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December 18, 2015

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トσΡ⊃Φ® Sanikiluaq Stephanie Autut Executive Director Nunavut Water Board P.O. Box 119 Gjoa Haven, Nunavut XOB 1J0

RE: BAFFINLAND IRON MINES CORPORATION, MARY RIVER PROJECT
(LICENCE NO. 2AM-MRY1325), 2016 ANNUAL SECURITY REVIEW TELECONFERENCE –
QIKIQTANI INUIT ASSOCIATION SPEAKING NOTES

The Qikiqtani Inuit Association (QIA) provides this letter to the Nunavut Water Board (NWB) as evidence for the 2016 Annual Security Review (ASR). This letter summarizes the speaking notes used by the QIA during the 2016 ASR Teleconference held on December 17th, 2015.¹

INTRODUCTION

On December 3rd, 2015, ² the QIA submitted a security estimate for Baffinland Iron Mines Corporation's (BIMC) Mary River Project (Project),³ providing a cover letter and detailed technical submission, in line with the timeline established by the Nunavut Water Board (NWB).⁴

Pursuant to Section 9.2 of the Commercial Production Lease No. Q13C301 (CPL),⁵ as well as, Part C and Schedule C of the Type 'A' Water Licence No. 2AM-MRY1325 (Amendment No. 1), the QIA has completed a review of the 2016 Work Plan⁶ and provided an updated reclamation security estimate. The QIA has determined that \$54,649,000 is the aggregate amount of adjusted

¹ 2016 ASR Teleconference between the NWB, the QIA, ARKTIS, BIMC, Hatch, INAC, and SNC-Lavalin.

² QIA December 3, 2015, letter to BIMC and the NWB titled, "Baffinland Iron Mines Corporation – Mary River Project: (1) Landlord's 2016 Reclamation Security Requirement – QIA Commercial Lease (Q13C301) of IOL and; (2) NWB 2016 Annual Security Review – Water Licence #2 AM-MRY1325 (as amended)."

³ ARKTIS (2015) QIA 2016 Comprehensive Security Estimate. December 2, 2015.

 $^{^4}$ NWB November 9, 2015, upload titled, "151109 2AM-MRY1325 ASR Process Guidance and Timing Updated Version-OSIF"

⁵ QIA and BIMC (2013) Commercial Lease No.: Q13C301. September 6, 2013.

⁶ BIMC (2015) Mary River Project, 2016 Work Plan. October 30, 2015.



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reclamation security to be posted by BIMC, representing a \$7,131,500 increase from the letter of credit for \$47,517,500 currently held by the QIA.⁷

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The QIA's security estimate does not address items under the Type 'B' Exploration Licence No.: 2BE-MRY1421, nor does it address items located on Crown Land (e.g., Shiploader, KM 61 Mobile Maintenance Depot).

Since the filing of submissions on December 3rd, 2015 the proponent has submitted a series of additional pieces of information to parties, including responses to clarification requests posed by both the QIA and Indigenous and Northern Affairs Canada (INAC). While the QIA has reviewed these submissions in general terms, the QIA's calculation of security figures relative to these filings have not been completed prior to the 2016 ASR Teleconference. Instead the QIA has elected to update its calculation of security figures following the 2016 ASR Teleconference such that the most up-to-date and relevant information can be considered and appropriately applied. Consistent with past ASR processes, the QIA commits to providing any/all updated security calculations to the NWB in a manner that clearly demonstrates amendments in a timeframe that respects the NWB's decision making process.

METHODOLOGY

The full details of the methodology used by the QIA to develop the reclamation security estimate can be found in the detailed technical report submitted to the NWB. However, the QIA would like to highlight the following:

- The QIA security estimate was developed in accordance with the QIA's Abandonment and Reclamation (A&R) Policy⁸ and applied the principles outlined in INAC's reclamation policy.⁹
- The estimate primarily utilized BIMC's 2016 Work Plan,⁶ BIMC's 2016 Security Estimate,¹⁰ and information collected during the QIA's 2015 Audit.¹¹

⁷ QIA's November 5, 2015, letter to the NWB titled, "Notice to the Parties NWB Request For Comment on the Timing and Process for the Annual Security Review for 2015-2016 under Part C and Schedule C of Type "A" Water Licence 2AM-MRY1325 Mary River Project."

