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**Qikiqtani Inuit Association**

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Resolute Bay

Sanikiluaq

December 5, 2014

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

-and to-

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

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

Pursuant to Section 9 of QIA-BIMC Commercial Production Lease Q13C301 dated September 6, 2013 (the "Commercial Lease"), QIA, as Landlord, has reviewed the 2015 BIMC Work Plan and estimate of Reclamation Security and determined that **\$45,040,000** is the aggregate amount of adjusted Reclamation Security to be posted by BIMC, as Tenant, for 2015 pursuant to the Commercial Lease. This amount represents an increase of **\$5,247,000** relative to the letter of credit currently held by QIA.<sup>1</sup>

Pursuant to the Commercial Lease, BIMC is required to post the additional security described above by January 31, 2015 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).

QIA's determination is based on the attached **QIA 2015 Comprehensive Security Estimate** prepared by Arktis Solutions Inc. for QIA (the "*2015 Comprehensive Security Estimate*"). The *2015 Comprehensive Security Estimate* is based upon the Landlord's Abandonment and Reclamation Policy ("A&R Policy") for use with reclamation activities on Inuit Owned Lands ("IOL") and is an extension of previous project specific QIA security assessments.

<sup>1</sup> See Attachment No. 2 as appended to this letter.



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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 *2015 Comprehensive Security Estimate* as its submission for consideration by NWB in the ASR for 2015.

To ensure there is clarity on how QIA's assessment of security figures has progressed since the 2014 Work Plan, listed below is the sequence of QIA security assessments:

1. 2014 ASR Process Filing. Value \$49,134,845<sup>2</sup>
2. 2014 ASR Process Filing Amendment. Value \$49,103,053<sup>3</sup>
3. 2014 QIA and BIMC Interim Security Agreement. \$39,793,000<sup>4</sup>
4. 2014 Comprehensive Security Estimate. Value \$41,855,000<sup>5</sup>
5. 2015 Marginal Security Estimate. Value \$3,185,000<sup>6</sup>
6. 2015 Comprehensive Security Estimate. Value \$45,040,000<sup>7</sup>

As evidenced by the presentation of figures above, throughout 2014 QIA and BIMC met regularly (nearly monthly) to discuss financial security for the purpose of examining areas where parties reported differences in security calculations as reported to the NWB during the 2014 ASR. Meetings between QIA and BIMC also included a site-visit and resulted in both parties updating their original 2014 security estimates based upon information gathered and commonality developed for key security costing assumptions. Both QIA and BIMC have therefore developed modified “security baseline reports” against which annual Work Plans can be assessed. Therefore, the *2015 Comprehensive Security Estimate* should be understood as the by-product of joint activities aimed to both identify and resolve areas of potential divergence between the parties. While there remain a selected list of items for which mutual agreement has not been achieved, this in no way should overshadow the efforts to come to agreement on a number key topics.

<sup>2</sup> QIA Letter to BIMC and NWB. Mary River Project – (1) Commercial Lease (Q13C301) of IOL and Landlord’s 2014 Reclamation Security Requirement; (2) NWB Annual Security Review – QIA Submission. December 18th, 2013.

<sup>3</sup> QIA Letter to NWB. 2014 Work Plan Financial Security Estimate for Mary River Project – Update. January 15<sup>th</sup>, 2014.

<sup>4</sup> BIMC and QIA Letter to NWB. Joint Submission on Interim Security Amount. January 15<sup>th</sup>, 2014.

<sup>5</sup> See Attachment No. 1 as appended to this letter.

<sup>6</sup> See Attachment No. 1 as appended to this letter.

<sup>7</sup> See Attachment No. 1 as appended to this letter.



