

~~Background.~~

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Development of Genie Resources Ltd. Otter Creek property began in 1983 when Genie conducted a Phase I and Phase II drilling and exploration program that consisted of a total of 6092 feet of Becker Hammer drilling in ~~84~~⁸⁷ holes. Total cost of the two phase drilling program was \$392,564.33. As a result of these programs reserves of placer ore were assigned along the located and presumed sections of the old channel. Approximately 2,000,000 cubic yards of channel pay with approximately 200,000 ounces of fine gold were assigned in reserves of various categories on the property.

After reviewing the results of the Phase I and II exploration programs and drilling 14 holes for a total of 705 feet in the Drain Lease Mine pit, the management of Genie decided to acquire the Drain Lease Mine located downstream and adjacent to Genie's Otter Creek property. The Drain Lease Mine is a fully operational mine that had been in continuous production since 1978. The cost of the Drain Lease operation was \$3,250,000. The acquisition included the property, camp, earth moving equipment, gold recovery plant and gold cleaning equipment.

During 1984 the major emphasis of Genie's Otter Creek program was to consolidate the overall mine plan, re-evaluate the previous operations on the Drain Lease and redesign and upgrade pit operations, and strip and prepare ground for the 1984 and 1985 mining operations. In particular, the state of development of the Drain Lease pit resulted in a major time and cash commitment to redesign the pit access, berms and sideslopes to provide greater efficiency with a larger operation. Production from the Drain Lease recommenced about July 15th and ended for the season on October 12th, 1984.

A total of 456,000 cubic yards of overburden was stripped during 1984 leaving sufficient pay gravels exposed for the 1984 mining season and the majority of the 1985 mining season.

Stripping was performed by an earth moving contractor at a cost of \$2.25 per cubic yard.

A total of 150,000 cubic yards of material was mined and sluiced during 1984. Of this, approximately 80,000 cubic yards of material known to be of marginal grade was sluiced because it had to be removed to clean up the pit and it was anticipated that the recovery would pay the cost of removal, which it did. Another 30,000 cubic yards of low grade material from above the west side of the channel was mined because the previous operator, who did not have the advantage of drilling information, stripped this area thinking there was a split in the tertiary channel, and it became necessary to move this material to keep the pit properly organized (there was no split at this location). Gold recovery from this area was much less than the average grade assigned to the deposit but because there was no stripping cost incurred by Genie in this area mining and sluicing this material more than paid for the cost of processing. Mining was performed by the same earth moving contractor who performed the stripping at a cost of \$5.00 per cubic yard.

Near the end of the 1984 season ^{the}~~our~~ stripping program had exposed the main channel and the mining operation was conducted directly in the tertiary channel. Gold recovery was consistent with the drill indicated grade which provided Genie management with confidence in the results of the 1983 drill program. The majority of gold recovered during 1984 was from this main tertiary channel area.

In total 3290 ounces of gold were produced during 1984. Gold production was less than was projected for the year because of a late start and the necessity to remove large amounts of material from the pit that was not tertiary channel material (waste material that was left in the pit and sloughage from the pit walls).

During 1985 the Drain Lease Mine was not in operation due to delays in negotiating the major financing required to place the property in full large scale production. Work on the property consisted of a stripping program on the upper leases of the property which consisted of removing 350,000 cubic yards of overburden worth approximately \$800,000.00, a bulk sample test on the upper leases and construction of a groundwater drain. Results from the bulk sample test on the upper leases of the property were very encouraging. The test indicated that gold recovery from a simulated production situation utilizing a recovery plant similar to the new unit proposed by the Company was higher than the drill indicated grade. This information is important for two reasons: (1) it again confirms the drill results and indicates that the grade of the tertiary channel is consistent throughout the entire structure, and (2) a unit similar to the proposed new recovery plant works very efficiently when processing material from the Otter Creek tertiary channel.

At this time, development of the Otter Creek project is very far advanced. A great deal of ground preparation, in the form of stripping and pit reorganization, has been completed and the management of Genie Resources Ltd. feels that the property is properly prepared for an efficient large scale open pit mining operation.