

826253  
Cream  
Silver.

CREAM  
SILVER  
MINES

1986  
Annual Report

# CORPORATE INFORMATION

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## The Company

Cream Silver Mines Ltd. (N.P.L.) was incorporated under the laws of British Columbia in October 1966. As Cream Silver approaches its 20th anniversary, it has the distinction of being the first of a group of resource companies that has evolved into the Hughes-Lang Group.

The Hughes-Lang Group has become a major force in Canadian mineral exploration, responsible for the discovery of major gold deposits on the Belmoral, D'Or Val, Goliath (Hemlo) and Perron Properties. The Goliath Gold Mines — Golden Sceptre Resources discovery at Hemlo, Ontario, now operated by Noranda Mines, has become Canada's richest producing gold mine, providing hundreds of jobs and new economic life to a formerly depressed area. The Hughes-Lang Group has proven to be very effective in their ability to develop their mineral properties into producing mines. Two of Cream's associated companies, D'Or Val Mines and Perron Gold Mines are following this Hughes-Lang tradition and are moving towards production.

Cream Silver is active in exploration for gold and polymetallic mineral deposits in Canada. Cream has assembled a promising group of properties located in prime Canadian mineral exploration camps; Abitibi Lake, St. Joe-Pickle Lake, Cameron Lake and Lac des Iles in Ontario; the Klondike Gold Camp in the Yukon; Butte Lake on Vancouver Island and the historic Atlin Gold Camp in Northwestern British Columbia.

With this impressive array of properties Cream may soon follow Hughes-Lang tradition and bring one of these properties into production.

## Board of Directors and Officers

Frank A. Lang, P.Eng., President  
Richard W. Hughes, Director  
William E. Vance, Director  
Brian Moorhouse, Director  
David P. Hall, Comptroller and Secretary

## Solicitors

DuMoulin Black  
Barristers & Solicitors

## Auditor

Morgan & Company  
Chartered Accountants

## Transfer Agent

Yorkshire Trust Company  
1100 Melville Street  
Vancouver, B.C. V6E 4B6

## Stock Exchange

Vancouver — Resource Section  
Ticker Symbol — CEM

## Capitalization

Shares Authorized: 10,000,000  
Shares Issued: 6,907,846

## Head Office

Suite 1900-999 West Hastings Street  
Vancouver, B.C. V6C 2W2

## Registered Office

Suite 1004-595 Howe Street  
Vancouver, B.C. V6C 2T5

## Annual Meeting

September 25, 1986  
2:00 p.m. at Suite 1900  
999 West Hastings Street  
Vancouver, B.C. V6C 2W2

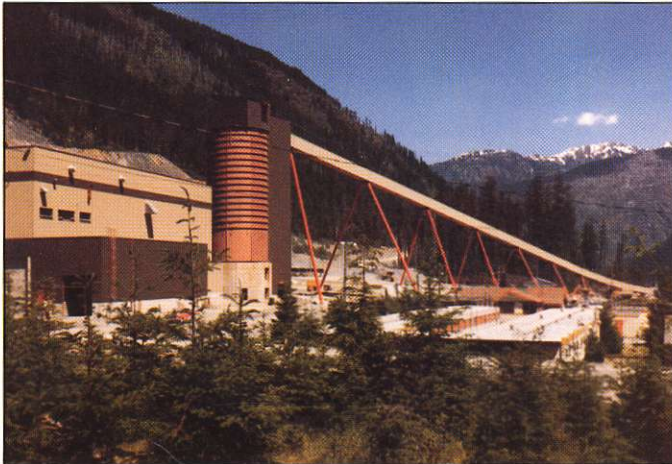


## PRESIDENT'S REPORT

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In some ways it's been a long tough year. In other ways, it seems like only yesterday that we were compiling the last annual report.

As you will see from the inner contents we have not exactly been standing still. Your company's number one priority has been the repossession of our Buttle Lake mineral claims in Strathcona Park on Vancouver Island, British Columbia, probably one of the best base-precious metal prospects in North America. We have to believe that, considering the state of unemployment on Vancouver Island, the government would be most anxious to expedite the return of these claims, and allow the commencement of a multimillion dollar exploration program which, if



*Westmin Resources Millsite. Westmin Resources Ltd. have opened their new 3000-ton-per-day mill providing employment to more than 470 people.*

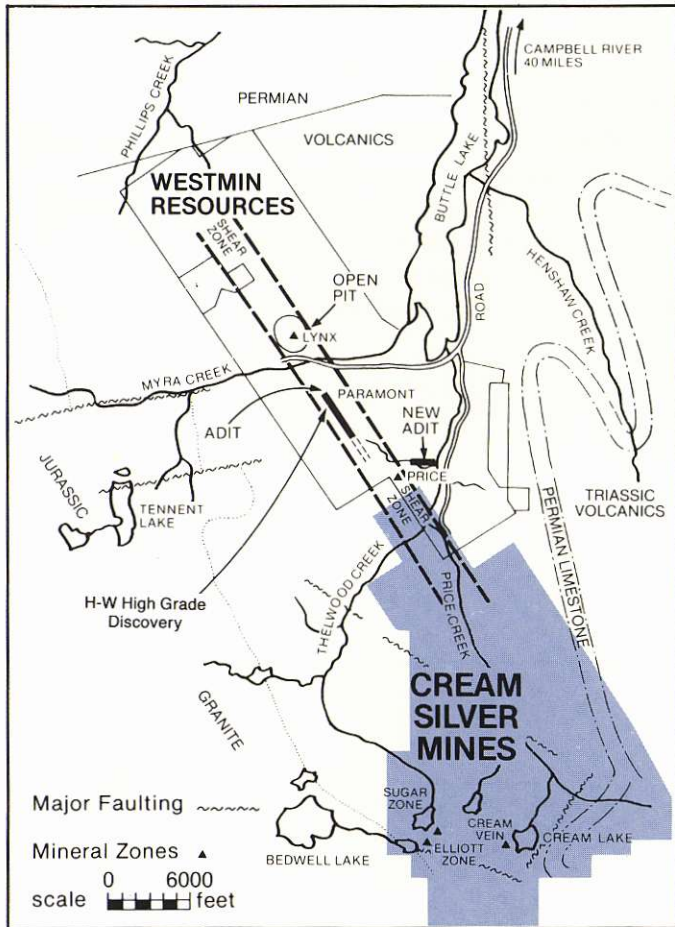
successful, could ultimately provide 300-500 direct and indirect jobs.

Initially, it appeared we would be granted a park use permit immediately following the Supreme Court of Canada decision ruling that denial of a park use permit preventing exploration of mineral claims in a provincial park would constitute expropriation for which compensation is payable. However, instead of submitting to payment of compensation, the British Columbia government chose to appoint a committee called the "Wilderness Advisory Committee" to conduct a comprehensive review of land use issues including examination of seven provincial park boundaries. The recommendations of this committee in regards to Cream's property, were as follows: "The mining belt including the Westmin Mine and Cream Silver's ground should be designated a recreation area wherein mining would be permitted subject to approval by the Parks Division".

Formal applications for approval were submitted to the Parks Division last October and again this spring. However, at the time of writing, a final favourable decision is still pending.

In April 1986, we contacted the Ministry of Energy, Mines and Petroleum Resources and the Ministry of Lands, Parks and Housing requesting an opportunity to meet with them and enlist their help to expedite final approval for our park use permit. Shortly thereafter, we met with the Minister of Energy, Mines and Resources, who expressed sincere interest in our efforts but felt we should also seek out support and approval from the Ministry of Industry and Small Business. Having acted on this and received no conclusive response, we have recontacted the appropriate ministries and stressed that time is of the essence and reemphasized the economic benefits to the local communities. The Ministry of Industry and Small Business has since replied assuring us our request would be acknowledged shortly.





