled in 1998. In 1996 exploration had consisted mainly of detailed field geology/geochemistry/geophysics in Indonesia, reconnaissance geology in South Korea and Myanmar, and a minor drilling program in Myanmar on a series of gold and copper targets. Exploration work was completed on the Company's Monywa Copper Project in Myanmar during 1997 with the project going into development and construction. Development expenses are capitalized in the Company's financial statements.

Investor relations costs decreased from U.S.$1.0 million in 1996 to U.S.$0.5 million in 1997 after the Company obtained public listings on the Toronto and the Australian stock exchanges during 1996. Legal and consulting costs increased due to property acquisitions and corporate transactions, and costs of general corporate counsel.

Salaries increased from U.S.$2.6 million in 1996 to U.S.$3.0 million in 1997 as a result of new management appointments during the second half of 1997 and the hiring of additional personnel at the Company's various properties and offices.

Travel expenses were incurred in the course of ongoing corporate administration of the Company's properties and operations, and increased from U.S.$1.6 million in 1996 to U.S.$2.7 million in 1997.

**Liquidity and Capital Resources /** At December 31, 1997, the Company had working capital (defined as current assets less current liabilities) of U.S.$34.7 million compared to U.S.$130.7 million as at December 31, 1996. The decrease in working capital resulted primarily from the acquisition of an increased interest in the Bakyrchik Gold Project, completion of an equity contribution to the Monywa Copper Project and ongoing exploration activities.

On March 11, 1997, the Company raised CDN$90.0 million through the issuance of five million special warrants. Each special warrant entitled the holder to acquire one common share of the Company upon the Company qualifying a prospectus for distribution of the common shares. Proceeds from the issue of special warrants were held in escrow pending clearance of the prospectus. In May 1997, the prospectus was cleared, all special warrants were exercised and the Company issued 5.0 million common shares.

In September 1997, the Company acquired an additional 65% participating interest in the Bakyrchik Mining Venture gold project in northern Kazakhstan by paying U.S.$38.8 million in cash and assuming U.S.$30.0 million in purchase installment debt payable to the Government of Kazakhstan. The Company acquired the interest from BKG Resources Plc. a London-listed mining company. At year-end 1997, the Company held an 80% interest in the project with the remaining 20% held by BKG Resources Plc. The remaining U.S.$30.0 million in purchase installment debt owed to the Government of Kazakhstan is currently due in two installments of U.S.$15.0 million each, payable in December 1997 and April 1998. The Company has not paid the installment due in December 1997 and is engaged in advanced discussions with the Government of Kazakhstan to reschedule these payments.

The Company has no long-term debt at December 31, 1997.

During fiscal 1997, the Company completed all material financing agreements and other requirements to secure a limited recourse project debt facility for the Sabetaung-Kyisintaung deposit of the Monywa Copper Project in Myanmar. The project financing proceeds will provide for the cash requirements of engineering, procurement, construction, equipment purchases and commissioning related to the Sabetaung-Kyisintaung operation. Drawdown against the facility began January 13, 1998. Prior to the drawdown, funding for the project was provided by the Company in the form of equity investment and short-term loans to the joint venture. The Company is the financial guarantor for the project financing on the Monywa Copper Project until six months following mechanical completion of construction and successful fulfillment of plant performance tests. Within that six-month period, the project must generate and reserve sufficient excess cash to meet the first debt payment.

The Company is financially obligated to make up any cash shortfalls, which may occur in reserving the first debt payment within the specified time limit. Once the first payment is reserved, the debt becomes non-recourse to the Company and is guaranteed by the project assets. The project debt facility provides for a total drawdown of U.S.$90.0 million with interest during construction, capitalized and added to the total loan amount. The debt bears interest at a rate of six-month LIBOR plus 2.75%. Repayment is scheduled over six years in six-month installments with the first payment due on the first anniversary of mechanical completion of construction. Debt payments decline over the six-year repayment schedule and are calculated with a constant principal component and a declining interest component. The first debt payment of approximately U.S.$12.6 million is scheduled for December 1999, and must be reserved by June 1999.

In September 1997, the Company completed a transaction pursuant to which Olympus Pacific Minerals Inc. acquired the bulk of the Company's assets in Vietnam for a combination of cash and common shares of Olympus valued at U.S.$7.5 million (as defined). The Company sold its interest in the Bong Mieu Gold Mine in central Vietnam and retains a 2% NSR royalty on future production. A joint venture between Olympus, Iddison Group Vietnam Ltd. and the Company was also created to explore on a large block surrounding the Bong Mieu Gold Mine in central Vietnam. The Company retains a 50% interest in the exploration joint venture and Olympus will be the operator for all programs going forward.

During 1997, the company expended U.S.$27.9 million to fulfill its contractual commitment to expend a total of U.S.$28.0 million in completion of equity buy-in requirements to form the joint venture on Monywa Copper Project.

In late 1997, in response to a sustained depression of the gold market price, the Company suspended mining and development activities at the Bakyrchik Gold Project. The Company plans to complete the commissioning and to operate the Drinkard metallurgical process pilot plant through the second quarter of 1998 at a cost of U.S.$1.0 million to prove the technology and its application to gold recovery from the Bakyrchik ores. The Company plans to continue to meet all contractual and social obligations to the Government of Kazakhstan and maintain all tax, legal, environmental and reporting requirements. Annual care and maintenance costs for the operation are approximately U.S.$9.6 million per year. The Company has had discussions with several lenders for project financing. However, the Company has postponed further negotiations for project financing until the gold market price environment improves.

During 1997, the Company completed a feasibility study on Phase II, Letpadaung, of the Monywa Copper Project complex. The Company presented this study to the joint venture for formal acceptance in early 1998. Upon formal acceptance by the joint venture, the Company is contractually committed to provide a project financing commitment within twelve months of the date of acceptance. Construction of Letpadaung is planned to commence upon financing completion.

The Company is currently engaged in discussions with several financing and copper marketing houses to arrange a combined project financing and marketing arrangement for the Letpadaung operation. The Company intends to have all material financing agreements in place in the second quarter of 1999. The project financing proceeds will provide for the cash requirements of engineering, procurement, construction, equipment purchases and commissioning related to the Letpadaung deposit of the Monywa Copper Project. The Company believes that the Letpadaung feasibility study identifies the definitive reserves, basic engineering, geology, operating and capital costs necessary to support a financing agreement for a significant portion of the project. The Company will likely be required during 1999 to make an equity contribution toward construction of the Letpadaung project to complement the anticipated project financing. The size of the equity contribution will be dependent upon the projected debt carrying capability of the operation based on such non-operating factors as copper market price, interest rates, political risk insurance rates, loan coverage ratios and other bank criteria. Therefore, the size of the equity contribution is not presently quantifiable. Although the Company believes that it will be able to meet this obligation from its own resources or through equity or debt financing, there can be no assurance that the Company will have the financial resources available to meet this commitment when it is quantified.

