

Assessment of BHPB

As we have reported in previous years the on-site environmental performance of BHPB remains good. However, we are increasingly troubled in regard to company decisions and actions that, on occasion, we interpret as indicative of a shortage of resources and potentially a reduced commitment to a high standard of environmental performance by the company. At other times we have been pleased to observe BHPB demonstrate considerable flexibility in incorporating the needs of the diverse group of Aboriginal parties affected by Ekati. The best example of this from 2005 comes from a process BHPB agreed to



(and subsequently fulfilled) at our Annual General Meeting to include a collaborative site visit alongside presentation of its three-year environmental impact report. It also agreed to host technical meetings to review results of its environmental monitoring programs.

Our relations with the company were at times strained last year, yet frequently we were able to work collaboratively on the items we do agree on. The company has provided information requested and on new topics. Over the past eight years we have gained considerable insight into the scale of the task faced by the BHPB environment department and, by extension, the company as a whole in managing the environmental aspects of the project. Despite the challenges, however, it is not without some hesitation and reluctance that we must conclude that the expectations and workload placed on BHPB's environment department now

exceed its capacity to deliver all that it needs to in an effective and timely way. This may be why the company appears increasingly unwilling or unable to act on some of our advice, particularly in the area of developing a collaborative

process to come up with a new *reclamation* and closure plan. In our view, BHPB should reassess resourcing commitments to its environmental management duties in order to ensure that environmental performance at Ekati remains as good in

future years as it has been in the past. This is even more crucial now to ensure that the requisite efforts to closure planning and *progressive reclamation* are made.

In our last annual report, we commented on "...problems ...disturbing to the Agency...



Discharge from the Long Lake Containment Facility into Leslie Lake



(BHPB) consistently having too few staff to do the job...delivering many reports so late as to reduce their value for effective decision-making [and] continued difficulties in communicating with our Aboriginal Society Members." Regrettably we report that these problems have become worse in the past year. BHPB cancelled an Agency site visit it proposed for March and its staff were too busy to meet with the Agency at all in our March 2006 board meeting. The annual environmental monitoring reports (aquatic effects, air quality and wildlife), which used to be available as early as December of the current year, are now not available until May or later, thus

affecting our ability to review last year's environmental performance and report on the results in this annual report.

In our view and that of our Aboriginal members the company also needs more expertise in building productive relationships with the Aboriginal communities, particularly when consulting on the development of objectives and options for Ekati's closure plan.

Two fundamental items, development of a closure plan and modifications to the operation of the *tailings* facility (the LLCF) remain outstanding, and are subject to continuing effort by the company and reviewers in order to achieve

approval. At press time BHPB had submitted a revised Wastewater and Processed Kimberlite Management Plan, and the WLWB's Interim Closure and Reclamation Plan working group had met to consider the terms of reference put forth by BHPB. We will report back next year on the outcomes of these crucial initiatives.

Overall, environmental performance remains good on the ground. After problems with wolverine last year at the Misery site the company installed metal skirting around its buildings which should reduce wolverine activity at the site. There is also evidence of improved employee commitment to proper

garbage handling, and this has apparently been adopted at a high level within BHPB management. BHPB retained its ISO 14001 certification, and achieves other internal and industry-driven environmental performance standards, as well as awards for environmental performance. ■

Recommendation

5. BHPB should provide adequate resources to its Environment Department to ensure it can meet the obligations of its Environmental Agreement, water licences and other authorizations.



BHPB in Kugluktuk

Financial Statements

March 31, 2006

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Management's Report

The management of the Independent Environmental Monitoring Agency is responsible for the integrity of the accompanying financial statements. The financial statements have been prepared by management in accordance with the accounting principles disclosed in the attached notes. The preparation of the financial statements necessarily includes some amounts which are based on the best estimates and judgments of management.

