

*This document is important and requires your immediate attention. If you are in doubt as to how to respond to the offer described in this Notice of Change, you should consult with your investment dealer, stockbroker, bank manager, lawyer or other professional advisor.*



## **NOTICE OF CHANGE TO DIRECTORS' CIRCULAR**

**Relating to the Amended Partial Offer by NUNAVUT IRON ORE ACQUISITION INC.,**

**a corporation wholly owned by IRON ORE HOLDINGS, LP,**

**to purchase 49.7% of the common shares,  
excluding the 10.3% of the common shares owned by Nunavut,**

**of**

**BAFFINLAND IRON MINES CORPORATION**

**FOR \$1.45 IN CASH PER COMMON SHARE WHICH CAN BE TAKEN UP**

**The Baffinland Board of Directors reaffirms its recommendation that you**

**ACCEPT the ArcelorMittal Offer of  
\$1.40 in Cash for 100% of the Common Shares and \$0.10 in Cash for 100% of the 2007 Warrants  
and TENDER your Baffinland Common Shares and 2007 Warrants  
to the ArcelorMittal Offer**

**and**

**REJECT the Amended Nunavut Offer  
and DO NOT TENDER your Baffinland Common Shares  
to the Amended Nunavut Offer.**

Information contained in this Notice of Change varies and updates certain information contained in the Directors' Circular dated October 7, 2010 issued by the Board of Directors of Baffinland Iron Mines Corporation, as amended by the notices of change dated December 20, 2010 and December 31, 2010, with respect to the original offer made by Nunavut Iron Ore Acquisition Inc. dated September 22, 2010 as amended by the notices of variation/extension dated October 28, 2010, November 8, 2010, November 22, 2010, December 2, 2010, December 13, 2010, December 15, 2010, December 29, 2010 and December 31, 2010 and should be read in conjunction therewith.

January 3, 2011

**Notice to United States Securityholders:** *The offer to which this Notice of Change relates is made for the securities of a Canadian issuer. The enforcement by investors of civil liabilities under United States federal securities law may be affected adversely by the fact that the issuer is located in a foreign country and that some of its officers and directors are residents of a foreign country.*

## **CAUTIONARY STATEMENT ON FORWARD LOOKING INFORMATION**

Certain statements in this Notice of Change may constitute forward looking information within the meaning of securities laws. These statements can be identified by expressions of belief, expectation or intention, as well as those statements that are not historical fact. In some cases, forward looking information can be identified by the use of terms such as “may”, “will”, “should”, “project”, “expect”, “believe”, “plan”, “scheduled”, “intend”, “estimate”, “forecast”, “predict”, “potential”, “continue”, “anticipate” or other similar expressions concerning matters that are not historical facts. Forward looking information may relate to management’s future outlook and anticipated events or results, and may include statements or information regarding the future plans or prospects of Baffinland.

Forward looking information is based on certain factors and assumptions regarding, among other things, the estimation of mineral reserves and resources and the realization of such estimates, the timing and amount of future exploration expenditures, the estimation of initial and sustaining capital requirements, the estimation of labour and operating costs, the availability of necessary financing to develop the Mary River property in the short and long-term, the progress of construction and development activities, the receipt of necessary regulatory approvals, iron ore prices, the feasibility of constructing and operating a direct shipping iron ore mine at the Mary River Project, assumptions with respect to environmental risks, title disputes or claims, weather conditions, climate change and other similar matters.

Several factors could cause actual results to differ materially from those expressed in the forward looking statements, including, but not limited to: actions taken by ArcelorMittal or Nunavut; actions taken by Shareholders of Baffinland in respect of the ArcelorMittal Offer or the Amended Nunavut Offer; the possible effect of the ArcelorMittal Offer or the Amended Nunavut Offer on Baffinland’s business; risks inherent in the exploration for and development of mineral deposits; financing, capitalization and liquidity risks, including the risk that the financing alternatives necessary to fund the exploration and development activities at the Mary River Property may not be available on satisfactory terms, or at all; regulatory risks, including risks relating to the acquisition of the necessary licenses and permits; uncertainties inherent in the estimation of mineral reserves and resources; risks that production estimates may be inaccurate; construction and operational risks inherent in the conduct of mining activities, including the risk of increases in capital and operating costs and the risk of delays or increased costs that might be encountered during the construction and development process; risks relating to changes in iron ore prices and the worldwide demand for and supply of iron ore; risks relating to the remoteness of the Mary River Property including access and supply risks and reliance on key personnel; environmental risks, including risks relating to climate change and the potential impact of global warming on Mary River Project timelines and on construction and operating costs; the risk of fluctuations in the Canadian/U.S. dollar exchange rate; and insurance risks. Additional risks and uncertainties can be found in Baffinland’s Annual Information Form for the financial year ended December 31, 2009 under the captions “Cautionary Statement on Forward Looking Information” and “Risk Factors” and in Baffinland’s other filings with Canadian provincial securities commissions.

