NEW MILLENNIUM IRON CORP.

THIRD QUARTER REPORT 2012

New Millennium Iron Corp.
Unaudited Condensed Interim Consolidated Financial Statements
September 30, 2012

Financial Statements

New Millennium Iron Corp.
Condensed Interim Consolidated Statement of Financial Position

(Unaudited)
(Expressed in Canadian Dollars)

	September 30, 2012	December 31, 2011
	$	$
ASSETS		
Current assets		
Cash and cash equivalents (Note 5)	11,748,449	31,116,221
Short-term investments (Note 6)	65,797,276	75,625,267
Sales taxes, other receivables and prepaid expenses (Note 14)	2,597,428	3,299,011
Tax credits and mining duties receivable	4,365,646	5,967,258
	84,508,799	116,007,757
Non-current assets		
Tax credits and mining duties receivable	4,452,395	461,902
Deposits on contracts	3,040,243	1,264,628
Other assets (Note 7)	19,219,871	-
Long-term investment	31,542,605	31,542,605
Mineral exploration and evaluation assets (Note 8)	50,895,678	35,918,807
Property and equipment	564,485	354,319
Total assets	194,224,076	185,550,018
EQUITY AND LIABILITIES		
LIABILITIES		
Current liabilities		
Trade and other payables (Note 14)	11,569,321	3,585,863
Advance from Tata Steel (Note 14)	4,825,532	3,208,188
	16,394,853	6,794,051
Non-current liabilities		
Due to Naskapi LabMag Trust (Note 8)	285,324	285,324
Total liabilities	16,680,177	7,079,375
EQUITY		
Share capital (Note 9)	175,591,799	172,344,038
Contributed surplus	15,366,212	12,665,152
Deficit	(13,652,463)	(6,776,898)
Equity attributable to shareholders of the parent Company	177,305,548	178,232,292
Non-controlling interest	238,351	238,351
Total equity	177,543,899	178,470,643
Total liabilities and equity	194,224,076	185,550,018

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

New Millennium Iron Corp.
Condensed Interim Consolidated Statement of Comprehensive Income

(Unaudited)
(Expressed in Canadian Dollars)

	3 months ended September 30, 2012	3 months ended September 30, 2011	9 months ended September 30, 2012	9 months ended September 30, 2011
	$	$	$	$
Service fee revenue	148,822	–	585,873	–
Expenses				
General and administrative (Note 10)	3,488,799	2,107,208	8,330,452	8,621,584
Loss before other items and income taxes	(3,339,977)	(2,107,208)	(7,744,579)	(8,621,584)
Other items				
Other income (Note 8)	6,185	–	6,185	600,000
Investment income	247,373	258,075	862,829	592,949
	253,558	258,075	869,014	1,192,949
Net loss and comprehensive loss	(3,086,419)	(1,849,133)	(6,875,565)	(7,428,635)
Attributable to:				
Non-controlling interest	–	–	–	–
Shareholders of the parent Company	(3,086,419)	(1,849,133)	(6,875,565)	(7,428,635)
Net loss and comprehensive loss	(3,086,419)	(1,849,133)	(6,875,565)	(7,428,635)
Loss per share - basic and diluted	(0.02)	(0.01)	(0.04)	(0.04)
Weighted average number of shares outstanding	178,671,320	175,628,355	178,193,399	169,165,967

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

New Millennium Iron Corp.

Condensed Interim Consolidated Statement of Changes in Equity

(Unaudited)
Nine months ended September 30, 2012 and 2011
(Expressed in Canadian Dollars)

	Share Capital							
	Number of Shares Issued and Fully Paid	Amount $	Share Capital to be Issued $	Contributed Surplus $	Deficit $	**Total Attributable to Shareholders of the parent Company $**	Non Controlling Interest $	**Total Equity $**
Balance at January 1, 2011	**148,752,273**	**88,435,402**	**203,813**	**6,590,582**	**(27,913,218)**	**67,316,579**	**475,000**	**67,791,579**
Net loss	-	-	-	-	(7,428,635)	**(7,428,635)**	**-**	**(7,428,635)**
Share-based remuneration								
- employees and directors	-	-	-	4,106,488	-	**4,106,488**	**-**	**4,106,488**
- consultants	-	-	-	211,546	-	**211,546**	**-**	**211,546**
Share capital issued	24,811,385	86,839,847	-	-	-	**86,839,847**	**-**	**86,839,847**
Share capital issued in lieu of cash								
- for legal expenses	212,306	203,813	(203,813)	-	-	**-**	**-**	**-**
Exercise of stock options	2,457,000	2,869,034	-	(1,119,153)	-	**1,749,881**	**-**	**1,749,881**
Share issue costs	-	(6,055,790)	-	1,214,399	-	**(4,841,391)**	**-**	**(4,841,391)**
Balance at September 30, 2011	**176,232,964**	**172,292,306**	**-**	**11,003,862**	**(35,341,853)**	**147,954,315**	**475,000**	**148,429,315**
Balance at January 1, 2012	**176,267,964**	**172,344,038**	**-**	**12,665,152**	**(6,776,898)**	**178,232,292**	**238,351**	**178,470,643**
Net loss	-	-	-	-	-6,875,565	**-6,875,565**	**-**	**-6,875,565**
Share-based remuneration								
- employees and directors	-	-	-	3,717,383	-	**3,717,383**	**-**	**3,717,383**
- consultants	-	-	-	125,933	-	**125,933**	**-**	**125,933**
Share capital issued	233,682	338,558	-	-	-	**338,558**	**-**	**338,558**
Exercise of stock options	2,510,000	2,913,151	-	-1,142,256	-	**1,770,895**	**-**	**1,770,895**
Share issue cost	-	-3,948	-	-	-	**-3,948**	**-**	**-3,948**
Balance at September 30, 2012	**179,011,646**	**175,591,799**	**-**	**15,366,212**	**(13,652,463)**	**177,305,548**	**238,351**	**177,543,899**

