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February 15, 2018

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Stephanie Autut  
Executive Director  
Nunavut Water Board  
P.O. Box 119  
Gjoa Haven, Nunavut X0B 1J0

## RE: BAFFINLAND IRON MINES CORPORATION, MARY RIVER PROJECT (LICENCE NO. 2AM-MRY1325), 2018 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 2018 Annual Security Review (ASR). This letter summarizes the speaking notes used by the QIA during the 2018 ASR Teleconference held on February 15, 2018.<sup>1</sup>

### ATTENDEES

Attendees on behalf of QIA were the following:

1. Stephen Bathory, QIA
2. Fai Ndofor, QIA
3. Jamie VanGulck, ARKTIS Solutions
4. Nick Jewitt, ARKTIS Solutions

### INTRODUCTION

Pursuant to Section 9.2 of the Commercial Lease No. Q13C301 (Lease),<sup>2</sup> the QIA has completed a review of Baffinland Iron Mines Corporation's (Baffinland) 2018 Work Plan<sup>3</sup> and security estimate<sup>4</sup>; and commissioned ARKTIS Solutions Inc. to complete an analysis of the reclamation security estimate for activities occurring on Inuit Owned Lands.

On February 2, 2018, the QIA submitted its security estimate to the NWB<sup>5</sup> as a participant of the ASR described in as well as Part C and Schedule C of the Type 'A' Water Licence No. 2AM-MRY1325 (Amendment No. 1).

<sup>1</sup> 2018 ASR Teleconference between the NWB, INAC, the QIA, and Baffinland held February 15, 2018.

<sup>2</sup> QIA and Baffinland (2013). Commercial Lease No.: Q13C301. September 6, 2013.

<sup>3</sup> Baffinland (2018). 20180110\_BIM\_2018\_Work\_Plan\_Rev1\_Signed.pdf. January 16, 2018.

<sup>4</sup> Baffinland (2018). 2018 Marginal Closure and Reclamation Financial Security Estimate Rev. 1. January 16, 2018.

<sup>5</sup> ARKTIS (2018). 2018 Mary River Reclamation Security Report. February 2, 2018.



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- <sup>13</sup> ARKTIS (2016) Baffinland Iron Mines Corporation. Mary River Project. September 2016 Audit.



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- 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.<sup>14</sup>
- In 2017, QIA and Baffinland have not revisited the gaps between the two parties' security estimates, as outlined in the Path Forward on High Uncertainty Items.<sup>15</sup>
- The QIA's assumptions and approaches used to calculate the 2018 security estimate are consistent with those used for the development of the 2014 through 2017<sup>14,16, 17,18,19, 20</sup> security estimates.
- Since 2008 the QIA has actively reviewed security for the Mary River Project through environmental audits and work plan reviews. The 2018 ASR process is an extension of this work.

## Outstanding Items

The collaborative approach between the QIA and Baffinland to discuss financial security in 2014, 2015, 2016, and 2017 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 Baffinland have not reached mutual agreement, including:

- Inflation (Section 5.11 of QIA's technical submission on February 2, 2018<sup>21</sup>) is one of the largest unresolved issues.
- A difference in financial security is carried forward from previous years.
- Disturbed areas to be regraded and recontoured along the Tote Road corridor. This has been in discussion since 2016 satellite imagery of the Tote Road was acquired.
- A difference of opinion on the demobilization of 3<sup>rd</sup> Party equipment onsite at the time of closure

The QIA had previously adopted Baffinland'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

<sup>14</sup> ARKTIS (2014) QIA 2014 Comprehensive Security Estimate. December 12, 2014.

<sup>15</sup> HATCH, Baffinland (2016) Mary River Financial Security Estimate - Preliminary Path Forward on Items with High Uncertainty. October 27, 2016

<sup>16</sup> ARKTIS (2014) QIA 2015 Comprehensive Security Estimate. December 5, 2014.

