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Consolidated Silver Standard Mines Limited

Annual Report 1989

Annual General Meeting

The Annual General Meeting of Shareholders of Consolidated Silver Standard Mines Limited will be held on Wednesday, March 7, 1990 in the Port of Vancouver Room, New World Harbourside Hotel, 1133 West Hastings Street, Vancouver, British Columbia at 11:00 a.m.

Report to Shareholders

I am pleased to report to Shareholders that 1989 was an active and productive year for the Company. Exploration programs were carried out on eight of our properties, while the payment of promissory notes by Western Copper Holdings Limited has increased our cash resources significantly and will enable the Company to pursue mature mineral resource opportunities in the coming year.

Exploration expenditures on our properties totalled $1,000,000 in 1989, of which $260,000 was expended by the Company. Activities varied from grassroots regional surveys in the northwestern United States to reserve definition at the Macacona Mine in Costa Rica. The results of these various programs are detailed in the body of this report.

In the coming year, the Company will have exposure to a number of gold and base metal projects throughout North America. Over its 44-year history, Consolidated Silver Standard Mines Limited, as successor company to Silver Standard Mines, has been very active in northern British Columbia and, as a result, holds a number of mineral properties in this region. Farm-out agreements for four of these properties located in the Stewart-Eskay Creek Gold Camp are being negotiated, and we are optimistic that positive results will flow from activities on these properties in the coming field season.

The Company continues to have exposure to heap-leach gold projects through property interests at Tuscarora in Nevada and a recently acquired gold project in Idaho, as well as through our equity interest in Lord River Gold Mines which is working on an attractive property in the Carlin Gold Trend in Nevada. The Company has roots in the Red Lake Gold Camp in northern Ontario through its equity interest in Mutual Resources Ltd., which holds a 50% carried interest in a gold property being explored by Teck Corporation.

In September, the Company received $1,218,000 from Western Copper Holdings Limited in payment of demand notes held against property transactions completed in 1984. These funds were added to the Company's working capital. As of September 30, the Company had $2,500,000 in cash and marketable securities, exclusive of the Company's equity interests in associated companies. The Company's revenue for 1989 was $330,000, a slight decrease from $357,000 in 1988, while administrative expenditures were reduced to $196,000 from $202,000 in the previous year.

The approaching field season will see an increase in the tempo of the Company's activities as we expand staff to initiate and manage joint ventures and generate programs on our own properties. The Company will continue to farm-out properties on favourable terms to provide us with exposure to as many exploration opportunities as possible.

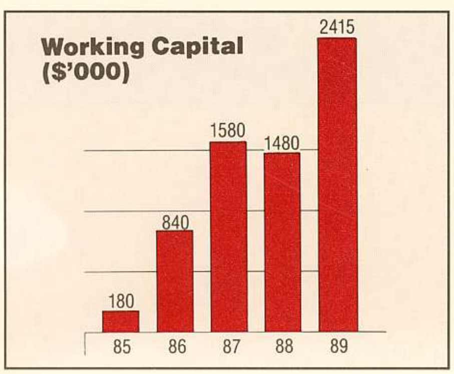
At the upcoming Annual General Meeting, Shareholders will be asked to vote on a special resolution approving the change of the Company's name to "Silver Standard Resources Inc." This will preserve our link with the past as the Company moves forward into the nineties.

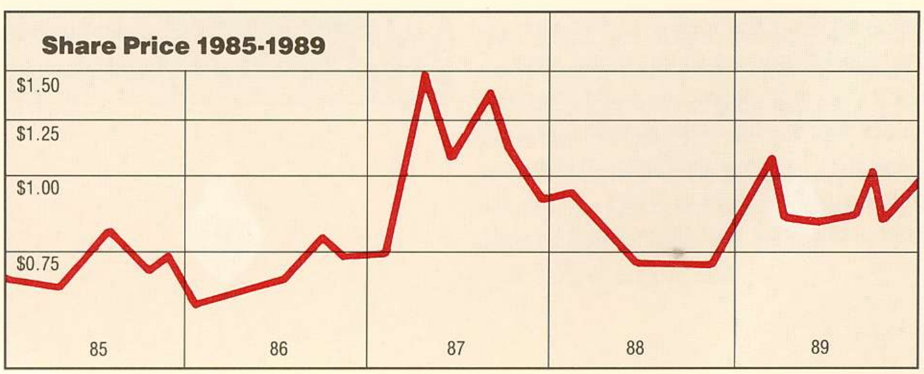
On behalf of the Board of Directors, I would like to thank our Shareholders for their continued interest and support.

