800161

September 26, 1986

Ms. Valerie Helsing
Dunwoody & Co.
1055 Dunsmuir
Vancouver, B.C. V7X 1C5

Dear Ms. Helsing:

Re: Genie Resources Ltd.
<u>Estimation of Gold Production</u>

At your request, I have made an estimate based on data supplied by Genie management concerning gold production at their Atlin - Otter Creek placer deposit.

According to information received, sluice box operations did not get underway until July 15, 1986.

From July 15th until August 30th (total 47 days), a throughput of 40,695 cubic yards of gravel resulted in 400 ounces of gold. This is the equivalent of 865 cubic yards daily yielding a grade of 0.01 ounces gold per yard.

From August 30th to September 15th (total 16 days), an equal amount of gold production - 400 ounces - was processed from 13,000 cubic yards of gravel. This equates to a daily throughput of 812 cubic yards with a recovery of 0.031 ounces of gold per yard - an increase in gold grade while maintaining the same low gravel volume.

Several assumptions are made at this point concerning the remainder of the season. First, it is assumed that operations will not proceed beyond October 21st, 1986 due to bad weather conditions. Secondly, as the last phase (Aug. 30 - Sept. 15) showed an increase in gold recovery and as the calculated channel grade by the writer in his report is 0.06 ounces gold per yard, the writer assumes the grade to increase to a point midway between the predicted grade and the last recovery grade - 0.045 ounces gold per yard.

At the daily production of 850 yards of gravel with a recovered grade of 0.045 ounces gold per yard for the remaining 36 days of operations, this would report in at 1375 ounces of gold.

On the basis of the above assumptions and the reported data from the company, the total gold production for 1986 would be 2,175 ounces. At current gold prices ($433 U.S. = $598 Can.) this represents in excess of $1 1/4 million Canadian gross excluding gold fineness and nugget recovery.

Yours truly,

W. G. Hainsworth, P. Eng.

WGH/gr

cc: Mr. K. O'Connor
Mr. Maynard Brown

W. G. HAINSWORTH & ASSOCIATES LTD.

Mining Consultants

SUITE 905
837 WEST HASTINGS STREET
VANCOUVER, BRITISH COLUMBIA
V6C 1B6 (604) 687-6930

October 6, 1986

Ms. Patricia Parisotto, R.I.A.
Supervisor, Filings
Superintendent of Brokers
1100 - 865 Hornby Street
Vancouver, B. C.
V6Z 2H4

Dear Ms. Parisotto:

Re: Genie Resources Ltd.
Prospectus - First Deficiencies

I herewith reply numerically to the questions of your September 15, 1986 letter.

A) 1. Twenty-one claims (21) are correct as two additional claims, not associated with Genie Resources, were originally incorporated into the picture. The engineering report has been corrected. (Amended October 5, 1986)

2. Appropriate entries have been made into the Amended Report under "History" and "Appendix "B".

V A) All reference to "drill-proven" has been eliminated and replaced by "drill-indicated" in the amended report October 5, 1986.

B) Attached herewith, but not entered into the report, are copies of sections containing drilling on leases 1782, 1697 and 1702. Calculations of tonnage had been previously entered by myself on to these sections. Enclosed also are the writer's worksheets from which the grades of the various drill fences were calculated. The memo by Mr. Kierans of June 17, 1984 refers to the dimensions which were used in the calculations of the Stock Pile.

C) The amended report has corrected this deficiency. In Schedule 2, Direct Mining Costs, the hauling of pay dirt is estimated at 3,000 cubic yards daily. For the month of June, the first operating month, a total of 17 days is estimated for both pay dirt haulage and for waste stripping. The figure "52,500 cubic yards @ $5/cubic yard" should have been added to item 5 in the first 30 days operating. Should the grade hold up to the expected 0.064 ounces per cubic yard, this would yield 3360 ounces gold at 100% recovery (an unknown factor) for a revenue of $1,848,000 Canadian. It is expected that with a return of this nature, in the first month, that the operation would proceed. Even an 80% recovery would yield $1.5 million Canadian and would signal continuing operations.

