

Management's Responsibility for Financial Reporting


TO THE SHAREHOLDERS OF DAYTON MINING CORPORATION

The accompanying consolidated financial statements of the Company were prepared by management in accordance with accounting principles generally accepted in Canada, consistently applied and within the framework of the summary of significant accounting policies in these consolidated financial statements. Management is responsible for all information in the annual report. All financial and operating data in the annual report is consistent, where appropriate, with that contained in the consolidated financial statements.

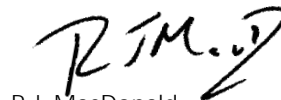
A system of internal accounting control is maintained in order to provide reasonable assurance that assets are safeguarded and that transactions are properly recorded and executed in accordance with management's authorization. This system includes established policies and procedures, the selection and training of qualified personnel and an organization providing for appropriate delegation of authority and segregation of responsibilities.

The Board of Directors discharges its responsibilities for the consolidated financial statements primarily through activities of its Audit Committee composed of three directors, none of whom are members of management. This Committee meets with management to assure that it is performing its responsibility to maintain financial controls and systems and to approve the annual consolidated financial statements of the Company. The Audit Committee also meets with the independent auditors to discuss the results of their audit, their review of internal accounting controls and their audit report prior to submitting the consolidated financial statements to the Board of Directors for approval.

The consolidated financial statements have been audited on behalf of the shareholders by the Company's independent auditors PricewaterhouseCoopers LLP, in accordance with generally accepted auditing standards. The auditors' report outlines the scope of their examination and their opinion on the consolidated financial statements.



W.H. Myckatyn
President, Chairman and Chief Executive Officer



R.J. MacDonald
Senior Vice President, Finance and Chief Financial Officer

Auditor's Report

TO THE SHAREHOLDERS OF DAYTON MINING CORPORATION

We have audited the consolidated balance sheets of Dayton Mining Corporation as at December 31, 1998 and 1997 and the consolidated statements of loss, deficit and changes in financial position for each of the years in the three year period ended December 31, 1998. These consolidated 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 Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1998 in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a consistent basis.

PricewaterhouseCoopers LLP
Chartered Accountants

Vancouver, Canada
February 26, 1999
except note 20, which is as of April 1, 1999

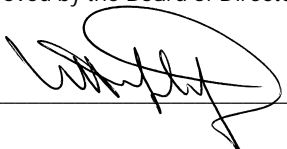
Consolidated Balance Sheets

in thousands of Canadian dollars

AT DECEMBER 31

	1998 \$	1997 \$
Assets		
CURRENT ASSETS		
Cash and short-term investments (note 7)	31,626	95,237
Investments in marketable securities (note 3)	533	839
Bullion settlements receivable	2,602	2,950
Accounts receivable	2,665	3,841
Inventories (note 4)	13,760	9,521
Total current assets	51,186	112,388
PROPERTY, PLANT AND EQUIPMENT (note 5)	68,919	105,729
DEFERRED CHARGES AND OTHER ASSETS (note 6)	4,460	4,826
	<u>124,565</u>	<u>222,943</u>
Liabilities		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	10,813	9,812
Bank loan – current portion (note 7)	24,787	61,307
Capital leases payable – current portion (note 8)	5,168	3,596
Convertible debentures – current portion (notes 9 and 20)	3,697	6,673
Total current liabilities	44,465	81,388
LONG-TERM LIABILITIES		
Bank loan (note 7)	2,552	–
Capital lease payable (note 8)	8,143	7,233
Convertible debentures (notes 9 and 20)	18,990	19,605
Accrued closure costs	2,087	1,540
Total long-term liabilities	31,772	28,378
Total liabilities	76,237	109,766
Shareholders' Equity		
SHARE CAPITAL (note 9)	90,714	90,714
1998 – 40,856,779 common shares		
1997 – 40,856,779 common shares		
CONVERTIBLE DEBENTURES (notes 9 and 20)	73,810	67,904
DEFICIT	(116,196)	(45,441)
Total shareholders' equity	48,328	113,177
	<u>124,565</u>	<u>222,943</u>

Approved by the Board of Directors:



Director



Director

See accompanying notes to the financial statements.

