

BAFFINLAND IRON MINES CORPORATION
A Development Stage Entity

Interim Financial Statements
Second Quarter, June 30, 2006
(Unaudited)

BAFFINLAND IRON MINES CORPORATION
(Development Stage Entity)
BALANCE SHEETS
(Unaudited)

	As At June. 30 2006	<i>Restated</i> <i>(Note 2)</i> As At December. 31 2005
ASSETS		
Current		
Cash and equivalents (Note 3)	\$ 13,644,825	\$ 19,392,827
Accounts receivable	298,024	377,341
Prepaid expenses	312,507	331,790
	<hr/> 14,255,356	<hr/> 20,101,958
Mining interests (Note 4)	1	1
Fixed assets (net of accumulated amortization of \$30,403)	156,276	101,155
	<hr/> \$ 14,411,633	<hr/> \$ 20,203,114
	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES		
Current		
Accounts payable	2,041,977	694,212
Due to related parties (Note 8)	123,347	123,347
	<hr/> 2,165,324	<hr/> 817,559
Future income tax liability (Notes 2 and 7)	2,900,000	5,000,000
	<hr/> 5,065,324	<hr/> 5,817,559
	<hr/> <hr/>	<hr/> <hr/>
CAPITAL STOCK AND DEFICIT		
Capital stock (Note 5)	34,080,431	34,080,431
Contributed surplus (Note 5)	3,568,992	2,475,987
Deficit	(28,303,114)	(22,170,863)
	<hr/> 9,346,309	<hr/> 14,385,555
	<hr/> <hr/>	<hr/> <hr/>
	\$ 14,411,633	\$ 20,203,114
	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of the financial statements

BAFFINLAND IRON MINES CORPORATION
(Development Stage Entity)
STATEMENTS OF OPERATIONS AND DEFICIT
(Unaudited)

	Three Months Ended June. 30		Six Months Ended June. 30		Cumulative from January. 1 2003
	2006	<i>Restated</i> <i>(Note 2)</i> 2005	2006	<i>Restated</i> <i>(Note 2)</i> 2005	
Interest and other income	\$186,578	\$52,114	\$936,213	\$68,148	\$1,162,233
Expenses					
Exploration	5,663,023	3,477,304	6,981,725	4,186,958	30,826,418
Salaries	167,925	66,000	337,300	127,500	804,968
Office and general (Note 8)	162,335	36,289	227,440	76,863	559,447
Professional fees	157,107	146,051	200,217	166,753	870,965
Shareholder relations	110,172	50,042	232,476	87,371	388,778
Travel	69,694	5,775	84,301	9,779	170,953
Stock-based compensation	442,625	-	1,093,005	284,250	2,558,995
Amortization	6,000	1,621	12,000	3,233	30,403
	<u>6,778,881</u>	<u>3,783,082</u>	<u>9,168,464</u>	<u>4,942,707</u>	<u>36,210,927</u>
Net loss for the period before undernoted	(6,592,303)	(3,730,968)	(8,232,251)	(4,874,559)	(35,048,694)
Future income tax recovery (Note 2)	<u>1,500,000</u>	<u>1,500,000</u>	<u>2,100,000</u>	<u>1,900,000</u>	<u>10,100,000</u>
Net loss for the period	(5,092,303)	(2,230,968)	(6,132,251)	(2,974,559)	(24,948,694)
Deficit, beginning of period	<u>(23,210,811)</u>	<u>(12,285,042)</u>	<u>(22,170,863)</u>	<u>(11,541,451)</u>	
Deficit, end of period	<u>(\$28,303,114)</u>	<u>(\$14,516,010)</u>	<u>(\$28,303,114)</u>	<u>(\$14,516,010)</u>	
Loss per share (Note 9)	<u>(\$0.15)</u>	<u>(\$0.10)</u>	<u>(\$0.19)</u>	<u>(\$0.14)</u>	

