Andrew

FYI. Please return

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Annual Report 1992

Cheni Gold Mines Inc.

With the solving of our financial crisis, Cheni not only gained a new partner but also achieved the first step toward revitalizing the Company.

Contents

Report to Shareholders

The year 1992 was one of crisis and then stabilization for your Company, after dealing with the financial difficulties created by the exhaustion of known reserves at the Lawyers Mine. Successful negotiations with the Company's principal banker and trade creditors, together with a generous infusion of cash by a major shareholder and conversion of their loan into equity, led to re-establishing solvency.

The essential component of the financial restructuring is an agreement with SEREM, a subsidiary of the BRGM, whereby SEREM has agreed to subscribe through private placement for up to 15 million common shares of Cheni for a cumulative amount of FF50,000,000. Based on current foreign currency exchange rates, SEREM's subscription price would be $0.767 per common share from which Cheni would derive gross proceeds of $11.5 million. The private placements are to occur during the period 1993 to 1996.

The 1991 E-Scan survey resulted in the localization of five specific targets. One of these targets was successfully mined. Evaluation of the four remaining areas will resume in the spring.

Ongoing administrative and mine-site maintenance costs have been reduced wherever possible, including a reduction in senior staff levels. Until the Company re-establishes a more active profile, the President will be employed on a part-time basis to work with the remaining key personnel in maintaining the Company's viability.

Production for 1992 was 31,517 ounces of gold and 749,327 ounces of silver resulting in a net loss of $3.7 million or $0.34 per share. This result includes a write-down of $2.2 million for the J&L property referred to later in this report.

Mining and milling activity at the Lawyers property was terminated at the end of July and then recommenced from mid-September to mid-December to treat ore from the Phoenix zone, a newly discovered, high-grade ore deposit.

Detailed analysis of the data obtained in the 1991 E-Scan survey of an area south-east of the Duke's Ridge deposit resulted in the localization of five specific targets in the vicinity of the Lawyers mill. One of these targets was successfully mined and treated at the end of 1992. Evaluation of the four remaining areas by trenching and drilling will resume in the spring. Meanwhile, the E-Scan data from the area south of the AGB zone is being analyzed in detail. Positive results could lead to a resumption of mining and milling activity in late 1993 in parallel with a continuation of the rehabilitation work at Lawyers.

Since the outlook for precious metal prices over the foreseeable future is not optimistic and because treating the refractory ore of the J&L deposit is expected to be a high cost operation, in spite of successful test results for the separation of pyrite and arsenopyrite in column flotation cells, the decision has been made to terminate the option agreement with Equinox Resources Ltd. and Pan American Minerals Corp.

An initial phase of underground evaluation of the Mets deposit resulted in a substantial reduction of the diluted reserves and grade. In view of the continuing low gold prices, Cheni has taken the decision not to mine the deposit in 1993. The Company has asked Golden Rule Resources Ltd. and Manson Creek Resources Ltd. for a one year extension to our option agreement to see if the price of gold in 1994 will reach a level sufficient to eliminate the financial risk of exploiting the property.

A major step towards the Company's long term objective to become a significant mining player in the Americas has been taken with the purchase by the Genmin group of a significant shareholding interest in Cheni. The Company now has two major shareholders who are actively exploring in North America. It is their intention to bring to Cheni properties that can be effectively developed by the Company.

Late in the year, Mr. Alain Dangeard resigned as a director after many years of valuable service. In his stead, we were pleased to welcome Mr. Colin Officer, an executive with the Genmin group, as a member of our Board.

We would like to thank our employees and Directors for their continued support during these trying times.

Paul Savoy

Paul Savoy
President and
Chief Executive Officer

E. Phillips

Edwin C. Phillips
Chairman of the Board

February 25, 1993
Vancouver, B.C.

Exploration Review

Lawyers Property

Exploration in 1992 was focused approximately 400 metres southeast of the Duke's Ridge deposit. Detailed analysis of the data obtained in the 1991 E-Scan survey resulted in the definition of five specific targets in this area which coincide with favourable structure, soil geochemistry and high-grade float. Late in the season, trenching and diamond drilling on one target were successful in defining the Phoenix zone which yielded 6,713 ounces of gold and 296,084 ounces of silver from 5,439 short tons of ore. Mining and milling were completed by the middle of December, 1992.

