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April 13, 2007

Your file – Votre référence
XXX-XXXX

Our File – Notre référence
N7L1-1817

Sent by mail/e-mail:

Aurora Research Institute
P.O. Box 1450
Inuvik, NWT
Canada X0E 0T0

Attention: Andrew Applejohn, Director

Dear Mr. Applejohn:

**RE: MARCH 21, 2007 INSPECTION OF WATER LICENCE N7L1-1817
MALLIK GAS HYDRATE RESEARCH PROJECT**

Please find the enclosed Inspection Report for your records. Note that this Inspection Report will replace the March 21, 2007 Inspection Report containing misprints, currently in your files.

If you have any questions/concerns regarding the enclosed, and/or if additional information is required, please do not hesitate to contact Mr. Davies at (867) 777-3662.

Sincerely,

Conrad Baetz
District Manager

JCD/cb

Enclosure: Industrial Inspection Report (2 pages)



INDUSTRIAL WATER LICENCE INSPECTION REPORT

DATE:	March 21, 2007	COMPANY REP:	Lorena Bueno Cortez
LICENSEE:	Aurora Research Institute	LICENCE #:	N7L1-1817

WATER SUPPLY

Source:	Swan Channel Mackenzie River	Quantity Used:	>500 m ³ /day *see Concern 1 under General Conditions	Meter Rdg:	Monitored by truckload
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Indicate: **A - Acceptable** **U - Unacceptable** **N/A - Not Applicable** **N/I - Not Inspected**

Intake Facilities	A	Storage Structures	A	Treatment Systems	A	Recycling	N/A
Flow Meas. Device	A	Conveyance Lines	A	Pumping Stations	A	Modifications	N/A

WASTE DISPOSAL

Indicate: **A - Acceptable** **U - Unacceptable** **N/A - Not Applicable** **N/I - Not Inspected**

Well Wastes:	Drilling Sump:	N/A	Off-Site Removal:	U ¹	Downhole:	N/A	Landspread:	N/A
Sewage:	Sewage Treat:	A	Camp Sump:	N/A	Nat. Water Body:	N/A	Wetlands Treat.:	N/A
	Continuous:	N/A	Inter. Discharge:	A				
Solid Waste:	Open Dump:	N/A	Landfill:	A	Burn & Bury:	N/A	Underground:	N/A

Discharge Quality	A	Conveyance Lines	A	Disch. Meas. Dev.	A	Freeboard	N/A
Decant Structures	A	Sump Treatment	N/A	Dams, Dykes	N/A	Seepages	N/A
Sump Liners	N/A	Runoff Diversion	N/A	Erosion	N/A	Spills	U ^{1,2}

Effluent Discharge Rate:	25-30m ³ a day	SNP Samples Collected:	Samples being collected as per SNP requirements
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Concerns:

1. On March 2, 2007 there was an unauthorized discharge of waste. A deposit of drill cuttings had occurred when a vacuum truck was spreading treated sewage effluent on the land surface surrounding the lease site pad. The vacuum truck had been previously used to transport drill cuttings before being dedicated to transporting sewage effluent. The truck had been cleaned but there was still a particulate/residue in the bottom of the tank that got spread with the sewage effluent. Samples were taken for analysis and INAC Inspectors were notified. On March 6, 2007 during a site visit, a visual inspection determined to leave the drill cuttings in place (pending lab analysis results) as removal would cause damage to the underlying land surface. This unauthorized discharge of waste still needs to be entered in the spill log.
2. The Grubens Sleigh Camp was removed and the sewage cleaned up. There was a report submitted by the Environmental Monitor about the original sewage leaking from the Sleigh Camp but it still needs to be entered in the spill log. On the lease site there were a few vehicular fluid drips noticed and pointed out to the Environmental Monitor.

Notes:

- As of this inspection date, discharge quality of sewage effluent has been met for 4 consecutive times at the Mallik site, consequently the treated sewage is released to land locations around the lease site.
- The spills around the site are being cleaned up as they occur. There was a presentation by Lorena Bueno Cortez consisting of the Mud and Residual Fluids Handling Procedure and Vehicle Inspection Procedure. There would be checks on valves and other fluid handling equipment to eliminate spills. Vehicles would be inspected and maintenance of equipment would be enforced. Spills are verified cleaned up to the satisfaction of the Environmental Monitor and the QHSE Coordinator -Lorena Bueno Cortez.

GENERAL CONDITIONS

Indicate: **A - Acceptable** **U - Unacceptable** **N/A - Not Applicable** **N/I - Not Inspected**

Maintenance	A	Records & Reporting	U ¹	Surv. Net. Prog.(SNP)	U ²
Geotechnical Inspection	N/A	Posting, Signage	A	Contingency Plan	A
A & R Plan	N/A	Modifications	N/A	Fuel/Products Storage	A
Groundwater Discharge	N/A	Chemical Storage	A	Annual Report	N/A

Concerns:

1. On February 14, 2007 it was noted that records of water usage were being kept but there were not specific records pertaining to the areas (lease pad, access road to pad, camp use, rig and drilling use) covered by the Water Licence. On March 5, 2007 a

revised water usage report was submitted with records for specific areas. It was noted from the records that the water usage exceeded the Water Licence Limits of 500 m³ from about January 22, 2007 to January 30, 2007.

2. As of this inspection a Quality Assurance/Quality Control Plan had not been submitted to an Analyst. Recently it was learned that a QA/QC Plan was being submitted.

Notes:


- Maintenance will be carried out as an extension of the Vehicle Inspection Procedure. Vehicles would be inspected and maintenance of equipment would be enforced.
- Weekly reporting was suggested to provide effective communication, however, there was a malfunction and reports were being submitted but not getting through. This has since been corrected.

<i>Non Compliance / Violations of Act or Licence:</i>	<ol style="list-style-type: none"> 1. <i>Part C, section 2. The daily quantity of water exceeded 500 m³ on January 22-30, 2007. See concern 1 under General Conditions.</i> 2. <i>Part D, section 14. Unauthorized discharge of drill cuttings along with sewage effluent to the land surface of the lease site. See concern 1 under Waste Disposal.</i> 3. <i>Part B, section 5 of the Surveillance Network Program. A Quality Assurance/Quality Control Plan was not submitted to an Analyst for approval by January 2, 2007. See concern 2 under General Conditions.</i>
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General / Additional Inspection Comments:

1. Please ensure the 2007 Annual Report is submitted to the NWT Water Board and includes all information as per Part B1

Figures Below:	Yes		No	X
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<i>Inspectors Name</i> <i>Jan Davies</i> <i>Water Resource Officer</i>	<i>Inspectors Signature</i> 
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