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December 13, 2018

Assol Kubeisinova
Nunavut Water Board
P.O. Box 119
Gjoa Haven, Nunavut X0B 1J0

RE: Licence No. 2AM-MRY1325 Type "A"; Mary River Project, Baffinland Iron Mines Corporation, 2019 Annual Security Review Associated with 2019 Work Plan, Qikiqtani Inuit Association Speaking Notes

The Qikiqtani Inuit Association (QIA) provides this letter to the Nunavut Water Board (NWB) as evidence for the 2019 Annual Security Review (ASR). This letter summarizes the speaking notes used by QIA during the 2019 ASR Teleconference held on December 13, 2018.¹

INTRODUCTION

Pursuant to Section 9.2 of Commercial Lease No. Q13C301 (Commercial Lease),² as well as Part C and Schedule C of the Type 'A' Water Licence No. 2AM-MRY1325 (Amendment No. 1), QIA has completed a review of Baffinland Iron Mines Corporation's (Baffinland) 2019 Work Plan³ and security estimate⁴; and commissioned ARKTIS Solutions Inc. to complete an analysis of the reclamation security estimate for activities occurring on Inuit Owned Lands.

On December 3, 2018, QIA submitted⁵ its draft annual security review that assessed the quantities presented in Baffinland's security estimate to the NWB. A reclamation security estimate was not provided as a unit rate update was still in development. Since then, ARKTIS has completed a unit rate update that will now be summarized.

The QIA has estimated an aggregate amount of reclamation security of \$124,285,000 for 2019. This is a \$50,455,629 increase from the \$73,829,771 of security currently held by QIA. These numbers are subject to change based on further discussions with Baffinland and

¹ 2018 ASR Teleconference between the NWB, INAC, the QIA, and BIMC held December 13, 2018.

² QIA and BIMC (2013). Commercial Lease No.: Q13C301. September 6, 2013.

³ Baffinland (2018). 2019 Work Plan. November 1, 2018.

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

⁵ ARKTIS (2018). 2019 Mary River Reclamation Security Report - DRAFT. November 30, 2018.



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outcomes of this teleconference. Regarding this increase, the following items are important to note:

QIA's security estimate does not address items under the Type 'B' Exploration Licence No.: 2BE-MRY1421, nor does it address items located on Crown Land (e.g., Shiploader, KM 61 Mobile Maintenance Depot).

The two parties updated unit rates from 2014 to 2018 values.

The 2019 estimated total aggregate security between the two parties differ by \$26,890,000 and is a result of differing unit rates, the difference in approach to calculating the demobilization of the Expansion Project Equipment and Materials, and difference in approach to calculating Post Closure Monitoring.

The reexamination of security within the 2019 calendar year is expected to occur prior to the anticipated 2020 NWB ASR process. This is a result of work proposed by Baffinland for 2019 that lacked sufficient detail to be included in the 2019 Work Plan that are unrelated to Phase 2.⁶ Consistent with past ASR processes, QIA commits to providing any/all updated security calculations to the NWB in a manner that clearly demonstrates amendments in a timeframe respecting the NWB's decision making process.

METHODOLOGY

The full details of the methodology used by the QIA to develop the reclamation security estimate will be found in the detailed technical report to be submitted to the NWB on December 20, 2018. However, the QIA would like to highlight the following:

- QIA security estimate was developed in accordance with QIA's Abandonment and Reclamation (A&R) Policy⁷ and applied the principles outlined in INAC's reclamation policy.⁸
- The estimate primarily utilized Baffinland's 2019 Work Plan, Baffinland's 2019 Marginal Closure and Reclamation Security Estimate, information collected during

⁶ Baffinland (2018). Responses to Intervener Submissions, 2019 Work Plan Annual Security Review Mary River Project, Type A Water Licence No. 2AM-MRY1325. January 10, 2018 (delivered December 10, 2018).

⁷ QIA (n.d.) Abandonment and Reclamation Policy for Inuit Owned Lands. V. 2.0.

⁸ INAC (2002) Mine Site Reclamation Policy for Nunavut.



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QIA's 2018 Audit,⁹ and meetings between QIA and Baffinland on items of high uncertainty.

- QIA updated unit costs used during previous security estimates to 2018 values using methodology found in the QIA's 2014 Comprehensive Security Estimate.¹⁰
- QIA's assumptions and approaches used to calculate the 2019 security estimate are consistent with those used for the development of the 2014 through 2017 10^{11, 12, 13, 14, 15, 16} security estimates.
- Since 2008 QIA has actively reviewed security for the Mary River Project through environmental audits and work plan reviews. The 2019 ASR process is an extension of this work.

Outstanding Items

The collaborative approach between QIA and Baffinland to discuss financial security in 2014, 2015, 2016, 2017, and 2018 resulted in a narrowing of the gaps between the two parties' security estimates. The unit rate update from 2014 to 2018 values has widened this gap. Items that may narrow the gap include:

- Validation of disturbed areas using 2018 satellite imagery;
- Inventory reconciliation;
- Post Closure Monitoring costs; and,
- Phase 2 demobilization costs.

