

May 25, 2010

Via Email

David Hohnstein
Director Technical Services
Nunavut Water Board
P.O. Box 119
Gjoa Haven, Nunavut
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Dear Mr. Hohnstein,

Re: Meadowbank Gold Project Water License 2AM-MEA0815 Part E, Item 3 – Request for Amendment to Fresh Water Consumption Allowance

The Meadowbank Gold Project mill commissioning commenced in January 2010 and the first gold was produced at the end of February. Agnico-Eagle Mines Limited – Meadowbank Division (AEM) achieved “commercial production” at the Project in March, but we have not yet maintained the mill design throughput of 8,500 Tonnes per day on a consistent basis. Water consumption monitoring for the mill also started in January.

Currently, Part E, Item 3, of Type A Water License 2AM-MEA0815 allows for an annual freshwater water consumption of 700,000 m³. The water consumption allowance in the license is based on a theoretical water balance estimated by Hatch and Associates during the detailed engineering phase of the Meadowbank Gold Project. As we indicated during our meeting with Nunavut Water Board (NWB) staff in Iqaluit during the Nunavut Mining Symposium, the water consumption monitoring data accumulated so far indicates that the actual water consumption of the Meadowbank Mine will exceed the design value of 700,000 m³ per year.

From January to March, the total freshwater consumption for the entire mine site was 327,647 m³. The majority of this water was used in the mill. In March, the first month with the mill operating consistently, the mill consumption of freshwater was 228,786 m³. We attributed this high consumption rate to the commissioning phase where most systems are not running at the design set points while operating crews are learning how the circuit and equipment will perform. However, at the beginning of April, we realized that our mill fresh water consumption was remaining higher than the design value. As a result, we implemented an action plan to minimize the use of fresh water at the mill. These actions brought down the average fresh water consumption at the mill from 190 m³/h (April 3) to 116 m³/h (April 27). By the end of April, the mine site fresh water consumption was 95,380 m³, less than half of the previous month’s water consumption at the mill.

Our actual fresh water consumption for the first four months of 2010 was 425,431 m³ (61% of the allowable annual total). On the basis of actual monitoring data, we are now projecting that our fresh water consumption in 2010 will be 1.6 million m³. This takes into account actual consumption through the end of April and projected realistic consumption for the remainder of 2010, incorporating our action plan accomplishments to date with a small contingency allowance.

Based on our understanding of the mill water balance, we do see ways to further reduce fresh water consumption by replacing use of fresh water by reclaim water. However, to achieve these gains we need to bring additional equipment to site including pumps, piping and associated hardware. We are committed to doing this but the equipment cannot be installed until late 2010 due to the timing of the annual sealift. We believe that we will succeed in reducing current fresh water consumption at the mine site to less than 1 million m³ per year though it may take several years.

In the meantime, we request an amendment to Water License 2AM-MEA0815 Part E, Item 3 to allow 1.6 million m³ in freshwater use, which is the projected consumption for the whole of 2010. The primary causes of this increase in fresh water consumption above the design value (700,000 m³ per year) are as follows:

1. The theoretical water balance assumed that water from the south section of the Second Portage Arm would be used as make-up water (fresh water). This water cannot be used because of the Total Suspended Solids (TSS) content and the fact that the supply will not be constant during the year.
2. The density of the final tailings slurry is lower than expected. The initial design called for a combined tailings slurry density of 50.8% solids by weight. During severe winter conditions we are finding that such a low density is problematic for pumping. We have lowered our final combined tailings slurry density to 35% solids to ensure the slurry can be pumped to the tailings containment area with sufficient velocity to prevent sanding in the tailings pipeline. The pumping design will be changed in late 2010 once the necessary equipment is mobilized to site during the 2010 sealift.
3. We are finding that the theoretical water balance assumed there would be no water use during mill shutdown. To keep the equipment in good condition a minimal quantity of fresh water is required when the mill is down.
4. Water consumption for the wash bay at the truck shop was not included in the water balance. We estimate that approximately 300,000 m³/year of fresh water is required to wash all the vehicles on site. Once the truck shop is operational, water use at the wash bay will be monitored to verify this estimate.

AEM is committed to reducing fresh water consumption at Meadowbank, however we cannot implement all of the required actions until later this year. Due to start up issues, we have already used a large portion of our 2010 annual allowable fresh water consumption. The resolution of these issues later this year will not offset the early high water use; by the end of April, 61% of the current license freshwater use allowance was consumed. Consequently, we urgently request this license amendment to increase the freshwater use to 1.6 million m³ annually.

I would greatly appreciate your assistance in defining the next steps we should follow to process this amendment to Water License 2AM-MEA0815.

Regards,

Agnico-Eagle Mines Limited – Meadowbank Division



Stéphane Robert
Environment Superintendent

cc: *Anne Wilson, EC*
Dave Balint, DFO
Lou-Ann Cornacchio, INAC
Stephen Hartman, KIA