On behalf of the Board,

R. A. Quartermain
President

January, 1990





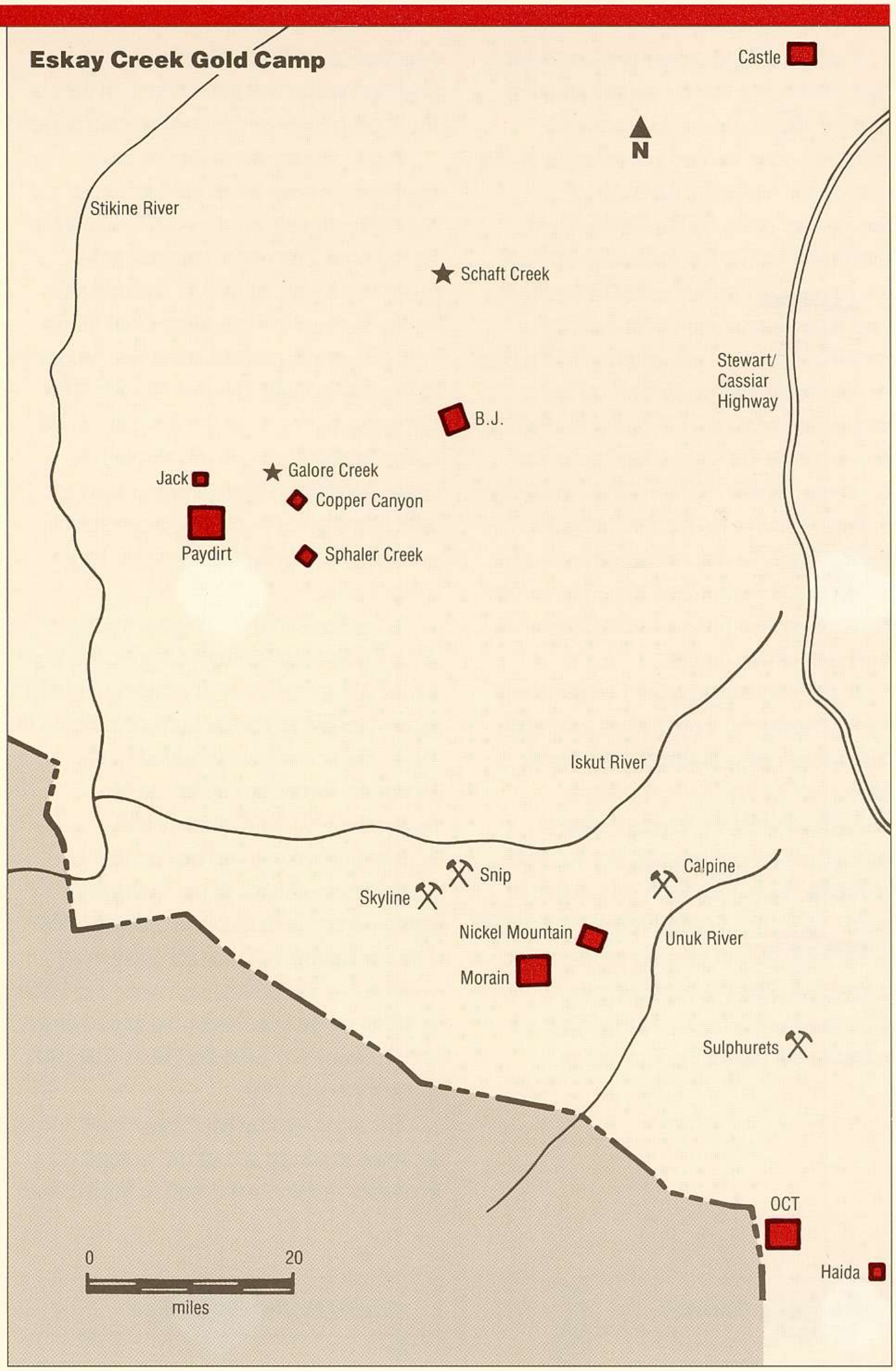
Exploration

Eskay Creek Gold Camp

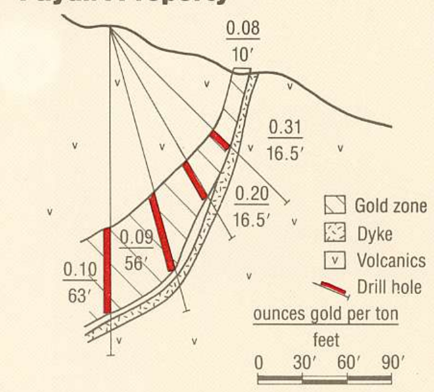
The Company has a number of well-located mineral properties in the Stewart-Galore-Eskay Creek Gold Camp in northwestern British Columbia. These properties which contain gold, copper and nickel are at various stages of exploration.

