

# MECHESHOO AGREEMENT

## Backgrounder



March 27, 2012

**Stornoway Diamonds (Canada) Inc., Cree Nation of Mistissini,  
Grand Council of the Crees (Eeyou Istchee) and Cree Regional Authority**

## History of the Mecheshoo Agreement

Stornoway is a mining company holding mining claims in an area known as the “Foxtrot Property”, on lands located north of Lake Mistassini, approximately 275 kilometers north of Mistissini, on Category III lands. Stornoway conducted exploration works in this area, which led to the discovery of diamond-bearing kimberlites in 2001. Stornoway intends to develop and operate a diamond mine on the Foxtrot Property, such development to be known as the “Renard Diamond Mine”. The Renard Diamond Mine is located on the Mistissini M11 Cree Family Traditional Territory.

Since the diamond discovery in 2001, Stornoway undertook to inform on a regularly basis the Council of the Cree Nation of Mistissini, the Tallymen of the Mistissini M11 Cree Family Traditional Territory and their respective families and various Mistissini stakeholders.

In July 2010, Stornoway, Diaquem Inc., the Cree Nation of Mistissini, the Grand Council of the Crees (Eeyou Istchee) and the Cree Regional Authority entered into a Pre-Development Agreement (PDA) providing for business and employment opportunities for the Crees during the period of pre-development of the Renard Project. The PDA also contemplated negotiations for the development, execution and implementation of a final agreement with respect to the Renard Diamond Mine.

In December 2011, in accordance with the requirements set out in the *James Bay and Northern Quebec Agreement* (the “JBNQA”), Stornoway filed an Environmental and Social Impact Statement (the “ESIS”) on the Renard Diamond Mine for the authorization of the project by the relevant authorities. Stornoway developed a rehabilitation and restoration plan in respect of the Renard Diamond Mine and that plan was provided with the ESIS.

The negotiations for the Mecheshoo Agreement were initiated in October 2010. Stornoway, Mistissini and the GCC(EI)/CRA negotiated and agreed on the terms and conditions of the Mecheshoo Agreement, whereby they will continue their on-going relationship in a mutually beneficial manner with respect to all phases of the Renard Diamond Mine. The Mecheshoo Agreement addressed all aspects of the relationship between the parties and a summary of each element of this agreement is presented in the present document.

## Objectives of the Agreement

The objectives of the Mecheshoo Agreement are the following:

- ❑ To provide for the establishment and maintenance of a long-term working relationship between the parties based on mutual trust and respect.
- ❑ To provide for a framework through which communication and cooperation can take place between the parties.
- ❑ To provide for training, employment and business opportunities for the Crees and particularly the Crees of Mistissini at the Renard Diamond Mine.
- ❑ To provide for the cooperation and involvement of the Cree parties with Stornoway in the environmental monitoring of the Renard Diamond Mine.
- ❑ To maintain a constructive and respectful relationship with the Mistissini M11 Family and to provide specific measures for their benefit, including training, employment and business opportunities and participation in environmental monitoring activities.
- ❑ To provide for the social acceptability of the Renard Diamond Mine by the Crees and to confirm their support for the development and the operation of the Renard Diamond Mine.
- ❑ To facilitate the development and the operation of the Renard Diamond Mine in a safe, efficient and successful manner.
- ❑ To provide for the proper implementation of this Agreement, through the creation of the Renard Committee (the main implementation committee), the Training and Employment Committee, the Environment Committee and other joint mechanisms; and
- ❑ To provide for a mutually beneficial, solution-oriented and non-punitive approach for the proper implementation of this Agreement.

## Description of the Renard Diamond Mine

The Renard Diamond Mine site is located approximately 275 km north of the Cree community of Mistissini and 150 km southeast of the LG-4 Hydro-Québec complex. The Renard Diamond Mine site is currently only accessible by air. An airstrip will be built 8 km south of the mine site to support the mine operation. The mine site will also be accessible by a public road provided through the extension of Road 167 to the Otish Mountains currently under construction.

Activities and operations of the Renard Diamond Mine will include ore extraction through open pit and underground mining, waste rock and overburden management, mineral processing and sorting, processed kimberlite management, water supply and wastewater management, as well as solid and hazardous waste management. Stornoway will continue to carry out exploration works on the Foxtrot Property during the term of the Mecheshoo Agreement. The goal of these exploration works is to increase mineral reserves and to extend the life of the Renard Diamond Mine.