The Company is currently engaged in discussion with several major mining companies to seek joint venture partners for development and exploration of the Company's extensive land holdings. Joint venture terms are being sought which would allow the major companies to earn-in an equity position in the joint venture, fund the future exploration programs and therefore, reduce the future cash requirement of Indochina Goldfields.

**Outlook /** The Company plans to fund through 1998 active and comprehensive exploration programs at U.S.$5.9 million, care and maintenance and development programs at Bakyrchik at U.S.$16.7 million, purchase installments in Bakyrchik at U.S.$10.0 million, construction and working capital loans to the Monywa Copper joint venture at U.S.$8.3 million and corporate G&A (General and Administration costs) at U.S.$5.6 million. The Company will continue with similar work programs on exploration through 1999 and will also commence construction and commissioning of Phase II, Letpadaung, of the Monywa Copper Project complex. In 1999 and beyond, the Sabetaung-Kyisintaung operation should be cash self-supporting and, the Bakyrchik Gold Project is planned to require U.S.$9.6 million per year for care and maintenance.

The Company liquidated its gold hedge contracts in January and February 1998 for a net gain over purchase price of U.S.$10.4 million. In addition, the Company has engaged in advanced discussions with the Government of Kazakhstan to reschedule the remaining U.S.$30.0 million installment payments on the Bakyrchik Gold project. These subsequent events and the December 31, 1997 working capital (defined as current assets less current liabilities) of U.S.$34.7 million, should provide the Company with sufficient resources to meet its short to medium-term obligations and planned expenditures.

The Company intends to continue with construction of Phase I and Phase II of the Monywa Copper Project, exploration activities for gold and copper on its existing property portfolio, acquisitions of assets and reconnaissance exploration throughout Southeast and Central Asia. Other than the Monywa Copper Project in Myanmar and the Bakyrchik Mining Venture in Kazakhstan, all of Indochina Goldfields' current projects are in the initial stages of exploration and have not yet identified definitive ore reserves.

The Company's prospects for short to medium-term profitability are largely dependent upon: the construction and commissioning of the mining and processing complex on the Sabetaung-Kyisintaung deposit, acquisition of project financing for the Phase II Letpadaung operation of the Monywa Copper Project and the acquisition of project financing and commissioning of the roaster and ancillary capital facilities at the Bakyrchik gold mine. Production of cathode copper at Monywa is planned to come on-line during the second half of 1998, however, the major portion of operating cash flow will be directed to debt service in the early years. No other revenue from operations is anticipated in the immediate future.

The Company plans to fund any cash shortfall in the Monywa Copper Project to meet the debt reserve and payment schedules.

To the extent that the Company's planned short to medium-term operating and exploration cash requirements exceed the Company's current cash resources, the Company must derive the difference from external financing. In the event that changes in market conditions prevent the Company from receiving additional external financing in the long-term, the Company would be forced to prioritize project exploration and maintenance programs to fit within cash availability.

**Year 2000 /** Indochina Goldfields does not have any critical business information systems that will be affected by the Year 2000 computer changeover. The Company has not incurred, nor does it expect to incur, any significant costs in connection with the Year 2000 issue.

To the Shareholders of
Indochina Goldfields Ltd.

We have audited the consolidated balance sheets of Indochina Goldfields Ltd. as at December 31, 1997 and 1996 and the consolidated statements of operations and deficit and of cash flows for the years then ended. 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 in Canada. 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, 1997 and 1996 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.

Signed: Deloitte & Touche

Chartered Accountants
Vancouver, British Columbia
April 30, 1998

# CONSOLIDATED BALANCE SHEETS

*December 31 (Stated in U.S. dollars)*

| | 1997 | 1996 |
|---|---|---|
| **ASSETS** | | |
| Current | | |
| Cash | $ 44,507,762 | $125,901,704 |
| Investment in options (Note 4) | 14,675,000 | — |
| Accounts receivable (Note 5) | 11,989,992 | 1,747,098 |
| Loan to related company (Note 6) | — | 5,000,000 |
| Mine supplies | 2,151,242 | — |
| Prepaid expenses | 1,652,681 | 2,538,154 |
| Current portion of notes receivable (Note 7) | 641,430 | — |
| | 75,618,107 | 135,186,956 |
| Notes receivable (Note 7) | 3,238,762 | — |
| Other investments (Note 8) | 8,299,052 | 60,031,960 |
| Mineral properties (Note 9) | 113,169,786 | 80,885,602 |
| Property, plant and equipment (Note 10) | 67,041,458 | 6,011,349 |
| Exploration deposits | 1,266,023 | — |
| | $268,633,188 | $282,115,867 |
| **LIABILITIES** | | |
| Current | | |
| Accounts payable and accrued liabilities | $ 10,932,683 | $ 4,506,082 |
| Purchase instalments payable (Note 11) | 30,000,000 | — |
| | 40,932,683 | 4,506,082 |
| Deferred gain (Note 2) | 1,490,673 | — |
| Non-controlling interest | 2,912,254 | — |
| | 45,335,610 | 4,506,082 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (Note 12) | | |
| Authorized | | |
| 100,000,000 common shares without par value | | |
| 100,000,000 preferred shares without par value | | |
| Issued and outstanding | 381,628,352 | 319,055,054 |
| 71,586,867 (1996 – 66,508,660) common shares | | |
| Deficit | (158,330,774) | (41,445,269) |
| | 223,297,578 | 277,609,785 |
| | $268,633,188 | $282,115,867 |

Approved by the Board

Signed: R. Edward Flood

R. EDWARD FLOOD
*Director*

Signed: Edward L. Mercaldo

EDWARD L. MERCALDO
*Director*

## CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

*Years Ended December 31 (Stated in U.S. dollars)*

| | 1997 | 1996 |
|---|---|---|
| **OPERATING COSTS** | | |
| Exploration expenses | $ 12,429,432 | $ 8,977,040 |
| **EXPENSES** | | |
| Accounting | 228,023 | 294,385 |
| Consulting | 373,978 | 210,413 |
| Depreciation | 550,522 | 649,509 |
| Interest | 192,300 | 287,894 |
| Investor relations | 488,418 | 991,381 |
| Legal | 1,069,242 | 829,796 |
| Office (Note 15(a)) | 4,498,378 | 4,656,371 |
| Salaries | 2,964,286 | 2,610,106 |
| Travel | 2,659,299 | 1,637,306 |
| | 13,024,446 | 12,167,161 |
| **OTHER (INCOME) EXPENSES** | | |
| Write-down of carrying values of assets (Note 14) | 90,287,866 | — |
| Share of loss of significantly influenced investee (Note 8(a)) | 7,694,750 | — |
| Interest income | (6,147,092) | (5,066,313) |
| Foreign exchange | 105,665 | 1,216,682 |
| Non-controlling interest | (568,238) | — |
| Other | 58,676 | — |
| | 91,431,627 | (3,849,631) |
| **NET LOSS** | 116,885,505 | 17,294,570 |
| **DEFICIT, BEGINNING OF YEAR** | 41,445,269 | 24,150,699 |
| **DEFICIT, END OF YEAR** | $158,330,774 | $41,445,269 |
| **NET LOSS PER SHARE** | $1.68 | $0.32 |

