

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION FOR THE YEAR ENDED DECEMBER 31, 2006

INTRODUCTION

The following discussion and analysis of the financial condition and results of operations for **Baffinland Iron Mines Corporation (the "Company")** for the year ended December 31, 2006, should be read in conjunction with the audited Financial Statements and related Notes, as at December 31, 2006. The Financial Statements and related Notes of the Company have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). Additional information, including the Company's press releases have been filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") and is available online at www.sedar.com. The date of this management's discussion and analysis is January 15, 2007. All figures are in Canadian dollars, unless otherwise noted. The Company's shares are listed on the TSX (symbol BIM).

OVERVIEW

Baffinland Iron Mines Corporation is a Canadian 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 ore deposits.

A scoping study coordinated by Aker Kvaerner E&C (A Division of Aker Kvaerner Canada Inc.) was completed during the second quarter of 2006. Aker Kvaerner E&C has commenced the definitive feasibility study, targeting completion late in the fourth quarter 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 from Milne Inlet. This bulk sample will assist in determining the ore quality and 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 geological evaluation is expected to confirm the quality of the ore and should form the basis for negotiation of long-term marketing contracts which would support the financing of the project.

The project schedule incorporates time required to negotiate the Inuit Impact and Benefits Agreement during 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. As a result construction is expected to commence in 2009. The above schedule is in line with our current plans.

The Mary River iron ore property hosts five high-grade hematite/magnetite deposits, which could result in a direct ship lump iron ore product in the order of approximately 12 to 15 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 was 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.

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>2006</u>	Dec. 31 <u>2005</u>	Dec. 31 <u>2004</u>
ASSETS			
Current	13,977	20,102	4,467
Capital	<u>846</u>	<u>101</u>	<u>26</u>
	<u>14,823</u>	<u>20,203</u>	<u>4,493</u>
LIABILITIES AND EQUITY			
Current	2,670	694	269
Due to related parties	<u>-</u>	<u>123</u>	<u>123</u>
	2,670	817	392
Future income tax liability	<u>3,651</u>	<u>5,000</u>	<u>1,300</u>
	6,321	5,817	1,692
Shareholders' equity	<u>8,502</u>	<u>14,386</u>	<u>2,801</u>
	<u>14,823</u>	<u>20,203</u>	<u>4,493</u>
WORKING CAPITAL	11,307	19,285	4,075
COMMON SHARES OUTSTANDING (000's)	51,930	44,112	25,761

STATEMENTS OF OPERATIONS for the three years ended

\$000's except per share

	Dec. 31 <u>2006</u>	Dec. 31 <u>2005</u>	Dec. 31 <u>2004</u>
INTEREST AND OTHER INCOME	<u>1,145</u>	<u>155</u>	<u>31</u>
EXPENSES			
Administrative	4,440	1,649	1,852
Exploration	26,474	15,035	8,489
Financing fees	<u>30,914</u>	<u>16,684</u>	<u>10,653</u>
Loss before taxes	(29,769)	(16,529)	(10,622)
Future income tax recovery	<u>8,699</u>	<u>5,900</u>	<u>2,100</u>
NET LOSS	<u>(21,070)</u>	<u>(10,629)</u>	<u>(8,522)</u>
Net Loss per share	<u>(\$0.46)</u>	<u>(\$0.32)</u>	<u>(\$0.41)</u>

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

BALANCE SHEETS as at

\$000's (unaudited)	Dec. 31 2006	Sep. 30 2006	Jun. 30 2006	Mar. 31 2006	Dec. 31 2005	Sep. 30 2005	Jun. 30 2005	Mar. 31 2005
ASSETS								
Current	13,977	8,292	14,256	18,690	20,102	5,813	13,435	3,509
Capital	846	880	156	99	101	58	23	24
	<u>14,823</u>	<u>9,172</u>	<u>14,412</u>	<u>18,789</u>	<u>20,203</u>	<u>5,871</u>	<u>13,458</u>	<u>3,533</u>
LIABILITIES AND EQUITY								
Current	2,670	6,409	2,042	270	694	30	99	149
Due to related parties	-	123	123	123	123	123	123	123
	<u>2,670</u>	<u>6,532</u>	<u>2,165</u>	<u>393</u>	<u>817</u>	<u>153</u>	<u>222</u>	<u>272</u>
Future income tax liability	3,651	450	2,900	4,400	5,000	1,200	4,200	900
	<u>6,321</u>	<u>6,982</u>	<u>5,065</u>	<u>4,793</u>	<u>5,817</u>	<u>1,353</u>	<u>4,422</u>	<u>1,172</u>
Shareholders' equity	8,502	2,190	9,347	13,996	14,386	4,518	9,036	2,361
	<u>14,823</u>	<u>9,172</u>	<u>14,412</u>	<u>18,789</u>	<u>20,203</u>	<u>5,871</u>	<u>13,458</u>	<u>3,533</u>
WORKING CAPITAL								
	11,307	1,760	12,091	18,297	19,285	5,660	13,213	3,237
Common shares outstanding (000's)	51,930	46,112	44,112	44,112	44,112	35,362	35,362	25,776

