# New Millennium Capital Corp.

# FIRST QUARTER REPORT

# 2010

# MESSAGE TO SHAREHOLDERS

New Millennium Capital Corp. (“NML” or the “Company”) is pleased to report its unaudited financial and operational results for the three month period ended March 31, 2010.

The significant first quarter events were:

- The signing of an agreement with the Sept-Iles Port Authority,
- The completion of a positive Direct Shipping Ore (“DSO”) Feasibility Study, and
- The official notification on March 17, 2010, to Tata Steel Global Minerals Holdings Pte Ltd. (“Tata Steel”) triggering the commencement of Tata Steel’s 180-day option period with respect to the DSO Project.

The significant subsequent events were:

- The filing of the DSO Feasibility Study technical report on SEDAR,
- The appointment of a new Tata Steel director to the NML Board, replacing one who resigned, and
- The signing of a letter of intent with Tata Steel for a proposed $20,000,000 private placement.

# MANAGEMENT’S DISCUSSION AND ANALYSIS

*The following discussion and analysis of the financial results for the interim period ended March 31, 2010 should be read in conjunction with the Company’s unaudited interim consolidated financial statements and related notes contained in this report and the audited consolidated financial statements and MD&A for the year ended December 31, 2009 and 2008.*

*All dollar figures are in Canadian dollars (“C$”), unless otherwise stated.*

## FORWARD LOOKING STATEMENTS

*This MD&A includes certain statements that constitute “forward-looking statements”, and “forward-looking information” within the meaning of applicable securities laws (“forward-looking statements” and “forward-looking information” are collectively referred to as “forward-looking statements”, unless otherwise stated). These statements appear in a number of places in this MD&A and include statements regarding our intent, or the beliefs or current expectations of NML’s officers and directors. Such forward-looking statements involve known and unknown risks and uncertainties that may cause the Company’s actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this MD&A, words such as “believe”, “anticipate”, “estimate”, “project”, “intend”, “expect”, “may”, “will”, “plan”, “should”, “would”, “contemplate”, “possible”, “attempts”, “seeks” and similar expressions are intended to identify these forward-looking statements. Forward-looking statements may relate to the Company’s future outlook and anticipated events or results and may include statements regarding the Company’s future financial position, business strategy, budgets, litigation, projected costs, financial results, taxes, plans and objectives. The Company has based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. These forward-looking statements were derived utilizing numerous assumptions regarding expected growth, results of operations, performance and business prospects and opportunities that could cause NML’s actual results to differ materially from those in the forward-looking statements. While the Company considers*

*these assumptions to be reasonable, based on information currently available, they may prove to be incorrect. Accordingly, the reader is cautioned not to put undue reliance on these forward-looking statements. Forward-looking statements should not be read as a guarantee of future performance or results. To the extent any forward-looking statements constitute future-oriented financial information or financial outlooks, as those terms are defined under applicable Canadian securities laws, such statements are being provided to describe the current anticipated potential of the Company and readers are cautioned that these statements may not be appropriate for any other purpose, including investment decisions. Forward-looking statements are based on information available at the time those statements are made and/or management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Material risk factors which could cause actual results to differ materially include those disclosed in NML's Annual Information Form dated April 28, 2010 which is filed on SEDAR at www.sedar.com. To the extent any forward-looking statements constitute future-oriented financial information or financial outlooks, as those terms are defined under applicable Canadian securities laws, such statements are being provided to describe the current anticipated potential of the Company and readers are cautioned that these statements may not be appropriate for any other purpose, including investment decisions. Forward-looking statements speak only as of the date those statements are made. Except as required by applicable law, the Company assumes no obligation to update or to publicly announce the results of any change to any forward-looking statement contained or incorporated by reference herein to reflect actual results, future events or developments, changes in assumptions or changes in other factors affecting the forward-looking statements. If NML updates any one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements. The reader should not place undue importance on forward-looking statements and should not rely upon these statements as of any other date. All forward-looking statements contained in this MD&A are expressly qualified in their entirety by this cautionary statement.*

# OVERALL PERFORMANCE

## Overview of Business

New Millennium controls the emerging Millennium Iron Range, located in the Province of Newfoundland and Labrador and in the Province of Quebec, which holds amongst the world's largest undeveloped magnetic iron ore deposit. In the same area, the Corporation is also advancing to near term production its DSO Project. Tata Steel, the world's eighth largest steel corporation, owns 19.65% of New Millennium and is the Corporation's largest shareholder and strategic partner. Tata Steel has an exclusive option to participate in the DSO Project, a commitment to take the resulting production, and an exclusive right to negotiate and settle a proposed transaction in respect of the LabMag Project and the KéMag Project.

The Millennium Iron Range currently hosts two advanced projects: LabMag contains 3.5 billion tonnes of Proven and Probable reserves at a grade of 29.6% Fe plus 1.0 billion tonnes of Measured and Indicated resources at an average grade of 29.5% Fe and 1.2 billion tonnes of Inferred resources at an average grade of 29.3% Fe; KéMag contains 2.1 billion tonnes of Proven and Probable reserves at an average grade of 31.3% Fe, 0.3 billion tonnes of Measured and Indicated resources at an average grade of 31.3 % Fe and 1.0 billion tonnes of Inferred resources at an average grade of 31.2% Fe.

