Baffinland Iron Mines Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
FOR THE THREE MONTHS ENDED MARCH 31, 2010

INTRODUCTION

Baffinland Iron Mines Corporation ("Baffinland" or the "Company") is a Canadian company that was formed pursuant to Articles of Incorporation under the *Business Corporation Act* (Ontario) on March 10, 1986. The following is management's discussion and analysis of the financial condition and results of operations of Baffinland for the three months ended March 31, 2010 ("MD&A"), and its financial position as at March 31, 2010, and should be read in conjunction with the unaudited financial statements of the Company as at and for the three months ended March 31, 2010, including the notes thereto. The Company's financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Additional information relating to the Company, including the Company's Annual Information Form dated March 25, 2010 and subsequent press releases have been filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") and are available online at www.sedar.com. The date of this MD&A is April 28, 2010. All figures are in Canadian dollars unless otherwise noted.

The Company's common shares and common share purchase warrants are listed on the Toronto Stock Exchange (the "TSX") under the trading symbols "BIM" for the common shares, "BIM.WT" for the 2007 warrants and "BIM.WT.A" for the 2009 warrants, respectively. See "Common Shares" for details on warrants outstanding.

Included in this MD&A are matters that constitute "forward-looking" information within the meaning of Canadian securities law. See "Cautionary Note Regarding Forward-Looking Information".

OVERVIEW

Background

Baffinland is a Canadian publicly traded junior mining exploration company focused on the exploration and development of the iron ore deposits located on its 100% owned Mary River Property. The Property consists of five high grade direct shipping iron ore deposits referred to as Deposit Nos. 1, 2, 3, 4 and 5. Deposit Nos. 1, 2 and 3 are closely adjacent to each other, Deposit No. 4 lies about 27 kilometres to the northwest of Deposit Nos. 1, 2 and 3 and the recently discovered Deposit No. 5 is located less than five kilometres southeast of Deposit No. 4.

The Property covers a total area of approximately 32,669 hectares consisting of: (i) three mining leases totalling 1,593 hectares, (ii) 18 mineral claims totalling 12,956 hectares, and (iii) two exploration areas totalling 18,120 hectares. The 18 mineral claims were staked by the Company in October 2009. The two exploration areas are subject to the terms and conditions of an exploration agreement between the Company and Nunavut Tunngavik Inc. ("NTI") dated May 2009 (the "NTI Agreement") pursuant to which the Company is obliged to pay annual fees and complete certain annual work commitments. The Company has rights to Deposit No. 5 in part through its staked mineral claims and in part through its NTI Agreement. If Deposit No. 5 achieves definitive feasibility, then NTI may participate in a joint venture or hold a net profits interest royalty in respect of a part of Deposit No. 5. Deposit Nos. 1, 2, 3 and 4 are located on the Company's mining leases. The Company has a commercial surface lands lease (the "QIA Lease") with the Qikiqtani Inuit Association ("QIA"). Through the QIA Lease, the NTI Agreement and the staked claims the Company is able to access to the land on which the deposits are situated.

Mineral resource estimates for Deposit Nos. 1, 2 and 3 prepared in accordance with National Instrument 43-101 -Standards of Disclosure for Mineral Projects ("NI 43-101") by Aker Solutions (formerly Aker Kvaerner E&C) ("Aker") were disclosed in the "Technical Report of the Definitive Feasibility Study - Mary River Iron Ore Project, Northern Baffin Island, Nunavut" dated February 2008 (the "DFS") and total 865 million tonnes of which 365 million tonnes are proven and probable reserves grading 64.7% iron, 52 million tonnes are measured and indicated resources grading 64.6% iron and 448 million tonnes are inferred resources grading 65.5% iron. To date, most of the Company's work has been on Deposit No. 1, which is the best known of the deposits.

The DFS also includes a definitive feasibility study on Deposit No. 1 based on proven and probable reserves of 365 million tonnes grading 64.7% iron. The DFS sets forth a number of recommendations to assist the Company in advancing the development of Deposit No. 1 to commercial production (the "Project"). In order to achieve commercial production of the Project, the Company will be required to: (i) obtain significant additional equity and/or debt financing, (ii) enter into a strategic partnership, and/or (iii) implement other alternatives to advance the Project ("Financing Alternatives"), and there is no assurance that such Financing Alternatives will be obtained on favourable terms, or at all. Failure to achieve one or more of the Financing Alternatives could result in the delay or indefinite postponement of further exploration and development of the Project. See "Risk Factors".

Due to the adverse global economic conditions which commenced towards the end of 2008, the Company reduced its activities and completed a limited exploration and development program in 2009. At the end of 2009, the Company raised gross proceeds of approximately $44.0 million through the completion of public and private equity offerings (the "2009 Equity Offerings"). Until such time that certain Financing Alternatives are achieved by the Company to allow it to further complete the DFS recommendations and resume development activities in respect of the Project, the Company plans in 2010 to use the proceeds from the 2009 Equity Offerings to (i) primarily continue exploration activities to increase its mineral resources, and (ii) moderately advance Project development activities on Deposit No. 1.

Change in Management

In March of 2010 the Company announced the resignation of the CEO. Mr. Richard McCloskey, the Chairman, has assumed day-to-day responsibilities at the Company and the board of directors will be conducting a search for an executive to assume the position of full time CEO of the Company.

Iron Ore Market and Outlook

Currently, the five largest iron ore producing countries are Brazil, Australia, China, India and Russia and account for more than 85% of the world total production. Canada currently ranks as ninth and produces 3% of the total world production. According to the AME Mineral Economics, China imported 628 million tonnes or more than 65% of world seaborne imports of iron ore in 2009. Three of the largest iron ore producers, Companhia Vale do Rio Doce SA ("Vale") in Brazil, BHP Billiton Iron Ore ("BHP") and Rio Tinto PLC/Rio Tinto Limited ("Rio Tinto") continue to control approximately three-quarters of the seaborne iron ore trade.

At the beginning of 2009, world steel production had decreased more than 25%, due to the collapse in demand, which was greatly influenced and impacted by the world financial crisis. The impact on the USA and Europe was even greater with demand and output down approximately 50%. Demand for iron ore also fell, but less than expected as Chinese domestic iron ore production declined and was replaced by imported iron ore. This requirement and increasing Chinese steel production led to a dramatic increase in Chinese demand for iron ore imports from 444 million tonnes in 2009 to more than 628 million tonnes in 2009.

By mid 2009, demand for steel and iron ore returned in the USA and Europe and increased steadily throughout the year. Several European steel companies returned to full production in the fourth quarter of 2009. This renewed demand caused supply issues, particularly in Europe where the vast majority of iron ore is sold on long-term contract basis based upon the benchmark pricing system. This put further strain on the relationship between buyers and sellers of iron ore. As steel customers and demand returned, Europe found that demand in Asia had usurped iron ore cargos originally planned for Europe creating a shortage of available iron ore supply.

The benchmark pricing system for the sale of iron ore appears to be in a state of flux and change due in part to the spot sales from Vale, BHP and Rio Tinto that occurred in addition to Chinese steel companies refusing to pay the higher benchmark price for iron ore in the depth of the recession in 2009. The annual benchmark price settlement in 2009 was down 28% to 33% for fine iron ore and down more than 45% for direct charge iron ore (pellets and lump). Spot prices dramatically increased throughout 2009 to the point where spot sales achieved more than a 100% premium price to sales on a benchmark basis by the end of 2009.

Demand for iron ore continues to be strong. BHP has stated that sales of its iron ore are now based upon a market-clearing pricing system and spot sales. Although BHP stated this resulted in a 99.9% increase on its realised sales price; it provided no definition of the market-clearance price in its new release; except that it was based upon a negotiated price based upon the current spot price and would only be for the quarter April to June 2010. Future pricing would be re-negotiated on a quarterly basis. Vale has disclosed that its "agreed" price increases for 2010 would be 85% for fine iron ore; 105% for lump iron ore and 130% for pellets. These increases are for sales in the Atlantic Basin. The reported price increase for sales into the Pacific Basin has fine iron ore increasing by 90% and a higher but undisclosed increase for lump and pellets. To date, there has not been any public acceptance of these price increases by iron ore buyers either in the Atlantic or Pacific Basins. See "Risks and Uncertainties".