Price Creek area of Cream's Buttle Lake property showing area of mineralized float (loose material) containing up to 3% copper, 3% zinc and minor silver.

The Cream Silver property on Vancouver Island... next door neighbour to Westmin Resources' producing mine and its more than 15 million tons of reserves.

In summary, we believe our time and efforts in attempting to overcome these bureaucratic obstacles will be well spent and are confident that a final favourable decision is forthcoming.

In other matters, your company has optioned a platinum-palladium prospect that adjoins the Boston Bay/Madelaine Mines property which may become Canada's first open pit platinum-palladium mine. Drilling programs have been recommended for our existing properties in Atlin, Cameron Lake and our Garrison, Ontario property, where a recent small drill program intersected the Porcupine-Destor Fault which is associated with other great ore discoveries in the Timmins gold belt. Your company remains active in the acquisition and exploration of good mineral properties.

On behalf of the board of directors

*F.A. Lang*  
 F.A. Lang

# MINERAL CLAIMS

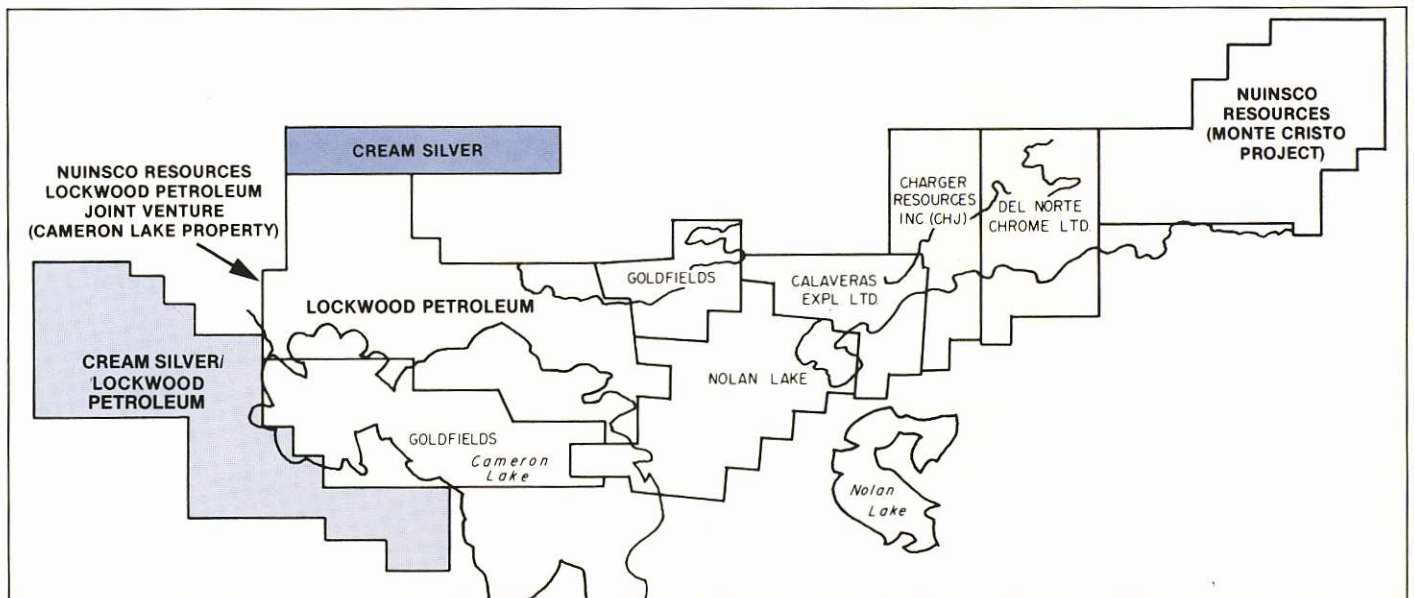
## Cameron Lake Property

In mid-1983 Cream Silver acquired two groups of claims that adjoin the Lockwood-Nuinsco project at Cameron Lake, Ontario. The property consists of two separate blocks; an 18-claim block to the north of the Lockwood-Nuinsco ground and a 46-claim block to the west. The 18-claim block is 100% owned by Cream and the 46-claim block is subject to an option whereby Lockwood Petroleum Inc. may earn a 49% interest.

The Lockwood-Nuinsco property is currently being tested for production by Echo Bay Mines. Ore reserves on the property now stand at 1.6 million tons grading 0.16 oz. gold per ton, including 516,000 tons of higher grade ore averaging 0.28 oz. gold per ton. Tonnage and grade indications as well as the proximity of mine infrastructure requirements point to the potential for a large profitable operation. The location to this major discovery and its development will only

serve to make Cream's property more feasible for future development.

Phase I of a recommended \$283,000 exploration program, consisting of geological mapping and prospecting, has been completed. A number of drill targets have been identified and Phase II of the program will commence under the direction of Fenton Scott, P.Eng., Geologist, the project geologist.



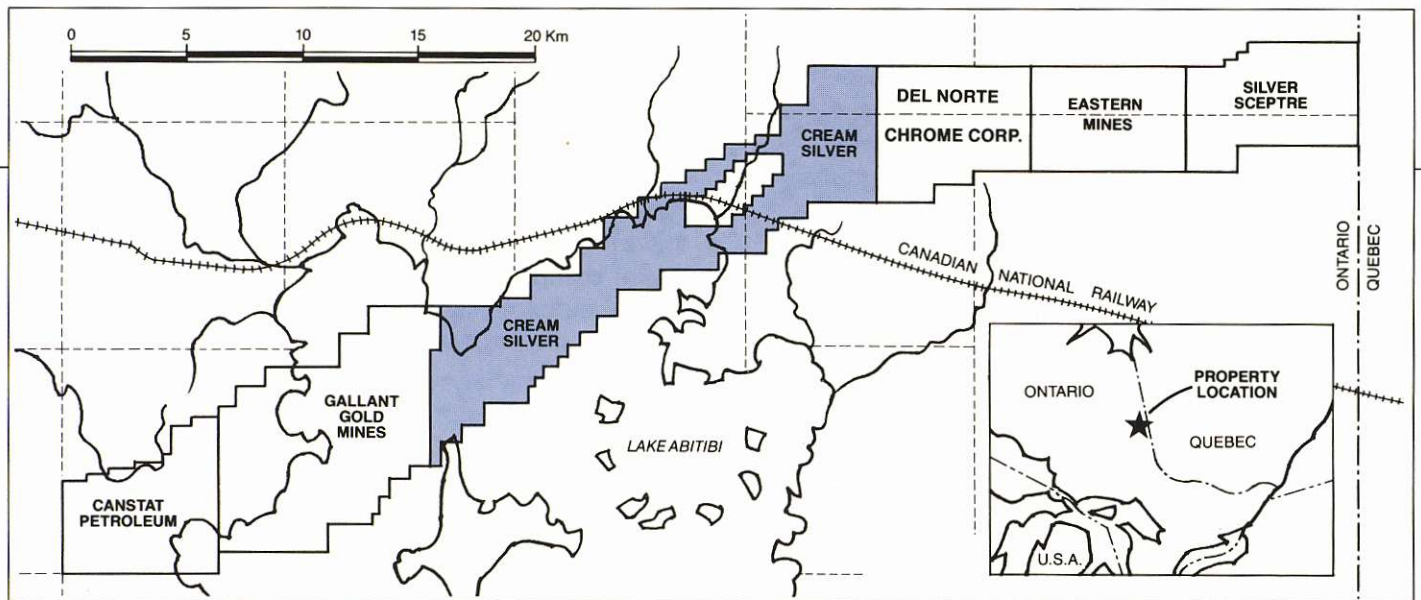


## Abitibi Lake

Cream has optioned 435 claims staked north of Abitibi Lake, Ontario. Cream and its associated Hughes-Lang companies, Gallant, Silver Sceptre and Canstat have optioned 1480 of 1600 claims staked by prospector Don McKinnon of Hemlo fame.

