



Mr. Stephen Williamson Bathory
Qikiqtani Inuit Association
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Re: QIA Letter regarding Financial Security Assessment, Inflation, and, Joint Submission to the NWB (December 12, 2016)

In response to the QIA letter regarding "Financial Security Assessment, Inflation, and, Joint Submission to the NWB (December 12, 2017)", Baffinland disagrees with the position that inflation should be applied to the results of the 2017 Annual Security Review (ASR) estimate. We have provided additional information to substantiate the position that we expressed during the 2017/18 Annual Security Review Teleconference on December 9, 2016, hosted by the Nunavut Water Board (NWB) in response to questions raised by the Qikiqtani Inuit Association (QIA) and Indigenous and Northern Affairs Canada (INAC).

The purpose of financial security and the ASR process is to ensure that the respective landowners have sufficient bonding in place that, in event Baffinland was not able to meet its reclamation objectives, a 3rd Party Contractor is able to perform the work in a 'worst-case' scenario for the upcoming year. It is not a form of rent or compensation. It is Baffinland's position that, even without the application of inflation to the security estimate for 2017, this intent and responsibility has still been met. The unit rates that were used to develop the security estimate have not risen since 2014, but rather they have decreased and the security estimate is now at historically conservative total amount.

The unit rates for the direct reclamation activities are built up based on the amount of equipment hours, person-hours, and fuel consumed per functional unit of a project component. Based on Baffinland's most recent analysis, each of these factors have actually reduced since unit rates were developed based on these costs in 2014. As shown in Table 1 below, labour and equipment rates have decreased since 2014 by 9.33% and 20.49%, respectively. Fuel rates have lowered by 16.49% since 2014. These amounts are based on analysis of project specific quotes or invoices provided to Baffinland by three (3) major contractors in August 2016 on contract values from \$10M to \$15M. Original bid documents and invoices can be provided under confidential cover if necessary and further detail is available in Table B of Attachment 1.

Table 1: Summary of Changes to Key Costs in Security Estimate Since 2014

Type	Rate Adopted in Security Estimate	Contractor 'A' Blended Rate	Contractor 'B' Blended Rate	Contractor 'C' Blended Rate	Average Blended Rate	Fuel Rate (2016)	% Change from Rate Adopted
Blended Labour Rate	\$ 100.00	\$86.56	\$97.64	\$87.80	\$90.67	-	-9.33%
Blended Equipment Rate	\$150.00	\$114.28	\$137.54	\$105.96	\$119.26	-	-20.49%
Fuel Rate	\$0.97	-	-	-	-	\$0.81	-16.49%

Based on the reductions outlined above, and the fact unit rates used in the estimate are a built up based on project specific costs for labor, equipment and fuel, Baffinland maintains that unit rates, prior to the application of inflation, are representative for the purpose of 2017, if not overly conservative and QIA's interest and responsibility in ensuring sufficient bonding is in place is being met.

In an effort to maintain the momentum gained between the QIA and Baffinland in respect to security estimates and based on the understanding that recalculating unit costs would be done mutually and when only deemed warranted, Baffinland has not chosen to seek a reduction in unit rates for the purpose of the 2017 ASR process. Prior to 2017 ASR teleconference on December 9, 2016, QIA had not previously explicitly indicated its intention to apply inflation to the 2017 ASR reclamation security estimate and had not sought to reach agreement on the issue prior to the meeting. Baffinland does not believe that the manner in which the issue of including inflation into the ASR process is in the spirit of completing the ASR process collaboratively.

Baffinland remains fully committed to developing a joint submission with the QIA for the purpose of the 2017 ASR under the on-going and agreed to Nunavut Water Board (NWB) process. Baffinland maintains that the unit rates established in 2014 are representative for 2017, if not overly conservative and no analysis has been provided to date by QIA suggesting otherwise. In the event that QIA feels that the application of inflation is still warranted for the purpose of the 2017 ASR even in light of the information provided here, Baffinland would submit that a recalculation of the unit costs would be a more accurate representation of financial security required for the upcoming year and would seek a recalculation of unit rates exercise in order to avoid over-bonding.

We look forward to discussing this issue further with QIA in an effort to develop a joint submission with the QIA for the purpose of the 2017 ASR process.

Regards,



Wayne McPhee
Director, Sustainable Development

cc. Todd Burlingame, Vice President, Sustainable Development, Baffinland
Stephanie Autut, Executive Director, Nunavut Water Board
Karen Costello, Director, Resource Management, Indigenous and Northern Affairs
Canada

Attachment 1: Supporting Tables

Table A: Contractor Summary of Cost Changes Since 2014

Type	Rate Adopted in Security Estimate	Contractor 'A': Blended Rate	Contractor 'B': Blended Rate	Contractor 'C': Blended Rate	Average Blended Rate
Blended Labour Rate	\$100.00	\$86.56	\$ 97.64	\$87.80	\$90.67
\$ Change vs. Rate Adopted	\$-	-\$13.44	-\$2.36	-\$12.20	-\$9.33
% Change vs. Rate Adopted	0.00%	-13.44%	-2.36%	-12.20%	-9.33%
Blended Equipment Rate	\$150.00	\$ 114.28	\$137.54	\$105.96	\$119.26
\$ Change vs. Rate Adopted	\$-	-\$35.72	-\$12.46	-\$44.04	-\$30.74
% Change vs. Rate Adopted	0.00%	-23.81%	-8.31%	-29.36%	-20.49%

