

SECTION 1.0 - INTRODUCTION

Baffinland Iron Mines Corporation (Baffinland) has prepared this environmental impact statement (EIS) for the development of its Mary River Project.

The Project is located on northern Baffin Island, in the Nunavut Territory, in the Canadian arctic. The Project consists of mining high grade iron ore from Deposit No. 1 at a production rate of 21 Mt/a. Development of the Project includes the construction, operation, closure and post-closure activities associated with the mine and its associated infrastructures, the construction of a 149-km long railway to link the Mine Site to a new port facility located at Steensby Inlet, the upgrade of an existing 100-km road to link the Mine Site to a new port facility located at Milne Inlet, and construction of the Steensby and Milne ports. Approximately 3 Mt of ore will be shipped during the open water season each year from Milne Port, and approximately 18 Mt of ore will be shipped year-round from Steensby Port using ice breaking ore carriers. The main destination of the ore is Europe. Key figures showing the location and layout of Project sites and transportation routes are included in Appendix 1A.

The EIS has been prepared in strict adherence to the intent of the “Guidelines for the Preparation of an Environmental Impact Statement for the Baffinland Iron Mines Corporation’s Mary River Project” (NIRB File No. 08MN053; the Guidelines), issued on November 16, 2009 and amended on November 3, 2010. Baffinland’s tables of concordance for Guidelines (including the amendment and appendices of the Guidelines) is included in Appendix 1C.

For clarity and ease of reference, the EIS Main Document is presented in the same order as the Guidelines. A key reference Index is provided in Section 17.0 of this Volume. This Index provides a useful reference to the various Volumes, Sections, and Appendices that constitute the supporting documentation to this EIS. This EIS is organized in ten (10) volumes, along with a popular summary in Appendix B. The master table of contents of the EIS and its supporting documentation is presented in Appendix 1D.

1.1 PROJECT SETTING

The Project is located in the Qikiqtani Region of Nunavut on northern Baffin Island. The site is about 160 km south of the community of Pond Inlet (Mittimatalik) and 1,000 km northwest of Iqaluit, the capital of Nunavut. Figure 1-2.1 (3-1.1 in Appendix 1A) presents the location of the Project.

1.2 THE PROPONENT - BAFFINLAND IRON MINES CORPORATION

Baffinland Iron Mines Corporation (TSX: BIM) is a Canadian publicly-traded junior mining company that was formed pursuant to Articles of Incorporation under the *Business Corporation Act* (Ontario) on March 10, 1986. The Company is a mineral exploration and development company. Its purpose is to seek investment opportunities and generate an acceptable rate of return for its shareholders.

Baffinland's activities are focused on the development of its 100%-owned Mary River iron ore deposits in the Mary River area of Baffin Island. The Company is committed to developing the Mary River Project in an environmentally and socially sustainable manner that will benefit both the Company and the people of Nunavut.

Figure 1-1.1 Project Location



Baffinland's head office is located at:

120 Adelaide Street West
Toronto, Ontario Canada M5H 1T1
Main Telephone: (416) 364-8820
Main Fax: (416) 364-8095
General Inquiries: info@baffinland.com

In addition to its head office, Baffinland maintains a year-round operation at its exploration camp at the Mary River site, and small community liaison offices in Iqaluit, Igloolik, and Pond Inlet.

Corporate Governance

Baffinland's corporate and management structure is like most junior mining companies. The Company is led by an eight member Board of Directors composed of experienced senior mining and business executives. Day-to-day operations are carried out by a senior management team. The directors, management, and staff operate under a number of corporate governance policies, charters, and mechanisms:

Code of Business Conduct and Ethics - Outlines the principles to which the Company's employees, officers and directors are expected to adhere to in the conduct of Baffinland's business. This Code sets forth principles regarding individual and peer responsibilities, as well as responsibilities to other employees, the public and other stakeholders. The Company's Corporate Governance Committee is responsible for monitoring compliance with this Code, and assesses the adequacy of the Code periodically and recommends any changes to the Company's Board of Directors.

Corporate Governance Policy - The Board of Directors adopted guidelines to reflect the Company's commitment to good corporate governance, and to comply with Toronto Stock Exchange (TSX) guidelines, the Ontario Securities Commission's (OSC) instruments and policies and other legal requirements. The Company's Corporate Governance Committee periodically reviews these guidelines and proposes modification to the Board for consideration as appropriate.

In addition, the Company established charters covering the Board; Audits; Compensation; Corporate Governance and Nominating Committee; and Environment, Health and Safety (EHS). These codes, policies, and charters are available on the Company's website:

www.baffinland.com/Governance/default.aspx

The Company also operates under a **Sustainable Development Policy**, which is presented in Volume 10 and is available on the Company's website in both English and Inuktitut. The Sustainable Development Policy applies and will continue to apply to the Company, its staff, and its on-site contractors.

