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**ANNUAL  
REPORT  
1985**

**CONSOLIDATED  
SILVER STANDARD  
MINES LIMITED**

RECEIVED

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### HIGHLIGHTS \_\_\_\_\_

- Rights offering to shareholders raised funds for the Company's exploration programs
- Mineable reserves delineated by Freeport-McMoRan on the Tuscarora gold property in Nevada
- Prospecting on the Paydirt property in northern British Columbia located new gold showings

### ANNUAL GENERAL MEETING \_\_\_\_\_

The Annual General Meeting of Shareholders of Consolidated Silver Standard Mines Limited will be held on Thursday, March 27th, 1986, in the Trail Room, Holiday Inn, 1133 West Hastings Street, Vancouver, B.C. at 9:30 in the forenoon.



## PRESIDENT'S REPORT TO THE SHAREHOLDERS:

Two developments highlighted the activities of the Company in 1985: the announcement by Freeport-McMoRan Gold Company that mineable reserves have been outlined on the Tuscarora property in Nevada in which the Company has a royalty interest, and a significant increase in the dimensions of the gold-bearing zone on the Paydirt property in northwestern British Columbia. In total, fourteen of the Company's properties were explored this past year, with drill programs being carried out on six of these.

The Tuscarora property in Nevada, currently leased by Freeport-McMoRan Gold Company and FMC Corp., was staked in 1974 for the Owyhee Syndicate managed by Silver Standard Mines. At the Mill Creek zone, Freeport has delineated mineable reserves of 1,084,400 tons grading 0.17 ounces of gold per ton. An additional 311,500 tons of heap-leachable material grading 0.039 ounces of gold per ton has been outlined at Mill Creek. These reserves were calculated using a gold price of U.S. \$450 per ounce. A total of 377 holes were drilled to define the Mill Creek zone mineralization, which is one of five mineralized areas on the Tuscarora property. Freeport has drilled 108 holes in the remaining four zones and will continue exploration of these in 1986. Until the property is placed into production, the Company and its Owyhee Syndicate partners will continue to receive advance royalties and delay rental payments totalling U.S. \$100,000 per annum. Once production commences, the Company will receive 2.19 per cent of net smelter returns.

An eleven-hole 2,500-foot drill program on the Paydirt property in northern British Columbia was successful in outlining a gold-bearing zone containing geological reserves of 200,000 tons grading 0.12 ounces of gold per ton. The zone is open and grade appears to be improving down-dip. Three additional mineralized outcrops were discovered west of the main zone and samples from these outcrops contain more than 0.20

ounces of gold per ton. Twenty rock samples with a gold content of 0.01 to 0.10 ounces of gold per ton were collected elsewhere throughout the property, indicating that gold mineralization is widespread. In 1986, exploratory work will continue on the main zone and the newly discovered zones to the west.

A four thousand-foot drill program on the Mamie property located 15 miles west of Smithers, British Columbia, intersected the Mamie vein below the lower workings but did not encounter any mineralization which added appreciably to reserves. Geological reserves are estimated at 61,000 tons grading 0.32 ounces of gold and 3 ounces of silver per ton with copper and zinc credits. Metallurgical studies are currently being carried out on samples from the Mamie Vein.

Drilling on the Fairservice property near Sioux Narrows, Ontario, intersected anomalous gold values in a mineralized shear zone, down-dip of holes previously drilled on the property. Further prospecting and surface exploration will be carried out before proceeding with additional drilling.

The Company holds 39 claims on Dome Mountain which are under option to Canadian United Minerals. A substantial exploration program is currently in progress. Canadian United Minerals has reported the discovery of significant gold mineralization on claims adjacent to those owned by the Company in structures which may strike onto the Company's claims. Consolidated Silver Standard has retained a 5 per cent net smelter returns royalty interest with respect to production from its claims.

