



INDOCHINA  
GOLDFIELDS LTD.

ANNUAL REPORT 1998



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**LETTER TO SHAREHOLDERS**

Robert Friedland, Indochina Goldfields' Chairman (left), and Ed Flood, President (right), outline the highlights of the company's activities in 1998 and the challenges and opportunities that lie ahead.



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**COPPER**

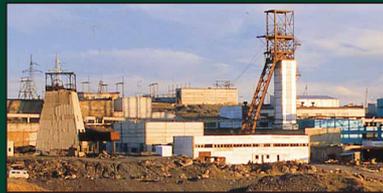
A review of some of the factors that affect the price of copper. As a major, new producer of cathode copper, Indochina's revenue and earnings are highly leveraged to the price of this important commodity.



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**MONYWA COPPER PROJECT**

The most significant development in 1998 was the successful start-up of the S&K Mine at the Monywa Copper Project in Myanmar, one of the world's lowest-cost copper mines.



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**BAKYRCHIK GOLD MINE**

Indochina increased to 100% its ownership in the Bakyrchik Mine in Kazakhstan which, with its resource of more than 13 million ounces, is one of the world's largest undeveloped gold deposits.

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**EXPLORATION / INDONESIA**

Indochina began drilling on two of its most promising properties in Indonesia: Sekatak and Jelai Mewet, both located in Northeast Kalimantan.

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**EXPLORATION / THAILAND, SOUTH KOREA, MYANMAR**

Indochina is exploring a number of highly prospective, epithermal gold targets in Thailand, South Korea and Myanmar.



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**EMPEROR GOLD MINE**

Indochina increased its interest in Emperor Mines Limited to 18.1%. Emperor owns and operates the Emperor Gold Mine in Fiji.

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**PEOPLE AND THE ENVIRONMENT**

Indochina's activities are governed by a set of principles based on a respect for life and the environment.

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# Corporate Profile

Indochina Goldfields Ltd. is a Canadian mining company with a valuable portfolio of production, development and exploration projects in the Asia-Pacific region.

Production commenced in November, 1998, at the company's 50%-owned Monywa Copper Project in Myanmar. Monywa's Phase I Sabetaung & Kyisintaung (S&K) Mine, which uses an advanced, highly efficient, solvent extraction-electrowinning (SX-EW) recovery process, is designed to produce 55 million pounds of low-cost cathode copper a year. Following completion of the Phase II expansion, planned for the nearby Letpadaung deposit, Monywa will be capable of producing 330 million pounds of copper a year, making it one of the largest copper producers in Asia.

Indochina Goldfields has a 100% interest in the Bakyrchik gold mine in Kazakhstan. With a resource of more than 13 million ounces, Bakyrchik is one of the world's largest undeveloped gold deposits.

Indochina Goldfields is also conducting exploration 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 further testing in 1999.

Indochina Goldfields is the largest shareholder in Emperor Mines Limited, with an interest of 18.1%. Emperor owns and operates the Emperor Gold Mine in Fiji, which is expected to produce 135,000 ounces in fiscal 1999.

## 1998 Summary of Highlights

- Start-up of production at the new S&K Mine at the Monywa Copper Project in west-central Myanmar. S&K Mine met its annual production design rate of 25,000 tonnes of cathode copper only 45 days after start-up.
- Achieved a cash production cost of US\$0.28 per pound of copper at the S&K Mine for the month of December, 1998. The heap leach, SX-EW operation produced 2,117 tonnes of high-quality copper during the month.
- Detailed study completed confirming a 78% increase in reserves at the S&K Mine to 226.3 million tonnes grading 0.40% copper. Total recoverable copper at the mine is now more than 1.6 billion pounds.
- Detailed open-pit design study at the Letpadaung deposit, the second phase of the Monywa Copper Project, expanded reserves by 90% to 905 million tonnes grading 0.40% copper (approximately eight billion pounds) at a 0.05% copper cut-off grade.
- Received positive, preliminary drill results from the Jelai-Mewet prospect in Northeast Kalimantan, Indonesia. Discussions regarding potential joint ventures for further exploration and drilling are proceeding.
- Discovery of high-grade silver and copper mineralization from the initial exploration drilling program on the Sekatak project in Northeast Kalimantan.
- Increased equity interest in Emperor Mines Limited, an Australia-listed company, from 14.8% to 18.1%. Emperor owns and operates the Emperor Gold Mine in Fiji, which is expected to produce 135,000 ounces of gold in fiscal 1999.
- Began negotiations to increase ownership in the Bakyrchik Gold Mine in Kazakhstan to 100%. An agreement with GTL Resources PLC, formerly BKG Resources PLC, to acquire the remaining 20% interest of the project was completed in February, 1999.
- Completed a corporate re-organization to substantially lower general and administrative costs.



INDOCHINA  
GOLDFIELDS LTD.

April 28, 1999

Letter to the Shareholders  
of Indochina Goldfields Ltd.

Years of negotiation, study, design, planning and construction have culminated in the start of commercial production at our Monywa Copper Project in Myanmar. The S&K Mine began producing high-quality cathode copper in November, 1998. This achievement ranked above all others recorded by the company during what was a year of numerous and substantial challenges, including depressed metals prices which greatly dimmed investor interest in the shares of mining companies.

The fact that we are now a commercial producer of an important global commodity is very significant. We have evolved from a company with exploration prospects and a development work-in-progress, to a company with state-of-the-art mining assets producing sustainable cash flow in excess of operating and debt-service requirements. It also means that we have achieved the first ambitious goal to which we committed ourselves: financing and building a new mine from scratch in an emerging Asian economy – all at a time when commodity markets were experiencing debilitating contractions.

In December, the S&K heap-leach mine achieved production at its design rate of 4.6 million pounds of cathode copper per month. During the first quarter of 1999, the mine achieved a cash cost of production of US\$0.25 per pound of copper, making us one of the industry's lowest-cost producers. The resulting positive cash flow will allow the company to attain financial completion in August, 1999, at which time the Monywa project loan facility will become non-recourse to Indochina Goldfields. This means that Indochina will no longer be the guarantor of the US\$90 million project loan and therefore will have a much stronger balance sheet with which to pursue our plans for future growth.

We are bullish about copper's future and believe that the worst of the recent market imbalance is now behind us. Demand for copper remains strong. While short-term copper prices will continue to be affected by a temporary overhang of supply, we expect them to recover significantly during the next few years, particularly if other producers are forced to close older, higher-cost mines. With this in mind, your Board

of Directors will soon be asked to make a decision to approve a proposed expansion of S&K's production. This will be the next step in implementing our plan to make Monywa one of Asia's largest copper mines. Monywa truly is a "company maker."

We are also pleased to report success during the year in our exploration efforts in Southeast Asia. Drilling is ongoing in Indonesia and Thailand on promising gold and base-metal targets. Significant drill intercepts recorded to date at the Sekatak polymetallic prospect and the Jelai-Mewet gold property have supported our original geologic assessment of these grassroots discoveries. The company is committed to exploration, which we consider to be one of the best ways to add value for shareholders. Growth requires a balanced effort. Expanding production at Monywa will increase cash flow and earnings for the company. Investing in exploration will allow the company to expand its resource base and provide us the opportunity to increase share value through new mineral discoveries in Southeast Asia.

In Kazakhstan, the company has worked diligently to preserve the value of our now wholly-owned Bakyrchik gold deposit, with its 13-million-ounce resource. Subsequent to year-end, the company succeeded in acquiring the remaining 20% of the project that was in outside hands. This acquisition will allow greater flexibility in future transactions involving the potential development of the project. The major impediment to progress on this project has been the persistently low price of gold that adversely affects the overall economics of the mine. In response, the management team at Bakyrchik has instituted a number of cost-saving measures designed to maintain the operation on a care-and-maintenance basis. On a parallel path, negotiations are underway with the Government of Kazakhstan to restructure our existing agreement and create a more favorable framework for the inclusion of a third party in the Bakyrchik venture. Failure to restructure our commitment, given that all economic parameters remain in their current state, would force the company to consider other options that would preserve our strong balance sheet, including the abandonment of the project. However, we remain mindful of the exceptional value that Bakyrchik can create for our shareholders in an improved gold market and we will take every prudent measure within our power to retain and realize that value.

With cash reserves in excess of US\$50 million, Indochina has the capability to meet its financial objectives for 1999. We are keenly aware that, in the short term, low copper and gold prices are likely to persist until there is some rationalization of global production. Consequently, we are aggressively working to control our costs and preserve our financial strength. We have significantly reduced our overhead costs. We are working

Letter to the Shareholders  
of Indochina Goldfields Ltd.  
April 28, 1999

to maintain our copper production costs at the lowest level possible, without compromising long-term viability or our social and environmental commitments. We have also written down the carrying cost of our Bakyrchik property by approximately US\$38 million in the face of a continuing slump in the price of gold. This ensures that our balance sheet accurately reflects current market conditions. In addition, these actions set the stage for sustainable growth and profitability.

Our successes are a tribute to the efforts of a team of talented people, both national and expatriate employees, who work at our mine sites, at our exploration camps and at our support offices. Their dedication has moved the right mountains at the right time, and their skills and tenacity already have made Monywa one of the most cost-effective copper producers in the world. Our partners and suppliers have kept our objectives in sight and professionally fulfilled their roles. We thank them all for the collective job well done. We also thank our many investors who have subscribed to the dream and kept the faith.

We believe that we are delivering on our promise of quality growth. Today, your company possesses superb assets, a strong balance sheet, a capable management team and a clear growth strategy. Indochina Goldfields is in a strong position to weather the current downside of the commodity price cycle, to take advantage of emerging opportunities and, looking ahead, to thrive in an improving resource market.

We are looking forward to the new millennium with confidence and optimism.