The target is the undiscovered source of the gold-rich surface material which has been found on the south shore of the lake. Some float specimens have yielded assay results as high as 3.5 oz. gold per ton.

The search for the source of this gold has intensified, as the Hughes-Lang properties overlay a fault zone with particular promise and earlier basal till sampling on Cream's claims gave anomalous gold values. A follow-up geophysical survey is planned as the next step in assessing this important area.

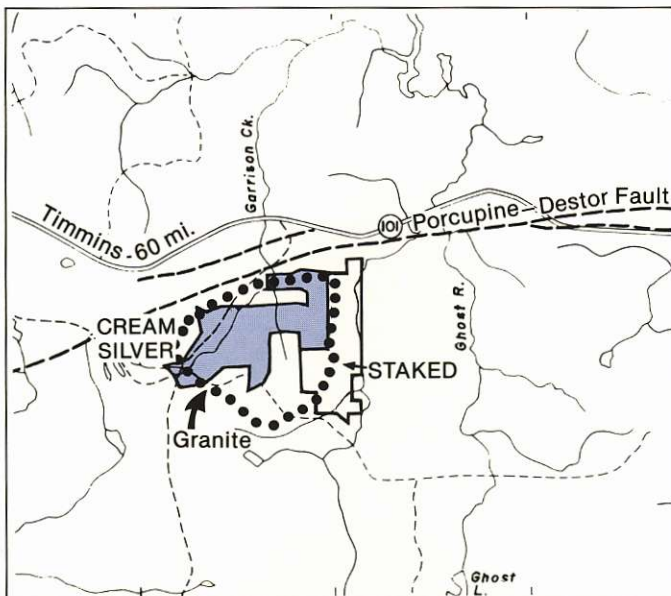


## Garrison Property

The Garrison project consists of 46 mineral claims situated in Garrison Township, 67 miles east of Timmins, Ontario. The property is favorably located along the Dester-Porcupine Fault, which is closely associated with major gold finds.

Recent discoveries in the area include Canamax Resources Ltd., which in June 1985, announced a spectacular new gold find in a volcanic belt situated along the fault 50 km north-east of Kirkland Lake, and the 1984 open pit discovery by Kerr Addison Mines due south of Cream's ground. The new Kerr deposit is  $\frac{1}{4}$  mile from the Buffonta zone where Kerr mined 64,000 tons of open pit ore grading 0.138 oz. of gold per ton in 1981.

An aerial survey over Cream's ground in 1985 located a number of anomalies which were to be tested in 1986 by a small drilling program. Preliminary results of the drill program have shown evidence that the Porcupine-Dester Fault zone has been intersected on the property. The fault zone was originally thought to lie just north of the property. This fault zone warrants further exploration and drilling on the property. Fenton Scott, the company's consulting geologist, has recommended a \$100,000 program of diamond drilling.



## Lac Des Iles Platinum Prospect

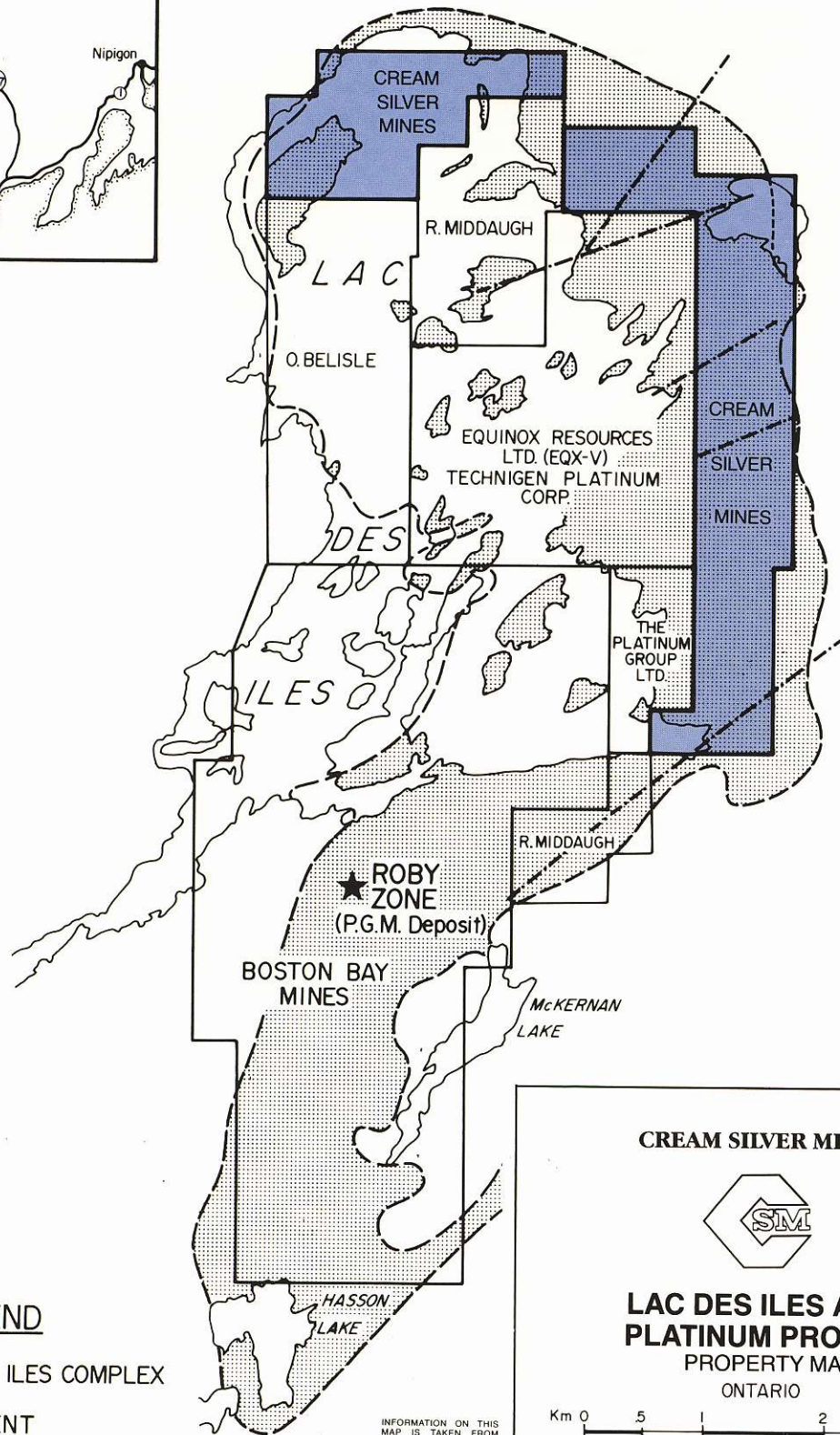
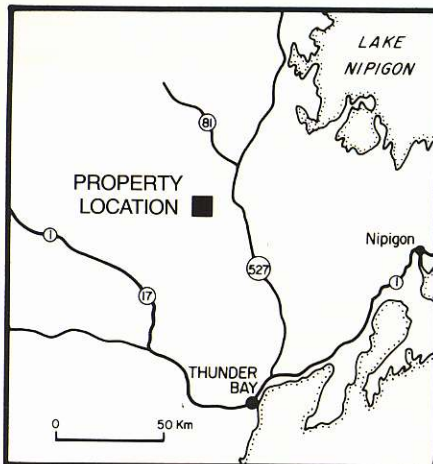
Platinum group metals comprise rare and strategic metals. Among these are platinum and palladium, which are used as chemical catalysts in automobile exhaust systems, petroleum refining, nitric acid production and in the chemical and electronic industries. Recent price advances of these metals (platinum \$548 US), have been due to concerns over future supply — South Africa supplies 80% of the world market — increased consumption due to use of automotive catalytic converters in Europe, Australia and South Korea. These concerns over future supply and increasing demand have made the acquisition of a promising platinum property by Cream Silver Mines very timely.