Consolidated Statements of Loss

in thousands of Canadian dollars

FOR THE YEARS ENDED DECEMBER 31	1998	1997	1996
	\$	\$	\$
REVENUES			
Gold sales	45,848	49,553	45,996
COST OF SALES			
Operating cost of sales	33,101	31,685	24,545
Depreciation, depletion and amortization	11,774	10,555	11,104
Total cost of sales	44,875	42,240	35,649
	973	7,313	10,347
EXPENSES			
Amortization of deferred financing costs	982	1,788	2,219
Exploration	934	813	600
Foreign exchange	1,228	(390)	(52)
General and administrative expenses	7,531	4,647	4,975
Interest expense	6,065	7,979	6,934
Interest income	(2,723)	(4,881)	(920)
Writedown of property, plant and equipment (note 5)	51,000	24,000	-
Writedown of marketable securities	805	976	-
Total expenses	65,822	34,932	13,756
NET LOSS FOR THE YEAR	(64,849)	(27,619)	(3,409)
LOSS PER SHARE, including effect of accretion of equity component of convertible debentures	\$ (1.73)	\$ (0.78)	\$ (0.10)
Weighted average common shares outstanding (000's)	40,857	40,854	35,477

Consolidated Statements of Deficit

FOR THE YEARS ENDED DECEMBER 31	1998	1997	1996
	\$	\$	\$
DEFICIT - BEGINNING OF YEAR	(45,441)	(13,500)	(10,091)
Net loss for the year	(64,849)	(27,619)	(3,409)
Accretion of equity component of convertible debentures	(5,906)	(4,322)	-
DEFICIT - END OF YEAR	(116,196)	(45,441)	(13,500)

See accompanying notes to the financial statements.

Consolidated Statements of Changes in Financial Position

in thousands of Canadian dollars

FOR THE YEARS ENDED DECEMBER 31	1998	1997	1996
	\$	\$	\$
OPERATING ACTIVITIES			
Net loss for the year	(64,849)	(27,619)	(3,409)
Adjustments to reconcile net loss to cash provided by operating activities:			
Depreciation, depletion and amortization	11,774	10,555	11,104
Amortization of deferred financing costs	982	1,788	2,219
Amortization of deferred foreign exchange	4,229	711	(92)
Amortization of other assets	43	51	24
Writedown of property, plant and equipment	51,000	24,000	-
Writedown of marketable securities	805	976	-
Cashflow from operations	<u>3,984</u>	<u>10,462</u>	<u>9,846</u>
Change in non-cash working capital (note 16)	<u>181</u>	<u>(4,509)</u>	<u>(2,397)</u>
Cash provided by operating activities	<u>4,165</u>	<u>5,953</u>	<u>7,449</u>
INVESTING ACTIVITIES			
Property, plant and equipment	(16,442)	(18,641)	(14,366)
Deferred stripping	(9,522)	-	-
Purchase of marketable securities	(500)	(1,815)	-
Other assets	398	242	148
Cash used for investing activities	<u>(26,066)</u>	<u>(20,214)</u>	<u>(14,218)</u>
FINANCING ACTIVITIES			
Share capital	-	227	38,520
Convertible debentures	(7,184)	90,847	(18,526)
Bank loan	(36,520)	(4,830)	(4,818)
Capital lease obligation	1,447	581	1,307
Other accrued liabilities	547	559	418
Cash provided by (used for) financing activities	<u>(41,710)</u>	<u>87,384</u>	<u>16,901</u>
NET INCREASE (DECREASE) IN CASH AND SHORT TERM INVESTMENTS	(63,611)	73,123	10,132
CASH AND SHORT TERM INVESTMENTS - BEGINNING OF YEAR	95,237	22,114	11,982
CASH AND SHORT TERM INVESTMENTS - END OF YEAR	31,626	95,237	22,114
CASH AND SHORT TERM INVESTMENTS - END OF YEAR CONSISTS OF:			
Cash and short term investments	11,932	72,758	15,266
Restricted cash	<u>19,694</u>	<u>22,479</u>	<u>6,848</u>
CASH AND SHORT TERM INVESTMENTS - END OF YEAR	31,626	95,237	22,114

See accompanying notes to the financial statements.

Notes to the Consolidated Financial Statements

AT DECEMBER 31

tables stated in thousands of Canadian dollars

1 Nature of Operations

The Company owns the Andacollo Gold Mine, an open pit, heap-leach mine in Chile. The mine commenced commercial production on January 1, 1996.

2 Significant Accounting Policies

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The consolidated financial statements are presented in accordance with generally accepted accounting principles applicable in Canada and have been reconciled to generally accepted accounting principles applicable in the United States as disclosed in note 17. Certain of the prior year figures have been restated to conform to the current year presentation.

PRINCIPLES OF CONSOLIDATION

These financial statements include the accounts of the Company's wholly owned subsidiaries, 544459 B.C. Ltd., Dayton Mining (U.S.) Inc., DMC Cayman Inc., Andacollo Gold Inc., La Serena Inc., Dayton Chile Exploraciones Mineras Limitada and Compañía Minera Dayton.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and writedowns and are depreciated using the unit of production method over proven and probable reserves. Revenue and operating costs in 1995 during the pre-production period were credited or charged, as appropriate, against property, plant and equipment costs.

