



October 29, 2014

Mr. Brian Aglukark, Director, Implementation
Nunavut Planning Commission
P.O. Box 2101
Cambridge Bay, NU, X0B 0C0

Dear Mr. Aglukark:

Re: Mary River Project Phase 2 Development and Application to Determine Conformity with the North Baffin Regional Land Use Plan

This letter is to notify the Nunavut Planning Commission (Commission) of Baffinland's Phase 2 Development of the Mary River Project (Phase 2). Phase 2 activities will occur within the area covered by the North Baffin Regional Land Use Plan (NBRLUP). Baffinland's Phase 2 Project Description is enclosed (Attachment 1), as well as a completed "*Nunavut Planning Commission Application to Determine Conformity with the North Baffin Regional Land Use Plan.*" (Appendix 1 of the Project Description), Baffinland is writing to request that the Commission review the enclosed materials and confirm that Phase 2 conforms to the NBRLUP.

Background and Rationale for Phase 2

Baffinland obtained Project Certificate No. 005 for the Mary River Project in December, 2012. Due to the prevailing world economic climate since that time, Baffinland has recognized that proceeding with the Mary River Project will require a phased development approach. Accordingly, Baffinland obtained an amendment to Project Certificate No. 005 for the Early Revenue Phase ("**ERP**") in May, 2014, and is well on its way in regards to ERP implementation. The ERP enables Baffinland to mine and ship up to 4.2 million tonnes per annum (mtpa) of iron ore from Milne Port.

At this time, Baffinland recognizes that it will have to continue with the planned phased development approach of the Mary River Project and continue to defer the construction of certain project components already approved under Project Certificate No. 005. In particular, the construction and operation of the railway and Steensby Port will be delayed beyond 2015. The Company remains committed to the full development of a railway and Steensby Port as authorized under Project Certificate No.005. However, the capital investment necessary to initiate the railway phase of the Project exceeds \$5 billion. Under current market conditions, in order to obtain financing, lending institutions require that a proponent demonstrate the ability of their proposed project to generate cash flows and to demonstrate the quality and demand for their iron ore product.

In light of these market constraints, Baffinland has developed a plan for a second phase of development for its Mary River Project. Phase 2 will seek to optimize the use of infrastructure constructed for the ERP, and enable Baffinland to increase shipments of iron ore from Milne Port. The additional tonnage proposed for Phase 2 amounts to an increase of 7.8 mtpa to be transported from Milne Port along the northern shipping route.



Brief Summary of Phase 2

Phase 2 includes the following elements, beyond what is already approved within the ERP, which are described in more detail in the enclosed Phase 2 Project Description:

- Increased utilization of the Milne Inlet Tote Road, including increasing the trucking fleet and the twinning of bridges already constructed along the Tote Road;
- Increased utilization of Milne Port for shipping, and the addition of a second dock;
- The inclusion of two (2) ice management vessels (IMVs) for use at the Port, and the extension of the shipping season from June into March; and
- Trans-shipping from the purpose built ice class self-discharging ore carriers to Cape vessels in Eclipse Sound during the open water season (mid-July to mid-October), and trans-shipping from the purpose built ice class self-discharging ore carrier(s) to market Panamax and Cape vessels in Greenland waters from June to mid-July and from mid-October into March.

Phase 2 Regulatory Process

Baffinland recognizes that Phase 2 will require an amendment to the Project Certificate for the Mary River Project, and most likely an amendment to the Type A Water Licence. It is Baffinland's intention to provide an updated environmental impact statement (EIS) to NIRB for the activities proposed under Phase 2. Baffinland anticipates at this time that it will request NIRB to process the Phase 2 amendment application as a reconsideration of certificate terms and conditions under Part 8 of Article 12 of the Nunavut Land Claims Agreement following a similar NIRB process as to that followed with respect to the ERP.

Baffinland understands that Phase 2 will also require a conformity determination from the Commission. Article 11.5.10 through 11.5.12 of the *Nunavut Land Claims Agreement* provide for the Commission to make a conformity determination once it has received and reviewed a project proposal, and also provide for further steps that may be taken if the proposal is found not to be in conformity.

It is Baffinland's view at this time that the proposed Phase 2 of the Project is in conformity with the NBRLUP as amended in April, 2014, which includes a transportation corridor with a terrestrial component and a marine component. The Phase 2 transportation corridors will follow these approved routes. It is requested that the Commission make an expeditious determination of conformity of Phase 2 under the NBRLUP. This is so that all parties will have certainty on Phase 2 conformity before Baffinland determines its next steps, including but not limited to requesting the NIRB to commence its reconsideration of Project Certificate terms and conditions.

We look forward to receiving NPC's timely determination.



Sincerely,

A handwritten signature in black ink, appearing to read "Erik Madsen".

Erik Madsen, Vice President
Sustainable Development, Health, Safety & Environment

Encl. (1)

Attachment 1 - Project Description (includes *Nunavut Planning Commission Application to Determine Conformity with the North Baffin Regional Land Use Plan* as Appendix 1)

CC: Ryan Barry (NIRB)
Navarana Beveridge (QIA)