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December 9, 2016

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

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RE: BAFFINLAND IRON MINES CORPORATION, MARY RIVER PROJECT (LICENCE NO. 2AM-MRY1325), 2017 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 2017 ASR Teleconference held on December 9. 2016.¹

INTRODUCTION

Pursuant to Section 9.2 of the Commercial Production Lease No. Q13C301 (CPL),² 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 Baffinland Iron Mines Corporation's (BIMC) 2017 Work Plan³ and security estimate; and commissioned ARKTIS Solutions Inc. to complete an analysis of the reclamation security estimate for activities occurring on Inuit Owned Lands.

On December 2, 2016, the QIA submitted its security estimate jointly to BIMC and NWB.⁴ Based on further correspondence with BIMC occurring after the December 2 filing deadline, QIA updated its security estimate and submitted an addendum on December 5, 2016.⁵

¹ 2017 ASR Teleconference between the NWB, the QIA, and BIMC to be held December 9, 2016.

² QIA and BIMC (2013) Commercial Lease No.: Q13C301. September 6, 2013.

³ BIMC (2016) Mary River Project, 2017 Work Plan. November 4, 2016.

⁴ NWB November 9, 2015, upload titled, "161101 2AM-MRY1325 -Revised ASR Process Schedule OEDE.pdf".

⁵ ARKTIS (2016) QIA 2017 Comprehensive Security Estimate Addendum. December 5, 2016.



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The QIA has estimated an aggregate amount of reclamation security of \$56,085,000 for 2017. This is an increase of \$7,239,500 from the current letter of credit of \$48,845,500 held by the QIA.⁶

Regarding this increase, the following items are important to note:

- 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).
- Without adjusting for inflation, the 2017 marginal security increases estimated by QIA and BIMC are similar. The 2017 total aggregate security between the two parties differ by \$8,013,000 and is primarily a result of differences in the security assessed prior to the 2017 Work Plan.

There is very close agreement between QIA and BIMC on incremental security for 2017. Furthermore, additional adjustments to the security estimate immediately following the 2017 ASR Teleconference will not be necessary, unless new information comes to light during or immediately following this teleconference.

QIA notes that financial security will be reexamined upon BIMC's submittal of the forthcoming Tote Road Earthworks Execution Plan, anticipated in the first quarter of 2017, as well as the 2016 satellite imagery of the Tote Road area. Additionally, in 2017 BIMC is to submit design drawings for the cross conveyor, ore stockpile extension, and crusher pad extension. The adequacy of security for these items will need to be verified.

Based upon these outstanding items, QIA reexamination of security within the 2017 calendar year will occur prior to the anticipated 2018 NWB ASR process. This is a result of work proposed by BIMC in 2017 for which QIA does not currently have sufficient information available to evaluate the associated relationship to reclamation security. 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 respecting 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:

 $^{^{6}}$ QIA BIMC (2016) Joint Submission to the Nunavut Water Board. January 11, 2016



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- The QIA security estimate was developed in accordance with the QIA's Abandonment and Reclamation (A&R) Policy⁷ and applied the principles outlined in INAC's reclamation policy.⁸
- The estimate primarily utilized BIMC's 2017 Work Plan, BIMC's 2017 Security Estimate, and information collected during the QIA's 2016 Audit and Inspections.⁹
- 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.¹⁰
- The QIA and BIMC have made attempts to narrow the gaps between the two parties' security estimates, as outlined in the Path Forward on High Uncertainty Items.¹¹
- The QIA's assumptions and approaches used to calculate the 2017 security estimate are consistent with those used for the development of the 2014 through 2016 10,12, 13,14 security estimates.
- Since 2008 the QIA has actively reviewed security for the Mary River Project through environmental audits and work plan reviews. The 2017 ASR process is an extension of this work.

Outstanding Items

The collaborative approach between the QIA and BIMC to discuss financial security in 2014, 2015, and 2016 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, including:

⁷ QIA (n.d.) Abandonment and Reclamation Policy for Inuit Owned Lands. V. 2.0.

⁸ INAC (2002) Mine Site Reclamation Policy for Nunavut.

⁹ ARKTIS (2016) Baffinland Iron Mines Corporation, Mary River Project, September 2016 Audit.

¹⁰ ARKTIS (2014) QIA 2014 Comprehensive Security Estimate. December 12, 2014.

 $^{^{11}}$ HATCH, BIMC (2016) Mary River Financial Security Estimate - Preliminary Path Forward on Items with High Uncertainty. October 27, 2016

 $^{^{\}rm 12}$ ARKTIS (2014) QIA 2015 Comprehensive Security Estimate. December 5, 2014.

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

¹⁴ ARKTIS (2015) QIA 2016 Comprehensive Security Estimate. December 2, 2016.



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- Inflation (Section 4.6 of QIA's technical submission on December 2, 2016¹⁵) is one
 of the largest unresolved issues.
- A significant portion of the remaining difference in financial security is carried forward from previous years.
- Disturbed areas to be regraded and recontoured along the Tote Road corridor, being an important contributor to that difference, will hopefully be partially resolved in 2017 upon examination of the recently acquired 2016 satellite imagery of the Tote Road.

BIMC's classification of light, medium, and heavy mobile has been discussed and agreement of classifications reached.¹¹ The mechanical equipment SAP List has 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 had previously adopted BIMC's reclamation cost for Short Term Care & Maintenance, Closure Monitoring & Reporting as a placeholder for the time being. The QIA will review the reclamation cost associated with this item after QIA approval of the Interim Closure and Reclamation Plan (ICRP). ¹⁶ Under the CPL, BIMC requires the QIA's approval of the ICRP; to date BIMC has only received a conditional approval for this plan.

Similar to previous years' security estimates, there still remains a difference of opinion on the demobilization of 3rd Party equipment onsite at the time of closure. However, agreement on the makeup of a typical third party fleet has narrowed the difference in financial security.¹¹

The QIA reviewed INAC's 2017 security estimate, ¹⁷ submitted to the NWB on December 2, 2016. The QIA requests clarification from INAC on the following items:

- 1. Has INAC considered the QIA's A&R Policy in development of their security estimate and QIA's unit costs?
- 2. INAC provided limited details regarding the security associated with the shiploader, stating this security is held under a land lease. How is waste derived from the reclamation managed is it assumed to be disposed of on IOL or Crown Land? If

 $^{^{15}}$ ARKTIS (2016) QIA 2017 Comprehensive Security Estimate. December 2, 2016.

¹⁶ QIA's October 23, 2015, letter to BIMC titled, "Baffinland Iron Mines Corporation's Interim Mine Closure and Reclamation Plan – Conditional Approval."

¹⁷ 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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Crown Land, how has INAC accounted for the haul distance to a proposed landfill and access across IOL?

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RECOMMENDATIONS

The reclamation security held by the QIA under the CPL is recommended to be increased by \$7,239,500, from the amount currently held of \$48,845,500, to an aggregate reclamation security of \$56,085,000.

The QIA looks forward to reviewing its determination with BIMC, following the December 9, 2016 ASR Teleconference. QIA acknowledges, as per the revised schedule for the ASR process that parties are to file revisions or addendums to written submissions based upon ASR Meetings with the NWB by December 16, 2016 and a determination of the required amount of reclamation security to be held pursuant to the CPL is expected for the upcoming year by January 16, 2017.

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

Sincerely,

Stephen Williamson Bathory

Director, Department of Major Projects