To assist meeting its responsibility, management maintains accounting, budget and other internal controls. These controls provide reasonable assurance that transactions are appropriately authorized and accurately recorded, and that assets are properly accounted for and safeguarded, in order that the integrity of the financial records is maintained.

The financial statements have been audited by the independent firm of MacKay LLP, Chartered Accountants. Their report to the directors of Independent Environmental Monitoring Agency, stating the scope of their examination and opinion on the financial statements, follows.



Jaida Ohokannoak
Secretary-Treasurer

June 9, 2006



March 31, 2006

Auditors' Report

To the Directors of Independent Environmental Monitoring Agency

We have audited the statement of financial position of the Independent Environmental Monitoring Agency as at March 31, 2006 and the statements of operations and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2006, and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Yellowknife, Northwest Territories
Chartered Accountants

June 9, 2006



Statement of Operations

For the year ended March 31,

	2006	2005
Revenue		
Administration fee	\$ 701	\$ 10,709
BHP Billiton Diamonds Inc.	531,201	507,510
Contributed services	31,891	35,413
Department of Indian Affairs and Northern Development	-	82,070
Interest income	2,647	1,847
Mediation (Schedule 1)	21,891	-
	588,331	637,549
Expenditures		
Accounting and auditing fees	15,973	8,356
Advertising and website	6,394	-
Amortization	3,723	4,086
Board support		
- honorarium	133,317	158,379
- travel, meals and accommodation	57,784	84,188
Community consultation		
- annual general meeting	8,858	9,560
- annual report	57,476	25,524
- community visit	6,688	26,986
- environmental workshop	-	2,750
- other	10,955	5,270
- reclamation workshop	10,212	18,915
Consultants	24,982	8,379
Contributed services		
- equipment lease	3,491	3,735
- office lease	26,480	27,791
- other	2,600	3,887
Department of Indian Affairs and Northern Development	-	82,070
Insurance	2,821	1,887
Mediation (Schedule 1)	19,588	-
Office supplies	11,206	5,906
Postage and freight	654	771
Professional development	4,400	7,251
Recruitment	-	8,285
Staff travel	2,343	-
Telephone and fax	7,386	6,181
Wages and benefits	150,136	166,941
	567,467	667,098
Excess revenue (expenditures) before the following	20,864	(29,549)
Contribution repayable (Note 4)	(20,867)	-
Repayment of contribution (Note 6)	(1,957)	-
Loss on disposition of capital assets	(233)	-
Excess expenditures	\$ (2,193)	\$ (29,549)



Statement of Changes in Net Assets

For the year ended March 31,

	2006	2005
General Operating fund, beginning of the year	\$ 1,957	\$ 28,490
Excess expenditures	(2,193)	(29,549)
Transfer to investment in capital assets fund	236	3,016
General operating fund, end of the year	\$ -	\$ 1,957

Statement of Financial Position

As at March 31,

	2006	2005
Assets		
Current		
Cash	\$ 74,433	\$ 96,657
Contributions receivable	4,897	85,039
Prepaid expenses	4,650	4,746
	83,980	186,442
Capital assets (Note 3)	12,208	12,444
	\$ 96,188	\$ 198,886
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 63,113	\$ 17,315
Contributions repayable (Note 4)	20,867	-
Deferred revenue	-	167,170
	83,980	184,485
Net Assets		
Investment in capital assets fund (Note 5)	12,208	12,444
General operating fund	-	1,957
	12,208	14,401
	\$ 96,188	\$ 198,886

Approved on behalf of the Board:



William A. Ross – Director



Jaida Ohokannoak – Director



Statement of Cash Flows

For the year ended March 31,

	2006	2005
Cash flow sources (used for)		
Operating activities		
Funding received	\$ 501,303	\$ 544,120
Paid to suppliers	(369,671)	(570,273)
Paid to employees	(150,136)	(167,208)
	(18,504)	(193,361)
Investing activity		
Purchase of capital assets	(3,720)	(1,070)
Change in cash position	(22,224)	(194,431)
Cash position, beginning of the year	96,657	291,088
Cash position, end of the year	\$ 74,433	\$ 96,657

Notes to Financial Statements

March 31, 2006

1. Organizational Purpose

The Independent Environmental Monitoring Agency ("the Agency") is a not-for-profit organization incorporated under the *Societies Act* of the Northwest Territories. It is exempt from income tax under Section 149(1) of the *Income Tax Act*.