According to the Renard feasibility study prepared by Stornoway, the probable mineral reserves represent an 11-year mine life with a maximum diamond production peaking at 2.1 million carats/annum and averaging 1.7 million carats/annum for the life of mine.

Concurrently with the Renard feasibility study, Stornoway also developed a long-term business plan (the "LTBP") based on the total indicated mineral resources and inferred mineral resources to a depth of 700 meters, all of which within the scope of the mine infrastructure of the feasibility study. The LTBP contemplates a longer mine life and an increased production rate within the scope of the design parameters for the mineral processing plant. The inferred mineral resources are not included in the economic analysis of the Renard feasibility study. However, in order to allow for a full assessment of the environmental and social impacts, the Environmental and Social Impact Statement is based upon the extended mine plan contained in the LTBP, estimated at approximately 20 years of production.

General operations at the Renard Diamond Mine will be carried out by workers to be transported to the mine site by air from Montréal and Chibougamau. Approximately 500 persons will work on site during the construction period, set to start in mid-2013 for a period of two years, once access through Road 167 becomes available.

Approximately 460 persons will work at the Renard Diamond Mine during the operation phase. The working shift rotation will be based on a 2 weeks in and 2 weeks out schedule for approximately 230 persons on site per rotation. Most of the materials, equipments and supplies during the operation phase will be transported to the site using the future Road 167.

## **Training and Employment**

Through terms on Training and Employment, the Mecheshoo Agreement aims to develop a qualified workforce and to promote the employment, integration, advancement and retention of Crees in all business units at the Renard Diamond Mine.

To achieve this purpose, a Training and Employment Committee will be established to cooperate on various training and employment related matters. The parties have agreed to establish non-binding short-term and long-term Cree employment objectives, to achieve a workforce at the Renard Diamond Mine which will in the long-term reflect the proportion of the Cree population over the whole population of the James Bay Eeyou Istchee region.

The parties have also agreed on a hiring priority order when more than one candidate fulfill the job requirements for a vacant position and when one or more Crees fulfill the job requirements. In such cases, Stornoway has undertaken to fill the position by hiring a qualified candidate in accordance with the following order: (a) member of Mistissini M11 Family; (b) Crees of Mistissini; (c) other Crees.

The parties have also agreed to cooperate in their respective training programs and measures, intended to facilitate the successful recruitment of Crees, their advancement and retention in all business units at the Renard Diamond Mine.

French and English language training will be provided, where relevant, to facilitate communications at the Renard Diamond Mine. Stornoway, with the cooperation of the Cree parties, will develop and put in place measures and programs to promote the integration of Cree employees at the Renard Diamond Mine and will implement cultural awareness and cross-cultural programs to favour harmonious workplace relations.

Stornoway will develop and implement its internal policies in a way that reflects and respects the Mecheshoo Agreement.

Finally, Stornoway and Mistissini will jointly contribute yearly amounts to the Mistissini/Renard Training Fund for the purpose of supporting training programs, particularly programs related to the mining industry in general and for the Renard Diamond Mine.

## Working Conditions and Policies

Through terms on Working Conditions and Policies, the Mecheshoo Agreement aims to provide for adaptations of certain working conditions for Cree employees of Stornoway to facilitate their integration and to set out certain policies applicable to the entire workforce at the Renard Diamond Mine. For example:

- (a) Cree employees of Stornoway will be considered in priority for leaves during “Goose Break” and “Moose Break” periods, as part of their annual paid vacation;
- (b) Stornoway will facilitate the establishment of polling stations at the mine site for Cree Employees to vote in Cree local or regional elections or referenda;
- (c) Stornoway’s leave policy will provide for bereavement leaves in the case of death of an employee’s immediate family member, provided that for Cree employees of Stornoway, immediate family will be defined as including family members further to traditional adoption.

With respect to policies applicable to the entire workforce at the Renard Diamond Mine, security and safety remain the main considerations.

Stornoway will provide roundtrip transportation to all employees between one or more pick-up points and the mine site. The mode of transportation designated by Stornoway will be the sole mode of transportation for employees, with the exception for members of the Mistissini M11 Family employed at the mine who may, at their discretion and only at the start and end of their respective work rotation schedule, access and leave the mine site with their personal or recreational vehicles. The use of personal and recreational vehicles to and from the mine site will be prohibited. Hitchhiking to and from the mine site will be also be prohibited.

