



October 6, 2006

Phyllis Beaulieu
Manager of Licensing
Nunavut Water Board
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Gjoa Haven, Nunavut
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By Email and Mail

Dear Ms. Beaulieu:

**Re: Request for a Renewal with Amendments to Type B Water License #NWB2MRY0406
Mary River Project**

The above license allows Baffinland Iron Mines Corporation (Baffinland) to undertake advanced exploration at the Mary River Project property at and near Nuluujaak Mountain in the North Baffin of Nunavut (Figure 1). Mineral exploration activities have been ongoing at Mary River from 2004 through 2006, and will continue over the next few years at minimum. This will include drilling within Baffinland's mining leases, as well as geotechnical drilling at various locations on both Inuit Owned Land (IOL) and Crown land at potential infrastructure sites such as candidate transportation routes and ports. Environmental baseline studies have been ongoing since 2004. A definitive feasibility study was initiated in 2006 and should conclude in the latter part of 2007.

The existing license, originally issued on June 11, 2004 and amended on August 4, 2005 (Amendment 1), remains valid until December 31, 2006. Baffinland is requesting a renewal with amendments to the above-noted land use license, to allow for continued exploration and feasibility study-related activities. A five-year renewal is requested.

The proposed activities related to the Mary River Project include the following:

- Continued mineral exploration on Mining Leases 2483, 2484 (Deposits #1, 2, 3 and 3A)
- Initiation of mineral exploration on Mining Lease 2485 (Deposit No. 4)
- Continued operation of the existing 80-person tent camp and expansion to 100-persons
- Land-based geotechnical investigations of mine-related infrastructure at Mary River, potential transportation routes, potential hydro and wind power sites, and port-related facilities at Milne Inlet and Steensby Inlet
- On-ice geotechnical investigations of port-related facilities at Milne Inlet and Steensby Inlet

- Temporary installation of an 8-12 person fly camps at Milne Inlet, Steensby Inlet and Deposit No. 4 to support nearby drilling activities

Figure 2 shows the location of the above project-related activities. The following documents are appended to this letter, in accordance with the application requirements, as follows:

- Attachment 1 - Water License Schedule III Application Form
- Attachment 2 - Supplementary Information Form for Exploration / Remote Camps
- Attachment 3 - Non-technical Project Summary (Inuktitut and English)
- Attachment 4 - Spill Contingency Plan (Revised October 2006)
- Attachment 5 - Material Safety Data Sheets
 - EZ Mud
 - Calcium Chloride
 - T32 Oil
 - Lubtac (rod grease)
 - Jet A-1
 - Diesel
 - Gasoline
 - Aviation Fuel
- Attachment 6 - Cheque for Application Fee (Mailed copy only)

Renewals with amendments are also being sought for Baffinland's other existing permits:

Authorizing Agency	Approval	Permit/License #	Expiry Date
Indian and Northern Affairs Canada	Class A Land Use Permit	Q05L2C14	December 31, 2006
Qikiqtani Inuit Association	Inuit Land Use License	N2004C0017	June 28, 2007

A brief description of the various site activities is provided below.

Continued Exploration Drilling at Mary River

Exploration drilling will continue on Deposits No. 1, 2 and 3/3A at Mary River. No amendments are proposed in the water license with respect to the withdrawal of water from the Mary River for drilling.

Exploration Drilling at Deposit No. 4

Baffinland proposes to drill at Deposit No. 4 starting in 2007. Similar to drilling at Mary River, water is required for drilling over the course of the field drilling season. The primary water source identified for drilling at Deposit No. 4 is a lake, and alternatively two smaller ponds, all located immediately next to the deposit, as shown on Figure 3.

Mary River Camp Facilities

The Mary River site is shown on Figure 4 and the existing camp facilities are shown on Figure 5. Slight modifications to the existing camp will likely be undertaken over the course of 2007-2008, including an increase in camp size from 80-persons to 100-persons. The water supply intake will also be relocated to a deeper location in the same lake. An estimate of 200 L per person per day has been applied to the maximum camp occupancy of 100 persons to calculate the estimated daily water consumption of 20 m³.

