

CHARTER OF THE AUDIT COMMITTEE

1.0 PURPOSE

The Audit Committee (the “Committee”) of Baffinland Iron Mines Corporation (the “Company”) has been established by the Board of Directors of the Company (the “Board”) for the purposes of assisting the Board in overseeing the accounting and financial reporting processes of the Company and audits of the financial statements of the Company and shall assume responsibility for:

1.1 Auditor Qualification and Independence

The external auditor’s qualifications and independence.

1.2 Auditor Performance and Audit Functions

The external auditor’s performance and internal and external audit functions.

1.3 Financial Statements and Related Disclosure

Review of the Company’s financial statements and related disclosure.

1.4 Internal and Disclosure Controls and Reporting

Oversight of the Company’s procedures for internal control over financial reporting, disclosure controls and procedures and public disclosure with respect to finance, accounting and internal and disclosure controls.

2.0 COMPOSITION

2.1 Members

The Committee shall consist of as many members as the Board shall determine, but in any event, not fewer than three (3) members. The Board shall appoint the members of the Committee annually.

2.2 Qualifications

2.2.1 Each member of the Committee shall be an independent director of the Company within the meaning of the Canadian Securities Administrators Multilateral Instrument 52-111.

2.2.2 Each member of the Committee shall be financially literate, meaning each member, at the time of his/her appointment, must be able to read and understand financial statements that represent a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the Company that can reasonably be expected to be raised by the Company’s financial statements.

2.2.3 It is recommended that Committee members not simultaneously serve on the committees of more than three (3) other public companies. If a Committee member serves on more than two other committees, the Committee (or Board) must determine whether membership on multiple committees impairs the ability of the member to serve on the Committee.

2.3 Chair

Unless a Chair is elected by the full Board, the members of the Committee may designate a Chair by majority vote of the full Committee.

2.4 Removal and Replacement

Any member of the Committee may be removed or replaced at any time by the Board and shall cease to be a member of the Committee on ceasing to be an independent director. The Board may fill vacancies on the Committee by election from among the Board. If, and whenever, vacancies shall exist on the Committee, the remaining members may exercise all its powers so long as a quorum remains.

3.0 OPERATIONS**3.1 Meetings**

The Chair of the Committee, in consultation with the Committee members, shall determine the schedule and frequency of the Committee meetings, provided that the Committee shall meet at least four (4) times per year. The Audit Committee shall meet within forty-five (45) days following the end of each of the first three financial quarters and shall meeting within ninety (90) days following the end of the financial year.

3.2 Independent Meetings

The Committee members shall meet independently, with only members of the Committee, following every meeting of the Committee, or more frequently, if necessary. The Committee shall meet separately with the independent auditors at every meeting of the Committee at which the independent auditor is present. The Committee shall meet separately with management quarterly or as frequently as necessary or desirable.

3.3 Quorum

Quorum for the transaction of business at any meeting of the Committee shall be a majority of the number of members of the Committee.

3.4 Notice

Committee meetings shall be held from time to time and at such place as any member of the Committee shall determine upon reasonable notice to each of its members which shall not be less than twenty-four (24) hours. The notice period may be waived by all members of the Committee. Each of the Chair of the Board, the external auditor, the Chief Executive Officer or the Chief Financial Officer shall be entitled to request that any member of the Committee call a meeting.

3.5 Agenda

The Chair of the Committee, with the assistance of the Corporate Secretary, shall develop and set the Committee's agenda, in consultation with other members of the Committee, the Board and management. The agenda and information concerning the business to be conducted at each Committee meeting shall be, to the extent practical, communicated to members of the Committee sufficiently in advance of each meeting to permit meaningful review.

3.6 Report to the Board

The Committee shall report regularly, which shall be at least quarterly, to the entire Board. The Chair of the Committee shall prepare and deliver the report to the Board. The Committee's report by the Chair may be a verbal report delivered to the Board at a duly called Board meeting.

3.7 Assessment of Charter

The Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.

4.0 RESPONSIBILITIES

The Committee is responsible for ensuring adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements including:

4.1 Auditor Qualification and Independence

- 4.1.1 The Committee shall be directly responsible for the appointment (subject to shareholder approval), retention or replacement of the independent auditor;
- 4.1.2 The Committee shall be directly responsible for the compensation and oversight of the work of the independent auditor, (including resolution of disagreements between management and the auditor regarding financial reporting), employed by the Company to audit its financial statements.
- 4.1.3 The independent auditor shall report directly to the Committee.
- 4.1.4 The Committee shall review and evaluate the experience, qualification, performance and independence of the independent auditor.
- 4.1.5 The Committee shall have the sole authority to pre-approve:
 - (a) all auditing services, including all audit engagement fees and terms; and
 - (b) all non-audit services, including tax services to be performed by the Company's independent auditor.
- 4.1.6 The Committee shall review with the lead audit partner whether any of the audit partners receive any discretionary compensation from the audit firm with respect to non-audit services performed by the independent auditor.
- 4.1.7 The Committee shall obtain and review with the lead audit partner and a more senior representative of the independent auditor, annually or more frequently as the Committee considers appropriate, a report by the independent auditor describing:
 - (a) the independent auditor's internal quality-control procedures;
 - (b) any material issues raised by the most recent internal quality-control review, or peer review, of the independent auditor, or by any inquiry, review or investigation by governmental, regulatory or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the independent auditor, and any steps taken to deal with these issues; and
 - (c) all relationships between the independent auditor and the Company in order to assess the independent auditor's independence.
- 4.1.8 The Committee shall ensure a five-year rotation period and a five-year "time-out" period of the lead audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law and a seven-year mandatory rotation period with a two-year "time-out" period for certain other audit partners depending on the partner's involvement in the audit. In addition, the Committee shall consider whether, in order to assure continuing auditor independence, it is appropriate to adopt a policy of rotating the independent audit firm on a regular basis.
- 4.1.9 The Committee shall recommend to the Board policies for the Company's hiring of partners, employees or former partners and employees of the current and former independent auditor who participated in any capacity in the audit of the Company.

