

THE YUKON CONSOLIDATED GOLD CORPORATION
LIMITED

STUDY OF COMPANY'S
FUTURE OPERATIONS

March, 1959.

Paul M. Kavanagh

The Yukon Consolidated Gold Corporation Limited
1919 Marine Bldg. Vancouver, Canada

VAN. OFFICE

THE YUKON CONSOLIDATED GOLD CORPORATION, LIMITED

DAWSON, Y. T.
CANADA

March 13th, 1959.

The President and Board of Directors of
The Yukon Consolidated Gold Corporation, Limited,
1919 Marine Building,
Vancouver 1, B.C.

Dear Sirs:

I present herein a study of the Company's future operations in the Klondike region, which has been made at the request of the President. The study has been made by myself, assisted by the Dawson engineering staff of the Company.

The basis for my approach to this matter during the past two months has been the attached sheet "A" which I submitted to the Board Meeting in Toronto on November 21, 1958. My strongest argument at that time for leaving the dredging limits as they are was that to extend them would only mean that Dredger Nos. 6, 8, and 10 would increase their lives beyond 1966; they would then be by themselves, and it was - and still is - the opinion of the Dawson staff that to operate just those three dredges would be economically impossible.

That is still my basic position, ie. that when the only result of extending dredging limits is that after a certain time just three operations are left with reserves, then the limits should not be extended. Involved in my reasoning is that, in the face of Mr. Haddon F. King's statistical approach to this whole matter, I am still convinced that those reserves deleted by Mr. McFarland in 1955 have relatively less value per cubic yard than those which he retained.

However, when one 1) examines in detail that strong argument of mine stated in paragraph 2 above, and 2) carefully studies sheet "A", one realizes that the argument is not completely correct. The data on sheet "A" show that the restriction of the reserves in the two controversial areas Nos. 9 and 10 have meant that those two dredges will have ended their lives 3 and 1 years respectively before 1966, the year to the end of which the data indicate that the Company can profitably continue to operate. It is to this aspect of the overall matter that I have mainly directed my attention during this study.

The first step was to carefully estimate - using the average performances of the last 5 to 6 years - the life for each dredge within its presently prepared reserves and in those still unprepared reserves within the

restricted dredging limits, i.e. to double check the accuracy of the black X's on sheet "A". That phase of the study brought out that Dredge No. 9's life within its presently considered reserves, with very good digging, will probably extend to and including 1965, an additional two years. In preparing No. 9's picture originally on sheet "A", I used the restricted reserve yardages presently carried in our books and neglected to include those reserves which through Mr. A.M. Nordale's personal directives continued to be prepared outside the restricted limits, and that are to be dug. That phase of the study also indicated that Dredge No. 10's life within its presently considered reserves will probably end in mid-season 1965 rather than at the end of that season, a point of some importance in my ensuing argument. As there is some likelihood that with continuing very good digging Dredge No. 6 could mine its remaining presently considered reserves by the end of 1965 rather than requiring another year, my first thought was to determine whether we could complete the mining of the Dominion Benches, i.e. Operations 14 to 17, by the end of the 1965 season - rather than a year later - and thereby conclude all operations by the end of the 1965 season.

The scarcity of water for stripping and the location of the Dredge No. 10 operation fairly well prevent the possibility of mining the Dominion Benches by the end of the 1965 season. They can be mined with relative ease by the end of 1966.

My conclusion was, therefore, that because the Company will probably be operating at least until the end of the 1966 season, it should plan to operate each mining unit up to that time which during that time would not lose more money than it would absorb of overhead expense. It followed that an effort should be made to give 1 1/2 year's additional life to Dredge No. 10 and at least part of a year's life to Dredge No. 9.

During this study the enclosed set of maps has been prepared which show, among other things, the present advance limits of completed stripping and thawing ahead of the dredges. Using these maps, we have chosen from the deleted reserves the following additional ground which to prepare will involve no higher unit stripping and thawing costs than are normal:

re. Dredge No. 9: 153,360 cu. yds. @ 33.5¢ per cu. yd. (outlined in red on Maps 3 and 4)

- this amounts to 2 additional month's life and is actually ground which Mining Superintendent Barrett thought should be recovered after he wrongly interpreted Mr. McFarland's remarks last July to mean that he considered the No. 9 position as a whole was open to review.
- No. 9's average total unit cost over the past six years has been 37¢ but, for example, this past year that total unit cost included almost 9¢ of overhead expense (exclusive of stripping and thawing writeoffs), and therefore it is extremely unlikely that in mining 33.5¢ ground the dredge would lose more than it would absorb of overhead expense.