## CONSOLIDATED STATEMENTS OF CASH FLOWS

*Years Ended December 31 (Stated in U.S. dollars)*

| | 1997 | 1996 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net loss | $(116,885,505) | $ (17,294,570) |
| Items not involving use of cash | | |
| Depreciation | 550,522 | 649,509 |
| Write-down of carrying values of assets | 90,287,866 | — |
| Share of loss of significantly influenced investee | 7,694,750 | — |
| Non-controlling interest | (568,238) | — |
| Other | (74,846) | — |
| | (18,995,451) | (16,645,061) |
| Net change in non-cash operating working capital items | (18,608,870) | (529,763) |
| | (37,604,321) | (17,174,824) |
| **INVESTING ACTIVITIES** | | |
| Acquisition of subsidiaries (net of cash acquired) (Notes 3(a) and 15(c)) | (68,091,638) | (30,000,000) |
| Sale of subsidiaries (Note 3(b)) | 5,301,531 | — |
| Notes and investments received or receivable on the sale of subsidiaries | (4,942,961) | — |
| Due from joint venture partner | (6,264,477) | — |
| Investment in options | (14,675,000) | — |
| Repayment of (loan to) related company | 5,000,000 | (5,000,000) |
| Other investments | (5,225,167) | (42,218,182) |
| Mineral property expenditures | (496,886) | (39,602,572) |
| Expenditures on property, plant and equipment | (45,702,298) | (2,478,338) |
| Exploration deposits | (1,266,023) | — |
| | (136,362,919) | (119,299,092) |
| **FINANCING ACTIVITIES** | | |
| Share capital issued | 62,573,298 | 244,511,061 |
| Purchase instalments payable | 30,000,000 | — |
| Repayment of loan | — | (4,337,774) |
| | 92,573,298 | 240,173,287 |
| **NET CASH (OUTFLOW) INFLOW** | (81,393,942) | 103,699,371 |
| **CASH, BEGINNING OF YEAR** | 125,901,704 | 22,202,333 |
| **CASH, END OF YEAR** | $ 44,507,762 | $125,901,704 |

## 1. NATURE OF OPERATIONS

Indochina Goldfields Ltd. (the “Company”), together with its subsidiaries (collectively referred to as “Indochina Goldfields”), is an international mineral exploration and development company holding interests in mineral resource projects in Myanmar (formerly Burma), Kazakhstan, Indonesia, South Korea, Thailand and Vietnam. The Company also has investments in BKG Resources Plc, a company listed on the London Stock Exchange, Emperor Mines Limited, a company listed on the Australian Stock Exchange and Olympus Pacific Minerals Inc., a company listed on the Vancouver Stock Exchange (Note 8).

## 2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada which require management to make assumptions and estimates that affect the reported amounts and other disclosures in these consolidated financial statements. Actual results may differ from those estimates.

The significant accounting policies used in these consolidated financial statements are as follows:

*Principles of consolidation*

These consolidated financial statements include the accounts of the Company and all of its subsidiaries. The principal subsidiaries of the Company (all wholly-owned except where noted) are as follows:

Central Asian Mining Limited (British Virgin Islands (“BVI”)) (80% directly owned)
Bakyrchik Mining Venture (Kazakhstan) (80% directly owned)
Bagan Holdings Ltd. (BVI)
Ivanhoe Myanmar Holdings Ltd. (BVI)
Ivanhoe Myanmar Holdings Limited (Myanmar)
Indonesian Exploration & Mining Ltd. (BVI)
PT Indonesia Exploration Sejati (Indonesia)
Korean Exploration Inc. (BVI)
Korean Exploration & Mining Ltd. (South Korea)
Korean Exploration Inc. (South Korea) (“KEI”) (49% owned)
Kola Ventures Limited (BVI)
Borneo Exploration and Mining Ltd. (BVI)
Golden Islands Resources Ltd. (BVI)
Frontier Asian Resources Ltd. (BVI)
Goldrim Ventures Ltd. (BVI)
Thailand Exploration and Mining Ltd. (BVI)
Global Mining Management (USA), Inc. (USA)

KEI is considered to be a subsidiary as Indochina Goldfields has the right to elect a majority of its board of directors.

Indochina Goldfields' investments in the following companies, which are subject to joint control, are consolidated on a proportionate basis whereby the Company includes in these consolidated financial statements its proportionate share of the assets, liabilities, revenues and expenses of these companies:
Myanmar Ivanhoe Copper Company Limited ("JVCo") (Myanmar)(50% owned)
New Vietnam Mining Corp. (B.C., Canada) (50% owned)

All intercompany transactions and balances have been eliminated.

*Foreign currencies*
The Company considers the U.S. dollar to be its functional currency as it is the currency of the primary economic environment in which the Company and its integrated foreign subsidiaries operate. Accordingly, monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities at the exchange rates in effect at the time of acquisition or issue. Revenues and expenses are translated at rates approximating the exchange rates in effect at the time of the transactions. Exchange gains or losses arising on translation are included in operations.

Indochina Goldfields enters into forward currency contracts for non-hedging purposes to gain exposure to the international currency markets. Realized and unrealized gains or losses on the forward currency contracts are included in operations.

*Cash*
Cash includes short-term money market instruments with terms to maturity, at the date of acquisition, not exceeding ninety days.

*Investments*
Investments in companies 20% to 50% owned, where Indochina Goldfields has the ability to exercise significant influence, are accounted for using the equity method, whereby Indochina Goldfields' share of their earnings and losses is included in operations and its investments therein adjusted by a like amount. Dividends received are credited to the investment accounts.

Other investments are accounted for using the cost method, whereby income is included in operations when received or receivable.

Provisions for impairment of investments are made, where necessary, to recognize other than temporary declines in value.

*Mineral properties*
All direct costs related to the acquisition of mineral properties and interests are capitalized by property. Exploration costs are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized.