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

New Millennium Iron Corp.
Condensed Interim Consolidated Statement of Cash Flows

(Unaudited)
Nine months ended September 30, 2012 and 2011
(Expressed in Canadian Dollars)

	2012	2011
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss and comprehensive loss	(6,875,565)	(7,428,635)
Adjustments for:		
Share-based remuneration		
- Employees and directors	3,717,383	4,106,488
- Consultants	125,933	211,546
Depreciation of property and equipment	132,480	49,810
Interest income	(862,829)	(331,264)
	(3,762,598)	(3,392,055)
Net changes in working capital items (Note 13)	2,558,707	(5,343,815)
Cash flows used by operating activities	(1,203,891)	(8,735,870)
CASH FLOW FROM INVESTING ACTIVITIES		
Net redemption (purchases) of short term treasury bills, term deposits and GIC's	3,977,966	(41,739,550)
Purchase of bonds and GIC's with original maturities over one year	(18,844,692)	(24,657,240)
Redemption of bonds and GIC's with original maturities over one year	24,657,240	-
Interest received	900,305	-
Deposits on contracts	(2,784,977)	(1,813,366)
Increase in other assets (Note 7)	(19,219,871)	-
Acquisition of property and equipment	(393,014)	(210,595)
Tax credits and mining duties received	1,601,612	1,394,527
Additions to mineral exploration and evaluation assets	(18,000,715)	(4,955,803)
Allocation of Tata Steel payment to mineral exploration and evaluation assets	7,832,812	2,431,478
Cash flows used by investing activities	(20,273,334)	(69,550,549)
CASH FLOW FROM FINANCING ACTIVITIES		
Issuance of common shares	2,109,453	88,589,728
Share issue costs	-	(4,841,391)
Cash flows provided by financing activities	2,109,453	83,748,337
Net decrease in cash and cash equivalents	(19,367,772)	5,461,918
Cash and cash equivalents, beginning of period	31,116,221	12,002,984
Cash and cash equivalents, end of period	11,748,449	17,464,902

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

1 - GOVERNING STATUTES AND NATURE OF OPERATIONS

The current principal activities of New Millennium Iron Corp. ("the parent company") and its subsidiaries ("the Company" or "NML") are the exploration and evaluation of mineral properties. The parent company was incorporated pursuant to the provisions of the Alberta Business Corporations Act on August 8, 2003.

The address of the Company's executive office is 2nd floor, 1303 Greene Avenue, Westmount, Quebec, H3Z 2A7, its head office is 800, 734 – 7 Avenue SW, Calgary, Alberta, T2P 3P8 and its registered and records office is 1000, 250-2nd Street SW, Calgary, Alberta, T2P OC1.

2 - SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. The unaudited condensed interim consolidated financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2011, as they follow the same accounting policies and methods of application, unless otherwise indicated.

Basis of presentation

The condensed interim consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to realize its assets, and discharge its liabilities in the normal course of operations.

Basis of measurement

The consolidated financial statements are prepared using the historical cost basis, except for certain financial instruments that are recognized at fair value. These consolidated financial statements are presented in Canadian dollars ($), which is also the Company's functional currency and the functional currency of each of its subsidiaries.

3 - USE OF ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the condensed interim consolidated financial statements requires management to undertake a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from these judgments and estimates. These estimates and judgments are based on management's best knowledge of the events or circumstances and actions the Company may take in the future. The estimates are reviewed on an ongoing basis. Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed in Note 3 of the Company's 2011 annual financial statements and are still applicable for the period ending September 30, 2012.

