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SILVER BUTTE RESOURCES LTD.

32nd ANNUAL REPORT 1989

DUPLICATE MEMORANDUM

DIRECTORS

J. Austin, Hon. P.C., Q.C.
Vancouver, B.C.

B.O. Brynelsen,
Vancouver, B.C.

J.C.C. Gibson,
Vancouver, B.C.

D.A. Hales,
Vancouver, B.C. *

M.J. Mackay,
Vancouver, B.C. *

F.J. Shedwill,
Los Angeles, California *

L.P. Starck,
Calgary, Alberta

* Members of the Audit Committee

OFFICERS

J. Austin, Hon. P.C., Q.C.
Chairman

L.P. Starck,
President and C.E.O.

F.J. Shedwill,
Vice President

M.H. Altman
Secretary

SOLICITORS

Batist, Szajman, Altman
Barristers & Solicitors

AUDITORS

Price Waterhouse
Chartered Accountants

EXECUTIVE OFFICE

Bank of Canada Building
#1201-900 W. Hastings St.,
Vancouver, B.C. V6C 1E5
(604) 685-5853

REGISTERED & RECORDS OFFICE

4th Floor
575 Richards St.,
Vancouver, B.C. V6B 2Z7
(604) 682-6122

COMMON SHARES OUTSTANDING

6,498,053 (May 15, 1990)

VANCOUVER STOCK EXCHANGE

Symbol: SBU

ANNUAL GENERAL MEETING

The Annual General Meeting of the Shareholders of Silver Butte Resources Ltd. will be held at the Pan Pacific Hotel, Governor General Suite A, 999 Canada Place, Vancouver, British Columbia, on Friday June 22, 1990 at 10:00 a.m.

Thirty-second Annual Report to the Members on Behalf of the Board of Directors

To the Members:

The Board of Directors of Silver Butte Resources Ltd. ("Silver Butte") is pleased to present the Company's 32nd Annual report.

Fiscal 1989 and the first quarter of 1990 were highlighted by the exploration program on the Company's SIB mineral claims which are strategically located in the Eskay Creek area, near Stewart, British Columbia; the Company's positive financial position; and the potential for early cash flow from the Company's petroleum and natural gas participations in Texas. Also, the Company has recently acquired an interest in the Gold Bridge group of mineral claims near the former gold producing Bralorne/Pioneer Camp in British Columbia.

In 1989, American Fibre Corporation ("American Fibre"), pursuant to an earn-in agreement, conducted an extensive exploration program on the Company's SIB claim group that adjoins property on which Calpine Resources Inc. and Stikine Resources Ltd. made the Calpine/Stikine "21 Zone" gold discovery. This discovery, which has attracted international attention to the Eskay Creek area of the Stikine Arch, is reported to have geologically probable and possible reserves in the order of 2.5 to 4 million ounces of gold and 71 to 95 million ounces of silver. The SIB claims cover a strike length of approximately 2.5 miles of prospective stratigraphy which correlates with and is considered to be an extension of the stratigraphy of the Calpine/Stikine property.

The geochemical soil sampling phase of American Fibre's program, which was carried out along some 20.5 miles of grid lines, identified nine multi-element (gold, silver, lead, zinc, copper) anomalies that collectively form a near continuous northeast trending linear anomaly some 2.2 miles in length. Detailed geological mapping and surface sampling of the original surface cuts has established that three of the anomalies are related to the Central, 1,100 and Adit zones of auriferous mineralization. The remainder of the anomalies were only subject to a cursory examination due to the short exploration season and will be investigated in detail as part of the 1990 geological and geochemical program that is scheduled to be conducted along an additional 12.5 miles of grid lines. Based on the 6,000 feet of diamond drilling in 1989, the gold values in the Central zone appear to be associated with sheared silicified tuffs whereas in the 1,100 zone the gold values appear to be restricted to the transitional tuffaceous sediments overlying sericitic dacitic tuffs. Generally, the mineralization on the SIB property is epithermal in character and appears to have both structural and lithological control. Of the \$581,000 of exploration expenditures made on the SIB property, \$400,000 earned American Fibre a 50% interest in the property. The balance of \$181,000 was shared equally by the Company and American Fibre pursuant to the terms of the Joint Venture. The cost of the 1990 exploration program which is estimated at \$1.2 million, will be shared equally by the Company and American Fibre. This program, is expected to commence in June, and is scheduled to include geological mapping, sampling, induced polarization surveys and diamond drilling.