Cream Silver has optioned 43 claims that adjoin the Boston Bay Mines property presently being explored by Madelaine Mines Ltd. Madelaine's mineralized "Roby Zone" contains reported reserves of 22.5 million tons grading 0.167 oz./ton platinum group metals, 0.02 oz./ton gold, 0.22% nickel and 0.22% copper. Indications are that this deposit can be mined by cost effective open pit mining methods.

On the Cream Silver ground, recent mapping and sampling by the Ontario Geological Survey has indicated favorable lithologies for the discovery of platinum group mineralization. The proximity to a major platinum discovery and cost effective exploration logistics make this property an excellent prospect for further exploration.

Cream is commencing a two-phase \$170,000 exploration program as recommended by the project's consulting geologist, W.C. Hood, P.Eng. Phase I consists of prospecting, trenching and sampling with follow-up geological mapping and magnetic surveying in mineralized areas. Phase II includes soil geochemistry, induced polarization geophysics and 500 m of drilling. Phase I of this program is underway at the writing of this report.





**LEGEND**

-  LAC DES ILES COMPLEX
-  LINEAMENT

**CREAM SILVER MINES**



**LAC DES ILES AREA  
PLATINUM PROJECT  
PROPERTY MAP  
ONTARIO**



INFORMATION ON THIS MAP IS TAKEN FROM SOURCES BELIEVED TO BE RELIABLE. HOWEVER ACCURACY CANNOT BE GUARANTEED.



## St. Joe Area-Fry Lake Property

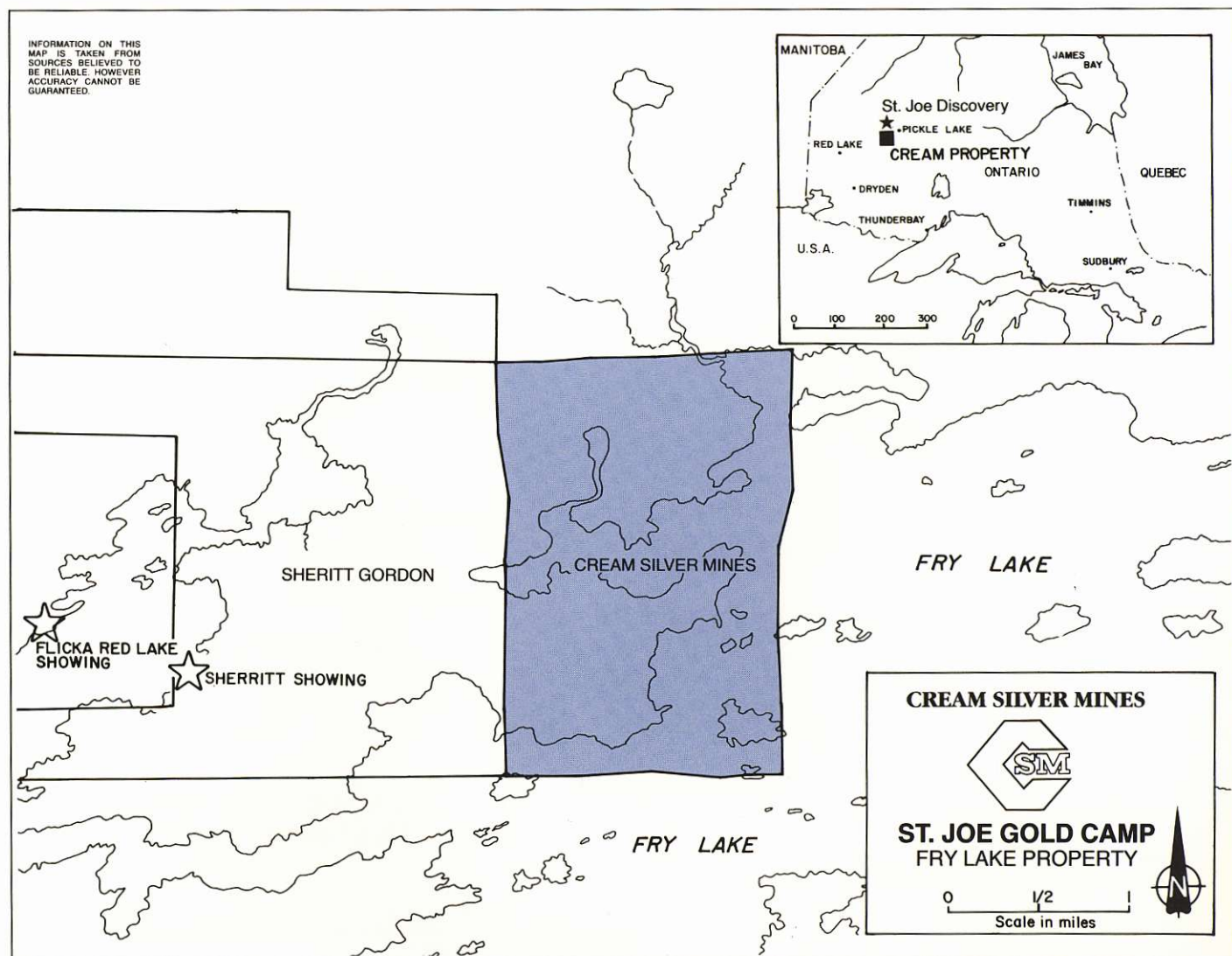
In April 1985, Cream optioned 24 claims in the Fry Lake area approximately 50 km west of Pickle Lake, Ontario.

Interest in the Pickle Lake-St. Joe Camp has been rekindled by recent discoveries: Dome Mines at Dona Lake with 1.4 million tons of 0.23 oz. gold per ton and a planned underground mining test; St. Joe Canada on their Golden Patricia property, 10 km northeast of Cream's ground with 633,000 tons grading 0.58 oz. gold per ton nearing the preliminary feasibility stage; and Highland Crow at their Pickle Crow mine with 2 million tons of 0.18-0.20 oz. gold per ton and exploration heating up.

The Fry Lake staking resulted from the discovery

of an auriferous shear zone within mafic volcanics on the claims of Sherritt Gordon Mines Ltd. Cream's claims cover the projected eastern strike extension of this shear zone. Reconnaissance, geological mapping and litho-geochemical surveying on the claims have revealed the presence of anomalous geochemical trends within an area of favorable geology. These results together with the discovery of gold mineralization on the adjoining Sherritt-Gordon ground give this area excellent potential for the discovery of economic gold deposits.

An initial program of line-cutting, ground magnetic and electro-magnetic surveying, detailed geological mapping and sampling at an estimated cost of \$30,000 has been recommended by Michael R. Patterson, B.Sc., F.G.A.C., and is presently underway.



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## Atlin

Cream Silver continues to expand its mineral property holdings in the Atlin Gold Camp, 12 miles northeast of Atlin, British Columbia. Cream has entered into an agreement with Surprise Lake Explorations for a joint venture exploration program. The joint venture claims fill the gap between the Tri-West-Canova-Homestake Mining property and Cream Silver's Lakeview property. Homestake has recently announced extremely impressive drilling results from their Yellow Jacket property with several intersections of high grade gold values of 0.50 oz. gold per ton over average widths of 10 feet.