The mission of the Agency is to oversee environmental management of BHP Billiton Diamonds Inc. at the Ekati mine site in the Northwest Territories.

2. Significant Accounting Policies

The following is a summary of the significant accounting policies used by management in the preparation of these financial statements.

(a) Financial instruments

All significant financial assets, financial liabilities and equity instruments of the Agency are either recognized or disclosed in the financial statements together with available information for a reasonable assessment of future cash flows, interest rate risk and credit risk. Where practicable the fair values of financial assets and financial liabilities have been determined and disclosed; otherwise only available information pertinent to fair value has been disclosed.

(b) Fund accounting

The general operating fund accounts for current operations, programs and general operations.

The investment in capital assets fund reports the assets, liabilities, revenues and expenses related to capital assets.

(c) Capital assets

Equipment purchases are recorded on the balance sheet at historical cost less accumulated amortization. Amortization is calculated by the declining balance method at the annual rates set out in Note 3. In the year of acquisition, amortization is taken at one-half the annual rates.

(d) Recognition of revenue

The Agency follows the deferral method of accounting for contributions.

Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and its collection is reasonably assured.



Notes to Financial Statements (continued)

March 31, 2006

(e) Use of estimates

The preparation of this financial information in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial information and the amounts of revenues and expenditures during the period. Actual results could differ from those estimates.

3. Capital Assets

			2006		2005	
	Rate	Cost	Accumulated Amortization	Net Book Value	Net Book Value	
Office equipment	20%	\$ 13,890	\$ 7,832	\$ 6,058	\$ 6,912	
Computers	30%	15,950	10,100	5,850	5,532	
Computer software	100%	1,935	1,635	300	-	
		\$ 31,775	\$ 19,567	\$ 12,208	\$ 12,444	

4. Contribution Repayable

	2006	2005
BHP Billiton Diamonds Inc.	\$ 18,564	\$ 18,564
Department of Indian Affairs and Northern Development	2,303	2,303
Total contribution repayable	\$ 20,867	\$ 20,867

5. Investment in Capital Assets Fund

	2006	2005
Balance, beginning of year	\$ 12,444	\$ 15,460
Purchase of capital assets	3,720	1,070
Disposition of capital assets	(233)	-
Amortization	(3,723)	(4,086)
Balance, end of year	\$ 12,208	\$ 12,444

6. Repayment of Contribution

During the year, the Agency renegotiated the terms of agreement with BHP Billiton Diamonds Inc. It was agreed that surpluses cannot be deferred and the 2005 surplus was repaid.



Notes to Financial Statements (continued)

March 31, 2006

Schedule 1 - Statement of Mediation Contributions and Expenditures

March 31, 2006

7. Economic Dependence

The Agency receives contribution funding from BHP Billiton Diamonds Inc. Management is of the opinion that operations would be significantly affected if the funding was substantially curtailed or ceased.

8. Financial Instruments

Financial instruments consist of recorded amounts of contributions receivable which will result in future cash receipts, as well as accounts payable, accrued liabilities and contributions repayable which will result in future cash outlays.

The Agency is exposed to the following risks in respect of certain of the financial instruments held:

(a) Credit risk

Credit risk arises from the potential that a customer will fail to perform its obligations. The Agency is exposed to a concentration of credit risk as the majority of the contributions receivable are due from one source. This risk is managed as this major customer is governed by law to collect and remit payments to the Agency.

