



December 12, 2014

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

Ms. Beaulieu,

**Re: A) Annual Security Review Response to QIA and AANDC Comments Received
B) Addendum to 2015 Work plan and Updated Closure Cost Estimate**

Thank you for sending the comments from the AANDC, and we acknowledge receipt of comments from the QIA on December 5, 2014 for the Annual Security Review (ASR). Baffinland has reviewed both submissions and prepared a response (see Attachment 1). Further discussions are anticipated on the call proposed for December 18, 2014.

In addition to the responses and as noted in advance by telephone conversations held with Nunavut Water Board, AANDC and QIA representatives, Baffinland is submitting an addendum to the 2015 Work Plan as well as an associated financial security update (see Attachment 2). This addendum captures additional work in 2015 that was not captured in the October 31, 2014 submission. The additional work scope items presented in this document are required to facilitate the ongoing Project as approved under amended NIRB Project Certificate No. 005, current Type A Water Licence 2AM-MRY1325, Type B Water Licence 8BC-MRY1416, and the Type A Water Licence amendment application currently under review by the NWB.

The changes to the 2015 Work Plan are identified in red text relative to the original 2015 Work Plan submitted to help facilitate an efficient review. The financial security associated with the addendum incorporates the additional activities described in the 2015 Work Plan Addendum and also addresses items raised by stakeholders since original submission that have an effect on estimated security costs. The 2015 Work Plan Financial Security Estimate therefore should be considered in *addition* to the security already estimated for the original 2015 Work Plan submitted.

It is Baffinland's intention to review all ASR responses as well as the 2015 Work Plan Addendum at the upcoming December 18th teleconference call. In advance of the meeting, Baffinland will submit a slide deck to the NWB, AANDC, and the QIA on December 16th to all parties, which will be presented on December 18th.

It is requested that the time and call in number for the call on December 18, 2014 be provided to all parties involved.

Sincerely,

A handwritten signature in black ink, appearing to read 'Erik Madsen', with a stylized, cursive script.

Erik Madsen
Vice-President Sustainable Development, Health, Safety and Environment

Attachment 1: Baffinland Response to QIA and AANDC Comments on Annual Security Review Received
December 5, 2014 (Document number: H349001-1000-07-126-0001)

Attachment 2: 2015 Work Plan Addendum with associated security estimate

CC: Stephen Williamson Bathory (QIA)
Andrea Morgan (AANDC)
Tracie McCaie (AANDC)
Sean Joseph (NWB)
David Hohnstein (NWB)
Jim Millard (Baffinland)
Oliver Curran (Baffinland)



Attachment 1

Baffinland Response to QIA and AANDC Comments on Annual Security Review Received December 5,
2014 (Document number: H349001-1000-07-126-0001)

Project Report

December 12, 2014

Baffinland Iron Mines Corporation

Mary River Project

DISTRIBUTION

E. Madsen
O. Curran
J. Millard

Baffinland Response to QIA and AANDC Comments on Annual Security Review Received December 5, 2014

1. Introduction

Below are Baffinland Iron Mines' (Baffinland) responses to comments provided by the Qikiqtani Inuit Association (QIA) and Aboriginal Affairs and Northern Development Canada (AANDC) to the Nunavut Water Board (NWB) on December 5, 2014 concerning the 2015 Annual Security Review that is being completed pursuant to Part C and Schedule C of Type 'A' Water Licence No. 2AM-MRY1325.

2. Response to QIA Comments

Baffinland would like to acknowledge the QIA's comments¹ to the NWB as a high level summary of the years re-baselining efforts, the QIA's 2015 Work Plan review and agreements reached between the two parties. These items will also be discussed by Baffinland on December 18, 2014 in the Annual Security Review call.

3. Responses to AANDC Comments

Ref #	1
Comment	In general, the site-specific EBS approach and RECLAIM model estimates prepared by BIMC provided similar results for the 2014 re-baseline review
Response	Noted.