On the 4,000-acre *Paydirt* property a drill-indicated geological resource of 200,000 tons grading 0.12 ounces of gold per ton has been outlined by the Company. A farm-out agreement is currently being negotiated whereby the optionee may earn a 60% property interest by spending \$2.4 million on exploration and by making cash payments totalling \$175,000 over five years. On the 800-acre *Jack* property, the Company has negotiated a farm-out agreement with Harrisburg-Dayton Resource Corp. whereby Harrisburg-Dayton will spend \$250,000 on exploration and pay \$35,000 to the Company over three years to earn a 50% property interest. Harrisburg-Dayton carried out an exploration program in 1989 and located gold-bearing float which assayed 3.7 ounces of gold per ton in one sample and 0.359 ounces of gold per ton and 4.5% copper in another. Harrisburg-Dayton will concentrate its efforts on locating the source of this mineralization in the coming field season.

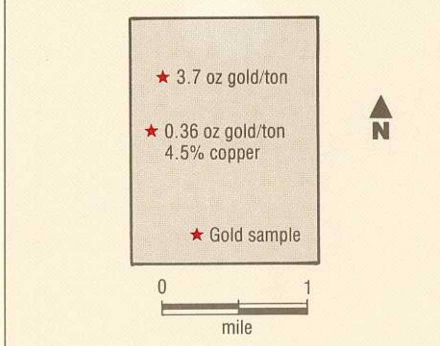
The Company is negotiating a farm-out of the *Sphaler Creek* claims (55%) which are surrounded by claims held by Pass Lake Resources. Last year Pass Lake discovered the Gulley Zone which is located only 300 feet east of the *Sphaler Creek* property. The Gulley Zone is a 10- to 20-foot wide shear zone with potentially economic gold values. Exploration of the *B.J.* and *Castle* properties, in which the Company has a minor carried interest, is being contemplated by Teck Corporation for the



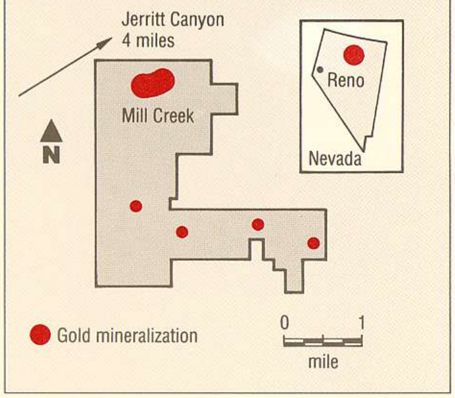
Paydirt Property



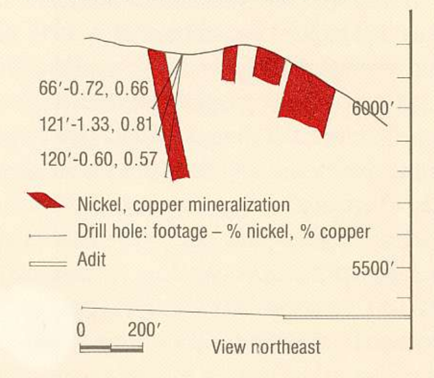
Jack Property



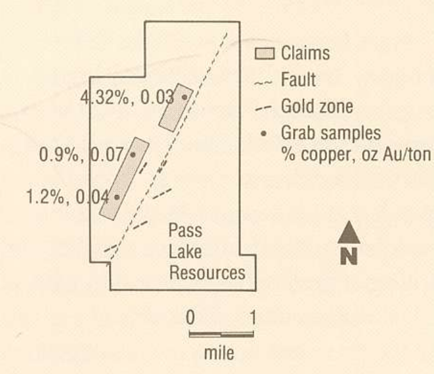
Tuscarora Property



Nickel Mountain Property



Sphaler Creek Claims



coming field season. The *Haida* claim (100%) located 15 miles north of Stewart will be farmed-out. Values of 2.8 ounces of gold per ton across 7 feet and 0.5 ounces of gold per ton across 5 feet have been taken from a polysulphide structure which bisects the property. Assessment work undertaken on the *Morain* (100%) and *Oct* (100%) claims located precious metal mineralization but did not materially enhance either property.

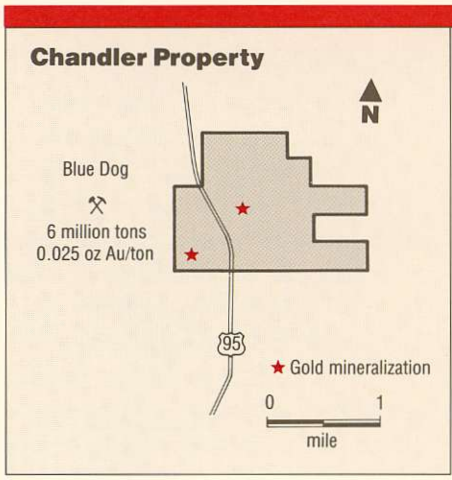
The *Nickel Mountain* (93%) property, located between the gold properties of Skyline Explorations Ltd. and Stikine Resources Inc., contains a drill-indicated reserve of 3 million tons grading 0.8% nickel and 0.7% copper with minor platinum, palladium and precious metal values. The Company is negotiating a farm-out of the property with a commitment to continue exploration of the nickel-copper mineralization and to prospect for gold mineralization in a felsic horizon that cuts across the northern boundary of the claim group.

