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Re-engagement of Bathurst Inlet Port and Road Project in the NIRB process

Ms Hanson,

As a follow up to the Nunavut Impact Review Board (NIRB) letter of April 5th 2012, this correspondence aims to provide additional information on the advancement of the Bathurst Inlet Port and Road (BIPR) Project. We believe this additional information will allow NIRB to more accurately assess the scope of the Project and ultimately ensure that re-engagement of the updated Project into the NIRB process will be acceptable to relevant authorities. Xstrata Zinc Canada (Xstrata) and Sabina Gold and Silver Corp. (Sabina) have jointly prepared this letter as we believe in the importance of this road and port to our respective projects.

Background on BIPR

The BIPR Project, as originally described, was intended to service the existing diamond mines in the Slave Geological Province (SGP) and help to attract capital investments for on-going exploration and development of new mines in the area. It was also intended as an opportunity to reduce the cost of delivery of essential bulk materials (e.g. fuel) to Kitikmeot communities, thereby reducing the cost of living in these communities.

The previous Project proponent, the Bathurst Inlet Port and Road Joint Venture Ltd., was owned by Kitikmeot Corporation (50%) and Nuna Logistics Limited (50%). Kitikmeot Corporation is wholly owned by the Kitikmeot Inuit Association, a Designated Inuit Organization (DIO) under the Nunavut Land Claims Agreement; Nuna Logistics is owned in part (25.5%) by Kitikmeot Corporation, who directly and indirectly owned 62.75% of the Project.

The following table summarizes the main chronological events on the BIPR Project in the NIRB process.

| Historical events of BIPR in the NIRB Process | Date |
|--|-----------|
| Initial Project Description submitted | May 2003 |
| Project Final Guidelines issued by NIRB | Dec. 2004 |
| Submission of Draft EIS | Jan 2008 |
| Responses to Information Requests | June 2008 |
| Technical Review Comments received | Nov. 2008 |
| Technical Review suspended | Nov. 2008 |
| Previous Proponent does not intend to re-engage the Technical Review Process | July 2011 |
| New Proponent intends to re-engage the Technical Review Process | Mar. 2012 |

In July 2011, the BIPR JV indicated to NIRB their intention to not pursue the environmental and technical review process of the Project, as one of the potential users decided that BIPR was no longer included in their base case. In November 2011, Sabina acquired the BIPR Project and Xstrata acquired, from Sabina, the Hackett River Project located about 20km north-west of the proposed BIPR road; a few months later Xstrata and Sabina confirmed to NIRB their intention of re-engaging the BIPR Project in the NIRB process.

The updated BIPR Project

Currently, Xstrata and Sabina are working on an agreement to create a business structure for ownership of BIPR. The new business structure will facilitate the addition of other business partners including an Inuit Partner(s) from the Kitikmeot Region. The road and port area would be used by both mining projects (Hackett River and Back River Project); this sharing of infrastructure will help to reduce the overall environmental footprints of these Projects.

All infrastructure associated with the updated BIPR Project will be situated entirely within Nunavut and corresponds to the same route and general port location as indicated in the Draft EIS submitted in 2008. The Project and related infrastructure proposed will be located on Inuit Owned Land (IOL) owned by the Kitikmeot Inuit Association (KIA) and on Federal Crown Land.

The characteristics of the updated BIPR Project are summarized below.

- The updated BIPR Project has the same overall objectives as described in 2008
 - Mining operations and Kitikmeot communities re-supply of fuel and goods;
 - However, different mining operations are now identified as the main targets for re-supply (Hackett River and Back River instead of Jericho, Diavik, EKATI and Snap Lake).
- The same route for the all-weather road and similar port facilities as described in 2008 would be used, however a different construction schedule would be utilized
 - Phase 1: Bathurst Inlet port and infrastructure + 85 km of all-weather road to be built by current proponent following necessary approvals (NIRB certificate, Water License, Land Use Permits)
 - Phase 2: 126 km of all-weather road and landing facilities at Contwoyo Lake would be built when future users are identified and ready to use the infrastructure
- The same shipping route would be used as described in 2008.

- Similar number of supply/fuel trucks per year as stated in 2008 but dispersed over the year (with operational restrictions during active caribou migration periods) instead of 3 months.
- The current project proponent will seek the support and involvement of Inuit and local organizations.