D) All Pre-production costs ($850,000) are part of the debt buildup and as such show only in "Funds applied to"--"Debt Retirement" in Source and Application of Funds 1986.

In the Start-up phase-
(1) the new gold recovery unit ($300,000) is organized to be paid in "Funds applied to"--"Machinery acquisition" in Source and Application of Funds 1986.

(2) Equipment mobilization ($150,000) is accounted for in Schedule 3 for the month of May.

(3) Mining Camp set-up ($7,500) is similarily accounted for in Schedule 3 for the month of May.

In the First 30 Days Operating, item (1) ($225,000) is reflected in Schedule 2 under stripping contract and is the same for May and June.

(2) The settling ponds ($50,000) is accounted for in Schedule 3 for the month of May.

(3) Supervision and recovery labour ($45,000) is in conflict with Schedule 2 which states the cost for the month of June should be $52,500 - an addition of $7,500. This amount is handled in the contingency.

(4) The figure of $10,000 for Engineer and Geologist is contained in Schedule 3 under staff salaries and is deficient by $3,000. This item should have been documented under "Start-up" as it is included in recovery labour of the first 30 days.

(5) The pay-dirt haulage figure of $262,500 has been expanded in the amended report and is the same for May and June during the break-in periods.

E) This has been corrected in the amended report with the inclusion of figure 4 - "Proposed Work Program."

F) Within the start up period of time it was recognized that production would not advance beyond the first series of holes, therefore drill funding was not introduced into the budget until June when $25,000 was allocated on a monthly basis.

I hope the above responses are satisfactory.

Yours truly,

Attachments

W.G. Hainsworth, P. Eng.

Province of
British Columbia

Ministry of Consumer
and Corporate Affairs

Corporate Affairs
Superintendent of Brokers
and Real Estate
1100, 865 Hornby Street
Vancouver, B.C. V6Z 2H4
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September 15, 1986

File #X01-5828 -4

Sikula, Werbes & Brown
Barristers & Solicitors
901 - 1199 West Pender Street
Vancouver, B.C.
V6E 2R1

Attention: Maynard Brown

Dear Sirs:

RE: GENIE RESOURCES LTD.
PROSPECTUS - FIRST DEFICIENCIES

The material submitted for filing in support of the prospectus offering of the above-named entity has now been reviewed by our prospectus staff.

Observations as to the deficiencies noted are delineated in the attached schedule, together with the name and telephone number of the staff member making the observations.

This review was directed to secure compliance with the Securities Act and Regulations as well as with policy. The staff member should be available afternoons to discuss his observations with you in order to assist you in resolving deficiencies. Should they not be so easily resolved, it would be appreciated if you would contact my office so that a meeting may be arranged.

If a response to all of these deficiencies is not received within 60 days, we will recommend to the Superintendent that he hold a hearing under Section 57 of the Securities Act to determine whether to refuse to issue a receipt for this prospectus on the ground that the noted deficiencies have not been rectified.

Yours truly,

P. Parisotto

Patricia Parisotto, R.I.A.
Supervisor, Filings

PG:ag

Attachment

GENIE RESOURCES LTD.

FIRST DEFICIENCIES

I Fundamental Deficiencies

A) ENGINEERING REPORTS

1. As per your letter dated June 27, 1986, three Engineering reports were submitted to this office. One dated February 10, 1986 and two dated April 14, 1986.

With respect to the reports submitted, we have noted the February 10, 1985 report refers on page i to 22 claims and fractions. One of the April 14, 1986 reports refers to on page i to 38 claims and fractions whilst the other (supposedly a duplicate) refers to 23 claims and fractions. Furthermore the prospectus shows only 21 claims.

