



BAFFINLAND IRON MINES CORPORATION
2ND QUARTER REPORT
June 30, 2007



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
FOR THE SECOND QUARTER ENDED JUNE 30, 2007**

INTRODUCTION

The following is management's discussion and analysis of the financial condition and results of operations of **Baffinland Iron Mines Corporation** (the "**Company**") for the six month period ended June 30, 2007, and its financial position as at June 30, 2007, and should be read in conjunction with the unaudited interim financial statements of the Company as at and for the six months ended June 30, 2007, including the notes thereto, as well as the audited financial statements of the Company as at and for the year ended December 31, 2006, including the notes thereto. The Company's financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Additional information relating to the Company, including the Company's Annual Information Form dated March 28, 2007 and subsequent 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 July 27, 2007. All figures are in Canadian dollars, unless otherwise noted.

The Company's shares are listed on the Toronto Stock Exchange (the "TSX") under the trading symbol "BIM".

Cautionary Note Regarding Forward-Looking Information

Certain information included in this management's discussion and analysis 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", "believe", "plan", "scheduled", "intend", "estimate", "forecast", "predict", "potential", "continue", "anticipate" or other similar expressions concerning matters that are not historical facts. Forward-looking information may relate to management's future outlook and anticipated events or results, and may include statements or information regarding the future plans or prospects of the Company. Without limitation, statements about the Company's plans to complete a definitive feasibility study, including the scheduled timing thereof and other related statements, statements about the planned Nunavut Impact Review Board process, statements about the Company's plans to complete an additional scoping study on Deposit No. 2, a Blue Sky Study, an exploration targeting study and traditional knowledge studies and environmental baseline studies, statements about the planned bulk sample program and related statements, statements about the completion of a project description and draft environmental impact statement, statements about the Company's planned drilling program, statements derived from the Company's scoping study on Deposit No. 1 and statements about the Company's goal to add one or more strategic investors, are forward-looking information.

Forward-looking information is based on certain factors and assumptions regarding, among other things, the estimation of mineral resources, the realization of mineral resource estimates, iron ore prices, the timing and amount of future exploration expenditures, the estimation of additional capital requirements, the availability of necessary financing and materials, the receipt of necessary regulatory approvals, and assumptions with respect to environmental risks, title disputes or claims, weather conditions and other similar matters. While the Company considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect. Without limitation, in stating that the Company has scheduled the completion of a definitive feasibility study in December of 2007, that the Company plans to complete an additional scoping study on Deposit No. 2, a Blue Sky Study, an exploration targeting study, traditional knowledge studies and environmental baseline studies, a bulk sample program in 2007 and 2008, and related statements, the Company has assumed, among other things, that iron ore prices will not change materially from the prices used in its current financial forecasts and that it will obtain the financing and regulatory approvals and other authorizations required to enable the exploration, development and mining activities required in order to complete such activities. In stating that the Company anticipates completion of its project description and draft environmental impact statement in the second half of 2007 and in making other statements about the Nunavut Impact Review Board process, the Company has assumed, among other things, that it will

successfully negotiate and complete an environmental assessment process through the Nunavut Impact Review Board. In stating that the Company is planning a drilling program totalling 9,300 metres using six drills in 2007, and in making statements about the expected focus of the drilling program, the Company has assumed, among other things, that it will obtain the financing necessary to fund this drilling program, that it will be able to procure the materials, equipment and personnel necessary to conduct the drilling and that weather conditions will be amenable to such activities.

Forward-looking information is subject to certain factors, including risks and uncertainties, which could cause actual results to differ materially from what management currently expects. These factors include risks inherent in the exploration for and development of mineral deposits, risks relating to changes in iron ore prices and changes in the worldwide demand for, and supply of, iron ore, uncertainties inherent in the estimation of mineral reserves and resources, risks relating to the remoteness of the Mary River Property including access and supply risks, reliance on key personnel, operational risks inherent in the conduct of mining activities, regulatory risks, including risks relating to the acquisition of the necessary licences and permits, financing and capitalization risks, including the risk that the financing required to fund all currently planned exploration and related activities may not be available on satisfactory terms, or at all, environmental risks and insurance risks. See "Risk Factors".

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, except as required by law.

Disclosure and Internal Controls and Procedures

During the most recent quarter 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.

OVERVIEW

Baffinland Iron Mines Corporation is a Canadian company engaged in the natural resource industry that was formed pursuant to Articles of Incorporation under the *Business Corporation Act* (Ontario) on March 10, 1986.

The Company 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 a sole focus on the advancement of its Mary River Project, which consists of five high-grade hematite/magnetite deposits. The project is in its early stages after having been originally discovered and studied in the 1960's. 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.

A scoping study coordinated by Aker Kvaerner E&C, a division of Aker Kvaerner Canada Inc., ("Aker Kvaerner") was completed in May 2006 (the "Technical Report"). Aker Kvaerner has now commenced a definitive feasibility study, which is scheduled for completion in December of 2007.

Planning is underway for a 250,000 tonne bulk sample with expected shipment in the 2008 ice-free period from Milne Inlet. This bulk sample is expected to provide several potential long-term customers the opportunity for extended production-scale, geological and metallurgical evaluation of Mary River lump ore in their blast furnaces. Results of this evaluation, if positive, will complete the final metallurgical confirmation of the Mary River iron deposits as a source of quality lump and fine iron ore and should form the basis for negotiation of long-term marketing contracts, which if concluded is expected to support the financing of the

Mary River project. The proposed bulk sample is dependant on obtaining the necessary permits and financing.

If as a result of these steps the Company determines that the iron ore deposits on the Mary River Property have sufficient quality and quantity to take advantage of the present favourable market conditions for potential new iron ore producers, the Company hopes to advance the Mary River Property to a development stage. At the present time, the Company does not have a target date for construction, as it remains difficult to determine specifically when construction could begin. The definitive feasibility study is scheduled for completion in December of 2007, and at that time, the Company expects to be able to more accurately define when construction could commence.

