



December 22, 2013

Willard Hagen
Chair
Mackenzie Valley Land and Water Board
7th Floor-4910 50th Avenue,
Yellowknife, NT
X1A 2P6

Re: Security, Prairie Creek Mine LUP MV2008D14 and Water Licence MV2008L2-002

Dear Mr. Hagen,

We refer to your letter dated November 29, 2013 in connection with the above noted subject.

As you are aware, Condition 32 of Land Use Permit MV2008D0014 (LUP) issued on June 17, 2013 requires a deposit to the Minister of Aboriginal Affairs and Northern Development Canada of security of \$3,000,000 within 90 days of issue of the LUP. Water Licence MV2008L2-0002 (WL) issued by the Water Board on July 7, 2013 and approved by the Minister on September 24, 2013 requires, at Schedule 2, the provision of security of \$3,000,000 to be paid to the Minister of Aboriginal Affairs and Northern Development Canada within 90 days of the effective date of the WL.

Canadian Zinc Corporation (CZN) wrote to you on June 26, 2013 requesting an amendment to Condition 32 of the LUP. In a subsequent letter to the Board dated November 6, 2013 we advised that CZN was in communication with Aboriginal Affairs and Northern Development Canada (AANDC) and with the Government of the Northwest Territories (GNWT) concerning the change of status of Surface Lease #95F/10-5-5 from care and maintenance to mining operations and, as part of the discussions, the matter of security would be considered.

Following on from those communications, CZN wishes to restart the amendment application currently held by the Board in connection with Condition 32 of LUP MV2008D0014. In addition, CZN also wishes to alter Schedule 2, Item 1 of WL MV2008L2-0002.

CZN is not requesting any change to the total amount of security required by the Board, but is requesting that the timing schedule for posting such security be changed to reflect proposed actual activities and operations authorised by the LUP and WL, and to align the posting of such security with the senior project financing for the development of the Prairie Creek project and such activities and operations. Please note that in the meantime, CZN does not plan to, and will not, commence the land use operations or any of the activities or undertakings authorised by the LUP or WL.

Security required under the Water Licence and Land Use Permit

The Board's June 14, 2013 Reasons for Decision for the LUP and WL described the security conditions and the Board's reasoning for drafting the security conditions. Throughout the Reasons for Decision, the Board explained that a portion of the security requirement would be for existing liabilities at Prairie Creek:

The financial security conditions in the Water Licence and the mine site Land Use Permit require an initial deposit shortly after approval, with additional deposits phased to match the increasing liability at the mine as the Project progresses. The initial deposit required by the Licence will ensure that all current and historical liability at the Prairie Creek Mine is secured before new operations begin. (at p.6)

...The remainder of the security needed to address current liability that is required to be posted prior to any mining activities taking place on the site, which ensures existing liability will be secured "as soon as possible, but no later than the forecast life of the mine" (AANDC Mine Site Reclamation Policy, pg 12). In the Board's view, the key consideration is to ensure that all liability at the mine site is secured before CZN begins activities under the new Land Use Permit and Water Licence. (p. 13-14)

As noted by the Board, of the \$17.07 million total reclamation cost, \$9 million (\$6 million for water and \$3 million for land use) is attributed to existing (current and historical) liabilities. The Board included existing liabilities in its calculation of the amount of security that will be required as follows:

Within 90 days of permit/licence issue:

- WL: \$3 million for existing liability
(bulkheads/grouting, backfill and water treatment)
- LUP: \$3 million for existing liability
(existing buildings and equipment)

Start of Mining:

- WL: \$3 million for existing liability
\$2 million for new operations
(new mining activities and earthworks construction, namely dewatering of the underground workings, development of the waste rock pile, and upgrades to the WSP)

Start of Milling:

- WL: \$5.07 million for incremental increases due to new operations
- LUP: \$1 million for new operations (commissioning of the Mill)

It would seem that the objective of the initial security deposits is to ensure that all current and historical liability at Prairie Creek is secured before new operations begin. CZN agrees in

principle with that objective, but points out that such operations will not commence for the immediate future, and further, that CZN is not currently responsible for historical liability at the Prairie Creek property.

Accordingly, CZN requests that the timing schedule for the required security be changed so that the initial security deposits are only required when the new operations actually commence, and as CZN assumes responsibility for historical liability.

It would appear that in coming to its decisions with regard to security, the Water Board accepted the statement of AANDC (Renewable Resources and Environment) in its Water Licence Intervention dated February 15, 2013 that "CZN, as owner of the site is responsible for all existing and future liability associated with the Prairie Creek Mine site". This statement was not correct.

In our Closing Statement to the Water Board dated February 22, 2013 CZN refuted AANDC's position, stated that this was not correct, and explained to the Board that CZN's current liability in connection with the site is limited by the terms of the Surface Lease and attached Abandonment and Restoration Plan under which CZN holds its current interest in the Prairie Creek property.

Regrettably, we did not provide the Board with a copy of the Surface Lease and Abandonment and Restoration Plan, or the Release signed by AANDC in 1987 (see below) as we did not anticipate that the Board would require security for pre-existing reclamation obligations, or in connection with operations not carried out under the LUP or WL, in advance of the Company undertaking any activities pursuant to the LUP or WL.

Surface Lease 95F/10-5-5

CZN holds its current interest in the Prairie Creek property, and has to date been conducting site operations and exploration, under Surface Lease 95F/10-5-5 (the "Surface Lease"). A copy of the current version of the Lease (dated December 30, 2003) is attached to this letter as Annex A. An Abandonment and Restoration Plan is attached to, and forms part of, the Surface Lease (as Schedule A).

The Surface Lease stipulates requirements regarding reclamation of the site in the event of abandonment, the relevant portions of which are:

ABANDONMENT AND RESTORATION:

25. In the event the lessee decides to abandon the property during the currency of this lease, the lessee will provide the Minister with at least six (6) months' notice prior to the date of abandonment.

26. After supplying notice pursuant to Clause 25, the lessee shall carry out works and actions substantially in the form described in Schedule "A" annexed hereto and forming part of this lease and entitled "Abandonment and Restoration Plan".

27. The Abandonment and Restoration Plan shall be considered an integral part of the terms and conditions of this lease and may not be changed without the agreement of both parties hereto.

28. The lessee shall undertake ongoing restoration during the term of the lease for any land or improvements which are no longer required for the lessee's operations on the land.

Accordingly, under the terms of the Surface Lease, the reclamation obligations of CZN as lessee are limited to those obligations specified in the Abandonment and Restoration Plan (the "Plan"). This is not an obligation to reclaim the site in its totality, but only an obligation to carry out the Restoration Plan. This limitation is emphasized by Clause 27 of the Lease which clarifies that the requirements in the Plan cannot be unilaterally changed by Canada, but requires the consent of both parties.

The content of the Plan also makes clear that the obligations to reclaim are not general, but specific. There are certain required actions that must take place - like Item 7 which requires a clay cap to be placed over the coarse ore stockpile. However, to ensure clarity, other on-site structures have specific requirements which require CZN to leave them in place as-is or gives CZN the option of deciding what to do with them. The following are a few examples:

Item 3 REMOVAL OF STRUCTURES AND BUILDINGS

The lessee shall have the option to either remove or leave all major structures and buildings that presently exist on the lease. Annex 3 to this schedule details what these structures are.

Item 4 CONCRETE STRUCTURES

All concrete structures will be left in their present state. No demolition or burying will be attempted.

Item 8 TAILINGS POND

The tailings pond shall be left in its present condition.

The terms of the Surface Lease and the content of the approved Abandonment Plan make clear that CZN is not responsible for total reclamation, and in fact CZN is required, for example, to leave the tailings pond in its "present condition".

Liability for Reclamation

CZN (previously named San Andreas Resources Corporation) acquired its interest in the Prairie Creek property in 1993 from Nanisivik Mines Ltd. (previously Procan Exploration Company). Procan originally held an interest in the Prairie Creek property in joint venture with Cadillac Explorations Ltd. Cadillac was the operator, leaseholder, claimholder, and permit holder of the Prairie Creek Mine. Cadillac was placed into bankruptcy in 1983.

In 1986, as a part of bankruptcy proceedings, Coopers & Lybrand (Trustee for Cadillac) entered into a Sale and Purchase Agreement for the sale of Cadillac's mineral claims, mining leases and physical assets to Procan, but none of the liabilities. There was no transfer of any land use permit, water licence or surface lease. Additionally, there was a condition precedent that Canada agree to enter into a new surface lease with Procan, and release Procan and its assigns from liabilities created by Cadillac.

Canada consented to the above arrangement and entered into a surface lease with Procan in 1987 (the "1987 Surface Lease"). A copy of the 1987 Surface Lease is attached to this letter as Annex B.

Canada also entered into a Release dated August 10, 1987 in which Canada, represented by the Department of Indian Affairs and Northern Development, released Cadillac, Procan and their successors and assigns (now Canadian Zinc Corporation) from, *inter alia*, all claims resulting from the obligations incurred by Cadillac in respect of restoration of the Prairie Creek Mine site. A copy of the Release, signed by Her Majesty the Queen in Right of Canada, represented by the Department of Indian Affairs and Northern Development, is provided as Annex C.

In 1993, the mineral claims, mining leases and the 1987 Surface Lease were assigned to CZN with the consent of Canada. The 1987 Surface Lease was subsequently replaced by the 2003 Surface Lease (on essentially the same terms).

The historical liability did not, at law, transfer with the transfer of the mineral claims and mining lease. That liability remained with Cadillac and was not transferred to Procan or to CZN. The only exception is the Surface Lease, in which Procan (and now CZN) voluntarily assumed liability for only that reclamation specified in the Abandonment and Restoration Plan, as defined in Schedule A to the Surface Lease.

The Surface Lease and Schedule A have been more or less in their present form since originally being issued by AANDC to Procan in 1987, with minor revisions relating to reductions in site inventory of sensitive items, such as sodium cyanide and PCB's. The Lease is for the purpose of "mine site maintenance", and a new lease will be required for development and production.

Presently, CZN has posted \$250,000 with Canada as security under the Surface Lease.

As a result, CZN's current liability for historical or pre-existing reclamation obligations is limited to:

- those activities listed in Schedule A of the Surface Lease; and,
- the requirements of other Land Use Permits and Water Licences held by CZN since 1993, for which security, as calculated by the Water Board, has already been provided to the Minister.

Cost Estimate for Abandonment and Restoration Plan

CZN has prepared a cost estimate for undertaking the activities defined in the Abandonment and Restoration Plan attached to the Lease (Schedule A) and totals approximately \$2 million. A copy of the cost estimate is attached as Annex D.

Staged Security Payments for Pre-Existing Liabilities

As noted above, the Board decided that CZN should provide approximately \$9 million in security for pre-existing reclamation obligations, obligations that CZN contends are mostly not the responsibility of CZN. However, CZN has accepted that it should become responsible for all reclamation obligations when the development of the mine subsumes the original workings to the point that it would be impractical, if not impossible, to draw a line between what was pre-existing and what was the result of CZN's new operations. In this sense, CZN has accepted that there will be a time when CZN will be responsible for all of the \$9 million in security - but that time is not now and will not be until development of the Prairie Creek Mine has progressed significantly.

