

**BAFFINLAND IRON MINES CORPORATION****CONSOLIDATED BALANCE SHEETS  
AS AT**

	<b>March 31, 2004</b>	December 31,
<b>ASSETS</b>	(Unaudited)	(Note 1)
<b>Current</b>		
Cash and short term deposits (Note 4)	\$ 3,621,851	\$ 2,967,423
Accounts receivable	85,386	3,483
Prepaid expense	-	25,000
	<u>3,707,237</u>	2,995,906
<b>Mining interests (Notes 2 and 5)</b>	<b>1</b>	<b>1</b>
<b>Capital assets</b>	<u>7,907</u>	-
	<u><b>\$ 3,715,145</b></u>	<u><b>\$ 2,995,907</b></u>
<b>LIABILITIES</b>		
<b>Accounts payable</b>	\$ 164,000	\$ 171,000
<b>Due to related parties (Note 8)</b>	<u>123,347</u>	238,818
	<u>287,347</u>	409,818
<b>SHAREHOLDERS' EQUITY</b>		
<b>Capital Stock (Note 6)</b>		
Authorized - unlimited common shares		
Issued - 17,960,987 common shares	11,835,352	4,936,503
<b>Contributed surplus</b>	<b>1,009,997</b>	1,009,997
<b>Deficit</b>	<u>(9,417,551)</u>	(3,360,411)
	<u>3,427,798</u>	2,586,089
	<u><b>\$ 3,715,145</b></u>	<u><b>\$ 2,995,907</b></u>

**BAFFINLAND IRON MINES CORPORATION****CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT  
FOR THE THREE MONTHS ENDED  
(UNAUDITED)**

	<b>March 31, 2004</b>	March 31, 2003 (Note 1)
<b>Expenses</b>		
Exploration expenditures	\$ 1,343,900	\$ -
Office services	45,000	600
Legal and accounting fees	21,250	1,263
General	11,786	-
Filing fees	9,500	-
Transfer agent	8,116	-
Shareholder reports and relations	4,333	-
Travel	1,553	-
	<u>1,445,438</u>	<u>1,863</u>
<b>Loss for the period</b>	<b>(1,445,438)</b>	<b>(1,863)</b>
<b>Deficit at beginning of period</b>	<b>(7,972,113)</b>	<b>(3,078,878)</b>
<b>Deficit at end of period</b>	<b><u>\$ (9,417,551)</u></b>	<b><u>\$ (3,080,741)</u></b>
<b>Basic and fully diluted loss per share</b>	<b>\$ (0.08)</b>	<b>\$ -</b>

**BAFFINLAND IRON MINES CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED****(UNAUDITED)**

	<b>March 31, 2004</b>	March 31, 2003 (Note 1)
<b>Cash provided by (used in)</b>		
<b>Operations</b>		
<b>Loss for the period</b>	<b>\$ (1,445,438)</b>	<b>\$ (1,863)</b>
Items not effecting cash		
Net capital deficiency on amalgamation	<u>(283,466)</u>	-
	<b>(1,728,904)</b>	<b>(1,863)</b>
<b>Changes in certain non-cash working capital items</b>		
Accounts receivable	<b>(81,903)</b>	<b>(83)</b>
Prepaid expenses	<b>25,000</b>	-
Accounts payable	<b>(7,000)</b>	<b>1,346</b>
Due to related parties	<u>(115,472)</u>	<u>600</u>
<b>Total cash provided by (used in) operating activities</b>	<u><b>(1,908,279)</b></u>	<u>-</u>
<b>Investing Activities</b>		
Purchase of capital assets	<u>(7,907)</u>	-
<b>Total cash provided by (used in) investing activities</b>	<u>(7,907)</u>	-
<b>Financing Activities</b>		
Proceeds on issue of common shares	<u>2,570,614</u>	-
<b>Total cash provided by (used in) financing activities</b>	<u>2,570,614</u>	-
<b>Change in cash</b>	<b>654,428</b>	-
<b>Cash position at beginning of period</b>	<u>2,967,423</u>	-
<b>Cash position at end of period</b>	<u><u>\$ 3,621,851</u></u>	<u><u>\$ -</u></u>

