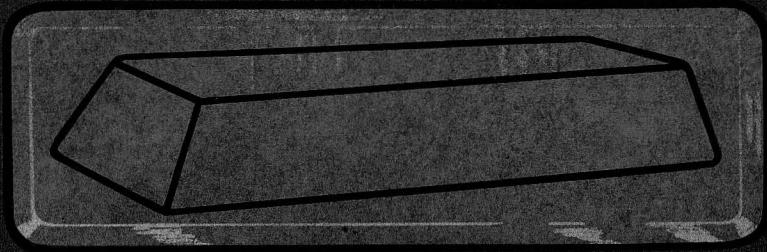
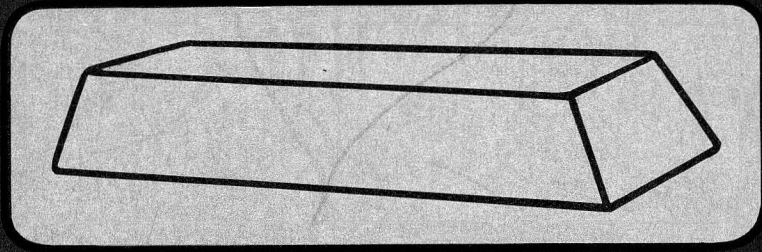


007549



1965

PESO SILVER MINES LTD.

(N.P.L.)

FOURTH ANNUAL REPORT

# PESO SILVER MINES LTD. (N.P.L.)

## DIRECTORS

Dr. A. E. Aho ..... President, Dynasty Explorations Limited  
 President, Silver Titan Mines Limited  
 H. M. Beaumont ..... Chairman, Moneta Porcupine Mines, Limited  
 Director, Charter Oil Company Limited  
 P. O. Berliz ..... President, Charter Oil Company Limited  
 President, Moneta Porcupine Mines, Limited  
 D. G. Buchanan ..... Director, Charter Oil Company Limited  
 S. J. Dumaresq ..... Director, Peso Silver Mines Limited  
 N. W. Johns ..... Vice-President, Charter Oil Company  
 Avery Stone ..... Vice-President, Charter Oil Company  
 Vice-President, Moneta Porcupine Mines, Limited  
 C. S. Walker ..... Secretary-Treasurer, Silver Titan Mines Limited  
 P. L. Whittall ..... Director, Silver Titan Mines Limited

## OFFICERS

P. O. Berliz ..... Chairman  
 C. S. Walker ..... President  
 Avery Stone ..... Executive Vice-President and Secretary-Treasurer  
 A. E. Proznick ..... Assistant Secretary-Treasurer  
 R. A. McCullough ..... Comptroller  
 B. S. Imrie, P.Eng. .... Exploration Manager

## ADMINISTRATION OFFICE

420 - 475 Howe St., Vancouver 1, B.C.

## REGISTERED OFFICE

475 Howe Street, Vancouver 1, B.C.

## CONSULTING ENGINEER

Dr. D. D. Campbell, P.Eng. .... Vancouver, B.C.

## TRANSFER AGENT

National Trust Co. Ltd. .... Vancouver, B.C.

## AUDITORS

McDonald, Currie & Co. .... Vancouver, B.C.

## CAPITALIZATION

5,000,000 — \$1.00 Par Value, authorized.

4,155,505 — Outstanding.

Listed on the Vancouver Stock Exchange and Canadian  
 Stock Exchange, Montreal.

## TO THE SHAREHOLDERS:

Your directors take pleasure in presenting herewith the Fourth Annual Report of your Company, the financial statements for the year ended July 31, 1965 and the Auditors Report thereon. Included also are quotations from a recent report of the Company's Consulting Geological Engineer, and maps of the mine developments.

*\*The properties of Peso Silver Mines Ltd. in the Mount Nansen district are all centered around a number of major gold-silver bearing vein zones three of which have been extensively developed by surface drilling and stripping as well as by underground drifting on one level each. These three deposits are: The Webber, the Huestis and the Brown-McDade. Considering the amount of development done to date, large tonnages of profitable gold-silver ore have been proven on all of these deposits with the limits along strike and depth still not reached. The potentials of other known vein zones in the area have not been probed. The area now has sufficient indicated ore to profitably support a small to modest size mill; continued development will in all probability extend these reserves sufficiently to make a larger mill worthwhile.*

*The Peso Silver Mines Ltd. properties in the Mayo area consist of many claim groups in which Peso holds total or partial interest. Underground work has been done on six of these properties, the principal one of which is Peso Rex. At Peso Rex two adits on separate vein zones, plus surface work, have indicated sufficient ore reserves to encourage further development. If the Rio Plata and other properties in the area are considered with the Rex there is probably sufficient ore amongst them all to profitably support a small custom mill at this time.*

## MOUNT NANSEN

*\*The entire property at Mount Nansen is covered by four major claim groups which form one contiguous irregular shaped block. Of these groups, Mount Nansen Mines Ltd. owns two groups totaling 269 claims, Central Nansen Mines Ltd. owns one group of 64 claims, and Brown-McDade Mines Ltd. owns one group of 70 claims. All of the development deposits are on the Mount Nansen Mines and Brown-McDade Mines claims.*

*A few miles north of the Mount Nansen Mines property Peso Carmacks Gold Mines Ltd. also holds a block of 306 claims on unexplored but promising ground where high grade gold-silver float has been found in the overburden.*

The efforts of your management during the past year have been directed to implementing the plan of underground development of the Webber, Huestis and Brown-McDade mines at Mount Nansen as outlined in last year's report to shareholders. Initial results of this work have more than met expectations. Ore reserves of **230,000 tons** have been developed. The continuation of commercial ore found at the surface has been proven to exist at depth, with more of the overall vein zone bearing ore than was indicated by surface results. In reference to this persistence of ore at depth and along the veins, the Company's Consulting Geological Engineer, Dr. Douglas D. Campbell states:

*\*a reasonable potential of fairly readily developed ore is estimated to be **3,000,000 tons** with ample scope for more exploration and development.*

In the Webber vein approximately 2,200 feet of drifting, raising and crosscutting was done, developing 73,450 tons, with a gross value of \$45.60 per ton. A plan of this vein system, showing the veins, underground workings and ore reserves, is included in this report. The high percentage (70%) of the vein zone bearing ore is particularly gratifying, since surface work had previously indicated only 30% which itself was considered sufficient to justify the underground development.

*\*The boundaries of the orebodies are remarkably regular in that every surface ore shoot can be projected directly down dip to a corresponding ore section on the level 200 feet below.*

\*Extracts from a Review Report on the Geology and Ore Reserves of Peso Silver Mines Ltd. by Dr. D. D. Campbell, Consulting Geological Engineer. Dated November 10, 1965.

*The percentage of ore length per length of veins explored (1400 feet) to date is 70%, a truly remarkable ratio for a vein type deposit.*

The Huestis vein development also produced excellent results. Of 1,400 feet of mining on the vein, 37% produced commercial ore, and showed 46,615 tons, with a gross value of \$39.40 per ton, on the No. 12 Vein. Underground diamond drilling, followed up by a crosscut, confirmed a parallel Vein No. 13 showing comparable values of gold and silver. Again, to illustrate these results in detail, a map showing full details of this development and results is included in this report.