EXPLORATION AND DEVELOPMENT OF THE MARY RIVER PROPERTY

2010

Exploration Program

In the 2009 Equity Offerings (see "Common Shares"), the Company raised gross proceeds of $44 million, of which, $23 million was raised through issuing flow-through common shares. Proceeds from the sale of flow-through common shares must be expended within prescribed timeframes and on Canadian Eligible Expenditures as defined by the Canada Revenue Agency.

For its 2010 Exploration Program, the Company plans to:

- Primarily continue exploration activities to identify and increase mineral resources at Deposit Nos. 5, 4, & 3
- Continue to pursue Financing Alternatives
- Proceed with the environmental assessment process including the preparation of the draft Environmental Impact Statement
- Continue negotiations towards completion of Inuit Impact and Benefits Agreement
- Preserve cash and core assets at the Mary River Property

Mine Development and Exploration Expenditures

The first quarter of 2010 exploration expenditures were incurred to mobilize for the planned 2010 Exploration Program and in accordance with the Company's accounting policy, expenditures relate to Deposit Nos. 5, 4 and 3 are expensed to the income statement. In the prior similar period the development costs incurred related to mobilizing for the 2009 program which was focussed on Deposit No. 1 and as such those costs were capitalized to mining interests since mining reserves have been established on Deposit No. 1. Total expenditures of $2,639,054 incurred during the three months ended March 31, 2010 are compared to expenditures of $4,796,453 in the similar prior period. The significant decrease in 2010 compared to 2009 is as a result of reduced use of contractors and contractors' equipment at the Mary River Property.

Set forth below is certain information in respect of the Company's mine development and exploration expenditures:

	For the three months ended	
	March 31, 2010	March 31, 2009
Mine Development/Exploration	$2,128,859	$3,646,729
Definitive Feasibility Study/Technical Services	75,347	187,400
Health and Safety	130,045	193,870
Sustainable Development	207,105	652,272
Environmental Assessment Process	41,425	-
Metallurgical Testing	56,273	116,182
Total expenditures	**$2,639,054**	**$4,796,453**

Of the aggregate expenditures in the three months ended March 31, 2010 relating to mine development and exploration, $2,597,629 has expensed to the income statement. Costs related to the environmental assessment process in the amount of $41,425 have been capitalized to mining interests.

2009

Exploration Program

The 2009 exploration program was executed from June through August of 2009. The primary goal of the program was to explore and identify, through diamond drilling, the southern limits of Deposit No. 1 to assist in further resource delineation and infrastructure planning. A total of 2,316 metres of core, in 13 holes were drilled. There were no significant health, safety or environmental issues.

Bulk Sample Program Results

In March 2009, ThyssenKrupp consumed the 27,701 tonnes of fine iron ore, which was part of the Company's 2008 bulk sample program, in its sinter plant in Duisberg, Germany. The Mary River Property fine iron ore totalled approximately 10% of the sinter feed mixture. Production of sinter at the Schwelgern plant increased by 4.5%, while sinter quality remained high. Handling and transportation characteristics of the iron ore were excellent. The average grain size of the fine iron ore cargo was 3.2 millimetres (HS-50) which contributed to its sintering results.

In September 2009, the Company reported the results of its 54,464 tonne lump iron ore trial cargo shipped to ThyssenKrupp in October 2009. ThyssenKrupp reported that the Mary River Property lump iron ore exhibited excellent physical attributes and caused no problems in handling or transportation. The Company believes that the Mary River Property lump iron ore also exhibited excellent metallurgical characteristics and high quality in comparison to other lump iron ores.

In October 2009, the Company reported the results of its second lump iron ore trial cargo shipped to one of the world's largest steel companies. This 31,050 tonne lump cargo also exhibited excellent results, in the Company's view, as Mary River Property lump iron ore was substituted in the blast furnace burden mix one for one for iron ore pellets in a high productivity environment within the blast furnace. Mary River Property lump iron ore was added until it comprised 25% of the burden mixture in the blast furnace. The Company views the results of these trial cargos in the sinter plants and blast furnaces as confirmation that the Mary River Property lump iron ore is an exceptional lump iron ore that should be an attractive alternative for pellets as a less expensive burden feed with virtually no loss of productivity. The Company believes that the Mary River Property fine iron ore will be an excellent addition to any company's sinter mixture and would result in productivity gains while maintaining or improving the quality of the sinter produced.

Environmental Bonding Facility

In August 2009, the Company entered into a definitive agreement for an environmental guarantee support facility (the "Environmental Bonding Facility") with Resource Capital Funds ("RCF") in the maximum amount of US$13 million, maturing on December 31, 2012. The Company drew US$9.5 million (equivalent of C$10.37 million) to cover an increase in financial security in relation to closure costs under the QIA Lease ("Financial Security) to C$16.5 million. On December 10, 2009, in conjunction with the closing of the 2009 Equity Offerings, the balance of US$9.5 million outstanding under the Environmental Bonding Facility was repaid in full and the first ranking charge over all of the Company's assets to secure the Company's obligation under the Environmental Bonding Facility was released.

Deposit No. 5

In October 2009, the Company also announced high grade iron assay results from the newly discovered Deposit No. 5. Assays from surface sampling averaged 66.7% iron along the southeast trending strike length of Deposit No. 5 that can be traced at surface for greater than five kilometres. Several zones of hematite-dominant mineralization have been outlined; the largest of which outcrops for 700 metres in strike length and up to 70 metres in exposed width. Deleterious elements (manganese, phosphorous, sulphur and alkalis) are exceptionally low and generally below the analytical detection limit. The zone is located less than five kilometres southeast from Deposit No. 4 and was the first target to be assessed following the airborne magnetic survey completed in 2008. The magnetic survey defined a target horizon that can be traced for a strike length of more than 60 kilometres. Preliminary reconnaissance work discovered Deposit No. 5 and further regional exploration is planned for 2010.

DFS

In February 2008, the Company released the results of the DFS. The DFS included a detailed study of the technical and economic feasibility of Deposit No. 1 and was based on proven reserves of 160 million tonnes and probable reserves of approximately 205 million tonnes. The DFS indicates that, based on the shipment of 18 million tonnes of iron ore per year to the European market, the proven and probable reserves could sustain a mine life of over 20 years. Assuming FOB Steensby Inlet and average sale prices of US$67 per tonne for lump iron ore and US$55 per tonne for fine iron ore, the DFS indicates that the Project could generate a pre-tax internal rate of return of 20.5%, with a payback period of 3.7 years and an after-tax internal rate of return of 15.9%. The DFS forecasts pre-tax cash flow over the life of the Project to be $18.1 billion, with after-tax cash flow of $11.2 billion.

The DFS estimated, as of the date thereof, the initial capital costs for the Project to be $4.1 billion, including all direct and indirect costs, contingencies and owner's costs. Sustaining capital was estimated to be $400 million over the life of the Project, including Project reclamation and closure costs. Operating costs for all of the facilities was estimated to be $14.62 per tonne, excluding taxes and financing costs.

The following tables provide itemized summaries for the estimated operating and capital costs of the Project:

Summary of Total Capital Costs	
Direct Costs	**$ Millions**
Mining	23
Mary River Site	591
Railway	1,215
Steensby Site (Port)	706
Direct Costs Subtotal	**2,535**
Indirect Costs	
Support	988
Owner's Costs	86
Gravel	29
Contingency	437
Indirect Cost Subtotal	**1,540**
Initial Capital Cost Total	**4,075**

Summary of Operating Costs per Tonne	
	$/Tonne
Mining	4.08
Crush / Screen / Load	4.89
Railway	1.45
Camp / Catering	0.59
Aircraft Services	0.60
Leased Equipment	0.40
G&A Onsite	2.25
G&A Offsite	0.36
Operating Cost Total	**14.62**

Since the date of the DFS, AMEC has reviewed the construction execution strategy developed in the DFS and has significantly improved the plan.