Annually, reviews are undertaken to evaluate the carrying values of operating mines and development properties. If it is determined that the estimated net recoverable amount calculated on an undiscounted basis is significantly less than the carrying value, a writedown to the net recoverable amount is made by a charge to earnings.

All exploration expenditures are expensed as incurred. Significant property acquisition payments for active exploration properties are capitalized. If no mineable orebody is discovered, previously capitalized costs are expensed in the period the property is abandoned. Expenditures for the development of new mines, to define further mineralization in existing orebodies, and to expand the capacity of operating mines, are capitalized and amortized on a units of production basis over recoverable ounces.

Waste rock removal costs are deferred to the extent the stripping ratio exceeds the life of mine average, and charged to operating income when the stripping ratio is less than the life of mine average. In prior periods, actual costs of waste rock removal approximated costs calculated based on the life of mine stripping ratio, and were expensed in the period incurred.

MARKETABLE SECURITIES

Marketable securities are carried at the lower of cost and market value.

INVENTORIES

Production inventories, comprising ore on the leach pads and gold in process, and mine operating supplies are valued at the lower of average cost and net realizable value.

DEFERRED CHARGES

Deferred charges represent financing and foreign exchange costs on the bank loan, and foreign exchange on the Andacollo Contingency Account and the convertible debenture. These costs are being amortized using the interest method whereby amortization is calculated using the loan balance outstanding over the expected term of the debt.

CONVERTIBLE DEBENTURES

Upon issuance, the convertible debenture was classified into its equity and financial liability components. The financial liability is accreted by way of a charge to earnings and interest payments are applied against the accrued financial liability. Accretion of the equity instrument is recorded as a direct charge to retained earnings.

REVENUE RECOGNITION

Sales of precious metals are recorded at the estimated net realizable value when the metals are available for delivery.

FINANCIAL INSTRUMENTS

The carrying amounts for cash and short term investments, bullion settlements receivable, accounts receivable and accounts payable approximate fair value because of the limited term of these instruments. Fair value estimates are made at the balance sheet date, based on relevant market information and information about financial instruments. These estimates are subjective in nature and involve uncertainties in significant matters of judgement and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The fair value of investments, bank debt, and the convertible debentures are disclosed in notes 3, 7 and 9, respectively.

CLOSURE COSTS

Reclamation costs and related accrued liabilities, which are estimated based on the Company's interpretation of current environmental and regulatory requirements, are accrued and expensed principally by the units of production method based on estimated proven and probable reserves. Reclamation costs are included in general and administrative expenses, and provisions for statutory severances are included in operating costs.

HEDGING TRANSACTIONS

To manage its exposure to fluctuations in the market price of gold and to establish minimum prices for certain of its future production, the Company enters into gold hedging contracts. Gains and losses on these contracts are not recognized in income until reflected in sales revenue when the related production is delivered. The premiums paid for the acquisition of hedging contracts are deferred and netted against revenue in the period the contracts expire.

TRANSLATION OF FOREIGN CURRENCY

The accounts of foreign operations are translated into Canadian dollars as follows:

- monetary assets and liabilities at the rates of exchange prevailing at the balance sheet date.
- other assets and liabilities at applicable historical exchange rates.
- revenues and expenses at the average rate of exchange for the year except for non-monetary expenses which are at the rates used for the translation of the related assets.
- exchange translation gains and losses are included in earnings except for those on long term monetary items which are deferred and amortized over the life of the item.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CONCENTRATION OF CREDIT RISK

Cash includes cash and short-term deposits maturing within 90 days of the original date of acquisition. In order to limit its exposure to credit risk, the Company diversifies its selection of counterparties for the placement of short term deposits. The Company places its cash and short term investments with major chartered banks or in high quality financial instruments. The Company believes that no concentration of credit risk exists with respect to cash and short term investments.

3 Investments in Marketable Securities

	1998	1997
	\$	\$
Investments in publicly traded shares	533	839
Cost \$2,315 (1997: \$1,815)		

4 Inventories

	1998	1997
	\$	\$
Production inventory	10,908	7,424
Supplies inventory	2,852	2,097
	13,760	9,521

5 Property, Plant and Equipment

Included in mining properties and deferred costs is US\$1,250,000 for advance minimum royalty payments, made prior to commencement of commercial production, which is being amortized over the life of the project on a unit of production basis (note 15).