<sup>17</sup> ARKTIS (2015) QIA Revised 2015 Comprehensive Security Estimate. January 13, 2015.

<sup>18</sup> ARKTIS (2015) QIA 2016 Comprehensive Security Estimate. December 2, 2016.

<sup>19</sup> ARKTIS (2016). QIA 2017 Comprehensive Security Estimate. December 2, 2016.

<sup>20</sup> ARKTIS (2017). Baffinland Iron Mines Corporation, Mary River Project, QIA 2017 Addendum Reclamation Security Update Draft. July 19, 2017.

<sup>21</sup> ARKTIS (2018). 2018 Mary River Reclamation Security Report. February 2, 2018.





Interim Closure and Reclamation Plan (ICRP).<sup>22</sup> Under the Lease, Baffinland requires the QIA's approval of the ICRP; to date Baffinland has only received a conditional approval for this plan.

New in 2018, is Baffinland's demobilization of the Expansion Project Equipment and Materials. This too represents a significant difference in calculation of the of security estimates. Without further supporting evidence, it is QIA's opinion that 10% of direct costs is not an accurate representation of demobilizing the Expansion Project Equipment and Materials off site. Based on QIA's review of Baffinland's shipping manifest, as provided in the 2018 Work Plan, there is approximately 88,000 Revenue Tonnes for expansion project equipment and material after removing 3rd Party Mobile Equipment from the inventory. To reduce costs, QIA estimated the total price per cargo ship instead of basing on a per Revenue Tonne basis. QIA found<sup>23</sup> that it costs approximately \$1,700,000 per ship that can carry approximately 10,000 Revenue Tonnes, where that same ship can only carry 8,000 Revenue Tonnes on the last ship voyage to reflect the need for support machinery for sealift loading. Therefore, 9 fully loaded ships would be required to demobilize all Phase II materials and equipment for a total of \$15,300,000. QIA informed Baffinland in October meetings<sup>24</sup> using a percentage of capital expenditure to calculate security would have to be supported by evidence and sufficient detail to satisfy QIA. To date QIA has not seen additional information and therefore is not in a position to revise its estimate on this topic.

The QIA reviewed INAC's 2017 security estimate,<sup>25</sup> submitted to the NWB on February 12, 2018. 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. What analysis did INAC complete to be confident that Baffinland's estimate for the demobilization of Phase II material is sufficient?
3. Can INAC confirm what unit rates they used to assess security for the 2018 Work Plan, QIA understands that INAC has traditionally relied upon BIMC unit rates? Can INAC confirm if any analysis has gone into their position that unit rates have not changed since 2014?

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<sup>22</sup> QIA's October 23, 2015, letter to Baffinland titled, "Baffinland Iron Mines Corporation's Interim Mine Closure and Reclamation Plan – Conditional Approval."

<sup>23</sup> Nunavut Eastern Arctic Shipping (2018). Phone correspondence on January 29, 2018.

<sup>24</sup> In person meetings October 24, 2018.

<sup>25</sup> ARCADIS (2018). Indigenous and Northern Affairs Canada RECLAIM Estimate for 2018 Annual Security Review Licence No. 2AM-MRY1325. February 9, 2018.



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## RECOMMENDATIONS

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The reclamation security held by the QIA under the Lease is recommended to be increased by \$29,407,000, from the amount currently held of \$61,642,000 to an aggregate reclamation security of \$91,049,000.

QIA will accept any additional information or planned correspondences by end of day February 20, 2018 in anticipation of a joint submission between QIA and Baffinland for February 23, 2018.

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 February 23, 2018. QIA is not seeking an extension to facilitate joint submissions between QIA and Baffinland owing to the limited discussion between parties since the 2018 Work Plan was submitted, and, lateness of this ASR process, which also represents a delay to the requirements of Commercial Lease No. Q13C301.

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

Sincerely,

Stephen Williamson Bathory  
Director, Major Projects