The assumptions that are most sensitive in the capital cost estimate are the assumption of parity between the Canadian and US dollar during the construction period, the geotechnical design criteria for the railway alignment and assumptions regarding construction costs and labour and material costs. The assumptions that are most sensitive in the operating cost estimate are an average Canadian/U.S. dollar exchange rate of U.S.$0.85:C$1.00 during the operating period and average fuel prices during the operating period of U.S.$60 per barrel. Although the Company considered these assumptions to be reasonable based on information available to it at the time of the DFS, they may prove to be incorrect. These capital and operating cost estimates are subject to certain factors, including risks and uncertainties, which could cause actual results to differ materially from what management currently expects. See "Risk Factors". For a complete description of the assumptions, qualifications and procedures associated with the following information, reference should be made to the full text of the DFS which is available for review on SEDAR located at www.sedar.com. Alternatively, the DFS may be viewed upon prior request during normal business hours at the offices of the Company located at Suite 1016, 120 Adelaide Street West, Toronto, Ontario, M5H 1T1.

The DFS set forth a number of recommendations to advance the development of the Project, with particular emphasis on geotechnical and other field surveys and construction planning. In order to advance the development of the Project, the Company will be required to achieve one or more Financing Alternatives and there is no assurance that such Financing Alternatives will be achieved on favourable terms or at all which could result in the delay or indefinite postponement of further development of the Project. As a result of current funding levels, the completion of certain DFS recommendations has been deferred until the Company achieves certain Financing Alternatives. The Company is not funded to execute the development activities required through to the commercial production date. Timelines for the Project are continuously reviewed and are contingent on Financing and/or timing of receipt of required permits. Until such time as certain Financing Alternatives are available to complete the DFS recommendations and resume Project development activities, management will be completing the 2010 Exploration Program described herein. See "Risk Factors".

Readers should be aware that, since the effective date of the DFS, there have been proposed modifications to the Project and changes in the macro-economic conditions which may impact the assumptions and may require modifications to the DFS if an update was prepared. Upon commencement of construction there can be no certainty that the capital and operating cost estimates set out in the DFS will remain accurate.

OUTLOOK (2010)

The Company intends to continue to explore and develop the Mary River Property through the following activities, which include limited work included in the DFS recommendations:

- execute a three drill exploration program on Deposit Nos. 5, 4 and 3 to identify and increase the mineral resources of the Mary River Property
- proceed with the environmental assessment process including the preparation of the Draft Environmental Impact Statement with an anticipated submission date of early 2011 (contingent on obtaining 2011 program funding)
- continue to negotiate with the QIA towards achieving an IIBA in principle
- continue to engage with local communities, the QIA, various levels of government and other Mary River Property stakeholders with respect to current activities and future Mary River Property plans
- continue to complete certain permit driven progressive reclamation activities at the Mary River Property during 2010
- continue efforts relating to the achievement of one or more Financing Alternatives

In order to advance the development of the Mary River Property the Company will be required to achieve one or more Financing Alternatives and there is no assurance that such Financing Alternatives will be obtained on favourable terms, or at all. Failure to achieve such Financing Alternatives could result in a further delay or indefinite postponement of further exploration and development of the Mary River Property. See "Risks and Uncertainties".

LIQUIDITY AND CAPITAL RESOURCES

Current Market Conditions

In the view of management, the economy appears to be recovering from the global recession that began late in 2008. The economic slowdown impacted the ability of mining companies to secure equity and/or debt funding or enter into joint venture arrangements. The recovery began in the latter part of 2009, and in December 2009, the Company raised gross proceeds of $44 million through the

2009 Equity Offerings to fund its 2010 exploration plan and repay the Environmental Bonding Facility. Given the stage of development of the Project, the Company relies on equity financing to raise capital and intends to continue to do so, but this ability may continue to be impacted by economic conditions. The Company continues to explore Financing Alternatives. There is a risk that these undertakings may not be successful. There is also a risk that unfavourable commodity prices or financial markets could result in an impairment to the carrying value of the Company's mining interest balance.

Management has considered how these adverse conditions have impacted the Company's viability. At present, the Company continues to have positive working capital and is fully funded to execute its 2010 Plan. It is possible, however, that as a result of worsening economic conditions, the working capital of the Company could be negatively impacted in the short, medium or long term.

Working capital of $43,223,772 at March 31, 2010 compared to $47,329,078 at December 31, 2009. The decrease in working capital is a function first quarter 2010 activities, including exploration expenditures related to the mobilization of the 2010 Exploration Program.

Financial Security for Abandonment and Reclamation

The Company has restricted cash in the amount of $16.5 million to support an irrevocable letter of credit to the QIA which provides Financial Security. The letter of credit is held in conjunction with the QIA Lease.

Long Term Asset-Backed Notes

The Company owns long term asset backed notes (the "Notes") that were issued by Master Asset Vehicle II ("MAV 2") as a result of the restructuring of the Company's previous investment in Third Party Asset Backed Commercial Paper ("ABCP"). The Notes have a face value of $17,742,030 and a fair value of $12,017,830 as at March 31, 2010 (December 31, 2009 – face value of $17,750,092 and fair value of $11,519,196). On January 21, 2009 the Company received the Notes which replaced the ABCP. As part of the exchange, the Company received two payments totalling $941,301 that represented the Company's share of cash that accumulated to the assets during the restructuring period. The payments were recorded as a gain on note exchange.

The secondary market for the Notes continues to develop, however, it is not yet an "active market" given the limited bid activity and small number of disclosed transactions since the note exchange occurred. Until an active market develops for the Notes, the fair value will be determined using a discounted cash flow approach based on the use of inputs observed from market conditions. The fair values may change materially in subsequent periods.

During the fourth quarter of 2009, the Company sold its entire holdings of the Class 15 notes for proceeds of $1,569,144 which resulted in a gain on sale of $888,690.

The remaining portfolio consists of four types of Notes, which are supported by a pool of leveraged super senior credit default swaps, unlevered collateralized debt obligations as well as traditional assets and cash. The leveraged assets supporting these notes have access to credit facility that can be drawn upon in the event that a margin call is triggered and more collateral must be posted. Additionally, these particular assets are subject to an 18 month moratorium on margin calls which will expire in mid-2010.

Using publicly available information the Company has been able to determine the key characteristics of each class of the Notes: par value, credit rating, interest rate and projected interest payments, and maturity date. The Company then estimates the return that a prospective investor would require for each class of Notes ("Required Yield"). Lastly, it calculates the net present value of the cash flows for each class of the Notes using the Required Yield as the discount factor.

During the three months ended March 31, 2010, the Company has seen continued improvement in general corporate credit market conditions which has had the most impact on the valuation. This decrease in credit risk impacts the intrinsic value of the Notes due to a general lowering of default risk, relative to the previous valuations. There is also a decrease in the likelihood that credit risk limits built into the Notes will be exceeded (specifically, the spread-based margin triggers). Accordingly, the Required Yield on the Notes has been somewhat reduced to reflect easing in the credit markets. Accretion of the Notes to par value at maturity assuming they do not default, resulted in an increased value at March 31, 2010.

Noteholders are to receive floating interest mostly based on prevailing banker's acceptance rates based on the variable interest income on the pool of assets, however, the payments to noteholders are subordinated to the margin funding facility fee. As a result, interest payments to the Company are not expected to be received on the Notes until there is an increase in the prevailing interest rates. This anticipated near-term lack of income on the Notes has been factored in the valuation. The Company will record interest received on a cash basis until such time that the payment of interest becomes likely.

Based on the foregoing, as at March 31, 2010 the Company has estimated the fair market value of the Notes to be between $11.2 million and $12.9 million and as a result, the Company has recorded an unrealized gain on revaluation of the Notes in the amount of $498,634 (2009 – nil) to arrive at a carrying value of $12,017,830.

The fair value of the Notes may increase or decrease materially in subsequent periods.