(b) Fair value

The Agency's carrying value of cash, contributions receivable, accounts payable, accrued liabilities, and contributions repayable approximates its fair value due to the immediate or short-term maturity of these instruments.

	2006
Revenue	
BHP Billiton Diamonds Inc.	\$ 9,794
Department of Indian Affairs and Northern Development	7,200
Government of the Northwest Territories	4,897
	21,891
Expenditures	
Meals and accommodation	1,849
Meetings	10,845
Other	32
Travel	6,862
	19,588
	2,303
Less: contribution repayable	
Department of Indian Affairs and Northern Development	(2,303)
Excess revenue	\$ -



Summary of Work Plan and Core Budget 2006-7 and 2007-8

The work plan is based upon the direction and feedback received from our Society members at our Annual General Meeting in October 2005 and the Agency's own initiatives.

With the Resolution Agreement from the mediation, the Agency's core budget is now fixed at \$560,000 per year as of April 1, 2005 with automatic increases tied to the Consumer Price Index for Canada.

The second year of the work plan will be refined and modified based on direction received during next year's Annual General Meeting of society members, and any changes or modifications to the project.

Major Activities

Board Meetings, Conference Calls

The major means of fulfilling our mandate is through Board meetings that are held approximately every two months. Board meetings provide an opportunity for

Directors to discuss, review and make recommendations on recent, on-going and anticipated initiatives. Guests are invited to meetings to provide updates and receive input on their specific activities. BHPB, MVLWB and the DIAND inspector are regular guests.

Proposed Activities: Annually, five board meetings (one in a community) and two conference calls

Review of Reports, Plans and Programs, and Implementation of the Environmental Agreement

Directors review and make recommendations on the major reports, programs, studies and plans required under the Environmental Agreement.

Proposed Activities: The Agency expects to deal with the following in 2006-7 Environmental Impact Review 2006 report; the regular environmental monitoring reports (AEMP, WEMP, Air Quality, and Panda Diversion Channel); and the Annual Environmental Report. There

are also now two new meetings for BHPB, GNWT, DIAND and the Agency to better coordinate implementation of the Environmental Agreement.

Separate Fund Activities

As a result of the recent mediation, the Resolution Agreement sets out that the Agency is to receive \$40,000 to place in a separate fund for the purposes of interventions in regulatory and other legal processes.

Proposed Activities: For 2006-7, the Agency expects the following:

- Review of a revised Wastewater and Processed Kimberlite Management Plan;
- Participation in the MVLWB Ekati Closure Planning Working Group;
- ARD and Geochemical Characterization and Management Plan;

- Hydrocarbon Contaminated Materials Management Plan;
- Adaptive Management Plan;
- Tier II Risk Assessment for Chloride;
- Revised Aquatic Effects Management Plan;
- Ekati site visit for closure planning and closure options workshop; and
- Draft Interim Closure and Reclamation Plan.

Activity	Forecasted 2005-2006	Proposed 2006-2007	Proposed 2007-2008
Board Meetings	81,562	130,000	132,500
Review of Documents	28,605	32,800	24,440
Separate Fund	64,511	39,200	45,200
Communications	146,202	124,000	168,520
Outside Contracts	4,536	10,000	10,000
Mgmt and Admin	204,900	207,594	211,746
TOTAL	530,316	543,594	592,406
(approved)	534,243	543,594	559,122



For 2007-8, the Agency expects the following:

- Interim Closure and Reclamation Plan public hearings;
- Amendments to the Sable, Pigeon and Beartooth water licence; and
- Review of other regulatory documents submitted pursuant to the water licence.

Consultation and Communication

Consultation and communications with northern communities and the general public is an important part of the Agency's mandate.

Proposed Activities:

The Agency will maintain its visits to communities, host one Board meeting and open house a year in a community and host the environmental workshop in 2007-8. The Agency will continue to attend workshops and meetings relevant to its mandate. The Agency will continue maintenance of its website and public registry. The Agency will continue to host annual environmental workshops in the years where

BHPB does not. The Agency will continue to produce two Annual Reports, one in plain English and one technical.

