

New Millennium Iron Corp.
(Formerly New Millennium Capital Corp.)
Audited Consolidated Financial
Statements
December 31, 2011

Financial Statements

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Independent Auditor's Report

To the Shareholders of
New Millennium Iron Corp.

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We have audited the accompanying consolidated financial statements of New Millennium Iron Corp., which comprise the consolidated statements of financial position as at December 31, 2011 and 2010 and January 1st, 2010 and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence, about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of New Millennium Iron Corp. as at December 31, 2011 and 2010 and January 1st 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards (IFRS).

/S/ RAYMOND CHABOT GRANT THORNTON LLP ¹

Montreal (Canada)
March 28, 2012

¹ Chartered accountant auditor permit no. 22865

New Millennium Iron Corp.
(Formerly New Millennium Capital Corp.)
Consolidated Statement of Financial Position
(Expressed in Canadian Dollars)

	December 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
ASSETS			
Current assets			
Cash and cash equivalents (Note 5)	31,116,221	12,002,984	9,650,874
Short-term investments (Note 6)	75,625,267	3,674,699	171,903
Sales taxes, other receivables and prepaid expenses (Note 7 and 19)	3,299,011	1,045,687	367,892
Tax credits and mining duties receivable	5,967,258	3,223,842	1,571,837
Mineral exploration and evaluation assets held for sale (Note 9)	-	22,060,670	-
	<u>116,007,757</u>	<u>42,007,882</u>	<u>11,762,506</u>
Non-current assets			
Mining duties receivable	461,902	198,136	264,510
Long-term investments (Note 8)	31,542,605	-	2,680,519
Deposits on contracts	1,264,628	505,500	36,582
Mineral exploration and evaluation assets (Note 9)	35,918,807	30,074,365	42,260,008
Property and equipment (Note 10)	354,319	186,933	43,528
	<u>185,550,018</u>	<u>72,972,816</u>	<u>57,047,653</u>
EQUITY AND LIABILITIES			
LIABILITIES			
Current liabilities			
Trade and other payables (Note 11)	3,585,863	5,181,237	1,108,922
Advance from Tata Steel (Note 9 and 19)	3,208,188	-	-
	<u>6,794,051</u>	<u>5,181,237</u>	<u>1,108,922</u>
Non-current liabilities			
Due to NNK Trust (Note 9)	285,324	-	-
	<u>7,079,375</u>	<u>5,181,237</u>	<u>1,108,922</u>
EQUITY			
Share capital (Note 12)	172,344,038	88,435,402	67,539,603
Share capital to be issued (Note 12)	-	203,813	-
Contributed surplus	12,665,152	6,590,582	5,831,822
Deficit	(6,776,898)	(27,913,218)	(17,907,694)
Equity attributable to shareholders of the parent Company	<u>178,232,292</u>	<u>67,316,579</u>	<u>55,463,731</u>
Non-controlling interest	238,351	475,000	475,000
	<u>178,470,643</u>	<u>67,791,579</u>	<u>55,938,731</u>
Total equity	<u>178,470,643</u>	<u>67,791,579</u>	<u>55,938,731</u>
Total liabilities and equity	<u>185,550,018</u>	<u>72,972,816</u>	<u>57,047,653</u>

The accompanying notes are an integral part of these audited consolidated financial statements.

Approved by the Board of Directors on March 28, 2012 and signed on their behalf by:

/S/ Dean Journeaux
Director

/S/ Pierre Seccareccia
Director

New Millennium Iron Corp.
(Formerly New Millennium Capital Corp.)
Consolidated Statement of Comprehensive Income

Year ended December 31, 2011 and 2010
 (Expressed in Canadian Dollars)

	2011	2010
	\$	\$
Service fee revenue	1,708,944	–
Expenses		
General and administrative (Note 13)	13,187,389	10,247,124
Loss before other items	(11,478,445)	(10,247,124)
Other items		
Other income (Note 9)	607,950	–
Investment income	845,022	80,090
Loss on sale of long term investments (Note 8)	–	(6,490)
Change in fair value of long-term investments (Note 8)	–	168,000
Gain on sale of DSO Properties (Note 9)	31,161,793	–
	32,614,765	241,600
Net income (loss) and comprehensive income (loss)	21,136,320	(10,005,524)
Attributable to:		
Non-controlling interest	–	–
Shareholders of the parent Company	21,136,320	(10,005,524)
Net income (loss) and comprehensive income (loss)	21,136,320	(10,005,524)
Income (loss) per share - basic and diluted (Note 15)	0.12	(0.07)

The accompanying notes are an integral part of these audited consolidated financial statements.

New Millennium Iron Corp.
(Formerly New Millennium Capital Corp.)
Consolidated Statement of Changes in Equity

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Year ended December 31, 2011 and 2010
(Expressed in Canadian Dollars)

	Share Capital		Share Capital to be Issued \$	Contributed Surplus \$	Deficit \$	Total Attributable to Shareholders of the parent Company \$	Non Controlling Interest \$	Total Equity \$
	Number of Shares Issued and Fully Paid	Amount \$						
Balance at January 1, 2010	132,901,559	67,539,603	-	5,831,822	(17,907,694)	55,463,731	475,000	55,938,731
Net loss	-	-	-	-	(10,005,524)	(10,005,524)	-	(10,005,524)
Share capital issued for cash (Note 12)	14,285,714	20,000,000	-	-	-	20,000,000	-	20,000,000
Share capital issued for land claims (Note 12)	350,000	490,000	-	-	-	490,000	-	490,000
Share-based remuneration								
- employees and directors	-	-	-	923,612	-	923,612	-	923,612
- consultants	-	-	-	232,923	-	232,923	-	232,923
Share capital to be issued in lieu of cash for legal expenses (Note 12)	-	-	203,813	-	-	203,813	-	203,813
Exercise of stock options	1,215,000	1,016,425	-	(397,775)	-	618,650	-	618,650
Share issue cost	-	(610,626)	-	-	-	(610,626)	-	(610,626)
Balance at December 31, 2010	148,752,273	88,435,402	203,813	6,590,582	(27,913,218)	67,316,579	475,000	67,791,579
Net income	-	-	-	-	21,136,320	21,136,320	-	21,136,320
Share-based remuneration								
- employees and directors	-	-	-	5,759,282	-	5,759,282	-	5,759,282
- consultants	-	-	-	242,037	-	242,037	-	242,037
Share capital issued	24,811,385	86,839,848	-	-	-	86,839,848	-	86,839,848
Share capital issued in lieu of cash for legal expenses	212,306	203,813	(203,813)	-	-	-	-	-
Exercise of stock options	2,492,000	2,922,528	-	(1,141,148)	-	1,781,380	-	1,781,380
Share issue costs	-	(6,057,553)	-	1,214,399	-	(4,843,154)	-	(4,843,154)
Distribution of DSO properties to NNK Trust from LabMag Limited Partnership (Note 9)	-	-	-	-	-	-	(236,649)	(236,649)
Balance at December 31, 2011	176,267,964	172,344,038	-	12,665,152	(6,776,898)	178,232,292	238,351	178,470,643

The accompanying notes are an integral part of these audited consolidated financial statements.

