

Project Report

December 9, 2013

Baffinland Iron Mines Corporation

Mary River Project

DISTRIBUTION

E. Madsen
O. Curran
J. Millard
T. Mackay
C. Gonzales

Response to AANDC Comments on Annual Security Review Received December 3, 2015

1. Introduction

Below are responses to comments provided by Aboriginal Affairs and Northern Development Canada (AANDC) to the Nunavut Water Board (NWB) on December 3, 2015 concerning Baffinland Iron Mines Corporation (Baffinland) Annual Security Review (ASR) submission¹ for the Mary River Project.

An ASR is being performed on behalf of the Mary River Project pursuant to Part C and Schedule C of Type "A" Water Licence No. 2AM-MRY1325.

2. Responses

Ref #	1
Comment	Table 2 has been based on the direct costs summarized in various tables from BIMC's 2016 Marginal Closure and Reclamation Financial Security Estimate (H349001-1000-07-126-0002, Rev. 0). Table 3 reproduced from the same BIMC document, indicates a decrease in global security associated with the reconciliation of direct costs in the order of \$2,620,000 (i.e., 2015 Security Addendum direct cost subtotal of \$24,856,000 minus 2015/16 Reconciliation direct cost sub-total of \$22,236,000). This is less than the value of \$2,849,000 generated in Table 3. The difference amounts to \$229,000. BIMC should provide an explanation for the discrepancy between the two values.
Response	The cost estimate breakdown presented in Table 2 does not include the

¹ As described in 2016 Marginal Closure and Reclamation Financial Security Estimate. H349001-1000-07-126-0002, Rev.0, October 30, 2015

Ref #	1
	<p>shiploader package, as it is presented as an independent estimate under the AANDC Land Lease². Table 3 – Summary of BIMC Direct Cost Reconciliation - compares the fill application cost including the shiploader (original estimate). Therefore, a comparison between Table 2 and Table 3 is not applicable.</p> <p>In order to compare Table 2 and Table 3, the fill application estimate for 2015 addendum estimate should not include the shiploader (\$649,000), which is included in the AANDC Land Lease cost (\$4,795,000). Therefore the fill application difference presented in Table 3 is -\$310,000. Thus, the total presented in Table 3 is -\$2,624,971 and not -\$2,848,997. The difference between these two numbers is \$224,026, which accounts the primary cause of the discrepancy.</p>

Ref #	2
Comment	<p>BIMC during the 2015/16 ASR allocated a total of \$23,412,000 to indirect costs. As part of the reconciliation process a total of \$811,031 was removed from the EBS as a result of the net reduction in indirect costs. BIMC's breakdown is provided Table 4. SNC-Lavalin notes there is a \$25,000 discrepancy between BIMC's cited value of \$811,031 in their 2016 Marginal Closure and Reclamation Financial Security Estimate document text and the value provided in Table 4 as reproduced from the same document. No explanation is provided.</p>
Response	<p>The number \$811,031 quoted in the body of the report is a typo. The number should read in accordance with Table 4 (\$786,031). As mentioned previously, Table 4 presents a comparison between the 2015/16 ASR and the original 2015 estimate (including the shiploader). Therefore a comparison between Table 4, and Table 1 and Table 2 is not applicable.</p>

Ref #	3
Comment	<p>Based on the numbers presented in the text of their 2016 Marginal Closure and Reclamation Financial Security Estimate, BIMC proposes a direct cost reconciliation of -\$2,848,997 (Table 3) and an indirect cost reconciliation of -\$786,031 (Table 4). Together these yield an overall reduction in security of \$3,635,028. This does not match the difference of \$1,248,000 (Subtotal Type A \$45,089,000 minus \$43,841,000) shown in Table 2 which was directly extracted from the 2016 Marginal Closure and Reclamation Financial Security</p>

² Closure and Reclamation Strategy and Financial Security Estimate for Nunavut Lease #47H/16-1-2. H349001-2000-07-126-0001, Rev.0, February 19, 2015

Ref #	3
	Estimate document. The difference amounts to approximately \$2,387,000. The reason for this discrepancy is not immediately obvious and BIMC should be asked to account for the difference.
Response	<p>The 2016 Marginal Closure and Reclamation Financial Security Estimate, BIMC proposes a direct cost reconciliation of -\$2,624,971, as oppose of the -\$2,848,997 (Table 3). See Ref # 1 for answer for details.</p> <p>In addition, Table 4 presents a comparison between the 2015/16 ASR and the original 2015 estimate (including the shiploader). Therefore a comparison between the results presented in Table 1 is not applicable.</p> <p>The indirect cost difference (not including the shiploader in the 2015 Addendum estimate) is \$1,369,969. Therefore, together the overall reduction in security is -\$1,255,002 (direct cost reconciliation of -\$2,624,971 + indirect cost reconciliation of \$1,369,971).</p>

