

P.O. Box 360 Kugluktuk, NU X0B 0E0 Telephone: (867) 982-3310 Fax: (867) 982-3311 www.kitia.ca

February 27, 2015

Kugluktuk

Bathurst Inlet
Kingaok
50%UD°

Bay Chimo Umingmaktok ▷୮∿Lʰɔ̀¬ʰ

Cambridge Bay Ikaluktutiak ∆⁵b⇒b⊃°∩⊲%

Gjoa Haven Okhoktok

Taloyoak

Kugaaruk dÜ⁵√^b Phyllis Beaulieu Manager of Licencing Nunavut Water Board P.O Box 119 Gjoa Haven, NU X0B 1J0

Via Email: phyllis.beaulieu@nwb-oen.ca & licensing@nwb-oec.ca

Re: 2BM-ULU0914 Security Assessment for the Ulu Gold Project

Dear Ms. Beaulieu:

On January 12, 2015, the Nunavut Water Board (the Board) distributed a reclamation estimate submitted by Bonito Capital Corp. (Bonito) for the Ulu Exploration Site in the Kitikmeot region of Nunavut. The Kitikmeot Inuit Association (KIA) has reviewed the reclamation estimate, and we thank the Board for granting us an extension to February 27, 2015 to allow us to assess the important and confidential matters pertinent to this file.

Executive Summary

The KIA is pleased to make this submission to the Board to address the renewal of the Ulu Project Type "B" Water Licence. The KIA is the representative of Kitikmeot Inuit and is the owner of Inuit Owned Land (IOL) upon which Ulu project footprint is located (IOL Parcel CO21). The KIA is also the Designated Inuit Organization (DIO) for purposes of Article 20 of the Nunavut Land Claim Agreement (NLCA) and has water rights and management authorities on IOL. The rights and interests of Kitikmeot Inuit are directly affected by this project.

Firstly, the KIA does not agree with the estimated cost for closure and reclamation of the Ulu site provided by Bonito, and we consider this estimate substantially under-resourced. Secondly, the KIA does not agree with the allocation of 100% of that security to the Crown and Aboriginal Affairs and Northern Development Canada (AANDC). The KIA submits that a significant proportion of the liability for closure at this site should be allocated to land – essentially for clean-up of Inuit Owned Land – and that security for these costs should be held by the KIA. If the Board agrees, this will require adjustment of the security currently held for Ulu clean-up when the water licence is renewed. Finally, given the length of time that this site has already been on care and maintenance (9 years), KIA does not support a renewal of the Ulu licence for a 10 year period.



P.O. Box 360 Kugluktuk, NU X0B 0E0 Telephone: (867) 982-3310 Fax: (867) 982-3311 www.kitia.ca

1. Introduction and Background

The Kitikmeot Inuit Association is pleased to make this submission outlining the results of its review of the Bonito Ulu Project Water Licence Renewal Application (WLA) to the Nunavut Water Board. The KIA is the Regional Inuit Association (RIA) for the Kitikmeot Region and represents the beneficiaries of the NLCA on matters assigned to RIAs or delegated to KIA as a DIO under the NLCA. The KIA is broadly representative of Inuit beneficiaries of the Region, and its Board includes representatives elected from all Kitikmeot Communities.

Consistent with the NTI Mining Policy for Nunavut, the KIA will encourage and support mining developments that benefit Kitikmeot Inuit while protecting the land, water and wildlife upon which we depend.

Bonito received an assignment of Water Licence 2BM-ULU0914 from MMG Resources Inc. on September 9, 2011. The Ulu Project is in care and maintenance and has been in this status since 2006. Bonito is a wholly owned subsidiary of Elgin Mining Inc. (Elgin) which is now a wholly owned subsidiary of Mandalay Resources Corporation (Mandalay).

The KIA has carefully reviewed the evidence submitted by Bonito and other parties in this proceeding. The KIA retained BGC Engineering Inc. (BGC) to provide us with an assessment of Bonito's reclamation estimate and the supporting evidence/documentation/methodology for Ulu. The BGC report (Lukas Arenson, P.Eng., Feb.26, 2015) is included with this submission. The KIA position is set out below, and we provide detail to support it in the parts of our presentation which follow. After setting out our position, the KIA provides its recommendation to the NWB within the framework of a water licence.