In 1989 Silver Butte carried out exploration programs on two of its five gold prospects in the Swayze Syncline area near Gogama, Ontario and on its lead/zinc prospect in British Columbia. In the Swayze area, a geological mapping and sampling program was carried out on the Central Chester prospect that has showings of auriferous mineralization and surface stripping was done on the Osway prospect to investigate several strong geophysical anomalies. This latter prospect is four miles to the northwest of the former producing Jerome gold mine. In British Columbia a geological reconnaissance evaluation was made of the Moose and Ruby claim groups that adjoin the former producing silver/lead Dolly Varden properties in the Alice Arm area.

SILVER BUTTE RESOURCES LTD.
(formerly Consolidated Silver Butte Mines Ltd. (N.P.L.))

In April, 1990 the Company acquired a 50% interest in the Gold Bridge group of nineteen Crown Granted mineral claims near the former gold producing Bralorne/Pioneer Camp in central British Columbia. Silver Butte has the right to earn an additional 25% interest in these claims by conducting a work program over the next three years.

Tenajon Silver Corporation continues to explore Silver Butte's Big Missouri Ridge property that is situated in the Stewart area, British Columbia near the producing Premier gold mine. Under the terms of the agreement with Esso Resources Canada Ltd., Silver Butte retains a 20% carried interest in the net proceeds from this property.

The Minera Lluvia de Oro S.A. de C.V. in which Silver Butte holds a 49% equity interest has temporarily suspended operations at the Mina Elisa gold prospect and is continuing to seek additional precious metal prospects of merit in Sonora State, Mexico.

In addition to its activities in the mining industry, Silver Butte is participating through its American subsidiary in several petroleum and natural gas plays in the State of Texas. These include a 4.375% before payout ("BPO") working interest in two wells in the Bear Grass field: the Pat Oakes #1 well that is currently producing approximately 1.6 million cubic feet of gas per day and the Jimmy Beddingfield #1 well that is being completed. In the South Perdido field, the Company participated as to a 7.5% BPO working interest in the Swickenheimer #1 well that is being prepared for production. In addition to these wells, Silver Butte has committed to participate in the redrilling of the 11,000 foot Hinton #1 well in the Jewett field that was abandoned in April due to down hole problems and also to drilling exploration wells in the Trans-Tex and South Donie fields.

Audited financial statements for the fiscal year ended December 31, 1989 along with comparative figures for 1988 form part of this report. As of the end of the first quarter of 1990 the Company's working capital was \$1,100,760. A financing by way of a Statement of Material Facts has been proposed for 1990.

With last seasons exploration of the SIB claims, its participations in petroleum and natural gas plays, and its recent acquisition of the Gold Bridge property, management is optimistic as to the continuing growth of the Company in 1990.

