



December 9, 2019

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Re: Baffinland Iron Mines Phase 2 Project

We are writing you on behalf of the Nunavut minerals industry to share our thoughts and concerns over recent events surrounding the Phase 2 expansion proposed by Baffinland Iron Mines Limited. As leaders in Nunavut, you all have influence on how development occurs in the territory.

The Mary River Phase 2 Project is one part of arguably the most significant mining project in Nunavut. Phase 2 is an important step in building the foundation for what should be the first multi-generational iron mine in the Arctic. Achieving this successfully is not just the role of the company, but will also require the efforts of many, including the land owner, public governments and the regulators. This cooperative action is particularly critical to help the Mary River mine compete in what is a very challenging and competitive market place.

Along with many others interested in the investment and regulatory climate in Nunavut, we continue to watch developments in the process and the project with much interest and concern over its potential effects on Nunavut's investment climate. We have shared our concerns, our observations and our recommendations publically through the media and, in the event you have not had the opportunity to read them, would like to share them with you here.

Should you have any questions, please do not hesitate to contact our General Manager Terry Dobbin at the coordinates below. You can also reach me personally at karmstrong@northarrowminerals.com.

Yours truly,

NWT & NUNAVUT CHAMBER OF MINES

Ken Armstrong
President

[Iron ore mining not for the faint of heart \(It's a tough business\)](#)

Editorial by Gary Vivian, President, NWT & Nunavut Chamber of Mines

Nunatsiaq News, November 19, 2019

The NWT & Nunavut Chamber of Mines was created over 50 years ago, and our Vision is to work for “A strong minerals industry that benefits the Peoples of the North”. From that perspective, we would like to offer the following thoughts and observations on the Mary River mining project.

The Mary River project is a game changing opportunity for Nunavut and Nunavummiut. It provides an opportunity for longer term training, employment, and sustained revenues for Inuit, Inuit Associations and Governments.

In 1962, two flying prospectors discovered the high quality, but remote Mary River iron ore deposits on northern Baffin Island. Despite being found to be of better quality than most deposits being mined around the world, their remote location and the low iron ore prices in a very competitive marketplace dashed any hopes of ever mining them economically. Thus, the iron ore deposits would remain as interesting oddities for another 50 years.

A quick [google of 30-year iron ore prices](#) (eg, [indexmundi.com](#)) shows why Mary River had no chance of becoming a mine at historically flat and low prices. However, with an almost 500% jump in prices briefly in 2008 and then again from 2010-2013, market optimism suggested mining at Mary River might be possible.

With rising iron ore prices and a positive outlook, Baffinland Iron Mines made the decision in 2008 to unlock the Mary River iron ore opportunity. They were joined by partner ArcelorMittal who, besides being the world's biggest steel maker, [operates an iron ore mine in remote northeastern Quebec, from which it ships ore on its own privately funded 420-kilometre railway to its port](#), Canada's largest private port. Their experience was a good fit to make Mary River mining work.

Unfortunately, by the end of 2015 iron ore prices had fallen to abysmal levels similar to the previous 30 years. While prices have turned around, it's been less than dramatic.

While Mary River is arguably the best iron ore deposit in the world, it is also in the worst location to be mined profitably, and all on its own without infrastructure support. It needs a much better iron ore price, or much larger production levels, in order to achieve the economies of scale required to be sustainable in a highly competitive market and ultimately be profitable.

To be profitable, bigger is better in the iron ore business as bigger production reduces the costs per tonne of mining.

The Mt. Wright iron ore mine in Quebec produces around 25 million tonnes annually, and Mt. Tom Price in Australia produces about 28 million tonnes annually, and the really big mines like Hamersley in Australia and Carajas in Brazil produce over 100 million tonnes per year. Mary River, even as proposed, is not a big iron ore mine. A good comparison might be that even with expanded production, the Mary River mine in the iron ore business is like an arctic hare compared to a musk ox.

Thus, it is no surprise that Mary River must be mined at higher production levels to be economic, certainly at these market prices.

It's important that people understand that governments around the world – both public and Indigenous – invite mining companies to come and invest in order to do what those governments themselves cannot do: that is to convert rock into training, into jobs, into business opportunities and to generate revenues that can help benefit governments' constituencies and beneficiaries. When they invite companies in to invest, governments also expect those companies to take on even more responsibilities by bringing their required expertise, bringing in huge investment dollars, and also having the courage and capacity to take on what can be significant and unpredictable market risk.

Governments, in turn, can provide companies with regulatory process certainty, an able labour force, and in many cases, they assist by helping with supporting transportation and power infrastructure. For example, in Alaska government funding provided the port and road for the Red Dog mine which is owned by the Inupiat and operated by Teck. The company pays off that road and port over time with annual payments.

The Mary River iron ore mine appears to be at an unfortunate and dangerous impasse at the moment. All parties – company, Inuit, and government – have much to lose. Our members watching the process are expressing concern over potential effects of this impasse on future projects.

