

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION FOR THE FIRST QUARTER ENDED MARCH 31, 2006

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 financial statements of the Company dated March 31, 2006, 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 is a Canadian controlled company engaged in the natural resource industry that was formed pursuant to Articles of Amendment under the Business Corporation Act (Ontario) on February 6, 2004.

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.

A scoping study coordinated by Aker Kvaerner E&C (A Division of Aker Kvaerner Canada Inc.) will be completed in the second quarter of 2006. Aker Kvaerner E&C will then immediately commence the feasibility study, targeting completion in the second half of 2007.

Planning is underway for mobilization of contractors and equipment during the 2007 sealift, to prepare a 250,000 tonne bulk sample for shipment in the 2008 ice-free period at Milne Inlet. This bulk sample will afford several potential long-term customers the opportunity for extended production-scale evaluation of Mary River lump ore in their blast furnaces. Results of this evaluation should form the basis for negotiation of long-term marketing contracts which would support the financing of the project.

The project schedule incorporates negotiation of the Inuit Impact and Benefits Agreement in 2006 and 2007, completion of the Environmental Impact Assessment in 2007, followed by project permitting and financing in 2008. Basic engineering and the definitive capital cost estimate for construction will also be completed in 2008. Construction would commence in 2009.

The Mary River project hosts five high-grade hematite/magnetite deposits, which could result in a direct ship lump iron ore product in the order of approximately 10 million tonnes per year for 25 years or more. The project is in its early stages after having been originally discovered and studied in the 1960's and held privately until recently. Favourable iron ore markets in the last few years, iron ore and steel industry consolidation, and technical advances in arctic mining and shipping have warranted further work on this potentially important new source of lump iron ore targeted at the European steel market.

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. The date of this management's discussion and analysis is April 27, 2006.

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

BALANCE SHEETS as at

\$000's	Dec. 31 <u>2005</u>	Dec. 31 <u>2004</u>	Dec. 31 <u>2003</u>
ASSETS			
Current	20,102	4,467	2,996
Capital	<u>101</u>	<u>26</u>	<u>-</u>
	<u><u>20,203</u></u>	<u><u>4,493</u></u>	<u><u>2,996</u></u>
LIABILITIES AND EQUITY			
Current	694	269	171
Due to related parties	<u>123</u>	<u>123</u>	<u>239</u>
	817	392	410
Future income tax liability	<u>13,000</u>	<u>3,400</u>	<u>-</u>
	<u>13,817</u>	<u>3,792</u>	<u>410</u>
Shareholders' equity	<u>6,386</u>	<u>701</u>	<u>2,586</u>
	<u><u>20,203</u></u>	<u><u>4,493</u></u>	<u><u>2,996</u></u>
WORKING CAPITAL	19,285	4,075	2,586
COMMON SHARES OUTSTANDING (000's)	44,112	25,761	7,184

STATEMENTS OF OPERATIONS for the three years ended

\$000's except per share

	Dec. 31 <u>2005</u>	Dec. 31 <u>2004</u>	Dec. 31 <u>2003</u>
REVENUE	<u>155</u>	<u>31</u>	<u>40</u>
EXPENSES			
Administrative	1,649	1,852	9
Exploration	<u>15,035</u>	<u>8,489</u>	<u>312</u>
	<u>16,684</u>	<u>10,341</u>	<u>321</u>
LOSS before taxes and other items	(16,529)	(10,310)	(281)
Financing fees		312	
Lease rental payments written off	-	-	(8)
	<u> </u>	<u> </u>	<u> </u>
NET LOSS	<u><u>(16,529)</u></u>	<u><u>(9,998)</u></u>	<u><u>(289)</u></u>
Per share (weighted average)	(0.04)	(0.52)	(0.08)