Geotechnical Investigations

Additional work proposed in 2007 and 2008 includes detailed geotechnical investigations of candidate transportation routes, port site areas, and candidate alternative energy sites, the locations of which are shown on Figure 2. Detailed locations of proposed investigations at Milne Inlet and Steensby Inlet are shown on Figures 6 and 7, respectively. Geophysical surveys may potentially be carried out within any of the geotechnical investigation areas in combination with drilling. This may include ground penetrating radar and/or seismic refraction. These geophysical investigation techniques are non-intrusive and do not require water takes.

Geotechnical drilling in 2007 will support the feasibility study and will investigate various project alternatives such as transportation and power supply options. Geotechnical drilling in 2008 will be slightly more intense as well as more focused to support detailed engineering design on the preferred alternatives.

Geotechnical drilling will be conducted using either the Longyear 38 and Longyear 70 drills currently used for exploration, or with similar but more mobile portable rock coring drill rigs (i.e., "Minute-man drills", or similar). The Longyear drill rigs utilize a 10 Imperial gallon per minute (44.5 L/min) pump to supply drill water. The smaller portable drills will utilize the same pump albeit at a lower pumping rate commensurate with the slower rate of drilling of these rigs. Drilling will be conducted in the same general manner as exploration drilling has been conducted at Mary River. Final drill hole positions are yet to be determined, but general study areas are shown on Figure 2. The total number of land-based holes expected to be drilled over the 2007-2008 period (exclusive of drilling within mineral lease boundaries) is very conservatively estimated at upwards of 400 holes. Less than half of the proposed drilling will be completed in 2007 as part of the feasibility study; the balance of drill holes would be drilled the following year (2008) as part of detailed engineering design. Ultimately the number of holes drilled will be limited by the drilling production rate of the drills at site.

A portion of the land-based drilling will be at major watercourses as well as representative minor watercourse crossings. Drilling will be within 30 m of the high water mark where investigation of founding conditions for bridge abutments is required. The highest priority locations for near watercourse drilling are the major watercourses identified on Figure 2, although as engineering studies continue other locations may be identified where drilling will be within 30 m of the high water mark. Precautions will be undertaken to ensure no deleterious substances enter the watercourses, including the following:

- Sumps will not be located within 33 m of the normal high water mark of any stream
- Drill waste will not be allowed to spread to water bodies
- Constructed drill sumps will be restored to the natural contours of the land prior to license expiry
- Fuel storage containers will not be placed within 31 m of the normal high water mark
- Fuel transfer operations to re-fuel drilling equipment will be undertaken with caution with an appropriately sized spill response kit on-hand

The above precautions are consistent with the general minimum standards of Baffinland's Inuit Land Use License and Federal Land Use Permit.

Proposed water takes for geotechnical drilling will include one-time and short-term water takes will be taken from various lakes, ponds, rivers and creeks (in this order of preference) during geotechnical drilling along transportation routes, as well as longer-term extraction from the upper Mary River tributary (candidate wind farm drilling) and lakes located at the project site, Deposit No. 4, and the candidate hydro-electric site. Land-based drilling at Milne Inlet may draw from the larger creek located at the end of the existing road, shown on Figure 6. Drilling at the Steensby Inlet port and infrastructure areas (Figure 7) will draw from the numerous unnamed lakes and ponds in the area. Maximum potential water takes at each source is summarized toward the end of this letter.

On-ice Drilling of Marine Substrate

Drilling will be undertaken at each of the candidate port sites to investigate the founding conditions in the shallow marine areas where docking facilities may be constructed. Sea water will be used for drilling in these instances, and as such, we understand such marine water takes are not included in the water licensing process. Baffinland is seeking a letter of advice from the Department of Fisheries and Oceans Canada (DFO) regarding on-ice drilling activities.