We note that during the permitting process, CZN proposed staged payments of security in order to arrive at the required total security amount. Based on the statement provided by AANDC (Renewable Resources and Environment) that CZN was wholly responsible for pre-existing site liabilities, the Board ruled that pre-existing liabilities must be funded immediately, and staging of security payments beyond the time of initiation of project operations was not permissible.

As a result of the evidence provided above, it is clear that AANDC's statement was not correct. Therefore, we ask the Board to re-visit its ruling and again consider CZN's request to stage the security payments to reflect the proposed actual land use operations and activities under the new Land Use Permit and Water Licence, and to align the posting of such security with the senior project financing necessary for the Prairie Creek project and such proposed new operations.

CZN's Proposals for WL and LUP Changes

CZN proposes to post security of \$2 million to cover reclamation liabilities associated with the existing Surface Lease that CZN is responsible for. In the cost estimate in Annex D, the majority of the costs are associated with water and waste activities (removal of mill reagents, removing culverts, covering the Coarse Ore Stockpile), activities which are normally addressed by a Water Licence. Therefore, we propose to immediately post security of \$250,000 in respect of LUP MV2008D0014, and of \$1,750,000 in respect of WL MV2008L2-0002.

As noted above, CZN has already posted security of \$250,000 with Canada in connection with the Lease. As such, the proposed obligation for MV2008D0014 has already been fulfilled. If this proposal is accepted by the Board, CZN will, immediately following approval, post additional security of \$1,750,000 to fulfill the proposed obligation for WL MV2008L2-0002.

Additionally, CZN will proceed with discussions with AANDC and GNWT concerning transition of the Lease from 'Care and Maintenance' to 'Mine Operations'.

After the \$2 million security has been posted, we propose that the outstanding pre-existing reclamation liability be eliminated by: an additional security of \$1 million prior to construction associated with the LUP; \$3 million 12 months later; and, another \$3 million 12 months after that. For each \$3 million payment, \$1 million would be allocated to the LUP and \$2 million to the WL.

The above proposals will mean that \$7 million related to pre-existing reclamation liabilities will be provided in a staged manner over two years following construction. We believe it would be fair and appropriate for the outstanding liability, which is held by Canada, to be reduced gradually during the early years of operations, a period when CZN will derive an increasing benefit from the existing infrastructure and will begin to generate revenue. During these early years, very little additional reclamation liability would be generated. Two relatively small additions would be made to the Mill, a paste backfill plant and a dense media separation circuit. While additional mine development would have occurred and ore extraction commenced, the Waste Rock Pile will still be quite small and the extent of paste backfill underground will be quite limited.

Some of the outstanding pre-existing liabilities will be removed or addressed by CZN during the construction and Mill commissioning phase. The Coarse Ore Stockpile will be removed and the material processed. The Mill reagents in storage on the Reagent Pad, the disposal of which comprises two-thirds of the estimated cost of 'Surface Lease' reclamation (Annex D), will be consumed during the Mill start-up period, or taken off-site by road for disposal. Therefore, during the construction period, the magnitude of Surface Lease liabilities will be significantly reduced, and \$2 million in security will remain with Canada in connection with the existing Surface Lease.

To address the above proposals, and post security for new reclamation liabilities, CZN proposes the following permit changes:

LUP MV2008D0014

- Condition 32 Within 90 days of [issuance of the Permit], the Permittee shall deposit with the Minister a security deposit of \$250,000.
- Condition 33a Prior to the commencement of construction of upgrades to the Mill, the Permittee shall deposit with the Minister an additional security deposit of \$1,750,000.
- Condition 33b Within 12 months of the commencement of construction of upgrades to the Mill, the Permittee shall deposit with the Minister an additional security deposit of \$1,000,000.
- Condition 33c Within 24 months of the commencement of construction of upgrades to the Mill, the Permittee shall deposit with the Minister an additional security deposit of \$1,000,000.

WL MV2008L2-0002

Schedule 2

- 1a) Within 90 days of [the effective date of this Licence], the Licensee shall post and maintain a security deposit of \$1,750,000;
- 1b) Prior to extracting Waste Rock from the underground mine in accordance with this Licence, the Licensee shall post and maintain an additional security deposit of \$2,250,000;
- 1c) Within 12 months of extracting Waste Rock from the underground mine in accordance with this Licence, the Licensee shall post and maintain an additional security deposit of \$2,000,000;
- 1d) Within 24 months of extracting Waste Rock from the underground mine in accordance with this Licence, the Licensee shall post and maintain an additional security deposit of \$2,000,000;
- 1e) Prior to commencing Milling, the Licensee shall post and maintain an additional security deposit of \$5,070,000.

The staging of security payments is important from a financing and project capital cost viewpoint, despite their relatively small magnitude in comparison with overall project development costs, because financing initial capital costs for any new operation poses a significant challenge during normal economic conditions, and more so during the difficult economic conditions that currently prevail.

To assist the Board in consideration of our request to stage security payments, we wish to draw the Board's attention to the decisions made by the Board for the renewal of Water Licence MV2002L2-0019 on behalf of North American Tungsten Company Limited (NATCL). On January 30, 2009 the Board renewed NATCL's WL and ruled that the amount of security was to be increased from the existing \$7.9 Million to \$13.1 million, the latter being the estimated reclamation liability at that time. The Board ruled that four payments of \$1.3 million each were to be paid in installments. We note that the additional security was related to reclamation liabilities that NATCL had created itself and for which it was wholly responsible. Nevertheless, the Board elected to require only staged security payments and not an immediate lump sum payment.

Further, as financial security to be provided to the Minister for reclamation obligations will be increased in increments to 100 per cent coverage not later than the forecast life of the mine, we believe our proposals are in keeping with AANDC's *Mine Site Reclamation Policy for the Northwest Territories*, and the recognition therein that the application of certain aspects of the Policy should take into account the specific situation and issues of individual mines on a case-by-case basis.

Term of Permits and Capital Financing

We also wish to bring to the Board's attention another related issue which is of significant importance to CZN. As you are aware, CZN, as with most junior mining companies, must raise the capital required to finance construction of the Prairie Creek project and the commencement

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of operations. A key consideration in the ability to secure financing is the term or length of operating permits.

The current project schedule for Prairie Creek involves mine development in spring 2015 at the earliest. This will mean that approximately 21 months of the LUP will have elapsed by that time, as well as 15 months of the WL. Commissioning of the Mill would occur in fall 2015, and the first lead and zinc concentrates would be trucked out on the access road in winter 2016, with the first revenue being received sometime thereafter almost three years into the terms of the permits. Therefore, the five year term of the LUP and seven year term of the WL, coupled with the 2013 effective dates of the permits, create considerable difficulties for financing or lending institutions.

Consequently, we ask the Board to consider extending the term of the permits, or deferring their activation dates to the time of the actual commencement of operations. We are aware that we previously asked for a seven year WL term, which the Board saw fit to grant, but financial conditions and market feedback have changed considerably since, hence this request for more workable and realistic durations for each permit.

While these proposed changes are being considered by the Board, CZN will not undertake any development contemplated or authorised by the LUP or WL. Regardless, the commencement of any such development would be dependent upon the successful completion of project financing for the construction and operation of the Prairie Creek Mine. In the meantime, we ask for interim relief from the application of the security provisions of the LUP and WL.

We look forward to discussions with the Board as it processes these requests.

Additionally, if you have any questions, please contact us at 604 688 2001.

Yours truly,



David P. Harpley, P. Geo.
VP Environment and Permitting Affairs

ANNEX A



N.W.T. Lease #95F/10-5-5

File #95F/10-5

THIS LEASE made this 30th day of DECEMBER, 2003.

BETWEEN: Her Majesty the Queen in right of Canada, hereinafter called "Her Majesty"

OF THE FIRST PART

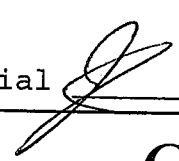
AND: CANADIAN ZINC CORPORATION, a body corporate, incorporated under the Laws of Canada, having it's Head Office in the City of Vancouver in the Province of British Columbia.

hereinafter called "the lessee"

OF THE SECOND PART

WITNESSETH that in consideration of the rents, covenants and agreements herein reserved and contained on the part of the lessee to be paid, observed and performed, and subject to the Territorial Lands Act and the Territorial Lands Regulations, Her Majesty demises and leases unto the lessee all that certain parcel or tract of land situate, lying and being composed of all that parcel of land located at Prairie Creek, in QUAD 95F/10, in the Northwest Territories, as said parcel is shown outlined in red on the sketch annexed hereto and forming part of this description

hereinafter called "the land", SUBJECT TO the following reservations:

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- (a) all mines and minerals whether solid, liquid or gaseous which may be found to exist within, upon, or under the land together with the full powers to work the same and for that purpose to enter upon, use and occupy the land or so much thereof and to such an extent as may be necessary for the effectual working and extracting of the said minerals;
- (b) the rights of the recorded holders of mineral claims and any other claims or permits affecting the land;
- (c) all timber that may be on the land;
- (d) the right to enter upon, work and remove any rock outcrop required for public purposes;
- (e) such right or rights of way and of entry as may be required under regulations in force in connection with the construction, maintenance and use of works for the conveyance of water for use in mining operations; and
- (f) the right to enter upon the land for the purpose of installing and maintaining any public utility.

THE PARTIES COVENANT AND AGREE AS FOLLOWS:

DEFINITIONS:

1. In this lease:

- (a) "Minister" means the Minister of Indian Affairs and Northern Development and any person authorized by him in writing to act on his behalf;
- (b) "facilities" means all physical structures or appurtenances placed in or upon the land;
- (c) "construction" means all manner of disturbance of the natural state of the surface of the land, including the sub-surface and sub-strata;
- (d) "Surveyor General" means the Surveyor General as defined in the Canada Lands Surveys Act;
- (e) "body of water" means any lake, river, stream, swamp, marsh, channel, gully, coulee or draw that continuously or intermittently contains water;
- (f) "mine site" means all buildings and equipment necessary for the extraction of minerals and all other associated facilities;

Initial



TERM:

2. The term of this lease shall be for a period of **ten (10)** years commencing on the **1st April 2002**, A..D. and terminating on the **31st March 2012**, A.D.

RENT AND TAXES:

3. Subject to **Clause 4**, the lessee shall pay to the lessor yearly and every year in advance the rental of **five thousand six hundred and eighty (\$5,680.00)** dollars.
4. The Minister may, not less than three (3) months before the expiration of the first five (5) year period of the said term, notify the lessee in writing of an amended rental payment for the following five (5) year period, the said amended rental to be based upon the fair appraised value of the land at the time of such notification, but without taking into account the value of any improvements placed thereon by and at the expense of the lessee.
5. The lessee shall during the term of this lease, pay all taxes, rates and assessments charged upon the land or upon the lessee in respect thereof.

USE:


6. The lessee shall use the land for **Minesite Maintenance** purposes only.

SUBLETTING OR ASSIGNMENTS:

7. The lessee shall not sublet the land or assign or transfer this lease or any portion thereof without the consent of the Minister in writing, which consent shall not be unreasonably withheld.
8. No sublease, assignment or transfer of this lease to any party will receive the consent of the Minister unless lease number 95F/10-7-4 is sublet, assigned or transferred to the same party.

