

Background:

In 2009, Chief and Council received an expression of interest from Hardy Island Granite, Helgi Sigurgeirson in testing the marketability of the sandstone on Lyackson's Number 3 Reserve. Lyackson conducted two referendums and hosted associated community meetings to revoke the government's oversight of Lyackson's mineral rights on the Reserve to move this project forward. Information about the quarry and the mineral revocation were provided at each of the referenda meetings and at various community meetings and sent out in newsletters to the community over approximately four years. Although it has been 5.5 years since this project started, due to budgetary constraints we discontinued newsletters to the community for the last year and a half.

However, this project continued to be put through its paces for environment, archaeology, roads and bridges, and many other studies prior to approval by Aboriginal Affairs and Northern Development Canada. Finally late in 2014, two permits were signed paving the way for the project to proceed.

The Quarry permit is for a test-phase of two years, to provide Hardy Island Granite sufficient time to identify the marketability of the sandstone. Sandstone is necessary for repairs to many historical buildings and has been shipped from this area around the world as far away as Australia.

Progress:

- Hardy Island Granite shipped their equipment over to the island;
- Created a ramp (that will remain in place for Lyackson use);
- Temporarily repaired our east road bridge (until the fisheries window allows him to properly repair it, protecting the fisheries resource);
- they quarried approximately 900 metric tonnes, 81 blocks, averaging 11.1 tonnes each; and
- sold a small amount in February, the royalty at 8% of \$8,902.50 = \$712.20 owing to Lyackson;

Note:

- o The royalty is paid on sale of the stone, so the above amount reflects only a small percentage of the sandstone quarried at this time;
- o Hardy Island Granite is obligated to pay out the full amount owing based on \$150 per tonne regardless of sales by the end of 6 months;
- o Should the stone sell for more than \$150 per tonne – as is likely – at that time, Hardy Island Granite will top up the amount paid to the full 8% royalty;

External Feedback:

- Islands Trust received noise complaints from their constituency and contacted Aboriginal Affairs and Northern Development Canada (AANDC) to express their concerns;
- AANDC courtesy copied Lyackson in their response and directed concerns be expressed to Lyackson;
- Lyackson offered to take and track complaints for Chief and Councils reference and consideration, but pointed out that we are not a party to the permit only the Minister and Hardy Island Granite are names;
- Therefore AANDC must take complaints and Lyackson refers complaints to Hardy Island Granite;
- Hardy has provided tours to concerned citizens on their operations, has offered to use sound dampening mats during blasting; and

- Has offered to use a slower speed drill and/or see if their higher speed drill can be 'toned' down by machining; Hardy used the higher speed drill because they had such a narrow window due to the many, many delays in getting this project through AANDC; they felt they had a great deal of set up work and then the quarrying to actually begin to offset the costs of the many studies and years that this process has taken to get to this point;

Follow up

- Since Hardy began receiving noise complaints AANDC requested a noise management plan and Hardy has complied;
- Hardy stopped all work February 5th or 6th to respect the eagle nesting window and will not resume work until September to respect rearing and fisheries protection windows;
- A job posting will go out to the community in August, please look for that posting in August!

Rock Quarry Video link:

<http://youtu.be/y3KRdZC-zts>

Note:

- Please note the photo of the ramp in the video

Pictures attached:

- East road bridge temporary repair
- Loaded barge

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Director, Corporate Services
Accounting Operations
Indian Affairs and Northern Development
BC Regional Office
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Date: March , 2015

The payment enclosed herein is towards royalties owing for non-metallic mineral permit no. 1-646-06811-2014/2016.

This royalty payment package includes the following:

This cover letter, which indicates what the royalties are owing for, how the amount was computed, and the supporting documentation.

A cheque payable to : "Receiver General for Canada"

A block weight verification report, which includes the original weigh scale slips.

*Copies of the above have been provided to Lyackson First Nation, for its consideration;

The royalty for February, 2015 = 8% of \$8902.50 = \$712.20

In accordance with section 6a) i) of the Non-Metallic Minerals Permit No.1-646-06811-(2014-2016)-Dimension Stone Test Quarry Permit, a royalty of 8% of gross sales for sandstone sold in the month of February, 2015 is due by the end of March, 2015.

This royalty is based on the value of the attached invoice to Bedrock Granite Sales Ltd. from Hardy Island Granite Quarries Ltd.

Sections 6a)ii) to iv) of the permit do not apply until August 19, 2015.