Cash Flow from Operating Activities

Current assets at March 31, 2010 were $45,571,875 compared to $49,001,385 at December 31, 2009, a decrease of $3,429,510. Cash and cash equivalents decreased by $3,838,162 as a result of activity during the first quarter. Accounts receivable decreased by $119,885 and prepaids decreased by $40,463. The increase to inventory of $569,000 is due to a reclassification of a portion of fuel inventory that is expected to be sold during the second quarter of 2010 offset by consumption during the three months ended March 31, 2010. Current liabilities at March 31, 2010 were $2,348,103 compared to $1,672,307 at December 31, 2009, an increase of $675,796 which is due to the accrual of interest payable to Canada Revenue Agency associated with the issuance of flow through common shares as part of the 2009 Equity Offerings.

Cash Flow from Investing Activities

During the three months ended March 31, 2010 the Company spent approximately $2,639,054 on exploration and mine development activities of which $41,425 has been capitalized to mining interests.

Cash Flow from Financing Activities

Net cash outflows from financing occurred as a result of costs recorded in the first quarter of 2010 that related to the 2009 Equity Offerings offset by exercise of share purchase options.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2009, McChip Resources Inc., a related party controlled by a director and a shareholder of the Company, paid $12,000 (2009 - $18,000) to the Company for lease and operating costs. These cost recoveries were included in office and general expenses and were in the normal course of business and are measured at the cost amount, which is the consideration established and agreed to between the related parties.

COMMON SHARES

During the first quarter, the Company renounced the flow through expenditures and recorded the associated future tax income liability in respect of the $23.0 million of proceeds from the sale of flow through common shares in the 2009 Equity Offerings.

On December 10, 2009, the Company closed the 2009 Equity Offerings. The first offering was a public offering under which a total of 23,959,100 common shares and 11,979,550 common share purchase warrants were issued. Each common share unit was sold for a price of $0.48 and was comprised of one common share and one half common share purchase warrant. Total gross proceeds on the public offering were $11.5 million.

The second of the 2009 Equity Offerings was a private placement under which a total of 41,860,000 common shares and 20,930,000 common share purchase warrants were issued. Each common share unit was sold for a price of $0.55 and was comprised of one common share and one half common share purchase warrant. Each common share was issued as a "flow-through share" under the Income Tax Act (Canada). Total gross proceeds on the private placement were $23.0 million.

On December 10, 2009 as part of both of the 2009 Equity Offerings, RCF exercised in full its pre-existing participation rights to participate in respect of the 2009 Equity Offerings, pursuant to which RCF was issued an aggregate of 19,926,569 common shares and 9,963,285 common share purchase warrants. Each common share unit was sold for a price of $0.48 and was comprised of one common share and one half common share purchase warrant. Total gross proceeds from the exercise of the Participation Rights were $9.6 million.

Each common share purchase warrant issued as part of the 2009 Equity Offerings entitle the holder to acquire one common share for a price of $0.70 until December 9, 2012 ("2009 Warrants"). The Company also has warrants outstanding with a strike price of $5.50 until January 31, 2012 ("2007 Warrants").

On December 10, 2009, the Company also issued 669,713 shares valued at $327,088 to RCF for the final interest and commitment fee payment with respect to the Environmental Bonding Facility.

On September 30, 2009, the Company issued 807,127 common shares valued at $362,490 to RCF in satisfaction of the establishment fee, quarterly commitment fee and quarterly interest related to the August 31, 2009 draw of funds of $10.37 million (US$9.5 million) under the Environmental Bonding Facility.

During the year ended December 31, 2009, options to purchase a total of 332,500 common shares were exercised for total gross proceeds to the Company of $51,625.

In March 2008, the Company completed a public equity offering pursuant to which 52,886,985 common shares were issued at a price of $3.65 per Common Share for total gross proceeds to the Company of approximately $193 million.

In December 2008, the Company completed two concurrent private placement transactions for aggregate proceeds of approximately $21.8 million (the “2008 Private Placements”). The first private placement consisted of issuance of 14,665,541 common shares and 22,176,564 subscription receipts to RCF at a price of $0.19, for total gross proceeds of $7.0 million, $2.8 million of which was received in December 2008 with the remaining $4.2 million held in escrow. Each subscription receipt entitled RCF to acquire one common share for no additional consideration at any time prior to June 1, 2009 on notice being given that the Company and its shareholders have approved certain amendments to its shareholder rights plan which occurred on March 24, 2009. The proceeds on conversion of the subscription receipts to common shares were released from escrow to the Company in April, 2009.

The second private placement consisted of the issuance of 70,464,805 flow-through common shares at a price of $0.21 per flow-through share for aggregate gross proceeds of approximately $14.8 million. The Company closed the 2008 Private Placements in reliance on a financial hardship exemption at the time from the requirement to obtain shareholder approval in respect of a private placement for greater than 25% of the outstanding common shares, the issuance of greater than 10% of the Common Shares to insiders of the Company and a potential change in control of the Company. As a consequence, the Company was subject to a TSX listing review which was lifted on March 5, 2009.

The issued and outstanding capital of the Company at March 31, 2010 was 342,934,199 Common Shares (on an undiluted basis). As at March 31, 2010 the Company had 48,854,823 Warrants, and options to purchase 10,732,000 Common Shares outstanding.

The following Common Shares and convertible securities of the Company were outstanding at April 28, 2010:

	Expiry Date	Exercise Price (Cdn$)	Securities Outstanding	Common Shares on Exercise
Common shares		-	342,934,199	-
Warrants - 2007 issue	January 31, 2012	5.50	5,981,988	5,981,988
Warrants - 2009 issue	December 9, 2012	0.70	42,872,835	42,872,835
Share purchase options	Jul 5/2010 to Feb 23/2015	0.25 to 4.40	-	10,732,000

Change in Shareholders’ Equity

Shareholders’ equity at March 31, 2010 was $242,900,721, compared to $255,423,463 at December 31, 2009, a decrease of $12,522,742 which is broken down as follows:

Contributed surplus (fair value vested portion of stock options granted)	$ 403,911
Common shares	(6,956,689)
Exercise of share purchase options	(53,000)
Deficit:	
Net loss for the period	(5,916,964)
	$ (12,522,742)

RISK FACTORS

An investment in the securities of the Company is subject to a number of risks, including, but not limited to, the risk factors detailed below. In addition to the other information contained in this MD&A and the Company’s other publicly filed disclosure documents, investors should give careful consideration to these following risk factors, which are qualified in their entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this MD&A. Any of the matters highlighted in these risk factors could have a material adverse effect on the Company’s business prospects or financial condition and could result in a delay or indefinite postponement in the development of the Mary River Property.

Nature of the Company's Exploration Activities

The exploration for and development of mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not mitigate. Few properties that are explored are ultimately developed into producing mines. The Mary River Property is still in the exploration and development stage. Significant expenditures will be required to establish additional iron ore reserves and to construct mining and material handling facilities at the Mary River Property. It is impossible to provide any assurance that the exploration programs completed and further planned by the Company will result in a profitable commercial mining operation.

Capitalization, Commercial Viability and Dilution

Operating and capital expenditures are expected to substantially increase in subsequent years with the advancing of exploration and development activities. The Company does not currently have sufficient funding to commence or complete the development of the Mary River Property. The Company's historical capital needs have been met by the issuance of Common Shares. The Company will require substantial additional funds to further explore and develop the Mary River Property. The Company has limited financial resources and no current source of recurring revenue, and there is no assurance that additional funding will be available to the Company to carry out the completion of its planned exploration activities, for additional exploration expenditures or for the substantial capital that will be required in order to place the Project into commercial production. In order to finance the development of the Project, the Company will have to pursue one or more Financing Alternatives. The Company has experienced a delay from the timelines identified in the DFS. Given the reduced level of activity in 2009 and planned for 2010, the Project timelines are continuously under review and a further delay could result based on the necessary Financing and/or timing of receipt of required permits.