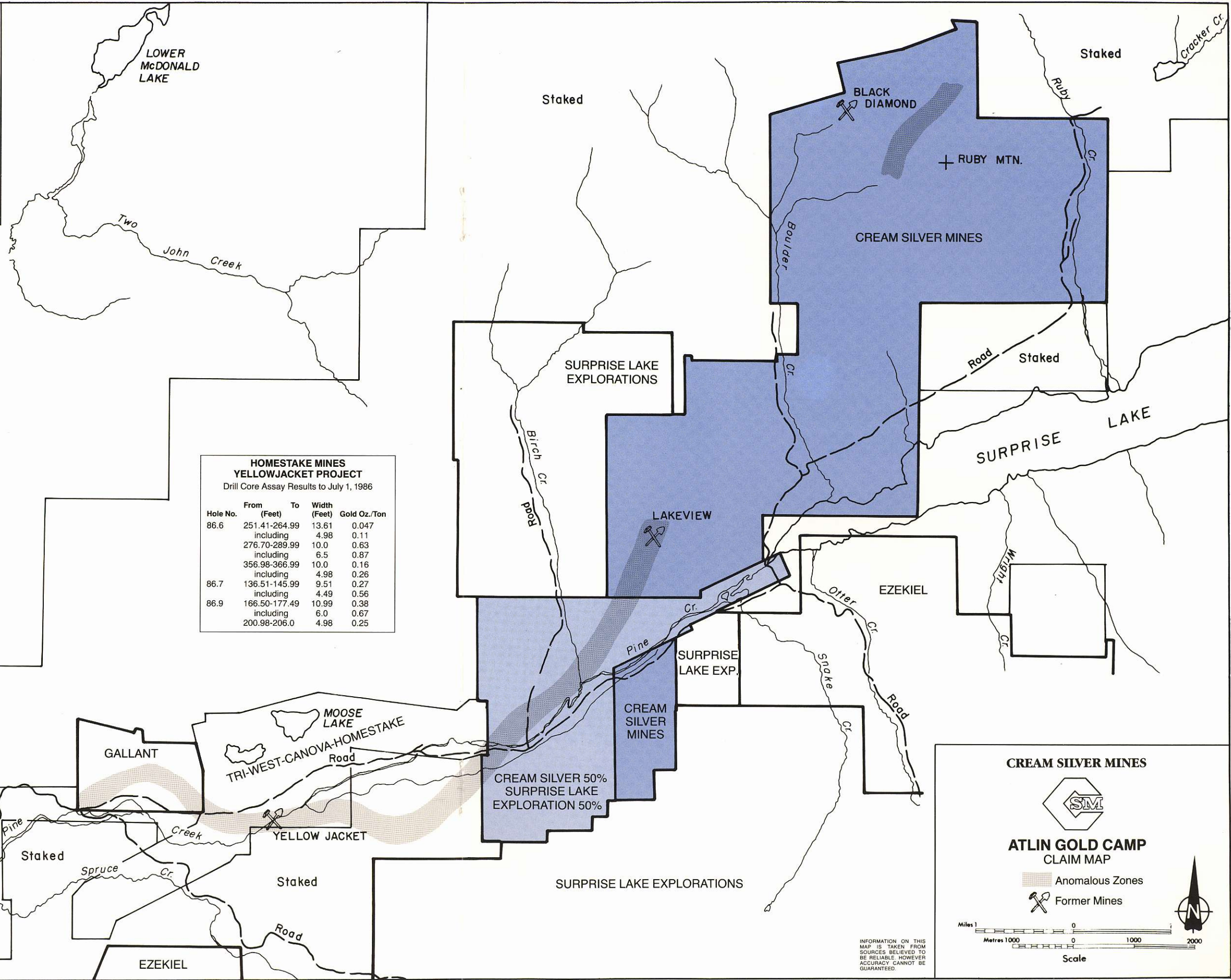
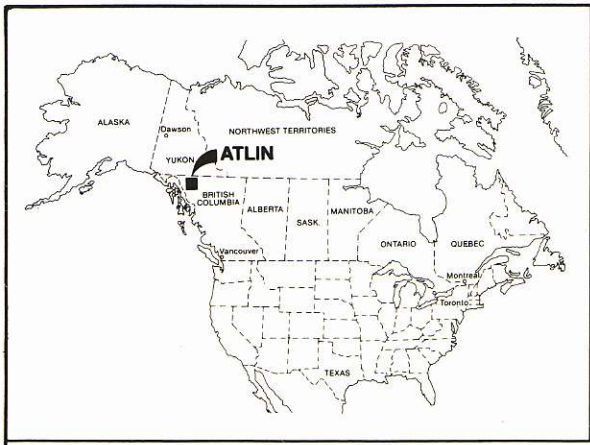
This discovery is most significant as Homestake's drill target was a quartz carbonate vein system emplaced within a shear zone that has been identified by geophysical survey as a magnetic low. This geophysical anomaly continues easterly along Pine Creek through Surprise Lake joint venture ground and onto Cream's Lakeview property. This magnetic low target on the Lakeview ground is a prime target and will be tested with a drilling program proposed for September-October 1986.

Work also continues on the Ruby Mountain-Black Diamond Tungsten Mine area which has widespread mineralization of copper, lead, zinc, gold and tungsten. A 1985 program of induced polarization geophysics and detailed geological mapping identified an anomalous zone approximately 8,000 ft. long and 2,000 ft. wide, open both northward and eastward. This program has identified prime targets for future diamond drilling, some of which will be carried out this year.

Atlin continues to be an exciting project in light of the recent Homestake discovery and Cream will continue to be a major player in the Atlin camp with a \$200,000 program of exploration and diamond drilling.

(see map overleaf)





**HOMESTAKE MINES  
YELLOWJACKET PROJECT**  
Drill Core Assay Results to July 1, 1986

Hole No.	From (Feet)	To (Feet)	Width (Feet)	Gold Oz./Ton
86.6	251.41-264.99		13.61	0.047
	including		4.98	0.11
	276.70-289.99		10.0	0.63
	including		6.5	0.87
	356.98-366.99		10.0	0.16
	including		4.98	0.26
86.7	136.51-145.99		9.51	0.27
	including		4.49	0.56
86.9	166.50-177.49		10.99	0.38
	including		6.0	0.67
	200.98-206.0		4.98	0.25

**CREAM SILVER MINES**

**ATLIN GOLD CAMP  
CLAIM MAP**

- Anomalous Zones
- Former Mines

Miles 1 0

Metres 1000 0 1000 2000

Scale

INFORMATION ON THIS MAP IS TAKEN FROM SOURCES BELIEVED TO BE RELIABLE. HOWEVER ACCURACY CANNOT BE GUARANTEED.



