

BAFFINLAND IRON MINES CORPORATION					
CONSOLIDATED BALANCE SHEETS				(unaudited)	(audited)
AS AT				September. 30	December. 31
				2004	2003
					(Note 1)
ASSETS					
Current					
Cash and equivalents (Note 4)				\$2,753,933	\$2,967,423
Accounts receivable				355,430	3,483
Prepaid expenses				5,000	25,000
				3,114,363	2,995,906
Mining interests (Notes 3 and 5)				1	1
Capital assets (net of accumulated amortization of \$3,687) (Note 3)				20,891	
				\$3,135,255	\$2,995,907
LIABILITIES					
Current					
Accounts payable					\$171,000
Due to related parties (Note 9)				\$123,347	238,818
				123,347	409,818
Deferred taxes (Note 8)				2,200,000	
				2,323,347	409,818
SHAREHOLDERS' EQUITY					
Capital stock (Note 6)					
Authorized: Unlimited common shares					
Issued: 22,760,987 (2003 - 7,183,500) shares and special warrants				15,295,352	4,936,503
Contributed surplus (Notes 3 and 7)				1,887,497	1,009,997
Deficit				(16,370,941)	(3,360,411)
				811,908	2,586,089
				\$3,135,255	\$2,995,907
The accompanying notes are an integral part of the financial statements					

BAFFINLAND IRON MINES CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(unaudited)

	Three Months Ended		Nine Months Ended	
	September. 30		September. 30	
	2004	2003	2004	2003
		(Note 1)		(Note 1)
Revenue	\$12,558		\$22,074	\$40,000
Expenses				
Exploration	3,519,393	\$73,445	6,750,027	73,445
Office services	54,000	600	144,000	1,800
Salaries	38,728		61,315	
Legal and accounting fees	21,429	2,088	118,679	5,351
General	4,992	10	31,809	10
Financing			312,235	
Filing fees	513		38,683	
Transfer agent	5,361		15,583	
Shareholder relations	12,785		26,687	
Travel	27,801		40,697	
Stock based compensation			877,500	
Amortization	2,126		3,687	
	3,687,128	76,143	8,420,902	80,606
Loss for the period	(\$3,674,570)	(\$76,143)	(\$8,398,828)	(\$40,606)
Deficit, beginning of period	(12,696,371)	(3,043,341)	(7,972,113)	(3,078,878)
Deficit, end of period	(\$16,370,941)	(\$3,119,484)	(\$16,370,941)	(\$3,119,484)
Basic and fully diluted loss per share	(\$0.16)	\$0.00	(\$0.37)	\$0.00

The accompanying notes are an integral part of the financial statements

BAFFINLAND IRON MINES CORPORATION				
CONSOLIDATED STATEMENTS OF CASH FLOWS				
(unaudited)	Three Months Ended		Nine Months Ended	
	September. 30		September. 30	
	2004	2003	2004	2003
		(Note 1)		(Note 1)
Operating activities				
Loss for the period	(\$3,674,570)	(\$76,143)	(\$8,398,828)	(\$40,606)
Items not effecting cash:				
Net capital deficiency on amalgamation			(283,466)	
Amortization expense	2,126		3,687	
Stock based compensation			877,500	
	(3,672,444)	(76,143)	(7,801,107)	(40,606)
Increase in accounts receivable	(288,003)	(6)	(351,948)	(89)
Decrease in prepaid expenses	56,804		20,000	
Increase (decrease) in accounts payable	(50,000)	67,035	(171,000)	69,571
Increase (decrease) in due to related parties	(10,619)	601	(115,471)	(7,274)
	(3,964,262)	(8,513)	(8,419,526)	21,602
Investing activities				
Purchase of capital assets	(8,973)		(24,578)	
	(8,973)		(24,578)	
Financing activities				
Proceeds on issue of common shares and special warrants			8,230,614	
	0		8,230,614	
Increase (decrease) in cash	(3,973,235)	(8,513)	(213,490)	21,602
Cash position at beginning of period	6,727,168	30115	2,967,423	0
Cash position at end of period	\$2,753,933	\$21,602	\$2,753,933	\$21,602

The accompanying notes are an integral part of the financial statements

BAFFINLAND IRON MINES CORPORATION

UNAUDITED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2004

1. REVERSE TAKE-OVER

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 were issued during the 2nd quarter of 2004.

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.

2. OPERATIONS

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 by Articles of Incorporation dated March 10, 1986.

The Company has non-producing iron interests 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.

UNAUDITED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (contd)

3. SIGNIFICANT ACCOUNTING POLICIES

- a) The 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 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 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.
- 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

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS (contd)

3. SIGNIFICANT ACCOUNTING POLICIES (contd)

for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments in exchange for goods and services. Compensation expense is recognized when the options are granted with the same amount being recorded as contributed surplus.