Evidence provided by Elgin in the recent Lupin Water Licence Renewal hearing indicated that closure and reclamation of that site, if necessary, would be undertaken by Elgin but that the funds for the work would have to come from Mandalay. This information leaves KIA with some uncertainty about the arrangements for the closure and reclamation of the Ulu site.

We trust that our submissions will be of assistance to the Board.

2. KIA Mandate

The KIA is the Regional Inuit Association (RIA) for the Kitikmeot Region of Nunavut. The KIA is responsible for the implementation of those parts of the Nunavut Land Claims Agreement (NLCA) assigned directly to the RIA or assigned by the Nunavut Tunngavik Inc. Board of Directors to KIA as a DIO. As the RIA, KIA is the owner of surface IOL in the Kitikmeot Region including the parcel upon which the surface infrastructure of the Ulu Project is found. KIA is also the DIO for purposes of Article 20 of the NLCA.



P.O. Box 360 Kugluktuk, NU X0B 0E0 Telephone: (867) 982-3310 Fax: (867) 982-3311

www.kitia.ca

The KIA is involved in surface land management, including licensing and leasing on its lands. KIA has issued a land use licence to Bonito/Elgin for the Ulu site (KTL311C013). The terms and conditions of that licence address security requirements and the eventual abandonment and reclamation of the site. Bonito is currently out of compliance with this licence, in particular with the requirement to provide an independent updated security assessment to KIA (please refer BGC report, bottom of page 1).

The KIA is also responsible for the protection and management of water in, on or flowing through Inuit owned lands pursuant to Article 20 of the NLCA. A Nunavut wide water policy has been developed by NTI, KIA and the other RIAs to address Article 20 rights and responsibilities and to manage water on IOL. Any activity at Ulu, especially development, if it happens, will directly affect the land and water on IOL Parcel CO21. If the quality, quantity or flow of water on these lands is affected beyond by Bonito's activities then additional water compensation will be sought by the KIA.

The KIA also has special interests related to wildlife and fisheries. Kitikmeot Inuit are primary users of the fisheries and wildlife resource and they have preferential harvesting rights set out in Article 5 of the NLCA. Disruption of Inuit harvesting activities will give rise to compensation under Article 6 of the NLCA. Thus, KIA's interests in the effects of the Ulu site are unique and go beyond those of a landowner and of many government agencies.

3. KIA Role in the Regulatory Process

The KIA has reviewed the Ulu Project WLA and this is the basis of our current submission. The KIA has participated in the NWB processes to date. The KIA has also cooperated with other regulatory agencies, whenever possible regarding issues related to the closure and reclamation of the Ulu Project.

4. KIA Position on the Water Licence Application

Below we highlight the most important points of KIA's recommendations for the NWB.

Duration of the Water Licence:

KIA recommends to the NWB that the renewal term for the Ulu Water Licence be no longer than 5 years in length. The company has applied for a 10 year Water Licence. KIA recommends a shorter term: this project has already been on care and maintenance for 9 years; and, in the KIA's view, the risk that satisfactory closure and reclamation will not take place increases over time. It seems unlikely that anything will be done with this site if it has sat unused for almost 15 years. As time goes on the risk of KIA or the Crown being forced to pay for an out of date security estimate increases. A shorter term will ensure Nunavut Water Board oversight.



P.O. Box 360 Kugluktuk, NU X0B 0E0 Telephone: (867) 982-3310 Fax: (867) 982-3311

www.kitia.ca

5. Closure and Reclamation Including the Amount of Security

The Ulu Project footprint is entirely on IOL. The KIA has a strong interest in ensuring that IOL is reclaimed to Inuit standards and that KIA does not incur residual reclamation liability as a result of the project. In addition, KIA beneficiaries have a unique connection to, and are the primary users of, all IOL and Crown land around Ulu Project site. Thus the KIA recommends that all of the site, whether on Crown land or IOL, be reclaimed to the satisfaction of Kitikmeot Inuit.