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The following comments are in addition to, or in furtherance of, the 2015 *Comprehensive Security Estimate*:

1. The QIA determination pursuant to the Commercial Lease of applicable 2015 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 2015 Work Plan and Security Estimate that relate to Crown lands, exploration activities (i.e. activities listed under 2BE-MRY1421), or, marine development (i.e. Milne Inlet port site construction).
2. QIA has not sought a security increase from BIMC since the 2014 Interim Security Value was agreed to by the parties and set at \$39,793,000.<sup>8</sup>
3. The *2015 Comprehensive Security Estimate* represents an increase of **\$5,247,000** now required by QIA over and above the 2014 Interim Security Value of \$39,793,000. This required security increase therefore captures both revisions to QIA's assessment of both the 2014 Comprehensive Security Estimate, and, the 2015 Comprehensive Security Estimate.
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 *2015 Comprehensive Security Estimate* for the calculation of financial security in order to achieve a more project sensitive analysis for the calculation of financial security.
5. 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

QIA Letter to BIMC. Without Prejudice Agreement for Joint Submission to Nunavut Water Board.  
January 21<sup>st</sup>, 2014.



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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. QIA remains open to further discussing these matters with BIMC moving forward, however to date no suitable long-term, alternatives have been agreed to between the parties. The assumptions applied by QIA in its assessment of fuel are a modification relative to QIA's 2014 ASR Process Filing. The approach for fuel, from a costing perspective, is more favourable to the proponent.

With respect to the timelines established under the 2015 ASR QIA would appreciate the opportunity to look at how the objectives and requirements of all parties can be better served. At present QIA has been requested to supply the NWB with the following:

1. Written submissions in accordance with Schedule C, Item 2 of 2AM-MRY1325
2. Updated information regarding additional security amounts posted with QIA

While QIA has modified its own internal security review process to also achieve the requirements of Schedule C, Item 2 of 2AM-MRY1325 by conducting a review of the 2015 Work Plan and reporting upon QIA's security assessment for those activities, QIA is unfortunately not in a position to report upon updated information regarding additional security amounts posted with QIA as the proponent has just received QIA's assessment of security through this very submission.

Recognizing that the NWB has established a deadline of January 28<sup>th</sup>, 2015 for the date upon which the NWB would advise the Licensee and interested parties of the total financial security required for 2015, QIA commits to continuous joint disclosure whereby QIA and BIMC will jointly report back to NWB on the existence of any agreement reached between the parties consistent with Section 9 of QIA-BIMC Commercial Lease Q13C301 on/before January 23<sup>rd</sup>, 2015.<sup>9</sup> QIA believes this approach would harmonize decisions related to the management of Inuit Owned Lands with the most relevant evidence to support the decision making process of the NWB for the 2015 ASR.

<sup>9</sup> Prior to the 2014 ASR Process QIA and BIMC jointly distributed Art Section 9 of QIA-BIMC Commercial Production Lease Q13C301 such that NWB could review the obligations established between parties to establish and review security. Furthermore, QIA and BIMC held a teleconference with NWB staff and counsel





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In addition to this letter and its attachments QIA intends to also file an addendum to the *2015 Comprehensive Security Estimate* which will provide additional technical background for the costs presented herein. This addendum will not alter in anyway the overall security value or the value of individual line items as presented in this assessment. The purpose of the QIA addendum is to provide additional clarity on the basis of QIA calculations should there be an interest to understand QIA's assessment at an input data level. QIA will file this document on/before December 12<sup>th</sup>, 2014. QIA will be prepared to speak to both this filing and the addendum on the December 18<sup>th</sup>, 2014 teleconference scheduled for the 2015 ASR.

QIA looks forward to reviewing its determination with BIMC pursuant to the Commercial Lease, and with interested parties for purposes of the ASR conducted by NWB.

Yours truly,

Stephen Williamson Bathory,  
Director, Department of Major Projects

Attachments: Attachment 1 QIA 2015 Comprehensive Security Estimate  
Attachment 2 Current QIA Letter of Credit,  
Pursuant to Section 9 of Q13C301

SWB/  
Attach.

cc. Aboriginal Affairs and Northern Development Canada