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**CERTIFICATE OF STATUS
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FINANCIAL INFORMATION
BAFFINLAND ANNUAL REPORTS**

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Companies and Personal Property Security Branch
Direction des compagnies et des sûretés mobilières

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CERTIFICATE OF STATUS ATTESTATION DU STATUT JURIDIQUE

This is to certify that according to the records of the Companies and Personal Property Security Branch

D'après les dossiers de la Direction des compagnies et des sûretés mobilières, nous attestons que la société

BAFFINLAND IRON MINES CORPORATION

Ontario Corporation Number

Numéro matricule de la société (Ontario)

000658456

is a corporation incorporated, amalgamated or continued under the laws of the Province of Ontario.

est une société constituée, prorogée ou née d'une fusion aux termes des lois de la Province de l'Ontario.

The corporation came into existence on

La société a été fondée le

MARCH 10 MARS, 1986

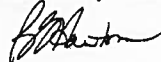
and has not been dissolved.

et n'est pas dissoute.

Dated

Fait le

OCTOBER 25 OCTOBRE, 2006



Director
Directrice

The issuance of this certificate in electronic form is authorized by the Director of Companies and Personal Property Security Branch.
La délivrance du présent certificat sous forme électronique est autorisée par la Directrice de la Direction des compagnies et des sûretés mobilières.

OFFICERS' REGISTER

as at Nov. 24, 2011

Date	Name	Calling	Residential Address	Retired	Remarks
16-Jun-2005	Michael T. Zurowski	Executive Vice President	34 Suffolk Ave. Aurora, Ontario L4G 7W6		
15-Nov-2011	Stephanie Anderson	Chief Financial Officer	445 MacDonald Rd Oakville ON L6J 2B7		
1-Mar-2010	Richard Matthews (Dick)	Vice President, Technical Services	287 Royal Oak Road Oakville, Ontario L6J 5S6		
1-Mar-2010	Gregory Missal	Vice President, Corporate Affairs	239 Colchester Drive Oakville, Ontario L6J 5S6		
27-Jan-2011	Ronald Hampton	Vice-President and Project Director	Berkeley Square House, 5th Floor Berkeley Square London W1J 6DA, UK		
25-May-2011	Thomas F. Paddon (Tom)	President Chief Executive Officer	628 Fleet Street #3102 Toronto, Ontario M5V 1A8		
9-Jun-2011	Erik Madsen	Vice President, SD, HS&E	21 Grand Magazine #1403 Toronto, Ontario M5H 1B5		
4-Jul-2011	Michael Anderson	Vice President, Operations	3300 Springflower Way Oakville, Ontario L6L 6T9		

BAFFINLAND IRON MINES CORPORATION
A Development Stage Entity

Financial Statements
For the years ended December 31, 2010 and 2009

BAFFINLAND IRON MINES CORPORATION

(Development Stage Entity)

BALANCE SHEETS

	As At December 31 2010	As At December 31 2009
ASSETS		
Current		
Cash and cash equivalents (Note 4)	\$ 22,341,183	\$ 45,479,118
Accounts receivable	1,107,272	301,290
Inventory (Note 6)	2,836,000	2,956,000
Prepaid expenses	789,352	264,977
	<u>27,073,807</u>	<u>49,001,385</u>
Restricted cash (Note 5)	22,599,545	16,500,000
Inventory (Note 6)	1,557,126	6,228,315
Mining interests (Note 7)	172,032,629	163,373,343
Long term investments (Note 8)	12,888,706	11,519,196
Property, plant & equipment (Note 9)	8,658,411	11,509,891
	<u>\$ 244,810,224</u>	<u>\$ 258,132,130</u>
LIABILITIES		
Current		
Accounts payable	\$ 5,165,201	\$ 1,672,307
Asset retirement obligation (Note 10)	1,129,437	1,036,360
	<u>6,294,638</u>	<u>2,708,667</u>
SHAREHOLDERS' EQUITY AND DEFICIT		
Common shares (Note 11)	401,388,521	383,480,852
Warrants (Note 11)	6,178,255	12,093,390
Contributed surplus (Notes 11 and 12)	14,332,546	13,354,094
Deficit	(183,383,736)	(153,504,873)
	<u>238,515,586</u>	<u>255,423,463</u>
	<u>\$ 244,810,224</u>	<u>\$ 258,132,130</u>

Contingencies and commitments (Note 17)

Subsequent events (Note 18)

