

BAFFINLAND IRON MINES CORPORATION
A development Stage Entity

Financial Statements
First Quarter, March 31, 2006

BAFFINLAND IRON MINES CORPORATION
BALANCE SHEETS
AS AT

	(unaudited) March. 31 2006	(audited) December. 31 2005
ASSETS		
Current		
Cash and equivalents (Note 3)	\$18,117,801	\$19,392,827
Accounts receivable	257,266	377,341
Prepaid expenses	314,712	331,790
	<hr/> 18,689,779	<hr/> 20,101,958
Mining interests (Notes 2 and 4)	1	1
Capital assets (net of accumulated amortization of \$20,403) (Note 2)	99,277	101,155
	<hr/> \$18,789,057	<hr/> \$20,203,114
	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES		
Current		
Accounts payable	\$269,723	\$694,212
Due to related parties (Note 8)	123,347	123,347
	<hr/> 393,070	<hr/> 817,559
Future income tax liability (Note 7)	13,000,000	13,000,000
	<hr/> 13,393,070	<hr/> 13,817,559
	<hr/> <hr/>	<hr/> <hr/>
CAPITAL STOCK AND DEFICIT		
Capital stock (Note 5)		
Authorized: Unlimited common shares		
Issued: 44,111,865 (December 31, 2005 - 44,111,865) shares	34,080,431	34,080,431
Contributed surplus (Notes 2 and 6)	3,126,367	2,475,987
Deficit	(31,810,811)	(30,170,863)
	<hr/> 5,395,987	<hr/> 6,385,555
	<hr/> \$18,789,057	<hr/> \$20,203,114
	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of the financial statements

BAFFINLAND IRON MINES CORPORATION
STATEMENTS OF OPERATIONS AND DEFICIT
(unaudited)

	Three Months Ended March. 31		Cumulative from January. 1 2003 (Note 12)
	2006	2005	
Revenue	<u>\$749,635</u>	<u>\$16,034</u>	<u>\$975,655</u>
Expenses			
Exploration	1,318,702	709,654	25,163,395
Office and general	65,105	40,574	397,112
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 period	(\$1,639,948)	(\$1,143,591)	(\$28,456,391)
Deficit, beginning of period	<u>(30,170,863)</u>	<u>(13,641,451)</u>	
Deficit, end of period	<u>(\$31,810,811)</u>	<u>(\$14,785,042)</u>	
Loss per share (Note 9)	<u>(\$0.04)</u>	<u>(\$0.04)</u>	

The accompanying notes are an integral part of the financial statements

BAFFINLAND IRON MINES CORPORATION
STATEMENTS OF CASH FLOWS
(unaudited)

	Three Months Ended March. 31		Cumulative from January.1 2003 (Note 12)
	2006	2005	
Operating activities			
Loss for the period	(\$1,639,948)	(\$1,143,591)	(\$28,456,391)
Items not effecting cash:			
Amortization expense	6,000	1,612	24,403
Stock-based compensation	650,380	284,250	2,116,370
Other non cash items	-	-	7,925
	<u>(983,568)</u>	<u>(857,729)</u>	<u>(26,307,693)</u>
Decrease (increase) in accounts receivable	120,075	34,116	(257,224)
Decrease (increase) in prepaid expenses	17,078	(144,995)	(314,712)
(Decrease) increase in accounts payable	(424,489)	(119,486)	269,723
Decrease in due to related parties	-	-	(9,074)
Net capital deficiency on reverse take over transaction	-	-	(283,467)
	<u>(1,270,904)</u>	<u>(1,088,094)</u>	<u>(26,902,447)</u>
Investing activities			
Purchase of capital assets	(4,122)	-	(123,680)
Financing activities			
Proceeds on issue of common shares and special warrants	-	18,750	45,143,928
Increase (decrease) in cash	(1,275,026)	(1,069,344)	18,117,801
Cash position at beginning of period	19,392,827	4,234,741	-
Cash position at end of period	\$18,117,801	\$3,165,397	\$18,117,801

The accompanying notes are an integral part of the financial statements

BAFFINLAND IRON MINES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2006

1. OPERATIONS

Baffinland Iron Mines Corporation was formed pursuant to Articles of Amendment under the Business Corporation Act (Ontario) on February 6, 2004.

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

These 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 exploration and development activities.

2. 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:**
Prior to November 24, 2005, the financial statements of the Company were consolidated to include PHM Corp., a Canadian wholly-owned subsidiary. PHM Corp. has been inactive since its incorporation and contained no assets or liabilities. On November 24, 2005, under Articles of Dissolution PHM Corp. was dissolved.
- 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 the majority 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.
- e) **Mining interests and exploration expenditures:**
The Company has adopted the recommendation issued by the Canadian Institute of Chartered Accountants EIC 126 and expenses exploration expenditures as incurred. Costs attributable to property acquisitions are capitalized while exploration expenditures on the

NOTES TO THE FINANCIAL STATEMENTS (contd)

2. SIGNIFICANT ACCOUNTING POLICIES (contd)

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. Exploration expenditures that have been charged to operations: three months to March 31, 2006 - \$1,318,702 (2005-\$709,654).

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 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 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. 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.

NOTES TO THE FINANCIAL STATEMENTS (contd)

2. SIGNIFICANT ACCOUNTING POLICIES (contd)

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

The Company has adopted the 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 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.

l) **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

3. CASH AND EQUIVALENTS

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

4. 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.