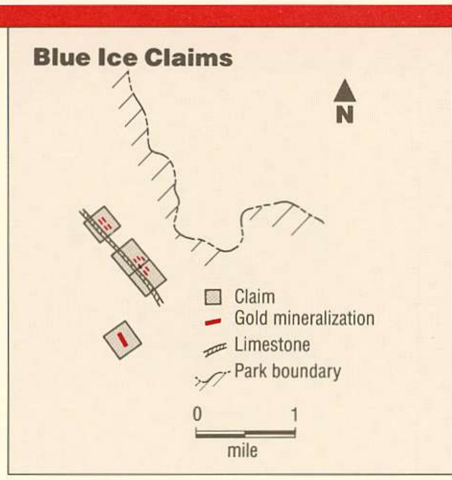
Cu file

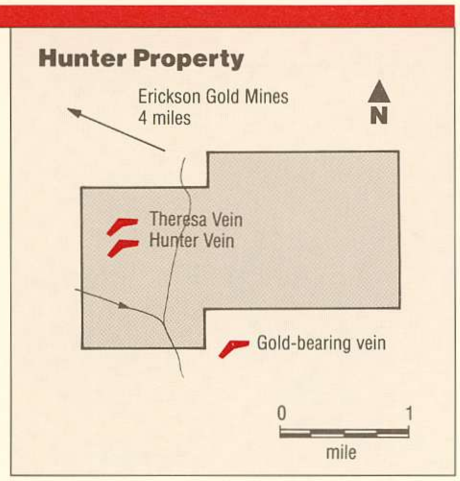
Tuscarora

In 1989, Freeport-McMoRan Gold Company completed 45,580 feet of ore reserve delineation drilling in 169 holes in the Mill Creek Zone on the *Tuscarora* property in Nevada. Millable reserves have been increased and are now estimated at 1.48 million tons grading 0.146 ounces of gold per ton, with an additional 334,550 tons of heap-leachable material grading 0.041 ounces of gold per ton. The property has excellent potential for further increasing these reserves. Highlights from this year's drilling include hole SS-507 which intersected 60 feet grading 0.22 ounces of gold per ton from 105 feet to 165 feet and hole SS-522 which intersected 40 feet grading 0.40 ounces of gold per ton from 65 feet to 105 feet. Construction of an access road connecting Mill Creek to the Freeport concentrator was completed in 1989, with upgrading to haulage road status planned for the summer of 1990. Pre-stripping of approximately 1 million tons of waste will commence in the summer and production from the property is expected in early 1991. The Company has a 2.19% net smelter returns interest in *Tuscarora* which will provide significant revenue based on the anticipated production rate of 1,000 tons of ore per day.

Exploration







Wesgold

In the spring of 1989, Consolidated Silver Standard and Carlin Resources Limited formed a joint venture to explore for heap-leachable oxide gold and copper occurrences in the northwestern United States. A number of properties were examined and explored, and in November the Joint Venture optioned the *Chandler* property located 5 miles north of Weiser, Idaho. This property is immediately east of the Blue Dog project which is currently being explored by Gold Canyon Resources Inc. and Bradner Resources Ltd. The Blue Dog property has a drill-indicated mineral inventory of 6 million tons grading 0.025 ounces of gold per ton. The *Chandler* property hosts gold-bearing silicified rock which is similar to that on the Blue Dog property. One drill hole collared on the *Chandler* property in 1982 encountered silicic material with anomalous gold values. To follow-up on these results, the Company is preparing a program of surface mapping, and further drilling is planned.

Blue Ice

The *Blue Ice* claims (65%), comprised of 160 acres situated in the northwest corner of Wells Gray Provincial Park, cover significant gold mineralization associated with quartz veins and sulphide replacement of a limestone horizon. In December, 1988, the Ministries of Environment and Energy, Mines and Petroleum Resources announced that exploration in Wells Gray Park would be prohibited and holders of existing mineral tenures would be compensated. Ten holes drilled on the *Blue Ice* property in 1938 identified a geological resource of approximately 22,000 tons grading 0.74 ounces of gold per ton to a depth of 100 feet. An independent fairness evaluation places the fair market value of the property at approximately $2.2 million. The Company will seek this level of compensation for the expropriation of the Company's claims.

