

## **IMPORTANT TAX NOTICE:**

### **Special U.S. Federal Income Tax Filing Requirements Related to Your Investment in**

#### **Baffinland Iron Mines Corporation**

Shareholders who are U.S. taxpayers should be aware that Baffinland Iron Mines Corporation (the "Company") expects to be a passive foreign investment company ("PFIC") for its current fiscal year, expects that it was a PFIC in its taxable year ended December 31, 2006 and expects that it may also be a PFIC in subsequent years.

The attached **PFIC Annual Information Statement** is being provided to you pursuant to the requirements of Treasury Regulations Section 1.1295-1(g)(1). This PFIC Annual Information Statement contains information to enable you, should you choose, to elect to treat the Company as a qualified electing fund ("**QEF**"). A U.S. shareholder does not have to make this election for shares held in his or her retirement account.

A U.S. shareholder who makes a QEF election is required to annually include in his or her income his or her pro rata share of the ordinary earnings and net capital gains of the Company, whether or not the Company distributes any amounts to its shareholders. The Company did not have ordinary earnings or net capital gains for its taxable year ended December 31, 2007.

If you do not elect to treat the Company as a QEF, then if the Company is a PFIC for any year during your holding period, you would be subject to the PFIC rules, which could result in adverse tax consequences to you. For example, if you were to receive a so-called "excess distribution" or if you sell your Company stock in the future at a gain, you could be required to allocate such distribution or gain, as the case may be, ratably over the time period during which you held your stock while the Company was a PFIC, and pay tax at the highest rate (rather than, if otherwise applicable, the long-term capital gain rate) on ordinary income in effect for each year to which the gain is allocated plus interest on the tax.

The QEF election is made by completing and attaching Form 8621<sup>1</sup> to a U.S. federal income tax return filed by the due date of the return, as extended.

**We strongly urge you to consult your own tax advisor for advice concerning the application of the U. S. federal income tax rules governing PFICs.**

**TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, YOU ARE HEREBY NOTIFIED THAT: (A) ANY U.S. FEDERAL TAX ADVICE CONTAINED HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED UNDER THE INTERNAL REVENUE CODE; (B) THE ADVICE IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE COMPANY OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN, AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.**

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<sup>1</sup> The instructions for Form 8621 can be found on the Internet at <http://www.irs.gov/pub/irsfill/f8621.pdf>.

(February 2008)

**PFIC Annual Information Statement**

(1) This Information Statement applies to the taxable year of Baffinland Iron Mines Corporation (the "Company") beginning on January 1, 2007 and ending on December 31, 2007 (the "Taxable Year").

(2) The total ordinary earnings and net capital gains of the Company for the Taxable Year specified in paragraph (1) are:

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|--|------|
| (a) Ordinary Earnings:   | NONE |
| (b) Net Capital Gains:   | NONE |
| (c) Your pro rata share of the Company's Ordinary Earnings is:   | NONE |
| (d) Your pro rata share of the Company's Net Capital Gain is:  | NONE |
| (e) The amount of cash and the fair market value of other property distributed or deemed distributed to you during the Taxable Year specified in paragraph (1) is: | NONE |

(3) The Company will permit you to inspect and copy its permanent books of account, records, and such other documents as may be maintained that are necessary to establish that the Company's ordinary earnings and net capital gain are computed in accordance with U.S. income tax principles and to verify these amounts and your prorated shares thereof.

**BAFFINLAND IRON MINES CORPORATION**

By: Robert Chausse, Chief Financial Officer

**THIS INFORMATION IS PROVIDED IN ORDER TO ASSIST THOSE SHAREHOLDERS WHO HAVE MADE A QEF ELECTION WITH RESPECT TO THE COMPANY IN MAKING CERTAIN PFIC CALCULATIONS AND DOES NOT CONSTITUTE TAX ADVICE. THOSE SHAREHOLDERS ARE ADVISED TO CONSULT WITH THEIR OWN TAX ADVISORS CONCERNING THE OVERALL TAX CONSEQUENCES OF THE OWNERSHIP OF SHARES ARISING IN THEIR OWN PARTICULAR SITUATIONS UNDER UNITED STATES FEDERAL, STATE, LOCAL AND FOREIGN LAW.**