



(In reply, please refer to)
Our File: 11-5754-2004

November 27, 2012

Gem Equities
33 Hargrave Street
Winnipeg, MB R3C 3T9

Attention: Andrew Marquess

**Reference: Environmental Risk Management Strategy, Parcel B Plan
19317 WLTO, Winnipeg, Manitoba**

Dear Mr. Marquess,

Dillon Consulting (Dillon) was retained by Gem Equities Inc. (GEM) to provide recommendations for a preliminary environmental risk management strategy (ERMS) for the property located at Parcel B, Plan 10317 WLTO, Winnipeg, Manitoba (the Site).

Background

The subject site is located adjacent to an existing railway corridor located within the City of Winnipeg. It is apparent that the rail line has been active for many years and therefore, there is potential for current or historic environmental impacts associated with typical railway operations.

Following a typical environmental site assessment (ESA) approach for this Site, a Phase I ESA would likely flag the potential for impacts resulting from the adjacent railway corridor and therefore recommend a future Phase II ESA. The type of impacts associated with former rail operations tend to be metals, and sometimes coal related material, found in the surficial fill material. Also, the fill material itself may have had contained metal impacts related to other industrial operations (ex. slag).

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A Site Characterization work program (analogous to a Phase II ESA) would normally be conducted as part of the overall re-development for the site. The results of the Site Characterization would be used in the development of an environmental risk management strategy as further described below.

Environmental Risk Management Strategy

As indicated, a potential environmental concern related to the Site is the presence of historic impacts related to former railway operations. From a risk assessment perspective the exposure pathway that could pose a concern for these types of impacts is through direct contact (i.e. incidental soil ingestion or dust inhalation). An effective way to manage this risk is to eliminate the availability of the soil at the ground surface so there is no opportunity to release impacted material through dust generation – this can be accomplished through creating a ground surface cover, or cap, that acts as a separation barrier encapsulating the material below the surface where it does not pose an exposure risk.

During a typical re-development project such as the one contemplated for the Site, it is possible to incorporate a risk-management approach such as surface ground cover, or cap, as part of the overall grading design. This has been demonstrated as a cost-effective approach and has been applied to numerous industrial properties including former rail operations sites. *It should be stated that GEM and Dillon are using this technique on another similar development property in Ft. Rouge and Manitoba Conservation has accepted this strategy as an effective way to manage exposure risk related to surficial soil impacts.*

Given the above considerations, it is Dillon's professional opinion that the concern related to the former rail operation, specifically those associated with direct contact pathways, can be effectively managed as part of the re-development. If other environmental impacts are identified during the re-development, a risk management or remedial plan will be developed to mitigate potential exposure issues. Further, a Phase II ESA is not required at this time; rather it should be done in conjunction with the re-development and the risk management or remedial plan.

Closure

This report was prepared exclusively for the purposes, project and site location(s) outlined in the report. The report is based on information provided to, or obtained by Dillon Consulting Limited ("Dillon") as indicated in the report, and applies solely to site conditions existing at the time of the site investigation(s). Although a reasonable investigation was conducted by Dillon, Dillon's investigation was by no means exhaustive and cannot be construed as a certification of the absence of any contaminants from the site(s). Rather, Dillon's report represents a reasonable review



of available information within an agreed work scope, schedule and budget. It is therefore possible that currently unrecognized contamination or potentially hazardous materials may exist at the site(s), and that the levels of contamination or hazardous materials may vary across the site(s). Further review and updating of the report may be required as local and site conditions, and the regulatory and planning frameworks, change over time.

This report was prepared by Dillon for the sole benefit of our Client and their financial institution First National Financial. The material in the report reflects Dillon's judgment in light of the information available to Dillon at the time of preparation. Any use which a third party (i.e. a party other than our Client) makes of this report, or any reliance on or decisions made based on it, are the responsibilities of such third parties. Dillon accepts no responsibility for damages, if any, suffered by any third party as a result of decisions made or actions based on this report.

We thank you for the opportunity to be of service. Should you have any questions regarding the information or opinions expressed in this report please contact Mr. Doug Bell, M.Sc., P. Geo. at Dillon Consulting.

Sincerely,

DILLON CONSULTING LIMITED



Doug Bell, M.Sc., P. Geo.
Project Manager

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Attachments