

TO THE SHAREHOLDERS

PRESIDENT'S REPORT
YEAR 1971

The activities of your Company in 1971 were confined to a limited amount of work on the Homeguard Group in the Kitsault River area and a participation in exploration work on the Stikine Silver Ltd. Unuk River property.

To bring shareholders up-to-date on our various holdings we summarize as follows:

Kitsault-Dolly Varden Area

The Company has an interest in the following properties:

Tiger Group consisting of two Crown granted claims and one fraction. The claims adjoin the eastern boundary of the Torbrit property of Dolly Varden Mines Ltd. which produced 18,614,015 ounces of silver.

Our Tiger Group which has a known strike length of 1000 feet is assumed to be the extension of the Torbrit ore zone to the east. The ore on the Tiger has been exposed in three adits to a depth of 400 feet but sufficient work has not been done to make an estimate of tonnage or grade.

As reported in 1970 a diamond drill hole approximately 400 feet below surface outcrops assayed 6.20 ounces of silver over a width of 18.5 feet with a 7.5 foot section assaying 13 ounces silver per ton, on surface a new exposure on strike 500 feet south of the main surface showings returned 21 ounces of silver over a width of 8.5 feet.

Royal Group consists of 7 Crown granted mineral claims and adjoins the west boundary of the Dolly Varden Mine which produced 1,700,000 ounces of silver, very little work has been done on this group.

Moose Group consists of three Crown granted mineral claims entirely owned by your Company. No work was done during the season, but as mentioned in previous reports, the limited amount of diamond drilling done on the property has established an ore shoot 320 feet in length grading 9.4 ounces silver per ton, over an average width of 8.6 feet, to an average depth of 150 feet below the surface exposures.

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Ace Galena Group is not Crown granted and while no work was done on the claims this year, sufficient work was done in 1968 to keep the ground in good standing for several years. There are many out-crops of high grade silver-lead ore on the property, but work to date has not established sufficient continuity to outline ore shoots.

Homeguard claims in this group are held by location and are owned by Homeguard Mines Ltd. (N.P.L.) in which Silver Butte owns 400,000 shares of 1,000,002 shares issued.

A magnetometer survey and geological study was carried out on the property during 1971. No significant anomalies were found by the survey and the assumption is that the good values reported last year were in a very large boulder, the source of which work to-date has not located

General Statement as regards Kitsault Area

New Jersey Lead and Zinc Co. have purchased an interest in Dolly Varden Mines Ltd. and exploration on Dolly Varden's property will be carried out this year. This should have some effect on our holdings in the area as outlined in the foregoing paragraphs.

Unuk River Area

Stikine Silver Ltd. holds claims in the upper Unuk River Area, the property lies at an elevation of 3600 feet. It is situated on a plateau approximately 25 miles from the Stewart Cassiar Highway. Access at the present time is by air.

Open cutting with Copco drill was carried out during the fall of 1971 on a zone approximately 50 feet wide over a strike length of 4000 feet. In this zone, exposed by the limited work done to-date, are many sections carrying high silver values and appreciable gold values.

Five open cuts made on the Zone during 1971 assayed as follows:

<u>Width</u>	<u>Ounces-Gold</u>	<u>Ounces- Silver</u>
10 feet	.04	9.8
4 "	.34	42.6
5 "	.18	6.4
6 "	.30	399.0
6 "	.24	110.4

During the process of open cutting 3353 pounds of ore were sacked and shipped to Cominco and assayed 142.45 ounces silver .194 ounces gold 2.8% zinc 1.9% lead.

Silver Butte Mines Ltd. during 1971 purchased 40,000 shares of Stikine Silver Ltd. at 10¢ per share and may participate further in exploration work to be done in 1972.

Van Silver Mines Ltd.

We retain 58,666 shares in this company which has extensive claim holdings in the Squamish Area. The property was taken under option in 1972 by Noranda Exploration who did some diamond drilling, then relinquished the property.

General

Your Directors have decided that in order to arrange financing and place the company in a position to attract capital, re-organization was very necessary. The remaining shares in the treasury were not considered sufficient to allow any expansion of our activities. Details of this re-organization prepared by our solicitors forms part of this report and are contained in the Information Circular.

On Behalf of the Board

T. S. MACKAY, PRESIDENT.

SILVER BUTTE MINES LTD.

(Non-Personal Liability)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1971

1. Investments, at cost

	<u>1971</u>	<u>1970</u>
Rackla River Mines - 1,000 shares	\$ 350	\$ 350
Van Silver Mines Ltd. (acquired for cash)		
33,333 shares "letter" stock)		
22,500 escrowed shares)	12,500	12,500
2,500 free shares)		
Stikine Silver Ltd. - 40,000 shares, acquired for cash	4,000	-
Treasure State Uranium Corp. - 60,000 shares, at nominal value	1	1
Homeguard Mines Ltd. 250,000 shares acquired for cash	25,000	-
150,000 shares acquired for transfer of interest in mining claim, at nominal value	1	-
	<u>\$ 41,852</u>	<u>\$ 12,851</u>

These investments have no quoted market value and are not considered marketable at this time.