New Millennium Iron Corp.
(Formerly New Millennium Capital Corp.)
Consolidated Statement of Cash Flows

Year ended December 31, 2011 and 2010
(Expressed in Canadian Dollars)

	2011	2010
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss) and comprehensive income (loss)	21,136,320	(10,005,524)
Adjustments for:		
Share-based remuneration		
- Employees and directors	5,759,282	923,612
- Consultants	242,037	232,923
Depreciation of property and equipment	84,648	29,727
Interest income	(845,022)	(80,090)
Gain on sale of DSO Properties	(31,161,793)	-
Loss on sale of long-term investments	-	6,490
Change in fair value of long-term investments	-	(168,000)
	<u>(25,920,848)</u>	<u>944,662</u>
Net changes in working capital items (Note 18)	(5,252,993)	3,097,831
Cash flows used by operating activities	<u>(10,037,521)</u>	<u>(5,963,031)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Net purchases of short term treasury bills, term deposits and GIC's	(46,847,733)	(3,502,796)
Purchase of bonds and GIC's with maturities over one year	(24,657,240)	-
Interest received	399,429	80,090
Investment in TSMC	(19)	-
Redemption of long-term investments	-	2,842,029
Deposits on contracts	(2,479,953)	(668,975)
Acquisition of property and equipment	(285,926)	(213,027)
Increase in advance from Tata Steel	3,208,188	-
Proceeds from sale of DSO Properties	21,757,414	-
Tax credits and mining duties received	1,394,527	197,448
Additions to mineral exploration and evaluation assets	(10,866,796)	(10,427,652)
Allocation of Tata Steel payment to mineral exploration and evaluation assets	3,750,793	-
Cash flows used by investing activities	<u>(54,627,316)</u>	<u>(11,692,883)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Issuance of common shares	88,621,228	20,618,650
Share issue costs	(4,843,154)	(610,626)
Cash flows provided by financing activities	<u>83,778,074</u>	<u>20,008,024</u>
Net increase in cash and cash equivalents	<u>19,113,237</u>	<u>2,352,110</u>
Cash and cash equivalents, beginning of year	<u>12,002,984</u>	<u>9,650,874</u>
Cash and cash equivalents, end of year	<u><u>31,116,221</u></u>	<u><u>12,002,984</u></u>

The accompanying notes are an integral part of these audited consolidated financial statements.

New Millennium Iron Corp. (Formerly New Millennium Capital Corp.) Notes to Consolidated Financial Statements

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December 31, 2011

(Expressed in Canadian Dollars)

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. On June 8, 2011, the shareholders of the Parent Company adopted a resolution to change the name of the Company to New Millennium Iron Corp.

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 – 21st SW, Calgary, Alberta, T2P 0C1.

2 - SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These are the Company’s first financial statements in accordance with IFRS.

The significant accounting policies that have been applied in the preparation of these consolidated financial statements are summarized below and are those specified by IFRS that are in effect at December 31, 2011. These consolidated financial statements should be read giving consideration to the IFRS transition disclosures included in Note 22.

These accounting policies have been used throughout all periods presented in the consolidated financial statements, except where the Company has applied certain accounting policies and exemptions upon transition to IFRS. The exemptions applied by the Company and the effects of transition to IFRS are presented in Note 22.

Basis of presentation

The 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.

Basis of consolidation

These consolidated financial statements include the accounts of the parent and the entities controlled by the parent and its subsidiaries which include the following entities.

New Millennium Iron Corp.
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Notes to Consolidated Financial Statements

December 31, 2011

(Expressed in Canadian Dollars)

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Entity	Principal activity	Country of incorporation and residence	Proportion of ownership interest and voting power held
LabMag Services Inc.	Provision of services to LLP	Canada	100%
LabMag GP Inc. ("GP")	General partner of LLP	Canada	80%
LabMag Limited Partnership ("LLP")	Exploration and evaluation of the LabMag property	Canada	80%

In accordance with the LLP Partnership agreement between the Company, Naskapi/LabMag Trust ("NNK Trust") and GP, the Company is responsible for providing and arranging for all capital in excess of initial contributions of each partner and for the financing of all operating costs for exploration until commercial production commences.

Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant intercompany transactions and balances have been eliminated. All subsidiaries have an annual reporting date of December 31.

Where the Company controls a subsidiary whose equity (or a portion thereof) is not attributable directly or indirectly to the Company, the Company records a non-controlling interest equal to its original cost plus its' attributable share of changes in equity since the date of acquisition. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity of the shareholders of the Company. Consequently, the Company consolidates 100% of the assets, liabilities and losses of LLP and reflects the contribution of the Partner holding the 20% interest in the Partnership as a non-controlling interest.

Cash and cash equivalents

Cash and cash equivalents comprise cash in bank and other short-term highly liquid investments having original maturities of three months or less from the acquisition date and that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value.

New Millennium Iron Corp.
(Formerly New Millennium Capital Corp.)
Notes to Consolidated Financial Statements

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December 31, 2011

(Expressed in Canadian Dollars)

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Mineral exploration and evaluation assets

The Company is in the process of exploring and evaluating its mineral properties. The costs of exploration for and evaluation of mineral resources are capitalized as intangible assets pending the determination of the technical feasibility and commercial viability of extracting those resources and recovering the capitalized costs. The recoverability of amounts capitalized as exploration and evaluation assets is dependent upon the ability of the Company to obtain necessary financing to complete the exploration and development of economically recoverable reserves in the mineral properties, upon the renewal of the underlying mineral claims, the maintenance of the Company's interest in the underlying mining titles and compliance with filing obligations, and upon future profitable production of these reserves or the receipt of sufficient proceeds from the disposition thereof.

Exploration and evaluation assets include the cost of acquiring mineral rights and expenses directly related to the exploration for and evaluation of mineral resources. These costs are recognized as intangible assets and are carried at cost less related tax credits and credits on mining duties and any impairment loss recognized.

Pending the determination of the technical feasibility and commercial viability of extracting a mineral resource, the Company capitalizes mineral exploration and evaluation costs on an area of interest basis for activities directly attributable to:

- Costs incurred in acquiring mineral rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects;
- Researching and analyzing existing exploration data;
- Conducting geological studies;
- Exploratory drilling and sampling;
- Examining and testing extraction and treatment methods;
- Environmental assessments of the impact of the potential extraction and processing of the mineral resource; and
- Activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

Costs incurred before the legal right to undertake exploration and evaluation activities on a property are acquired are recognized in profit or loss when incurred.

The accessory revenues earned over the exploration and evaluation period are recognized in profit or loss.

Mineral exploration and evaluation assets are not depreciated during the evaluation and exploration phase.

When technical feasibility and commercial viability of extracting a mineral resource are demonstrable, exploration and evaluation assets of the related mining property are transferred to mining assets under construction within property and equipment.

If and when exploration and evaluation assets are reclassified as mining assets under construction, they are first tested for impairment and any impairment loss is recognized in profit or loss.

New Millennium Iron Corp.
(Formerly New Millennium Capital Corp.)
Notes to Consolidated Financial Statements

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December 31, 2011
(Expressed in Canadian Dollars)

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Whenever a mining property is considered no longer viable, or is abandoned, the related mineral exploration and evaluation assets are written down to their recoverable amounts and the difference is recognized immediately in profit or loss.

The cost of mineral exploration and evaluation assets that are acquired by exchanging other non-monetary assets is measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. When the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

Tax credits and mining credits on duties

Tax credits and mining credits on duties are recognized as a reduction of the mineral exploration and evaluation assets during the period in which the costs are incurred, provided that the Company is reasonably certain the amounts will be received. The tax credits and mining credits on duties claimed and recorded must be examined and approved by the government authorities so it is possible that the amount granted will differ from the amount recorded.

