



December 22, 2014

Veronica Chisholm
Permitting Manager
Gahcho Kue Project
De Beers Canada Inc.
SUITE 300, 5120-49th STREET
YELLOWKNIFE NT X1A 1P8

Dear Ms. Chisholm:

Gahcho Kué Development on Kennady Diamonds Mineral Rights

Further to discussions held with Department of Lands staff regarding your lease applications and development plans for Gahcho Kué, we would like to clarify the issue and update you on recent correspondence.

Section 7.(1) of the *Mining Regulations* prohibits the development of a mine where someone else owns the mineral rights in the area. Therefore, the Department of Lands cannot entertain surface lease applications where mine dewatering infrastructure overlaps mineral rights owned by Kennady Diamonds.

Initially, Kennady Diamonds provided us a letter of support for the Gahcho Kué infrastructure proposed on their mineral rights. Recently, Kennady Diamonds has retracted their consent to the development. We have attached a copy of this correspondence. It should be noted that a letter is insufficient to waive the requirement in the *Mining Regulations*; therefore, at this time, there are two options:

- 1) Reposition the dewatering pipeline and related infrastructure that currently overlaps Kennady Diamond's mineral rights.
- 2) Become the holder of the mineral rights in accordance with Section 7.(1) of the *Mining Regulations*.

The Department of Lands is happy to discuss land tenure requirements in the NWT and hope to see this matter resolved in order for the Gahcho Kué project to proceed in a timely fashion. Please continue to direct questions or correspondence to Melissa Bard, Lands Specialist Team Lead at (867) 765-6720.

Sincerely,



Blair Chapman
A/Assistant Deputy Minister
Department of Lands

Attachment

c. Ms. Deborah Archibald
Assistant Deputy Minister
Industry, Tourism & Investment

Mr. Zabey Nevitt
Executive Director
Mackenzie Valley Land and Water Board

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December 4, 2014

Melissa Bard
Land Specialist Team Lead
Lands Administration
Department of Lands
Government of the Northwest Territories
Box 1320, Yellowknife, NT
X1A 2L9

Dear Ms. Bard,

RE: KENNADY DIAMONDS LEASE 4340

Please refer to our letter dated October 24, 2014 in regard to the above lease.

Please note that the consents described in the above letter were provided to De Beers Canada, Operator of the Gahcho Kué Joint Venture, on the basis that the proposed structures would be of a temporary nature. Kennady Diamonds has since established that the structures are not of a temporary nature and relate to mining activities at the Gahcho Kué mine. It is the understanding of Kennady Diamonds that such structures require ownership or part ownership in the affected leases, which De Beers Canada does not have.

Please also note that Kennady Diamonds is actively exploring on all the leases and claims currently held by the Company, in particular the abovementioned lease 4340. These exploration activities are being undertaken in order to discover an economic deposit which could be mined. It appears that the activities associated with the proposed structures could impact Kennady Diamonds' future activities.

In view of the above, Kennady Diamonds hereby withdraws the consents provided in the above letter.

Sincerely,



Patrick Evans
CEO

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