> *Exploration is being concentrated on the domains of the productive structures, and the E-Scan data from the area immediately south of the AGB zone is being analyzed in detail.*

Trenching on a second E-Scan signature has exposed quartz-rich breccia along strike from the Phoenix zone which contains gold values ranging to 0.35 ounces per ton. Evaluation will resume in the spring. The remaining three resistivity targets will also be trenched and drilled as warranted. Exploration is being concentrated on the domains of the productive structures, and the E-Scan data from the area immediately south of the AGB zone is being analyzed in detail. An amount of $300,000 has been budgeted for continued exploration at Lawyers in 1993.

Mets Property

An agreement was reached in 1992 with Golden Rule Resources Ltd. and Manson Creek Resources Ltd. to develop and mine their Mets deposit 15 km north-west of the Lawyers Mine site, where a probable geological reserve of 75,000 short tons grading 0.384 ounces of gold per ton had been calculated from the diamond drilling and trenching data base.

An initial phase of underground evaluation by Cheni was completed by September, 1992, with the result that the diluted reserve base was reduced to 58,800 short tons grading 0.35 ounces of gold per ton.

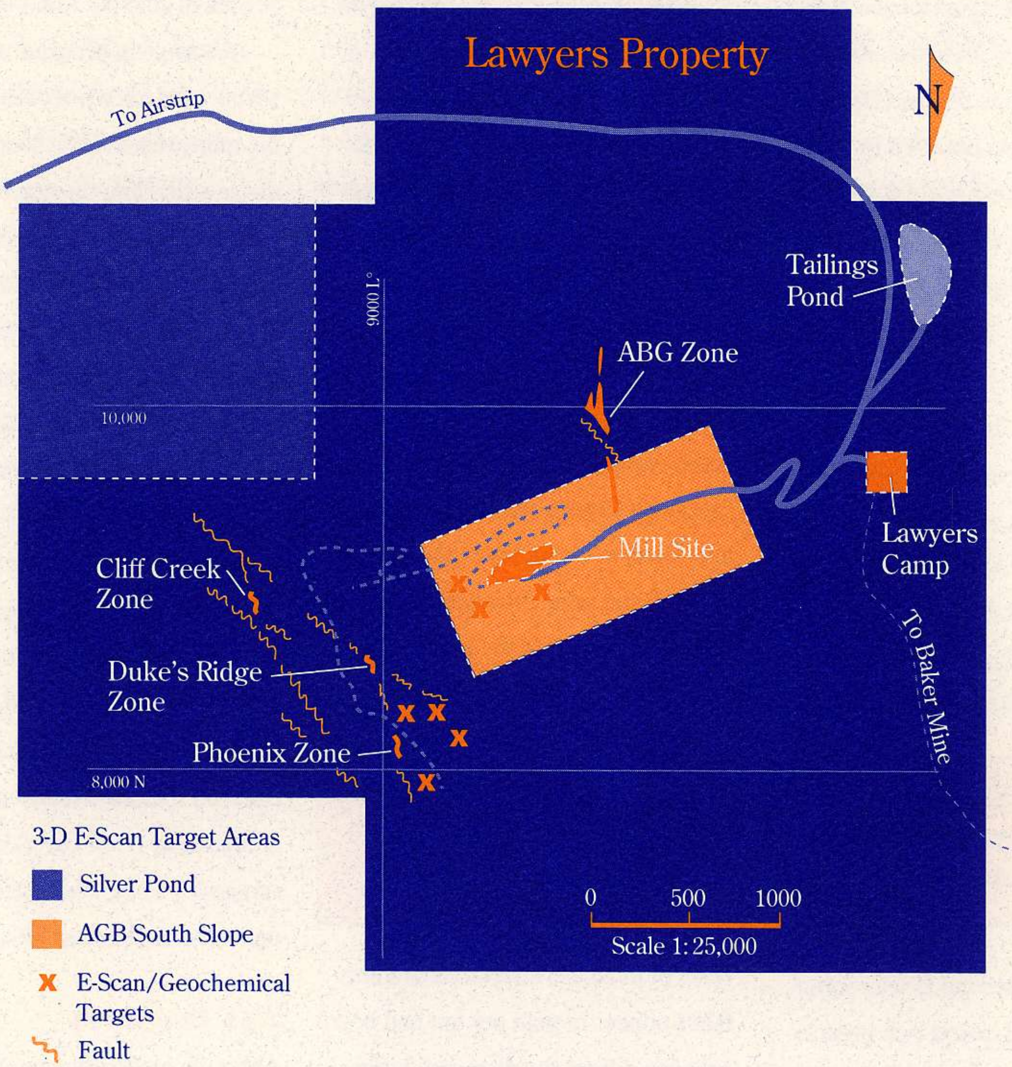
A sampling program along the 1870 level drift, which was driven in the mineralized zone along the 160 metre strike length, resulted in an overall 10% to 15% reduction in gold grades from those indicated by the diamond drilling. Continuity of the mineralization will require further confirmation by fill-in drilling, particularly where faulting was encountered in the north end.