4 - STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective for the period ending September 30, 2012. Accordingly, they have not been applied in preparing these condensed interim consolidated financial statements. The Company is currently assessing the impact that these standards will have on the consolidated financial statements.

The standards issued but not yet effective are as follows:

IAS 32 Financial Instruments: Presentation
IAS 32 was amended by the IASB in December 2011. The amendment clarifies that an entity that has a legally enforceable right to offset financial assets and financial liabilities if that right is not contingent on a future event and it is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014, with earlier adoption permitted.

IFRS 7 Financial Instruments: Disclosures
IFRS 7 was amended by the IASB in December 2011. The amendment contains new disclosure requirements for financial assets and financial liabilities that are offset in the statement of financial position or subject to master netting arrangements or familiar agreements. These new disclosure requirements will enable users of the financial statements to better compare financial statements prepared in accordance with IFRS. IFRS 7 is effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted.

IFRS 9 Financial Instruments classification and measurement
This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit and loss. Guidance is also provided on financial liabilities and de-recognition of financial instruments. This new standard is effective for years beginning on or after January 1, 2015 and management has not yet determined the impact that the application of this standard will have on the consolidated financial statements.

IFRS 13 Fair Value Measurement
IFRS 13 defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRS or address how to present changes in fair value. The new requirements are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. NML is considering what impact the adoption of this new standard will have on its financial position and/or performance, disclosures and stated accounting policies.

4 - STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IAS 1 Presentation of Items of Other Comprehensive Income
IAS 1 Presentation of Financial Statements was amended by the IASB in June 2011. These amendments included a requirement for entities to group items presented in Other Comprehensive Income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustment), and emphasize the importance of presenting profit or loss and OCI together and with equal prominence. The amendment is effective for annual periods starting on or after July 1, 2012. NML is currently evaluating the impact of these amendments on the financial statements; however, they are not expected to have a significant impact.

Consolidation standards

In May 2011, the International Accounting Standards Board published four new and amended standards addressing the accounting for consolidation, involvements in joint arrangements and disclosure of involvements with other entities as listed below:

IFRS 10 Consolidated Financial Statements
IFRS 10 replaces the consolidation guidance in IAS 27, *Consolidated and Separate Financial Statements*, and Standing Interpretations Committee (“SIC”) Interpretation 12, – *Consolidation - Special Purpose Entities,* by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee. Under IFRS 10, control is based on whether an investor has: 1) power over the investee; 2) exposure, or rights, to variable returns from its involvement with the investee; and 3) the ability to use its power over the investee to affect the amount of the returns.

IFRS 11 Joint Arrangements
IFRS 11 replaces the guidance on “Joint ventures” in IAS 31. The new standard introduces a principles-based approach to accounting for joint arrangements that requires a party to a joint arrangement to recognize its rights and obligations arising from the arrangement. The new standard requires that joint ventures be accounted for under the equity method thus eliminating the option to proportionally consolidate such ventures.

IFRS 12 Disclosures of Involvement with Other Entities
IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

IAS 28 Investments in Associates and Joint Ventures
IAS 28 is amended to conform to changes resulting from the issuance of IFRS 10, IFRS 11 and IFRS 12.

Each of the above four standards has an effective date for annual periods beginning on or after January 1, 2013, with earlier application permitted so long as each of the other standards is also early applied. The early adoption of IFRS 12 is not subject to adopting the other standards. The Company is currently assessing the impact of these standards; however, initial indications suggest that these standards are not expected to have a significant impact on its consolidated financial statements.

(Expressed in Canadian Dollars)

5 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	September 30 2012 $	December 31, 2011 $
Cash in bank	10,546,918	31,116,221
Money market funds	1,201,531	-
	11,748,449	31,116,221

At September 30, 2012, the money market funds have no specific maturity date, bear interest at 1.5% and can be sold at any time.

6 – SHORT-TERM INVESTMENTS

At September 30, 2012, investments include:

Security	Carrying Value $	Maturity	Interest Rate
GIC's	20,501,266	Between December 2012 and September 2013	Between 1.40% and 2.19%
Treasury Bills	18,632,545	Between October 2012 and February 2013	Between 1.00% and 1.11%
Bonds	26,663,465	Between December 2012 and February 2013	Between 1.00% and 1.18%
	65,797,276		

At December 31, 2011, investments include:

Security	Carrying Value $	Maturity	Interest Rate
GIC's	18,750,081	Between April and September 2012	Between 0.75% and 1.65%
Treasury Bills	21,014,720	Between June and December 2012	Between 0.91% and 1.26%
Bonds	35,860,466	Between January and September 2012	Between 1.04% and 1.32%
	75,625,267		

As disclosed in Notes 7 and 16, NML has provided investments as security for irrevocable letters of credit totalling $19,436,000. Security was granted on treasury bills with carrying values of $9,061,780 and bonds with carrying values of $16,016,604.

