Baffinland
Iron Mines Corporation

2007 January 10

Mr. Andrew Keim
Water Resource Office
Indian and Northern Affairs Canada, Nunavut District
Qimuggjuk Building
Iqaluit, NU X0A 0H0

Re: Water License Inspection of Mary River Project July 14th, 2007-12-18

We thank you for your report dated on December 10th, 2007 for an inspection that occurred on July 14th, 2007. The purpose of this letter is to provide the information requested in the report and to respond to specific items of noted concern. Our letter is presented under the same headings as your inspection report.

Part A: Scope, Definitions, and Enforcement

Reminders have been noted.

Part B: General Conditions

Baffinland has noted concerns with respect to information contained in the 2006 water license annual report, including details as to the management of drill water and cuttings. As requested under the heading of non-compliance in your report, Baffinland has enclosed an attachment detailing the exploration drill program at Mary River for the 2007 drill season.

Since the time of the inspection, the accuracy of water use estimates has been increased through the installation of flow meters.

As discussed at the time of the inspection, Baffinland is in the process of consolidating the locations where hazardous and non-hazardous wastes are stored in preparation for backhaul and final disposal and/or recycling as appropriate. Backhaul of these wastes is planned for the summer of 2008. As a general practice, it is Baffinland's intention to store all potentially hazardous wastes, regardless of quantity in lined containment areas. That being said, there currently are wastes at the site that are not stored as such. All wastes are located remote from any surface water sources.

Part C: Conditions Applying to Water Use

Water intakes are installed with screens to prevent the entrainment of fish.

Part D: Conditions Applying to Waste Disposal

Baffinland respectfully notes that the incinerator referenced at the time of the inspection was not being calibrated. At the time of the inspection, observed was an air quality consultant that was retained to test the stack emissions from the incinerator as a means of documenting performance as it relates to Canada-wide standards. This incinerator was installed in 2006 as

a replacement to a previous unit that had since been decommissioned. Since commencement of exploration activities in 2004, Baffinland has employed the use of a commercial incinerator.

As per Part D, Section 7 of the said water license, a sump was constructed for the management of grey water from the kitchen and wash tent facilities at the Mary River camp. The lined containment pond located south west of the camp was detailed in the design submission to the Nunavut Water Board required under Section 3 of this part. To date, there has been no discharge to date from this facility to the receiving environment, and its operation is detailed in the most recently submitted Sewage Management Plan submitted to the Nunavut Water Board in accordance with Part D, Section 13 of the now current water license 2BB-MRY0710.

In 2007, Baffinland obtained a letter from Pond Inlet acknowledging a request for the disposal of non-hazardous waste at the community landfill site and outlining the procedures for approved disposal. Information regarding all wastes disposed of off-site in 2007 will be provided as required in the annual report. A copy of the letter from the community of Pond Inlet accepting non-hazardous wastes is attached. At present time, no wastes are transported to Pond Inlet and inert materials are currently stockpiled in a specified location adjacent to the incinerator as well as the historical bulk steel area, until the on-site landfill has been constructed. Plans were submitted to the Nunavut Water Board for construction of the on-site landfill in accordance with the Water License in November 2007.

Part E: Conditions for Camps and Access Infrastructures

Noted

Part F: Conditions Applying to Drilling Operations

Noted

Part G: Conditions Applying to Contingency Planning

The current Spill Contingency Plan, dated August 17, 2007 was approved by the Nunavut Water Board under Motion 2007-14-03. Minor comments on the Plan have been addressed through distribution of an addendum letter, with intentions for the distribution of a revised plan to coincide with the timing of the 2007 Annual Report.

Baffinland notes that the letter dated April 14th, 2007 referenced in the inspection report was submitted in accordance with water license 2BE-MRY0708, requiring submission of a report within ninety (90) days of the license issuance confirming compliance with the said CCME guidance document. At the time of the report, and the inspection, Baffinland did not have bulk fuel storage systems in place. As such, this report referenced only the practice as it related to the management of barrelled fuel.

Since release of the current water license 2BB-0710 and relevant to the CCME guidance document, a bulk fuel storage system was commissioned at Milne Inlet in September 2007 and

most recently a 75,000 litre double walled fuel storage tank was installed at Mary River in December 2007. A bulk fuel storage system at Mary River is currently under construction.

In accordance with Part J, Item 4 of the now current water license 2BB-0710, an as-built report for the Milne Inlet bulk fuel storage area, dated December 9, 2007 was submitted to the Water Board. This as-built report referenced compliance with the relevant Sections of the CCME guidance document. Baffinland will be submitting as-built drawings for the systems at Mary River within ninety (90) days of commissioning, in accordance with the requirements of the water license.

As requested, Baffinland has commissioned the third party preparation of a consolidated report detailing information on any and all fuel storage in a fixed location currently in place as it relates to CCME guidance. This report will be forwarded as soon as possible.

Part G: Conditions Applying to Abandonment and Restoration

Baffinland appreciates the comments of support for ongoing efforts of Baffinland to clean-up historic waste metals found around the Mary River site. These efforts will be documented in the annual water license report to be submitted in March 2008.