For public safety and security reasons, Stornoway will adopt, implement and enforce a policy prohibiting hunting, fishing and trapping and the transportation, possession and use of firearms and other weapons by anyone at the mine site. Stornoway will establish Safety Zones surrounding the mine site where there will be no hunting, fishing and trapping and where the use of firearms will be prohibited. However, it should be noted that the members of the Mistissini M11 Family will be allowed to trap in the Safety Zones, provided that no large traps be used, again for public safety and security reasons.

Finally, Stornoway will adopt, implement and enforce a mine site zero-tolerance drug and alcohol policy, addressing all forms of substance abuse, for all persons at the mine site and during transportation of employees to and from the mine site.

## **Business Opportunities**

Through terms on Business Opportunities, the Mecheshoo Agreement aims to provide business opportunities to Cree enterprises, particularly Mistissini Cree Enterprises, and to encourage and facilitate the development of Cree enterprises in the context of the Renard Diamond Mine.

On an annual basis, Stornoway will provide to the Renard Committee a list of the contracts planned for the following year. This list will outline the nature of the goods and services to be supplied, the estimated duration, the planned commencement date, the nature of the contract and Stornoway's plan regarding the awarding process (either through a competitive tendering process, priority negotiations with a qualified Cree enterprise or direct negotiation with a qualified enterprise, including Cree enterprises). Such list will be reviewed by the Renard Committee and can be adjusted.

In awarding its contracts, Stornoway will consider various criteria, including Cree content, in its contract evaluation grid. For the purpose of the Mecheshoo Agreement, Cree content includes: Cree enterprise(s) including Mistissini Cree enterprise(s) proposed as contractor, subcontractor or supplier, participation of members of the Mistissini M11 Family in ownership of Cree enterprise, Crees currently employed, and commitment with respect to the training and employment of Crees, as well as past performance in complying with Cree Content in previous contracts. In addition to Cree content being evaluated in awarding its contracts, Stornoway has undertaken, in the context of its competitive tendering process, to invite qualified Cree enterprises, and, in the case where there is one (1) or more qualified Cree Enterprises, to reserve at least twenty-five percent (25%) of the invitations for such qualified Cree enterprises.

On an annual basis, the Cree parties will provide to Stornoway an updated list of Cree enterprises, including Mistissini Cree enterprises.

Stornoway and Mistissini will seek the cooperation of the Mistissini M11 Family in the identification and development of business opportunities for members of the Mistissini M11 Family.

Finally, Stornoway and Mistissini will jointly contribute an annual amount to the Mistissini/Renard Business Development Fund for the purpose of supporting the development of Mistissini Cree Enterprises.

## Social and Cultural Matters

Through Social and Cultural terms, The Mecheshoo Agreement aims to provide for cooperation measures between the parties in a manner that respects and promotes Cree society and culture, particularly harvesting activities on the Mistissini M11 Territory.

Stornoway has undertaken to respect the role of the tallymen of the Mistissini M11 Territory regarding the supervision of harvesting activities. As such, Stornoway will seek their input in the identification, prior to the spring goose hunt season and the fall moose hunt season as the case may be, of restricted or no-fly zones and periods.

In addition, Stornoway and the Cree parties will take various on-site and off-site measures to achieve the underlying purpose of the Agreement.

Some of the on-site measures include: (a) the construction of a cultural site at the mine site; (b) a multi-purpose space allowing Cree Employees to participate in activities offered in the context of cultural, traditional health and wellness and social programs; (c) ensuring that telephone calls from the mine site to the community of Mistissini are local calls; and (d) organization, in cooperation with the Cree parties, of an annual Cree cultural day at the mine Site for the mine workforce.

Off-site measures include: (a) participating to interviews and bulletins for Cree radio broadcasting to inform the Crees, particularly Crees of Mistissini, about the activities of the Renard Diamond Mine; (b) establishment and delivery of programs promoting healthy lifestyle activities and prevention of alcohol and substance abuse; and (c) establishment and delivery of social programs to assist Cree employees from Mistissini and their families.

Stornoway will take appropriate measures for the protection of archaeological, burial and cultural sites found during its activities on the Foxtrot Property.

