



September 14, 2015

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Dear Ms. Leighfield:

Please accept this letter as Churchill Diamond Corporation's (CDC) request pursuant to Section 51, for a suspension of one year of the work requirements under Section 39 and the charges under Subsection 43(1) of the Nunavut Mining Regulations for all claims which form CDC's Pelly Bay project located in the Kitikmeot region of Nunavut; all of which have an anniversary date of July 24, 2016. A claim listing spreadsheet and location map have been attached to this letter as Appendix I.

This suspension request is due to the fact that CDC is, for reasons beyond our control, waiting for a public authority (NWB) to decide whether to issue a water licence to CDC so that we can proceed with our planned exploration program and file assessment work to maintain our claims in good standing, i.e., if no water licence is issued, CDC cannot perform the work required. Essentially, NWB is currently of the opinion that CDC should inherit the liability of environmental legacy issues from the prior landowner (Adamera Minerals Corporation, "Adamera") and bear the associated costs of remediation of pre-existing matters before issuing a Class B water licence to us. To date, CDC is still in correspondence with NWB to seek clarity regarding their position as we do not feel we should have to inherit environmental problems from any past operators in areas covered by our current land position. Until this issue is resolved and CDC has a valid water licence we cannot legally conduct our exploration program as planned, and as such we are requesting a suspension as per Section 51.

A chronological summary of the events to date plus comments regarding the above are presented below to help clarify this situation. Current permits and licences as well as correspondence with NWB/AANDC are attached in several appendices for your reference.

- The Pelly Bay project was initially developed after the database associated with the area was purchased by CDC from Adamera Minerals Corporation (formally Diamonds North Resources Ltd.). The current property, wholly owned by CDC, was staked between June 29 and July 5, 2014 and comprises 153 claims totaling 170,750 hectares. Adamera retains a 2% Gross Over-riding Royalty ("GOR") on diamonds and all other commodities that may be mined on the property, as part of the database purchase agreement. Adamera has no interest in the property and for reasons discussed in this letter must be

considered as an entirely unrelated company in respect of the Pelly Bay project. CDC is the sole operator of the project and Adamera's original land and water permits/licences have expired.

- After the completion of the staking program no exploration work took place on the Pelly Bay project during 2014. In 2015, a program of combined airborne and ground geophysical surveying, geochemical sampling, prospecting and drilling was recommended to begin in 2015 and continue into at least the first half of 2016 by CDC management. Permit applications to AANDC, NIRB, NWB and the KIA were completed and submitted in the spring of 2015. Community consultation, logistical planning and contract negotiations with service providers took place before the required permits and licences were received in anticipation of a July/August 2015 commencement dated. All components of the 2015/2016 exploration program were planned to be conducted simultaneously to provide for the most cost and time efficient means of completing the proposed program.
- To date CDC has received a land use permit (N2015C0018) from AANDC valid from June 8, 2015 to June 7, 2017 which states that "the issuance of this permit indicates that as a result of the NIRB environmental screening process it was decided that the potentially adverse environmental effects that may be caused by your proposal are mitigable with known technology and are not significant." This permit is attached as Appendix II and does not mention proponent obligations for past operator liability. As well, an Inuit Owned Land Use Licence (KTL214C011) was received by CDC to include staking, prospecting, rock and till sampling as well as auger drilling and is current until January 5, 2016. An amendment request to that licence was submitted to the KIA in April of 2015 (received May 19, 2015) to include preliminary prospecting, sampling, airborne and ground geophysics, reverse and diamond drilling, camp establishment and possibly staking in an area south and west of Kugaaruk, NU. This amendment, now licence number KTL315C012, was approved subject to CDC providing a Letter of Credit to the KIA in respect to reclamation security. This Letter of Credit has not been forwarded to the KIA due to the ongoing matter with the NWB. Once this issue is resolved CDC will supply the KIA with the Letter of Credit. The amendment application cover letter and correspondence from the KIA regarding the Letter of Credit are attached in Appendix III.
- NWB acknowledges receiving CDC's application (received on May 20th, 2015) and forwards the application to interested parties for review.