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)

	Jun. 30 2007	Mar. 31 2007	Dec. 31 2006	Sep. 30 2006	Jun. 30 2006	Mar. 31 2006	Dec. 31 2005	Sep. 30 2005
ASSETS								
Current	67,788	36,240	13,977	8,292	14,256	18,690	20,102	5,813
Capital	9,422	5,307	846	880	156	99	101	58
	<u>77,210</u>	<u>41,547</u>	<u>14,823</u>	<u>9,172</u>	<u>14,412</u>	<u>18,789</u>	<u>20,203</u>	<u>5,871</u>
LIABILITIES AND EQUITY								
Current	9,824	3,762	2,670	6,409	2,042	270	694	30
Due to related parties	-	-	-	123	123	123	123	123
	<u>9,824</u>	<u>3,762</u>	<u>2,670</u>	<u>6,532</u>	<u>2,165</u>	<u>393</u>	<u>817</u>	<u>153</u>
Future income tax liability	-	2,223	3,651	450	2,900	4,400	5,000	1,200
	<u>9,824</u>	<u>5,985</u>	<u>6,321</u>	<u>6,982</u>	<u>5,065</u>	<u>4,793</u>	<u>5,817</u>	<u>1,353</u>
Shareholders' equity	<u>67,386</u>	<u>35,562</u>	<u>8,502</u>	<u>2,190</u>	<u>9,347</u>	<u>13,996</u>	<u>14,386</u>	<u>4,518</u>
	<u>77,210</u>	<u>41,547</u>	<u>14,823</u>	<u>9,172</u>	<u>14,412</u>	<u>18,789</u>	<u>20,203</u>	<u>5,871</u>
WORKING CAPITAL								
	57,964	32,478	11,307	1,760	12,091	18,297	19,285	5,660
Common shares outstanding (000's)	79,868	63,894	51,930	46,112	44,112	44,112	44,112	35,362

STATEMENTS OF OPERATIONS for the three months ended

\$000's except per share (unaudited)

	Jun. 30 2007	Mar. 30 2007	Dec. 31 2006	Sep. 30 2006	Jun. 30 2006	Mar. 31 2006	Dec. 31 2005	Sep. 30 2005
INTEREST AND OTHER INCOME								
	424	261	118	90	187	750	33	54
EXPENSES								
Administrative	1,835	1,520	1,297	955	1,116	1,071	412	481
Exploration	16,690	4,563	5,334	14,159	5,663	1,319	3,466	7,383
	<u>18,525</u>	<u>6,083</u>	<u>6,631</u>	<u>15,114</u>	<u>6,779</u>	<u>2,390</u>	<u>3,878</u>	<u>7,864</u>
Loss before income taxes and undemoted	(18,101)	(5,822)	(6,513)	(15,024)	(6,592)	(1,640)	(3,845)	(7,810)
Future income tax recovery	2,223	1,428	2,399	4,200	1,500	600	1,000	3,000
NET LOSS	<u>(15,878)</u>	<u>(4,394)</u>	<u>(4,114)</u>	<u>(10,824)</u>	<u>(5,092)</u>	<u>(1,040)</u>	<u>(2,845)</u>	<u>(4,810)</u>
Net Loss per share	(0.23)	(0.07)	(0.08)	(0.24)	(0.12)	(0.02)	(0.08)	(0.14)

OPERATIONS

The net loss recorded by the Company for the three month period ended June 30, 2007 was \$15,877,982 compared to a net loss of \$5,092,303 for the same period in 2006. The net loss for the six month period ended June 30, 2007 was \$14,140,347 higher than the same period of the previous year for reasons noted below.

During the three month period ended June 30, 2006 the Company recorded interest and other income of \$424,148 as compared to \$186,578 for the same period in 2006. Interest and other income was higher in the second quarter of 2007 as compared to the second quarter of 2006 due to higher cash and cash equivalent balances. Year to date amounts are lower due to a settlement received in 2006 as part of an agreement with Apollo Gold Corporation.

Exploration expenditures of \$16,690,135 during the second quarter were \$11,027,112 more than in the second quarter of 2006 due to the advancement of metallurgical testwork, environmental baseline studies, and various studies related to the currently in progress definitive feasibility study which is expected to be completed late in the fourth quarter of 2007. Year to date expenditures were \$14,271,298 higher than the previous year for the reasons mentioned above.

The Technical Report sets forth a number of recommendations to assist the Company in completing a definitive feasibility study, including:

- a) specific targeted drilling activities on Deposit No. 1;
- b) a detailed surface mapping and sampling program on Deposit No. 1;
- c) evaluation of potential transport corridors and transport options;
- d) activities related to infrastructure, including obtaining geotechnical information to allow foundation design for facilities at port and mine site; and
- e) obtaining geotechnical information relating to pit slopes.

The Company continues to work on the foregoing recommendations and expects to complete items a, b and c in 2007 with work on items d and e continuing into 2008 and 2009. In addition, during 2007 the Company expects to continue its environmental baseline studies, complete a definitive feasibility study and commence a 250,000 tonne bulk sample. The degree of progress with regards to these additional plans will depend on the amount of capital raised.

Professional fees for the second quarter of 2007 were \$173,879, an increase of \$16,772 as compared to the same period of 2006. Year to date professional fees are \$219,250 higher than the same period of 2006. The increase was a result of increased legal costs as well as listing fees during the quarter related to the additional shares listed on the TSX.

Office and general expenses for the three and six month periods ending June 30, 2007 were \$99,659 and \$234,547 higher than the same periods of 2006. The primary reason for the increase is related to additional administrative expenditures as well as relocation costs resulting from a significant increase in staff.

Salaries increased \$383,914 and \$524,634 for the three and six month periods ended June 30, 2007, respectively. The increase is due to additions to management mentioned above.

Shareholder relation expenses for the three and six month periods ended June 30, 2007 decreased when compared to the same period of the previous year as a result of a reduction in the number of investor programs completed during 2007.

Stock based compensation for the second quarter and year to date 2007 were \$699,118 and \$1,328,165. Both are higher than the previous year amounts due to an increase in the number of options granted. For the three month period ended June 30, 2007 amortization expenses increased by \$44,410. Year to date the increase is \$87,480. This increase was a result of capital asset additions in 2006, now being amortized.