Trenching, blasting and sampling were carried out on the Company's silica claims east of Prince George. The Longworth claims contain substantial geological reserves of quartzite grading upwards of 99.6 per cent silicon dioxide. This quartzite is suitable for the production of both silicon and ferrosilicon metals. With oversupply and

low prices prevailing, the prospect of bringing additional silicon/ferrosilicon production to the marketplace is not feasible at present. However, the Company will continue to pursue avenues to develop this valuable resource.

A limited prospecting program on the Ox Lake property, a joint venture between the Company and Asarco, was successful in locating silver-bearing veins peripheral to the Ox Lake porphyry. Additional follow-up is planned for the coming field season.

The Company participated with Canamax Resources Inc. in a two-hole drill program on the Company's Hemlo claims. The results were disappointing and the option on these claims was dropped.

With the recent modest improvement in gold price, the Company is looking forward to an increase in the activities of Mutual Resources Limited and Lord River Gold Mines Limited, two associated companies. Mutual Resources Limited owns four gold properties and has \$700,000 in working capital. Lord River Gold Mines has a 50% property interest in the former Pellaire Gold Mine, located 150 miles north of Vancouver. The property has inferred geological reserves of 34,000 tons grading 0.67 ounces of gold per ton with room for expansion.

The Company completed a successful rights offering to shareholders in 1985 to net the treasury \$651,000. Financially, the Company enjoys a sound working capital position with more than sufficient funds to carry out its proposed exploration programs in 1986. Subsequent to the preparation of the financial statements which form part of this report, the Company sold 78,125 shares of Blackdome Exploration Ltd. netting \$400,000. These funds were added to working capital and a portion applied to paying down the Company's debt to Teck Corporation.

The Company continues to receive royalty payments from the lessees of three silver properties in the Smithers-Hazelton area of British Columbia. At the Duthie Mine the lessee has completed the construction of a 50-ton per day mill. The

operation is seasonal with concentrates being shipped to the smelter at Trail. A few years of ore reserves have been outlined underground, and an improvement in the price of silver could see a significant increase in the Company's royalty revenues from this operation.

On December 4, 1985 shares of Western Copper Holdings Limited were distributed as a dividend on a 1 for 1 basis to Consolidated Silver Standard shareholders of record January 4, 1985. There are currently 1,916,523 shares outstanding in Western Copper Holdings of which Teck Corporation holds 36.2 per cent. The assets of Western Copper Holdings are its interests in the Schaft Creek, Minto, and Red-Chris properties.

Mr. Ross Beaty, President of Equinox Resources Ltd. has been appointed to the Board of Directors replacing R.W. Kram. Mr. Beaty's international experience as a consulting geologist will make him a valuable member of the Board.

On behalf of the Board,



R.A. QUARTERMAIN  
President

February 1986

**CONSOLIDATED SILVER STANDARD MINES LIMITED**  
(Incorporated under the Company Act of British Columbia)

**CONSOLIDATED BALANCE SHEET**

as at September 30, 1985

**ASSETS**

	<u>1985</u>	<u>1984</u>
<b>CURRENT</b>		
Cash .....	\$ 562,983	\$ 42,619
Accounts receivable .....	<u>48,974</u>	<u>16,986</u>
	611,957	59,605
<b>INVESTMENTS (Note 2) .....</b>	<u>784,830</u>	<u>575,773</u>
<b>MINING ASSETS (Notes 2, 3 and 4)</b>		
Mining properties .....	1	1
Deferred exploration and development .....	1	856,863
Land, building and equipment .....	<u>3,361</u>	<u>2,500</u>
	3,363	859,364
	<u>\$1,400,150</u>	<u>\$1,494,742</u>

**LIABILITIES**

<b>CURRENT</b>		
Accounts payable .....	\$ 165,273	\$ 22,401
Dividends payable (Note 2) .....	1	—
Notes payable, Teck Corporation (Note 5) .....	<u>268,241</u>	<u>216,671</u>
	433,515	239,072
<b>MINORITY INTERESTS IN SUBSIDIARY COMPANIES .....</b>	<u>—</u>	<u>201,945</u>