Part H: Conditions Applying to Monitoring Programs

Reminders of monitoring and reporting requirements have been noted.

Non-Compliance

Response to each of the items of note is provided below. Some of these items have been discussed in previous sections of this letter.

- Open burning of garbage is to cease

  The practice of open burning regardless of waste type or volume ceased at the time of the inspection. Baffinland notes that exclusive of human waste, only wood waste that did not fit in the commercial incinerator was being burned on-site.

- Stockpiling and Open Burning of Human Waste

  At the direction of the inspector, the open burning and stockpiling of human waste ceased at the time of the inspection.

- Installation of metering system to accurately record water use

  A flow meter has been installed on the water intake pipe for the Mary River site. Truck counts are being used to record water use for the Milne Inlet camp. As of December 17, 2007 a flow meter was installed at the Milne Inlet camp and volumes are recorded and reported monthly within the SNP Monthly Report.

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- Submission of a revised report of conformity to CCME "Aboveground Storage Tank Systems for Petroleum and Allied Petroleum Products 2003".

  Although Baffinland believes that it has to date met the requirements of its water license regarding the submission of as-built reports for its bulk fuel storage systems, including an assessment of conformance to the above CCME document, a report has been commissioned for completion of a site-wide review of CCME conformance of existing site infrastructure. This report is expected imminently and will be forwarded to the inspector upon receipt.

- Submission of a detailed report, including GPS coordinates and photographs, on the disposal of drill cuttings and wastes associated with drilling at the Mary River Drill site.

  Report is attached as requested.

- Installation of secondary containment as outlined during the inspection.

  As stated above, it is Baffinland's practice to endeavour, as practical, to store barrel fuel, petroleum based wastes, and other potentially hazardous products within lined containment areas. A lined and bermed area at Milne Inlet has been constructed to allow the temporary storage of hazardous materials until shipment off site to an approved facility can occur in 2008. Hazardous materials will be transferred from Mary River to Milne Inlet for storage within the lined facility to ensure proper containment. Fuels and other petroleum based products stored in bulk are installed within lined containment in accordance with the stated CCME guidance document.

- Submission in the 2007 annual report the locations and quantities of human wastes buried as per the term of this and previous license.

  To be provided as part of the 2007 annual report to be submitted in March 2008.

- Documentation permitting the burning in 45 gallon drums human waste.

  Baffinland site-supervisors were provided verbal direction at some point in the 2005 season allowing the burning of open burning of latrine wastes in 45 gallon drums and subsequently burying any residual waste. Baffinland is not in possession of any formal documentation in this regard and it is uncertain as to whether it was the Nunavut Water Board, QIA, or GN inspector that provided this direction.

- Documentation permitting the construction of the sump and sewage lagoon prior to issuance of the current license.

  As stated above, the sump was constructed in accordance with Part D, Item 7 of water license 2BE-MRY0708 for the management of grey water wastes.

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As stated above, the lined pond south west of the Mary River camp was constructed as an element of the pre-engineered mechanical sewage treatment facility under Part D, Section 3 of water license 2BE-MRY0708.

Again, Baffinland appreciates the feedback provided in the inspection report. We have made note of the various items raised in this report and trust that the additional information provided meets your requests.

As stated at the time of the inspection, Baffinland is committed to a high standard of environmental performance through continuous improvement in all of its activities. Should you have any further questions, please do not hesitate to contact our Environmental Superintendent, Ms. Cheryl Wray at Cheryl.Wray@Baffinland.com or the undersigned at Derek.Chubb@Baffinland.com.

Yours sincerely,

Baffinland Iron Mines Corporation

Derek Chubb
Vice President, Sustainable Development

Cc: Cheryl Wray, Environmental Superintendent
Peter Kusugak – Indian and Northern Affairs Canada
Phyllis Beaulieu – Nunavut Water Board

Attachment

FIGURE 2

DEPOSIT No. 1

DEPOSIT No. 2

FIGURE 3

DEPOSIT No. 3

SALT MIXING STATION

SECONDARY STAGE PUMP STATION DEP.3 (PS2)

PRIMARY STAGE PUMP STATION DEP.1 (PS1)

MARY RIVER

MARY RIVER

MARY RIVER

MARY RIVER

MARY RIVER

PUMP STATION DEP.3 (PS3)

PUMP STATION DEP.3 (PS4)

