

**BAFFINLAND IRON MINES CORPORATION**  
A development Stage Entity

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**  
Third quarter, September 30, 2005

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005

## 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 unaudited consolidated financial statements of the Company dated September 30, 2005, which have been prepared in accordance with Canadian generally accepted accounting principles. The Company's shares are listed on the TSX 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.) is a Canadian controlled company engaged in the natural resource industry that was incorporated in the Province of Ontario by Articles of Incorporation dated March 10, 1986. It has a Canadian wholly-owned subsidiary, PHM Corp.

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 a mineral exploration and development company with the sole focus on the advancement of its Mary River iron deposits.

The Company has adopted the accounting guideline 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 its Mary River iron ore property.

The Company has adopted the accounting recommendations, EIC 126, issued by the CICA regarding the expensing of exploration expenditures as they are incurred. During the nine months ended September 30, 2005, \$11,569,663 (2004 - \$6,750,027) of exploration expenditures were incurred on the Company's Baffin Island project. September 30, 2005 to date exploration expenditures are \$20,371,238.

The Company has adopted the accounting recommendations of the CICA Handbook Section 3870 as they relate to stock-based compensation. Compensation expense and contributed surplus will be recognized when stock options are granted to the extent of 25% with the remaining 75% being recognized equally (25%) on each 6 month anniversary of the granting, which is the 18 month vesting period. The expense recorded for the nine months ended September 30, 2005 amounted to \$575,865. During the third quarter ended September 30, 2005 options on 75,000 common shares granted on March 11, 2005 were cancelled and options were granted on 190,000 common shares of the Company at \$1.18 per share expiring on July 4, 2010 to directors, officers and consultants. Using the Black Scholes fair value option pricing model, considering the applicable vesting period, the total applicable compensation expense for this granting will amount to \$161,500. 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. Stock-based compensation calculations have no effect on the Company's cash position.

Additional information on Baffinland Iron Mines Corporation can be found by visiting the Company's website at [www.baffinland.com](http://www.baffinland.com) and by viewing the Company's regulatory filings at [www.sedar.com](http://www.sedar.com).

Set forth below is certain selected financial information in respect of the three most recently completed financial years of the Company. These data are derived from the Company's consolidated financial statements which are prepared in accordance with Canadian GAAP.

**CONSOLIDATED BALANCE SHEETS as at**

\$000's	Dec. 31 2004	Dec. 31 2003	Dec. 31 2002
<b>ASSETS</b>			
Current	4,467	2,996	-
Capital	26	-	-
	<u>4,493</u>	<u>2,996</u>	<u>-</u>
<b>LIABILITIES AND EQUITY</b>			
Current	269	171	-
Due to related parties	123	239	132
	392	410	132
Future income tax liability	3,400	-	-
	<u>3,792</u>	<u>410</u>	<u>132</u>
Shareholders' equity	701	2,586	(132)
	<u>4,493</u>	<u>2,996</u>	<u>0</u>
WORKING CAPITAL (deficiency)	4,075	2,586	(132)
COMMON SHARES OUTSTANDING (000's)	25,761.0	7,183.5	3,433.5

**CONSOLIDATED STATEMENTS OF OPERATIONS for the three years ended**

\$000's except per share	Dec. 31 2004	Dec. 31 2003	Dec. 31 2002
REVENUE	31	40	-
<b>EXPENSES</b>			
Administrative	1,540	9	2
Exploration	8,489	312	8
	<u>10,029</u>	<u>321</u>	<u>10</u>
LOSS before taxes and other items	(9,998)	(281)	(10)
Lease rental payments written off	-	(8)	-
NET LOSS	<u>(9,998)</u>	<u>(289)</u>	<u>(10)</u>
Per share (weighted average)	(0.39)	(0.08)	0.00

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

**CONSOLIDATED BALANCE SHEETS as at**

\$000's	Sep. 30 2005	Jun. 30 2005	Mar. 31 2005	Dec. 31 2004	Sep. 30 2004	Jun. 30 2004	Mar. 31 2004	Dec. 31 2003
<b>ASSETS</b>								
Current	5,813	13,435	3,509	4,467	3,114	6,856	3,707	2,996
Capital	58	23	24	26	21	14	8	-
	5,871	13,458	3,533	4,493	3,135	6,870	3,715	2,996
<b>LIABILITIES AND EQUITY</b>								
Current	30	99	149	269	-	50	164	171
Due to related parties	123	123	123	123	123	134	123	239
	153	222	272	392	123	184	287	410
Future income tax liability	8,200	8,200	3,400	3,400	2,200	2,200	-	-
	8,353	8,422	3,672	3,792	2,323	2,384	287	410
Shareholders' equity	(2,482)	5,036	(139)	701	812	4,486	3,428	2,586
	5,871	13,458	3,533	4,493	3,135	6,870	3,715	2,996
WORKING CAPITAL (deficiency)	5,660	13,213	3,237	4,075	2,991	6,672	3,420	2,586
COMMON SHARES OUTSTANDING (000's)	35,361.9	35,361.9	25,776.0	25,761.0	22,761.0	22,761.0	17,961.0	7,183.5