# DAWSON CLAIMS

## Klondike

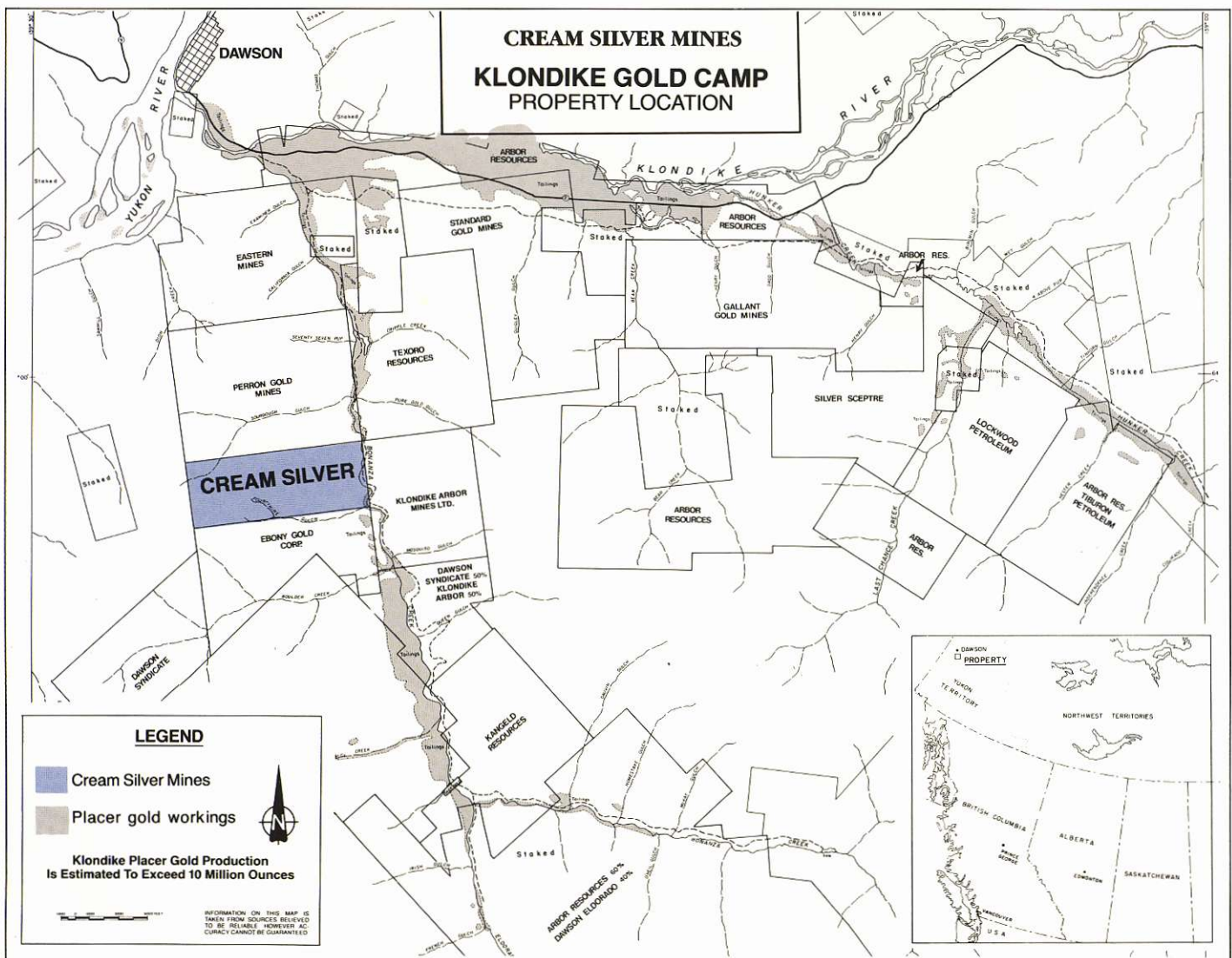
Cream Silver is participating with eight other Hughes-Lang companies in an exploration program to discover the lode gold sources for the over 11 million ounces of placer gold that has come out of the Klondike gold camp. There has been surprisingly little exploration for the source of the placer gold since the initial discovery in 1896, mostly due to conflict with placer mines, deep unglaciated overburden and a lack of modern exploration methods.

For the last two years the Hughes-Lang companies have systematically explored the camp using modern geophysical, geochemical and geological exploration techniques. Results of these surveys, combined with governmental research

programs, have outlined extensive zones of hydrothermal alteration, suggesting potential for large epithermal gold deposits. This particular target is identifiable by geophysical magnetometer survey as magnetic lows.

In 1986 the Hughes-Lang companies are expending 1-1.5 million dollars to test these magnetic targets by means of diamond drilling. Presently drilling is taking place on the Arbor Resources 60% / Dawson Eldorado 40% joint venture ground to the south of Cream's claims.

Cream Silver is strategically located in the camp and is presently in negotiations to acquire another block of claims.





# CONSOLIDATED BALANCE SHEET

As at March 31, 1986

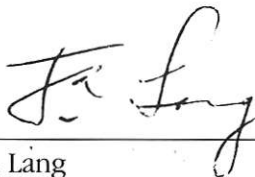
	1986	1985
	\$	\$
<b>ASSETS</b>		
CURRENT ASSETS		
Cash and term deposits	380,803	71,205
Accounts receivable	<u>113,932</u>	<u>138,608</u>
	494,735	209,813
ADVANCES	1,581	—
INVESTMENTS (Note 2)	18,851	18,851
PETROLEUM INTERESTS (Note 3)	11,281	17,636
MINERAL PROPERTIES (Note 4)	432,897	373,732
DEFERRED EXPLORATION AND ADMINISTRATIVE EXPENDITURES	<u>1,076,161</u>	<u>817,440</u>
	<u>2,035,506</u>	<u>1,437,472</u>
<b>LIABILITIES</b>		
CURRENT LIABILITIES		
Accounts payable	<u>278,788</u>	<u>217,753</u>
SUBSCRIPTIONS RECEIVED (Note 9d)	<u>349,670</u>	<u>—</u>
	<u>628,458</u>	<u>217,753</u>
<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL (Note 5)	2,381,390	2,089,690
CONTRIBUTED SURPLUS		
Proceeds from sale of donated shares	2,340	2,340
DEFICIT	<u>(976,682)</u>	<u>(872,311)</u>
	<u>1,407,048</u>	<u>1,219,719</u>
	<u>2,035,506</u>	<u>1,437,472</u>

APPROVED BY THE DIRECTORS




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 R.W. Hughes




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 F.A. Lang

## CONSOLIDATED STATEMENT OF DEFERRED EXPLORATION AND ADMINISTRATIVE EXPENDITURES

For the year ended March 31, 1986

	1986 \$	1985 \$
EXPLORATION		
Atlin Claims, B.C.	82,322	88,283
Barraute Claims, Quebec	4,056	—
Cameron Lake Claims, Ontario	90	20,897
Fry Lake Claims, Ontario	14,101	—
Garrison Claims, Ontario	35,956	121
Pascalis Tiblemont Claims, Quebec	581	1,548
Vancouver Island Claims, B.C.	62,623	—
Sundry	2,886	408
	<u>202,615</u>	<u>111,257</u>
Deferred expenditures — Beginning of year	401,655	309,822
Charged to Statement of Loss and Deficit	(39,018)	(19,424)
Deferred expenditures — End of year	<u>565,252</u>	<u>401,655</u>
ADMINISTRATION		
Costs deferred per Statement of Loss and Deficit	131,451	85,347
Deferred expenditures — Beginning of year	415,785	350,182
Charged to Statment of Loss and Deficit	(36,327)	(19,744)
Deferred expenditures — End of year	<u>510,909</u>	<u>415,785</u>
DEFERRED EXPLORATION AND ADMINISTRATIVE EXPENDITURES	<u>1,076,161</u>	<u>817,440</u>
DEFERRED EXPLORATION EXPENDITURES ARE ATTRIBUTABLE TO THE FOLLOWING PROPERTIES		
Atlin Claims, B.C.	200,083	117,761
Barraute Claims, Quebec	96,703	128,198
Cameron Lake Claims, Ontario	20,987	20,897
Fry Lake Claims, Ontario	14,101	—
Garrison Claims, Ontario	56,268	20,312
Hemlo East Claims, Ontario	2,000	2,000
Faro Claims, Yukon	25,431	25,431
Vancouver Island Claims, B.C.	149,679	87,056
	<u>565,252</u>	<u>401,655</u>



