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and

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RE: Baffinland Iron Mines Corporation – Mary River Project: (1) Landlord’s 2018 Reclamation Security Requirement – QIA Commercial Lease (Q13C301) of IOL and; (2) NWB 2018 Annual Security Review – Water Licence #2 AM-MRY1325 (as amended)

Pursuant to Section 9 of QIA-Baffinland Commercial Production Lease Q13C301¹ dated September 6, 2013 (the “Commercial Lease”), QIA, as Landlord, has reviewed 2018 Work Plans^{2,3} and 2018 Marginal Closure Cost Report⁴ and **determined that \$91.05M is the aggregate amount of adjusted Reclamation Security to be posted by Baffinland**, as Tenant, for 2018 pursuant to the Commercial Lease. This amount represents an increase of \$29.40M from the 2017 estimate, and includes the application of inflation. Inflation was applied due to Baffinland's failure to meet Condition 3 of QIA's December 21, 2016⁵ letter titled: Financial Security Assessment, Application of Inflation, and Joint Submission to the NWB.

Due to delays in Baffinland's submissions ^{2, 4}, QIA and the Nunavut Water Board (NWB) have agreed, for this year only, that the additional security described above should be posted by April 9, 2018. Before this date, Baffinland may dispute the amount and refer 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 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 2018 ASR for consideration in determining the required Licence security.

QIA's determination is based on the attached report prepared by Arktis Solutions Inc. for QIA (the "2018 Security Estimate"). The 2018 Security Estimate is based upon the Landlord's Abandonment and Reclamation Policy⁶ ("A&R Policy") for use with reclamation activities on Inuit Owned Lands ("IOL") and is an extension of previous project specific QIA security assessments.

¹ QIA and Baffinland (2013). Commercial Lease No. Q13C301. September 6, 2013.

² Baffinland (2017). 2018 Work Plan. November 11, 2017.

³ Baffinland (2018). 20180110 BIM 2018 Work Plan Rev1 Signed.pdf. January 16, 2018.

⁴ Baffinland (2017). 2018 Marginal Closure Cost Report. November 22, 2017.

⁵ QIA (2016) Financial Security Assessment, Application of Inflation, and, Joint Submission to the NWB. December 21, 2016.

⁶ QIA (n.d.) Abandonment and Reclamation Policy for Inuit Owned Lands. V. 2.0.



The *2018 Security Estimate* should be understood as updating the QIA security assessment last presented to the NWB during the security process for the 2017 Work Plan addendum. In addition to a review of the 2018 Work Plan supplied by the proponent, the *2018 Security Estimate* also includes findings derived during QIA's 2017 Environmental Inspections, performed in June and August 2017, and the September 2017 Audit. Therefore, the *2018 Security Estimate* should be understood as being the most up-to-date security estimate.

Consistent with past ASR processes, QIA will participate in teleconferences as scheduled by the NWB. 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 208 Work Plan.

QIA looks forward to reviewing its determination with Baffinland pursuant to the Commercial Lease, and with interested parties for purposes of the ASR conducted by NWB. In this regard, QIA acknowledges should Baffinland provide greater insight regarding certain assumptions further adjustments could result. As such, QIA has the following questions that will help provide a more accurate security estimate and reduce uncertainty for all reviewers. QIA requests that responses to these questions are provide on or before February 9th, 2018 to facilitate QIA's review and consideration of this information.

1. Can Baffinland confirm that office/washcars/changerooms require a contaminated reclamation? If Baffinland disagrees, evidence is required to illustrate that office/washcars/changerooms do not require a contaminated reclamation.
2. Why has Baffinland excluded additional contaminated soil remediation in the 2018 submission?
3. How has Baffinland calculated their percentages of total direct costs? There is a discrepancy in percentages of Direct Cost security amounts for Mobilization and Demobilization (10% - \$573,000), Project Management (9.4% - \$1,206,000), Engineering Fees (3.9% - \$500,000), and Contingency (12.5% - \$1,798,000).
4. Can Baffinland provide the details of their analysis on how they determined their lump sum reclamation fuel costs?
5. How has Baffinland incorporated indirect costs for security reconciliation that has occurred?

Should you have any comments or concerns, please contact the undersigned.

Regards,

SWB

Stephen Williamson Bathory

Director, Department of Major Projects

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 Pond Inlet

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