Please explain fully the above discrepancies noting all additional claims mentioned in the reports and why. Any and all engineering reports and the prospectus should reconcile.

Please submit a current and accurate property description.

2. Page 4 of the prospectus dated June 16, 1986 states that Sebrew has incurred actual costs of $1,548,374 in respect of the Dan Leases. However, we note that the engineering report prepared by W. G. Hainsworth dated April 14, 1986 makes no mention of this. Please submit a complete history of the property including all programs carried out and the costs, if possible, thereof.

B) ACQUISITION OF DAN LEASE

1. We are having difficulty following the sequence of events and the obligations of the various parties involved in the issuers eventual acquisition of the Dan Leases. In addition, we have serious concerns about the nature of the agreements entered into with the unit holders.

C) CONSIDERATION

It appears that the potential future shareholders of Genie will have to absorb the $1,085,000 balance owing to the unitholders, in addition to amounts owing to current shareholders (approx. $1,175,544). If, as a result of our review of the engineering reports and responses to our Engineering Report deficiencies, we cannot confirm that the return from the properties will exceed the amounts having to be paid to acquire and explore the property, we may view consideration as inappropriate.

II Face Page

Please ensure date of prospectus is within 60 days of final receipt.

III The Properties

A) ACQUISITION OF DAN LEASES

1. In consideration for the Dan Leases, the Issuer is to reimburse Sebrew for all expenses incurred with respect to the Leases. We at this office are uncertain as to the amount of such reimbursement. We note on page 4 of the prospectus that invoices totalling $1,548,374 have been submitted by Sebrew. However, it is not clear if this is 50% of Sebrews expenditures or 100%.

Please provide a breakdown from Sebrew showing the amount of actual costs, to whom they were paid and when they were incurred.

B) OBLIGATION TO UNITHOLDERS

As stated in our letter dated July 8, 1986, we are of the opinion that a settlement is required with the Unitholders prior to a receipt being issued by this office. We have reviewed all submissions regarding this issue and have the following queries.

a) We note that the amount received from the Unitholders was $1,100,000. Please explain who received these funds (i.e. Sebrew vs Genie) and if jointly received, in what proportion. In addition, we do not understand how the balance of $1,100,000 was achieved. The Oct. 20, 1983 agreement between the three entities states that only $550,000 was advanced to the vendors at the time of the purchase with the entire balance due on March 31, 1984. Please explain.

b) Please identify where the above-noted funds were spent. If they were expended on the Dan or Drain leases, please list to whom they were paid, and when they were incurred. In addition, if the above holds true, please explain why there is no mention of the expenditures in the Engineering report.

c) Regarding the above-noted agreement, please explain how the allocation of the purchase price was decided between Sebrew and the issuer. (See para. 2.2 a & b). Also, it appears that Sebrew is willing to dispose of its share in the Dan leases to the Issuer for the reimbursement of actual costs plus amounts owing to Unitholders. We estimate this figure to be in the neighbourhood of $2.0m. Please explain this figure given that 124664 Canada Inc. was going to pay $4.0m.

d) The settlement agreements submitted to this office on August 8, 1986 appear to be null and void. As per paragraph #1 of the said agreement, the offering is contingent upon all of the Unitholders accepting it in writing by not later than April 15, 1986. This stipulation has not been met.

e) With regards to the above agreement, proposal 2ii therein states that 30% of net proceeds of all public equity financings of Genie will be used to reduce liabilities to the Unitholders. However, we note that there is no mention of this in the prospectus dated June 16, 1986. Given that this amount totals $607,000, we would expect to see reference to these payments under Use of Proceeds. Please explain the lack thereof.

f) The above-noted agreement also states that Genie Resources will make payments to the Unitholders in an amount equal to 20% of net profits as disclosed in the year end Audited Financial Statements. However, we are unable to find any mention of this in the prospectus. Please explain.

C) Purchase Option of 666030 Ontario Ltd.

