

Memo

To: Eva Paul, Water Resource Officer, AANDC; Geoff Clark, Director of Lands and Environment, KIA; Luigi Torretti, Environment Officer, KIA; Tara Arko, Technical Advisor, NIRB; Phyllis Beaulieu, Manager of Licensing, Nunavut Water Board

From: Julie Lassonde, President and CEO, Shear Diamonds Ltd.

CC: Kelly Fearman, Richard Belfer, Allison Rippin Armstrong, Kyle Conway

Date: April 13, 2012

Re: Fine Processed Kimberlite – Wind Dispersion

It was observed by staff on April 9th, 2012 that FPK (Fine Processed Kimberlite) within the PKCA (Processed Kimberlite Containment Area) had been dispersed by high winds from the south. The FPK had been dispersed North and North West of the PKCA. It was reported to the VP of Operations and the Environmental Manager and an inspection was conducted. Photos were taken of various areas around site documenting the extent of the (Appendix A). The FPK extent is mainly around camp however, it did reach parts of the tundra west of camp. For full extent of dispersion please refer to Figure 1. It is believed that the recent mild temperatures have played a role in the FPK's exposure to the wind.

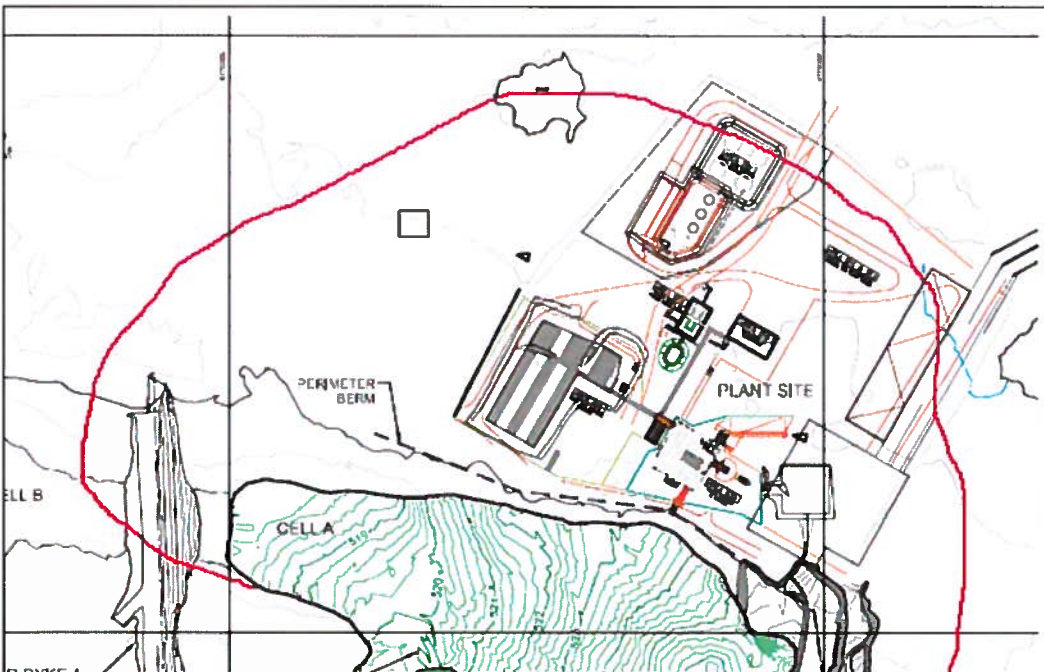


Figure 1 – FPK delineation. Scale and layouts are approximate and may not reflect actual size and locations.

Immediate Action

In an effort to minimize the dispersion of the FPK, a wall of tires was constructed in December along the South East dam, progressively extending around to the East Dam. Shear will continue this wall when weather permits.

Shear will be conducting the under-ice winter sampling program (refer to the Aquatic Effects Monitoring Plan), within the next month. While crews are on site they will also conduct a snow-sampling program, which will include taking snow profiles.

Follow-up Action

The Shear team will continue with on-going research for wind barrier systems and preventative measures for FPK dispersion. Shear will assess the effects and extent of the dispersion when the snow melts. Photographs will be taken to document these findings. Shear will investigate clean up options.

Shear will continue to monitor the lakes that are within the zone of influence of the wind dispersed FPK. A full study will be conducted after freshet to see the effects this may have on surrounding vegetation as well as surrounding lakes.

Shear will continue with our air quality monitoring program. The FPK will be wetted once processing of the stockpile commences. The FPK will be further saturated once pit dewatering program commences as the pit water will be directed to the PKCA.

Follow up reports will continue to be provided as new information is available.

If you require further information or clarification please contact me at any time.

Sincerely,



Julie Lassonde

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Appendix A