**CONSOLIDATED STATEMENTS OF OPERATIONS for the three months ended**

\$000's except per share	Sep. 30 2005	Jun. 30 2005	Mar. 31 2005	Dec. 31 2004	Sep. 30 2004	Jun. 30 2004	Mar. 31 2004	Dec. 31 2003
REVENUE	54	52	16	9	13	9	-	-
<b>EXPENSES</b>								
Administrative	481	306	450	182	168	1,089	101	5
Exploration	7,383	3,477	709	1,739	3,519	1,887	1,344	234
	7,864	3,783	1,159	1,921	3,687	2,976	1,445	239
NET PROFIT (LOSS)	(7,810)	(3,731)	(1,143)	(1,912)	(3,674)	(2,967)	(1,445)	(239)
Per share (weighted average)	(0.22)	(0.10)	(0.04)	(0.09)	(0.19)	(0.13)	(0.07)	(0.06)

## OPERATIONS

The net loss recorded by the Company for the nine months ended September 30, 2005 was \$12,684,637 compared to a net loss of \$8,086,593 for 2004. The loss for the nine months represents an increase of \$4,598,044. The items that make up this increase are:

During the nine months ended September 30, 2005 the Company recorded revenue (interest income) of \$122,209 as compared to \$22,074 for the 2004 period which was the result of having significantly more cash and equivalents on hand which was used to earn interest income in the 2005 period; exploration expenditures were \$4,819,636 more in 2005 as compared to 2004 due to the cost of utilizing 3 drills in 2005 as compared to 2 drills in 2004, drilled 8,073 metres in 2005 as compared to 2,814 metres in 2004, increased direct project staffing, and the increased cost of fuel and support supplies; stock-based compensation expense, which is a non cash expenditure, decreased by \$301,635 due to the decrease in the fair value option-pricing factor in 2005 considering that fewer options were granted in the 2005 period (761,000 options, net) when compared to the 2004 period (1,350,000 options) and the recording of the expense based on the applicable vesting periods; shareholder relations expense increased by \$85,228 in the 2005 period due to the increase in the cost of the Company's annual report, the cost of setting up and maintaining its web site, and the cost of other information dissemination devices employed during the 2005 period that were not employed in the 2004 period. Other administrative expenditures increased by \$94,950 in the 2005 period when compared to 2004 due to the 2004 start up of operations not taking place until the middle of February, 2004 when its articles of incorporation were amended. An example of the preceding was in salaries expense which increased by \$77,949 in the 2005 period due to there being nine months of expense in 2005 and only four and one half months of expense in the 2004 period together with the putting in place of additional Corporate staff in the 2005 period.

The net loss recorded by the Company for the three months ended September 30, 2005 was \$7,810,078 compared to a net loss of \$3,674,570 for the 2004 period. The loss for the three months ended September 30, 2005 represents an increase of \$4,135,508. The items that make up this increase are:

During the three months ended September 30, 2005 the Company recorded revenue (interest income) of \$54,061 as compared to \$12,558 for the 2004 quarter ended September 30, 2004 which was the result of having significantly more cash and equivalents on hand which was used to earn interest income; exploration expenditures were \$3,863,312 more in 2005 as compared to 2004 due to the cost of utilizing 3 drills in 2005 as compared to 2 drills in 2004, drilled 5,259 additional metres in 2005, increased direct project staffing, and the increased cost of fuel and support supplies; stock-based compensation expense, which is a non cash expenditure, was \$291,615 more in the 2005 quarter due to the recording of the vesting provision of the stock option plan in 2005 that was not applicable in the 2004 period; shareholder relations expense increased by \$11,761 in the 2005 quarter due to the cost of maintaining its corporate web site and the cost of other information dissemination devices employed during the 2005 period that were not employed in the 2004 period. Other administrative expenditures increased by \$10,323 in the 2005 quarter.