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

	For the years ended December 31,		Cumulative from January 1,
	2010	2009	2003
Interest and other income	\$346,965	\$439,844	\$5,846,377
Expenses			
Exploration	24,442,068	827,377	200,356,069
Amortization and accretion	2,970,945	69,135	4,136,693
Loss on writedown of inventory (Note 6)	926,241	2,227,510	3,153,751
Salaries	3,819,021	2,935,783	13,168,006
Share-based compensation (Note 11 and 12)	1,111,040	2,164,419	13,821,087
Office and general	1,578,309	646,924	6,081,554
Professional fees	3,147,333	692,504	6,831,779
Shareholder relations	215,647	200,510	1,440,420
Travel	291,633	190,292	1,415,056
Unrealized gain on revaluation of long term investments (Note 8)	(1,369,510)	(2,407,724)	(3,777,234)
Impairment of long term investments	-	-	10,310,563
Gain on note exchange and note sale (Note 8)	-	(1,829,991)	(1,829,991)
Gain on extinguishment of convertible debt	-	(191,986)	(191,986)
	<u>37,132,728</u>	<u>5,524,753</u>	<u>254,915,768</u>
Net loss for the year before taxes	(36,785,763)	(5,084,909)	(249,069,391)
Future income tax recovery (Note 14)	<u>6,906,900</u>	<u>4,175,900</u>	<u>69,040,076</u>
Net loss & comprehensive loss for the year	(29,878,863)	(909,009)	(180,029,315)
Deficit, beginning of the year	<u>(153,504,873)</u>	<u>(152,595,864)</u>	
Deficit, end of the year	<u>(\$183,383,736)</u>	<u>(\$153,504,873)</u>	
Net loss per share (Note 16)	<u>(\$0.09)</u>	<u>(\$0.00)</u>	

The accompanying notes are an integral part of the financial statements

BAFFINLAND IRON MINES CORPORATION
(Development Stage Entity)
STATEMENTS OF CASH FLOWS

	For the years ended December 31,		Cumulative from January 1,
	2010	2009	2003
Operating activities			
Loss for the year	(\$29,878,863)	(\$909,009)	(\$180,029,315)
Items not affecting cash:			
Amortization and accretion expense	2,970,945	69,135	4,136,693
Loss on write-down of inventory (Note 6)	926,241	2,227,510	3,153,751
Share-based compensation (Note 12)	1,111,040	2,164,419	13,821,088
Future income tax recovery	(6,906,900)	(4,175,900)	(69,040,076)
Unrealized gain on revaluation of long term investments (Note 8)	(1,369,510)	(2,407,724)	(3,777,234)
Impairment of long term investments	-	-	10,310,563
Gain on note exchange and note sale (Note 8)	-	(1,829,991)	(1,829,991)
Gain on extinguishment of convertible debt	-	(191,986)	(191,986)
Other non cash items	-	-	(275,542)
(Increase) decrease in accounts receivable	(805,982)	1,472,522	(1,647,636)
(Increase) decrease in inventory	120,000	(832,000)	(13,614,760)
(Increase) decrease in prepaid expenses	(524,375)	62,558	(789,352)
Increase (decrease) in accounts payable	1,622,567	(7,885,947)	2,323,191
	<u>(32,734,837)</u>	<u>(12,236,413)</u>	<u>(237,450,606)</u>
Investing activities			
Change in restricted cash	(6,099,545)	(10,296,700)	(22,599,545)
Purchase of property, plant & equipment	(26,388)	(1,892)	(17,217,712)
Capitalized mine development costs included in accounts payable	1,870,328	971,680	(4,664,733)
Capitalized mine development costs	(8,659,286)	(19,038,457)	(158,194,212)
Decrease in non-current inventory	3,744,948	2,956,686	6,701,634
Cash received on note exchange and sale (Note 8)	-	2,510,445	2,510,445
Increase in long term investments	-	-	(20,102,488)
	<u>(9,169,943)</u>	<u>(22,898,238)</u>	<u>(213,566,611)</u>
Financing activities			
Net cash proceeds from draw on convertible debt	-	10,079,700	10,079,700
Repayment of convertible debt	-	(10,324,691)	(10,324,691)
Increase in bank debt	-	-	16,600,000
Repayment of bank debt	-	-	(16,600,000)
Decrease in due to related parties	-	-	(132,421)
Net proceeds on conversion of subscription receipts	-	4,213,547	4,213,547
Net proceeds on issue of common shares and warrants	18,766,845	42,110,328	469,522,265
	<u>18,766,845</u>	<u>46,078,884</u>	<u>473,358,400</u>
Increase (decrease) in cash and cash equivalents	<u>(23,137,935)</u>	<u>10,944,233</u>	<u>22,341,183</u>
Cash position at beginning of the year	<u>45,479,118</u>	<u>34,534,885</u>	<u>-</u>
Cash position at end of the year	<u>\$22,341,183</u>	<u>\$45,479,118</u>	<u>\$22,341,183</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 YEAR ENDED DECEMBER 31, 2010

1. NATURE OF OPERATIONS

Baffinland Iron Mines Corporation (the "Company" or "Baffinland") 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 its Mary River Property on Baffin Island, Nunavut, Canada ("Mary River Property").

These financial statements have been prepared in accordance with 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 for the foreseeable future. As the Company is in the development stage, it 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, continuing losses, and the ability to secure adequate financing to meet the minimum capital required to successfully complete the project and continue as a going concern.