**SHAREHOLDERS' EQUITY**

SHARE CAPITAL (Note 6) .....	1,271,737	4,791,260
SHARE SUBSCRIPTIONS (Note 7) .....	383,301	—
CONTRIBUTED SURPLUS (Note 6) .....	—	3,809,582
DEFICIT (Note 6) .....	<u>(688,403)</u>	<u>(7,547,117)</u>
	966,635	1,053,725
	<u>\$1,400,150</u>	<u>\$1,494,742</u>

Approved by the Directors

R.A. QUARTERMAIN, Director

A.C. RITCHIE, Director



## CONSOLIDATED STATEMENT OF DEFICIT

for the year ended September 30, 1985

(with comparative figures for the six months ended September 30, 1984)

	<u>1985</u>	<u>1984</u>
BALANCE, beginning of period .....	\$7,547,117	\$7,493,300
Reduction of capital (Note 6) .....	(3,737,535)	—
Reduction of contributed surplus (Note 6) .....	(3,809,582)	—
Dividends (Note 2) .....	1	—
Net loss for the period .....	<u>688,402</u>	<u>53,817</u>
BALANCE, end of period .....	<u>\$ 688,403</u>	<u>\$7,547,117</u>

## CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS

for the year ended September 30, 1985

(with comparative figures for the six months ended September 30, 1984)

	<u>1985</u>	<u>1984</u>
BALANCE, beginning of period .....	\$3,809,582	\$3,809,582
Reduction, applied to deficit (Note 6) .....	<u>3,809,582</u>	—
BALANCE, end of period .....	<u>\$ Nil</u>	<u>\$3,809,582</u>

## CONSOLIDATED STATEMENT OF LOSS

for the year ended September 30, 1985

(with comparative figures for the six months ended September 30, 1984)

	<u>1985</u>	<u>1984</u>
INCOME		
Royalties .....	\$ 73,922	\$ 77,050
Administration and technical services .....	19,211	8,909
Options and other .....	<u>9,969</u>	<u>3,894</u>
	<u>103,102</u>	<u>89,853</u>
EXPENSE		
Salaries and employee benefits .....	115,646	64,924
General administration .....	70,224	45,942
Legal and audit .....	14,274	22,974
Interest .....	<u>21,571</u>	<u>10,825</u>
	<u>221,715</u>	<u>144,665</u>
less: expenses allocated to company properties .....	<u>19,547</u>	—
	<u>202,168</u>	<u>144,665</u>
OPERATING LOSS BEFORE THE UNDERNOTED ITEMS .....	<u>99,066</u>	<u>54,812</u>
OTHER EXPENSE (INCOME)		
Exploration and development costs expensed .....	263,026	13,992
Minority interest in losses of subsidiary companies .....	—	(1,072)
	<u>263,026</u>	<u>12,920</u>
LOSS BEFORE SALE OF INVESTMENTS AND MINING PROPERTIES .....	<u>362,092</u>	<u>67,732</u>
LOSS (GAIN) ON SALE OF INVESTMENTS AND MINING PROPERTIES .....	<u>326,310</u>	<u>(13,915)</u>
NET LOSS FOR THE PERIOD .....	<u>\$688,402</u>	<u>\$ 53,817</u>



## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended September 30, 1985

(with comparative figures for the six months ended September 30, 1984)

