

INTERIM MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2004

INTRODUCTION

The following discussion and analysis of the financial condition and results of operations for **Baffinland Iron Mines Corporation** should be read in conjunction with the consolidated financial statements of the Company dated September 30, 2004, which have been prepared in accordance with Canadian generally accepted accounting principles. The Company's shares are listed on the T S X Venture Exchange symbol BIM and its reporting currency is the Canadian dollar. The financial data contained in this discussion and analysis is also presented in accordance with Canadian generally accepted accounting principles.

OVERVIEW

Baffinland Iron Mines Corporation (formerly Glimmer Resources Inc.) was incorporated in the Province of Ontario by Articles of Incorporation dated March 10, 1986.

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 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 issue four (4) common shares for every three (3) common shares of Baffinland Iron Mines Limited.

Baffinland Iron Mines Corporation owns three mining leases covering approximately 1,600 hectares in the Mary River area, Baffin Island, Nunavut, Canada. The Company is involved in the exploration and development of mineral properties and is solely focused on the advancement of its Mary River iron deposits.

The Company has adopted the accounting recommendations issued by the Canadian Institute of Chartered Accountants (CICA) regarding the expensing of exploration expenditures as they are incurred. During the quarter under review \$3,519,393 of exploration expenditures have been incurred on the Company's Baffin Island project with year to date expenditures amounting to \$6,750,027.

The Company has also adopted the accounting recommendations of the CICA as they relate to stock-based compensation. Compensation expense is recognized when stock options are granted with the same amount being recorded as contributed surplus. The expense recorded for the nine months ended September 30, 2004 amounted to \$877,500. Option pricing models used in calculating stock-based compensation require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes to these estimates and assumptions may materially affect the calculations.

Additional information on Baffinland Iron Mines Corporation can be found by visiting the Company's website at www.baffinland.com and by viewing the Company's regulatory filings at www.sedar.com.

OPERATIONS

The net loss recorded by the Company for the three months ended September 30, 2004 was \$3,674,570 compared to a net loss of \$76,143 for the 2003 quarter. The net loss recorded for the nine months ended September 30, 2004 was \$8,398,828 compared to a net loss of \$40,606 for the 2003 nine month period.

Set forth below is certain selected financial information in respect of the three most recently completed financial years of the Company.

BALANCE SHEETS as at

\$000's

| | Dec. 31 <u>2003</u> | Dec. 31 <u>2002</u> | Dec. 31 <u>2001</u> |
|-----------------------------------|------------------------|------------------------|------------------------|
| ASSETS: | | | |
| Current | <u>2,996</u> | | |
| LIABILITIES AND EQUITY | | | |
| Current | 171 | | |
| Due to related parties | <u>239</u> | <u>132</u> | <u>122</u> |
| | 410 | 132 | 122 |
| Shareholders' equity | <u>2,586</u> | <u>(132)</u> | <u>(122)</u> |
| | <u>2,996</u> | <u>0</u> | <u>0</u> |
| WORKING CAPITAL (deficiency) | 2,586 | (132) | (122) |
| COMMON SHARES OUTSTANDING (000's) | 7,183.5 | 3,433.5 | 3,433.5 |

STATEMENTS OF OPERATIONS for the three years ended

\$000's except per share

| | Dec. 31 <u>2003</u> | Dec. 31 <u>2002</u> | Dec. 31 <u>2001</u> |
|-----------------------------------|------------------------|------------------------|------------------------|
| REVENUE | <u>40</u> | | |
| EXPENSES | | | |
| Administrative | 9 | 2 | 5 |
| Exploration | <u>312</u> | <u>8</u> | <u>8</u> |
| | <u>321</u> | <u>10</u> | <u>13</u> |
| LOSS before taxes and other items | (281) | (10) | (13) |
| Lease rental payments written off | (8) | | |
| NET LOSS | <u>(289)</u> | <u>(10)</u> | <u>(13)</u> |
| Per share (weighted average) | (0.08) | 0.00 | 0.00 |

Set forth below is certain selected financial information in respect of the eight most recently completed quarters of the Company.