After considering the results of the Phase I evaluation, together with the projected development, mining and processing costs, and continuing low gold prices, Cheni has taken the decision that the Mets deposit will not be mined in 1993. The Company has requested a one year extension to the option, to September 1994.

J&L Property

Although exploration work on the property was deferred in 1992, the metallurgical development program progressed steadily in the BRGM laboratories in Orleans, France. The new process to separate pyrite and arsenopyrite was successfully pilot tested in column flotation cells and a concentrate produced which contains in excess of 45 grams of gold per tonne. Although this is an improvement, the anticipated gold content of 6 to 7 grams per tonne in the reserve grade will not support production of a required concentrate grade of 50 grams or better and the economics of the project are not encouraging while gold prices remain below US$400 per ounce.

Since the outlook for precious metal prices over the short to intermediate term is not optimistic and because the refractory ore of the J&L will require a high-cost operation, the decision has been taken to terminate the option agreement with Equinox Resources Ltd. and Pan American Minerals Corp.



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

This discussion and analysis of the results of operations and financial condition of the Corporation should be read in conjunction with the Consolidated Financial Statements and the related notes. The Corporation operates the Lawyers Mine located in north-central British Columbia. During the year, mining and milling activity were terminated and the mine was placed on a care and maintenance basis in December. For reference purposes certain operating statistics have been summarized at the end of this report (see Table 1).

Results of Operations

The Corporation recorded a net loss of $3.7 million ($0.34 per share) in 1992 as compared to a net loss of $29.3 million ($2.64 per share) in 1991. Included in the 1992 results is a writeoff of an undeveloped property in the amount of $2.2 million. The 1991 results include a writedown of the Lawyers Mine assets in the amount of $22.6 million. The Lawyers milling facility was operated continuously until the end of July, at which time milling operations were curtailed as all known economic ore reserves had been depleted. Milling operations recommenced in late November for a short period in order to process ore from a newly discovered, high-grade ore deposit (Phoenix zone). Accordingly, a substantial decrease in revenue (24%) and cost of operations (25%) resulted.

Gold and silver revenues declined in 1992 by 26% and 14% respectively, as compared to 1991. The decrease in gold revenue resulted from a reduction in gold price realized (15%) and reduced shipments (15%) offset by a weaker Canadian dollar (3%). The realized price of silver declined (21%) offset by an increase (6%) in shipments.

As compared to the average London p.m. closing price for gold (US$343.73/oz.) and silver (US$3.96/oz.), the average realized selling prices were lower by 0.9% and 1.5% respectively. These lower realized prices occurred because the curtailment of operations during the year restricted the ability of the Corporation to hedge the selling price of its precious metal production and because a cost was incurred to neutralize certain 1991 carry-over hedge commitments.

Shipping and refining costs in 1992 increased by $0.4 million (147%), as compared to 1991. This increase reflects the higher cost of smelting/refining the gold/silver concentrate produced from milling the Phoenix ore. In prior years, concentrate products were not produced from the Lawyers milling facility. Due to the high grade of the Phoenix ore (gold–1.35oz./ton; silver–62.89oz./ton) and its mineral complexity the decision was taken to adjust the mill circuits to produce a concentrate in order to maximize metal recoveries and minimize operating costs and any potential environmental impact.

The cost of operations of $14.1 million includes $1.4 million as a provision for writedown of inventories. Excluding this item, the cost of operations was 32% less in 1992 than in 1991. The cash production cost per equivalent ounce of gold produced, net of the above-noted item, decreased by 23% from US$348/oz. in 1991 to US$268/oz. in 1992. This decrease in unit cost of production was primarily due to the higher mill feed gold grade (33%) as compared to 1991.

Operations for 1993 are expected to be restricted to conducting an exploration program in the near vicinity of the Phoenix deposit and to completing further site restoration work.

Depreciation charges in 1992 were substantially lower than in prior years because of the writedown of assets recorded in 1990 and 1991. Essentially, plant and equipment are recorded at their estimated residual value. Nominal depreciation charges are expected for 1993.