1. Upon review of the Debenture of Genie Resources Ltd. dated June 11, 1986, we note that in paragraph #1 thereof, 666030 Ontario Ltd. is referenced as a lender of $2,000,000. However, upon reading the description of the transaction in the prospectus it would appear that the $2,000,000 is consideration for the right to receive gold from Genie Resources Ltd. and is not a loan. Please clarify and amend the prospectus if necessary.

2. Please disclose the status of the delivery of 5,000 troy oz. of gold to 666030 Ontario Ltd.

3. If 666030 Ontario Ltd. exercises its right to purchase 50% of the Otter Creek properties, does it forfeit the receipt of the 5,000 troy oz. of gold and the $2,000,000 debenture?

4. In a letter dated June 30, 1986 from the issuer's legal representatives, Maynard Brown states that the properties are registered in the name of Genie Resources Ltd. (as to 50%) and 666030 Ontario Ltd. (as to 50%). Does this mean that 666030 has exercised its option to purchase 50% of the properties? Please explain.

5. If 666030 Ontario Ltd. does not exercise its option, how does the issuer plan to meet the obligations of the debenture?

6. If 666030 does exercise its option and pays an additional $2,000,000, will the issuer need the funds from this offering? If yes, when and why?

D) OBLIGATION TO ATLIN MINING

Please explain why the lien on the prospectus, as described in note 13 to the Financial Statements is not discussed in the prospectus. Also, it appears that the monies to pay this obligation were to be supplied by 307784 B. C. Ltd. Was their source to be the $1,310,000 advanced by Genie. If so, what funds are going to be used to fulfill the exploration plan as per the Hainsworth report and as summarized under Use of Proceeds?

IV USE OF PROCEEDS

1. Please provide a breakdown of specific current liabilities that are to be paid down.

2. Please be more specific with regards to the $982,416 that is to be added to working capital.

3. Please explain why the issuer believes that a contingency of $310,000 is necessary for the Otter Creek Properties when the report by W. G. Hainsworth only recommends $100,000.

4. Page 13, paragraph #1. Please expand on the final comment "... as the issuer deems appropriate".

V MINERAL PROPERTY EVALUATION REPORT

Our mining engineer consultant has completed his review of the report dated April 14, 1986 by W. G. Hainsworth, P. Eng. (B.C.) pertaining to the 23 claim placer property in the Atlin Mining Division over Otter Creek, located 12 miles east of Atlin, B. C., and 115 miles south of Whitehorse, Y.T.

Mr. Hainsworth advises that: a hydraulic operation was initiated on PL1702 claim in 1905 and continued intermittently until 1922, when underground operations began. These underground operations continued intermittently until 1938 and included the sinking of the Strand, the Main and 2 Berthard shafts, and the development of the Moran and Suoboda levels. He advises that: during 1939 - 1945, 26 drill holes were put down, the issuer acquired the property in 1983 and put down 86 drill holes, stripped 400,000 cubic yards and processed 150,000 cubic yards, which he calculated had an average grade of 0.064 oz. gold per cubic yard.

The author recommends this initiating of an operation, designed to process 360,000 cubic yards of gravel; to strip 750,000 cubic yards to generate a cash flow and to conduct exploration in advance of production and to carefully monitor the operation. He estimates the start up costs including the stripping of 100,000 cubic yards of overburden, will be $2,000,000. This will not be a decision point, but it may be a point when processing can begin.