7 – OTHER ASSETS

On July 13, 2012, the Company entered into an agreement with the Sept-Îles Port Authority ("Port Authority") providing NML with access to a new multi user deep water dock facility. As part of the agreement, NML has a minimum annual shipping capacity of 15 million tonnes s a year for 20 years, with options to renew for four more five year terms. Construction of the port is expected to be completed in 2014. NML's buy in for this agreement is calculated at $38,372,000. Of this amount, $19,186,000 (50%) was disbursed on July 16, 2012 and is reflected in these financial statements as other assets. The remaining 50%, or $19,186,000, is due July 2013 for which NML has provided the Port Authority with an irrevocable letter of credit as described in Note 16. As a result of these payments, NML will receive favourable shipping rates at the dock facility.

(Expressed in Canadian Dollars)

8 - MINERAL EXPLORATION AND EVALUATION ASSETS

	LabMag Property $	KéMag Property $	Lac Ritchie Property $	Other Properties $	Balance as at Sept. 30 2012 $	Balance as at Dec. 31 2011 $
Balance, at December 31, 2011	21,245,772	9,947,087	2,253,921	2,472,027	-	-
Mineral licenses	12,800	108	29,169	5,916	2,778,343	2,730,350
Drilling	29,295	1,507,938	60,005	8,690,574	32,224,048	21,936,236
Resource evaluation	3,700,826	7,376,409	118,614	257,798	24,229,693	12,776,046
Environmental	1,974,608	2,537,016	-	448,736	13,263,448	8,303,088
Amortization of property and equipment	-	15,998	-	34,368	95,430	45,064
	5,704,729	11,437,361	178,619	9,431,476	69,812,619	43,060,434
Tax credits and mining duties	-	(3,878,019)	(77,967)	(34,508)	(10,111,678)	(6,121,184)
Tata Steel payment	(3,566,434)	(4,266,379)	-	-	(11,583,606)	(3,750,793)
	(3,566,434)	(8,144,398)	(77,967)	(34,508)	(21,695,284)	(9,871,977)
Balance, at September 30, 2012	23,396,867	13,240,158	2,383,742	11,874,911	50,895,678	35,918,807

Overview

The Company holds interests in 2,854 claims distributed between properties in Newfoundland and Labrador (“NL”) and Québec. Claims registered under New Millennium Iron Corp. are owned 100% by the Company. Claims registered under LLP are owned 80% by the Company through its 80% interest in LLP.

Province	Ownership	LabMag Property	KéMag Property	Lac Ritchie Property	Other Properties	Total
Newfoundland & Labrador	NML	-	-	-	958 [239.5 km^2]	958 [239.5 km^2]
	LLP	256 [64 km^2]	-	-	485 [121.3 km^2]	741 [185.3 km^2]
Québec	NML	-	171 [80.9 km^2]	263 [127.5 km^2]	721 [344.6 km^2]	1,155 [553 km^2]
Total		**256** [64 km^2]	**171** [80.9 km^2]	**263** [127.5 km^2]	**2,164** [705.4 km^2]	**2,854** [977.8 km^2]

8 - MINERAL EXPLORATION AND EVALUATION ASSETS (continued)

Although the Company has taken steps to verify title to the mining properties in which it holds an interest in accordance with industry practices for the current stages of exploration and development of such properties, these procedures do not guarantee the validity of the Company's titles. Property titles may be subject to unregistered prior agreements and restrictions arising from regulatory requirements.

LabMag Property:

The LabMag Iron Ore Project involves the exploration and evaluation of a taconite deposit at Howells River, NL. The property is situated in western Labrador, in Elross Township, about 30 kms to the northwest of the town of Schefferville, Québec. A Pre-Feasibility Study completed in 2006 on this Project assumed a mining operation and concentrator, located at Howells River, with an annual production of 14.2 million tonnes of concentrate to be shipped by a pipeline to a 15 million ton per year pellet plant located at Emeril, near Wabush Township. The pellets produced are assumed in the study to be delivered via railway to a new dock at Pointe-Noire, near Sept-Îles for shipment. The property is now subject to a bankable feasibility study under the arrangement summarised in the Taconite binding heads of agreement ("Binding HOA") presented below.

KéMag Property:

The KéMag Iron Ore Project involves the exploration and evaluation of a taconite deposit at Lac Harris, Québec. The property, situated in the Kativik Region in northern Québec, is centered about 50 kms to the northwest of Schefferville. A Pre-Feasibility Study was completed in 2009 on this Project based on a mining operation and concentrator located at Lac Harris with an estimated annual production rate of 21.2 million tonnes of concentrate. The concentrate is proposed to be shipped by a pipeline to a 15 million tonnes per year pellet plant located in Sept-Îles, Québec, where it is estimated in the study to be sufficient to feed the pellet plant and provide 7 million tonnes per year of concentrate for shipment in addition to 15 million tonnes per year of pellets. The property is now subject to a bankable feasibility study under the arrangement summarised in the Binding HOA presented below.