Yours truly,
On Behalf of the Board

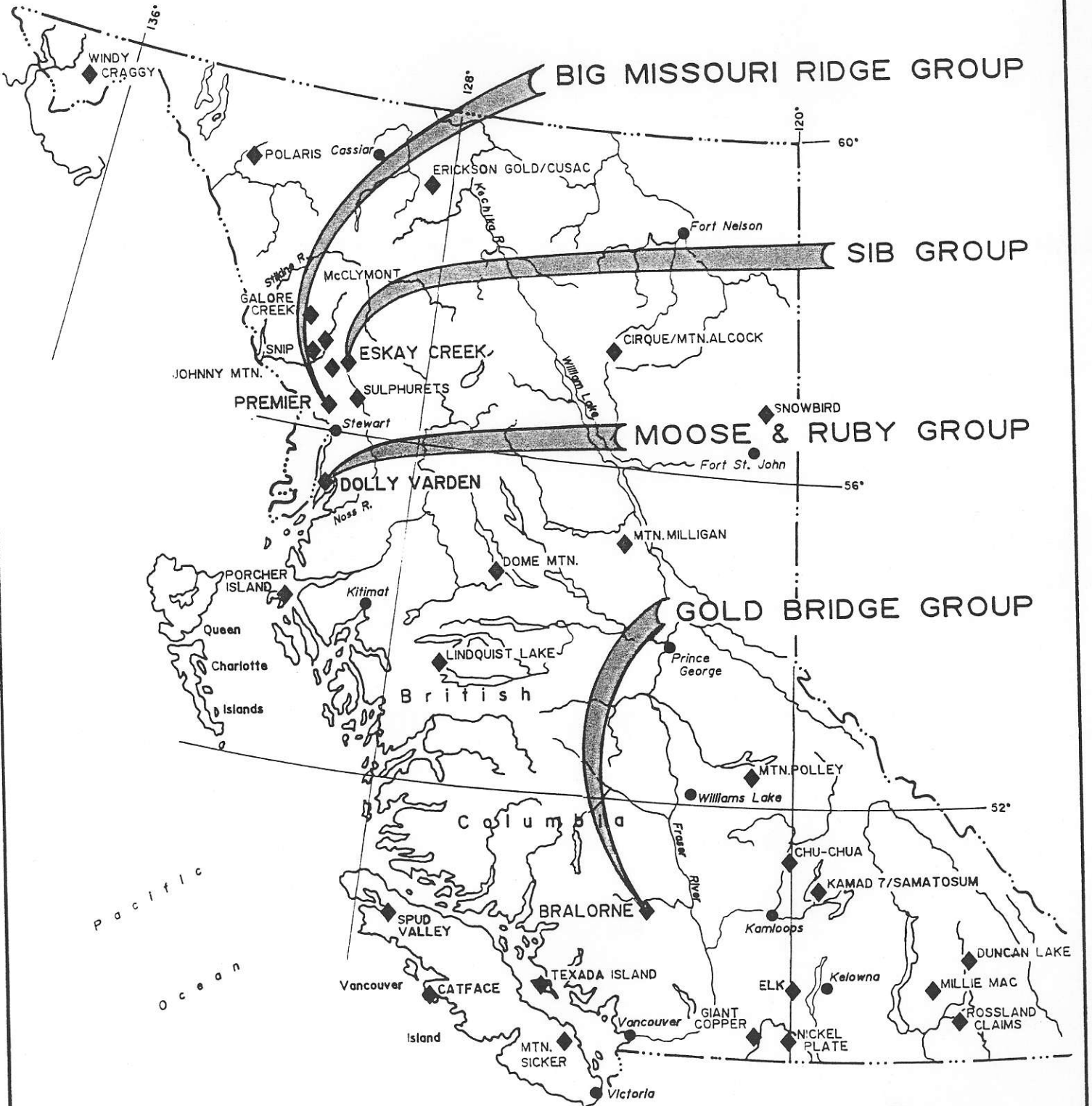


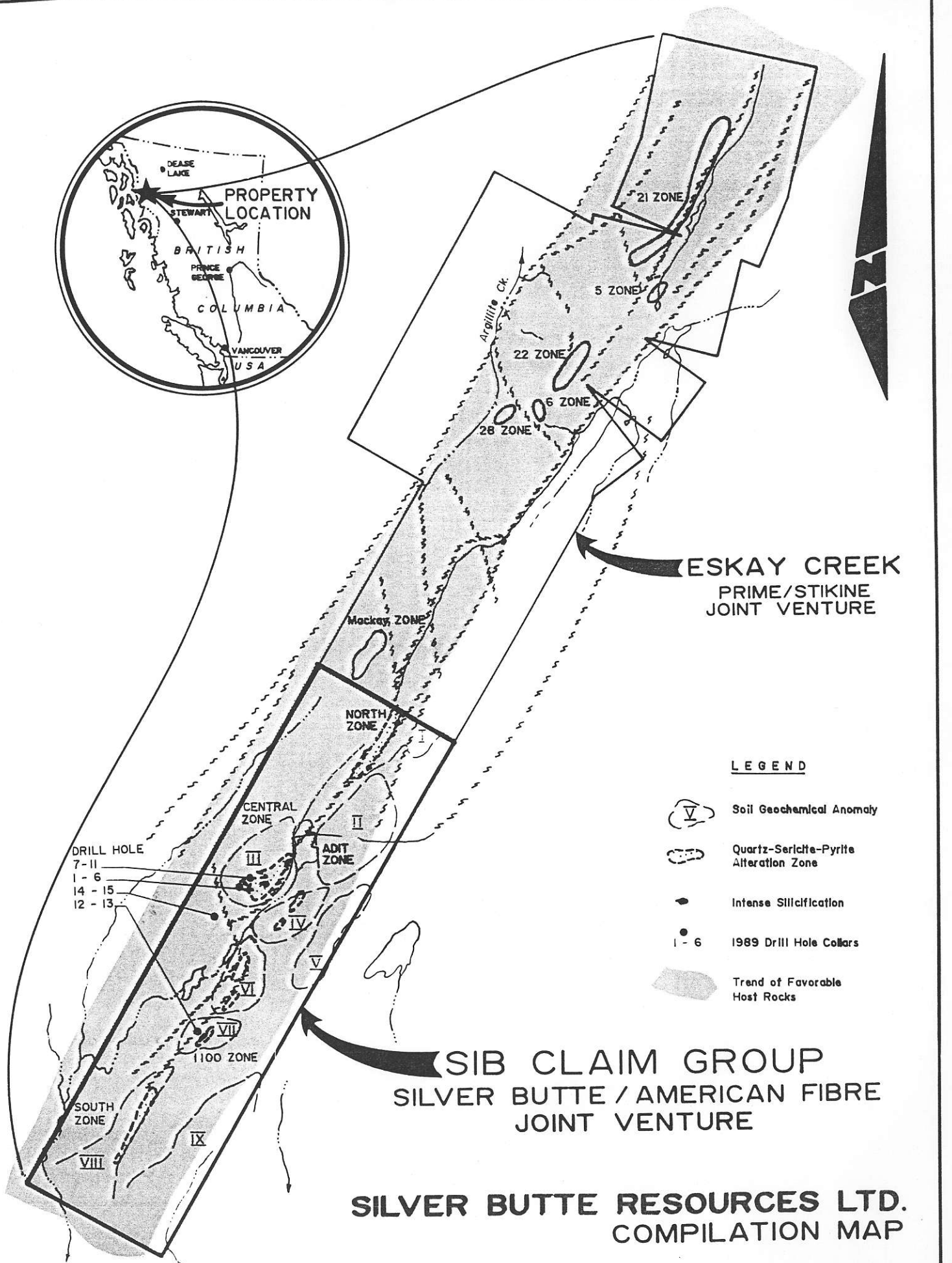
L.P. Starck, P. Eng.
President

May 11, 1990

SILVER BUTTE RESOURCES LTD.






MINERAL PROSPECTS IN BRITISH COLUMBIA





**ESKAY CREEK
PRIME/STIKINE
JOINT VENTURE**

LEGEND

-  Soil Geochemical Anomaly
-  Quartz-Sericite-Pyrite Alteration Zone
-  Intense Silicification
-  1 - 6 1989 Drill Hole Collars
-  Trend of Favorable Host Rocks

**SIB CLAIM GROUP
SILVER BUTTE / AMERICAN FIBRE
JOINT VENTURE**

**SILVER BUTTE RESOURCES LTD.
COMPILATION MAP**

Price Waterhouse

January 12, 1990

Auditors' Report

To the Shareholders of
Silver Butte Resources Ltd.
(formerly Consolidated Silver Butte Mines Ltd. (N.P.L.))

