

October 5th, 2006

Chief Administrative Officer
Nunavut Water Board
P.O. Box 119
Gjoa Haven, Nunavut
X0B 1J0

RE: Annual Geotechnical Inspection-Part F, 4e, Part G, Section 4 and Part K, Item 11 of Water Licence - NWB1JER0410

Please find attached the geotechnical report prepared on behalf of Tahera Diamond Corporation by EBA Engineering. This report satisfies requirements set out in Tahera's water license NWB1JER0410 under sections Part F, 4e, Part G, 4 and Part K, Item 11.

Inspections were conducted of the west dam, east dam, divider dyke A, main tank farm, landfill, airstrip tank containment, generator tank containment, east sump and C1 diversion structures at the Jericho site. In addition to serving as a cover letter to the geotechnical report, this letter will detail Tahera's intended implementation plan to address the recommendations set forth by the geotechnical engineer.

West Dam

The geotechnical inspection indicated that the west dam performance was satisfactory. The engineer did however recommend that when construction commences in 2006, the top layer of frozen core material be inspected and possibly stripped and replaced based on the findings at this time. Tahera agrees with this recommendation. EBA engineering will have a geotechnical engineer on site monitoring QA/QC during the completion of the West Dam. The decision to strip and replace this material will be made once an inspection is conducted by the EBA representative.

Divider Dyke A

Cracking parallel to the long axis of the dyke was identified during the geotechnical inspection. Recommendations are to excavate and compact the top layer of filter zone prior to the continuation of raising the dyke to its final elevation. Tahera agrees with this recommendation and will excavate, replace and compact the filter zone material before completing construction of the divider dyke.

East Dam

Inspections of the east dam indicated that performance is satisfactory. Recommendations are to initiate settlement monitoring. Settlement plates have been installed and baseline measurements will be taken in October 2006. The dam will be capped with run of mine during the winter of 2006 and settlement monitoring will recommence during summer 2007. Settlement monitoring will occur monthly during periods of thaw when there is a potential for settling to occur.

Tank farm

Inspections of the tank farm were conducted on both Phase 1 and Phase 2 portions of this facility. Phase 2 performance is satisfactory. Vertical settlement of tanks in Phase 1 ranged from 100mm to 350mm. Recommendations by the geotechnical engineer for phase 1 included continued monitoring for settling,

consultation with the tank manufacturer regarding safety of filling the tanks as well as integrity testing of the HDPE liner.

During the summer of 2006, Tahera contacted the manufacturer of the tanks and it was suggested that the flex connectors be changed to incorporate flex connectors with a longer extension. This work has been completed to date. Tahera will continue to monitor to ensure any differential settlement found remains within the manufacturer's and industry standard tolerances. Any tanks found to exceed tolerances will be removed from service.

Water within Phase 1 of the tank farm was present through out summer months due to precipitation and continuous pumping was required to keep tank farm empty thus confirming liner integrity. No seepage was evident at this time. To re-confirm the integrity of the HDPE liner, the tank farm will be filled with water and elevations of the water level monitored to determine if leakage is occurring.

Landfill

The geotechnical inspection of the landfill indicated that overall the landfill is in satisfactory condition. Surface cracks were identified adjacent to the landfill and could be a result of settlement of landfilled debris. Recommendations were to compact the landfill debris prior to coverage. Prior to covering landfill debris the material will be track packed using a dozer.

Should you have any questions regarding the geotechnical report, please do not hesitate to contact the on site Environmental staff.

Sincerely,

Mike Tanguay
HSE Manager
Jericho Mine Site

Roland Jones
Mine Manager
Jericho Mine Site

cc. Greg Missal
Vice-President, Government and Regulatory Affairs