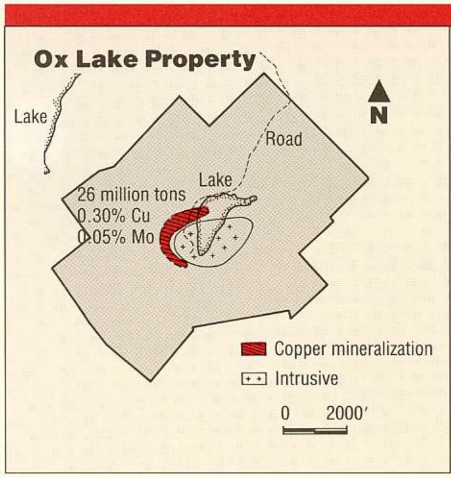
Hunter

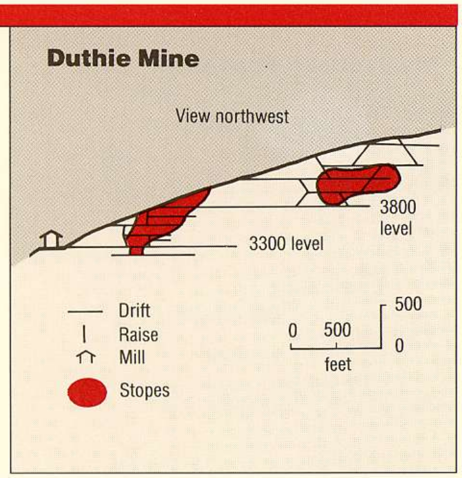
Erickson Gold Mines, a subsidiary of Total Energold Corporation, carried out surface exploration this past year on the 1,200-acre *Hunter* property located in northern British Columbia. Additional surface work and drill testing of the Hunter and Theresa veins is planned to follow-up surface chip sampling that produced values as high as 62 ounces of gold per ton across 2.8 feet. Erickson can earn a 60% property interest by spending $600,000 on exploration and making cash payments totalling $40,000 by May, 1991.

Smith-Nash

Fleck Resources has vested a 50% property interest in the *Smith-Nash* gold property located 40 miles southeast of Kitimat, British Columbia. Fleck may, at its election, increase its interest to 65% by spending an additional $250,000 on exploration. Based on surface sampling and drilling of the Smith-Nash vein, Fleck has calculated a geological resource of 22,190 tons grading 0.30 ounces of gold per ton across an average width of 7 feet.

Leased Properties





Ox Lake

At the time of drilling on this property in 1970, drill core was not adequately tested for precious metal content. Further testing this year indicates the precious metals will not add appreciably to the value of the drill-indicated reserve of 26 million tons grading 0.30% copper and 0.052% molybdenite. The Company and its joint venture partner, ASARCO Exploration Company of Canada Ltd., are now considering alternatives to further advance this project.

Lac Sairs

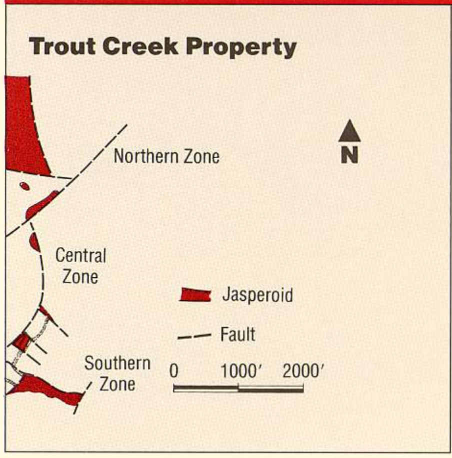
The Company has 35 claims in southwestern Quebec covering an intrusive alkaline complex which contain anomalous zones of rare-earth minerals. A number of exploration targets requiring ground follow-up have been identified by an airborne electromagnetic and radiometric survey flown by the Company in 1988. This will be undertaken in the summer of 1990, along with regional exploration for additional rare-earth properties in the Grenville province. Attention is being given to rare-earths because of their increasing importance in electronics and high technology applications.