Property and equipment

Upon transfer of exploration and evaluation assets to Mining assets under construction within property and equipment, all subsequent expenditures on the construction, installation or completion of infrastructure facilities are capitalized within Mining assets under construction. When the development stage is completed, all assets included in mining assets under construction are then transferred to mining assets and depreciated over the expected productive lives of the assets.

Property and equipment are carried at cost less accumulated depreciation and any impairment losses. Depreciation is recognized on a straight-line basis over the estimated useful life of the property and equipment. The periods generally applicable are as follows:

	<u>Period</u>
Office furniture and equipment	18 to 60 months

The amortization expense for each period is recognized in profit or loss, within general and administrative expense, except for certain items of property and equipment related to exploration and evaluation activities where the amortization expense is included in the carrying amount of an exploration and evaluation asset when it relates to a specific exploration and evaluation project. Depreciation of an asset ceases when it is classified as held for sale (or included in a disposal group that is classified as held for sale) or when it is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

Depreciation methods, useful lives and residual values are reviewed at each reporting period, and adjusted if appropriate. Any changes arising from the assessment are applied by the Company prospectively.

Assets held for sale

Evaluation and exploration assets and disposal groups of such assets that are expected to be recovered primarily through sale rather than through continuing use, and for which sale within 12 months is highly probable, are classified as held for sale and presented separately in the statement of financial position.

New Millennium Iron Corp.
(Formerly New Millennium Capital Corp.)
Notes to Consolidated Financial Statements

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December 31, 2011

(Expressed in Canadian Dollars)

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets (or disposal groups) classified as “held for sale” are measured at the lower of their carrying amount and fair value less costs to sell. Notwithstanding, financial assets and deferred tax assets in a disposal group classified as held for sale, continue to be measured in accordance with the Company’s accounting policy for those assets. Impairment losses for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Assets classified as “held for sale” are not depreciated subsequent to their classification as “held for sale”.

Income taxes

Income tax expense consists of the sum of current and deferred tax expense. Income tax expense is recognized in profit or loss except when they relate to items that are recognized outside profit or loss i.e. directly in equity or other comprehensive income.

Current income tax expense is the expected tax payable on the taxable profit or loss for the period which differs from profit or loss in the consolidated financial statements, using tax rates enacted or substantively enacted at the reporting date, adjusted for amendments to tax payable with regards to previous years.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to current or prior reporting periods.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Deferred tax on temporary differences associated with investments in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax liabilities are always provided for in full.

A deferred tax asset is only recognized to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that all or part of the related tax benefit will be realized. To the extent that an asset not previously recognized fulfills the criteria for recognition, a deferred income tax asset is recorded.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as deferred income tax expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

New Millennium Iron Corp.
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Notes to Consolidated Financial Statements

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December 31, 2011

(Expressed in Canadian Dollars)

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

When the Company has renounced its tax deductions and has incurred its eligible expenditures, the sale of tax deductions is recognized in profit or loss as a reduction of deferred tax expense and a deferred tax liability is recognized for the taxable temporary difference that arises from the difference between the carrying amount of eligible expenditures capitalized as an asset and its tax base.

Income (loss) per share

Basic income (loss) per share is calculated by dividing the income or loss attributable to the shareholders of NML by the weighted average number of common shares outstanding during the period.

Diluted income (loss) per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares.

Diluted income (loss) per share is calculated by adjusting income or loss attributable to shareholders of NML, and the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares. The calculation considers that dilutive common shares are deemed to have been converted into common shares at the beginning of the period or, if later, at the date of potential issuance of the common shares.

For the purpose of calculating diluted income or loss per share, an entity shall assume the exercise of dilutive options and warrants of the entity. The assumed proceeds from these instruments shall be regarded as having been received from the issue of common shares at the average market price of common shares during the period.

For 2010, the diluted loss per share is equal to the basic loss per share as a result of the anti-dilutive effect of the outstanding options as explained in Note 15.

Equity

Share capital represents the amount received on the issue of shares, less issuance costs net of any underlying income tax benefit from these issuance costs.

Proceeds from unit placements are allocated between shares and warrants issued using the residual method. Proceeds are first allocated to shares according to the quoted price of existing shares at the time of issuance and any residual in the proceeds is allocated to warrants.

Issuance of flow-through shares represents in substance an issue of common shares and the sale of the right to tax deductions to the investors. When the flow-through shares are issued, the sale of the right to tax deductions is deferred and presented as other liabilities in the statement of financial position. The proceeds received of flow-through placements are allocated between share capital and the liability using the residual method which means that the shares are valued at fair value of existing shares at the time of issuance and the residual proceeds are allocated to the liability. The liability component recorded initially on the issuance of shares is reversed on renunciation of the right to deductions to the investors and when eligible expenses are incurred and recognized in profit or loss in reduction of deferred income tax expense.

Contributed surplus includes charges related to share options and warrants until such equity instruments are exercised, at which point the amounts are transferred to share capital.

New Millennium Iron Corp.
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Notes to Consolidated Financial Statements

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December 31, 2011

(Expressed in Canadian Dollars)

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Share capital to be issued represents the value of goods and services received during the reporting period for which payment was to be made in the form of shares that were issued subsequent to the financial reporting date.

Deficit includes all current and prior period retained income and losses.

Non-controlling interest consists of the subsidiaries' equity that the Company does not hold directly or indirectly.

Share-based payments

The Company operates an equity settled share-based remuneration plan. All goods and services received in exchange for the grant of any share-based payments are measured at their fair values unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value indirectly by reference to the fair value of the equity instruments granted. Where employees and third parties providing similar services are rewarded using share-based payments, the fair value of the services rendered by the party is determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions, is determined using the Black-Scholes valuation model and is recognized over the vesting period of such options at each reporting date up to the vesting date or the expected vesting period when options vest only if certain performance criteria is met. The estimate of the number of the awards likely to vest is reviewed and adjusted to reflect the actual awards issued. Any cumulative adjustment prior to vesting is recognized in the current period in profit or loss with a corresponding adjustment to contributed surplus.

The compensation expense for the period is recognized in General and Administrative expenses, with a corresponding adjustment to contributed surplus. Share-based payment to the agents in respect of an equity financing are recognized as issuance cost of the equity instruments with a corresponding credit to contributed surplus.

When directors, officers, employees and consultants exercise their share options, the share capital is credited by the sum of the consideration paid together with the related portion previously credited to contributed surplus when compensation expenses were charged in profit or loss.

Financial instruments

All financial assets are recognized when the Company becomes a party to the contractual provisions of the financial instrument and are initially measured at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

Financial instruments are classified into the following categories upon initial recognition:

- loans and receivables;
- financial assets at fair value through profit or loss (“FVTPL”);
- held-to-maturity investments;
- available-for-sale financial assets;
- financial liabilities at fair value through profit or loss
- financial liabilities at amortized cost

New Millennium Iron Corp.
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December 31, 2011
 (Expressed in Canadian Dollars)

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company's financial instruments are classified and measured as follows:

Financial asset/liability	Category	Subsequent measurement
Cash	Loans and receivable	Amortized cost
Cash equivalents and short-term investments	Held to maturity	Amortized cost
Other receivables	Loans and receivables	Amortized cost
Long term investments, bonds	Held to maturity	Amortized cost
Long-term investment, TSMC	Available for sale financial assets	Cost less impairment charges
Long-term investments, commercial paper	FVTPL	Fair value
Trade and other payables	Financial liabilities	Amortized cost
Advance from Tata Steel	Financial liabilities	Amortized cost
Due to NNK Trust	Financial liabilities	Amortized cost

The category determines subsequent measurement and whether any resulting income and expense is recognized in profit or loss or in other comprehensive income.