	<u>1985</u>	<u>1984</u>
FUNDS DERIVED FROM		
Sale of investments and mining properties .....	\$1,331,755	\$ 14,681
Issue of shares .....	218,012	—
Share subscriptions .....	383,301	—
	<u>1,933,068</u>	<u>14,681</u>
FUNDS UTILIZED FOR		
Loss before sale of investments and mining properties, exploration and development costs expensed and non-cash charges .....	92,664	54,597
Notes receivable taken back on sale of investment and mining properties .....	1,218,000	—
Exploration and development costs .....	263,026	20,823
Purchase of equipment .....	1,468	—
Dividends .....	1	—
	<u>1,575,159</u>	<u>75,420</u>
INCREASE (DECREASE) IN WORKING CAPITAL .....	357,909	(60,739)
WORKING CAPITAL (DEFICIENCY), beginning of period .....	(179,467)	(118,728)
WORKING CAPITAL (DEFICIENCY), end of period .....	<u>\$ 178,442</u>	<u>\$(179,467)</u>
REPRESENTED BY		
Current assets .....	\$ 611,957	\$ 59,605
Current liabilities .....	433,515	239,072
	<u>\$ 178,442</u>	<u>\$(179,467)</u>

## AUDITORS' REPORT

TO THE SHAREHOLDERS OF  
CONSOLIDATED SILVER STANDARD MINES LIMITED.

We have examined the consolidated balance sheet of Consolidated Silver Standard Mines Limited as at September 30, 1985 and the consolidated statements of loss, deficit, contributed surplus 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, 1985 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 period.

Vancouver, Canada.  
December 9, 1985.

PANNELL KERR FORSTER  
Chartered Accountants

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

September 30, 1985

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Investment in Subsidiary Companies

These consolidated financial statements include the accounts of all subsidiary companies, except Western Copper Holdings Limited.

	Percentage Ownership
American Standard Explorations Inc. ....	100.0%
Virginia Silver Mines Limited (N.P.L.) .....	96.0%

#### Investment in Western Copper Holdings Limited

The accounts of Western Copper Holdings Limited have not been consolidated because the shares of that subsidiary were distributed to the shareholders of the company as a dividend on December 4, 1985. The notes receivable aggregating \$1,218,000, although payable on demand, are excluded from current assets because it is unlikely that payment will be demanded and the notes realized before October 1, 1986.

#### Other Investments

Investments in other companies are carried at cost, except that the investment in Lord River Gold Mines Limited, representing a 41.4% interest, has been written down to reflect the company's share of its reported losses since acquisition.

#### Mining Properties

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

### 2. INVESTMENTS

	% Owned	Cost	Notes Receivable
Western Copper Holdings Limited .....	100.0	\$ 1	\$1,218,000
less: deferred gain on transfer of properties .....			568,879
			<u>\$ 649,121</u>

During the year, pursuant to a resolution of shareholders made July 27, 1984, the company completed the transfer of its interest in three copper properties, having a net book value of \$649,121, to a wholly-owned subsidiary, Western Copper Holdings Limited, in exchange for non-interest bearing demand notes totalling \$1,218,000, plus 1,916,523 shares at an ascribed value of \$1. On December 4, 1985, the shares in Western Copper Holdings Limited were distributed as dividends to the shareholders of the company of record as of January 5, 1985.

The realization of the notes receivable from the sale of the properties ultimately is dependent on the development or sale of those properties by Western Copper Holdings Limited. Accordingly, the gain on transfer of the properties has been deferred and the notes receivable from Western Copper Holdings Limited, less the deferred gain, stated at the net book value of the properties transferred.

Other investments:

	Common Shares	Cost or Written Down Value	Market Value Non-Escrow Shares
Blackdome Exploration Ltd. ....	183,500	\$ 35,123	\$715,650
Erickson Gold Mines Ltd. ....	1,804	21,650	7,216
Lord River Gold Mines Limited (675,000 shares in escrow) .....	725,000	—	—
Mutual Resources Limited (445,900 shares in escrow) .....	618,300	—	98,268
Kam Kotia Mines Ltd. ....	5,000	1	6,050
Trans Dominion Energy Corp. (formerly Moneta Porcupine Mines Limited) .....	70,504	78,934	88,130
		<u>\$135,708</u>	<u>\$915,314</u>



### 3. MINING PROPERTIES

The company may acquire a 100% interest in the Paydirt mining claims on expending \$600,000 by December 31, 1987, subject to a minimum of \$150,000 being expended by December 31, 1985 and a minimum of \$350,000 being expended by December 31, 1986. To September 30, 1985 the company has expended \$179,000 on the property.

