UKHM is prepared to be auctioned

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 12.

United Keno Hill Mines (UKHM) had to suspend development work on its property in 1997 while company officials desperately sought a financial angel.

On-site people guesstimated the company had been unnecessarily outlaying $1 million a year to satisfy overblown environmental demands of federal agents who held the power to revoke licences and take the company and directors to court.

A few irked employees — even a local politician — spelled out on-site realities in a flow of unanswered letters to Robert Nault, the minister of the federal Department of Indian Affairs and Northern (I say "No") Development (DIAND) in Ottawa.

The once-rational thought about being able to live cleaner, healthier lives while continuing to fuel an economy with human activity and resource-based jobs went out the window when a set of contradictory environmental regulations were dumped into the Yukon Quartz Mining Act.

It had zippo to do with protecting and preserving the environment but had everything to do with giving DIAND ministerial control over mining claims.

Under section 151.1, an inspector could interpret United Keno's temporary work stoppage as an abandonment of its development program and as a violation of its "approved" operating plan.

Sinners would be shown no mercy. The authorities could take whatever measures they deemed necessary to "remedy" any real or fabricated offences thrust on the so-called fragile environment and send the sinner the bill or have the judge send him to jail.

As proved later, no company can run a specialized mining operation on over-regulation and too much hands-on interference from government.

It was the unpaid employees, contractors and service providers who took the full brunt of the so-called environmental liability. The federal government had an imbecilic notion to date historic clean-up obligations back millions of years to the extensive glacial activity of the Ice Age when Mother Nature was the biggest bulldozer grinding through the Keno Hill area.

That is not to say United Keno did not fritter away investors' money in other ways. There were strangers on-site who nobody knew or understood what they were supposed to be doing, much less why they might be getting paid.

From abject neglect, the roof caved in one of the valued underground workings being developed and the mill fell into a sorrier state of disrepair.

This was not so much mismanagement as *no* management. It was impossible for decision-makers, holding the purse strings, to revive old mines with occasional site visits and long-distance calls from Toronto.

Whatever remained of United Keno's tattered bank account had to be spent to try keeping a large package of mineral leases in good standing with the Mayo mining recorder so there were properties to explore, mine or sell. Nevertheless, many were allowed to lapse.

Other payments had to be made to the Whitehorse expediter on time and in-full. And, as inadequate as they were, payments were sent to the Yukon Energy Corp. in an attempt to keep the lights on.

It was a constant battle to keep the company afloat. Without secure tenure, a bank couldn't help with the financial dilemma.

While Stephen Powell, the United Keno chair and CEO, wasn't a mining man, he was a stock broker who knew the financial end of the business. As he magically pulled dollars from hats, names of directors changed in direct proportion to deals sealed.

On March 20, 1998, NDU Resources, an Archer Cathro associate, merged with UKHM. Several new United Keno directors appeared on the board: Alan Archer, Douglas Goss and James Stephen.

By now, Donald Rogers of Romith Investments, whose money was being used or misused, had relinquished his directorship.

The NDU-UKHM union sounded too good to be true. It was arranged to facilitate a rapid evaluation of NDU Resources' neighbouring Marg and Blende properties and their incorporation into a production schedule.

A feasibility study was needed to establish the economics of shipping ore from the Marg property to the Elsa townsite where a new mill was proposed for construction.

The grandiose plan was formulated to augment Elsa mill feed with Marg material in hopes of grinding nearly 3,000 tons per day of rock, although nobody knew much about the ore's metallurgy or recovery methods at this point.

The Marg deposit, located 40 kilometres northeast of Keno City, is a volcanogenic massive sulphide (VMS) deposit. It contains copper, lead, zinc, silver and gold, which see-saw back and forth in the marketplace.

When one commodity sinks in value, another metal should be rising. Theoretically, it should be profitable to continuously mine either for base metals or for precious metals.

United Keno had historical connections with the Marg. It was first staked in 1965 by Canadian Superior Exploration, one of the financial backers of United Keno's exploration division.

Together, CanSup and United Keno had prospected the Marg claims for silver in 1965-66.

Over the years, the ground came open and was staked by various companies.

By 1986, All-North Resources Ltd. held more than 66-per-cent interest in the property. Its interest was bought out in 1987 by NDU Resources, which added more claims to the package.

A 1996 diamond-drill program expanded the mineralization to almost four million tons.The NDU-UKHM merger went sour very quickly. Archer and Stephen resigned from the United Keno board in August 1998.

Star file photo

INTERVENTION SOUGHT – Some United Keno Hill Mines workers and a local politician described the mine-site realities in letters to Robert Nault (above), then the minister of Indian Affairs and Northern Development. They went unanswered.

About the same time, it became harder to trace corporate particulars. United Keno had stopped filing pursuant to the Yukon Societies Act, as had been done religiously each year since 1952.

Who was right and who was wrong in the merger is a Gordian knot that would take a roomful of corporate lawyers eons to untangle.

Without space to go into sordid details, it appeared that United Keno may have made a sneaky end run outside the known zone of what was supposed to be a deal.