Importance of BIPR to Nearby Mining Projects

Hackett River Project

Construction and operation of the Hackett River Project requires access to shipping facilities and corridors to transport concentrate from the mine site to market. The BIPR Project would fulfill that need. Xstrata owns and operates the Brunswick Mine in New Brunswick which is scheduled to close in March 2013. Hackett River has the potential to become the alternate source of concentrate to supply Xstrata's zinc refinery located in Québec (CEZinc), provided that it can be implemented within a specific timeframe. As such, the permitting schedule for the Hackett River Project is on the critical path for development in order to provide the required supply of zinc concentrate in this time line.

Contrary to the EKATI and Diavik mines, a winter road is not currently considered as an economically viable option for the construction/operation of the Hackett River Project due to the magnitude of the project and the necessary and constant interactions between the mine site and Bathurst Inlet during the commissioning and operational phases of the project.

Back River Project

Sabina is currently reviewing options for infrastructure related to its Back River Project; including a transportation corridor (winter road) from the property connecting with a port/laydown area at Bathurst Inlet. However, all weather roads in the region, as contemplated in the updated BIPR Project, would allow for more options for future development of Back River and would improve project viability and economics.

Other considerations

Other options have been considered to access these respective sites such as a winter road from Contwoyto Lake or Bathurst Inlet. Winter roads have the advantage that they can be permitted within a relatively short period. However, winter roads also have serious limitations. On the Tibbitt to Contwoyto Winter Road from Yellowknife to EKATI, Diavik, and Snap Lake, priority is given to supply diamond mines or projects; this would result in unacceptable operational risks.

Winter roads from Bathurst Inlet to the Hackett River or Back River projects would have the advantage of being close to the future port installation in Bathurst Inlet, but could not use the same route as the BIPR Project. For example, a 200 km ice-road with a narrow window of

operation would have to be built every year (\$15M est. / year) for Hackett River as opposed to the all-season 85 km long weather road contemplated by BIPR.

Early access to allow for construction and development is critical to the development of Hackett River.

Finally, accessing either Hackett River or Back River only by air for all construction & operations is very unlikely feasible and economical. Early access to allow construction and development is critical to mineral development.

Schedule for the re-engagement of the BIPR Project in NIRB Process

It is the objective of the current BIPR proponent to submit an updated Draft EIS to NIRB during the first quarter of 2013. This assumes that the NIRB recognizes that the re-submission of an updated Draft EIS, based on the fact that the fundamental objectives of BIPR have not changed, would be acceptable. This recognition on the re-engagement of BIPR in the NIRB process would not affect nor influence the NIRB Board recommendation and subsequent Ministerial decision on the BIPR Project overall acceptability.

This updated Draft EIS would integrate the responses to the technical review comments received in 2008 and new baseline data (from 2010 and 2012 field surveys) gathered since the previous submission. The proponent believes that with this additional information that the updated Draft EIS would be more advanced than most equivalent submissions for other projects.

It should be noted that the plan to re-engage the BIPR Project in the EIS review process was presented during a recent visit to five Kitikmeot communities (Cambridge Bay, Gjoa Haven, Kugluktuk, Kuugaruk, and Taloyoak) by Xstrata in October 2012. The proponent will seek guidance from NIRB on the necessity of conducting other consultations prior to submission of the Draft EIS.

A Final EIS could be submitted towards the end of 2013 and possible authorizations by appropriate authorities before the end of 2014 in order to allow the infrastructure to be operational in 2015. In addition it is believed that a coordinated process between NIRB and the Nunavut Water Board (NWB) would greatly help to meet this schedule.

New applications

Previously submitted applications remain with the various authorizing agencies. Once the legal details regarding the new BIPR are finalized, amended applications may be submitted to responsible authorities.

Participant Funding

Recent discussions with AANDC representatives in Iqaluit indicate that the funding status of some interveners may not be in good standing. However, after a decision is made by NIRB on BIPR re-engagement, communication with all previous interveners will be made by AANDC to inquire about their interest in participating in the upcoming BIPR EIS review process.

Conclusion

The proponent believes that the BIPR Project can be re-engaged in the process as its overarching purpose would be essentially unchanged as from the one presented in 2008. BIPR Project will be a facility offering basic services: fuel farm, dock, laydown area and aerodrome to the different users, not exclusive to the Hackett River Project and Back River Project. The proponent believes that the Project infrastructure could service both the Hackett River Project and the Back River Project at a minimum while helping attract capital investment for on-going exploration and development of new and existing mines. The Project is critical infrastructure for enabling employment and business opportunities for residents in local communities and expanding the economy of the Kitikmeot region and Nunavut. It could have the potential to reduce the cost of transporting essential bulk materials (e.g., fuel) to Kitikmeot communities, thereby positively impacting the cost of living in these communities through improved economies of scale.