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

Financial assets at FVTPL include financial assets that are either classified as held-for-trading or that meet certain conditions and are designated at FVTPL upon initial recognition. Assets in this category are measured at fair value with gains and losses recognized in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

Other receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Impairment of receivables is recognized in profit or loss within general administrative expenses. If, in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss or a portion of such, is reversed. The amount of the impairment loss reversed may not exceed the original impairment amount.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as held-to-maturity if the Company has the intention and ability to hold them until maturity.

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2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Held-to-maturity investments are measured subsequently at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. At December 31, 2011, the Company owns 20% of Tata Steel Minerals Canada Ltd. ("TSMC"), a private company. NML's equity investment in the shares of TSMC is designated as available-for-sale financial assets and was initially measured at fair value. After the initial recognition, the investment is measured at cost, less any impairment charges, because the shares do not have a quoted market price in an active market and the fair value cannot be reliably measured.

The Company's financial liabilities are initially measured at fair value, less transaction costs if any, and are subsequently measured at amortized cost using the effective interest method.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Employee benefits

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as paid vacation leave, maternity and paternal leave, sick leave and bonuses) is recognized in the period in which the services are rendered.

Impairment of property and equipment and mineral exploration and evaluation assets

Mineral exploration and evaluation assets and property and equipment are tested for impairment whenever events or changes in circumstances indicate that the amounts may not be recoverable. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at a cash-generating unit ("CGU") level. Management has selected a policy of performing impairment reviews for exploration and evaluation assets on a property-by-property basis, with each property representing a potential single CGU.

An impairment loss is recognized in profit or loss for the amount by which the asset's or CGU's carrying amount exceeds its recoverable amount. The recoverable amount of an asset or a CGU is the higher of its fair value less cost to sell and its value in use. To determine the value in use, management estimates expected future cash flows from each asset or CGU, and then determines an appropriate interest rate for the calculation of the expected present value of the cash flows. Discount factors are determined individually for each CGU and reflect their respective risk profiles as assessed by management. The impairment loss reduces the asset or is charged pro rata on the basis of the carrying amount of each asset in the CGU.

Assets that have suffered impairment losses are reviewed at each reporting date for possible indicators of reversal of the impairment.

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2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior periods.

Service fee revenue

Revenue is recognized when services have been rendered in accordance with the terms of the arrangement, the revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated to the functional currency using the exchange rate in effect at the reporting date, whereas non-monetary items are translated at the historical rate. Revenue and expenses are translated to the functional currency using the exchange rate in effect during the period, with the exception of revenue and expenses relating to non-monetary assets and liabilities, which are translated using the historical rate. Gains and losses are recognized in profit or loss for the period.

Operating leases

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognized in profit or loss or as mineral exploration and evaluation assets on a straight-line basis over the period of the lease. They are recognized as mineral exploration and evaluation assets when the lease expenditures are in respect of assets directly associated with exploring or evaluating specific mineral resources.

Any incentive received from the lessor is recognized as a reduction of rental expense over the lease term, on a straight-line basis.

Provisions

Provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligations, and the amounts can be reliably estimated. A present obligation arises from the presence of a legal or constructive commitment that result from past events, for example, legal disputes, decommissioning, restoration and similar liabilities, or onerous contracts.

The amount recognized as a provision is reviewed at each reporting date and is the best estimate of the consideration required to settle the present obligation based on the most reliable evidence at the reporting date taking into account the risks and uncertainties surrounding the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation.

In those cases where the possible outflow of economic resources as a result of a present obligation is considered improbable or remote, no liability is recognized unless it was assumed in the course of a business combination.

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2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

As at December 31, 2011, December 31, 2010, and January 1, 2010 the Company had determined that no provision was required.

Segmental reporting

The Company presents and discloses segmental information based on information that is regularly reviewed by its chief operating decision makers i.e. the Board of Directors and Chief Executive Officer. These decision makers have joint responsibility for allocating resources to the Company's operating segments and assessing their performance.

The Company has determined that it has only one operating segment, the exploration and evaluation of mineral resources.

3 - USE OF ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the 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 below.

Mineral exploration and evaluation assets

The assessment of indicators of impairment and of a reversal of impairment and the measurement of the recoverable amount when impairment tests are performed both involve judgment. When an impairment test is performed and an impairment loss or reversal of impairment loss is recognized to the extent that the carrying amount of an asset or CGU exceeds its recoverable amount. The recoverable amount of an asset is determined as the higher of its fair value less costs to sell and its value in use.

Management determines for each property if there are any facts and circumstances indicating impairment loss or reversal of impairment losses. Facts and circumstances indicating impairment include, but are not limited to the following:

- a. the period for which the entity has the right to explore in a specific area has expired or will expire in the near future, and is not expected to be renewed;
- b. substantive expenditure on further exploration for an evaluation of mineral resources in a specific area is neither budgeted nor planned;
- c. exploration for and evaluation of mineral resources in a specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area;
- d. sufficient data exists to indicate that, although a development in a specific area is likely to proceed, the carrying amount of the mineral exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

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3 - USE OF ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

When an indication of impairment loss or a reversal of an impairment loss exists, management has to evaluate the recoverable amount of the asset or the CGU, and this requires management to make assumptions as to the future events or circumstances. The assumptions are based on the Company's exploration and evaluation program which consider whether results from exploration works justify further investments, the confirmation of the interest of the Company in the mining claims, the ability of the Company to obtain the necessary financing to complete the future development or if the expected proceeds from disposal of the properties are in excess of the carrying value. As at December 31, 2011 and 2010 and January 1, 2010, management does not believe the mineral exploration and evaluation assets to be impaired.

Provisions and contingent liabilities

Judgments are made as to whether a past event has led to a liability that should be recognized in the consolidated financial statements or disclosed as a contingent liability. Quantifying any such liability often involves judgments and estimations. These judgments are based on a number of factors including the nature of the claims or dispute, the legal process and potential amount payable, legal advice received, previous experience and the probability of a loss being realized. Several of these factors are source of estimation uncertainty.

To date, the Company has met all government regulations concerning reclamation requirements relating to the exploration and evaluation of its mineral properties on a progressive basis. Management believes that no additional environmental rehabilitation provisions are required at this time and no amount has been recorded in these financial statements.

Share-based payments

The estimation of share-based payments costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own share, the probable life of share options granted and the time of exercise of those share options. The model used by the Company is the Black-Scholes valuation model.

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 financial year ending December 31, 2011. Accordingly, they have not been applied in preparing these 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:

IFRS 7 Financial Instruments – Disclosures

Amended to require additional disclosures with respect to risk exposures arising from transferred financial assets. This amendment is effective for annual periods beginning on or after July 1, 2011 and NML will apply the amendment on January 1, 2013. NML does not expect the implementation to have a material impact on the Company's disclosures.

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4 - STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

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 1 January 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.

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.

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4 - STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

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.