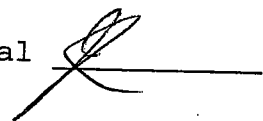
SECURITY DEPOSITS:

9. As security for the performance of its obligations under Clauses 23 and 25 to 42 of this lease, the lessee shall deposit with the Minister a security deposit according to the following schedule:
 - a) a payment of one hundred thousand dollars (\$100,000.00) upon execution of this lease; and
 - b) additional payments of thirty thousand dollars (\$30,000) each year for five consecutive years beginning on the first anniversary of the commencement of the lease.

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N.W.T. Lease #95F/10-5-5

- c) security for this lease shall not exceed two hundred and fifty thousand dollars (\$250,000.00)
- 10. In the event the lessee fails to provide the Minister with the security deposit as required under **Clause 9 (a), (b) and (c)**, the Minister shall be entitled to suspend the operations of the lessee on the land and/or terminate the lease in accordance with **Clause 21**.
- 11. The security deposit provided by the lessee must be in the form of:
 - (a) a letter of credit guaranteed by a chartered bank and payable to the Receiver General for Canada;
 - (b) a certified cheque drawn on a chartered bank in Canada and payable to the Receiver General for Canada;
 - (c) bearer bonds issued or guaranteed by the Government of Canada;
 - (d) a combination of the securities described in paragraphs (a) to (c); or
 - (e) any other guaranteed security approved by the Minister.
- 12. The Minister may, in his or her discretion, use the security deposit:
 - a) to fulfil the lessee's obligations under **Clauses 23 and 25 to 30** once the Minister has ordered the restoration of lands pursuant to **Clause 30**; and/or
 - b) to remedy any damage or default resulting from the lessee's non-compliance with its obligations under **Clauses 25 to 30** of this lease.
- 13. In the event the lessee is adjudged or declared bankrupt or insolvent or makes an assignment for the benefit of its creditors or petitions or applies to any tribunal for the appointment of a receiver or trustee for the lessee or for any substantial part of its property, or commences any proceedings relating to it under any reorganization, arrangement or re-adjustment of debt, dissolution or liquidation law, law enabling corporate reorganizations or statute of any jurisdiction whether now or hereafter in effect relating to a governing debtors, or by any act indicates its consent to approval of, or acquiescence in, any such proceeding for the lessee or for any part of its property, or suffers the appointment of any receiver or trustee or administrative receiver, the Minister shall be immediately entitled to the full amount of the security deposit without the requirement for any notice. As long as the lease is otherwise in compliance with the obligations under the lease, the Minister shall not withdraw the security deposit nor terminate the lease under any such bankruptcy or related proceedings provided a plan, proposal or arrangement under the Bankruptcy Act or similar or analogous proceedings are approved and


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implemented.

14. In the event the Minister incurs costs greater than the sums provided by the security deposit in acting under **Clauses 12(a) or 12(b)**, the Minister shall not be limited to the sums provided in the security deposit in recovering its costs from the lessee.
15. Except in the case of an imminent threat to the environment the Minister shall provide the lessee with written notice of the Minister's intention to use the security deposit thirty (30) days prior to the Minister using the security deposit.
16. Where the Minister has used all or part of the security deposit in acting under **Clause 12** to fulfill any obligation of the lessee, the lessee shall, within sixty (60) days after receiving notice of such use of the security deposit, or such other period as determined by the Minister, replenish the security deposit so as to maintain it in accordance with **Clause 9**.
17. A security deposit shall be returned by the Minister to the lessee when the Minister is satisfied the lessee has completely fulfilled its obligations under **Clauses 23 and 25 to 30** of this lease.
18. Where the lessee has not complied with all of the terms and conditions of this lease, the Minister may retain such part of the security deposit as required to fulfill the said terms and conditions.
19. Where the Minister retains all or part of the said security deposit, the Minister shall use the amount retained to remedy any damage or default, or to carry out any restoration necessary resulting from the lessee's non-compliance, and shall refund any excess to the lessee.

BREACH:

20. Where any portion of the rental herein reserved is unpaid for more than thirty (30) days after it becomes due, whether formally demanded or not, the Minister may by notice in writing terminate this lease and on the day following the mailing of such notice, this lease is cancelled.
21. Where the lessee breaches or fails to perform or observe any of the covenants, terms, conditions or agreements herein contained, other than the covenant to pay rent, the Minister may so advise the lessee by written notice and if the lessee fails to remedy the breach or non-performance within a reasonable time thereafter or within the time granted in the said notice, the Minister may, by notice in writing, terminate this lease and on the day following the mailing of such notice, this lease is cancelled.

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22. Unless a waiver is given in writing by the Minister, Her Majesty will not be deemed to have waived any breach or non-performance by the lessee of any of the covenants, terms, conditions or agreements herein contained and a waiver affects only the specific breach to which it refers.

TERMINATION:

23. Upon the termination or expiration of this lease, the lessee shall deliver up possession of the land in a restored condition as prescribed by the latest approved plan of restoration annexed hereto as Schedule 'A' and forming part of this lease.
24. Termination or expiration of this lease will not prejudice Her Majesty's right to unpaid rental or any other right with respect to a breach or non-performance of any covenant, term, condition or agreement herein contained nor will the lessee be relieved of any obligation contained herein.

ABANDONMENT AND RESTORATION:

25. In the event the lessee decides to abandon the property during the currency of this lease, the lessee will provide the Minister with at least six (6) months notice prior to the date of abandonment.
26. After supplying notice pursuant to Clause 25, the lessee shall carry out works and actions substantially in the form described in Schedule "A" annexed hereto and forming part of this lease and entitled "Abandonment and Restoration Plan".
27. The Abandonment and Restoration Plan shall be considered an integral part of the terms and conditions of this lease and may not be changed without the agreement of both parties hereto.
28. The lessee shall undertake ongoing restoration during the term of the lease for any land or improvements which are no longer required for the lessee's operations on the land.
29. The lessee shall file annually a progress report for the preceding year, outlining the ongoing restoration completed in conformance with the approved plan of restoration.
30. Where the lessee fails to restore the land as required and within the time allowed by the Regulations or by the Minister, the Minister may order the restoration of all or any part of such land and any expenses thus incurred by the Minister shall be recoverable from the lessee as a debt due to Her Majesty.

WASTE DISPOSAL:

31. The lessee shall dispose of all garbage and debris by incinerating all combustible materials and burying all noncombustible materials in a manner and at a site approved by the Minister, or by removal to an approved dumping site.

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32. The lessee shall not discharge or deposit any refuse substances or other waste materials in any body of water, or the banks thereof, which will, in the opinion of the Minister, impair the quality of the waters or the natural environment.

ENVIRONMENTAL:

33. The lessee shall at all times keep the land in a condition satisfactory to the Minister.
34. The lessee shall not do anything which will cause erosion of the banks of any body of water on or adjacent to the land, and shall provide necessary controls to prevent such erosion.
35. In the event that the lessee is conducting operations which are, in the opinion of the Minister, whose opinion will be reasonably exercised, causing irreparable damage to the environment, the Minister may require that the operations of the lessee hereunder be suspended and the operations shall be suspended until such time as the situation has been satisfactorily remedied.
36. The lessee shall be required to undertake such corrective measures as may be specified by the Minister in the event of waste spill on the land, or water or wind erosion of the land, resulting from the lessee's operations.

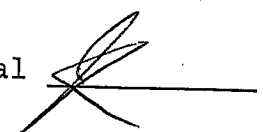
FUEL AND HAZARDOUS CHEMICALS:

37. The lessee shall take all reasonable precautions to prevent the possibility of migration of spilled petroleum fuel over the ground surface or through seepage in the ground by:
- (a) constructing a dyke around any stationary petroleum fuel container where the container has a capacity exceeding four thousand (4,000) litres; and
 - (b) ensuring that the dyke(s) and the area enclosed by the dyke(s) is impermeable to petroleum products at all times; and
 - (c) ensuring that the volumetric capacity of the dyked area shall, at all times, be equal to the capacity of the largest petroleum fuel container plus ten (10) percent of the total displacement of all other petroleum fuel containers placed therein; or

such other alternate specifications submitted by the lessee that may be approved, in writing, by the Minister.

38. The lessee shall ensure that fuel storage containers are not located within thirty-one (31) metres of the ordinary high water mark of any body of water unless otherwise authorized by the Minister.

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39. The lessee shall mark with flags, posts or similar devices all petroleum fuel storage facilities, including fill and distribution lines, such that they are clearly visible at all times.
40. The lessee shall immediately report all spills of petroleum and hazardous chemicals in accordance with the Government of the Northwest Territories Spill Report and any amendments thereto, or in a manner satisfactory to the Minister.
41. The lessee shall handle, store, dispose and keep records of all hazardous and toxic chemicals in a manner satisfactory to the Minister.
42. The lessee shall take all reasonable precautions to prevent the migration of petroleum products into bodies of water.

BOUNDARIES/SURVEY:

43. Her Majesty is not responsible for the establishment on the ground of the boundaries of the land.
44. The boundaries of the land are subject to such adjustment and alteration as may be shown to be necessary by survey.
45. The Minister may, during the term herein granted, by notice in writing, order the lessee to survey the boundaries of the land and the lessee shall, at its own expense, within one (1) year from the date of said notice, make or cause to be made a survey of the land, such survey to be made in accordance with the instructions of the Surveyor General, and upon completion of the survey and the production of survey plans suitable for recording in the Canada Lands Surveys Records and filing in the Land Titles Office for the Northwest Territories Land Registration District, Her Majesty will execute an Indenture in amendment of this lease for the purpose of incorporating herein descriptions of the land based on the said plans.

IMPROVEMENTS:

46. The lessee is responsible for ensuring that all improvements to the land are made within the boundaries of the land.
47. The lessee shall maintain the existing improvements now situated on the land on the effective date of this lease in a manner and condition satisfactory to the Minister.
48. The lessee shall not construct any new improvements on the lease without prior written approval from the Minister.

ACCESS:

49. Her Majesty assumes no responsibility, express or implied, to provide access to the land.
50. It shall be lawful for Her Majesty or any person duly authorized at all reasonable times to enter upon the land for the purpose of examining the condition thereof.

Initial



INDEMNIFICATION:

51. The lessee shall at all times hereafter indemnify and keep Her Majesty indemnified against all claims, demands, actions or other legal proceedings by whomsoever made or brought against Her Majesty by reason of anything done or omitted to be done by the lessee, his officers, servants, agents or employees arising out of or connected with the granting of this lease.
52. The lessee will not be entitled to compensation from Her Majesty by reason of the land or any portion thereof being submerged, damaged by erosion, or otherwise affected by flooding.
53. Her Majesty will not be liable for damages caused by vandalism or interference by others with the lessee's facilities and equipment.

REVIEW:

54. At the request of the lessee, any decision of the Minister will be reviewable by the Trial Division of the Federal Court of Canada; costs of such review are the responsibility of the lessee unless otherwise ordered by the Court.

