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June 20, 2014

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Manager of Licensing
Nunavut Water Board
P.O. Box 119
Gjoa Haven, Nunavut X0B 1J0

Dear Nunavut Water Board,

**RE: APPLICATION FOR RENEWAL AND AMENDMENT TO TYPE B WATER LICENCE
8BC-MRY1314**

As requested¹ by the Nunavut Water Board (NWB), the Qikiqtani Inuit Association (QIA) provides this letter that outlines its recommendations regarding Baffinland Iron Mines Corporation's (BIMC) application² for renewal and amendment to the Type B Water Licence 8BC-MRY1314.

BIMC's activities at the Mary River Project occurring on Inuit Owned Lands (IOL) are administered through a Commercial Projection Lease (No: Q13C301) between BIMC and QIA. Pursuant to the Commercial Production Lease, financial security is held by QIA to cover the cost of closure and reclamation. With regards to financial security associated with the Type B Water Licence 8BC-MRY1314 application, QIA provides the following:

1. Part B, Item 1 of the current Type B Water Licence 8BC-MRY1314 required \$122,019 of security to be maintained with the Minister of Aboriginal Affairs and Northern Development Canada (AANDC), in form acceptable to the Minister. BIMC's scope of activities within the expired Type B Water Licence, as well as, the additional activities proposed in the application for renewal/amendment, primarily occur on IOL. When determining the amount of security to be furnished, QIA recommends the NWB consider that the liability occurs on IOL, not Crown, and therefore security will be required to be maintained by the QIA and in a form compliant with the Commercial Production Lease.

¹ NWB May 20, 2014 Public Notice title "Public notice of Renewal Amendment Application Baffinland Iron Mines Corporation. File #8BC-MRY1314.

² BIMC May 14, 2014 Type B Water Licence application titled "Application for Renewal and Amendment to Type "B" Water Licence 8BC-MRY1314.



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2. With respect to time for posting security, the QIA requires security to be posted prior to the liability occurring and in accordance with the Commercial Production Lease.
3. With respect to the amount of financial security, QIA provides the following:
 - a. Part A, Item 1 of the current Type B Water Licence summarizes the scope of activities covered by this instrument. BIMC's financial liability estimate for the activities covered under the existing Type B Water Licence is presented in Appendix 7, Table 8-1 of BIMC Type B renewal/amendment application. In comparison, the commentary is provided.
 - i. The current Type B Water Licence includes commencement of installing camp infrastructure. BIMC's financial liability estimate is limited to completing earthworks associated with the camp pad. It is unclear if there is other camp infrastructure that should be accounted for in the security amount.
 - ii. The current Type B Water Licence includes the installation of culverts and water crossings for minor access roads associated with the project and the installation of drainage and/or sediment and erosion control structures. BIMC's financial liability estimate does not account for this infrastructure.
 - b. Upon review of the required reclamation activity as presented by BIMC in Appendix 7, Table 8-1 and 8-2 of the Type B renewal/amendment application, the following preliminary review comments are provided to highlight uncertainty in the BIMC security estimate. Note that the following is not to be considered a complete and exhaustive list.
 - i. Costing to treat off-spec water from the second and third Polishing Waste Stabilization Pond is not considered.
 - ii. Costing associated with the haul and disposal of the 5 ML steel bulk fuel tank, and contaminated soils within the secondary containment, is not considered.
 - iii. BIMC's costs for reclamation assume that reclamation of the activities covered by the Type B Water Licence 2BC-MRY1314 occur concurrent with the reclamation of the activities covered by the Type A Water Licence 2AM-MRY1325.
 - c. As discussed between NWB, QIA and BIMC as part of the Annual Security Review for the Type A Water Licence 2AM-MRY1325, which is associated with BIMC's Mary River Project and therefore of relevance herein, there is disagreement between the QIA and BIMC in the unit costs for reclamation and indirect costs associated with estimating financial security. Upon review of BIMC's security amount for the Type B Water Licence 2BC-MRY1314, also QIA disagrees with BIMC's unit costs and indirect costs for reclamation, therefore QIA disagrees with



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BIMC's total financial security amount. The QIA and BIMC are currently engaged in a process to address this disagreement with a goal of producing a reconciled global financial security amount for all activities on IOL associated with the Mary River project. Both parties are continuing to work towards a resolution in areas where there are differences with regular meetings continue to be scheduled, including formal audit processes. If required by the NWB, QIA can file an "interim financial security estimate" associated with this application.

- d. The outcomes of the work between QIA and BIMC on a reconciled global financial security amount will be reported back to the NWB, as per the requirements of Type 'A' Water Licence 2AM-MRY1325. Drawing from the global financial security amount for activities on IOL, QIA will be able to distill which project activities (and therefore security amounts) can be attributed to each water licence.

In response to the items identified above, and to maintain a consistent approach to calculate a financial security for the Mary River Project, regardless of the various instruments issued to BIMC (i.e., Type A Water Licence 2AM-MRY1325, Type B Water Licence 2BB-MRY1114 and Type B Water Licence 8BC-MRY1314), QIA recommends that the Type B Water Licence 8BC-MRY1314 security amount be subject to the Annual Security Review concurrent with the Annual Security Review for the Type A Water Licence 8BC-MRY1314. Thus, the amount of financial security presented by BIMC within the Type B renewal/amendment application is subject to adjustment based on the results of the Annual Security Review. This approach will allow for a harmonized holistic approach to license administration and security amendment processes (including but not limited to the time and effort required by each interested party).

Based on the information available at this time, QIA notifies the NWB that the BIMC's calculated financial security estimate of \$146,826 is not considered sufficient to address the liabilities proposed to occur on IOL. QIA and BIMC will continue to engage to determine the total Mary River Project financial security amount and to maintain this security under the Commercial Production Lease.

Please do not hesitate to contact the undersigned should you require any further information.

Sincerely,

Stephen Williamson Bathory
Director, Major Projects