



9 February 2018

Stephen Williamson Bathory
Director of Major Projects
Qikiqtani Inuit Association
P.O. Box 1340
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**Re: Response QIA 2018 Marginal Security Estimate
2018 Annual Security Review**

Baffinland Iron Mines Corporation (Baffinland) provides the following letter to Qikiqtani Inuit Association (QIA), in regards to the 2018 Annual Security Review (ASR) for the Mary River Project (the Project) Type A Water Licence No. 2AM-MRY1325 (as amended), and the letter received from QIA on 2 February 2018 detailing their review of the 2018 Work Plan (Rev. 1) and the 2018 Marginal Closure Cost Report (Rev. 1) prepared by Baffinland.

The following information and clarification requests were included in the 2 February 2018 QIA letter. Baffinland has attempted to address these questions succinctly, however further discussion on some of these items may be warranted in preparation of a joint submission between QIA and Baffinland to the NWB with a joint recommendation for the mutually agreed upon marginal security increase required for 2018.

- 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.**

Baffinland agrees that office/washcars/changerooms may be classified as contaminated buildings. The unit rate applied for Modular Buildings (Contaminated) by Baffinland is \$143.42. This adjustment results in an increase to the total direct costs for 'Buildings and Foundations' of approximately \$205,000.

- 2. Why has Baffinland excluded additional contaminated soil remediation in the 2018 submission?**

The current allocation held for contaminated soil remediation in the global estimate is \$239,000, based on a volume of 16,164 m³ at a unit rate of \$14.78, as detailed in the 2014 and 2016 *Marginal Reclamation and Closure Security Estimates* prepared by Baffinland. As the total current volume of contaminated soil¹ at the Mary River project (10,396 m³) is less than the total volume allocated, the value of security currently held for this item is deemed sufficient and therefore additional

¹ BIM (2018) 2017-Q4 Waste Report, 2017 Landfarm and Landfill Summary. 31 January 2018

allocation for contaminated soil is excluded from the 2018 *Marginal Reclamation and Closure Security Estimate* (Rev. 1).

- 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).**

The discrepancy in the calculated values for indirect percentages (Demobilization, Project Management, Engineering Fees and Contingency) are due to the difference in total direct costs utilized to calculate these values. Baffinland considered the 'Demobilization Allocation for Expansion Project Equipment and Materials' as a direct cost, as outlined in the 2018 *Marginal Reclamation and Closure Security Estimate* (Rev. 1), with the provision that the 10% allocation for Demobilization was accounted for within the estimate and therefore not included in the indirect cost. The following calculation summary is provided to clarify Baffinland's calculation of indirect costs.

Engineering Fees:

2018 Direct Costs (\$12,827,316) x 3.9% = \$500,000

Mobilization & Demobilization:

2018 Direct Costs less Expansion Project Equipment (\$12,827,316 - \$7,100,000) x 10% = \$573,000

Project Management:

2018 Direct Cost + Contaminated Soil + Post Closure Monitoring (\$12,827,316 + \$0 + \$0) x 9.4% = \$1,205,767.69

Contingency

2018 Direct Cost + Contaminated Soil + Post Closure Monitoring + Worker Accommodation and Camp Ops + Worker Mobilization/Demob + Post Closure Monitoring (\$12,827,316 + \$0 + \$0 + \$719,000 + \$263,000) x 12.5% = \$1,798,000

- 4. Can Baffinland provide the details of their analysis on how they determined their lump sum reclamation fuel costs?**

Further discussion with QIA is warranted on the calculation of costs associated with the demobilization of the 'Expansion Project Equipment and Materials'. As the difference in value and calculation approach forms the basis of the discrepancy between the QIA and Baffinland marginal estimates, this will be the focus of future negotiations in preparation of a joint submission from QIA and Baffinland to the NWB.

- 5. How has Baffinland incorporated indirect costs for security reconciliation that has occurred?**

The total of all direct costs and the reconciled 2017 direct costs forms the total 2018 Direct Cost which all indirect costs are based upon.



Baffinland looks forward to providing further clarification where needed during the scheduled 15 February 2018 ASR Teleconference, and subsequent discussions with QIA in the preparation of a joint submission to the NWB.

Regards,

A handwritten signature in black ink, appearing to read "Chris Murray", written over the printed name.

Christopher Murray
Environmental & Regulatory Compliance Manager

cc. Todd Burlingame, Megan Lord-Hoyle (Baffinland)
David Hohnstein, Karén Kharatyan (NWB)
Stephen Williamson Bathory (QIA)
Sarah Forté (INAC)
Jamie Van Gulck, Jason Ash (ARKTIS)