RELATED PARTY TRANSACTIONS

During the six month period ended June 30, 2007 a related party controlled by a director and a shareholder paid \$36,000 (2006 - \$36,000) in lease and operating costs to the Company.

CAPITAL STOCK

In January 2007, the Company raised gross proceeds of approximately \$30 million through the completion of a public equity offering (the "Equity Offering") of 10,909,100 units at a price of \$2.75 per unit. Each unit was comprised of one common share and one-half of one common share purchase warrant, with each whole warrant ("Warrant") entitling the holder thereof to purchase one additional common share at a price of \$5.50 for a period of 5 years commencing from January 31, 2007, subject to adjustment in certain events.

In March 2007, a private placement was completed for an aggregate of 1,054,875 units at a price of \$2.75 per unit, for total gross proceeds to the Company of approximately \$2.9 million. Each unit consisted of one common share of the Company and one-half of one Warrant. Each whole Warrant entitles the holder to purchase one additional common share at a price of \$5.50 per Common Share until January 31, 2012, subject to adjustment in certain events.

In June 2007, a flow-through placement was completed for an aggregate of 15,973,505 shares at a price of \$3.10 per share, for total gross proceeds to the Company of approximately \$49.5 million.

As a result, during the first half of 2007, 27,937,480 common shares and 5,981,988 Warrants were issued for total net proceeds of \$77,828,038.

The issued and outstanding capital of the Company at June 30, 2007 is 79,867,525 common shares.

LIQUIDITY AND CAPITAL RESOURCES

Working capital was \$57,963,384 at June 30, 2007 compared to \$11,306,831 at December 31, 2006. The increase was primarily related to the completion of the Equity Offerings, net of cash used during 2007.

Current assets at June 30, 2007 were \$67,787,834 compared to \$13,976,396 at December 31, 2006, an increase of \$53,811,438. Cash and cash equivalents increased by \$50,525,912, accounts receivable increased by \$1,127,019 and prepaids increased by \$15,441. The increase in accounts receivable is related to an increase in GST receivable due to increased expenditures. Inventory increased by \$2,143,066 as a result of supplies being purchased for shipment on a sealift during the third quarter. During the first half of 2007 the Company spent approximately \$21,253,023 on exploration activities, that continues to gather information for various studies relating to the Mary River Property.

Current liabilities at June 30, 2007 were \$9,824,450 compared to \$2,669,565 at December 31, 2006, an increase of \$7,154,885. The accounts payable increase is a result of increased exploration activity at the Mary River Property.

The Company intends to use contractors and consultants to complete its currently proposed work programs for 2007, and as a result it expects that capital spending for 2007 will be limited to camp equipment and

supplies. During the first half of 2007 the Company spent \$8,675,569 on capital assets to be utilized at the Mary River site. The Company currently expects that a majority of the Company's expenditures for 2007 will be related to the completion of a definitive feasibility study, an environmental impact assessment study and preparation for the proposed bulk sample.

	June 30, 2007	December 31, 2006
Cash and cash equivalents are comprised of:		
Cash	\$22,694,791	\$2,019,960
Cash related to flow through share financings	40,282,404	10,431,323
	<u>\$62,977,195</u>	<u>\$12,451,283</u>

The Company's operating and capital expenditures are expected to increase in subsequent years with the advancing of exploration and development activities. The amounts and timing of expenditures will depend on the progress of ongoing exploration and development.

The Company's historical capital needs have been met by the issuance of Common Shares and Warrants. The Company will require substantial additional funds to further explore and, if warranted, develop the Mary River Property. The Company has limited financial resources and no current source of recurring revenue, and there is no assurance that additional funding will be available to the Company to carry out the completion of its planned exploration activities, for additional exploration or for the substantial capital that is typically required in order to place a property into commercial production. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in the delay or indefinite postponement of further exploration and development of the Mary River Property, including without limitation, the delay or indefinite postponement of the currently planned definitive feasibility study and the currently planned bulk sample. The terms of any additional financing obtained by the Company could result in substantial dilution to the shareholders of the Company. Various factors including the Company's exploration results could cause significant fluctuations in the price and volume of trading in the Common Shares and Warrants of the Company.

CAPITAL STOCK AND DEFICIT

Shareholders' equity and deficit at June 30, 2007 was \$67,385,600, compared to \$8,501,995 at December 31, 2006, an increase of \$58,883,605. This occurred as a result of the following:

Contributed surplus (fair value vested portion of stock options granted)	\$1,328,165
Net proceeds on common share and warrant offerings	77,828,038
Deficit:	
Net loss for the period	<u>(20,272,598)</u>
	<u>\$58,883,605</u>

Subsequent to June 30, 2007 the company filed renouncement documents with the tax authorities. Accordingly during the third quarter the Company will record a future tax liability and a reduction to capital stock in the amount of \$17,499,614 .

The following common shares and convertible securities were outstanding at July 27, 2007:

	Expiry Date	Exercise Price (Cdn\$)	Securities Outstanding	Common Shares on Exercise
Common shares				79,867,525
Warrants				5,981,988
Options	Feb 25/09 to Jun 1/12	1.00 to 2.75	4,953,000	4,953,000

OFF-BALANCE SHEET ITEMS

The company does not have any off-balance sheet arrangements.

RISKS AND UNCERTAINTIES

An investment in the Common Shares of the Company is subject to a number of risks, including, but not limited to: risks inherent in the exploration for and development of mineral deposits, risks relating to changes in iron ore prices and changes in the worldwide demand for, and supply of, iron ore, uncertainties inherent in the calculation of mineral reserves and resources, risks relating to the remoteness of the Mary River Property, including access and supply risks, reliance on key personnel, operational risks inherent in the conduct of mining activities, regulatory risks, including risks relating to the acquisition of the necessary licences and permits, financing and capitalization risks, environmental risks and insurance risks.