- 4.1.10 The Committee shall pre-approve the hiring of any partner, employee or former partner and employee of the independent auditor who was a member of the Company's audit team during the preceding two fiscal years. In addition, the Committee shall pre-approve the hiring of any partner, employee or former partner or employee of the independent auditor within the preceding two fiscal years for senior positions within the Company, regardless of whether that person was a member of the Company's audit team.

4.2 Auditor Performance and Audit Functions

- 4.2.1 The Committee shall discuss with management and advise on the appointment, replacement, reassignment or dismissal of any senior internal auditor, if applicable.
- 4.2.2 The Committee shall meet with management and the independent auditor prior to the audit to discuss the scope, planning and staffing of the proposed audit for the current year.
- 4.2.3 The Committee shall review and discuss with management and the independent auditor, any internal audit department responsibilities, plans, results, budget and staffing, if applicable.
- 4.2.4 The Company shall provide for appropriate funding, as determined by the Committee, for payment of compensation to the independent auditor for the purpose of rendering or issuing an audit report and to any advisors employed by the Committee.

4.3 Financial Statements and Related Disclosure

- 4.3.1 The Committee shall review and discuss with management and the independent auditor the Company's annual audited financial statements, including the management's discussion and analysis before the filing of such statements.
- 4.3.2 The Committee shall review and discuss with management and the independent auditor the Company's quarterly financial statements, including the interim management's discussion and analysis, and the results of the independent auditor's review of the quarterly financial statements, before the filing of such statements.
- 4.3.3 The Committee shall discuss with the independent auditor management's competency in preparing the financial statements.
- 4.3.4 The Committee shall review and discuss quarterly and annual reports from the independent auditor on:
- (a) all critical accounting policies and practices to be used by the Company in preparing its financial statements;
 - (b) all material alternative treatments of financial information within GAAP that have been discussed with management, ramifications of the use of these alternative disclosures and treatments, and the treatment preferred by the independent auditor; and
 - (c) other material communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.
- 4.3.5 The Committee shall review and discuss with management earnings (and/or other financial information) press releases with particular attention to the use of "pro forma" or "adjusted" non-GAAP information, before they are issued.
- 4.3.6 The Committee shall review and discuss generally with management the nature of the financial information and earnings guidance provided to analysts and rating agencies.
- 4.3.7 The Committee shall review and discuss with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements.

- 4.3.8 The Committee shall discuss with management and the independent auditor any audit problems or difficulties and management's response.
- 4.3.9 The Committee shall discuss with management and the independent auditor financial reporting issues and judgements made in connection with the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal control over financial reporting and any special steps adopted in light of material control deficiencies.
- 4.3.10 The Committee shall review with management, and any outside professionals as the Committee considers appropriate, important trends and developments in financial reporting practices and requirements and their effect on the Company's financial statements.
- 4.3.11 The Committee shall review with management any related party transactions and ensure such related party transactions are appropriately disclosed.

4.4 Internal and Disclosure Controls and Reporting

- 4.4.1 The Committee shall review with management, any internal auditor and the independent auditor disclosures made to the Committee by the Company's CEO and CFO during their certification process for the quarterly and annual financial filings about the quality, adequacy and effectiveness of the Company's internal control over financial reporting and any significant deficiencies in the design or operation of internal control over financial reporting or material weakness therein and any fraud involving management or other employees who have a significant role in the Company's internal control over financial reporting.
- 4.4.2 The Committee shall review and discuss with management and the independent auditor the effectiveness of the Company's disclosure controls and procedures and the Company's internal control over financial reporting.
- 4.4.3 The Committee shall review and discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's policies with respect to risk assessment and risk management.

4.5 Legal and Regulatory Compliance

- 4.5.1 The Committee shall discuss with management and the independent auditor any correspondence with regulators or governmental agencies and any published reports which raise material issues regarding the Company.
- 4.5.2 The Committee shall establish procedures for:
 - (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, auditing matters or potential violations of law; and
 - (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters or potential violations of law.
- 4.5.3 The Committee shall review any required disclosure in public documents with respect to the Committee and its functions, including the disclosure required in the Annual Information Form under Multilateral Instrument 52-110

The foregoing list of duties is not exhaustive, and the Committee may, in addition, perform such other functions as may be necessary or appropriate for the performance of its oversight function.

5.0 AUTHORITY**5.1 Delegation**

The Committee has the power to delegate its authority and duties to a subcommittee or individual members of the Committee, as it deems appropriate, provided that the subcommittee is composed entirely of unrelated directors.

5.2 Advisors

The Committee may retain, and determine the fees of, independent counsel and other advisors, in its sole discretion.

5.3 Access to Records and Personnel

In discharging its oversight role, the Committee shall have full access to all Company books, records, facilities and personnel.

5.4 Clarification of Audit Committee's Role

The Committee's responsibility is one of oversight. It is the responsibility of the Company's management to prepare consolidated financial statements in accordance with applicable law and regulations and of the Company's independent auditor to audit those financial statements. Therefore, each member of the Committee shall be entitled to rely, to the fullest extent permitted by law, on the integrity of those persons and organizations within and outside the Company from who he or she receives information, and the accuracy of the financial and other information provided to the Committee by such persons or organizations.