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

Change of Control

On January 26, 2011, the Company underwent a change of control when ArcelorMittal and Nunavut Iron Ore Acquisition Inc. (together the "Acquirers") acquired 60% of the common shares of Baffinland. The Acquirers subsequently achieved 100% ownership with 70% owned by ArcelorMittal and 30% owned by Iron Ore Holdings, LP, a subsidiary of Nunavut Iron Ore Acquisition Inc. following a court approved Plan of Arrangement pursuant to which the Acquirers acquired all outstanding common shares and warrants of Baffinland not already owned. The Plan of Arrangement was approved by shareholders of Baffinland on March 22, 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of financial presentation

The financial statements of the Company, which are expressed in Canadian dollars, have been prepared in accordance with Canadian GAAP.

b) Cash and cash equivalents

Cash and cash equivalents are highly liquid investments, such as term deposits with Canadian chartered banks or government treasury bills, cashable after 30 days at the date of original issue.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

c) Flow-through common shares

The Company has financed a portion of its exploration activities through the issuance of flow-through common shares. Under the terms of the flow-through common share agreements, the tax attributes of the related expenditures are renounced to subscribers. To recognize the foregone tax benefits to the Company, the carrying value of the shares issued is reduced by the tax effect of the tax benefits renounced to subscribers. The Company recognizes the foregone tax benefit at the time of the renouncement, provided there is reasonable assurance that the expenditures will be incurred.

d) Mining interests and exploration expenditures

Exploration expenditures that are incurred to explore Deposit Nos. 2, 3, 4, 5, 6, 7, 8 or 9 are expensed as incurred. Development expenditures incurred (including interest on borrowings, if applicable) to advance Deposit No. 1 have been capitalized since April 2008 when mineral reserves were established on Deposit No. 1 (the "Project").

Upon commencement of commercial production, 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. Revenue earned in the pre-development phase is treated as a reduction to mine development costs. If the mining interests are abandoned or if management determines that the value of the mining interests is impaired, the costs will be reduced to fair value through a charge to the income statement.

e) Property, plant & equipment

Property, plant & equipment are carried at cost, less accumulated amortization. Amortization of property, plant & equipment is calculated on the following basis:

Exploration equipment	5 years straight line
Furniture & fixtures	5 years straight line
Leasehold improvements	5 years straight line
Computer equipment	30% declining balance

f) Use of estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, 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.

Accounts which require management to make material estimates in determining amounts recorded include inventory, mining interests, long term investments, property, plant & equipment, amortization, asset retirement obligations, convertible debt, future income taxes and share-based compensation.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

g) Income taxes

The Company accounts for income taxes in accordance with the liability method. Under the liability method, future income tax assets and liabilities are recognized for differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of substantive enactment. A future income tax asset is recognized only when it is more likely than not that the income tax asset will be realized.

h) Accounting for share-based compensation

Share-based compensation is recognized in equal instalments over the vesting period of the options issued. The fair value of share-based compensation is determined at the grant date using an option pricing model that takes into account the exercise price, the expected life of the options, the share price at time of grant, the expected volatility of the underlying shares, the expected dividend yield and the risk free rate for the expected life of the option.

i) Fair value of financial instruments

The carrying value of cash and cash equivalents, accounts receivable, restricted cash, accounts payable and subscription receipts receivable approximate their fair values due to their immediate or short term nature. The fair value of long-term investments is considered in Note 8.

j) Impairment of mining interests

The Company reviews mining interests for impairment when events or circumstances indicate that the assets' carrying amount may not be recoverable. When management determines that impairment exists, the impairment loss will be measured by comparing the assets' carrying amount to its fair value.

k) Asset retirement obligations

The accounting for asset retirement obligations encompasses the accounting for legal obligations associated with the retirement of a long-lived tangible asset that results from the acquisition, construction, development and/or normal operation of a long-lived asset. The retirement of a long-lived asset is its other than temporary removal from service, including its sale, abandonment, recycling or disposal in some other manner. The Company estimates the cost associated with these activities in its Abandonment and Reclamation plan ("A&R Plan") which is reviewed and updated annually.

The fair value of a liability for an asset retirement obligation is recorded in the period in which it is incurred. When the liability is initially recorded, the cost is capitalized by increasing the cost of the related long-lived asset. The capitalized cost is amortized on a unit of production basis. Changes in the liability for an asset retirement obligation resulting from the passage of time and/or revisions to either the timing or the amount of the original estimate of undiscounted cash flows are recognized in the period of change. Over time, the liability is increased to reflect an interest element (accretion expense) considered in the initial measurement of fair value. Upon settlement of the liability, a gain or loss is recorded if the actual costs incurred are different from the liability recorded.

It is possible that the Company's estimates of its asset retirement obligations could change as a result of changes in regulations, the extent of environmental remediation required and the means of reclamation or cost estimates. These estimates are also based on expected remediation requirements relating to the Mary River Property and will change as the Company proceeds with the development of the Mary River Property. Changes in estimates are accounted for prospectively from the period in which these estimates are revised.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

l) Financial instruments

All financial instruments have been classified into one of the following five categories: held-for-trading assets or liabilities, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Where quoted market values are not available for held-for trading investments, they are valued using a discounted cash flow technique that uses maximum inputs observed from market conditions to arrive at fair market value. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in accumulated other comprehensive income until the instruments are derecognized or impaired. Loans and receivables, investments held-to-maturity and other financial liabilities are measured at amortized cost using the effective interest method.