We have examined the consolidated balance sheet of Silver Butte Resources Ltd. as at December 31, 1989 and the consolidated statements of earnings and deficit, deferred expenditures and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

Price Waterhouse

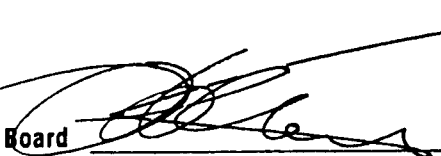
Chartered Accountants

SILVER BUTTE RESOURCES LTD.
 (formerly Consolidated Silver Butte Mines Ltd. (N.P.L.))

Consolidated Balance Sheet

	December 31	
	1989	1988
Assets		
Current assets		
Cash and short-term investments	\$ 709,605	\$ 419,040
Accounts receivable	17,318	25,000
Prepays	1,250	1,200
	728,173	445,240
Investments - marketable securities, at cost or carried value (market value - \$133,325; 1988 - \$199,813)	3,013	8,772
Investments and advances (Note 3)	72,958	-
Mineral property interests, at cost (Note 4)		
Properties	95,086	95,086
Deferred expenditures	764,747	596,226
	859,833	691,312
Petroleum and natural gas properties, at cost	109,228	-
Deferred share issue costs (Note 8)	68,111	-
	\$ 1,841,316	\$ 1,145,324
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 53,313	\$ 14,830
Deferred income taxes	140,718	87,713
	194,031	102,543
Shareholders' Equity		
Share capital (Note 5)	1,667,593	1,203,841
Deficit	(20,308)	(161,060)
	1,647,285	1,042,781
	\$ 1,841,316	\$ 1,145,324

Approved by the Board



Director



Director

SILVER BUTTE RESOURCES LTD.
(formerly Consolidated Silver Butte Mines Ltd. (N.P.L.))

Consolidated Statement of Earnings and Deficit

	Year ended December 31	
	1989	1988
Income		
Option payment	\$ 15,000	\$ 15,000
Gain on sale of marketable securities	207,576	315,562
	<u>222,576</u>	<u>330,562</u>
Expenses		
Write-off of petroleum and natural gas properties	15,419	-
Write-off of incorporation costs	-	4,308
	<u>15,419</u>	<u>4,308</u>
Earnings before income taxes	207,157	326,254
Provision for deferred income taxes (Note 6)	58,767	87,713
Net earnings for year	148,390	238,541
Deficit, beginning of year	(161,060)	(399,601)
	(12,670)	(161,060)
Share issue costs, net of income tax reductions of \$5,762	(7,638)	-
Deficit, end of year	<u>\$ (20,308)</u>	<u>\$ (161,060)</u>
Net earnings per common share	<u>\$ 0.03</u>	<u>\$ 0.06</u>

SILVER BUTTE RESOURCES LTD.
 (formerly Consolidated Silver Butte Mines Ltd. (N.P.L.))

Consolidated Statement of Deferred Expenditures

	Year ended December 31	
	1989	1988
Mineral properties		
Exploration expenditures		
British Columbia		
Skeena Mining Division	\$ 99,917	\$ 3,619
Similkameen and Nicola Mining Division	-	3,484
Ontario		
Porcupine Mining Division	59,830	70,905
Mexico	1,482	67,453
United States	17,516	-
	<hr/>	<hr/>
	178,745	145,461
Less		
Option proceeds on Unuk River claims	42,500	7,500
Grant in lieu of tax deductions	-	25,000
	<hr/>	<hr/>
	42,500	32,500
Net exploration expenditures	136,245	112,961
Administrative expenditures		
Administrative and management	18,000	18,000
Audit and legal	37,441	24,015
Insurance	4,274	278
Office and miscellaneous	19,883	10,106
Property examinations	9,253	-
Stock exchange	1,200	1,100
Telephone and postage	3,952	2,290
Transfer agent and shareholder	13,693	6,731
Travel	2,559	-
	<hr/>	<hr/>
	110,255	62,520
Less: Interest earned	77,979	11,482
Net administrative expenditures	32,276	51,038
Expenditures for year	168,521	163,999
Deferred expenditures, beginning of year	596,226	432,227
Deferred expenditures, end of year	<hr/> \$ 764,747	<hr/> \$ 596,226

SILVER BUTTE RESOURCES LTD.
(formerly Consolidated Silver Butte Mines Ltd. (N.P.L.))