With respect to the above report the following comments were forwarded.

a) Mr. Hainsworth states in the summary that the 1983 drilling program identified 1,405,000 cubic yards, with a grade of 0.052 oz. gold per cubic yard be classified as "drill indicated" mineral reserves. He further expands upon this on page 14 where he states "None of the reserves calculated for the Genie Placer claims can be interpreted as being proven ore". However, in paragraph 2 of page 14, the author states; "As a consequence the mineral reserves on Otter Creek must be entered into the drill-proven category" which in our opinion appears to conflict with the two previous statements. We invite the author to clarify this issue.

b) The author does not provide maps, sections and drill sample data to support the reserves on leases 1782, 1702, 1697 and the Stock Pile which totals 1,530,000 cubic yards with a grade of 0.067 oz. gold per cubic yard.

c) Page iii of the summary provides a cost estimate for 1986 pre production, start-up and first 30 days production, in the amount of $2,000,000. This table provides for stripping 100,000 cubic yards and for excavating and hauling an undetermined amount of pay dirt to the recovery plant. The author does not provide a estimate of the amount of pay dirt which will be hauled and whether advancing beyond this $2,000,000 stage is contingent on the results obtained during this part of the program.

d) We have had some difficulty interpreting the two tables of operating schedules 1986 which follow page iii. We invite the engineer to point out where the pre-production start up and first 30 day production costs totalling $2,000,000 enter into this operations.

e) The author refers to 4 shafts, 2 levels of underground workings and 112 drill holes. The location of the underground workings and drill holes should be shown in relation to the proposed production plan.

f) On page ii the author recommends a policy of "exploration in advance of production" be adhered to by instituting a drill campaign testing the gravels well beyond the advancing pit face. We have not recognized such a provision in the cost estimates for 1986 pre-production start up and first 30 days of production, table put forward on on page iii.

VI SHARE AND LOAN CAPITAL STRUCTURE

Please comply with item 20 of the B. C. Securities Act Regulations regarding prior sales of securities. We note that the prospectus submitted June 30, 1986 contained a table meeting all requirements. However, the most recent submission dated August 8, 1986 deleted this table.

VII SHAREHOLDERS' LIST

Please identify the beneficial owners of The Great Otter Trading Co. Ltd. and to which director or promoter they are an associate of.

Please identify who Palesce S.A. Zurich is an associate of. In addition, please have this person sign the pooling agreement.

VIII DIRECTORS

It appears that none of the directors, with the exception of Mr. Westcott have filed a Form 4 within the past 3 years. Please ensure that this situation is rectified.

We are uncertain as to the purpose of employing 307784 as an operator. Please identify total remuneration that will be paid to 307784, and the experience of 307784 as an operator. Also please explain why Genie Resources did not undertake the work themselves. It would appear that since Mr. Jones is devoting his full time to the issuer the need to employ his company as the operator is not necessary.

IX ESCROW AGREEMENT

Please note that the Escrow Agreement will have to be signed by Mr. Hallman as he now controls 100,000 shares that are subject to the agreement.

We note that paragraph 10 as defined by Local Policy #3-07, Schedule "A" has been omitted from the agreement submitted to this office. Please explain and rectify this occurrence.

X FINANCIAL STATEMENTS (F/S)

a) Note 4 i(b) - paragraph #1 of the F/S makes reference to note 10 of the same F/S. We are unable to determine the relevance of this cross-reference. Please review cross-references within notes as there are inaccuracies.

b) Note 1(c) of the March, 1986 F/S makes reference to the 1985 field season. This appears to be inappropriate. Please clarify or change.

c) Note 4 ii of the March, 1986 F/S is not consistent with page 3 of the prospectus dated June 16, 1986 in respect to the dates of the Dan lease agreements. Please rectify.

d) Note 10 - paragraph #1 makes reference to an agreement dated July, 1984. This is inconsistent with both page 3 of the prospectus and with note 4 ii of the same F/S.

e) We note a discrepancy between note 5 of the June, 1985 and March, 1986 F/S. The June statements state that a royalty is payable to O'Connor whereas, the March statements states that the same royalty is payable to Stevens.

f) We await the audited June 1986 F/S.

These deficiencies should not be considered final or definitive as further deficiencies may arise.

Paul A. Grehan
Filings Analyst

PAG:ag

Sent to: Sikula Werbes & Brown
Attn: Maynard Brown

September 15, 1986