



INAC, Nunavut District
P.O. Box 2200
Qimuggjuk Building
Iqaluit, NU, X0A 0H0

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January 11, 2007

Janet Stritychuk
Diamondex Resources Ltd.
PO Box 11584
1410-650 West Georgia Street
Vancouver BC V6B 4N8

RE: Water License Inspection of Brodeur Project August 4, 2007

The Water Resources Officer (WRO) appreciates the assistance and cooperation provided by Ms. Anne Bordeleau, Project Manager for the Brodeur Project who accompanied the Inspector during the inspection of the camp site and drilling operation.

The following report is based on observations made at the time of the inspection, results of samples collected during the inspection and items outlined during a review of the terms and conditions of the license with Ms. Bordeleau. Immediately following the inspection an Industrial Water Use Inspection Report outlining any concerns was signed by both Ms. Bordeleau and the Inspector.

Part A: Scope and Conditions

No issues were found with respect to the location of the camp as relates to the information contained within the current license. It was noted however that the location of the camp was too close to the potable water source and in fact sat immediately adjacent to and on the bank of the nearby creek well within the 30 meter required set back. This issue was immediately pointed out to the camp manager who stated that a plan to move the camp was under discussion for next season.

The current license is a renewal of a license issued to Kennecott Canada Exploration. The current license was then assigned from Kennecott Canada Exploration to Diamondex Resources Ltd on July 3rd, 2007. The assignment also imposed the following requirements on the new Licensee;

- Submission of a revised Spill Contingency Plan by September 3rd 2007
- Submission of a revised Abandonment and Restoration Plan by September 3rd 2007

It was also noted that on July 16th, 2007 Diamondex applied for an amendment to the current license authorizing an increase in the total volume of water that may be used by the licensee from 5 Cubic Meters per day to 43.5 CMD. This approval was provided in a letter dated September 7th, 2007. The approval letter also notes that Diamondex had not filed the required plans as directed under the Assignment granted on July 3rd, 2007.

The license, as issued remains a Class B license for mining and milling as indicated on the license form.

It is also noted that the current license expired on December 31st, 2007. During the writing of this report a review of the Nunavut Water Board FTP site was conducted. At that time an application for renewal and supplementary documents for the request were noted in a file on the FTP site. These documents were dated December 1st 2007 and were uploaded onto the site January 10th, 2008. Included in the application package were a Spill Contingency Plan and an Abandonment and Restoration Plan.

The Licensee is reminded that the Nunavut Water Board requires 3 to 6 months to review an application for renewal.



Part B: General Conditions

The issue of water use fees and security were not included within the context of this inspection.

A review of the Nunavut Water Board FTP – Public Registry was conducted during the writing of this report. A 2006 Annual report filed for Kennecott Canada Exploration was noted on the FTP site. The report was filed by Diamondex Resources Ltd.

The proponent is reminded that an annual report is required to be filed by March 31st 2008 for the year ending December 31st 2007. The annual report must include but should not be limited to those items listed in Section 2 i through v of this Part.

Additionally as required under Part B of the license, the licensee has a responsibility to install and maintain flow meters on all intake systems to accurately record water consumption volumes.

The licensee is reminded that it is the responsibility of the licensee to ensure that any documentation submitted by the licensee to the Nunavut Water Board is acknowledged by the Manager of Licensing.

Part C: Conditions Applying to Water Use

At the time of the inspection the licensee was allocated the use of 43.5 Cubic Meters water for all purposes. An inspection of the intake was conducted and found to be in good order. Potable samples were collected at this time.

Part D: Conditions Applying to Waste Disposal

As noted, the camp is situated immediately adjacent to the potable source (melt stream). The Licensee is directed to Section 1 and Section 4 of this Part which read;

1. *The Licensee shall locate areas designated for waste disposal at least thirty (30) metres above the ordinary high water mark of any water body such that the quality, quantity or flow of water is not impaired, unless otherwise authorized by the Board.*

And

4. *The Licensee shall contain all greywater in a sump located at least thirty (30) metres above the ordinary high water mark of any water body, at a site where direct flow into a water body is not possible and no additional impacts are created.*

Additionally, during the period of inspection the Inspector noted a number of barrels that were being used as burn barrels to dispose of combustible wastes and human waste. The Licensee is reminded that section 2 of this part states as follows;

2. *No open burning or on-site land filling of domestic waste is permitted.*

As well upon further inspection of the barrels the contents of which were visible to the Inspector, a number of oil filters were noted within the burn barrels. These had been burned in the barrels. The Inspector at this time issued a verbal direction to Ms. Bordeleau, Project Manager for the Brodeur Project, to cease this activity and have installed an incinerator by the period of the next inspection. The Licensee is reminded to ensure that the capability of any incinerator unit installed on site meets the Canada-wide Standards for Dioxins and Furans and the Canada-wide Standard for Mercury Emissions.

The Licensee is reminded that section 3 of this Part outlines the requirements of the licensee with respect to hazardous and other wastes. Section 3 reads as follows;

3. *The Licensee shall incinerate all combustible waste, and shall ensure that all hazardous wastes, waste oil and non-combustible waste generated through the course of the operation are backhauled and disposed of in an approved waste disposal site.*



The Licensee was then provided a second direction to include in the 2007 annual report, due on March 31st, 2008, a list of all hazardous materials shipped out of the camp, the treatment received, and the location of the approved treatment facility to which they were sent. Shipping and receiving invoices are not required so long as the records are available for inspection during the 2008 inspection season.

