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TSXV: SRM

June 9, 2011

Robert Bedingfield  
Fish Habitat Biologist  
Eastern Arctic Area  
Central and Arctic Region  
Fisheries and Oceans Canada  
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403.292.8675

Dear Mr. Bedingfield:

**Re: Shear Diamonds (Nunavut) Corp. - Fisheries Authorization NU-00-0068, Jericho Diamond Mine**

We are writing in response to your letters dated February 10, 2011 and April 11, 2011 and the subsequent discussions that you have had with our environment team, namely Allison Rippin Armstrong and Michelle Tanguay.

In your letter dated February 10, 2011, in which you responded to Shear Diamonds request to amend the term of the Type A Water License, you provided comments and questions with regard to the status of the fish habitat compensation measures described in the original Fisheries Authorization (NU-00-0068), amended *Fisheries Act* Authorization and Project Certificate. As discussed with you during follow-up conversations, the current status of the completion of the compensation measures cannot be verified due to limited documentation available from previous owners and/or operators of the Jericho Diamond Mine. Shear Diamonds has contracted a fish biologist and a geotechnical engineer who will verify the construction status of the compensation measures in 2011.

Shear is aware that the appropriateness of enhancing stream O21 has been questioned. It is Shear's understanding that the stream already functions successfully as a movement corridor (Jericho Diamond Project Fish Habitat Compensation Monitoring Program 2007, Mainstream Aquatics Ltd.). Shear has contracted a fish biologist to conduct a desktop study to review and

select potential, appropriate alternatives to enhancements to stream O21. These alternatives will be reviewed and submitted to you and will be investigated during the site visit. It is anticipated that this work will be conducted in July. Shear would like to extend an invitation to you to come to site in July while this work is being undertaken.

Once the status of the fish habitat compensation measures has been determined the Fish Habitat Compensation Plan will be updated and submitted to your office by end of September 2011. The updated plan will include: the status of all habitat compensation structures that have been completed to date, a construction schedule for any outstanding compensation measures identified during the July site visit, any alternatives if proposed, and the monitoring program for the compensation structures once they are completed.

As you are aware, *Fisheries Act* Authorization, NU-00-0068, expired on August 15, 2008 while still in the name of the previous owner/operator. Shear Diamonds respectfully requests the re-issuance (assignment) of *Fisheries Act* Authorization, NU-00-0068, to the name of Shear Diamonds (Nunavut) Corp. Shear Diamonds also requests that the term of the Fisheries Authorization be for three years to allow one year for field verification, 2011, and submission of an updated Fish Habitat Compensation Plan and two years, 2012 – 2013, to complete the construction of outstanding habitat compensation measures. Shear Diamonds requires the two years to complete the construction of any outstanding habitat compensation measures as the project is currently on care and maintenance and thus has a very small crew on site to complete all of the activities required to maintain the site.

Shear Diamonds acquired the Jericho Diamond Mine on August 27th, 2010. At this time the Jericho Diamond Mine, and substantially all the assets of Tahera, were vested in Shear pursuant to an Order of the Ontario Court dated July 27, 2010 as a result of the CCAA process which Tahera entered in May 2008. Part of these assets were the fully cash backed reclamation bonds with various beneficiaries, including the Department of Fisheries and Oceans. The Letter of Credit provided to DFO sits with the Toronto Dominion Bank in the name the Receiver General of Canada on behalf of the Jericho Diamond Mine is in the amount of \$280,000.

In March of 2011, Shear opened a section of the accommodations, offices and other buildings to support the activities required for the care and maintenance of the site and the exploration/resource evaluation. Shear has been conducting maintenance on the equipment that had been left on site. Shear also purchased and has transported to the site, via Hercules aircraft, additional equipment required to support activities planned in 2011. Shear is currently sourcing an articulating rock truck to purchase. This truck would be brought to site next spring via Hercules or winter road. With this truck on site, Shear will have all equipment needed to complete the construction of the habitat compensation measures. Personnel on site have also completed an inventory of stockpiled material left on site, suitable for the habitat compensation construction activities ie: shoal material. For these reasons, and until the construction status can be verified, Shear believes that the letter of credit in the amount of \$280,000 is sufficient to achieve the objective of No Net Loss of Fish Habitat.

In your letter dated April 11, 2011, you provided four comments/questions with regard to documents submitted as part of the Care and Maintenance Plan. Shear Diamonds provides the following responses to your comments and questions:

1. Table 3.3 in the Aquatic Effect Monitoring Plan (AEMP) report displays the water chemistry analytical testing that will be performed on the water within the Processed Kimberlite Containment Area (PKCA). Total suspended solids (TSS) monitoring/testing is not listed in Table 3.3 as a test that will be performed on the water samples. Is TSS analytical testing included in one of the analytical packages described in the Notes section of Table 3.3?

*The omission of Total suspended solids (TSS) from Table 3.3 was an error. TSS monitoring and testing is part of all water chemistry analytical testing performed at sampling stations under the Aquatic Effects Monitoring Plan (AEMP). Shear Diamonds is currently purchasing equipment in order to conduct on-site TSS testing thus eliminating the lag time associated with shipping samples for analytical testing. This will not replace the analytical testing, but will compliment the sampling under the AEM program.*

2. What is the contingency plan if the water within the PKCA does not meet criteria and is unable to be released into stream C3?

*The contingency plan, should water within the PKCA not meet discharge criteria, is to pump water from the PKCA to the pit in sufficient quantity to accommodate freshet and storm water inflows and to maintain the required one metre freeboard. This will only be done if capacity in the PK CA is limited. Shear Diamonds believes that controlling water quality at the source is the best insurance to maintain water quality in the PKCA that will meet discharge criteria. To that end, Shear Diamonds is working with a company to design a mobile water treatment facility to treat water that has accumulated within secondary containment structures prior to discharging into the PKCA.*

3. Section 2.2.5 of the AEMP questions the selection of the control lake that was used during previous aquatic monitoring. Can a more detailed description be provided as to why the use of the control lake for further monitoring is being questioned?

*As discussed with you, the control lake being questioned in the AEMP is within the zone of influence as demonstrated by the wind dispersion model in the draft Air Quality Monitoring Program. Shear Diamonds has changed the function of the sampling in this lake from a control to an affected lake. This lake has not been removed from the AEMP. Shear Diamonds will use the criteria proposed in the AEMP to select a new control lake this summer.*

4. The Site Water Management Plan report (SWMP), section 2.9 states that "small diameter culverts may be required under site roads crossing minor natural drainage paths". DFO would like to review the design and construction methodology for the installation of these potential culverts under the provisions of the *Fisheries Act* if the culverts or construction has potential to impact fish bearing watercourses or waterbodies.

*The majority of the small diameter culverts described in the Site Water Management Plan will address ponding water during freshet. They would be installed, if needed, as a measure to protect the integrity of the road and prevent washing out of fines. These culverts do not provide any connectivity of water bodies or water courses, they simply provide drainage of ponded water.*

*The exception to this is the ephemeral drainage from C4 across airport road. Previous documentation indicates that this is not a fish bearing stream, however, in 2011 this will be verified prior to any construction activities. As well, the culvert design and construction will be provided to you well in advance.*

We trust that this information meets your expectations and look forward to discussing these items with you further. If you have any additional questions, or require further clarification, please do not hesitate to contact us.

Sincerely,

**Shear Diamonds Ltd. and Shear Diamonds (Nunavut) Corp.**

per:

A handwritten signature in blue ink, appearing to read "Pamela Strand", is written over a light blue horizontal line.

Pamela Strand, P. Geol.  
President