The accompanying notes are an integral part of the financial statements

BAFFINLAND IRON MINES CORPORATION

(Development Stage Entity)

STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended June. 30		Six Months Ended June. 30		Cumulative from January. 1
		<i>Restated</i> <i>(Note 2)</i>		<i>Restated</i> <i>(Note 2)</i>	
	2006	2005	2006	2005	2003
Operating activities					
Loss for the period	(\$5,092,303)	(\$2,230,968)	(\$6,132,251)	(\$2,974,559)	(\$24,948,694)
Items not effecting cash:					
Amortization expense	6,000	1,621	12,000	3,233	30,403
Stock-based compensation	442,625	-	1,093,005	284,250	2,558,995
Future income tax recovery	(1,500,000)	(1,500,000)	(2,100,000)	(1,900,000)	(10,100,000)
Other non cash items	-	-	-	-	7,925
	<u>(6,143,678)</u>	<u>(3,729,347)</u>	<u>(7,127,246)</u>	<u>(4,587,076)</u>	<u>(32,451,371)</u>
Decrease (increase) in accounts receivable	(40,758)	(137,850)	79,317	(103,704)	(297,982)
Decrease (increase) in prepaid expenses	2,205	(76,154)	19,283	(221,149)	(312,507)
(Decrease) increase in accounts payable	1,772,255	(50,718)	1,347,765	(170,234)	2,041,978
Decrease in due to related parties	-	-	-	-	(9,074)
Net capital deficiency on reverse take over transaction	-	-	-	-	(283,467)
	<u>(4,409,976)</u>	<u>(3,994,069)</u>	<u>(5,680,881)</u>	<u>(5,082,163)</u>	<u>(31,312,423)</u>
Investing activities					
Purchase of capital assets	<u>(63,000)</u>	<u>-</u>	<u>(67,121)</u>	<u>-</u>	<u>(186,680)</u>
Financing activities					
Proceeds on issue of common shares and warrants	<u>-</u>	<u>13,706,799</u>	<u>-</u>	<u>13,725,549</u>	<u>45,143,928</u>
Increase (decrease) in cash	(4,472,976)	9,712,730	(5,748,002)	8,643,386	13,644,825
Cash position at beginning of period	18,117,801	3,165,397	19,392,827	4,234,741	-
Cash position at end of period	\$13,644,825	\$12,878,127	\$13,644,825	\$12,878,127	\$13,644,825

The accompanying notes are an integral part of the financial statements

BAFFINLAND IRON MINES CORPORATION

(Development Stage Entity)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED JUNE 30, 2006

(Unaudited)

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

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

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

The unaudited financial statements of the Company, which are expressed in Canadian dollars, have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") for interim financial information and they follow the same accounting policies and methods of application as the audited financial statements for the year ended December 31, 2005. These unaudited interim financial statements do not include all the information and note disclosures required by Canadian GAAP for the annual financial statements and notes thereto. Accordingly, the interim financial statements should be read in conjunction with the year-end 2005 audited financial statements for detailed note disclosure. In the opinion of management, all adjustments considered necessary for fair and consistent presentation of interim financial statements have been included.

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. RESTATEMENT - FUTURE INCOME TAX LIABILITY

During the preparation of the Company's interim financial statements for 2006 management discovered a misstatement in the calculation of future income taxes. Accordingly, the financial statements for the fiscal year ended December 31, 2005 have been restated as follows from amounts previously reported:

	As previously Reported	Adjustment	Restated
Future income tax liability	\$ 13,000,000	\$(8,000,000)	\$ 5,000,000
Deficit, December 31, 2005	(30,170,863)	8,000,000	(22,170,863)
Deficit, December 31, 2004	(13,641,451)	2,100,000	(11,541,451)
Future income tax recovery	-	5,900,000	5,900,000

NOTES TO THE FINANCIAL STATEMENTS (contd)