Gains or losses are recognized on property dispositions when the value of the consideration received exceeds or is less than, respectively, the carrying value of the property. Partial dispositions or option proceeds with respect to undeveloped properties are credited against the cost of the related property except that, when the proceeds exceed the cost, the excess is credited to operations. The aggregate costs related to abandoned properties are charged to operations.

On the commencement of commercial production, the net capitalized costs will be charged to operations on a unit-of-production basis, by property, using estimated proven and probable recoverable reserves as the depletion base.

Indochina Goldfields reviews the carrying values of its mineral properties and interests on a regular basis. The review of the carrying value of each property in the exploration and development stage is made by reference to the project economics, including the timing of the exploration and/or development work, the work programs and exploration results experienced by Indochina Goldfields and others. The review of the carrying value of each producing property is made by reference to the estimated future operating results and net cash flows. When the carrying value of a property exceeds its estimated net recoverable amount, an impairment provision is made for the other than temporary decline in value.

Substantially all of Indochina Goldfields' exploration and development activities are conducted jointly with others. These consolidated financial statements reflect only Indochina Goldfields' interests in such activities.

The recoverability of the amounts shown for mineral properties and interests is dependent on the confirmation of economically recoverable reserves, the ability of Indochina Goldfields to obtain the necessary financing to successfully complete their development, including compliance with the requirements of lenders who are providing this financing from time to time, and upon future profitable operations.

*Property, plant and equipment*
Property, plant and equipment are stated at cost and are depreciated using the straight-line method over the following periods:

| | |
|---|---|
| Plant and equipment | Ten years |
| Office equipment | Five years |
| Motor vehicles | Five years |
| Buildings | Seven years |

*Deferred gain*
The deferred gain, which arose from the sale of certain subsidiaries to Olympus Pacific Minerals Inc. (Note 3(b)), will be recognized as revenue on the basis of the receipt of the deferred cash and securities portions of the sale price.

*Comparative figures*
Certain of the comparative figures have been reclassified to conform with the current year's presentation.

*(Stated in U.S. dollars)*

### 3. BUSINESS ACQUISITIONS AND DISPOSITIONS

(a) In December 1996, the Company acquired a direct 15% participating interest in the Bakyrchik Mining Venture ("BMV"), which was subsequently increased in September 1997 to a direct 80% participating interest following a restructuring of the ownership of BMV. The Company also holds an indirect 5.6% interest in BMV through its investment in BKG (Note 8(a)).

This acquisition has been accounted for using the purchase method. Details of this acquisition are as follows:

| | | |
|---|---|---|
| Fair value of net assets acquired: | | |
| Current assets (including cash of $658,645) | | $3,708,249 |
| Current liabilities | | (19,095,966) |
| Working capital deficiency | | (15,387,717) |
| Mineral properties | | 89,852,551 |
| Property, plant and equipment (including construction in progress) | | 17,765,941 |
| | | 92,230,775 |
| Less: | | |
| Carrying value of the Company's 15% interest prior to this acquisition | $(20,000,000) | |
| Non-controlling interest | (3,480,492) | (23,480,492) |
| Cost of this acquisition | | $68,750,283 |
| Consideration: | | |
| Cash | | $38,750,283 |
| Assumption of purchase instalments payable | | 30,000,000 |
| | | $68,750,283 |

(b) In September 1997, Indochina Goldfields sold the bulk of its Vietnam gold exploration interests, held at that time through its then subsidiaries, Formwell Holdings Ltd. (BVI) ("Formwell"), Bong Mieu Holdings Ltd. (Thailand) and Bong Mieu Gold Mining Company Ltd. (Vietnam) to Olympus Pacific Minerals Inc. ("Olympus") in consideration for cash of $4,750,000, of which $358,570 has been received, and securities of Olympus (Note 8(c)). The balance receivable of $4,391,430 is secured by a pledge by Olympus of the shares of Formwell, and, for accounting purposes, has been discounted, using an interest rate of 6-3/4%, to its present value of $3,880,192.

### 4. INVESTMENT IN OPTIONS

In July 1997, Indochina Goldfields purchased put options on 1,000,000 ounces of gold at a cost of $14,675,000. These put options had been purchased to provide a floor to support debt service of the proposed project financing for the Bakyrchik Mine. At December 31, 1997, the quoted market value of these put options was $24,590,000. In January and February 1998, Indochina Goldfields closed out all of its position for total proceeds of approximately $25,085,000, realizing a net gain of approximately $10,410,000.

*(Stated in U.S. dollars)*

### 5. ACCOUNTS RECEIVABLE

| | 1997 | 1996 |
|---|---|---|
| Joint venture partner | $ 6,325,445 | $ — |
| Exploration partners | 3,486,513 | 501,673 |
| Refundable taxes | 455,745 | 220,041 |
| Accrued interest | 336,553 | 242,587 |
| Employees | 826,163 | 385,020 |
| Other | 559,573 | 397,777 |
| | $11,989,992 | $ 1,747,098 |

The amounts receivable from exploration partners are due from companies related to the Company by way of directors in common.

### 6. LOAN TO RELATED COMPANY

The Company advanced $5,000,000 to BKG in 1996 as part of a working capital loan facility. This loan was repaid during 1997 through the acquisition of shares of BKG (Note 8(a)).

### 7. NOTES RECEIVABLE

| | 1997 | 1996 |
|---|---|---|
| Olympus (Note 3(b)) | $ 3,880,192 | $ — |
| Less amount due within one year | (641,430) | — |
| Balance due in 2000 | $ 3,238,762 | $ — |

### 8. OTHER INVESTMENTS

| | 1997 | 1996 |
|---|---|---|
| BKG Resources Plc ("BKG") (formerly Bakyrchik Gold Plc) (a) | $ 1,844,384 | $42,218,182 |
| Emperor Mines Limited ("Emperor") (b) | 5,391,899 | 17,813,778 |
| Olympus Pacific Minerals Inc. ("Olympus") (c) | 1,062,769 | — |
| | $ 8,299,052 | $60,031,960 |

(a) In October 1996, the Company acquired a total of 9,607,000 ordinary shares of BKG which, at that time, had a 40% interest in and operated the Bakyrchik Mining Venture ("BMV") located near Auezov in Northeast Kazakhstan. The aggregate consideration paid for this investment was $42,218,182, including $26,590,541 by the issue of Common Shares of the Company (Note 12(a)). In February 1997, Indochina Goldfields acquired an additional 1,604,377 ordinary shares of BKG at an aggregate cost of $5,235,082.

