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December 2, 2016

Todd Burlingame
Vice-President, Sustainable
Development
Baffinland Iron Mines Corporation
2275 Upper Middle Road East, Suite
300 Oakville, Ontario L6H 0C3

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

RE: Baffinland Iron Mines Corporation – Mary River Project: (1) Landlord’s 2017 Reclamation Security Requirement – QIA Commercial Lease (Q13C301) of IOL and; (2) NWB 2017 Annual Security Review – Water Licence #2 AM-MRY1325 (as amended)

Pursuant to Section 9 of QIA-BIMC Commercial Production Lease Q13C301 dated September 6, 2013 (the “Commercial Lease”), QIA, as Landlord, has reviewed the 2017 BIMC Work Plan and estimate of Reclamation Security and determined that \$56,317,000 is the aggregate amount of adjusted Reclamation Security to be posted by BIMC, as Tenant, for 2017 pursuant to the Commercial Lease. This amount represents an increase of \$2,203,000 from the revised 2016 estimate.

Pursuant to the Commercial Lease, BIMC is required to post the additional security described above by January 31, 2017 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).

In furtherance of the Annual Security Review (“ASR”) conducted by the Nunavut Water Board (NWB) for the existing Type “A” Licence No. 2AM-MRY1325 (as amended by Amendment No.1), QIA also submits this letter and all attachments as its submission to NWB for the NWB 2017 ASR for consideration in determining the required Licence security.

QIA’s determination is based on the attached **QIA 2017 Comprehensive Security Estimate** prepared by Arktis Solutions Inc. for QIA (the “2017 Comprehensive Security Estimate”). The 2017 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.

The 2017 Comprehensive Security Estimate should be understood as updating the QIA security assessment last presented to the NWB during the 2016 ASR process. In addition to a review of the 2017 Work Plan supplied by the proponent, the 2017 Comprehensive



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communities of

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Security Estimate also includes findings derived during QIA's 2016 Environmental Inspections, performed in June and August 2016, and the September 2016 Audit. Therefore, the *2017 Comprehensive Security Estimate* should be understood as being the most up-to-date security estimate.

Consistent the 2017 ASR process, QIA will participate in teleconferences, that said QIA does not evaluate liability on behalf of other landowners, nor does QIA intend to take a position on whether the amount of security held by other parties is adequate to fulfill their interests. However, QIA will provide the NWB with any additional evidence related to the amount of security to be posted with QIA in relation to the 2017 Work Plan.

Finally, as noted in the 2017 Comprehensive Security Estimate a high degree of uncertainty exists in the 2017 Work Plan in regard to the Tote Road. When the Tote Road work for 2017 has been finalized and presented (anticipated February 2017) QIA anticipates an update to financial security will be needed to account for changes in the plan as these project modifications have the potential to result in significant changes to financial security. QIA is raising this now such that the NWB can give consideration for how to address a future submission from Baffinland following the conclusion of the 2017 ASR Process.

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,

SWB

Stephen Williamson Bathory,
Director, Major Projects

Attachments - 2017 Comprehensive Security Estimate

CC - Karen Costello, Indigenous and Northern Affairs Canada