



September 24, 2024

The Honourable R.J Simpson
Premier of the Northwest Territories,
Minister of Executive and Indigenous Affairs,
Minister of Justice,
Government House Leader
P.O. Box 1320
Yellowknife, NT
X1A 2L9

RE: BURGUNDY DIAMOND MINES REQUEST FOR URGENT REVIEW AND SUPPORT

Background

Since acquiring Ekati, the team at Burgundy Diamond Mines has worked tirelessly to improve the economic viability of the asset by strengthening the balance sheet, improving efficiencies, reducing costs, optimising sales channels and identifying ways to extend the mine life. Our team met with key government and community stakeholders soon after the acquisition and several times since then. The key message was that Burgundy would make every effort to extend the life of the asset but needed support from all stakeholders to assist in this significant challenge. Since the acquisition, diamond prices have declined by at least 20% and the industry remains in a state of turmoil. The recent financial loss announced by one of the other local diamonds mines proves how difficult things have become. Despite this backdrop, there has been very little support forthcoming. Environmental requirements are getting unnecessarily more onerous, government agencies are inflexible to change, and the burden placed on the asset is increasing. Should this trend continue, then Burgundy will need to revisit the viability of the Ekati asset and focus on growth elsewhere. This would be tragic, as there is no technical reason why the Ekati asset could not keep operating until at least 2040 and beyond due to the significant diamond resources that remain undeveloped on the property. In fact, Jay pipe alone represents one of the largest undeveloped kimberlite pipes on the planet.

Specific Support Required

Burgundy has identified several areas where the government could provide support which would significantly alleviate the burden of operating in the north. These areas include but are not limited to:

1. Mine Reclamation Provisioning

Current legislation requires the total estimated closure cost to be underwritten by either a letter of credit or fully insured by surety providers. It is not possible for a small independent mining company to obtain a letter of credit for hundreds of millions of dollars, so Burgundy has no choice but to use a consortium of surety providers. This costly arrangement requires cash to be set aside in a bank account and annual interest to be paid. Despite renegotiating the surety arrangement, by extending the term of the payment schedule, the annual burden is significant. Approximately US\$50M needs to be set aside annually even under the new terms. Burgundy would like to explore alternate arrangements with the GNWT to reduce the size of this annual burden so that the much-needed funds can be spent on projects that extend the life of the mine. We also request a review of the progressive reclamation funding process which can be carried out concurrent to existing operations in a cost-effective manner.

2. Diamond Royalty Valuation Process

As a legacy of the De Beers selling cycle of 10 sales per year, the current royalty valuation process only allows for 10 royalty valuations to occur each year. Practically this means that diamond inventory is held in Yellowknife for many weeks waiting for government valuers to attend, before it can be exported for sale (our current cycle time is 16 weeks from mine to sale). The current process allows some goods to be 'fast tracked' but these are smaller low value goods so does not allow material sales revenue acceleration. This existing process unnecessarily ties up much needed revenue. It is worth noting that the royalty paid by Burgundy is based on the actual sale price achieved not the government valuation. Burgundy therefore requires that the royalty valuation process be reviewed with urgency to allow diamonds to be exported as soon as they are ready for shipment. This would increase the velocity of the inventory pipeline and provide a more regular cash stream to the business and thereby improving the economic viability of the business.

3. Mineral Resource Act Regulations Development

Ekati has been in operation for over 25 years, and we have made a significant financial contribution to the territorial government as well as the indigenous communities through taxes, direct financial contributions, employment, training and service/supply contracts. However, given the significantly higher Ekati operational costs associated with mining kimberlites further and further afield as well as transitioning to underground mining methods, along with global diamond prices being at all time lows, maintaining the Ekati's financial viability is under enormous pressure. From the Mineral Resource Act Regulation development process, we understand new Benefit Agreement requirements will be implemented under the new Regulations and as such our existing IBAs may not be directly



accepted, which may require us to negotiate new Benefit Agreements further eroding Ekati's financial viability. Burgundy requests assurance that existing IBAs will be directly accepted under the new MRA Regulation.

4. Environmental Permitting Process

Whilst permitting of new mining projects is necessary, the process in the north has become so unduly complicated and unnecessary, that projects are being held back and potentially becoming unviable. The process needs to be reviewed with urgency. Ekati has been in operation for over 25 years. The environmental impacts are well understood and have been demonstrably well managed. The process of recovering diamonds uses no chemicals, heat or reagents that are harmful to the environment. The process simply involves, digging, crushing, grinding and x-ray machines to recover the diamonds. The current permitting process involves numerous participants, including community members, scientists, legal advisors and others, all of whom gain financially through all permitting processes taking longer. Burgundy understands this process is not owned by the GNWT, as such Burgundy requests support from the GNWT to invoke an urgent review of this process by the MVLWB and WLWB with the goal of streamlining and reducing the costs and time involved so that projects can be progressed in a timely manner to improve economic viability. Particularly when considering underground expansions beneath existing surface disturbances, where the environmental impacts of extending mining deeper are incremental or negligible.