General notes on the royalty calculations:

The royalty is based on the value of any invoices for sandstone sold by Hardy Island Granite Quarries Ltd. (Hardy) in a given month. Usually there will only be one invoice, to Bedrock Granite Sales Ltd. (Bedrock), as they are the main buyer of stone from Hardy. Bedrock totals the weights, as painted on the blocks, that it has used from the stockpiled shipment in the preceding month, and forwards this to Hardy's book keeper, who then issues an invoice based on these weights.

Our book keeper is John Mori at Karen Mori and Associates. Note that our book keeping is done by a separate company with no financial interest in Hardy Island Granite Quarries Ltd. and an obligation to handle the books in a professional fashion.

We have tallied the weights of the blocks shipped off the reserve and stockpiled at Bedrock 4 times. The tallies have been compared and corrected for transcription errors. Ultimately, this tally could be compared to the cumulative weights on the monthly invoices. These tallies have been included in the block weight verification report.

The amount due by six months (which is based on the tonnage) will use the truck weights, as the weigh scale is likely more accurate than the loadrite.

Helgi Sigurgeirson,
President, Hardy Island Granite Quarries Ltd.

Valdes Sandstone Block Weight Verification Report

Shipment Date: February 19, 2015

Report Date: March , 2015

Report Submitted by: Helgi Sigurgeirson
Block Weights Verified by: Phil Johnnie

Background:

The trucks were weighed both empty and full using the scale at Pacific Log sort and the weights recorded. The weights marked on the blocks (determined by the LP950 Loadrite system on the loader) were also noted. The original weigh slips and the signed (by Phil) weight summary sheet will be forwarded, along with this report, to the Lyackson band.

The individual block weights were also tallied by Bill Harding at the quarry site when the blocks were first weighed. They were tallied again by the towboat captain (Colin) as the blocks were loaded on the barge. Both Phil and the scale operator made tallies of the blocks as they were loaded on the trucks for transport from the barge offload site to Bedrock Granite Sales Ltd.

Results:

The scaled weight for the load was 902.1 metric tonnes. Phil's truck tally and the scale operator's truck tally agree perfectly.

The block weights were tallied 4 times with varying results due to transcription errors. The loader operator's tally (Bill Harding) was the closest, being only 0.1 tons off. This is to be expected, as the loader operator weighs, paints and records the blocks. Both Phil and the scale operator mistook a 10.6 for a 10.0 and Phil also mistranscribed a 10.6 as a 13.6. The barge operator missed a block, and mistranscribed a 16.6 as a 10.6.

The loadrite system measured the load as 880.2 tonnes, which is 22.0 tonnes less than the scaled weight of 902.1 tonnes (the preliminary report had a different value, as it was necessary to compare all the tallies to get the correct tally, and 1.1 was used instead of 1.1023 to convert short tons to metric tonnes). The loadrite scales consistently under weighed the blocks by an average of 2.4% or about 1 tonne per truckload.

There were 81 blocks in total, averaging 11.1 tonnes each (12.2 imperial tons).

The corrected tallies and the truck weights are compared in the attached "Valdes Quarry truck weight verification summary". The tallies were compared and corrected in the attached "Valdes Quarry block tally summary and corrections"

Copies of the tally slips and the truck weight summary slip are also attached.

Note:

Hardy Island Granite Quarries Ltd. (Hardy) is paid by Bedrock Natural Stone (Bedrock) by the weights marked on the blocks. It would be difficult for Bedrock to keep track of the scaled weights as the rock is processed by the block, not by the truckloads sent to the yard.

At present, the royalty is based on value of the receipts, rather than directly on the weight of the blocks,

the exact weight is only of interest in determining the payment due in 6 months that is based on \$150/tonne. With a straight % of sales royalty, the exact weight doesn't matter (ie. Bedrock has agreed to pay Hardy \$X/ton, as marked on the block).

Conclusions:

The original block tally by the loader operator is generally going to be the most accurate. At least 2 tallies should be made as a check. Greater care should be taken at the quarry to ensure that numbers are clearly painted on clear dry rock. A system that used a block number + the weight would provide a separate check on the weight if there was a discrepancy.

Blocks are weighed by the Loadrite in metric, then converted by the operator to short tons for convenience at Bedrock. We should consider simply marking the weights in metric tonnes to remove one potential source of error.

The present system is unnecessarily complicated, and could be simplified in the future either by going to a straight \$/tonne royalty, or by dropping the 6 month payment requirement and going with a straight % of sales royalty.

Going to a straight % sales royalty would remove the need to scale the trucks, except for the occasional load to ensure that the loadrite is maintaining an acceptable level of accuracy.