**Consolidated Statement of Changes
in Financial Position**

	Year ended December 31	
	1989	1988
Cash provided by (used in) operating activities		
Earnings		
Net earnings for year	\$ 148,390	\$ 238,541
Gain on sale of marketable securities	(207,576)	(315,562)
Items not affecting cash		
Provision for deferred income taxes	58,767	87,713
Write-off of petroleum and natural gas properties	15,419	-
Write-off of incorporation costs	-	4,308
	15,000	15,000
Changes in non-cash working capital	46,115	(132,600)
	61,115	(117,600)
Cash provided by (used in) financing activities		
Shares allotted or issued	463,752	150,000
Share issue costs	(81,511)	-
Proceeds on sale of marketable securities	213,335	341,674
	595,576	491,674
Cash provided by (used in) investing activities		
Purchase of marketable securities	-	(350)
Investments and advances	(72,958)	-
Deferred expenditures on mineral properties	(168,521)	(163,999)
Petroleum and natural gas properties	(124,647)	-
	(366,126)	(164,349)
Increase in cash and short-term investments	290,565	209,725
Cash and short-term investments, beginning of year	419,040	209,315
Cash and short-term investments, end of year	\$ 709,605	\$ 419,040

Notes to Consolidated Financial Statements
December 31, 1989

1. Nature of operations

The Company is in the exploration stage with respect to its resource properties and, on the basis of information to date, may not have economically recoverable reserves. The recovery of costs incurred on resource properties and related deferred expenditures is largely dependent on the existence of mineral and petroleum and natural gas reserves and the economic recovery of such reserves in the future.

2. Significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of Silver Butte Resources Ltd. (formerly Consolidated Silver Butte Mines Ltd. (N.P.L.)) and its wholly-owned United States subsidiary, Silver Butte Petroleum, Inc., a Texas corporation incorporated in 1989. The Company accounts for its 49% interest in Minera Lluvia de Oro, S.A. de C.V. (Note 3) on the equity basis.

Mineral properties

The cost of acquisitions of mineral properties and of related exploration and administrative expenditures are deferred. These costs would be amortized against future production following commencement of commercial production or written off if the properties are sold or abandoned. The recorded costs are not intended to reflect present or future values.

The Company may acquire or sell mineral properties pursuant to option agreements. Because options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded until such time as the option payment is made. Option payments received are applied to reduce the accumulated cost of the related mineral properties. Receipts in excess of the accumulated cost are recorded as income.

Petroleum and natural gas properties

The Company follows the full cost method of accounting for its petroleum and natural gas properties whereby all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized to cost centres on a country-by-country basis. Such costs include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling both productive and non-productive wells and related administrative expenses.

Depletion would be calculated by the unit-of-production method based on the estimated proved reserves of petroleum and natural gas. In addition, the capitalized costs would be subject to a "ceiling test", which limits such costs to an amount equal to the estimated value of future net revenues from recoverable reserves plus the net cost of major development projects and unproved properties, less future general and administrative costs, financing costs and income taxes.

Foreign currency translation

The subsidiary accounts are translated using the temporal method. Under this method, monetary assets and liabilities are translated at the prevailing period end exchange rate. Revenues and expenses are translated at the average rate of exchange for the period. All other accounts are translated at rates prevailing when the transactions occurred.

SILVER BUTTE RESOURCES LTD.
(formerly Consolidated Silver Butte Mines Ltd. (N.P.L.))