2. Mining Claims

Mining claims are situated in the Alice Arm and Cassiar area of British Columbia and consist of the following:

		<u>1971</u>		<u>1970</u>
	<u>No. of shares</u>	<u>Share Capital</u>	<u>Cash</u>	
8 "Ace" claims acquired for	367,500	\$ 36,750	\$ -	\$ 36,750
3 "Moose" claims acquired for	300,000	45,000		45,000
"Galena" claim acquired for	32,500	3,250	5,000	8,250
7 "Royal" claims acquired for cash			1,000	1,000
Option on "Lion" "Tiger" and "Plutus" claims acquired for	75,000	7,500		2,500
"Ruby" and "North Star" claims acquired for	50,000	5,000	2,500	5,000

2. Mining Claims (cont'd)

	1971			1970
	<u>No. of Shares</u>	<u>Share Capital</u>	<u>Cash</u>	
8 "Homeguard" claims and "Silver Dream" mineral lease - 1/5 interest acquired for (sold in 1971)	-	\$ -	\$ -	\$ 1
	825,000	\$ 97,500	\$ 8,500	\$ 98,501

The option to purchase the "Lion", "Tiger" and "Plutus" mineral claims extends to December 31, 1977. The total purchase price of the claims is \$75,000 which may be paid in full at any time or be paid by royalties based on any proceeds from commercial production. Under the terms of the option agreement, the company is required to make property expenditures totalling \$105,000 by December 31, 1977. To date about \$36,000 has been spent on these claims with \$20,000 to be expended by December 31, 1972 and a minimum of \$10,000 each year thereafter until termination date of the option.

In addition the company leases on a royalty basis from Dolly Varden Mines Ltd., the "Climax" mineral claim in the Alice Arm area.

The cost of these mining claims, together with related deferred development expenses, is not intended to reflect current or replacement values.

3. Share Capital

The company's authorized share capital was increased during the year from 5,000,000 to 6,000,000 of \$1.00 par value each.

During the year the company issued 475,000 treasury shares as follows:

SILVER BUTTE MINES LTD.

(Non-Personal Liability)

STATEMENT OF DEFERRED DEVELOPMENT EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 1971 AND 1970

	<u>1971</u>	<u>1970</u>
<u>DEVELOPMENT EXPENSES</u>		
Assay costs	\$ 489	\$ 34
Assessment - working and staking claims	422	454
Camp supplies and cookhouse expenses	-	1,201
Drilling costs (net of recovery)	-	(1,096)
Fuel	-	195
Helicopter charters	-	1,636
Insurance	-	98
Travel and accommodation	100	1,127
Truck expense	-	477
Wages and employee benefits	95	3,586
	<u>1,106</u>	<u>7,712</u>
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<u>GENERAL AND ADMINISTRATIVE EXPENSES</u>		
Administrative and secretarial services	2,400	4,200
Advertising and publicity	-	61
Audit and legal	3,644	1,118
Director's expenses	2,340	367
Miscellaneous	412	187
Printing and stationery	664	1,167
Rent - offices	720	810
Stock exchange listing fees	600	100
Telephone	275	301
Transfer agent fees	1,345	1,442
	<u>12,400</u>	<u>9,753</u>
<u>Less:</u> Interest earned	958	1,820
	<u>11,442</u>	<u>7,933</u>
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<u>NET EXPENDITURES FOR THE YEAR</u>	12,548	15,645
<u>DEFERRED EXPENDITURES, JANUARY 1</u>	<u>205,850</u>	<u>190,205</u>
<u>DEFERRED EXPENDITURES, DECEMBER 31</u>	<u>\$ 218,398</u>	<u>\$ 205,850</u>

SILVER BUTTE MINES LTD.
(Non-Personal Liability)

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEARS ENDED DECEMBER 31, 1971 AND 1970

	<u>1971</u>	<u>1970</u>
<u>SOURCE OF FUNDS</u>		
Interest earned on term deposits	\$ 958	\$ 1,820
Sale of investments	-	1,172
Sale of fixed assets	-	2,915
Issue of share capital - 400,000 shares	<u>50,000</u>	<u>-</u>
	50,958	5,907
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<u>APPLICATION OF FUNDS</u>		
Development and administrative expenses	13,506	17,467
Purchase of fixed assets	-	740
Purchase of investments	<u>29,000</u>	<u>3,125</u>
	42,506	21,332
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<u>INCREASE (DECREASE) IN WORKING CAPITAL</u>	8,452	(15,425)
<u>WORKING CAPITAL, JANUARY 1</u>	<u>21,643</u>	<u>37,068</u>
<u>WORKING CAPITAL, DECEMBER 31</u>	<u>\$ 30,095</u>	<u>\$ 21,643</u>

