



January 15, 2014

Mr. Stephen Williamson Bathory, Director
Department of Major Projects
Qikiqtani Inuit Association

**RE: 2014 WORK PLAN FINANCIAL SECURITY ESTIMATE FOR BAFFINLAND IRON
MINES CORPORATION' S MARY RIVER PROJECT - UPDATE**

On January 13, 2014 the Qikitan Inuit Association (QIA), Baffinland Iron Mines Corporation (BIMC), and their respective consultants discussed the items of departure between each party's financial security estimates. Based on the discussions, ARKTIS Solutions Inc. (ARKTIS) agreed to re-evaluate the items contained within the sub-category with "mobilization / demobilization" and called "mobilization miscellaneous supplies". In general the re-evaluation was to assess if there was BIMC owned supplies in that could be disposed of in a landfill at site, instead of backhauled by ship to a southern port. Any adjustments to the "mobilization / demobilization" cost also results in change in cost for all indirect fees. The evaluation also resulted in a minor update to the "building and equipment – mine site" category. The updated security reclamation costs are depicted in following tables (Table 4 and 5). These tables are the updated Table 4 and 5 of the ARKTIS (2013) report¹. The text in red within the tables represents the updated costing items.

The revisions result in a reduction in total reclamation security in the amount of about \$32,000. ARKTIS recommends that the reclamation security held by QIA (currently \$26,200,000) pursuant to Q13C301 Commercial Lease for IOL be adjusted by an increase of \$22,903,053 to an aggregate reclamation security of \$49,103,053.

Please do not hesitate to contact the undersigned if there are any questions or comments.

Sincerely,

ARKTIS SOLUTIONS INC.

Jamie VanGulck, Ph.D., P.Eng.
Chief Technical Officer, ARKTIS Solutions Inc.

¹ ARKTIS Solutions Inc. (2013). 2014 Work Plan Financial Security Estimate for the Baffinland Iron Mines Corporation's Mary River Project Activities Occurring on Inuit Owned Lands.

Table 4 (Revised): Summary of the 2013 and 2014 Combined Reclamation Security Estimates

RECLAIM Component Type	ARKTIS	BIMC	Difference
Open Pit	\$1,968,367	\$1,168,218	\$800,149
Underground Mine	\$ -	\$ -	\$ -
Tailings	\$ -	\$ -	\$ -
Rock Pile	\$ -	\$ -	\$ -
Buildings and Equip. – Mine Site	\$4,184,874	\$4,127,004	\$57,870
Buildings and Equip. – Milne Port	\$2,570,864	\$4,447,277	\$(1,876,413)
Buildings and Equip. – Tote Road	\$12,697	\$(1,262)	\$13,959
Chemicals and Soil Management	\$4,564,524	\$3,752,129	\$812,395
Water Management	\$254,192	\$43,175	\$211,017
Post Closure Monitoring and Maintenance	\$ -	\$457,971	\$(457,971)
SUB-TOTAL	\$13,555,518	\$13,994,512	\$(438,994)
Mobilization/Demobilization	\$4,662,792	\$(434,898)	\$5,097,690
Contract Administration and Project Management (ARKTIS-9.4%; BIMC-5%)	\$1,274,219	\$699,725	\$604,494
Bonding	\$ -	\$ -	\$ -
Taxes (GST on Supplies)	\$ -	\$ -	\$ -
Insurance	\$ -	\$ -	\$ -
Engineering (ARKTIS-5%; BIMC-5%)	\$677,776	\$ -	\$677,776
Contingency (ARKTIS-15%; BIMC-10%)	\$2,732,747	\$1,399,451	\$1,333,296
TOTAL	\$22,903,053	\$15,658,791*	\$7,244,262*

*The revised costing in Tables 4 and 5 were developed as an extension to ARKTIS (2013) and does not account for documentation originally submitted by the proponent to AANDC and NWB on December 13th, 2013 (later received by QIA and ARKTIS on December 16th, 2013) (in response to AANDC questions) and which support an increase by the proponent in proposed security. This amount is subject to further adjustment following QIA/ARKTIS review of the documentation.



Table 5 (Revised): Breakdown of Mobilization/Demobilization Costs

Item	Mobilization/Demobilization Item	ARKTIS 2013 Costs	BIMC 2013 Costs	ARKTIS 2014 Costs	BIMC 2014 Costs	ARKTIS 2013 and 2014 Combined	BIMC 2013 and 2014 Combined	Difference ARKTIS and BIMC
1	Mobilize Demolition Materials	\$152,509	\$-	\$126,214	\$ -	\$278,723	\$ -	\$278,723
2	Mobilize Heavy Equipment	\$812,416	\$173,685	\$ -	\$127,310	\$812,416	\$300,995	\$511,421
3	Mobilize Fuel for Reclamation	\$109,471	\$ -	\$100,348	\$ -	\$209,819	\$ -	\$209,819
4	Equipment Backhaul Credit	\$ -	\$ -	\$ -	(\$173,688)	\$ -	(\$173,688)	\$173,688
5	Mobilize Misc. Supplies	\$307,543	\$3,000,000	\$178,610	\$1,270,607	\$486,153	\$4,270,607	(\$3,784,454)
6	Sealift Credit	\$ -	(\$1,964,715)	\$ -	(\$3,000,000)	\$ -	(\$4,964,715)	\$4,964,715
7	Mobilize Workers	\$775,000	\$121,900	\$765,000	\$ -	\$1,540,000	\$121,900	\$1,418,100
8	Worker Accommodations	\$669,038	\$ -	\$536,655	\$ -	\$1,205,693	\$ -	\$1,205,693
9	Other	\$120,989	\$10,003	\$ -	\$ -	\$120,989	\$10,003	\$110,986
	TOTALS	\$2,946,966	\$1,340,873	\$1,715,826	(\$1,775,771)	\$4,662,792	(\$434,898)	\$5,097,690