The guiding principles of KIA's reclamation requirements:

- Protect the environment
- Be sure the site is safe for future use by people and animals
- Restore the site for future use by people and animals
- No perpetual care

The KIA issued a land use licence to Bonito/Elgin for the Ulu site (KTL311C013) and a condition of the licence required an independent engineering estimate of closure and reclamation liability as well as collaboration with the KIA (again, please refer to the bottom of page 1 of the BGC report). This was supposed to be the security estimate which KIA and Elgin would jointly submit to the NWB in this proceeding. Bonito/Elgin did not comply with the requirements of the land use licence. Consequently, KIA retained engineering assistance to review the security estimates submitted by Bonito/Elgin and AANDC.

Although BGC did not provide an independent quantitative assessment of what the reclamation security should be at Ulu for the KIA, they did qualitatively assess the Bonito/Elgin estimate and reviewed their proposed reclamation measures. The points below are a summary of what the KIA considers are important deficiencies in the Bonito/Elgin security estimate as highlighted in the BGC report:

- Reclamation estimates are most appropriate when they are contextualized around three detailed plans (a Closure Plan, a Construction Plan, and a Monitoring Plan). Such plans were not available to BGC.
- Unit costs appear low and require support/rationale.
- Construction costs and plans are not provided for the winter road to Lupin, nor were any specific details provided regarding the mobilization/demobilization of heavy equipment, time frames, seasons and the associated costs.
- Very little detail and supporting data is provided for the reclamation of the portal access.
 Specifically, details regarding the costs associated with the ice-plug removal, potential need for pumping water out from the underground mine, and costs for proper ventilation and exhaust of the underground are.
- The Bonito/Elgin estimate does not provide sufficient data or justification to provide confidence that they are appropriately dealing with the rock pile, buildings and equipment, chemicals and soil contamination, or monitoring and maintenance.



P.O. Box 360 Kugluktuk, NU X0B 0E0 Telephone: (867) 982-3310 Fax: (867) 982-3311 www.kitia.ca

The BGC report identifies several additional shortcoming of the Bonito/Elgin reclamation security estimate. The Board and its staff are welcome to read through it in its entirety. Further, BGC concurred/agreed with several AANDC points regarding their assessment of the Bonito/Elgin estimate. Therefore the KIA is more inclined to accept the AANDC estimate than the Bonito/Elgin estimate for the Ulu site, but we reserve the right for an independent, comprehensive, collaborative on-site assessment of reclamation costs, as per the terms in land use licence KTL311C013.

Allocation of Security:

The security held under the expired licence was completely allocated to water related liability and the full amount is held by the Minister on behalf of the Crown. The KIA disputes that allocation. In our view, much of the liability at the Ulu site is related to land and in this case, IOL. We agree with BGC that 80 to 90% of the total cost should be land-related, and not 2/3 as suggested by AANDC. Again, the KIA would like an independent, comprehensive, collaborative on-site assessment of reclamation costs, and for this information to feed into a breakdown of land versus water related liability.

KIA will require that Bonito provide security for land related liabilities in an acceptable form before further land tenures will be offered to the company. The effect of this arrangement will be to partially "double bond" the project unless the Board takes the security required by KIA into account. The Board has made such accommodations in the past, beginning with the licence for Shear Diamonds Nunavut Inc. The KIA respectfully requests that the Board do so again in this licence renewal. We trust that NWB will agree.

The KIA thanks the Board for the opportunity to address our concerns regarding this file. Should you have any questions about this submission, please contact Luigi Torretti, KIA Senior Environment Officer at lto:retti@qiniq.com or at (867) 982-3310.

Respectfully Submitted,

Paul Emingak, Executive Director

Kitikmeot Inuit Association

cc: KIA: Geoff Clark, Tannis Bolt, John Donihee (Counsel), Luigi Torretti, Community

Liaison Officers

LMI: Patrick Downey, Karyn Lewis