Forward looking statements are given only as at the date of this Notice of Change. You should not place undue importance on forward looking information and should not rely upon this information as of any other date. While Baffinland may elect to, Baffinland is under no obligation and does not undertake to update this information at any particular time, except as required by law.

## **CURRENCY**

All dollar references in this Notice of Change are in Canadian dollars, unless otherwise indicated.

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## NOTICE OF CHANGE TO DIRECTORS' CIRCULAR

This Notice of Change (this “**Notice of Change**”) relates to the directors’ circular dated October 7, 2010, a notice of change dated December 20, 2010 (the “**First Notice of Change**”) and a notice of change dated December 31, 2010 (the “**Second Notice of Change**”) (as amended, the “**Nunavut Directors’ Circular**”) issued by the board of directors (the “**Board of Directors**” or “**Board**”) of Baffinland Iron Mines Corporation (“**Baffinland**” or the “**Corporation**”) in connection with the unsolicited offer by Nunavut Iron Ore Acquisition Inc. (“**Nunavut**”), a corporation wholly owned by Iron Ore Holdings, LP, to purchase 49.7% of the issued and outstanding common shares (“**Common Shares**”), on a fully diluted basis excluding the 10.3% of the Common Shares owned by Nunavut, together with the associated rights issued and outstanding under Baffinland’s shareholder rights plan, including Common Shares that may become issued and outstanding after September 22, 2010 but before the expiry time of the offer upon the conversion, exchange or exercise of options issued under Baffinland’s stock option plan, the issued and outstanding warrants of Baffinland, or other securities of Baffinland that are convertible into or exchangeable or exercisable for Common Shares, upon the terms and subject to the conditions set forth in the Offer and Circular dated September 22, 2010, as amended and supplemented by the notices of extension dated October 28, 2010, November 8, 2010, November 22, 2010, December 2, 2010 and December 13, 2010, the notices of variation and extension dated December 15, 2010 and December 29, 2010 and the notice of variation dated December 31, 2010 (as amended and supplemented, the “**Nunavut Offer and Circular**”) (the “**Amended Nunavut Offer**”).

Defined terms used but not defined in this Notice of Change have the meanings given to them in the Second Notice of Change.

On December 31, 2010, Nunavut amended the consideration payable under the Amended Nunavut Offer to \$1.45 in cash for each Common Share which can be taken up under the Amended Nunavut Offer. This values the original Nunavut Offer, which when made on September 22, 2010 was for 100% of the Common Shares for \$0.80 per Common Share, at approximately \$294 million, excluding the Common Shares already owned by Nunavut at the time, and the Amended Nunavut Offer, which is for approximately 49.7% of the Common Shares excluding the 10.3% owned by Nunavut (or for 60% of the Common Shares including the Common Shares owned by Nunavut), at approximately \$283 million.

The Amended Nunavut Offer is open for acceptance until 11:59 p.m. (Toronto time) on January 10, 2011, unless extended or withdrawn.

### RECENT DEVELOPMENTS

#### *Recent Developments Concerning the ArcelorMittal Offer*

As described in the Second Notice of Change, on December 31, 2010, ArcelorMittal announced an increase to its previous offer price for Common Shares from \$1.25 per share to \$1.40 per share and mailed a notice of variation to Baffinland securityholders in respect of the terms of such variation to the ArcelorMittal Offer.

#### *Recent Developments Concerning the Nunavut Offer*

On December 31, 2010, Nunavut announced a change to the offer price under the Amended Nunavut Offer, and subsequently filed on SEDAR a notice of variation to Baffinland Shareholders in respect of the terms of the Amended Nunavut Offer.

## DIRECTORS' RECOMMENDATION

After careful consideration, in consultation with its financial and legal advisors, of the terms and conditions of the Amended Nunavut Offer, the Board of Directors, at a meeting held on January 3, 2011 determined that the offer by ArcelorMittal being made for 100% of Baffinland's Common Shares for C\$1.40 in cash per share and 100% of Baffinland's 2007 Warrants for C\$0.10 in cash per 2007 Warrant (the "**ArcelorMittal Offer**") remains in the best interests of Baffinland, its Shareholders and 2007 Warranholders and the Board of Directors reaffirms its recommendation that Shareholders and 2007 Warranholders **ACCEPT** the ArcelorMittal Offer and **TENDER** their Common Shares and 2007 Warrants to the ArcelorMittal Offer and **REJECT** the Amended Nunavut Offer and **NOT TENDER** their Common Shares to the Amended Nunavut Offer.

**IF YOU HAVE TENDERED YOUR COMMON SHARES TO THE AMENDED NUNAVUT OFFER, YOU CAN WITHDRAW THEM.** For assistance in withdrawing your Common Shares, you should contact your broker or Baffinland's information agent, Phoenix Advisory Partners at the address or phone number on the back page of this Notice of Change.