5 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	December 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Cash in bank	31,116,221	1,849,238	1,151,639
Short-term investments	-	10,153,746	8,499,235
	<u>31,116,221</u>	<u>12,002,984</u>	<u>9,650,874</u>

At January 1, 2010, short-term investments consisted of treasury bills that matured in January 2010 and bore interest at 0.12%. At December 31, 2010, short-term investments consisted of treasury bills that matured by February 2011 and bore interest from 0.15% to 0.88%.

6 – SHORT-TERM INVESTMENTS

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%
	<u>75,625,267</u>		

At December 31, 2010, short-term investments included a treasury bill with a value of \$3,501,976 that matured in March 2011 and bore interest at 0.90% and guaranteed investment certificates ("GIC's") with values of \$172,723 maturing in June and July 2011 respectively and bearing interest at 0.75%

At January 1, 2010, term deposits included GIC's with costs of \$171,903 that matured in June and July 2010 and bore interest at 0.40%.

The fair value at December 31, 2011, of short-term investments is \$75,606,761 (December 31, 2010 and January 1, 2010 – approximate their carrying value).

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7 - SALES TAXES, OTHER RECEIVABLES AND PREPAID EXPENSES

Sales taxes, other receivables and prepaid expenses consist of the following amounts:

	December 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Sales taxes	310,098	495,535	300,866
Receivable from TSMC	2,661,730	495,261	-
Other	314,355	-	-
Prepaid expenses	11,079	54,891	65,106
Receivable from employee	1,749	-	1,920
Total	3,299,011	1,045,687	367,892

The receivable from TSMC is a receivable from an affiliated company in which NML owns a 20% equity interest. This amount is non-interest bearing and is a result of advances made by NML to assist TSMC in the commencement of its operations and from service fees charged by NML to TSMC for TSMC's use of NML personnel in TSMC's operations (Note 19).

8 - LONG-TERM INVESTMENTS

	December 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
TSMC	31,542,605	-	-
Commercial paper	-	-	2,680,519
	31,542,605	-	2,680,519

TSMC

This represents an investment in TSMC which resulted from an initial acquisition of 19 Class B shares of TSMC at a cost of \$19 and an additional Class B share, received as part of the sale of the DSO properties (see Note 9), valued at \$31,542,586. As a result, the Company owns 20 Class B shares at a cost of \$31,542,605, which represents its initial fair value. The investment represents a 20% ownership in TSMC.

Commercial paper

On June 17, 2010, the Company disposed of its asset backed notes ("Notes") for proceeds of \$2,840,244. These Notes 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. As at June 16, 2010, the Notes had a face value of \$4,405,792 (January 1, 2010 - \$4,407,581), and a fair value of \$2,846,734 (January 1, 2010 - \$2,680,519), resulting in the Company recognizing a loss on disposal of \$6,490 and an increase in fair value of \$168,000 for the year ended December 31, 2010.

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8 - LONG-TERM INVESTMENTS (continued)

The details of the Company's long-term investments in commercial paper at January 1, 2010 were as follows:

Notes	Face Value (\$)	Maturity Date (i)	Required Yield (ii)	Fair Value January 1, 2010 \$
MAV2				
A-1	2,937,825	January 22, 2017	9.75%	1,943,784
A-2	738,574	January 22, 2017	12.75%	402,645
B	134,072	January 22, 2017	33.00%	17,904
C	118,086	January 22, 2017	50.00%	6,745
IA Tracking Notes				
Class 15	479,024	December 20, 2013	15.00%	309,441
Total	4,407,581			2,680,519

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

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

9 - MINERAL EXPLORATION AND EVALUATION ASSETS

	Direct Shipping Ore Holdings ("DSO") Properties \$	LabMag Property \$	KéMag Property \$	Other Properties \$	Balance as at Dec. 31 2010 \$	Balance as at Jan. 1 2010 \$
Balance, at January 1, 2010	12,931,637	20,379,864	8,345,928	602,579	-	-
Mineral licenses	556,576	(12,002)	(13,356)	76,256	3,336,498	2,729,024
Drilling Resource evaluation	581,051	62,117	17,538	316,457	18,786,565	17,809,402
Environmental Amortization of property and equipment	6,006,501	83,207	92,046	321,240	22,143,025	15,640,031
	3,530,581	-	-	-	13,817,499	10,286,918
	28,724	2,793	399	7,979	39,895	-
	10,146,857	148,117	109,983	645,676	54,786,984	43,736,351
Tax credits and mining duties	(1,574,400)	-	(49,736)	(158,944)	(5,988,447)	(4,205,367)
Balance, at December 31, 2010	22,060,670	20,515,979	8,392,819	1,165,567	52,135,035	42,260,008
Mineral exploration and evaluation assets held for sale – DSO Properties					22,060,670	-
Mineral exploration and evaluation assets not held for sale					30,074,365	42,260,008

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9 – MINERAL EXPLORATION AND EVALUATION ASSETS (continued)

	DSO Properties \$	LabMag Property \$	KéMag Property \$	Other Properties \$	Balance as at Dec. 31 2011 \$	Balance as at Dec. 31 2010 \$
Balance, at December 31, 2010	22,060,670	20,515,979	8,392,819	1,165,567	-	-
Mineral licenses	(698,961)	700	11,398	80,715	2,730,350	3,336,498
Drilling	(6,303,192)	86,391	4,522,470	4,844,002	21,936,236	18,786,565
Resource evaluation	(12,114,808)	904,445	1,581,207	262,177	12,776,046	22,143,025
Environmental	(7,144,857)	861,903	685,630	82,913	8,303,088	13,817,499
Amortization of property and equipment	(28,724)	604	25,669	7,620	45,064	39,895
	(25,591,581)	1,853,344	6,814,976	5,196,712	43,060,434	54,786,984
Tax credits and mining duties	4,229,872	-	(2,645,563)	(1,717,046)	(6,121,184)	(5,988,447)
Tata Steel payment	-	(1,124,250)	(2,626,543)	-	(3,750,793)	-
	4,229,872	(1,124,251)	(5,272,106)	(1,717,046)	(9,871,977)	(5,988,447)
Balance, at December 31, 2011	-	21,245,772	9,947,087	4,725,948	35,918,807	52,135,035
Mineral exploration and evaluation assets held for sale – DSO Properties					-	22,060,670
Mineral exploration and evaluation assets not held for sale					35,918,807	30,074,365

During 2011, the Company acquired \$14,025,804 (2010 - \$11,658,107) in mineral exploration and evaluation assets, which were offset by \$4,401,708 (2010 - \$1,783,080) in tax credits and mining duties and \$3,750,793 (2010 – Nil) in payments from Tata Steel.

Overview

The Company holds interests in 2,841 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	Other Properties	Total
Newfoundland & Labrador	NML	-	-	973 [243.2 km ²]	973 [243.2 km ²]
	LLP	256 [64 km ²]	-	485 [121.3 km ²]	741 [185.3 km ²]
Québec	NML	-	171 [80.9 km ²]	956 [458.3 km ²]	1,127 [539.2 km ²]
Total		256 [64 km ²]	171 [80.9 km ²]	2,414 [822.8 km ²]	2,841 [967.7 km ²]

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9 - 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.