By May 26, 1998, the position of Dominion Mineral Resources and Sterling Frontier Properties Co. as United Keno's majority shareholder had slipped to 12.16 per cent, and the company had taken on a new crop of directors.

On Dec. 31, 1999, Energold Minerals took over a majority position with 12.2 per cent shares. Powell only lasted as CEO another year; he stayed on as chairman.

In 2000, Gerald Gauthier assumed the role as president and CEO, turning over his former vice-chairmanship to Robert Granger, a director of several years.

Gauthier inherited bills and a bankrupt company. But the mining engineer thought he could save the project. He had faith in himself and his 30 years of technical expertise in underground and open pit operations in Canada, the United States and Mexico.

Some of his credentials included a 15-year employment record with Lac Minerals Ltd. From 1979 to 1994, he was mine manager of the Bousquet Gold Mine in Quebec; general manager of the Hemlo (Ont.) Page Williams Gold Mine; and elevated to senior vice-president of Lac's North American operations.

Under an ordinary business venture, he possibly could have saved the day, attracting financiers and taking United Keno to commercial production.

But loaded down with corporate baggage, and without careful thought to the lurking environmental regulations negating legal security of tenure, he was skunked before he started.

Gauthier's first task was to send out a news release. The Ontario Superior Court had granted United Keno creditor protection pursuant to an order filed in Toronto under the Companies' Creditors Arrangement Act on Feb. 18, 2000.

The order stayed all proceedings against United Keno till March 16, 2000. On that date, the court extended the protection deadline to June 23, 2000, and later granted the last extension up to Jan. 10, 2001.

The initial ruling prolonged the inevitable. But it was not clear if the court protection was meant to overturn a previous judgment from Whitehorse.

A 1999 ruling, handed down by Yukon deputy justice Mary Moreau, had forced United Keno to reluctantly sell the Marg property, which seemingly went to a mystery company, believed to be Norvista Development Ltd.

The Yukon court action had resulted when MacKenzie Petroleum of Dawson City, one of United Keno's many secured creditors, came forth first to obtain a judgment from the Yukon Supreme Court in September 1999.

Other creditors followed MacKenzie's lead. United Keno was ordered to put its assets on the auction block as per a marketing plan proposed by all the secured creditors.

In February, 2000, when Gauthier was putting out a news release, Atna Resources purchased two-thirds majority interest in the Marg property from an "undisclosed company" for $250,000. (This property had been appraised at more than $1 million).

A1 Archer, an astute businessman and head of the Vancouver-based Archer Cathro & Associates, was a principal in a private company, Norvista Development. He also was a principal in NDU Resources, plus another affiliate, Expatriate Resources, which was engaged with Atna Resources in a joint venture elsewhere in the Yukon.

Following the NDU-UKHM agreement, Archer sat only about five months as a United Keno director, as did his colleague, James Stephen, who had NDU Resources connections through All North. Stephen also was a principal with Norvista.

United Keno had originally acquired its two-thirds interest in the Marg as a result of "taking over" NDU Resources, which was heralded to be a merger — not presumable one where United Keno was to assume majority position.

That is not clear and neither is it clear if Atna Resources bought the Marg property through the court or possibly directly from Norvista.

A February 2000, StockHouse Bullboard Internet posting stated that United Keno's financial documents indicated issuance of convertible debenture shares to a number of companies. Those debentures were defaulted, evidently.

Through a promissory note, United Keno had eventually drawn $200,000 from the $500,000-debenture issued to Norvista Development in July 1998 — one month before Archer and Stephen resigned from United Keno's board of directors.

As with any contract, the terms are negotiated between the parties involved. A debenture acknowledges a debt. This specific contract may have included some kind of charging provisions relating to the grantor's property.

Regardless, the Marg forfeiture came about because of the 1999 court proceedings in Whitehorse where the group of creditors holding miners' liens had been sanctioned to sell the Elsa silver properties to pay outstanding debts.

The total amount owed to all those who came forth to make claims at the time was about $8.2 million. Fourteen local creditors, including the Yukon Energy Corp., which said it was receiving some arrears payments, were owed $1.7 million; unsecured private creditors claimed roughly $4.9 million; and a numbered Ontario company claimed $1.6 million.

The Ontario court granted Gauthier's request for extra time to restructure and refinance. His faint hope was to enter into a financial agreement with Pacific Cart Services Ltd. of Nevada to provide the required working capital until commercial production resumed at Elsa.

Pacific Cart would loan an initial $150,000 on the basis of a loan convertible into common shares at nine cents each, with the option to advance up to a further $4 million on a similar basis.

United Keno was supposedly in discussions with an undisclosed third party concerning the balance needed to meet its $6.5-million obligation.

The refinancing agenda must have cratered.

It was the bitter end. An Ontario court decision extended creditor protection to Jan. 10, 2001. United Keno couldn't come up with the $6.5 million that would cover only the debts of secured and unsecured creditors.

Secured creditors, who were owed the most money individually and first on the list to collect, were awarded court flexibility to garage-sale the assets piecemeal or as a whole unit.

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Next week: unbelievably, the United Keno epic tale gets more convoluted.