Suite 220, 6 Adelaide Street East
Toronto, ON M5C 1H6
Tel: 1-866-298-9695
www.sheardiamonds.com
info@shearminerals.com
TSXV: SRM

August 15, 2011

Phyllis Beaulieu
Manager of Licensing
Nunavut Water Board
P.O. Box 119
Gjoa Haven, NU X0B 1J0
Phone: (867) 360-6338, Ext. 26
Fax: (867) 360-6369
Email: licensing@nunavutwaterboard.org

Dear Ms. Beaulieu:

Re: Renewal Application of Type A Water Licence 2AM-JER0411 – General Commitment #17, Proposed amendments to existing terms and conditions and any proposed discharge criteria for the Project as made at the Technical Meeting and Pre-Hearing Conference, June 20th and 21st, 2011

As discussed at the Technical Meeting and Pre-Hearing Conference, held on June 21 and 22, 2011 in Cambridge Bay, Shear Diamonds Ltd. (Shear) would like to bring to the attention of the Nunavut Water Board (the "Board") conflicting conditions in Type A Water Licence, 2AM-JER0410, that the company believes are the result of a misunderstanding of the information presented by Tahera Diamond Corp. (TDC).

The conditions in question are:

Part G, 2 (e) "*The Licensee shall make every effort to simulate natural water flows in Stream C3 during discharge."*

Part G, 8 (a) *"…the discharge during operation should simulate the natural seasonal flows:"*

And,

Part G, 2 *"The Licensee shall operate and maintain the Processed Kimberlite Containment Area to engineering standards such that:"*

(b) *"the minimum Freeboard limit of one (1) metre as defined in Part B shall be maintain at all times; or as recommended by a Geotechnical Engineer and as approved by the Board:"*

As you are aware, water that meets licenced discharge criteria within the Processed Kimberlite Containment Area (PKCA) is pumped over the west dam and flows, via Stream C3, to Lake C3. The natural flows at the Jericho mine fluctuate seasonally, with the greatest flows occurring during freshet each year. Lake C3 is fed from natural inflows from a large catchment area that includes Stream C3. In reviewing the water licence as written, Shear believes that there may be a discrepancy between the intention of the water licence versus what is written. Currently, the licence states that the discharge should "*simulate the natural water flow in Stream C3*". Shear believes that the intent of the water licence, is for the discharge to "simulate the natural seasonal inflow into Lake C3."

This belief is supported by three important facts. Firstly, the total volume upon which the dilution model is based on, which is 959,487 m3. This volume is the total amount of water estimated to be contained within Lake C3, and not Stream C3. Secondly, the natural seasonal flow of Stream C3 is extremely low in contrast to the significantly larger natural inflow into Lake C3. And thirdly, it is not possible to simulate the natural water flows in Stream C3 and maintain a minimum freeboard limit of one (1) metre.

Shear proposes that the Board consider the following amended conditions:

Part G, 2 (e) "*The Licensee shall make every effort to simulate natural seasonal water flows during discharge.*"

Part G, 8 (a) *"the discharge during operation should simulate the natural seasonal flows, in accordance with Part G, Item 2 (b);"*

Shear would like to propose the following new condition be added to the water licence:

"Monthly discharge into Stream C3 will be below the modeled monthly discharge rates."

Shear would also like to bring to the attention of the Board the following tables summarizing the updated sampling station identification names. New sampling stations have been established and Shear believes the new naming system being proposed provides greater clarity.

If you have any questions, or require any additional information, please do not hesitate to contact Stephanie Autut, VP, Environment and Community Affairs, either by email at sautut@sheardiamonds.com or by phone at (780) 435-0045. Shear looks forward to working with the Board toward the development of the renewed Type A water licence for the Jericho Diamond Mine.

Sincerely,

Pamela Strand, M.Sc., P. Geol.
President

Julie Lassonde Gray
Executive Chairman & CEO

cc: Bernie MacIsaac, Director of Operations, AANDC – NU Region
Geoff Clarke, Director of Lands and Environment, KIA

The Onsite Water Quality Stations (modified from Table 3 in **General Monitoring Plan** (EBA 2011)) are:

Current Stations Code	Previous Station Code	Location	Comments
JER-SWQ-01	SW-1	Wastewater Treatment Effluent	N/A
JER-SWQ-02	SW-2	Pit Sump	N/A
JER-SWQ-03	SW-3	Process Plant Supernatant	N/A
JER-SWQ-04	SW-4	PKCA Pond Water	N/A
JER-SWQ-05	SW-6	Future Pond A	Structure not constructed, no sampling required
JER-SWQ-07	SW-8	East Sump or Future Pond C	Pond C not constructed; water sample to be collected from East Sump

The AEMP Water Quality Stations (modified from Table 3.2 in **Aquatic Effects Monitoring Plan** (EBA 2011)) are:

	Current Station Code	Previous Station Code	Location
Control Lakes	JER-AEM-01	JER-WQ11	Reference Lake 1
	JER-AEM-02	N/A	Reference Lake 2
Jericho River Group	JER-AEM-03	JER-WQ10	Control Lake
	JER-AEM-04	JER-WQ02	PKCA Discharge in Stream C3
	JER-AEM-05	JER-WQ03	Stream C3 upstream of Mouth
	JER-AEM-06	JER-WQ20	Lake C3 near Stream C3 outlet
	JER-AEM-07	JER-WQ04	Lake C3 South Basin
	JER-AEM-08	JER-WQ05	Lake C3 Outlet
	JER-AEM-09	JER-WQ13	Lake C1
	JER-AEM-10	JER-WQ12	Stream C1 Upstream of Mouth
	JER-AEM-11	JER-WQ19	Stream C1 outlet in Carat Lake
	JER-AEM-12	JER-WQ01	Carat Lake Freshwater Intake
	JER-AEM-13	JER-WQ14	Lake C4
	JER-AEM-14	JER-WQ15	Stream C2 Upstream of Mouth
	JER-AEM-15	JER-WQ06	Carat Lake Centre Basin
	JER-AEM-16	JER-WQ07	Carat Lake Outlet
	JER-AEM-17	JER-WQ08	Jericho Lake
	JER-AEM-18	JER-WQ09	Jericho River Downstream of Jericho Lake
O-Lake Group	JER-AEM-19	N/A	Lake O1
	JER-AEM-20	N/A	Lake O2
	JER-AEM-21	N/A	Lake O4

	Current Station Code	Previous Station Code	Location
Lynne Lake Group	JER-AEM-22	JER-WQ18	Ash Lake
	JER-AEM-23	JER-WQ17	Key Lake
	JER-AEM-24	JER-WQ16	Lynne Lake
	JER-AEM-25	N/A	Contwoyto Lake near Stream D1 Mouth

The AEMP Sediment Quality Monitoring Stations and Purpose (modified from Table 4.2 in **Aquatic Effects Monitoring Plan** (EBA 2011)) are:

Station	Previous Station Code	Location	Purpose
JER-AEM-01	JER-SQ11	Reference Lake 1 [(1)]	Reference Lake
JER-AEM-02	JER-SQ11	Reference Lake 2	Reference Lake
JER-AEM-03	JER-SQ10	Control Lake	Upstream Far field
JER-AEM-07	JER-SQ4	Lake C3 South Basin	Near field - PKCA discharge
JER-AEM-09	JER-SQ13	Lake C1	Near field – potential runoff and dust
JER-AEM-13	N/A	Lake C4	Near field - potential dust from incinerator
JER-AEM-15	JER-SQ6	Carat Lake Centre Basin	Near field - potential runoff and dust
JER-AEM-17	JER-SQ8	Jericho Lake	Far field of Jericho River group
JER-AEM-18	JER-SQ9	Jericho River Downstream of Jericho Lake	Far field of Jericho River group
JER-AEM-19	N/A	Lake O1	Near field – potential runoff and dust
JER-AEM-20	N/A	Lake O2	Near field – potential runoff and dust
JER-AEM-23	N/A	Key Lake	Near field – potential runoff and dust
JER-AEM-24	N/A	Lynne Lake	Near field – potential runoff and dust

Note:
1. "Reference Lake 1" is renamed from the "Cigar Lake" referred in aquatic effect monitoring programs between 2004 and 2007 (See Footnote 1 on Page 7 for details).
2. Reference Lake 2 will be identified and investigated during the baseline study in 2011.

The AEMP Sediment Deposition Monitoring Stations (modified from Table 5.2 in **Aquatic Effects Monitoring Plan** (EBA 2011)) are:

Station	Previous Station Code	Location	Purpose
JER-AEM-01A	JER-SD25	Reference Lake 1	Outside watershed control 1
JER-AEM-02	N/A	Reference Lake 2	Outside watershed control 2
JER-AEM-03A	JER-SD23	East side of Control Lake	Upstream control
JER-AEM-06	JER-SD20	Lake C3 at Stream C3	Near field; PKCA discharge
JER-AEM-08	JER-SD05	Lake C3 outlet	Far field; PKCA discharge
JER-AEM-11	JER-SD19	Carat Lake near Stream C1	Near field; Stream C1 discharge
JER-AEM-12A	JER-SD21	Carat Lake west of causeway	Near field; causeway effects
JER-AEM-12B	JER-SD22	Carat Lake east of causeway	Near field; causeway effects
JER-AEM-16	JER-SD07	Carat Lake outlet	Far field; Stream C1 discharge
JER-AEM-17	JER-SD26	Jericho Lake	Far field
JER-AEM-23	N/A	Key Lake	Near field – Runoff from waste rock pile

Note:
1. "Reference Lake 1" is renamed from the "Cigar Lake" referred in aquatic effect monitoring programs between 2004 and 2007 (See Footnote 1 on Page 7 for details)

The AEMP Dissolved Oxygen Profile Monitoring Stations (modified from Table 6.2 in **Aquatic Effects Monitoring Plan** (EBA 2011)) are:

Station	Previous Station Code	Location	Purpose
JER-AEM-01	JER-DO11	Reference Lake 1 (1)	Reference lake
JER-AEM-03	JER-DO10	Control Lake	Far field – Upstream of Lake C3
JER-AEM-07	JER-DO04	Lake C3	Near field - PKCA discharge
JER-AEM-15	JER-DO06	Carat Lake	Near field - Surface runoff
JER-AEM-16	N/A	Carat Lake Outlet	Near field - Surface runoff
JER-AEM-17	JER-DO08	Jericho Lake	Far field – Inflow from Carat Lake
JER-AEM-20	N/A	Lake O2	Near field - Surface runoff from airstrip area
JER-AEM-23	N/A	Key Lake	Near field - Surface runoff from waste rock pile

Note:
1. “Reference Lake 1” is renamed from the “Cigar Lake” referred in aquatic effect monitoring programs between 2004 and 2007 (See Footnote 1 on Page 7 for details)