BALANCE SHEETS as at

\$000's

| | Sep. 30 2004 | Jun. 30 2004 | Mar. 31 2004 | Dec. 31 2003 | Sep. 30 2003 | Jun. 30 2003 | Mar. 31 2003 | Dec. 31 2002 |
|-----------------------------------|-----------------|-----------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| ASSETS: | | | | | | | | |
| Current | 3,114 | 6,856 | 3,707 | 2,996 | 22 | 30 | | |
| Capital | 21 | 14 | 8 | | | | | |
| | <u>3,135</u> | <u>6,870</u> | <u>3,715</u> | <u>2,996</u> | <u>22</u> | <u>30</u> | | |
| LIABILITIES AND EQUITY | | | | | | | | |
| Current | | 50 | 164 | 171 | 4 | | | |
| Due to related parties | 123 | 134 | 123 | 239 | 199 | 133 | 132 | 132 |
| | 123 | 184 | 287 | 410 | 203 | 133 | 132 | 132 |
| Deferred taxes | 2,200 | 2,200 | | | | | | |
| | <u>2,323</u> | <u>2,384</u> | <u>287</u> | <u>410</u> | <u>203</u> | <u>133</u> | <u>132</u> | <u>132</u> |
| Shareholders' equity | 812 | 4,486 | 3,428 | 2,586 | (181) | (103) | (132) | (132) |
| | <u>3,135</u> | <u>6,870</u> | <u>3,715</u> | <u>2,996</u> | <u>22</u> | <u>30</u> | <u>0</u> | <u>0</u> |
| WORKING CAPITAL (deficiency) | 2,991 | 6,672 | 3,420 | 2,586 | (181) | (103) | (132) | (132) |
| COMMON SHARES OUTSTANDING (000's) | 22,761 | 22,761 | 17,961 | 7,183 | 3,433 | 3,433 | 3,433 | 3,433 |

STATEMENTS OF OPERATIONS for the three months ended

\$000's except per share

| | Sep. 30 2004 | Jun. 30 2004 | Mar. 31 2004 | Dec. 31 2003 | Sep. 30 2003 | Jun. 30 2003 | Mar. 31 2003 | Dec. 31 2002 |
|------------------------------|-----------------|-----------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| REVENUE | 13 | 9 | | | | 40 | | |
| EXPENSES | | | | | | | | |
| Administrative | 168 | 1,401 | 101 | 5 | 3 | 2 | | 2 |
| Exploration | 3,519 | 1,887 | 1,344 | 228 | 75 | 9 | | |
| | <u>3,687</u> | <u>3,288</u> | <u>1,445</u> | <u>233</u> | <u>78</u> | <u>11</u> | <u>0</u> | <u>2</u> |
| NET PROFIT (LOSS) | <u>(3,674)</u> | <u>(3,279)</u> | <u>(1,445)</u> | <u>(233)</u> | <u>(78)</u> | <u>29</u> | <u>0</u> | <u>(2)</u> |
| Per share (weighted average) | <u>(0.16)</u> | <u>(0.14)</u> | <u>(0.08)</u> | <u>(0.06)</u> | <u>(0.02)</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> |

The nine month loss represents an increase of \$8,358,222. The items that make up this nine month increase are:

During the nine months ended September 30, 2004 the Company recorded reduced revenue of \$17,926, incurred increased exploration expenditures of \$6,676,582, recorded stock based compensation of \$877,500, incurred financing expenses of \$312,235, and increased administration expenditures of \$473,979 when compared to the 2003 nine month period.

During the nine months ended September 30, 2003 the Company (Baffinland Iron Mines Limited) was inactive.