Exploration expenses increased by 180% to $0.7 million. In an effort to replenish ore reserves at the Lawyers Mine an initial evaluation phase of the Mets property was carried out in July and August for $0.5 million. However, in September the Corporation took the decision to defer exploitation of this property because of the inherent operating risk together with the depressed price of gold.

General and administrative expenses decreased by 27% to $1.0 million resulting from a reduction in head office staff and other cost control measures necessitated by the curtailment of activity at the Lawyers Mine.

Interest expenses decreased by $0.5 million in 1992 as compared to 1991, reflecting the reduced debt load resulting from the Corporation's financial restructuring and because of debt repayment out of cash flow. Net of trade debt and the government assistance loan, total indebtedness at year end was $6.7 million, as compared to $13.2 million at December 31, 1991. In addition, the average interest rate charged to the Corporation during the year was 9.8% as compared to 12% in 1991.

The writeoff of mineral properties relates to the option on the J&L property. The Corporation is not able to fulfill all the terms and conditions of the option by its expiry date in September, 1993, and has not been able to renegotiate an extension to the option under terms satisfactory to management. Accordingly, the carrying value of the property was written off.

The Corporation recorded a provision of $1.0 million for site restoration expenses in 1991. Management believes that this provision together with the salvage value of the Lawyers Mine assets (after debt repayments) and present bonding is sufficient to meet all obligations with respect to the eventual closure of the Lawyers Mine.

Liquidity and Capital Resources

Working Capital and Cash Flow

The Corporation ended 1992 with working capital of $0.2 million, as compared to a working capital deficiency of $9.8 million at the end of 1991. The improved position is primarily a result of the Corporation's financial restructuring which was approved at the Annual General Meeting on June 16, 1992.

The amount of both current assets and current liabilities decreased significantly by year end. The decrease in current assets is primarily due to the reduction in inventories from $8.9 million in 1991 to $1.0 million at the end of 1992. Included in this decrease are provisions for writedowns of broken ore inventory in the amount of $0.6 million and supplies inventory in the amount of $0.8 million. The residual change in inventories occurred because all economic broken ore inventory was milled prior to cessation of operations and because operating supplies inventory was reduced to a minimum level prior to the shutdown of operations.

The accounts receivable balance of $2.2 million at year end includes the settlement receivable due on the gold/silver concentrate which was shipped in December. The account is expected to be settled late in the first quarter of 1993.

Cash decreased by $0.3 million during the year. However, operations generated sufficient cash flow to repay $2.3 million of the bank line of credit; $1.3 million of capital lease obligations; and $2.4 million of trade debt.

Line of Credit and Long-Term Debt

As described in Note 7 to the financial statements, the Corporation completed a financial restructuring during the year. Under the terms of the restructuring an affiliated company, SEREM, has agreed to purchase shares of the Corporation in installments for an aggregate amount of FF50,000,000. These proceeds will be used by the Corporation over the next four years to repay certain of its long-term debt ($5.1 million) and to fund ongoing corporate head office expenses and site restoration expenditures at the Lawyers Mine.

Shareholders' Deficiency

As reported at December 31, 1992, the Corporation has a shareholders' deficiency of $3.5 million. Under the terms of a common share subscription agreement among the Corporation and two affiliated companies, as described in Note 9(d) to the consolidated financial statements, certain of the proceeds from this agreement will be used to repay $5.1 million of long-term debt. Accordingly, the shareholders' deficiency will be reduced and eventually eliminated as the long-term debt is repaid, commencing in 1994.

Change in Shareholders

Subsequent to the completion of the financial restructuring, the Corporation's principal shareholder, the BRGM group, sold 3.2 million shares of Cheni to a company in the General Mining, Metals and Minerals Limited group (Genmin). As a result of this transaction the Corporation's ownership is now distributed as to 35.6% by the BRGM group; 28.8% by the Genmin group; and 35.6% as to the general public.

Future Prospects

The Corporation's growth is dependent upon its ability to locate additional economic ore reserves at its Lawyers property and ultimately upon its acquisition and development of other mining properties.

The Board of Directors has approved a budget of approximately $0.3 million for exploration activities at the Lawyers property in 1993. These activities will be directed at locating ore reserves similar to the Phoenix deposit which was discovered late in 1992. Future operations at the Lawyers Mine are largely dependent upon the success or failure of this program. With respect to acquiring new properties/projects, Cheni expects to be able to capitalize upon its strong shareholder base in revitalizing the Corporation.