LEGEND

Topographic Contour

Pump

River

Stream/Drainage

N

0 50 200

Metres

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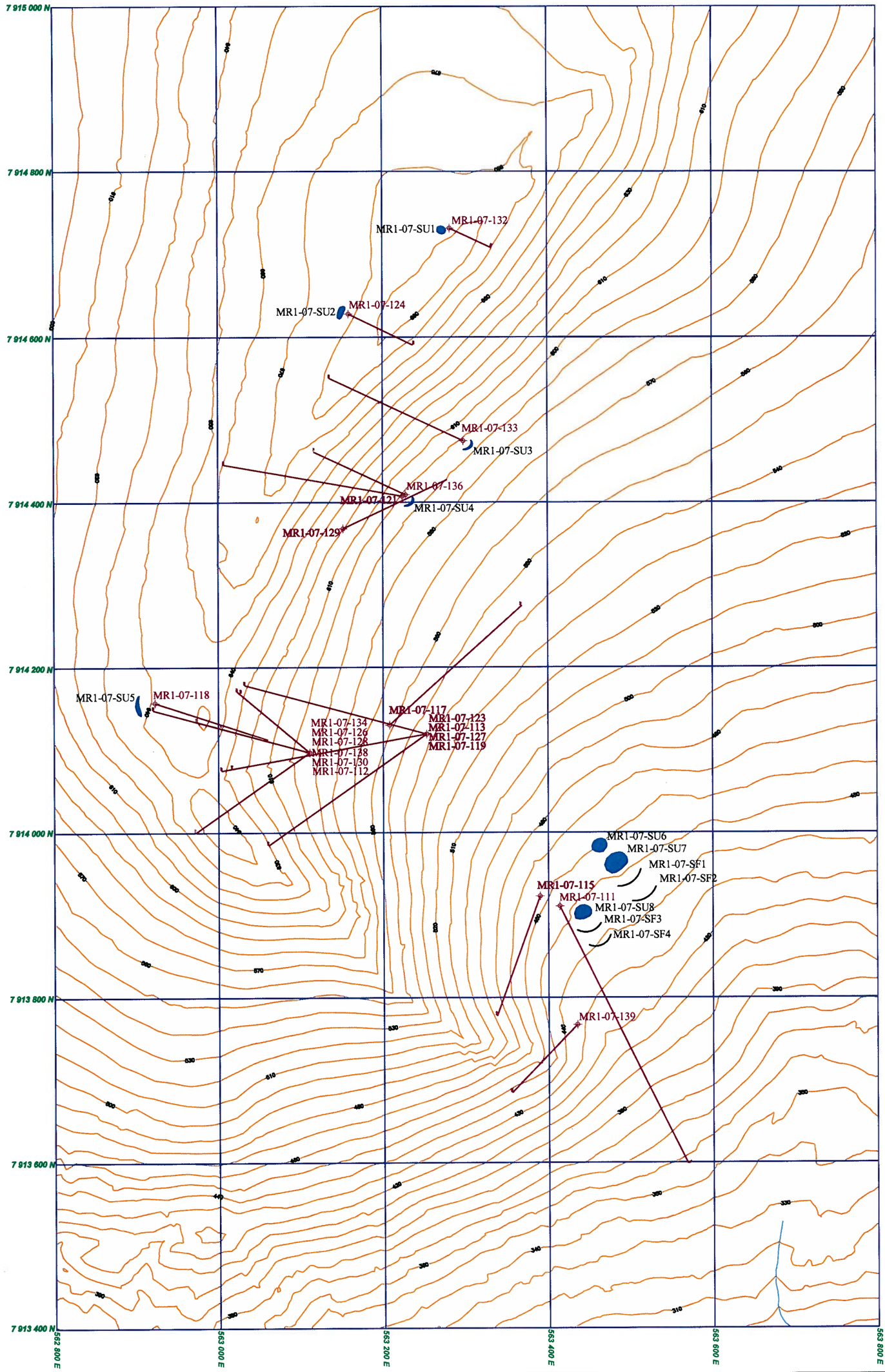
Mary River Iron Ore Deposits

Figure1: Deposit No.1,2,3 and pump locations

2007 Drilling Season



LEGEND

- Topographic Contour
- Drill Hole Collar
- Drill Hole Trace
- Sump
- Fence
- Stream/Drainage

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Mary River Iron Ore Deposits

Figure2: Sump and silt fence locations

Deposit No.1 (2007 Drilling Season)

