March 6th, 1957.

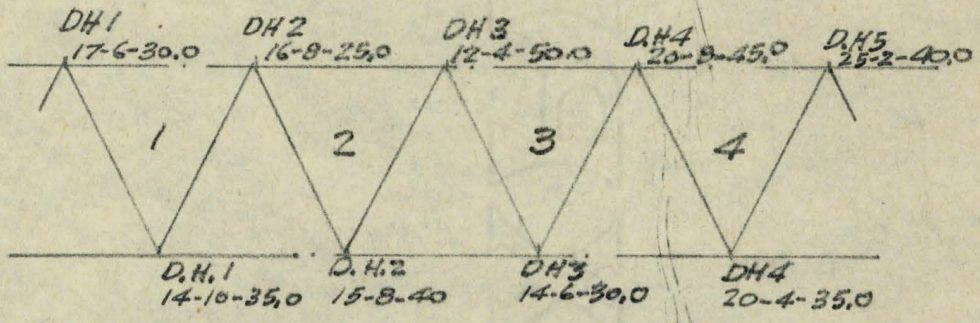
M. F. Nicholson, Esq.,
Suite 918,
360 St. James Street, West,

Dear Mr. Nicholson,

Replying to your letter of 4th March, 1957, the following is an explanation of how our Reserves are calculated, the way the record is kept and the manner in which they are written off to the operations.

As you are aware the drilling was largely done on lines spaced 500 feet apart up and down stream with holes on the lines spaced from 50 feet to 200 feet depending on the width of the pay streak. In very large areas the drilling was done on the corners of equilateral triangles.

To calculate the value of the Reserves from the drilling the holes are connected up in a series of triangles in the following manner:



In actual practice the line number corresponds to the number of the claim it crosses thus making it easy to locate yourself in the field.

The figures at each drill hole represent the following items:

DH 1-1

17 - depth of muck in feet
6 - depth of Dredging Section in feet - gravel plus bedrock
30.0 - value in cents per cubic yard

The value of each triangle is estimated from the weighted value of the drill holes at the corners of the triangle. Take triangle No. 1 for instance.

DH 1-1	6 x 30.0	180.0
DH 1-2	8 x 25.0	200.0
DH 2-1	10 x 35.0	350.0
	24	730.0

24/3 8 average depth of Dredging Section

730/24 30.4 is average value in cents per cubic yard

The volume of Dredging Section in each triangle is its area times its average depth of Dredging Section and the value is its ~~area~~ volume times the average value in cents per cubic yard.

In every case the resrves were calculated before the ground had been stripped and it was necessary to estimate how much muck was going to be left on a given area and calculate the dilution accordingly.

The figures for all triangles are kept in a suitable record book. The amounts are charged out of the Reserves on an area basis as the dredge enters them. Anything which is skipped for one reason or another is also charged to operations in the year in which it is skipped.

The Reserve yardages written offare never the same as those actually dredged because in one case you have an estimated figure and in the other you have an actual figure. Then, too, the dredge may, and usually does, dig deeper than estimated. Also, it is common for dredge to dig outside of the Reserve Limit.

I think the foregoing will give you a pretty good picture of how the Reserves are written off to operations. You must always bear in mind that the figure shown for Reserves is an estimated figure made up of the sum of the estimated figures for the triangles which comprise any given area of Reserve.

Yours very sincerely,

W. H. S. McFarland

THE CONSOLIDATED ZINC CORPORATION OF CANADA LIMITED
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360, ST. JAMES STREET WEST
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CABLES AND TELEGRAMS:
CONZINCAN MONTREAL

TELEPHONE:
MARQUETTE 1870

4th March 1957.

W. H. S. McFarland, Esq.,
The Yukon Consolidated Gold Corporation Limited,
1919 Marine Building,
Vancouver, B.C.

Dear Mr. McFarland: Re: Annual Report - Season 1956

At Mr. Arbuckle's request, I am writing to ask whether you would be good enough to explain the method used in writing off ore reserves to operations during the season 1956 as shown in Schedule No. 5 of this report.

To give an idea of our problem, we were unable to reconcile the figures of write-off with the cubic yards dredged and the gross values at $35/oz Au as shown on Schedule No. 6. I am well able to appreciate that the cubic yards written off reserves would vary from cubic yards dredged depending on the width and depth of the material mined as against original estimates. I was unable, however, to explain your method of arriving at the values. The question is probably very naive but it will increase my education!

Kindest regards.

Yours sincerely,

M. F. Nicholson

MFN/F