



24 January 2020

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

**Re: Revised 2020 Work Plan and Marginal Closure and Reclamation Financial Security Estimate
2020 Work Plan Annual Security Review
Mary River Project, Type A Water Licence No. 2AM-MRY1325**

Baffinland Iron Mines Corporation (Baffinland) provides the following letter to the Nunavut Water Board (NWB) to accompany the revised 2020 Work Plan and the revised 2020 Marginal Closure and Reclamation Financial Security Estimate, for the Mary River Project (the Project) Type 'A' Water Licence No. 2AM-MRY1325 (as amended). The revised versions of these documents incorporate the feedback received from Crown Indigenous Relations and Northern Affairs Canada (CIRNAC)¹ and the Qikiqtani Inuit Association (QIA)² through the 2020 Annual Security Review (ASR) process, as well as revisions to the scope of the 2020 Work Plan associated with the adjournment of the Phase 2 public hearing and the uncertainty associated with the timeline for the hearing to resume, and the subsequent impact to Baffinland's financial position.

Baffinland requests that the NWB provide intervenors with one (1) additional week to review the revised documentation and submit final estimates on January 31st, 2020. As no new works have been added to the revised 2020 Work Plan, any comments received to date will be inclusive of the reduced scope of the revised 2020 Work Plan. Baffinland has conducted meetings with both QIA and CIRNAC prior to this submission in an effort to further align the respective submissions.

In addition, Baffinland provides the below clarifications for CIRNAC regarding the unit rate updates completed in 2018, as requested during the ASR teleconference and further discussed with CIRNAC.

Crown Indigenous Relations and Northern Affairs Canada Estimate

It is understood that SNC has completed a more in-depth review of the unit rate updates completed in 2018 and presented by Baffinland in the 2019 ASR. Baffinland maintains that this assessment is unwarranted given the review and approval of these updated rates by SNC and CIRNAC in the 2019 ASR. Despite SNC's assertion that the review completed during the 2020 ASR is more detailed, SNC has not provided; 1) the basis for many of the conclusions reached or, 2) offered any comparisons to other northern mining facilities or 3rd party contractors registered in Nunavut. In the interest of furthering the

¹ CIRNAC (2019). Re: Crown-Indigenous Relations and Northern Affairs Canada's Reclamation Cost Estimate for the 2020 Annual Security Review for Baffinland Iron Mines Corporation's Mary River Project, Water Licence 2AM-MRY1325 Amendment No. 1. 13 December 2019

² QIA (2019) Re: Licence No. 2AM-MRY1325 Type "A"; Mary River Project, Baffinland Iron Mines Corporation, Annual Security Review Associated with 2020 Work Plan. 13 December 2019

2020 ASR process, Baffinland provides the clarifications on the derivation of the 2018 unit rate updates, where applicable, and additional clarifications on the SNC report and recommendations;

- SNC indicates that “BIMC is currently in arbitration with QIA regarding the revision of these rates”. This statement is misleading and inaccurate. Baffinland is engaged in arbitration, in good faith, with QIA to resolve the overall disparity in the respective estimates and gain alignment in the methodologies that are used to derive the estimate. While discrepancies in unit rates will be discussed, it is not the sole focus of the arbitration.
- SNC indicates that the unit hours for closure activities were estimated at approximately 30% of installation hours, and that this was used for all dismantling, demolition, reclamation and like activities in the 2014 Complete Project Financial Security Assessment. This is inaccurate, as unit cost hours were assumed to be 30% of installation only for unique items (e.g. bridges, reclaim conveyor).
- Unit Cost hours were developed in 2014 in a workshop format by assigning crew sizes and durations to complete the individual tasks that make up a reclamation activity. Durations and crew sizes were developed with consideration for issues that result in a loss of productivity. The resulting hours are inclusive of the non-productive and lost time that are sometimes included by multiplying base hours (hours to complete a task in ideal working conditions) by a productivity factor. Therefore, no productivity factor was used, developed or applied unless explicitly noted. There were no changes to the unit cost hours in 2018.
- The basis for the unit rates, both labour and equipment, remain unchanged from the 2014 Complete Project Financial Security Assessment. Only the third party contractor rates utilized (labour and equipment) were updated in the assessment of unit rates in 2018.
- SNC asserts that the 2018 blended labour rates are low compared to the 2014 estimate. Labour rates have decreased as the scale of the Mary River Project increases, and the same would be true for the respective increase in reclamation activities associated with the increase in the scale of the Mary River Project. Baffinland notes that while SNC has provided this conclusion, there is no basis for this statement or comparison to unit rates utilized at other northern mining facilities, or third party contractors engaged directly by SNC. Further, QIA in their assessment of labour rates in 2018 found that overall rates had decreased relative to 2014.
- Labour rates provided in 2018 are inclusive of the same assumptions as the 2014 unit rates;
 - Base wage rates including “all purpose” payments of wages and allowances not specific to the project;
 - Union benefits, if applicable;
 - Statutory allowances as imposed by government legislation;
 - Small tools, Personal Protective Equipment (PPE), and consumables;
 - Head office operations; and
 - Overhead and profit.
- 2018 labour rates are representative of a 10 hour per day, 7 day per week basis, inclusive of any overtime. This is consistent with the 2014 unit rates.

- For the purposes of estimating costs for worker mobilization/demobilization, the assumed site rotation is 21 days. This has not changed from the 2014 Complete Project Financial Security Assessment.
- Regarding the derivation of the blended equipment unit rate, the use of 8 hours per day, and 20 days per month was applied only for contractor equipment rates provided as a monthly rate, in order to derive an hourly rate. In comparing the hourly rates provided, and the derived hourly rates from the monthly rate and the utilization assumptions, the comparison provided good agreement with the hourly unit rates. It is noted that use of a 10 hour work day would result in a further reduction of the equipment rates. Therefore, Baffinland asserts that the blended equipment rate is conservative.
- The type of equipment considered is outlined in the contractor rate sheets provided during the 2019 ASR. For the purposes of developing the unit rate for equipment, Baffinland divided the equipment into classes and utilized a weighted average where heavy equipment was assumed to be 50%, light equipment to be 10%, large trucks at 20% and small trucks at 20%. The resulting weighted average was \$125/hr. It should be noted that a simple average of all equipment rates resulted in a blended unit rate of \$97/hr, which was deemed to not be representative.

Please contact myself should there be any clarification needed on the responses Baffinland has provided herein. Baffinland appreciates the feedback from intervenors and thanks the Board for considering Baffinland's proposed timeline. We look forward to the NWB determination and successful completion of the ASR process.

Regards,

A handwritten signature in black ink, appearing to read 'Chris Murray', with a stylized flourish at the end.

Christopher Murray
Environmental & Regulatory Compliance Manager

cc. Megan Lord-Hoyle, Lou Kamermans (Baffinland)
Richard Dwyer, Karén Kharatyan (NWB)
Chris Spencer, Jared Ottenhof (QIA)
Bridget Campbell, Godwin Okonkwo (CIRNAC)