Outside Contracts:

The Agency occasionally contracts experts to assist in analyzing reports, studies and plans.

Proposed Activities: Not having a full complement of Directors for 2006-7 and not knowing the expertise that will be held within the staff and Board of Directors, it is difficult to predict what, if any, outside expertise the Agency may commission.

Management and Administration:

The Agency provides the majority of its management and administrative services through its Yellowknife office and staff of one manager and one environmental analyst. BHPB provides office rent and photocopier rental and these costs are deducted from the semi-annual payments from the company.

Proposed Activities: Maintain current staff and benefit levels.

Glossary

Ammonia The most toxic form of nitrogen, most commonly associated with blasting at Ekati.

Benthos The bottom of rivers, lakes and ponds that can contain living organisms.

Cladocera Very small animal (Zooplankton) which lives in water; also referred to as a water flea.

Consultation See the sidebar on page 27 for the definition of consultation from the Environmental Agreement.

Cumulative Effects The environmental changes that occur from a project or activity combined with effects from other human activities.

Designing for closure Modifying or designing mine operations to incorporate mine closure and reclamation considerations.

Emissions The process of sending out or releasing contaminants into the air.

Environmental Agreement Created as a legally binding instrument to provide monitoring and input into management practices not covered by other authorizations.

Fry Early life stage of fish following absorption of yolk sac (alevin) stage.

Geochemistry The chemistry of the earth and its rocks and minerals.

Inokhok Inuit word meaning "looks like a person" and used to describe a pile of rocks constructed by people to direct caribou or to serve as a landmark.

Kimberlite A rare, potentially diamond bearing iron and magnesium rich rock from deep in the earth's mantle. Kimberlites are generally found as vertical pipe-like structures.

Limnology The study of the physical, chemical and biological characteristics of lakes.

***Metal leaching** The extraction of soluble metals by percolating solvents.

Mineralogy The scientific study of minerals.

Nitrate A nutrient, like a fertilizer, derived from nitrogen.

Phytoplankton Microscopic plants, such as algae, found in freshwater and ocean environments.

Pit Water Water found within the pit containing wastes from mining practices.

Processed Kimberlite (tailings) The waste material and water mixture that is left over after the mill removes the valuable minerals (i.e. diamonds).

Progressive Reclamation Reclamation that occurs while the mine is still operating. As mine activities are completed and the infrastructure no longer required, roads are reclaimed, buildings and equipment are removed, areas are revegetated and landfills and dumps are remediated.

Reclamation The recovery of areas of land and water-bodies that have been disturbed during mining.

Sulphide A mineral containing iron and sulphur that has the potential to react with water and oxygen to produce acid.

Tailings The waste material and water mixture that is left over after the mill removes the valuable minerals (i.e. diamonds) from the ore. Also referred to at Ekati as processed kimberlite.

Zooplankton The small, almost microscopic animals that live suspended in freshwater (and ocean) environments. Zooplankton feed on phytoplankton and small particles in the water.

**From Guidelines For Metal Leaching and Acid Rock Drainage at Minesites in British Columbia, William A. Price and John C. Errington, Ministry of Energy and Mines, August 1998*





A PUBLIC WATCHDOG FOR ENVIRONMENTAL MANAGEMENT AT EKATI DIAMOND MINE™

Independent Environmental Monitoring Agency

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Photo, top l to r: Sean Kollee, *Environmental Analyst*; Tim Byers, *Vice-Chairperson*; Bill Ross, *Chairperson*; Kevin O'Reilly, *Manager*; bottom row l to r: Sheryl Grieve, *Director*; Tony Pearce, *Director*; Jaida Ohokannoak, *Secretary-Treasurer*.



• TECHNICAL ANNUAL REPORT •

2005-2006