

MEMORANDUM

To:	Qikiqtani Inuit Association
Attention:	Stephen Bathory, Director of Major Projects
Subject:	May 2018 Revised Marginal Increase
Author:	Nick Jewitt, ARKTIS Solutions Incorporated
CC:	Jason Ash, ARKTIS Solutions Incorporated
Page Total:	2 plus Appendix
Date:	May 9, 2018

Preamble

On May 4, 2018, the Qikiqtani Inuit Association (QIA) requested ARKTIS Solutions Incorporated (ARKTIS) to evaluate changes to QIA's security estimate based on Baffinland Iron Mines Corporation's (Baffinland) May 4, 2018¹ and May 8, 2018² marginal security revisions. ARKTIS' recommended updated reclamation security adjustment pursuant to the Commercial Lease No. Q13C301³ (Lease), for liability on Inuit Owned Lands (IOL) resulting from a review of Baffinland's May 2018 Revised Marginal Increase Revision 1², is a marginal increase in security of **\$10.3M** or **\$76.2M** global security estimate. If inflation is to be used as previously described in the 2018 Mary River Reclamation Security Report⁴, this means a marginal increase in security of **\$11.6M** or **\$77.5M** global security estimate.

Baffinland, however, has proposed an adjustment of **\$9.6M** or **\$71.2M**, a proposed decrease of \$12,491,500 from the Nunavut Water Board's (NWB) approved⁵ marginal increase of \$22,067,500 or a global security amount of \$83,709,271.

ARKTIS' updated costs are illustrated in **Table 1**, and are based on ARKTIS' review of Baffinland's submission². Please note that this is a summary of the changes proposed, only, and has been expedited to provide QIA with a security adjustment value to facilitate Baffinland remaining compliant with QIA's notice of default submitted April 26, 2018⁶. The recommended approach, as shown in the **May 2018 ARKTIS column**, is to not change the Direct Costs proposed by Baffinland. The changes in Direct Costs proposed by Baffinland are minimal and evidence provided is inadequate to support their removal. Therefore, all changes presented in **Table 1** are based on changes to QIA Indirect Costs for 3rd Party Equipment and Expansion Project Equipment and Materials only.

Expansion Project Equipment and Materials continues to be calculated on a \$2M cost for a 27,000 m³ capacity ship⁷. ARKTIS has continued to use the methodology that a whole ship would be required for any mobilization of Expansion Project Equipment and Materials in lieu of a \$/m³ approach adopted by Baffinland. ARKTIS believes the whole ship method for the Expansion Project Equipment and Material is the most realistic approach given the size of the equipment.

¹ Baffinland (2018). 2018 Reclamation Security – May 2018 Revised Marginal Increase. May 4, 2018.

² Baffinland (2018). 2018 Reclamation Security – May 2018 Revised Marginal Increase Revision 1. May 8, 2018

³ QIA and Baffinland (2013). Commercial Lease No. Q13C301. September 6, 2013.

⁴ ARKTIS (2018). 2018 Mary River Reclamation Security Report. February 23, 2018.

⁵ NWB (2018). Licence No. 2AM-MRY1325, Baffinland Iron Mines Corporation Type "A" Water Licence, Mary River Iron Mine Project: Direction from Nunavut Water Board Under the 2017-2018 Annual Security Review Process Established Under Part C and Schedule C of the Water Licence. March 21, 2018.

⁶ QIA (2018). Commercial Lease – Reclamation Security Notice of Default. April 26, 2018.

⁷ Nunavut Eastern Arctic Shipping (2018). Phone correspondence on February 19, 2018.

Should you have any questions about the contents herein, please contact Jason Ash 306.502.3483 or ash@arktissolutions.com.

Table 1: May 2018 revised marginal security increase adjustment summary.