The Company made the following classifications:

Cash and cash equivalents	Held for trading
Accounts receivable	Loans and receivables
Restricted cash	Held for trading
Subscription receipts receivable	Loans and receivables
Long term investments	Held for trading
Accounts payable	Other financial liabilities

During 2009, Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862, Financial Instruments - Disclosures ("Section 3862"), was amended to require disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

The Company's long term investment is considered to be a level 3 under Section 3862. See Note 8.

m) Convertible debt

The Company classifies the proceeds received from convertible debt into their liability and equity components using a fair value approach. The carrying amount of the liability component is accreted over the life of the instrument using the effective interest rate method. On conversion into shares, the carrying amount of the equity component and the carrying amount of the liability component are transferred to share capital. In the event that the instrument is settled in cash, this is treated as the extinguishment of the instrument; a gain or loss on extinguishment of the liability component, if applicable, is recognized in the income statement, the gain or loss on the equity component, if applicable, is recognized in contributed surplus. Transaction costs are netted against the carrying value of the instrument to which they relate.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

n) Future accounting changes

Section 1582

The new Section 1582 - Business Combinations, which replaces Section 1581 - Business Combinations, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. The new standard applies to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The Company does not expect the adoption of this new standard to have an impact on its financial statements.

Section 1601 & 1602

The new Sections 1601 - Consolidated Financial Statements and Section 1602 - Non-Controlling Interests, together replace Section 1600 - Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes the accounting for a non-controlling interest in a subsidiary, in the consolidated financial statements, subsequent to a business combination. These standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. At this time, the Company does not expect the adoption of these new standards to have an impact on its financial statements.

3. CAPITAL MANAGEMENT

As at December 31, 2010, Baffinland's capital structure consists of its shareholders' equity. During the year ended December 31, 2010, there was no change to the capital structure. The Company is a development stage entity and, therefore, its objective when managing the capital structure is to fund the continuing exploration and development of its wholly owned Mary River Property. The Company maintains its capital structure by raising funds externally as the need arises.

In order to carry out planned exploration and development and to pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. There are no assurances that such financing will be available on terms acceptable to the Company, or at all.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended December 31, 2010 compared to the previous year. The Company is not subject to externally imposed capital requirements.

4. CASH AND CASH EQUIVALENTS

	December 31 2010	December 31 2009
Cash and cash equivalents are comprised of:		
Cash	\$ 11,336,183	\$ 2,279,118
Guaranteed investment certificates	11,005,000	43,200,000
	<u>\$ 22,341,183</u>	<u>\$ 45,479,118</u>

5. RESTRICTED CASH

The Company has provided \$16,500,000 (2009 - \$16,500,000) in cash to support an irrevocable letter of credit which provides financial security for future abandonment and reclamation costs. See Note 18 - Subsequent Events. In addition, the Company has \$6,099,545 (2009 -nil) held in escrow relating to investment advisor fees.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

6. INVENTORY

Inventory consists of fuel and supplies that are recorded at the lower of cost and net realizable value, where cost is determined using the average cost method. Inventory is comprised of:

	December 31 2010	December 31 2009
Current		
Fuel	\$ 2,370,000	\$ 1,091,000
Supplies	466,000	1,865,000
	<u>\$ 2,836,000</u>	<u>\$ 2,956,000</u>
Non-current		
Fuel	\$ 1,004,000	\$ 6,082,900
Supplies	553,126	145,415
	<u>\$ 1,557,126</u>	<u>\$ 6,228,315</u>

During 2010, a write down of \$0.9 million was recorded to adjust the fuel to net realizable value (2009 - \$2.2 million).

7. MINING INTERESTS

The Company holds its 100% interest in the Mary River Property through three mining leases, a surface rights commercial land lease, staked claims and an exploration agreement.

Mining interests is comprised of:

	December 31, 2010
Balance at January 1, 2009	\$ 140,531,497
Asset retirement obligation incurred	399,851
Development costs capitalized	22,441,995
Balance at December 31, 2009	<u>163,373,343</u>
Asset retirement obligation incurred	-
Development costs capitalized	8,659,286
Balance at December 31, 2010	<u>\$ 172,032,629</u>

See Note 18 – Subsequent Events with respect to asset retirement obligation asset.

8. LONG TERM INVESTMENTS

The Company owns long term asset backed notes (the “Notes”) that were issued by Master Asset Vehicle II (“MAV 2”) as a result of the restructuring of the Company’s previous investment in third party Asset Backed Commercial Paper (“ABCP”). The Notes have a face value of \$17,742,030 and a fair value of \$12,888,706 as at December 31, 2010 (December 31, 2009 – face value of \$17,750,092 and fair value of \$11,519,196). On January 21, 2009, the Company received the Notes which replaced the ABCP. As part of the exchange, the Company received two payments totalling \$941,301 that represented the Company’s share of cash that accumulated to the assets during the restructuring period. The payments were recorded as a gain on note exchange during the year ended December 31, 2009.