Correspondence received from Brady MacCarl (NWB) regarding the application on May 25 and May 27th states that the previous Water Licence had not been properly cancelled, that there were compliance issues associated with that Licence and that no final inspection had been done by AANDC and that NWB was waiting to see if AANDC would conduct a site visit in the summer of 2015. NWB states that *"Without an AANDC inspection Churchill may be responsible for any and all remaining environmental obligations associated with the Diamonds North project"* yet they also state that *"I do not believe that this will cause a prolonged delay to the application, as legally the projects are two separate undertakings (as Churchill bought the exploration data, not the assets from Adamera)"*. CDC did not object to an inspection as they wanted to know what environmental obligations remained but questioned why it could be held responsible for these pre-existing environmental obligations. Please refer to e-mail "RE: NWB Pelly Bay Application" dated May 27th, Appendix IV. **This is when the delays in potential authorization to issue a water licence to CDC began.**

On July 10th NWB asks for revisions to CDC's water Licence application after review by AANDC and NWB. In the AANDC review letter dated July 2, 2015 regarding its' "comments/recommendations", AANDC states that *"However, the Proponent should be advised that it may be required to reclaim areas affected by the previous Licensee if determined necessary by a Water Resources Officer."* See PDF "AANDC Comments", last paragraph, attached in Appendix IV.

Revisions to the Water Licence application were e-mailed to NWB on July 15, 2015 and received by NWB as per e-mail acknowledgement.

Physical inspection of some of the areas worked by Adamera (Diamonds North) was conducted by Eva Paul, AANDC Water Resources Officer, on July 22, 2015 but the report not sent to Adamera until August 14th. Adamera, **only**, forwards Inspectors Report to CDC on August 14, 2015 (see e-mail titled FW: 2BE-PEL0813 Inspection of July 22, 2015" in Appendix IV).

On August 7th, 2015, NWB e-mails CDC stating that *"A tentative licence has been drafted, but requires confirmation that the previous licence holder properly re-mediated the site before proceeding further. If the Inspector's Report confirms this, then the Licence will be sent to the Board soon after. If the Report, however, highlights outstanding environmental concerns, then the NWB will have to address the concerns before a new licence is issued."* NWB also states follow up to the Inspectors report will be conducted internally. See Appendix IV, e-mail titled "Re:FW:@BE-PBD---Application REVISED".

On August 24, 2015, more than 90 days after the Water Licence application was received by NWB (May 20, 2015), NWB sends an e-mail to CDC titled "RE:2BE-PBD—Application, and outstanding obligations under 2BE-PEL0813" (Appendix IV of this letter). In this e-mail NWB states that AANDC, in its' inspection report, recommended not cancelling the Adamera licence due to outstanding environmental issues and asked that no new licence be issued until the concerns were addressed. NWB goes on to say that they have the authority to refuse to issue a new licence under the circumstances and that all of the Inspectors concerns lay in areas covered by the current CDC claims.

To this CDC believes that those issues are between AANDC/NWB and Adamera, not CDC, and that CDC should not be delayed for something another operator did or did not do. CDC has also read the Act and the NWNSRTA and can find no wording in regard to not issuing a licence due to previous operator conduct/misconduct. If CDC is held responsible for remediation due to non-compliance by other parties then this will send a very negative message to other exploration companies working or considering working in Nunavut.

In the same e-mail NWB then offers CDC several comments and options as to how to proceed with their application, which includes the following (with CDC remarks);

1. NWB will follow up with Adamera on the outstanding issues and will require another inspection to verify decommissioning leading to the closing out of the expired Adamera Water Licence.

CDC's concern is that no new licence may be issued until this reclamation is completed by Adamera, which is unclear as to eventual timing but certainly won't take place this Fall.

2. NWB states that it holds authority to refuse to issue a licence under the current circumstances citing the fact that outstanding remediation obligations exist within the project area proposed under Churchill's application.

In CDC's view this is an issue between Adamera and NWB and should not involve CDC, an unrelated party. CDC will be asking NWB for clarification as to where in the Act or the NWNSRTA does it state that no licence will be issued until the past operator(s) has completed remediation to the satisfaction of the Inspector.