¹ QIA letter to NWB and Baffinland titled: Re: Mary River Project – (1) Commercial Lease (Q13C301) of IOL and Landlord's 2014 Reclamation Security Requirement; (2) NWB Annual Security Review – QIA Submission. Dated December 5, 2014

Ref #	2
Comment	Clarification is requested on how the security estimates are allocated between the Crown and QIA in the site-specific EBS approach. Also, there appears to be discrepancies between BIMC Table 7.1 and 7.2 security estimates.
Response	<p>Allocation between Crown and IOL was based on geographic location for direct costs as is noted in the Estimate Breakdown Structure (EBS). The 2015 Marginal Closure and Reclamation Financial Security Estimate (H349000-1000-07-126-0019, Rev 0) and the 2014 Complete Project Financial Security Assessment Report (H349000-1000-07-126-0018, Rev. 1) assume all project components at the Mary River Mine Site and at Milne Port (above the high water mark) are attributed to IOL. Components below the high water mark at Milne Port are attributed to the Crown. Financial security associated with the Tote Road was assumed to be entirely attributed to IOL though Baffinland does note a small portion occurs on Crown Land.</p> <p>The division of indirect costs associated with Crown liability is a function of the ratio of the <i>total</i> direct costs attributed to Crown Land or IOL. For example, if 20% of the total direct costs occurred on Crown Land, then 20% of a respective indirect cost would be attributed to the Crown. It should be noted this only applies to indirect costs that would be associated with the Crown. Indirect costs associated with the Crown include: mobilization of workers required for reclamation; worker accommodation & camp operation; mobilization & demobilization of equipment/materials by sealift; engineering fees; supervision, project management & contract administration; and contingency. Indirect costs wholly allocated to IOL include: off-site disposal of waste & material; fuel demobilization; contaminated soil treatment; geotechnical inspections; project environmental site assessment; and closure and post closure monitoring.</p> <p>It was noted by the AANDC that there appears to be discrepancies between Baffinland's Tables 7.1 and 7.2 security estimates. Upon review, discrepancies exist due to incorrect application of indirect costs as outlined above. Table 7-2 inaccurately indicated indirect costs associated with off-site disposal of waste & material; fuel demobilization; contaminated soil treatment; geotechnical inspections; project environmental site assessment; and closure & post closure monitoring were allocated to Crown liability when it is Baffinland's position that these should be wholly attributed to IOL. Revised and corrected Table 7-1 and Table 7-2, reflecting these assumptions, are therefore presented in Appendix A for further consideration.</p>

Ref #	3
Comment	<p>Early Revenue Phase costs should be identified separately, as these reclamation costs remain tied to Water Licence No. 8BC-MRY1421, until the amendments to Water Licence No. 2AM-MRY1325 have been approved by the NWB.</p> <p>The Proponent needs to confirm that the “2014 re-baseline” security estimate has accounted for the entire development of this infrastructure and that no additional security needs to be identified in the 2015 marginal security estimate.</p>
Response	<p>Baffinland and the Qikiqtani Inuit Association (QIA) took the position during the ‘re-baseline exercise’ and 2015 Marginal Financial Security Estimate process that all project components and activities occurring on IOL, including the approved works under the Early Revenue Phase (ERP), should be considered in an holistic approach as they are approved to be conducted by all regulatory bodies and therefore the Commercial Lease No. Q13C301 agreed between Baffinland and the QIA would be the governing instrument for security determination for the vast majority of the project components and activities that were being considered.</p> <p>Baffinland can confirm that the “2014 re-baseline” security estimate has accounted for the entire development of the infrastructure captured. If development was not complete at the time of the estimate, security was established based on ‘Issued for Construction’ drawings or the most current information available about final extent and design as noted in the supporting documentation. This approach was also taken in the 2015 Marginal Financial Security Estimate process - financial security is estimated for a <i>complete</i> project component as designed prior to commencement of development to ensure conservatism and addresses concerns relating to project scheduling from a financial security perspective.</p>

Ref #	4
Comment	<p>Milne Port shiploaders are not fully accounted for in the EBS approach summary. The 2015 Work Plan references Shiploader 1 and Shiploader 2, only one Shiploader is costed.</p>
Response	<p>Baffinland would like to clarify there is only one (1) shiploader associated with the Mary River Project. References to Shiploader #1 and Shiploader #2 are project vernacular which refers to the two (2) individual towers that comprise the single shiploader. See Appendix B for a General Arrangement drawing of the Mary River Project Shiploader.</p> <p>Baffinland confirms the entire shiploader package, including both loading</p>

	towers (a.k.a. Shiploader #1 and Shiploader #2), were included in the financial security cost development associated with the shiploader.
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Ref #	5
Comment	Borrow Pit P1 is located on Crown land. This should be accounted for in the security allocation to the Crown.
Response	Financial security associated with the Tote Road was assumed to be entirely attributed to IOL though Baffinland does note a small portion occurs on Crown Land, including Borrow Pit P1. It was assumed that the contractor doing the reclamation work would commence reclamation from one end of the road and progress to the other end.