The 20-year-old Brown-McDade tunnel on an adjoining property was rehabilitated, resampled and remapped. As a result, 110,000 tons of ore is indicated so far. A diamond drilling program of lateral holes into the walls to connect up the ore occurrence in the existing tunnel is in progress.

Value of the 230,000 tons of ore developed at an average value of nearly \$40 per ton has a gross value of approximately \$9,000,000 at present gold and silver prices. With costs estimated from \$20 to \$25 per ton, a profit of \$15 per ton is indicated.

*\*The stoping of Mount Nansen will be cut and fill with minor amounts of shrinkage possible in some orebodies. Development costs are relatively cheap per ton of ore because of the close grouping of the orebodies and the ore deposits. Milling, according to metallurgical tests presently being conducted, will involve cyanidation and flotation. With an all-weather road to Carmacks, transportation will be no problem.*

*Assuming a 250 ton per day operation, the total costs for a Mount Nansen operation are conservatively estimated to be approximately:*

Mining .....	\$10.00 per ton
Milling .....	\$ 4.50 per ton
Surface and Transportation .....	\$ 4.50 per ton
Marketing, taxes, overhead, etc. ....	\$ 6.00 per ton
Total .....	\$25.00 per ton

*With steady operations all of the foregoing figures can no doubt be reduced. It should be possible to eventually reduce mining costs to \$5 per ton with a well integrated operation. Similarly, at a production of 500 tons per day unit costs will be appreciably reduced. The potential of the area has been barely tapped and since results of development have been most encouraging at the Webber, the Huestis and the Brown-McDade, the only three places extensively explored, the statistical and geological chances of the existence of other equally productive but undiscovered ore zones in the area are excellent.*

## MAYO

With the major effort of the past year directed to Mount Nansen, work in the Mayo district was limited to some drifting and underground diamond drilling at the Golden Queen mine on the Rio Plata property, and to an evaluation of the previous Rex mine and other properties. Mineralization at Mayo differs from Mount Nansen in that the silver is associated with lead and zinc rather than with gold.

*\*A review of the geology and development, some in detail and others in general, of the Peso Silver Mines properties in the Mayo district is presented and indicates that two properties have the following proven and well indicated silver-lead-zinc ore reserves:*

Peso Rex	154,000 tons @ 20.9 oz/t silver and 3.7% lead
Rio Plata	44,000 tons @ 16 oz/t silver, 6.9% lead and 10.7% zinc
Total	198,000 tons

*Considerable confirmatory development work is required on these properties but it is evident that 200,000 tons of ore with an average gross value of at least \$40 per ton is strongly indicated. The*

\*Extracts from a Review Report on the Geology and Ore Reserves of Peso Silver Mines Ltd. by Dr. D. D. Campbell, Consulting Geological Engineer. Dated November 10, 1965.

*potential of both of these properties, plus others in the area which have not been fully developed, indicates that a common mill serving all properties could probably operate economically at 100-300 tons per day for 10 years or more and realize a profit of about \$15 per ton.*

## **FINANCIAL**

Financing for the operations of your Company and for the operations of the Mount Nansen development was provided by Charter Oil Company Limited and its subsidiary Moneta Porcupine Mines, Limited as described in the notes to the balance sheet. Following purchase of shares of the affiliated and subsidiary companies, during the year under review and subsequently, Peso has 53% of the outstanding shares of Mount Nansen Mines Limited, 56% of Brown-McDade Mines Limited and 87% of Peso Carmacks Gold Mines Ltd.

On December 1, your Company received additional funds to carry on the development of the Mount Nansen area mines. Silver Titan Mines Limited paid to the Company \$470,000 cash and conveyed to the Company a 10% interest in all of its mineral claims. Peso, in turn, relinquished its right to earn a 60% interest in all of Silver Titan's mineral claims by the expenditure of a total of \$750,000 by 1967. In addition, Peso has granted an option to Silver Titan to purchase for \$1,000,000 its 10% interest in the Silver Titan claims. Payments under the option are annually beginning November 25, 1967, for amounts of \$200,000 each, except for the final payment of \$400,000 in 1970.

Rather than expend the funds necessary to complete exploration and development of the Shanghai mine within the time requirement of the agreement, your management felt that funds could be more effectively used in the silver-gold development at Mount Nansen, where definite results have been obtained, and the profit potential is evident.

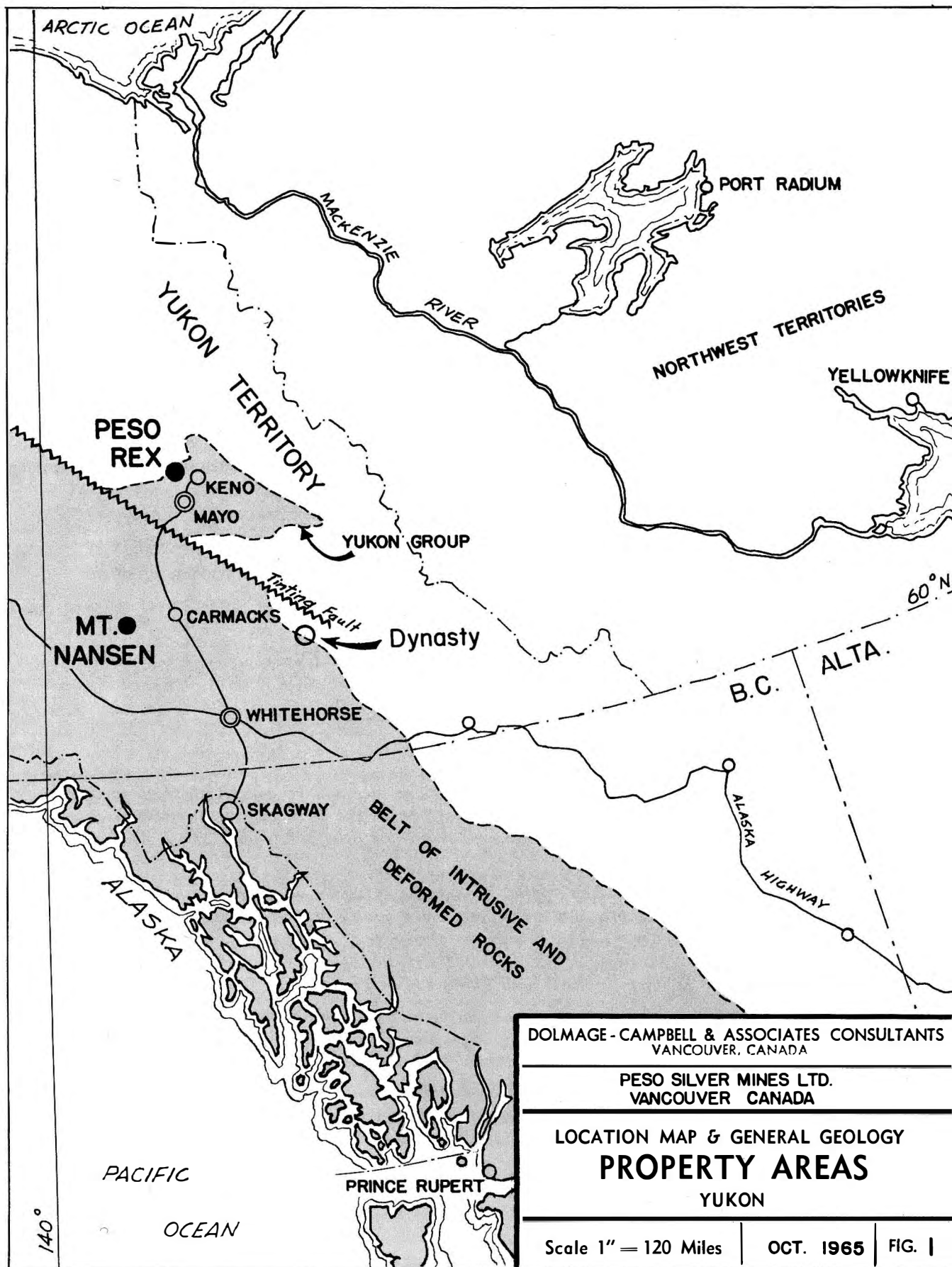
We anticipate that the management of Silver Titan will actively pursue the development of this and other properties. The bringing of mines to the production stage in the area, particularly by a group with whom we have had a long and friendly association, can only add to the over-all economic progress of the area and reduce operating costs.