The Corporation's DSO project contains 64.1 million tonnes of Proven and Probable Mineral Reserves at an average grade of 58.8% Fe, 3.6 million tonnes of measured and indicated Mineral Resources at an average grade of 58.9% Fe, 7.15 million tonnes of Inferred Resources at an average grade of 55.9% Fe and about 40.0 million tonnes of historical resources that are not currently in compliance with NI 43-101.

## RESULTS OF OPERATIONS

### Signing of an agreement with the Sept-Iles Port Authority

On February 6, 2010, NML announced the signing of an agreement with the Sept-Iles Port Authority ("SIPA") for the shipment of iron ore products from its DSO properties over the SIPA owned dock at Pointe Noire (Sept-Iles), Quebec. The Port of Sept-Iles operates year round and is the largest shipper of iron ore products in North America.

The agreement ensures that New Millennium will have the right to export its products over the SIPA owned dock at Sept-Iles at competitive and established long term wharfage rates. The Company's expectation is to start production in 2011 reaching shipments of 4 million tonnes per year by 2013, subject to regulatory approvals, advanced engineering and procurement.

### Positive DSO Feasibility Study results and upgrade of mineral resources to reserves

On February 25, 2010, NML announced the results of the Feasibility Study ("FS") to develop a project to mine its 100% owned DSO properties. The Study updated the earlier Pre-feasibility Study which was completed on March 4, 2009. The update was done by NML with contributions and review by others, including Met-Chem, with expertise critical to some aspects of the Project.

The highlights of the DSO project FS were as follows:

- Production assumption of 4 million tonnes per year ("mtpy") of Sinter Fines and Super Fines products.
- Proven and Probable Mineral Reserves of 64.1 million tonnes ("mt").
- Variable stripping ratio, from mine to mine, with an average of 1.03 over the life of the mines.
- Total initial capital cost of US$ 300 million and working capital of about US$ 13.5 million.
- Internal rate of return of 29% (unleveraged and before corporate taxes and mining taxes).
- Payback of 3 years after the start of commercial production.
- Direct jobs creation of about 200 at the mine, wash plant and administrative areas.
- Anticipated start of commercial production is Q3, 2011.

Updated as at May 20, 2010, the anticipated start of commercial production has been revised to 21 months following Tata Steel's investment decision.

### Official notification to Tata Steel

On March 17, 2010, following joint discussions with Tata Steel, official notification was given to Tata Steel by NML, triggering the commencement of Tata Steel's 180-day option period in which to make an investment decision with respect to participation in the DSO Project.

## SUBSEQUENT EVENTS

#### Filing of technical report on DSO Feasibility Study

On April 13, 2010, NML announced the filing on SEDAR of the technical report summarizing the results of the Feasibility Study of its 100% owned DSO Project located near Schefferville, Quebec.

#### Board changes

On April 14, 2010, NML announced that Mr. Partha Sengupta of Tata Steel Limited, Mumbai, India, had been appointed a director of NML and that Mr. Arun Baijal had resigned from the Board.

**Signing of letter of intent for proposed private placement**

On May 17, 2010, NML announced that it had entered into a letter of intent with Tata Steel pursuant to which Tata Steel has indicated its intention to consider a subscription for 14,285,714 common shares of the Company at a subscription price of $1.40 per share for an aggregate subscription price of $20,000,000. If the offering is completed, Tata Steel would hold, in aggregate, 40,429,270 common shares, representing 27.4% of the outstanding common shares of the Company.

## EXPOSURE TO ASSET BACKED COMMERCIAL PAPER MARKET

The Company owns long term asset backed notes ("Notes") that were issued by Master Asset Vehicle II ("MAV2") 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 $4,405,792 and a fair value of $2,846,734 (December 31, 2009 – face value of $4,407,581 and fair value of $2,680,519).

The receipt of the new Notes was a transaction of substance and accordingly the Company recorded a settlement of the ABCP and recognition of the new Notes. The Notes were initially recorded at fair value and are classified as held-for-trading under the Company's financial instrument policy which requires them to be measured at fair value at each period end with changes in fair value included in income or loss in the period in which they arise.

The secondary market for the Notes is developing, 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.

The portfolio consists of five types of Notes, which are supported by a pool of leveraged super senior credit default swaps, unleveraged collateralized debt obligations as well as traditional assets and cash. The leveraged assets supporting these Notes have access to credit facility that can be drawn upon in the event that a margin call is triggered and more collateral must be posted. Additionally, these particular assets are subject to an 18 month moratorium on margin calls which will expire in mid-2010.

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.

Beginning in 2009, and continuing through the first quarter of 2010, the Company has seen continued improvement in general corporate credit market conditions which have had the most impact in 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, resulted in an increased value at March 31, 2010.

Conversely, during 2009 the valuation of the A-2 Notes in particular was negatively impacted by a rating downgrade by Dominion Bond Rating Service ("DBRS") based on credit quality concerns on some of the assets underlying the MAV2 Pool. While none of these assets have defaulted, DBRS felt that their margins of protection against loss had been eroded; increasing the probability that one or more of these assets may default. DBRS noted that if all of these assets were to default and realize 100% losses, then the A-2 Notes would realize a loss; and the B Notes and C Notes would be lost in their entirety. In order to take this disclosure into account, the required yield for the A-2, B, and C Notes was increased in determining their fair market valuation.

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 a rise in the prevailing interest rates. The Company will record interest received on a cash basis until such time that the payment of interest becomes likely.

Based on the foregoing, the Company has estimated the fair market value of the Notes to be $2,846,734 (December 31, 2009 - $2,680,519) and recorded a gain on revaluation of the Notes in the amount of $168,000 for the three-month period ended March 31, 2010 (three-month period ended March 31, 2009 – impairment charge of $180,000).