The secondary market for the Notes continues to develop, however, it is not yet an “active market” given the limited bid activity and small number of disclosed transactions since the note exchange occurred. Until an active market develops for the Notes, the fair value will be determined using a discounted cash flow approach based on the use of inputs observed from market conditions. The fair values may change materially in subsequent periods.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

8. LONG TERM INVESTMENTS (cont'd)

During the fourth quarter of 2009, the Company sold its entire holdings of the Class 15 notes for proceeds of \$1,569,144 which resulted in a gain on sale of \$888,690.

The remaining portfolio consists of four types of Notes, which are supported by a pool of leveraged super senior credit default swaps, unlevered collateralized debt obligations as well as traditional assets and cash. The leveraged assets supporting these notes have access a credit facility that can be drawn upon in the event that a margin call is triggered and more unlevered collateral must be posted.

Using publicly available information the Company has been able to determine the key characteristics of each class of the Notes: par value, credit rating, interest rate and projected interest payments, and maturity date. The Company then estimates the return that a prospective investor would require for each class of Notes ("Required Yield"). Lastly, it calculates the net present value of the cash flows for each class of the Notes using the Required Yield as the discount factor.

During the year ended December 31, 2010, the Company has seen continued improvement in general corporate credit market conditions which has had the most impact on the valuation. This decrease in credit risk impacts the intrinsic value of the Notes due to a general lowering of default risk, relative to the previous valuations. There is also a decrease in the likelihood that credit risk limits built into the Notes will be exceeded (specifically, the spread-based margin triggers). Accordingly, the Required Yield on the Notes has been somewhat reduced to reflect easing in the credit markets. Accretion of the Notes to par value at maturity, assuming they do not default, also resulted in an increase to the value at December 31, 2010.

Noteholders are to receive floating interest mostly based on prevailing banker's acceptance rates based on the variable interest income on the pool of assets, however, the payments to noteholders are subordinated to the margin funding facility fee. As a result, interest payments to the Company are not expected to be received on the Notes until there is an increase in the prevailing interest rates. This anticipated near-term lack of income on the Notes has been factored in the valuation. The Company will record interest received on a cash basis until such time that the payment of interest becomes likely.

Based on the foregoing, as at December 31, 2010 the Company has estimated the fair market value of the Notes to be between \$12.2 million and \$13.8 million and as a result for the year ended December 31, 2010, the Company has recorded an unrealized gain on revaluation of the Notes in the amount of \$1,369,510 (2009 - \$2,407,724) to arrive at a carrying value of \$12,888,706 (2009 - \$11,519,196).

Notes	Face Value (\$)	Maturity Date (i)	Effective Coupon ⁽ⁱⁱ⁾	Required Yield ⁽ⁱⁱⁱ⁾	Fair Value December 31, 2010	Fair Value December 31, 2009
MAV2 Notes						
A-1	13,265,684	17/7/2017	2.23%	6.4%	\$10,541,910	\$9,571,012
A-2	3,337,040	17/7/2017	2.23%	10.0%	\$2,175,522	\$1,838,803
B	605,766	17/7/2017	0.00%	22.1%	\$165,939	\$104,046
C	533,540	17/7/2017	0.00%	27.0%	\$5,335	\$5,335
Total	17,742,030				\$12,888,706	\$11,519,196

(i) The actual MAV2 Notes have legal maturity dates of 2056, but for valuation purposes a maturity date of 2017 is reflective of the maturities of the underlying assets.

(ii) Estimated by converting the floating rate interest to a fixed rate by employing an interest rate swap.

(iii) Estimated fixed yield to maturity required by prospective investors.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

8. LONG TERM INVESTMENTS (cont'd)

The movement in the balance in the year ended December 31, 2010 is noted:

Balance at December 31, 2008 / January 21, 2009	\$9,791,925
Unrealized gain on revaluation	2,407,724
Sale of Class 15 Note	(680,453)
Balance at December 31, 2009	\$11,519,196
Unrealized gain on revaluation	1,369,510
Balance at December 31, 2010	<u>\$12,888,706</u>

The fair value of the Notes may increase or decrease materially in subsequent periods.

9. PROPERTY, PLANT & EQUIPMENT

Property, plant & equipment is comprised of:

	December 31, 2010			December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Infrastructure and equipment	\$ 13,953,347	\$ 8,031,054	\$ 5,922,293	\$ 13,935,974	\$ 5,252,964	\$ 8,683,010
Furniture & fixtures	98,245	76,312	21,933	98,245	63,302	34,943
Leasehold improvements	139,410	115,788	23,622	139,410	91,940	47,470
Computer equipment	324,271	151,110	173,161	324,271	88,190	236,081
Infrastructure and equipment not in use	2,517,402	-	2,517,402	2,508,387	-	2,508,387
	<u>\$ 17,032,675</u>	<u>\$ 8,374,264</u>	<u>\$ 8,658,411</u>	<u>\$ 17,006,287</u>	<u>\$ 5,496,396</u>	<u>\$ 11,509,891</u>

Infrastructure and equipment not in use is not amortized. For the year ended December 31, 2010 there was no amortization and accretion expense capitalized given that exploration during 2010 was conducted on Deposit Nos. 5, 4, & 3. In the prior year, amortization and accretion expense in the amount of \$2,796,540, related to development activities of Deposit No. 1, was capitalized to mining interests.

