

January 21, 2011

Mr. Ian Rumbolt
Water Resources Officer
INAC Nunavut Regional Office
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Dear Mr. Rumbolt:

Re: *Mary River Project*
2BB-MRY0710 Water Licence Renewal

Thank you for your letter dated January 17, 2011, regarding the renewal of the above referenced water licence.

On December 31, 2010, Baffinland sent an e-mail to the Nunavut Water Board (NWB) and INAC that provided some of the administrative detail around the lapse in the renewal of the water licence and also provided a description of the low level of site activities planned at the Mary River Project in early 2011. At the time, we also expressed our intention to continue to work proactively with regulators to complete the renewal process as quickly and efficiently as possible.

On January 5, 2011, we received emails from both the Nunavut Planning Commission (NPC) and the NWB indicating that our water license renewal application was not received. On January 6, 2011 Baffinland re-sent the renewal application to both the NPC and NWB (cc to INAC). Following this resubmission, the NPC advised that a conformity determination was not required, and thereby forwarded the renewal application to the NWB. NWB, as you are aware, has circulated the renewal application for response to various parties on January 11, 2011.

In your January 17 letter, you requested that we provide you with a summary of any changes to our current management practices that would eliminate the potential for administrative problems in the future associated with permitting and renewal functions. You also requested that we confirm the low level of site activities currently underway and projected for early 2011 at the Project site. We are pleased to provide this information to you below.

- A review of the sequence of events leading up to the expiry of the water licence was undertaken by Baffinland so that potential problems could be identified and corrective actions implemented that would prevent similar incidents from occurring in the future. The conclusions of the review and corrective actions are summarized below:
 - Although our application was transmitted to the Nunavut Planning Commission (NPC) in mid-October, written confirmation from the NPC was not received. In the future we should not rely on verbal confirmation of receipt of applications by regulators, but should always expect to receive written confirmation. If written confirmation is not received, then follow-up

enquiries should be promptly made to ensure that there has been official receipt of the documentation.

- Upon the NWB's request, we were to submit the renewal application first to NPC for review, and that they in turn would forward the application to the NWB at the completion of their review process. In the future, applications will be copied during initial submission to the relevant parties involved in the administrative and technical processing of the application.
 - Submission of all applications will be made in accordance with time lines that are suggested or stipulated within publicly available application guideline documents to ensure sufficient processing time for the application.
 - The above recommendations will be forwarded for action to all Baffinland personnel with permitting responsibilities.
- Currently, the Mary River Project is on winter care and maintenance with no substantive activities; there are two camps currently occupied to support care and maintenance activities. The care and maintenance activities currently underway in each camp for winter 2011 include the following:
 - The Mary River Camp currently houses approximately six personnel. Care and maintenance activities underway during early 2011 include fuel storage, handling, and inspection activities, airstrip maintenance, camp building maintenance, and snow removal. To support these activities it is necessary to withdraw on average between one and 1.5 cubic metres of water per day for potable water use from Camp Lake, and the deposition of a similar volume of treated sewage effluent into Polishing Waste Stabilization Ponds (PWSPs).
 - The Milne Inlet Camp currently houses two personnel. The personnel at Milne Inlet are engaged in daily fuel and waste storage inspections and camp maintenance activities. Potable water is flown to Milne Inlet Camp every three weeks using small pails. Latrine facilities are currently being utilized for sewage, with black water being stored in 200 L drums for shipment south via annual sealift, and small quantities of grey water deposited in the Milne PWSP.
 - Note there is currently no treated sewage being discharged to Sheardown Lake from the Mary River Camp or from the Milne Inlet Camp to Milne Inlet.
 - There is intermittent use of the camp incinerators at both the Mary River and Milne Inlet Camp facilities.

Our intention during early 2011, during the interim period prior to the receipt of our renewed licence, is to continue winter care and maintenance activities for the project in conformance with all the terms and conditions of expired Water Licence 2BB-MRY0710. During this interim period we plan to continue the execution of the Surveillance Network Program (SNP), submit routine monthly reports, and provide timely notifications to regulators regarding any site conditions that are not in conformance with the licence or other permits.



We are look forward to continue working with you on this file. Please do not hesitate to contact me should you have any concerns or require additional information.

Yours sincerely,

Baffinland Iron Mines Corporation

A handwritten signature in black ink, appearing to read "J. Millard". The signature is fluid and cursive, with a large initial "J" and "M".

James Millard, M.Sc., P.Geo

cc: Peter Kusugak, Lou-Ann Comacchio, INAC
Matthew Pickard, Greg Missal, Baffinland