Ref #	6
Comment	The AANDC RECLAIM Model ver 7 components for estimating security are addressed in the EBS approach except the "interim care and maintenance".
Response	Baffinland is of the position at the current stage of site development, legacy liability issues have not yet been demonstrated which require long term care or maintenance (e.g. perpetual treatment) and therefore interim care and maintenance is not currently included. However, Baffinland recognizes that as the Project progresses and project components are developed that would require interim care and maintenance in an insolvency situation, this cost would have to be captured. Baffinland would like to note this is an ongoing topic of discussion with the QIA to ensure mutual agreement of its application as project components planned to be developed that would require interim care and maintenance would occur on IOL.

Ref #	7
Comment	Clarification is requested on how the security estimates are allocated between the land and water.
Response	<p>As in previous Mary River Project security estimates, for direct costs all infrastructure and/or facilities designed to contain, withhold, or retain water (including ponds, water treatments plants, piping) were attributed to 'water'-related liability. All other direct costs were then attributed to 'land'-related liability. For indirect costs, post closure monitoring was attributed to 'water'-related liability. All other indirect costs were then attributed to 'land'-related liability.</p> <p>Refer to EBS in the 2015 Marginal Closure and Reclamation Financial Security Estimate (H349000-1000-07-126-0019, Rev. 0) and the 2014 Complete Project</p>

	Financial Security Assessment Report (H349000-1000-07-126-0018, Rev. 1) for specific, item by item, indication of land vs. water liability.
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4. **Supporting Documentation**

Please refer to Appendix A for a revised Table 7-1 and Table 7-2 from 2015 Marginal Closure and Reclamation Financial Security Estimate (H349000-1000-07-126-0019, Rev 0) as referenced in Response #2. These revised tables supersede those in document H349000-1000-07-126-0019, Rev 0.

Please refer to Appendix B for a General Arrangement drawing of the Mary River Project Shiploader as referenced in Response #4.

End

A. Grzegorzczuk
AG:ag

Appendix A

Revised Table 7-1 and Table 7-2 from 2015 Marginal Closure and Reclamation Financial Security Estimate (H349000-1000-07-126-0019, Rev 0)

Table 7-1: Mary River Project Total Closure and Reclamation Security Summary¹ - REVISED

	A	B	C	D	E	F	G	H
	Authorization	Liability	Pre-baseline Liability (\$)	2014 Re-Baseline (\$)	Difference (\$)	Marginal 2015 (\$)	Total (\$)	Adjustment to be posted (\$)
					D-C		D+F	E+F-Type B construction
1	Type A 2AM-MRY1325	IOL	40,231,000	38,886,000	(1,345,000)	2,236,000	41,122,000	744,000
2		Crown	166,000	-	(166,000)	-	-	(166,000)
3		Water	2,172,000	2,193,000	21,000	-	2,193,000	21,000
4		Land	38,225,000	36,693,000	(1,532,000)	2,236,000	38,929,000	577,000
5	Subtotal Type A		40,397,000	38,886,000	(1,511,000)	2,236,000	41,122,000	578,000
6	Type B Construction 2BC-MRY1416	IOL	147,000	<i>See note 3</i>	-	-	-	-
7		Crown	-		-	-	-	-
8		Water	-		-	-	-	-
9		Land	147,000		-	-	-	-
10	Subtotal Type B Construction		147,000		-	-	-	-
11	Type B Exploration 2BE-MRY1421	IOL	165,000	165,000	-	-	165,000	-
12		Crown	1,082,000	1,082,000	-	-	1,082,000	-
13		Water	18,000	18,000	-	-	18,000	-
14		Land	1,229,000	1,229,000	-	-	1,229,000	-
15	Subtotal Type B Exploration		1,247,000	1,247,000	-	-	1,247,000	-
16	DFO	IOL	-	-	-	-	-	-
17		Crown	3,566,000	3,566,000	-	-	3,566,000	-
18		Water	3,566,000	3,566,000	-	-	3,566,000	-
19		Land	-	-	-	-	-	-
20	Subtotal DFO		3,566,000	3,566,000	-	-	3,566,000	-
21	AANDC Land Lease 47H/16-1-2	IOL	-	-	-	-	-	-
22		Crown	-	5,931,000	5,931,000	-	5,931,000	5,931,000
23		Water	-	-	-	-	-	-
24		Land	-	5,931,000	5,931,000	-	5,931,000	5,931,000
25	Subtotal AANDC Land Lease		-	5,931,000	5,931,000	-	5,931,000	5,931,000
27	GRAND TOTAL		45,357,000	49,630,000	4,420,000	2,236,000	51,866,000	6,509,000