	1998			1997
	\$			\$
	Cost	Accumulated writedown	Accumulated depreciation	Net
Mining properties and deferred costs	46,529	37,260	9,269	-
Plant and equipment	121,301	28,218	24,164	68,919
Deferred stripping	9,522	9,522	-	-
	<u>177,352</u>	<u>75,000</u>	<u>33,433</u>	<u>68,919</u>
				1997
				\$
	Cost	Accumulated writedown	Accumulated depreciation	Net
Mining properties and deferred costs	43,524	24,000	6,218	13,306
Plant and equipment	107,864	-	15,441	92,423
	<u>151,388</u>	<u>24,000</u>	<u>21,659</u>	<u>105,729</u>

6 Deferred Charges and Other Assets

	1998			1997		
	\$			\$		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Deferred financing costs	4,327	3,950	377	4,327	2,967	1,360
Deferred foreign exchange	8,662	4,816	3,846	3,956	666	3,290
Other assets	545	308	237	442	266	176
	<u>13,534</u>	<u>9,074</u>	<u>4,460</u>	<u>8,725</u>	<u>3,899</u>	<u>4,826</u>

7 Bank Loan and Restricted Cash

	1998		1997	
	US\$	Cdn\$	US\$	Cdn\$
Restricted cash:				
Andacollo Contingency Account	5,000	7,665	5,000	7,153
Principal Escrow Account	-	-	10,714	15,326
Deposit & Charge Account	7,857	12,029	-	-
	<u>12,857</u>	<u>19,694</u>	<u>15,714</u>	<u>22,479</u>
Bank loan:				
Current portion	16,190	24,787	42,857	61,307
Long term portion	1,667	2,552	-	-
	<u>17,857</u>	<u>27,339</u>	<u>42,857</u>	<u>61,307</u>

A) BANK LOAN

In October 1994 the Company entered into a US\$50,000,000 bank credit facility to finance the construction of the Andacollo Gold Mine. The credit facility was for a maximum of approximately five years and the loan principal was originally repayable in fourteen quarterly payments of approximately US\$3,571,000 beginning in October 1996. In addition to the minimum required repayments, on each payment date the Company was required to prepay a portion of the principal outstanding based on a percentage of excess cash flow, as defined, from the Andacollo Gold Project in the preceding six month period. Each prepayment was to be applied against the then final scheduled quarterly payment.

Interest is payable at the London Interbank Offer Rate ("LIBOR") plus 1.250% at December 31, 1998 (see note 7D) (1997: LIBOR plus 2.375%). The assets of Compañía Minera Dayton have been pledged as collateral for amounts borrowed under the credit facility. Under the credit facility the Company must maintain certain financial ratios and achieve certain operating results on an ongoing basis.

At December 31, 1998 the Andacollo Gold Mine was not in compliance with certain economic tests under the credit facility. Subsequent to the year end, the Company reached an agreement with its banks whereby the Events of Default (as defined) were waived until April 19, 1999 (see note 20).

All indebtedness of the Company, excluding the convertible debentures, is at variable based lending rates and rates on these debt facilities are comparable to those which would have been commercially available to the Company as of the year end date. Accordingly, the debt at December 31, 1998 is stated at amounts that approximate fair value.

During 1997, the Company issued US\$69,000,000 of convertible debentures. The stated use of proceeds included repayment of the Company's bank loan. Accordingly, the bank loan was classified in current liabilities in 1997.

B) ANDACOLLO CONTINGENCY ACCOUNT

The "Andacollo Contingency Account" of US\$5,000,000 was held to satisfy the minimum principal repayments due under the terms of the bank loan. These funds will be available to the Company on an unrestricted basis if certain debt reserve requirements have been met or the loan is repaid. The funds are being invested in money market instruments and the interest income earned is received by the Company on a quarterly basis. On January 19, 1999, US\$3,000,000 from this account was applied to the bank loan (see note 20).

C) PRINCIPAL ESCROW ACCOUNT

In March 1997, the Company agreed with its banks to defer the three principal payments remaining in 1997 to January 1998. As part of the agreement the Company placed US\$10,714,000 into a restricted account to satisfy this principal payment due in January 1998. The required principal payment was made as scheduled on January 20, 1998 and this restriction was lifted.

D) DEPOSIT & CHARGE ACCOUNT

In July 1998, the Company agreed with its banks to make a deposit to a restricted account of US\$11,430,000 as additional collateral for the bank loan. Under this agreement, all "Events of Default" were waived by the banks to November 30, 1998 and the interest rate on the loan was reduced to LIBOR plus 1.250%. The scheduled loan payment in October 1998 of US\$3,571,000 was paid from this account. On January 19, 1999, the entire balance of this account was applied to the bank loan and the account was eliminated (see note 20).