Table 1

Operating Data (Note 1)		1992	1991
Shipments (ounces)	—Gold	32,369	38,050
	—Silver	759,705	717,265
Selling price (US$/ounce)	—Gold	$ 340.67	$ 401.80
	—Silver	$ 3.90	$ 4.95
Average exchange rate realized (US$/CDN$)		0.8467	0.8693
Ore milled (tons)		119,990	193,086
Mill feed grade (ounce/ton)	—Gold	0.286	0.214
	—Silver	7.503	4.931
Recovery	—Gold	91.8%	93.3%
	—Silver	83.2%	75.7%
Production (ounces)	—Gold	31,517	38,530
	—Silver	749,327	720,706
Operating cost (CDN$/ton milled) (Note 2)		$ 105.64	$ 98.22
Operating cost (US$/equivalent ounce of gold) (Note 2)		$ 267.68	$ 347.99

Note 1: The Lawyers Mine did not operate continuously throughout 1992. Mining and milling activity was terminated at the end of July and then recommenced from mid-September to mid-December on a limited scope.

Note 2: The 1992 calculation is net of an inventories writedown of $1.4 million.

Auditors' Report

To the Shareholders of Cheni Gold Mines Inc.

We have audited the consolidated balance sheets of Cheni Gold Mines Inc., as at December 31, 1992 and 1991 and the consolidated statements of operations, deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1992 and 1991 and the results of its operations and changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Price Waterhouse

Chartered Accountants
Vancouver, B.C.
February 25, 1993

Consolidated Balance Sheet

(in thousands) December 31	1992	1991
Assets		
Current assets		
Cash	$ 112	$ 423
Accounts receivable	2,176	355
Inventories (Note 3)	991	8,857
Prepaid expenses	98	107
	3,377	9,742
Mineral properties (Note 4)	—	2,197
Property, plant and equipment (Note 5)	5,641	6,241
Other assets (Note 6)	272	605
	$ 9,290	$ 18,785
Liabilities		
Current liabilities		
Short-term indebtedness (Note 7)	$ —	$ 5,495
Accounts payable and accrued liabilities	2,364	7,143
Cheni S.A. loan (Note 9(d))	—	5,307
Current portion of capital lease obligations (Note 8)	772	1,635
	3,136	19,580
Long-term debt (Note 7)	9,317	3,721
Capital lease obligations (Note 8)	310	796
	12,763	24,097
Shareholders' Deficiency		
Share capital (Note 9)	49,227	49,227
Contributed surplus (Note 10)	5,572	—
Deficit	(58,272)	(54,539)
	(3,473)	(5,312)
	$ 9,290	$ 18,785

Commitments: Note 13

Approved by the Board:

E. Phillips
Director

Director

Consolidated Statement of Operations

(in thousands) For the Year Ended December 31	1992	1991
Revenue		
Sales	$ 16,517	$ 21,673
Less: Shipping and refining	613	248
	15,904	21,425
Costs and Expenses		
Cost of operations (Note 3)	14,086	18,808
Depreciation and amortization	600	5,102
Exploration	715	255
General and administrative	996	1,356
Interest	805	1,297
Foreign exchange loss	221	262
Writedown of property, plant and equipment	—	21,151
Writeoff of mineral properties	2,214	1,454
Provision for site restoration	—	1,000
	19,637	50,685
Net Loss	$ (3,733)	$(29,260)
Loss per Share (Note 12)	$ (0.34)	$ (2.64)

Consolidated Statement of Deficit

(in thousands) For the Year Ended December 31	1992	1991
Deficit—beginning of year	$ (54,539)	$ (25,279)
Net loss	(3,733)	(29,260)
Deficit—end of year	$ (58,272)	$ (54,539)

Consolidated Statement of Changes in Financial Position

(in thousands) For the Year Ended December 31	1992	1991
Cash provided by (used in) operating activities		
Net loss	$ (3,733)	$(29,260)
Items not affecting cash		
Writedown of property, plant and equipment	—	21,151
Writeoff of mineral properties	2,214	1,454
Writedown of inventories	1,350	—
Depreciation and amortization	600	5,102
Unrealized foreign exchange loss	—	264
	431	(1,289)
Decrease (Increase) in operating working capital		
Accounts receivable and prepaids	(1,812)	1,411
Inventories	6,516	(450)
Accounts payable and accrued liabilities	(4,514)	2,815
	621	2,487
Cash provided by (used in) financing activities		
Long-term debt	5,596	—
Cheni S.A. loan and interest	(5,572)	—
Contributed surplus	5,572	—
Capital lease obligations	(1,349)	32
	4,247	32
Cash provided by (used in) investing activities		
Mineral properties	(17)	(1,963)
Property, plant and equipment	—	(4,344)
Other assets	333	(35)
	316	(6,342)
Increase (Decrease) in cash	5,184	(3,823)
Cash, net of short-term indebtedness—beginning of year	(5,072)	(1,249)
Cash, net of short-term indebtedness—end of year	$ 112	$ (5,072)