The details of the Company's long-term investments are as follows:

| Notes | Face Value ($) | Maturity Date (i) | Required Yield (ii) | Fair Value March 31, 2010 $ | Fair Value December 31, 2009 $ |
|---|---|---|---|---|---|
| **MAV2** | | | | | |
| A-1 | 2,936,039 | January 22, 2017 | 9.00% | 2,020,594 | 1,943,784 |
| A-2 | 738,573 | January 22, 2017 | 12.00% | 417,968 | 402,645 |
| B | 134,071 | January 22, 2017 | 30.00% | 21,367 | 17,904 |
| C | 118,086 | January 22, 2017 | 50.00% | 6,911 | 6,745 |
| **IA Tracking Notes** | | | | | |
| Class 15 | 479,023 | December 20, 2013 | 9.00% | 379,894 | 309,441 |
| **Total** | 4,405,792 | | | 2,846,734 | 2,680,519 |

(i) The legal maturity dates for the MAV2 A-1, A-2, B and C Notes are in July 2056 but for valuation purposes a maturity date of January 2017 has been used based upon the maturities of the underlying assets.

(ii) The estimated yield to maturity required by prospective investors.

The above estimated fair values may not be indicative of the ultimate net realizable value of the Notes. While management believes that its valuation technique is appropriate in the circumstances, changes in significant assumptions, especially those relating to the probability of realization scenarios, returns, discount rates and attributes of underlying assets could significantly affect the value of the investments in subsequent periods. The resolution of these uncertainties could result in the value of these investments varying significantly from management's current estimates. For example, an increase of 1% in the required yield used in the valuation of the long-term investments value would result in a decrease in fair value of $145,000.

## FINANCIAL CONDITION

The following discussion of the Corporation's financial performance is based on the unaudited Interim Consolidated Financial Statements as of March 31, 2010 ("financial statements") set forth herein. As discussed in Note 1 to the financial statements, they are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to a going concern. Management is required to make estimates and assumptions that effect the reported amounts of assets and liabilities at the date of the financial statements and revenue and expenses for the period then ended.

The unaudited Interim Consolidated Balance Sheet as of March 31, 2010 indicates cash and cash equivalents of $7,219,659, term deposits of $171,903, sales taxes receivable and prepaid expenses of $276,259 and the current portion of tax credits and mining duties receivable of $1,571,837 resulting in total current assets of $9,239,658, a decrease of $2,522,848 from December 31, 2009. The long-term assets are comprised of long-term portion of tax credits and mining duties receivable of $820,598, mineral properties of $44,882,414, property and equipment of $209,299 and long-term investments of $2,846,734. The total assets are $57,998,703 which is a decrease of $167,415 from December 31, 2009.

Current liabilities at March 31, 2010 are composed of accounts payables and accrued liabilities of $1,330,549, with long-term liabilities comprised of future income taxes of $150,624, for total liabilities of $1,481,173, an increase of $61,249 from December 31, 2009. Shareholders' equity of $56,517,530 decreased by $228,664 from December 31, 2009, and is comprised of capital stock of $64,933,800, contributed surplus of $5,671,037 and non-controlling interest of $475,000 less the deficit of $14,562,307. Working capital at March 31, 2010 of $7,909,109 is a decrease of $2,744,474 from the December 31, 2009 total of $10,653,583.

The decrease in working capital was mainly due to expenditures on mineral properties and business expenditures for normal day to day operating activities. The shareholders' equity decreased mainly due to the losses resulting from those operations and was only partially offset by the issuance of capital stock from the exercise of stock options. The Corporation used its cash and cash equivalents to pay its accounts payable and fund its operations and continuing investment in mineral properties. The cash and cash equivalents and term deposits represent the funds that remain from the 2008 Tata Steel private placement and subsequent issuances of common shares and will continue to be used to pay for current liabilities, finalize outstanding DSO agreements and environmental work, initiate gravity and magnetic airborne geophysical surveys, and pay future corporate operating expenses. During the first quarter, there was $1,503,941 of capitalized mineral property expenditures, net of Québec tax credits and mining duties that were mainly related to the feasibility study work on the DSO project. The future income taxes continue to be mainly comprised of the future tax liability that arises from the renunciation of Canadian Exploration Expenses which is almost entirely offset by the Corporation's cumulative operating losses.

For the three months ended March 31, 2010, the Company realized a net loss of $582,389, or $0.00 per share, compared to a net loss of $1,648,211 or $0.01 per share for the corresponding period in 2009. This loss represents operating expenses of $914,999, (2009 - $1,555,817) net of investment income of $4,233 (2009 - $45,954), an increase in fair value of long-term investments of $168,000 (2009 – decrease of $180,000) and future income taxes recovery of $160,377 (2009- $41,652). The decrease in net loss is mainly due to the large decrease in general and administrative expenses, when compared to the same period in 2009, particularly the decrease in stock-based compensation costs, the decrease in foreign exchange loss and a gain in change in fair value of long-term investments compared to a loss in 2009.

The Corporation expects to continue incurring operating losses until it is operating a revenue-producing mine. These losses are expected to be funded by equity financing or investments by strategic partners.

