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November 28, 2011

Phyllis Beaulieu
Manager of Licensing
P.O. Box 119
Gjoa Haven, NU
X0B 1J0

Dear Ms. Beaulieu:

Re: Annual Seepage Survey Report

As per Part L, Item 9 of licence 2AM-JER0410, please find attached the Seepage Survey Report as prepared by EBA Engineering Consultants Ltd., a tetra tech company.

A seepage survey was carried out on site in August 2011; however it was evident when the water analysis results came back that the samples had been contaminated during collection. Accordingly, Shear Diamonds Ltd. retained the services of EBA to carry out a second survey. This survey was completed on September 14 and 15, 2011.

EBA has made a number of recommendations in their report and Shear commits to the following:

- Implementing a more detailed seepage survey program in 2012 including:
 - Conducting seasonal seepage surveys starting at freshet to monitor the seasonal variation of the seepage quality and flow rate;
 - Establishing sampling stations in Carat Lake and Lake C1 near the seep inflows to verify the dispersion of the constituents from the seepage water; and
 - Collecting water samples from the established stations on a seasonal basis.
- Conducting surface water dispersion models in Carat Lake to predict the potential impact from the seeps during production and at closure; and
- Analyzing and pumping ponded water from the south and east side of Waste Rock Pile 2 to the PKCA (refer to Figure 1) to prevent overflowing into the receiving environment.

- Conducting a field investigation to determine the source and fate of the seeps observed.

If you have any questions, please do not hesitate to contact the undersigned at sautut@sheardiamonds.com or by phone at (780) 435-0045.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Stephanie Autut', with a stylized, cursive script.

Stephanie Autut
VP, Environment and Community Affairs

cc: Bernie MacIsaac, AANDC
Allison Dunn, EC
Robert Bedingfield, DFO
Geoff Clark, KIA