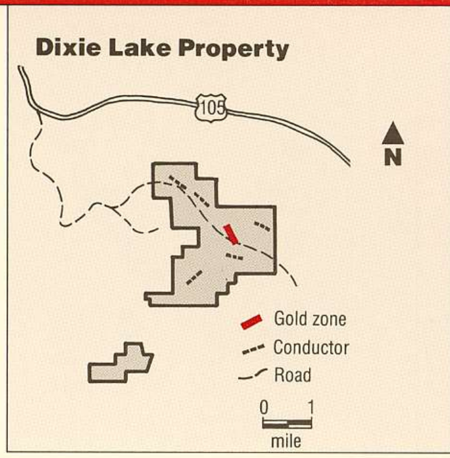
International

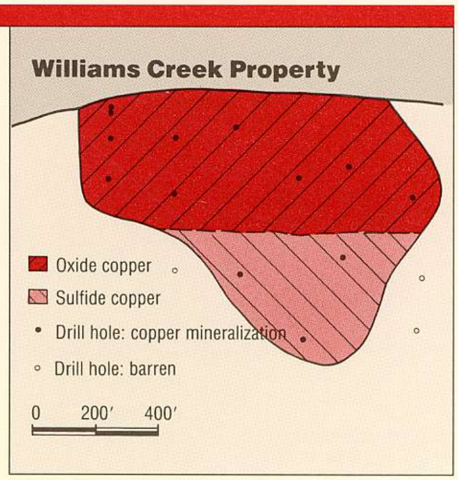
In February and March of 1989, the Company participated with Equinox Resources Ltd. in exploring the producing *Macacona Gold Mine* in central Costa Rica. Exploration of the property was not successful in delineating adequate reserves to continue mining operations at the property and the Company withdrew from further participation. The Company also carried out property examinations in the Dominican Republic, Haiti and Mexico.

In the past, the Company received royalties from the *Duthie Mine*, the *Silver Standard Mine*, the *Virginia Silver Mine*, and the *Silver Lake* property, all of which are silver properties in central British Columbia. Continued low silver prices have prohibited exploitation of these properties and as a result the *Silver Standard Mine*, the *Virginia Silver Mine* and the *Silver Lake* property have been returned to Consolidated Silver Standard by the lessees. Duthie Holdings Limited continues to make minimum royalty payments of $30,000 per annum to maintain the lease on the *Duthie Mine* located 15 miles west of Smithers. The Company will receive 5% of net smelter returns from the property if an increase in the silver price justifies a resumption of operations of the 50-ton-per-day mill facility.

Associated Companies







Lord River Gold Mines (CSS – 24%) has interests in three gold properties: the *Trout Creek* option in Nevada, the *Pellaire* property in southern British Columbia and the *Blue Ribbon* property in northern British Columbia. Drilling of gold-bearing jasperoid on the Carlin Trend *Trout Creek* property has outlined a significant gold resource and metallurgical testing is currently underway to determine gold recoveries. Lord River can earn a 55% property interest by producing a bankable feasibility study and making annual advance royalty payments of US $25,000. The Company, in conjunction with Cathedral Gold Corporation, its joint venture partner, is undertaking preliminary metallurgical testing on material from the *Pellaire* property, located 120 miles north of Vancouver. If warranted, a 1,000-ton bulk sample may be extracted for more comprehensive testing in the coming year. The current geological reserve of the property is 34,000 tons grading 0.67 ounces of gold and 2.3 ounces of silver per ton. Lord River has entered into a joint venture with Schellex Gold Corporation to farm-in on the *Blue Ribbon* property, located 10 miles west of the Stikine Resources Eskay Creek property. Lord River and Schellex can earn a 100% property interest by spending $1.5 million on exploration over five years. Previous drilling and exploration of the *Blue Ribbon* property has identified a gold-bearing zone with potentially economic values.

Mutual Resources Ltd. (CSS – 24%) focused its 1989 activities on the *Dixie Lake* gold property located 15 miles south of Red Lake, Ontario. After completion of a drill program which confirmed the presence of gold-bearing metasedimentary horizons, Mutual farmed-out the property to Teck Corporation. Teck can earn a 60% property interest by spending $2 million over five years on exploration and by making all underlying property payments. The original property vendors retain a 3.0% net smelter returns interest. To date, Teck has completed 13,419 feet of drilling in 27 holes to outline a geological reserve for the 88-4 Zone of 417,000 tons grading 0.13 ounces of gold per ton. The 88-4 Zone remains open in all directions. Teck has identified a number of ground geophysical anomalies which are slated for drill-testing in the spring. Further exploration of Mutual's three other gold properties, the *Bre* on the Queen Charlotte Islands, the *Tod* claims in northern Manitoba and the *Bonanza Basin* claims in southern British Columbia, will be dependent on higher gold prices. At year-end, Mutual had $540,000 in working capital.

Western Copper Holdings Limited, which has many shareholders in common with Consolidated Silver Standard, completed the sale of its property assets to Teck Corporation in 1989. After paying accrued liabilities, including promissory notes to Consolidated Silver Standard for $1,218,000, the Company had $20,000 in cash and 17,370 Class B Teck shares in its treasury. Western Copper optioned the *Williams Creek* copper property in the Yukon Territory and farmed-out a 50% interest to Thermal Exploration Company of California. Thermal must spend the first $640,000 and Western the next $960,000 of a $2 million commitment to determine the viability of the property as a heap-leach copper oxide project. Thereafter the companies will joint venture the project with Western as operator. Initial results indicate a copper recovery in excess of 80% can be expected from the mineralized material. The deposit hosts 7 million tons of oxide material grading 1.35% copper and 6.7 million tons of sulphide material grading 1.08% copper. Western Copper is in the process of obtaining a Vancouver Stock Exchange listing.