## CONSOLIDATED STATEMENT OF LOSS AND DEFICIT

For the year ended March 31, 1986

	1986 \$	1985 \$
REVENUE		
Petroleum and natural gas sales	<u>19,205</u>	<u>29,368</u>
DIRECT COSTS		
Direct operating costs	4,677	5,545
Depletion	6,355	11,432
Bad debts expense	<u>22,462</u>	<u>3,146</u>
	<u>33,494</u>	<u>20,123</u>
NET PRODUCTION REVENUE	<u>(14,289)</u>	9,245
INTEREST INCOME	<u>6,041</u>	<u>13,830</u>
	<u>(8,248)</u>	<u>23,075</u>
ADMINISTRATIVE COSTS		
Audit	6,769	5,128
Consulting	2,483	500
Foreign exchange	4,791	1,032
Interest and bank charges	277	2,896
Legal	24,350	9,162
Management fees	18,300	17,730
Printing	14,675	3,561
Office and administration	50,267	33,078
Regulatory authorities	3,105	2,405
Stock transfer fees	5,528	8,660
Travel and promotion	<u>2,234</u>	<u>5,163</u>
	<u>132,779</u>	<u>89,315</u>
Less: Allocated to mineral properties	<u>(131,451)</u>	<u>(85,347)</u>
	<u>1,328</u>	<u>3,968</u>
INCOME (LOSS) BEFORE THE FOLLOWING	<u>(9,576)</u>	19,107
PETROLEUM INTERESTS ABANDONED	—	378,582
ADANDONED MINERAL PROPERTY AND RELATED COSTS	<u>94,795</u>	67,968
WRITE-DOWN OF INVESTMENT IN EXPLORATION SYNDICATE	<u>—</u>	<u>4,334</u>
LOSS FOR THE YEAR	<u>104,371</u>	431,777
DEFICIT — Beginning of year	<u>872,311</u>	<u>440,534</u>
DEFICIT — End of year	<u>976,682</u>	<u>872,311</u>

# CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended March 31, 1986

	1986 \$	1985 \$
<b>OPERATING ACTIVITIES</b>		
From Operations:		
Loss for the year	<b>(104,371)</b>	(431,777)
Add: Items not requiring an outlay of cash		
Depletion	<b>6,355</b>	11,432
Petroleum interests abandoned	<b>—</b>	378,582
Abandoned mineral property and related costs	<b>94,795</b>	67,968
Write-down of investment in exploration syndicate	<b>—</b>	4,334
	<b>(3,221)</b>	30,539
Net decrease in non-cash working capital items	<b>85,711</b>	28,848
	<b>82,490</b>	59,387
<b>INVESTING ACTIVITIES</b>		
Acquisition of mineral properties	<b>(81,075)</b>	(35,128)
Acquisition of petroleum interests	<b>—</b>	(9,207)
Exploration expenditures	<b>(202,615)</b>	(111,257)
Administrative expenditures deferred	<b>(131,451)</b>	(85,347)
Advance	<b>(1,581)</b>	—
	<b>(416,722)</b>	(240,939)
<b>FINANCING ACTIVITIES</b>		
Issue of shares for mineral properties	<b>17,700</b>	32,000
Issues of shares for cash	<b>274,000</b>	4,800
Exploration advances recovered	<b>—</b>	500
Staking costs recovered	<b>2,460</b>	—
Share subscriptions	<b>349,670</b>	—
	<b>643,830</b>	37,300
<b>INCREASE (DECREASE) IN CASH</b>	<b>309,598</b>	(144,252)
<b>CASH AND SHORT TERM DEPOSITS — Beginning of year</b>	<b>71,205</b>	215,457
<b>CASH AND SHORT TERM DEPOSITS — End of year</b>	<b>380,803</b>	71,205



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 1986

## 1. SIGNIFICANT ACCOUNTING POLICIES

### a) Principles of Consolidation

These consolidated financial statements include the accounts of Cream Silver Mines Ltd. (N.P.L.) and its wholly owned subsidiary, Cream Silver Mines Inc.

### b) Foreign Currency

Transactions recorded in United States dollars have been translated into Canadian dollars as follows:

- (i) Monetary items at rate prevailing at the balance sheet date;
- (ii) Non-monetary items at the historical exchange rate;
- (iii) Revenue and expenses at the average rate in effect during the applicable accounting period except for depletion and depreciation.

Gains and losses arising on foreign currency translation are credited or charged to earnings.

### c) Petroleum Interests

The Company accounts for petroleum interests by deferring all costs relating to exploration and development. Such costs include lease acquisition costs, geological and geophysical costs and costs of drilling both productive and non-productive wells. Separate full cost centres are maintained for each field or program in which the Company has an interest. Costs applicable to any field or program which is abandoned are charged to earnings. Costs accumulated in these centres for successful programs are amortized by the unit of production method based on estimated proven reserves. When the carrying value of the petroleum interests exceeds the estimated net realizable value, the value is written down to that estimated net realizable value in the period that such determinations are made. Substantially all of the Company's exploration, development and production activities are conducted with others and the accounts reflect only the Company's proportionate interest in such activities.

### d) Mineral Properties and Related Exploration and Administrative Expenditures

Property acquisition costs and related exploration, development and administrative costs are deferred either until the properties are brought into production, at which time they are amortized against production, or until the properties are sold, allowed to lapse or abandoned, at which time the deferred expenditures are charged to earnings.

### e) Administrative Costs

Administrative costs are allocated each year on the basis of the ratio of invested capital in mineral properties to the invested capital in oil and gas properties.

Administrative costs allocated to oil and gas properties are charged to earnings in the fiscal year incurred.

### f) Earnings per Share

Basic earnings per share has not been calculated as it would not be meaningful at this stage of the Company's operations.

## 2. MARKETABLE SECURITIES

The Company has the following investments:

	<u>Market</u>	<u>Cost</u>
	\$	\$
48,200 shares of Belmoral Mines Ltd.	149,420	3,022
1,673 shares of Meridor Resources Ltd.	1,004	5,000
8,333 shares of Sequoia Resources Ltd.	10,833	4,625
688 shares of Samson Gold Corporation	193	4,520
13,516 shares of Trident Resources Inc.	<u>3,109</u>	<u>1,684</u>
	<u>164,559</u>	<u>18,851</u>

## 3. PETROLEUM INTERESTS

The Company holds fractional interests in the following petroleum interests situated in Oklahoma, U.S.A.:

<u>Program</u>	<u>Cost</u>
FCD 1979 B	39,050
FCD 1980 B I & BII	19,341
	58,391
Less: Accumulated depletion	(47,110)
	<u>\$ 11,281</u>

## 4. INTEREST IN MINERAL PROPERTIES

### a) Barraute Area, Province of Quebec

The Company has entered into an Option Agreement to acquire certain mineral claims for cash option payments totalling \$27,500 and the issuance of 80,000 shares.

The Company has paid or issued the following consideration:

Cash payments totalling \$27,500	\$ 27,500
Issuance of 70,000 shares	<u>37,000</u>
	\$ 64,500

The remaining 10,000 shares will be issued upon placing the property into commercial production.

Notes (continued)

b) **Garrison Claims, Garrison Township, Province of Ontario**

The Company has entered into an Option Agreement to acquire this property comprised of 46 mineral claims for cash option payments totalling \$50,000 and the issuance of 30,000 shares.

The Company has paid or issued the following consideration:

Cash payments totalling \$30,000 of which \$24,000 has been satisfied through the issuance of 78,000 shares	\$ 30,000
Cash payment currently payable	20,000
Issuance of 10,000 shares	<u>4,000</u>
	54,000
Costs of restaking the claim block	<u>6,920</u>
	\$ 60,920

The remaining two instalments of 10,000 shares are subject to the filing of satisfactory engineering reports with regulatory authorities.