Lac Ritchie Property:

The Lac Ritchie Property is located approximately 134 km northwest of Schefferville and approximately 70 km northwest of the KéMag deposit in Québec. The property is comprised of 263 contiguous claims with an area of 127.5 km^2. NML conducted Phase 1 drilling in 2011 by drilling 40 holes for a total of 3,810 m, on a 1.0 km X 0.5 km grid. Based on the results of drilling, NML engaged SGS Canada Inc. to provide a NI 43-101 compliant Technical Report on the Mineral Resource Estimates for the Lac Ritchie property, which showed 3.330 billion tonnes of Indicated and 1.437 billion tonnes of Inferred Resources.

Other Properties:

The remaining claims and licences include holdings of potential magnetic taconite areas and dolomite as well as the site of the potential Emeril pellet plant. The other taconite areas in NL are Howells Lake, Sheps Lake and Perault Lake. Five exploration holes were drilled in the Howells Lake and Perault Lake areas in 2011. A full scale detailed drilling program is being carried out in these areas in 2012.

8 - MINERAL EXPLORATION AND EVALUATION ASSETS (continued)

Taconite Binding Heads of Agreement

The Company had granted Tata Steel Global Minerals Holdings PTE Ltd. ("Tata Steel") an exclusive option to negotiate a Binding HOA on the LabMag Project and the KéMag Project (collectively referred to as the "Taconite Projects") that expired December 31, 2010. An extension was granted to Tata Steel in exchange for a $600,000 payment, which was recorded as other income on the consolidated statement of comprehensive income in the period ended March 31, 2011.

On March 6, 2011, the Company signed the Binding HOA with Tata Steel in respect of the Taconite Projects. Under the Binding HOA, Tata Steel shall participate in the development of the Company's feasibility study of these projects. In exchange for an option to own a portion of the Taconite Projects, Tata Steel will pay the Company an amount equal to 64% of the costs to complete the feasibility study. After completion of the feasibility study, the option will allow Tata Steel four months to make an investment decision involving the development of either one or both of the projects. If Tata Steel exercises its option, it will be required to pay the Company 64% of the costs incurred prior to the feasibility study to advance the project(s).

The project(s) upon which Tata Steel exercises its option will be transferred to an entity in which Tata Steel will initially hold an 80% interest and the Company 20%, with this initial 20% interest bearing a "free carry" interest in that Tata Steel will be required to arrange funding in the entity for any capital expenditure requirements on behalf of the Company's interest up to a maximum of $4.85 billion. Also, the Company has an option to acquire an additional 16% paid equity interest and a right of first refusal to acquire another 4% paid equity interest, should Tata Steel exercise its right to invite third party investors into the project.

As at September 30, 2012, NML has received $18,400,000 from Tata Steel on account of the option. At September 30, 2012 $11,583,606 has been recorded as a reduction of the expenditures capitalized for the mineral exploration and evaluation assets, $3,750,793 in 2011 and an additional $7,832,813 in the nine months ended September 30, 2012. An additional $1,990,862 has been recorded as a reduction of general and administrative expenses, $1,491,019 in 2011 and an additional $499,843 in the nine month period ended September 30, 2012. The amount received in excess of these amounts at September 30, 2012 of $4,825,532 is recorded as an advance from Tata Steel. These advances are non-interest bearing and are expected to be reduced through payments for the cost of the feasibility study and reimbursement of general and administrative expenses.

DSO Properties – disposed of during the prior year

On December 30, 2011, the Company completed a transaction for the sale of the DSO Properties to Tata Steel Minerals Canada Ltd. ("TSMC") in exchange for $21,757,414 and one share of TSMC to bring NML's interest in TSMC to 20%. Tata Steel will arrange funding of the capital costs of DSO development up to $300 million and will commit to purchase, at world prices, 100% of DSO's iron ore production meeting certain quality specifications for the life of the mining operation.

Immediately prior to the closing, LLP distributed its DSO Properties to its partners, NML and NNK Trust. NML then purchased from NNK Trust the DSO Properties ("NNK Claims") for the right to receive proportionate amounts of any future dividend from TSMC or other amount received in respect of NML's investment in TSMC relating to the NNK Claims.