All costs associated with mineral properties, totaling $44,882,414 as outlined in Note 6 to the March 31, 2010 financial statements, have been classified as mineral properties. The expenditures are divided between the properties as follows: DSO Properties $14,574,173, LabMag Property $21,512,706, KéMag Property $8,191,512 and Other Properties $604,023. The cost centers for these capitalized expenditures are: mineral licenses $3,583,984, resource evaluation $17,036,819, drilling $17,953,373, environmental $10,789,776, amortization of property and equipment $5,201 and other $274,715. These expenditures are partially offset by tax credits and mining duties of $4,761,454. The non-controlling interest of $475,000 relates to the LabMag Property. The carrying value of the mineral properties are reviewed by the Corporation on a quarterly basis by reference to the project economics, including the timing of the exploration and/or development work, the work programs and exploration results achieved by the Corporation. At March 31, 2010, the Corporation believes that the carrying values of the properties are less than their net recoverable amounts and as such there has been no impairment of value on any of these properties.

## ASSET HELD FOR SALE

The Company classifies the DSO Properties as an asset held for sale, as on March 17, 2010, the Company officially notified Tata Steel that the DSO Properties' Feasibility Study had been approved and delivered to Tata Steel pursuant to the terms of the joint venture agreement. This triggered the commencement of Tata Steel's 180 day option period on the DSO Properties, whereby Tata Steel has the option to acquire an 80% equity interest in the DSO Properties by paying the Company 80% of the Company's costs incurred to the exercise date to advance the DSO Properties. Once Tata Steel has acquired their 80% interest, all the DSO Properties will be transferred to a new company owned 80% by Tata Steel and 20% by NML. Tata Steel will fund the DSO operations of this new company up to $300 million and will commit to purchase, at world prices, 100% of DSO's iron ore production for the life of the mining operation.

## SUMMARY OF QUARTERLY RESULTS

The following table sets out selected unaudited quarterly financial information of the Company for the eight quarters ended March 31, 2010. This information is derived from unaudited quarterly financial statements prepared by management. The Company's interim consolidated financial statements are prepared in accordance with Canadian GAAP and expressed in Canadian dollars.

| | **Mar-10** | **Dec-09** | **Sept-09** | **Jun-09** | **Mar-09** | **Dec-08** | **Sept-08** | **Jun-08** |
|---|---|---|---|---|---|---|---|---|
| Investment Income | 4,233 | 28,049 | 12,500 | 53,783 | 45,954 | 147,106 | 32,328 | 45,312 |
| Net Income (Loss) | (582,389) | 181,780 | (572,040) | (269,792) | (1,648,211) | (3,126,558) | (413,823) | (734,550) |
| Income (Loss) Per Share (1) | (0.00) | 0.00 | (0.00) | (0.00) | (0.01) | (0.02) | (0.00) | (0.01) |

(1) The effect of the exercise of stock options and warrants would be anti-dilutive for the purposes of calculating the fully diluted earnings per share.

## FIRST QUARTER RESULTS

For the three-month period ended March 31, 2010, general and administrative expenses, professional fees, market development and other expenses were $914,999, compared to $1,555,817 for the corresponding period in 2009. Included in the first quarter of 2010 expenses were stock-based compensation charges, included in general and administrative expenses, and foreign exchange loss of $308,400 and $6,248 respectively compared to $848,700 and $75,701 respectively for the corresponding period in 2009. The Company's loss for the period was decreased partly due to an increase in the fair value of the long-term investments in the amount of $168,000 compared to a decrease in fair value of $180,000 in the corresponding period in 2009. Additional items affecting the first quarter's net loss were the investment income of $4,233 compared to $45,954 for the three months in 2009 and future income taxes recovery of $160,377 for which there was $41,652 recovered in the first quarter of 2009. As a result the Company's net loss for the first quarter ended March 31, 2010 totalled $582,389 ($0.00 per share) compared to a net loss of $1,648,211 ($0.01 per share) for the comparative period in 2009.

## CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

**Recently adopted and amended standards**

Effective January 1, 2010 the Company adopted earlier than required, as permitted by the transitional provisions, the following new accounting standard issued by the Canadian Institute of Chartered Accountants ("CICA").

Section 1602 "Non-Controlling Interest" which establishes standards for the accounting and presentation of non-controlling interests subsequent to a business combination. The effect of the change in accounting standards will be with regards to where non-controlling interest is presented on the balance sheet. Previously, non-controlling interest was shown outside of shareholders' equity. Upon adoption of the new standard it is included within shareholders' equity for the current period and the comparative period's balance sheet figures were restated. Except for the inclusion of minority interest in the definition of capital, the new standard had no other impact on the Company's financial statements.

Upon adopting section 1602, the Company must also adopt section 1582, "Business Combinations" and section 1601, "Consolidated Financial Statements". These sections have no impact on the Company's financial statements.

**FUTURE ACCOUNTING CHANGES**

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that publicly accountable enterprises will be required to transition from Canadian GAAP to International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") for interim and annual financial reporting purposes for fiscal years beginning on or after January 1, 2011 with comparative information. Therefore, the Company will be required to report using the converged standards effective for interim and annual financial statements relating to fiscal years beginning on January 1, 2011. The transition to IFRS will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. The IASB's work plan currently has projects underway that may result in amendments to pronouncements that continue to evolve IFRS, and, as a result, IFRS as at the transition date of January 1, 2010 ("Transition Date") may differ from its current form.

The Company has established a changeover plan that consists primarily of three phases: assessment; planning; and implementation. An external advisor has been engaged to work closely with the Company's dedicated staff to complete the changeover to IFRS. The Company's management has continued to receive training periodically from this advisor and this training is expected to continue throughout the transition on an as-needed basis. Members of the audit committee have also received IFRS information as part of their meetings.

