



October 29, 2014

Mr. Ryan Barry, Executive Director
Nunavut Impact Review Board
P.O. Box 1360
Cambridge Bay, NU X0B 0C0

Dear Mr. Barry:

Re: Mary River Project Phase 2 Development and Request for Reconsideration of Terms and Conditions of Project Certificate No. 005

This letter is to notify the Nunavut Impact Review Board (NIRB) of Baffinland's Phase 2 Development of the Mary River Project, and to request a reconsideration of the terms and conditions of Project Certificate No. 005. Baffinland's Phase 2 Project Description is enclosed.

Background and Rationale for Phase 2

Baffinland obtained Project Certificate No. 005 for the Mary River Project in December, 2012. Due to the prevailing world economic climate since that time, Baffinland has recognized that proceeding with the Mary River Project will require a phased development approach. Accordingly, Baffinland obtained an amendment to Project Certificate No. 005 for the Early Revenue Phase ("ERP") in May, 2014, and is well on its way in regards to ERP implementation. The ERP enables Baffinland to mine and ship up to 4.2 Mtpa of iron ore from Milne Port.

At this time, Baffinland recognizes that it will have to continue its planned phased development approach of the Mary River Project and continue to defer the construction of certain project components already approved under Project Certificate No. 005. In particular, the construction and operation of the railway and Steensby Port will be delayed beyond 2015. The Company remains committed to the development of a railway and Steensby Port as authorized under Project Certificate No.005. However, the capital investment necessary to initiate the railway phase of the Project exceeds \$5 billion. Under current market conditions, in order to obtain financing, lending institutions require that a proponent demonstrate the ability of their proposed project to generate cash flows and to demonstrate the quality and demand for their iron ore product.

In light of these market constraints, Baffinland has developed a plan for a second phase of development for its Mary River Project ("Phase 2"). Phase 2 will seek to optimize the use of infrastructure constructed for the ERP, and enable Baffinland to increase shipments of iron ore from Milne Port. The additional tonnage proposed for Phase 2 amounts to 7.8 mtpa to be transported from Milne Port along the northern shipping route.

Brief Summary of Phase 2

Phase 2 includes the following elements, beyond what is already approved within the ERP, which are described in more detail in the enclosed Phase 2 Summary Project Description:



- Increased utilization of the Milne Inlet Tote Road, including increasing the trucking fleet and the twinning of bridges already constructed along the Tote Road;
- Increased utilization of Milne Port for shipping and the addition of a second dock at Milne Port;
- The inclusion of two (2) ice management vessels (IMVs) for use at the Port, and the extension of the shipping season from June into March; and
- Trans-shipping from the purpose built ice class self-discharging ore carriers to Cape vessels in Eclipse Sound during the open water season (mid-July to mid-October), and trans-shipping from the purpose built ice class self-discharging ore carrier(s) to market Panamax and Cape vessels in Greenland waters from June to mid-July and from mid-October into March.

Phase 2 Regulatory Process

Baffinland recognizes that Phase 2 will require an amendment to the Project Certificate for the Mary River Project, authorizations from DFO and Transport Canada and most likely an amendment to the Type A Water Licence. Similar to the situation that arose when Baffinland proposed the ERP, circumstances relating to the Mary River Project are significantly different from those anticipated at the time the certificate was issued. Paragraph 12.8.2 (b) of the Nunavut Land Claims Agreement allows the NIRB to reconsider the terms and conditions of the project certificate if circumstances have changed significantly.

Baffinland expects that Phase 2 will also require a conformity determination from the Nunavut Planning Commission. It is Baffinland's view that Phase 2 of the Project is in conformity with the North Baffin Regional Land Use Plan (NBRLUP) as amended in April, 2014, which includes a transportation corridor with a terrestrial component and a marine component. Baffinland has included the "*Nunavut Planning Commission Application to Determine Conformity with the North Baffin Regional Land Use Plan*" as Appendix 1 to the Project Description and has requested that NPC make a conformity determination.

We look forward to meeting with you to discuss the timing and process in relation to Phase 2 of the Mary River Project.

Sincerely,

A handwritten signature in black ink, appearing to read "Erik Madsen".

Erik Madsen, Vice President
Sustainable Development, Health, Safety & Environment

Encl. (1)

Attachment 1 Project Description

CC: Brian Aglukark (NPC)
Navarana Beveridge (QIA)