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

BALANCE SHEETS as at

\$000's	Mar. 31 2006	Dec. 31 2005	Sep. 30 2005	Jun. 30 2005	Mar. 31 2005	Dec. 31 2004	Sep. 30 2004	Jun. 30 2004
ASSETS								
Current	18,690	20,102	5,813	13,435	3,509	4,467	3,114	6,856
Capital	99	101	58	23	24	26	21	14
	<u>18,789</u>	<u>20,203</u>	<u>5,871</u>	<u>13,458</u>	<u>3,533</u>	<u>4,493</u>	<u>3,135</u>	<u>6,870</u>
LIABILITIES AND EQUITY								
Current	270	694	30	99	149	269	-	50
Due to related parties	123	123	123	123	123	123	123	134
	<u>393</u>	<u>817</u>	<u>153</u>	<u>222</u>	<u>272</u>	<u>392</u>	<u>123</u>	<u>184</u>
Future income tax liability	13,000	13,000	8,200	8,200	3,400	3,400	2,200	2,200
	<u>13,393</u>	<u>13,817</u>	<u>8,353</u>	<u>8,422</u>	<u>3,672</u>	<u>3,792</u>	<u>2,323</u>	<u>2,384</u>
Shareholders' equity	5,396	6,386	(2,482)	5,036	(139)	701	812	4,486
	<u>18,789</u>	<u>20,203</u>	<u>5,871</u>	<u>13,458</u>	<u>3,533</u>	<u>4,493</u>	<u>3,135</u>	<u>6,870</u>
WORKING CAPITAL	18,297	19,285	5,660	13,213	3,237	4,075	2,991	6,672
Common shares outstanding (000's)	44,112	44,112	35,362	35,362	25,776	25,761	22,761	22,761

STATEMENTS OF OPERATIONS for the three months ended

\$000's except per share

	Mar. 31 2006	Dec. 31 2005	Sep. 30 2005	Jun. 30 2005	Mar. 31 2005	Dec. 31 2004	Sep. 30 2004	Jun. 30 2004
REVENUE	750	33	54	52	16	9	13	9
EXPENSES								
Administrative	1,071	412	481	306	450	182	168	1,401
Exploration	1,319	3,466	7,383	3,477	709	1,739	3,519	1,887
	<u>2,390</u>	<u>3,878</u>	<u>7,864</u>	<u>3,783</u>	<u>1,159</u>	<u>1,921</u>	<u>3,687</u>	<u>3,288</u>
LOSS before income taxes and undernoted	(1,640)	(3,845)	(7,810)	(3,731)	(1,143)	(1,912)	(3,674)	(3,279)
Financing fees	-	-	-	-	-	312	-	-
NET LOSS	<u>(1,640)</u>	<u>(3,845)</u>	<u>(7,810)</u>	<u>(3,731)</u>	<u>(1,143)</u>	<u>(1,600)</u>	<u>(3,674)</u>	<u>(3,279)</u>

OPERATIONS

The net loss recorded by the Company for the quarter ended March 31, 2006 was \$1,639,948 compared to a net loss of \$1,143,591 for the same period in 2005.

During the quarter ended March 31, 2006 the Company recorded revenue of \$749,635 as compared to \$16,034 for the same period in 2005. The increase in revenue is the result of payment received as part of an agreement with Apollo Gold Corporation. The Company received a payment of approximately \$1,167,000 from Apollo Gold Corporation. The Company had agreed to pay a previously forgiven obligation aggregating \$566,891. The Company paid its obligations and has recorded net revenue of approximately \$600,000. Also, when compared to the first quarter of 2005, the Company had significantly more cash and equivalents on hand and this generated additional interest income.

Exploration expenditures of \$1,318,702 were \$609,048 more during the first quarter of 2006 as compared to same period of 2005 due to the advancement of metallurgical testwork, environmental baseline studies, and various studies related to a scoping study which is expected to be completed in the second quarter of 2006. As a result more geotechnical and drilling evaluation work was performed during the first three months of 2006 as compared to the same period of 2005.

Stock-based compensation expense, which is a non-cash expenditure, increased by \$366,130 due to the grant of additional options in the first quarter of 2006 and an increase in the fair value option-pricing factor in 2006.

Management salaries increased by \$107,875 for the three month period ended March 31, 2006 when compared to the same period of the previous year. The increase is due to the addition of two senior officers and a bonus that was paid to employees of the company.

Shareholder relations expense increased by \$84,975 for the three month period ended March 31, 2006 when compared to the same period of the previous year. The increase is due to the engagement of an investor relations consulting firm as well as, an increase in the number of events and investor presentations attended during the first quarter of 2006.

Office and general for the three month period ending March 31, 2006 was \$65,105, \$24,531 higher than the same period of 2005. The increase is due to an increase in rent resulting from a move to a larger office space.

Directors fees increased by \$18,750 as a result of the Chairman of the Board of Directors being paid during the first three months of 2006. No fee was paid during the same period of 2005.