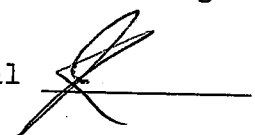
NOTICES:

55. All written notices respecting the land or the covenants, terms, conditions or agreements contained in this lease shall, unless otherwise stipulated herein, be deemed to have been received by the lessee ten (10) days after the mailing thereof or, if hand delivered, on the day of delivery.
56. Any notice affecting this lease which Her Majesty may desire to serve upon the lessee, or any notice which the lessee may desire to serve upon Her Majesty shall, unless otherwise stipulated herein, be sufficiently served if posted by registered mail to the last known address of the opposite party as follows:

To Her Majesty: Director of Operations
 Northwest Territories Region
 Department of Indian Affairs
 and Northern Development
 P. O. Box 1500
 Yellowknife, N.W.T.
 X1A 2R3

To the Lessee: CANADIAN ZINC CORPORATION
 Suite 1202, 700 West Pender Street
 Vancouver, BC, V6C 1G8

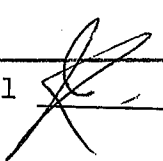
Either party may change its address for service during the term of this lease by notifying the other party in writing.

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57. No notice of breach or default given herein by Her Majesty shall be valid or of any effect unless it is also given to any mortgagee of the lessee, in respect of the leased lands, of which Her Majesty shall have received written notice.

GENERAL:

58. The lessee shall abide by the said Act and Regulations.
59. This lease enures to the benefit of and is binding upon Her Majesty, Her Heirs and Successors and the lessee, its successors and assigns.
60. No implied covenant or implied liability on the part of Her Majesty is created by the use of the words "demises and leases" herein.
61. The lessee shall not fence the land, or any part thereof, except as may be reasonably required for security or safety purposes.
62. Subject to the reservations, conditions, covenants and agreements herein contained, the lessee, its successors and permitted assigns, having performed and observed all the stipulations, provisos and conditions on its part to be observed and performed, will be entitled to the quiet enjoyment of the lands herein leased without hindrance, molestation or interruption on the part of Her Majesty or any person claiming by, through or under Her.
63. Should the lessee intend to develop the Prairie Creek mine to place it into production, or intend to make application for a Class "A" Water licence, he shall notify the Minister in writing at least six (6) months prior to the proposed start-up date of such operations.
64. The Minister, upon receipt of such notification, shall implement a complete re-assessment of the operations.
65. Upon completion of the assessment, the minister may request the issuance of a new lease document with such terms and conditions as may be required for the operations of the minesite, and the subsequent lease shall contain a clause which cancels and supercedes this lease.

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DUPLICATE

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N.W.T. Lease #95F/10-5-5

IN WITNESS WHEREOF The Director of Operations, Northwest Territories Region, Department of Indian Affairs and Northern Development, has hereunto set his hand and seal on behalf of Her Majesty the Queen in right of Canada and **CANADIAN ZINC CORPORATION** have hereunto affixed its corporate seal attested to by its proper officers duly authorized in that behalf.

SIGNED, SEALED AND DELIVERED)
on behalf of Her Majesty by)
The Director of Operations,)
Northwest Territories Region,)
Department of Indian Affairs)
and Northern Development in)
the presence of)

)
Director's Witness)

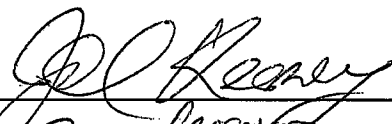
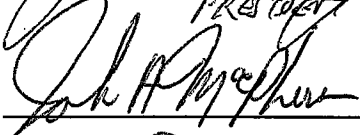
SEALED, ATTESTED TO AND)
DELIVERED)

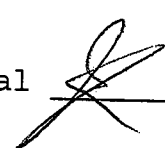
by the PRESIDENT)

and the DIRECTOR)

of **CANADIAN ZINC CORPORATION**)

 (SEAL)
Director's Signature

 (SEAL)
President
 (SEAL)
DIRECTOR

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ABANDONMENT AND RESTORATION PLAN

DUPLICATE

This Abandonment and Restoration Plan is an integral part of Lease No. 95 F/10-5-5 that requires that the lessee, on notice of abandonment as prescribed by Clause 25 of the Lease, carry out at its own expense the following works and actions in a timely and workmanlike manner and with due regard to the protection of the environment.

Item 1 REMOVAL OF MATERIALS

Materials are defined as anything that is not equipment or a structure. All materials shall be considered in two classes;

- (a) those presenting some real or potential environmental hazard, if left on the lease, and
- (b) those that present no environmental hazard regardless of the manner of storage.

All Class A materials shall be disposed by either:

- (i) on-site destruction if this can be done without causing any adverse environmental effects, or
- (ii) removal from the Lease and disposal in a suitable manner.

The lessee shall prior to disposal, provide the Minister with the details of the proposed disposal option, and such proposal shall include but not be limited to:

- (a) method;
- (b) location; and,
- (c) timing.

A list of Class A materials is attached hereto as Annex 1 to this schedule.

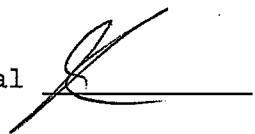
The lessee shall have the option to either remove Class B materials from the Lease or to leave them on the Lease in their present locations or in suitable locations for their ultimate disposal. A list of Class B materials is attached hereto as Annex 2 to this schedule.

Item 2 REMOVAL OF EQUIPMENT

The lessee shall have the option of either removing equipment from the Lease, or of leaving it in suitable locations on the Lease. Suitable locations are defined as:

- (i) inside existing structures that are not to be removed, and
- (ii) other designated locations on the lease.

No equipment left on the Lease shall be left with any materials in it that may cause environmental damage in the future.

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Item 3 REMOVAL OF STRUCTURES AND BUILDINGS

The lessee shall have the option to either remove or leave all major structures and buildings that presently exist on the lease. Annex 3 to this schedule details what these structures are.

In the event the lessee removes one or more of these structures or buildings, its site is to be left in a clean condition with all debris created by its dismantling removed from the lease or buried in a suitable disposal location. The lessee shall not be required to remove or bury concrete foundations.

All small wooden or wood frame buildings and structures will be either removed from the lease or destroyed by burning with any metallic residue being buried in a suitable disposal location.

All major structures left standing will have all openings securely sealed with timber.

Item 4 CONCRETE STRUCTURES

All concrete structures will be left in their present state. No demolition or burying will be attempted.

Item 5 SURFACE SERVICES

All surface pipelines and above ground wiring power distribution poles, antennae towers will be taken down and either removed from the Lease or disposed of on the Lease at a suitable location.

Item 6 UNDERGROUND ENTRANCES

These will be sealed in accordance with the Government of the Northwest Territories Mining Regulations.

Item 7 MINE ORE STOCK PILE

The ore stockpile, consisting of about 40,000 m. tons of lead and zinc mineralized rock shall be covered with a layer of impervious clay no less than 24 inches in thickness. The pile sides shall be graded to a 2(h): 1(v) slope, or flatter as dictated by siting constraints, prior to the application of the clay seal. The clay for this work shall be obtained from the airstrip stockpile.

Item 8 TAILINGS POND

The tailings pond shall be left in its present condition.

ITEM 9 DRAINAGE AND EROSION CONTROL

All culverts shall be removed and barriers to original drainage removed. This shall not include any part of the tailings pond dyke or the dyke protecting the camp area from Prairie Creek.

ITEM 10 OIL DRUMS AND CONTAINERS


All containers of petroleum products shall be emptied, crushed and buried in an area that is above maximum flood level of any adjacent water bodies.

ITEM 11 GENERAL

All areas shall be left in a neat and tidy condition after the abandonment.

Remaining materials shall be concentrated as much as possible to a few designated storage areas.

Remaining equipment shall be parked in an orderly manner in the designated storage area.

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DUPLICATE

ANNEX 1 TO SCHEDULE "A"

LIST OF CLASS "A" MATERIALS

Annexed to lease No. 95 F/10-5-5

CHEMICALS

QUANTITY


Copper Sulphate	196 pallets
Sodium Isopropyl Xanthate	84 pallets
M.I.B.C.	4 pallets
Dowfroth	4 pallets
Sodium Cyanide	132 pallets
Contaminated Gravel	(6) - 45 Gallon Drums
Methanol	1 pallet

PETROLEUM PRODUCTS

Diesel Fuel	(Bulk)
Lubricating Oil	(Bulk, Drums and Pails)
Gasoline	(Bulk)
Aviation Gas	(Drums)
Jet B	(Drums)
Used Lube Oil	(Bulk)
Grease	(Pails)
Propane	(Bulk)

EXPLOSIVES

Cilgel 70

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ANNEX 2 TO SCHEDULE "A"

LIST OF CLASS "B" MATERIALS

Annexed to lease No. 95 F/10-5-5

CHEMICALS

Lime

Soda Ash

CONSTRUCTION MATERIALS

Cement

Steel Sections and Plate

Lumber

Pipe

Cables

Tires

MINE SUPPLIES

Mine Timber

Rock Bolts

Mill Hole Sections

Rock Bolts

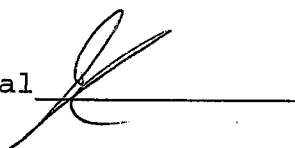
Manway Sections

Rail

MILL SUPPLIES

Balls

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DUPLICATE

ANNEX 3 TO SCHEDULE "A"

STRUCTURES TO BE LEFT INTACT

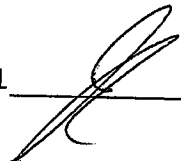
Annexed to lease No. 95 F/10-5-5

BUILDINGS

Mill and Powerhouse
Assay Laboratory
Service Building
Mechanics Shop
Cold Storage Building
Sewage Treatment Plant

STRUCTURES

1A Conveyor Gantry
10,700 BBL Fuel Storage Tanks (4 No.)
2,000 BBL Storage Tanks (3 No.)
Gasoline Storage Tanks (2 No.)
Mine Dump Structure
Propane Storage Tanks - 30,000 Gallon (5 No.)
- 15,000 Gallon (1 No.)

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ANNEX B



DUPLICATE

Lease No. 95 F/10-5-3 (MINE)

File No. 95 F/10-5

THIS LEASE made this 12th day of November 1987

BETWEEN

Her Majesty the Queen in right of Canada, hereinafter called "Her Majesty"

OF THE FIRST PART

AND PROCAN EXPLORATION COMPANY LIMITED, a body corporate, incorporated under the Laws of Alberta having its Head Office in the City of Calgary in the Province of Alberta,

hereinafter called "the lessee"

OF THE SECOND PART

WITNESSETH that in consideration of the rents, covenants and agreements herein reserved and contained on the part of the lessee to be paid, observed and performed, and subject to the Territorial Lands Act and the Territorial Lands Regulations, Her Majesty demises and leases unto the lessee all that certain parcel or tract of land situate, lying and being composed of all that parcel of land located in Quad 95 F/10, in the Northwest Territories, as shown outlined in red on the sketch annexed hereto and forming part of this description, _____

REGISTERED TO INDENTURE

Dated this 19th day of Aug 19 91 A.D.