8 Capital Leases

The Company has mining equipment the purchase of which was financed by 5 year leases. These leases are payable in U.S. dollars and bear interest at variable rates ranging from LIBOR plus 3% to LIBOR plus 4% (1997: LIBOR plus 3.5% to LIBOR plus 4%), with quarterly payments. At the end of the five years, the equipment will automatically be owned by the Company. Future minimum annual lease payments, net of interest, are:

	US\$	Cdn\$
1999	3,375	5,168
2000	2,304	3,527
2001	1,693	2,592
2002	1,130	1,730
2003	192	294
	<u>8,694</u>	<u>13,311</u>

9 Share Capital

A) AUTHORIZED

Authorized share capital of the Company consists of 1,000,000,000 (1997: 1,000,000,000) common shares without par value.

B) ISSUED AND ALLOTTED

	Number of shares	\$
Issued at December 31, 1995	30,462,128	51,968
Stock options exercised	1,117,151	3,923
Conversion of debentures	6,615,000	18,526
Exercise of warrants	110,000	770
Issue of special warrants, net of expenses	2,503,500	15,300
Issued at December 31, 1996	40,807,779	90,487
Stock options exercised	49,000	227
Issued at December 31, 1997 and 1998	40,856,779	90,714

C) CONVERTIBLE DEBENTURES

	Liability component \$	Equity component \$	Total \$
Upon issuance, February 1997	27,265	63,582	90,847
Accretion	1,768	4,322	6,090
Interest payments	(3,936)	-	(3,936)
Foreign exchange loss	1,181	-	1,181
December 31, 1997	26,278	67,904	94,182
Accretion	1,893	5,906	7,799
Interest payments	(7,184)	-	(7,184)
Foreign exchange loss	1,700	-	1,700
December 31, 1998	22,687	73,810	96,497

In February, 1997, the Company issued US\$69,000,000 of convertible unsecured subordinated debentures ("the Debentures") for net proceeds of \$90,847,000. Each US\$1,000 Debenture is convertible at the option of the holder into common shares of the Company at a conversion price of US\$6.36 per common share, equivalent to 157.23 common shares per US\$1,000 principal amount of Debenture, subject to certain anti-dilutive provisions. The Debentures bear interest at 7%, payable semi-annually in US dollars, and mature April 1, 2002.

The Debentures are redeemable at the option of the Company at US\$1,000 plus accrued and unpaid interest, provided that the weighted average trading price of the common shares on the Toronto Stock Exchange during 20 consecutive trading days ending five trading days preceding the date on which the notice of redemption is given, exceeds 125% of the conversion price. Upon redemption or maturity of the Debentures, the Company may, at its option, elect to satisfy its obligation to pay principal or the amount due on redemption by issuing and delivering to each holder of Debentures that number of freely tradeable common shares obtained by dividing US\$1,000 by 95% of the weighted average trading price of the common shares on the Toronto Stock Exchange for the 20 consecutive trading days ending five days preceding the redemption date.

The market value of the convertible debentures at December 31, 1998 was approximately \$28,500,000.

Subsequent to the year end, the Company proposed a redemption of the Debentures (note 20).

D) OPTIONS

	Number	Exercise price, \$	Expiry
Stock options, December 31, 1996	2,824,550	2.35–8.25	1997–2001
Issued during the year	729,000	5.60	2002
Exercised during the year	(49,000)	4.20–4.65	1999–2000
Cancelled during the year	(439,000)	2.35–8.25	1997–2001
Stock options, December 31, 1997	3,065,550	4.05–8.25	1999–2002
Issued during the year	4,892,550	1.00–2.40	2002–2003
Cancelled during the year	(3,531,000)	2.40–8.25	1999–2003
Stock options, December 31, 1998	4,427,100		

At December 31, 1998 there were 4,427,100 (1997: 3,065,550) shares reserved for issue pursuant to the exercise of stock options by employees and directors of the Company. These options are exercisable at prices ranging from \$1.00 to \$8.25 (which, other than the \$1.00 options which were issued when the fair market value was \$0.60, reflect fair market value at the time the options were granted), and with expiry dates ranging from March 24, 1999 to August 14, 2003. The average price of these outstanding options is \$2.66 per share.

The banks which underwrote the bank credit facility were granted options to purchase 350,000 shares at a price of \$4.55 per share for a five year term expiring May 20, 1999. To December 31, 1998, the banks had exercised 262,500 of these options.

In March 1994, the Company granted options to employees and directors to purchase 355,000 common shares at a price of \$4.90 per share, expiring March 24, 1999. The Company's compensation committee originally recommended that these options be granted in November 1993 at the then market price of \$3.40 per share. These options were not granted at that time because of a concern that bank negotiations that were then underway may have led to material change, which subsequently proved to have been premature. The Company has agreed to provide compensation to the employees and directors for the difference between the \$3.40 and \$4.90 price per share, by way of a bonus, at the time the options are exercised. At December 31, 1998, there were 100,000 of these options outstanding.