In December 1996, a wholly-owned subsidiary of BKG ("CAML") entered into an agreement to acquire the remaining 60% interest in the BMV then owned by the Government of the Republic of Kazakhstan. Indochina Goldfields also entered into an agreement with BKG to acquire a 15% interest (forming part of the 60% interest to be acquired by CAML) in the BMV.

In September 1997, Indochina Goldfields increased its interest in BMV to 80% as a result of a restructuring of the ownership of BMV with the result that BMV became a subsidiary of the Company (Note 3(a)). BKG retained a 20% interest in BMV and is entitled to increase its interest up to a further 10% at a price of $1,000,000 per percentage point until a project financing commitment has been obtained and, thereafter, at a price of $2,000,000 per percentage point until 30 days after a project financing commitment has been obtained.

BKG has a fiscal year end of March 31 and publishes its annual financial statements for the year then ended. BKG also publishes unaudited interim financial information on a semi-annual basis, the latest available being for the six months ended September 30, 1997. As a consequence, the Company's share of the loss of BKG for 1997 relates to the twelve months ended September 30, 1997.

The equity market conditions for BKG deteriorated during the first half of 1997 with the result that the quoted market value of the Company's investment in BKG decreased significantly below its original cost. Accordingly, the Company made an impairment provision in 1997 of $37,914,130 against this investment to recognize the decline in its value which was considered other than temporary.

The Company held approximately 27.9% of the outstanding ordinary shares of BKG at December 31, 1997 and the quoted market value of its investment at that date was $1,844,384 (April 30, 1998 – $1,873,085).

(b) In September 1995, Indochina Goldfields acquired a total of 12,562,732 common shares of Emperor which, through its subsidiaries, operates the Emperor Gold Mine located at Vatukoula, Fiji. The aggregate consideration paid for this investment was $17,813,778, of which $4,337,774 was financed through a loan that was repaid in 1996.

The equity market conditions for Emperor also deteriorated during the first half of 1997 with the result that the quoted market value of Indochina Goldfields' investment in Emperor decreased significantly below its original cost. Accordingly, the Company made an impairment provision in 1997 of $12,421,879 against this investment to recognize the decline in its value which was considered other than temporary.

At December 31, 1997, Indochina Goldfields held approximately 14.8% (15.7% on a fully diluted basis) of the outstanding common shares of Emperor and the quoted market value of its investment at that date was $3,676,295 (April 30, 1998 – $5,381,950).

(c) The investment in Olympus was acquired as a result of the disposition of certain subsidiaries as more fully discussed in Note 3(b). This investment currently consists of 1,548,912 special warrants of Olympus which, if fully exercised for common shares of Olympus, would represent 19.9% of the issued and outstanding common shares of Olympus. The Company is also entitled to receive, prior to March 2000, additional common shares, or special warrants convertible into common shares, of Olympus (subject to the condition that at no time shall the Company's equity interest in Olympus exceed 20%) or the equivalent in cash. The estimated market value of the Company's investment in Olympus, assuming exercise of the special warrants into common shares and receipt of additional common shares, at December 31, 1997 was $2,645,912 (April 30, 1998 – $1,756,545).

*(Stated in U.S. dollars)*

## 9. MINERAL PROPERTIES

The following table summarizes Indochina Goldfields' accumulated mineral property costs:

| | 1997 | 1996 |
|---|---|---|
| Myanmar (a) | $ 56,859,272 | $ 56,769,234 |
| Kazakhstan (b) | 50,219,089 | 20,000,000 |
| Indonesia (c) | 6,018,056 | 500,000 |
| South Korea (d) | 73,369 | 102,393 |
| Thailand (e) | — | — |
| Vietnam (f) | — | 3,513,975 |
| | $113,169,786 | $ 80,885,602 |

(a) Monywa Copper Project – Indochina Goldfields has a 50% interest in JVCo, a joint venture to develop an open-pit copper mine at Monywa, located in the Union of Myanmar. Indochina Goldfields completed a feasibility study in respect of the Sabetaung and Kyisintaung deposits in March 1996 and, in February 1997, completed a basic engineering study on those deposits. A feasibility study on the Letpadaung deposit was initially prepared by Indochina Goldfields in March 1997 and updated in January 1998. A decision has been made to commence commercial development and project financing has been arranged by Indochina Goldfields (Note 19). Indochina Goldfields currently anticipates that commercial production will commence in the second half of 1998.

Myanmar Exploration Projects – Indochina Goldfields has entered into agreements with the Myanmar Department of Geological Survey and Mineral Exploration ("DGSE") whereby Indochina Goldfields has been granted the exclusive right to undertake gold and copper prospecting and exploration activities on certain exploration blocks located in the Union of Myanmar. These agreements provide that, upon the determination of economically recoverable reserves in any of these exploration blocks, Indochina Goldfields and the appropriate state mining entity nominated by the Myanmar government will each hold a 50% equity interest in any joint venture company formed to develop the project.

(b) Kazakhstan – Indochina Goldfields has an 80% direct interest in and is the operator of the Bakyrchik Mining Venture ("BMV"). BKG holds the remaining 20% interest. Indochina Goldfields is responsible for arranging project financing for the BMV to develop the Bakyrchik Mine and establish commercial production.

Indochina Goldfields, as a result of the continuing lack of recovery in the price of gold, reviewed the carrying value of this project and, as a consequence, made an impairment provision in 1997 of $39,951,857 against this investment to recognize the decline in its value which was considered other than temporary.

Indochina Goldfields also holds a 15% participating interest and BKG holds an 85% participating interest in a separate joint venture (the "Exploration Joint Venture") in respect of the exploration ground surrounding the main BMV production zone. Indochina Goldfields has the option to increase its interest in any area subject to the Exploration Joint Venture, if the area is determined to warrant a feasibility study, by paying BKG an amount equal to 2½ times BKG's costs.

(c) Northeast Kalimantan – Indochina Goldfields has a 90% interest and its Indonesian partner a 10% interest in three joint ventures for exploration projects located in northeast Kalimantan, Indonesia. Indochina Goldfields has committed to fund the Indonesian partner's equity or debt contributions to each of the joint ventures until completion of exploration on each of the three sixth generation Contracts of Work ("COW") that have been granted by the Department of Mining and Energy ("DME") of Indonesia. The Indonesian partner has the option either to fully fund its share of these expenditures by reimbursing Indochina Goldfields for those costs incurred on its behalf and retain its 10% interest in each project, or alternatively, to transfer its participating interest to Indochina Goldfields in consideration for shares in a publicly listed company having the same value as the Indonesian partner's participating interest, as determined by an independent appraiser.

