

# UKHM became entangled in a web

By JANE GAFFIN

**Keno, the venerable old gentleman mine, refuses to die a natural death as long as a probable hundred million ounces of silver keep its heart beating. Yet, the federal government is bent on subjecting the mine to euthanasia.**

**I believe the mine deserves a dignified burial.**

**In a series of articles being published in the *Star* each Friday, I'm saying last rites and farewell to a great mine that served as the Yukon's lifeblood off and on for more than 80 years.**

**Here's Part 11.**

The plight of United Keno Hill Mines was analogous to a landlord turning over an old apartment complex to a property manager who has no vested interest in it.

An old building needs pampering and a constant infusion of cash for proper upkeep. If neglected, it will fall into disrepair and ruin. Then a greater amount of money will be needed to rehabilitate it to functional standards. As value depreciates, so does the equity.

Eventually, the owner will be forced to garage-sale the real estate to some one with the wherewithal, enthusiasm and know-how to restore the property to a ship-shape revenue generator.

Likewise, the old mining property needed constant care and coddling from a professional on-site mine manager, who would have to dedicate every waking hour to ready the property for startup, as was proven by past UKHM mine managers like George Dundas and Vern Smith.

An absentee landlord can't run a mine on long distance telephone calls from Toronto, especially when the support staff is not given adequate budgets, regular paycheques and supplies.

United Keno Hill could only be brought back to operational standards by a solvent company. It needed the financial wherewithal to pour in money for several years before realizing a return on the investment.

Normally, the takeover company would own a producing mine generating capital; a large stable of loyal shareholders; to whom a company has a fiduciary responsibility and the backing of a private lending institution.

The businessmen sitting on the board of the public trading company have to make risk decisions worth tens or hundreds of millions of dollars.

They go to see a friendly banker in Toronto, Tokyo or wherever to request a substantial loan.

First, the banker wants to know what they own to secure the loan. The company has buildings, equipment, enigmatic silver veins and more than 950 mineral claim leases.

But claims could be lost if not renewed on respective expiry dates. It might be due to an oversight. Or maybe the company did not have means to pay the assessment fees on the leases or to pay taxes on the couple of Crown grants.

For instance, after the loss of the valuable Silver King to an independent prospector, the bureaucrats came to attention and had UKHM's assets transferred to a vigilant receiver to ensure the properties were kept in good standing.



Star file photo

**STEPPING INTO THE QUAGMIRE - Stephen Powell, a Toronto stock broker, inherited the company's debts when he took up the reins as president and chief executive officer. He's seen here in Whitehorse in 1996.**

The United Keno Hill kingpins tell the banker legal security of tenure consists of a briefcase full of licences and permits, all of which could be revoked on the opinion of a junior flunky in the government services; environmental regulations that authorize a senior bureaucrat to designate the property abandoned; and a promise of a forthcoming water licence and a production licence, both of which the minister may choose not to sign. If he does sign, they are revocable on the discretion of said government functionaries.

The businessmen will need a substantial loan to clean up inherited debts and environmental liabilities, do ongoing exploration work to find new reserves, determine existing reserves, prepare pits and underground workings for production, build a new mill, and operate a water treatment facility at the government's behest.

Yet the entire security hinges on a signature of an Ottawa minister who could change with any of the prime minister's cabinet shuffles, and whose actions are determined from the opinion of one faceless salaried government agent.

The businessmen need about \$200 million. The banker has never met any

of the functionaries who have no vested interest in the large-scale project but who hold a tight-fisted control over its operation and the banker's money, most of which is earmarked for environmental liability.

Profitability is not in the stars.

After the banker stops howling with laughter, he will boot the customers out the door without any money.

The first fundamental principle of mining is that not one dime of a banker's or a shareholder's money may be invested in any jurisdiction without absolute legal security of tenure.

Fifty revocable licences don't hack it.

The federal government overthrew its own policies and mining laws with a discretionary regime that is on the other end of the spectrum from the miners' "right to enter, locate, prospect and mine for minerals," granted under the Yukon Quartz Mining Act.

Unsurprisingly, after the system was introduced, every subsequent owner of United Keno Hill ended up collared and cuffed in an untenable situation.

Instead of paying workers and contractors with money that could be raised on the stock market or from beat-

ing the bushes for a financial angel, the capital had to go to secure licences, pay court costs and fines for environmental damage, as well as set up facilities to lime-lace the water, which locals didn't agree was necessary.

Zinc is naturally in the water (government agents call it "contamination").

A daily intake of zinc is a nutritional requirement for the health of living creatures, lime is not. Do humans and fish prefer drinking Mother Nature's gift or the government's cocktail? Did the feds ever do a study on lime-soaked suckers?

