



Water Resources Division
Nunavut Regional Office
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December 14, 2015

Erik Madsen
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Baffinland Iron Mines Corporation
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sent via email: erik.madsen@baffinland.com

Re: Further Clarification requested following Baffinland Iron Mines Corporation's response to Aboriginal Affairs and Northern Development Canada's comments on the Annual Security Review for Water Licence #2AM-MRY1325

Dear Mr. Madsen,

Thank-you for the response sent on December 9, 2015 regarding the above mentioned process. The answers explain most of the questions we had. Two comments for which we have further questions are Ref #1 and Ref #8. In this letter we present more detail of what we do not understand in hopes that you might provide more clarification.

In preparing their estimate, our consultant has relied on the two Estimated Breakdown Structure (EBS) models we received; the first dated September 23 2015 for the 2015 work plan including addendum, and the second dated October 30 2015 for the 2015 reconciliation and 2016 work plan. The questions we have pertain to these models as well as the reports submitted.

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	<p>The cost estimate breakdown presented in Table 2 does not include the 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>
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We found no reference to fill application in the document Closure and Reclamation Strategy and Financial Security Estimate for Nunavut Lease #47H/16-1-2 (H349001-2000-07-126-0001). The reclamation activities described in the document don't specify if the loader will be transported off-site or disposed of on-site. In the direct cost allocation calculation, there is mention of "*transport of demolition material to final disposal location*" without specifying the location. We did not find explicit references to fill application for the ship loader in the September or October EBS models either. Our consultant has suggested the area of fill application for the shiploader would be 5 049 m². Is this value similar to one being used in the EBS worksheets, and if so what entries does it form part of?

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>

Below are two examples of what we are calling “modifications” to the EBS models. We are comparing values for sealift mob/demob and fuel from the two EBS models we received.

From September EBS estimate for 2015 work plan including addendum

Area - QTY Code	Description	Total Cost (\$)	Associated Work Plan
Indirect	Mobilization and Demobilization of Equipment and Materials by Sealift	2,399,000	2014
Indirect	Mobilization and Demobilization of Equipment and Materials by Sealift	79,000	2015
Indirect	Mobilization and Demobilization of Equipment and Materials by Sealift	94,000	2015 A
Indirect	Fuel	3,090,000	2014
Indirect	Fuel	30,000	2015
Indirect	Fuel	21,000	2015 A

From October EBS estimate for 2016 work plan

Area - QTY Code	Description	Total Cost (\$)	Associated Work Plan
Indirect	Mobilization and Demobilization of Equipment and Materials by Sealift	1,527,000	2014
Indirect	Mobilization and Demobilization of Equipment and Materials by Sealift	76,000	2015
Indirect	Mobilization and Demobilization of Equipment and Materials by Sealift	35,000	2015 A
Indirect	Mobilization and Demobilization of Equipment and Materials by Sealift	484,000	2015 R
Indirect	Mobilization and Demobilization of Equipment and Materials by Sealift	58,000	2016
Indirect	Fuel	2,888,000	2014
Indirect	Fuel	30,000	2015
Indirect	Fuel	9,000	2015 A
Indirect	Fuel	203,000	2015 R
Indirect	Fuel	14,000	2016

We are looking to understand why the 2014, 2015 and 2015A values have changed between the September and October models. Our understanding of the reconciliation exercise was that it was a layer over top of the 2014, 2015 and 2015A, so those initial

values would remain unchanged. The combined value for 2014, 2015 and 2015A for sealift mob/demob has gone from \$2.572 M in the September EBS to \$1.638 M in the October EBS. In the case of fuel, it has gone from \$3.141 M to \$2.927 M.

We have noted that Table 2-27 of the 2016 Marginal Closure and Reclamation Financial Security Estimate submitted by Baffinland lists indirect costs that were modified. Were the 2014, 2015 or 2015A EBS values modified for all of these?

We also noted that Table 2-14 of the same document describes modifications to fill application. Were any other direct costs modified instead of removed or added?

Any information you could provide would help us prepare for the upcoming Annual Security Review teleconference.

Regards,

Sarah Forté

Water Management Coordinator

c.c.: Scott Burgess, Mary River Project Manager, AANDC Nunavut
Andrew Keim, Acting Manager of Water Resources, AANDC Nunavut
Karen Costello, Director of Resource Management, AANDC Nunavut
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