In addition to the other information contained in this management's discussion and analysis and the Company's other publicly filed disclosure documents, investors should give careful consideration to the following factors, which are qualified in their entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this management's discussion and analysis. Any of the matters highlighted in these risk factors could have a material adverse effect on the Company's business prospects or financial condition.

Nature of the Company's Exploration Activities

The exploration for and development of mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. Few properties that are explored are ultimately developed into producing mines. The Mary River Property is still in the exploration stage. Significant expenses will be required to establish ore reserves, to develop ore blending strategies and to construct mining and material handling facilities at the Mary River Property. It is impossible to provide any assurance that the exploration programs planned by the Company will result in a profitable commercial mining operation.

The Mary River Property is the Company's only property. Accordingly, if the Company is unable to develop the Mary River Property into a profitable commercial mining operation and/or acquire additional properties, then the Company will have no source of revenue or income.

Iron Ore Prices

The development and success of the Mary River Property will be dependent, in part, on the future price of iron ore. Iron ore prices are subject to fluctuation and are affected by a number of factors which are beyond the control of the Company. Such factors include, but are not limited to, global and regional supply and demand, and the political and economic conditions of major iron-ore producing countries throughout the world. The price of iron ore has increased substantially in recent years, and future significant price declines could cause continued exploration and development of the Mary River Property to be impracticable.

Licenses and Permits

The exploration of the Mary River Property requires licenses and permits from the Canadian government and the government of Nunavut and consents from third-parties. If the exploration of the Mary River Property warrants the development of the Mary River Property into a commercial mine, then the Company will require additional permits to mine the Mary River Property. In order to obtain permits the Company must first successfully complete environmental assessment processes through the Nunavut Impact Review Board (the "NIRB"), the Canadian Environmental Assessment Agency ("CEAA") and to successfully negotiate the Inuit Impact and Benefits Agreement ("IIBA"). There can be no guarantee that the Company will be able to complete the environmental assessment processes, successfully negotiate an IIBA and obtain or maintain all necessary licenses, permits and third-party consents that may be required to explore and, if warranted, develop and mine the Mary River Property.

The Company's rights to the Mary River Property are held in the form of leases held by the Canadian government. If the Company fails to meet the specific requirements of a lease, the lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each lease will be met. The termination or expiration of the Company's leases would have a material adverse effect on the Company's business prospects and financial condition.

Mineral Reserves and Resources

The activities of the Company are directed towards the search, evaluation and development of iron ore deposits. There is no certainty that the expenditures to be made by the Company will result in discoveries of economic ore bodies. Whether the Mary River Property will be commercially viable depends on a number of factors, some of which include: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal prices, which can be cyclical, and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. Many of these factors are outside of the control of the Company and the exact effect of these factors cannot accurately be predicted. The combination of these factors may result in the Company not receiving an adequate return on invested capital.

Mineral resources that are not mineral reserves do not have demonstrated economic viability. Due to the uncertainty that may attach to indicated mineral resources, there is no assurance that mineral resources at the Mary River Property will be upgraded to proven and probable ore reserves. The scoping study on Deposit No. 1 conducted for the Company is preliminary in nature and includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves, and there is no certainty that the results described in the scoping study will be realized

Capitalization and Commercial Viability

The Company's operating and capital expenditures are expected to increase in subsequent years with the advancing of exploration and development activities. The amounts and timing of expenditures will depend on the progress of ongoing exploration and development.

The Company's historical capital needs have been met by the issuance of Common Shares and Warrants. The Company will require substantial additional funds to further explore and, if warranted, develop the Mary River Property. The Company has limited financial resources and no current source of recurring revenue, and there is no assurance that additional funding will be available to the Company to carry out the completion of its planned exploration activities, for additional exploration or for the substantial capital that is typically required in order to place a property into commercial production. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in the delay or indefinite postponement of further exploration and development of the Mary River Property, including without limitation, the delay or indefinite postponement of the currently planned definitive feasibility study and the currently planned bulk sample. The terms of any additional financing obtained by the Company could result in substantial dilution to the shareholders of the Company. Various factors including the Company's exploration results could cause significant fluctuations in the price and volume of trading in the Common Shares and Warrants of the Company.

It is a goal of the Company to add one or more strategic investors in addition to Mitsubishi Corporation. However, there can be no assurance that an additional strategic investor will invest in the Company or that such investment will be on favourable terms. Any future equity investment by a strategic investor would likely result in a dilution to the existing shareholders of the Company.

Regulatory and Environmental Risks

The mineral exploration activities of the Company are subject to various laws governing prospecting, development, production, taxes, labour standards and occupational health, mine safety, toxic substances and other matters. Mining and exploration activities are also subject to various laws and regulations relating to the protection of the environment. Although the exploration activities of the Company are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail exploration, production or development. Amendments to current laws and regulations governing the operations and activities of the Company or the more stringent implementation thereof could have a substantial adverse impact on the Company.

Remote Northern Location

The Mary River Property, because of its remote northern location and limited accessibility, is subject to special climate and transportation risks. These risks include the inability to operate or to operate efficiently during periods of extreme cold, the unavailability of materials and equipment, and unanticipated transportation costs. Adverse weather conditions may also prevent the operation of equipment on land, in the air or on the ocean. Such factors can add to the cost of mine exploration, development, production and operation, thereby affecting the Company's financial condition.

Insurance

In the course of the exploration, development and production of mineral properties, several risks and, in particular, unexpected or unusual geological or operation conditions, may occur. It is not always possible to fully insure against such risks, and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise they could materially adversely affect the financial condition of the Company.

The Company is not insured against most environmental risks. Insurance against environmental risks (including potential liability for pollution or other hazards as a result of the disposal of waste products occurring from exploration and production) has not been generally available to companies within the mining industry. The Company periodically evaluates the cost and coverage of the insurance against certain environmental risks to determine if it would be appropriate to obtain such insurance. Without such insurance, the payment of any such environmental liabilities for which the Company becomes responsible could materially adversely affect the financial condition of the Company.