Exploration and Bulk Sampling Programs

Since 2004, Baffinland has been undertaking advanced exploration of its known iron ore deposits, as well as a regional exploration program. The Company completed a bulk sampling program in 2007 and 2008 that involved upgrading the Milne Inlet Tote Road from winter use only to be capable of hauling the 113,000 t bulk sample to Milne Inlet. The ore sample was shipped to steelmakers in Europe. Also part of that program, the Company expanded camp facilities at Mary River and established camps at Milne Inlet, Steensby Inlet and along the railway alignment. Bulk fuel storage facilities were filled from a tanker in both these years, and

the Company used this activity to carry out mock spill response measures. To carry out the bulk sampling program, the Company worked with experienced Nunavut contractors, Qikiqtaaluk Corporation and Nuna Logistics Ltd. Baffinland learned a considerable amount in carrying out its exploration and bulk sampling programs to date, including arctic construction, mining on Deposit No. 1, crushing and screening of the ore into the intended iron ore products, management of logistics and weather, and human resource elements.

In terms of environmental protection and compliance, in 2007 Baffinland established an Environmental Protection Plan (EPP) to provide guidance to on-site personnel regarding meeting legislative and permitting requirements. The Company believes its compliance record is excellent, with no major issues of non-compliance and a record of addressing minor issues when identified by government regulators or land use inspectors. The Company submits various monthly and annual reports in accordance with permit requirements. The Company has not experienced any major spills or other environmental emergencies at its operation, and no major accidents resulting in fatalities, which is credit to both the Company and its contractors. The Company files regular updates to its existing Abandonment and Restoration Plan (ARP) and the Qikiqtani Inuit Association (QIA), as the main landowner, currently holds financial assurance for the closure costs identified in the latest update to the plan. Following the environmental review process and during the water licensing process, the Company expects to identify, and provide to either or both the NWB and QIA, additional financial assurance in stages to cover mine closure costs as the Project proceeds. The Company maintains comprehensive liability and standard protection and indemnity insurance policies to cover accidental health and safety and environmental accidents.

Baffinland's Record of Community Engagement

Baffinland has been proactively engaged in consultation with local communities, increasing the scope of its consultation activities progressively since 2004. In 2007, Baffinland established community liaison offices in the five North Baffin communities closest to the Project and in Iqaluit staffed by local community liaison officers (CLO), though due to financial constraints and a scaling back of operations in late 2008 it became necessary for the Company to reduce the number of CLO offices to three from five. With the exception of 2009, Baffinland has carried out public meetings in its five North Baffin communities (and in 2010, Cape Dorset and Kimmirut) on a bi-annual basis. Details of the Company's past consultation activities are provided in Volume 2, Section 1, and the Company's Stakeholder Engagement Plan is included in Appendix 10F-1.

Negotiating an Inuit Impact and Benefit Agreement

On the development of a future Inuit Impact and Benefit Agreement (IIBA), Baffinland started discussions with the QIA in 2006 and in March 2009 the two organizations reached an agreement-in-principle on the economic provisions of a future IIBA through the signing of a Memorandum of Understanding (MOU).

The Company Moving Forward to Develop the Mary River Project

The Company is well-positioned to advance the Mary River Project to mine development, with local experience, existing environmental management procedures, an excellent environmental compliance track record, and experienced long-term executive and site personnel. The Company is committed to designing and executing a Project that is well planned, and has developed a comprehensive EHS Management System, presented as Volume 10. To safely and responsibly execute the Project, Baffinland has identified key partners such as its shipping partner, Fednav, who has more than 50 years of experience shipping bulk commodities through ice in Canadian waters. Fednav has provided ice breaking ore carrier services to most of the recent mining projects in the eastern Canadian Arctic, including the former Polaris and Nanisivik mines, the historic Bent Horn Project, and currently the Raglan and Voisey's Bay mines. The Company's engineering and environmental teams have a wealth of arctic development experience. Additional key partners will be identified in the future to continue to build a world-class team to advance the Project.

1.3 PURPOSE OF AND NEED FOR THE PROJECT

The purpose of the Project is to extract, crush and screen, and ship approximately 21 million tonnes per year (Mt/a) of iron ore to overseas steel mills over a 21 year period in an environmentally and socially sustainable manner, while providing a competitive rate of return to the Company's investors and lenders, and sharing Project benefits directly with the local Inuit communities.

There is a five-fold need for this project:

1. To provide a return on investment to the Company's shareholders.
2. To supply high quality iron ore to the international marketplace. The reasonably foreseeable international demand for iron ore has created market conditions that Baffinland believes are favourable for opening a mine at Mary River.
3. To support the Nunavut Planning Commission's Broad Planning Principles, Policies and Goals (Nunavut Planning Commission, 2007). The Planning Commission goals include:
 - strengthening partnership and institutions;
 - protecting and sustaining the environment;
 - encouraging conservation planning;
 - building healthy communities; and
 - encouraging sustainable economic development.
4. To contribute to the development of infrastructure, skills training, employment, and business opportunities in Nunavut, as outlined in the Nunavut Exploration and Mining Strategy (Government of Nunavut, 2007). This will help build healthy communities and strengthen partnerships between Baffinland and stakeholders and institutions.

