

THE YUKON CONSOLIDATED GOLD CORPORATION, LIMITED

DAWSON, Y. T.

CANADA

MEMORANDUM:

January 15th, 1960.

From: P.M. Havanagh

To: Mr. C.E. McLeod

Estimates Re. Company Operations

Attached are estimates prepared by the Dawson management and accounting and engineering departments concerning the Company's future operations. The preparation of the estimates at this time has been prompted by a comment expressed by Mr. McFarland after he had reviewed the 1960 Draft Budget that caution should be exercised regarding the extent to which stripping is carried out (three stripping operations are budgeted for 1960), as with rising costs of labor and supplies it might not be possible for the Company to continue operating in the Dawson district after Brock No. 11 shuts down at the end of the 1963 season. He advised that the matter would require careful study.

I must admit that the Dawson management during the last two years has been working on the understanding that the Board had accepted at least a 1966 life for the Dawson operations after receiving Mr. McFarland's report dated February 23, 1958, in which he discussed the staggered versus non-staggered operations situations. Considerable sums of money have already been spent on stripping ground estimated to be dug after 1963. This important factor has been taken into account in the attached estimates pertaining to a 1963 life and is reflected in greatly increased annual stripping write-offs.

Other considerations involved in the estimates are as follows:

1. The estimates are based on the 1960 Draft Budget, which was based on our 1959 performance.
2. The NQMA regulations presently in effect are assumed to continue to be in effect through 1966. This was considered to be a fair assumption because if assistance at least equal to the present NQMA form of assistance would not continue to be available the Company's Dawson operations would have to cease in any event.
3. Except for minor allowances in stripping and thawing costs, no definite allowances have been made for possible wage increases, and the NQMA and income tax estimates do not take into account effects of any such possible increases. It has been considered that greater efficiency and other economies together with the increased NQMA assistance which would result would cancel out the effects of any such wage increases which of necessity would have to be very minor in any event.

4. The depreciation rates and figures used for BGMA and income tax purposes are based on past BGMA and income tax data and on rates and regulations presently in effect.

5. The total yardages estimated to be dug are considerably in excess of those listed in our Reserves ledger. There are mainly two reasons for this; firstly, in many areas more muck has been left on the ground than the Reserves allow for, and secondly, ground which has been stripped outside of Mr. McFarland's revised limits and which will be dug has not been re-included in our Reserves ledger.

6. It will be noted that under the annual yardage estimates used, Dredges No. 6, 8, and 10 would only have reserves left for a small part of the 1966 season in the 1966 life operation. Except for the stripping and thawing write-off portions, the estimated operating costs for that season for those three dredges are directly proportional to the relatively small yardages estimated to be dug over those which could normally be dug in a full season.

If it is decided to continue a 1966 life operation, and if it became evident that these three dredges would complete digging their reserves by the end of the 1965 season, no stripping would be done of ground estimated to be mined in 1966 by Dredge No. 9 and Bench Operations No. 16 and 17.

7. No taxes would be applied against the taxable incomes which occur in 1964, 1965, and 1966 of the 1966 life operation, and in 1963 of the 1963 life operation because of the taxable income deficits from the previous years which would be brought forward one or more ways.

8. It will be noted that \$75,000 has been allowed each year for Head Office Exploration, i.e. exploration work paid from Head Office. I consider that at this stage in the Company's life outside exploration must be expanded.

9. It should be stressed that in the estimates concerning the Company's overall profit and loss no provision for depreciation has been made. This item in the recent past has amounted to approximately \$100,000 per year.

10. No allowances have been made in the estimates for the paying of any further dividends at least at the rate in effect over the past ten years. If such a dividend rate were continued and the Company's gold production were not markedly greater than estimated, it is doubtful whether the estimated Head Office annual revenue of \$70,000 could be realized.

11. The estimates have allowed for the capital purchase of three Caterpillar D-8 tractors whereas, because the Company will probably be in a non-taxable position for its remaining estimated life, a tractor leasing arrangement is being contemplated in which a saving is estimated over the cost of straight purchasing.

12. One note of some encouragement is that based on the Company's production performance over the past twenty years, the actual production of gold should over-run the production figures in the estimates by more than 5%.

A successful accounting check has been applied to both the 1963 and 1966 life estimates in that the value of the Company's present combined stripping and thawing reserves - approximately \$1,665,000 - plus other presently deferred small values less the estimated capital purchases less the Company's estimated total overall loss in each of the two estimate projections approximately equals the Company's estimated total overall cash earnings. The accounting check

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disclosed two minor errors which time has prevented correcting; firstly, in the 1966 estimates approximately \$35,000 of estimated stripping expense has not been written-off, and secondly, there is an approximate \$10,000 discrepancy in the 1966 figures. The \$35,000 item works against the 1966 life estimates; the \$10,000 discrepancy is such that it works in favor of the 1966 life estimates, and therefore the estimated total overall cash earnings in the 1966 life are \$25,000 less than the \$1,159,000 figure listed.

I recommend that the estimates be checked by Mr. McFarland and by Price Waterhouse. I have attached an extra set of them for Price Waterhouse's use.

It is my opinion that the estimates, although not presenting a bright picture, indicate that the 1966 life operation is the more favorable of the two. If that is also the opinion of yourself and of the Board, I would appreciate receiving approval to carry out the three stripping operations budgeted for this year.

Paul M. Kavanagh
Paul M. Kavanagh
General Manager.

PMK:sjw
Att'd.

SUMMARY OF ESTIMATES RE COMPANY OPERATIONS

	Year	Profit or Loss From Dawson Operations	Increase in Dawson Cash Position	ICMA Payment	Taxable Income	Company's Overall Profit or Loss	Company's Overall Cash Earnings	Company's Cumulative Overall Cash Earnings
SEVEN YEAR LIFE	1960	\$ 43,000	\$156,000	\$152,000	\$125,000	\$ 24,000	\$128,000	\$128,000
	1961	197,000	16,000	236,000	153,000	46,000	57,000	185,000
	1962	216,000	2,000	227,000	160,000	74,000	40,000	225,000
	1963	142,000	396,000	43,000	9,000	100,000	253,000	478,000
	1964	9,000	387,000	16,000	13,000	60,000	218,000	696,000
	1965	29,000	486,000	None	108,000	104,000	301,000	997,000
	1966	97,000	347,000	None	142,000	182,000	162,000	1,159,000
FOUR YEAR LIFE	1960	\$110,000	\$239,000	\$106,000	\$ 89,000	\$ 89,000	\$164,000	\$164,000
	1961	282,000	121,000	182,000	102,000	185,000	108,000	272,000
	1962	352,000	147,000	148,000	90,000	289,000	110,000	382,000
	1963	12,000	695,000	None	248,000	97,000	510,000	892,000



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