The assessment phase includes the identification of significant differences between the Company's existing Canadian GAAP and IFRS that are relevant to the Company and a high-level review of the alternatives available upon adoption. This phase was completed during 2009. During this phase, an analysis was also performed to assess whether information technology systems used to collect and report financial data required modification in order to meet new reporting requirements under IFRS and it was determined that due to the modest number of topics possibly impacting the Company that system modifications were minimal.

The planning phase includes identification, evaluation and selection of accounting policies necessary for the Company to transition from Canadian GAAP to IFRS as well as potential first-time adoption exemptions. This phase was initiated in the fourth quarter of 2009 and the Company is currently in the process of finalizing it. This phase involves further assessment of the impact of the transition on the data system and internal control over financial reporting, and disclosure controls and procedures. It also involves assessing the additional training required for the financial team and the impact on business activities.

The implementation phase will integrate all the solutions into the Company's financial system and processes that are necessary for the Company to convert to IFRS.

To date, the transition process has identified the following significant accounting issues:

| **Key Accounting Area** | **Identified Differences with Potential Impact to the Company** |
|---|---|
| Presentation of financial statements | Additional disclosures in the notes to the financial statements. Presentation of financial statements will change, the Company has not yet decided on the most appropriate presentation. |
| Property and equipment | Evaluating impact of componentization on accounting policy: all significant components of property and equipment will be amortized accordingly to their useful lives determined in accordance with IFRS.<br>Evaluating impact of different recognition and measurement principles, including but not limited to amortization policies and residual values.<br>The Company has reviewed its property and equipment and preliminarily determined that no adjustments were required upon transition to IFRS. |
| Mineral properties | Exploration and evaluation assets should be classified as tangible or intangible according to the nature of the assets acquired. IFRS 6 varies the facts and circumstances under which exploration and evaluation assets must be tested for impairment from those in IAS 36, "Impairment of Assets," but requires that impairment be measured in accordance with that standard once it is identified.<br>Exploration and evaluation assets are measured at cost which reflects those expenditures that can be associated with finding specific mineral resources.<br>The Company is still analyzing the effect of the above differences but does not expect the impact to be significant. |
| Impairment of assets | Grouping of assets in cash-generating units ("CGU"s) on the basis of independent cash inflows for impairment testing purposes, using a Fair Value or Value-in-Use (i.e. discounted cash-flow method) approach.<br>The Company is currently in the process of defining a CGU. |
| Share-based payments | Compensation expense for a share-based payment award issued to non-employees should be measured at the fair value of services received. Expected forfeitures are considered in estimates of stock option values.<br>The Company is currently evaluating the impact of these differences. |
| Income taxes | Recognition and measurement criteria for deferred income tax assets and liabilities differ.<br>The Company is still currently evaluating the impact of these differences. |

| IFRS 1: | |
|---|---|
| Share-based payments exemption | IFRS 2, Share-based Payments, encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company has determined on a preliminary basis to elect to apply IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by its Transition Date. |

The Company currently has not finalized its selection of IFRS accounting policies or the selection of IFRS 1 exemptions available upon transition but it expects to finalize these selections and assessment by the end of the second quarter of 2010. The Company expects to commence the third phase of transition thereafter. As such, quantification of the impact of transition is still not available at this time. The Company does not expect to realize any significant business impacts, or significant changes to its internal control over financial reporting as a result of the IFRS transition. This assessment may change as the Company continues to evolve during its transition to IFRS.

As the Company's transition activities progress, disclosures of accounting policy differences is expected to increase. The Company will also ensure that its key stakeholders are continuously informed about the anticipated effects of the IFRS transition through its public disclosure documents which highlight such anticipated effects on the Company.

The Company will present its results for fiscal 2010 using Canadian GAAP. In 2011, the Company will present its comparative results for fiscal 2010 using IFRS as issued by the IASB effective at that time. To accomplish this, in 2010 the Company will track any adjustments required to its accounting records in order to effect its reconciliations from Canadian GAAP to IFRS.

**ACCOUNTING 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 period. The estimates include the recoverability of mineral properties, the fair value of term deposits and long-term investments, the useful life of property and equipment, future income taxes as well as the fair value estimates of stock options, agents' warrants and share purchase warrants. These estimates are based upon management's best knowledge of current events and actions that the Company may undertake in the future, they are reviewed periodically and adjustments are made in the period in which they become known, if necessary. Actual results could differ materially from these estimates.

## FINANCIAL INSTRUMENTS

### Fair Value

Fair value is the amount that willing parties would accept to exchange a financial instrument based on the current market for instruments with similar risks and remaining maturity.

The fair value of accounts payable and accrued liabilities approximate their carrying value due to their short-term maturities.

The fair value of the long-term investments is estimated by management based on the assumptions disclosed in the Exposure to Asset Backed Commercial Paper Market section of the MD&A.

The fair value of the GIC's is determined by discounting expected future cash flows using interest rates of 0.2% (2009 - 0.2%), which represent the rate that the Company can use for GIC with similar terms and conditions and maturity dates.

Sensitivity to an increase of 1% in rates for the GIC's would not have a material effect on the consolidated net loss and comprehensive loss for the period ended March 31, 2010.

