



October 15, 2010

Phyllis Beaulieu, Manager of Licencing
Richard Dwyer, Licencing Administrator
Nunavut Water Board
P.O. Box 119
Gjoa Haven, NU X0B 1J0
Email: licensing@nunavutwaterboard.org

Dear Ms. Beaulieu / Mr. Dwyer:

Re: *Mary River Project*
Renewal of NWB License 2BB-MRY0710

The above referenced licence allows for the use of water and the deposition of wastes required in support of activities at the Mary River project site associated with exploration and geotechnical drilling, and the execution of a bulk sample program. Water Licence 2BB-MRY0710 currently expires on December 31, 2010 and allows for a maximum use of 515 m³/day of water, of which 455 m³/day is allocated for drilling purposes, and 60 m³/day for camp use. Project location plan is provided as attached Figure 1.1 the location of project activities and land ownership are provided as Figure 1.2.

The bulk sample program was completed in the latter half of 2008. Since that time, the primary activities undertaken at Mary River have been, and continue to be, exploration and geotechnical drilling programs, progressive reclamation programs, support of scientific and engineering studies related to the advancement of the EIS, and ongoing regulatory compliance and monitoring. To support these activities, ongoing site maintenance and minor upgrades of site infrastructure have and will continue to be required as allowed within the regulatory framework of the existing project permits.

The existing licence, originally issued February 20, 2007, and amended July 16, 2007 (Amendment No. 1) and again on February 13, 2008, remains valid until December 31, 2010. Baffinland is requesting a renewal of the existing licence without further amendments at this time, to allow for continued exploration, engineering, and scientific studies, as well as to allow for ongoing maintenance and minor upgrades as required of the existing project infrastructure. A five-year renewal is requested. This licence period will generously span the period (including potential delays) between January 1, 2011, and the issuance of a new interim type 'B' water licence which we anticipate will follow after EIS release and the award of a project certificate (based on the NIRB and NWB Detailed Coordinated Process Framework, September 2009).

Specifically, the planned activities for the Mary River Project envisioned for operating period of the water licence renewal period are the same as for the existing project and include the following:

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Baffinland

- Continued mineral exploration on Mining Leases 2483, 2484, 2485 (Deposits Nos. 1, 2, 3, and 4), as well as contiguous mineral claims surrounding these leases (Deposit No. 5 and vicinity, as well as other mineral prospects).
- Geotechnical investigations along the proposed Rail Line, Milne Tote Road, and the proposed port-related facilities at Milne Inlet and Steensby Inlet.
- Other scientific and engineering studies related to support of the detailed engineering and future environmental management of the EIS project.
- Ongoing implementation of reclamation measures at the project site as described in our Abandonment and Reclamation Plan, updated annually since 2008 and most recently in March 2010.
- Ongoing maintenance and minor upgrades of existing site infrastructure to enhance health and safety of workers and to improve environmental management as required.
- Execution of annual sealifts at Milne Inlet and possibly Steensby Inlet that will remove equipment, supplies from the site that are no longer necessary (as part of site reclamation), as well as mobilizing to site equipment and supplies that are to be stored on site for future use after EIS release and the receipt of a project certificate.
- Continued operation of the Mary River Camp, Milne Inlet Camp, Mid-Rail Camp, and Steensby Inlet Camp to support the above activities.

Figures 1.3 to 1.7 provide layouts of existing camps (Milne Inlet, Mary River, Mid-Rail, and Steensby), as well as Tote Road and existing locations of Water Licence monitoring locations related to the project.

The current allowable daily water volume is 515 m³/day, of which 60 m³/day are permitted for camp use and the remaining 455 m³ are for the purposes of drilling operations. To help facilitate the assessment of risk to Baffinland of a decrease in daily allowable water use, a review of historical water use and camp occupancy during the 2008 to 2010 period was conducted. The summer of 2008 experienced the highest volumes of daily water usage and camp occupancy levels for the project, so these data were used to assess risk. During this period, the camps were filled to near capacity and a total of three exploration and six geotechnical drills were operational. The key results of the review of water use data for the period are as follows:

- When all four camps are operational, the 60 m³/day camp water use limit was approached several times (but not exceeded).
- During summer 2008, there were four instances of drill water usage greater than the 300 m³/day level (but remaining below the upper threshold of 455 m³/day) and several instances where the 300 m³ limit was approached.

Baffinland's preference would be to keep current water use limits as provided in the existing licence. However, if the NWB wishes to decrease the daily water limit for the renewed licence, Baffinland would not object. We suggest that the current 60 m³/day limit for camp use remain unchanged, but the daily drill water limit be reduced to 325 m³/day, for a combined camp and drill use daily total of 385 m³/day.

With regard to financial security assessment, up-to-date Abandonment and Reclamation Plans, complete with financial security assessments, have been submitted annually to the NWB and QIA since 2008. The most recent plan submitted in March 2010 is attached. The next updated financial security assessment will be submitted in March 2011. Baffinland has also provided



consideration for additional water related security related to this application. The reclaim model has been used determine that approximately \$750,000.00 is estimated for water related security. It should be noted that Baffinland already has a significant reclamation security estimate in place with the QIA of \$16.5 million dollars for land and water related security, details of which are attached in the annual A & R plan.

The following documents are appended to this letter, in accordance with the application requirements, as follows:

Summary of Renewal Application.
Completed Application for Water Licence Renewal Form.
Updated maps and plans for the project.
Updated security assessment (2010 Abandonment and Reclamation Plan)
Updated Financial Assessment.
NPC Land Use Conformity Review, dated February 8, 2008.
NIRB Screening Determinations dated March 26, May 4, and August 22, 2007.

Application Fee of \$30.00 CDN and Water Use fee of \$30.00 CND.

Requests to the NPC and NIRB have been submitted seeking written confirmation that there would not be requirements for a land use plan conformity review and a screening determination. Replies from these parties should be forthcoming and will be forwarded to the NWB as soon as they are available.

Please do not hesitate to contact the undersigned at 416 814 3164 should you require additional information or clarification regarding our renewal application.

Yours sincerely,
Baffinland Iron Mines Corporation

A handwritten signature in black ink, appearing to read 'Greg Missal', written in a cursive style.

Greg Missal, Vice President, Corporate Affairs.