

September 26, 2016

Julian Morse
Regulatory Officer
Mackenzie Valley Land and Water Board
P.O. Box 2130
Yellowknife NT X1A 2P6

Project Update and Application for the Amendment of Type “B” Water Licence MV2013L2-0005 and new Type “A” Land Use Permit - Kennady Diamonds Inc. (KDI) Advanced Exploration Project

Dear Mr. Morse:

Kennady Diamonds Inc. (KDI) is submitting the attached applications for the amendment of Type B Water Licence MV2013L2-0005 and new Type A Land Use Permit for advanced exploration.

Exploration activities at the Kennady North Project continue to progress well with additional bulk sampling and valuation at the Kelvin kimberlite and further delineation of the Faraday kimberlites. We expect to be able to complete a Preliminary Economic Assessment for Kelvin in the coming months which is an important path to the development of a resource. However, KDI has more exploration work to do before it can determine with enough confidence whether there are sufficient diamonds of good quality at the site to make it economically viable to develop a mine operation.

At this stage, KDI is proposing advanced exploration activities in order to obtain the information necessary to complete a Feasibility Study for the Kennady North Project. The purpose of a Feasibility Study is to reclassify certain mineral resources as mineral reserves (the economically mineable part of a mineral resource) by examining all of the technical, economic, environmental and social implications to mining; the Feasibility Study will guide the decision-making process on whether or not the construction of a mine is a viable option. Establishing and increasing the quantity and confidence level of the mineral resource to a level that supports a successful Feasibility Study requires the additional work proposed in this application.

In this application, KDI is requesting the following new additions to its existing operations:

- increase in extraction from 1,200 to 5,000 tonne/yr bulk sample;
- construction and operation of an underground decline to access the Kelvin and Faraday kimberlite deposits for bulk sampling;
- construction and operation of a multi-purpose laydown and camp area (approximately 5 ha);
- construction and operation of a pioneer all-season airstrip (approximately 1,650 m by 45 m) to accommodate larger aircraft for workers and resupply;
- construction and operation of limited all-season roads linking the winter road to the laydown, airstrip, declines, and drilling locations at the Faraday and Kelvin deposits;
- construction and operation of a new 140-person mobile camp on the laydown area and consolidation of existing Kelvin Camp modules with this new camp;

- quarrying and/or the use of cut and fill to obtain material for roads, laydown area and airstrip as necessary;
- increase in use of explosives (including mixing and storage) for quarrying and construction of the decline;
- installation and operation of a portable bulk sample processing plant (< 100 tonnes/d); and,
- increase to the size and quantity of various types of equipment (e.g., trucks, loaders, underground equipment) as well as the amount of fuel storage allowed on site in order to accommodate the proposed activities (see Project Description, Appendix B, for lists of equipment and fuel).

Further details and comparisons of changes can be found in our attached *Advanced Exploration Project Description - September 2016*.

KDI wishes to highlight that water use during project operation has been several fold lower than assessed in the original preliminary screening and lower than that permitted by the water licence MV2014L2-0005. This has allowed our waste stream and associated impacts to be much reduced. For advanced exploration we will continue to manage water use and waste in a manner consistent with our current license conditions.

This new set of applications for advanced exploration does requires a change in the scope of the project to accommodate new activities such as limited all-season roads, a decline, and an airstrip. In order to assist reviewers in considering the change in scope, KDI has provided a *Screening Level Environmental Impact Assessment for the Proposed Advanced Exploration Program*. The screening results outlines potential environmental effects, predictions, and the proposed mitigation to minimize or eliminate impacts. KDI believes effects of advanced exploration will be minimal, contained, and that a screening-level assessment is sufficient at this time. In future, should a feasibility study and KDI decision-making lead to an application for a comprehensive mining and milling project, KDI will approach regulators with a request for a comprehensive environmental review.

We request that previously screened aspects of the project (see preliminary screening report dated [February 27, 2014](#)) be exempt from preliminary screening in this amendment application, and that only new additions be considered. After holding discussions with regulators and Aboriginal communities, KDI believes that the additional/modified activities requested here are small and the scope and impact are not significant. In order to highlight this point, Appendix D of the attached *Advanced Exploration Project Description - September 2016* provides a direct comparison of current and proposed project scope, activities and equipment lists.

We thank the Board staff and Board for considering our permitting applications.

Yours sincerely,
Kennady Diamonds Inc.



Rory O. Moore,
President & CEO

Documents Attached:

- Advanced Exploration Project Description - September 2016
- Amendment Application for MV2013L2-0005 and new application for MV2013C0023
- Updated plans including:
 - Waste Management Plan v3.0
 - Closure and Reclamation Plan v.3.0 and RECLAIM cost estimate
 - Spill Contingency Plan v3.0
 - Mineral Tenure description
 - Engagement Plan v3.0
 - Wildlife Mitigation and Monitoring Plan v2.0
- New Plans
 - Screening Level Environmental Impact Assessment for the Proposed Advanced Exploration Program
 - Rock Management Plan
 - Quarry Management Plan
 - Explosives Management Plan
- Project Stream Crossings report