N

0 50 200

Metres

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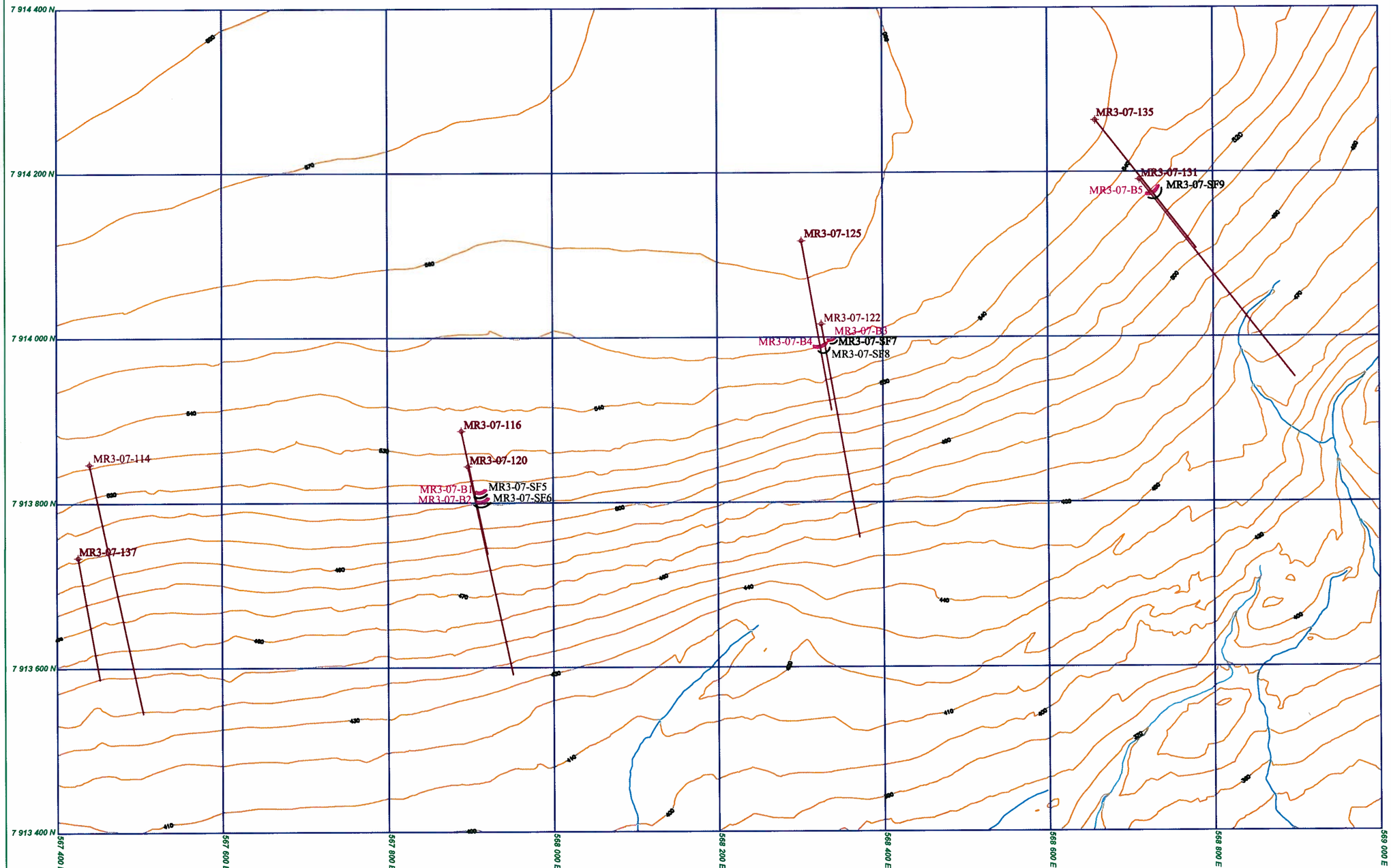
Mary River Iron Ore Deposits

Figure 3: Silt fence and berm locations

Deposit No.3 (2007 Drilling Season)



LEGEND

- Topographic Contour
- Drill Hole Collar
- Drill Hole Trace
- Fence
- Berm
- Stream/Drainage

N

0 50 200

Metres

Baffinland Iron Mines Corporation					
Mary River Project - Deposit No.1,2,3					
Table 1: 2007 Drill Holes Summary					
Coordinate System: Datum NAD1983 Canada; Zone 17 North					
Drill Hole #	**UTM Coordinate**		**Depth (m)**	**Date Drilling Started**	**Date Drilling Completed**
	Northing	**Easting**			
MR1-07-111	7913910	563414	401.00	17-Jun-07	30-Jun-07
MR1-07-112	7914097	563111	201.00	20-Jun-07	12-Jul-07
MR1-07-113	7914119	563253	248.00	30-Jun-07	16-Jul-07
MR3-07-114	7913847	567440	320.00	27-Jun-07	9-Jul-07
MR1-07-115	7913917	563385	292.00	2-Jul-07	9-Jul-07
MR3-07-116	7913887	567890	158.00	11-Jun-07	16-Jun-07
MR1-07-117	7914130	563208	351.00	10-Jun-07	18-Jun-07
MR1-07-118	7914157	562923	189.00	20-Jun-07	30-Jun-07
MR1-07-119	7914119	563253	243.00	18-Jun-07	28-Jun-07
MR3-07-120	7913844	567898	267.50	17-Jun-07	26-Jun-07
MR1-07-121	7914407	563224	245.00	6-Aug-07	14-Aug-07
MR3-07-122	7914016	568326	272.00	29-Jul-07	26-Aug-07
MR1-07-123	7914119	563253	236.50	30-Jun-07	10-Aug-07
MR1-07-124	7914628	563159	90.00	3-Aug-07	8-Aug-07
MR3-07-125	7914117	568302	216.00	29-Jul-07	6-Aug-07
MR1-07-126	7914097	563111	117.00	8-Aug-07	12-Aug-07
MR1-07-127	7914119	563253	265.00	12-Aug-07	21-Aug-07
MR1-07-128	7914097	563111	206.00	13-Aug-07	16-Aug-07
MR1-07-129	7914368	563152	249.50	15-Aug-07	15-Aug-07
MR1-07-130	7914097	563111	168.00	17-Aug-07	22-Aug-07
MR3-07-131	7914191	568711	316.00	23-Aug-07	29-Aug-07
MR1-07-132	7914731	563282	83.00	23-Aug-07	14-Sep-07
MR1-07-133	7914474	563298	199.00	23-Aug-07	31-Aug-07
MR1-07-134	7914097	563111	183.70	24-Aug-07	3-Sep-07
MR3-07-135	7914263	568658	205.00	30-Aug-07	2-Sep-07
MR1-07-136	7914409	563228	108.20	1-Sep-07	In Progress
MR3-07-137	7913734	567426	162.00	4-Sep-07	In Progress
MR1-07-138	7914097	563111	39.50	3-Sep-07	14-Sep-07
MR1-07-139	7913764	563435	123.00	15-Sep-07	22-Sep-07