DSO Properties – Asset held for sale and disposed of during the year:

The Company's DSO Project involves exploration and evaluation work on hematite deposits in Québec and Labrador which were previously held and/or mined by the Iron Ore Company of Canada. The properties, located in isolated claim blocks, extend from 15 kms SE of Schefferville to the Goodwood area some 50 kms NW of Schefferville. A Feasibility Study was completed in March 2010 on this Project based on annual shipments of 4 million tonnes of sinter fines and super fines ore per year. The resulting product is expected to be composed of 80% sinter fines and 20% super fines.

The Company classified the DSO Properties as an asset held for sale, as on March 17, 2010, the Company officially notified Tata Steel Global Minerals Holdings PTE Ltd. ("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 the 180 day option period on the DSO Properties, whereby Tata Steel had 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 closing date to advance the DSO Properties.

On September 13, 2010, Tata Steel exercised this option and on December 30, 2011, the transaction was closed with the sale of the DSO Properties to 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 their interest in 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.

The distribution by LLP to the NNK Trust is reflected in these financial statements as 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.

At the time of the closing 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.

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9 - MINERAL EXPLORATION AND EVALUATION ASSETS (continued)

In connection with Tata Steel's exercise of their option and TSMC's subsequent purchase of the DSO Properties, NML incurred during the year \$152,000 (2010 - \$6,059,000) in professional fees which is included in general and administrative expenses.

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 export overseas.

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 the town of Schefferville, Québec. 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 ton 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 export in addition to 15 million tonnes per year of pellets.

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 taconite holdings include the Lac Ritchie area, QC which is located approximately 134 km northwest of Schefferville. During 2011, 40 holes were drilled to evaluate the taconite potential. 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 is planned in these areas in 2012.

Taconite Binding Heads of Agreement

The Company had granted Tata Steel an exclusive option to negotiate a binding heads of agreement ("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.

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9 - MINERAL EXPLORATION AND EVALUATION ASSETS (continued)

On March 6, 2011, the Company signed the Binding HOA with Tata Steel to develop 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 then it will 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 where Tata Steel will initially hold an 80% interest and the Company 20%, with this initial 20% interest bearing a "free carry" equity 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 December 31, 2011, NML has received \$8,450,000 from Tata Steel on account of the option. At December 31, 2011, \$3,750,793 has been recorded as a reduction of the expenditures capitalized for the mineral exploration and evaluation assets. An additional \$1,491,019 has been recorded as a reduction of general and administrative expenses. The amount received in excess of these amounts at December 31, 2011 of \$3,208,188 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.

In connection with the Binding HOA, NML incurred during the year, \$2,361,000 (2010 – NIL) in professional and advisory fees which is included in general and administrative expenses.

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10 - PROPERTY AND EQUIPMENT

The carrying amount can be analyzed as follows:

	<u>Office Furniture and Equipment</u>
	\$
Cost	
Balance at January 1, 2010	121,786
Additions	213,027
As at December 31, 2010	<u>334,813</u>
Additions	285,927
Balance at December 31, 2011	<u>620,740</u>
Depreciation	
Balance at January 1, 2010	78,258
Charge for period	69,622
Balance at December 31, 2010	<u>147,880</u>
Charge for period	118,541
Balance at December 31, 2011	<u>266,421</u>
 Net book value	
At January 1, 2010	43,528
At December 31, 2010	186,933
At December 31, 2011	354,319

At the end of each reporting period, the Company reviews the carrying amounts of property and equipment to determine whether there is an indication that these assets have suffered an impairment loss.

11 - TRADE AND OTHER PAYABLES

Trade and other payables recognized in the statement of financial position can be analyzed as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Trade accounts payable	277,508	3,947,232	496,598
Accrued liabilities	<u>3,308,355</u>	<u>1,234,005</u>	<u>612,324</u>
Total	<u>3,585,863</u>	<u>5,181,237</u>	<u>1,108,922</u>

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12 - 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 June 4, 2010, the Company completed a private placement to Tata Steel whereby 14,285,714 common shares were issued at \$1.40 per share. The Company received gross proceeds of \$20,000,000 and its financial advisors were paid \$525,000 in connection with the private placement.

On June 22, 2010, NML acquired a mineral claim for a purchase price of \$497,500. This was paid by a cash payment in the amount of \$7,500 and the issuance of 350,000 common shares of NML at a deemed price of \$1.40 per share amounting to \$490,000 in aggregate.

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. The amount of \$203,813 was presented in share capital to be issued in the December 31, 2010 statement of financial position.

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 (2010 - \$164,258) that was not recognized.

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 five years. Some of the options only vest if certain performance criteria are met.

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12 – EQUITY (continued)

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

	Year ended December 31, 2011		Year ended December 31, 2010		Year ended January 1, 2010	
	Number of outstanding options	Weighted average exercise price	Number of outstanding options	Weighted average exercise price	Number of outstanding options	Weighted average exercise price
Balance, beginning of year	11,456,000	0.76	8,677,000	0.65	8,108,267	0.66
Granted	4,491,000	2.98	4,019,000	0.90	2,682,000	0.38
Exercised	(2,492,000)	0.71	(1,215,000)	0.51	(1,415,001)	0.32
Expired/Forfeited			(25,000)	0.75	(698,266)	0.34
Balance, end of period	<u>13,455,000</u>	<u>1.51</u>	<u>11,456,000</u>	<u>0.76</u>	<u>8,677,000</u>	<u>0.65</u>
Options exercisable, end of year	<u>6,754,500</u>	<u>0.71</u>	<u>5,161,000</u>	<u>0.71</u>	<u>5,075,000</u>	<u>0.75</u>

With respect to stock options exercised during the period, the weighted-average share price at the date of exercise was \$2.40 for the year ended December 31, 2011 (\$1.07 for the year ended December 31, 2010).

Options exercisable and outstanding as at December 31, 2011 as set forth in the previous table are as follows:

Exercise price	Number of exercisable options	Number of outstanding options	Expiry Date
\$0.50	375,000	375,000	February 1, 2012
\$0.75	795,000	795,000	August 2, 2012
\$0.65	250,000	250,000	November 13, 2012
\$0.83	1,290,000	1,290,000	January 30, 2013
\$1.44	50,000	250,000	March 25, 2013
\$1.65	100,000	100,000	April 30, 2013
\$1.75	70,000	70,000	June 1, 2013
\$0.37	1,957,500	1,957,500	January 20, 2014
\$0.65	33,000	33,000	October 9, 2014
\$0.59	24,500	24,500	December 4, 2014
\$0.88	11,500	28,000	February 2, 2015
\$0.90	1,780,000	3,755,000	June 29, 2015
\$0.87	18,000	36,000	August 31, 2015
\$3.52	-	42,000	February 8, 2016
\$3.36	-	3,315,000	April 1, 2016
\$3.16	-	175,000	April 29, 2016
\$2.48	-	52,000	May 16, 2016
\$2.48	-	48,000	July 18, 2016
\$2.65	-	72,000	July 27, 2016
\$1.61	-	32,000	October 18, 2016
\$1.65	-	135,000	November 1, 2016
\$1.16	-	110,000	November 28, 2016
\$1.43	-	350,000	December 6, 2016
\$1.23	-	160,000	December 20, 2016
	<u>6,754,500</u>	<u>13,455,000</u>	
Weighted average exercise price	<u>0.71</u>	<u>1.51</u>	

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12 - EQUITY (continued)

The weighted average remaining contractual life of the options outstanding is 3.0 years.

The share-based payments expense during the year ended December 31, 2011 was \$6,001,319 (\$1,156,535 in 2010) and is included in general and administrative expenses.