Table B: 2016 Contractor Rate Comparison (from August 2016)

Ref	Cost Type ¹	Unit of Measure	Contractor 'A'	Contractor 'B'	Contractor 'C'	Average Rate
1.1	LABOUR RATES					
1.1.1	Project Manager	\$ / hour	\$145.00	-	\$118.30	\$131.65
1.1.2	Site Superintendent	\$ / hour	\$148.00	\$165.94	\$167.69	\$160.54
1.1.3	Construction Engineer	\$ / hour	\$99.00	-	\$82.56	\$90.78
1.1.4	Site Foreman	\$ / hour	\$102.00	-	\$95.38	\$98.69
1.1.5	Site Administrator	\$ / hour	\$70.00	-	\$82.12	\$76.06
1.1.6	Surveyor	\$ / hour	\$105.00	-	\$105.85	\$105.43
1.1.7	Safety Coordinator	\$ / hour	\$105.00	-	-	\$105.00
1.1.8	Loader Operator (988 or larger)	\$ / hour	\$71.50	\$81.93	\$70.07	\$74.50
1.1.9	Loader Operator (< 988)	\$ / hour	\$68.20	\$81.93	\$70.07	\$73.40
1.1.10	Dozer Operator	\$ / hour	\$68.20	\$88.61	\$70.07	\$75.63
1.1.11	Excavator Operator	\$ / hour	\$69.00	\$105.80	\$75.08	\$83.29

Ref	Cost Type ¹	Unit of Measure	Contractor 'A'	Contractor 'B'	Contractor 'C'	Average Rate
1.1.12	Haul Truck Operator	\$ / hour	\$60.00	\$81.93	\$70.07	\$70.67
1.1.13	Truck Operator	\$ / hour	\$62.50	\$81.93	\$70.07	\$71.50
1.1.14	Crusher Operator	\$ / hour	\$78.50	\$78.83	-	\$78.67
1.1.15	Packer Operator	\$ / hour	\$60.00	\$78.83	\$70.07	\$69.63
1.1.16	Labourer	\$ / hour	\$60.00	\$80.81	\$70.07	\$70.29
1.1.17	Mechanic	\$ / hour	\$95.00	\$105.84	-	\$100.42
1.1.18	Welder	\$ / hour	\$88.00	-	\$99.58	\$93.79
1.1.19	Serviceman	\$ / hour	\$71.50			\$71.50
1.1.20	Drill Supervisor	\$ / hour	\$104.50	\$119.77	-	\$112.14
1.1.21	Blaster	\$ / hour	\$85.80	\$107.39	-	\$96.60
1.1.22	Driller	\$ / hour	\$75.90	\$107.39	-	\$91.65
1.1.23	Drill Helper	\$ / hour	\$63.80	-	-	\$63.80
1.1.24	Drill Mechanic	\$ / hour	\$121.00	-	-	\$121.00
BLENDED LABOUR RATES		\$ / hour	\$86.56	\$97.64	\$87.80	\$90.67
1.2	EQUIPMENT RATES					
1.2.1	980 / 988 Loader	\$ / hour	\$225.00	\$164.65	\$211.00	\$200.22
1.2.2	930 / 938 Loader	\$ / hour	\$75.00	\$94.54	-	\$84.77
1.2.3	D8 Dozer	\$ / hour	\$190.00	\$190.34	\$198.00	\$192.78
1.2.4	345 / 349 Excavator	\$ / hour	\$195.00	\$246.72	\$140.00	\$193.91
1.2.5	745 / 773 Haul Truck	\$ / hour	\$185.00	\$216.86	\$165.00	\$188.95
1.2.6	563CS Packer	\$ / hour	\$75.00	\$70.07	\$60.00	\$68.36
1.2.7	Skid Steer	\$ / hour	\$55.00	-	-	\$55.00
1.2.10	Bus*	\$ / hour	\$15.83	\$33.59	-	\$24.71

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Ref	Cost Type ¹	Unit of Measure	Contractor 'A'	Contractor 'B'	Contractor 'C'	Average Rate
1.2.11	Pick Up Truck*	\$ / hour	\$13.33	\$24.63	\$11.67	\$16.54
1.2.12	Mechanics Truck	\$ / hour	\$40.00	\$66.00	\$18.49	\$41.50
1.2.13	Fuel Truck	\$ / hour	\$80.00	\$133.97	\$20.08	\$78.02
1.2.14	Winch Tractor c/w Trailer	\$ / hour	\$150.27	-	-	\$150.27
1.2.15	Water Truck	\$ / hour	\$75.00	\$78.32	\$13.40	\$55.57
1.2.16	Drill	\$ / hour	\$225.50	\$330.75	\$222.00	\$259.42
BLENDED EQUIPMENT RATES		\$ / hour	\$114.28	\$137.54	\$105.96	\$119.26

¹ Contractors provided hourly / daily / weekly / monthly rates, as applicable, for all labour (blended rate) and equipment (operating rate) required to execute the Work.

*Monthly rates provided only - assumed 30 rental days per month, 10 works hours/day for purpose of establishing hourly rate