Equipment and Supplies

A shortage of equipment and supplies could affect the Company's ability to operate. The Company is dependent on various supplies and equipment to carry out its mining operations. The shortage of supplies, equipment and parts could have a material adverse effect on its ability to carry out its operations and therefore limit or increase the cost of exploration and related activities.

Reliance on Key Personnel

The Company's success depends in large measure on the continued contributions of certain of the Company's executive officers and other key management and personnel, certain of whom would be difficult to replace. The loss of the services of such key personnel could have a material adverse effect on the Company. The Company does not maintain key person insurance.

Mining Operations

Mining operations generally involve a high degree of risk. Such operations are subject to all the hazards and risks normally encountered in the exploration for, and development and production of iron ore, including variations in grade and other geological differences, surface or underground conditions, processing problems, mechanical equipment performance, accidents, labour disputes, force majeure risks and natural disasters. Such risks could result in: personal injury or fatality, damage to or destruction of mining properties, processing facilities or equipment; environmental damage; delays or reductions in mining production; monetary losses; and possible legal liability. Hazards, such as unusual or unexpected rock formations, rock bursts, pressures or other conditions may be encountered in the drilling and removal of ore.

Mine Development and Completion

Feasibility studies are used to determine the economic viability of a deposit. Many factors are involved in the determination of the economic viability of a deposit, including the achievement of satisfactory mineral reserve estimates, the level of estimated metallurgical recoveries, capital and operating estimates and the estimate of future commodity prices. Capital and operating cost estimates are based on many factors, including anticipated tonnage and grades of ore to be mined and crushed, the configuration of the ore body, ground and mining conditions, expected recovery rates of the ore, geotechnical conditions, availability of suitable construction materials and construction resources and anticipated environmental and regulatory compliance costs. Each of these factors involves uncertainties and, as a result, the Company cannot give any assurance that its development or exploration projects will become operating mines. If a mine is developed, actual operating results may differ from those anticipated in a feasibility study. There can be no assurance that delays will not be experienced. Should there be any delays, such delays may result in an increase in capital requirements, costs and expenditures.

Competition

The mining industry is intensely competitive in all of its phases and the Company competes with many companies possessing greater financial and technical resources than itself. Competition in the mining industry is primarily for: mineral rich properties which can be developed and produced economically; the technical expertise to find, develop and operate such properties; the labour to operate the properties; and the capital for the purpose of funding such properties. Many competitors not only explore for and mine minerals, but conduct refining and marketing operations on a world-wide basis. Such competition may result in the Company being unable to acquire desired properties, to recruit or retain qualified employees or to acquire the capital necessary to fund its operations and develop its properties.

Existing or future competition in the mining industry could materially adversely affect the Company's prospects for mineral exploration and success in the future. In addition, as certain of the Company's principal competitors are privately owned or are divisions of larger publicly owned corporations, the Company has been able to obtain very little information with respect to their products, markets and competitive position and therefore can not accurately assess its competitive position.

CONTRACTUAL OBLIGATIONS

The following table lists as of June 30, 2007 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	10,277,245	7,915,644	2,361,601	-	-
Total	10,647,245	8,008,144	2,546,601	92,500	-

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

OUTLOOK

The Company intends to achieve its objective of continuing to explore and develop the Mary River Property through the following activities:

- Conducting an exploration program at the Mary River Property to develop and expand the existing resource base. The Company is planning a drilling program totalling 9,300 metres using six drills in 2007. It is expected that the drilling program will primarily focus on infill drilling on Deposit No. 1, geotechnical drilling to support the definitive feasibility study and further exploration drilling on Deposits No. 2 and No. 3.
- Defining the metallurgical characteristics of potential production from the Mary River Property and determining the level of customer acceptance of such product through metallurgical test-work.
- Completing a definitive feasibility study, which is scheduled for December 2007. In support of these studies, work will continue on metallurgical testwork, market studies, environmental studies, transportation and shipping alternatives.
- In addition to a definitive feasibility study, completing studies of the satellite deposits, including a scoping study on Deposit No. 2, a blue sky study and an exploration targeting study.
- Completing the basic engineering and definitive capital cost estimate for construction at the Mary River Property.
- Continuing the consultation process with the local communities on Baffin Island and in Nunavut with respect to the Company's existing operations, development plans, and negotiation towards an IIBA with the Qikiqtani Inuit Association ("QIA").
- Submitting regulatory permit applications with a detailed project description to the regulators in order to initiate the regulatory review. Submission of regulatory applications is currently scheduled for completion in the second half of 2007.
- Completing additional traditional knowledge studies and environmental baseline studies.
- Exploring the potential for integrated local participation in any development of the Mary River Property by developing communication channels with local communities to both explore and maximize current and future training employment and business opportunities.
- Adding an additional strategic investor.

If, as a result of these steps, the Company determines that the iron ore deposits on the Mary River Property have sufficient quality and quantity to take advantage of the present favourable market conditions for potential new iron ore producers, then the Company hopes to advance the Mary River Property to a development stage. At the present time, the Company does not have a target date for construction because it remains difficult to determine specifically when construction could feasibly begin. A definitive feasibility study is scheduled for completion in December of 2007, and at that time, the Company expects to be able to more accurately define when construction could commence.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

New Accounting Standard

In January 2005, the CICA issued Handbook Sections 3855, "Financial Instruments - Recognition and Measurement" ("Section 3855"), 1530, "Comprehensive Income" ("Section 1530"), and 3865, "Hedges" ("Section 3865"). These new standards are effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2006 on a prospective basis. The Company has adopted these new standards effective January 1, 2007.

The Company has evaluated the impact of these new standards on its financial statements and determined that no adjustments are currently required.

Going Concern

Management has prepared the interim financial statements using accounting principles applicable to a going concern, which assumes continuity of operations and realization of assets and settlement of liabilities in the normal course of business. Should the going concern assumption no longer be valid, adjustments would be required to the carrying values of assets and liabilities and to the reported expenses and balance sheet classifications. These adjustments could be material.

Use of estimates

The preparation of financial statements in accordance with GAAP 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.

