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October 26, 2007

Ms. Lori E. Beak
Dundee Precious Metals Inc.
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RE: Water License Inspections- Back River Project – Goose Lake July 3rd and August 14th, 2007

The Water Resources Officer (WRO) appreciates the assistance and cooperation provided by Mr. Bill Cronk, Camp Manager and Mr. Dan Russell, Environmental Coordinator who accompanied the Inspector during the 1st of the 2 inspections of the Back River Project and Mr. Cam Bartsch on the second inspection.

The following report is based on observations made at the time of the inspections at George Lake Camp on July 3rd 2007 and then again on August 14th in follow up. Items outlined during the first inspection with Mr. Cronk were then reviewed with Mr. Bartsch on the 14th of August. A review of the terms and conditions of the water license was completed with the above after each inspection.

Immediately following the inspection (s) an Industrial Water Use Inspection Report outlining any concerns was signed off by the parties with the Inspector.

Part A: Scope and Conditions

No issues were found with respect to the location of the camp as it relates to the information contained within the current license. The current license was issued March 11th, 2005 to Miramar Bathurst Resources Ltd. and then assigned to Dundee Precious Metals Inc. effective February 3, 2006 subject to the submission of the following;

- An updated Spill Contingency Plan within 60 days of assignment
- An updated Abandonment and Restoration Plan within 60 days of assignment
- An assessment of current restoration liability within 180 days of assignment

The license, as issued, remains a Type “B” license classed for Mining and Milling activities in the Goose lake area.

In a review of the documents posted on the Nunavut Water Board FTP site the required assignment documents were located.

Part B: General Conditions

The issues 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. An annual report for the 2006 annum could not be located. This report is a requirement under the terms and conditions of the Water License. The annual report must include but should not be limited to those items listed in Section 1 (i) through (vi) of this Part. If this report has already been submitted under



separate cover the licensee is directed to resubmit this report to the Inspector and the Nunavut Water Board within 30 days of receipt of this Inspection report.

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 1 (i) through (vi) of this part as well as any information required by the Inspector.

Failure to file a complete report as outlined in the license is a violation of the Act and will subject the licensee to the enforcement measures and penalties provided for under the Act.

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.

It should be noted that during the period of the first inspection a water meter was not found at the intake and this deficiency noted in the inspection form. It was later pointed out however that a meter was present and simply overlooked during the inspection. The Inspector thanks Mr. Russell for following up on this point.

Part C: Conditions Applying to the use and the Protection of Water

At the time of the inspection the licensee was allocated, via an amendment issued April 25th 2006, the use of 130 cubic meters of water per day for all purposes. Domestic use is to come from Goose Lake and from sources adjacent to the drilling operations for use in expanded exploration drilling and trenching activities.

During the period of the first inspection a heavy film of oil was noted at the point of the fresh water intake on Goose Lake. Samples were collected and came back negative for BTEX. The source of the hydrocarbons was later determined to have come from a crushed drum left on the ice earlier in the spring. The drum was apparently being used as a marker for the runway/ roadway on and off the ice of Goose Lake. This drum was recovered later in the day by Mr. Bill Cronk. Absorbent booms were also installed along with pads to clean up the residual sheen and emulsion along the shoreline.

During the first inspection of the Goose Lake camp it was noted that a pathway similar to that constructed at the George Lake camp had been installed at the Goose Lake camp as well. This roadway from the ice onto the shoreline area was, because of ground conditions and mud heavily rutted from use by heavy equipment. Because of the ground composition and time of year the ground was very wet and muddy. Runoff from freshet travelling into the lake and carrying silt and clay from the rutting was noted and brought to the attention of Mr. Cronk and Mr. Russell. A verbal direction was given during the inspection to take measures to prevent the on-going erosion at the site and to address silt migration, surface water flow into the lake.

By the period of the second inspection a layer of gravel, silt fence and guard stone had all been installed and great effort by the licensee has been taken to address these concerns. Additionally the inspector was provided an e-mail from Murray Summers, Habitat Biologist for Fisheries and Oceans Canada, Yellowknife which in part read as follows;

“Based on the information and photos that you have provided, DFO is satisfied that the erosion and sedimentation potential of the Goose Lake and George Lake access pathways has been sufficiently mitigated. At this time DFO has no concerns with the above mentioned access routes with respect to the Fisheries Act.”

Based on this information and evidence of the work done, by the August inspection, to mitigate the erosion issues the Inspector has no further concern with the Licensee continuing to access the lake ice during periods of freezing temperatures so long as measures continue to remain in place to mitigate any further erosion of the lake shore and bank.



It should be noted for the Licensee that Sections 4 and 5 of this Part clearly reflect the requirements imposed on the licensee in addressing the issues of sedimentation and erosions into water bodies and the necessity to provide controls and measures to prevent this from occurring prior to undertaking an activity.