¹ All totals rounded to nearest '000 in CAD

² 2014 Re-baseline refers to 2014 Complete Project Financial Security Assessment, H349000-1000-07-126-0018, Rev. 1

³ The reclamation costs associated to the Type 'B' Water Licence 2BC-MRY1416 was captured under 2014 Complete Project Financial Security Assessment. The current sum of \$147,000 posted under this licence is proposed to be reallocated under Type 'A' Water licence 2AM-MRY1325 upon amendment.

Table 7-2: REVISED 2015 Estimated Closure and Reclamation Security Detailed Summary^{1,2} - REVISED

Cost	2014 Re-Baseline (\$)	2015 Marginal Increase (\$)	Total for 2015 (\$)	IOL	Crown Land	Water Liability	Land Liability
Direct Cost							
Project Wide	873,000	54,000	927,000	927,000	-	-	927,000
Milne Port	9,931,000	-	9,931,000	6,101,000	3,830,000	227,000	9,704,000
Construction Facilities & Services	2,731,000	-	2,731,000	2,731,000	-	-	2,731,000
Mine Site	6,671,000	772,000	7,444,000	7,444,000	-	1,115,000	6,329,000
Tote Road	4,042,000	76,000	4,118,000	4,118,000	-	-	4,118,000
Mary River Exploration Activities	1,022,000	-	1,022,000	135,000	887,000	15,000	1,007,000
Total Direct Costs (\$)	25,270,000	902,000	26,172,000	21,455,000	4,717,000	1,357,000	24,815,000
Indirect Cost							
Off-Site Disposal of Waste & Material	1,969,000	-	1,969,000	1,969,000	-	-	1,969,000
Fuel Mobilization and Demobilization	3,098,000	33,000	3,131,000	3,131,000	-	-	3,131,000
Ammonium Nitrate (explosive material)	876,000	553,000	1,429,000	1,429,000	-	-	1,429,000
Contaminated Soil Treatment	234,000	-	234,000	234,000	-	-	234,000
Mobilization of Workers Required for Reclamation	996,000	54,000	1,050,000	893,000	157,000	-	1,050,000
Worker Accommodation & Camp Operation	2,630,000	148,000	2,778,000	2,363,000	415,000	-	2,778,000
Mobilization and Demobilization of Equipment and Materials by Sealift	2,425,000	90,000	2,515,000	2,132,000	383,000	-	2,515,000
Geotechnical Inspections	150,000	-	150,000	150,000	-	-	150,000
Project Environmental Site Assessment	90,000	-	90,000	90,000	-	-	90,000
Closure & Post Closure Monitoring	851,000	-	851,000	851,000	-	851,000	-
Engineering Fees	946,000	35,000	981,000	832,000	149,000	-	981,000
Supervision, Project Management & Contract Administration	2,381,000	165,000	2,546,000	2,170,000	376,000	-	2,546,000
Contingency	3,923,000	256,000	4,179,000	3,559,000	620,000	-	4,179,000
Mary River Exploration Activities	225,000	-	225,000	30,000	195,000	3,000	222,000
DFO Financial Security for Ore Dock	3,566,000	-	3,566,000	-	3,566,000	3,566,000	-
Total Indirect Costs (\$)	24,360,000	1,334,000	25,694,000	19,832,000	5,862,000	4,420,000	21,274,000
Total Cost (\$)	49,630,000	2,236,000	51,866,000	41,287,000	10,579,000	5,777,000	46,089,000