North-central and Western Kalimantan – Indochina Goldfields has the right to earn a 50% interest in a sixth generation COW regarding mineral property interests in Northwest Kalimantan by incurring, or committing irrevocably in writing to incur, exploration expenditures of $2,000,000 by December 31, 1999 and a further $3,000,000 by December 31, 2001. Indochina Goldfields can also earn an additional 1% interest therein by arranging project financing no later than one year following completion of a feasibility study. Indochina Goldfields may, at any time prior to earning its interest, elect to surrender its earn-in right and exercise a back-in right to immediately acquire a 51% interest in the COW by reimbursing the optionor for 200% of the aggregate exploration expenditures incurred by the optionor on the property and to prepare, at Indochina Goldfields' expense, a feasibility study. Indochina Goldfields has also acquired back-in rights to acquire a 51% interest in three seventh generation COW applications and a 45.9% interest in a sixth generation COW regarding mineral property interests in North-central and Western Kalimantan, Indonesia. Each right is exercisable until the ninetieth day following the date upon which the optionor determines, based upon available exploration results, that the preparation of a feasibility study is warranted. In order to exercise each right, Indochina Goldfields is required to reimburse the optionor for 200% of the aggregate exploration expenditures incurred by the optionor on the property and to prepare, at Indochina Goldfields' expense, a feasibility study.

Java Reconnaissance – Indochina Goldfields has a mining and services agreement in respect of certain exploration properties on the island of Java. Under the agreement, Indochina Goldfields and a local Indonesian company are required to provide all necessary funding and staff to the holders of applications for certain mining authorizations ("KPs") and to conduct all exploration work on the KPs. The agreement further provides that, after recovery of all expenses, Indochina Goldfields is entitled to 90% of any net profits from the KP projects.

(d) South Korea – Indochina Goldfields has acquired a 49% equity interest and an approximate 90% net profits interest in a joint venture formed to explore and mine a project in Chollanam-Do Province of South Korea. Indochina Goldfields is required to fund all of the exploration costs and land rents, both of which are reimbursable to Indochina Goldfields from the revenues from the project. Indochina Goldfields has also acquired the mining rights to certain other mining prospects in adjacent areas.

*(Stated in U.S. dollars)*

(e) Thailand – Indochina Goldfields was granted certain special prospecting licenses in 1997 and secured title to two gold exploration concessions.

(f) Bong Mieu – Indochina Goldfields had, in 1996, an 80% interest in the Bong Mieu Gold Project located in Quang Nam – Da Nang Province in central Vietnam. In 1997, Indochina Goldfields sold this interest to Olympus (Note 3(b)). Indochina Goldfields has also entered into an agreement to form a joint venture to explore the Phuoc Son area if, as and when the relevant exploration licenses are issued to Indochina Goldfields and to develop any areas warranting development.

## 10. PROPERTY, PLANT AND EQUIPMENT

| | 1997 | | | 1996 |
|---|---|---|---|---|
| | COST | ACCUMULATED DEPRECIATION | NET BOOK VALUE | NET BOOK VALUE |
| Mine construction in progress | | | | |
| Monywa Copper Project | $34,730,914 | $ — | $34,730,914 | $ 1,887,608 |
| Bakyrchik Mine | 24,653,667 | — | 24,653,667 | — |
| | 59,384,581 | — | 59,384,581 | 1,887,608 |
| Plant and equipment | 7,047,025 | 908,415 | 6,138,610 | 2,629,160 |
| Office equipment | 1,411,686 | 518,710 | 892,976 | 939,397 |
| Motor vehicles | 284,701 | 99,455 | 185,246 | 280,198 |
| Land and buildings | 484,280 | 44,235 | 440,045 | 274,986 |
| | $68,612,273 | $ 1,570,815 | $67,041,458 | $ 6,011,349 |

In September 1997, Indochina Goldfields entered into project financing, construction and marketing agreements to develop the Sabetaung and Kyisintaung deposits within the Monywa Copper Project. Indochina Goldfields intends to develop these deposits in phases. The estimated total capital cost of Phase I is currently estimated to be $125 million and Phase II, which contemplates expanding the mining rate, is currently estimated to cost between $120 million and $140 million.

Indochina Goldfields has placed the BMV on a care and maintenance basis pending sustained recovery of the price of gold, at which time the Company intends to seek project financing in order to develop the Bakyrchik Mine. A series of feasibility and production studies have proposed development of the project at total estimated capital costs, based on annual production levels of 512,000 and 1,000,000 tonnes, of $125 million and $250 million, respectively.

## 11. PURCHASE INSTALMENTS PAYABLE

The purchase instalments due to the Government of the Republic of Kazakhstan are payable as to $15 million in December 1997 and the balance of $15 million in April 1998. These amounts are secured by Indochina Goldfields' interest in the BMV. The December 1997 instalment has not yet been paid and Indochina Goldfields has asked the Government to reschedule both instalments, but there is no assurance that the Government will ultimately agree to such a rescheduling.

*(Stated in U.S. dollars)*

## 12. SHARE CAPITAL

(a) Since January 1, 1996, the Company has issued the following Common Shares:

| | NUMBER OF SHARES | AMOUNT |
|---|---|---|
| Balance, December 31, 1995 | 39,724,618 | $ 74,543,993 |
| **Shares issued for cash** | | |
| Initial public offering (net of issue costs of $11,211,467) | 18,000,000 | 187,186,652 |
| Exercise of stock options | 220,000 | 440,000 |
| **Shares issued for non-cash consideration** | | |
| Acquisition of subsidiary (Note 15(c)) | 5,000,000 | 30,000,000 |
| Acquisition of shares of BKG (Note 8(a)) | 3,536,542 | 26,590,541 |
| Share bonus plan | 27,500 | 293,868 |
| Balance, December 31, 1996 | 66,508,660 | 319,055,054 |
| **Shares issued for cash** | | |
| Private placement (net of issue costs of $3,477,901) | 5,000,000 | 61,891,072 |
| Exercise of stock options | 24,300 | 266,579 |
| Share purchase plan | 33,907 | 235,052 |
| **Shares issued for non-cash consideration** | | |
| Share bonus plan | 20,000 | 180,595 |
| Balance, December 31, 1997 | 71,586,867 | $381,628,352 |

(b) The Company has an Employees' and Directors' Equity Incentive Plan (the "Equity Incentive Plan"), which includes three components: (i) a Share Option Plan; (ii) a Share Bonus Plan; and (iii) a Share Purchase Plan. The Company has reserved 5,000,000 Common Shares for issuance under the Equity Incentive Plan.

The Share Option Plan authorizes the Board of Directors of the Company to grant options to directors, executive officers and employees of Indochina Goldfields to acquire Common Shares of the Company at a price based on the weighted average trading price of the Common Shares for the five days preceding the date of the grant.