5. To contribute to Canada's northern strategy to strengthen Canada's sovereignty, protect the country's environmental heritage, promote economic and social development, and improve Northern governance. (Indian and Northern Affairs Canada, 2008).

Canada's mining industry is a major driver of Canadian prosperity, contributing \$32 billion to GDP in 2009 and employing 306,000 workers in mineral extraction, processing, and manufacturing. There are over 3,200 companies who provide inputs to the industry, ranging from engineering services to drilling equipment. The industry paid around \$5.5 billion in taxes and royalties to federal, Provincial and Territorial Governments in 2009—down by half from the pre-recession levels of the previous year, though still a significant contribution.

In 1999, Nunavut ranked 10 out of 13 in Canada's provinces and territories in the value of mineral production (1999 - \$347 M mineral production). By 2009, Nunavut ranked last having zero mineral production. In March, 2010, The Meadowbank Mine located in the Kivalliq region of Nunavut began operations. By the end of the third quarter of 2010, the Meadowbank Mine had produced approximately 189,669 ounces of gold. The mine is expected to produce an average of 350,000 ounces of gold per year over a nine-year mine life through 2019. Mining activity is on the rise in Nunavut.

There are currently six (6) active project reviews in the NIRB environmental process. As noted above, the Government of Nunavut has focused on mine development as both an economic driver and non-economic catalyst for social changes. The sustainability approach adopted by Baffinland takes into account environmental and social factors as well as economic consideration. A balance is needed in the Project decision making process.

1.4 GENERAL ECONOMIC FEASIBILITY AND BENEFITS OF THE PROJECT

Due to the remoteness of the site, the climatic conditions, the void of infrastructure, and, the competitiveness of the iron ore industry, the development of this iron deposit can only be justified by economies of scale. On the basis of current and forecasted long term iron prices, a minimum production volume is required to generate sufficient cash flow to economically justify the development of the Mary River Project at this time.

Current market conditions are expected to remain buoyant for iron ore prices for the short and medium term. On this basis, Baffinland estimates that the minimum production tonnage required to justify a C\$ 4.1 billion investment in this Project is 21 Mt/a.

Given the future demand for iron ore in the global marketplace, the Project has the potential, through its mineral exploration and mining activities, to contribute to meeting Nunavummiut needs for infrastructure, training, and sustainable economic development. The Project will generate benefits to local Inuit communities through capacity-building, employment and business opportunities, and revenues to the Territorial and Federal governments in the form of tax revenues. The IIBA, currently under negotiation

between Baffinland and the regional Inuit association, will ensure that benefits from the Project flow to nearby Inuit communities and the Qikiqtani Region of Nunavut.

Over the long term, the road, railway and port infrastructure built for the Project will provide opportunities to potentially develop additional mineral deposits in the North Baffin Region. The two ports will provide additional commercial use opportunities and the bathymetry information collected for the Project will provide important information for shipping lanes through Foxe Basin. In addition, Project activity will help confirm Canadian sovereignty over the region.

The direct investment for the Project is estimated to be \$4.1 billion, resulting in the production of iron ore worth about \$23 billion, providing 21,080 person years of employment, and Baffinland will pay more than \$1.6 billion in 1997 dollars (\$2.764 billion in nominal dollars) in profits taxes to the Government of Nunavut and more than \$1.9 billion 1997 dollars in royalties would flow to Nunavut Tunngavik Incorporated (NTI) over the life of the Project. By comparison, the Government of Nunavut's revenue from all sources was \$1.336 billion in 2007.

The Mary River Project will **grow the overall size of the economy of Nunavut**. The impact of the Mary River Project is to increase real GDP in Nunavut by \$13.6 billion. Of that increase, consumption increases \$3.3 billion, government current expenditure makes up \$2.1 billion, fixed investment makes up \$4.7 billion, exports make up \$23.0 billion, and imports make up \$19.4 billion. Compare these values to the 2008 values for the entire economy of Nunavut, and over its life, the Mary River Project-by itself-increases GDP by eleven times, consumption by six times, government current expenditure by two times, fixed investment by four times, exports by over one hundred times, and imports by thirteen times. The macro economic benefits of the Project are described in Volume 4 and Appendix 4B.

Another benefit of the Mary River Project is to **decrease economic instability in Nunavut**. The recent economic instability in the territory has been a symptom of a relatively small number of mining projects. It is important to increase the number of ongoing mining projects in Nunavut in order to stabilize the Territorial economy. Real Gross Domestic Product (GDP) in Nunavut was expected to decrease in 2009 by almost ten percent (when the 2009 data become available) due to the end of the construction phase of the Meadowbank Mine. In order to stabilize the economy of Nunavut, it is necessary to have a larger number of ongoing mining projects.

Across the ten provinces, economic modeling indicates the potential for the Project to increase real GDP by \$7.2 billion and increase employment by nearly 5,500 person years over the life of the Project.