Also in early December the Company arranged for the sale of 100,000 shares of treasury stock at \$1.50 per share and granted options to purchase 400,000 additional shares in blocks of 100,000 at 60-day intervals to August 6th, 1966 at prices of \$1.75, \$2.00, \$2.25 and \$2.50 per share, a total of \$1,000,000. While the transaction now awaits the approval of the Stock Exchanges, your management is confident that it will be completed and the options granted will be exercised.

## **PROGRAM**

There is now sufficient ore to warrant a 200 ton per day mill but the aim is to develop additional reserves so that a larger mill may be constructed. Thus next phase of our development program consists of additional drifting and raising as well as underground diamond drilling. This will take the form of drifting on the No. 13 Vein of the Huestis vein system, a vein parallel to and approximately 300 feet from the No. 12 Vein. A number of diamond drill intersections of the No. 13 Vein have indicated that values there are comparable to the values found in our drifting on the No. 12 Vein. The parallel drifts approximately 300 feet apart will permit drilling from stations along the No. 12 Vein to test the ore structures at depth in Vein No. 13 and vice versa. Such drilling will reach to a depth of approximately 500 feet, that is 300 feet below the drift level. Further drifting on the Webber No. 2 which is parallel to No. 1 Vein, will also permit diamond drilling to test the ore structures at least to a depth of 500 feet. It is apparent that the work proposed in this next phase can increase our reserves at a more rapid rate than the work which has been done thus far.

The additional drifting proposed for the next phase of our development program and diamond drilling to confirm the persistence of the ore to a depth of 500 feet would increase the reserves to more than three times those now established. The determination of the amount of readily available ore is, of course, a prerequisite to the determination of the size of mill to place on the property.



## CONCLUSION

Due to the critical silver shortage throughout the world an increase in the price of silver within 2 to 3 years appears inevitable. The U.S. Government stock pile has declined from 1,557 million ounces at the end of 1963 to less than 880 million in October of this year. According to a recent survey of Dr. Franz Pick of New York this figure could be reduced to half that amount during 1966, despite the action of the U.S. Congress this year in introducing new silverless dimes and quarters and reducing from 90% to 40% the silver content of its half-dollars.

The demand for silver was one of the major factors in prompting your management to increase its silver bearing claims in the Yukon nearly ten-fold to over 2000. The Yukon is one of the few mining districts in the world where silver is produced as a base product rather than as a by-product of base metals. In the Mount Nansen area, gold is as important to your Company as silver.

At Mount Nansen the development of only a small part of the 6 x 10 mile claim block has established a reserve of 230,000 tons with an indicated profitability of \$15 per ton, and with a potential of similar grade of 3,000,000 tons or more in the three mines now being developed.

A recent lead-zinc-silver discovery by Dynasty Exploration Limited in association with Cyprus Mines Corporation and 150 miles east of Mount Nansen could lead to the establishment of a smelter in the area.

Such developments now in prospect, added to the 10-year \$100-million Federal Government road program for northern Canada and a possible extension of railway facilities, would reduce operating costs very materially and increase profits substantially.

Paul O. Berliz, Chairman  
C. S. Walker, President

## BACKGROUND INFORMATION

### THE MOUNT NANSEN AREA

*\*The principal holdings of Peso Silver Mines Ltd., are located in two widely separated regions in the Yukon Territory, the Mayo District near the central part of the territory, and the Mount Nansen area 130 miles to the south-southeast. The Mayo area is reached from Whitehorse by the Alaska Highway, a distance of about 250 miles.*

*The Mount Nansen area is reached by the same highway as far as Carmacks in South Central Yukon, 100 miles north of Whitehorse, and from there via a winter tote road for a distance of about 30 miles due west. From Whitehorse there is a daily air service to Vancouver. By railway there is the White Pass & Yukon line to Skagway on the Alaskan Coast and thence a ship connection to Vancouver. By truck or car the Alaska Highway connects with Edmonton or Vancouver.*

*The area is also reached by either float or wheeled planes from Whitehorse. The mining area within which the Peso Silver Mines Ltd. properties lie is approximately six miles by ten miles in size, trending northwestward between Nansen Creek to the west and Victoria Creek to the east near their head waters.*

*The Mt. Nansen Mines area is a region of sparsely forested rounded, subdued hills and ridges with relief up to 2000 feet. The horizon is characteristically even with the exception of three prominent peaks Mt. Klaza, Mt. Nansen and Victoria Mt., all of which are over 6000 feet in height.*

*The area has not been glaciated therefore the bedrock is under a cover of oxidized soil and frost-rolled broken rock derived from the bedrock during pre-glacial times. This cover is now tightly frozen by permafrost and ranges in depth from nil on the ridges and peaks to over 100 feet in the valleys.*

\*Extracts from a Review Report on the Geology and Ore Reserves of Peso Silver Mines Ltd. by Dr. D. D. Campbell, Consulting Geological Engineer. Dated November 10, 1965.

Generally speaking bedrock outcrops are sparse in the region and restricted to the ridges. This feature of the area has directly affected exploration in that all stripping and underground development to date has been confined to ridges and has been governed by geology only insofar as the vein zones found crossing the ridges have been explored. The extension of these zones into deep overburden areas, as well as any other vein zones that might occur in such areas have not been searched for or explored.

In the Nansen area the first lode deposit was found by prospectors Brown and McDade in 1943. Sampling of the surface trenches on their showings, plus subsequent drilling, returned sufficiently high values in gold and silver to induce Leitch Gold Mines Ltd. to form Brown-McDade Mines Ltd., and explore the ore zone underground with extensive drifting and drilling from a crosscut adit in 1946. At the same time Conwest Explorations Ltd. explored the Webber Creek area, 2 miles to the west, and the Huestis Syndicate trenched the Huestis Vein zone about 1 mile west of Brown-McDade. Underground results at Brown-McDade did not meet expectations and the project was abandoned in 1947 and all activity ceased in the area.

