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NUNAVUT WATER BOARD  
NUNAVUT IMALIRIYIN KATIMAYIT  
OFFICE DES EAUX DU NUNAVUT

File: 2BM-ULU0914 Assignment

September 9, 2011

Mr. Martin McFarlane and Mr. Michael McConnell  
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**Subject: Assignment of Water Licence 2BM-ULU0914**

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Dear Mr. McFarlane, Mr. McConnell and Bonito Capital Corp,

The Nunavut Water Board (“NWB” or “Board”) would like to acknowledge receipt of an application on May 31, 2011 to assign water licence 2BM-ULU0914 (Licence) from MMG Resources Inc. (“MMG”) to Bonito Capital Corp. (“Bonito”), a wholly owned subsidiary of Elgin Mining Inc. (“Elgin”). This application was deemed to be an application for assignment pursuant to section 44 of the *Nunavut Waters and Nunavut Surface Rights Tribunal Act* (“Act”).

On June 16, 2011, the NWB requested the following additional information from Elgin prior to commencing the review process:

1. Completed form entitled “Executed Undertaking of Proposed Assignee and Affidavit of Execution – Undertaking of Proposed Assignee”;
2. A letter to the NWB from the Manager of Water Resources at Indian and Northern Affairs Canada (“INAC”) confirming that, subject to the approval of the Board, the assignee has furnished security in the amount required by the Licence and in a form satisfactory to the Minister. The release of security furnished by the assignor is administered by INAC upon NWB confirmation of the assignment of the Licence;
3. An updated financial security assessment prepared in accordance with the NWB’s *Guide 4: Completing and Submitting a Water Licence Application for a New Licence*, part 1, section 5, block 19;
4. Letters from each Designated Inuit Organization and existing or other water users confirming that the proposed assignment does not negatively impact any existing water compensation agreements; and
5. A statement of the assignee’s capacity to implement the conditions of the water licence and a schedule for the implementation of all plans, manuals, and reports to be submitted under the licence.



By June 21, 2011 the NWB was in receipt of the following additional information:

- Completed, modified, NWB form entitled “Undertaking of Proposed Assignee”;
- Email from T. Trenholm, INAC, to K. Tunaley, Tunaley, Lines & Associates, on behalf of the NWB, Subject: Lupin and Ulu Securities, dated June 17, 2011; and
- Letter from M. McConnell, MMG, to Whom It May Concern, NWB, Re: Application 2BE-ULU0914, dated June 20, 2011.

With regards to item 3 of the requested information, Elgin informed the NWB that it was waiting to receive an update on the most recent financial security assessment from MMG, at which time it would determine a timeframe for submitting the required information to the Board. In addition, with regards to item 4 of the requested information, Elgin informed the NWB that MMG requested the correspondence from the DIO confirming that the proposed assignment does not negatively impact any existing water compensation agreements, and that it would be submitted to the Board upon receipt.

The Board gave public notice of the application for assignment and invited interested persons to provide comments prior to 5:00 p.m. MST, July 23, 2011. On July 22, 2011, the Kitikmeot Inuit Association (KIA) requested a one week extension to the deadline. By July 28, 2011 submissions were received from the KIA, Aboriginal Affairs and Northern Development Canada (AANDC), formerly known as INAC, and Environment Canada (EC). KIA’s submission confirmed that the proposed assignment does not negatively impact any existing water compensation agreements. Although submissions were received, there were no adverse environmental effects identified that would result from the assignment of the licence to Bonito.

The Board is satisfied that the operation of the appurtenant undertaking by the prospective assignee would not be likely to result in a contravention of any condition of the licence or any provision of the *Act* or the *Regulations*. Therefore, in accordance with Section 44(2) of the *Act*, the **Board hereby authorizes the assignment (Motion #2011-11-L24) of water licence 2BM-ULU0914 from:**

**the Assignor, MMG Resources Inc.,**

**to:**

**the Assignee, Bonito Capital Corp (a wholly owned subsidiary of Elgin Mining Inc.)**

to be effective on the date of this letter, which will be placed in the NWB Public Registry.

Further to the “*Undertaking of Proposed Assignee*” submitted with the application, the Board would like to take the opportunity to highlight the following matters with respect to the assignment of the Licence to Bonito Capital Corp.:

1. Security

In accordance with Part B, Item 2 of the Licence, Bonito is required to furnish and maintain security with the Minister, in the amount of \$1,685,210, in the form that is satisfactory to the Minister. In correspondence dated July 8, 2011, AANDC acknowledged receipt of an HSBC Letter of Credit in



the amount of \$1,685,210 as required by Elgin in accordance with the Licence.<sup>1</sup>

In addition, the NWB notes the confirmation from the Kitikmeot Inuit Association (KIA) that the transfer of the water licence does not negatively impact any existing water compensation agreements with the KIA in respect of the Ulu Gold Project as there is currently no existing water compensation agreement in place.<sup>2</sup>

## 2. Compliance

### a. Financial Security

Part B, Item 5 of the Licence required the Licensee to provide the Board, within ninety (90) days following issuance of the Licence, with an updated estimate of the Ulu Gold Project restoration liability using the current version of RECLAIM, its equivalent or other similar methods approved by the Board, in accordance with principles of INAC's "Mine Site Reclamation Policy for Nunavut" (2000). This updated estimate was submitted by Elgin on August 25, 2011 and is currently under review. Following its review of this liability estimate, the Board may provide additional instructions.