⁸ QIA (n.d.) Abandonment and Reclamation Policy for Inuit Owned Lands. V. 2.0.

⁹ INAC (2002) Mine Site Reclamation Policy for Nunavut.

¹⁰ Hatch (2015) 2016 Marginal Closure and Reclamation Financial Security Estimate (H349000-1000-07-126-0002)

¹¹ ARKTIS (2015) Baffinland Iron Mines Corporation, Mary River Project, 2015 Audit Report. October 13, 2015.



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- The QIA maintained the same unit costs used during previous security estimates; a full
 description of unit costs can be found in the QIA's 2014 Comprehensive Security
 Estimate.¹²
- The QIA, INAC and BIMC held an in-person meeting on November 20th to discuss next steps and to review certain aspects of INAC's November 2nd, 2015 filing with the NWB.
- The QIA and BIMC held a teleconference on November 30th, 2015, ¹³ in an attempt to narrow the gaps between the two parties' security estimates.
- The QIA's assumptions and approaches used to calculate the 2016 security estimate Error! Bookmark not defined. are consistent with those used for the development of the 2014, 12 2015, 14 and revised 2015 security estimates.
- The QIA has actively reviewed security for the Mary River Project, through environmental audits and work plan reviews since 2008. The 2016 ASR process is an extension of this work.

RESULTS

The collaborative approach between the QIA and BIMC to discuss financial security in 2014 and 2015 has resulted in a narrowing of the gaps between the two parties' security estimates. However, there are a few items within the security estimate where the QIA and BIMC have not reached mutual agreement. These items, listed below, are further discussed in the QIA's report, with section references provided where applicable to QIA's technical submission on December 3rd, 2015:**Error! Bookmark not defined.**

- 1. Inflation (Section 4.5).
- 2. Grade and recontour of abandoned Tote Road alignments; The QIA will give further consideration to the survey data provided by BIMC, ¹⁶ however notes that BIMC has not included a line item for proposed 2016 upgrades to the Tote Road (Section 3.2).
- 3. Grade and recontour of large road cuts along the Tote Road to reduce post-closure health and safety concerns (Section 3.2).

¹² ARKTIS (2014) QIA 2014 Comprehensive Security Estimate. December 12, 2014.

¹³ November 30, 2015, teleconference call between the QIA, ARKTIS, BIMC, and Hatch.

¹⁴ ARKTIS (2014) QIA 2015 Comprehensive Security Estimate. December 5, 2014.

¹⁵ ARKTIS (2015) QIA Revised 2015 Comprehensive Security Estimate. January 13, 2015.

¹⁶ BIMC's December 13, 2015, IGLU upload to the QIA titled, "Tote Road_Orphaned Roads_20151201 (2)."



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- 4. Grade and recontour of unidentified disturbed areas along the Tote Road, including high priority areas (Section 3.2.1).
- 5. Grade and recontour of D1Q1 (Section 3.2).
- 6. Excavation and transportation of contaminated soil to the landfarm prior to treatment (Section 3.7).
- 7. Demobilization of 3rd Party equipment onsite at the time of closure (Section 4.1).

With respect to ammonium nitrate and explosives (Section 4.3), QIA will adopt the updated quantities provided by BIMC on December 13th, 2015.¹⁷ The QIA will also further consider BIMC's change of unit costs for ammonium nitrate, from offsite disposal of explosives to offsite disposal of hazardous materials. Changes to the QIA's security estimate relative to these two items will be reflected in an updated security calculation filed as part of the 2016 ASR.

At this time the QIA has adopted BIMC's Mobile and Mechanical Equipment SAP Lists as the full list of equipment on site, and BIMC's classification of light, medium, and heavy mobile and mechanical equipment (Sections 3.5 and 3.6). The SAP Lists have yet to be fully verified against the classifications used previously by the QIA, however this is an activity that will be completed for future security estimates.