In 1958 prospecting activity revived in the area once again and in 1962-63 the Mt. Nansen Mines Syndicate (Newmont, Noranda, Rio Tinto, Kerr-Addison, Conwest, and Faraday) was formed and extensively stripped the Webber and Huestis vein zones and drilled four holes into the Webber zone.

In 1964 Mt. Nansen Mines Ltd. came under the control of Peso Silver Mines Ltd. and a program of further stripping, sampling and extensive overburden drilling was done on the Webber and Huestis vein zones. The results of this work prompted underground exploration, and drift adits were collared in December, 1964, and March, 1965, on the Webber and Huestis respectively. In 1965 the old Brown-McDade workings were remapped, resampled and are presently being check-drilled.

## THE MAYO DISTRICT

\*Production began on the Silver King vein on the western flank of Galena Hill in about 1913. Veins were discovered on Keno Hill in 1919 and during the 1920's other veins were exposed, but only where overburden was shallow because all work at that time was done by hand in the permafrost, a slow difficult job. Between 1921 and 1942 most of the mining was done on orebodies that had been found on the surface, but due to high costs and apprehensions that the ore was shallow, no mining was done below about the 400 feet depth and only a slight amount of exploration and development was done. The camp was closed in 1942 because of the war and because of depletion of near-surface ores.

The camp reopened as a salvage operation in 1946 and the major amount of production from the district has been achieved since 1948 with the mining extending to deeper levels. Recently transportation and equipment costs as well as metal prices have improved enabling lower grades of ore to be mined. A summary record of production from Galena and Keno hills is as follows:

	Silver oz.	Lead lb.	Zinc lb.	Cadmium lb.
	(All units in millions)			
1) Independents .....	2	4		
2) Keno Hill Ltd. Yukon Gold (1921-24) .....	2	4		
3) Treadwell Yukon Corp. (1922-42) .....	44.3	96		
4) United Keno Hill (1946-63) .....	84.2	305.3	233	3.06
TOTALS .....	132.5	409.3	233	3.06

At present metal prices: (Ag \$1.40/oz., PbZn, 15c/lb. Cd. \$1.70/lb.), the value of the above production is approximately \$287 million (Can.). Considering that most of this has been attained since 1951 it is evident that the Mayo District comprises one of the world's major silver camps. In view of the fact that the surrounding favorable area has remained unexplored because of difficulties imposed by permafrost, etc., it comprises one of the best targets available in the search for new silver mines.

\*Extracts from a Review Report on the Geology and Ore Reserves of Peso Silver Mines Ltd. by Dr. D. D. Campbell, Consulting Geological Engineer. Dated November 10, 1965.

**GRADE OF ORE SHOOTS**

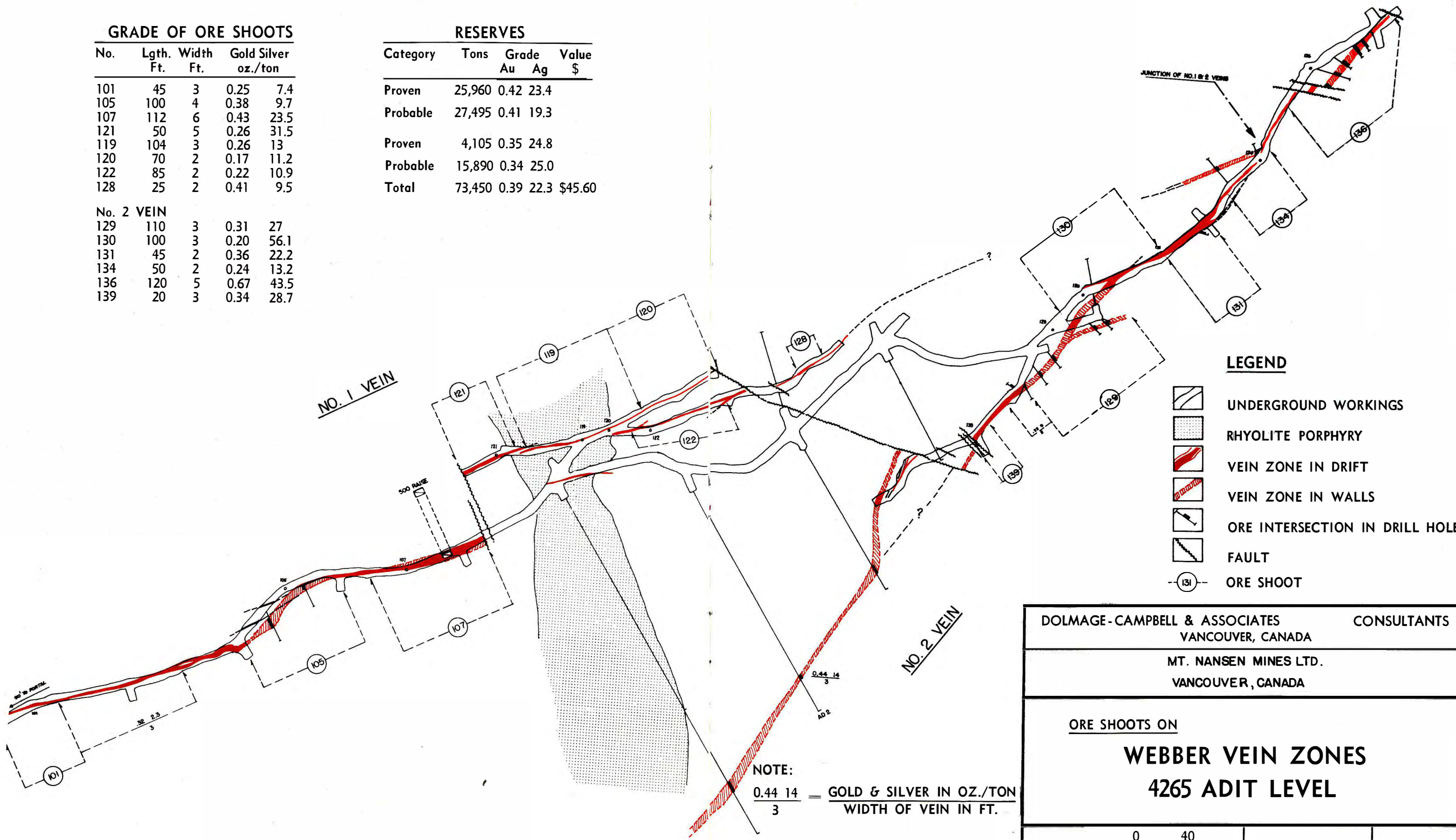
No.	Lgth. Ft.	Width Ft.	Gold oz./ton	Silver oz./ton
101	45	3	0.25	7.4
105	100	4	0.38	9.7
107	112	6	0.43	23.5
121	50	5	0.26	31.5
119	104	3	0.26	13
120	70	2	0.17	11.2
122	85	2	0.22	10.9
128	25	2	0.41	9.5