## **BAFFINLAND IRON MINES CORPORATION**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2004 (UNAUDITED)**

#### **1. Reverse Take-Over**

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At a special meeting of Glimmer Resources Inc. shareholders held on January 15, 2004, it was unanimously approved that the Company:

- (a) Amend its articles to change its name to Baffinland Iron Mines Corporation (Corporation) which was effected February 6, 2004 by Articles of Amendment.
- (b) Consolidate its common shares on the basis of one (1) Baffinland Iron Mines Corporation common share for every three (3) Glimmer Resources Inc. common shares.
- (c) Enter into a business combination with Baffinland Iron Mines Limited whereby Baffinland Iron Mines Corporation will issue four (4) common shares for every three (3) common shares of Baffinland Iron Mines Limited.
- (d) Assume an obligation of Glimmer Resources Inc. to issue 100,000 (300,000 "old" shares of Glimmer) of the Corporation's common shares. These shares were issued during the period.
- (e) Assume an obligation of Baffinland Iron Mines Limited to issue 400,000 (300,000 "old" shares of Baffinland Iron Mines Limited) of the Corporation's common shares to Arctic Iron Limited. These shares have not been issued as yet. It is anticipated that the issuance will take place by June 30, 2004. The amount of the liability to issue these shares has been recorded in accounts payable at \$160,000.

After giving effect to the above transactions, the business combination referred to above was treated as a reverse take-over of Baffinland Iron Mines Corporation (formerly Glimmer Resources Inc.) by Baffinland Iron Mines Limited. The comparative figures for the year 2003 are the figures of Baffinland Iron Mines Limited. The current figures are a combination of Baffinland Iron Mines Corporation (formerly Glimmer) and Baffinland Iron Mines Limited.

#### **2. Operations**

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Baffinland Iron Mines Corporation, prior to the amendment to Articles of Incorporation under the Business Corporation Act (Ontario) on February 6, 2004, was known as Glimmer Resources Inc. Glimmer Resources Inc. was incorporated in the Province of Ontario, Canada, by Articles of Incorporation dated March 10, 1986.

The Company has non-producing iron ore properties located on Baffin Island, Nunavut, Canada.

These consolidated financial statements have been prepared on a going-concern basis which assumes continuity of operations and realization of assets and settlement of liabilities in the normal course of business. The Company's continuance as a going concern is dependent on its ability to obtain adequate financing in order to continue operations.

## **BAFFINLAND IRON MINES CORPORATION**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2004 (UNAUDITED)**

#### **3. Significant accounting policies**

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- a) The consolidated financial statements of the Company are reported in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles.

- b) Basis of consolidation

The consolidated financial statements include the accounts of PHM Corp., a Canadian wholly-owned subsidiary. All significant intercompany balances and transactions have been eliminated.

- c) Accounting for stock-based compensation:

The Company has adopted the accounting recommendations relating to stock-based compensation and other stock based payments as detailed in the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3870. CICA 3870 establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments in exchange for goods and services, applying the fair value method of accounting to these goods and services. As permitted by CICA 3870, the Company is using the intrinsic value method of accounting for stock options awarded to its employees and directors. On the date the stock options are granted, no compensation is recorded when the exercise price of the option is equal to the market price of the shares on that date. The application of CICA 3870 had no impact on these consolidated financial statements of the Company.

- d) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted 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 tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of substantive enactment. A valuation allowance is provided against future tax assets when it is more likely than not that the tax asset will not be utilized.

- e) Mining interests and exploration expenditures:

The Company has adopted the recommendation issued by the Canadian Institute of Chartered Accountants regarding the expensing of exploration expenditures as incurred. Costs attributable to property acquisitions are capitalized while exploration expenditures on the property can only be capitalized once mineral reserves have been established. Once a mineral reserve has been established, all development costs will be capitalized. These costs together with the costs of mining interests will be charged to operations on a unit-of-production method based on estimated recoverable reserves. If the mining interests are abandoned, or when an impairment in value has been determined, the capitalized costs will be charged to operations.

## BAFFINLAND IRON MINES CORPORATION

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2004 (UNAUDITED)

#### **3. Significant accounting policies (Continued)**

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f) Use of Estimates:

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reported period. These estimates are reviewed periodically, and as adjustments become necessary, they are made in the period in which they become known. Actual results could differ from these estimates.