RELATED PARTY EXPENDITURES

Related party expenditures during the nine months ended September 30, 2004 were \$144,000. This amount was paid to Boanne Investments Limited for an administration fee which was incurred in the normal course of business.

SCHEDULE OF REVENUE AND EXPENSES

For the nine months ended

| | Sept. 30 2004 | Sept. 30 2003 |
|---------------------------|--------------------|------------------|
| | \$ | \$ |
| Revenue | <u>22,074</u> | <u>40,000</u> |
| Expenditures | | |
| Exploration | 6,750,027 | 73,445 |
| Office services | 144,000 | 1,800 |
| Salaries | 61,315 | |
| Legal and accounting fees | 118,679 | 5,351 |
| General | 31,809 | 10 |
| Financing costs | 312,235 | |
| Filing fees | 38,683 | |
| Transfer agent | 15,583 | |
| Shareholder relations | 26,687 | |
| Travel | 40,697 | |
| Stock based compensation | 877,500 | |
| Amortization | 3,687 | |
| | <u>8,420,902</u> | <u>80,606</u> |
| Loss | <u>(8,398,828)</u> | <u>(40,606)</u> |

SIGNIFICANT ACCOUNTING POLICIES

- 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 inter-company balances and transactions have been eliminated.
- c) **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 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.

- d) **Capital assets:**
Capital assets are carried at cost. Amortization is provided on the straight line basis at an annual rate of 20%.
- e) **Use of estimates**
The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles required 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.
- f) **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 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.
- g) **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. Compensation expense is recognized when the options are granted with the same amount being recorded as contributed surplus.

CAPITAL STOCK

During the nine months ended September 30, 2004 the Company issued the following shares and special warrants:

| | | |
|---|--|-----------------|
| - via business combination | 11,610,987 shares for a total consideration of | \$9,264,738 |
| - via Arctic Iron Limited/ Exall Resources issuances | 500,000 shares for a total consideration of | \$230,614 |
| - via private placement 1/04 | 6,250,000 shares for a total consideration of | \$2,500,000 |
| - via private placement 6/04 Special warrants | 4,400,000 for a consideration of | \$3,300,000 (i) |

(i) Net of deferred taxes amounting to \$2,200,000 incurred on renunciation of flow through expenditures.

As a result of these share and warrant issuances and the consolidation of Glimmer Resources Inc. (1:3) the issued capital of the Company at September 30, 2004 was 18,360,987 common shares and 4,400,000 special warrants.

LIQUIDITY AND CAPITAL RESOURCES

Current assets at September 30, 2004 were \$3,114,363 compared to \$2,995,906 at December 31, 2003, an increase of \$118,457. Cash decreased by, \$213,490 accounts receivable increased by \$351,948, and prepaid expenses decreased by \$20,000. The decrease in cash was the result of the Company issuing via private placements of its common shares and special warrants for proceeds of \$8,000,000, less \$8,419,526 used in operating activities, less \$24,578 used in the purchase of capital assets, and plus 500,000 shares issued to Arctic Iron Limited and Exall Resources Limited valued at \$230,614. The increase in accounts receivable was the result of goods and services tax paid in the amount of \$351,948 that is subject to reimbursement by the Federal Government which is in the normal course of business. The decrease in prepaid expense was the result of expenditures incurred for services and the purchase of supplies for the Baffin Island iron project.

Current liabilities at September 30, 2004 were \$123,347 compared to \$409,818 at December 31, 2003, a decrease of \$286,471. Accounts payable decreased by \$171,000, and due to related parties decreased by \$115,471. Long term liabilities increased by \$2,200,000 due to the recording of deferred taxes incurred on renunciation of flow through expenditures.

Working capital was \$2,991,016 at September 30, 2004 compared to \$2,586,088 at December 31, 2003. The working capital at September 30, 2004 is represented by \$2,753,933 in cash and equivalents, \$355,430 in accounts receivable, \$5,000 in prepaid expenses, less \$123,347 in due to related parties.