Table 2: Sump, Silt Fence, Berm and Pump Station Locations for 2007 Drilling Season

Name	UTM location (N)	UTM location (E)	Elevation (m)	Associated drill hole(s)	Deposit #	Comments	Photo #
Sumps							
MR1-07-SU1	7914729	563272	688	MR1-07-132	1	Located near 'magnetite' pit hole	No
MR1-07-SU2	7914630	563151	678	MR1-07-124	1	Located W of 'mixed' pit hole	1, 2
MR1-07-SU3	7914468	563308	595	MR1-07-133	1	Sump located downslope and SSE of section line 450N	3
MR1-07-SU4	7914400	563236	595	MR1-07-121, MR1-07-136	1	Sump located downslope and SSE of section line 375N	4
MR1-07-SU5	7914154	562903	637	MR1-07-118	1	Located SW of 'hematite' pit hole	5,6
MR1-07-SU6	7913983	563462	460	MR1-07-112, MR1-07-113, MR1-07-119, MR1-07-123, MR1-07-126, MR1-07-127, MR1-07-128, MR1-07-130, MR1-07-134, MR1-07-138	1	Small sump located in fold axis of deposit 1 beneath (ESE) upper and lower fan pads; followed by a larger sump and two-tiers of silt fences.	7, 8, 9, 10, 11, 12, 13, 14, 18
MR1-07-SU7	7913962	563483	454		1	Larger sump located in fold axis of deposit 1 beneath (ESE) upper and lower fan pads; followed by two-tiers of silt fences.	13, 14, 15, 18
MR1-07-SU8	7913902	563442	447	MR1-07-111, MR1-07-115	1	South limb sump located downslope from MR1-07-111 and MR-07-115.	16, 17
Silt Fences							
MR1-07-SF1	7913940	563503	447	MR1-07-112, MR1-07-113, MR1-07-119, MR1-07-123, MR1-07-126, MR1-07-127, MR1-07-128, MR1-07-130, MR1-07-134, MR1-07-138	1	Located beneath sumps (SU 6+7) in axis of deposit 1 for drilling from upper and lower fan pads; two-tiered fence	14, 15
MR1-07-SF2	7913915	563517	443				
MR1-07-SF3	7913879	563451	444	MR1-07-111, MR1-07-115	1	Located beneath sump on south limb (SU8).	16, 17
MR1-07-SF4	7913862	563466	438				
MR3-07-SF5	7913807	567914	515	MR3-07-116, MR3-07-120	3	Located along section line 16.	19, 20, 21
MR3-07-SF6	7913796	567916	508				
MR3-07-SF7	7913993	568342	549	MR3-07-122, MR3-07-125	3	Located along section line 22.	22, 23
MR3-07-SF8	7913981	568330	547				
MR3-07-SF9	7914169	568733	526	MR3-07-131, MR3-07-135	3	Located along section line 28.	No
Berms							
MR3-07-B1	7913812	567914	516	MR3-07-116, MR3-07-120	3	Located along section line 16.	19, 20, 21
MR3-07-B2	7913801	567917	512				
MR3-07-B3	7913996	568338	551	MR3-07-122, MR3-07-125	3	Located along section line 22.	22
MR3-07-B4	7913988	568325	550				
MR3-07-B5	7914175	568729	528	MR3-07-131, MR3-07-135	3	Located along section line 28.	No
Pump Stations							
MR1-07-PS1	7912975	563891	233	All holes drilled at Deposit 1	1	Primary stage pump for all deposit 1 drilling.	24
MR1-07-PS2	7913118	563850	265	All holes drilled at Deposit 1	1	Secondary pump at salt mixing station for all deposit 1 drilling.	25, 26, 27, 28
MR3-07-PS3	7912695	567793	313	MR3-07-114, MR3-07-116, MR3-07-120, MR3-07-137	3	Deposit 3 pump station, main location. Active from June 23rd to July 27th and September 4th to September 15th, 2007	No
MR3-07-PS4	7912892	568762	318	MR3-07-122, MR3-07-125, MR3-07-131, MR3-07-135	3	Deposit 3 pump station, secondary location. Active from July 27th to September 4th, 2007	No