4. CASH AND EQUIVALENTS

Regular -	\$1,278,393
Segregated for flow through -	<u>1,475,540</u>
	<u>\$2,753,933</u>

5. MINING INTERESTS

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

6. CAPITAL STOCK

Authorized: Unlimited common shares

Issued:

	<u>Number of old shares</u>	<u>Amount</u> \$	<u>Number of new shares</u>	<u>Amount</u> \$
Balance, December 31, 2003				
Glimmer Resources Inc.	6,098,962	4,328,235		
February 6, 2004				
Consolidation of Glimmer (1:3)			2,032,987	4,328,235
Business combination with				
Baffinland Iron Mines Limited (4:3)	7,183,500	4,936,503	9,578,000	4,936,503
Share financing - private place. (1/04)			6,250,000	2,500,000
- flow through private place. (6/04)				
(special warrants)			4,400,000	3,300,000 (i)
Arctic Iron Limited/Exall				
Resources Limited issuance			<u>500,000</u>	<u>230,614</u>
Balance, September 30, 2004			<u>22,760,987</u>	<u>15,295,352</u>

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

Stock options

At a special meeting of 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. On February 26, 2004 options on 1,100,000 common shares at \$1.15 per share were granted, on June 1, 2004 options on 150,000 common shares at \$1.15 per share were granted, and on June 29, 2004 options on 100,000 common shares at \$1.00 were granted in all cases to directors and officers of the Company expiring on February 26, 2009, June 1, 2009 and June 29, 2009 respectively. The vesting provisions of these options occurs over an 18 month period.

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS (contd)

6. CAPITAL STOCK (contd)

Warrants

As part of the broker agreement pertaining to the private placement that occurred on June 22, 2004 the brokers were granted broker warrants entitling them to purchase, at a price of \$1.25 per common share, a total of 100,000 common shares of the Company expiring June 22, 2005.

The 4,400,000 private placement special warrants are convertible into common shares of the Company on a warrant for common share basis anytime prior to October 23, 2004. The resultant common share holders must not trade the security before October 23, 2004.

7. STOCK BASED COMPENSATION

The Company has reserved and set aside up to 1,836,099 common shares for the granting of options to directors, officers, employees, management company employees or consultants. The terms of the awards under the Plan are determined by the Board of Directors.

A summary of the status of the Company's stock option plan as of September 30, 2004 and changes during the period ending on this date is presented in the following table:

	2004		2003	
	Number	Weighted-Average	Number	Weighted-Average
Outstanding, beginning	nil	nil	nil	nil
Granted	1,350,000	\$1.14	nil	nil
Exercised	nil	nil	nil	nil
Outstanding, ending	1,350,000	\$1.14	nil	nil

Stock option disclosure;

The fair market value of stock options granted after January 1, 2004 and prior to September 30, 2004, was estimated using the Black Scholes fair value option-pricing model and the following assumptions were used:

Dividend yield	0.00
Risk-free interest rate	3.75%
Expected stock volatility	85.00%
Weighted-average expected life in years	4.73

Option pricing models 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. Stock based compensation calculations have no effect on the Company's cash position.

Using the fair value method, the compensation expense is recognized on the date the options were granted. Compensation expense for the period ended September 30, 2004 was recognized at \$877,500.

8. INCOME TAXES

The Company as at December 31, 2003 has Canadian Exploration Expenses of approximately \$500,000 and Canadian Development Expenses of approximately \$300,000 available, in certain circumstances, to carry forward to apply against taxable income of future years. The Company as at December 31, 2003 has Mining Depletion Allowance of approximately \$50,000 available under

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS (contd)

8. INCOME TAXES (contd)

certain conditions as a deduction for income tax purposes. An income tax asset has not been recorded as it is not known whether these benefits will be realized.

Under certain circumstances, from an agreement entered into by a predecessor company there may be an additional \$1,167,000 of Canadian Exploration Expenses (Note 11) available to offset a specific receipt of the same amount.

Under the recent pronouncements of the Emerging Issues Committee (EIC) of the Canadian Institute of Chartered Accountants (CICA) regarding flow through shares the committee requires the recognition of a future tax liability and a reduction to Shareholders Equity on the date the Company renounces the tax credits (EIC 146). The amount of this liability was calculated to be \$2,200,000 on the flow through private placement of June 22, 2004 amounting to \$5,500,000.

9. RELATED PARTY TRANSACTIONS

No fees are paid to directors for acting as such. Directors and officers, or companies controlled by them have charged the Company an administration fee amounting to \$144,000 for the nine months ended September 30, 2004.

The amount due to related parties is non-interest bearing and has no set terms of repayment.

10. LOSS PER SHARE

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.

11. CONTINGENCIES AND COMMITMENTS

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 assigns of the Company.

The mining and exploration activities of the Company are subject to various government laws and regulations. These environment 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.