STATEMENTS OF OPERATIONS for the three months ended

\$000's except per share (unaudited)	Dec. 31 2006	Sep. 30 2006	Jun. 30 2006	Mar. 31 2006	Dec. 31 2005	Sep. 30 2005	Jun. 30 2005	Mar. 31 2005
INTEREST AND OTHER INCOME	118	90	187	750	33	54	52	16
EXPENSES								
Administrative	1,297	955	1,116	1,071	412	481	306	450
Exploration	5,334	14,159	5,663	1,319	3,466	7,383	3,477	709
	<u>6,631</u>	<u>15,114</u>	<u>6,779</u>	<u>2,390</u>	<u>3,878</u>	<u>7,864</u>	<u>3,783</u>	<u>1,159</u>
Loss before income taxes and undernoted	(6,513)	(15,024)	(6,592)	(1,640)	(3,845)	(7,810)	(3,731)	(1,143)
Future income tax recovery	2,399	4,200	1,500	600	1,000	3,000	1,500	400
NET LOSS	<u>(4,114)</u>	<u>(10,824)</u>	<u>(5,092)</u>	<u>(1,040)</u>	<u>(2,845)</u>	<u>(4,810)</u>	<u>(2,231)</u>	<u>(743)</u>
Net Loss per share	(0.08)	(0.24)	(0.12)	(0.02)	(0.08)	(0.14)	(0.08)	(0.03)

OPERATIONS

The net loss recorded by the Company for the Year Ended December 31, 2006 was \$21,069,867 compared to a net loss of \$10,629,412 for the same period in 2005. The net loss for the three month period ended December 31, 2006 was \$1,269,234 higher than the same period of the previous year.

During the Year Ended December 31, 2006 the Company recorded interest and other income of \$1,144,844 as compared to \$155,053 for the same period in 2005. Interest and other income was higher in 2006 as compared to 2005 due to a payment of \$600,109 received as part of an agreement with Apollo Gold Corporation and \$544,735 of interest earned. Fourth quarter interest and other income was \$85,351 higher during 2006 due to the Company having significantly more cash and cash equivalents on hand when compared to the same period in 2005.

Exploration expenditures of \$26,474,541 were \$11,439,348 more during 2006 as compared to 2005 due to the advancement of metallurgical testwork, environmental baseline studies, and various studies related to the definitive feasibility study which is expected to be completed late in the fourth quarter of 2007. Fourth quarter exploration expenditures are approximately 54% higher than the prior year.

Management salaries increased by \$53,242 for the three month period ended December 31, 2006 when compared to the same period of the previous year. The increase is due to the addition of senior staff. Management salaries for the year ended December 31, 2006 were higher than the same period of the previous year for the reason noted above.

Office and general for the three and twelve month period ending December 31, 2006 was \$188,600 and \$425,822, \$205,087 and \$241,363 higher than the same periods of 2005 respectively. The primary reason for the increase is related to the administrative costs of hiring additional staff.

Shareholder relations expense increased by \$12,488 for the three month period ended December 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 2006. Year to date shareholder relations were \$248,281 higher than 2005 for the reasons noted above.

Professional fees for the fourth quarter and year ended 2006 were \$140,662 and \$443,593 respectively. The fourth quarter decrease of \$110,412 as compared to the same period of 2005 is a result of lower legal fees. The primary reason for the increase in professional fees for the year ended December 31, 2006 is additional fees related to the Company listing its shares on the TSX.

For the three and twelve month period ended December 31, 2006 travel expense increased by \$26,002 and \$125,160 respectively. This increase is a result of increased activity related to the definitive feasibility study and conference presentations.

Stock based compensation for the fourth quarter and year ended 2006 were \$2,173,536 and \$663,612. Both are higher than the previous year amounts due to an increase in the number of options granted.

RELATED PARTY TRANSACTIONS

Related party expenditures during the Year Ended December 31, 2006 were nil (2005 - \$45,000). In 2005, this amount was paid to a related company controlled by a director and a shareholder for an administrative fee which included rent, accounting, corporate, and office services. This was incurred in the normal course of business at market rates. The contract to provide these services lapsed on August 31, 2005.