#### **4. Cash and Short Term Deposits**

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Regular	\$ 1,993,376
Segregated for flow through	<u>1,628,475</u>
	<u>\$ 3,621,851</u>

#### **5. Mining Interests**

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The Company has a 100% interest in three mining leases covering approximately 1,600 hectares in the Mary River area, northern Baffin Island, Nunavut, Canada.

**BAFFINLAND IRON MINES CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2004**  
**(UNAUDITED)**

**6. Capital Stock**

	Number of Old shares	Amount	Number of New shares	Amount
Glimmer Resources Inc.	6,098,962	\$ 4,328,235	2,032,987	\$ 4,328,235
Exall Resources Inc. issuance	-	-	100,000	70,614
	-	-	2,132,987	\$ 4,398,849
Baffinland Iron Mines Limited	3,433,500	\$ 1,936,503	4,578,000	\$ 1,936,503
Flow-through financing	3,750,000	3,000,000	5,000,000	3,000,000
	-	-	9,578,000	\$ 4,936,503
Baffinland Iron Mines Corporation				
Private placement financing		-	6,250,000	\$ 2,500,000
			17,960,987	\$ 11,835,352

Also refer to Note 1(e) regarding Arctic Iron Limited

**Stock Options**

At a special meeting of the shareholders held on January 15, 2004, approval was given to an incentive stock option plan whereby the Company could issue up to 1,836,099 common shares. As at March 31, 2004, options have been granted to directors and officers of the Company to acquire 1,100,000 common shares at \$1.15 per share expiring on February 26, 2009. The vesting provisions of these options occurs over an 18 month period as follows:

- (a) 25% on or after February 9, 2004
- (b) 1/3 of the remaining on or after June 10, 2004
- (c) 1/2 of the remaining on or after February 10, 2005
- (d) the balance of the remaining on or after August 11, 2005

**7. Income Taxes**

The company has Canadian Exploration Expenses of approximately \$500,000 and Canadian Development Expenses of approximately \$300,000 available to carry forward to apply against taxable incomes of future years.

The company has Mining Depletion Allowance of approximately \$50,000 available under certain conditions as a deduction for income tax purposes.

Under certain circumstances, from an agreement entered into by a predecessor company, there may be an additional \$1,167,000 of Canadian Exploration Expenses available to offset a specific receipt of the same amount.

An income tax asset has not been recorded as it is not known whether these benefits will be realized.

**BAFFINLAND IRON MINES CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2004**  
**(UNAUDITED)**

**8. Related Party Transactions**

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No fees are paid to directors for acting as such. Directors and officers, or companies controlled by them, have charged the Company for professional fees, office rent and services amounting to \$45,000 for the three months ended March 31, 2004 as compared to \$600 for the three months ended March 31, 2003.

The amount due to related parties is non-interest bearing and has no set terms of repayment. Management expects that there will be no demand for payment until the Company is financially viable.

**9. Loss per share**

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Net loss per share is calculated using the weighted average number of common shares outstanding during the period. No effect has been given to the potential exercise of stock options in the calculation of fully diluted loss per share as the effect would be anti-dilutive.

**10. Contingencies and Commitments**

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As part of an agreement, the Company may receive a payment of \$1,167,000 from Apollo Gold Corp. if the former Glimmer Mine attains commercial production of three hundred (300) tonnes of gold bearing ore per day for a period of thirty (30) consecutive days.

Management of and companies related to the Company have agreed to reduce loans and accounts payable in the amount of \$183,860 and to forgive obligations to them aggregating \$566,891. If the above payment of \$1,167,000 is received by the Company, it has agreed to pay the forgiven obligation of \$566,891. This obligation inures to all beneficiaries and assignees of the Company.

The mining and exploration activities of the Company are subject to various government laws and regulations. These environmental regulations are continually changing and generally becoming more restrictive. The Company believes its operations comply, in all material respects, with the applicable laws and regulations. The Company may be expected to make, in the future, expenditures to comply with such laws and regulations. When estimated costs are reasonably determinable, the Company will record a provision for environmental and reclamation obligations based on management's estimates of such costs. Such estimates are, however, subject to change based on negotiations with regulatory authorities, changes in laws and regulations and as new information becomes available.