Notes to Consolidated Financial Statements
December 31, 1989

3. Investments and advances

	Investment in shares	Advances	Total
Minera Lluvia de Oro, S.A. de C.V.	\$ 5,185	\$ 61,363	\$ 66,548
Continental Energy Marketing Ltd., at cost	10	8,000	8,010
	5,195	69,363	74,558
Less: Current portion	-	(1,600)	(1,600)
	\$ 5,195	\$ 67,763	\$ 72,958

The Company holds a 49% interest in Minera Lluvia de Oro, S.A. de C.V., a private company incorporated under the laws of Mexico, which holds certain mineral exploration concessions. In 1989 the Company advanced funds for a mining exploration program. In addition, the Company has incurred directly deferred expenditures on these concessions totalling \$97,522 at December 31, 1989.

The advance to Continental Energy Marketing Ltd. is secured by a promissory note and bears interest at a rate of 10% per annum. The note is repayable in five equal principal instalments plus accrued but unpaid interest commencing April 1, 1990.

4. Mineral properties

	1989	1988
Skeena Mining Division, British Columbia (mineral claims and carried interest)	\$ 12,511	\$ 12,511
Porcupine Mining Division, Ontario (mineral claims)	82,575	82,575
	\$ 95,086	\$ 95,086

• **Skeena Mining Division, British Columbia**

S.I.B. (Eskay Creek) mineral claims:

Pursuant to an option agreement dated June 30, 1988 American Fibre Corporation has earned a 50% interest in the Company's recorded mineral claims in the Stewart Area, British Columbia by making option payments of \$50,000 and spending \$400,000 in exploration expenditures on the claims. The Company has executed a joint venture agreement with American Fibre.

Moose (Alice Arm) mineral claims:

The Company holds a 100% interest in five Crown-granted mineral claims in the Alice Arm Area, British Columbia.

Notes to Consolidated Financial Statements
December 31, 1989

Big Missouri Ridge carried interest in mineral claims:

On August 20, 1980, the Company entered into an agreement with Esso Resources Canada Limited ("Esso") pursuant to which Esso earned a 100% interest in mineral rights in four reverted Crown-granted mineral claims and one recorded mineral claim (12 units) in the Stewart area, British Columbia. The Company retained a 20% carried interest in net proceeds from production from these mineral rights. Commencing in August 1981 and continuing to the beginning of operations, Esso is obligated to make annual payments to the Company of \$15,000. These payments are repayable out of 90% of the Company's receipts from its carried interest. Total payments received to date are \$120,000. In the event any optional payments are not made and the claims are abandoned or the agreement is surrendered or terminated, the claims revert to the Company.

- **Porcupine Mining Division, Ontario**

The Company has a 100% interest, subject to net smelter return royalties ranging from 1½% to 3½%, in fifty-two mineral claims located in the Swayze Syncline Area, Ontario.

Pursuant to the purchase agreement, a total of 175,000 common shares of the Company may be issued in equal amounts to the vendor following the completion of each of four phases of exploration and upon receipt of regulatory approval.

- **Similkameen and Nicola Mining Divisions, British Columbia**

On October 16, 1987, the Company entered into an option agreement with Giant Pacific Petroleum Inc. (Note 7) to acquire a 50% undivided interest in the Prime Group of two recorded mineral claims consisting of 16 units in the Similkameen Mining Division and 8 units in the Nicola Mining Division. Under the agreement, as amended, option payments by instalments totalling \$17,500 are payable by October 16, 1991 and \$255,000 in exploration expenditures must be spent by December 31, 1993. At December 31, 1989 the Company has incurred exploration expenditures of \$14,387. On May 31, 1989, the Company entered into an agreement with Austra Resources Corporation ("Austra") (Note 7) whereby it assigned its interest in this option agreement to Austra. In consideration of the assignment, Austra has agreed to pay the Company \$12,000 in instalments by September 30, 1992. In addition, the Company retains a 10% interest in any interest Austra may earn under the option agreement.

- **United States**

During the year, the Company entered into a joint exploration program to explore certain mineral claims located in the United States. At December 31, 1989, expenditures totalling \$17,516 have been incurred.