Sincerely,

(signed by Robert M. Friedland)

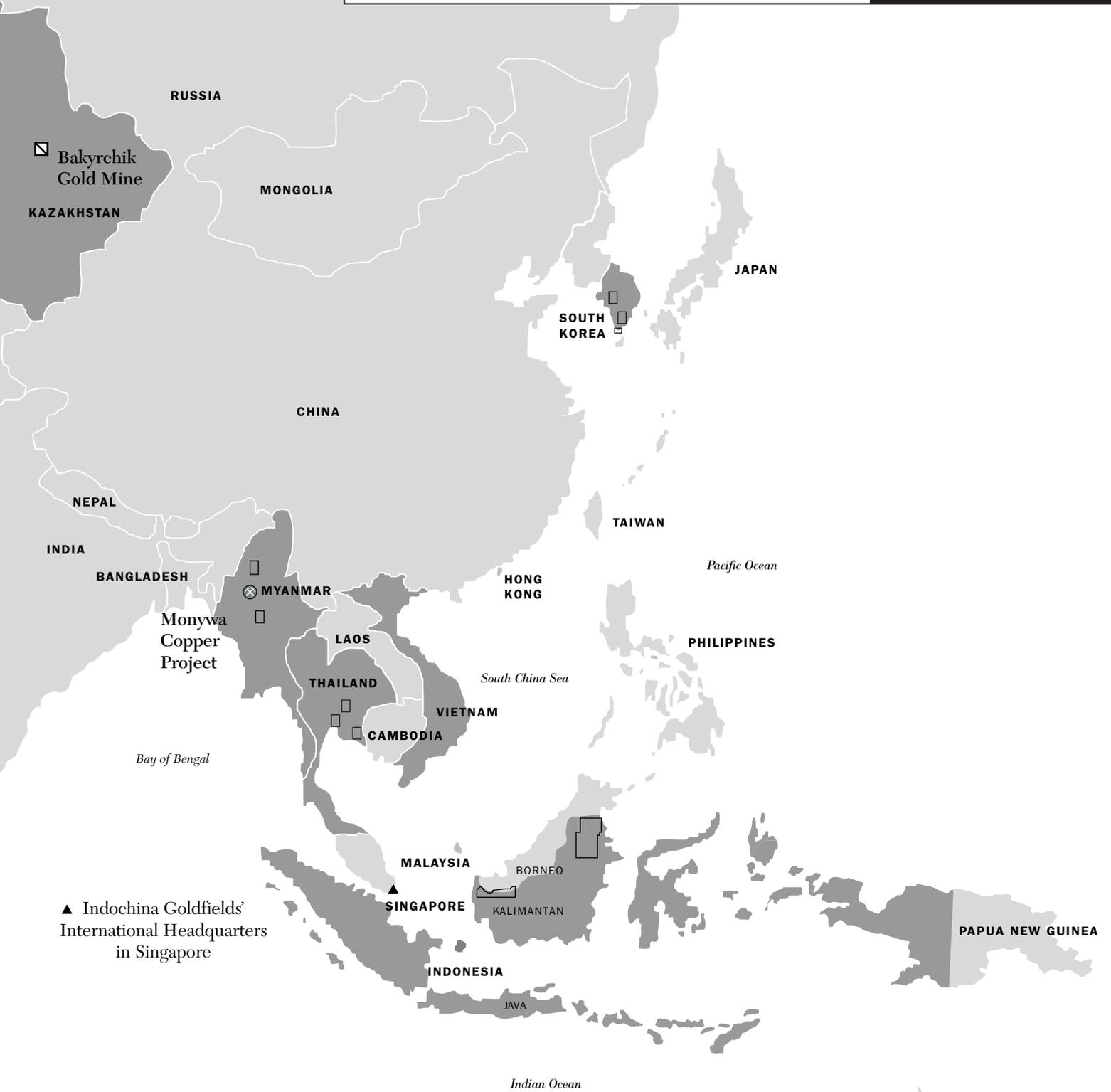
Robert M. Friedland  
*Chairman*

(signed by R. Edward Flood)

R. Edward Flood  
*President*

# The World of Indochina Goldfields Ltd.

-  Producing Mines
-  Exploration Blocks
-  Development Project
-  Countries where IndoChina Operates



▲ Indochina Goldfields' International Headquarters in Singapore

FIJI  
Emperor Gold Mine

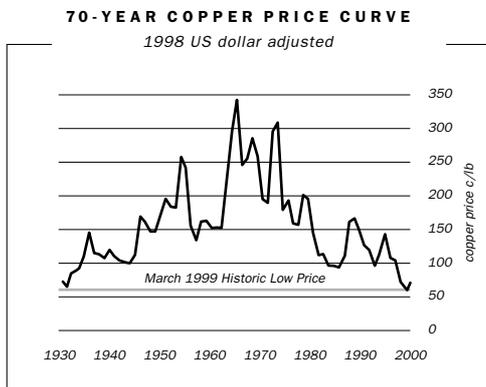
# Copper

Copper is a naturally occurring element found in the earth's crust. Ore deposits containing economically significant concentrations of the metal are mined in many regions of the world, most notably South America, Australasia and the USA. Mining will supply the vast majority of the nearly 12 million tonnes of copper that will be consumed worldwide this year. A lesser, but still significant, portion will come from recycling.

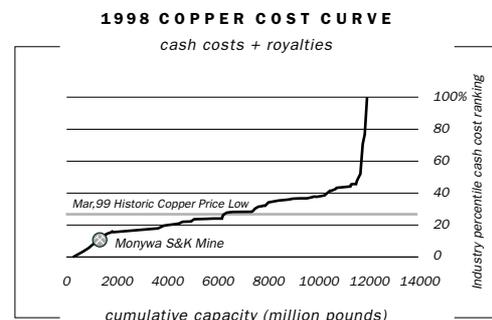
In early 1999, well over half of the world's primary copper producers were not covering their full cost of production. An increase in global production timed to coincide with an anticipated boom in Asian demand and a resulting supply surplus is to blame for much of the current market imbalance. In March, 1999, London Metal Exchange (LME) and Comex copper warehouse inventories reached record highs of approximately 720,000 tonnes. In the same month, copper sold for as low as US\$0.61 a pound. This is far below the average 20-year selling price of US\$1.27 per pound – calculated in 1998 US dollar terms – or the US\$1.30 per pound price that existed when the Monywa Project was financed.

Solvent extraction and electrowinning (SX-EW) technology has revolutionized the copper mining business, much as heap leaching did for gold mining in the 1980s. Today, more than 20% of the world's primary copper is produced through this simple, effective and relatively inexpensive method. This has lowered the copper price at which producers can generate a profit. Indochina Goldfields' Monywa SX-EW joint venture project has one of the highest operating margins in the industry. Taking into account the reserve base of more than 10 billion pounds of copper, and its expansion potential, Monywa is one of the most valuable copper deposits in the industry.

There is consensus among base metal analysts worldwide that the imbalance in the copper market is temporary and that many high-cost producers will be forced to close marginal operations to curtail financial losses. Such action would reduce supply pressure. As Asian economies recover, as global population growth continues and as much of the world modernizes, demand for copper will inevitably increase. We expect much stronger copper prices early in the new millennium.



This graph tracks copper's price since the Great Depression, when it last reached lows like the one in March, 1999. While periodic price cycles are clearly evident over this period of time, a greater cycle can also be observed. (Source: Brook Hunt, Mining and Metal Industry Consultants)



This graph positions Indochina Goldfields' new S&K Mine relative to its "pure" copper-producer peers ranked in order of 1998 cash production costs, inclusive of royalties, smelter charges and freight. The March, 1999, historic-low copper price of US\$0.61 is highlighted and illustrates the portion of the industry that is unprofitable at this level. (Source: Brook Hunt)



### **Cathode Copper**

BANKS OF ELECTROWINNING CELLS AT THE MONYWA COPPER PLANT CONTINUOUSLY PRODUCE 1,300 SHEETS OF COPPER A DAY.

AN ELECTRICAL CURRENT CAUSES THE COPPER IN A COPPER-RICH ELECTROLYTE SOLUTION TO MIGRATE ONTO STAINLESS STEEL “MOTHER” PLATES, WHICH ACT AS CATHODES. OVER A SEVEN-DAY PERIOD, EACH SIDE OF A CATHODE PLATE “GROWS” A 100-POUND SHEET OF PURE COPPER, WHICH IS STRIPPED OFF WHEN ROWS OF PLATES ARE PERIODICALLY REMOVED FROM THE CELLS. DAY IN, DAY OUT, IT ADDS UP TO 46,000 SHEETS A MONTH, TOTALLING ABOUT 2,000 TONNES – AND THAT’S JUST FROM THE PROJECT’S FIRST PHASE OF DEVELOPMENT.



# Monywa Copper Project

Monywa, Myanmar



The Monywa Copper Project began production of cathode copper in November, 1998. By the end of December, the first phase Sabetaung and Kyisintaung (S&K) mine had produced 3,164 tonnes (approximately seven million pounds) of copper, a remarkable achievement. This initial production marks the beginning of a new chapter of copper production at a project slated to become one of the largest and most cost efficient in Asia. Indochina Goldfields holds a 50% interest in a joint venture to develop the open-pit copper project, based on the Sabetaung, Kyisintaung and Letpadaung deposits. The mine employs the latest in solvent extraction/electrowinning (SX-EW) technology to capitalize on reserves of more than 10 billion pounds of copper.

Through the first quarter of 1999, S&K has produced 9,347 tonnes of LME Grade A-quality copper cathode at a cash cost of approximately US\$0.25/pound, solidly establishing the operation as one of the world's lowest-cost

producers. Production in 1999 is forecast to reach 25,000 tonnes (55 million pounds), with cash costs projected to be approximately US\$0.30 per pound of copper.

Mining at Monywa was initiated at the Sabetaung open pit, where reserves are approximately 46 million tonnes grading just under 0.50% copper, sufficient for up to 10 years of production at the current rate. Subsequent expansion will extend to the adjacent Sabetaung South and Kyisintaung deposits, which together contain an additional 180 million tonnes grading 0.37% copper, bringing the ultimate life of the S&K Mine up to 25 years. Concurrently, the joint venture will develop the nearby Letpadaung deposit, which hosts reserves of more than 900 million tonnes of ore grading 0.40% copper, and is capable of producing up to 125,000 tonnes (275 million pounds) of copper per annum at full production. In total, the contained reserves currently defined at Monywa are capable of



“THE MONYWA COPPER PROJECT IS VERY IMPORTANT FOR MYANMAR. WITH THE S&K MINE, WE HAVE CREATED A MODEL OF TECHNOLOGICAL, MANAGERIAL AND ENVIRONMENTAL EXCELLENCE FOR THE ENTIRE COUNTRY.”

*U Win Kyaw, Deputy Operations Manager, Monywa Copper Project (above)*

sustaining production at these levels for more than 30 years. Monywa is a world-class copper project.

The key to the initial success at Monywa has been the application of heap leaching and SX-EW technology to produce copper from the relatively low-grade ores. Projected recovery rates of 81% of total copper from chalcocite ore are based on extensive pilot-plant testing and supported by early results from the S&K production heaps. In total, the Phase I operation will employ two primary leach pads, the first comprising 16 separate cells.

Each cell is 80 metres wide by 700 metres long and holds an initial layer of 520,000 tonnes of ore, which are placed on an impermeable, high-density polyethylene liner. The second 20-cell pad is scheduled to be constructed in the operation's eighth year.

Indochina's current development plan for the project calls for a phased expansion at S&K

to raise annual production to approximately 35,000 tonnes of copper. This 40% increase could be achieved for a projected capital expenditure of about US\$7.5 million.

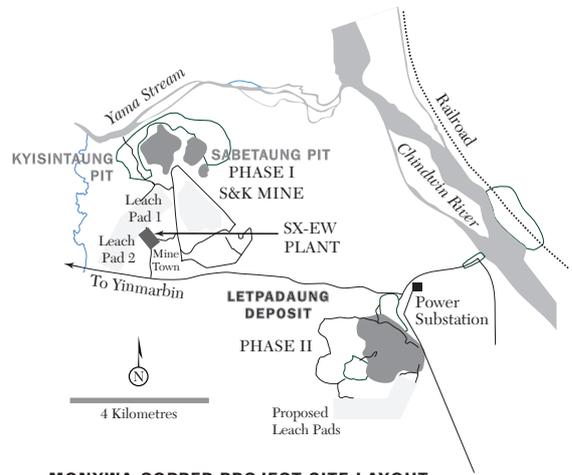
Plans for the development of the giant Letpadaung deposit, 10 kilometres to the south, provide for a possible start-up at approximately the same 35,000-tonne rate as the expanded S&K mine, with subsequent expansions bringing production up to as much as 125,000 tonnes per year. This phased plan could help the company to avoid large, initial capital expenditures and take advantage of the flexibility of the SX-EW technology in a modular plant expansion. At the existing pilot plant, run-of-mine ore from the Letpadaung deposit will be further tested in 1999 to determine if additional cost savings are possible through the elimination of a crushing circuit. Metallurgical test results from run-of-mine ore stacked on the first two cells at S&K have been very encouraging.