NOTES TO THE FINANCIAL STATEMENTS (contd)

5. CAPITAL STOCK

Authorized: Unlimited common shares

Issued:

	<u>Number of shares</u>	<u>Amount \$</u>
Balance, December 31, 2004	25,760,987	12,454,882
Broker warrants - March & May, 2005	52,500	65,625
Share financing - private placement May, 2005 - net of financing expenses	1,806,443	2,377,785
- Flow through private placement May, 2005 - net of financing expenses	7,741,935	6,482,139 (i)
Share financing - private placement December, 2005	2,750,000	5,500,000
- flow through private place. December, 2005	<u>6,000,000</u>	<u>7,200,000 (ii)</u>
Balance, March 31, 2006 and December 31, 2005	<u>44,111,865</u>	<u>34,080,431</u>

(i) Net future income tax liability of \$4,800,000 recorded on renunciation of flow through expenditures.

(ii) Net future income tax liability of \$4,800,000 recorded on renunciation of flow through expenditures.

Warrants

During 2005, warrants on 52,500 common shares were exercised for a total consideration of \$65,625. As at March 31, 2006 there are no warrants outstanding.

NOTES TO THE FINANCIAL STATEMENTS (contd)

6. STOCK-BASED COMPENSATION

Stock options

At a special meeting of shareholders held on January 15, 2004, approval was given to an incentive stock option plan. The Company can set aside up to 10% of its shares issued and outstanding at the time of granting of options to directors, officers, employees, management company employees or consultants. There is an 18 month vesting period for the options granted; 25% are available the day of the grant with a further 25% available on each six month anniversary of the grant. The terms of the awards under the plan are determined by the Board of Directors. Compensation expense and contributed surplus will be 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.

On March 11, 2005 options on 646,000 common shares at \$2.30 per share were granted, on July 5, 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, on October 13, 2005 options on 50,000 common shares at \$1.50 per share were granted, in all cases to directors, officers, and consultants of the Company expiring on February 25, 2009, May 31, 2009, June 28, 2009, March 10, 2010, July 4, 2010, and October 12, 2010 respectively.

On January 3, 2006 options on 611,000 common shares at \$2.15 were granted, and on January 27, 2006 options on 300,000 common shares at \$2.75 were granted, expiring on January 2, 2011, and January 26, 2011 respectively.

A summary of the status of the Company's stock option plan as at December 31, 2005 and changes during the period ending March 31, 2006 are presented in the following table:

	2006		2005	
	Number	Weighted Average	Number	Weighted Average
Outstanding, beginning	2,161,000	1.46	1,350,000	1.14
Granted	911,000	2.35	886,000	2.02
Exercised	-	-	-	-
Cancelled	-	-	(75,000)	2.30
Outstanding, ending	<u>3,072,000</u>	<u>1.72</u>	<u>2,161,000</u>	<u>1.46</u>

As at March 31, 2006 stock options available for exercise is 2,094,750 at a weighted average price of \$1.54 and the aggregate unexpensed fair value of unvested stock options granted amounted to \$1,446,160

NOTES TO THE FINANCIAL STATEMENTS (contd)

6. STOCK-BASED COMPENSATION (contd)

Stock option disclosure:

The fair market value of stock options granted was estimated using the Black Scholes fair value option-pricing model and the following assumptions were used:

Date options granted	Risk-free Interest rate	Expected Stock Volatility
March 11, 2005	4.25%	100.20%
July 5, 2005	4.25%	90.64%
October 13, 2005	4.50%	101.00%
January 3, 2006	5.00%	80.63%
January 27, 2006	5.00%	77.31%

No dividend yield is assumed and weighted average expected life is 5 years for all stock options granted to date

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, compensation expense for the period ended March 31, 2006 was recognized at \$650,380 (2005 - \$284,250), with the same amounts being recorded as contributed surplus.

7. INCOME TAXES

Under certain circumstances, from an agreement entered into by a predecessor company, there are losses carried forward to offset a payment received on January 6, 2006.

The Company has renounced, by the issuance of flow through shares its Canadian Exploration Expenses. 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 is calculated to be \$13,000,000 on the flow through private placements completed by the company to date.

8. RELATED PARTY TRANSACTIONS

A company controlled by a director and a shareholder charged the Company an administrative fee and salaries amounting to \$nil for the period ended March 31, 2006 (2005 - \$54,000). This amount was paid as an administrative fee which includes rent, accounting, corporate, and office services and 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 three months ended March 31, 2006 amounted in aggregate to \$23,334 (2005 - \$nil). This amount was paid in the normal course of business and was considered to be reasonable.

The \$123,347 which is due to related parties as at March 31, 2006 (2005 - 123,347), is non-interest bearing and has no set terms of repayment. The related parties are two individuals who are directors and shareholders of the Company. This amount was carried forward on the purchase of control of Baffinland Iron Mines Limited by these individuals.

9. 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.

10. COMPARATIVE FIGURES AND 2005 RESTATEMENT

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

11. CONTINGENCIES AND COMMITMENTS

The Company has engaged Studiengesellschaft fur Eisnerg - Augbetereitung 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.

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 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.

NOTES TO THE FINANCIAL STATEMENTS (contd)

11. CONTINGENCIES AND COMMITMENTS (contd)

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.

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.

12. 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. 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 disclosure of the cumulative information on the statements of operations and deficit and statements of cash flows is provided by management for information purposes only. This information is unaudited.