Filing fees for the three month period ending March 31, 2006 were \$19,838, \$16,586 higher than the same period of 2005. The increase is due to a higher number of listed common shares.

COMPARATIVE FIGURES

On the Statement of Operations, the 2005 categorization of expenses, where necessary, have been restated to conform with the current years presentation.

RELATED PARTY TRANSACTIONS

Related party expenditures during the quarter ended March 31, 2006 were nil (2005 - \$54,000). This amount was paid to a related company controlled by a director 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 services to an officer or a company controlled by an officer for the three months ended March 31, 2006 amounted to \$23,334 (2005 - nil). This amount was paid in the normal course of business and was considered reasonable.

The due to related party amount of \$123,347 as at March 31, 2006 (2005 - \$123,347) was carried forward from the purchase of control of Baffinland Iron Mines Limited by two directors of the Company. The balance is non-interest bearing and has no set terms of repayment.

ADDITIONAL FINANCIAL DISCLOSURE

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

SCHEDULE OF REVENUE AND EXPENSES

For the period ended March 31,

	2006	2005	Cumulative from January 1 2003
Revenue	\$749,635	\$16,034	\$975,655
Expenditures			
Exploration	1,318,702	709,654	25,163,395
Office and general	65,105	40,574	397,112
Management salaries	169,375	61,500	637,043
Directors fees	18,750	-	59,375
Legal and accounting fees	229	15,250	443,598
Filing fees	19,838	3,252	174,344
Transfer agent	4,293	2,200	36,541
Shareholder relations	122,304	37,329	278,606
Travel	14,607	4,004	101,259
Stock-based compensation	650,380	284,250	2,116,370
Amortization	6,000	1,612	24,403
	<u>2,389,583</u>	<u>1,159,625</u>	<u>29,432,046</u>
Net loss for the year	<u>(1,639,948)</u>	<u>(1,143,591)</u>	<u>(28,456,391)</u>

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

SCHEDULE OF EXPLORATION EXPENDITURES

For the period ended March 31,

	<u>2006</u>	<u>2005</u>
Employment costs	\$114,038	\$94,191
Mobility costs	27,436	18,996
Rights, consents, and sustainable development	180,000	14,500
Geological, geochemical, geophysical - prospecting	264,641	93,748
Drilling and evaluations	406,724	38,413
Engineering	33,231	400
Field camp and equipment	241,498	413,195
Health, safety and environment	42,276	30,731
Information technology	8,783	5,420
Training	75	60
	<u>\$1,318,702</u>	<u>\$709,654</u>

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Use of estimates

The preparation of 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 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.

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.

Asset retirement obligations:

The Company has 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.

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

Development Stage Entity

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.

Exploration Expenditures

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 three month period ended March 31, 2006, \$1,318,702 (2005 - \$709,654) of exploration expenditures were incurred on the Company's Baffin Island project. To date exploration expenditures are \$25,163,395.

Stock Based Compensation

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 three month period ended March 31, 2006 amounted to \$650,380 (2005 - \$284,250).

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.

Please refer to the notes of the interim financial statements of the Company dated March 31, 2006 for further information on the Company's financial policies and estimates.

CAPITAL STOCK

During the quarter ended March 31, 2006 the Company did not issue shares. During the first quarter of 2005 brokers warrants were converted into 15,000 common shares for a total consideration of \$18,750.

The issued and outstanding capital of the Company at March 31, 2006 is 44,111,865 common shares. Please refer to Note 5 of the March 31, 2006, financial statements for further details pertaining to the capital stock of the Company.

During the year ended December 31, 2005 options on 646,000 common shares were granted on March 11, 2005 at \$2.30 per share expiring on March 10, 2010, options on 75,000 common shares granted on March 11, 2005 were cancelled and options were granted on July 5, 2005 for 190,000 common shares at \$1.18 per share expiring on July 4, 2010, and on October 13, 2005 options were granted on 50,000 common shares at \$1.50 per share expiring on October 12, 2010 to directors, officers, and consultants of the Company. The vesting provisions of these options occur over an 18 month period. Options were granted; on January 3, 2006 options on 611,000 common shares at \$2.15, and on January 27, 2006 options on 300,000 common shares at \$2.75 expiring on January 2, 2011, and January 26, 2011 respectively. Stock-based compensation calculations have no effect on the Company's cash position. Using the Black Scholes fair value option-pricing model the total applicable compensation expense for granting the 886,000 common shares and the 911,000 common shares will amount to \$1,249,900 and \$1,435,060 respectively, with the same amounts being recorded as contributed surplus.