Shareholders' equity at September 30, 2004 was \$811,908 compared to \$2,586,089 at December 31, 2003, a decrease of \$1,774,181. This occurred as a result of the following:

| | | |
|---|--|----------------------|
| - | Capital Stock: | |
| | Result of the business combination | \$ 4,328,235 |
| | Arctic Iron/Exall issuance | 230,614 |
| | Private placement financing (1/04) | 2,500,000 |
| | Private placement financing (6/04) | <u>3,300,000</u> (i) |
| | | 10,358,849 |
| - | Contributed surplus (fair value of options granted) | 877,500 |
| - | Deficit: | |
| | Loss for the period | (8,398,828) |
| | Result of the business combination | <u>(4,611,702)</u> |
| | | <u>(\$1,774,181)</u> |

(i) Net of deferred taxes amounting to \$2,200,000 incurred on renunciation of flow through expenditures.

Please refer to Note 6 of the attached Baffinland Iron Mines Corporation consolidated financial statements for the period ended September 30, 2004, to get the details of the number of common shares and special warrants issued and outstanding as at September 30, 2004.

REVERSE TAKE OVER

At a special meeting of Glimmer Resources Inc. (now Baffinland Iron Mines Corporation) shareholders held on January 15, 2004, it was unanimously approved that the Company:

- Amend its articles to change its name to Baffinland Iron Mines Corporation which was effected February 6, 2004 by Articles of Amendment.
- 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.
- Enter into a business combination with Baffinland Iron Mines Limited whereby four (4) common shares of Baffinland Iron Mines Corporation would be given for every three (3) common shares of Baffinland Iron Mines Limited.
- Have Baffinland Iron Mines Corporation assume an obligation of Baffinland Iron Mines Limited to issue 400,000 (300,000 "old" shares of Baffinland Iron Mines Limited) of its common shares to Arctic Iron Limited. Shares were issued during the 2nd quarter of 2004.

RISKS AND UNCERTAINTIES

The exploration for and development of mineral deposits involve significant risks, which even a combination of careful evaluation, experience and knowledge may not eliminate. Major expenses will be required to locate and establish mineral reserves and to construct mining and transportation facilities at our Mary River site on Baffin Island. It is impossible to ensure that the exploration programs planned by the Company will result in a profitable commercial mining operation. Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot accurately be predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

To date the Company has not recorded any revenues from its mining operations nor has the Company commenced commercial production on its property. The Company's operating and capital expenditures will increase in subsequent years with the advancing of exploration, development and commercial production. The amounts and timing of expenditures will depend on the progress of ongoing exploration and development.

There can be no assurance that the Company's exploration programs will result in locating commercially exploitable mineral ores or that the Company's property will be successfully developed.

The public trading market for the Company's common shares (which are listed on the TSX Venture Exchange symbol BIM) is not presently an active one. There can be no assurance that an active public trading market will develop in the future. Various factors including Baffinland's exploration results and general economic conditions could cause significant fluctuations in the price and volume of trading of the Company's common shares. Holders of Baffinland shares would suffer dilution by future share offerings.

Our financial success is dependent upon the success of our efforts on Baffin Island. Our historical capital needs have been met by the issue of common shares and special warrants. We do not have internal sources of funding to cover all of our future expenditures. We will need significant further funding to allow for the continuing exploration of the Company's Baffin Island iron project.

DIRECTORS AND OFFICERS

| | |
|----------------------|---|
| Brian L. Acton | Director |
| Graham G. Clow | Director |
| Edward G. Dumond | Secretary - Treasurer |
| John Lydall | Director |
| A. George Matthew | Chief Financial Officer |
| Richard D. McCloskey | Director |
| Gordon A. McCreary | Director - Chairman and Chief Executive Officer |
| Brian W. Penny | Director |
| Gordon Watts | Director |
| Michael T. Zurowski | Director - President |

October 28, 2004