

LUPIN MINES INCORPORATED

February 9, 2016

Nunavut Water Board
P.O. Box 119
Gjoa Haven, NU, X0A 1J0

Attention: Karen Kharatyan, A/Manager of Licensing

Re: 2AM-LUP1520 – Lupin Mine Project – Lupin Mines Incorporated (LMI) – Renewal and Amendment Application – Additional Comments on Issue of Quantum of Security

Dear Sirs and Mesdames:

Thank you for your email of February 1, 2015 notifying us that INAC made a request to the Nunavut Water Board (NWB) on January 22, 2016 to increase the amount of security for Licence 2AM-LUP1520 (the “Licence”). We respectfully submit that INAC’s application does not meet the requirements of Part C, Item 3 of the Licence which requires any request for a change to the amount of security to be “supplemented by submission(s) that include supporting evidence to justify the request. ”

The purpose of Part C, Item 3 of the Licence was to allow INAC the right to apply for a change in the amount of security if there was “substantive information” about current conditions at the site that could challenge the extent to which the \$25.5 million security estimate remains adequate and appropriate in the circumstances. In particular, in its letter to Minister Valcourt dated August 21, 2015, the NWB explained:

AANDC’s estimate also did not provide compelling evidence as to why an increase of approximately 70% in the reclamation security estimate that was in place under the previous or expired licence is now required for a renewed licence when there is no significant change to water use, waste deposit and the phase of the undertaking authorized under the Proposed Licence when compared to the previous expired licence.

As described further below, LMI respectfully submits that there has been no change in circumstances and that INAC is attempting to re-argue information and conditions which have already been considered by the NWB. In particular, AANDC continues to submit that its estimate, based on worst case assumptions and significant contingency to reflect uncertainty, is a more appropriate basis for the reclamation estimate even though the site conditions remain unchanged since August 21, 2015 when the NWB issued its decision on its reconsideration of the security. In particular, there is no new material evidence on fuel usage, tailings cover, ARD, or contaminated soils. The ARCADIS Report is based on substantially the same information, site conditions, assumptions and conclusions as the previous report. Accordingly, there is no need for a technical review at this time.

ARCADIS RECLAIM Cost Model dated October 22, 2015

INAC relies on a Final Reclaim Estimate dated October 22, 2015 as support for an increase in security. However, the Executive Summary of the ARCADIS report states that:

The results of the site inspection work completed by ARCADIS Staff during a recent site visit, undertaken 19 to 20 August 2015, have determined that in general the conditions, as outlined in the Lupin Mines Incorporated (LMI) Lupin Mines Closure Estimate Update December 2014, remain unchanged. The assumptions used by LMI in their RECLAIM cost estimate are reflective of the site conditions save for the issues and concerns raised by ARCADIS in their memoranda of 31 December 2014 and 22 January 2015 regarding the LMI December 2014 RECLAIM cost estimate.

Therefore, there is no new evidence for the NWB to consider because ARCADIS agrees that the site conditions remain, in general, unchanged and because ARCADIS' concerns have already been considered by the NWB.

Fugitive Tailings Assessment Report

The Assessment of Potential Fugitive Tailings Report by ARCADIS dated October 30, 2015 is also not evidence that would be sufficient to re-open the quantum of security under Part C, Item 3 of the Licence.

LMI committed in 2014 to conducting a soil sampling program and assessment outside of the Tailings Containment Area, near Dam 6. The plan for the sampling program was provided to INAC and NWB by way of a memorandum dated October 29, 2014 from SRK Consulting (Canada) Inc. INAC's concern regarding the potential for windblown or fugitive tailings has already been considered by the NWB and LMI's commitment to conduct the sampling program was included as a condition of the Licence by the NWB (Part 3, Item 26 of the Licence).

As required, LMI conducted the sampling program in 2015, including replicating samples taken by ARCADIS for its report, and filed SRK Consulting's memorandum dated December 30, 2015 with the NWB. Both the ARCADIS report and the SRK Consulting report agree that there is some evidence of tailings outside of the containment area and SRK concluded that the deposit was historical and that there is no evidence that tailings are currently being carried out of the tailings containment area. Finally, not only is there no evidence that fugitive tailings are currently being deposited outside of the tailings containment area, there is no evidence that the confirmed historical deposit of tailings justifies any increase in the quantum of security.

INAC Site Inspection

LMI notes that the INAC site inspection form is dated October 30, 2015. LMI had not received a copy of this inspection until INAC submitted its request to the NWB for an increase in security for the Lupin Mine. As such, LMI has not had an opportunity to respond to this INAC inspection report and will be preparing a response shortly and will file its response with the NWB.

Moreover, even if the alleged non-compliance in the inspection report is accurate, which LMI disputes, the enforcement of a licence is within INAC's jurisdiction. There is no information in the inspection report which suggests a change in conditions at the Lupin Mine site which would justify an increase in security.

Conclusion

The report and documents provided by INAC to the NWB are insufficient to trigger a review of the security for the Licence, as per Part C, Item 3 of the Licence. As such, LMI should be spared the burden of a technical review as the NWB has already had an opportunity to consider the current site conditions and INAC's estimate during the technical meetings and public hearings for the Licence, as well as during the NWB's reconsideration of the security at the Minister's request. LMI also notes that Part C, Item 4 of the Licence requires LMI to reassess and update the reclamation security for the Project and provide the NWB with an updated assessment on or before September 30, 2017.

Yours truly,

A handwritten signature in blue ink, appearing to read 'Karyn Lewis', with a stylized flourish at the end.

Karyn Lewis
Lupin Mines Incorporated

cc. Robin Ikkutisluk
Megan Porter