10 Hedging

At December 31, 1998, the Company's gold hedging program consisted of the following:

	1999
Put options (ounces)	84,000
Average price per ounce (US\$)	\$ 340
Call options (ounces)	7,460
Average price per ounce (US\$)	\$ 434

The fair value of the Company's gold put options and gold call options amounts to US\$3,883,000. This fair value represents the amount that the Company would have received on December 31, 1998 to settle these instruments prior to their expiry dates. The put options expire on various dates up to December 31, 1999. The call options expired February 28, 1999.

The credit risk exposure related to the Company's gold hedging activities is limited to the unrealized gains on outstanding contracts based on current market prices. The counterparties to the gold hedging are also lenders to the Company and are large international credit-worthy institutions.

11 Income Taxes

The Company has certain resource related deductions and other losses which are available to be offset against future taxable income. The benefits of these deductions and losses are not reflected in these financial statements as there is no virtual certainty that the benefits will be realized. The Company has tax loss carryforwards and deductions available to be utilized in future years totaling approximately \$35 million in Canada and \$101 million in Chile. As a result of the restructuring referred to in note 20B, Canadian tax losses will not likely be available to offset against future taxable income.

The non-capital loss carryforwards in Canada expire as follows:

	\$
1999	1,348
2000	925
2001	1,735
2002	3,229
2003	5,816
2004	5,434
2005	16,865
	<u>35,351</u>

12 Related Party Transactions

- Management fees totaling \$59,758 were paid during the period ended March 1, 1998 (year ended December 31, 1997 – \$608,947; year ended December 31, 1996 – \$596,591) to a private corporation controlled by Mr. Wayne McClay, a former President of the Company.
- Royalty payments due under the Andacollo royalty agreement (see note 15) of \$nil were paid to a private corporation controlled by Mr. McClay during the period ended March 1, 1998, while Mr. McClay was a related party (year ended December 31, 1997 – US\$200,000; year ended December 31, 1996 – US\$200,000).
- Of the US\$1,286,000 loan outstanding at December 31, 1997, due from corporations controlled by Mr. McClay, US\$750,000 was forgiven as part of his resignation as President in February 1998, US\$28,000 was charged as interest during 1998, and US\$564,000 was repaid by Mr. McClay during the year.
- Mr. Roland Horst, a former President and Chief Executive Officer of the Company was paid \$800,000 in severance during 1998.
- Legal fees for the period ended May 12, 1998 of \$54,621 (year ended December 31, 1997 – \$212,781; year ended December 31, 1996 – \$153,495) were paid or payable to a legal firm in which a former director of the Company is a senior partner.
- Minesite consulting fees totaling US\$12,308 were paid during the year to a director of the Company.
- Legal fees related to proxy solicitation totaling \$156,928 were paid during the year to a legal firm in which a director of the Company is a senior partner.

13 Segmented Information

The Company's principal activity is the operation of the Andacollo Gold Mine located in Chile.

	1998			1997		
	Canada	Chile	Total	Canada	Chile	Total
			1998			1997
			\$			\$
Total assets	30,969	93,596	124,565	94,512	128,431	222,943
Capital assets	–	58,150	58,150	–	104,329	104,329
Gold sales revenue	–	45,848	45,848	–	49,553	49,553
Interest income	2,544	179	2,723	3,991	890	4,881
Interest expense	1,893	4,172	6,065	1,769	6,210	7,979
Net income (loss)	(5,749)	(59,100)	(64,849)	(10,977)	(16,642)	(27,619)
Depreciation, depletion and amortization	–	11,774	11,774	–	10,555	10,555
Writedown of property, plant and equipment	–	51,000	51,000	–	24,000	24,000
Writedown of marketable securities	805	–	805	976	–	976
Purchases of property, plant and equipment	–	16,442	16,442	–	18,641	18,641

14 Loss Per Share

Loss per share has been calculated based on the weighted average number of shares outstanding. Loss per share has been calculated by increasing the reported net loss by the amount of the increase in the carrying amount of the equity element of the convertible debentures.

15 Commitments

NET SMELTER ROYALTY

The Company's 100% interest in the Andacollo Gold Mine is subject to a 2% net smelter royalty payable to a private corporation controlled by a former President of the Company. The terms of the royalty call for minimum annual royalty payments of US\$200,000 payable quarterly in arrears until an aggregate of US\$5,000,000 in royalty payments have been made. To December 31, 1998 a total of US\$1,850,000 had been paid, of which US\$1,250,000 was paid before the commencement of commercial production and has been capitalized as mining property costs.