There can be no assurance that the Company will be able to achieve one or more of the Financing Alternatives in the future or that the terms of such will be favourable which could result in a further delay or indefinite postponement of further exploration and development of the Mary River Property. The latter part of 2008 saw the development of adverse market conditions which continued into recessionary conditions in 2009. While the economy appears to have begun recovering, the continuation of such adverse market conditions could have negative implications for the Company in terms of the ability to continue as a going concern and to continue the development of the Property.

Any Financing Alternative could result in the dilution of the existing shareholders of the Company.

Licenses, Permits and Leases

The exploration of the Mary River Property requires certain licenses, permits and authorizations from third parties. Exploration activities undertaken to date, have been approved pursuant to the applicable federal and territorial regulatory approval processes. The Company currently has or expects to have all of the permits that it requires to execute the work program currently planned and/or underway for the upcoming exploration season.

If the exploration of the Mary River Property warrants its development into a commercial mine, then the Company will require additional permits to mine the Mary River Property. In order to develop a mine at the Mary River Property, the Company must secure necessary licenses, permits and third party authorizations after first successfully completing an environmental assessment in accordance with the requirements of the Nunavut Land Claims Agreement. Negotiations regarding an IIBA with the QIA must also be completed. The negotiation of an IIBA with the QIA commenced in late 2006 and the regulatory review of a proposed mine based on the DFS commenced in March 2009 with the filing of a Development Proposal and associated permit applications. There can be no guarantee that the Company will be able to complete the regulatory review process, successfully negotiate the IIBA and obtain or maintain all necessary licenses, permits and third-party authorizations that may be required to continue to explore and develop and ultimately mine the Mary River Property.

The Company's rights to the Mary River Property mineral deposits are held in the form of leases from the federal government and the QIA. The Company's current QIA Lease term expires in October 2010 and the mineral leases are subject to an additional renewal for a 21 year period in August 2013. If the Company fails to meet the specific requirements of these leases, they may terminate, expire or not be renewed. The mineral claims and exploration areas are also subject to minimum exploration expenditure requirements and specific payments to maintain the Company's rights. There can be no assurance that any of the obligations required to maintain each lease will be met or that the leases will be renewed. The termination, expiration or non-renewal of the Company's leases would have a material adverse effect on the Company's business prospects and financial condition.

Under the terms of the existing permits and authorizations held by the Company, most notably the water license and the QIA Lease, an A&R Plan has been established and is subject to revision at the end of the first quarter each year. The A&R Plan establishes the work to be completed under both temporary and final closure scenarios, including an estimated cost associated with this work. The Company may be required to post Financial Security to assure such estimated costs from time to time. This Financial Security amount is subject to increase or decrease at the QIA's discretion in accordance with the terms of the lease with the QIA. There is a risk that the Company will not be able to provide future amounts of additional Financial Security.

Mineral Reserves and Resources

The activities of the Company are directed towards the search, evaluation and development of iron ore deposits on and around the Mary River Property. Whether the Mary River Property will be commercially viable depends on a number of factors, including: the particular attributes of the deposit, such as size, grade and proximity to infrastructure, steel and other metal prices, government regulations, and environmental protection. Many of these factors are outside of the control of the Company and the exact effect of these factors cannot accurately be predicted.

The Mary River Property consists of both mineral resources and mineral reserves. Mineral resources that are not mineral reserves do not have demonstrated economic viability. Due to the uncertainty that may attach to indicated mineral resources, there is no assurance that mineral resources will be upgraded to proven and probable ore reserves. Inferred mineral resources are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves.

Future Production Estimates May be Inaccurate

No assurance can be given that production estimates for the Project as described in the DFS will be achieved. These production estimates are based on, among other things, the accuracy of reserve estimates, the accuracy of assumptions regarding ground conditions and physical characteristics of ores, such as hardness and presence or absence of particular metallurgical characteristics, and the accuracy of estimated rates and costs of mining and processing.

Actual production may vary from estimates for a variety of reasons, including actual ore mined varying from estimates of grade, tonnage, dilution and metallurgical and other characteristics, short-term operating factors relating to the mineral reserves, such as the need for sequential development of ore bodies and the processing of new or different ore grades, risks and hazards associated with mining, natural phenomena, such as inclement weather conditions and unexpected labour shortages. Failure to achieve production estimates could have an adverse impact on the Company's future cash flows, earnings, results of operations, stated reserves and financial condition.

Mine Development and Completion

Feasibility studies are used to determine the economic viability of a mineral deposit. Many factors are involved in the determination of the economic viability of a deposit, including the achievement of satisfactory mineral reserve estimates, the level of estimated metallurgical recoveries, capital and operating estimates and the estimate of future commodity prices. Capital and operating cost estimates are based on many factors, including anticipated tonnage and grades of ore to be mined, the configuration of the ore body, ground and mining conditions, expected recovery rates of the ore and anticipated environmental and regulatory compliance costs. Each of these factors involves uncertainties and, as a result, the Company cannot give any assurance that the estimates in the DFS will be correct or that the Project will produce profitable operating mine(s). If a mine is developed, actual operating results may differ from those anticipated in the DFS. There can be no assurance that delays will not be experienced. Given the reduced level of activity as a result of 2009 and 2010 funding levels, there has been a project timeline delay from the original timeline contemplated in the DFS. The project timelines are continuously reviewed and are dependent on the achievement of Financing Alternatives and/or timing of receipt of required permits. Any further delays may result in an increase in capital requirements, costs and expenditures. Notwithstanding the existing DFS which relates to the Project, the Company assesses, from time to time, alternative production scenarios that may impact timelines of achieving commercial production and annual production rates.

Mining Operations

Mining operations generally involve a high degree of risk and potential future mining operations will be subject to the risks inherent in the mining industry, including fluctuations in fuel prices, commodity prices, exchange rates, metal prices, costs of constructing and operating a mine and processing facilities in a specific environment, the availability of economic sources of energy and the adequacy of water supplies, adequate access to the site, unanticipated transportation costs, delays and repair costs resulting from equipment failure, changes in the regulatory environment (including regulations relating to prices, royalties, duties, taxes, restrictions on production, quotas on exportation of minerals, as well as the costs of protection of the environment), and industrial accidents and labour actions or unrest.

The Company is also subject to all the hazards and risks normally encountered in each of the phases of a developing mining company. These risks include variations in grade and other geological differences, surface or underground conditions, processing problems, mechanical equipment performance, accidents, labour disputes, force majeure risks and natural disasters. Such risks could result in: personal injury or fatality, damage to or destruction of mining properties, processing facilities or equipment, environmental damage, delays or reductions in mining production, monetary losses, and possible legal liability. The occurrence of any of these factors could materially and adversely affect the development of a project, and, as a result, materially and adversely affect the Company's business, financial condition and results of operations.

Regulatory and Environmental Risks

The mineral exploration activities of the Company are subject to various laws governing prospecting, development, production, taxes, labour standards and occupational health, mine safety, toxic substances and other matters. Mining and exploration activities are also subject to various laws and regulations relating to the protection of the environment. Although the exploration activities of the Company are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will be enacted or that existing rules and regulations will be applied in a manner which could limit or curtail exploration, production or development. Amendments to current laws and regulations governing the operations and activities of the Company or the more stringent implementation thereof could have a substantial adverse impact on the Company.

Iron Ore Prices

The development and success of the Mary River Property will be dependent, in part, on the future price of iron ore. Iron ore prices are subject to fluctuation and are affected by a number of factors which are beyond the control of the Company. Such factors include, but are not limited to, global and regional supply and demand, and the political and economic conditions of major steel producing countries throughout the world. The price of iron ore has increased substantially in recent years, and future significant price declines could cause continued exploration and development of the Mary River Property to be impracticable.

The future trend in the price of iron ore cannot be predicted with any degree of certainty. The market price of iron ore affects the economics of any potential development project, the Mary River Property, and the ability of the Company to raise capital. A decrease in the market price of iron ore could affect the Company's ability to finance the continued exploration and the development of the Mary River Property. There can be no assurance that the market price of iron ore will remain at current levels or that such prices will improve or that market prices will not fall.