## Monywa Copper Project

The S&K Mine was designed and built to Australian environmental standards. An ISO 14001 Environmental Management System was implemented in 1998.

The Monywa Copper Project is a 50-50 joint venture with state-owned Mining Enterprise No. 1. The fact that the operating team at the S&K Mine includes only nine expatriate managers is a testament to the skills and work ethic of the local labor force.

The initial success of the operation bodes well for a long and prosperous future.



**MONYWA COPPER PROJECT SITE LAYOUT**



### MONYWA COPPER PROJECT RESERVES

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

Deposit	Ore (000) tonnes	Grade % copper	Copper metal tonnes	Waste (000) tonnes	Strip Ratio
SABETAUNG	45,493	0.499	226,892	8,539	0.19
S. SABETAUNG	8,883	0.437	38,796	4,403	0.50
KYISINTAUNG	171,936	0.372	639,411	203,118	1.18
<b>TOTAL</b>	<b>226,312</b>	<b>0.400</b>	<b>905,099</b>	<b>216,060</b>	<b>0.95</b>





MONYWA COPPER PROJECT RESERVES

Phase II / LETPADAUNG DEPOSIT / 0.05% CUT-OFF GRADE

Deposit	Ore (000) tonnes	Grade % copper	Copper metal tonnes	Waste (000) tonnes	Strip Ratio
LETPADAUNG	905,000	0.40	3,628,000	742,000	0.82





## Bakyrchik Gold Mine

Kazakhstan



Indochina Goldfields' activities in Kazakhstan are focused on the Bakyrchik Mining Venture, which owns the Bakyrchik Gold Mine. Indochina now has full ownership of one of Central Asia's largest gold resources. This project is the site of a former Soviet mine and has extensive infrastructure.

In February, 1999, Indochina Goldfields reached an agreement with its former joint venture partner, GTL Resources PLC, formerly BKG Resources PLC, to acquire the remaining 20% interest in the project that the company did not already own. The Bakyrchik Gold Mine has a resource of more than 13 million ounces. During 1996 and 1997, Indochina completed a basic engineering study proposing an initial annual production rate of 125,000 ounces of gold and a feasibility study for the production of 250,000 ounces of gold per year.

In January, 1998, with the price of gold at US\$280 an ounce, Indochina Goldfields placed the Bakyrchik project on a sustained care-and-maintenance program to reduce holding costs until project financing can be arranged for the mine. However, the company remains committed to realizing value from the mine for its shareholders and continues to pursue alternative options for development through project financing or possible joint-venture opportunities. During early 1998, Indochina operated a pilot plant, designed by Drinkard Metalox, Inc. and built with the assistance of Kvaerner Metals, to test the application of an advanced hydro-metallurgical process that could boost projected recoveries of gold from the Bakyrchik ore. The US\$5.5 million pilot plant was built to test the feasibility of recovering up to 94% of the gold and to determine whether it could replace one stage of a planned two-stage roaster in the oxidation circuit.



"I HAVE FAITH THAT THE BAKYRCHIK PROJECT WILL SOME DAY BECOME A WORLD-CLASS GOLD PRODUCER AS, IN ADDITION TO THE RESOURCE, WE HAVE THE PEOPLE TO DO IT."

*Jaime Troncoso, Managing Director, Bakyrchik Mining Venture*

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

Resource Category	Tonnage tonnes	Grade grams/tonne gold	Contained Gold ounces
Measured	4,540,539	8.26	1,205,513
Indicated	7,788,336	7.68	1,922,091
Total measured & indicated	12,328,875	7.89	3,127,603
Inferred in DFS area	35,000,000	6.56	7,381,687
Inferred outside DFS area	15,236,000	5.62	2,754,597
<b>Total measured, indicated &amp; inferred resource</b>	<b>62,564,875</b>	<b>6.59</b>	<b>13,263,888</b>

Indochina Goldfields is currently in discussions with the Government of Kazakhstan to restructure its existing conditional purchase agreement, which calls for the payment of an additional US\$30 million to complete the 100% privatization of the mine. The agreement was originally drafted when gold prices were near US\$380 per ounce. With the price of gold now hovering near a 20-year low, payment of this additional installment would place an undue burden on the ability of the company to finance the development of the project. Indochina's initial proposal, which remains under discussion, calls for the cancellation of the outstanding obligation in exchange for the reconveyance of a minority equity interest back to the government.

Bakyrchik is located in northeastern Kazakhstan, approximately 1,100 kilometres

northeast of the former capital of Almaty. The site lies between the cities of Semipalatinsk, 160 kilometres to the northwest, and Ust-Kamenogorsk, 100 kilometres to the east. The mine is within the village of Auezov, which provides services and has a population of approximately 5,000 people.

Kazakhstan traditionally was one of the main mineral resource centres of the former Soviet Union. The country is rich in a variety of minerals, including copper, lead, zinc, iron, nickel and gold. The economic significance of northeastern Kazakhstan is based on its huge mineral resource potential and Bakyrchik is the most important gold deposit in the region.

## Exploration Overview

Indochina Goldfields was given a mandate by its initial shareholders to search for and develop quality mineral deposits in Asia. Employing a team of highly experienced geologists, we have conducted four years of systematic, grassroots exploration across much of this region. During this period, we have made a significant number of precious and base metal discoveries.

In 1998, we drill-tested some of our most promising prospects in Indonesia and Thailand. We have had good initial success. The Sekatak Project, located three kilometres from tide water in Northeast Kalimantan, was discovered by our exploration group less than a year ago and is already generating drill results that indicate the presence of widespread, sediment-hosted, polymetallic mineralization. Thirty-five kilometers to the southwest of Sekatak, drilling has encountered high-grade gold mineralization along the Mewet epithermal vein. The larger Jelai-Mewet epithermal vein system has a cumulative strike length of over 5.5 kilometres, with numerous bonanza-grade channel samples at surface. In Thailand, a RAB (rotary air blast) program has delineated a coherent gold anomaly approximately 200 metres wide and 600 metres long at the Khao Wong prospect.

The early success at Sekatak and Jelai-Mewet has reinforced our belief that exploration is one of the best ways in which we can create value for our shareholders. While we plan to scale down our generative, grassroots exploration activity in 1999, we will re-deploy our resources on drilling programs designed to delineate the grades and dimensions of the discoveries we have made.

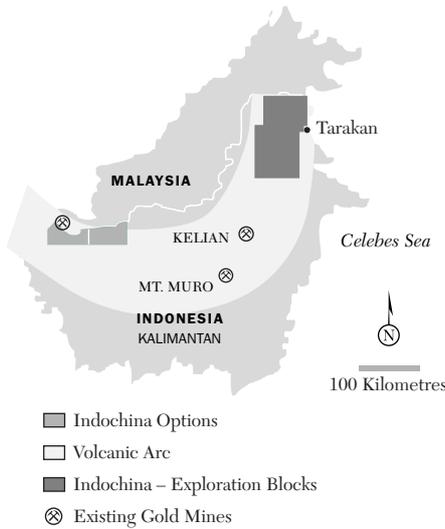
## Exploration Indonesia



Indochina Goldfields holds a 90% interest in three sixth-generation Contracts of Work (COWs) covering approximately 3.1 million hectares in Northeast Kalimantan, on the island of Borneo. We began drilling our first target in April, 1998, at the Jelai-Mewet prospect in the central exploration block. Drilling also was initiated on a second prospect, Sekatak, in September, 1998. These targets were selected on the basis of positive results of detailed geological mapping and sampling campaigns completed during the previous three years.

### **Sekatak**

Widespread polymetallic mineralization at the Sekatak prospect is found within a geochemically anomalous district, which covers an area of approximately 25 square kilometres. Within this area, drilling has defined a variety of mineralization styles and associations. Stratabound, replacement-style silver-zinc-lead mineralization occurs broadly over much of the area. Polymetallic veins and



“ASIA IS PROVING TO BE A GREAT PLACE TO EXPLORE. IN ONLY A FEW YEARS, WE HAVE MADE SEVERAL IMPORTANT DISCOVERIES. WE ARE NOW JUST BEGINNING TO DRILL THESE PROMISING TARGETS.”

*Douglas Kirwin, Senior Vice President, Exploration (left)*

breccia-style mineralization occur as cross-cutting features both within and adjacent to the replacement mineralization. Intercepts to date include 74 metres grading 0.71% copper with 20 grams per tonne silver and nine metres grading around 600 grams of silver per tonne in two adjacent holes in the Big Bend area. Drilling of Gunung Kalimondong, a prominent topographic high, has intercepted zones of low-grade gold mineralization overlying replacement-style silver, zinc and lead at depth. An airborne geophysical survey has been contracted to help target future drilling. We are highly encouraged by these exploration results, which we believe are indicative of a vast mineralized system.

**Jelai-Mewet**

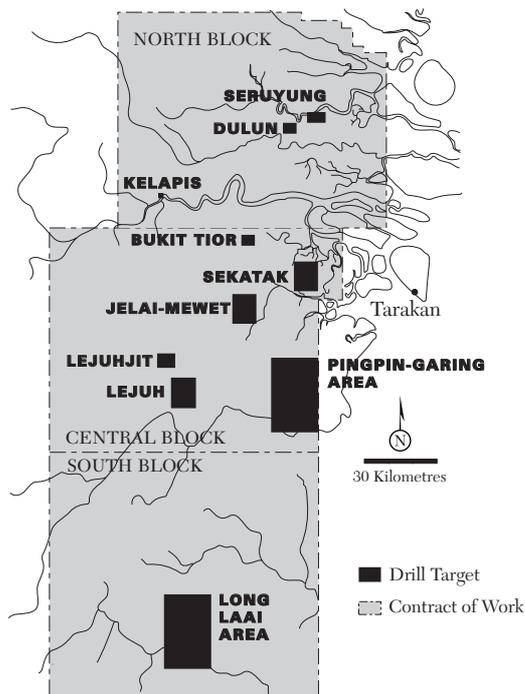
The Jelai-Mewet prospect consists of a series of sub-vertical, epithermal quartz lodes that crop out intermittently within an area approximately 1.4 by 0.6 kilometres. It has returned frequent high gold values (up to 200 grams per tonne gold) along surface expressions of the

vein system. The current drill program was designed to probe for high-grade ore chutes along discrete segments of the veins. Drilling to date has defined a 175-metre-long section of the Mewet vein with significant gold values down to a depth of 240 metres. The width of mineralization varies from two to three metres at surface to over six metres along deeper parts of the vein. The increase in width, competency and overall vein grade exhibited at depth has given us good reason to forge ahead with our program. An aggressive drill program is ongoing.

