



CANADA

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DEPARTMENT

OF

MINES AND TECHNICAL SURVEYS

MINES BRANCH

QUOTE FILE

Ottawa, May 15, 1950.

MEMORANDUM.-

Yukon Gold Placers Limited -
Representations for consideration of
its two new dredge operations,
Henderson Creek Dredge and Thistle
Creek Dredge as one mine.

Yukon Gold Placers Ltd. operates two large bucket dredges in Yukon Territory on locations separated by a distance of at least 20 miles.

Henderson Creek Dredge

Described by the company as on Henderson Creek, a tributary flowing westward in the Yukon River downstream from Stewart River, which is stated by the company to be about 100 miles upstream from Dawson (scales about 65 miles on the map). The property comprises 144 placer mining claims leased from Yukon Consolidated Gold Corporation on a 10% royalty basis.

Tested Reserves are stated to be 3,267,000 cubic yards averaging 64 cents per yard - ample to maintain seasonal operation of the dredge at the 1949 season record of 253,000 cu. yds. for over 12 years.

The Henderson Creek Dredge was completed in 1948, and operated a full season of 119½ days from June 4, 1949, dredging 253,000 cu. yards and recovering 80.2 cents per cu. yard, according to the company's annual report for the year ending November 30, 1949.

According to the company's statement accompanying its application the dredge location is completely equipped with a new 4 cu. yd. bucket dredge, 2 bulldozers, 2 trucks, pumps, thawing and shipping equipment, light plant, camp buildings, shops, &c. Employees number 24.

Thistle Creek Dredge

Described by the company as comprising 148 placer mining claims Nos. 14751-14898, each 500 feet in length upstream and 1,000 feet to right and left, on Thistle Creek, a small stream flowing eastward into Yukon River about 70 miles south from Dawson. (On the map the mouth of Thistle Creek scales about 90 miles upstream on Yukon River from Dawson, and about 20 miles upstream from the mouth of Henderson Creek). The claims, which are stated to be the company's property, are reached by an 18 mile wagon road from Yukon River.

Drilled reserves are stated to be 3,267,000 cubic yards averaging 56 cents in gold values per yard.

Mining operations are carried on by means of a 4 cu. yd. bucket dredge, with auxiliary equipment, including 2 bulldozers, 2 trucks, a drag-line, pumps; and there are camp buildings, with light plant, etc., for the requirements of 24 employees and the Superintendent.

The construction of the dredge on a suitable site about 1,400 feet from pay-gravel was not completed until July 10, 1949, and barren ground was dredged until July 31, when the dredge reached the edge of the drilled reserves. The company reported that the pay streak was not actually reached until September, and that 64% of the season's production of \$52,177 in gold values was recovered in the last 22 days of dredging before closing down on October 16th. The recovery after reaching the pay streak was reported to average 67 cents per cubic yard.

Consideration under Section 74,
Income Tax Act

Each Dredge operation was granted exemption as a separate mine, the three-year period of exemption commencing on June 4 in the case of the Henderson Creek Dredge and on July 31 in the case of the Thistle Creek Dredge.

Consideration under Section 2(1)(c)
of the Act

The company submitted an application for assistance payments for the designated year 1949 on the basis that the two dredge operations comprised one mine, the first year of production of which began on June 1, 1949. This submission was made in the light of the company's knowledge that for "cost-aid" purposes the several large bucket dredge operations of Yukon Consolidated Gold Corporation near Dawson had been accepted as one mine.

The operations of the two companies however are not fully comparable since the special consideration given to Yukon Consolidated originated in the acute labour shortages experienced during and following the war years. The corporation, which had obtained exemption under Section 89, Income War Tax Act, on each dredge as it was brought into production, on the definite understanding that each was a separate self-contained mine, had in fact been compelled to operate its dredges as a unit, operating each full season at full capacity only those dredges which could be so operated with the restricted available labour supply, and which could be operated with the minimum of shipping and thawing operations. For example, one of its dredges operating on a location where the placer gravel was not frozen, operated each season, and during one season the corporation was able to maintain only three of its eight or nine dredges in operation. Although six dredges were placed in operation in 1948, it was necessary to carry on shipping and thawing operations on at least one of the other locations preparatory to resumption of dredging on that location in 1949. It was primarily upon the reasonability of the corporation's claim that since it had in fact been operating all of its dredge locations as part of one mine, the expenditures made on each development work on a dredge location which was not in operation to produce gold should be permitted to be included in the costs of production of gold produced from the mine that the Minister based his decision that these several old dredge locations be regarded as one mine. Moreover, the base year production of this one mine, including the production derived from all-season full-capacity operation of only the dredges which the corporation was able to place in operation during the base year, reflected much more realistically the then depressed productive condition of the Canadian gold mining industry that led to the granting of "cost-aid" based in part on the base year production, than would have been the case if each dredge location had been regarded as a separate mine for assistance purposes.

Yukon Gold Placers Ltd. can present no claims of a similar nature for special consideration that its two separate dredge locations be regarded as one mine. In accordance with long established practice each has been exempt as a new mine under Section 74, Income Tax Act, and the beginning of the first year of production of each has so been established. Each is a self-contained mining unit, and there does not appear to have been any interdependence of operation, since both dredges appear to have operated normally throughout the season following commencement of dredging. The claim for consideration as one mine appears to originate in the fact that the Thistle Creek Dredge operated most of its 1949 season in uneconomic gravel,

reaching paystreak only in the latter part of September. As a result it produced only 1,362.5 oz. of gold at a cost greatly in excess of \$50 per oz. compared with 5,597 oz. produced by the Henderson Creek Dredge at costs which, subject to adjustment on audit of the books of account, average about \$40.00 per oz. "One-mine" status would give an all-over average cost exceeding \$50.00, and assistance on the total 1949 production at the ceiling rate. The base year production for the "one mine" with the base year commencing on June 4, and including for all practical purposes only the 1949 production, when Thistle Creek was in pay ground for less than a quarter of the season, would be artificially low, thus making possible higher assistance payments on gold produced during 1950, than on the basis of separate mines. Actually, as separate mines the rate of assistance applicable to the 1950 production from Thistle Creek Dredge would apply to the entire production up to and including July 30, the end of its first year of production. Another claim mentioned for consideration as one mine is the lack of separation of the accounts of the two dredge operations. Actually the accounts must be separated for income tax purposes, and the 1949 audit as separate mines for assistance purposes has been made.