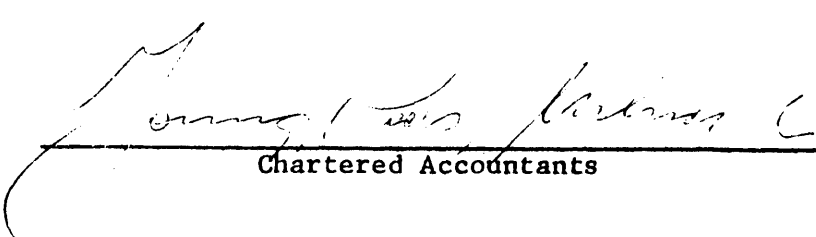
AUDITORS' REPORT

To the Shareholders,
Silver Butte Mines Ltd.
(Non-Personal Liability)

We have examined the balance sheet of Silver Butte Mines Ltd. (Non-Personal Liability) as at December 31, 1971 and the statements of deferred development expenses and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances. We have previously examined and reported upon the financial statements for the preceding year.

Since the value of the mining claims is largely dependent on the successful future exploitation of these claims, it is not possible to ascertain current values.

Subject to the matter of the value of the mining claims it is our opinion that these financial statements, supplemented by the notes thereto, present fairly the financial position of the company as at December 31, 1971 and the results of its operations and the source and application of its funds, for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Chartered Accountants

Vancouver, B.C.
March 13, 1972.

SILVER BUTTE MINES LTD.
(Non-Personal Liability)

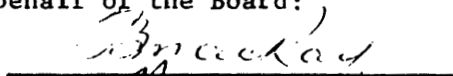
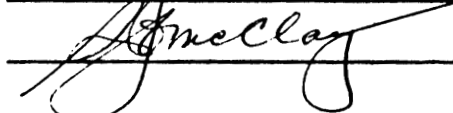
BALANCE SHEET

DECEMBER 31, 1971 AND 1970

	<u>1971</u>	<u>1970</u>
<u>A S S E T S</u>		
<u>CURRENT ASSETS</u>		
Bank	\$ 995	\$ 1,098
Bank deposit receipt	30,000	20,000
Accounts receivable	<u>158</u>	<u>2,075</u>
	31,153	23,173
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<u>INVESTMENTS</u> , at cost (Note 1)	41,852	12,851
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<u>MINING CLAIMS</u> , at cost (Note 2)	106,000	98,501
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<u>FIXED ASSETS</u> , at cost		
Equipment	2,583	2,583
Buildings	<u>4,835</u>	<u>4,835</u>
	7,418	7,418
<hr style="border-top: 1px dashed black;"/>		
<u>DEFERRED DEVELOPMENT EXPENSES</u> , statement attached	218,398	205,850
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<u>INCORPORATION AND ORGANIZATION EXPENSES</u>	4,308	4,308
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	\$ 409,129	\$ 352,101
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L I A B I L I T I E S

<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 1,058	\$ 1,530
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<u>SHAREHOLDERS' EQUITY</u>		
Share Capital: (Note 3)		
Authorized		
- 6,000,000 shares of \$1.00 each		
Issued and fully paid		
- 4,771,341 shares (4,296,341 shares in 1970)	606,992	549,492
Deficit:		
(Unchanged from 1970)	(198,921)	(198,921)
	408,071	350,571
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On behalf of the Board:	\$ 409,129	\$ 352,101
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 Director
 Director

3. Share Capital (cont'd)

For cash pursuant to under-			
writing agreement	200,000 shares @ 10c	\$ 20,000	
	<u>200,000 shares @ 15c</u>	<u>30,000</u>	
	400,000 shares		50,000
For options on properties			
a) "Lion", "Tiger" and			
"Plutus" claims	50,000 shares @ 10c	5,000	
b) "Ruby" and "North			
Star" claims	<u>25,000 shares @ 10c</u>	<u>2,500</u>	
	475,000	\$ 57,500	
	<u> </u>	<u> </u>	

Details of shares issued and outstanding are as follows:

	<u>1971</u>		<u>1970</u>	
	<u>No. of Shares</u>	<u>Amount</u>	<u>No. of Shares</u>	<u>Amount</u>
For cash expenditures				
on Montana properties				
by incorporation	460,000	\$ 27,000	460,000	\$ 27,000
For mining claims	925,000	112,500	850,000	105,000
For services	46,543	7,509	46,543	7,509
For cash	<u>3,339,798</u>	<u>459,983</u>	<u>2,939,798</u>	<u>409,983</u>
	<u>4,771,341</u>	<u>\$606,992</u>	<u>4,296,341</u>	<u>\$549,492</u>
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