The Company has engaged Studiengesellschaft fur Eisnerg - Augbetereitung of Germany to perform analytical test work on samples from the Company's Mary River property. It is estimated that the test work on the 2004 samples will cost approximately \$1,000,000 of which approximately \$700,000 has been paid and or accrued and it is anticipated that the work will be completed by mid November of 2005.

## RELATED PARTY TRANSACTIONS

Related party expenditures during the nine months ended September 30, 2005 were \$157,500 (2004 - \$144,000). This amount was paid to a related company controlled by a director, officer, and shareholder for an administrative fee which includes rent, accounting, corporate, and office services. This was incurred in the normal course of business and considered to be reasonable. The contract to provide these services was allowed to lapse on August 31, 2005. Amounts paid for professional services to an officer or a company controlled by an officer for the month ended September 30, 2005 amounted to \$6,667 (2004 - nil). This amount was paid in the normal course of business.

**RELATED PARTY TRANSACTIONS (contd)**

No fees are paid to directors for acting as such.

The \$123,347 which is due to related parties as at September 30, 2005 (2004 - \$123,347), is non-interest bearing and has no set terms of repayment. The related parties are two individuals who are: directors, shareholders, and part of management. This amount was carried forward from the purchase of control of Baffinland Iron Mines Limited by these individuals.

The financial data in the table below are derived from the Company's consolidated financial statements, which are prepared in accordance with Canadian generally accepted accounting principles.

<b>SCHEDULE OF REVENUE AND EXPENSES For the nine months ended</b>			
	Sept 30 2005 \$	Sept 30 2004 \$	Cumulative from January 1, 2003 \$
Revenue	122,209	22,074	193,176
Expenditures			
Exploration	11,569,663	6,750,027	20,371,238
Office Services	170,000	144,000	370,400
Salaries	139,264	61,315	238,079
Legal and accounting fees	131,653	118,679	295,423
General	30,946	31,809	69,447
Filing fees	41,248	38,683	95,431
Transfer agent	9,846	15,583	28,820
Shareholder relations	111,915	26,687	148,596
Travel	14,946	40,697	68,173
Stock-based compensation	575,865	877,500	1,453,365
Amortization	11,500	3,687	17,947
Total Expenditures	(12,806,846)	(8,108,667)	(23,156,919)
Loss for the period before undernoted	(12,684,637)	(8,086,593)	(22,963,743)
Exploration expenditures written off	-	-	(7,925)
Net loss for the period	(12,684,637)	(8,086,593)	(22,971,668)

The financial data in the table below are derived from the Company's consolidated financial statements, which are prepared in accordance with Canadian generally accepted accounting principles

SCHEDULE OF EXPLORATION EXPENDITURES For the nine months ended	Sept 30 2005	Sept 30 2004
Employment costs	\$883,015	\$429,695
Mobility costs	151,596	111,789
Rights, consents, and sustainable development	72,322	44,654
Geological, geochemical, geophysical - prospecting	639,833	208,957
Drilling and evaluations	6,750,503	5,161,814
Engineering	168,549	-
Field camp and equipment	2,553,612	663,029
Health, safety and environment	322,909	86,449
Information technology	25,609	35,396
Training	1,715	8,244
Total	\$11,569,663	\$6,750,027

#### 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 intercompany balances and transactions have been eliminated.
- c) **Cash equivalents**  
Cash equivalents are highly liquid investments, such as term deposits with major financial institutions or government treasury bills, having a maturity of three months or less at acquisition, that are readily convertible into the contracted amounts of cash.
- d) **Flow-through shares**  
The Company has financed a portion of its exploration activities through the issuance of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to subscribers. To recognize the foregone tax benefits to the Company, the carrying value of the shares issued is reduced by the tax effect of the tax benefits renounced to subscribers. The Company recognizes the foregone tax benefit at the time of the renouncement, provided there is reasonable assurance that the expenditures will be incurred.

## SIGNIFICANT ACCOUNTING POLICIES (contd)

e) **Mining interests and exploration expenditures:**

The Company has adopted the recommendation EIC 126 issued by the Canadian Institute of Chartered Accountants and expenses 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. Exploration expenditures that have been charged to operations were: nine months ended September 30, 2005 - \$11,569,663; year 2004 - \$8,489,086; year 2003 - \$320,414.

f) **Capital assets:**

Capital assets are carried at cost. Amortization is provided on the straight line basis at an annual rate of 20%.

g) **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.

h) **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.

i) **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 to the extent of 25% with the remaining 75% being recognized equally (25%) on each 6 month anniversary of the granting, which is the 18 month vesting period, with the same amount being recorded as contributed surplus. Stock-based compensation calculations have no effect on the Company's cash position.