As per Hackett River EIS Guidelines, any potential effects from concentrate hauling, storage at the port and shipping would all be covered in the EIS of Hackett River. Any potential effects from additional activities related to Back River would also be addressed in the Back River EIS. However, cumulative effects of the Hackett River Project and Back River Project with BIPR Project would be evaluated in the BIPR EIS.

Xstrata and Sabina recognize that infrastructure is needed to enhance development opportunities in the Kitikmeot Region, not only for Hackett River and Back River but for other future mineral projects in the region. Completing the environmental assessment along the entire BIPR corridor could move infrastructure development forward for other parties in the area. Staging the permitting and construction could meet project development needs for Hackett River and Back River.

The attached summary text constitutes the most recent draft description for the updated BIPR Project. We would appreciate feedback on the approach presented. Although Sabina will remain part of BIPR, Xstrata will be the main point of contact for future discussions on the Project. Please contact Denis Hamel or Robert Prairie to discuss further.

Best regards,



Denis Hamel

Xstrata Zinc Canada



Matthew Pickard

Sabina Gold & Silver Corp.

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Updated BIPR Project Summary

Draft – December 2012

1. Project Rationale

The BIPR Project is an opportunity to enhance the economic stability of the Kitikmeot region and greater Nunavut through the establishment of infrastructure to support existing mineral projects and proposed mining operations. Additional infrastructure would also provide opportunities to enhance the economics of transporting essential materials to the communities of the region. Initially, the Hackett River and Back River Projects, respectively located about 20 km northwest and 80 km southeast of the proposed BIPR road, could both benefit from its implementation.

2. Purpose and Need

Reviewing the need for and purpose of the Project and the Project rationale from the Executive Summary of the BIPR Draft EIS (2008), the updated BIPR Project's functions and benefits, would not change significantly and can be described as follows:

- increased certainty of supply combined with a lower landed cost of fuel and other bulk goods destined for mines in Nunavut and NWT;
- significantly lower landed cost of fuel and other bulk goods from Eastern Canada destined for Kitikmeot communities via the port at Bathurst Inlet;
- significantly earlier arrival of materials at similar or lower landed cost from western Canada destined for Kitikmeot communities shipped north on the winter road via Yellowknife;
- increased training, employment and business development opportunities for workers and businesses in the Kitikmeot region;
- overall increased wage incomes and business activities in the Kitikmeot region that will contribute increased tax revenues to the Governments of Nunavut and Canada;
- significantly reduced capital and operating costs for future mineral exploration and mine development in the Nunavut portion of the Slave Geological Province; and
- provision of capacity to allow additional development to occur in the region.

Community re-supply using the Bathurst Inlet port infrastructure would be best implemented by a locally owned transportation logistics company in close collaboration with the port operator. This would allow efficient and timely re-supply of goods and fuel in the Kitikmeot region.

In addition, the shipping route and the port will help further the federal initiative of increased Arctic sovereignty, particularly along the Northwest Passage.

3. Proponent Overview

Currently, Xstrata and Sabina are finalizing an agreement to create a business structure for ownership of BIPR to be named Bathurst Inlet Port and Road Incorporated (the Proponent). The new business structure will facilitate the addition of other business partners; in particular, both Xstrata and Sabina would welcome the addition of an Inuit Partner from the Kitikmeot Region. BIPR could also create considerable potential business opportunities for Inuit owned companies in the region such as catering services, stevedoring services, fuel distribution (from the port to communities in the region), transportation services to other projects in the region, and many others, throughout development and construction and in particular during mining operations of the projects.

By providing port and land access to the mineral rich Kitikmeot area, the Project will reduce exploration cost for companies providing the capacity to do more exploration for the same budget. This increases the likelihood of finding additional economic projects in the area. Without a deep sea port and permanent road, no base metals project would be economical.

4. Land Tenure

As in the previous 2008 Draft EIS submission, the proposed Project facilities will have to use both Inuit Owned Land (IOL) and Federal Crown Land. The Project will require surface leases from AANDC for the port development (Phase 1) and from KIA for Contwoyo Camp (Phase 2). The roadway may require a lease or license of occupation for the right of way (tenure). Quarries will need land use permits and quarry licenses.