10. ASSET RETIREMENT OBLIGATION

The Company's asset retirement obligation relates to the Mary River Property and is as follows:

	December 31, 2010
Balance at January 1, 2009	\$ 554,552
Asset retirement obligation incurred	399,851
Accretion	81,957
Balance at December 31, 2009	<u>1,036,360</u>
Asset retirement obligation incurred	-
Accretion	93,077
Balance at December 31, 2010	<u>\$ 1,129,437</u>

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

10. ASSET RETIREMENT OBLIGATION (cont'd)

During the first quarter of 2010, the Company reviewed its Abandonment and Reclamation Plan. As at December 31, 2010, the total undiscounted closure costs, exclusive of salvage values, remain at approximately \$12.0 million (2009 - \$12.0 million). A substantial portion of these obligations is not expected to be paid until 2042 which is the estimated time at which the current iron ore reserves and resources are expected to be depleted. See Note 18 – Subsequent Events.

11. COMMON SHARES AND WARRANTS

Authorized: Unlimited common shares

Issued:

	Number of shares	Amount \$
December 31, 2008	233,129,899	349,643,327
Net future income tax liability recorded on renunciation of flow through expenditures	-	(4,175,900)
Conversion of Subscription Receipts April, 2009	22,176,564	4,213,547
Exercise of share purchase options	255,227	121,538
Interest and fee payments paid in shares for convertible debt	1,476,840	689,657
Share financing - flow through private placement December, 2009	41,860,000	17,497,480
Share financing - public offering December, 2009	43,885,669	15,491,203
December 31, 2009	342,784,199	383,480,852
Net future income tax liability recorded on renunciation of flow through expenditures	-	(6,906,900)
Exercise of share purchase options	283,750	216,462
Share financing expense - offering December 2009	-	(142,789)
Exercise of warrants	26,886,979	24,740,896
December 31, 2010	369,954,928	401,388,521

During 2010 the Company received \$18.8 million on the exercise of 26,886,979 warrants with a \$0.70 exercise price.

On December 10, 2009, the Company closed the 2009 Equity Offerings. The first offering was a public offering under which a total of 23,959,100 common shares and 11,979,550 common share purchase warrants were issued. Each common share unit was sold for a price of \$0.48 and was comprised of one common share and one half common share purchase warrant. Total gross proceeds on the public offering were \$11.5 million.

The second of the 2009 Equity Offerings was a private placement under which a total of 41,860,000 common shares and 20,930,000 common share purchase warrants were issued. Each common share unit was sold for a price of \$0.55 and was comprised of one common share and one half common share purchase warrant. Each common share was issued as a "flow-through share" under the Income Tax Act (Canada). Total gross proceeds from the private placement were \$23.0 million. During the first quarter of 2010, the Company renounced the flow-through expenditures and recorded the associated future tax income liability in respect of the \$23.0 million of proceeds from the sale of flow-through shares in the December 2009 Equity Offerings.

On December 10, 2009 as part of the 2009 Equity Offerings, Resource Capital Funds ("RCF") exercised in full its pre-existing participation rights to participate in the 2009 Equity Offerings, pursuant to which RCF purchased an aggregate of 19,926,569 common shares and 9,963,285 common share purchase warrants. Each common share unit was sold for a price of \$0.48 and was comprised of one common share and one half common share purchase warrant. Total gross proceeds from the exercise of the participation rights were \$9.6 million.

Each common share purchase warrant issued as part of the 2009 Equity Offerings entitles the holder to acquire one common share for a price of \$0.70 until December 9, 2012.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

11. COMMON SHARES AND WARRANTS (cont'd)

On December 10, 2009, the Company also repaid the Environmental Bonding Facility and issued 669,713 common shares valued at \$327,088 to RCF for the final interest and commitment fee payment for the facility.

On September 30, 2009, the Company issued 807,127 common shares valued at \$362,490 to RCF in satisfaction of the establishment fee, quarterly commitment fee and quarterly interest related to the August 31, 2009 draw of funds of \$10.37 million (US\$9.5 million) under the Environmental Bonding Facility.

There are a total of 21,967,844 warrants outstanding as at December 31, 2010:

	Number of warrants	Amount \$
December 31, 2007		
Warrant issue - 2007	5,981,988	3,023,371
December 31, 2008	5,981,988	3,023,371
Warrant issue - 2009	42,872,835	9,070,019
December 31, 2009	48,854,823	12,093,390
Warrant exercised	(26,886,979)	(5,915,135)
December 31, 2010	21,967,844	6,178,255

During the year ended December 31, 2010, 26,886,979 warrants with an exercise price of \$0.70 were exercised.