The Share Bonus Plan permits the Board of Directors of the Company to authorize the issuance, from time to time, of Common Shares of the Company to employees of the Company and its affiliates, to a maximum of 1,000,000 Common Shares.

The Share Purchase Plan entitles eligible employees of Indochina Goldfields to contribute up to 7% of his or her annual basic salary in semi-monthly instalments, with the Company making contributions equal to 50% of the employee's contribution on a quarterly basis. Each participant is, at the end of each calendar quarter during which he or she participates in the Share Purchase Plan, issued Common Shares of the Company equal to the aggregate amount contributed by the participant and by the Company on the participant's behalf, based on the weighted average trading price of the Common Shares during the preceding three months.

At December 31, 1997, there were outstanding stock options to directors, officers and employees for the purchase of an aggregate of 4,301,750 Common Shares at prices ranging from Cdn.$6.74 to Cdn.$15.00 (weighted average of Cdn.$9.67) per share. These options expire as to 352,000 shares in 1998, 950,000 shares in 2000, 478,500 shares in 2001, 173,000 shares in 2002, 2,243,250 shares in 2007 and 105,000 shares in 2008.

*(Stated in U.S. dollars)*

### 13. INCOME TAXES

The Company has tax loss carry-forwards of approximately $15,639,000 (Cdn.$22,350,000, which expire as to Cdn.$1,396,000 in 2001, Cdn.$3,741,000 in 2002, Cdn.$7,641,000 in 2003 and Cdn.$9,572,000 in 2004). Indochina Goldfields also has tax loss carry-forwards in certain foreign jurisdictions, the amounts of which are currently not determinable.

No recognition has been given in these consolidated financial statements to the potential future tax benefits associated with these loss carry-forwards.

### 14. WRITE-DOWN OF CARRYING VALUES OF ASSETS

| | 1997 | 1996 |
|---|---|---|
| Investments in: | | |
| BKG (Note 8(a)) | $37,914,130 | $ — |
| Emperor (Note 8(b)) | 12,421,879 | — |
| Kazakhstan mineral properties (Note 9(b)) | 39,951,857 | — |
| | $90,287,866 | $ — |

### 15. OTHER RELATED PARTY TRANSACTIONS

(a) Indochina Goldfields incurred the following expenses with companies related by way of directors or shareholders in common:

| | 1997 | 1996 |
|---|---|---|
| Office and administrative | $ 2,164,466 | $ 1,833,866 |
| Salaries and benefits | 461,381 | 610,289 |
| | $ 2,625,847 | $ 2,444,155 |

(b) Accounts receivable and accounts payable include sundry amounts of $269,845 and $157,842, respectively, (December 31, 1996 – $370,561 and $345,937, respectively) which are due from/to directors of the Company or its subsidiaries or companies related by way of directors in common.

(c) In June 1996, the Company acquired, by the issue of 5,000,000 Common Shares to a director of the Company at a deemed price of $6.00 per share, all of the issued and outstanding shares of Myanmar Management Corp. ("MMC"). At the date of acquisition, MMC's only asset was a 4% pre-tax royalty on the Monywa Copper Project (Note 9(a)) and it had no liabilities.

(d) In April 1996, Indochina Goldfields acquired, principally from certain companies owned by a director of the Company and for nominal consideration, rights to acquire an interest in five COW applications regarding mineral properties in North-central and Western Kalimantan (Note 9(c)).

(e) In connection with the acquisition of one of the options referred to in (d) above, the Company loaned a company owned by a director of the Company $2.9 million to facilitate the posting of a security bond with the DME in connection with certain COW applications. The loan was repaid during 1996 with interest of $100,256.

*(Stated in U.S. dollars)*

(f) In October 1996, the Company acquired from a director of the Company an aggregate of 1,822,500 ordinary shares of BKG and options to acquire a further 1,192,500 ordinary shares of BKG by the issue of 731,936 Common Shares of the Company at deemed value of Cdn. $10.30 per share.

## 16. SEGMENTED INFORMATION

| | 1997 | 1996 |
|---|---|---|
| Net loss for the year | | |
| Indonesia | $ 4,473,284 | $ 5,603,244 |
| Kazakhstan | 42,767,493 | — |
| Myanmar | 6,798,219 | 5,667,548 |
| South Korea | 2,824,108 | 1,135,407 |
| Thailand | 1,240,203 | — |
| Vietnam | 488,040 | 1,505,840 |
| Segment operating losses | 58,591,347 | 13,912,039 |
| Write-down of investments | 50,336,009 | — |
| Share of loss of significantly influenced investee | 7,694,750 | — |
| Interest income | (6,147,092) | (5,066,313) |
| Foreign exchange | 105,665 | 1,216,682 |
| Corporate expenses | 6,246,150 | 7,232,162 |
| Other | 58,676 | — |
| | $116,885,505 | $ 17,294,570 |

| | 1997 | 1996 |
|---|---|---|
| Identifiable assets at the end of the year | | |
| Indonesia | $ 13,424,940 | $ 4,560,636 |
| Kazakhstan | 82,762,988 | 20,000,000 |
| Myanmar | 102,145,528 | 62,866,701 |
| South Korea | 388,648 | 615,618 |
| Thailand | 773,357 | — |
| Vietnam | — | 3,740,757 |
| Segment assets | 199,495,461 | 91,783,712 |
| Corporate assets (including investments) | 69,137,727 | 190,332,155 |
| | $268,633,188 | $282,115,867 |

## 17. COMMITMENTS

Indochina Goldfields has exploration commitments in the ordinary course of business to expend funds towards retaining its interests in mineral properties (Note 9).

*(Stated in U.S. dollars)*

### 18. DISCLOSURES REGARDING FINANCIAL INSTRUMENTS

(a) The estimated fair value of Indochina Goldfields' financial instruments as at December 31, 1997 and 1996 was as follows:

| | 1997 | | 1996 | |
|---|---|---|---|---|
| | CARRYING AMOUNT | FAIR VALUE | CARRYING AMOUNT | FAIR VALUE |
| Cash | $44,507,762 | $44,507,762 | $125,901,704 | $125,901,704 |
| Investments in options | 14,675,000 | 24,590,000 | — | — |
| Accounts receivable | 11,989,992 | 11,989,992 | 1,747,098 | 1,747,098 |
| Loan to related company | — | — | 5,000,000 | 5,000,000 |
| Notes receivable | 3,880,192 | 3,880,192 | — | — |
| Other investments | 8,299,052 | 8,166,591 | 60,031,960 | 63,962,254 |
| Exploration deposits | 1,266,023 | 1,266,023 | — | — |
| Accounts payable and accrued liabilities | 10,932,683 | 10,932,683 | 4,506,082 | 4,506,082 |
| Purchase instalments payable | 30,000,000 | 30,000,000 | — | — |

The fair value of Indochina Goldfields' investments in options, notes receivable and other investments was determined by reference to published market quotations or by use of a discounted present value calculation, all of which may not be reflective of future values.

