GOLD MINE OPERATIONS REVIEWED - Cheni Gold has reported commercial production at the Lawyers gold-silver mine was achieved March 1, 1989. Net Earnings amounted to $404,000 or 4¢ per common share for the month of March and the first quarter.

Prior to March 1, 1989, gold and silver sales totalling $1,125,352, derived from 2,077 ounces of gold and 25,277 ounces of silver were credited to deferred expenditures. In addition the sum of $148,0000 was applied as an initial repayment on the gold/silver loan.

During the month of March, the 550 ton per day mill

operated at a daily average of 485 tons with mill recoveries at 88% for gold and 78% for silver.

Forward sales contracts at March 31, 1989 totalled 27,500 ounces of gold at prices averaging US $396 per ounce for delivery starting April 1989 to February 1990 and 200,000 oz.silver at prices averaging US $6.18 per ounce for delivery starting April 1989 up to July 1989.

As previously advised, the company negotiated an amendment to the terms of the Gold and Silver Loan whereby the repayment dates were deferred. From now on, revenues from bullion sales should be more than sufficient to meet ongoing operating requirements.

Cheni poured its first bullion at the mine on Jan.8, 1989. The start-up was relatively smooth, despite severe weather conditions. During the first 15 days of May, the mill has been running at an average of 562 short tons per day, which is more than the nominal capacity. Recoveries during the same period averaged 94% for gold and 75% for silver. So far, the grade of the ore appears to be higher than expected for gold, but slightly lower for silver.

The company intends to continue its operations as provided by the laws of B.C. and expected to restart the mill May 19, 1989.

The total capital cost for the construction of the plant, including the access road and the development of the AGB zone, were estimated last year at $43,200,000. At the end of 1988 the total cash outlay came in at $57,400,000. An overrun of $14,700,000 is substantial.

About $3,000,000 was because of a two month delay in the scheduled start-up. The delay was due in major part to electrical problems in starting-up the ball mill. About $1,000,000 was for the access road caused by permafrost in the last 20 km. About $4,800,000 more than budgetted was spent in stope preparation on the AGB zone. This amount was not considered as a construction cost in the initial estimate. This stope development resulted in a stockpile of broken ore of about 50,000 tons of which 35,000 tons are on surface; because of that work, the mine has been able to feed the 550 ton per day mill at full capacity, right from day one. The remaining $4,000,000 was for series of unforeseen events.

During the first quarter of 1989, the company has sold forward 200,000 oz. silver at an average price of US $6.16 for delivery between April and August 1989 and 27,500 oz. gold at an average price of US $396 for delivery between April 19890 and February 1990 at a rate of 2,500 ounces per month. This forward sale program when combined with the gold-silver loan agreement covers 70% of total gold metal production for the next 12 months at prices substantially higher than currently prices.

For 1989, production of 40,000 ounces of gold and 1,000,000 ounces of silver are forecast.

The development of the Cliff Creek orebodies which contain the major portion of the ore reserves will start this summer. Directors have approved a 6-year plan which provides for the development of the Cliff Creek zone, by way of an open pit for the first 50 meters and then, conventional underground shrinkage and blasthole stoping through a decline collared in the bottom of the pit.

Exploration of the property will be kept to a minimum until the company has repaid the gold-silver loan. A drilling program is envisaged for the summer of 1990. The company will continue its active search for properties throughout Canada and the U.S.

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