The total fair value attributed to the warrants outstanding is \$6,178,255 using the following assumptions under the Black-Scholes model:

Date issued	Exercise Price	Expiry Date	Risk-free Interest rate	Expected Stock Volatility	Number outstanding
January 24, 2007	\$5.50	January 31, 2012	4%	60%	5,454,550
March 26, 2007	\$5.50	January 31, 2012	4%	60%	527,438
December 10, 2009	\$0.70	December 10, 2012	0.5%	85%	15,985,856
Total warrants outstanding					21,967,844

See Note 18 – Subsequent Events with respect to warrants outstanding.

Contributed surplus

Balance, December 31, 2007	\$ 6,913,803
Share-based compensation	4,932,408
Exercise of share purchase options	(10,875)
Balance, December 31, 2008	\$ 11,835,336
Share-based compensation	2,206,961
Net loss on extinguishment of equity portion of convertible debt	(618,790)
Exercise of share purchase options	(69,413)
Balance, December 31, 2009	13,354,094
Share-based compensation	1,111,040
Exercise of share purchase options	(132,588)
Balance, December 31, 2010	\$ 14,332,546

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

12. SHARE-BASED COMPENSATION

The Company has a share option plan, pursuant to which, the Company may grant up to 10% of its outstanding common shares to directors, officers, employees, or consultants. Options vest over an 18 month period with 25% vesting on the grant and further 25% vesting on each six month anniversary of the grant. The options granted to date have a five year term. Share-based 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.

A summary of the status of the Company's share option plan is presented in the following table:

	December 31, 2010		December 31, 2009	
	Number	Weighted Average	Number	Weighted Average
Outstanding, beginning	10,229,000	\$ 1.66	7,382,000	\$ 2.59
Granted in the year	3,029,000	0.57	5,697,000	0.32
Exercised in the year	(283,750)	0.31	(332,500)	0.28
Forfeited in the year	(1,323,750)	2.52	(1,167,500)	1.98
Expired in the year	(736,000)	2.03	(1,350,000)	1.14
Outstanding, ending	10,914,500	\$ 1.26	10,229,000	\$ 1.66

During the year ended December 31, 2010, the Company granted 3,029,000 options to purchase common shares, with a five year term at an average exercise price of \$0.57 per common share. For the year ended December 31, 2010 fair value of \$1,054,575 was estimated for the share options using the Black Scholes fair value option-pricing model.

As at December 31, 2010 the number of options available for exercise was 9,348,750 at a weighted average price of \$1.38 and the aggregate value of unvested options granted is \$391,016.

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

Date options granted	Expected life	Risk-free interest rate	Expected Stock Volatility
January 7, 2008	5 years	5.0%	75%
March 31, 2008	5 years	5.0%	74%
September 22, 2008	5 years	3.0%	72%
January 6, 2009	4 years	1.6%	85%
March 24, 2009	4 years	1.9%	88%
June 9, 2009	4 years	1.4%	89%
October 27, 2009	4 years	0.5%	85%
December 15, 2009	4 years	0.5%	85%
February 23, 2010	4 years	2.2%	85%
April 30, 2010	4 years	2.7%	80%

No dividend yield is assumed.

Option pricing models require the use of subjective estimates and assumptions including the expected share price volatility. Changes to these estimates and assumptions may materially affect the calculations. Share-based compensation calculations have no effect on the Company's cash position.

Using the fair value method, total share-based compensation for share options issued and outstanding for the year ended December 31, 2010 was \$1,111,040 (2009 - \$2,206,961). No share-based compensation was capitalized to mining interests in 2010 (2009 - \$42,542).

See Note 18 - Subsequent Events with respect to share options outstanding.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

13. FINANCIAL RISK FACTORS

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of loss associated with counterparty's or the Company's inability to fulfil its payment obligations. The Company's credit risk is primarily attributable to its long term investment in asset-backed notes (see Note 8) and its accounts receivable. When valuing its financial instruments, the Company is required to take into account the credit quality of both the counterparty and the Company itself as appropriate.

The Company has no significant concentration of credit risk arising from operations. Cash equivalents consist of guaranteed investment certificates, which have been invested with Canadian chartered banks with typical maturities of less than 12 months and fully cashable after 30 days and management believes the risk of loss to be remote. Accounts receivable typically consists of goods and services tax due from the Federal Government of Canada. Management believes that the credit risk with respect to accounts receivable is low.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient funds to meet liabilities when due. As at December 31, 2010, the Company had a cash balance of \$22,341,183 (December 31, 2009 - \$45,479,118) to settle current liabilities of \$5,165,201 (December 31, 2009 - \$1,672,307). Current liabilities consist of accounts payable that are predominantly due within 60 days.

Interest rate risk

The Company's current policy is to invest excess cash in highly rated short-term deposit certificates issued by Canadian chartered banks. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. Management believes the foreign exchange risk derived from currency conversions is not significant and therefore does not hedge its foreign exchange risk.

Price risk

The Company is exposed to price risk with respect to iron ore prices. The price of iron ore recovered significantly from levels reached during the most recent economic downturn which commenced in the third quarter of 2008, while future significant price declines could cause continued exploration and development of the Mary River Property to become uneconomical.

Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a three month period:

- Interest income on cash balances held has been negatively affected by low prevailing interest rates. Cash and cash equivalents include deposits which earn interest at variable interest rates. It is generally expected that interest rates will rise. If interest rates were to rise or fall by 0.50%, net loss would increase or decrease by approximately \$174,000 for the twelve months ended December 31, 2010.
- The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.
- Price risk is remote since the Company is not a producing entity.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

14. INCOME TAXES

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

	For the years ended	
	December 31 2010	December 31 2009
Net loss before taxes for the year	(\$36,785,763)	(\$5,084,909)
Income tax recovery at Canadian federal and provincial statutory rates	(10,778,229)	(1,638,279)
Change in valuation allowance	3,545,794	(2,895,546)
Permanent differences	325,535	357,925
Recovery of income taxes	<u>(6,906,900)</u>	<u>(4,175,900)</u>

The components of the recovery of income taxes comprise:

Future income tax recovery	<u>(6,906,900)</u>	<u>(4,175,900)</u>
Net income tax recovery	<u>(6,906,900)</u>	<u>(4,175,900)</u>

The Company's future income tax assets and liabilities are comprised of:

	December 31 2010	December 31 2009
Future Income Tax Assets		
Exploration & Development	\$ 4,383,000	\$ 3,917,000
Non-capital losses carried forward	7,103,000	4,113,000
Share issue expense	1,723,000	2,710,000
Long-term asset backed notes	<u>957,000</u>	<u>1,114,000</u>
Future income tax asset	14,166,000	11,854,000
Valuation Allowance	<u>(13,820,000)</u>	<u>(10,765,000)</u>
Net future income tax asset	<u>346,000</u>	<u>1,089,000</u>
Future Income Tax Liabilities		
Flow through share issuance	-	-
Property, plant and equipment	<u>(346,000)</u>	<u>(1,089,000)</u>
Future income tax liability	<u>(346,000)</u>	<u>(1,089,000)</u>
Net future income tax asset / liability recorded	<u>-</u>	<u>-</u>

For the year ended December 31, 2010, the Company has recorded a net income tax recovery of \$6,906,900 (2009 - \$4,175,900) and a valuation allowance in respect of tax losses and other attributes valued at \$13,820,000 (December 31, 2009 - \$10,765,000).

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

14. INCOME TAXES (cont'd)

As at December 31, 2010, the Company has available non-capital loss carry-forwards for Canadian federal and provincial tax purposes that will expire as follows:

	2010
2010	-
2014	-
2015	603,153
2026	1,327,080
2027	5,131,811
2028	-
2029	7,922,090
2030	12,760,305

15. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2010 McChip Resources Inc., a related party controlled by a director, officer and a shareholder, paid \$48,000 (2009 - \$72,000) to the Company. The payments were in relation to lease and operating costs. Cost recoveries were included in office and general expense and were in the normal course of business and are measured at the cost amount, which is the consideration established and agreed to between the related parties.

16. NET LOSS PER SHARE

Net loss per share is calculated using the weighted average number of common shares outstanding during the year ended December 31, 2010. No effect has been given to the potential exercise of share options and warrants 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 year ended December 31, 2010 was 344,753,723 (2009 - 255,002,955).

17. CONTINGENCIES AND COMMITMENTS

The office lease has been renewed for a five year period ending October 2015 and the Company is committed to annual lease payments of \$146,100 plus operating costs.

The Company holds a surface rights commercial land lease with the Qikiqtani Inuit Association (the "QIA") covering an estimated surface area of approximately 10,567 hectares on Baffin Island, Nunavut ("Land Lease"). The Company renewed the lease, in substantially the same form and terms as the expiring lease, for a term of 26 months from November 1, 2010 to December 31, 2012, with an annual rent payment of approximately \$600,000 and with a one year renewal option. The terms of the Land Lease provide that the Company must post financial security from time to time for future estimated costs of abandonment and reclamation activities on Inuit owned land. The Company has provided financial security to the QIA in the form of an irrevocable letter of credit. In the third quarter of 2009, the letter of credit was increased by \$10.3 million. The \$16.5 million letter of credit is recorded on the balance sheet as restricted cash. See Note 18 - Subsequent Events.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

18. SUBSEQUENT EVENTS

On January 26, 2011, the Company underwent a change of control when ArcelorMittal and Nunavut Iron Ore Acquisition Inc. acquired 60% of the common shares of Baffinland. The Acquirers subsequently achieved 100% ownership with 70% owned by ArcelorMittal and 30% owned by Iron Ore Holdings, LP, a subsidiary of Nunavut Iron Ore Acquisition Inc. following a court approved Plan of Arrangement pursuant to which the Acquirers acquired all outstanding common shares and warrants of Baffinland not already owned. The Plan of Arrangement was approved by shareholders of Baffinland on March 22, 2011.

As part of the Acquisition, the vesting of all share options outstanding was accelerated and they were all exercised as of January 26, 2011 the change of control date.

On February 28, 2011, the Company posted an additional \$9.7 million as cash backed financial security in respect of the Land Lease for total financial security of \$26.2 million. The Company will be reviewing its asset retirement obligation asset and corresponding liability in due course.