## Fair Value Hierarchy

Financial instruments recorded at fair value on the Consolidated Balance Sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurement. The fair value hierarchy has the following levels:

– Level 1 – valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities;

– Level 2 – valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means;

– Level 3 – valuation techniques with significant unobservable market inputs.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments recorded at fair value in the Consolidated Balance Sheet classified using the fair value hierarchy described above.

| | Level 1 | Level 2 | Level 3 | Total financial instruments at fair value |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Cash and cash equivalents | 7,219,659 | - | - | 7,219,659 |
| Term deposits | - | 171,903 | - | 171,903 |
| Long-term investments | - | - | 2,846,734 | 2,846,734 |
| Total financial instruments | 7,219,659 | 171,903 | 2,846,734 | 10,238,296 |

The financial instruments whose fair values are classified in Level 3 are held for trading investments in the Notes. The Company performs sensitivity analyses for the fair value measurement of the Notes, substituting the unobservable inputs with one or more reasonably possible alternative assumptions (see Exposure to Asset Backed Commercial Paper Market section of the MD&A).

The following table summarizes the changes in the fair value of the MAV2 Notes for the three-month period ended March 31, 2010.

| | **March 31, 2010** | **December 31, 2009** |
|---|---|---|
| | **$** | **$** |
| Fair value as at December 31, 2009 (December 31, 2008) | **2,680,519** | **2,400,283** |
| Payments received pursuant to restructuring of ABCP notes | **-** | **(172,113)** |
| Derecognition of ABCP | **-** | **(2,228,170)** |
| Recognition of MAV2 Notes | **-** | **2,228,170** |
| Change in fair value | **168,000** | **460,000** |
| Redemption of class A-I Notes | **(1,785)** | **(7,651)** |
| Fair value as at March 31, 2010 (December 31, 2009) | **2,846,734** | **2,680,519** |

## FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

In the normal course of operations, the Company is exposed to various financial risks. The Company's management manages financial risks. The Company does not enter into financial instrument agreements including derivative financial instruments for speculative purposes.

The Company's main financial risks and policies are as follows:

**Exchange risk**

The Company's functional currency is the Canadian dollar and most expenditures are transacted in Canadian dollars. The Company funds certain foreign currency transactions by buying the foreign currency at the spot rate when required.

At March 31, 2010, the Company had €37,775 Euro, $51,559 CAD (€112,501 Euro, $170,822 CAD at December 31, 2009) in accounts payable and accrued liabilities which have been translated to Canadian dollars at the exchange rate on March 31, 2010. A $0.01 increase or decrease in the EUR/CAD exchange rate would result in a change to net loss of $378.

At March 31, 2010, the Company had $10,800 US, $11,154 CAD (nil at December 31, 2009) in accounts payable and accrued liabilities, which has been translated to Canadian dollars at the exchange rate on March 31, 2010. A $0.01 increase or decrease in the USD/CAD exchange rate would result in a change to net loss of $108.

At March 31, 2010, the Company had 720,000 Indian Rupees (INR), $20,000 CAD (nil at December 31, 2009) in accounts payable and accrued liabilities, which has been translated to Canadian dollars at the exchange rate on March 31, 2010. A $0.001 increase or decrease in the INR/CAD exchange rate would result in a change to net loss of $720.

**Interest rate risk**

The cash equivalents and term deposits bear interest at fixed rates and the Company is therefore exposed to the risk of changes in fair value resulting from interest rate fluctuations. The Company does not use derivative financial instruments to reduce its interest rate exposure.

**Liquidity risk**

Management maintains sufficient amounts of cash and cash equivalents to meet commitments. The Company establishes budgets and cash flow requirements monthly to ensure that it has the necessary funds to fulfill its obligations. The contractual maturities of accounts payable and accrued liabilities are less than three months.

**Credit risk**

The Company manages credit risk through an emphasis on quality in its investment portfolio. Cash and cash equivalents and term deposits are held through two Canadian chartered banks and management believes the risk of loss to be remote. The Company's credit risk is presently attributable to the long-term investments (see the Exposure to Asset Backed Commercial Paper Market section of this MD&A for additional information) for which a $168,000 valuation gain in fair value was recorded in the first quarter of 2010.

**Price risk**

The Company is exposed to price risk with respect to iron ore prices. The price of iron ore has significantly improved after a sharp decline in 2009. However, the leading iron ore suppliers are insisting on index based pricing, which will be adjusted quarterly. This is expected to increase price volatility and future significant price declines could result in continued exploration and development to become uneconomical.

## CAPITAL MANAGEMENT

The Company’s capital management objectives are to ensure its ability to continue as a going concern and to maximize the return to its shareholders. The Company’s definition of capital includes all components of shareholders’ equity. In order to meet its objectives the Company monitors its capital structure and makes adjustments as required. Management has assessed that the Company requires additional financing in order to have sufficient liquidity. To that end, as described in the subsequent event section of the MD&A, the Company has entered into a letter of intent with Tata Steel for a proposed $20,000,000 private placement. Management believes that with this additional financing they will have sufficient funds available to continue operating and development programs at least until March 31, 2011. The Company is not subject to any externally imposed capital requirements.

## LIQUIDITY AND CAPITAL RESOURCES

### Working Capital

The Company’s working capital at March 31, 2010 decreased from December 31, 2009 by $2,744,474 to $7,909,109 due to its operating expenses and the investment in mineral properties during the first quarter. The working capital consists of cash and cash equivalents, term deposits, sales taxes receivables and prepaid expenses and current portion of tax credits and mining duties receivable net of accounts payable and accrued liabilities.

### Capital Expenditures

There was $176,867 in capital expenditures during the first three months of 2010 compared to Nil in the corresponding period in 2009.