BAFFINLAND IRON MINES CORPORATION
A Development Stage Entity

Interim Financial Statements
Second Quarter, June 30, 2007
(Unaudited)

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

	As At June 30 2007	As At December 31 2006
ASSETS		
Current		
Cash and cash equivalents (Note 3)	\$ 62,977,195	\$ 12,451,283
Accounts receivable	1,515,998	388,979
Inventory (Note 4)	2,143,066	-
Prepaid expenses	1,151,575	1,136,134
	<hr/>	<hr/>
	67,787,834	13,976,396
Mining interests (Note 5)	1	1
Capital assets (Note 6)	9,422,215	846,126
	<hr/>	<hr/>
	\$ 77,210,050	\$ 14,822,523
	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES		
Current		
Accounts payable	\$ 9,824,450	\$ 2,669,565
Future income tax liability (Note 9)	-	3,650,963
	<hr/>	<hr/>
	9,824,450	6,320,528
SHAREHOLDERS' EQUITY AND DEFICIT		
Capital stock (Note 7)	121,897,869	47,093,202
Warrants (Note 7)	3,023,371	-
Contributed surplus (Note 7)	5,977,688	4,649,523
Deficit	(63,513,328)	(43,240,730)
	<hr/>	<hr/>
	67,385,600	8,501,995
	<hr/>	<hr/>
	\$ 77,210,050	\$ 14,822,523
	<hr/> <hr/>	<hr/> <hr/>

Nature of operations and going concern (Note 1)
Contingencies and commitments (Note 12)

The accompanying notes are an integral part of the financial statements

BAFFINLAND IRON MINES CORPORATION

(Development Stage Entity)

STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS AND DEFICIT

(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30		Cumulative from January 1
	2007	2006	2007	2006	2003
Interest and other income	<u>\$424,148</u>	<u>\$186,578</u>	<u>\$684,809</u>	<u>\$936,213</u>	<u>\$2,055,673</u>
Expenses					
Exploration	16,690,135	5,663,023	21,253,023	6,981,725	71,572,257
Amortization	50,410	6,000	99,480	12,000	212,873
Salaries	551,839	167,925	861,934	337,300	2,104,381
Stock-based compensation (Note 8)	699,118	442,625	1,328,165	1,093,005	4,967,691
Office and general	261,994	162,335	461,987	227,440	1,219,816
Professional fees	173,879	157,107	419,467	200,217	1,533,808
Shareholder relations	29,755	110,172	92,448	232,476	616,652
Travel	68,255	69,694	91,866	84,301	337,103
	<u>18,525,385</u>	<u>6,778,881</u>	<u>24,608,370</u>	<u>9,168,464</u>	<u>82,564,581</u>
Net loss for the period before taxes	(18,101,237)	(6,592,303)	(23,923,561)	(8,232,251)	(80,508,908)
Future income tax recovery (Note 9)	<u>2,223,255</u>	<u>1,500,000</u>	<u>3,650,963</u>	<u>2,100,000</u>	<u>20,350,000</u>
Net loss and comprehensive loss for the period	(15,877,982)	(5,092,303)	(20,272,598)	(6,132,251)	(60,158,908)
Deficit, beginning of period	<u>(47,635,346)</u>	<u>(23,210,811)</u>	<u>(43,240,730)</u>	<u>(22,170,863)</u>	
Deficit, end of period	<u>(\$63,513,328)</u>	<u>(\$28,303,114)</u>	<u>(\$63,513,328)</u>	<u>(\$28,303,114)</u>	
Net loss per share (Note 11)	<u>(\$0.23)</u>	<u>(\$0.15)</u>	<u>(\$0.32)</u>	<u>(\$0.19)</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		Six Months Ended		Cumulative from January 1 2003
	June 30		June 30		
	2007	2006	2007	2006	
Operating activities					
Loss for the period	(\$15,877,982)	(\$5,092,303)	(\$20,272,598)	(\$6,132,251)	(\$60,158,908)
Items not effecting cash:					
Amortization expense	50,410	6,000	99,480	12,000	212,873
Stock-based compensation	699,118	442,625	1,328,165	1,093,005	4,967,691
Future income tax recovery	(2,223,255)	(1,500,000)	(3,650,963)	(2,100,000)	(20,350,000)
Other non cash items	-	-	-	-	(275,542)
	<u>(17,351,709)</u>	<u>(6,143,678)</u>	<u>(22,495,916)</u>	<u>(7,127,246)</u>	<u>(75,603,886)</u>
Decrease (increase) in accounts receivable	(1,192,925)	(40,758)	(1,127,018)	79,317	(1,515,955)
Decrease (increase) in inventory	(2,143,066)	-	(2,143,066)	-	(2,143,066)
(Increase) decrease in prepaid expenses	574,716	2,205	(15,441)	19,283	(1,151,575)
Increase (decrease) in accounts payable	6,062,290	1,772,255	7,154,884	1,347,765	9,824,449
	<u>(14,050,694)</u>	<u>(4,409,976)</u>	<u>(18,626,557)</u>	<u>(5,680,881)</u>	<u>(70,590,033)</u>
Investing activities					
Purchase of capital assets	<u>(4,165,916)</u>	<u>(63,000)</u>	<u>(8,675,569)</u>	<u>(67,121)</u>	<u>(9,635,088)</u>
Financing activities					
Decrease in due to related parties	-	-	-	-	(132,421)
Net Proceeds on issue of common shares and warrants	47,002,585	-	77,828,038	-	143,334,737
	<u>47,002,585</u>	<u>-</u>	<u>77,828,038</u>	<u>-</u>	<u>143,202,316</u>
Increase (decrease) in cash	28,785,975	(4,472,976)	50,525,912	(5,748,002)	62,977,195
Cash position at beginning of period	<u>34,191,220</u>	<u>18,117,801</u>	<u>12,451,283</u>	<u>19,392,827</u>	<u>-</u>
Cash position at end of period	<u>\$62,977,195</u>	<u>\$13,644,825</u>	<u>\$62,977,195</u>	<u>\$13,644,825</u>	<u>\$62,977,195</u>

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 SIX MONTH PERIOD ENDED JUNE 30, 2007
(Unaudited)

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Baffinland Iron Mines Corporation (the "Company") was formed pursuant to Articles of Incorporation under the *Business Corporation Act* (Ontario) on March 10, 1986.