SILVER BUTTE RESOURCES LTD.
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Notes to Consolidated Financial Statements
December 31, 1989

5. Share capital

Authorized

20,000,000 common shares of no par value
20,000,000 first preferred shares of no par value

	1989		1988	
	Shares	Amount	Shares	Amount
Issued and outstanding				
Common shares				
Cash	4,595,165	\$ 1,520,785	3,351,140	\$ 1,068,233
Mineral properties	1,022,500	128,100	1,022,500	128,100
Services	32,888	18,709	11,636	7,509
	5,650,553	1,667,594	4,385,276	1,203,842
Less: Shares held by the Company	14,400	1	14,400	1
	5,636,153	\$ 1,667,593	4,370,876	\$ 1,203,841

During the year 571,429 common shares were issued for \$0.31 per share pursuant to a share purchase warrant that was part of a private placement agreement dated January, 1988. In addition, 72,596 common shares were issued for \$0.35 per share pursuant to directors stock options. The Company also entered into a private placement agency agreement for the sale of 400,000 units at \$0.40 per unit consisting of one common share and one-half share non-transferable share purchase warrant with one whole warrant entitling the holder to purchase within one year one additional common share at \$0.45. Pursuant to this agreement and the exercise of the warrant, 600,000 common shares were issued and a further 21,252 common shares were issued to the agent in payment of the finders fee of 7% of the unit proceeds.

As at December 31, 1989, there were outstanding stock options to directors and employees to purchase 545,000 common shares at prices ranging from \$0.35 to \$0.48. All options expire on dates ranging from February 11, 1990 to April 24, 1992.

Shares held by the Company represent shares received as a result of the wind-up of Homeguard Mines Ltd. The carrying value of these shares reflect the carrying value of \$1 of the Company's shareholding in Homeguard Mines Ltd.

Earnings per share are based on the weighted average number of shares outstanding for the year net of the 14,400 shares that the Company holds.

6. Income taxes

The Company's effective rate of income tax of 28% is less than the statutory rate of 42.8% under Canadian federal and provincial income taxes primarily because only approximately two-thirds of the amount of capital gain on the sale of marketable securities recognized for book purposes is taxable.

SILVER BUTTE RESOURCES LTD.
(formerly Consolidated Silver Butte Mines Ltd. (N.P.L.))

Notes to Consolidated Financial Statements
December 31, 1989

The Company has accumulated certain resource-related deductions amounting to approximately \$361,000 and operating losses of approximately \$82,000 which are available to reduce taxable income in future years. The operating losses expire in varying amounts from 1991 to 1994.

The future tax benefits of these amounts have not been recognized in these consolidated financial statements.

7. Related party transactions

During the year ended December 31, 1989, the Company incurred \$38,087 (1988 - \$29,479) in administrative fees and office expenses, and \$17,764 (1988 - \$15,518) in exploration management fees, equipment rentals and other expenses, with a private company, controlled by the President and a director. As at December 31, 1989, \$5,845 (1988 - \$7,716) included in accounts payable is owed to this private company.

The Company is related to Giant Pacific Petroleum Inc. and Austra Resources Corporation (Note 4) through common directors and officers.

8. Subsequent event

Pursuant to a Statement of Material facts dated October 10, 1989, and as amended January 9, 1990, and an amended agency offering agreement dated September 6, 1989, the Company completed an offering in February 1990 of 700,000 units at \$0.65 per unit. Each unit consisted of one common share and two Series "A" warrants. Two Series "A" warrants entitle the holder to purchase one common share of the Company at \$0.65 per common share until July 31, 1990. In consideration of the agent's guarantee to purchase all the units of the offering if they were not sold at the conclusion of the offering, the agent is entitled until July 31, 1990 to acquire up to 350,000 common shares at the same price that the units were offered to the public. The agent also exercised its right permitting it to solicit and accept subscriptions for an additional 105,000 units. Net proceeds of the offering were approximately \$486,000.