We would respectfully provide the regulators and all the parties, including the company, with the following recommendations [which are the usual recipes for mining success]:

- Move with speed. Don't let the impasse drag on. Markets (and iron ore especially) are very competitive and prices are fickle. Too many projects have failed due to process slowness while the markets changed. A good case in point is the Mackenzie Gas Project, which became uneconomic when new gas supply decimated the market. Unfortunately, the Aboriginal Pipeline Group which was going to have equity participation in the project was also the loser because of the snail-paced environmental assessment process.
- Work together quickly to resolve concerns. Mary River has been described as a multi-generational mining opportunity. The deposit currently being mined is just one of many that can sustain operations and benefits for many future generations. Build the landowner-company foundation with strength and trust, so that it lasts
- Of course, be diligent to ensure the work being proposed is done with due care for the environment. The NIRB process is a good one to provide those assurances. Know too that companies and their investors understand and support environmental diligence.
- Continue to work to maximize socio-economic opportunities. Public and Inuit governments must continue to help the mine maximize economic opportunities by providing education and training of the workforce, building business capacity, and perhaps even looking if there is infrastructure support they might provide.

The outcomes of the Phase 2 assessment process are being closely watched by many current and potential Nunavut investors, who are looking for a successful resolution to bolster their confidence in the territory. We urge the Parties to sit down quickly and find creative solutions to address and resolve the current impasse and support responsible advancement of the mine. We very much believe that a solution exists.

[Shining a little light on Mary River process](#)

Editorial by Ken Armstrong, newly elected President of the NWT & Nunavut Chamber of Mines

Nunatsiaq News, November 26, 2019

The current impasse that Phase 2 of the Mary River project finds itself in is of great interest and also concern to investors and industry watchers. We'd like to shine some light on three aspects of the process.

First, there has been recent criticism of BIM for positioning several buildings and construction materials [Link: <https://nunatsiaq.com/stories/article/baffinlands-massive-railway-based-sealift-angers-pond-inlet/>], needed for the Phase two railway expansion, before approvals for the railway are in place. Operating in the North is challenging, with remote projects relying on limited transportation infrastructure and seasonal shipping windows. For northern resource projects, it is not uncommon to pre-position equipment at or near a project site in advance of receiving required permits. Pre-positioning equipment is permitted by regulatory authorities and land owners, and this practice should not be considered as presumptive, but rather as an additional project risk, borne by the proponent. The company is not assuming the permit is a slam dunk, rather they are being optimistic. Optimistic in the future of their project, that their stakeholder engagement has been effective and sufficient, and that their resultant submissions to regulatory agencies are reasonably complete. The proponent is also displaying confidence in the regulatory process and its embedded timelines for holding hearings, making decisions and granting permits. In effect, the proponent is weighing the risk and cost associated with shipping and storing equipment it is unable to use until permits are in place versus being granted permits but unable able to proceed because necessary equipment is not available.

Second, the Nunavut regulatory process has many layers, checks and balances that ensure a proponent cannot say one thing, then do another. At the recent hearings, BIM was characterized as secretly telling investors it wants to build an 18Mt/annum mine and regulators it wants a 12Mt/annum mine [Link: <https://nunatsiaq.com/stories/article/conservationists-allege-baffinland-withheld-vital-information-from-regulators/>]. It is up to proponents to present their aspirations for a planned project in a transparent and balanced way, to all stakeholders, but it is not at all unusual for companies to present plans for upcoming drilling programs, or mine developments, prior to permits being in place. In fact, mining feasibility studies always include timelines for raising money, construction and commencement of mining operations.

Mining development in the North is a slow process. Investors can accept this, IF the potential upside makes up for the risk. Many of our members operate exploration and development projects in Nunavut. When they are speaking with investors in Canada and elsewhere in the world, not only are they promoting their project, but they are also promoting Nunavut as a jurisdiction in which mines can be successfully and responsibly developed. Jurisdictions with a reputation for a transparent and rules based regulatory process, in which profitable mining operations have been constructed, will typically see the inflow of more investment dollars.

Lastly, some of our Chamber members have been hearing of an emerging sentiment that another company will step in to operate Mary River should Baffinland be forced to abandon the project. This sentiment is misguided. Setting aside questions related to the logistics and timelines involved with a

new company positioning itself to take over a project, the fact is that if a mine is not profitable for Company #1, the economics likely won't change and the mine will also be uneconomic for Company #2. Furthermore, the world of mine finance is highly interconnected and the chances are that Company #2 would end up approaching the same investors that lost money investing in Company #1. Once a deposit has a reputation as being a money loser, finding new investment can be very difficult.

For everyone's sake, we are hopeful that the impasse we are currently seeing will be overcome in short order by the landowner and the company and supported by the regulatory system. We suggest that the success of this project to both is well worth the effort.