8 - MINERAL EXPLORATION AND EVALUATION ASSETS (continued)

The distribution by LLP to the NNK Trust resulted in a reduction of the non-controlling interest of NNK Trust at the cost of the NNK claims. NML's subsequent purchase of the NNK claims was recorded at their fair market value, estimated by independent valuation of the DSO Properties. The future payments due to NNK Trust which relate to any future payments received by NML in relation to the TSMC investment is shown as a long-term liability at the fair value of the related NNK claims. This amount is non-interest bearing and at the present time, there is no expectation as to when these payments will commence.

An independent valuation estimated the fair market value of the DSO Properties to be $53,300,000 based upon the income approach and applying a discounted cash flow method. As the Company had a consolidated cost for the DSO Properties prior to sale of $22,138,207, and using the fair market valuation, the Company recorded a gain on disposal of the DSO Properties in the amount of $31,161,793 and an allocation to the Company's shares in TSMC of $31,542,586.

9 - EQUITY

SHARE CAPITAL

Authorized

Unlimited number of shares

Common shares, without nominal or par value

Preferred shares, issuable in series, without nominal or par value

NEW ISSUES

On February 28, 2011, the Company completed a bought deal offering whereby 18,071,429 of its common shares were issued at a price of $3.50 per common share for gross proceeds of $63,250,002. The underwriters were paid fees of $3,478,750 and were granted 1,084,285 common share purchase options, with a fair value of $1,214,399, exercisable at a price of $3.50 per purchase option for a period of eighteen months from the closing of the offering. In addition, Tata Steel purchased 6,739,956 common shares, to maintain its proportional ownership in the Company under its pre-emptive right, at $3.50 per share for gross proceeds of $23,589,846. There was $648,721 of fees paid pursuant to Tata Steel's purchase.

NML entered into an agreement with legal counsel whereby NML, at their option, could pay $203,813 of legal fees related to legal work in cash or by issuance of shares of NML. The legal work related to this agreement was completed in June 2010 and NML decided to make their payment by issuance of shares, subject to regulatory approval.

On March 11, 2011, the Company issued 212,306 shares at a price of $0.96 per share to settle the outstanding debt of $203,813 and this amount was transferred from share capital to be issued to share capital.

There was a deferred income tax asset relating to the share issue costs for these issues in an amount of $1,302,808 that was not recognized.

On January 30, 2012, the Company issued 233,682 shares to Tata Steel at a price of $1.45 per share for proceeds of $338,558 under its pre-emptive right to maintain its proportional ownership in the Company.

(Expressed in Canadian Dollars)

9 – EQUITY (continued)

SHARE-BASED PAYMENTS

Stock options

The Company has adopted an incentive share-based compensation plan whereby options may be granted from time to time to directors, officers, employees and consultants of the Company with shares reserved for issuance as options not to exceed 10% of the issued and outstanding common shares. The exercise price of each option cannot be less than the exercise price permitted by the any stock exchange on which the Company's common shares are listed. The vesting period is determined by the Board of Directors and the maximum term of the options granted is 10 years. Some of the options only vest if certain performance criteria are met.

A summary of the Company's stock options are as follows:

	9 month period ended September 30, 2012		Year ended December 31, 2011	
	Number of outstanding options	Weighted average exercise price	Number of outstanding options	Weighted average exercise price
Balance, beginning of period	13,455,000	1.51	11,456,000	0.76
Granted	4,295,000	1.43	4,491,000	2.98
Exercised	(2,510,000)	0.71	(2,492,000)	0.71
Expired/Forfeited	(330,000)	2.50	-	-
Balance, end of period	14,910,000	1.60	13,455,000	1.51
Options exercisable, end of period	7,883,500	1.33	6,754,500	0.71

The share-based payments expense during the nine month period ended September 30, 2012 was $3,843,316 ($4,318,034 in 2011) and is included in general and administrative expenses. For the three month period ended September 30, 2012, the share based payment expense was $1,112,252 ($1,627,591 in 2011). The weighted average fair value of options granted during the nine month period ended September 30, 2012 was $1.03 per share ($2.11 per share in 2011). The fair value of each option was estimated on the date of grant using the Black-Scholes model. The forfeiture rate used was increased to 2.9% in 2012, compared with 0.25% in prior periods.

The following weighted-average assumptions were used:

	September 30, 2012 9 months	September 30, 2011 9 months
Exercise price at date of grant	$1.43	$3.31
Share price at date of grant	$1.43	$3.31
Risk-free interest rate	1.20%	1.84%
Expected life (years)	5	5
Estimated volatility of the market price of the common shares	94.39%	78.46%
Dividend yield	Nil	Nil

(Expressed in Canadian Dollars)

9 – EQUITY (continued)

The underlying expected volatility was determined by reference to historical data of the parent Company's common shares over five years. No special features inherent to the options granted were incorporated into measurement of fair value.