Conclusion

The two dredge operations having been exempt as separate mines under Section 74, Income Tax Act, and the beginning of the first year of production of each thus determined, Section 2(1)(c) of the Act does not appear to permit consideration other than as separate mines. The reasons accepted in the case of Yukon Consolidated for ruling its several old dredge operations, and where those dredges were in production prior to July 1, 1946, as one mine have no bearing on this case.

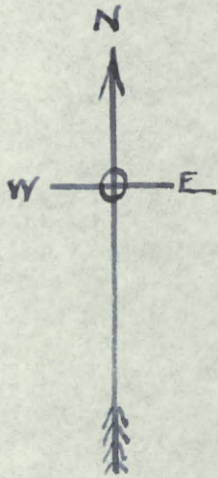
E. S. Martindale

SKETCH MAP.
Part of Yukon Territory

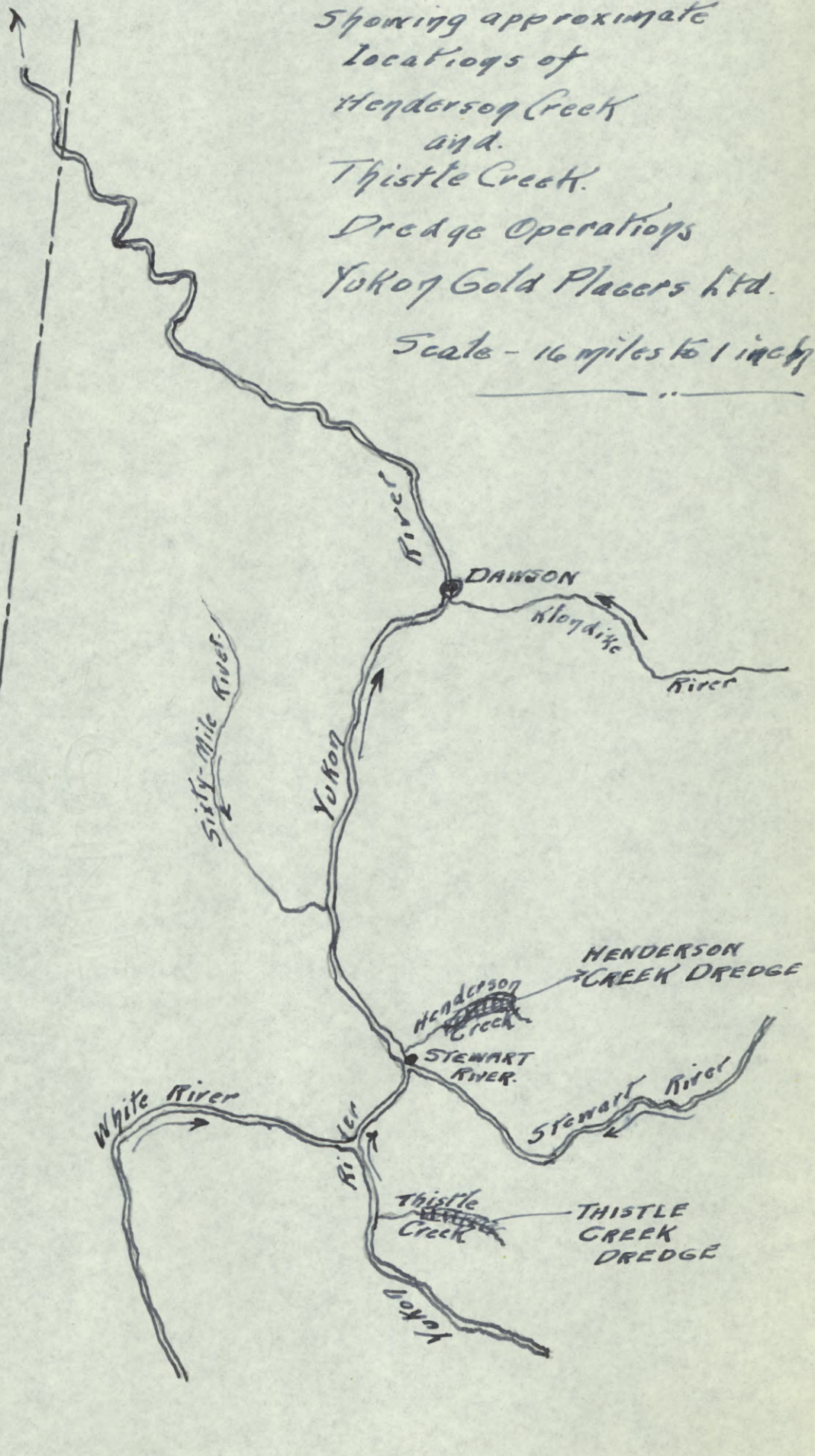
Showing approximate
locations of
Henderson Creek
and
Thistle Creek.

Dredge Operations
Yukon Gold Placers Ltd.

Scale - 16 miles to 1 inch.



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