### Capital Resources

At March 31, 2010, NML has paid up capital of $64,933,800 (December 31, 2009 - $64,859,075) representing 133,024,059 (December 31, 2009 – 132,901,559) common shares and a deficit of $14,562,307 (December 31, 2009 - $13,979,918) that is offset by contributed surplus of $5,671,037 (December 31, 2009 - $5,392,037) and non-controlling interest of $475,000 (December 31, 2009 – $475,000) resulting in shareholders' equity of $56,517,530 (December 31, 2009 - $56,746,194).

## TRANSACTIONS WITH RELATED PARTIES

During the quarter ended March 31, 2010, NML incurred directors' fees of $11,000 (2009 - $11,000), consulting fees included in mineral properties of $42,000 (2009 - $46,000), consulting and professional accounting fees included in expenses of $143,000 (2009 – $139,000) from directors and companies under their control and partnerships in which a director and the interim chief financial officer are partners. Of all of these amounts $220,000 (2009 - $221,000) is payable at March 31, 2010.

## ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

Additional disclosure concerning the Company’s expenditures for mineral properties are provided in Note 6 of the March 31, 2010 Interim Consolidated Financial Statements that is available on NML’s website at **http://www.nmlresources.com/library/financial_statements.asp** or on its SEDAR Page Site accessed through **www.sedar.com**

Included in the Company’s Interim Consolidated Financial Statements were general and administration expenses of $640,054 (2009 – $1,234,777) for the three months ended March 31, 2010, comprised as follows: salaries and benefits $176,522 (2009 - $178,790), stock based compensation $308,400 (2009 - $848,700), office and administration $105,461 (2009 – $177,178), and office rent $49,671 (2009 - $30,109).

## MARKET OUTLOOK

### Iron Ore market:

Economic recoveries in the developed countries have resulted in improved steel demand. Steelmakers in the developed world are expecting their capacity utilization rate to improve to 80% in Q2, compared to around 50% in last year. As a result, the global steel use excluding China is projected to grow over 14% in 2010. . Chinese steel production in 2009, buoyed by Government stimulus, increased from 500 million tonnes in 2008 to 570 million tonnes in 2009 or 14% higher. The production is projected to further increase to 610 million tonnes in 2010 or 7% over 2009 production. The total world crude steel production in 2010 is forecast to grow by 10%.

A continuation of strong growth trends in China and buoyant recovery of the steel demand in the developed world, seaborne iron ore demand is expected have another record year in 2010 surpassing 1.0 billion tonnes compared to 955 million tonnes in 2009. The growing demand for seaborne iron ore resulted in a corresponding increase in the spot market price. The surge in the demand for iron ore from the rest of the world created tightness of supply with the mines running close to their capacity limit. By the end of Q1, 2010, the price iron ore at the spot market stood between $130-150 per tonne, compared to the negotiated 2009 benchmark price of $60-65. This occurred in spite of the fact that the domestic production of iron ore in China increased by 21% in Q1 because of the higher market prices. This large gap between the annual benchmark and spot market price encouraged major iron ore miners to demand higher increases in the contract price from the steelmakers. Analysts were projecting a 20-30% increase in the benchmark price in January, 2010. This estimate was revised several times to 80-90% as the contract expiry date approached. Because of a high degree of volatility in the spot market, several indices were introduced to track the market trends. This also gave rise to exchange trading of iron ore contracts based on price indices for the first time in history. BHP and Vale notified steelmakers of their intention to fix the contract price in 2010 for three months, after which the price would be reviewed and revised using a spot index.

Around the end of Q1, 2010, it was reported that major Japanese steelmakers had entered into a provisional agreement with Vale with an initial price increase of 86% over the 2009 price. BHP also announced that it had received a 90% price increase with its steelmaking consumers. Rather than actual contacts, prices would be negotiated quarterly based on pricing index. Rio Tinto was believed to be negotiating similar arrangements. Chinese and European steelmakers expressed their displeasure with the magnitude of the increase as well as duration of the settlement. Iron ore miners were of the opinion that the new mechanism more accurately reflected real value of products taking into consideration the prevailing supply-demand balance.

### Outlook:

While no formal agreements have so far been concluded, the big three iron ore producers are able to secure between 90-100% higher prices and have succeeded to break the traditional annual benchmark system, which was a hallmark of the relationship with steelmakers for 40 years. The dynamics of the spot market and liquidity of an index based pricing regime reflect the reality of the market place. Iron ore producers want to capitalize on consistently higher spot market price as supply remains tight due to a continued growth of Chinese economy and a gradual recovery in the developed countries. The new pricing regime should address the current imbalance and deliver value based on the reality of the marketplace. This will also create volatility for major steelmakers, which favour the stability of annual contracts. Higher iron ore prices will increase the cost of steelmaking at a time when the recovery remains fragile. This will affect the steelmakers' margins until they can realize higher prices for their products.

Analysts are projecting a continuation of tight market conditions for next two years. The Indian Government's decision to increase the export tax on the lump ore from 10% to 15% will exacerbate the already tight supply situation. Mines around the world are producing at 96-98% of the rated capacity. With limited seaborne supply, Q3 spot market prices are expected to remain above the contract price negotiated the major miners. Currently negotiated prices during Q2 are between US$ 110-120 per tonne. Analysts are projecting another 20-30% increase when the prices are renegotiated in Q3.

## BUSINESS RISKS

The Company is engaged in the exploration and development of mineral properties. These activities involve a high degree of risk which, even with a combination of experience, knowledge and careful evaluation, may not be overcome. Consequently, no assurance can be given that commercial quantities of minerals will be successfully found or produced.