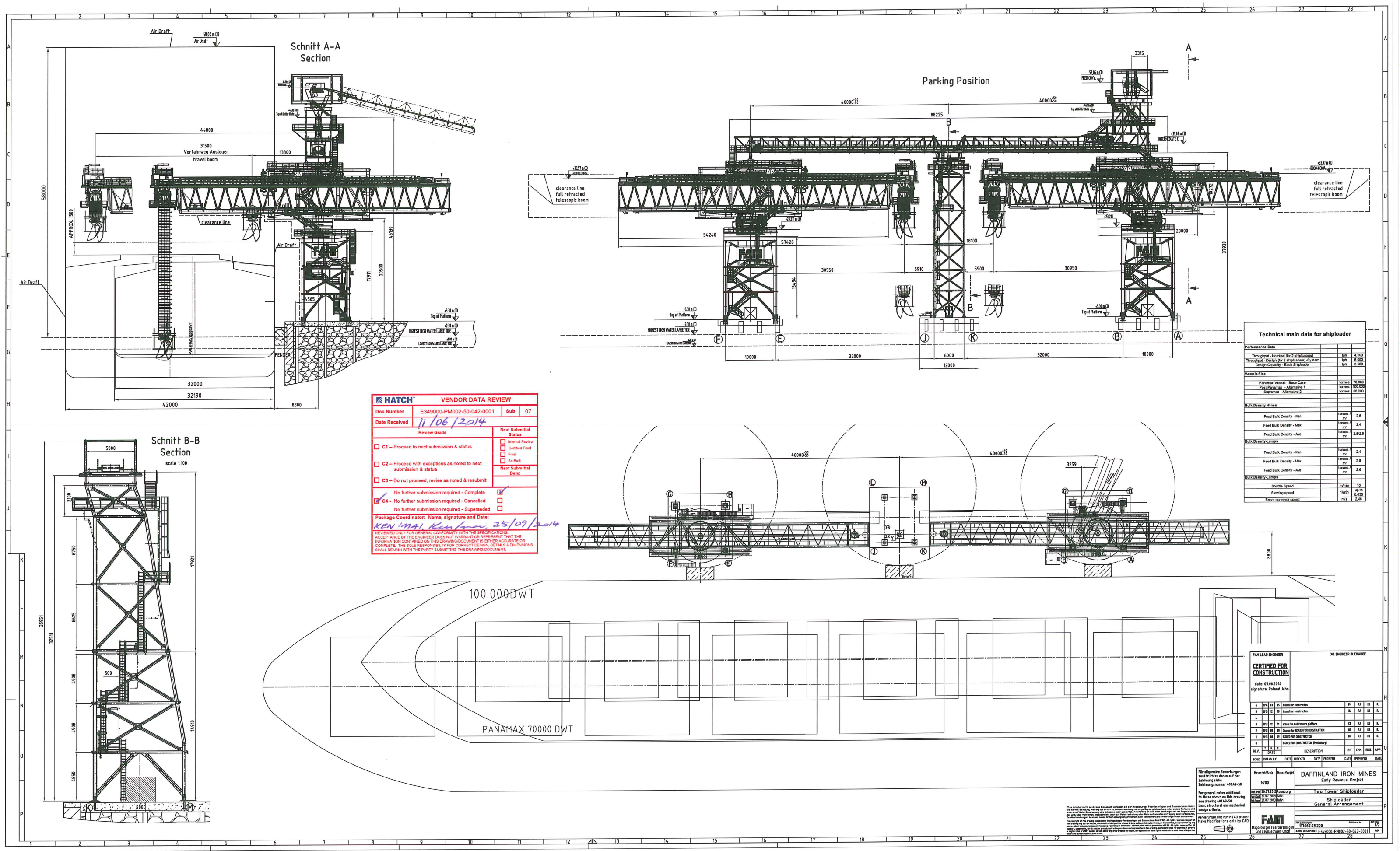
¹All totals rounded to nearest '000


²All totals in CAD



Appendix B

General Arrangement Drawing of the Mary River Project Shiploader (E349000-PM002-50-042-0001)