**No. 2 VEIN**

129	110	3	0.31	27
130	100	3	0.20	56.1
131	45	2	0.36	22.2
134	50	2	0.24	13.2
136	120	5	0.67	43.5
139	20	3	0.34	28.7

**RESERVES**

Category	Tons	Grade Au	Grade Ag	Value \$
Proven	25,960	0.42	23.4	
Probable	27,495	0.41	19.3	
Proven	4,105	0.35	24.8	
Probable	15,890	0.34	25.0	
<b>Total</b>	<b>73,450</b>	<b>0.39</b>	<b>22.3</b>	<b>\$45.60</b>



**LEGEND**

- UNDERGROUND WORKINGS
- RHYOLITE PORPHYRY
- VEIN ZONE IN DRIFT
- VEIN ZONE IN WALLS
- ORE INTERSECTION IN DRILL HOLE
- FAULT
- ORE SHOOT

DOLMAGE-CAMPBELL & ASSOCIATES CONSULTANTS  
 VANCOUVER, CANADA  
 MT. NANSEN MINES LTD.  
 VANCOUVER, CANADA

**ORE SHOOTS ON  
 WEBBER VEIN ZONES  
 4265 ADIT LEVEL**

SCALE 0 40  
 FEET  
 NOV. 10 1965 FIG. 4

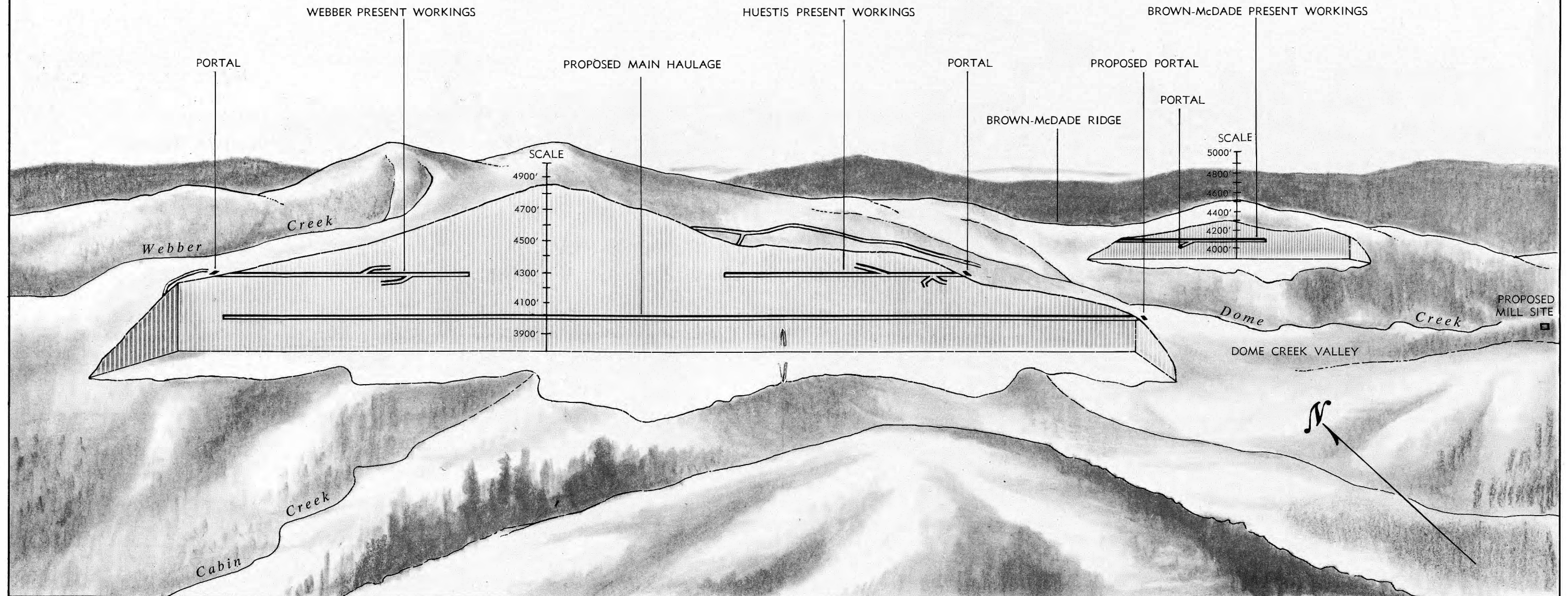
NOTE:  
 $\frac{0.44 \ 14}{3} = \frac{\text{GOLD \& SILVER IN OZ./TON}}{\text{WIDTH OF VEIN IN FT.}}$