The Company has no history of profitable operations and its present business is at an early stage. As such, the Company is subject to many common risks to such enterprises, including under-capitalization, cash shortages and limitations with respect to personnel, financial and other resources and the lack of revenues. There is no assurance that the Company will be successful in achieving a positive return on shareholders' investment.

The Company has no source of operating cash flow and no assurance that additional funding will be available to it for further exploration and development of its projects when required. Although the Company has been relatively successful in the past in obtaining financing through the sale of equity securities, 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 its properties.

The Company has determined a project construction and operation plan based on best available knowledge and with certain assumptions that will enable it to initiate work and enter into contracts. Events outside the control of the Company, such as funding or permit approvals as examples, may adversely affect these plans and result in delays for construction and for start of operations.

The Company's property interests are located in remote, undeveloped areas and the availability of infrastructure such as surface access, skilled labour, fuel and power at an economic cost, cannot be assured. These are integral requirements for exploration, development and production facilities on mineral properties. Power will need to be generated on site. Due to its location, weather events may cause disruptions or other difficulties in operations.

The DSO Project is located in the Province of Newfoundland and Labrador and therefore subject to its mining legislation, which may require that primary processing be done within the province in order to obtain mining rights. Furthermore, provincial and federal legislators may enact laws or budgets that have a negative impact on this project or on the mining industry as a whole.

The Company is actively engaged in including First Nations participation in the project and expects to enter into agreements with these First Nations. Although such agreements are not mandatory, failure to agree may result in disruption to the project execution or operations.

Volatile market conditions for resource commodities in the recent past, including iron ore, after several years of improving prices has resulted in a dramatic decrease in market capitalization and the inability of companies to acquire funding for their exploration and development properties. An extended period of poor macro-economic conditions could lead to an inability of the Company to finance future operations.

Inflation has not been a significant factor affecting the cost of goods and services in Canada in recent years; however renewed exploration and development activity has resulted in a shortage of experienced technical staff, and heavy demand for goods and services needed by the mining community.

The mineral industry is intensely competitive in all its phases. NML competes with many other mineral exploration companies who have greater financial resources and technical capacity.

The market price of iron ore and other commodities is relatively volatile and cannot be controlled. The purchase of securities of the Company involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks. The Company's securities should not be purchased by persons who cannot afford the possibility of the loss of their entire investment. Furthermore, an investment in securities of the Company should not constitute a major part of an investor's portfolio.

In recent years securities markets have experienced extreme price and volume volatility. The market price of securities of many early stage companies have experienced fluctuations in price which may not necessarily be related to the operating performance, underlying asset values or prospects of such companies. It may be anticipated that any market for the Company's shares will be subject to market trends generally and the value of the Company's shares on the TSX Venture Exchange may be affected by such volatility.

The Company is very dependent upon the personal efforts and commitment of its existing management. To the extent that management's services would be unavailable for any reason, a disruption to the operations of the Company could result, and other persons would be required to manage and operate the Company.

Additional risk factors are contained in the 2009 Annual Information Form of the Company filed on SEDER at www.sedar.com.

## DISCLOSURE OF OUTSTANDING SHARE DATA

The following information relates to share data of the Company as at March 31, 2010.

**1. Share capital**

(a) Authorized:

Unlimited number of common voting shares.

Unlimited number of preferred shares, without nominal or par value, issuable in series.

(b) Issued as of March 31, 2010: The Corporation has 133,024,059 common shares issued ($64,933,800).

(c) Issued as of May 20, 2010: The Corporation has 133,024,059 common shares issued ($64,933,800).

**2. Options**

The Corporation has adopted an incentive stock option plan whereby options may be granted from time to time to directors, officers, employees and consultants to the Corporation with shares reserved for issuance as options not to exceed 10% of the issued and outstanding common shares.

As of May 20, 2010, there were 8,587,500 common shares reserved for issuance pursuant to the exercise of stock options (Dec 31, 2009 – 8,677,000) as follows:

| Number of Outstanding Options | Exercise Price | Expiry Date |
|---:|:---:|---|
| 25,000 | $0.52 | September 27, 2010 |
| 865,000 | $0.55 | October 19, 2010 |
| 40,000 | $0.76 | April 6, 2011 |
| 1,500,000 | $0.75 | September 13, 2011 |
| 90,000 | $0.75 | November 2, 2011 |
| 375,000 | $0.50 | February 1, 2012 |
| 905,000 | $0.75 | August 2, 2012 |
| 250,000 | $0.65 | November 13, 2012 |
| 25,000 | $0.73 | November 19, 2012 |
| 1,500,000 | $0.83 | January 30, 2013 |
| 250,000 | $1.44 | March 25, 2013 |
| 100,000 | $1.65 | April 30, 2013 |
| 70,000 | $1.75 | June 1, 2013 |
| 2,447,500 | $0.37 | January 20, 2014 |
| 30,000 | $0.37 | April 29, 2014 |
| 33,000 | $0.65 | October 8, 2014 |
| 49,000 | $0.59 | December 4, 2014 |
| 33,000 | $0.88 | February 2, 2015 |

## ADDITIONAL INFORMATION

Additional information relating to the Company is available on SEDAR at www.sedar.com
Dean Journeaux, Eng., is the Qualified Person as defined in National Instrument 43-101 who has reviewed and verified the scientific and technical mining disclosure contained in this First Quarter Report.