Temporary Camps at Milne Inlet and Steensby Inlet

Small temporary camps ("fly camps") will be established for the duration of the drilling at each of the port sites. The fly camps will house approximately 8-12 persons for 3-4 months each late-winter/spring. Potable water will be provided in containers and sewage and solid waste will be collected in holding tanks, to be disposed of either by incineration later at Mary River or in the sewage lagoon at Pond Inlet. As such, no water license amendment is requested regarding the fly camps.

Operation of the camp and drills at Milne Inlet will require fuel storage. A rotating supply of diesel, Jet-A and gasoline is proposed, with a maximum volume of 110 drums (approximately 22,500 L) at each location. A temporary lined and bermed containment facility will be constructed to contain the stored drums. The fuel supply will be constantly replenished from either Pond Inlet or Mary River.

Summary of Water Use Locations and Volumes

The following summarizes the proposed water takes over the next few years.

<u>Location</u>	<u>Use/Purpose</u>	<u>Duration / Period</u>	<u>Maximum Daily Volume (m³)</u>	<u>Maximum Total Volume (m³)</u>
Camp Lake	Camp water supply	8 months (each Mar-Oct)	20	4,800
Camp Lake	Geotechnical Drilling (mine site area)	6 months (during May-Oct)	455 (up to 4 drills)	82,000
Sheardown Lake	Geotechnical Drilling (mine site area)	6 months (each May-Oct)	455 (up to 4 drills)	82,000
Mary River	Exploration drilling	6 months (each May-Oct)	455 (up to 4 drills)	82,000

Mary River (upper tributary)	Geotechnical Drilling (wind farm)	2-3 weeks	65 (1 drill)	1,365
Unnamed lake and ponds adjacent to Deposit No. 4	Exploration drilling	6 months (each May-Oct)	455 (up to 4 drills)	82,000
Unnamed lake & Separation Lake	Geotechnical Drilling (hydro site)	2-3 weeks	65 (1 drill)	1,365
Various unidentified water bodies	Geotechnical Drilling (transportation routes)	8 months (each Mar-Oct)	65 (per location)	82,000
Various unidentified lakes and ponds	Geotechnical Drilling (Steensby Inlet port and infrastructure areas)	8 months (each Mar-Oct)	65 (per location)	82,000
Milne Inlet Creek at Road Terminus	Geotechnical Drilling (port and infrastructure areas)	6 months (each May-Oct)	65 (per location)	82,000

It should be noted that the maximum volumes provided are maximum theoretical volumes that could be taken from each specified watercourse, and do not correspond with the expected water use based on available pumping equipment. The estimated total volume of water to be extracted based on the available equipment is summarized as follows (as per the application):

- Up to 7 drills could withdraw a maximum total of 455 m³/day from all locations assuming all drills were operational over a 24-hour period
- The camp water consumption is 20 m³/day

Application Fees

Enclosed with the original signed application to the Nunavut Water Board is payment for annual water license fees calculated as follows:

Application Fee	\$ 30.00
Water Use Fee	\$ 30.00
Total Application Fee	\$ 60.00

The enclosed cheque is payable to the Receiver General of Canada.

Closure

We trust the enclosed information is sufficient for the Nunavut Water Board to consider the renewal of Baffinland's water license. Please do not hesitate to contact the undersigned at (416) 364-8820, ext. 34.

Yours very truly,

BAFFINLAND IRON MINES CORPORATION

Rodney (Rod) Cooper, P.Eng.

Vice President, Operations

Cc Michael Zurowski, P.Eng., Baffinland
 Steve Aiken, P.Eng., Knight Piesold Ltd.

Figures

Figure 1	Project Location Map
Figure 2	Locations of Proposed Geotechnical Investigations
Figure 3	Proposed Water Source for Deposit No. 4 Drilling
Figure 4	Mary River Site Layout
Figure 5	Mary River Camp Layout
Figure 6	Milne Inlet Investigation Areas
Figure 7	Steensby Inlet Investigation Areas

Attachments

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