The fair value of Indochina Goldfields' remaining financial instruments was estimated to approximate their carrying value due to the immediate or short-term maturity of these financial instruments.

(b) Indochina Goldfields is exposed to credit risk with respect to its accounts and notes receivable. The significant concentrations of credit risk are situated in Myanmar, Indonesia and New Zealand. Historically, Indochina Goldfields has not experienced any significant credit losses, and this is not expected to change.

### 19. OTHER SUBSEQUENT EVENTS

Subsequent to December 31, 1997, JVCo received draw-downs aggregating $46.1 million under a $90 million credit agreement dated as of September 23, 1997 in connection with project financing for the Monywa Copper Project. This financing bears interest at a rate of six-month LIBOR plus 2.75% and is repayable in semi-annual instalments commencing in December 1999 until maturity six years after completion of the mine construction (as defined).

ROBERT M. FRIEDLAND

*Chairman*

*Mr. Friedland is Chairman and President of Ivanhoe Capital Corporation, a venture capital company with worldwide interests. Other companies developed and financed by Mr. Friedland and Ivanhoe Capital include Diamond Fields Resources, Golden Star Resources and Fairbanks Gold. Mr. Friedland was named Mining Developer of the Year in 1996 by the Canadian Prospectors and Developers Association for his leadership in the discovery and financing of Diamond Fields' Voisey's Bay nickel deposit, ultimately sold to INCO Limited for CDN$4.3 billion.*

GORDON L. TOLL

*Executive Vice-President,*

*Chief Operating Officer*

*Mr. Toll, previously Group Mining Executive with RTZ Limited, has also held senior positions with BHP Iron Ore, Texasgulf, Anaconda Mineral-ARCO Coal, US Borax and RTZ Limited in Indonesia, Australia, Venezuela and the United States. As Chairman of Bakyrchik Gold PLC he directed the feasibility study on the Bakyrchik Gold Mine.*

ERIC E. EDWARDS

*Senior Vice-President, Finance,*

*Chief Financial Officer*

*Mr. Edwards is a specialist in corporate finance, project evaluation and acquisitions. Formerly, he was Operations Controller for NERCO Minerals and the Independence Mining Company and Manager of the TVX Gold business development group.*

DOUGLAS J. KIRWIN

*Senior Vice-President,*

*Exploration*

*Mr. Kirwin was formerly Managing Director, International Geological Services Pty, Ltd., and Director of Lao Survey and Exploration Services. For several years, he was attached to Anglo American and Amax. He has evaluated mineral deposits throughout the Americas, Asia and Europe, and has managed numerous projects in Southeast Asia and Australia.*

R. EDWARD FLOOD

*President*

*Mr. Flood's 30-year career in the mining industry has ranged from field project geology to investment fund management. As NERCO Minerals' Manager of Project Evaluation, he assessed mines and properties in numerous countries throughout the world. With Robertson, Stephens & Company in San Francisco, he was a research analyst in gold mining and a member of the management team for the Contrarian Fund.*

DANIEL J. KUNZ

*Executive Vice-President*

*Mr. Kunz has a wide range of accomplishments in operations, management and finance. He has served as an executive and director of several public mining companies. As President and Chief Executive Officer of MK Gold Company, Mr. Kunz directed its initial public offering in 1993. Previously, he served as Vice-President and Controller of the Morrison Knudsen Corporation.*

EDWARD C. ROCHETTE

*Senior Vice-President,*

*Legal Affairs and Administration*

*Acting for Ivanhoe Capital Corporation, Mr. Rochette negotiated major mineral property agreements throughout the world. Previously, he directed acquisitions and legal affairs for NERCO Minerals. Mr. Rochette has many years' experience in South America and Asia and has developed business relations with governments and industries throughout the Asia-Pacific region.*

INDOCHINA GOLDFIELDS LTD.

OFFICERS AND DIRECTORS

Robert M. Friedland
*Chairman and Director*

R. Edward Flood°
*President and Director*

Gordon L. Toll
*Executive Vice-President, Chief Operating Officer and Director*

Edward C. Rochette
*Senior Vice-President, Legal Affairs and Administration and Director*

Eric V. Friedland
*Director*

Edward L. Mercaldo°
*Director*

Richard Mundie
*Director*

Reggie Tun Maung
*Director*

John Weatherall°
*Director*

°*Member of Audit Committee*

LEGAL COUNSEL

Goodman, Phillips & Vineberg
Suite 1900 - 355 Burrard Street
Vancouver, British Columbia
Canada V6C 2G8
Tel: 604.682.7737
Fax: 604.682.7131

AUDITORS

Deloitte & Touche
Suite 2100 - 1055 Dunsmuir
PO Box 49279
Four Bentall Centre
Vancouver, British Columbia
Canada V7X 1P4
Tel: 604.669.4466
Fax: 604.685.0532

TRANSFER AGENT

CIBC Mellon Trust Company
Mall Level
1177 W. Hastings Street
Vancouver, British Columbia
Canada V6E 2K3
Tel: 604.688.4330
Fax: 604.688.4301

CO-TRANSFER AGENT (AUSTRALIA)

Coopers & Lybrand
Tel: 011.61.2.285.7111

STOCK LISTINGS

Toronto Stock Exchange
Australian Stock Exchange
Trading symbol: ING, both exchanges

CORPORATE OFFICES

SINGAPORE

International Head Office
#37 - 02 Millenia Tower
No. 1 Temasek Avenue
Singapore 039192
Tel: 65.337.1818
Fax: 65.338.8228

CANADA

Waterfront Centre
Suite 900-200 Burrard Street
Vancouver, British Columbia
V6C 3L6
Tel: 604.688.5755
Toll-free: 1.888.273.9999
Fax: 604.682.2060

INFORMATION CONTACT

Leigh Parrish
Tel: 604.688.5755
Toll-free: 1.888.273.9999
Fax: 604.682.2060
Website: http://www.goldfields.com

ANNUAL GENERAL MEETING

June 23, 1998, 3:00 pm PDT
Pan Pacific Hotel
Vancouver, Canada

***Photography*** *Cover, Monywa Copper Project and Exploration photography by Christopher Wilson.*
***Design*** *Jager Design Studios* ***Production*** *Stellar Graphics Ltd.* ***Printing*** *Metropolitan Fine Printers*

INDOCHINA
GOLDFIELDS LTD.

Printed in Canada