Climate Change

Canada ratified the Kyoto Protocol to the United Nations Framework Convention on Climate Change in late 2002 and the Kyoto Protocol came into effect in Canada in February 2005. Various levels of governments in Canada are developing a number of policy measures in order to meet Canada's emission reduction obligations under the protocol. While the impact of these measures cannot be quantified at this time, the likely effect will be to increase costs for fossil fuels, electricity and transportation, supplemental costs for emissions in excess of permitted levels and increase costs for monitoring and reporting.

Remote Northern Location

The Mary River Property, because of its remote northern location and limited accessibility, is subject to special climate and transportation risks. These risks include the inability to operate efficiently or at all during periods of extreme cold, the unavailability of materials and equipment, and unanticipated transportation costs. Adverse weather conditions may also prevent the operation of equipment on land, in the air or on the ocean. Such factors can add to the cost of mine exploration, development, production and operation, thereby affecting the Company's financial condition.

Equipment and Supplies

The Company is dependent on various supplies and equipment to carry out its exploration activities and mining operations. The shortage of supplies, equipment and parts could have a material adverse effect on its ability to carry out its operations and therefore limit or increase the cost of exploration and related activities. An increase in demand for services and equipment could cause project, exploration, development or construction costs to increase materially, could result in delays if services or equipment cannot be obtained in a timely manner due to inadequate availability, and could increase potential scheduling difficulties and costs due to the need to coordinate the availability of services or equipment. Any such material increase in costs would adversely affect the Company's results of operations and financial condition.

Infrastructure

Development and exploration activities depend on adequate infrastructure, including reliable roads, power sources, water supply, storage, rail and port facilities. The Company's inability to secure adequate access to such infrastructure, as well as other events outside of its control, such as extreme weather, sabotage, government or other interference in the maintenance of the provision of such infrastructure, could adversely affect the Company's operations and financial condition.

Competition

The mining industry is intensely competitive in all of its phases, and the Company competes with many companies possessing greater financial resources and technical facilities than itself with respect to the recruitment and retention of qualified employees and other persons to carry out its mineral exploration activities.

Future Profitability Depends on the Success of the Mary River Property

The Mary River Property is the Company's only property, and the Company anticipates that substantially all of its net income in the future will come from the Mary River Property. There are no assurances that the Company will be able to successfully achieve commercial production at and operate the Mary River Property. If it is unable to do so, its ability to generate net income will be materially adversely affected.

Company Expects to Incur Losses for the Foreseeable Future

The Company has incurred losses since its inception and the Company expects to continue to incur losses for the foreseeable future. The Company expects to incur losses unless and until such time as the Mary River Property enters into commercial production and generates sufficient revenues to fund continuing operations. The Mary River Property is the Company's only property and its development will require the commitment of substantial financial resources. The amount and timing of expenditures will depend on a number of factors, including the progress of ongoing exploration and development, the results of consultants' analysis and recommendations and the rate at which operating losses are incurred. If the Company is unable to develop the Mary River Property into a profitable commercial mining operation and/or acquire additional properties, then the Company will have no source of revenue or income. There can be no assurance that the Company will ever achieve profitability.

Exchange Rate Fluctuations

Iron ore is priced and sold in U.S. dollars, and many, but not all, of the Company's expected operating and capital costs are also priced in U.S. dollars. As a result, the Company expects to be affected by changes in the Canadian dollar/U.S. dollar exchange rate. The Canadian dollar/U.S. dollar exchange rate has varied significantly over the last several years. The Company does not currently use foreign currency options and forward foreign exchange contracts to purchase U.S. dollars in order to hedge against the effects of currency fluctuations.

Insurance

In the course of the exploration, development and production of mineral properties, several risks and, in particular, unexpected or unusual geological or operation conditions, may occur. While management carries various insurance types and reviews the coverage on an annual basis, it is not always possible to fully insure against such risks, and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could materially adversely affect the financial condition of the Company.

The Company carries pollution liability insurance to cover certain environmental exposures. This coverage is reviewed by management at least annually to ensure that the level of coverage remains appropriate. Notwithstanding the insurance coverage, there is a risk that environmental liabilities could be incurred that would not be covered by the policy that could materially adversely affect the financial condition of the Company.

Limited History

With the exception of the 2008 bulk sample program, the Company has no history of mining iron ore and the Mary River Property is still in the exploration and development stage. The future development of the Mary River Property will require the construction and operation of a mine and related infrastructure. The costs, timing and complexities of mine construction and development are increased by the remote northern location of the Mary River Property. It is common in new mining operations to experience unexpected problems and delays during construction, development, and mine start-up. In addition, delays in the commencement of mineral production often occur. Accordingly, there are no assurances that the Company's activities will result in profitable mining operations, that the Company will successfully establish mining operations or profitably produce iron ore, or that the Company will meet any of its current timelines or schedules.

FINANCIAL SUMMARY BY QUARTER

Set forth below is certain selected financial information in respect of the eight most recently completed quarters of the Company. This unaudited data is derived from the Company's financial statements which are prepared in accordance with Canadian GAAP.

BALANCE SHEETS as at:

$000's (unaudited)

	Mar. 31 2010	Dec. 31 2009	Sept. 30 2009	Jun. 30 2009	Mar. 31 2009	Dec. 31 2008	Sept. 30 2008	Jun. 30 2008
ASSETS								
Current	45,572	49,001	22,832	28,721	33,823	49,001	69,226	141,836
Restricted cash	16,500	16,500	16,500	6,203	6,203	6,203	6,203	5,407
Long term investments	12,018	11,519	11,915	10,986	9,792	9,792	9,792	14,407
Non-current inventory, Property plant & equipment & Mining interest	178,526	181,112	178,502	173,770	170,240	181,112	139,747	69,428
	252,616	258,132	229,749	219,680	220,058	225,261	224,968	231,078
LIABILITIES AND EQUITY								
Current	2,348	1,672	5,534	3,311	3,950	8,587	27,404	26,352
Asset retirement obligation	1,056	1,036	1,013	990	967	554	543	509
Convertible debt	-	-	5,999	-	-	-	-	-
	3,404	2,708	12,546	4,301	4,917	9,141	27,947	26,861
Future income tax liability	6,311	-	4,176	4,176	4,176	-	-	-
	9,715	2,708	16,722	8,477	9,093	9,141	27,947	26,861
Shareholders' equity	242,901	255,423	213,027	211,203	210,966	216,120	197,021	204,217
	252,616	258,132	229,749	219,680	220,058	225,261	224,968	231,078
WORKING CAPITAL	43,224	47,329	17,298	25,410	29,873	40,414	41,822	115,484
Common shares outstanding (000's)	342,934	342,784	256,276	255,306	233,130	233,130	148,000	148,000

STATEMENTS OF OPERATIONS for the three months ended:

$000's except per share (unaudited)

	Mar. 31 2009	Dec. 31 2009	Sep. 30 2009	Jun. 30 2009	Mar. 31 2009	Dec. 31 2008	Sep. 30 2008	Jun. 30 2008
INTEREST AND OTHER INCOME	93	167	122	17	134	238	651	1,374
EXPENSES								
Administrative	4,507	1,135	1,513	1,867	2,479	2,157	3,144	2,511
Exploration	2,598	154	265	176	232	604	1,007	1,054
Other	(499)	(1,366)	1,206	(1,477)	(659)	-	4,615	-
	6,606	(78)	2,984	566	2,052	2,761	8,766	3,565
Income / (Loss) before income taxes	(6,513)	245	(2,861)	(549)	(1,919)	(2,523)	(8,115)	(2,191)
Future income tax recovery	596	4,176	-	-	-	-	-	-
NET INCOME (LOSS)	(5,917)	4,421	(2,861)	(549)	(1,919)	(2,523)	(8,115)	(2,191)
Net Income/(Loss) per share	($0.02)	$0.01	($0.01)	($0.00)	($0.01)	($0.02)	($0.05)	($0.01)

FINANCIAL HIGHLIGHTS

The net loss for the three months ended March 31, 2010 was $5,916,964 compared to $1,918,611for the prior period. The loss is greater in 2010 primarily as a result of timing of capitalization of expenditures to mining interests. In 2009 costs related to developing Deposit No. 1 were capitalized to mining interests and in 2010, costs are being expensed to the income statement given that the Company will be exploring on Deposit Nos. 5, 4 and 3.