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

These unaudited financial statements have been prepared using Canadian generally accepted accounting principles ("Canadian GAAP") applicable to a going concern, which assumes continuity of operations and realization of assets and settlement of liabilities in the normal course of business. However, the Company is in the development stage and is subject to the risks and challenges similar to other companies in a comparable stage of development. These risks include, but are not limited to, dependence on key individuals, successful development and the ability to secure adequate financing to meet the minimum capital required to successfully complete the project and continue as a going concern. There is no assurance that these initiatives will be successful and as a result there is substantial doubt regarding the going concern assumption.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate. These adjustments could be material.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited financial statements have been prepared in accordance with Canadian GAAP for interim financial information. Accordingly, they do not include all of the information and notes to the financial statements required by Canadian GAAP for annual financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included.

The interim financial statements have been prepared by management in accordance with the accounting policies described in the Company's annual audited financial statements for the year ended December 31, 2006. For further information, refer to the audited financial statements and notes thereto for the year ended December 31, 2006.

Financial Instruments, comprehensive income and hedges

In January 2005, the CICA issued Handbook Sections 3855, "Financial Instruments - Recognition and Measurement" ("Section 3855"), 1530, "Comprehensive Income" ("Section 1530"), and 3865, "Hedges" ("Section 3865"). These new standards are effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2006 on a prospective basis. The Company has adopted these new standards effective January 1, 2007.

NOTES TO THE FINANCIAL STATEMENTS (contd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (contd)

Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented. Section 3855 requires that:

- All financial assets be measured at fair value on initial recognition and certain financial assets to be measured at fair value subsequent to initial recognition;
- All financial liabilities be measured at fair value if they are classified as held for trading. Other financial liabilities are measured at amortized cost using the effective interest method;
- All derivative financial instruments be measured at fair value on the balance sheet, even when they are part of an effective hedging relationship.

Section 1530 introduces a new requirement to temporarily present certain gains and losses from changes in fair value in comprehensive income and accumulated comprehensive income. Comprehensive income would include unrealized gains and losses, such as: unrealized gains or losses on available-for-sale investments; and the effective portion of gains or losses on derivatives designated as cash flow hedges or hedges of the net investment in self-sustaining foreign operations.

Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 "Hedging Relationships", and the hedging guidance in Section 1650 "Foreign Currency Translation" by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

The Company has evaluated the impact of these new standards on its financial statements and determined that no adjustments are currently required.

3. CASH AND CASH EQUIVALENTS

	June 30, 2007	December 31, 2006
Cash and cash equivalents are comprised of:		
Cash	\$22,694,791	\$2,019,960
Cash related to flow through share financings	40,282,404	10,431,323
	<u>\$62,977,195</u>	<u>\$12,451,283</u>

The Company has posted a \$500,000 Letter of Credit which is collateralized by cash. The Letter of Credit expires in October 2007 (see note 12).

4. INVENTORY

Inventory consists of supplies inventory that are recorded at the lower of cost and replacement value, where cost is determined using the average cost method.

NOTES TO THE FINANCIAL STATEMENTS (contd)

5. MINING INTERESTS

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

6. CAPITAL ASSETS

Capital assets are comprised of:

	June 30, 2007			December 31, 2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Exploration equipment	\$ 741,382	\$ 126,360	\$ 615,022	\$ 715,593	\$ 54,370	\$ 661,223
Furniture & fixtures	44,276	26,023	18,253	39,816	21,993	17,823
Leasehold improvements	106,685	28,880	77,805	106,685	18,220	88,465
Computer equipment	117,352	31,610	85,742	97,425	18,810	78,615
Construction in process	8,625,393	-	8,625,393	-	-	-
	<u>\$9,635,088</u>	<u>\$ 212,873</u>	<u>\$9,422,215</u>	<u>\$ 959,519</u>	<u>\$ 113,393</u>	<u>\$ 846,126</u>

Amounts included in construction in process are not being amortized.

7. CAPITAL STOCK

Authorized: Unlimited common shares

Issued:

	Number of shares	Amount \$
December 31, 2005	44,111,865	34,080,431
Share financing - flow through private placement September, 2006	2,000,000	3,250,000 ⁽ⁱ⁾
Share financing - flow through private placement October, 2006	<u>5,818,180</u>	<u>9,762,771⁽ⁱⁱ⁾</u>
December 31, 2006	51,930,045	47,093,202
Share financing - public equity offering January, 2007	10,909,100	25,182,902
Share financing - private placement March, 2007	1,054,875	2,616,090
Share financing - flow through private placement June, 2007	<u>15,973,505</u>	<u>47,005,675⁽ⁱⁱⁱ⁾</u>
June 30, 2007	<u>79,867,525</u>	<u>121,897,869</u>

- i. Net future income tax liability of \$1,750,000 recorded on renunciation of flow through expenditures.
- ii. Net future income tax liability of \$5,600,000 recorded on renunciation of flow through expenditures.
- iii. Subsequent to June 30, 2007 the company filed renouncement documents with the tax authorities. Accordingly during the third quarter the Company will record a future tax liability and a reduction to capital stock in the amount of \$17,499,614.

NOTES TO THE FINANCIAL STATEMENTS (contd)

7. CAPITAL STOCK (contd)

In January 2007, the Company raised gross proceeds of approximately \$30 million through the completion of a public equity offering (the "Equity Offering") of 10,909,100 units at a price of \$2.75 per unit. Each unit was comprised of one Common Share and one-half of one Common Share purchase warrant, with each whole warrant ("Warrant") entitling the holder thereof to purchase one additional Common Share at a price of \$5.50 for a period of 5 years commencing from January 31, 2007, subject to adjustment in certain events.