Notes to Consolidated Financial Statements

For the years ended December 31, 1992 and 1991

1. Operations

Operations at the Lawyers Mine ceased in December 1992 and the property was put on a care and maintenance basis for the winter. These consolidated financial statements as presented disclose a shareholders' deficiency of $3,473,000 (1991– $5,312,000). Management has undertaken a number of steps to recapitalize the Corporation as disclosed in Notes 9(c) and 9(d). This refinancing is to be used to fund ongoing operations and the subsequent repayment of long-term bank indebtedness and long-term trade liabilities. Accordingly, these consolidated financial statements are prepared on a going concern basis.

2. Significant Accounting Policies

Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, Sturdee Management Inc.

Revenue recognition

Revenue is recognized when bullion in doré form or gold/silver concentrate is shipped from the mine and title has passed. The effects of forward sales contracts are reflected in revenue at the date the related bullion is shipped from the mine.

Translation of foreign currencies

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates.

Monetary assets and liabilities are translated at the year-end exchange rate. Gains or losses arising on translation are recorded in the statement of operations except for those on obligations which have a fixed or ascertainable life extending beyond the current year. In this case any gains or losses are deferred and amortized over the life of the obligations.

Inventories

Bullion inventory and broken ore inventory are valued at the lower of cost, using the "first-in, first-out" method, and net realizable value.

Materials and supplies are valued at the lower of average cost and net realizable value.

Mineral properties

Expenditures on general mining exploration are charged against operations as incurred. Exploration expenditures for specific major projects are deferred until such time as the projects achieve commercial production, are sold or are abandoned. When a project achieves commercial production, the deferred exploration expenditures are reclassified to property, plant and equipment while expenditures relating to abandoned projects are charged to operations in the year of abandonment.

Property, plant and equipment

—Mine development

Exploration development and preproduction expenditures, including costs of mine access roads, relating to each mine are deferred until the mine is brought into commercial production, at which time costs are amortized to operations over the estimated life of the mine.

—Plant and equipment

Plant and equipment are recorded at cost.

—Depreciation and amortization

Depreciation and amortization are provided using the straight-line method, as follows:

Deferred exploration Mine development	Life of mine
Plant and equipment Mine access road	Life of mine less residual value
Mobile production equipment Assets under capital lease	Five years less residual value

3. Inventories

(in thousands)	1992	1991
Bullion	$ —	$ 300
Broken ore	—	4,329
Materials and supplies	991	4,228
	$ 991	$ 8,857

During the year the Corporation recorded in the cost of operations a provision for inventory writedown in the amount of $800,000 for material and supplies and $550,000 for broken ore.

4. Mineral Properties

(in thousands)	1992	1991
J&L property	$ —	$ 2,197

During the year a decision was taken to abandon the J&L property. Accordingly, the deferred exploration cost of $2,197,000 was charged to earnings. In 1991 the Toodoggone property deferred exploration cost of $1,454,000 was written off.

5. Property, Plant and Equipment

(in thousands)

Lawyers property	Cost	Accumulated Depreciation and Pre-1991 Writedown	1991 Writedown	1992 Net Carrying Amount	1991 Net Carrying Amount
Deferred exploration	$ 15,292	$ 14,873	$ 419	$ —	$ —
Mine development	18,504	16,093	2,411	—	—
Mine access road	7,245	3,601	—	3,644	3,644
Plant and equipment	34,608	14,290	18,321	1,997	2,597
	$ 75,649	$ 48,857	$ 21,151	$ 5,641	$ 6,241

Plant and equipment includes at cost $4,197,000 (1991 – $4,827,000) and accumulated depreciation and writedowns of $2,620,000 (1991 – $2,230,000) of assets under capital lease.

6. Other Assets

(in thousands)	1992	1991
Term deposits	$ 272	$ 255
Housing loans to employees	—	350
	$ 272	$ 605

Term deposits are held as security for the Province of British Columbia for reclamation permits and other special use permits required for the Lawyers Mine.