LIQUIDITY AND CAPITAL RESOURCES

Working capital was \$18,296,709 at March 31, 2006 compared to \$19,284,399 at December 31, 2005.

Current assets at March 31, 2006 were \$18,689,779 compared to \$20,101,958 at December 31, 2005, a decrease of \$1,412,179. Cash and equivalents decreased by \$1,275,026, accounts receivable decreased by \$120,075. The Company spent \$1,318,702 on exploration as it continues to gather information for various studies that are in progress. The decrease in accounts receivable was the result of a decrease in the Canadian goods and services tax rebate.

Current liabilities at March 31, 2006 were \$393,070 compared to \$817,559 at December 31, 2005, a decrease of \$424,489. The accounts payable decrease is a result of payments pertaining to its Mary River Iron project.

Cash and equivalents are composed of:

Regular	\$7,097,976
Restricted for flow through	<u>11,019,825</u>
	<u>\$18,117,801</u>

The company is dependent on obtaining future financings for the exploration and development of our properties and for the acquisition of any new projects. There is no assurance that such financings will be available when we require them, or under terms that are favourable to us.

SHAREHOLDERS' EQUITY

Shareholders' Equity at March 31, 2006 was \$5,395,987 compared to \$6,385,555 at December 31, 2005, a decrease of \$989,568. This occurred as a result of the following:

Contributed surplus (fair value vested portion of options granted)	650,380
Deficit:	
Loss for the period	<u>(1,639,948)</u>
	<u>(\$989,568)</u>

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. 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.

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 in the Company's common shares. Holders of Baffinland shares could 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 and development of the Company's Baffin Island iron project.

CONTRACTUAL OBLIGATIONS

The Company has engaged Studiengesellschaft fur Eisenerz - Augbetereitug of Germany to perform analytical testwork on samples from the Company's Mary River iron property. It is estimated that the work on the 2005 samples will cost approximately \$1,200,000 in 2006. This work will be continued on future samples.

The Company has committed to and engaged Knight Piesold Ltd. of North Bay, Ontario, Canada, to perform initial phase 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 \$800,000. As at March 31, 2006 approximately \$750,000 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 pertaining to 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. Aker Kvaerner will also be providing the Company with a scoping study which is to be completed in 2006 together with input into the 2006 exploration program.

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.

The Company has committed to the Toonoonik Sagoonik Co Operative in Pond Inlet, Baffin Island, Nunavut, Canada, to carry out the rehabilitation of the Milne Inlet road on Baffin Island. The cost of this undertaking is estimated to be \$975,000. The following payments are to be made: \$225,000 on August 25, 2005, (which has been made), \$200,000 on June 1, 2006, \$200,000 on July 1, 2006, \$200,000 on August 1, 2006, and \$150,000 on September 1, 2006.

OUTLOOK

For 2006, the Company has budgeted 7,000 metres of diamond drilling of its 100%-owned iron ore properties on Baffin Island with 4,000 metres of this total designed as in-fill, geotechnical, and condemnation drilling of Deposit No. 1. The balance of the proposed drilling in 2006 is designed as exploration drilling of the satellite deposits. Upon completion of the Scoping Study by Aker Kvaerner E&C, expected in the second quarter of 2006, the Company plans on transitioning to a Bankable Feasibility Study targeted for completion in 2007. In support of these studies, work will continue on metallurgical testwork, market studies, environmental studies, transportation, and shipping alternatives. In addition, the Company plans on expanding its community consultation program in preparation for the negotiation of an Inuit Impact and Benefits Agreement.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Corporation's President and Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this management's discussion and analysis, management of the Corporation, with the participation of the President and Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Corporation's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this management's discussion and analysis, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Corporation's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Corporation, including the President and Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

DIRECTORS AND OFFICERS

Brian L. Acton	Director
Robert J. Chausse	Vice-President Finance and CFO
Graham G. Clow	Director
Rodney A. Cooper	Vice-President Operations and COO
Edward G. Dumond	Secretary - Treasurer
John W. Lydall	Director
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

APRIL 27, 2006

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.