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Qikiqtani Inuit Association

ለፖርቱጋል
ወደብ ስርዓት
Serving the
communities of

December 18, 2013

Arctic Bay

Baffinland Iron Mines Corporation
2275 Upper Middle Road East, Suite 300
Oakville, Ontario
L6H 0C3

Cape Dorset

-and to-

ᑭᓴᑦ ᑭᓴᑦ
Clyde River

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

Grise Fiord

Hall Beach

RE: Mary River Project – (1) Commercial Lease (Q13C301) of IOL and Landlord's 2014 Reclamation Security Requirement; (2) NWB Annual Security Review – QIA Submission

Δ¹-THC
Igloolik

Pursuant to Section 9 of QIA-BIMC Commercial Lease Q13C301 dated September 6, 2013 (the "Commercial Lease"), QIA, as Landlord, has reviewed the 2014 BIMC Work Plan and estimate of Reclamation Security and determined that \$49,134,845 is the aggregate amount of adjusted Reclamation Security to be posted by BIMC, as Tenant, for 2014 pursuant to the Commercial Lease, representing an increase of \$22,934,845.

Δ8Δ9
Iqaluit

Kimmirut

Pursuant to the Commercial Lease, BIMC is required to post the additional security described above by January 31, 2014, unless before that date BIMC disputes the amount and refers the matter to arbitration pursuant to the Commercial Lease (or the Landlord and Tenant have otherwise resolved any matters in dispute relating to the increase).

Pangnirtung

Pond Inlet

QIA's determination is based on the attached 2014 Work Plan Financial Security Estimate prepared by Arktis Solutions Inc. for QIA (the "Arktis Report"). The Arktis Report is based upon the Landlord's Abandonment and Reclamation Policy ("A&R Policy") for use with reclamation activities on Inuit Owned Lands ("IOL").

Qikiqtarjuaq

Pursuant to the Annual Security Review ("ASR") conducted by Nunavut Water Board (NWB) for the existing Type "A" Licence No. 2AM-MRY1325, QIA also submits this letter and the Arktis Report as its submission for consideration by NWB in the ASR for 2014.

Resolute Bay

Sanikiluaq

The following comments are in addition to, or in furtherance of, the Arktis Report:



Sanikiluaq

1. The QIA determination pursuant to the Commercial Lease of applicable 2014 Reclamation Security is exclusively in relation to activities affecting IOL (for land and water) pursuant to the Commercial Lease, and does not apply to any activities described in the BIMC 2014 Work Plan and Security Estimate that relate to Crown lands.
2. Similar to the position expressed by Aboriginal Affairs and Northern Development Canada ("AANDC") regarding Reclamation Security, QIA's determination of Reclamation Security requirements does not address any activities described in the "Early Revenue Phase" ("ERP") which is currently still subject to pending applicable regulatory approvals, including Nunavut Impact Review Board ("NIRB") approval. Future adjustments of Reclamation Security may be required depending on specific ERP activities or related conditions approved by applicable regulatory authorities.
3. QIA's Reclamation Security determination is the first increase required by QIA since 2010 (under any prior leases of IOL now superseded by the Commercial Lease) and reflects the fact that there has been significant site development on IOL since 2010.
4. QIA's A&R Policy draws from the AANDC Mining Reclamation Policy for Nunavut but does not accept the RECLAIM model used by AANDC as the only appropriate financial tool for the calculation of financial security. There are acute risks associated with not accurately assessing financial security requirements. As noted in the 2012 Fall Report of the Commissioner of the Environment and Sustainable Development (Office of the Auditor General of Canada) 3 out of 11 mines in Nunavut had security shortfalls for the reclamation of land and water. QIA also notes that AANDC may consider other factors when setting financial security amounts and is not exclusively bound to RECLAIM calculations. QIA has therefore adopted a number of costing resources as described in the Arktis Report for the calculation of financial security in order to achieve a more project sensitive analysis for the calculation of financial security.
5. BIMC assumptions for the calculation of financial security accepted by QIA include the use of independent third party contractors. However there are assumptions made by BIMC in its 2014 security estimate that QIA does not accept, and which contravene the current A&R Policy. This includes the assumption that independent third party contractors retained by QIA will have unfettered access to on-site equipment and fuel. But it is reasonable to assume that default under the Commercial Lease leading to use of reclamation security would only occur during periods of project insolvency or other serious financial difficulty. In such circumstances, it is not reasonable to assume that QIA's independent contractors would have immediate and unfettered access to on-site equipment and fuel in priority to other claimants seeking control of the assets of BIMC.



Sanikiluaq

cc. **Aboriginal Affairs and Northern Development Canada**