Finally, Stornoway will contribute annually to the Mecheshoo Social and Cultural Fund, supporting activities from Mistissini designed for the sustainable economic and community development of Mistissini and for activities having the support of the tallymen of the Mistissini M11 Territory.



## **Environmental Matters**

Through terms on environmental matters, the Mecheshoo Agreement aims to provide for the cooperation of the parties in the development and implementation of Stornoway's environmental management system and related environmental monitoring of the Renard Diamond Mine.

The Mecheshoo Agreement provides for the establishment of an "Environment Committee" for the parties to cooperate in environmental matters and to create opportunities for training in environmental matters and mine site visits for members of the committee and the tallymen of the Mistissini M11 Territory. Throughout the operations, the Environment Committee will be provided with Stornoway's annual reports on environmental monitoring activities and Stornoway's annual sustainable development reports.

In the context of its environmental monitoring programs, Stornoway will encourage the participation of Crees, particularly the Cree members of the Environment Committee and members of the Mistissini M11 Family. In addition, Stornoway will seek the involvement of members of the Mistissini M11 Family in the rehabilitation and restoration activities at the mine site.

Stornoway will also develop an emergency response plan, with the cooperation of the Cree parties through the Environment Committee. In its environmental management system and environmental monitoring activities, Stornoway will include, where relevant and appropriate, Cree Knowledge and experience.

With the cooperation of Mistissini and the GCC(EI)/CRA, Stornoway has developed the rehabilitation and restoration plan for the Renard Diamond Mine. Stornoway will implement this rehabilitation and restoration plan, with the assistance of the Environment Committee.

Finally, Stornoway will seek the input of the tallymen of the Mistissini M11 Territory and members of the Mistissini M11 Family, to establish measures facilitating the progressive reuse by Crees of the mine site.

## **Financial Matters**

In addition to contributions made by Stornoway and Mistissini to the Mistissini/Renard Training Fund and the Mistissini/Renard Business Development Fund, and contributions made by Stornoway to the Mecheshoo Social and Cultural Fund, the Mecheshoo Agreement includes a mechanism by which the Cree parties will benefit financially from the success of the project on a long term basis, consistent with the Mining Industry's best practices for local community beneficiation. While not entailed by the Mecheeshoo Agreement, the most important portion of these financial benefits will be transferred to Mistissini, with the balance being paid to the GCC(EI)/CRA for the benefit of the other Cree communities.

## Renard Committee

The Mecheshoo Agreement allows for the creation of a “Renard Committee” that will provide a framework for the parties to implement the Mecheshoo Agreement efficiently and cooperatively in accordance with its terms.

The main functions of the Renard Committee will be:

- ❑ to oversee the implementation of the Mecheshoo Agreement in an efficient, solution-oriented, timely and cooperative manner;
- ❑ to serve as the principal forum for communications between the parties with respect to the implementation of the Mecheshoo Agreement; and
- ❑ to provide reports to the parties on the implementation of the Mecheshoo Agreement.

The parties will be jointly responsible for the implementation of the Mecheshoo Agreement.

The composition of the Renard Committee will consist of six members to be appointed as follow:

- three (3) members will be appointed by Stornoway;
- two (2) members will be appointed by Mistissini; and
- one (1) member will be jointly appointed by the GCC (EI)/CRA.

The members of the Renard Committee, the Training and Employment Committee, the Environment Committee and any other committee established by the Renard Committee will attest that their membership in such committee does not place them in a conflict of interest and that they agree to abide by the Code of Ethics of the Mecheshoo Agreement.

The Renard Committee, which will operate by consensus, is required to meet at least once per quarter. The Cree parties and Stornoway will alternate in appointing a Member to serve as chairperson of the Renard Committee for a period of one year.

On an annual basis, Stornoway will present to the Renard Committee an overview of activities carried out during the previous year and planned activities for the coming year for the Renard Diamond Mine.

The Renard Committee will develop a communication plan including an action plan. Such action plan may include various means of communications, such as newsletters, community meetings and radio interviews and bulletins and will involve Cree individuals, including Cree elders.

The Environment Committee and the Training and Employment Committee will report to the Renard Committee. The Renard Committee may establish, and dissolve as appropriate, other committees as may be required from time to time for specific purposes under the Mecheshoo Agreement.