In March 2007, a strategic investor exercised its right to participate in the Equity Offering and to subscribe on a private placement basis for an aggregate of 1,054,875 units at a price of \$2.75 per unit, for total gross proceeds to the Company of approximately \$2.9 million. Each unit consisted of one Common Share of the Company and one-half of one Warrant. Each whole Warrant entitled the holder to purchase one additional Common Share at a price of \$5.50 per Common Share until January 31, 2012, subject to adjustment in certain events.

The fair value attributed to the warrants issued in January and March was \$3,023,371 using the following assumptions under the Black-Scholes model:

Expected volatility - 60%
Risk-free interest rate - 4%
Term - 3 years
Exercise price - \$5.50

In June 2007, a flow-through private placement was completed for an aggregate of 15,973,505 shares at a price of \$3.10 per share, for total gross proceeds to the Company of approximately \$49.5 million.

Contributed Surplus

Balance, December 31, 2005	\$ 2,475,987
Fair Value of options granted	<u>2,173,536</u>
Balance, December 31, 2006	4,649,523
Fair Value of options granted	<u>1,328,165</u>
Balance, June 30, 2007	<u>\$ 5,977,688</u>

8. 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. The options granted to date have a five year term. Compensation expense and contributed surplus will be recognized over the options vesting period which is 25% on the grant date and the remaining 75% being recognized equally over the remaining vesting period which is 18 months.

NOTES TO THE FINANCIAL STATEMENTS (contd)

8. STOCK-BASED COMPENSATION (contd)

A summary of the status of the Company's stock option plan as at June 30, 2007 and changes during the year ended December 31, 2006 are presented in the following table:

	2007		2006	
	Number	Weighted Average	Number	Weighted Average
Outstanding, beginning	4,223,000	1.93	2,161,000	1.46
Granted	730,000	2.57	2,062,000	2.43
Exercised	-	-	-	-
Cancelled	-	-	-	-
Outstanding, ending	<u>4,953,000</u>	<u>2.03</u>	<u>4,223,000</u>	<u>1.93</u>

As at June 30, 2007 stock options available for exercise is 3,602,250 at a weighted average price of \$1.87 and the aggregate fair value of unvested stock options granted is \$2,286,290.

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
January 3, 2006	5.00%	81%
January 27, 2006	5.00%	77%
July 10, 2006	6.00%	70%
December 15, 2006	6.00%	82%
February 6, 2007	5.00%	81%
April 11, 2007	5.00%	79%
May 31, 2007	5.00%	79%

No dividend yield is assumed and the 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, 2007 was \$1,328,165 (2006 - \$1,093,005).

NOTES TO THE FINANCIAL STATEMENTS (contd)

9. INCOME TAXES

The Company's income tax provision (recovery) has been calculated as follows:

	June 30	June 30
	2007	2006
	<u> </u>	<u> </u>
Net loss for the period	(23,923,561)	(8,232,251)
Income tax recovery (provision) at Canadian federal and provincial statutory rates	(8,454,215)	(2,881,160)
Flow through share issuances	4,333,899	398,626
Permanent differences	469,353	382,534
Recovery of income taxes	<u>(3,650,963)</u>	<u>(2,100,000)</u>

The components of the recovery of income taxes comprise:

Future income tax recovery	<u>(3,650,963)</u>	<u>(2,100,000)</u>
Net income tax recovery	<u>(3,650,963)</u>	<u>(2,100,000)</u>

The components of the Company's future income tax assets and liabilities are summarized as follows:

	June 30	December 31
	2007	2006
	<u> </u>	<u> </u>
Future Income Tax Assets		
Exploration & Development	5,779,000	2,614,000
Non-capital losses carried forward	1,405,000	907,000
Other temporary differences	304,000	380,000
Net future income tax asset	<u>7,488,000</u>	<u>3,901,000</u>
Valuation Allowance	(7,488,000)	(3,901,000)
Net future income tax asset recorded	<u>-</u>	<u>-</u>
Future Income Tax Liabilities		
Flow through share issuance	-	(3,650,963)
Net future income tax liability	<u>-</u>	<u>(3,650,963)</u>

NOTES TO THE FINANCIAL STATEMENTS (contd)

9. INCOME TAXES (contd)

The Company has recorded a valuation allowance in respect of tax losses and other attributes valued at \$7,488,000 (December 31, 2006 - \$3,901,000) because management believes that the realization of the future income tax assets are not likely at this time.

10. RELATED PARTY TRANSACTIONS

During the period ended June 30, 2007 a related party controlled by a director and a shareholder paid \$36,000 (2006 - \$36,000) in lease and operating costs to the Company.

11. NET 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. The weighted average number of common shares outstanding for the three and six month periods ended June 30, 2007 amounted to 68,282,346 (2006 - 44,111,865) and 63,736,513 (2006 - 44,111,865), respectively.

12. CONTINGENCIES AND COMMITMENTS

Under the terms of existing lease agreements for office space, the Company is committed to annual lease payments of approximately \$92,500 plus operating costs. During the first quarter of 2007 the company paid approximately \$60,000 (2006 - \$60,000) in lease and operating costs. The lease agreement has an initial five year term and includes a one time right to renew the lease. As at June 30, 2007, there is three years and two months remaining on the initial term of the lease.

The Company signed a letter of intent in July 2006 with a construction company which is engaged to upgrade the Mary River road. The Company is committed to pay \$1,820,500 over the nine month period ending March 31, 2008 and \$1,906,476 over the five month period ending August 31, 2008.

The Company has entered into an agreement with a contractor to mine a bulk sample. If the Company does not proceed with mining the bulk sample, the Company will be required to purchase trucks ordered by the mining contractor with an aggregate value of approximately \$2,700,000. The truck manufacturer has agreed to, on a best efforts basis, assist in the sale of any trucks the Company does not want to purchase. An initial \$300,000 deposit was provided to the mining contractor who has ordered the long-lead time equipment. The deposit will be deducted from the first mining invoice received.

The Company has signed a fuel drum storage agreement with the Government of Nunavut ("GON") that allows the Company to store fuel in an approved storage facility. As a result the Company was required to provide a \$500,000 irrevocable letter of credit to the GON which provides insurance against an event of a release or spill from the fuel being stored (see note 3).