Phase 1:

- Facilities on IOL include:
 - 29.7 km of all-weather road.
- Facilities planned on Federal Crown Land include
 - port site including camp and airstrip;
 - 55.4 km of all-weather road.

Phase 2:

- Facilities on IOL include:
 - Contwoyo L. Camp ; and
 - 52.6 km of all-weather road.
- Facilities planned on Federal Crown Land include:
 - 73 km of all-weather road.

5. Project Details

The main difference in the function of the current proposed BIPR as compared with the previous submission of the Draft EIS in 2008 is in the mining customers targeted for improved conditions for fuel and bulk goods delivery. Hence, Hackett River and Back River projects would be the first mining projects to use the BIPR Project, instead of EKATI and Diavik.

Further review of the project components also indicates that the majority of the proposed infrastructure for the BIPR Project would not change either. The Project would include a port that would service 50,000+ tonnes ice-class vessels for the delivery of fuel, bulk cargo and general supplies as well as barges containing fuel and supplies for Kitikmeot communities. The port facilities will include a barge landing potentially allowing service to the Kitikmeot communities, a wharf, laydown and container storage areas, accommodations (camp and services for 200 persons), maintenance shops, power plant, airstrip (1,200m) and heliport, a sewage treatment plant and other site services. It will also include a 220 million liter diesel fuel tank farm. This is what was envisioned by the BIPR Joint Venture in 2008. However, with the Hackett River Project adding additional components to it such as concentrate storage at the port (as identified within the 2008 Hackett River Project Proposal) the impacts related to these additional components would be addressed in details in the Hackett River EIS but also evaluated within the Cumulative Effects Chapter of the BIPR Draft EIS.

The up-coming updated Draft EIS submission will include the original route for the road and a deep sea port location as previously presented. However, because the mining projects identified as users of the new BIPR are different than those identified in the Project Description in 2008, and are also closer to Bathurst Inlet, the construction of the BIPR would be implemented in 2 phases. All the port facilities would be built in the first phase as well as the first 85 km of the road. The rest of the road and the camp at Contwoyto Lake would be built at a later time in a second phase, once future users of the whole road length from Bathurst Inlet to Contwoyto Lake are confirmed.

Another change to be noted from the 2008 BIPR submission is the level of activity on the road. It is envisaged that the all-weather road would be used 10-12 months per year instead of 3 months. Therefore, the use of BIPR for fuel/goods and supplies transport could be about 18 trucks per day over 12 months instead of 73 trucks per day over 3 months; however, the total volume of fuel and cargo transported (ie 7,000 trucks/yr) should not change.

Finally, the cumulative effects assessment within the updated BIPR Draft EIS will include any overlapping activities including those related to concentrate handling for the Hackett River Project. The concentrate shipping windows may increase, from 3 to 10 months, depending on the results of an ongoing tradeoff study. The longer shipping period would contribute to the

economic viability of the project and reduce ship traffic in Bathurst Inlet during the ice free months. Xstrata recognizes the sensitivity of such a proposal and is fully committed to assess and mitigate any of the social and/or ecological impacts that could be related to this potential increased shipping window.

6. Potential Customer Groups

Apart from Xstrata and Sabina who will be the main users of the BIPR, other companies will potentially be using that road. Here is a list of Prospective users:

- Other operators of current mines in the Kitikmeot region of Nunavut (the Jericho Diamond Mine) and in the NWT (EKATI, Diavik, and Snap Lake diamond mines) and future operations such as MMG Izok corridor; these operations will be solicited during Fall 2012.
- Nunavut communities accessible by barge from the port.

7. Financial Feasibility and Benefits

A major objective of the BIPR Project Feasibility Study completed by SNC-Lavalin in 2007 was to determine the technical and financial feasibility of constructing and maintaining a toll road and port transportation network to service known and potential users in the region. The study concluded that considerable cost savings could be achieved by transporting fuel and goods via a marine supply route from the north, and that port and road tariffs could be charged to recover the capital and operating costs of the transportation infrastructure. The proponent is currently revising the financial evaluation for the construction and operating cost of the infrastructure.

8. How the new BIPR would be operated

The concept is to impose a toll on a per tonne/kilometre basis for the usage of the port and road facilities. While the port and road infrastructure will be owned and maintained by the proponent, the trucks used to haul fuel and operating supplies will be under direct contract to the end users. It is envisioned that a majority of the road haulage equipment (tractor/trailers) could be owned and operated by Inuit contractors under direct contract to mine operators.