Consolidated Balance Sheet

as at September 30, 1989

	1989 $	1988 $
Assets		
Current Assets		
Cash and term deposits	2,380,876	1,335,494
Accounts receivable	88,376	54,975
	2,469,252	1,390,469
Investments (note 2)	280,342	1,216,589
Mineral Properties and Fixed Assets		
Mineral properties (note 3)	1	1
Fixed assets (note 4)	16,496	15,389
	2,766,091	2,622,448
Liabilities		
Current Liabilities		
Accounts payable	35,953	114,312
Due to a related party (note 7)	18,569	18,905
	54,522	133,217
Shareholders' Equity		
Share Capital (note 5)	2,093,596	2,089,471
Retained Earnings	617,973	399,760
	2,711,569	2,489,231
	2,766,091	2,622,448

Approved by the Directors

Director

Director

Consolidated Statement of Earnings and Retained Earnings

for the year ended September 30, 1989

	1989 $	1988 $
Revenue		
Royalties and options	125,163	146,280
Administration and technical services (note 6(a))	53,352	94,063
Interest income	150,758	117,284
	329,273	357,627
Exploration And Development Costs	259,165	290,831
Administration Costs		
Depreciation	2,470	2,274
General administration	100,732	94,174
Professional fees	19,287	29,072
Salaries and employee benefits	73,285	77,009
	195,774	202,529
Loss Before The Following:	(125,666)	(135,733)
Other Income (Expense)		
Realization of deferred gain (note 8)	568,879	
Provision for loss on investment	(225,000)	
Net Earnings (Loss) For The Year	218,213	(135,733)
Retained Earnings — Beginning Of Year	399,760	535,493
Retained Earnings — End Of Year	617,973	399,760
Earnings (Loss) Per Share	0.07	(0.05)

Consolidated Statement of Changes in Financial Position

for the year ended September 30, 1989

Cash Provided By (Used For) Operating Activities	**1989 $**	**1988 $**
Net earnings (loss) for the year	218,213	(135,733)
Add: Items not requiring (providing) cash —		
Depreciation	2,470	2,274
Realization of deferred gain	(568,879)	
Provision for loss on investment	225,000	
Change in non-cash working capital balances	(112,096)	264,893
	(235,292)	131,434
Financing Activity		
Issue of share capital	4,125	48,975
Investing Activities		
Advances to affiliated companies	77,996	(226,086)
Settlement of note receivable (note 8)	1,218,000	
Purchase of fixed assets	(3,577)	(8,550)
Purchase of investments	(15,870)	
	1,276,549	(234,636)
Net Increase (Decrease) In Cash And Term Deposits	1,045,382	(54,227)
Cash And Term Deposits — Beginning Of Year	1,335,494	1,389,721
Cash And Term Deposits — End Of Year	2,380,876	1,335,494

Notes to Consolidated Financial Statements

for the year ended September 30, 1989

1. Significant Accounting Policies

(a) *Principles of Consolidation*

These consolidated financial statements include the accounts of Consolidated Silver Standard Mines Limited and its subsidiaries:

	Percentage ownership %
American Standard Explorations Inc. (a U.S. company)	100
Virginia Silver Mines Ltd. (N.P.L.)	96

Investments in Lord River Gold Mines Limited (N.P.L.) and Mutual Resources Ltd. have been written down to a nominal value of $1. The company has a 24% interest in each of these companies but as they are both in a deficit position and further losses do not accrue to the company, the company's equity share of such losses is not recorded.

(b) *Mineral Properties*

Expenditures on mineral properties and exploration and development costs are charged to earnings in the year in which they are incurred, except where these costs relate to specific properties that have economically recoverable reserves, in which case they are deferred.

(c) *Fixed Assets*

Fixed assets are recorded at cost less accumulated depreciation and are depreciated on a straight-line basis at rates ranging from 10% to 15% per annum.

(d) *Foreign Currency Translation*

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the balance sheet date, and non-monetary assets and liabilities are translated at the exchange rate in effect at the date of the transaction. Revenues and expenses are translated at the average exchange rate for the year. Exchange gains and losses are included in the determination of net earnings for the year.

(e) *Investments*

Investments are recorded at cost, unless a permanent impairment in value has occurred, at which time they are written down to market value.

(f) *Option Payments*

Option payments are made at the discretion of the optionee and, accordingly, are accounted for on the cash basis.