**North Block**

Three main prospect areas have been defined and mapped in detail in the North Block – Seruyung, Dulun and Kelapis. The first two are gold prospects, regarded as high-sulphidation, epithermal-type. The Kelapis prospect is associated with a gold-and copper-bearing quartz stockwork zone. All three prospects are now ready for drilling.

INDOCHINA GOLDFIELDS’ EXPLORATION BLOCKS IN NORTHEAST KALIMANTAN



# Exploration Thailand, South Korea, Myanmar



Thailand/Thung Ta Kaeo drilling

South Korea/Gasado Island

Myanmar/SGA Area Old Workings

## **Thailand**

During 1997, Indochina Goldfields was granted 10 Special Prospecting Licenses (SPLs) by the Thai Government covering highly prospective gold targets that were located during the previous year's exploration programs. In addition, two gold-exploration blocks covering an area equal in size to another 18 SPLs were also granted.

Exploration during 1998 was focused on drilling targets on the various prospects that had been identified during an extensive airborne prospecting survey conducted during 1996 and 1997. Targets delineated to date fall into three separate categories: low sulphidation epithermal gold systems; sediment-hosted gold mineralization; and porphyry-related gold and base metal mineralization. At the Thung Ta Kaeo low sulphidation gold vein system in Central Thailand, rock-chip sampling returned highly anomalous gold and trace element values within a series of epithermal quartz veins. Surface sampling at the Khao Wong sediment-hosted gold prospect in southeastern Thailand identified a series of antimony-bearing prospect pits that also contained significant gold values up to as high as 19 grams/tonne. A similar grassroots program in the Kabin Buri area of Central Thailand delineated a large, coherent gold-in-soil anomaly, possibly related to a buried

porphyry system. Kabin Buri was the site of a local gold rush in the early 1990s but the source of the gold was undetermined until the present study.

In September, 1998, drilling was initiated at Thung Ta Kaeo, where at least five separate, steeply dipping, sub-parallel veins occur within a 300-metre wide alteration zone and are traceable over at least a four-kilometre strike length. Results from the first three holes indicated the presence of low-grade gold values, but also revealed that the structure of the vein was more complex than initially thought. Further drilling is warranted.

Other prospects in Thailand include the Khao Kheio project area, approximately 150 kilometres north of Thung Ta Kaeo, and the Monk's Hill prospect, located within the Kabin Buri district. Generative work continues in the country with very encouraging results as the company capitalizes on its growing knowledge of the local geology.

## **South Korea**

Indochina Goldfields has been successful in locating a number of gold-bearing epithermal systems in South Korea related to large clay deposits that have been historically developed for the ceramics industry. Our most promising discovery is on Gasado Island, just off the southwestern coast of the Korean peninsula.

Geologic mapping and sampling has delineated a system of veins and stockwork mineralization with economic grades at surface. A modest drilling program, funded primarily by a grant from the South Korean Government, is scheduled for the Gasado prospect during 1999.

### Myanmar

Indochina Goldfields has been exploring in Myanmar since 1994. The focus of our exploration efforts has been the search for another Monywa-type copper system and/or high-grade, epithermal gold deposits. In 1997, a number of copper and gold targets were drill-tested with encouraging, but uneconomic, results. In 1998, emphasis was placed upon two remaining concessions, Block 10 and Block 12.

Geologic work on Block 10, including underground drifting, has identified a zone of gold-bearing breccias that have assayed up to 7.7 grams per tonne (g/t) over 15 metres in what has been designated the SGA area. The breccia system in the SGA area is part of a complex structural zone that can be traced for approximately 1.8 kilometres. Other individual channel samples along this structure yielded gold assays of 7.6 g/t over 9 metres, 4.7 g/t over 6 metres, 13.3 g/t over 2 metres and 47 g/t over 1 metre. In addition, five float samples of vein material sourced from the same area averaged 680 g/t gold, with a maximum value of 1550 g/t. With these encouraging results in hand, further work is recommended, including a preliminary drilling program.

In 1998 and early 1999, reconnaissance mapping and sampling was conducted within the Block 12 concession. On March 1, 1999, the concession was reduced, at our initiative, from 688 square kilometres to 184 square kilometres. Within the retained area, priority reconnaissance targets were defined and a program to test the remaining anomalies has been arranged.

## Investment Emperor Mines, Fiji



*Emperor Gold Mine*

Indochina Goldfields, through its wholly-owned subsidiary, Kola Ventures Limited, is the largest shareholder of Emperor Mines Limited, a gold mining company whose shares trade on the Australian Stock Exchange. The company's primary interests are the Vatukoula underground gold mine, the Tuvatu project and approximately 400 square kilometres of exploration leases all located on Fiji's largest island, Viti Levu.

Emperor operates the only significant producing gold mine in Fiji and is the country's largest private employer. The Emperor mine has been in continuous production since 1936 and has yielded more than five million ounces of gold. It has a current resource of more than 3.5 million ounces. During fiscal 1998, Emperor produced 108,306 ounces of gold from 586,499 tonnes of ore, at an average head grade of 6.70 grams per tonne. Through the first three quarters of fiscal 1999, the mine produced 90,405 ounces of gold at an average cash cost of US\$246/ounce.

Emperor's plans include mining from the high-grade R1 orebody, which is expected to significantly reduce cash operating costs per ounce over the next several years. It is also currently evaluating the potential for a new, low-cost underground mine at Tuvatu, near Fiji's international airport at Nadi.



## **Global Values**

WE HAVE DEVELOPED A FIRST-HAND PERSPECTIVE ON THE DAY-TO-DAY REALITIES OF LIVING AND WORKING IN ASIA'S VAST GEOGRAPHIC AND CULTURAL LANDSCAPE. OUR SUCCESSFUL APPROACH, INCORPORATING A RESPECT FOR LIFE AND THE ENVIRONMENT, IS GUIDED BY A SET OF PRINCIPLES THAT IS COMPASSIONATE AND PRAGMATIC IN NATURE. ALL OUR WORK IS CONDUCTED ACCORDING TO VERY HIGH ENVIRONMENTAL AND HUMANITARIAN STANDARDS.



## People & the Environment

Indochina Goldfields has interests in several Asian countries. While our business is exploration and mining, we devote considerable effort toward ensuring that our projects are well integrated with their local environment.

Indochina Goldfields is continuously striving to be a valued member of the communities in which it operates. We have instituted mechanisms by which we can share our success with our neighbors, thus making them interested stakeholders. At the Monywa Project, our management team has also implemented an extensive skills-training program for the last three years, much of it while operating the pilot plant that preceded the development of the S&K Mine.



The results have been exceptional. We now employ less than a third of the expatriate workforce that was originally envisaged in the mine's feasibility study. We are clearly benefiting from a motivated and productive local workforce that earns premium rates of pay. Furthermore, at Monywa, in collaboration with The Friedland Foundation, a charitable organization representing the interests of Indochina Chairman Robert Friedland and his family, Indochina Goldfields has made substantial contributions to help meet local health care and educational needs.

Indochina Goldfields' management believes that industrial development and high environmental standards are not mutually exclusive. The S&K Mine was designed and built to Australian standards. An ISO 14001 Environmental Management system was successfully implemented in 1998.

Indochina Goldfields has committed itself to the application of advanced exploration and mining technology to help realize the value of some of the region's under-developed mining potential. We are focused on making viable long-term investments that generate competitive returns for our shareholders and our partners. To succeed, we must strike a balance between our commercial objectives and the aspirations of our partners, employees and neighbors. Our job-creating investments have far-reaching benefits beyond generating prosperity. By sharing with our local colleagues and employees our values, knowledge and expertise, by training a new generation of technologically skilled operators, and by applying international management methods, we are creating opportunities for lasting social progress.

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

### OVERVIEW

**Earnings Profile** / In 1998, the Company experienced a net loss of US\$63.1 million compared to a net loss during 1997 of US\$116.9 million. The most significant factors underlying the decrease in the Company's net loss were:

**Investment write-downs:** Advances and investments in shares of GTL and Emperor were written down by US\$50.3 million in 1997 and US\$2.7 million in 1998.

**Lower exploration and administrative costs:** In 1998 Indochina Goldfields instigated cost cutting measures which lowered exploration and general administrative costs by US\$8.5 million over 1997.

**Bakyrchik care and maintenance costs:** In early 1998 the Bakyrchik mine was placed on care and maintenance status and, subsequently, all 1998 Bakyrchik exploration and development activities were expensed rather than capitalized as in prior years. Early in the year, the cost of these activities was partially offset by the US\$10.4 million gain on the liquidation of gold options previously acquired to hedge future Bakyrchik mine production.

**Cash profile** / Total cash of US\$55.2 was up at December 31, 1998 from US\$44.5 million at December 31, 1997. Significant sources of cash in 1998 were:

**Bank loan:** Bank financing proceeds of US\$40.0 million from Indochina Goldfields' 50% share of the S&K Project.

**Gold options:** Proceeds of US\$25.1 million from the sale of an investment in gold options.

Significant uses of cash in 1998 were:

**Capital expenditures:** Net capital expenditures of US\$27.5 million, including US\$27.3 million relating to Indochina Goldfields' share of the construction and development of the S&K Project.

**Operating costs:** Exploration and administrative costs totaling US\$16.7 million.

### RESULTS OF OPERATIONS

Indochina Goldfields had a net loss of US\$63.1 million in 1998 compared with a loss of US\$116.9 million in 1997, for a loss per share of US\$0.88 and US\$1.68, respectively. The decrease in the net loss was mainly attributable to lower write-down (including equity loss) of certain investments and properties, a decrease in 1998 over 1997 in exploration activities and administrative expenses and a gain in 1998 on the sale of investments in gold call options.

**Asset write-downs:** Indochina Goldfields' asset write-downs decreased to US\$43.4 million in 1998 from US\$90.3 million in 1997. In each of 1998 and 1997, in response to continuously depressed gold markets, Indochina Goldfields took a write-down against the Bakyrchik gold project of US\$37.6 million and US\$40.0 million respectively.

**Investment write-downs:** Due to the decrease in market value of its investments in shares of GTL and Emperor, the Company wrote down its investment in those two companies by US\$2.7 million in 1998 and US\$50.3 million in 1997. In 1998, the Company also wrote-down by US\$3.1 million the value of its advances and investment in Olympus Pacific Minerals Inc.

**Mining property shut-down costs:** The 1998 mining property shut-down costs totalling US\$13.5 million represent the costs of maintaining the Bakyrchik gold project on a sustained care and maintenance basis and operating the pilot plant.

**Exploration expenses:** In 1998 exploration expenses decreased to US\$9.7 million from US\$12.4 million in 1997, due mainly to the focusing in 1998 of exploration activities on selected drill targets identified in prior years on Indochina Goldfields' Indonesia, Thailand and Korea properties.

**Office and travel expenses:** Total office and travel expenses decreased to US\$3.6 million in 1998 from US\$7.2 million in 1997 as a result of cost cutting measures and decreased corporate acquisition activities.