S. Bradbury
Regional Manager, Land Resources

I hereby certify that an assignment of the within lease was registered in the office of the Regional Manager of Land Resources Department of Indian Affairs and Northern Development, Yellowknife Northwest Territories

the 8th day of July A.D. 1993

under Number 95 F/10-5-4

Assignor Nanisivik Mines Ltd.

Assignee San Andreas Resources Corporation

Jim Umpherson
Regional Manager of Land Resources

hereinafter called "the land", SUBJECT TO the following reservations:

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- (a) all mines and minerals whether solid, liquid or gaseous which may be found to exist within, upon, or under the land together with the full powers to work the same and for that purpose to enter upon, use and occupy the land or so much thereof and to such an extent as may be necessary for the effectual working and extracting of the said minerals;
- (b) the rights of the recorded holders of mineral claims and any other claims or permits affecting the land;
- (c) all timber that may be on the land;
- (d) the right to enter upon, work and remove any rock outcrop required for public purposes;
- (e) such right or rights of way and of entry as may be required under regulations in force in connection with the construction, maintenance and use of works for the conveyance of water for use in mining operations; and
- (f) the right to enter upon the land for the purpose of installing and maintaining any public utility.

THE PARTIES COVENANT AND AGREE AS FOLLOWS:

DEFINITIONS:

1. In this lease:

- (a) "Minister" means the Minister of Indian Affairs and Northern Development and any person authorized by him in writing to act on his behalf;
- (b) "facilities" means all physical structures or appurtenances placed in or upon the land;
- (c) "construction" means all manner of disturbance of the natural state of the surface of the land, including the sub-surface and sub-strata;
- (d) "Surveyor General" means the Surveyor General as defined in the Canada Lands Surveys Act;
- (e) "body of water" means any lake, river, stream, swamp, marsh, channel, gully, coulee or draw that continuously or intermittently contains water;
- (f) "mine site" means all buildings and equipment necessary for the extraction of minerals and all other associated facilities;

TERM:

2. Subject to Clause 6, the term of this lease will be for a period of ten (10) years commencing on the 1st day of April, A.D. 1987 and terminating on the 31st day of March, A.D. 1997.

RENT AND TAXES:

3. Subject to Clause 4, the lessee shall pay to the lessor yearly and every year in advance the rental of two thousand eight hundred and seventy five (\$2,875.00) dollars.

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4. The Minister may, not less than three (3) months before the expiration of the first five (5) year period of the said term, notify the lessee in writing of an amended rental payment for the following five (5) year period, the said amended rental to be based upon the fair appraised value of the land at the time of such notification, but without taking into account the value of any improvements placed thereon by and at the expense of the lessee.
5. The lessee shall during the term of this lease, pay all taxes, rates and assessments charged upon the land or upon the lessee in respect thereof.

RENEWAL:

6. (a) Subject to the lessee having performed and observed all the covenants and conditions on the part of the lessee to be performed and observed, and upon a renewal being requested by the lessee in writing one (1) year prior to the date of expiry of this lease, Her Majesty will grant to the lessee a renewal of this lease for a further term of ten (10) years upon essentially the same terms and conditions as are herein contained except as to rent, security deposit and this right of renewal.
- (b) Notwithstanding Clause 6(a) above, no renewal of this lease will be granted to the lessee unless or until lease number 95 F/10-7-2 between Her Majesty and the lessee is subsisting, renewed or eligible for renewal by the lessee.

USE:

7. The lessee shall use the land for minesite maintenance purposes only.

SUBLETTING OR ASSIGNMENTS:

8. The lessee shall not sublet the land or assign or transfer this lease or any portion thereof without the consent of the Minister in writing, which consent shall not be unreasonably withheld.
9. No sublease, assignment or transfer of this lease to any party will receive the consent of the Minister unless lease number 95 F/10-7-2 is sublet, assigned or transferred to the same party.

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SECURITY DEPOSITS:

10. The Minister may, in the event of a serious default of the conditions of this lease, require that the lessee deposit with the Minister a security deposit not exceeding two hundred and fifty thousand (\$250,000.00) dollars during the first five year period of the said term. Ninety (90) days prior to the expiration of the 1st five year period of the term, the Minister and the lessee shall negotiate an amended security deposit for the remaining five year period, based on the estimated cost to carry out the abandonment and restoration plan annexed hereto as Schedule "A", but in no case shall the amended amount be less than two hundred and fifty thousand (\$250,000.00) dollars or more than five hundred thousand (\$500,000.00) dollars.

The security deposit provided by the lessee must be in the form of:

- (a) a promissory note guaranteed by a chartered bank and payable to the Receiver General for Canada;
 - (b) a certified cheque drawn on a chartered bank in Canada and payable to the Receiver General for Canada;
 - (c) bearer bonds issued or guaranteed by the Government of Canada;
 - (d) a combination of the securities described in paragraphs (a) to (c); or
 - (e) any other guaranteed security approved by the Minister.
11. Where the lessee has not complied with all of the terms and conditions of this lease, the Minister may retain such part of the security deposit as required to fulfill the said terms and conditions.
12. Where the Minister retains all or part of the said security deposit, the Minister shall use the amount retained to remedy any damage or default, or to carry out any restoration necessary resulting from the lessee's non-compliance, and shall refund any excess to the lessee.

BREACH:

13. Where any portion of the rental herein reserved is unpaid for more than thirty (30) days after it becomes due, whether formally demanded or not, the Minister may by notice in writing terminate this lease and on the day following the mailing of such notice, this lease is cancelled.
14. Where the lessee breaches or fails to perform or observe any of the covenants, terms, conditions or agreements herein contained, other than the covenant to pay rent, the Minister may so advise the lessee by written notice and if the lessee fails to remedy the breach or non-performance within a reasonable time thereafter or within the time granted in the said notice, the Minister may, by notice in writing, terminate this lease and on the day following the mailing of such notice, this lease is cancelled.
15. Unless a waiver is given in writing by the Minister, Her Majesty will not be deemed to have waived any breach or non-performance by the lessee of any of the covenants, terms, conditions or agreements herein contained and a waiver affects only the specific breach to which it refers.

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TERMINATION:

16. Upon the termination or expiration of this lease, the lessee shall deliver up possession of the land in a restored condition as required by the restoration provisions of this lease.
17. Termination or expiration of this lease will not prejudice Her Majesty's right to unpaid rental or any other right with respect to a breach or non-performance of any covenant, term, condition or agreement herein contained nor will the lessee be relieved of any obligation contained herein.

ABANDONMENT AND RESTORATION

18. In the event the lessee decides to abandon the property during the currency of this lease, the lessee will provide the Minister with at least six (6) months notice prior to the date of abandonment.
19. After supplying notice pursuant to Clause 18, the lessee shall carry out works and actions substantially in the form described in Schedule "A" annexed hereto and forming part of this lease and entitled "Abandonment and Restoration Plan".
20. The Abandonment and Restoration Plan shall be considered an integral part of the terms and conditions of this lease and may not be changed without the agreement of both parties hereto. *
21. The lessee shall undertake ongoing restoration during the term of the lease for any land or improvements which are no longer required for the lessee's operations on the land.
22. The lessee shall file annually a progress report for the preceding year, outlining the ongoing restoration completed in conformance with the approved plan of restoration.
23. Where the lessee fails to restore the land as described in Schedule "A" and within the time allowed by the Regulations or by the Minister, the Minister may order the restoration of all or any part of such land and any expenses thus incurred by the Minister shall be recoverable from the lessee as a debt due to Her Majesty.

WASTE DISPOSAL:

24. The lessee shall dispose of all garbage and debris by incinerating all combustible materials and burying all noncombustible materials in a manner and at a site approved by the Minister, or by removal to an approved dumping site.
25. The lessee shall not discharge or deposit any refuse substances or other waste materials in any body of water, or the banks thereof, which will, in the opinion of the Minister, impair the quality of the waters or the natural environment.

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ENVIRONMENTAL:

26. The lessee shall at all times keep the land in a condition satisfactory to the Minister.
27. The lessee shall not do anything which will cause erosion of the banks of any body of water on or adjacent to the land, and shall provide necessary controls to prevent such erosion.
28. In the event that the lessee is conducting operations which are, in the opinion of the Minister, whose opinion will be reasonably exercised, causing irreparable damage to the environment, the Minister may require that the operations of the lessee hereunder be suspended and the operations shall be suspended until such time as the situation has been satisfactorily remedied.
29. The lessee shall be required to undertake such corrective measures as may be specified by the Minister in the event of waste spill on the land, or water or wind erosion of the land, resulting from the lessee's operations.

FUEL AND HAZARDOUS CHEMICALS:

30. The lessee shall take all reasonable precautions to prevent the possibility of migration of spilled petroleum fuel over the ground surface or through seepage in the ground by:
 - (i) constructing a dyke around any stationary petroleum fuel container where the container has a capacity exceeding four thousand (4,000) litres; and
 - (ii) ensuring that the dyke(s) and the area enclosed by the dyke(s) is impermeable to petroleum products at all times; and
 - (iii) ensuring that the volumetric capacity of the dyked area shall, at all times, be equal to the capacity of the largest petroleum fuel container plus ten (10) percent of the total displacement of all other petroleum fuel containers placed therein; orsuch other alternate specifications submitted by the lessee that may be approved, in writing, by the Minister.
31. The lessee shall ensure that fuel storage containers are not located within thirty-one (31) metres of the ordinary high water mark of any body of water unless otherwise authorized by the Minister.
32. The lessee shall mark with flags, posts or similar devices all petroleum fuel storage facilities, including fill and distribution lines, such that they are clearly visible at all times.
33. The lessee shall immediately report all spills of petroleum and hazardous chemicals in accordance with the Government of the Northwest Territories Spill Report and any amendments thereto, or in a manner satisfactory to the Minister.
34. The lessee shall handle, store, dispose and keep records of all hazardous and toxic chemicals in a manner satisfactory to the Minister.
35. The lessee shall take all reasonable precautions to prevent the migration of petroleum products into bodies of water.

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BOUNDARIES/SURVEY:

36. Her Majesty is not responsible for the establishment on the ground of the boundaries of the land.
37. The boundaries of the land are subject to such adjustment and alteration as may be shown to be necessary by survey.
38. The Minister may, during the term herein granted, by notice in writing, order the lessee to survey the boundaries of the land and the lessee shall, at its own expense, within one (1) year from the date of said notice, make or cause to be made a survey of the land, such survey to be made in accordance with the instructions of the Surveyor General, and upon completion of the survey and the production of survey plans suitable for recording in the Canada Lands Surveys Records and filing in the Land Titles Office for the Northwest Territories Land Registration District, Her Majesty will execute an Indenture in amendment of this lease for the purpose of incorporating herein descriptions of the land based on the said plans.

IMPROVEMENTS:

39. The lessee is responsible for ensuring that all improvements to the land are made within the boundaries of the land.
40. The lessee shall maintain the existing improvements now situated on the land on the effective date of this lease, or any similar improvements which may be constructed, in a manner and condition satisfactory to the Minister.

ACCESS:

41. Her Majesty assumes no responsibility, express or implied, to provide access to the land.
42. It shall be lawful for Her Majesty or any person duly authorized at all reasonable times to enter upon the land for the purpose of examining the condition thereof.