QIA and Baffinland mutually agreed to acquire and use satellite imagery to aide in validating reclamation security. Satellite imagery has been captured in 2018. Unfortunately, the assessment of the satellite imagery will not be complete in time for inclusion in the 2019 ASR.

⁹ ARKTIS (2018). 2018 Environmental Audit Report. November 14, 2018.

¹⁰ ARKTIS (2014) QIA 2014 Comprehensive Security Estimate. December 12, 2014.

¹¹ ARKTIS (2014) QIA 2015 Comprehensive Security Estimate. December 5, 2014.

¹² ARKTIS (2015) QIA Revised 2015 Comprehensive Security Estimate. January 13, 2015.

¹³ ARKTIS (2015) QIA 2016 Comprehensive Security Estimate. December 2, 2016.

¹⁴ ARKTIS (2016). QIA 2017 Comprehensive Security Estimate. December 2, 2016.

¹⁵ ARKTIS (2017). Baffinland Iron Mines Corporation, Mary River Project, QIA 2017 Addendum Reclamation Security Update Draft. July 19, 2017.

¹⁶ ARKTIS (2018). 2018 Mary River Reclamation Security Report. February 2, 2018.



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QIA's 2014 comprehensive security estimate has assumptions based on Baffinland developing and sharing an inventory tracking system. QIA's 2018 Environmental Audit looked to reconcile some of these assumptions which led to increasing the reclamation security estimate to include the maximum quantity of sea containers on site. Furthermore, QIA received for the first time during the 2018 Environmental Audit a preliminary inventory for the Project's mobile and fixed equipment. Discrepancies were noted between the preliminary inventory and the mobile and fixed equipment that QIA has estimated security for. QIA included this concern in our draft submission to the NWB on December 3, 2018. Baffinland has since responded and noted that their Estimate Breakdown Structure indicated they are over secured compared to the preliminary inventory. Baffinland and QIA have engaged to reconcile this uncertainty.

QIA had previously adopted Baffinland's reclamation cost for Short Term Care & Maintenance, Closure Monitoring & Reporting as a placeholder for the time being. Baffinland has updated the Interim Closure and Reclamation Plan (ICRP) that included an update to Short Term Care & Maintenance. QIA had identified gaps¹⁷ in programs delivered that QIA has included in their 2019 security estimate. This inclusion has increased the amount of reclamation security by \$5,960,000 above Baffinland's estimated reclamation security for Short Term Care & Maintenance, Closure Monitoring & Reporting.

Similar to previous years' security estimates, there still remains a difference of opinion on the demobilization of 3rd Party equipment onsite at the time of closure. QIA acknowledges that its 2014 Comprehensive Security Report states that in future financial security adjustments 10% of the direct costs would be adopted. QIA has never exercised this assumption as demobilization has not been well represented as 10% of direct costs since, resulting in underestimating liability. As such, QIA has maintained a unit rate for demobilization of 3rd party equipment.

There is a significant difference in calculation of the demobilization of the Expansion Project Equipment and Materials. It is QIA's opinion that the demobilizing of Expansion Project Equipment and Materials off site is required on a per ship basis due to the size of the Phase 2 modules and the probability Baffinland maintains operation regardless of the outcome of the Phase 2 proposal. QIA has estimated 229,289 m³. To reduce costs, QIA estimated the total price per cargo ship instead of basing on a per m³ basis. QIA found¹⁸ that it costs approximately \$2,000,000 per ship that can carry approximately 27,000 cubic meters. That same ship must carry approximately 5,400 cubic meters of demobilization support

¹⁷ ARKTIS (2018) High Uncertainty Items Meeting. October 17, 2018.

¹⁸ Nunavut Eastern Arctic Shipping (2018). Phone correspondence on February 19, 2018.



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machinery on the last ship voyage South. Therefore, it would require 9 full ships to demobilize all Phase II materials and equipment for a total of \$18,000,000.

RECOMMENDATIONS

The reclamation security held by QIA under the Commercial Lease is recommended to be increased by \$50,455,629 from the current security held of \$73,829,771 to an aggregate reclamation security of \$124,285,000. These are draft numbers and subject to change based on further discussions with Baffinland and outcomes of this teleconference.

The QIA looks forward to reviewing its determination with Baffinland, following the December 13, 2018 ASR Teleconference. QIA acknowledges, as per the schedule for the ASR process that parties are to file revisions or addendums to written submissions based upon ASR Meetings with the NWB by December 20, 2018 and a determination of the required amount of reclamation security to be held pursuant to the Commercial Lease is expected for the upcoming year by January 18, 2019.

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

Sincerely,

Fai Ndofor

Regulatory Manager