**Interest income:** Interest income decreased from US\$6.1 million in 1997 to US\$3.6 million in 1998 as a result of lower cash resources and lower interest rates.

**Legal and regulatory costs:** Legal and regulatory costs decreased to US\$0.3 million in 1998 from US\$1.1 million in the prior year due to the decrease in 1998 relative to 1997 of large property acquisitions and corporate transactions, particularly involving the GTL investment, the Bakyrchik property acquisition and the legal costs related to the US\$65 million private placement.

*Salaries:* Salaries decreased to US\$2.3 million in 1998 from US\$3.0 million in 1997 as a result of staffing reductions throughout Indochina's operations in the second half of 1998.

#### **PROJECT ACTIVITIES**

**S&K Copper Mine** / Indochina Goldfields owns a 50% corporate joint venture interest in the S&K mine, an open pit copper mine located near Monywa in Myanmar. The mine started production in November 1998 and is targeted to produce 25,000 tonnes of finished copper cathode per year using heap leaching followed by solvent extraction and electrowinning ("SX-EW").

*Financing:* In 1998 the Company negotiated for the S&K mine a US\$90 million loan facility bearing interest at an effective rate of six-month LIBOR plus 3.25% repayable semi-annually over a six year period commencing after completion of the mine construction. The majority of the proceeds from the loan were used to finance lump sum engineering, procurement and construction contracts for the S&K mine.

*Sale agreement:* In 1998 the Company negotiated an exclusive take-or-pay type sale agreement, based on LME market prices around the month of shipment, covering the sale of an aggregate amount of 175,000 tonnes over seven years.

*Commercial production:* Construction of the facilities started in late 1997 and was completed in late 1998. Since the project reached and maintained full commercial production rate by the end of 1998, reporting of operations will commence effective January 1, 1999. At December 31, 1998 a total of 3,054 tonnes of copper cathode produced in November and December of 1998 was awaiting shipment.

*Construction settlement:* In 1998, the S&K mine received from the mine's contractor a US\$3.8 million payment as settlement for delays encountered in construction.

*Copper hedging:* In mid 1998 and early 1999, the Company, through a series of transactions, sold forward 12,750 tonnes of copper at a prices averaging US\$0.70 per pound. The maturity of the contracts ranges until October, 1999. The Company also entered in a series of opposite hedging contracts in which it will repurchase on the LME starting a month prior to expiry, the quantities of copper previously hedged. At March 31, 1999, the Company had a total of 10,750 tonnes hedged at an average price of US\$0.69 per pound. The unrecorded hedging gain at March 31, 1999 on outstanding copper contracts totaled US\$1.2 million.

**Letpadaung Copper Deposit** / Indochina Goldfields owns a 50% corporate joint venture interest in the Letpadaung copper deposit, a proposed open pit copper mine located near the S&K mine in Myanmar. Under the terms of the joint venture agreement, development of Letpadaung will be covered by its own financial agreement in which both Indochina Goldfields and MEI will be required to fund an identical amount of equity.

*Feasibility study:* In 1997 Indochina Goldfields completed a feasibility study on the Letpadaung property. In 1998 a study, updating the 1997 feasibility study, presented capital and operating costs for a 63,500 and a 125,000-tonne per annum SX-EW heap leach operation. The updated study estimated initial capital expenditures at US\$296 million and US\$316 million, respectively.

*Updated plan:* Indochina Goldfields is presently studying an eleven-year, 94,000-tonne of copper cathode per annum case scenario in which uncrushed run of mine ore would be placed under leach. Beyond the eleven-year period, the Letpadaung deposit could for several years sustain mining at the same or a greater annual capacity, depending on the economics prevailing at that time. When copper prices improve, Indochina Goldfields intends to initiate a pilot test to evaluate the expected copper recovery from this scenario.

#### **Bakyrchik Gold Project**

*Care and maintenance:* Starting in January, 1998, the Bakyrchik gold project was placed on a care and maintenance basis.

*Pilot plant:* During the year Indochina Goldfields completed the commissioning and the testing of a metallurgical process pilot plant to prove the technology and its application to gold recovery from the Bakyrchik ores. Construction of the US\$5.5 million pilot plant intended to demonstrate the possibility of achieving up to 94% recoveries from Bakyrchik ores and replace one stage of a planned two-stage roaster in the oxidation circuit. Following mitigated results, Indochina Goldfields suspended further testing of this process technology.

*Write-down:* In 1998, Indochina Goldfields decided to completely write down its investment in the Bakyrchik gold mine to the value of its remaining US\$30 million installment obligation. The Company's decision was based on the cumulative negative impact on the economics of the project resulting from the ongoing depressed gold markets and the region's unfavorable political and economic situation.

*Acquire 100% interest:* In 1999, in order to obtain greater flexibility in negotiations with the property and potential joint venture partners, the Company acquired from GTL the remaining 20% interest in the Bakyrchik gold project.

The acquisition price was for US\$0.5 million cash and the cancellation by Indochina Goldfields of all loans and advances resulting from expenditures previously advanced to the project by Indochina Goldfields on behalf of GTL.

**Obligation restructuring:** Since the beginning of 1998, Indochina Goldfields has been negotiating with the government of Kazakhstan to restructure its US\$30 million property acquisition's installment obligation. There can be no assurance that Indochina Goldfields will be successful in doing so. Indochina Goldfields will consider all alternatives for minimizing future losses to the Company in respect of the Bakyrchik project if negotiations with the government of Kazakhstan are not successful.

#### **LIQUIDITY AND CAPITAL RESOURCES**

**Working capital:** At December 31, 1998, Indochina Goldfields had working capital (defined as current assets less current liabilities) of US\$30.0 million compared to US\$34.0 million as at December 31, 1997. The decrease in working capital resulted primarily from exploration and administrative activities, the care and maintenance costs of the Bakyrchik gold project, less the proceeds from the sale of the investment in gold call options and the repayment of prior years construction costs financed through the S&K Project's loan facility.

**Loan facility:** In early 1998, the Company secured a US\$90 million limited recourse project debt facility for the S&K Project. The project financing proceeds provided for the cash requirements of engineering, procurement, construction, equipment purchases, capitalized interest during construction and commissioning of the S&K Project. Drawdown against the facility began January 13, 1998 and at December 31, 1998, the project owed US\$80.1 million. Fifty percent of all Monywa Copper project's assets, liabilities and activities, using the proportional accounting method, is included in the Company's consolidated financial statements.

**Financial guarantee:** Prior to the project debt facility, 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 S&K Project's US\$90 million loan facility until August 28, 1999. Until that date, the project must generate and reserve sufficient excess cash to meet the first semi-annual debt service payment. Prior to August 28, 1999, the Company is financially obligated to make up any cash shortfalls in the debt service reserve account. Once the first semi-annual debt service payment is reserved, the debt becomes non-recourse to the Company and is secured only by the project assets.

**First loan repayment:** The project debt facility bears interest at an effective rate of six-month LIBOR plus 3.25%. Repayment is currently scheduled over six years in six-month installments with the first payment due to the lender on February 28, 2000. Debt payments will decline over the six-year repayment schedule, as they will include a fix principal component and a declining interest component. The first semi-annual interest and debt payment estimated at approximately US\$11.2 million must be funded into the debt service reserve account by August 28, 1999. The first payment to the lender from the debt service reserve account is due on February 28, 2000.

**US\$30 million installment:** In September, 1997, Indochina Goldfields increased its interest in the Bakyrchik Mining Venture gold project in northern Kazakhstan to 80% by paying US\$ 38.8 million in cash and assuming US\$ 30.0 million in purchase installment debt payable to the government of Kazakhstan. Indochina Goldfields is engaged in advanced discussions with the government of Kazakhstan to reschedule or reduce these payment installments to reflect the economics of the project under current industry conditions.

**Bakyrchik's operations financing:** In 1998, Indochina Goldfields completed the commissioning and the testing of the Drinkard metallurgical process pilot plant to prove the technology and its application to gold recovery from the Bakyrchik ores. The 1998 pilot plant tests and the annual care and maintenance costs for the operation totaled US\$13.5 million. Indochina Goldfields terminated the pilot plant testing in 1998 and implemented several cost cutting measures in order to limit the care and maintenance costs and any other project commitments to a maximum of US\$4.0 million per year. Indochina Goldfields plans to continue to meet all contractual and social obligations to the government of Kazakhstan and maintain all tax, legal, environmental and reporting requirements. Because of the ongoing depressed state of the gold markets, Indochina Goldfields has postponed further negotiations for project financing and Indochina Goldfields has approached several major mining companies to discuss a joint venture in respect of the property.

**Letpadaung project:** During 1998, Indochina Goldfields looked at the possibility of lowering the Letpadaung project's initial capital expenditure requirements by leaching uncrushed run of mine ore. If feasible, this approach should significantly improve the economics of the project. The Company intends to further study this concept in 1999 and if warranted will consider implementing a heap leaching pilot test to confirm the economics.

**Joint venture exploration:** In an effort to minimize future exploration costs, Indochina Goldfields has approached several major mining companies to discuss exploration joint ventures in respect of certain of the Company's exploration properties.

**OUTLOOK**

**1999 Budget:** Indochina Goldfields plans to fund through 1999 active and comprehensive exploration programs totaling US\$3.8 million, the Bakyrchik gold project's care and maintenance costs of US\$3.9 million and corporate overhead costs of US\$3.1 million. Depending on the 1999 price of copper, the Company has provided for US\$5 million funding to cover its principal and debt guarantees at the S&K mine. Budgeted exploration costs may be offset if the Company is successful in arranging one or more exploration joint ventures.

**Increase S&K output:** Indochina Goldfields is investigating the feasibility of increasing the S&K's mine throughput to approximately 33,500 from 25,000 tonnes per year of copper cathode by investing an additional US\$7.5 million. Indochina Goldfields intends to finance these costs with existing funds on hand.

**Metal prices:** The greatest uncertainty affecting budgeted 1999 earnings and cash flow is metal prices. Copper prices declined during the whole of 1998 and are expected to continue to stay depressed throughout 1999. In early 1999, the price of copper had reached a 12-year low of US\$0.61 per pound. Prices are expected to improve once copper production levels off and as soon as Asian economies improve.

**Equity financing:** All activities of Indochina Goldfields for the coming year are planned to be financed from current cash resources and from existing loan facilities. However, to the extent that Indochina Goldfields' planned short to medium-term operating and exploration cash requirements exceed Indochina Goldfields' current cash resources, Indochina Goldfields must derive the difference from external financing. In the event that changes in market conditions prevent Indochina Goldfields from receiving additional external financing in the long-term, Indochina Goldfields would be forced to prioritize project exploration and maintenance programs to fit within cash availability.

**Exploration:** Indochina Goldfields intends to continue with gold and copper exploration activities on its existing properties, acquisitions of assets and exploration throughout Southeast and Central Asia. Other than the S&K mine and the Letpadaung deposit in Myanmar, all of Indochina Goldfields current projects are in the initial stages of exploration and have not yet identified commercial quantities of mineralization.