# PESO SILVER MINES LTD.

## WEBBER, HUESTIS AND BROWN-McDADE VEIN ZONES

CROSS SECTION OF VEIN ZONES

CROSS SECTION BROWN-McDADE ZONE

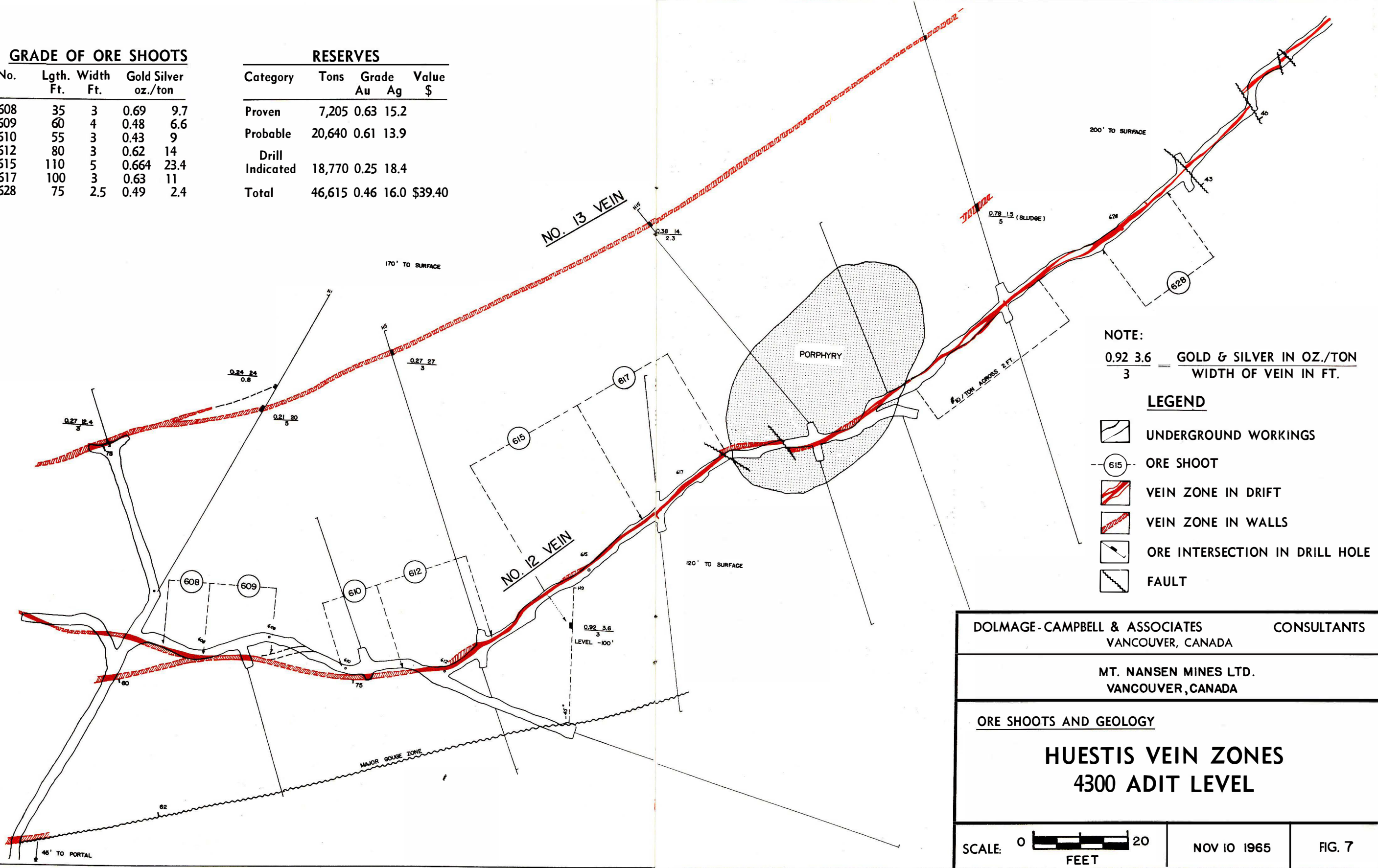


**GRADE OF ORE SHOOTS**

No.	Lgth. Ft.	Width Ft.	Gold oz./ton	Silver oz./ton
608	35	3	0.69	9.7
609	60	4	0.48	6.6
610	55	3	0.43	9
612	80	3	0.62	14
615	110	5	0.664	23.4
617	100	3	0.63	11
628	75	2.5	0.49	2.4

**RESERVES**

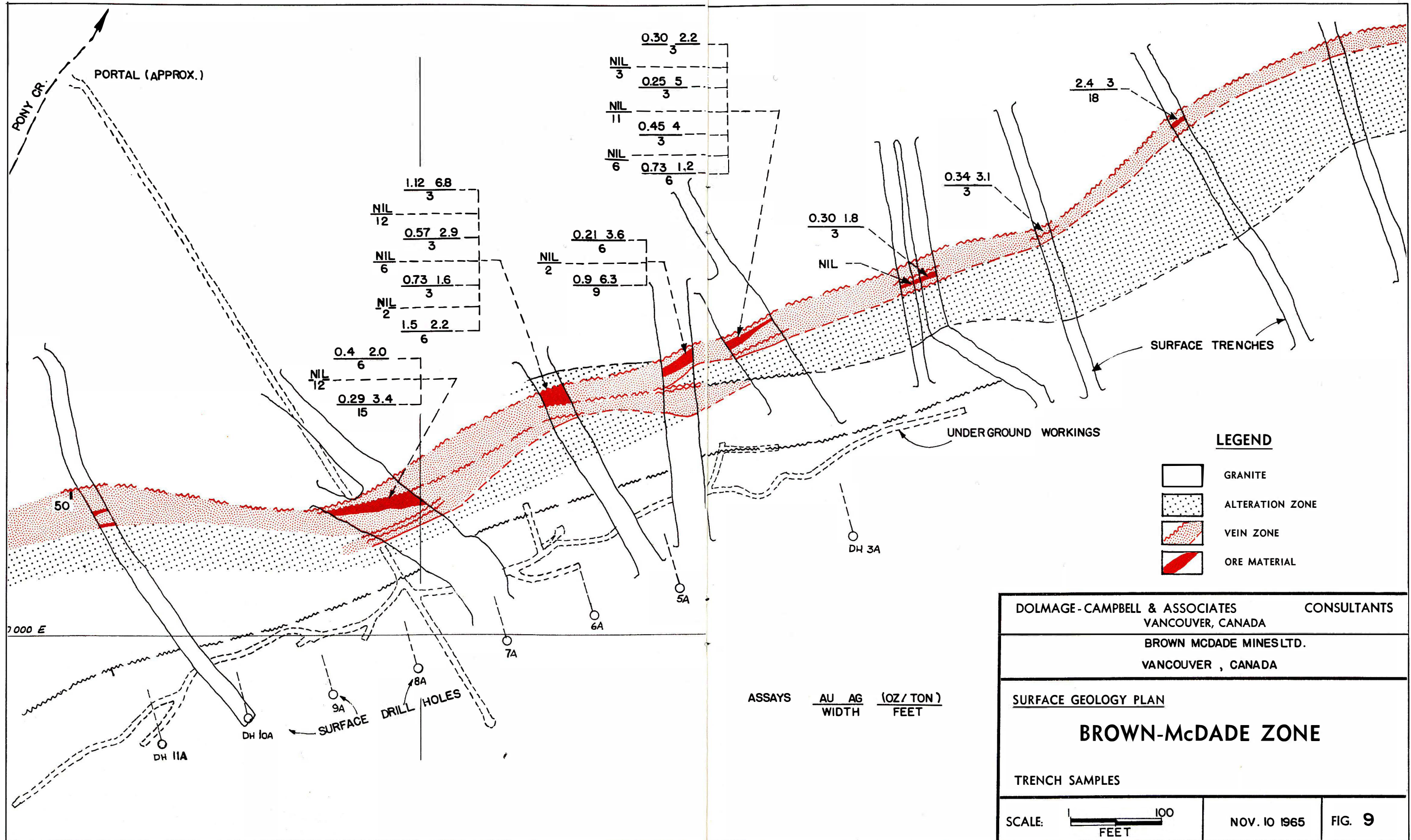
Category	Tons	Grade Au	Grade Ag	Value \$
Proven	7,205	0.63	15.2	
Probable	20,640	0.61	13.9	
Drill Indicated	18,770	0.25	18.4	
<b>Total</b>	<b>46,615</b>	<b>0.46</b>	<b>16.0</b>	<b>\$39.40</b>