### ANALYSIS AND REASONS FOR THE BOARD'S CONCLUSION AND RECOMMENDATION TO ACCEPT THE ARCELORMITTAL OFFER AND REJECT THE AMENDED NUNAVUT OFFER

The recommendation of the Board to Baffinland securityholders to **ACCEPT** the ArcelorMittal Offer and **TENDER** their Common Shares and 2007 Warrants to the ArcelorMittal Offer and to **REJECT** the Amended Nunavut Offer and **NOT TENDER** their Common Shares to the Amended Nunavut Offer is based on the reasons provided in the First Notice of Change and the Second Notice of Change, summarized briefly below.

- The ArcelorMittal Offer of \$1.40 per Common Share is for 100% of the Common Shares and 2007 Warrants and represents a 27% premium to the original ArcelorMittal Offer of \$1.10 for all of the Common Shares and a 75% premium over the original Nunavut Offer of \$0.80 per Common Share for all of the Common Shares other than the Common Shares owned by Nunavut at the time. The value of the ArcelorMittal Offer made for 100% of the Common Shares is approximately \$552 million compared to the value of the Amended Nunavut Offer made for 49.7% of the Common Shares is approximately \$283 million.
- The Amended Nunavut Offer (i) is structurally coercive because it is a partial offer to purchase 49.7% of the outstanding Common Shares whereas the ArcelorMittal Offer is for 100% of the outstanding Common Shares; and (ii) has a value that is highly uncertain because of the uncertainty relating to, among other things, the number of Common Shares which may be taken up for cash, the issue of the exchange right, the trading price of the Common Shares following completion of the Amended Nunavut Offer if it were successful and the dilution resulting from the proposed issue of the exchange rights/warrants.
- If successful, the Amended Nunavut Offer will have an adverse effect on the liquidity of the Common Shares. Only 15% of the outstanding Common Shares may potentially continue to trade as part of the minority public float because holders of 25% of the outstanding Common Shares of Baffinland have entered into Lock-Up Agreements with ArcelorMittal of which approximately 23% are held by Baffinland's major shareholder Resource Capital Funds.
- The ArcelorMittal Offer provides greater certainty than the Amended Nunavut Offer, which remains highly conditional.
- A significant portion of the existing 10.3% stake in Baffinland held by Nunavut has been acquired in a manner which the Board views as discriminatory and abusive.
- All of the directors and officers of Baffinland and Baffinland's largest shareholder, Resource Capital Funds, who hold in the aggregate approximately 25% of the outstanding Common Shares have entered into Lock-Up Agreements with ArcelorMittal and tendered their Common Shares and 2007 Warrants to the ArcelorMittal Offer.

- The Board of Directors has preserved the ability to respond to unsolicited Superior Proposals (as defined in the Support Agreement).
- The Warrant Proposal announced in connection with the variations made to the Amended Nunavut Offer on December 29, 2010 involving the potential issuance of another 40% of the outstanding Common Shares following the completion of the Amended Nunavut Offer would lead to significant equity dilution which would likely have a negative impact on the trading value of the remaining minority held publicly traded Common Shares.

The full text of the reasons provided in the First Notice of Change and the Second Notice of Change are incorporated by reference into this Notice of Change, *mutatis mutandis*.

#### **OTHER MATERIAL INFORMATION**

Except as otherwise described or referred to in this Notice of Change, or otherwise publicly disclosed, no other information is known to the directors or officers of Baffinland that would reasonably be expected to affect the decision of the Shareholders to accept or reject the Amended Nunavut Offer.

#### **STATUTORY RIGHTS**

Securities legislation in certain of the provinces and territories of Canada provides security holders of Baffinland with, in addition to any other rights they may have at law, one or more rights of rescission, price revision or to damages, if there is a misrepresentation in a circular or notice that is required to be delivered to those security holders. However, such rights must be exercised within prescribed time limits. Security holders should refer to the applicable provisions of the securities legislation of their province or territory for particulars of those rights or consult a lawyer.

#### **APPROVAL OF NOTICE OF CHANGE**

The content of this Notice of Change has been approved and the delivery thereof has been authorized by the Board.

## CERTIFICATE

Dated: January 3, 2011

The foregoing, together with the Nunavut Directors' Circular, the First Notice of Change and the Second Notice of Change, contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made.

On behalf of the Board of Directors

(Signed) DANIELLA DIMITROV  
Director and Vice-Chair

(Signed) JOHN LYDALL  
Chairman of the Special Committee  
and Director



**THE BOARD OF DIRECTORS  
RECOMMENDS THAT BAFFINLAND  
SECURITYHOLDERS**

**ACCEPT THE ARCELORMITTAL OFFER  
AND TENDER THEIR COMMON SHARES AND 2007 WARRANTS TO  
THE ARCELORMITTAL OFFER**

**AND**

**REJECT THE AMENDED NUNAVUT OFFER  
AND NOT TENDER THEIR COMMON SHARES TO  
THE AMENDED NUNAVUT OFFER**

**Any questions and requests for assistance may be directed to Baffinland's Information Agent:**



North American Toll Free Phone:

**1-800-503-9445**

Email: [contactus@phoenixadvisorypartners.com](mailto:contactus@phoenixadvisorypartners.com)

Outside North America, Banks and Brokers Call Collect: 416-385-6020