INDEMNIFICATION:

43. The lessee shall at all times hereafter indemnify and keep Her Majesty indemnified against all claims, demands, actions or other legal proceedings by whomsoever made or brought against Her Majesty by reason of anything done or omitted to be done by the lessee, his officers, servants, agents or employees arising out of or connected with the granting of this lease.
44. The lessee will not be entitled to compensation from Her Majesty by reason of the land or any portion thereof being submerged, damaged by erosion, or otherwise affected by flooding.
45. Her Majesty will not be liable for damages caused by vandalism or interference by others with the lessee's facilities and equipment.

Initial

DUPLICATE

Lease No. 95 F/10-5-3

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REVIEW:

46. At the request of the lessee, any decision of the Minister will be reviewable by the Trial Division of the Federal Court of Canada; costs of such review are the responsibility of the lessee unless otherwise ordered by the Court.

NOTICES:

47. All written notices respecting the land or the covenants, terms, conditions or agreements contained in this lease shall, unless otherwise stipulated herein, be deemed to have been received by the lessee ten (10) days after the mailing thereof or, if hand delivered, on the day of delivery.
48. Any notice affecting this lease which Her Majesty may desire to serve upon the lessee, or any notice which the lessee may desire to serve upon Her Majesty shall, unless otherwise stipulated herein, be sufficiently served if posted by registered mail to the last known address of the opposite party as follows:

To Her Majesty: Director of Renewable Resources and Environment,
Northwest Territories Region,
Northern Affairs Program
Department of Indian Affairs and Northern
Development
P.O. Box 1500
Yellowknife, N.W.T.
X1A 2R3

To the Lessee: Procan Exploration Company Limited
1400, 727 - 7th Avenue, S.W.,
CALGARY, Alberta
T2P 0Z5

Either party may change its address for service during the term of this lease by notifying the other party in writing.

49. No notice of breach or default given herein by Her Majesty shall be valid or of any effect unless it is also given to any mortgagee of the lessee, in respect of the leased lands, of which Her Majesty shall have received written notice.

GENERAL:

50. The lessee shall abide by the said Act and Regulations.
51. This lease enures to the benefit of and is binding upon Her Majesty, Her Heirs and Successors and the lessee, its successors and assigns.
52. No implied covenant or implied liability on the part of Her Majesty is created by the use of the words "demises and leases" herein.

Initial M

DUPLICATE

Lease No. 95 F/10-5-3

- 9 -

53. The lessee shall not fence the land, or any part thereof, except as may be reasonably required for security or safety purposes.
54. Subject to the reservations, conditions, covenants and agreements herein contained, the lessee, its successors and permitted assigns, having performed and observed all the stipulations, provisos and conditions on its part to be observed and performed, will be entitled to the quiet enjoyment of the lands herein leased without hindrance, molestation or interruption on the part of Her Majesty or any person claiming by, through or under Her.
- 55 a) Should the lessee intend to develop the Prairie Creek mine to place it into production, or intend to make application for a Water Licence, he shall notify the Minister in writing at least six (6) months prior to the proposed start-up date of such operations; and,
- b) the Minister, upon receipt of such notification, shall implement a complete re-assessment of the operations; and,
- c) upon completion of the assessment, the Minister may request the issuance of a new lease document with such terms and conditions as may be required for the operations of the minesite, and the subsequent lease shall contain a clause which cancels and supercedes this agreement.

Initial AM

IN WITNESS WHEREOF The Director of Renewable Resources and Environment, Northwest Territories Region, Northern Affairs Program, Department of Indian Affairs and Northern Development, has hereunto set his hand and seal on behalf of Her Majesty the Queen in right of Canada and Procan Exploration Company Limited has hereunto affixed its corporate seal attested to by its proper officers duly authorized in that behalf.

SIGNED, SEALED AND DELIVERED on behalf
of Her Majesty by The Director
of Renewable Resources and Environment,
Northwest Territories Region,
Department of Indian Affairs and
Northern Development, in the presence
of

Lucille L. Troese

SEALED, ATTESTED TO AND DELIVERED

by the VICE PRESIDENT

and the

of Procan Exploration Company Limited

W. J. Styrum

M. de la Roche

ABANDONMENT AND RESTORATION PLAN

This Abandonment and Restoration Plan is an integral part of Lease No. 95 F/10-5-3 that requires that the lessee, on notice of abandonment as prescribed by Clause 18 of the Lease, carry out at its own expense the following works and actions in a timely and workmanlike manner and with due regard to the protection of the environment.

Item 1 REMOVAL OF MATERIALS

Materials are defined as anything that is not equipment or a structure. All materials shall be considered in two classes;

- (a) those presenting some real or potential environmental hazard, if left on the lease, and
- (b) those that present no environmental hazard regardless of the manner of storage.

All Class A materials shall be disposed by either:

- (i) on-site destruction if this can be done without causing any adverse environmental effects, or
- (ii) removal from the Lease and disposal in a suitable manner.

The lessee shall prior to disposal, provide the Minister with the details of the proposed disposal option, and such proposal shall include but not be limited to:

- (a) method;
- (b) location; and
- (c) timing.

A list of Class A materials is attached hereto as Annex 1 to this schedule.

Initial

- 2 -

The lessee shall have the option to either remove Class B materials from the Lease or to leave them on the Lease in their present locations or in suitable locations for their ultimate disposal. A list of Class B materials is attached hereto as Annex 2 to this schedule.

Item 2 REMOVAL OF EQUIPMENT

The lessee shall have the option of either removing equipment from the Lease, or of leaving it in suitable locations on the Lease. Suitable locations are defined as:

- (i) inside existing structures that are not to be removed, and
- (ii) other designated locations on the lease.

No equipment left on the Lease shall be left with any materials in it that may cause environmental damage in the future.


Item 3 REMOVAL OF STRUCTURES AND BUILDINGS

The lessee shall have the option to either remove or leave all major structures and buildings that presently exist on the Lease. Annex 3 to this schedule details what these structures are.

In the event the lessee removes one or more of these structures or buildings, its site is to be left in a clean condition with all debris created by its dismantling removed from the Lease or buried in a suitable disposal location. The lessee shall not be required to remove or bury concrete foundations.

All small wooden or wood frame buildings and structures will be either removed from the lease or destroyed by burning with any metallic residue being buried in a suitable disposal location.

All major structures left standing will have all openings securely sealed with timber.

Initial 

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Item 4 CONCRETE STRUCTURES

All concrete structures will be left in their present state. No demolition or burying will be attempted.

Item 5 SURFACE SERVICES

All surface pipelines and above ground wiring power distribution poles, antennae towers will be taken down and either removed from the Lease or disposed of on the Lease at a suitable location.

Item 6 UNDERGROUND ENTRANCES

These will be sealed in accordance with Government of the N.W.T. Mining Regulations.

Item 7 MINE ORE STOCKPILE

The ore stockpile, consisting of about 40,000 m. tons of lead and zinc mineralized rock shall be covered with a layer of impervious clay no less than 24 inches in thickness. The pile sides shall be graded to a 2 (h): 1 (v) slope, or flatter as dictated by siting constraints, prior to the application of the clay seal. The clay for this work shall be obtained from the airstrip stockpile.

Item 8 TAILINGS POND

The tailings pond shall be left in its present condition.

Item 9 DRAINAGE AND EROSION CONTROL

All culverts shall be removed and barriers to original drainage removed. This shall not include any part of the tailings pond dyke or the dyke protecting the camp area from Prairie Creek.

Item 10 OIL DRUMS AND CONTAINERS

All containers of petroleum products shall be emptied, crushed and buried in an area that is above maximum flood level of any adjacent water bodies.

Initial

DUPLICATE

Annexed to Lease No. 95 F/10-5-3

- 4 -

Item 11

GENERAL

All areas shall be left in a neat and tidy condition after the abandonment.

Remaining materials shall be concentrated as much as possible to a few designated storage areas.

Remaining equipment shall be parked in an orderly manner in the designated storage areas.

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DUPLICATE

ANNEX 1 TO SCHEDULE "A"

LIST OF CLASS A MATERIALS

Annexed to Lease No. 95 F/10-5-3

CHEMICALS

QUANTITY

Copper Sulphate

196 pallets ✓

Sodium Isopropyl Xanthate

84 Pallets ✓

M.I.B.C.

4 Pallets ✓

Dowfroth

4 Pallets ✓

Sodium Cyanide

132 Pallets ✓

Contaminated Gravel

(6) - 45 Gallon Drums

Methanol

1 Pallet

PETROLEUM PRODUCTS

Diesel Fuel

(Bulk)

Lubricating Oil

(Bulk, Drums and Pails)

Gasoline

(Bulk)

Aviation Gas

(Drums)

Jet B

(Drums)

Used Lube Oil

(Bulk and Drums)

Grease

(Pails)

Propane

(Bulk)

EXPLOSIVES

Citgel 70

Initial h

DUPLICATE

ANNEX 2 TO SCHEDULE "A"

LIST OF CLASS B MATERIALS

Annexed to Lease No. 95 F/10-5-3

CHEMICALS

Lime

Soda Ash

CONSTRUCTION MATERIALS

Cement

Steel Sections and Plate

Lumber

Pipe

Cables

Tires

MINE SUPPLIES

Mine Timber

Rock Bolts

Mill Hole Sections

Rock Bolts

Manway Sections

Rail

MILL SUPPLIES

Balls

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ANNEX 3 TO SCHEDULE "A"

STRUCTURES TO BE LEFT INTACT

Annexed to Lease No. 95 F/10-5-3

BUILDINGS

Mill and Powerhouse

Assay Laboratory

Service Building

Mechanics Shop

Cold Storage Building

Sewage Treatment Plant

STRUCTURES

1A Conveyor Gantry

10,700 BBL Fuel Storage Tanks (4 No.)

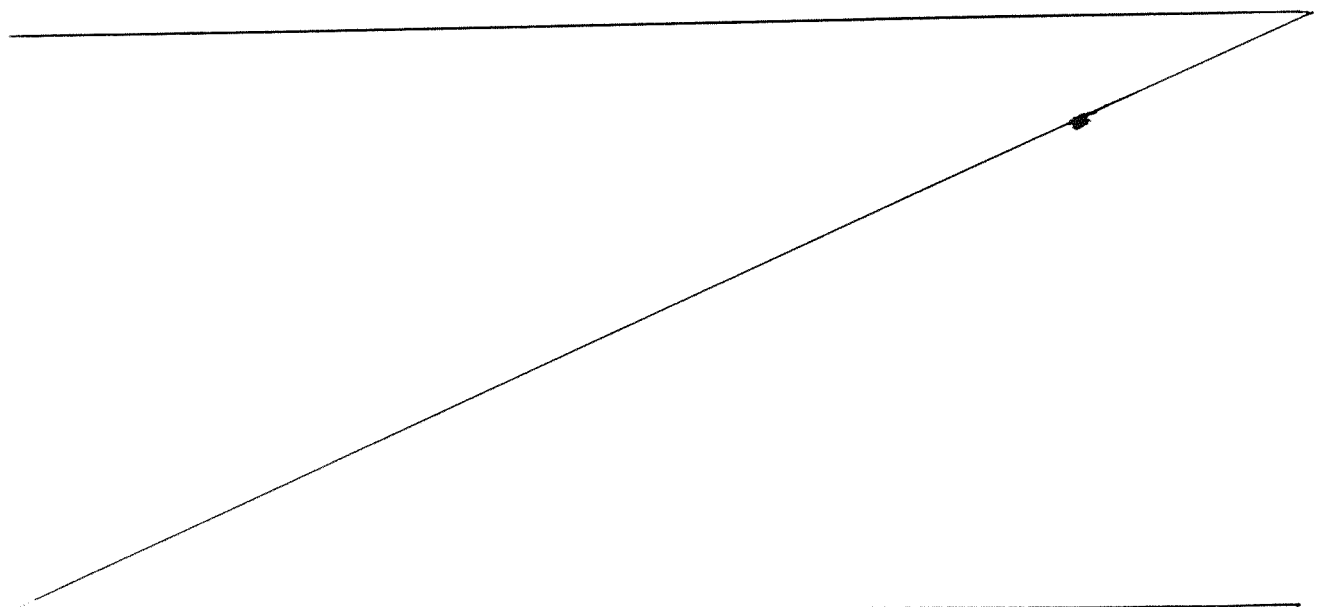
2,000 BBL Storage Tanks (3 No.)