The licensee is cautioned that continued instances of non-compliance with the terms and conditions of the issued water license and Act will result in the licensee being the subject of the enforcement measures and penalties provided for under the Act.

Part E: Conditions For Camps, Access Infrastructures and Operations

As noted above the location of the camp is to be moved as confirmed in the application for renewal documents reviewed on the Nunavut Water Board FTP site. The Old camp site will be inspected during the 2008 field season to ensure the licensee has undertaken the required corrective actions necessary to ensure there are no impacts on surface drainage and the site has been reclaimed to its previous condition.

Part F: Conditions Applying To Drilling Operations

During the period of inspection three drill sites were visited. One active and two recently completed. The Inspector noted that no drill sumps had been created to capture drill cuttings or sludge from the returns off the drill.

Drill cuttings and waste were noted originating from the location of the drill collar under where the drill platform would have been resting at each site. This waste flowed downhill to cover an area of approximately 400² m at the third site and just slightly less at the second. Further inspection of these sites at the time of the inspection revealed that drill wastes on both set-ups were in the same condition and returns were not being properly managed or controlled.

In the second location a near-by melt water stream picked up an unknown amount of the cuttings and transported them downstream. This indicated to the Inspector a pattern of non-compliance that required immediate attention.

Immediately following the inspection of the drill site a verbal direction to take remedial action on these sites was provided to Ms. Bordeleau, Project Manager for the Brodeur Project. It was recommended that Ms. Bordeleau provide photographic evidence of the remedial actions taken and provide this information via E-mail to the inspector once completed. To date this documentation has not been received by the inspector.

It was also noted that there was no secondary containment for either drill wastes or fuel sources at the drill platform. This must be addressed by the period of the next inspection.

The licensee is cautioned that continued operations in non-compliance with the terms and conditions of the issued water license and Act will result in the licensee being the subject of the enforcement measures and penalties provided for under the Act.

Part H: Conditions Applying To Contingency Planning

As noted in the amendment approval documents from the Nunavut Water Board, dated September 2007 the licensee had at that time failed to file an amended or revised Spill Contingency plan as required. A review of the Nunavut water Board FTP site however did locate a revised copy submitted with the application for renewal of the current licence. The Plan has yet to be approved by the Nunavut Water Board.

The Licensee is reminded that a copy of the plan must be available for review on site during the 2008 Inspection season. As noted above the Licensee is reminded as well that section 4 of this part states;



4. *The Licensee shall ensure that any chemicals, petroleum products or wastes associated with the project do not enter water. All sumps and fuel caches shall be located a minimum of thirty (30) metres above the ordinary high water mark of any adjacent water body and inspected on a regular basis. The Licensee is encouraged to use some form of secondary containment.*

The Licensee is reminded that as per Section 6 (iii) of this Part the Licensee is required to submit a detailed report on each spill occurrence no later than 30 days following the initial event.

The licensee is reminded that it is the responsibility of the licensee to ensure that any documentation submitted by the licensee to the Nunavut Water Board is acknowledged by the Manager of Licensing.

The proponent is reminded that secondary containment for fuel storage is required as it prevents uncontrolled and accidental discharges to water and the environment. This includes fuel stored at the camp and at all other locations. It was noted during the period of inspection that there was very little secondary containment anywhere within the camp. This must be addressed by the 2008 Inspection season

Part I: Conditions Applying To Abandonment And Restoration

As noted in the amendment approval documents from the Nunavut Water Board, dated September 2007 the licensee had at that time failed to file an amended or revised Abandonment and Restoration Plan as required.

A review of the Nunavut water Board FTP site however did locate a revised copy submitted with the application for renewal of the current licence. The Plan has yet to be approved by the Nunavut Water Board.

Part J: Conditions Applying To The Monitoring Program

The Licensee is reminded to include in the 2007 Annual Report under the heading Monitoring Plan, due for submission to the Nunavut Water Board no later than March 31st 2008, the following information;

- Volumetric summary of water use for all purposes for the 2007 year
- GPS coordinates for all water sources
- GPS coordinates for all locations where waste was deposited

While no additional sampling was imposed by the inspector during the inspection period it is highly recommended that all potable sources be sampled annually by the licensee to address any human health and safety concerns.

The licensee is reminded that it is the responsibility of the licensee to ensure that any documentation submitted by the licensee to the Nunavut Water Board is acknowledged by the Manager of Licensing.

Non-Compliance:

During the inspection a number of items were noted and discussed with Ms. Bordeleau. These issues required corrective action to be undertaken prior to the date of the next inspection and submission of a record showing these activities had been completed was requested. Specifically these were;

- Marshalling of hazardous materials and transportation of these materials off site
- Open Burning – Installation of an approved incinerator
- Shipping records for wastes transported off site and the location of approved site
- Fuel storage (barrels) without secondary containment
- Spill kits and signage.
- Lack of secondary containment at the helicopter fuel transfer area
- Drill waste management and containment.
- Metering equipment is not installed on pump intake



Indian and Northern
Affairs Canada

Affaires indiennes
et du Nord Canada

- Submission of required reports within the specified timeline

During the period of the inspection water samples were collected from both the potable source and the area downstream of the drill.

Andrew Keim
Inspector's Name

Original signed and mailed this date
Inspector's Signature

Attached under separate cover;
Photos taken during Inspection of August 4th, 2007

Cc:
Peter Kusugak – Manager Field Operations Section- Indian and Northern Affairs Canada
Phyllis Beaulieu – Manager licensing – Nunavut Water Board