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CHENI GOLD MINES LTD.(CZG-V,T,M)

LAWYER GOLD MINE OPERATION REVIEWED BY PRESIDENT

Paul Girard, president, of Cheni Gold Mines in a speech to the Vancouver Financial Analysts, Nov.22,1989, said commercial production at the 550 ton-per-day capacity mill at the Lawyer property in the Toodoggone River area, 250 miles north of Smithers, B.C. reached profitability on March 1,1989, less than 2 months after the first bullion pour. The mill reached full capacity and achieved targeted metal recoveries of 95% gold and 79% silver in June. A two-year contract without re-opening and providing for wage increases totalling 10.4% over two years was signed in June with the two unions representing employees. Cash operating costs per ounce of gold equivalent was US$207 in the third quarter, ended Sept.30,1989. (SEE GCNL NO.209, Oct.31,1989, for detail of third quarter results.) Third quarter net earnings were $1,762,000 or 16¢ per share after extraordinary items.

He forecast that the current pace of production would result in 45,000 ounces gold, 900,000 oz.silver in fiscal 1989, and 55,000 oz.gold, 1,200,000 oz. silver in 1990. These are higher production rates than initially forecast. There are two reasons for this: first, the mine grade is in fact higher than the average grade used in the feasibility which was based on diamond drilling, and secondly, ground conditions have proved to be very good, resulting in a better control of mining dilution.

Minesite cash operating costs currently average $94.16 per short ton milled. When adjusted for the continuous build-up of the broken ore inventory, the cost is reduced to $88.21. He feels costs can be reduced by a few dollars per ton as mining proceeds. After inflation, the mine is close to initial projected operating costs. Including administration expenses and interest charges, total cash operating costs before depreciation and amortization amounted to US$243 for the third quarter. This places Cheni among the low-cost gold producers. The average cost is estimated at US$267 per ounce for Canadian producers and at US$253 for total North American producers by Burns Fry Ltd.

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The whole project, including access road, was constructed at a cost of C$60,000,000. It was financed in the majority by equity funds. An assistance loan from the B.C. Government provided $3,680,000 or 50% of the construction costs of the access road. In addition Cheni entered a gold/silver loan of US$6,000,000 covering 6,091 troy ounces sold at $394.05 U.S. per ounce and 582,524 troy ounces silver at US$6.18 per ounce and arranged for a loan of $27,300,000 French Francs equivalent to C$5,325,000 with its major shareholder.

Currently the debt load is being reduced at a rate of about $1,000,000 per month. Repayment of the gold/silver loan started in August and will continuem until it is repaid in full at the end of February 1990.

The current price of gold and silver does not trigger repayment of the assistance loan from B.C. The price of gold has to reach US$445 before repayment is due. When repayment does start, it is by monthly installemnts of $75,000 - $150,000 plus interest on the outstanding balance.

At US$385/oz. gold, $5.80/oz silver, the mine will generate sufficient cash flow to be debt free by mid-1991 plus funds to develop the Cliff Creek zone.

Reserves are sufficient for 7 years operation. A $1,000,000 exploration program is planned. As well, an agressive acquisition program will follow.

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