Gasoline Storage Tanks (2 No.)

Mine Dump Structure

Propane Storage Tanks - 30,000 Gallon (5 No.)

- 15,000 Gallon (1 No.)



→

ANNEX C

R E L E A S E

FOR AND IN CONSIDERATION of the payment of the sum of \$1.00 and other good and valuable consideration paid to HER MAJESTY THE QUEEN in Right of Canada as represented by the DEPARTMENT OF INDIAN AFFAIRS AND NORTHERN DEVELOPMENT (hereinafter called the "Releasor") by COOPERS & LYBRAND LIMITED, Trustee in Bankruptcy of the Estate of CADILLAC EXPLORATIONS LTD., a Bankrupt, (hereinafter called the "Trustee"), PROCAN EXPLORATION COMPANY LIMITED, PROCAN EXPLORATION COMPANY, NELSON BUNKER HUNT, WILLIAM HERBERT HUNT, AND LAMAR HUNT, the receipt and sufficiency of which is hereby acknowledged, the Releasor hereby remises, releases and forever discharges and by these presents does for itself and for its successors and assigns, remise, release and forever discharge CADILLAC EXPLORATIONS LTD., the Estate of CADILLAC EXPLORATIONS LTD., PROCAN EXPLORATION COMPANY LIMITED, PROCAN EXPLORATION COMPANY, NELSON BUNKER HUNT, WILLIAM BUNKER HUNT AND LAMAR HUNT (hereinafter called the "Releasees"), and each of them and their respective heirs, executors, administrators, successors and assigns, of and from all actions, causes of action, claims and demands, whether known or unknown, whatsoever or wheresoever, whether at law or in equity, in contract or in tort, which the Releasor ever had or now has or which the Releasor or

its successors and assigns hereafter can, shall or may have by reason of any damage, loss or injury to property, which has resulted from or in any way arisen out of or developed from, or which may at any time in future result from or in any way arise out of or develop from:

- (a) obligations incurred by Cadillac Explorations Ltd. in respect of restoration of the mine site and winter road at Prairie Creek, in the Northwest Territories under and pursuant to the Territorial Land Use Regulations, CRC Vol. XVIII, c.1524 and Permits #N80F249 and N80D248 issued to it on July 2, 1980 and April 14, 1980 respectively.
- (b) the \$6.51 million dollar contingent claim made by the Releasor against Cadillac Explorations Ltd. in bankruptcy arising out of the failure of Cadillac Explorations Ltd. to restore the minesite and winter road at Prairie Creek, in the Northwest Territories and the preferred claim for the same amount filed by the Releasor with the Trustee (a copy of which claim is attached as Schedule "A" hereto).

IT IS UNDERSTOOD AND AGREED that neither the payment of the aforesaid sum of money nor anything herein contained shall be construed or constitute an admission of liability by the Releasees.


IT IS FURTHER UNDERSTOOD AND AGREED that this Release does

not act as a release of or in any way modify, alter or vary any of the obligations or covenants of Procan Exploration Company Limited made pursuant to the Surface Lease Agreements Nos. 95 F/10-7-2 and 95 F/10-5-3 between Her Majesty the Queen in Right of Canada and Procan Exploration Company Limited commencing April 1, 1987 or any amendments, renewals or successor agreements thereto. More particularly and without restricting the generality of the foregoing, this Release does not act as a release of or in any way modify, alter or vary the obligations and covenants of PROCAN EXPLORATION COMPANY LIMITED with respect to the Abandonment and Restoration Plan annexed as Schedule "A" to Lease No. 95 F/10-5-3.

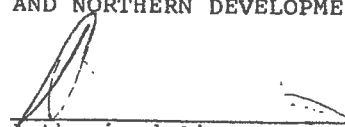
THIS RELEASE contains the entire agreement between the Releasor and the Releasees and the terms of this Release are contractual and not a mere recital.


IN WITNESS WHEREOF the Releasor has hereunto affixed its hand and seal this 10thday of August , 1987.

SIGNED, SEALED AND DELIVERED) HER MAJESTY THE QUEEN IN
) RIGHT OF CANADA
) as represented by the
) DEPARTMENT OF INDIAN AFFAIRS
) AND NORTHERN DEVELOPMENT.



Witness



Authorized Signatory


Statement of Account

This is a contingent claim for restoration of a minesite and related winter road at Prairie Creek in the Northwest Territories. These sites are the subject of two land use permits issued pursuant to the Land Use Regulations under the Territorial Lands Act. Section 18 of the Land Use Regulations demands that the permittee, Cadillac Exploration Ltd., restore the land upon expiration of the permits. This claim is in respect of a failure by Cadillac to restore the land as required by law.

1. Restoration of Minesite -

Claim: \$5.4 million

Expiry date of Permit: April 12, 1985

This includes: a) removal of buildings, equipment, fuel and mining material and debris;
b) sealing and closing of mine shafts;
c) restoration of normal drainage pattern;
d) erosion control measures on road and airstrip;
e) infilling sumps and re-establishing stable slopes; and
f) other restoration requirements

2. Restoration of Winter Road -

Claim: \$1.1 million

Expiry date of Permit: June 28, 1983

This includes: a) erosion control measures along the 184 km. length;
b) removal of culverts and bridges where necessary;
c) restore normal drainage patterns;
d) clean up any garbage and debris along route; and
e) stabilize slopes and river banks as required.

Total: \$6.51 million

Priority, pursuant to Section 107 of the Bankruptcy Act, is claimed by Her Majesty by virtue of the Territorial Lands Act and Section 18 of the Territorial Land Use Regulations.

100

SCHEDULE "A"

STATE OF CANADA
Sec. 80(2) and Sec. 97
Bankruptcy Act.

P.O. Box 49212
Four Bental Centre
1055 Dunsmuir Street
Suite 1804
Vancouver, B.C.
V7X 1C5 (604) (55-542)

IN THE MATTER OF THE BANKRUPTCY OF CADILLAC EXPLORATIONS LIMITED
(Name of Debtor)

of Alberta and the claim of Her Majesty the Queen in Right of Canada as represented by the
and Province) Department of Indian Affairs and Northern Development
creditor

Notices or correspondence regarding this claim to be forwarded to the following
Address: Mr. Floyd N. Adlem, Land Use Administrator, Department of Indian Affairs and
Northern Development, Box 1500, Yellowknife, Northwest Territories, X1A 2R5

1. Floyd N. Adlem residing in the City of Yellowknife in the Northwest Territories

DO HEREBY CERTIFY:

1. That I am a Land Use Administrator of Department of Indian Affairs and
(State Position or Title) Northern Development
(Name of creditor)

2. That I have knowledge of all the circumstances connected with the claim
hereinafter referred to.

3. That the said debtor was at the date of the bankruptcy, namely the 1st
day of March 1983, and still is justly and truly indebted to the above-named
creditor (hereinafter referred to as "the creditor") in the sum of \$6.5 million
as shown by the statement of account hereto attached and marked "A" after
deducting any counter claims to which the debtor is entitled. (The statement of
account must specify the vouchers or other evidence in support of the claim.)

4. That in respect to the said debt, (strike out whatever is not applicable and
give full details in the manner specified).

c) PREFERRED - priority is claimed under Section 107 of the Bankruptcy Act.
(set out on an attached schedule details to support priority
claim.)

5. That to the best of my knowledge and belief the creditor and the debtor are
not related as defined in Section 4 of the Bankruptcy Act.

6. That the following are the payments and credits received from or allowed to
the debtor within the three months (or, if the creditor and the debtor are related
as defined in Section 4 of the Bankruptcy Act, within twelve months) immediately
preceding the date of bankruptcy.

DATED at Yellowknife, this 22 day of October A.D. 1984.

WITNESSES Jennifer E. Moore

F. N. Adlem
(Signature of individual completing this
Certificate)

Floyd N. Adlem

WARNING: Subsection (1) of Section 172 of the Bankruptcy Act prescribes severe penalties for
making any false claim, declaration or statement of account.

GENERAL PROXY

In the matter of the bankruptcy of Cadillac Explorations Limited

1, P. Hiram Beaubier, Director General, Northwest Territories Region,
Department of Indian Affairs and Northern Development

City of Yellowknife, in the Northwest Territories

an Officer of the creditor hereby appoint Floyd N. Adlem of the City of Yellowknife in the
Northwest Territories to be our general proxy in the above matter (excepting only as to the
receipt of dividends).

DATED at Yellowknife, this 22 day of October A.D. 1984.

SIGNATURE OF WITNESS Jennifer E. Moore
Regional Manager, Land Resources,

SIGNATURE OF PROXY GRANTOR

P. Hiram Beaubier

ANNEX D

PRAIRIE CREEK MINE
SURFACE LEASE 95 F/10-5-5
RESTORATION COST ESTIMATE

December, 2013

1. INTRODUCTION

This report presents an estimate of the cost to complete the abandonment and restoration of the Prairie Creek Mine, as defined in Surface Lease 95F/10-5-5. In developing the cost estimate, it was assumed that the existing on-site equipment would be used to complete necessary activities. Labour would be brought in by air, as necessary. Hazardous materials requiring disposal would be taken off-site by air. Winter road access to facilitate the restoration was not provided for because it is not necessary and/or is more expensive than other options, and may not be possible in the absence of a suitable road permit with associated security.

2. REVIEW OF RESTORATION ISSUES

2.1. Item 1 – Removal of Materials

Materials posing a potential environmental hazard are listed in Annex 1 to the Abandonment and Restoration Plan (Schedule A to the Surface Lease). These materials will be removed in one of two ways:

- hazardous mill reagents and other chemicals will be removed from site by air
- petroleum hydrocarbons (diesel, waste oil, etc.) will be incinerated on-site

Hazardous mill chemicals will be packed into new containers suitable for air transport. The containers would be brought in and, once filled, removed by Buffalo aircraft.