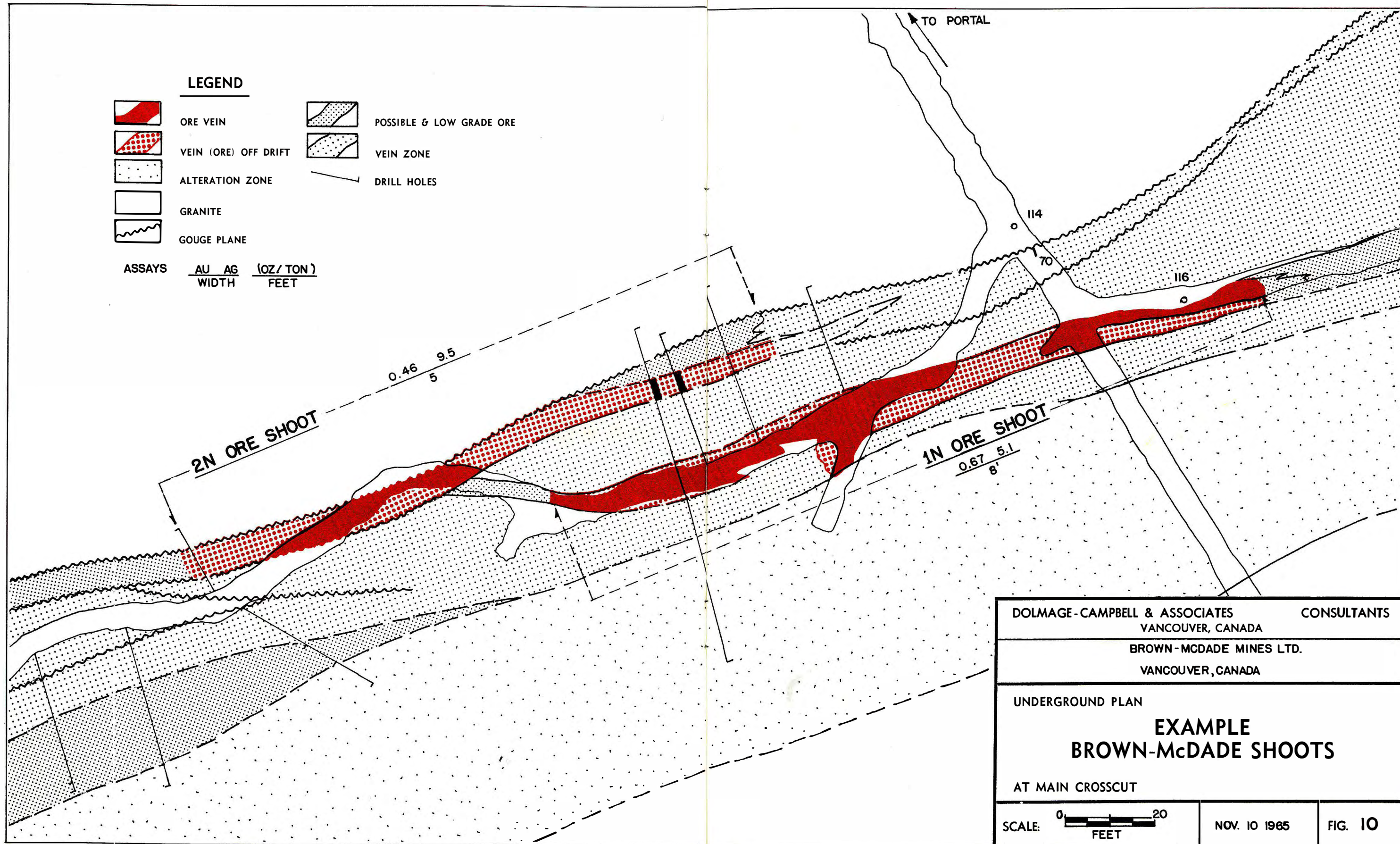


NOTE:  
 $\frac{0.92 \ 3.6}{3} = \frac{\text{GOLD \& SILVER IN OZ./TON}}{\text{WIDTH OF VEIN IN FT.}}$

- LEGEND**
- UNDERGROUND WORKINGS
  - ORE SHOOT
  - VEIN ZONE IN DRIFT
  - VEIN ZONE IN WALLS
  - ORE INTERSECTION IN DRILL HOLE
  - FAULT

DOLMAGE-CAMPBELL & ASSOCIATES VANCOUVER, CANADA		CONSULTANTS
MT. NANSEN MINES LTD. VANCOUVER, CANADA		
<b>ORE SHOOTS AND GEOLOGY</b>		
<b>HUESTIS VEIN ZONES</b> <b>4300 ADIT LEVEL</b>		
SCALE: 0  20 FEET	NOV 10 1965	FIG. 7





**PESO SILVER MINES LIMITED** (Non-Personal Liability)

**BALANCE SHEET AS AT JULY 31, 1965**

**ASSETS**

CURRENT ASSETS	1965	1964
	\$	\$
Cash .....	8,434	174,871
Accounts receivable .....	43,097	38,239
Share subscriptions receivable .....	—	200,000
Prepaid expenses .....	2,802	4,579
	<u>54,333</u>	<u>417,689</u>
<b>INVESTMENTS IN AND ADVANCES TO SUBSIDIARY AND AFFILIATED COMPANIES (notes 1, 2 and 9)</b>		
Shares — at cost .....	1,099,802	134,667
Advances .....	33,781	25,035
	<u>1,133,583</u>	<u>159,702</u>
<b>MINING PROPERTIES (notes 3 and 9) .....</b>	<u>919,601</u>	<u>827,126</u>
<b>FIXED ASSETS (note 4)</b>		
Land, buildings and equipment — at cost		
less accumulated depreciation of \$74,814 (1964 \$12,985) .....	110,185	178,052
<b>DEFERRED EXPENSES (notes 1, 5, 8 and 9)</b>		
Exploration and development — per schedule .....	1,821,955	1,184,787
General overhead — per schedule .....	368,735	310,349
Exploration and development advances to subsidiary companies .....	57,628	21,165
Incorporation .....	1,445	1,445
	<u>2,249,763</u>	<u>1,517,746</u>
	<u>4,467,465</u>	<u>3,100,315</u>

SIGNED ON BEHALF OF THE BOARD:

AVERY STONE, Director  
PAUL O. BERLIZ, Director

## LIABILITIES

CURRENT LIABILITIES	1965	1964
	\$	\$
Accounts payable and accrued liabilities .....	156,749	177,915
Contracts payable .....	—	115,446
Agreement payable .....	—	12,500
	<u>156,749</u>	<u>305,861</u>
 DUE TO SUBSIDIARY COMPANY (note 6) .....	 200,000	 —
	<u>356,749</u>	<u>305,861</u>
 <b>SHAREHOLDERS' EQUITY</b>		
<b>CAPITAL STOCK (note 7)</b>		
Authorized —		
5,000,000 shares of the par value of \$1 each		
 Issued and fully paid —		
3,405,505 shares for cash .....	3,405,505	2,285,505
Less: Discount and commissions net of premiums ....	98,039	438,039
	<u>3,307,466</u>	<u>1,847,466</u>
 <u>750,000</u> shares for mining properties .....	 750,000	 750,000
<u>4,155,505</u>	<u>4,057,466</u>	<u>2,597,466</u>
 Shares committed to be issued —		
200,000 shares for cash .....	—	200,000
 SURPLUS (DEFICIT) .....	 53,250	 ( 3,012)
	<u>4,110,716</u>	<u>2,794,454</u>
	<u>4,467,465</u>	<u>3,100,315</u>

*The accompanying notes and schedules are an integral part of this balance sheet.*

### AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Peso Silver Mines Limited (Non-Personal Liability) as at July 31, 1965 and the statement of surplus for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the above balance sheet and statement of surplus presents fairly the financial position of the company as at July 31, 1965, and the results of its operations for the year ended on that date in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change in depreciation policy referred to in note 4, with which we concur.

