



**Energy, Mines and Resources  
PO Box 2703, Whitehorse, Yukon Y1A 2C6**

May 3<sup>rd</sup>, 2018

Mr. Jing You Lu  
Chief Executive Officer  
Yukon Zinc Corporation  
Suite 705, 1030 W Georgia Street  
Vancouver, BC B6E 2Y3  
Sent by email and post

Dear Mr. Lu,

**Re: New Security Determination – Wolverine Mine, Yukon**

On December 19<sup>th</sup>, 2017, Yukon Zinc Corporation ("YZC") was granted an extension of the temporary closure period pursuant to Sections 2.1 and 9.3 of the Quartz Mining License QML-0006 (the "License") from three years to five years, specifically until January 15<sup>th</sup>, 2020 subject to the terms and conditions set out in the approval letter.

In support of the extension, YZC submitted an updated reclamation and closure plan with an updated security estimate for review and approval. This plan, entitled *Wolverine Mine Reclamation and Closure Plan Version 2016-07-V.3* (the "Plan"), was approved on December 19<sup>th</sup>, 2017. It was noted in this approval that the amount of security to be furnished and maintained by YZC, and the form and schedule of payment, needed to be updated and the new security determination would be made in early 2018.

By way of this letter, I wish to advise you that work required to determine the new security amount to be furnished by YZC, and its form, has been completed. This determination was informed by the Plan that was submitted by YZC, a third party review by consultants retained by the Yukon government and comments received from other Yukon government departments. It was also informed by YZC's own security update – YZC's updated security estimate of \$25,907,086 that was submitted in the Plan is significantly higher than the \$10,588,966 currently furnished by YZC.

Therefore, pursuant to paragraph 11.3 of the License, I am now providing you with written notice that the total security to be furnished and maintained by YZC is \$35,548,650 inclusive of the \$10,588,966 currently furnished by YZC.

The security must be furnished forthwith and in any event no later than May 18<sup>th</sup>, 2018.

The security must be in a form as provided under the Security Regulation OIC 2007177, and held to the order of Government of Yukon, Minister of Energy, Mines and Resources.

For greater certainty, this amendment to the amount of security required to be furnished, as provided for in paragraph 11.5 of the License amends paragraph 11.1 of the License such that this paragraph now states:

The Licensee must furnish and maintain security in the amount of thirty-five million, five hundred and forty-eight thousand, six hundred and fifty dollars (\$35,548,650.). The security must be furnished forthwith and in any event no later than May 18<sup>th</sup>, 2018.

A summary table of security costs by activity is attached to this letter. The table compares the Yukon government determination to the YZC estimates and provides notes to explain significant variations. A significant proportion of the security is required for urgent works such as the installation and commissioning of the water treatment plant.

Please do not hesitate to contact me at (867) 667-3126 if you have any questions or wish to discuss.

Sincerely,



Robert Holmes  
Director, Mineral Resources Branch

cc: Paul Christman, P.Eng., P.Geo. Chief Mine Engineer, Mineral Resources Branch  
Heather Jirousek, Director, Water Resources Branch  
Sevn Bohnet, Senior Natural Resources Officer, Compliance, Monitoring and Inspections Branch  
Alex Wu, Manager, Corporate Communications & Administration, Yukon Zinc Corporation

encl: Security cost summary & comparison

## Security cost summary & comparison

	Description	Lorax est cost, \$ (third party review)	YZC est cost, \$	GY determ, \$	Notes
Site and project management	Supervision, camp accommodations, flights, fuel, equipment mobilization and demobilization, etc.	\$ 5,962,933	\$ 4,214,990	\$ 5,962,933	GY estimates 6 seasons of construction and water treatment vs YZC 4 seasons. GY assumes camp is attended during winter months with caretaker vs YZC assumes camp is shuttered.
Infrastructure Decommissioning	Underground concrete plugs, building demolition/removal, waste rock relocation, main access road reclamation and closure, etc.	\$ 8,728,793	\$ 9,156,958	\$ 8,728,793	
Water Treatment	Install and operate water treatment plant to dewater the tailings storage facility	\$ 12,514,650	\$ 7,581,930	\$ 12,514,650	GY includes procurement, construction and commissioning costs for the water treatment plant vs YZC assumes those costs spent in early 2018 and not included. GY water volume estimate includes annual net precipitation into the TSF as additional water to treat vs YZC not included
Environmental Monitoring	Water sampling, environmental consulting, etc	\$ 3,643,830	\$ 2,311,787	\$ 3,643,830	GY includes costs for all monitoring locations and requirements in current licenses vs YZC assumes less monitoring
	<b>Subtotal</b>	\$ 30,850,206	\$ 23,265,664	\$ 30,850,206	
	<b>Contingency</b>	\$ 4,332,204	\$ 2,507,770	\$ 4,332,204	
	<b>Average Contingency</b>	14%	11%	14%	
	<b>Total Closure Cost</b>	\$ 35,182,410	\$ 25,773,434	\$ 35,182,410	
	<b>Adjusted for Inflation and NPV</b>	\$ 35,548,650	\$ 25,907,086	\$ 35,548,650	

Inflation factor 1.84% Average Annual Rate of Inflation from Bank of Canada for 2000-2017

Interest rate 1.55% Canadian Bond Rate from Bank of Canada as at Nov 2017