Agents' options

As disclosed above, agents involved in NML's February 28, 2011 equity financings were granted share purchase options during the year ended December 31, 2011. These options were convertible on a one for one basis into common shares at the Company, however they expired during the third quarter ending September 30, 2012. A summary of these agents' options is as follows:

	Number of outstanding options	September 30, 2012 weighted average exercise price $
Balance, beginning of period	1,084,285	3.50
Granted, exercised or expired	(1,084,285)	(3.50)
Balance, end of period	-	-
Options exercisable, end of period	-	-

These options were recognized as a reduction to capital stock as they represent share issue costs. No agents' options were granted or exercised in the nine month period ending September 30, 2012.

10 - INFORMATION INCLUDED IN INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3 months ended September 30		9 months ended September 30	
	2012 $	2011 $	2012 $	2011 $
Employee benefit expense				
Wages, salaries and other short-term benefits	701,497	479,552	1,894,291	1,538,371
Stock-based payments	1,046,308	1,597,100	3,717,383	4,106,489
Employee benefit expense	1,747,805	2,076,652	5,611,674	5,644,860
Other elements of expenses				
Depreciation of plant and equipment	44,033	9,659	132,480	49,810

11 - INCOME TAXES

Deferred income taxes arise from temporary differences between accounting values and tax base values of various net capital assets of the Company. In assessing the realizability of future income tax assets, management considers whether it is more likely than not that some portion or all of the future income tax assets will not be realized. As at September 30, 2012, the future tax benefits from the future income tax assets, which arose as a result of applying the losses and non-capital losses carried forward to taxable income, have not been recognized in these accounts due to uncertainty regarding their utilization.

12 - FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES

In the normal course of operations, the Company is exposed to and manages various financial risks in relation to financial instruments. 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 foreign currency transactions by buying the foreign currency at the spot rate when required.

On September 30, 2012, the Company had $2,960 USD, $2,910 CAD ($3,006 USD, $3,057 CAD at December 31, 2011) in cash and cash equivalents which have been translated to Canadian dollars using the closing exchange rate for each financial reporting period.

At September 30, 2012, the Company had $514,386 USD, $505,744 CAD ($32,736 USD, $33,436 CAD at December 31, 2011) in trade and other payables which have been translated to Canadian dollars using the closing exchange rate for each financial reporting period.

At September 30, 2012, the Company had €254,962 EUR, $322,425 CAD (€64,072 EUR, $85,000 CAD at December 31, 2011) in trade and other payables which have been translated to Canadian dollars using the closing exchange rates for each financial reporting period.

A $0.01 increase or decrease in the USD/CAD or the Euro/CAD exchange rates would not have a material impact on net loss or equity at September 30, 2012 or December 31, 2011.

The sensitivity analysis is based on the Company's foreign currency financial instruments held at each reporting date. Exposure to foreign exchange rates varies during the year depending on the volume of foreign transactions. Nonetheless, the analysis above is considered to be representative of the Company's exposure to exchange risk.

Interest rate risk

The cash equivalents and short-term investments 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 risk is limited because these assets involve lower risk securities such as GIC's, treasury bills and bonds with relatively short maturities all either issued by or guaranteed by Canadian Federal and Provincial governments or their crown corporations. For the investments carried at amortized cost there is no impact on profit or loss related to fair value variation. For the investments carried at fair value, a 0.10% increase or decrease in the interest rate would not have a material impact in net loss or equity at September 30, 2012. The Company does not use derivative financial instruments to reduce its interest rate exposure.

(Expressed in Canadian Dollars)

12 - FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)

Liquidity risk

Management maintains sufficient amounts of cash and cash equivalents to meet the Company's 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 trade and other payables are less than three months for all periods presented. The advance from Tata Steel and Due to NNK Trust do not have any contractual maturities.

Over the past year, the Company has financed its exploration expense commitments and its working capital requirements through equity financings.

Credit risk

The Company manages third party credit risk through an emphasis on quality in its investment portfolio. Cash and cash equivalents and investments are held through three Canadian chartered banks and their subsidiaries and an independent investment dealer with high quality external credit ratings and the instruments have been issued or guaranteed by Canada or the provinces and management believes the risk of loss to be remote.

The Company is also exposed to credit risk relating to its receivable from TSMC and other receivables. This credit risk is minimized by reviews of the third parties' credit risk.

The Company's maximum exposure to credit risk is limited to the carrying amount of financial assets after deducting applicable allowances for loss recognized at the reporting date, of which there are none at any of the periods presented.

13 – INFORMATION INCLUDED IN CONSOLIDATED CASH FLOWS

The changes in working capital items are detailed as follows:

	September 30, 2012 $	September 30, 2011 $
Sales taxes, other receivables and prepaid expenses	701,584	(3,057,160)
Trade and other payables	1,857,123	(2,286,655)
	2,558,707	(5,343,815)

Included in trade and other payables is an amount of $8,644,171 (September 30, 2011 - $2,961,046) pertaining to additions to mineral exploration and evaluation assets. Included in the cash flows used by deposits on contracts is $1,009,362 (September 30, 2011 - $1,575,906) pertaining to mineral exploration and evaluation assets.

