

March 31, 2008

Phyllis Beaulieu
Manager of Licensing
Nunavut Water Board
P.O. Box 119
Gjoa Haven, NU X0B 1J0

**Re: Type B Water License #2BB-MRY0710
Mary River Project
Part D, Conditions Related to Waste Disposal**

Ms. Beaulieu

The purpose of this letter is to advise the Board of the current status of sewage management at the Mary River project site. This letter is copied to the Inspector; an inspection of the facilities referenced by this letter was completed during the week of March 19th, 2008.

In October 2007, Baffinland Iron Mines Corporation (Baffinland) installed a pre-engineered, mechanical wastewater treatment facility (a rotating biological contactor or RBC) to service the Milne Inlet camp. This plant is designed to meet average effluent quality standards as stipulated by the above noted license. A polishing/waste stabilization pond (PWSP) was also constructed at Milne Inlet as an added contingency measure. During periods that regulated standards may not be consistently met, such as start-up/commissioning and/or extended periods of plant upset, the PWSP is intended to proactively serve as a temporary repository for treated effluent from the RBC. A PWSP is a feature not common to most other facilities.

Since its installation, Baffinland and the equipment manufacturer Seprotech Systems Incorporated (Seprotech) have been working closely together to minimize the period of time required to reach steady-state where effluent quality standards are consistently met (the period of 'ramp-up'). Unfortunately, this ramp-up period for the Milne Inlet facility has taken longer than anticipated as a result of both mechanical and operational challenges¹. Logistical challenges with the transportation of grab samples to the analytical laboratory for testing have added to difficulties in confirming consistent facility performance and effluent quality. As a result, effluent from the RBC to date has primarily been directed to the PWSP. However, the capacity of the PWSP has been reached and is currently no longer available as a contingency. As discussed with your office, discharge from the facility has been redirected to the receiving ditch up gradient of Milne Inlet.

¹ Mechanical and operational challenges have included difficulties with the influent flow control valve, the plant computer, and mechanical pipe connections each of which has resulted in spills and/or effluent contamination. As a new facility, the period of ramp-up has also been adversely influenced by operator familiarity with the technology.

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Although awaiting laboratory confirmation, on-site field testing completed by Seprotech suggests that the facility at Milne Inlet is currently operating as designed and as required to meet average effluent quality standards. Seprotech will continue to provide on-site field services as necessary to confirm steady-state operations as measured by consistency in the performance of the RBC. Challenges in ramp-up are not expected to be indicative of on-going operation of this facility.

Baffinland has also installed an RBC at the Mary River camp. The RBC was installed in early February concurrent with the new all-season camp. The effluent from this facility is being directed to a PWSP that was initially installed to accept treated effluent from a temporary sewage treatment facility (referred to as the 'Tanks-A-Lot' system). The capacity of the PWSP at Mary River has also been exhausted. There was an initial set-back in the ramp-up of the RBC with the failure of a grease trap which has since been rectified. Seprotech has confirmed that ramp-up of this facility is now proceeding as expected. However, with capacity of the PWSP exhausted, Baffinland plans to imminently redirect effluent to Sheardown Lake. Treated effluent will be discharged onto the surface of the ice instead of to the water column until the facility has reached steady-state.

Albeit there have been some initial challenges particularly with the facility at Milne Inlet, Baffinland continues to work proactively to meet or exceed its regulatory requirements.

Should you have any comments or concerns, please do not hesitate to contact the undersigned at 416-814-3171 or Derek.chubb@baffinland.com.

Best Regards,

Baffinland Iron Mines Corporation

A handwritten signature in blue ink, appearing to read "Derek Chubb", with a small dot at the end.

Derek Chubb
VP, Sustainable Development

Cc:

Andrew Keim, Water license Inspector
John Amagoalik, Qikiqtani Inuit Association