2. Investments

	1989 $	1988 $
Marketable Securities		
Total Energold Corporation Ltd. (quoted value $41,692; 1988 — $92,650)	44,648	269,648
Trans Dominion Energy Corp. (quoted value $35,477; 1988 — $49,668)	71,732	71,732
Longreach Resources Ltd. (quoted value $1,557)	15,870	
	132,250	341,380

Investment in and Advances to Affiliated Companies		
Lord River Gold Mines Limited		
(quoted value $133,125; 1988 — $131,175)		
— common shares	1	1
— demand loan at 13.5% per annum	80,000	
— interest receivable	1,805	
— advances	57,696	191,336
	139,502	191,337
Mutual Resources Ltd. (quoted value $278,235; 1988 — $196,360)		
— common shares	1	1
— advances	8,589	34,750
	8,590	34,751
	148,092	226,088
Notes receivable, Western Copper Holdings Limited (note 8)		649,121
	280,342	1,216,589

3. Mineral Properties

By agreement dated June 13, 1988, the company granted a 50% working interest in the Smith property, Skeena, British Columbia, to Fleck Resources Ltd. for cash payments of $50,000 and aggregate expenditures of $500,000 to be incurred before June 13, 1990. As of September 30, 1989, the company has received $50,000 and the required expenditures have been incurred.

4. Fixed Assets

	1989			1988
	Cost $	Accumulated depreciation $	Net $	Net $
Building	24,075	24,075		
Office equipment	34,761	23,220	11,541	10,455
Mining equipment	12,606	10,151	2,455	2,434
Land	2,500		2,500	2,500
	73,942	57,446	16,496	15,389

5. Share Capital

(a) Authorized — 20,000,000 common shares without par value

(b) Issued and fully paid —

	1989		1988	
	Shares	$	Shares	$
Balance — beginning of year	3,117,290	2,089,471	2,913,110	1,855,996
For cash	7,500	4,125	204,180	233,475
Balance — end of year	3,124,790	2,093,596	3,117,290	2,089,471

Stock Options

The company has options outstanding to directors and officers of the company to purchase up to 170,000 shares at prices of $0.73 and $0.74 per share and expiring between June 21, 1990 and December 18, 1990.

6. Related Party Transactions

(a) Administration and technical services are shared with affiliated companies, which are charged at cost for salaries and office services and at 110% of cost for disbursements made on their behalf.

(b) The company's investments include shares of companies with which the directors are associated.

7. Due To A Related Party

	$
Teck Corporation	18,569

Teck Corporation owns a 27.5% interest in the issued stock of the company.

8. Realization Of Deferred Gain

In 1984, the company sold its interest in three copper properties to Western Copper Holdings Limited (WCH) in exchange for three non-interest-bearing notes receivable totalling $1,218,000 payable upon sale or development of the properties. The gain on sale of $568,879 was deferred until these conditions were fulfilled. During the year, WCH sold its interest in these properties to Teck Corporation, a company with an ownership interest and common directorship with both companies, thereby realizing its deferred gain and receiving cash totalling $1,218,000 in settlement of the note.

	$
Principal amount of notes	1,218,000
Less: Investment at carrying value	649,121
Gain on settlement	568,879

9. Income Taxes

The company has eliminated income tax expense on its net earnings for the year through the application of prior years' losses, including exploration and development expenditures. As at September 30, 1989, the company and its subsidiaries have approximately $3,100,000 of operating losses and accumulated exploration and development costs available for deduction against income for tax purposes in future years.

10. Comparative Figures

The comparative figures were reported on by other auditors. Certain 1988 figures have been reclassified to conform with the 1989 financial statement presentation.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Consolidated Silver Standard Mines Limited as at September 30, 1989 and the consolidated statements of earnings and retained earnings 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 September 30, 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.

Coopers & Lybrand

Chartered Accountants

Vancouver, B.C.
November 24, 1989

Corporate Directory

Directors	**Ross J. Beaty** Vancouver, B.C.
	Robert E. Hallbauer Vancouver, B.C.
	John L. May Vancouver, B.C.
	Robert A. Quartermain Vancouver, B.C.
	Alex C. Ritchie Vancouver, B.C.
Officers	**Robert A. Quartermain** President
	John L. May Vice President
	Linda J. Sue Secretary-Treasurer
Transfer Agent and Registrar	**Montreal Trust Company of Canada** 510 Burrard Street Vancouver, B.C. 688 Temperance Street Toronto, Ontario
Auditors	**Coopers & Lybrand** Vancouver, B.C.
Head Office	Suite 400 1199 West Hastings Street Vancouver, B.C. V6E 3T5 Tel. (604) 689-3846 FAX (604) 687-6100

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