SELECT PHOTOGRAPHS

Photo 1: Sump (SU 2) at MR1-07-124 Looking NW

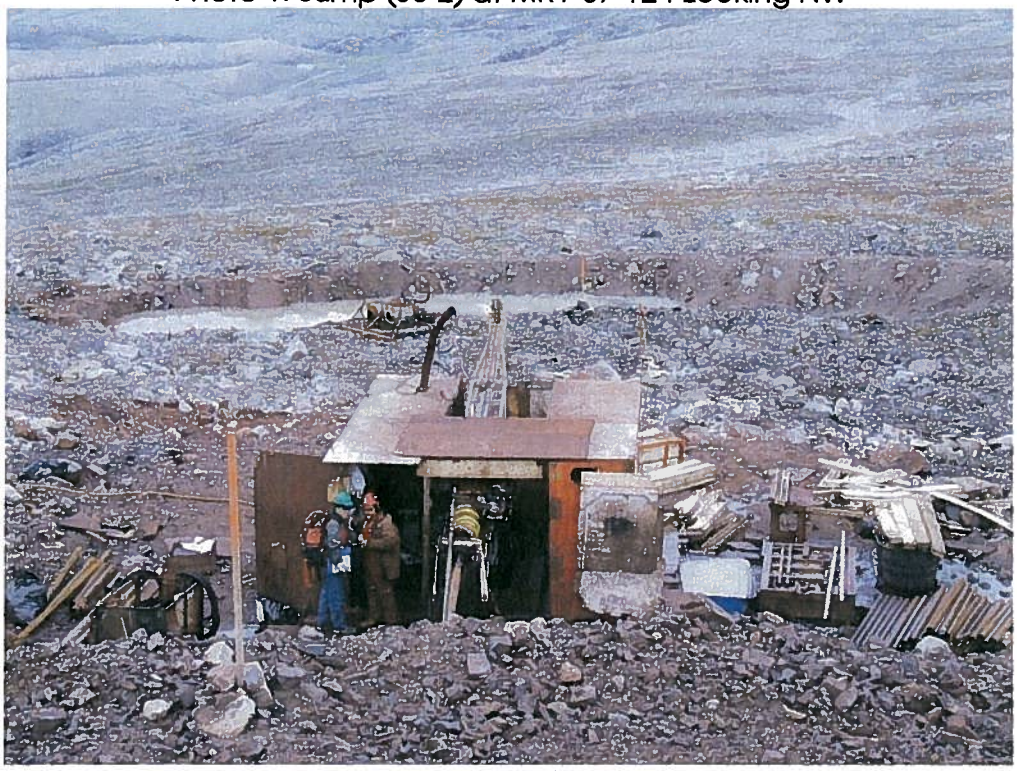


Photo 2: Sump (SU 2) at MR1-07-124 Looking W

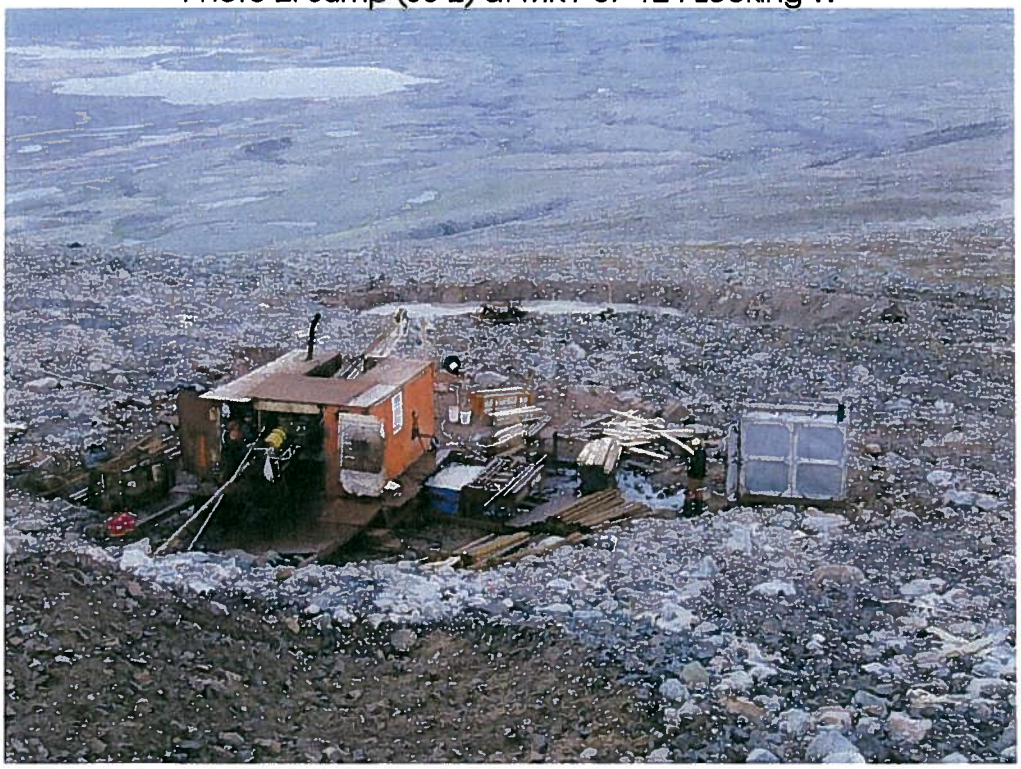


Photo 3: Sump (SU 3) below MR1-07-133 looking S

Photo 4: Sump 4 (SU 4) below MR1-07-136 looking NE

Photo 5: Sump (SU 5) at MR1-07-118 looking NNW

Photo 6: Sump (SU 5) at MR1-07-118 Looking NW

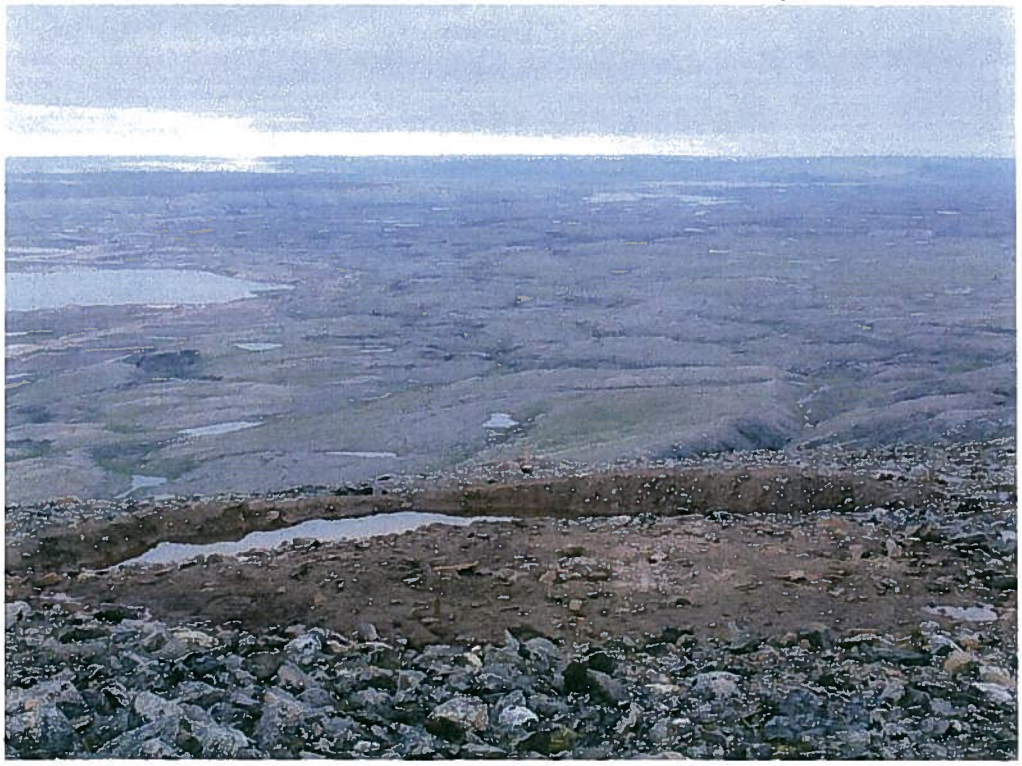


Photo 7: Axial Sump (SU 6) ESE of MR1-07-113 pad

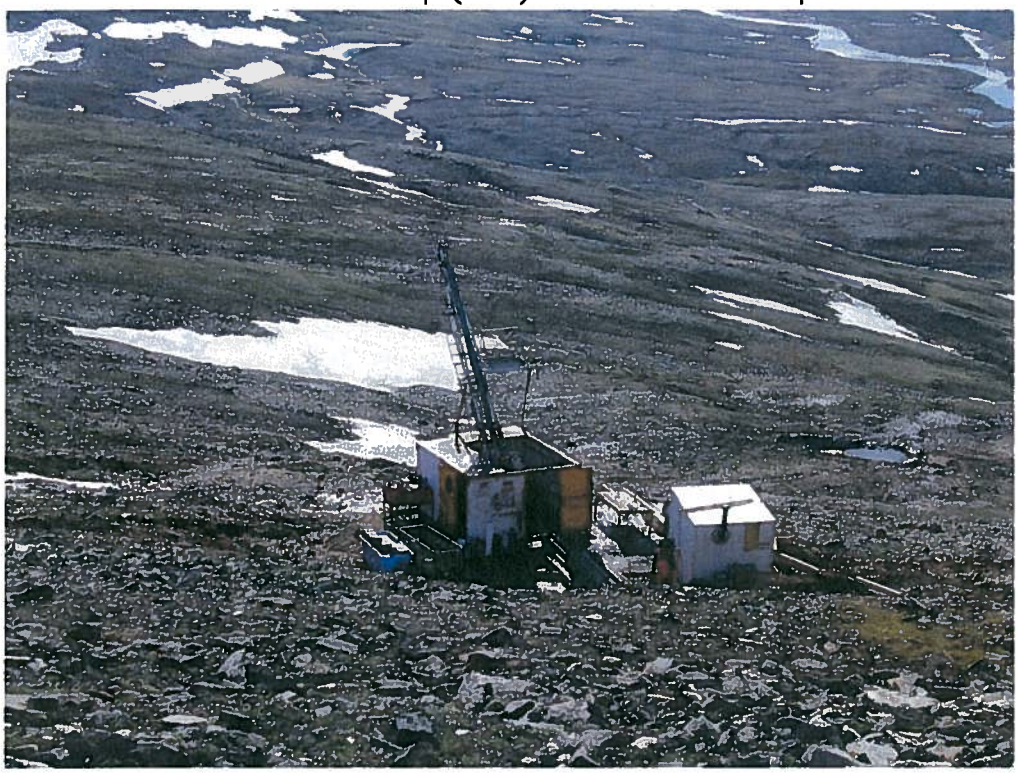


Photo 8: Axial sump (SU 6) for drainage from Lower and Upper fan pad sites (photo 1)