A small inventory of drums containing unknown substances exists. The substances are suspected to be cleaners and degreasers (e.g. varsol). It has been conservatively assumed that 40 such drums are present requiring off-site disposal. There is glycol on site in vehicles and in the Admin Building heating system. It has been conservatively assumed that 5 drums of glycol liquid will require off-site disposal.

Materials not posing a potential environmental hazard are listed in Annex 2 to the Abandonment and Restoration Plan. These materials will be left on-site in their present locations.

2.2. Item 2 – Removal of Equipment

Equipment on-site will be left in suitable, designated locations. All hazardous material, such as glycol, engine oil and filters, will be removed for disposal.

2.3. Item 3 – Removal of Structures and Buildings

All major structures will be left, with openings securely sealed. This will include affixing plywood/OSB to all windows. All small wooden or wood frame buildings and structures will be removed by demolition and burning, with metallic residue buried in a suitable disposable location. The lease does not make it clear which category the accommodation trailers fall into. They are not listed as major structures, but they are not wood frame either. Because the trailers contain a substantial quantity of metal and very little wood, we have assumed they are major structures that can remain.

2.4. Item 4 – Concrete Structures

All concrete structures will be left in their present state.

2.5. Item 5 – Surface Services

There are a limited number of power poles to be removed. The delivery line for tailings to the large pond has already mostly been dismantled. There is a utilidor for surface pipes from the Admin Building to one line of accommodation trailers. Completion of this item will not require significant manpower.

2.6. Item 6 – Underground Entrances

There are 3 underground entrances. It is assumed that a temporary barricade is required to prevent easy access by humans and animals, not a permanent barricade. Also, it is recognized that human entry is unlikely given the remote site location and lack of easy access. Therefore, the existing metal doors for the entrances are considered to be sufficient, perhaps augmented with the addition of a limited number of welded bars.

2.7. Item 7 – Mine Ore Stockpile

As specified in Schedule A, the ore stockpile will be graded using a dozer to provide smooth, stable surfaces prior to being covered by 2 feet of clay. Clay will be reclaimed from the airstrip stockpile using Volvo loaders and trucks. Clay deposited on the pile will be graded by a dozer. Because of the age of the heavy equipment, and our prior experience with its use, we have allowed for breakdowns and repairs.

2.8. Item 8 – Tailings Pond

No action is required for this item.

2.9. Item 9 – Drainage and Erosion Control

There are 2 large culverts in the flood protection berm to drain Harrison Creek flows. These will be left. There is also a culvert that drains the Catchment Pond to Harrison Creek. It is assumed that this culvert will also be left in place to avoid possible instability from surface runoff collecting in the pond and not having an outlet. There are 3-4 internal culverts in the site ditches which will be removed. This will be a minor activity.

2.10. Item 10 – Oil Drums and Containers

There are up to 300 oil drums that will require emptying, crushing and burial in a location above the maximum flood level. In addition, there will be approximately another 340 drums from mill reagent repacking (mostly old xanthate drums) that will also require crushing and burial.

2.11. Item 11 – General

General site tidying and clean-up is provided for.

3. RESTORATION COST ESTIMATE

Table 1 provides an estimate of the cost to carry out the restoration of the Prairie Creek Mine, as required by the Surface Lease. This has been developed assuming the company abandons the site in its current configuration. The estimate is based on the following assumptions:

- the company abandons the property;

- all work is based on independent contractor rates;
- the fleet of equipment present on-site would be used, with maintenance as required, obviating the need to bring heavy equipment in over a winter road;
- all of the work would be conducted over approximately 4 weeks; and,
- all costs are 2013 Canadian dollars.

Costs have been assigned to the items listed in Section 2 above. These items do not include the cost of mobilization, or camp operation. Those costs are provided separately. For camp operation, it is assumed that all supplies are brought in, either on mobilization or weekly (groceries). It is assumed that the camp will operate for 4 weeks. While generating capacity for power is assumed to be available, it is assumed that no diesel will be present on site at the time of abandonment and will need to be brought in.

The estimate was not developed using AANDC's RECLAIM model because the pre-set line items in the model are not sufficiently flexible. However, rates for indirect costs and contingencies were the same as those used in the model.

The largest cost item in the estimate is for mill reagent removal from site. The cost of this item was developed in detail with the aid of industry specialists and contractors. Table 2 provides quantities and weights of the reagents. Each will require new packaging in order to comply with Transportation of Dangerous Goods (TDG) regulations for air transport. New packaging was determined for each reagent based on TDG and United Nations (UN) package classifications. The copper sulphate bags would be placed in new, larger bags with a 1,000 kg capacity. The xanthate drums would need to be opened and the solid material placed into new, smaller 30 gallon drums so that each drum weighs less than 100 kg. All of the other reagent drums can be placed directly into 55 gallon overpack drums, except for methanol which will need to be placed in 15 gallon pails. All newly packed items would be strapped onto pallets for ease of transport.

To begin the repackaging exercise, pallets and new bags and drums would be shipped up by road freight to a staging location at the Fort Simpson airport. The drums would be nestable to facilitate air haul into the mine. A small quantity of pallets and new bags and drums would be taken into the mine on smaller aircraft (e.g. Caravan, Twin Otter) as part of the initial mobilization to undertake the site restoration. This will allow the reagent repacking process on-site to be initiated. The remainder of the pallets and packing supplies would be taken into the mine by Buffalo aircraft on the back-haul of bringing the newly packed reagents out.

The newly packed reagents would be strapped to pallets at the Reagent Pad. They would then be placed on a trailer using a forklift loader (on-site) and transported to the airstrip for subsequent loading onto a Buffalo. The pallets would be off-loaded at the Fort Simpson staging area. A Buffalo is able to complete four return flights per day between the staging area and the mine. In order to complete 33 flights, and allowing for some weather delays, the air haul will take approximately 1-2 weeks. Towards the end of the air haul, container trucks from the waste disposal contractor will start arriving at the staging area to be loaded for transport of the newly packed reagents south for disposal. Sumas Environmental developed a cost estimate (attached) for the road transport and disposal of the reagents. The disposal cost estimate is considered to be very conservative, since more than half of it relates to copper sulphate disposal, and we believe this material could be used at an operating mine and the disposal cost avoided.

TABLE 1: SURFACE LEASE 95 F/10-5-5: RESTORATION COST ESTIMATE

ACTIVITY/MATERIAL	Units	Quantity	Unit Cost	Cost
Item 1 – Removal of Materials				
Bags and drums for packing/over-packing				40,000
Freight of bags/drums to Fort Simpson				5,000
Repacking of chemicals for air haul				30,000
Workers (2)	Hour	240	60	14,400
Heavy equipment operators (1)	Hour	48	80	3,840
Heavy equipment fuel (1)	Hour	48	85	4,080
Buffalo airhaul to Fort Simpson	No.	33	9,000	297,000
Transport and Disposal by Sumas				568,530
Sub-Total				962,850
Item 2 – Removal of Equipment				
Workers (2)	Hour	72	60	4,320
Item 3 – Removal of Structures and Buildings				
Plywood/OSB	Sheet	150	20	3,000
Workers (5)	Hour	420	60	25,200
Sub-Total				28,200
Item 4 – Concrete Structures				
Item 5 – Surface Services				
Workers (2)	Hour	168	60	10,080
Item 6 – Underground Entrances				
Workers (2)	Hour	24	60	1,440
Item 7 – Mine Ore Stockpile				
Supervisor	Hour	420	120	50,400
Heavy equipment operators (5)	Hour	420	80	33,600
Heavy equipment mechanics (1)	Hour	84	100	8,400
Heavy equipment fuel (5)	Hour	420	85	35,700
Sub-Total				128,100
Item 8 – Tailings Pond				
Item 9 – Drainage and Erosion Control				
Workers (1)	Hour	12	60	720
Heavy equipment operators (1)	Hour	12	80	960
Heavy equipment fuel (1)	Hour	12	85	1,020
Sub-Total				2,700

TABLE 1: SURFACE LEASE 95 F/10-5-5: RESTORATION COST ESTIMATE

ACTIVITY/MATERIAL	Units	Quantity	Unit Cost	Cost
Item 10 – Oil Drums and Containers				
Workers (2)	Hour	400	60	24,000
Heavy equipment operators (1)	Hour	200	80	16,000
Heavy equipment fuel (1)	Hour	200	85	17,000
Sub-Total				57,000
Item 11 – General				
Workers (2)	Hour	96	60	5,760
Mobilization/Demobilization				
Personnel return airfares to Fort Simpson (14)	No.	14	2,000	28,000
Personnel travel time (14)	Hour	224	80	17,920
Overnight hotel stay with meals (28)	No.	28	200	5,600
Charter flights in/out for personnel & supplies (8)	No.	8	5,000	40,000
Sub-Total				91,520
Camp Operation				
Camp Manager	Hour	336	120	40,320
Cook	Hour	336	100	33,600
Cook's helper/cleaner	Hour	336	60	20,160
Fuel for power generation	Hour	672	50	33,600
Weekly grocery/crew change flights	No.	3	5,000	15,000
Groceries, 9 people/day, 4 weeks	Days	252	50	12,600
Sub-Total				155,280
Total				1,447,250
Project Management	5%			72,363
Engineering	5%			72,363
Contingency	25%			361,813
Grand Total				1,953,788

TABLE 2: PRAIRIE CREEK MINE - HAZARDOUS MATERIALS FOR REMOVAL

Reagent	No. Pallets	Per Pallet	No.	Item	Total	Unit	Total	Unit
Copper Sulphate	196	42 bags	8,232	Bag	186,866	kg	186,866	kg
Sodium Isopropyl Xanthate	84	4x45 gal drums	336	Drum	15,120	USgal	47,401	kg
MIBC	4	4x45 gal drums	16	Drum	720	USgal	2,216	kg
Dowfroth	4	4x45 gal drums	16	Drum	720	USgal	2,736	kg
Methanol	1	4x45 gal drums	4	Drum	180	USgal	684	kg
Cleaners and degreasers	-		40	Drum	1,800	USgal	5,404	kg
Glycol	-		5	Drum	225	USgal	855	kg
Total							246,162	

No. 7,500 kg (16,500 lbs) Buffalo flights

32.8

PRAIRIE CREEK MINE - RATE SHEET				
DESCRIPTION	COUNT	UNIT	RATE	EXTENDED
Copper Sulphate	186866	kg	\$ 1.75	\$ 327,015.50
Sodium Isopropyl Xanthate	47401	kg	\$ 2.20	\$ 104,282.20
MIBC	2216	kg	\$ 0.35	\$ 775.60
Dowfroth	2736	kg	\$ 0.45	\$ 1,231.20
Methanol	684	kg	\$ 0.35	\$ 239.40
Cleaners/degreasers (Varsol)	5404	kg	\$ 0.25	\$ 1,351.00
Glycol	855	kg	\$ 0.45	\$ 384.75
Transportation	13	trips	\$ 10,250.00	\$ 133,250.00
Total Estimate:				<u>\$ 568,529.65</u>

Note:

The transportation rate is based on a dedicated round-trip from Edmonton to Fort Simpson.

Material needs to be packaged to TDG standards prior to being loaded. TDG labels required on each container.

Paperwork for each load to be prepared by Canadian Zinc personnel. Canadian Zinc