**Exploration/cash flow time lag:** No other production revenue is expected in the immediate future. A gold or copper project typically can require five years or more between discovery, definition, development and construction and, as a result, no production revenue is expected from any of Indochina Goldfields' exploration properties in that time frame.

**YEAR 2000**

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems using certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations.

In early 1999, Indochina Goldfields reviewed its vulnerability to the Year 2000 issue and has determined that the majority of its systems and operations would be only minimally affected. The process of copper recovery, transport, valuation and sales is, in the case of Indochina Goldfields, primarily non-computer reliant. In particular, sales are conducted with a single customer and consist of a limited number of transactions per year, which are finalized on a relatively manual basis. Accordingly, Indochina Goldfields is not dependent on complex information systems of a large customer base for collection of outstanding receivables. Similarly, most of the Company's suppliers of services and materials, particularly in Myanmar and Indonesia where the majority of operations occur, do not rely on complex systems to conduct their businesses. Vulnerability to the risk of interruption of business due to supplier exposure to the Year 2000 issue has been determined to be very small.

The Company's internal accounting and information systems have all been certified as Year 2000 compliant. There has been no material costs associated with the upgrade of Indochina Goldfields' internal systems as these upgrades were to be implemented in the normal course regardless of the Year 2000 issue. The Company has tested these internal systems and believes that they should not be affected by the Year 2000 changeover.

Despite the foregoing, it is not possible to be certain that all aspects of the Year 2000 issue affecting the Company, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved. However, it is anticipated that any adverse effects associated with the Year 2000 issue as they relate to Indochina Goldfields will be relatively minor. The Company believes that no systems critical to its ongoing operations will fail as a result of the Year 2000 issue.

## Auditors' Report

### CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

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

To the Shareholders of  
Indochina Goldfields Ltd.

We have audited the consolidated balance sheets of Indochina Goldfields Ltd. as at December 31, 1998 and 1997 and the consolidated statements of operations and deficit and changes in financial position 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, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in Canada.

**(signed by Deloitte & Touche LLP)**

Chartered Accountants

Vancouver, British Columbia

April 15, 1999

## Consolidated Balance Sheets

December 31 (Stated in U.S. dollars)

	1998	1997
<b>ASSETS</b>		
Current		
Cash (Note 5)	\$ 55,238,071	\$ 44,507,762
Investment in options (Note 6)	–	14,675,000
Accounts receivable (Note 7)	2,581,937	11,989,992
Inventories (Note 8)	6,837,714	2,151,242
Prepaid expenses	1,938,308	1,652,681
	66,596,030	74,976,677
Notes Receivable (Note 9)	1,490,673	3,880,192
Other Investments (Note 10)	7,316,265	8,299,052
Mining Property, Plant and Equipment (Note 11)	155,203,097	172,962,224
Other Mineral Property Interests (Note 12)	6,343,289	6,091,425
Exploration Deposits	667,909	1,266,023
Other	910,116	1,157,595
	\$238,527,379	\$268,633,188
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	\$ 6,618,430	\$ 10,932,683
Purchase instalments payable (Note 13)	30,000,000	30,000,000
	36,618,430	40,932,683
Deferred Gain (Note 2)	1,490,673	1,490,673
Long-Term Debt (Note 14)	40,037,213	–
Non-Controlling Interest	–	2,912,254
	78,146,316	45,335,610
<b>SHAREHOLDERS' EQUITY</b>		
Share Capital (Note 15)		
Authorized		
100,000,000 common shares without par value		
100,000,000 preferred shares without par value		
Issued and outstanding	381,831,799	381,628,352
71,763,465 (1997 – 71,586,687) common shares		
Deficit	(221,450,736)	(158,330,774)
	160,381,063	223,297,578
	\$238,527,379	\$268,633,188
Commitments (Notes 20)		
Contingency (Note 21)		
Approved by the Board		

(signed by R. Edward Flood)  
R. Edward Flood  
Director

(signed by Edward L. Mercaldo)  
Edward L. Mercaldo  
Director

## Consolidated Statements of Operations and Deficit

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

	1998	1997
<b>OPERATING COSTS</b>		
Exploration expenses	\$ 9,707,026	\$ 12,429,432
<b>EXPENSES</b>		
Accounting	94,924	228,023
Consulting	242,786	373,978
Depreciation	324,544	550,522
Interest (Note 14)	—	192,300
Investor relations	322,619	488,418
Legal and regulatory	304,541	1,069,242
Office	2,680,393	4,498,378
Salaries	2,345,302	2,964,286
Travel	966,563	2,659,299
	7,281,672	13,024,446
<b>OTHER (INCOME) EXPENSES</b>		
Write-down of carrying values of assets (Note 17)	43,419,523	90,287,866
Share of loss of significantly influenced investee (Note 10(a))	3,951,492	7,694,750
Gain on sale of investment in options (Note 6)	(10,410,000)	—
Mining property shut-down costs (Note 11(b))	13,506,092	—
Interest income	(3,645,856)	(6,147,092)
Foreign exchange	1,104,186	105,665
Non-controlling interest	(2,912,254)	(568,238)
Other	118,120	58,676
	45,131,303	91,431,627
<b>LOSS BEFORE INCOME AND CAPITAL TAXES</b>	<b>62,120,001</b>	<b>116,885,505</b>
<b>PROVISION FOR INCOME AND CAPITAL TAXES</b>	<b>999,961</b>	<b>—</b>
<b>NET LOSS</b>	<b>63,119,962</b>	<b>116,885,505</b>
<b>DEFICIT, BEGINNING OF YEAR</b>	<b>158,330,774</b>	<b>41,445,269</b>
<b>DEFICIT, END OF YEAR</b>	<b>\$221,450,736</b>	<b>\$158,330,774</b>
<b>NET LOSS PER SHARE</b>	<b>\$ 0.88</b>	<b>\$ 1.68</b>

## Consolidated Statements of Changes in Financial Position

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

	1998	1997
OPERATING ACTIVITIES		
Net loss	\$(63,119,962)	\$(116,885,505)
Items not involving use of cash		
Depreciation	324,544	550,522
Write-down of carrying values of assets	43,419,523	90,287,866
Gain on sale investment in options	(10,410,000)	–
Share of loss of significantly influenced investee	3,951,492	7,694,750
Non-controlling interest	(2,912,254)	(568,238)
Other	–	(74,846)
	(28,746,657)	(18,995,451)
Net change in non-cash operating working capital items	7,522,509	(25,647,205)
	(21,224,148)	(44,642,656)
INVESTING ACTIVITIES		
Acquisition of subsidiaries (net of cash acquired)		
(Notes 3(a))	–	(68,091,638)
Sale of subsidiaries (Note 3(b))	–	5,301,531
Notes and investments received or receivable on the		
sale of subsidiaries	100,000	(4,942,961)
Due from joint venture partner	–	(6,264,477)
Proceeds from sale of investment in options	25,085,000	(14,675,000)
Repayment of (loan to) GTL	–	5,000,000
Other investments	(6,480,425)	(5,225,167)
Expenditures on mining property, plant and equipment	(27,259,961)	(36,918,719)
Expenditures on other mineral property interests	(251,864)	(1,975,057)
Exploration deposits	598,114	(1,266,023)
Other	(77,067)	(267,073)
	(8,286,203)	(129,324,584)
FINANCING ACTIVITIES		
Share capital issued	203,447	62,573,298
Purchase instalments payable	–	30,000,000
Proceeds from long-term or other debt	40,037,213	–
	40,240,660	92,573,298
NET CASH INFLOW (OUTFLOW)	10,730,309	(81,393,942)
CASH, BEGINNING OF YEAR	44,507,762	125,901,704
CASH, END OF YEAR	\$ 55,238,071	\$ 44,507,762

## Notes to the Consolidated Financial Statements

(Stated in U.S. dollars)

### 1 / Nature of Operations

Indochina Goldfields Ltd. (the “Company”), together with its subsidiaries and joint ventures (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, with a focus on gold and copper exploration and development. The Company also has investments in GTL Resources Plc, a company listed on the Alternative Investment Market in London, 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 10).

### 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 – see Note 24(b)) are as follows:

Central Asian Mining Limited (British Virgin Islands (“BVI”)) (80% owned)	Kola Ventures Limited (BVI)
Bakyrchik Mining Venture (Kazakhstan) (80% owned)	Borneo Exploration and Mining Ltd. (BVI)
Bagan Holdings Ltd. (BVI)	Golden Islands Resources Ltd. (BVI)
Ivanhoe Myanmar Holdings Ltd. (BVI)	Frontier Asian Resources Ltd. (BVI)
Ivanhoe Myanmar Holdings Limited (Myanmar)	PT Frontier Asian Resources (Indonesia) (90% owned)
Indonesian Exploration & Mining Ltd. (BVI)	PT Borneo Exploration and Mining (Indonesia) (90% owned)
PT Indonesia Exploration Sejati (Indonesia)	PT Golden Islands Resources (Indonesia) (90% owned)
Korean Exploration Inc. (BVI)	Thailand Exploration and Mining Ltd. (BVI)
Korean Exploration & Mining Ltd. (South Korea)	Siam Exploration and Mining Ltd. (Thailand)
Korean Exploration Inc. (South Korea) (“KEI”) (49% owned)	Exploration and Mining (Thailand) Co. Ltd. (Thailand)

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. (BVI) (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.

**Inventories:** Copper inventories are valued at the lower of the weighted average cost of production and net realizable value.

Mine supplies are valued at the lower of the weighted average cost, less allowances for obsolescence, and replacement cost.

**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.

**Mining property, plant and equipment:** Mining property, plant and equipment are carried at cost, including development and preproduction costs, capitalized interest and all direct administrative support costs incurred during the construction period, net of cost recoveries and incidental revenues, less accumulated depletion and depreciation including write-downs. Following the construction period, interest and administrative costs are expensed as incurred.

On the commencement of commercial production, depletion of each mining property will be provided on the unit-of-production basis using estimated proven and probable reserves as the depletion basis. The plant and equipment will be depreciated, following the commencement of commercial production, over their expected economic lives using either the unit-of-production method or the straight-line method (over five to ten years), as appropriate.

Mining costs associated with waste rock removal are deferred and charged to operations on the basis of the average stripping ratio for each mine. The average stripping ratio is calculated as the ratio of the tonnes of waste material estimated to be mined to the estimated recoverable tonnes of Copper Cathode.

The Company reviews the carrying values of its mining property, plant and equipment on a regular basis, primarily by reference to estimated future operating results and net cash flows. When the carrying values of these assets exceed their estimated net recoverable amounts, an impairment provision is made for the other than temporary decline in value.

**Other mineral property interests:** All direct costs related to the acquisition of other mineral property 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.

Indochina Goldfields reviews the carrying values of its other mineral property interests on a regular basis 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. 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 other mineral property 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.

**Future mine reclamation costs:** Indochina Goldfields reviews, from time to time, the anticipated costs associated with the reclamation of mine sites. These costs are accrued and charged to operations over the estimated life of each mine using the unit-of-production method based on proven and probable reserves.