### b. Waste Management

Part D, Item 13 of the Licence required the Licensee to submit to the Board for approval in writing, within ninety (90) days of Licence issuance, a Waste Management Plan to address the storage and disposal of all solid and hazardous waste produced as a result of the project. This Plan was submitted by Elgin on August 29, 2011 and is currently under review. Following its review of this Plan, the Board may provide additional instructions.

### c. Spill Contingency

Part E, Item 1 of the Licence required the Licensee to submit to the Board for approval, by March 31, 2010, an updated Spill Contingency Plan prepared in accordance with the *Spill Contingency Planning and Reporting Regulations* developed under the *Environmental Protection Act (Nunavut)*. The revised Plan was required to include an executive summary and translations in accordance with Part B, item 11 and reflect the new ownership of the project. This Plan was submitted by Elgin on August 29, 2011 and is currently under review. Following its review of this Plan, the Board may provide additional instructions.

### d. Care and Maintenance

Part I, Item 1 of the Licence required the Licensee to submit to the Board for approval in writing, within ninety (90) days of issuance of this Licence, a Care and Maintenance Plan for water and waste related infrastructure at the Ulu project site including water quality monitoring, fuel storage, equipment storage, site maintenance, water usage and maintenance of other engineered components.

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<sup>1</sup> Memo from T. Trenhom, AANDC, to P. Beaulieu, NWB, Re: Acknowledgement of Receipt of Securites: UHSBC Letter of Credit, No. GTE HTO 119123 for Water Licence 2AM-LUP0914 for the amount of CAD 25,500,000.00; and UHSBC Letter of Credit No. GTE HTO 119128 for Water Licence 2BM-ULU0914 for the amount of CAD 1,685,210.00, dated July 8, 2011.

<sup>2</sup> Letter from L. Torretti, KIA, to D. Filiatrault, NWB, Re: Application for Assignment of Water Licence 2BM-ULU0914 – Water Compensation Agreement and KIA Extension Request, dated July 28, 2011.



This Plan was submitted by Elgin on August 29, 2011 and is currently under review. Following its review of this Plan, the Board may provide additional instructions.

e. Closure and Reclamation

Part I, Item 2 of the Licence required the Licensee to submit to the Board for approval in writing, within ninety (90) days of Licence issuance, an updated Interim Closure and Reclamation Plan prepared in accordance with the *Mine Site Reclamation Guidelines for the Northwest Territories, 2007* and consistent with the *INAC Mine Site Reclamation Policy for Nunavut, 2002*. The Plan was required to include an executive summary and translations in accordance with Part B, item 11, cover all project-related components and reflect the new ownership of the project. This Plan was submitted by Elgin on August 29, 2011 and is currently under review. Following its review of this Plan, the Board may provide additional instructions.

f. Quality Assurance/ Quality Control

Part J, Item 8 of the Licence required the Licensee to submit to the Board, within ninety (90) days following issuance of the Licence, a Quality Assurance/Quality Control (QA/QC) Plan. The Plan was required to include up to date field sampling methods to all applicable standards, acceptable to an accredited laboratory as required by Part J, Item 6 and Part J, Item 7. The Plan was to include a covering letter from the accredited laboratory confirming acceptance of the Plan for analyses to be performed under the Licence. To date this Plan has not been submitted; however, in email correspondence dated August 29, 2011, Elgin confirmed that the QA/QC Plan and related correspondence would be completed within one year.

3. Enforcement

Effective upon the date of this letter, **Licence 2BM-ULU0914 is assigned to Bonito Capital Corp. and all terms and conditions of this licence remain unchanged and in effect.** Sections 85 to 94 of the *Act* provide the provisions for the enforcement of this water licence assigned by the NWB. The Minister of Aboriginal Affairs and Northern Development Canada (AANDC) has the power to designate inspectors and analysts responsible for inspection and compliance. The NWB asks that you contact the Inspector at the AANDC Regional Office in Iqaluit to obtain a copy of any enforcement documents related to this licence.

If you have any questions please feel free to contact Phyllis Beaulieu, Manager of Licensing at [licensing@nunavutwaterboard.org](mailto:licensing@nunavutwaterboard.org), for licensing matters, or David Hohnstein, Director Technical Services at [dts@nunavutwaterboard.org](mailto:dts@nunavutwaterboard.org) for questions regarding technical matters of this assignment.

Sincerely,



Thomas Kabloona  
Chair, Nunavut Water Board  
TK/kt/pb

Cc. Kitikmeot Distribution List