For the three months ended March 31, 2010, interest and other income was $92,959 compared to $133,502. Interest and other income was lower in the three month period in 2010 compared to the same periods in the prior three months as a result of lower average interest rates in 2010 compared to 2009.

For the three months ended March 31, 2010, amortization and accretion expense of $727,420 is $712,830 higher than the prior period. Overall amortization and accretion expenses is similar period over period, however, in 2009, the majority of charge was capitalized to mining interests in accordance with the Company's accounting policy. For the three months ended March 31, 2010, the total amortization and accretion was expensed to the income statement.

A loss on writedown of inventory to net realizable value was recorded in the amount of $828,000 in the first quarter of 2010. The writedown is related to a portion of fuel that was relocated from Baffin Island to Montreal that is now recorded at net realizable value. It is expected that this fuel will be sold during the second quarter of 2010.

For the three months ended March 31, 2010, salaries of $1,480,413 were $619,810 higher than the prior period primarily due to an accrual of severance for a senior officer of the Company.

Share based compensation for the three months ended March 31, 2010 was $403,911 compared to $921,900 for the prior period. The lower charge in the 2010 period compared to the 2009 period is a function of the lower price for Common Shares underlying options for grants in 2010 compared to 2009.

For the three months ended March 31, 2010, office and general expense of $742,135 was $ 368,219 higher than the same period in 2009. The increased expense in 2010 compared to 2009 is as a result of the accrual of interest charges payable to the Canada Revenue Agency associated with the issue of flow through common shares as part of the 2009 Equity Offerings.

For the three months ended March 31, 2010, professional fees were $209,137 compared to $218,207 in the same period in 2009.

CONTRACTUAL OBLIGATIONS

The following table lists, as of March 31, 2010, information with respect to the Company's contractual obligations (excludes expenses of a fixed nature expected to be incurred in the normal course of business):

	Payments Due By Period				
	Total	**Less than 1 year**	**2-3 Years**	**3-4 Years**	**After 5 Years**
Office Lease[(1)]	$ 776,140	$ 146,253	307,355	322,533	-
Land Lease Obligation[(2)]	-	-	-	-	-
Asset retirement obligation[(3)]	12,000,000	-	-	-	12,000,000
Total	**$ 12,776,140**	**$ 146,253**	**$ 307,355**		**$ 12,000,000**

(1) The Office Lease for the head office has been renewed for a 5 year period to 2015.

(2) Under the current one year term of the QIA Lease, the Company has met the rent payment obligation with a payment of $633,600 related to the period from November 1, 2009 to October 31, 2010. The Company will be renegotiating the QIA Lease in 2010. See "Risks and Uncertainties".

(3) This value represents an undiscounted cash estimate of future abandonment and reclamation costs under the Company's A&R Plan. The discounted value is included on the balance sheet under Asset retirement obligation.

OTHER INFORMATION

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Going Concern

Management has prepared its financial statements using accounting principles applicable to a going concern, which assumes continuity of operations and realization of assets and settlement of liabilities in the normal course of business. Should the going concern assumption no longer be valid, adjustments may be required to the carrying values of assets and liabilities and to the reported expenses and balance sheet classifications. These adjustments could be material.

Development Stage Entity

The Company has adopted the Accounting Guideline 11 – Enterprises in the Development Stage (AcG11), relating to enterprises in the development stage, as detailed by the Canadian Institute of Chartered Accountants ("CICA"). The Company is devoting its efforts to activities of raising capital and exploring for natural resources which may lead to the feasibility of developing the Mary River Property.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amounts of certain revenues and expenses during the period. Actual results could differ significantly from those estimates. Specific items requiring estimates are mining interests, capital assets, amortization, asset retirement obligations, future income taxes and share-based compensation.

Mining interests

Exploration expenditures that are incurred to explore Deposit Nos. 2, 3, 4 or 5 are expensed as incurred. Development expenditures incurred (including interest on borrowings, if applicable) to advance Deposit No. 1 have been capitalized since April of 2008 when mineral reserves were established on Deposit No. 1 (the "Project").

Development costs together with the cost of mining interests will be charged to operations on a units-of-production method based on estimated recoverable reserves upon commencement of commercial production. Revenue earned in the pre-development phase is treated as a reduction to mine development costs. If the mining interests are abandoned or if management determines that the value of the mining interests is impaired, the costs will be reduced to fair value through a charge to the income statement.

Property, plant & equipment and amortization

Property, plant & equipment are carried at cost, less accumulated amortization. Amortization of property, plant & equipment is calculated on the following basis:

Exploration equipment	5 years straight line
Furniture & fixtures	5 years straight line
Leasehold improvements	5 years straight line
Computer equipment	30% declining balance

Asset retirement obligations

The accounting for asset retirement obligations encompasses the accounting for legal obligations associated with the retirement of a long-lived tangible asset that results from the acquisition, construction, development and/or normal operation of a long-lived asset. The retirement of a long-lived asset is its' other than temporary removal from service, including its' sale, abandonment, recycling or disposal in some other manner. The Company estimates the cost associated with these activities in its A&R Plan which is reviewed and updated annually.

The fair value of a liability for an asset retirement obligation is recorded in the period in which it is incurred. When the liability is initially recorded, the cost is capitalized by increasing the cost of the related long-lived asset. The capitalized cost will be amortized on a unit of production basis. Changes in the liability for an asset retirement obligation resulting from the passage of time and/or revisions to either the timing or the amount of the original estimate of undiscounted cash flows are recognized in the period of change. Over time, the liability is increased to reflect an interest element (accretion expense) considered in the initial measurement of fair value. Upon settlement of the liability, a gain or loss is recorded if the actual costs incurred are different from the liability recorded.

It is possible that the Company's estimates of its asset retirement obligations could change as a result of changes in regulations, the extent of environmental remediation required and the means of reclamation or cost estimates. These estimates are also based on expected remediation requirements relating to the Mary River Property and will change as the Company proceeds with the development of the Mary River Property. Changes in estimates are accounted for prospectively from the period in which these estimates are revised.

Future income taxes

The Company accounts for income taxes in accordance with the liability method. Under the liability method, future income tax assets and liabilities are recognized for differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of substantive enactment. A future income tax asset is recognized only when it is more likely than not that the income tax asset will be realized.

Share-based compensation

The share-based compensation expense is recognized in equal instalments over the vesting period of the options issued. The expense is determined using an option pricing model that takes into account the exercise price, the term of the options, the current Common Share trading price, the expected volatility of the underlying Common Shares, the expected dividend yield and the risk free rate for the term of the option.

Convertible debt

The Company classifies the proceeds received from convertible loans into their liability and equity components using a fair value approach. The carrying amount of the liability component is accreted over the life of the instrument using the effective interest rate method. On conversion into shares, the carrying amount of the equity component and the carrying amount of the liability component are transferred to share capital. In the event that the instrument is settled in cash, this is treated as the extinguishment of the instrument; a gain or loss on extinguishment of the liability component, if applicable, is recognized in the income statement, the gain or loss on the equity component, if applicable, is recognized in contributed surplus. Transaction costs are netted against the carrying value of the instrument to which they relate.

Changes in accounting policies

Section 1506

Section 1506 - Accounting Changes – This existing section has been amended to exclude from its scope changes in accounting policies upon the complete replacement of an entity's primary basis of accounting. Amendments apply to interim and annual financial statements relating to years beginning on/after July 1, 2009. The adoption of these changes to the standard did not have significant impact on the Company's financial statements.

Future accounting changes

Section 1582

The new Section 1582 - Business Combinations, which replaces Section 1581 - Business Combinations, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. The new standard applies to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted. The Company is currently assessing the impact of the adoption of this new standard on its consolidated financial statements.