j) **Fair value of financial instruments:**

The carrying value of cash and equivalents, accounts receivable, prepaid expenses, and accounts payable approximate their fair values due to their immediate or short-term nature.

k) **Impairment of long-lived assets:**

Effective January 1, 2005, the Company adopted CICA Handbook Section 3063, "Impairment of long-lived Assets". This requires the Company to assess the impairment of long-lived assets, which consist primarily of mineral properties and plant and equipment, whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Recoverability of assets to be held and used are measured

## SIGNIFICANT ACCOUNTING POLICIES (contd)

### k) **Impairment of long-lived assets: (contd)**

by a comparison to the carrying value of the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the amount of the impairment is measured by the amount by which the carrying amount of the assets exceeds its fair value.

For the Company, the adoption of CICA Handbook Section 3063 had no impact on the results of its operations.

### l) **Asset retirement obligations:**

Effective January 1, 2005, the Company adopted the CICA Handbook Section 3110, "Asset Retirement Obligations". This section requires that the fair value of a liability or an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The estimate excludes the residual value of the related assets. The associated retirement costs are capitalized as part of the carrying amount of the long lived assets and amortized over the life of the asset. The amount of liability is subject to re-measurement at each reporting period. This differs from prior practice which involved accruing for the estimated retirement obligation through annual charges to earnings over the estimated life of the asset.

For the Company, the adoption of CICA Handbook Section 3110 had no impact on the results of its operations.

At the present time, the Company has concluded that there are no asset retirement obligations associated with any of its assets.

## CAPITAL STOCK

During the nine months ended September 30, 2005 the Company issued the following shares, net of financing expenses:

- via brokers warrants	52,500 shares for a consideration of	\$ 65,625
- via private placement	1,806,443 shares for a consideration of	2,377,785
- via flow through private placement	7,741,935 shares for a consideration of	6,482,139 (i)

(i) Net of deferred taxes amounting to \$4,800,000 incurred on renunciation of flow through expenditures.

As a result of these share issuances, the issued and outstanding capital of the Company is 35,361,865 common shares.

During the quarter ended September 30, 2005 options on 75,000 common shares granted on March 11, 2005 were cancelled and options were granted on 190,000 common shares at \$1.18 per share expiring on July 4, 2010 to directors, officers, and consultants of the Company. The vesting provisions of these options occurs over an 18 month period. Using the Black Scholes fair value option-pricing model the applicable compensation expense for this granting is \$161,500 over the 18 month vesting period with the same amount being recorded as contributed surplus.

## LIQUIDITY AND CAPITAL RESOURCES

Current assets at September 30, 2005 were \$5,812,612 compared to \$4,466,989 at December 31, 2004, an increase of \$1,345,623. Cash and equivalents increased by \$601,287, accounts receivable increased by \$527,040, and prepaid expenses increased by \$217,296. The increase in cash and equivalents was the result of the Company issuing 9,600,878 common shares for cash proceeds of \$13,725,549, less \$13,124,262 used in operating activities and the purchase of capital assets. The increase in accounts receivable was the result of goods and services tax, which is in the normal course of business, and \$135,950 due from the lessor of the Company's new Corporate head office for leasehold improvements. The increase in prepaid expense was the result of deposits made, expenditures incurred for services, and the purchase of supplies applicable to the Baffin Island iron project 2005 exploration program.

## LIQUIDITY AND CAPITAL RESOURCES (contd)

Current liabilities at September 30, 2005 were \$153,513 compared to \$391,848 at December 31, 2004, a decrease of \$238,335. Accounts payable decreased by \$238,335 and, due to related parties was unchanged at \$123,347. Long-term liabilities at September 30, 2005 were \$8,200,000 compared to \$3,400,000 at December 31, 2004, an increase of \$4,800,000. This increased liability is the estimated amount of deferred taxes payable which is the result of the renunciation of exploration expenditures pertaining to the flow through private placements that the Company completed during the nine months ended September 30, 2005.

Working capital was \$5,659,099 at September 30, 2005 compared to \$4,075,141 at December 31, 2004. The working capital at September 30, 2005 was represented by \$4,836,028 in cash and equivalents, \$619,510 in accounts receivable, \$357,074 in prepaid expenses, less \$30,166 in accounts payable and \$123,347 in due to related parties.