The weighted average fair value of options granted during the year ended December 31, 2011 was \$1.91 per share (\$0.63 per share in 2010). The fair value of each option was estimated on the date of grant using the Black-Scholes model. The following weighted-average assumptions were used:

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Exercise price at date of grant	\$2.98	\$0.90
Share price at date of grant	\$2.98	\$0.90
Risk-free interest rate	1.75%	2.46%
Expected life (years)	5	5
Estimated volatility of the market price of the common shares	79.96%	89.84%
Dividend yield	Nil	Nil

The underlying expected volatility was determined by reference to historical data of the parent Company's common shares over one year. 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 ending December 31, 2011. These options are convertible on a one for one basis into common shares of the Company. A summary of these agents' options is as follows:

	<u>Number of outstanding options</u>	<u>December 31, 2011 weighted average exercise price \$</u>
Balance, beginning of year	-	-
Granted	<u>1,084,285</u>	<u>3.50</u>
Balance, end of period	<u>1,084,285</u>	<u>3.50</u>
Options exercisable, end of year	<u>1,084,285</u>	<u>3.50</u>

There were no agents' options outstanding at December 31, 2010 or January 1, 2010 and no options were granted, exercised or expired in 2010.

These options were recognized as a reduction to capital stock as they represent share issue costs.

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12 - EQUITY (continued)

The fair value of agents' options granted during the year ended December 31, 2011 was \$1.12 per share. The fair value for each option was estimated on the date of grant using the Block-Scholes model using the following assumptions:

Exercise price at date of grant	\$3.50
Share price at date of grant	\$3.50
Risk-free interest rate	1.72%
Expected life (years)	1.5
Estimated volatility of the market price of the common shares	65.06%
Dividend yield	Nil

The underlying expected volatility was determined by reference to historical data of the parent Company's common shares over 18 months. No special features inherent to the options granted were incorporated into measurement of fair value.

13 - INFORMATION INCLUDED IN CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	December 31, 2011 \$	December 31, 2010 \$
Employee benefit expense		
Wages, salaries and other short-term benefits	1,944,233	883,161
Stock-based payments	5,759,282	923,612
Employee benefit expense	<u>7,703,515</u>	<u>1,806,773</u>
Other elements of expenses		
Depreciation of plant and equipment	84,648	29,727

14 - INCOME TAXES

The relationship between the expected tax expense based on the domestic effective tax rate and the reported tax expense in profit and loss can be reconciled as follows, also showing major components of tax expense:

	December 31, 2011 \$	December 31, 2010 \$
Income (loss) before income taxes	<u>21,136,320</u>	<u>(10,005,524)</u>
Combined federal and provincial tax rates	<u>28.4%</u>	<u>29.9%</u>
Computed income tax recovery	6,002,715	(2,991,651)
Share-based payment expense	1,704,375	345,804
Mining duties	(131,180)	(58,716)
Professional fees	(1,795,062)	1,837,484
Sale of DSO Properties	(7,021,769)	-
Unrecognized tax items	1,589,999	750,449
Change in tax rate and other items	<u>(349,078)</u>	<u>116,630</u>
	<u>-</u>	<u>-</u>

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14 - INCOME TAXES (continued)

Deferred tax expense consists of the following:

	December 31, 2011 \$	December 31, 2010 \$
Origination and reversal of temporary differences	(1,227,592)	(824,928)
Change in unrecognized deductible temporary differences	1,589,999	750,449
Adjustment in respect of prior years	(56,376)	(9,214)
Difference between future and current statutory rates	(306,031)	83,693
	<u>-</u>	<u>-</u>

Recognized deferred tax assets and liabilities consist of the following:

	December 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Deferred income tax liabilities			
Mineral exploration and evaluation assets	1,647,535	6,811,437	6,615,053
Mining tax credits	463,662	186,212	165,949
	<u>2,111,197</u>	<u>6,997,649</u>	<u>6,781,002</u>
Deferred income tax assets			
Non-capital losses carried-forward	2,027,815	6,807,410	6,364,232
Share and unit issue costs	83,382	190,239	416,770
	<u>2,111,197</u>	<u>6,997,649</u>	<u>6,781,002</u>
	<u>-</u>	<u>-</u>	<u>-</u>

Movements in deferred tax assets (liabilities) related to temporary differences during the financial year are as follows:

	January 1, 2011 \$	Recognized in earnings \$	December 31, 2011 \$
Non-capital loss carry-forward	6,807,410	(4,779,595)	2,027,815
Share issuance costs	190,239	(106,857)	83,382
Mineral exploration and evaluation assets	(6,811,437)	5,163,902	(1,647,535)
Mining tax credits	(186,212)	(277,450)	(463,662)
Deferred tax assets (liabilities)	<u>-</u>	<u>-</u>	<u>-</u>
	January 1, 2010 \$	Recognized in earnings \$	December 31, 2010 \$
Non-capital loss carry-forwards	6,364,232	443,178	6,807,410
Share issuance costs	416,770	(226,531)	190,239
Mineral exploration and evaluation assets	(6,615,053)	(196,384)	(6,811,437)
Mining tax credits	(165,949)	(20,263)	(186,212)
Deferred tax assets (liabilities)	<u>-</u>	<u>-</u>	<u>-</u>

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14 - INCOME TAXES (continued)

The Company has the following deductible temporary differences, unused tax losses and unused tax credits for which no tax benefit have been recognized:

	December 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Limited partnership losses through LLP	-	285,000	474,000
Property and equipment	268,000	150,000	80,000
Share issue costs	4,241,000	611,000	-
Capital losses	1,566,000	1,566,000	1,727,000
Non-capital losses	8,454,000	4,378,000	1,382,000
Advance from Tata Steel	3,208,000	-	-

The non-capital tax losses for which no tax benefit has been recognized are available to reduce income taxes in the future years as follows:

	\$
2028	772,000
2029	3,130,000
2030	4,552,000
	<u>8,454,000</u>

The Company has a temporary difference relating to its investment in the TSMC shares in the amount of \$26,103,000 for which no tax liability is required to be recognized in accordance with IAS12.

During the year ended, December 31, 2011, the Company earned Federal investment tax credits ITC's of \$832,000 (2010 - \$463,000) which have not been recorded in these financial statements due to the uncertainty as to whether the Company will be able to utilize them.

The Company has a total of \$1,947,000 of Federal ITC's that can be carried forward for 20 years and expiring from 2028 to 2031 and \$180,000 of Quebec tax credits that can be carried forward for 10 years and expiring from 2016 to 2017.

15 - INCOME (LOSS) PER SHARE

The basic and diluted income (loss) per share for the year ended December 31, 2011 and 2010 have each been calculated using net income or loss attributable to the shareholders of NML as the numerator. The weighted average number of shares for the purposes of diluted earnings per share can be reconciled to the weighted average number of common shares used in the calculation of basic earnings per share as follows:

	December 31, 2011	December 31, 2010
Weighted average number of shares used in basic income (loss) per share	170,953,566	141,699,360
Common shares deemed issued in respect of stock options	9,033,576	-
Weighted average numbers of shares used in diluted income (loss) per share	<u>179,987,142</u>	<u>141,699,360</u>

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15 – INCOME (LOSS) PER SHARE (continued)

The following potential common shares are anti-dilutive and are therefore excluded from the weighted average number of common shares for the purposes of diluted income (loss) per share:

	December 31, 2011 \$	December 31, 2010 \$
Options	3,704,000	11,456,000
Agents' options	1,084,285	-
	<u>4,788,285</u>	<u>11,456,000</u>

The above options and agents' options are excluded from the 2011 diluted income per share calculation as their exercise price is greater than the average share price during 2011.