- this dredge has an average over-run of 10%.

re. Dredge No. 10: 923,110 cu. yds. @ 31.5¢ per cu. yd. (outlined in red on Map 7)

- this amounts to 1.4 season's additional life.
- 1/3 of it is an "island" in the centre of the valley which when he made his study in 1955 Mr. McFarland was uncertain whether to delete or retain.
- No. 10's average total unit cost over the past six years has been 33¢ but, for example, this past year that total unit cost included more than 6¢ of overhead expense (exclusive of stripping and thawing writeoffs), and therefore it is extremely unlikely that in mining 31.5¢ ground the dredge would lose more than it would absorb of overhead expense.
- this dredge has an average over-run of 31%.

I recommend that the Company prepare and mine the above-mentioned additional ground concerning Dredges Nos. 9 and 10. If this recommendation is approved, then my best estimate of the mining schedule is as shown on the attached sheet "B". Within the schedule, it is possible that Dredge No. 4's life can be further extended, and also Dredge No. 11's by sending it up Last Chance Creek at the end of its presently considered life. It is my opinion that with the present price of gold and with its present holdings in the Klondike region, the Company by following the schedule outlined on sheet "B" will produce the greatest benefit for the shareholders.

If the price of gold were raised substantially while this schedule was being followed, the Company would have great ability to extend its life. It would be able to 1) still mine almost all of No. 6's deleted reserves (if the dredge would hold out), 2) still mine all of No. 8's deleted reserves, 3) still mine those reserves of No. 10 deleted downstream from Claim 175 Below Lower Discovery; (probably also most of the deleted reserves between Claims 146 and 175 if the gold price were raised during the next several years), and also extend No. 10's life further downstream, (see Map 7), 4) install at least one and probably two dredges on Gold Run Creek, and 5) probably install a dredge on the Klondike River.

Concerning a continuing study of the possibility of discovering valuable high-level gravels, last December the Company's aerial photographs were sent to the Belcher firm for further study. The Jackson deposit has been, and is presently being, studied by several large construction and earth-moving contractors, one of which has already informed the Company that it could not determine a mining method which would meet the restricted costs required. The Company's desire to investigate an adversely-owned bench reserve on Nugget Hill, just upstream from Paradise Hill on Hunker Creek, has been refused by the owners who wish to retain complete control of the deposit. The Geological Survey of Canada is considering carrying out a comprehensive review and survey of the placer gold regions in and about the Klondike region.

An early decision of the Board of Directors concerning my recommendation would be greatly appreciated because, if the recommendation is approved, certain changes in the Company's stripping plans for this year in the Nos. 9 and 10 areas will have to be made.

Yours very truly,

Paul M. Kavanagh

Paul M. Kavanagh
General Manager.

PMK:sjw
Encls.

MINING SCHEDULES

<u>Season</u>	<u>#4</u>	<u>#6</u>	<u>#8</u>	<u>#9</u>	<u>#10</u>	<u>#11</u>	<u>#12</u>	<u>#13</u>	<u>#14</u>	<u>#15^a</u>	<u>#15^b</u>	<u>#16</u>	<u>#17</u>
1959	x	x	x	x	x	x	x	x	x				
1960	x	x	x	x	x	x	x			x			
1961	x	x	x	x	x	x	x			x	x		
1962	x	x	x	x	x	x	x			x	x		x
1963	x	x	x	x	x	x						x	x
1964	x	x	x	x	x							x	x
1965		x	x	x	x							x	x
1966		x	x	x	x							x	x
1967		x	x		x								
1968		x	x		x								
1969		x	x		x								
1970		x	x		x								
1971		x	x		x								
1972		x	x		x								
1973		x	x										

Black x's indicate schedule for reserves based on 1955 revision.

Red x's indicate additional mining based on considered reserves prior to 1955.

MINING SCHEDULE NOW BEING PROPOSED

<u>Season</u>	<u>#4</u>	<u>#6</u>	<u>#8</u>	<u>#9</u>	<u>#10</u>	<u>#11</u>	<u>#12</u>	<u>#13</u>	<u>#14</u>	<u>#15a)</u>	<u>#15b)</u>	<u>#16</u>	<u>#17</u>
1959	x	x	x	x	x	x	x	x	x				
1960	x	x	x	x	x	x	x			x			
1961	x	x	x	x	x	x	x			x	x		
1962	x	x	x	x	x	x	x			x	x	x	
1963	x	x	x	x	x	x						x	x
1964	x	x	x	x	x							x	x
1965		x	x	x	x							x	x
1966		x	x	x	x							x	x



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