5. Water Management Requirements

It is undisputed that the water resources in the north are pristine and precious and must be maintained as such. Once water has been affected by mining activities it must meet threshold criteria before it can be reintroduced back into the receiving environment. This is not disputed. However, with over 25 years of extensive water quality and environmental monitoring data collected in and around Ekati, combined with existing treatment and management methodologies, there is no doubt that we can discharge suitable water quality back to the environment.

Burgundy requests support in approaching the federal agencies to urgently review the water management and monitoring standards with the goal of balancing practical and sensible controls coupled with the use of our extensive database of monitoring results along with current technology and practises.

6. Improving understanding

Diamond mining has been the key economic driver in the north for over 25 years. Billions of dollars have been spent on exploring, developing and mining diamonds. Burgundy believes there are still very significant diamond resources that exist in the north that can be economically advanced. Very valuable infrastructure has been established to support the industry that is probably economically irreplaceable in the form of power generation, roads, equipment, warehousing, airports, accommodation facilities, medical facilities, maintenance workshops, offices and many more. This infrastructure must continue to be used for as long as possible. This infrastructure along with the diamond resources in the ground should be viewed by the government as a strategic asset. Burgundy believes the mindset in the north needs to change from that of “closure” to “opportunity”. In fact, there is no reason that diamond mining cannot continue at scale for the next 25 years. Burgundy would be very happy to discuss with government what else can be done to ensure that diamond mining stays an important contributor to the local economy for many years to come.

What Burgundy Has to Offer

Burgundy has established a highly experienced management team with many years of experience in the diamond industry and in the north. We are fully committed to making the business successful. If this can be achieved with support from the government and other key stakeholders, the benefits for the north which include the following will continue:

1. Taxes and royalties - Burgundy currently contributes tens of millions of dollars in the form of taxes each year to the local economy.
2. Employment – Burgundy and northern contractors employ around 1200 workers, with over 350 from northern communities. Each of these employees support their local economies as well as the territorial economy in the form of payroll taxes and spending their hard-earned dollars on local goods and services. We are committed to maximising northern employment and will continue to strive to increase the proportion of northern employees in our workforce. We also believe there is an opportunity to leverage northern hires further with the upcoming closure of Diavik, and potentially Gahcho Kue in the future, mitigating the direct employment impact occurring in the north.
3. Community payments – Burgundy contributes around \$5M each year to the various communities in the form of IBA payments, donations, and sponsorships.
4. Community support – Burgundy regularly supports community projects and consistently sponsors students and training for northerners each year.
5. Support for local businesses – Burgundy engages local businesses in support of day-to-day operations that benefit the community. In 2023 northern contractor spend was over \$245



million. These businesses in turn make a profit and spend money locally on goods and services.

6. It is estimated that if Burgundy can successfully operate for the next 25 years, the size of the prize for the north could be upwards of \$500M when combining all the above towards the local economy.

We are confident that our continued collaboration will bring substantial benefits to the Northwest Territories, fostering economic growth and sustainable development. We look forward to discussing this further in our upcoming meetings.

Sincerely,

Kim Truter
Chief Executive Officer
Burgundy Diamond Mines Ltd.

CC:

Deputy Premier, Minister of Finance, Minister of Infrastructure, Minister Responsible for the Northwest Territories Power Corporation – The Honourable Caroline Wawzonek

Minister of Education, Culture and Employment and Minister of Industry, Tourism, and Investment - The Honourable Caitlin Cleveland

Minister of Environment and Climate Change - The Honourable Jay Macdonald

Deputy Minister of Industry, Tourism and Investment - Pamela Strand

Ministerial Special Advisor to Minister Caitlin Cleveland - Nigel Wodrich

Tłjchq, Mines Liaison Coordinator - Grace Mackenzie

Tłjchq, Grand Chief - Jackson Lafferty

Tłjchq, Behchokq Chief - Clifford Daniels

Tłjchq, Gamèti Chief - Doreen Arrowmaker

Tłjchq, Whati Chief - Alfonz Nitsiza

Tłjchq, Wekweèti Chief Adeline Football

North Slave Métis Alliance, President - Marc Whitford

łutsel K'e Dene First Nation, Chief - James Marlowe

Yellowknives Dene First Nation, Chief - Ernest Betsina

Yellowknives Dene First Nation, Chief - Fred Sangris

Hamlet of Kugluktuk, Mayor - Ryan Nivingalok

Kitikmeot Inuit Association, President - Robert Greenly