7. Long-Term Debt

(in thousands)	1992	1991
Bank indebtedness	$ 3,200	$ —
Trade creditors	1,896	—
Government Assistance Loan	3,721	3,721
Loan from Cheni S.A., an affiliated company	500	5,307
	9,317	9,028
Current portion	—	5,307
	$ 9,317	$ 3,721

During the year the Corporation completed a financial restructuring with its principal banker and certain of its trade creditors. Under the terms of the restructuring, the Corporation reduced its bank indebtedness (1991 – $5,495,000) to $3,200,000 which was then converted to a long-term facility. Concurrently, certain trade creditors converted $1,896,000 of their trade debt to a long-term facility.

The bank indebtedness of $3,200,000 may be drawn in either Canadian or U.S. funds. Draws in Canadian funds bear interest at prime plus 1%, while draws in U.S. funds bear interest at either the lender's U.S. prime plus 1%, or LIBOR plus 2%, at the Corporation's option.

The trade creditors' indebtedness bears interest at prime plus 1%.

The bank indebtedness is secured by a first fixed and floating charge on the Lawyers Mine assets. The trade creditors are unsecured. In addition, the Corporation has assigned to its Bank the proceeds of the Subscription Agreement (Note 9(c)). Certain of the proceeds are to be allocated between the Bank and the trade creditors.

Combined principal repayments to the Bank and the trade creditors are scheduled as follows:

(in thousands)	
1994	$ 1,000
1995	3,000
1996	1,096
	$ 5,096

Pursuant to an agreement between the Province of British Columbia and the Corporation, the Province provided financial assistance in the cost of constructing the access road to the Lawyers property. The loan amount is limited to the lesser of $4,500,000, or 50% of the construction cost, and is secured by a debenture creating a second fixed charge against the Lawyers property assets. Repayment of the loan will be by fixed monthly installments. Installments are due only during those months when the price of a combination of an ounce of gold plus 50 ounces of silver reaches a certain level (1992 – US$868; 1991 – US$844). Interest, at a rate equal to the prime rate of a Canadian Chartered Bank, will accrue only in those months when installments are due. No repayments have been made, nor has interest accrued since the inception of the loan.

As part of its financial restructuring the Corporation granted common share purchase options to Cheni S.A., an affiliated company, as final settlement of its loan balance at December 31, 1991, $5,307,000 (FF25,000,000) plus interest and foreign currency exchange $265,000 (FF1,248,000) for a total of $5,572,000 (FF26,248,000) at February 28, 1992 (Note 9(d)). Pursuant to an agreement dated November 19, 1992, Cheni S.A. advanced to the Corporation the funds required for the initial evaluation phase of the Mets property. This advance is unsecured and accrues interest at prime plus 1% from the date of advance until the earlier of date of repayment or March 31, 1994. Interest will not accrue on any unpaid balance subsequent to March 31, 1994. Principal repayments are to be made as cash flow permits from the exploitation of the Mets property.

Interest expense on long-term debt including capital lease obligations amounted to $549,000 in 1992 (1991 – $945,000). Interest expense incurred on indebtedness to an affiliated company amounted to $111,000 in 1992 (1991 – $608,000).

8. Capital Lease Obligations

The capital lease obligations have been incurred to acquire certain mobile equipment and will be repaid in the aggregate within two years. Payments in each of the two years are as follows:

(in thousands)

1993	$ 840
1994	321
Total payments	1,161
Less: interest	(79)
	1,082
Current portion	772
	$ 310

9. Share Capital

(a) Authorized

Unlimited number of common shares without par value.

Unlimited number of first preferred shares without par value and issuable in series.

Unlimited number of second preferred shares without par value and issuable in series.

(b) Issued

(in thousands)	1992	1991
11,100,000 common shares	$ 49,227	$ 49,227

(c) Common Shares Subscription Agreement

Effective March 31, 1992, the Corporation entered into a Subscription Agreement with two affiliated companies, Cheni S.A. and SEREM. The terms of the Subscription Agreement provide for a private placement of common shares of the Corporation to SEREM, a wholly-owned subsidiary of the BRGM. Shares will be issued for a price that is the greater of $0.71 per share or the Canadian equivalent of FF3.333 per share. The aggregate amount of payments to the Corporation by SEREM will not exceed FF50,000,000, and on the basis of the anticipated revenues to SEREM which are committed to the Corporation, payments will occur in installments estimated as follows:

1993	FF	9,400,000
1994		10,097,000
1995		17,348,000
1996		13,155,000
Total	FF	50,000,000

Shares will only be issued as cash payments are received. Based on the December 31, 1992 foreign exchange rate of 0.2301 CDN$ per FF the Corporation would be required to issue in the aggregate 15,000,000 common shares under the terms of this agreement.