16 Supplementary Information

A) CHANGE IN NON-CASH WORKING CAPITAL

	1998	1997	1996
	\$	\$	\$
Bullion settlements receivable	350	(930)	(105)
Other receivables	1,175	(2,803)	330
Inventories	(4,239)	(1,760)	(4,310)
Accounts payable	2,895	984	1,688
	181	(4,509)	(2,397)

B) INTEREST PAID DURING THE YEAR

	1998	1997	1996
	\$	\$	\$
	8,395	9,271	6,620

17 United States Accounting Principles

The effect of the differences between Canadian GAAP and U.S. GAAP on the Company's net loss for the years ended December 31 are summarized below:

- Under Canadian GAAP, gains and losses on translation of long-term debt are deferred and amortized over the term of the debt. Under U.S. GAAP, these gains and losses are reflected in net earnings as they arise.
- Under U.S. GAAP, for any stock options with an exercise price that is less than the market price on the date of grant, the difference between the exercise price and the market price on the date of grant is recorded as compensation expense.
- Under U.S. GAAP, the convertible debenture would be classified entirely as a liability.
- Under U.S. GAAP, the reduction in the carrying value of property, plant and equipment is determined on a discounted cash flow basis.
- Under U.S. GAAP, restricted cash of \$19,694,000 (1997 – \$22,479,000; 1996 – \$6,848,000) would not be included in cash and short term investments on the balance sheets and the statements of changes in financial position. Movements in restricted cash of (\$2,785,000) (1997 – \$15,631,000; 1996 – \$nil) would have been included in investing activities, and the net increase (decrease) in cash and short term investments would have been (\$60,826,000) (1997 – \$57,492,000; 1996 – \$10,115,000).

The significant changes in the consolidated financial statements relative to U.S. GAAP were as follows:

INCOME STATEMENT	1998	1997	1996
	\$	\$	\$
Net income (loss), following Canadian GAAP	(64,849)	(27,619)	(3,409)
Writedown of property, plant and equipment, per Canadian GAAP	51,000	24,000	–
Writedown of property, plant and equipment, per U.S. GAAP	(48,213)	(51,000)	–
Decrease in loss due to different cost basis of property, plant and equipment	2,794	–	–
Foreign exchange gains (losses)	(3,084)	(1,967)	(247)
Interest expense on convertible debentures	(6,061)	(4,279)	–
Foreign exchange on convertible debentures	(2,850)	(4,317)	–
Compensation relating to stock options issued at less than market value	–	98	–
Net income (loss), which is equal to comprehensive income (loss), following U.S. GAAP	(71,263)	(65,084)	(3,656)
Weighted average number of common shares computed in accordance with U.S. GAAP (thousands of shares)	40,857	42,071	36,008
Loss per share, U.S. GAAP	\$ (1.74)	\$ (1.55)	\$ (0.10)
BALANCE SHEET	1998	1997	
	\$	\$	
Property, plant and equipment, following Canadian GAAP	68,919	105,729	
Accumulated writedown, per Canadian GAAP	75,000	24,000	
Accumulated writedown, per U.S. GAAP	(99,213)	(51,000)	
Difference in accumulated depreciation	2,794	–	
Property, plant and equipment, following U.S. GAAP	47,500	78,729	
Convertible debentures – liability, following Canadian GAAP	22,687	26,278	
Interest expense on convertible debentures	(3,661)	(1,768)	
Interest payments on convertible debentures	11,120	3,936	
Issuance	63,582	63,582	
Foreign exchange	11,912	6,677	
Convertible debentures – liability, following U.S. GAAP	105,640	98,705	
Convertible debentures – equity, following Canadian GAAP	73,810	67,904	
Shown as liability under U.S. GAAP upon issuance	(63,582)	(63,582)	
Accretion of equity component under Canadian GAAP	(10,228)	(4,322)	
Convertible debentures – equity, following U.S. GAAP	–	–	
Adjusted deficit, beginning of year, following U.S. GAAP	(79,429)	(14,345)	
Loss, following U.S. GAAP	(71,263)	(65,084)	
Deficit, following U.S. GAAP	(150,692)	(79,429)	

In accordance with the Financial Accounting Standards Board Statement No. 109 ("SFAS 109"), U.S. GAAP requires that income taxes be accounted for by the liability method. Under this method, deferred tax assets and liabilities are determined based on differences between the financial statement reporting and the tax bases of the assets and liabilities and are measured at the enacted tax rates that will be in effect when the differences are expected to reverse. Such differences principally arise from the timing of income and expense recognition for accounting and tax purposes. The application of SFAS 109 would have no material effect on the assets, liabilities or operations for the years presented in these consolidated financial statements as any deferred tax assets would be eliminated by the recording of a valuation allowance. The tax benefit of the Company's loss carryforwards at December 31, 1998 would be approximately \$35 million (1997 – \$17 million; 1996 – \$10 million).