### 4. LAND, BUILDINGS AND EQUIPMENT

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Depreciated Value</u>	<u>Depreciation Straight Line</u>
Land and building, field office at Smithers, B.C. ....	\$26,575	\$24,075	\$2,500	10%
Office furniture and fixtures .....	18,353	18,353	—	15%
Mining equipment .....	8,692	7,831	861	15%
	<u>\$53,620</u>	<u>\$50,259</u>	<u>\$3,361</u>	

### 5. NOTES PAYABLE

Teck Corporation has advanced funds evidenced by notes payable on demand and bearing interest at bank prime rate.

### 6. SHARE CAPITAL AND CAPITAL REORGANIZATION

#### Authorized

The authorized capital of the company is 20,000,000 shares without par value.

#### Issued

	<u>Number of Shares</u>	<u>Share Capital</u>
Balance, beginning of period .....	1,916,504	\$4,791,260
Issued during the period for cash pursuant to rights offering .....	383,304	218,012
Reduction of capital .....	—	(3,737,535)
Balance, end of period .....	<u>2,299,808</u>	<u>\$1,271,737</u>

#### Stock Options

The company has granted an option to a director to purchase 50,000 shares at 64¢ per share, exercisable until December 31, 1987.

Subsequent to September 30, 1985, the company granted an option to an officer to purchase 20,000 shares at 55¢ per share, exercisable until November 7, 1988.

#### Warrants

In consideration of subscription guarantees given in connection with the August 1985 rights offering, the company has granted the agent warrants to subscribe for 250,000 shares at \$0.75 per share, exercisable until February 26, 1986.

#### Reduction of Share Capital and Contributed Surplus

At the March 28, 1985 annual general meeting, the shareholders approved the reduction of capital by \$3,737,535 and the reduction of contributed surplus by \$3,809,582, both reductions to be applied to the accumulated deficit balance.

#### Loss per Share

	<u>1985</u>	<u>1984</u>
Loss before sale of investments and mining properties .....	\$.19	\$.04
Loss (gain) on sale of investments and mining properties .....	.17	(.01)
Net loss per share .....	<u>\$.36</u>	<u>\$.03</u>



**7. SHARE SUBSCRIPTIONS**

The company has agreed to issue, by public placement, 383,301 shares at \$1.00 per share. The funds received for these shares are being used to incur expenditures which will qualify as exploration and development expenses within the meaning of the Income Tax Act and will be deductible for income tax purposes by the subscribers. As at September 30, 1985 approximately \$200,000 of the funds had been expended on qualifying expenditures.

**8. RELATED PARTY TRANSACTIONS**

Administration and technical services are shared with affiliated companies which are charged at 120% of cost for salaries and office services.

Teck Corporation owns 36.2% of the outstanding shares of the company. Interest charged by Teck on its notes payable during the year was \$21,571.

**9. INCOME TAXES**

The company and its subsidiaries have the following amounts available to reduce income for tax purposes in future years:

	<u>The Company</u>	<u>Subsidiaries</u>
Operating losses .....	\$ —	\$ 25,000
Exploration and development .....	3,400,000	400,000
	<u>\$3,400,000</u>	<u>\$425,000</u>



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## CORPORATE DIRECTORY

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### 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

THE CANADA TRUST COMPANY  
1055 Dunsmuir Street  
Vancouver, B.C.

110 Yonge Street  
Toronto, Ontario

### AUDITORS

PANNELL KERR FORSTER  
Vancouver, B.C.

### HEAD OFFICE

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