During 2006 the Company recovered \$72,000 in lease and operating costs from a related party.

Due to related parties as at December 31, 2006 was nil (2005 - \$123,347). This amount was payable to two directors of the Company and was non-interest bearing and has no set terms of repayment. The balance was paid in full during the fourth quarter of 2006.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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.

Fair value of financial instruments

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

Development Stage Entity

The Company has adopted the Accounting Guideline 11 - Enterprises in the Development Stage (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 expenses exploration expenditures as incurred. However, costs related to property acquisitions are capitalized. Development expenditures on the property will be capitalized once mineral reserves have been established. Development costs together with the cost of mining interests will be charged to operations on a units-of-production method based on estimated recoverable reserves. If the mining interests are abandoned, or if an impairment in asset values has been determined, the capitalized costs will be reduced to fair value through a charge to operations.

Stock Based Compensation

Compensation expense is recognized in equal instalments over the vesting period of the options issued. The expense is determined using an option pricing model that takes into account the exercise price, the term of the options, the current stock price, the expected volatility of the underlying shares, the expected dividend yield and the risk free rate for the term of the option.

FORTHCOMING CHANGES IN ACCOUNTING POLICIES

Financial Instruments, Hedges and Comprehensive Income

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has issued CICA 3855, Financial Instruments – Recognition and Measurement, CICA 3855, Hedges, and CICA 1530, Comprehensive Income, which we will apply in our fiscal year beginning on January 1, 2007. CICA 3855 prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and the measurement of such amount. It also specifies how financial instrument gains and losses are to be presented. CICA 3865 is applicable for designated hedging relationships and builds on existing Canadian GAAP guidance by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. CICA 1530 introduces new standards for the presentation and disclosure of components of comprehensive income. Comprehensive income is defined as the change in net assets of an enterprise during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in net assets during a period except those resulting from investments by owners and distributions to owners. We are currently considering the impacts of the adoption of such standards.

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

CAPITAL STOCK

During the Year Ended December 31, 2006 two private placements were completed resulting in 7,818,180 shares being issued for net proceeds of \$20,362,769.

The issued and outstanding capital of the Company at December 31, 2006 is 51,930,045 common shares.

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, 2010
July 5, 2005	190,000	\$1.18	July 4, 2010
October 13, 2005	50,000	\$1.50	October 12, 2010
January 3, 2006	611,000	\$2.15	January 2, 2011
January 27, 2006	300,000	\$2.75	January 26, 2011
July 10, 2006	205,000	\$1.99	July 9, 2011
December 15, 2006	946,000	\$2.60	December 16, 2011

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

LIQUIDITY AND CAPITAL RESOURCES

Working capital was \$11,306,831 at December 31, 2006 compared to \$19,284,399 at December 31, 2005. The decrease is primarily related to exploration expenditures at the Company's Mary River Iron ore property ("Mary River").

Current assets at December 31, 2006 were \$13,976,396 compared to \$20,101,958 at December 31, 2005, a decrease of \$6,125,562. Cash and cash equivalents decreased by \$6,941,544, accounts receivable increased by \$11,638. During the fourth quarter and for the year 2006 the Company has spent \$5,333,782 and \$26,474,541, respectively on exploration as it continues to gather information for various studies that are in progress.

Current liabilities at December 31, 2006 were \$2,669,565 compared to \$694,212 at December 31, 2005, an increase of \$1,975,353. The accounts payable increase is a result of increased activity at Mary River.

The company intends to use contractors and consultants to complete the proposed work programs for 2007, as a result capital spending will be limited to camp equipment and supplies. The majority of the Company's expenditures will be related to the completion of the definitive feasibility study, environmental impact assessment and the proposed bulk sample.

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.

	2006	2005
Cash and cash equivalents are comprised of:		
Cash	\$2,019,960	\$7,112,847
Restricted cash related to flow through share financings	10,431,323	12,279,980
	<u>\$12,451,283</u>	<u>\$19,392,827</u>

CAPITAL STOCK AND DEFICIT

Capital stock and Deficit at December 31, 2006 was \$8,501,995 compared to \$14,385,555 at December 31, 2005, a decrease of \$5,883,560. This occurred as a result of the following:

Contributed surplus (fair value vested portion of stock options granted)	\$2,173,536
Private placement, flow through	13,012,771
Deficit:	
Loss for the period	<u>(21,069,867)</u>
	<u>(\$5,883,560)</u>

The following common shares and convertible securities were outstanding at January 15, 2007:

	Expiry Date	Exercise Price (Cdn\$)	Securities Outstanding	Common Shares on Exercise
Common shares				51,930,045
Options	Feb 25/09 to Dec 16/11	1.00 to 2.75	4,223,000	4,223,000

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, permitting 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.