SOP 98-5, Reporting on the Costs of Startup Activities, becomes effective for the Company in fiscal 1999. FAS 133, Accounting for Derivative Instruments and Hedging Activities, becomes effective under U.S. GAAP for the Company in fiscal 2000. The Company has not yet determined the impact of these reporting requirements.

18 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 the Company's ability to conduct normal business operations. 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.

19 Contingencies

Statements of claim were filed on July 17, 1998 in the Second Judicial District Court of the State of Nevada and on August 24, 1998 in the British Columbia Supreme Court against the Company whereby the plaintiff, Medinah Energy Inc. of Nevada claims injurious falsehood relating to certain mineral claims in the Andacollo District. The Company has filed statements of defense and motions to dismiss the claims. The Company considers that the plaintiff's claims are without any merit. No provision has been made in these financial statements for these claims.

20 Subsequent Events

A) BANK LOAN

In January 1999 the Company reached an agreement with its banks regarding the bank loan. The entire balance of the Deposit & Charge Account of US\$7,857,000 and US\$3,000,000 from the Andacollo Contingency Account were released from restriction and together with US\$1,000,000 of unrestricted cash, were applied against the bank loan (see note 7). The Events of Default were waived until April 19, 1999, certain economic ratios were redefined, and the loan rate was maintained at LIBOR plus 1.25% to the end of the life of the loan. The Company believes it is in compliance with its covenants applicable at April 19, 1999. Actual compliance is dependent upon the banks' concurrence with management information.

The loan repayment schedule was amended as follows:

Payment Date	Principal Amount	
	US\$	Cdn\$
April 19, 1999	1,000	1,531
July 19, 1999	1,667	2,552
October 19, 1999	1,667	2,552
January 19, 2000	1,667	2,552

B) REDEMPTION OF CONVERTIBLE DEBENTURES**(i) PROPOSAL**

In March 1999, the Company proposed, and its debentureholders and shareholders approved, that:

- the Debentures be redeemable by the Company into common shares on May 3, 1999 at a rate of 4,500 shares per US\$1,000 principal amount of Debentures,
- the Debentures be convertible until May 3, 1999 into common shares at the option of the Debentureholders at the same rate, and that
- no additional interest shall accrue on the Debentures from March 31, 1999.

(ii) COMPREHENSIVE REVALUATION AND UNAUDITED PRO FORMA BALANCE SHEET

Under Canadian GAAP, the above proposal will require a comprehensive revaluation of assets and liabilities of the Company. The following unaudited pro forma balance sheet gives effect to this proposed transaction, as well as the repayment of the bank loan referred to above.

ASSETS	\$	LIABILITIES & EQUITY	\$
Cash	8,476	Accounts payable	10,813
Investments in marketable securities	533	Bank loan	6,634
Bullion settlements receivable	2,602	Capital lease obligation – current	5,168
Other receivables	1,991	Convertible debentures – liability – current	–
Hedging program	5,100	Current liabilities	22,615
Inventories	14,500		
Current assets	33,202	Bank loan	2,552
Property, plant and equipment	47,500	Capital lease obligation	8,143
Other assets	133	Convertible debentures – liability	–
		Accrued closure costs	2,087
		Total liabilities	35,397
Total assets	80,835	Common shares	45,438
		Convertible debentures – equity	–
		Retained earnings (deficit)	–
		Total shareholders' equity	45,438
		Total liabilities and equity	80,835

This unaudited pro forma balance sheet has been prepared based on the audited consolidated financial statements at December 31, 1998 and gives effect to the following transactions as if they had occurred on December 31, 1998:

- cash payment of \$18,153,000 (US\$11,857,000) of bank loan principal in January 1999
- cash payment of the regularly scheduled \$3,697,000 (US\$2,415,000) interest payment to debenture holders on April 1, 1999
- exchange of the convertible debentures for common shares of the Company at a ratio of 4,500 common shares for each US\$1,000 of principal value of debentures
- adjustment of marketable securities, other receivables, inventories, property, plant and equipment, and other assets, including the Company's hedging programs, to management's best estimate of their fair value
- classification of the net comprehensive revaluation adjustment of \$72,220,000 and the deficit at December 31, 1998 of \$116,196,000 as share capital
- cash payment of estimated costs related to the proposal of \$1,300,000 charged to share capital.