



MEMORANDUM

To: Stk'emlupsemc te Secwepemc Nation **Date:** 7 November 2016

From: KGHM Ajax Mining Inc.

CC: B.C. Environmental Assessment Office, Canadian Environmental Assessment Agency

Subject: Response to Ajax Project Application/EIS Panel Report: Towards Financial Responsibility in British Columbia's Mining Industry by Robyn Allan

1. INTRODUCTION

The KGHM Ajax Project Environmental Assessment Application/Environmental Impact Statement for a Comprehensive Study was formally submitted for review to the BC Environmental Assessment Office and the Canadian Environmental Assessment Agency on January 18, 2016. Stk'emlupsemc te Secwepemc Nation (SSN) provided KGHM Ajax (KAM) with comments associated with reports prepared by technical experts and provided to SSN in support of SSN Panel Hearings which occurred May 2, 2016 through May 6, 2016. This memorandum documents the response for comment number SSN-Q through T.

2. COMMENTS FOR RESPONSE

Specific recommendations submitted by SSN and addressed within this memo are listed below.

- SSN recommends that the proponent have an independent QP prepare a reclamation cost estimate in relation to the feasibility study and have that cost prepared as part of the proposed EA reclamation plan. The reclamation plan should include: the original reclamation costs (for EA and SSN Process review and decision), commitment to full security being posted, and annual reporting on site reclamation plans, cost estimates and related security
- Unexpected harm security- SSN recommends that KGHM provide proof that it holds sufficient financial assurances to meet the costs of likely environmental damage and third-party losses that arise due to mine related accidents. Establish a limit of liability where fault does not need to be proven, and require unlimited liability above the liability limit when fault or negligence exists. The level of sufficient financial assurances to be determined

through risk assessment and to include insurance and other hard security instruments such as bonds or cash. Companies should provide proof on an annual basis that required financial resources are available

- SSN recommends that KGHM provide its intention to contribute to an industry funded pool which could be accessed for exceedances in reclamation costs, unexpected tailings pond breaches.
- SSN further requests a summary of its reclamation activities and obligations under the historic tailings storage facility and existing mine reclamation plans.

3. RESPONSE

KAM appreciates the opportunity to provide additional information to address questions and comments submitted by SSN. The following information has been prepared to address the specific comments listed above.

The “Towards Financial Responsibility in British Columbia’s Mining Industry” report critiques British Columbia’s management of financial assurances for environmental harm in the mining industry. The report is focused on the risks and costs introduced by the broad mining industry due to orphaned and abandoned mines, operating and closed mines, and unexpected events. The report provides recommendations on how the Province can ensure that proponents and owners of mining projects are held accountable for environmental harm that may arise as a result of their activities while also supporting industrial development.

Guided by its core values of Zero Harm and Accountability, KAM is committed to designing and operating the Project to the highest standards to ensure its operations do not cause harm to the environments in which they operate. Consistent with this approach, KAM has designed the Project to meet all applicable environmental and safety requirements.

SSN recommends that the proponent have an independent QP prepare a reclamation cost estimate in relation to the feasibility study and have that cost prepared as part of the proposed EA reclamation plan. The reclamation plan should include: the original reclamation costs (for EA and SSN Process review and decision), commitment to full security being posted, and annual reporting on site reclamation plans, cost estimates and related security

The Feasibility Study Update (FSU) and the Application/EIS outline a closure and reclamation cost estimate of C\$195M prepared by an independent Qualified Person (QP). The closure and reclamation cost is comprised of the following components:

- Closure: C\$7M
- Reclamation: C\$178M
- Monitoring and Indirect Costs: C\$10M

Section 3.17.10 of the Application details the mine closure and reclamation cost estimate based on reclamation requirements for the mine at full build out. KAM will comply with all required financial security and reporting requirements.

Unexpected harm security- SSN recommends that KGHM provide proof that it holds sufficient financial assurances to meet the costs of likely environmental damage and third-party losses that arise due to mine related accidents. Establish a limit of liability where fault does not need to be proven, and require unlimited liability above the liability limit when fault or negligence exists. The level of sufficient financial assurances to be determined through risk assessment and to include insurance and other hard security instruments such as bonds or cash. Companies should provide proof on an annual basis that required financial resources are available

A financial security will be required before the Project begins construction and operation. All closure and reclamation commitments, for temporary and ultimate closure, must be supported by the financial security irrespective of the cash flows generated by the Ajax project. An updated estimate will be finalized during the permitting stage based on the forward-looking 5-year mine plan. The financial security amount and mine plan will be contingent on approval by the Inspector of Mines. Additionally, KAM carries insurance coverage in respect of the Project and will ensure that adequate coverage is maintained throughout the life of the Project. In the event of an accident or malfunction it is the third party liability insurance that would respond. Part of the annual process of purchasing this type of insurance is to purchase limits commensurate with benchmark levels purchased by other mining companies and an assessment of risk, including events arising from accidents or malfunctions. KAM has prepared an assessment of potential accidents and malfunctions as part of the Application/EIS. This assessment will inform the purchase of third party liability insurance.

KAM, its directors, and officers are committed to the Ajax Project and to safeguarding the environment in which it operates. Therefore, KGHM International Ltd. and Abacus Mining and Exploration Corp. have adequately capitalized KAM. Additionally, KAM will comply with all necessary requirements from the Ministry to ensure adequate financial resources are available for satisfy its environmental responsibilities.

SSN recommends that KGHM provide its intention to contribute to an industry funded pool which could be accessed for exceedances in reclamation costs, unexpected tailings pond breaches.

Lessons learned from historical performance will be considered to help ensure that the Ajax Project is operated in a safe and environmentally responsible manner. An example of incorporating lessons learned is demonstrated by the TSF design. KAM adopted recommendations from the Mt. Polley panel report which informed engineering design of the TSF. Appendix 3-D of the Application/EIS presents the TSF design. As a further commitment to environmental stewardship, KAM will align with the Mining Association of Canada's (MAC) Towards Sustainable Mining (TSM) program Tailing Management Protocol. TSM helps the mining industry sustain its position as a leading economic contributor in Canada while protecting the environment and remaining responsive to Canadians. As a current member of MAC, KAM will continue to support the association's initiatives in the future. Financial, in-kind, and/or other means of support will be considered for MAC's and

other industry initiatives aimed at continuous improvement of corporate environmental responsibility.

SSN further requests a summary of its reclamation activities and obligations under the historic tailings storage facility and existing mine reclamation plans.

The historic tailings facility ceased operations in 1997. From the time of operational stoppage to 2010, when KAM took ownership of the facility, partial re-vegetation of the tailings surface and embankments (East and West) was completed. Since taking ownership of the facility, KAM has completed the following activities:

- seeding test trials
- dewatering of the facility
- upgrading of the Alkali creek diversion channel
- annual dam inspections
- a dam safety review
- water quality monitoring

In addition to physical activities, KAM has investigated the requirements for rehabilitation of the Alkali Creek channel and conducted research into final closure options for the Historic Afton tailings storage facility. Future reclamation efforts will focus on returning land and water course to grazing and wildlife habitat, dust control, and invasive weed management.

4. CONCLUSION AND PROPOSED PATH FORWARD

We hope that the information provided in this letter addresses the question or concern noted in Section 2. We appreciate the comments received from SSN and look forward to continued collaboration.

By embracing a culture of continuous improvement, KAM is striving to move closer to achieving its core value of Zero Harm. This approach highlights the organizations commitment to environmental stewardship and efforts to build trust in the organization to do things right.