The upshot was creditors ended up owning a mining property they didn't want. They would have preferred a properly-functioning mine generating sufficient revenues to pay wages, severance packages, services and, hopefully, to benefit all Yukoners.

While it is critical to explore for new ore reserves, new insolvent, hit-and-run owners don't want to invest capital in the nebulous unknown.

The first thing to go down the drain was United Keno Hill's exploration division.

BLM Mines Inc. of Sudbury, Ont., took ownership of United Keno Hill Mines in late summer of 1990. There were structures, mill, machinery, irreplaceable data generated over the last 70 years, and more than 950 mineral claims, of which roughly 690 had been surveyed into 21-year mining leases. The remainder were one-year leases.

Assets belonging to the exploration division were rolled into the bargain: Venus underground workings near Carcross, DEF copper deposit, 1,289 Klondike mineral claims and a Whitehorse Black Street office building.

One of the hazards of trying to run a mining property by telephone from Toronto was neglect of important details. Overall property value began weakening as mineral claims began lapsing, one by one.

By year-end, BLM Mines vanished. Most Yukoners had never heard of Bharti or Laamanen, whose ghosts lingered only as elusive major shareholders and board members in Toronto.

They left a wake of accumulated debts and a bunch of disgruntled, shabbily-treated workers and contractors. The takeover saw BLM Mines spend roughly \$3 million in a short span with no discernible results.

Part of the takeover arrangement was for Falconbridge to provide up to \$2.4 million in exchange for a royalty interest in United Keno's property and minority ownership in the DEF copper deposit, 80 kilometres northwest of Carmacks. The funds would be released in \$500,000 dollops up to March 1, 1993.

Stephen Powell, a Toronto stock broker, inherited the debts when he took up the reins as president and chief executive officer (CEO).

Some of the directors were Stan Bharti, Risto Laamanen and Donald Rogers, who had a tenure as co-chairman of St. Mary's Cement and was chairman of Romith Investments.

In 1991, Romith Investments and Stephen Powell each acquired 50 per cent of the outstanding common shares issued by BLM Mines, which remained the major shareholder with 44.8 per cent of UKHM's common shares acquired from Falconbridge.

According to the Yukon government's 2001 publication, *Mineral*

*Property Update*, United Keno Hill retained mine engineers Watts, Griffis and McOuatt Ltd. of Toronto in September 1993.

It undertook a complete review of the Elsa area properties, geological reserves and mine plans. The reputable consulting firm ended up on the long list of creditors.

As of March 31, 1994, numbered company 844271 Ontario Inc., formerly BLM Mines Inc., acquired BLM's 44.8-per-cent majority interest. By now, Bharti and Laamanen were no longer United Keno Hill directors.

Under Powell's watch, the company did some work.

Unfortunately, bills kept mounting.

During the summer of 1994, a surface drilling program was completed on the Silver King, Husky SW and Bellekeno areas.

A Type B water licence was issued from the federal Yukon Territory Water Board "allowing" United Keno to carry out roughly \$6 million underground drilling and rehabilitation of two mines between mid-October 1994, to April 1995. Reserves were increased on the Bellekeno and Silver King mines.

By April 21, 1995, the major 35.6-per-cent shareholder was evidently held by private concerns. But the Dominion Mineral Resources and Sterling Frontier Properties Co. of Canada Ltd. couldn't be traced. The next year, Dominion and Sterling reduced the majority toehold to 33 per cent.

According to the 2001 *Mineral Property Update*, water treatment facilities were constructed for three United Keno mines in the fall of 1994. Underground workings were brought up to snuff with the installation of a modern electrical system and re-engineered ventilation system. The rehabilitation program stopped in April 1995.

In 1996, work resumed with an underground exploration and development of the Silver King and the Bellekeno. The objective was to establish how much mineable ore existed and to increase ore reserves.

Background data gathering continued in hopes of satisfying requirements administered by the federal environmental directorate.

Vancouver-based Rescan Engineering prepared a feasibility report in October 1996. It suggested how costs could be reduced, efficiency increased and commercial production resumed.

On Dec. 31, 1996, undisclosed "related parties" were added to the 33-per-cent majority ownership held by Dominion Mineral and Sterling Frontier. A year later, in 1997, Dominion/Sterling's position shrunk to 22.85 per cent.

United Keno Hill's production intentions went awry. In March 1997, work stopped on the property. Yet a water licence was issued in August 1997. The signature of the minister of the Department of Indian Affairs and Northern Development (DIAND) "allowed" UKHM to proceed.

Once more, the insolvent company was busy raising capital.

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Next week: *untying the knots is further complicated with court cases.*