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**BHP Billiton Canada Inc.**  
Operator of the EKATI Diamond Mine

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December 21, 2011

Wek'èezhìi Land and Water Board  
#1, 4905 – 48<sup>th</sup> Street  
Yellowknife, NT  
X1A 3S3

Attention: Ms. Violet Camsell-Blondin, Chair

**Re. EKATI Diamond Mine, Security for Pigeon Project**

Thank you for your letter of December 13, 2011 to BHP Billiton Canada Inc. approving documents describing construction of the Pigeon Stream Diversion Channel. In that letter you also advise BHP Billiton that it should provide the security described on Part C Item 1(c) of the EKATI Water Licence. We have noted that this appears to be a typo in your letter and that the reference should be to Part C Item 1(e), which is the clause pertaining to the Pigeon Project. The Water Licence requires this security (\$1,260,481) to be provided “sixty (60) days prior to Construction commencing at the Pigeon Pit”.

Follow up discussions with Board staff have made clear that the Board and BHP Billiton have had a previously undiscovered difference in reading this clause. BHP Billiton has read and understood this clause to mean that the requirement for this security would be triggered by mining activities that are directly related to the Pigeon Pit and not by initial construction of the Pigeon Stream Diversion, which precedes actual mining activities by at least 18 months. BHP Billiton’s reading of this clause is consistent with its understanding of other clauses in the Water Licence that have requirements triggered by construction activities related to the Pigeon Project (clauses G.1(b), G.2(b) and G.3(b)., for example). BHP Billiton’s understanding is also based, in part, in knowledge that the Pigeon Stream Diversion Channel is also approved under the Pigeon Land Use Permit, which already holds security of \$427,000.

Board staff have explained that, in the Board’s reading, there is a unique distinction in the wording of clause C.1(e) in that it is triggered by “Construction commencing at the Pigeon Pit” whereas other clauses are triggered by “Construction of both the Sable and Pigeon Pits” (emphasis added in both cases). The staff indicated that the Board reads the words “at” and “of” as indicative of different triggers for implementation.

On the understanding that the immediate requirement lies solely with the security described in clause C.1.(e) and that other requirements in the Water Licence are to be triggered in future by direct mining activities (i.e., pre-stripping/earth moving), BHP Billiton has initiated work to provide the security described in clause C.1(e).

BHP Billiton is advising the Board, via this letter, that it is unlikely that this security can be posted prior to the scheduled start of construction of the Pigeon Stream Diversion Channel in January. This is a result of BHP Billiton only now becoming aware of the Board's reading of the requirement. BHP Billiton has initiated work internally on this security and will be in contact with AANDC to complete the transaction to its satisfaction as quickly as practical. BHP Billiton will proceed on this basis unless advised otherwise by the Board.

Thank you for your efforts and those of your staff in seeking clarity on this and the other similar clauses in the Water Licence. It is a result of good communications between our two organizations that this nature of issue can be addressed in an effective manner.

Please contact the undersigned at 669-6116 if you have any questions.

Sincerely,

**BHP Billiton Canada Inc.**

A handwritten signature in black ink, appearing to read "E. Denholm". The signature is fluid and cursive, with a large initial "E" and a stylized "Denholm".

Eric Denholm, Superintendent – Traditional Knowledge and Permitting  
EKATI Diamond Mine