2. RESTATEMENT - FUTURE INCOME TAX LIABILITY (contd)

The financial statements for the three and six month periods ended June 30, 2005 have also been restated as follows from amounts previously reported:

	As previously Reported	Adjustment	Restated
Future income tax liability	\$ 8,200,000	\$(4,000,000)	\$ 4,200,000
Deficit, June 30, 2005	(18,516,010)	4,000,000	(14,516,010)
Deficit, June 30, 2004	(12,384,136)	-	(12,384,136)
Future income tax recovery	-	1,900,000	1,900,000

3. CASH AND EQUIVALENTS

	June 30, 2006	Dec. 31, 2005
Cash and equivalents are composed of:		
Cash	\$6,495,703	\$7,112,847
Restricted cash related to flow through financings	<u>7,149,122</u>	<u>12,279,980</u>
	<u>\$13,644,825</u>	<u>\$19,392,827</u>

4. MINING INTERESTS

The Company has a 100% interest in three mining leases, which cover approximately 1,600 hectares in the Mary River area, Baffin Island, Nunavut, Canada. The term of the leases are 21 years and are due for renewal in 2013.

5. CAPITAL STOCK

Authorized: Unlimited common shares

Issued:

	Number of shares	Amount \$
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 placement December, 2005	<u>6,000,000</u>	<u>7,200,000 (ii)</u>
Balance, June 30, 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 June 30, 2006 there are no warrants outstanding.

NOTES TO THE FINANCIAL STATEMENTS (contd)

5. CAPITAL STOCK (contd)

Contributed Surplus

Balance, December 31, 2004	\$ 1,887,497
Fair Value of options granted	<u>588,490</u>
Balance, December 31, 2005	2,475,987
Fair Value of options granted	<u>1,093,005</u>
Balance, June 30, 2006	<u>\$ 3,568,992</u>

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 over the remaining vesting period, which is the 18 month vesting period. Details of stock option grants during 2005 and 2006 to date are as follows:

Grant Date	Number of Options	Exercise Price	Expiry Date
March 11, 2005	646,000	\$2.30	March 10, 2011
July 5, 2005	190,000	\$1.18	July 4, 2011
October 13, 2005	50,000	\$1.50	October 12, 2011
January 3, 2006	611,000	\$2.15	January 2, 2012
January 27, 2006	300,000	\$2.75	January 26, 2012

During the year ended December 31, 2005, 75,000 common shares granted on March 11, 2005 were cancelled.

NOTES TO THE FINANCIAL STATEMENTS (contd)

6. STOCK-BASED COMPENSATION (contd)

A summary of the status of the Company's stock option plan as at December 31, 2005 and changes during the period ending June 30, 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 June 30, 2006 stock options available for exercise is 2,107,250 at a weighted average price of \$1.54 and the aggregate unexpensed fair value of unvested stock options granted amounted to \$971,090

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 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 stock options issued and outstanding for the six month period ended June 30, 2006 was \$1,093,005 (2005 - \$284,250).

NOTES TO THE FINANCIAL STATEMENTS (contd)

7. INCOME TAXES

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 EIC requires the recognition of a future tax liability and a reduction to Shareholders Equity on the date the Company renounces the tax credits. The amount of the future income tax liability on expenditures renounced but not yet spent is calculated to be \$2,900,000 (2005 - \$5,000,000) on the flow through private placements completed by the Company to date.

8. RELATED PARTY TRANSACTIONS

The \$123,347 due to related parties as at June 30, 2006 (2005 - \$123,347), is non-interest bearing and has no set terms of repayment. The related parties consist of 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.

A company controlled by a director and a shareholder charged the Company an administrative fee and salaries amounting to nil for the six month period ended June 30, 2006 (2005 - \$58,500). This amount was paid as an administrative fee which included rent, accounting, corporate, and office services and was incurred in the normal course of business at market rates. The contract to provide these services lapsed on August 31, 2005.

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

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

11. CONTINGENCIES AND COMMITMENTS

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.