Part D: Conditions Applying to Waste Disposal

During the inspections of the camp the following items were noted and brought to the attention of Mr. Cronk and/or Mr. Russell and /or Mr. Bartsch. (Not differentiated between inspections unless rectified)

- At the time of both inspections it was noted that the fuel transfer area for the helicopter(s) did not have secondary containment.
- The bulk fuel tanks on site are new and are located within a lined and bermed area. However because of the level of ground water and ground composition some of the tanks are not sitting as designed. This may be an issue with regard to capacity of the tank. The licensee must address this issue as soon as possible.
- Water within the containment area was a matter of concern during the first inspection. Results of testing prior to discharge must be submitted with the annual report.
- During the first inspection of the Goose Lake camp evidence of open burning was found. Burn barrels, debris and scorched earth were documented during the inspection. This was discussed with both Mr. Cronk and Mr. Russell who were present during the inspection. Open burning is expressly prohibited in the license. Both Mr. Cronk and Mr. Russell stated this area would be restored. By the next inspection this work was completed. However a large pile of wood pallets and other building materials is piled on site and was identified by the licensee as a problem.
- A large number of barrels 600 plus are being stored in an area approximately 30 meters from Goose Lake without any secondary containment. The Licensee was directed to address this issue by the next inspection.
- The Sump behind camp was also a matter of concern for the Inspector. Although screens had been put in place to address the issue of solids migrating from the sump out into the environment, which is commendable, a pit had not been dug to capture the grey water and thus the Inspector found that grey water had migrated to cover an extensive area behind camp. This needs to be addressed by the next inspection.
- The trenches dug behind the camp have filled with water. There was mention of a high arsenic and acid content within the rock. This was an issue of concern for the inspector. Results from testing were not conclusive however elevated levels of trace metals above the CCME guidelines for the protection of aquatic life were noted. A plan to address these trenches and the water captured within must accompany the 2007 annual report.

The proponent is reminded to include in the 2007 annual report due on March 31st 2008 a list of hazardous materials shipped out of the camp, the treatment received, and the location of the approved treatment facility to which they were sent. All of the foregoing is required information to be included in the annual report. Shipping and receiving invoices are not required so long as the records are available for inspection during the 2008 inspection season.

Part E: Conditions Camps, Access Infrastructures And Operations

As noted above, the licensee is reminded to take action to prevent continued erosion and sediment from entering Goose Lake as outlined in Section (4) of this Part.

Section 5 of this Part requires the Licensee to submit to the Board plans and drawings associated with the construction of the Tank Farm/ Bulk fuel storage facilities. A search of the Nunavut Water Board FTP site could not locate these stamped and signed drawings or plans. The Licensee is directed to provide this information to the Inspector and the Board as an addendum to the 2007 Annual report or sooner if practical.



Part F: Conditions Applying To Drilling Operations

No drilling was on-going except that around the George Lake camp during the period of either inspection.

A review of the Nunavut Water Board FTP site could not locate the Trenching Plan required by Amendment 1 approved by the Nunavut Water Board on April 25th 2006. If this Plan has been submitted and approved by the Nunavut Water Board the Licensee is asked to provide such approvals to the Inspector as an addendum to the 2007 annual report.

Part G: Conditions Applying To Spill Contingency Planning

A review of the Water Board FTP site found the Spill Contingency Plan dated July, 2007. The Plan had not been submitted during the period of the first inspection. This plan is referenced in the Assignment document issued by the Nunavut Water Board in April of 2007 and was a requirement of the license.

The Licensee is reminded that as per section 4 of this Part the Licensee is required to ensure that No chemical, petroleum products or wastes enter water and that caches of fuel have secondary containment and that they are not located within 30 meters of the ordinary high water mark of any water body including Goose Lake.

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.

Part H: Conditions Applying To Abandonment And Restoration

As noted in the Assignment documents issued by the Nunavut Water Board in April 2007, the licensee was required to submit a revised Abandonment and Restoration Plan within 2 months of the assignment. A review of the Nunavut Water Board FTP site found a document entitled the Back River Abandonment and Restoration Plan and dated June 2007.

No discussion on the plan was undertaken during the period of inspection and as noted the camp appears to be growing. The camp is well organized, very clean and run effectively by the on site management.

Notice has been received regarding the seasonal closure.

Part I: Conditions apply to the Monitoring Program

The Licensee is reminded that as per Section 5 of this part the Licensee is required to submit in the annual report that included the items outlined in Part B section 2 of the license. Additionally, Part I sections 1,2,3, include the requirement for GPS coordinates to also be provided for any use of water or deposit of waste.

This issue was not discussed during either of the two camp inspections.

Non-Compliance:

During the inspection a number of items were noted and discussed with Mr. Cronk and subsequently again with either Mr. Russell or Mr. Bartsch. These issues required corrective action to be undertaken prior to the date of the next inspection. The submission of a record showing these activities had been completed was requested at the time.



Specifically these concerns were;

- Marshalling of hazardous materials without secondary containment
- Fuel storage (barrels) without secondary containment
- Fuel storage (barrels) within or adjacent to the 30 m setback from water
- Water in the Bulk Fuel storage area
- The tanks within the Bulk fuel storage area have sunk and are not sitting properly
- Open burning at the camp (addressed by second inspection)
- Location of the treatment facility where hazardous wastes generated on site are shipped.
- Erosion issues at the access point to Goose Lake – Addressed.
- Lack of secondary containment at the helicopter fuel transfer area.
- Lack of containment for grey water.

Additionally it was noted that a search of the Nunavut Water Board FTP site failed to locate a document referencing an Assessment of Current Restoration Liability (Licence 2BE-GOO0510). This document was to have been submitted to the board within 180 day (6 Months) of approval of the assignment of the Goose Lake License. If this document has been filed the Licensee is reminded that it is the Licensee's responsibility to ensure that any documentation submitted by the licensee to the Nunavut Water Board is acknowledged by the Manager of Licensing and that failure to file a complete report as outlined in the license is a violation of the Act and will subject the licensee to the enforcement measures and penalties provided for under the Act.

Goose Lake was found to be a well organized and camp with a number of historic issues actively being addressed by the licensee. The licensee made great efforts in addressing the concerns of the first inspection.

Andrew Keim
Inspector's Name

Inspector's Signature

Attached under separate cover;
Photos taken during Inspection of July 2nd, 2007

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