 HATCH		VENDOR DATA REVIEW	
Doc Number	E349000-PM002-50-042-0001	Sub	07
Date Received	11/06/2014		
Review Grade		Next Submittal Status	
<input type="checkbox"/> C1 - Proceed to next submission & status		<input type="checkbox"/> Internal Review	
<input type="checkbox"/> C2 - Proceed with exceptions as noted to next submission & status		<input type="checkbox"/> Certified Final	
<input type="checkbox"/> C3 - Do not proceed, revise as noted & resubmit		<input type="checkbox"/> Final	
		<input type="checkbox"/> As-Built	
		Next Submittal Date:	
<input checked="" type="checkbox"/> No further submission required - Complete		<input checked="" type="checkbox"/>	
<input checked="" type="checkbox"/> No further submission required - Cancelled		<input type="checkbox"/>	
<input type="checkbox"/> No further submission required - Superseded		<input type="checkbox"/>	
Package Coordinator: Name, signature and Date:			
KEN MAI		25/09/14	
REVIEWED ONLY FOR GENERAL CONFORMANCE WITH THE SPECIFICATIONS. ACCEPTANCE BY THE ENGINEER DOES NOT WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED ON THIS DRAWING DOCUMENT IS EITHER ACCURATE OR COMPLETE. THE SOLE RESPONSIBILITY FOR CORRECT DESIGN, DETAILS & DIMENSIONS SHALL REMAIN WITH THE PARTY SUBMITTING THE DRAWING DOCUMENT.			

Technical main data for shiploader		
Performance Data		
Throughput - Nominal (for 2 shiploaders)	tpn	4.500
Throughput - Design (for 2 shiploaders) System	tpn	4.500
Design Capacity - Each Shiploader	tpn	3.500
Vessel Size		
Panamax Vessel - Base Case	tonnes	70.000
Post Panamax - Alternative 1	tonnes	100.000
Supramax - Alternative 2	tonnes	80.000
Bulk Density - Fines		
Feed Bulk Density - Min	tonnes / m³	2,6
Feed Bulk Density - Max	tonnes / m³	3,4
Feed Bulk Density - Ave	tonnes / m³	2,9/2,9
Bulk Density - Lumps		
Feed Bulk Density - Min	tonnes / m³	2,4
Feed Bulk Density - Max	tonnes / m³	2,8
Feed Bulk Density - Ave	tonnes / m³	2,6
Bulk Density - Lumps		
Shuttle Speed	m/min	10
Sieving speed	up to	0,030
Boom conveyor speed	m/s	2,48

FAN LEAD ENGINEER		ON ENGINEER IN CHARGE	
CERTIFIED FOR CONSTRUCTION			
date: 05.06.2014			
signature: Roland Jahn			
1	2014	01	01
2	2014	02	02
3	2014	03	03
4	2014	04	04
5	2014	05	05
6	2014	06	06
7	2014	07	07
8	2014	08	08
9	2014	09	09
10	2014	10	10
11	2014	11	11
12	2014	12	12
13	2014	01	01
14	2014	02	02
15	2014	03	03
16	2014	04	04
17	2014	05	05
18	2014	06	06
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22	2014	10	10
23	2014	11	11
24	2014	12	12
25	2014	01	01
26	2014	02	02
27	2014	03	03
28	2014	04	04

Für allgemeine Bemerkungen zusätzlich zu denen auf der Zeichnung siehe Zeichnungsnummer 410.49-50.		For general notes additional to those shown on this drawing see drawing 410.49-50 basic structural and mechanical design criteria.	
Anderungen sind nur in CAD erlaubt! (Modifications only by CAD!)		Anderungen sind nur in CAD erlaubt! (Modifications only by CAD!)	
FAN LEAD ENGINEER		ON ENGINEER IN CHARGE	
CERTIFIED FOR CONSTRUCTION			
date: 05.06.2014			
signature: Roland Jahn			
1	2014	01	01
2	2014	02	02
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6	2014	06	06
7	2014	07	07
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11	2014	11	11
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14	2014	02	02
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16	2014	04	04
17	2014	05	05
18	2014	06	06
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20	2014	08	08
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22	2014	10	10
23	2014	11	11
24	2014	12	12
25	2014	01	01
26	2014	02	02
27	2014	03	03
28	2014	04	04