Vancouver, B.C.  
December 8, 1965

McDONALD, CURRIE & CO.  
Chartered Accountants.

**PESO SILVER MINES LIMITED** (Non-Personal Liability)

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JULY 31, 1965**

**1. SUBSIDIARY AND AFFILIATED COMPANIES**

Consolidated financial statements were not prepared because the company held only 53.2% of the issued shares of Mount Nansen Mines Limited and the large minority interest would distort the consolidated financial position. The other subsidiary companies were not consolidated because they are relatively small and are presently inactive.

The subsidiary companies are engaged in the exploration and development of mining properties and have no operating profits or losses to date.

At July 31, 1965 the company had investments in and advances to subsidiary and affiliated companies as follows:

Subsidiary Company	Number of shares	Percentage owned	Cost of shares \$	Advances \$	Exploration and development advances \$
Mount Nansen Mines Limited	1,770,876	53.2	811,751	4,704	—
Peso Carmacks Gold Mines Ltd. (N.P.L.)	1,300,000	86.7	30,000	—	35,096
Central McQuesten Mines Ltd. (N.P.L.)	637,500	85.0	1*	—	1,767
Central Nansen Mines Ltd. (N.P.L.)	560,000	74.7	5,000	—	3,278
Duncan Ladue Mines Ltd. (N.P.L.)	637,500	85.0	18,812	—	17,487
			<u>865,564</u>	<u>4,704</u>	<u>57,628</u>
<b>Affiliated Company</b>					
Brown-McDade Mines Ltd.	1,289,578	48.7	190,485	29,077	—
Rio Plata Silver Mines Ltd. (N.P.L.)	(See below)	—	43,753	—	—
			<u>234,238</u>	<u>29,077</u>	<u>—</u>
			<u>1,099,802</u>	<u>33,781</u>	<u>57,628</u>

\*At nominal value

The suggested market value of Brown-McDade as an unlisted stock in Toronto, Ontario, as at July 31, 1965 was 30c per share, bid price. No market value was available for the shares of the other subsidiary and affiliated companies.

The company agreed to purchase from Rio Plata, 1,000,000 treasury shares in consideration for \$100,000 payable on or before February 21, 1966. At July 31, 1965, \$43,753 had been paid under this agreement. The 1,000,000 shares are to be held in trust and released to Peso upon receipt of payment in full.

**2. STOCK OPTIONS**

Pursuant to directors' minutes, directors, officers and certain employees have been granted options to purchase from the company, up to 145,000 of the company's shares of Mount Nansen Mines Limited at 30c per share and, up to 137,500 of the company's shares of Brown-McDade Mines Ltd. at 25c per share, on or before specified dates terminating June 30, 1967.

**3. MINING PROPERTIES**

The company has acquired, or is acquiring under option, mining properties for cash payments to date of \$169,601 and for 750,000 shares of capital stock.

At July 31, 1965 there were options payable of \$115,000 for acquisition of the Barker Estate claims due in varying amounts during the period January 1, 1966 to March 15, 1970. By paying only \$90,000, the company may acquire a 100% interest in certain claims and a 50% interest in other claims. If the company concludes that the claims warrant production, the claims shall be transferred to a new mining company in consideration for which the company will be entitled to receive 85% of the venter shares.

**4. DEPRECIATION POLICY**

The company has changed its policy of not providing for depreciation until production is reached. In 1965 depreciation of \$61,829 was recorded in the accounts to reflect the estimated depreciation to July 31, 1965.

**5. EXPLORATION AGREEMENT**

An agreement with Silver Titan Mines Limited (N.P.L.) dated November 25, 1965 supersedes an exploration agreement dated May 21, 1964. In consideration for the company having expended \$544,224 on exploration and development, on December 2, 1965 Silver Titan paid the company \$470,000 and conveyed a 10% interest in all its mineral claims to the company. Silver Titan has the option to purchase this 10% for \$1,000,000 due in specified annual amounts to 1970.

**6. DUE TO SUBSIDIARY COMPANY**

The \$200,000 due to a subsidiary company, Mount Nansen Mines Limited, is made up of \$80,000 open advance account and \$120,000 6% notes, both without fixed terms of repayment. On September 15, 1965 the full \$200,000 was repaid to Mount Nansen.

**7. CAPITAL STOCK**

During the year ended July 31, 1965 the company issued 1,120,000 shares which resulted in net cash to the treasury of \$1,460,000 of which 200,000 shares at \$1 per share were shown as subscriptions receivable at July 31, 1964.

As at July 31, 1965, share options remained outstanding to former officers to purchase 20,000 shares at 50c per share and to an officer to purchase 60,000 shares at \$1.55 per share, exercisable in specified annual amounts to 1967.

**8. DIRECTORS' REMUNERATION**

The directors of the company did not receive any remuneration for their services during the year with the exception of the executive vice president who received a salary of \$13,000.

**9. VALUES**

The amounts shown for investments in and advances to subsidiary and affiliated companies, mining properties, exploration, development and general overhead expenditures, and exploration and development advances to subsidiary companies represent costs to date and are not intended to reflect present or future values.

**PESO SILVER MINES LIMITED** (Non-Personal Liability)

**STATEMENT OF SURPLUS FOR THE YEAR ENDED JULY 31, 1965**

	1965	1964
	\$	\$
BALANCE — BEGINNING OF YEAR .....	( 3,012)	—
Gain on disposal of fixed assets — net .....	9,099	—
Gain (loss) on the sale of investments .....	47,688	(3,012)
Cost of mineral claims abandoned .....	( 525)	—
BALANCE — END OF YEAR .....	<u>53,250</u>	<u>(3,012)</u>

**EXPLORATION AND DEVELOPMENT EXPENSE FOR THE YEAR ENDED JULY 31, 1965**

	Year Ended July 31, 1965	Total to July 31, 1965
	\$	\$
PROPERTIES DEVELOPED		
Peso Rex .....	219,036	1,152,013
Shanghai .....	375,029	544,224
Other .....	44,794	135,905
	<u>638,859</u>	<u>1,832,142</u>
Less: Equipment rental revenue .....	<u>1,691</u>	<u>10,187</u>
	<u>637,168</u>	<u>1,821,955</u>

Depreciation of \$60,635 is included in expenses for the year ended July 31, 1965.

**NET GENERAL OVERHEAD EXPENSE FOR THE YEAR ENDED JULY 31, 1965**

	Year ended July 31, 1965*	Total to July 31, 1965
	\$	\$
Consultants' fees .....	1,410	7,670
Depreciation .....	343	439
Legal, audit and accounting .....	4,463	35,527
Management salaries (note 8) .....	11,302	66,374
General administration and office .....	34,096	170,340
Public relations .....	6,662	52,447
Travelling .....	7,272	52,885
	<u>65,548</u>	<u>385,682</u>
Less: Interest income .....	<u>7,162</u>	<u>16,947</u>
	<u>58,386</u>	<u>368,735</u>

\*Expenses for the year ended July 31, 1965 are net of recoveries from subsidiary and affiliated companies. Depreciation of \$1,194 is the expense for the year prior to recoveries.