(d) Share Purchase Options

The terms of the Subscription Agreement described in Note 9(c) also provide for the Corporation to grant to Cheni S.A., as full satisfaction and repayment of the Cheni S.A. loan, principal and accrued interest of $5,572,000 (FF26,248,000), options to purchase common shares of the Corporation on the following basis:

(i) 3,715,000 shares at a price of $0.50 per share until March 31, 1995;

(ii) 3,715,000 shares at a price of $0.75 per share until March 31, 1996; and

(iii) 3,715,000 shares at a price of $1.00 per share until March 31, 1997.

If the options in (i) are not exercised prior to March 31, 1995, they may be exercised at a price of $0.75 per share until March 31, 1996 and at a price of $1.00 per share until March 31, 1997. If the options in (ii) are not exercised prior to March 31, 1996, they may be exercised at a price of $1.00 per share until March 31, 1997. All options expire on March 31, 1997.

Options to acquire 99,000 common shares at $1.25 and 110,000 common shares at $0.41 per share have been granted to directors, officers and certain senior employees of the Corporation. These options are exercisable until the years 2000 and 2002 respectively, at a rate of 20% per annum on a cumulative basis.

10. Contributed Surplus

(in thousands)	1992	1991
	$ 5,572	$ —

Contributed surplus arose during the year from granting common share purchase options to settle certain indebtedness of the Corporation as described in Note 9(d).

11. Income and Mining Taxes

The Corporation has capital cost allowances and certain resource related deductions amounting to approximately $78.5 million (1991 – $81.5 million) available to reduce taxable income for federal and provincial purposes in future years. Corresponding deductions available for mining tax purposes were approximately $76.1 million (1991 – $76.1 million).

Approximately $73.0 million (1991 – $43.1 million) of deductions available to reduce taxable income for federal and provincial purposes relate to expenditures written off for book purposes in prior years. Approximately $68.9 million of deductions available to reduce taxable income for mining tax purposes relate to expenditures charged to operations in the prior year and $1.6 million of deductions relate to expenditures charged to operations in the current year. The potential tax benefit of these deductions has not been recorded in the financial statements.

12. Loss per Share

Shares subject to issuance under the common share subscription agreement and the share purchase options referred to in Note 9(c) and 9(d) do not have a dilutive effect on loss per share.

13. Commitments

(a) The Corporation is committed to total minimum rentals under operating leases as follows:

(in thousands)		
1993	$	142
1994		128
1995		108
	$	378

(b) During the year the Corporation engaged in certain hedging activities with respect to foreign currency price fluctuations. At year end the Corporation had contractual commitments to sell US$880,000 at $CDN 1.24705 per $US.

14. Comparative Figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in 1992.

Corporate Directory

Head Office
Cheni Gold Mines Inc.
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Fax: (604) 684-0642

Directors
Kenneth M. Bagshaw *
Vancouver, B.C.

Edmond A. Lemieux †
Vancouver, B.C.

N. Colin Officer *
London, England

André F. Papon †
Paris, France

Edwin C. Phillips *†
Vancouver, B.C.

* Member of the Executive Committee
† Member of the Audit Committee

Auditors
Price Waterhouse
Vancouver, B.C.

Bankers
Banque Nationale de Paris
(Canada)
Vancouver, B.C.

Toronto Dominion Bank
Vancouver, B.C.

Solicitors
DuMoulin Black
Vancouver, B.C.

McCarthy Tétrault
Vancouver, B.C.

Officers
Edwin C. Phillips
Chairman of the Board

Paul Savoy
President and
Chief Executive Officer

John S. Vincent, P. Eng.
Vice President, Exploration

Robert G. McMorran, C.A.
Secretary, Treasurer and
Controller

Transfer Agent, Registrar
Montreal Trust Company
Vancouver, B.C.

Stock Exchange Listing
Toronto
Symbol: CZG

Notice of Annual General Meeting
The Annual General Meeting of
Cheni Gold Mines Inc. will be held:

Thursday, May 6, 1993 at 11:00 a.m.
(Vancouver time)

Location: Georgia Hotel
Queen Anne Room
801 West Georgia Street
Vancouver, B.C.

Cheni Gold Mines Inc.
200-580 Hornby Street
Vancouver, B.C. V6C 3B6

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