Upon the property being placed into commercial production the Company is required to make royalty payments equal to 1% of net smelter returns.

c) **Atlin Claims, Atlin Mining Division, Province of British Columbia**

The Company has entered into an Option Agreement to acquire 73 mineral claims for the following consideration:

Reimbursing the Optionor for its cost of staking the claims	\$ 7,502
Preparing a feasibility report of the property by March 7, 1987	
Placing the property into production by March 7, 1989	
The Optionor retains a 10% carried interest in the mineral claims	
Additional staking costs	1,209
Recovery of staking costs	<u>(2,460)</u>
	\$ 6,251

d) **Cameron Lake Claims, Kenora Mining Division, Province of Ontario**

The Company has entered into two Option Agreements to acquire 64 claims for cash option payments totalling \$60,000 and the issuance of 80,000 shares.

The Company has paid or issued the following consideration:

Cash payments	\$ 30,000
Issuance of 30,000 shares	<u>35,800</u>
	\$ 65,800

The Company has granted Lockwood Petroleum Inc. the right to earn a 49% interest in 46 of the claims by assuming the remaining cash option payments of \$30,000 and performing \$250,000 of exploration and/or development work on or before February 28, 1990. The remaining share consideration due by the Company is payable as follows:

10,000 shares by August 31, 1986
20,000 shares by March 7, 1987

Certain of the claims are subject to the greater of a 10% net profits royalty or a 2% net smelter royalty.

e) **East Hemlo Claims, Sault Ste. Marie Mining Division, Province of Ontario**

The Company has entered into an Option Agreement to acquire this property for the following consideration:

Cash payment	\$ 8,400
Issuance of 200,000 shares of which 50,000 have been issued	<u>38,000</u>
	\$ 46,400

The remaining 150,000 shares will be issued as certain phases of the development program are completed and approved by regulatory authorities.

f) **Vancouver Island Claims, Alberni Mining Division, Province of British Columbia**

Cost — attributed value of 690,000 shares issued	\$ 86,250
— cash	<u>15,000</u>
	\$101,250

The Province of British Columbia placed a moratorium on further exploration and development of these claims.

g) **Faro Area, Whitehorse Mining District, Yukon Territory (K O Group)**

Cost of 50% interest	\$ 15,400
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These claims are the subject of an agreement with other companies under which, based on work performed by the other companies, Cream's interest will be reduced to 10%.

h) **Mt. Nye Area, Whitehorse Mining Division, Yukon Territory MING and CIVI Groups**

The Company has recovered its costs on these claims and by agreements with other companies under which the other companies will perform exploration, Cream's interest will be reduced to 7½% and 8% carried interests.



Notes (continued)

i) **Abitibi Lake, Ontario**

Subject to regulatory approval, the Company negotiated an Option Agreement to acquire 435 mineral claims in the Abitibi Lake area of Ontario for the following consideration:

(i) Cash — paid	\$ 12,500
— accrued	<u>41,875</u>
	\$ 54,375

(ii) 200,000 common shares to be issued as follows:

- 50,000 on the earlier of approval by the Vancouver Stock Exchange or 60 days from the date of the agreement;
- 50,000 on completion of a phase I exploration program;
- 50,000 on completion of a phase II exploration program;
- 50,000 on commencement of commercial production.

The optionor retains 1% of the net smelter returns from the claims.

j) **Fry Lake, Ontario**

The Company has acquired 24 mineral claims for staking costs of \$9,000

k) **Exploration Syndicates**

A. T. Syndicate

The Company holds 3 units of this exploration syndicate at a cost of \$ 9,000

Kirkland Syndicate

The Company holds 6 units of this exploration syndicate which has been written down to a nominal value of

\$ <u>1</u>
<u>\$432,897</u>

**5. SHARE CAPITAL**

a) AUTHORIZED: 10,000,000 common shares of \$0.50 par value:

	<u>1986</u>	<u>1985</u>
	\$	\$
<b>ISSUED</b>		
5,563,787 shares for cash (1985 — 3,943,787)	2,781,894	1,971,894
Less: Discounts and commissions net of premiums	<u>(792,119)</u>	<u>(256,119)</u>
	<u>1,989,775</u>	<u>1,715,775</u>
1,244,059 shares for mineral properties (1985 — 1,214,059 shares)	622,029	607,029
Less: Discounts and commissions net of premiums	<u>(280,414)</u>	<u>(283,114)</u>
	<u>341,615</u>	<u>323,915</u>
100,000 shares in settlement of debt (1985 — 100,000 shares)	50,000	50,000
<u>6,907,846</u> (1985 — 5,257,846 shares)	<u>2,381,390</u>	<u>2,089,690</u>

b) During the year, the following shares were issued:

	<u>Number of Shares</u>	<u>Proceeds \$</u>
For cash	1,620,000	274,000
For mineral properties	<u>30,000</u>	<u>17,700</u>
	<u>1,650,000</u>	<u>291,700</u>

c) As at March 31, 1986 the following incentive share purchase options were outstanding:

	<u>Number of Shares</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
Employees	40,000	\$0.68	March 15, 1989
Employees	100,000	\$0.76	August 6, 1990
Directors	194,490	\$0.55	January 24, 1988
Director	25,000	\$0.26	January 13, 1990
Director	40,000	\$0.76	August 6, 1990

d) As at March 31, 1986 the following warrants were outstanding:

<u>Pursuant to</u>	<u>Number of Shares</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
Private placement dated March, 1985	380,000	\$0.20	June 19, 1986

**6. DIRECTORS' REMUNERATION**

The Company did not directly remunerate its senior officers or directors during the year.

**7. RELATED PARTY TRANSACTIONS**

A private company, controlled by two directors, was reimbursed for office accounting and administrative services provided to the Company. These costs totalled \$47,819 and were billed at cost plus a management fee of \$18,300.

**8. SEGMENTED INFORMATION**

Substantially all of the Company's activities are in mineral exploration and development in Canada apart from its petroleum interests located in the United States (Note 3).

**9. SUBSEQUENT EVENTS**

Subsequent to March 31, 1986:

- a) The Company has acquired 43 mineral claims in the Lac Des Iles area, subject to regulatory approval.
- b) The Company purchased 25,000 shares of Gabriel Resources Inc. at a price of \$1.25 per share. Attached to each share is a non-transferable share purchase warrant entitling the Company to acquire one additional share at a price of \$1.50 per share, exercisable until April 11, 1987.

c) The Company entered into an agreement with a limited partnership for the purpose of incurring \$200,000 of Canadian Exploration Expenditures in consideration for the issuance of 177,172 tax flow-through shares of the Company.

d) The Company issued 498,496 common shares for proceeds of \$363,620 pursuant to private placements. Subscriptions to these placements of \$349,670 had been received at March 31, 1986. Attached to the shares issued are non-transferable share purchase warrants entitling the holders to purchase a total of 441,148 additional shares for a cost of \$347,475. 208,000 warrants have been exercised for net proceeds of \$110,240; 208,974 remain outstanding, exercisable to January 15, 1987, and 27,174 have expired.

e) 380,000 shares were issued pursuant to the warrants outstanding referred to in Note 5(d).

**10. COMPARATIVE FIGURES**

Certain of the comparative figures have been restated to conform to the current period's presentation.

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**Auditors' Report**

To the Shareholders of Cream Silver Mines Ltd. (N.P.L.)

We have examined the consolidated balance sheet of Cream Silver Mines Ltd. (N.P.L.) as at March 31, 1986 and the consolidated statements of deferred exploration and administrative expenditures, loss and deficit, 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 March 31, 1986 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.

Vancouver, Canada  
August 22, 1986



Chartered Accountants