

February 7, 2006

Graham Dixon
Ketza River Holdings Ltd.
Suite 540, 688 West Hastings St.
Vancouver, BC V6B 1P1

RE: Water Use Application QZ04-063

When we talked on December 19, 2005, you advised that all of the information in the water use register is complete and current. As we discussed, the next step was for our office to undertake a review of the register in order to determine if the information is adequate to begin our public review process.

During this adequacy review, several information deficiencies have been identified.

The application includes, as exhibit 1.3, "Supplementary Information for Type A Water Licence Application Ketza River Mine Project No 1240137, October 2004", which will be referred to as "SI" in this letter.

There is considerable uncertainty about exactly what activities you are proposing to have included in the licence. Although the Environmental Assessment (exhibit 9.1) talks about an application for "care and maintenance", it is important to note that the *Waters Act* does not make any specific provision for "care and maintenance". In addition, there appear to be some activities that may require a licence, but which you are not proposing to have included in a licence at this time. Therefore, the water board will require clear statements of what you are proposing to have included in the licence.

The following specific issues will also need to be addressed.

Existing Facilities:

1. The mine is currently not licensed, the previous licence having expired at the end of 1998. Accordingly, none of the existing facilities is presently licensed, and the application does not appear to propose that those facilities be licensed. Is this the case?

QZ04-063 Exhibit 4.1

Culvert Replacements

2. The SI indicates that the scope of the project includes upgrading the access road. However, although no new watercourse crossings are proposed, the road maintenance work is indicated as including some culvert replacements. Please confirm that the culvert installations will fall below the licensable thresholds listed in Schedule 7 of the *Regulation*, and that you are not proposing these be included in a licence.

Maintenance of Diversions

3. The SI indicates that the scope of the project includes maintenance of existing diversions of Subsidiary Creek and Cache Creek; however, there is confusion about whether or not you are proposing to carry out any licensable activities in the course of that work.
4. The response to Q.34 states that alterations to diversion ditches may be required, but that details cannot yet be developed and that an amendment application will be made at such time as they are. However, the response to Q.35 states that the maintenance of the diversion ditches may include upgrading erosion protection and reducing seepage. This appears somewhat contradictory. Please confirm that no licensable modifications will be made to the diversions.

Stabilization of Waste Rock Dumps

5. In response to Q.36, the SI indicates that some stabilization of the slopes of the waste rock dumps may be undertaken. Please provide information on the location of the dumps in relation to watercourses and confirm that the stabilization work will not negatively impact the watercourses or the water quality in them.

Site Plan

6. The site layout plan appended to the SI as Figure 1 is not clear with respect to waste rock dumps. Several features are shown in the figure that may be dumps, but the symbols are not included in the legend. Please submit a revised site layout plan. Please note that the plan that was submitted is at a scale of 1:20,000 rather than the 1:5,000 required by section 21 of the Information Sheet. The requirement for the 1:5,000 plan is in regard to any facilities proposed to be licenced, which may not be the case here; nevertheless, it would be useful to have a larger plan for clarity. A plan to a scale of at least 1:10,000 would be helpful, unless there are facilities that are proposed to be licenced, in which case a 1:5,000 plan will be required.

Water Treatment Plant

7. The SI indicates that a water treatment plant will be installed and operated. Seepage water from below the tailings dams will be pumped to the plant, treated to remove arsenic and then discharged to the tailings pond. Aside from these and a few other basics, no other information is provided regarding the plant. Please provide more detailed information about the plant, including location, capacity, treatment process, and effluent discharge quality. Information should also be provided that substantiates the need to treat the water for arsenic but not for other contaminants. Information regarding the location and method of storing the arsenic precipitate should also be provided.

Underground Workings

8. In response to Q.23, the SI indicates that the drainage from the underground workings discharges to the tailings pond, but that no sampling of it has occurred since 1996. What plans are there for re-establishing the sampling, with what frequencies, at what location(s) and for what parameters?

Site Characterization Information

9. In response to Q.26, the SI indicates that the applicant will be undertaking to compile, evaluate and supplement site characterization information in order to develop a short-term water quality management program and address longer term issues such as integrity of the tailings dams, seepage, water quality and a decommissioning plan. What is the status of this work and when will the results be provided? This type of information may be needed in order to properly assess the current application.

Geology and Geochemistry - Information on File at the Water Board Office

10. In response to Q.27, the Information Sheet states that geology and geochemistry information is on file with the previous (expired) licence. The Water Board will not take responsibility for researching previous water use registers and determining what information should be brought forward into a current register. This is your responsibility. Our staff will assist in any way we can, and we will ensure that all of our records are made available to you, but we cannot arbitrarily insert information into your application on your behalf.

Tailings Dam

11. In response to Q.37, the SI indicates that an engineering firm will be contracted to carry out assessment and design work relating to tailings dams safety and seepage. What is the status of this work and when will the results be provided to the board? This work would appear to be fundamental to the parts of the application dealing with the lowering of the tailings pond and the collection and treatment of seepage water, and should be included in the application.

Plan to Lower Tailings Pond

12. Please provide information on the anticipated impacts the lowering of the tailings pond may have on the geochemical stability of the tailings and on the resulting water quality. Information is also required on how the water discharged during the lowering of the pond will be managed.

Spill Contingency Plan

13. In response to Q.39, the SI provides a one-paragraph description of the spill contingency plan. This is not adequate. Enclosed with this letter is a generic outline of a fuel spill contingency plan that you may find helpful.

Emergency Response Plan

14. In response to Q.40, the SI indicates that an emergency response plan is being developed to address potential failures of the tailings dams. Given that the basic intent of the application is the care and maintenance of the site, this plan is key and is required as part of the application.

Water Balance Model

15. In response to Q.41, the SI indicates that a water balance model is under development. This is a crucial item in terms of the overall care and maintenance of the site as well as the water management and water quality treatment activities that are proposed in the application. A water balance is therefore required as part of the application.

Water Quality Model

16. In response to Q.42, the SI indicates that a water quality model will be developed at some future time to meet water quality objectives. The board does not licence undertakings on the basis of water quality objectives; rather it applies standards. The application does not identify what water quality discharge standards are being proposed, or where those standards would apply. The nature of the site suggests that there may be several points of discharge to the receiving environment, but the application provides no specifics. The EAA screening report (Ex 9.1) provides standards (in section 4.3.6), and the screening says that these were provided by the proponent, but this information is not found anywhere in the information you provided in your water use application.

Decommissioning

17. In response to Q.56, the SI indicates that a decommissioning plan is under development but that it requires additional information before it can be completed. Section 5 (2) of the *Waters*

Act Regulation requires that an application must include plans for the abandonment, or any temporary closing, of the proposed undertaking.

This is an application for a Type A licence for Quartz Mining undertaking and the *Waters Act* requires that the board must hold a public hearing. When our office has received your response, and when the application is determined to be adequate for public review, the board will set a date for a public hearing and additional information will be provided about the public hearing process. In the meantime, if you have any questions about that process, or any other matter, please contact our office or visit our website www.yukonwaterboard.ca

Judi White, Manager
Yukon Water Board