Adjusted Categories	2018 NWB Process		May 2018	
	Baffinland	ARKTIS	Baffinland	ARKTIS
3rd Party Mobile Equipment^a	\$572,446	\$2,824,000	\$148,000	\$790,000
Expansion Project Equipment and Materials	\$10,996,000	\$12,000,000	\$1,033,600	\$2,000,000
Total Direct Costs	\$5,932,000	\$5,138,000	\$5,133,000	\$5,138,000
Indirect Costs (Excluding Expansion Project Equipment and Materials)	\$4,845,000	\$5,224,000	N/a	\$3,190,000
Total Indirect Costs	\$15,841,000	\$17,224,000	\$4,129,000	\$5,190,000
May 2018 Marginal Change in Security			\$9,576,000	\$10,328,000
2017 Security Estimate^c			\$61,641,771	\$65,869,000
May 2018 Global Security Estimate			\$71,217,771	\$76,197,000
May 2018 Global Security Estimate Inflation Corrected^b				\$77,463,000

^a Note that Baffinland considers 3rd Party Mobile equipment to be the Direct Cost of landfilling where QIA's position is to mobilize equipment off site resulting in a change to Indirect Costs.

^b Inflation was calculated by correcting the 2018 Direct and Indirect Costs, excluding the Expansion Project Equipment and Materials, and updating the 2017 estimate to March 2018 Consumer Price Index (CPI). Costs for Expansion Project Equipment and Materials was then added to the total corrected value.

^c Baffinland used the total security posted with QIA at the end of 2017 for their base security amount. ARKTIS used the 2017 total estimate for security on IOL⁴.

Appendix A

USE OF REPORT

This report pertains to a specific site, a specific development, and a specific scope of work. It is not applicable to any other sites, nor should it be relied upon for types of development other than those to which it refers. Any variation from the site or proposed development would necessitate a supplementary investigation and assessment.

This report and the assessments and recommendations contained in it are intended for the sole use of ARKTIS Solutions Inc.'s (ARKTIS) client. ARKTIS does not accept any responsibility for the accuracy of any of the data, the analysis or the recommendations contained or referenced in the report when the report is used or relied upon by any party other than ARKTIS' client unless otherwise authorized in writing by ARKTIS. Any unauthorized use of the report is at the sole risk of the user.

LIMITATIONS OF REPORT

This report is based solely on the conditions which existed on site at the time of ARKTIS' investigation. The client, and any other parties using this report with the express written consent of the clients and ARKTIS, acknowledge that conditions affecting the environmental assessment of the site can vary with time and that the conclusions and recommendations set out in this report are time sensitive.

The client, and any other party using this report with the express written consent of the client and ARKTIS, also acknowledge that the conclusions and recommendations set out in this report are based on limited observations and testing on the subject site and that conditions may vary across the site which, in turn, could affect the conclusions and recommendations made.

The client acknowledges that ARKTIS is neither qualified to, nor is it making, any recommendations with respect to the purchase, sale, investment or development of the property, the decisions on which are the sole responsibility of the client.

During the performance of the work and the preparation of this report, ARKTIS may have relied on the information provided by persons other than the client. While ARKTIS endeavors to verify the accuracy of such information when instructed to do so by the client, ARKTIS accepts no responsibility for the accuracy or the reliability of such information which may affect the report.

STANDARD OF CARE

Services performed by ARKTIS for this report have been conducted in a manner consistent with the level of skill ordinarily exercised by members of the profession currently practicing under similar conditions in the jurisdiction in which the services are provided, subject to the time limits and financial and physical constraints applicable to the services. Professional judgment has been applied in developing the conclusions and/or recommendations provided in this report. No warranty or guarantee, express or implied, is made concerning the test results, comments, recommendations, or any other portion of this report.

ALTERNATE REPORT FORMAT

Where ARKTIS submits both electronic file and hard copy versions of reports, drawings and other project related documents and deliverables (collectively termed instruments of professional service), the Client agrees that only the signed and sealed hard copy versions shall be considered final and legally binding. The hard copy versions submitted by ARKTIS shall be the original documents for record and working purposes, and, in the event of a dispute or discrepancies, the hard copy versions shall govern over the electronic versions. Furthermore, the Client agrees and waives all future right of dispute that the original hard copy signed version archived by ARKTIS shall be deemed to be the overall original for the Project.

The Client agrees that both electronic file and hard copy versions of instruments of professional services shall not, under any circumstances, no matter who owns or uses them, be altered by any party except ARKTIS. The Client warrants that instruments of professional services will be used only and exactly as submitted by ARKTIS.