14 – RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of the transactions between the Company and other related parties and key management are disclosed below.

(Expressed in Canadian Dollars)

14 – RELATED PARTY TRANSACTIONS (continued)

Transactions with other related parties

Trading transactions

The related parties with which the Company has had transactions are as follows:

Related Party	Nature of relationship	Nature of transaction
1301738 Ontario Inc.	Controlled by an executive officer and director of the Company	Consulting and management
Davis LLP	Partnership in which a director's professional corporation is a partner	Legal services
Roll Harris & Associés	Partnership in which an executive officer is a partner	Consulting
Balance Consultants Inc.	Controlled by executive officer of the Company	Consulting and management
TSMC	Company is 20% shareholder	Advances and service fees
General Rick Hillier	Director	Consulting
Tata Steel	26.5% shareholder of NML	Advances and consulting fees
NNK Trust	20% Partner in LLP	Advance

The Company incurred the following revenue, fees and expenses in the normal course of operations in connection with the above companies and individuals. Expenses have been measured at the exchange amount which is determined on a cost recovery basis.

	3 months ended September 30,		9 months ended September 30,	
	2012	2011	2012	2011
	$	$	$	$
<u>Consolidated Balance Sheet</u>				
Mineral exploration and evaluation assets	160,600	11,109	344,579	84,400
Share issue costs	3,948	(73)	3,948	138,294
<u>Consolidated Loss</u>				
Service fee revenue	148,822	-	585,873	-
General and administrative expenses	224,036	258,529	690,993	861,788

NML paid fees to a private company controlled by a director of the Company for consulting services performed outside of his capacity as a director.

Amounts due to and from related parties are unsecured, non-interest bearing and due on demand.

Other receivables related to advances to TSMC and service fee revenue charged to TSMC at September 30, 2012 was $1,224,329 (December 31, 2011 - $2,661,730).

Accounts payable related to the above transactions at September 30, 2012 were $447,387 (December 31, 2011 - $757,086).

The advance from Tata Steel at September 30, 2012 was $4,825,532 (December 31, 2011 – $3,208,188).

These amounts have not been discounted as the time-value of money is not material.

(Expressed in Canadian Dollars)

15 - CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Company's capital management objectives are to ensure its ability to continue as a going concern and to maximize the return of its shareholders. The Company's definition of capital includes all components of equity. Capital for the reporting periods under review is summarized in Note 9 and in the interim consolidated statement of changes in equity. In order to meet its objectives, the Company monitors its capital structure and makes adjustments as required in light of changes in economic conditions and the risks characteristics of the underlying assets. These objectives will be achieved by identifying the right exploration projects, adding value to these projects and ultimately taking them through production and cash flow, either with partners or by the Company's own means.

In order to maintain or adjust the capital structure, the Company may issue new shares or flow-through shares. No changes were made in the objectives, policies and processes for managing capital during the year. The Company is not subject to any externally imposed capital requirements.

16 - COMMITMENTS AND CONTINGENCY

The Company is committed through LLP to pay aggregate royalties of 2% of gross revenue from mineral interests subject to the LLP Limited Partnership agreement.

The Company has issued irrevocable letters of credit in the amount of $19,436,000 that expire in July 2013. These irrevocable letters of credit were issued by the Canadian Imperial Bank of Commerce and are secured by a $25,000,000 first-ranking hypothec on investments with a maximum maturity of 12 months, held at CIBC Wood Gundy, which are included in the Short-term investments described in Note 6.

In relation to NML's agreement with the Port Authority described in Note 7, the Company has a take or pay obligation based on a discounted rate applied on 50% of the 15 million tonnes minimum annual shipping capacity and is payable even if NML does not use the facilities.

The Company has entered into an agreement with a First Nation in connection with certain exploration and development programs in their area in return for contributions towards education and environmental activities and the improvement of community facilities.

The Company has entered into long-term operating leases for premises and equipment and consulting agreements amounting to $2,104,000 expiring in June 2017.

No sublease payments or contingent rent payments were made or received. The Company's operating lease agreements do not contain any contingent rent clauses. No sublease income is expected as all assets held under lease agreements are used exclusively by the Company.

Minimum obligations due over the next five years and thereafter are as follows:

	Operating Leases $	Consulting Agreements $	Letters of Credit $	Total $
Up to 1 year	126,000	119,000	19,436,000	19,681,000
1 to 5 years	1,752,000	107,000	-	1,859,000
Over 5 years	-	-	-	-
	1,878,000	226,000	19,436,000	21,540,000