3. The NWB requires further information/clarification regarding the measures the applicant proposes to take to avoid or mitigate any adverse impact of the use of waters or the deposit of waste.

CDC's response to this is that these measures are already covered in our original and revised applications to cover the CDC work only. Our proposal/application did not and should not have to deal with any environmental legacy of which CDC was not part of and therefore there should be no delay in issuing a licence to CDC.

4. One option NWB suggests is that CDC modifies the proposed work areas and demonstrates that the proposed project will **not operate** where Adamera conducted their activities.

CDC would respond that the NWB option proposed to modify the proposed work program will not be possible as some of the areas where Adamera/DDN discovered kimberlites are exactly where CDC plans to further explore as per the initial application. Not being able to work these areas is counter to our plan to move the project forward. CDC should have full access to our mineral claims as per the Regulations.

5. A second option NWB proposes is that the Board may be open to imposing unique terms and conditions to a tentative licence whereby previously worked/disturbed areas utilized by Adamera would be **temporarily excluded** from any current Licence until the Board receives verification that those areas have been properly remediated.

Again, CDC questions why there would be any restrictions to properly assessing any areas on our valid claims. As stated in the response to item 4 above, these areas constitute important mineralized occurrences or logistical areas and are the main reason CDC staked the claims where they did. Temporary exclusion of certain areas will not benefit CDC's business plan. This option also does not speak to who will conduct remediation, how long that may take and when an inspection is scheduled for before the areas deemed "temporarily excluded" are allowed to be explored by CDC.

6. Lastly the NWB "may consider accepting the unmodified project area identified in the current application if Churchill indicates in writing that it is **willing to assume responsibility for outstanding environmental obligations** where there is a discernible overlap between Adamera's project and Churchill's (such as the Amaruk Camp, or drill areas that are being re-examined)".

Remediation can be expensive and time consuming as well as infinite. As stated previously in this letter CDC does not feel we should have to inherit environmental problems from any past operators in areas covered by our current land position. In fact, CDC does not know what other obligations may exist on our current claims from past operations save for those listed in the inspection report. Nor do we know where exactly we may move to next on our claims if our initial results are positive and allow for future programs.

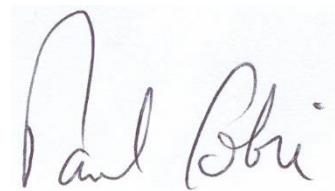
The phrase from the NWB correspondence “discernible overlap” is not site specific and could therefore apply to areas of possible reclamation obligations created by past operations on parts of the property CDC may explore in the future. Also, NWB’s option does not mention for how long CDC would assume responsibility for outstanding obligations and does not address a future operators’ obligation.

In summary, CDC strongly believes that it has done all it can to date to proceed through the regulatory process of securing mineral rights, obtaining permits from the KIA, AANDC, NIRB and NWB to be able to conduct our proposed exploration program in a timely and environmentally sound fashion. Although the project has been issued permits and licences from AANDC and KIA and the fact that NIRB has no objection to the program, our planned 2015 exploration program has now been delayed indefinitely due to the non-issuance of a water licence based primarily on legacy environmental issues unrelated to CDC.

Correspondence with NWB since the AANDC inspectors report was released has led NWB to present CDC with options as to how to obtain a water licence. These options include not operating in certain areas of our property, abiding by terms and conditions of a tentative licence that excludes exploration work in certain areas of the property for an undetermined amount of time, or, assuming liability for ambiguous outstanding environmental obligations (i.e. non- site or time specific) including remediation costs in order to proceed.

Whilst we will continue to engage with the NWB (and Adamera) to arrive at an acceptable solution, CDC cannot agree to any of the options listed above for reasons documented within this letter, and we’ve now lost the 2015 field season. As further correspondence between CDC and NWB over this matter is necessary before a decision is made to grant a class B Water Licence , we are requesting a suspension in time under Section 51 of the Nunavut Mining Regulations for circumstances beyond our control.

Yours truly,

A handwritten signature in dark ink, appearing to read "Paul Sobie". The signature is fluid and cursive, with the first name "Paul" and last name "Sobie" clearly distinguishable.

Paul Sobie, CEO

Churchill Diamond Corporation