April 5, 2002

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Vickie Losier
Executive Assistant
Northwest Territories Water Board
P.O. Box 1500
Yellowknife NT
X1A 2R3

Dear Ms. Losier:

RE: Annual Report 2001 – Water Licence N7L1-1768 Reindeer Channel

The following letter summarizes the information required by Part B of the Water licence General Conditions. The water licence is effective as of January 18, 2001 and will expire on December 31,2003. All information reported is based on the operating field season, which began on January 18, 2001 and ended on April 22, 2001.

1a. **The Total Quantity Of Fresh Water Obtained From All Sources**
A total of 1150m³ of fresh water was obtained from the Mackenzie River in the area located at 68° 56' 31"N latitude and 134° 49'7. 3"W longitude.

1b. **The Total Quantity Of Each And All Waste Discharged**
No waste effluent water was discharged to the Mackenzie River. All grey wastewater was treated using the In-situ Bio-circulation Cell. All black wastewater was collected and shipped to Inuvik for disposal. All solid camp waste was collected and transported to Inuvik for disposal.

1c. **Results of Any Sampling Program**
No waste effluent water was discharged. Sampling was carried out randomly with no successful results.

1d. **List Of Any Spills And Unauthorized Discharges**
No spills occurred during reporting period.

1e. The board requested no other requests or details.

Hoping this meets all necessary requirements. If you need any further information you can contact me at 867-777-5364.

Yours truly,

David Berry
Project Manager

CC: Scott Gallupe
INAC
Inuvik, NWT

NORTHWEST TERRITORIES WATER BOARD
APR - 9 2002
YELLOWKNIFE, NWT

Japex Canada Ltd. Operational Report for Year End Dec. 31, 2001

Water Board License # N7L-1769

Land Use Permit – N2001A0016

Permit to conduct activities in a Migratory Bird Sanctuary NWT-MBS-01-06

Japex Canada Ltd. on behalf of the Japan National Oil Company and Geological Survey of Canada et al undertook operations to conduct a three well Gas Hydrate Research and Development program. The program schedule required that drilling operations began on site by December 15, 2001 and operations were to be completed by March 15, 2002. Mobilization of equipment and supplies was undertaken in late June 2001 to meet this schedule at the Mallik 3L-38 site located at N69° 27' 39.302" and W134° 39' 38.898".

All equipment and supplies were mobilized from Nisku Ab., Hay River NT., Inuvik NT. and Tuktoyaktuk NT. to the Taglu Radio Tower staging area and remained there until after freeze up. No watchmen were kept on site; however the site was monitored by conducting inspection trips.

a) Total Quantity of Water Consumption

1) Construction Camp operations from November 17, 2001 through December 16, 2001 for a total of 30 Days.
   250ltrs/Man/Day X 14 Men X 30 Days = 105m³

2) Drilling Camp operations from December 16, 2001 through December 31, 2001 for a total of 16 Days.
   250ltrs/Man/Day X 59 Men X 16 Days = 236m³

3) Building of Ice Pad on the drilling and storage pad consumed a total of 1400m³.

4) Preparations for drilling operations conducted from December 20, 2001 through December 31, 2001 consumed on average 36m³/Day.
   36m³/Day X 11 Days = 396m³.

Note: Water Consumption for camp facilities averaged 250ltrs./Man/Day

Total consumption of 2137m³ more or less was used by the Japex Canada project. Of this total volume 1400m³ was taken from the Mallik Bay area and 737m³ was taken from the Harry Channel which is adjacent to the Taglu Radio Tower Site.

b) Quantities of Waste

Total quantities of waste disposal on site were as follows:

- Accommodation discharge estimated at 12m³/Day X 16 Days = 192m³.
- Drilling Operations discharge over the 7 Days of operations was estimated to be 80m³.
- Total Discharge for 2001 at the Mallik Site was 272m³.

c) Details of work completed

On November 17, 2001 a start-up crew was dispatched to the Taglu Site and a sleigh camp was started to allow for an ice road building crew to undertake operations. Sewage from this camp was given primary treatment and discharged.

Ice road construction started on November 19, 2001. The ice road was constructed from the Taglu Site along the eastern arm of the Harry Channel out to the Beaufort Sea. It then followed the shoreline to the Mallik L-38 Site.

During the construction operations, a crew varying from 11 to 18 personnel were accommodated in the sleigh camp facilities. Water consumption from the Harry Channel of the MacKenzie River was ± 4m³/Day. Ice road construction was achieved by using 4 Ice Auger units mounted on the back of one tonne 4X4 trucks using hydraulically operated augers roughly 18" in diameter. Two ice ramps were constructed at each of the staging sites. Each ramp site required approximately 50m³ of water.

A roadway was opened to the Mallik Site on December 5, 2001 and the snow on location was levelled using a rubber tire drag. Two water trucks were dispatched on December 6, 2001 and commenced flooding operations. A 15cm packed snow and ice pad was built on the access road and the drilling location.

During the period from December 6, 2001 to December 23, 2001 while flooding activities were underway, water was taken from the Mallik Bay area where an unnamed channel entered the Mallik Bay approximately ±3km south of the Mallik L-38 Site. Water consumption during this construction period peaked at ±95m³/Day for a period of 17 days.

A total volume of ±1400m³ of water was used to build the Ice Pad area. During this time two disposal sump areas were drilled and loaded with explosives and then blown. The drilling waste sump was 28m X 38m X 3.5m deep with a potential volume of 3724m³ of waste. The camp sump was 12m X40m X 3.5m giving a total volume of 1680m³.

Moving of the main operations camp began on December 12, 2001 and the camp was erected, and operational, on December 16, 2001. Personnel were all moved to the site by December 18, 2001 and rig mobilization was undertaken at this time.

During the period from December 18, 2001 through December 31, 2001 the personnel count at the camp site varied from 50 to 62 people.

Rig mobilization was completed by December 23, 2001 and drilling operations commenced on December 25 at 08:30hrs. During the period between December 20, 2001 and December 31, 2001 in preparing for drilling and conducting operations water consumption averaged 36m³/Day for a total of 396m³

All of the water used for drilling operations and for the camp facility from December 24, 2001 through December 31, 2001 was drawn from the Harry Channel of the MacKenzie River some 23km from location at the Taglu Radio Tower site. This was done to ensure that we had a know quality of water which was required for mixing the drilling fluids and cementing the casing strings.

d) Sumps

No sump closures were undertaken during the year 2001

Incidents Reported

e) Fuel Spill

A fuel spill, approximately 25 litres, occurred and was reported at the Taglu Radio Tower Stage Site when fuel was being transferred by Northern Transportation Barge to the environmental fuel storage tanks that were on site for ice road and location construction. The entire fuel spill was cleaned up using absorbent pads and sawdust, put into containers and disposed of in an approved manner at the disposal site.

No other spills or incidents were reported during the 2001 operations.

f) Monitoring Programs

No monitoring programs occurred during December 2001 as on-site drilling operations only commenced on December 25, 2001. Minimal discharges had occurred. Samples collection started in early January 2002.