## Notes to the Consolidated Financial Statements

*(Stated in U.S. dollars)*

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

**Revenue recognition:** Revenue from the sale of Copper Cathode is recognized, net of related royalties, when the risks and rewards of ownership pass to the purchaser. Settlement adjustments, if any, are reflected in revenue when the amounts are known.

**Commodity contracts:** Indochina Goldfields uses forward sales and option contracts to effectively provide a minimum sales price for a portion of inventories and future production. Gains or losses on these contracts are recognized in revenues when the related product is sold.

Indochina Goldfields also enters into forward sales and option contracts that are not designated as hedges. These contracts are carried at quoted market values and gains or losses are recognized as other income in the period in which changes in the market values of these contracts occur.

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

### 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 the BMV. The Company also holds an indirect interest in the BMV through its investment in GTL (Notes 10(a) and 24(b)).

This acquisition was 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)
<hr/>		
Working capital deficiency		(15,387,717)
Mineral properties		89,852,551
Property, plant and equipment (including construction in progress)		17,765,941
<hr/>		
		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)
<hr/>		
Cost of this acquisition		\$ 68,750,283
<hr/>		
Consideration:		
Cash		\$ 38,740,283
Assumption of purchase instalments payable		30,000,000
<hr/>		
		\$ 68,750,283
<hr/>		

- (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 \$458,570 (1997 – \$358,570) has been received, and securities of Olympus (Note 10(c)). The balance receivable of \$4,291,430 (1997 – \$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 \$3,780,192 (1997 – \$3,880,192).

#### 4 / Investment in Joint Venture

These consolidated financial statements include Indochina Goldfields' proportionate share of JVCo's assets, liabilities and cash flows as follows:

	1998	1997
Current assets	\$ 5,766,461	\$ 212,746
Capital assets	67,406,674	34,871,275
Current liabilities	(5,134,922)	(7,083,021)
Long-term debt	(40,037,213)	—
Investments in JVCo eliminated on consolidation	\$ 28,001,000	\$ 28,001,000
Cash flows		
For investing activities	\$(39,936,202)	\$(27,832,949)
From financing activities	40,037,213	—
	\$ 101,011	\$(27,832,949)

#### 5 / Cash

Cash at December 31, 1998 includes \$7,000,000 placed in trust pending possible advances to JVCo in the form of subordinated loans pursuant to the terms of the project financing discussed in Note 14.

#### 6 / 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 Project. 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 \$10,410,000.

#### 7 / Accounts Receivable

	1998	1997
Joint venture partner	\$ 1,207,420	\$ 6,325,445
Exploration partners	—	3,486,513
Refundable taxes	518,904	455,745
Accrued interest	310,505	336,553
Employees	46,997	826,163
Other	498,111	559,573
	\$ 2,581,937	\$11,989,992

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

#### 8 / Inventories

	1998	1997
Copper ore stockpiles	\$ 4,386,769	\$ —
Copper Cathode	1,101,142	—
Mine supplies	1,349,803	2,151,242
Carrying amount	\$ 6,837,714	\$ 2,151,242

## Notes to the Consolidated Financial Statements

*(Stated in U.S. dollars)*

### 9 / Notes Receivable

	1998	1997
Olympus (Note 3(b))	\$ 3,780,192	\$ 3,880,192
Less provision for credit losses	2,289,519	-
Carrying amount	\$ 1,490,673	\$ 3,880,192

The note receivable is due as to \$541,430 in 1999, following a rescheduling from 1998, with the balance due in 2000.

Indochina Goldfields made a provision for credit losses in 1998 as a result of uncertainties experienced by Olympus with respect to the equity market conditions. In addition, no interest income has been recognized for accounting purposes as a result of these uncertainties.

### 10 / Other Investments

	1998	1997
GTL Resources Plc ("GTL") (formerly BKG Resources Plc)(a)	\$ 1,720,107	\$ 1,844,384
Emperor Mines Limited ("Emperor")(b)	5,391,899	5,391,899
Olympus Pacific Minerals Inc. ("Olympus")(c)	204,259	1,062,769
	\$ 7,316,265	\$ 8,299,052

- (a) In October 1996, the Company acquired a total of 9,607,000 ordinary shares of GTL for \$42,218,182, including \$26,590,541 by the issue of Common Shares of the Company, which represented a 26.3% equity interest in GTL. This equity interest was increased to 27.9% as a result of the purchase in February 1997 of an additional 1,604,377 ordinary shares of GTL for \$5,235,082.

The equity market conditions for GTL have deteriorated with the result that the quoted market value of the Company's investment in GTL decreased significantly below its original cost. Accordingly, the Company made an impairment provision of \$2,653,210 in 1998 and \$37,914,130 in 1997 against this investment to recognize the decline in its value which was considered other than temporary.

GTL has a fiscal year end of March 31 and publishes both annual and semi-annual financial statements.

As a consequence, in applying the equity method of accounting, the Company's share of GTL's loss for each of 1998 and 1997 related to the twelve month periods ended September 30, 1998 and 1997, respectively.

At December 31, 1998, the Company's equity interest in GTL had been diluted to 7.0% as a result of equity financing by GTL during the third quarter of 1998, with the result that the Company has since discontinued the use of the equity method.

The quoted market value of the Company's investment in GTL at December 31, 1998 was \$1,720,107.

- (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.

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 also 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, 1998, Indochina Goldfields held approximately 14.9% (14.1% on a fully diluted basis) of the outstanding common shares of Emperor and the quoted market value of its investment at that date was \$4,620,633. Indochina Goldfield's equity interest in Emperor was increased to approximately 18.1% (17.2% on a fully diluted basis) subsequent to December 31, 1998 (Note 24(a)).

- (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 2,323,500 common shares of Olympus, representing 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. During 1998, the Company made an impairment provision of \$858,510 against the investment due to the prolonged decrease in the estimated market value of this investment below its original cost.

The estimated market value of the Company's investment in Olympus at December 31, 1998 was \$136,072.

#### 11 / Mining Property, Plant and Equipment

	1998		1997	
	COST	ACCUMULATED DEPLETION AND DEPRECIATION, INCLUDING WRITE-DOWNS	NET BOOK VALUE	NET BOOK VALUE
<b>Monywa Copper Project (a)</b>				
Mining property, including development and preproduction costs	\$ 87,535,276	\$ 2,903,685	\$ 84,631,591	\$ 76,099,916
Mine buildings	3,115,176	70,263	3,044,913	2,258,589
Plant and equipment	39,069,442	1,958,978	37,110,464	16,095,197
Motor vehicles	195,515	25,502	170,013	–
Other	314,191	68,075	246,116	140,361
	130,229,600	5,026,503	125,203,097	94,594,063
<b>Bakyrchik Mine Project (b)</b>				
Mining property, including development costs	89,274,785	59,274,785	30,000,000	50,219,089
Mine buildings	453,078	453,078	–	440,045
Plant and equipment	36,465,922	36,465,922	–	27,709,027
	126,193,785	96,193,785	30,000,000	78,368,161
	\$256,423,385	\$101,220,288	\$155,203,097	\$172,962,224

- (a) Indochina Goldfields has a 50% interest in JVCo, a joint venture formed to develop an open-pit copper mine at Monywa in the Union of Myanmar. JVCo has a term, with respect to each deposit, of twenty years from the date of commercial production, which is renewable in certain circumstances for an additional five years.

JVCo has completed construction of a mining complex to develop the Sabetaung and Kyisintaung (“S&K”) deposits within the Monywa Copper Project in Myanmar. JVCo currently expects that commercial production from these deposits will commence during the first quarter of 1999.

Indochina Goldfields has incurred costs to December 31, 1998 and 1997 aggregating \$62,822,926 and \$59,722,788, respectively, with respect to the project in excess of its investment in JVCo.

- (b) In October 1996, GTL had a 40% interest in and operated the Bakyrchik Mining Venture (“BMV”) located in Kazakhstan. In December 1996, a then wholly-owned subsidiary of GTL (“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 GTL 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 the BMV to 80% as a result of a restructuring of the ownership of the BMV with the result that the BMV became a subsidiary of the Company (Note 3(a)).

GTL retained a 20% interest in the BMV and was entitled to increase its interest up to a further 10%. Subsequent to December 31, 1998, Indochina Goldfields increased its interest in the BMV to 100% (Note 24(b)).

## Notes to the Consolidated Financial Statements

*(Stated in U.S. dollars)*

Indochina Goldfields, as a result of the continuing lack of recovery in the price of gold, reviewed the carrying value of the Bakyrchik Mine Project and, as a consequence, made an impairment provision in 1997 of \$39,951,857 against this project to recognize the decline in its value which was considered other than temporary. In 1998, a further impairment provision of \$37,618,284 was made, again because of the lack of recovery in the price of gold as well as the matter discussed in Note 13.

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 complete development of the Bakyrchik Mine Project. 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 \$100 million and \$250 million, respectively.

### 12 / Other Mineral Property Interests

	1998	1997
Indonesia (a)	\$ 6,038,216	\$ 6,018,056
South Korea (b)	73,369	73,369
Thailand (c)	231,704	—
Myanmar (d)	—	—
Kazakhstan (e)	—	—
Vietnam (f)	—	—
	\$ 6,343,289	\$ 6,091,425

(a) 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% (which is to be relinquished in early 1999) 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.

- (b) 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.
- (c) Thailand – Indochina Goldfields has been granted certain special prospecting licenses and has acquired two gold exploration blocks.
- (d) 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.
- (e) Indochina Goldfields holds a 15% participating interest and GTL 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 Goldfield’s interest was increased to 100% subsequent to December 31, 1998 (Note 24(b)).
- (f) Vietnam – Indochina Goldfields has 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.

### 13 / Purchase Instalments Payable

The purchase instalments due to the Government of the Republic of Kazakhstan were 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. These instalments have not yet been paid and Indochina Goldfields has asked the Government to reschedule both instalments. There is no assurance that the Government will ultimately agree to such a rescheduling. If, absent a rescheduling, Indochina Goldfields does not pay the remaining instalments following formal demand, the Government may attempt to force cancellation of the BMV and forfeiture by Indochina Goldfields of its investment in the BMV.

### 14 / Long-Term Debt

	1998		1997
Share of JVCo loan payable	\$40,037,213	\$	–
Less: amount included in current liabilities	–		–
	\$40,037,213	\$	–

JVCo has arranged a \$90 million project loan facility, of which \$80,074,426 had been drawn down to December 31, 1998, for the Monywa Copper Mine Project. This facility bears interest at a rate equal to LIBOR plus 2.5% and is repayable in minimum semi-annual instalments, currently expected to commence in February 2000, until maturity in August 2006. JVCo will also be required to make additional principal repayments in certain circumstances based on certain financial ratios and the level of cash flow above specified levels. The loan facility is secured by a fixed charge on the Project assets and a floating charge on all other assets of JVCo. In addition, Indochina Goldfields has guaranteed repayment of amounts under the facility until Financial Completion (as defined), which occurs when, amongst other things, JVCo makes the first semi-annual repayment. At that time, the facility becomes non-recourse to Indochina Goldfields and ME-I.