Section 1601 & 1602

The new Sections 1601 - Consolidated Financial Statements and Section 1602 - Non-Controlling Interests, together replace Section 1600 - Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes the accounting for a non-controlling interest in a subsidiary, in the consolidated financial statements, subsequent to a business combination. These standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The Company is currently assessing the impact of the adoption of these new standards on its financial statements.

International Financial Reporting Standards ("IFRS")

In February 2008, the CICA Accounting Standards Board confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS in calendar year 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there may be significant differences on recognition, measurement and disclosure that may materially impact the Company's financial statements.

The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the financial year ended December 31, 2010. Financial statements for the quarter ended March 31, 2011, including comparative amounts, will be prepared in accordance with IFRS. In light of the timing of transition, the Company has: formalized the project team and resources, and continues to monitor and has added resources as required; defined the governance structure including definition of reporting requirements to, among others, the Audit Committee; and conducted a detailed evaluation of accounting issues, including drafting a portion of proposed new policies in key areas and decisions on alternative accounting policies and/or treatments.

The project team has made an assessment of what the key areas of impact for the Company will be, among others: IFRS 1 – first time adoption, property, plant and equipment, asset retirement obligations, financial instruments, impairment of assets, presentation of financial statements and share based payments. The final impact of the conversion on the Company's financial statements cannot be measured at this time.

The Company has and will continue to prioritize certain IFRS conversion related activities that should be completed within a reasonable time period following January 1, 2010, the Company's IFRS transition date. Such activities include review and finalization of IFRS impact on: accounting policies, internal controls over financial reporting, disclosure controls and procedures, assessment of financial reporting expertise including training requirements and a review of the adequacy of the resources available to affect the conversion work during the course of the second quarter of 2010, and lastly, a review of IT systems.

The Company will continue to monitor results from the existing conversion plan, as well as ongoing changes to IFRS, and adjust its transition and implementation plans accordingly. The Company's transition remains aligned to its implementation schedule and it is on track to meet the timelines for the changeover.

Capital Disclosures

As at March 31, 2010, Baffinland's capital structure consists of its shareholders' equity. During the three months ended March 31, 2010, there was no change to the capital structure. The Company is a development stage entity and therefore, its objective when managing the capital structure is to fund the continuing exploration and development of its wholly owned Mary River Property. The Company maintains its capital structure by raising funds externally as the need arises. The capital is invested in highly liquid, highly rated financial instruments.

In order to carry out planned exploration and development and to pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. There are no assurances that Financing Alternatives will be achievable on terms acceptable to the Company, or at all.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the three months ended March 31, 2010 compared to the previous year. The Company is not subject to externally imposed capital requirements.

Financial Instruments

The Company’s risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of loss associated with counterparty’s or the Company’s inability to fulfil its payment obligations. The Company's credit risk is attributable to its long term investment in asset-backed notes and accounts receivable. When valuing its financial instruments, the Company is required to take into account the credit quality of both the counterparty and the Company itself as appropriate.

The Company has no significant concentration of credit risk arising from operations. Cash equivalents consist of guaranteed investment certificates, which have been invested with Canadian chartered banks with typical maturities of less 12 months and fully cashable after 30 days and management believes the risk of loss to be remote. Accounts receivable typically consists of goods and services tax due from the Federal Government of Canada. Management believes that the credit risk with respect to accounts receivable is low.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient funds to meet liabilities when due. As at March 31, 2010, the Company had an unrestricted cash balance of $41,640,956 (December 31, 2009 - $45,479,118) to settle current liabilities of $2,348,103 (December 31, 2009 - $1,672,307). Current liabilities consist of accounts payable that are predominantly due within 60 days.

Interest rate risk

The Company's current policy is to invest excess cash in highly rated short-term deposit certificates issued by Canadian chartered banks. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

Price risk

The Company is exposed to price risk with respect to iron ore prices. The price of iron ore declined somewhat during the most recent economic downturn which commenced in the third quarter of 2008, while future significant price declines could cause continued exploration and development of the Mary River Property to become uneconomical, commodity prices, particularly iron ore began to recover by the end of 2009.

Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company funds certain transactions using US dollar currency from its US dollar bank account held with a Canadian bank. Management believes the foreign exchange risk derived from currency conversions is not significant and therefore does not hedge its foreign exchange risk.

Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a three month period:

- Interest income on cash balances held has been negatively affected by low prevailing interest rates. Cash and cash equivalents include deposits which are at variable interest rates. It is generally expected that interest rates will rise. If interest rates were to rise by 0.50%, net loss would increase by approximately $200,000 for the three months ended March 31, 2010.
- The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.
- Price risk is remote since the Company is not a producing entity.

Fair value of financial instruments

Effective January 1, 2007, all financial instruments have been classified into one of the following five categories: held for-trading assets or liabilities, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in accumulated other comprehensive income until the instruments are derecognized or impaired. Loans and receivables, investments held-to-maturity and other financial liabilities are measured at amortized cost using the effective interest method.

The Company made the following classifications:

Cash and cash equivalents	Held for trading
Accounts receivable	Loans and receivables
Restricted cash	Held for trading
Long term investment	Held for trading
Accounts payable	Other financial liabilities

Disclosure Controls and Procedures

Both the Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures and assessed the design of the Company's internal controls over financial reporting as of December 31, 2009, pursuant to the requirements of National Instrument 52-109.

The Company has very limited administrative staffing and in many instances, the implementation of internal controls relying on segregation of duties is not always possible. The Company relies on senior management review and approval to ensure that the controls are as effective as possible. There has been no change in the Company's internal control over financial reporting during the year ended March 31, 2010that have materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Cautionary Note Regarding Forward-Looking Information

Certain information included in this MD&A may constitute forward-looking information within the meaning of securities laws. 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 the Company.

Without limitation, statements about the Company's 2010 Exploration Program including its 2010 exploration program; the identification and increase of mineral resources at Deposit Nos. 5, 4 and 3; achieving the necessary Financing Alternatives; blast furnace results from trial cargos; the submission of the Draft Environmental Impact Statement; the negotiations of an Inuit Impact Benefits Agreement; the Company's eligibility for loan guarantees; the A&R Plan; progressive reclamation; regulatory compliance and maintaining core assets at site; Financial Security requirements; capital cost estimates for the Project; completion of the regulatory process and estimates and review of Project construction timelines and the commencement of commercial production at the Project; and substantially all of the information contained in and/or derived from the DFS, constitutes forward-looking information. Actual results may vary. See "Risks and Uncertainties".

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. In addition, in making statements concerning the timing of the Project achieving commercial production, the Company has made certain assumptions relating to certain project development activities taking place beginning in 2010 and leading toward commercial production and continuing without undue disruption. In estimating initial capital costs for the Project of $4.1 billion, the Company has made certain assumptions set out in the DFS including, among other things, with respect to certain design criteria and certain inputs for construction costs, including labour and material costs. In stating that the Company desires to achieve Financing Alternatives, the Company has assumed continued improvements in the global economy and the financial position of potential strategic partners and that it will successfully conduct negotiations and due diligence. The granting of a loan guarantee is subject to various assumptions including the acceptance of a formal application and completion of satisfactory due diligence, among other things. While the Company considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect and there can be no assurance that such developments can be completed on satisfactory terms or at all.

Forward-looking information is also subject to certain risks and uncertainties, which could cause actual results to differ materially from what management currently expects. These factors include: (i) risks inherent in the exploration for and development of mineral deposits; (ii) 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; (iii) regulatory risks, including risks relating to the acquisition of the necessary licenses and permits; (iv) uncertainties inherent in the estimation of mineral reserves and resources; (v) risks that production estimates may be inaccurate; (vi) 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; (vii) risks relating to changes in iron ore prices and the worldwide demand for and supply of iron ore; (viii) risks relating to the remoteness of the Mary River Property including access and supply risks and reliance on key personnel; (ix) environmental risks, including risks relating to climate change and the potential impact of global warming on Project timelines and on construction and operating costs; (x) the risk of fluctuations in the Canadian/U.S. dollar exchange rate; and (xi) insurance risks. See "Risks and Uncertainties".

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