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December 12, 2016

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۲۰۹۵ کو ۹ Sanikiluaq Mr. Todd Burlingame Vice President, Sustainable Development and Environment Baffinland Iron Mines Corporation (BIMC) 2275 Upper Middle Road East, Suite 300 Oakville, ON L6H 0C3

RE: Financial Security Assessment, Inflation, and, Joint Submission to the NWB

Mr. Todd Burlingame,

The Qikiqtani Inuit Association (QIA) submits this letter to Baffinland Iron Mines Corporation (BIMC) in response NWB's request to discussion held during the 2017 Annual Security Review (ASR) teleconference held on December 9th, 2016. Specifically, QIA is raising its position relative the reasonableness of applying inflation in the context of security assessments, and, relative to the NWB's request on the status of a joint submission under the 2017 ASR.

Security assessments are one of the areas where our organizations have demonstrated the ability to collaborate, assess facts and come to mutual determinations of final security values.

Following QIA's presentation of its 2017 Security Assessment, BIMC representatives questioned QIA upon the application of inflation as a means of addressing unit rates jointly developed and assessed during the 2014 security baseline exercise. Also raised during the call was whether or not a "joint statement" was anticipated as part of the 2017 ASR process, whereby the Nunavut Water Board (NWB) requested an indication as to whether a document would be filed by December 16th, 2016. Each of these subjects is described below.

Inflation

QIA submits it is not reasonable or practicable to assess alternatives to the application of inflation at this point in time. Opportunities to reassess the application of inflation occurred during the following periods;

- 1. Following BIMC receipt of QIA's letter to BIMC on financial security assessments¹
 - a. This letter suggested that the topic of inflation could be scheduled for examination as part of the 2016 Environmental Audit.
- 2. In advance of, during, or as follow-up to QIA's 2016 Environmental Audit

¹ Letter from QIA (Williamson Bathory) to BIMC (Burlingame), *Baffinland Iron Mines Corporation's Letter of May 31st*, *2016*. Issued June 8th 2016.



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- a. During the Environmental Audit, QIA (through discussions of its contractors) confirmed the basis of QIA's position on inflation adjustments.
- 3. During finalization of the "Areas of High Uncertainty Memorandum"
 - a. DRAFT "Areas of High Uncertainty Memorandum". Distributed by Hatch to Arktis Solutions, September 19th, 2016.
 - b. FINAL "Areas of High Uncertainty Memorandum". Distributed by Hatch to BIMC and QIA. October 27th, 2016.²
- 4. As a subject matter presented by BIMC for consideration within the 2017 Work Plan³
- 5. Following submission of QIA's 2016 Financial Security Assessment⁴
 - a. Submission is in fulfillment of Section 9.2 (d) of Commercial Lease (Q13C301)

QIA notes that none of the foregoing opportunities were utilized to initiate discussions with QIA upon the application of inflation, or alternatives.

QIA submits that the occasion to conduct such a review is not during the final stage of the process established under the Commercial Lease, or, under the type-A water licence (2AM-MRY1325, Amendment No.1).

QIA is willing to engage with BIMC on a review and consideration of subjects that influence financial security assessments, including inflation, following the completion of the 2017 Work Plan security posting.

Joint Submission

During the ASR teleconference, the NWB communicated a deadline of December 16th, 2016 as the date upon which an indication should be provided as to whether BIMC and QIA intend to supply a joint submission to the NWB. The NWB set an ultimate deadline of January 2nd as a date when a joint submission must be received.

Under the 2015 and 2016 ASR BIMC and QIA supplied the NWB with joint submissions. ^{5 6}

² Memorandum, Mary River Financial Security Estimate - Preliminary Path Forward on Items with High Uncertainty. Distributed from Hatch to BIMC and QIA. October 27th, 2016.

³ Bafffinland 2017 Work Plan. November 4th, 2016.

⁴ QIA 2017 Comprehensive Security Assessment. November 30th, 2016.

⁵ BIMC-QIA Joint Submission to NWB. Issued to NWB on January 11, 2016.

⁶ BIMC-QIA Joint Submission to NWB. Issued to NWB on January 22, 2015.



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トーΡ → △% Sanikiluaq To date QIA has not received an indication from BIMC as to whether there is an intention to develop a joint submission. Notwithstanding that QIA offices will be closed during the Christmas season, QIA remains available to discuss a joint submission to the NWB.

In the event a joint statement is not agreed upon, QIA refers BIMC to Section 9.2 (e) of Commercial Lease (Q13C301) which states:

"The Tenant shall adjust the amount of the Reclamation Security so that it equals the estimate of reasonable anticipated closure and reclamation costs for the Property at the end of the Year. The adjustment shall be made and the additional security shall be posted by January 31 unless before that date the Tenant disputes the amount and refers the matter to arbitration under Section 9.13, in which case the adjustment shall be made and the additional security shall be posted within 30 days after either the amount is agreed by the Landlord and the Tenant or the amount is determined by arbitration."

If a joint statement is not possible, QIA will pursue its rights under the foregoing provisions of the Commercial Lease. We understand BIMC may proceed to arbitration if it disputes the amount determined by QIA under its review of the 2017 Work Plan.

Please do not hesitate to contact the undersigned should you have any questions.

Sincerely,

SWB

Stephen Williamson Bathory
Director, Department of Major Projects

CC: Ms. Stephanie Autut, Executive Director, Nunavut Water Board