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August 8, 2019

Richard Dwyer
Manager of Licencing
Nunavut Water Board
PO Box 119
Gjoa Haven, NU
X0B 1J0

Dear Mr. Dwyer,

Re. Statement of Capacity and Schedule for Implementation of Conditions following assignment of 2BM-ULU1520 from Bonito Capital Corporation to Blue Star Gold Corp.

The purpose of this letter, provided as an appendix to Bonito Capital Corporation's (BCC) Application for Assignment of 2BM-ULU1520 (the Application), is to: outline Blue Star Gold Corp.'s (Blue Star) capacity to undertake the Ulu Gold Project (Ulu) as assignee of water licence 2BM-ULU1520 and to execute the conditions therein; provide a schedule for implementation of conditions and the upcoming water licence renewal.

Background

Blue Star is a Canadian-based exploration company, focussed on gold exploration in Nunavut. Blue Star, formerly known as WPC Resources, has had a presence in Nunavut since 2014, and is the current owner of the Hood River Gold Project (Hood River) and licensee under 2BE-HRP1924, located immediately adjacent to Ulu (see Figure 1). To date, Blue Star has undertaken prospecting at Ulu, through an arrangement with the current licensee, as well as at Hood River and is planning to commence a drill program at Hood River in the summer of 2019.

Blue Star has developed strong relationships with the Kitikmeot Inuit Association (KIA), Crown-Indigenous Relations and Northern Affairs Canada (CIRNAC), the Nunavut Planning Commission (NPC), the Nunavut Impact Review Board (NIRB), the Nunavut Water Board (NWB) as well as residents and business communities in the Kitikmeot Region.

Blue Star is funded through a combination of public and private investors and is a financially viable entity capable of undertaking the progressive reclamation works required at Ulu as well as future exploration; refer to the audited financial statements provided with the Application.



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Plans for Ulu

Following assignment of the licence, Blue Star intends to undertake the following:

- Ongoing progressive reclamation as currently approved;
- Technical assessment to support interim closure planning;
- Amendment and renewal of the water licence 2BM-ULU1520;
- Recommence prospecting and exploration.

Ongoing Progressive Reclamation

Blue Star understands that Ulu is currently in care and maintenance. Blue Star plans to maintain that status in the near-term, continuing to undertake progressive reclamation in summer and fall of 2019, concurrent with Blue Star's exploration activities at Hood River. These activities are largely limited to historic drill site reclamation, as required in response to an Inspection Report issued to BCC in 2017.

Water Licence Amendment and Renewal

The existing water licence 2BM-ULU1520 expires in May 2020. Following licence assignment, Blue Star plans to undertake an application to amend and renew 2BM-ULU1520. The general provisions of the Ulu water licence are considered sufficient to support Blue Star's future exploration activities at site. However, an amendment will be required as Blue Star will seek approval of a new *Interim Closure and Reclamation Plan* (ICRP) that considers alternate waste management methods and facilities such as establishment of a landfarm to treat petroleum hydrocarbon-contaminated soils.

Technical Assessment

In support of a revised ICRP and upcoming water licencing, Blue Star will need to access Ulu in the late summer and fall in order to conduct some site-specific assessments, such as soil and rock sampling. Crews conducting this work will be temporarily based out of the nearby Hood River exploration camp.

Schedule

Given the scope of the planned amendment application, it is expected that a submission will need to be made to the NPC, who in turn will refer the application to the NIRB for screening. Assuming a timely assignment of 2BM-ULU1520 to Blue Star, the following schedule is proposed:

- September 9, 2019: NWB Decision whether to consent to the Assignment of 2BM-ULU1520 to Blue Star, to be effective upon the date of the Closing of the transaction;
- September 19, 2019: target date for Closing of transaction and assignment of 2BM-ULU1520, mining lease L-3563 and associated KIA land use licence;
- September 19, 2019: Blue Star and Bonito notify NWB in writing that Closing has occurred; (although the transaction agreement contemplates that Closing could occur much later in 2019, Blue Star is proposing to close as soon as possible);
- September 20, 2019: Recommence progressive reclamation at Ulu;
- October 15, 2019: End seasonal activities at Ulu;
- October 15, 2019: Submit application for amendment and renewal to NPC;



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- November 30, 2019: Submit application for screening to the NIRB;
- February 1, 2020: Submit application for amendment and renewal to the NWB;
- April 30, 2020: Amended 2BM-ULUXXXX issued, revised financial security posted with CIRNAC if required, financial security posted with the KIA;
- May 1, 2020: Implement approved management plans, recommence progressive reclamation activities at Ulu, followed by prospecting and exploration.

Reclamation Security

Under *Licence Consideration, B. General Conditions, Security* in the preamble to the licence issued on May 13, 2015, the NWB states that:

"...the Project is currently under care and maintenance and that some work has been carried out in support of progressive reclamation throughout the years. Due to the aforementioned reasons, the Board has decided that the currently financial security amount for the project should be set at \$1,685,542, as indicated under Part B Item 2 in the Licence.

"...if the Licensee decides to resume onsite activities, the Licensee is required to submit an updated reclamation security assessment prior to doing so".

As stated in preceding sections of this letter, Blue Star wishes to resume on site exploration-related activities only following the renewal and amendment of the existing water licence; works planned to be undertaken under the current licence are limited to existing approved care and maintenance activities and are not considered a resumption of activities.

Given the imminent expiry of the licence, the regulatory process related to the renewal and amendment will commence soon after the licence assignment process. Further, the scope of the proposed amendments is such that it is reasonably expected that financial security will be reviewed by parties during the amendment and renewal process.

Further, Blue Star wishes to advise the NWB that a joint site visit to Ulu recently took place involving the Assignor Bonito Capital Corporation, the Assignee Blue Star, the KIA and CIRNAC. The intent of the site visit was to establish a common understanding of current site conditions which may inform a future discussion on progressive reclamation, interim closure planning and related financial security. As a result of this site visit, Blue Star's engineering team has assessed the remaining liability at Ulu and estimates that the current existing security is sufficient to carry out reclamation activities, as summarized in the attached security estimate.

Finally, further to recent discussions with CIRNAC and the NWB, Blue Star understands that it is acceptable to the NWB for Blue Star to submit replacement security in the form of a letter of credit to CIRNAC while the assignment application is under review by the NWB; posting security in advance of application submission is not necessary for the application to be deemed complete.

Request of the NWB

Given the schedule outlined above, the imminent commencement of the licence amendment and renewal process, and Blue Star's proactive and ongoing engagement with the KIA and CIRNAC, Blue Star respectfully requests that the NWB consider a reduced public comment period of (7) seven days for the



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licence assignment process. A reduced public comment period will expedite the assignment process and in turn, will allow Blue Star to access the Ulu site before winter to obtain data necessary to support water licence renewal and amendment.

Given the above discussion regarding reclamation security, Blue Star respectfully requests the NWB defer a review of financial security for Ulu until the renewal and amendment process is undertaken.

Closure

Blue Star looks forward to ongoing transparent and collaborative dialogue among interested parties throughout the assignment, amendment and renewal processes.

Should the NWB require further information from Blue Star during the assignment process, don't hesitate to contact me.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Peter Kuhn', with a long, sweeping underline.

Peter Kuhn
General Manager
Blue Star Gold Corp.
Kigold2010@gmail.com
778.379.1433

Encl.

cc. G. Okonkwo, Crown-Indigenous Relations and Northern Affairs Canada
G. Clark, Kitikmeot Inuit Association
B. Labatte, Mandalay Resources