Ref #	4
Comment	The assignment of water liability needs to address a broader definition of activities (e.g., bridge and culvert removal) and equipment (e.g., water and wastewater pumps and tanks). This should also include an appropriate proportion of costs related to Closure and Post closure monitoring and reporting.
Response	Baffinland agrees alignment on the allocation of water liability across reclamation components and activities would be valuable. Baffinland suggest the NWB provide explicit direction on what project activities and components should be considered as being allocated completely and/or proportionally to water liability for the purpose of the Mary River Project to be considered in future estimates across all stakeholders.

Ref #	5
Comment	The assignment of Crown versus IOL liabilities in the EBS model needs to be re-examined to recognize a portion of the Tote Road is on Crown land as it relates to culvert removal and grading and re-contouring. Also indirect costs in the EBS model need to be appropriately proportioned to Crown liability particularly those related to Closure and Post-closure monitoring and reporting.
Response	Baffinland 's current position assumes the liability related to the Tote Road alignment 's reclamation and closure and post-closure monitoring and reporting be allocated wholly to IOL owned liability. This approach was maintained for 2016 as it was consistent with the approaches presented in

	previous ASRs. Baffinland is open to discuss this position with stakeholders and adapt allocations related to the Crown Land proportion of the Tote Road and Closure and Post-closure monitoring and reporting as mutually agreeable to all parties.
--	--

Ref #	6
Comment	The proponent should provide an explanation for the large discrepancies between the original Hatch inventory compared to the new SAP inventory for mobile and fixed equipment.
Response	The discrepancies between the SAP inventory for mobile and fixed equipment and the Mechanical Equipment and Motor List (H349000-1000-50-144-0001, Rev.0) as developed by Hatch is attributed to changes in project scope and approach between the development of the respective inventories. The Mechanical Equipment and Motor List as developed by Hatch was last updated during the project detailed design in early 2014 based on the information, contracting approach, budget, and execution plan as defined at that time. Hatch's mandate did not include maintenance of this list through 2014 and into 2015 as it was acknowledged that it was intended to be superseded by a Baffinland owned SAP inventory in the near future. This means changes to contracting approach, budget, and execution plan approach that were realized on-site were not captured in the Mechanical Equipment and Motor List as developed by Hatch. However until the SAP inventory was available, the Mechanical Equipment and Motor List as developed by Hatch was still the best source of information available for the purpose of the closure security estimate as it was known to be a conservative representative estimate of the equipment onsite. In 2015, the SAP inventory was developed by Baffinland based on a physical inventory of on-site equipment. As this SAP list now represents the most current and accurate inventory of mobile and mechanical equipment on-site, it was adopted as the basis for estimating quantities of mobile and mechanical equipment inventory.

Ref #	7
Comment	The proponent should provide an explanation for the discrepancies between various cost summaries in their 2016 Marginal Closure and Reclamation Financial Security Estimate (H349000-1000-07-126-0002, October 30, 2015) document. These discrepancies relate to differences in text versus tabular summaries for the 2015/16 ASR Reconciliation of \$229,000 for direct costs, \$25,000 for indirect costs and \$2,387,000 for overall reconciliation costs.
Response	See Ref #1, Ref #2 and Ref #3 for detailed explanation.

Ref #	8
Comment	<p>As part of the 2015/16 ASR Reconciliation process, BIMC has “modified” some of their earlier cost estimates. How these reconciliation modifications were calculated is not clear and should be explained in more detail. Further, many of the “modifications”, unlike the EBS “additions” and “removals”, are not clearly identified in the October 30, 2015 EBS model and hence were not captured in the 2015/16 Reconciliation RECLAIM model thus increasing differences between the EBS and RECLAIM models.</p>
Response	<p>The only modification to earlier cost estimates (besides the “additions” and “removals” of the EBS as described in the report) was the removal of the Shiploader package.</p> <p>As part of the 2015/16 ASR Reconciliation process, the ore dock office and shiploader have been removed from the EBS and have become an independent estimate under the AANDC Land Lease, as presented in the Table 1 – Mary River Project Total Closure and Reclamation Security Summary, and in Table 2 – Estimate Closure and Reclamation Security Detailed Summary.</p>

End

A. Grzegorzcyk
AG:ag