



Aboriginal Affairs and Northern Development Canada
Nunavut Regional Office
Resource Management Directorate
P.O. Box 100
IQALUIT, NU X0A 0H0

July 30, 2012

Our reference:
IQALUIT-#545768

Ms. Julie Lassonde
Chief Executive Officer
Shear Diamonds (Nunavut) Inc.
6 Adelaide Street East, Suite 220
Toronto, ON M5C 1H6

Sent via email

RE: Security for Type “A” Water Licence 2AM-JER1119

Ms. Lassonde:

The renewed Type “A” water licence 2AM-JER1119 specifies that Shear Diamonds (Nunavut) Inc. (Shear) must provide \$3,389,074 in security, of which \$2,200,000 is currently held by the Crown in the form of letters of credit. In order for your licence to be in compliance, Aboriginal Affairs and Northern Development Canada (AANDC) requires an additional \$1,189,074 to be submitted by July 31, 2012. Please be advised that, consistent with the plan submitted by Shear on March 6, 2012, AANDC will accept the transfer of \$868,000 security in cash or equivalents held pursuant to the expired Type “B” water licence NWB1JER0306 to the Type “A” water licence 2AM-JER1119 as well as the issuance of a secured promissory note for the remaining \$321,074 under the conditions set out below.

AANDC requires that Shear cause the amendment of the existing Letters of Credit issued by TD Commercial Bank, being Letters of Credit numbers 1992-9283587-05 for \$100,000, 1992-9283587-06 for \$100,000, 1992-9283587-03 for \$100,000, 1992-9283587-02 for \$100,000, 1992-9283587-04 for \$200,000, and 1992-9283587-01 for \$200,000, to reflect that they are now being held in relation to the obligations of Shear under the Type “A” water licence 2AM-JER1119, and not pursuant to licence NWB1JER0306. As well, AANDC requires that the amended Letters of Credit reflect the language set out in the attached template. After receiving the amended letters of credit, AANDC will return the original letters of credit held for NWB1JER0306. AANDC will also make a journal entry to confirm that the cash sum of \$68,000 being held by AANDC as security under the expired Type “B” water licence NWB1JER0306 shall be transferred as partial security for Shear’s obligations under the Type “A” water licence 2AM-JER1119.

The secured promissory note for \$321,074 must be in a form and content acceptable to AANDC and must commit to a reimbursement schedule of equal payments synchronized with the diamond valuation schedule commencing August 29, 2012. The final payment must be made before resumption of commercial mining production at the Jericho mine (i.e., before processing of new feed other than the coarse reject pile) and, in any case, no later than July 31, 2013.

Please be advised that the acceptance of promissory notes is considered by AANDC on a case-by-case basis. Acceptance of promissory notes at this time for licence 2AM-JER1119 should in no way be interpreted as setting precedent for future decisions on security for this or any other permitting requirement.

Please contact Eva Paul or Andrew Keim in our Field Operations Division regarding the time required to amend the letters of credit and to provide the promissory note. All other correspondence related to security for licence 2AM-JER1119 should be directed to Manager Water Resources.

Sincerely,



Murray Ball
Manager Water Resources
Nunavut Regional Office
Aboriginal Affairs and Northern Development
Iqaluit, Nunavut, X0A 0H0

Phone: 867-975-4550

Email: murray.ball@aandc.gc.ca

Cc:

Phyllis Beaulieu,
Andrew Keim,

Manager of Licensing, Nunavut Water Board
A/Manager of Field Operations, AANDC

Aboriginal Affairs and Northern Development Canada Securities Template, 2012

Date: [insert date]

Irrevocable Standby Letter of Credit No. [insert number]

Amount: Not exceeding: *[insert amount in figures]*

Date and place of expiry: *[insert date]*, at the counters of *[insert issuing bank]*

Beneficiary:

Her Majesty the Queen in Right of Canada,
as represented by the Minister of Indian Affairs and Northern Development Canada,
Payable to the Receiver General of Canada
c/o P.O. Box 100, Bldg. 918
Iqaluit, Nunavut, Canada X0A 0H0

Attention: Regional Director General, Nunavut Regional Office

Applicant:

[insert name of company].

[insert address]

Re: Security pursuant to *[insert the Water Licence Type and Number]*

At the request and for the account of *[insert Company's Name]* (the Applicant), we, *[insert Bank's Name]*, hereby establish in your favour our irrevocable standby letter of credit No. *[insert Bank's Reference Number]* ("Letter of Credit" or "credit") for sums not exceeding in the aggregate *[Insert amount of Security required stated in Canadian Dollars]*.

This credit is available with us for drawing at sight, without enquiry as to whether you have a right as between yourself and the Applicant to make such demand and without recognizing any claim of the Applicant or objection by the Applicant, against presentation to us, by you or your duly authorized representative or agent, of the following documents:

1. a sight draft, payable to the Receiver General of Canada, drawn on *[insert Bank's Name and Address of the Branch that the security can be drawn at, usually one of the Bank's larger Canadian commercial banking centers]*; and
2. the original of this irrevocable letter of credit No. *[insert Bank's Reference Number]* for endorsement of payment thereon; and
3. a statement signed by an official of the Department of Indian Affairs and Northern Development Canada certifying
 - a) that the signatory is an official of Indian Affairs and Northern Development Canada and has the authority to sign the statement on behalf of the Minister of Indian Affairs and Northern Development Canada ("the Minister"), and

This page 2 forms an integral part of Standby Letter of Credit No. [insert number]

b) either

- i. that the Minister is entitled to apply the amount drawn, being all or part of the security posted and maintained pursuant to *[insert the Water Licence Type and Number]* issued by the Nunavut Water Board, whether as originally issued or as amended, renewed or replaced from time to time, or
- ii. that this credit is due to expire in thirty (30) days or less and that the Applicant has not replaced this credit by posting with the Minister other security satisfactory to the Minister.

Partial drawings are permitted.

This credit is effective from *[insert time]* A.M. ON *[insert effective date as required by Water Licence]* and shall expire at our counters at *[insert time]* P.M. *[insert expiry date]* (the initial expiry date). This credit shall be renewed automatically for an additional one-year period from the initial expiration date and for an additional one-year period from each future expiration date (each such expiration date, the operative expiration date), unless at least ninety (90) days prior to the operative expiration date we notify you in writing by registered mail or courier that we elect not to consider this credit renewed for such additional period.

The water licence is referred to herein for reference purposes and does not form part of the terms of this credit.

We hereby agree that all drafts drawn under and in compliance with the terms of this credit shall be duly honoured by us if presented for payment on or before the operative expiration date.

This credit is subject to the Uniform Customs and Practice for Documentary Credits (2007 revision), International Chamber of Commerce, publication No. 600. Notwithstanding Article 36 of said publication, if this credit expires during an interruption of business as described in Article 36, we agree to effect payment if this credit is drawn on us within thirty (30) days after the resumption of business.

[insert Bank's name]

Official's Name and Position

Official's Name and Position