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July 21, 2010

Andrew Keim
Water Resource Officer
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Sent via Electronic Mail

Dear Mr. Keim:

RE: SECOND RESPONSE TO THE WATER USE INSPECTION REPORT FOR 2BE-ANG0813 ANGILAK PROJECT, KIVALLIQ ENERGY CORPORATION

On April 30, 2010 we received a second Water Use Inspection Report filed for the same inspection conducted last year on August 11, 2009, report issued October 21, 2009. The majority of the points raised in this second Inspection Report were addressed in a response we sent on November 9, 2009 to your first Inspection Report. However, since there appears to be no acknowledgement of this or subsequent responses, we will address the same discrepancies and inaccuracies in this second report again. For clarity, we will follow the format laid out in your second Inspection Report.

During the period of the 2009 inspection the following were identified by the Inspector;

Accurate recording of water usage had not been initiated at the time of the Inspection.

Part B(4) - *The Licensee shall install flow meters or other such devices, or implement suitable methods required for the measuring of water volumes.*

This was addressed in our initial response to the first Inspection Report issued. To reiterate, the inspection occurred shortly after the camp was established and exploration activities had just initiated. The Project Manager kept track of water usage on the computer in the office, which you were made aware of during your inspection. Tanked water use volumes were recorded daily and reported in the annual report.

Water usage had not been recorded prior to the inspection.

As stated above, water use volumes were being recorded and were reported in the annual report.

Fuel was stored within 30 meters of water at the potable source.

This was also addressed in our initial response, and remedied during your inspection. To clarify again, this was a single, five-gallon jerry can used to support the four hp water supply pump. The jerry can was

removed during your visit and in future will be stored a minimum of 30 metres from the normal high water mark of the lake.

Bernadette incinerator noted on site as well as two burn barrels. Barrels were to be removed as ordered by the inspector and confirmation of this was to be provided to the inspector.

In your original inspection report filed last fall, you correctly identified these two barrels as ash drums used to store ash removed from the incinerator. They are not burn barrels as indicated in your second Inspection Report. The second report also notes that you “ordered” their removal and that confirmation be provided. Your original report only asked they be “hailed off site” with no reference to confirmation. However, by way of confirmation, please be advised these barrels were back hauled and disposed of outside of Nunavut in September 2009.

Records of backhaul of waste (hazardous and non-hazardous) were not available for review.

This was addressed in the initial response to the first Inspection Report. When you arrived on site to conduct your inspection, camp had been open for one week. At that time, no waste had been backhauled from site and only empty barrels were sent back to the supplier in Baker Lake for recycling. Kivalliq Energy did obtain a registered waste generator number and, as was stated in the response last year, the ash was hauled to Yellowknife and disposed of in an approved manner.

In our response we also requested clarification on comments that you made during your inspection. We were told Kivalliq Energy could not backhaul any waste to the nearest community of Baker Lake since the hamlet was without a water licence making dumping at the landfill “illegal”. We respectfully requested recommendation from INAC regarding waste disposal and to date have not received a response or advice.

Fuel storage had no secondary containment.

Again, this was addressed in the response submitted last fall. Secondary containment and spill kits were established at all fueling locations (camp, helicopter pad and drill sites) and at every drum behind tents. You were notified Kivalliq Energy was seeking approval on alternatives to problems caused by instabermers, which was subsequently not approved. In response, instabermers were purchased and are used at fuel caches for the 2010 field program.

A reported spill site was inspected. No fuel was noted on surface. A report on the spill was to be submitted to the Inspector within 30 days. Nothing has been received to date.

This was addressed in our responses to INAC sent in November 2009 and March 2010, along with attaching copies of certified lab results from ALS. Analyses plus copies of internal and NT-NU Spill reports were also provided in annual reports submitted. No request was made to provide a report to the Inspector within 30 days.

Issues where there is a known or suspected violation of a requirement of the Water License;

Failure to record water usage and install meters. (Part B (4))

As stated above, water use volumes were, and continue to be recorded. In addition, Part B(4) does not require exclusive use of meters.

Open Burning. (Part D (2))

As stated above, Kivalliq Energy does not conduct any open burning. The incinerator is used to burn non-hazardous, combustible waste and as noted in your first report, drums contained leftover ash.

Failure to record back hauls of waste. (Part D (4) and (6))

As stated above, the inspection was conducted one week following the establishment of camp and other than empty drums; no waste was back hauled to any community.

Part D(4) is specific to Rankin Inlet: no waste went to this community. Part D(6) refers to records: no waste was disposed at time of the inspection and was eventually hauled outside of the territory following inspectors instructions that back hauled waste to closest communities was "illegal".

Failure to submit an updated Uranium Exploration Plan. (Part F (1))

An updated Uranium Exploration Plan was submitted and confirmation received from the Nunavut Water Board that this clause was addressed sufficiently.

In closing, we are concerned and confused that this is now the third Inspection Report we've received referencing a single inspection in 2009, each one containing some inaccuracies and in different formats. We believe we addressed points from your first inspection either on site, or by our responses in November 2009 and March 2010 and in annual reports.

This situation not only followed your inspection, but also an earlier visit by Kevin Robertson. We are again enclosing copies of all the documentation noted above for reference. In future, we think a close out meetings with item sign-off prior to the Inspector leaving site could avoid these discrepancies and duplications. Going forward, Kivalliq believes that this will add clarity and foster a more cooperative relationship with Inspectors.

Regards,

Jeff Ward
Vice President of Exploration
KIVALLIQ ENERGY CORP.

cc Bernie MacLasac, A/Regional Director General, INAC
Lou-Ann Cornacchio, Manager, Water Resources, INAC
Peter Kusugak, Manager Field Operations, INAC
Phyllis Beaulieu, Manager Licensing, NWB

Encl. Initial Water Use Inspection Report dated 21 October 2009
Initial Inspection Report Response from Kivalliq Energy Corp. dated 9 November 2009
ALS Water Quality Testing Results
2009 Annual Report submitted to the NWB
2009 Annual Report submitted to INAC and the NIRB
Land Use Field Inspection Report - Kevin Robertson, INAC
Response to Land Use Inspection Report from Kivalliq Energy Corp. dated 18 March 2010
Email Response from Kevin Robertson, INAC, dated 27 April 2009
Email Response to Kevin Robertson, INAC, from Kivalliq Energy Corp. dated 27 April 2009