JVCo is required to pay a non-refundable management fee of 0.75% per annum on the amounts drawn-down and a non-refundable commitment fee of 0.5% per annum on the unutilized portion of this facility.

Indochina Goldfield’s share of the interest incurred on this loan during the year ended December 31, 1998 amounted to \$2,675,599, which was capitalized to mining property, plant and equipment.

## Notes to the Consolidated Financial Statements

*(Stated in U.S. dollars)*

### 15 / Share Capital

(a) Since January 1, 1997, the Company has issued the following Common Shares:

	NUMBER OF SHARES	AMOUNT
Balance, December 31, 1996	66,508,660	\$319,055,054
<b>Shares issued for cash</b>		
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
<b>Shares issued for non-cash consideration</b>		
Share bonus plan	20,000	180,595
Balance, December 31, 1997	71,586,867	381,628,352
<b>Shares issued for cash</b>		
Share purchase plan	107,488	160,941
<b>Shares issued for non-cash consideration</b>		
Share bonus plan	69,110	42,506
Balance, December 31, 1998	71,763,465	\$381,831,799

(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 8,000,000 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, 1998, there were outstanding stock options to directors, officers and employees for the purchase of an aggregate of 4,616,650 Common Shares at prices ranging from Cdn.\$0.95 to Cdn.\$15.00 (weighted average of Cdn.\$4.61) per share. These options expire as to 315,000 shares in 1999, 850,000 shares in 2000, 420,500 shares in 2001, 48,000 shares in 2002, 415,900 shares in 2003, 2,167,250 shares in 2007 and 400,000 shares in 2008.

### 16 / Income Taxes

The Company has tax loss carry-forwards at December 31, 1998 of approximately \$7,092,000 (Cdn.\$10,639,000, which expire as to Cdn.\$6,584,000 in 2003 and Cdn.\$4,055,000 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.

**17 / Write-down of Carrying Values of Assets**

	1998	1997
Note receivable from Olympus (Note 9)	\$ 2,289,519	\$ -
Investments in:		
GTL (Note 10(a))	2,653,210	37,914,130
Emperor (Note 10(b))	-	12,421,879
Olympus (Note 10(c))	858,510	-
Bakyrchik Mine Project (Note 11(b))	37,618,284	39,951,857
	\$43,419,523	\$90,287,866

**18 / Other Related Party Transactions**

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

	1998	1997
Consulting	\$ 32,313	\$ 34,565
Office and administrative	993,192	1,080,211
Salaries and benefits	933,109	835,387
Travel	108,700	898,750
	\$2,067,314	\$2,848,913

(b) Accounts receivable and accounts payable include sundry amounts of \$166,902 and \$89,424, respectively, (December 31, 1997 – \$269,845 and \$157,842, respectively) which are due from/to directors of the Company or its subsidiaries or companies related by way of directors in common.

**19 / Segment Disclosures**

	1998	1997
Net loss for the year		
Indonesia	\$ 6,738,282	\$ 4,473,284
Kazakhstan	51,132,399	42,767,493
Myanmar	1,975,629	6,798,219
South Korea	1,052,382	2,824,108
Vietnam	79,378	488,040
Thailand	2,013,664	1,240,203
Segment operating losses	62,991,734	58,591,347
Write-down of note receivable and investments	5,801,239	50,336,009
Share of loss of significantly influenced investee	3,951,492	7,694,750
Non-controlling interest	(2,912,254)	(568,238)
Gain on sale of investment in options	(10,410,000)	-
Interest income	(3,645,856)	(6,147,092)
Foreign exchange	1,104,186	105,665
Corporate expenses	6,121,301	6,814,388
Other	118,120	58,676
	\$ 63,119,962	\$116,885,505
Capital assets at the end of the year		
Indonesia	\$ 6,293,909	\$ 6,374,542
Kazakhstan	30,000,000	78,368,161
Myanmar	125,660,192	95,013,829
South Korea	165,063	257,347
Thailand	289,137	12,567
Canada	48,201	186,798
	\$162,456,502	\$180,211,244

## Notes to the Consolidated Financial Statements

*(Stated in U.S. dollars)*

### 20 / Commitments

- (a) Indochina Goldfields has exploration commitments in the ordinary course of business to expend funds towards retaining its interests in mineral properties (Note 12).
- (b) JVCo has entered into an agreement for the engineering, procurement and construction of the mining complex to develop the S&K deposits (Note 11(a)). At December 31, 1998, the unexpended commitment under this contract amounted to approximately \$1,546,000.
- (c) JVCo has entered into an agreement for the sale of a guaranteed quantity of Grade A Product (as defined) from the Monywa Copper Mine Project to a company affiliated with one of the lenders of the project financing. This agreement terminates on December 31 of the calendar year in which the latest of the following events occurs:
- (i) delivery of the aggregate guaranteed quantity of Grade A Product (as defined);
  - (ii) the seventh anniversary of the date of the first commercial shipment of Contract Copper Cathode (as defined) from the Monywa Copper Mine Project; and
  - (iii) the date of the final payment of all amounts owing under the credit agreement discussed in Note 14.
- (d) JVCo will be required to pay a 4% royalty to the Ministry of Mines of the State of the Union of Myanmar (the "Ministry") on the value of Copper Cathode sold.
- (e) At December 31, 1998, Indochina Goldfields had sold forward 10,750 tonnes of copper into 1999 at an average price of \$0.70 per pound and had also entered into forward purchase contracts for 7,750 tonnes of copper at a price equivalent to the London Metals Exchange average price between January and October 1999. The unrecognized pre-tax net gain on these contracts, which have been designated as hedges, amounted to \$338,380 at December 31, 1998.

### 21 / Disclosures Regarding Financial Instruments

- (a) The estimated fair value of Indochina Goldfields' financial instruments was as follows:

	1998		1997	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Cash	\$55,238,071	\$55,238,071	\$44,507,762	\$44,507,762
Investments in options	–	–	14,675,000	24,590,000
Accounts receivable	2,581,937	2,581,937	11,989,992	11,989,992
Notes receivable	1,490,673	1,490,673	3,880,192	3,880,192
Other investments	7,316,265	6,476,812	8,299,052	8,166,591
Exploration deposits	667,909	667,909	1,266,023	1,266,023
Accounts payable and accrued liabilities	6,618,430	6,618,430	10,932,683	10,932,683
Purchase instalments payable	30,000,000	30,000,000	30,000,000	30,000,000
Long-term debt	40,037,213	40,037,213	–	–

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.

Indochina Goldfields' long-term debt bears interest at a current market rate and accordingly, its fair value approximates its carrying value.

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, other than the provision for losses made in 1998 (Note 9), and this is not expected to change.
- (c) The credit agreement discussed in Note 14 provides that JVCo shall, at the request of the lenders, from time to time maintain one or more swaps, caps, collars or similar hedge products commonly used to hedge against interest rate fluctuations, to protect itself against the LIBOR interest rate rising more than 2% per annum above that in effect on January 13, 1998 and as to a notional principal amount equal to 75% of the principal amount outstanding from time to time. JVCo will, however, be subject to interest rate risk on the remaining unhedged amount.
- (d) Indochina Goldfields does not hedge against fluctuations in foreign currency rates against the U.S. dollar as Indochina Goldfields has only minimal amounts of foreign currency assets and liabilities.

## **22 / Contingency**

The BMV has received an assessment from the income tax authorities in Kazakhstan for unpaid withholding taxes of approximately \$1,320,000 with respect to services rendered by consultants to Indochina Goldfields prior to Indochina Goldfields' acquisition of the BMV. Indochina Goldfields has accrued this potential liability in these consolidated financial statements in accounting for its acquisition of the BMV (Note 3(a)), notwithstanding that Indochina Goldfields disagrees with this assessment on the basis that those services were performed outside of Kazakhstan. Any adjustment arising from the ultimate settlement of this matter will be reflected in operations.

## **23 / Uncertainty Due To The Year 2000 Issue**

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect a Company's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting Indochina Goldfields, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved.

## **24 / Subsequent Events**

- (a) On January 25, 1999, the Company acquired an additional 2,826,500 common shares of Emperor for \$1,232,527 (Cdn.\$1,881,205), payable by the issue of 2,322,476 special warrants of the Company.

Each special warrant is exchangeable, without any additional payment, for one Common Share of the Company at any time on or prior to the day (the "Expiry Date") which is the earlier of the fifth business day after a final receipt has been issued by the last of the British Columbia and Ontario Securities Commissions (the "Clearance Date") and January 25, 2000. Any special warrants that are not exercised prior to the Expiry Date will be deemed to have been exercised on that day.

If the Clearance Date does not occur prior to May 25, 1999, each special warrant will be exchangeable, without any additional payment, for 1.1 Common Shares of the Company.

- (b) On February 3, 1999, Indochina Goldfields acquired the remaining 20% interest in the Bakyrchik Mining Venture (Note 11(b)) from GTL Resources Plc. In addition, GTL has agreed to transfer its 85% interest in the Exploration Joint Venture (Note 12) to Indochina Goldfields. As consideration, Indochina Goldfields has agreed to pay \$500,000 to GTL and to release GTL from its obligations with respect to a carried interest loan to GTL for its share of expenditures made at the BMV by Indochina Goldfields.

# Management Team



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 Developer of the Year in 1996 by the Prospectors and Developers Association of Canada for his work in establishing and financing international mining and exploration companies, including Diamond Fields, whose Voisey's Bay nickel deposit, was sold to Inco Limited for CDN\$4.3 billion.



DANIEL J. KUNZ  
*Executive Vice-President  
Chief Operating Officer*

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.



PIERRE F. MASSÉ  
*Vice-President, Finance*

Mr. Massé, who joined the company in October, 1998, has more than 20 years of experience in mining finance and accounting. Previously, he served as the chief financial officer for mining companies such as Equinox Resources Ltd. and Eldorado Gold Corporation.



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.



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 has worked with 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.



MARCO A. ROMERO  
*Vice-President,  
Corporate Development*

Mr. Romero, previously a co-founder and director of Eldorado Gold Corporation, joined the company in February, 1998. He has worked in more than 40 countries during the past 20 years and has held senior roles in project evaluations, mine development, exploration and business development. His focus with Indochina Goldfields is primarily on the generation and evaluation of new business opportunities as well as investor relations.

## CORPORATE DIRECTORY



**INDOCHINA  
GOLDFIELDS LTD.**

### OFFICERS AND DIRECTORS

Robert M. Friedland  
*Chairman and Director*

R. Edward Flood\*  
*President and Director*

Daniel Kunz  
*Executive Vice-President,  
Chief Operating Officer*

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

Eric V. Friedland  
*Director*

Edward L. Mercaldo\*  
*Director*

Richard Mundie  
*Director*

Gordon Toll  
*Director*

Reggie Tun Maung  
*Director*

John Weatherall\*  
*Director*

\*Member of Audit Committee

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Trading symbol: ING, both  
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#### ANNUAL GENERAL MEETING

June 16, 1999, 2:00 pm PDT  
Terminal City Club  
837 West Hastings Street  
Vancouver, Canada



**INDOCHINA  
GOLDFIELDS LTD.**



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