Photo 9: Axial sump (SU 6) for drainage from Lower and Upper fan pad sites (photo 2)

Photo 10: Axial sump (SU 6) for drainage from Lower and Upper fan pad sites (photo 3)

Photo 11: Axial sump (SU 6) with liner (photo 1)

Photo 12: Axial sump (SU 6) with liner (photo 2)

Photo 13: Axial sumps (SU 6+7) downslope from MR1-07-127 pad, looking SE

Photo 14: Silt fences (SF 1+2) below sumps 6 + 7 (SU 6+7)

Photo 15: Silt fences (SF 1+2) below sump 7 (SU 7)

Photo 16: Silt fences (SF 3+4) below sump 8 (SU 8)

Photo 17: Silt fences (SF 3+4) below sump 8 (SU 8) looking ESE

Photo 18: Waterline south of sumps 6 and 7 (SU 6+7)

Photo 19: Silt fences (SF 5+6) and berms (B 1+2) at MR3-07-116 and 120

Photo 20: Silt fences (SF 5+6) and berms (B 1+2) at MR3-07-116 and MR3-07-120

Photo 21: Silt fences (SF 5+6) and berms (B 1+2) at MR3-07-116 looking SSE

Photo 22: Silt fences (SF 7+8) and berms (B 3+4) at MR3-07-122 looking NNE

Photo 23: Silt fences at MR3-07-122 looking NNE (SF 7+8)

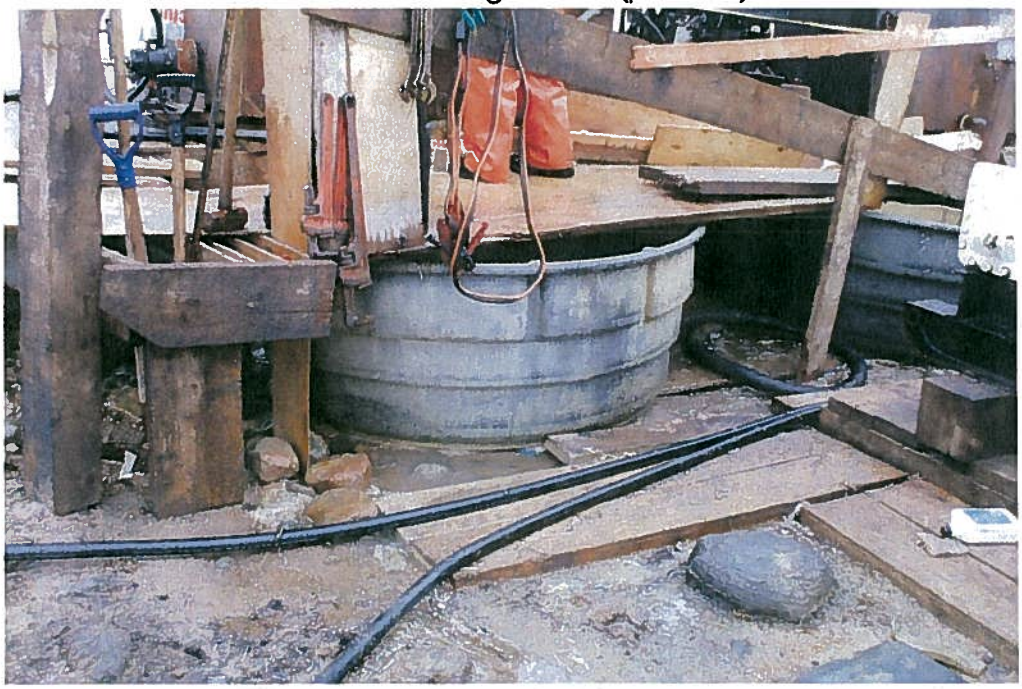
Photo 24: Primary Stage Pump (PS1)

Photo 25: Salt Mixing Station (photo 1)-PS2

Photo 26: Salt Station Mixing tub (photo 2)-PS2

Photo 27: Salt Mixing Station (photo 3)-PS2

Photo 28: Salt Mixing Station (photo 4)-PS2



CORRESPONDENCE WITH POND INLET