Various factors including the Company'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 ore project.

CONTRACTUAL OBLIGATIONS

The following table lists as of December 31, 2006 information with respect to the Company's contractual obligations:

	Payments Due By Period				
	Total	Less than 1 year	1-3 Years	3-4 Years	After 5 Years
Office Lease	370,000	92,500	185,000	92,500	-
Purchase Obligations	8,601,242	6,239,641	2,361,601	-	-
Total	8,971,242	6,332,141	2,546,601	92,500	-

Contractual obligations exclude expenses of a fixed nature expected to be incurred in the normal course of business.

Non-GAAP Performance Measures

The Company has included the non-GAAP performance measures below in this document. These non-GAAP performance measures do not have any standardized meaning prescribed by GAAP and, therefore, may not be comparable to similar measures presented by other companies. The Company believes that, in addition to conventional measures prepared in accordance with GAAP, certain investors use this information to evaluate the Company's performance. Accordingly, they are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared with GAAP. The definitions for these performance measures and reconciliation of the non-GAAP measures to reported GAAP measures are as follows:

Working Capital	2006	2005	2004
Current Assets			
Cash and cash equivalents	\$ 12,451,283	\$ 19,392,827	\$ 4,234,741
Accounts receivable	388,979	377,341	92,470
Prepaid expenses	1,136,134	331,790	139,778
	<u>13,976,396</u>	<u>20,101,958</u>	<u>4,466,989</u>
Current Liabilities			
Accounts payable	\$ 2,669,565	\$ 694,212	\$ 268,501
Due to related parties	-	123,347	123,347
	<u>2,669,565</u>	<u>817,559</u>	<u>391,848</u>
WORKING CAPITAL	<u>\$ 11,306,831</u>	<u>\$ 19,284,399</u>	<u>\$ 4,075,141</u>

OUTLOOK

For 2007, the Company has budgeted approximately 11,000 metres of diamond drilling of its 100%-owned iron ore properties on Baffin Island with approximately 9,000 metres of this total designed as in-fill, geotechnical, and condemnation drilling of Deposit No. 1. The balance of the proposed drilling in 2007 is designed as exploration drilling of the satellite deposits. The Company is in the process of preparing a Definitive Feasibility Study (DFS) targeted for completion in 2007. In support of these studies, work will continue on metallurgical testwork, market studies, environmental studies, transportation, and shipping alternatives. The Company plans on preparing, in parallel with the DFS, a satellite deposit scoping study that is intended to confirm additional resources. In addition, the Company will continue the negotiation of the Inuit Impact and Benefits Agreement and will file the Environmental Impact Assessment during the third quarter of 2007.

Evaluation of Disclosure Controls and Procedures

The Company's certifying officers have designed a system of disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to them with respect to financial and operational conditions impacting disclosure with respect to the fiscal year ended December 31, 2006. The certifying officers have evaluated the effectiveness of the disclosure controls and procedures and have concluded that these disclosure controls and procedures are effective at the reasonable assurance level. The management of the Company was required to apply its judgement in evaluating the cost-benefit relationship of possible controls and procedures. The result of the inherent

limitations in all control systems means no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

During the most recent year end there were no changes in the Company's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

DIRECTORS AND OFFICERS

Brian L. Acton	Director
Robert J. Chausse	Vice-President 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

January 15, 2007

CAUTIONARY NOTE:

This document contains certain information that may constitute forward-looking information within the meaning of securities laws. In some cases, forward-looking information can be identified by the use of terms such as “may”, “will”, “should”, “expect”, “plan”, “anticipate”, “believe”, “intend”, “estimate”, “predict”, “potential”, “continue” or other similar expressions concerning matters that are not historical facts. Particularly, information about the potential for a direct-shipping iron ore operation is forward-looking information.

Forward-looking information is based on certain factors and assumptions regarding, among other things, expected mineral resources, iron ore prices and the feasibility of constructing and operating a direct-shipping iron ore mine at the Company's Mary River project. While the Company considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

Forward looking-information is subject to certain factors, including risks and uncertainties that could cause actual results to differ materially from what is currently expected. These factors include risks relating to exploration and development, risks relating to the worldwide price of, demand for and supply of iron ore and risks relating to the construction and operation of a mine at the Company's Mary River project. You should not place undue importance on forward-looking information and should not rely upon this information as of any other date. While the Company may elect to, the Company is under no obligation and does not undertake to update this information at any particular time.