Cash and equivalents are composed of:

Regular	\$ 1,830,458
Restricted for flow through	<u>3,005,570</u>
	<u>\$ 4,836,028</u>

## CAPITAL STOCK AND DEFICIT

Capital stock and deficit at September 30, 2005 was (\$2,482,295) compared to \$700,928 at December 31, 2004, a decrease of \$3,183,223. This occurred as a result of the following:

- Capital Stock:	
- Broker warrants exercised	\$ 65,625
- Private placement, regular and flow through financing	8,859,924
- Contributed surplus (fair value of options granted)	575,865
- Deficit	<u>(12,684,637)</u>
- Loss for the period	<u>\$ (3,183,223)</u>

As per section 3610 of the CICA Handbook financing expenses have been deducted from the gross proceeds of the issue of share capital. The Company has reclassified the December 31, 2004, Capital Stock and Deficit section of the Balance Sheet. Capital Stock was reduced and the Deficit was decreased by \$312,235. The total Capital Stock and Deficit section of the Balance Sheet remained unchanged.

Please refer to the CAPITAL STOCK section of this Management's Discussion and Analysis of Financial Condition to get the details of the number of common shares issued and outstanding as at September 30, 2005.

## 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

## **RISKS AND UNCERTAINTIES (contd)**

capital. Mining companies are subject to a wide range of risks, including, but not limited to: equity dilution risk, environment risk, political risk, operational risk, financial risk, hedging risk, commodity price fluctuation risk, borrowing risk, interest and currency risk. 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 is the TSX Venture Exchange, symbol BIM. 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.

## **CONTRACTUAL OBLIGATIONS**

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 Company has engaged Studiengesellschaft fur Eisenerz - Aufbereitung of Germany to perform analytical testwork on samples from the Company's Mary River iron property. It is estimated that the work on the 2004 samples will cost approximately \$1,000,000 of which approximately \$700,000 has been paid and or accrued. It is anticipated that the work on the 2004 samples will be completed by mid November, 2005. This work will be continued on the 2005 samples.

The Company has committed to and engaged Knight Piesold Ltd. of North Bay, Ontario, Canada, to perform environmental impact and sustainable development studies at its Mary River property on Baffin Island. It is estimated that this work will be completed in 2006 and cost approximately \$750,000. As at September 30, 2005 approximately \$302,000 has been paid.

The Company has contracted Aker Kvaerner E&C, a division of Aker Kvaerner Canada Inc. to provide engineering services. These services are to be provided on a work order basis and the directives and change orders issued thereunder. Aker Kvaerner has agreed to provide engineering technical services for the ongoing development of the Company's Mary River iron ore project on Baffin Island, Nunavut. Aker Kvaerner's initial focus will be the updating of the Company's technical report under NI 43-101 to reflect the inclusion of the data generated by Baffinland's 2004 and 2005 exploration programs including the ongoing metallurgical testwork being conducted in Germany. During the balance of 2005 it is the intent that Aker Kvaerner will also provide engineering input into a scoping study and the advanced exploration program involving three large diameter diamond drills.

## CONTRACTUAL OBLIGATIONS (contd)

Under the terms of an office premises lease with a commencement date of November 1, 2005, having a term of 5 years, and a one time right to renew the lease, the Company is committed to annual lease payments of approximately \$92,400 plus operating costs. At the end of August, 2005 the Company relocated its corporate offices to Suite 1016, 120 Adelaide Street West, Toronto, Ontario, M5H 1T1.

## OUTLOOK

The Company's objective for its 2005 program at its 100% owned iron ore property located on Baffin Island, Nunavut, Canada, is to continue to delineate a substantial resource to support a direct-shipping iron ore operation focused on European markets with a production rate of approximately 10 million tonnes per year. Management expects this will require an approximate doubling of the resources delineated in the 1960's. The Company has recently completed a large diameter core drill program in 2005 that resulted in 8,073 metres being drilled. The metallurgical testwork performed in Germany on all drill core is on going. The Company will continue its review of the transportation corridors and shipping alternatives, initiate marketing studies and incorporate data into a scoping study to be prepared by Aker Kvaerner.

## DIRECTORS AND OFFICERS

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

OCTOBER 26, 2005

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## CAUTIONARY NOTE:

Certain statements in this Management's Discussion and Analysis constitute "forward-looking statements". All statements, other than statements of historical fact, included herein, are forward-looking statements that involve various risks and uncertainties. There can be no assurance that such statements will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from the Company's expectations are disclosed under the heading "Risks and Uncertainties". Readers should not place undue reliance on forward-looking statements which speak only as of the date of this MD&A. The Company does not undertake any obligation to update or review these forward-looking statements except in accordance with applicable securities laws.