The QIA has adopted BIMC's reclamation cost for Short Term Care & Maintenance, Closure Monitoring & Reporting as a place holder for the time being (Section 4.4). The QIA will review the reclamation cost associated with this item after full acceptance of the Interim Closure and Reclamation Plan (ICRP). Under the CPL, BIMC requires the QIA's approval of the ICRP; to-date BIMC has only received a conditional approval for this plan.

The QIA notes that some of the difference between the QIA's and BIMC's security estimates can be attributed to differences carried over from the parties' 2015 Work Plan Addendum security estimates.

The QIA reviewed INAC's 2016 security estimate, ¹⁹ submitted to the NWB on December 3rd, 2015. The QIA requests clarification from INAC on the following items:

 $^{^{17}}$ BIMC's December 13, 2015, email to the QIA titled, "Baffinland Iron Mines Corporation - Supplementary Information."

¹⁸ QIA's October 23, 2015, letter to BIMC titled, "Baffinland Iron Mines Corporation's Interim Mine Closure and Reclamation Plan – Conditional Approval."

¹⁹ SNC-Lavalin Inc. (2015) Licence No. 2AM-MRY1325, Mary River Project: Annual Security Review under Part C and Schedule C of the Type 'A' Water Licence – FINAL. December 2, 2015.



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- 1. Has INAC considered the QIA's A&R Policy in development of their security estimate?
- 2. Was the development of the INAC security estimate consistent with other projects?
- 3. The unit costs used in the INAC security estimate appear to be the same as those derived by BIMC in 2014.
 - a. Has INAC applied any RECLAIM unit costs?
 - b. Has INAC considered using the unit costs derived by the QIA in 2014?
- 4. The unit costs used by INAC were not derived in 2015, however INAC has not applied an inflation adjustment, stating that it is insignificant relative to the applied contingency of 15%.²⁰ The QIA notes that inflation between October 2014 and October 2015 for Nunavut is 2.7%.²¹
- 5. INAC has attributed 7% of the reclamation costs for culvert removal, and grading and recontouring along the Tote Road to Crown liability. Is the section of Tote Road on Crown Land representative of the full length of the Tote Road in terms of number and size of culverts, bridges, borrows, and realignments?
- 6. INAC's reasoning for selecting 0% for indirect costs associated with health and safety, and QA/QC.
- 7. INAC's reasoning for selecting 2% for indirect costs associated with bonding and insurance.
- 8. INAC questioned BIMC's plans for landfilling the shiploader.²² BIMC responded,²³ stating the shiploader (and all buildings on Crown Land¹³) were not to be landfilled on Inuit Owned Land (IOL), but on Crown Land. In addition to the proposed size and location of the shiploader landfill, has INAC considered the haul distance from the ore dock to Crown Land in the security estimate?

RECOMMENDATIONS

The reclamation security held by the QIA under the CPL is recommended to be increased by \$7,131,500, from the amount currently held of \$47,517,500, to an aggregate reclamation security of \$54,649,000.

²⁰ INAC December 15, 2015, email to the QIA titled, "Question on Security Assessment."

²¹ Statistics Canada (2015) The Consumer Price Index (62-001-X). Vol. 94, No. 10. November 20, 2015.

²² INAC's December 14, 2015, letter to BIMC titled, "Further Clarification requested following Baffinland Iron Mines Corporation's comments on the Annual Security Review for Water Licence #2AM-MRY1325."

²³ BIMC's December 15, 2015, email to INAC titled, "Mary River Project Annual Security Review - Clarifications requested to the December 9th response."



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∧≻ና∩ና*ጋና ຼຼຼລ⊂້ອ່ Þdσ℃ Serving the communities of The QIA looks forward to reviewing its determination with BIMC, following the December 17th, 2015 ASR teleconference. As per Section 9, Item (e) of the CPL, a determination of the required amount of reclamation security to be held pursuant to the CPL is required for the upcoming year by no later than January 31st, 2016.

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Please do not hesitate to contact the undersigned should you require any further information.

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