16 - FINANCIAL INSTRUMENTS

Classification of financial assets and liabilities

The carrying amounts of the financial instruments presented in the statement of financial position relate to the following categories of assets and liabilities:

	December 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Financial assets			
Fair value through profit or loss			
Long-term investments, commercial paper	-	-	2,680,519
Available for sale			
Long-term investment, TSMC	31,542,605	-	-
Held-to-maturity investments			
Short-term investments	75,625,267	3,674,699	171,903
Loans and receivables			
Cash and cash equivalents	31,116,221	12,002,984	9,650,874
Other receivables	2,977,834	495,261	1,920
	<u>34,094,055</u>	<u>12,498,245</u>	<u>9,652,794</u>
Financial liabilities			
Financial liabilities at amortized cost			
Trade and other payables	3,585,863	5,181,237	1,108,922
Advance from Tata Steel	3,208,188	-	-
Due to NNK	285,324	-	-
	<u>7,079,381</u>	<u>5,181,237</u>	<u>1,108,922</u>

The long-term investments in commercial paper classified as at fair value through profit or loss were measured at their fair value.

With respect to the assets held as short-term investments, the fair values of the treasury bills and bonds are based on their market values. The fair values of the bonds, treasury bills and GIC's were determined as at December 31, 2011 by using the current market rate, December 31, 2010 and January 1, 2010 by discounting using expected future interest rates of 0.2% and 0.2% respectively. The Company has not adjusted the carrying amounts of these assets to reflect their fair value, as it expects to hold them to maturity and receive the full nominal value of each instrument within a limited period of time.

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16 - FINANCIAL INSTRUMENTS (continued)

For all other financial assets and liabilities presented above, their carrying amount was a reasonable approximation of their fair values, notably due to their short-term maturities.

Financial instruments measured at fair value

The following table presents the financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. This hierarchy groups liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The level within which the financial asset or liability is classified is determined based on the lowest level of input to the fair value measurement. The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

	December 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
	Level 3	Level 3	Level 3
Fair value through profit or loss			
Long-term investments, commercial paper	-	-	2,680,519

There have been no transfers between levels or into or out of level 3 during the reporting period.

Measurement of fair value

The methods and valuations techniques used for the purpose of measuring fair value were unchanged compared to the previous reporting period.

The fair value of the Notes classified as long-term investments in commercial paper as at January 1, 2010 were determined based on management's judgment using available information and assumptions market participants would use in pricing such Notes at the valuation date. The Company reviewed information provided by Dominion Bond Rating Service and BlackRock, the administrator of MAV2, including current and anticipated credit ratings, composition and valuation estimates of the underlying assets and general economic conditions in considering the fair value of the investments.

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16 - FINANCIAL INSTRUMENTS (continued)

Level 3 fair value measurement

The Company's measurement of financial assets and liabilities classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data. The financial instruments within this level can be reconciled from beginning to ending balances as follows:

	December 31 2011 \$	December 31 2010 \$
Fair value at the beginning of the year	-	2,680,519
Change in fair value	-	168,000
Sales of MAV2 notes	-	(2,840,244)
Loss on sale of MAV2 notes	-	(6,490)
Redemption of Class A-1 notes	-	(1,785)
Fair value at the end of the year	-	-

Gains or losses recognized in profit or loss for the period are presented in financial income and can be attributed as follows:

	December 31 2011 \$	December 31 2010 \$
Gains (losses) on assets not held at the end of the reporting period	-	168,000

Changing inputs to the level 3 valuations to reasonably possible alternative assumptions would not change significantly amounts recognized in profit or loss, total assets, total liabilities or total equity.

Investment income

	December 31 2011 \$	December 31 2010 \$
Net gains or net losses on financial assets classified at fair value through profit or loss	-	168,000
Interest income calculated using the effective interest method for financial assets or financial liabilities that are not at fair value through profit or loss	845,022	80,090
	<u>845,022</u>	<u>248,090</u>

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17 - 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 December 31, 2011, the Company had \$3,006 USD, \$3,057 CAD (\$3,170,104 USD, \$3,152,985 CAD at December 31, 2010 and Nil at January 1, 2010) in cash and cash equivalents which have been translated to Canadian dollars using the closing exchange rate for each financial reporting period.

At December 31, 2011, the Company had \$32,736 USD, \$33,436 CAD (\$3,209,365 USD, \$3,192,250 CAD at December 31, 2010 and Nil at January 1, 2010) in trade and other payables which have been translated to Canadian dollars using the closing exchange rate for each financial reporting period.

At December 31, 2011, the Company had €64,072 EUR, \$85,000 CAD (Nil at December 31, 2010 and €112,501 EUR, \$170,822 CAD at January 1, 2010) 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 December 31, 2011 or December 31, 2010.

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 backed by Canadian Federal and Provincial governments or their crown corporations. All the investments are carried at amortized cost so there is no impact on profit or loss related to fair value variation. 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 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 advances 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.

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

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 are independent investment dealers 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.

18 - INFORMATION INCLUDED IN CONSOLIDATED CASH FLOWS

The changes in working capital items are detailed as follows:

	December 31, 2011 \$	December 31, 2010 \$
Sales taxes, other receivables and prepaids	(2,253,324)	(677,795)
Trade and other payables	(2,999,669)	3,775,626
	<u>(5,252,993)</u>	<u>3,097,831</u>

Included in trade and other payables is an amount of \$2,521,780 (December 31, 2010 - \$1,117,489) pertaining to additions to mineral exploration and evaluation assets. Included in the cash flows used by deposits on contracts is \$1,720,825 (December 31, 2010 - \$200,057) pertaining to mineral exploration and evaluation assets.

The distributions by LLP of its DSO Properties as well as NML's purchase from NNK Trust of the NNK claims were non-cash transactions.

The sale of the DSO Properties to TSMC was recorded at the estimated fair market value which exceeded the cash received.

19 - 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.

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19 – 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 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
TSMC	Company is 20% shareholder	Advances and service fees
General Rick Hillier	Director	Consulting
Tata Steel	26.8% shareholder of NML	Advances
NNK Trust	20% Partner in LLP	Advances

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.

	Note	December 31, 2011 \$	December 31, 2010 \$
<u>Consolidated Statement of Financial Position</u>			
Mineral exploration and evaluation assets	(i)	88,400	269,192
Share Issue Costs		138,294	39,043
<u>Consolidated Net Loss and Comprehensive Loss</u>			
Service fee revenue		1,708,944	-
General and administrative expenses	(i)	1,212,339	778,189

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 receivable related to advances to TSMC and service fee revenue charged to TSMC at December 31, 2011 was \$2,661,730 (December 31, 2010 - \$495,261).

Accounts payable related to the above transactions at December 31, 2011 were \$257,086 (December 31, 2010 - \$244,512).

The advances from Tata Steel at December 31, 2011 was \$3,208,188 (December 31, 2010 – Nil).

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

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19 – RELATED PARTY TRANSACTIONS (continued)

In Note 9 NML has disclosed transactions between NML and the NNK Trust related to the purchase of NNK Trust's interest in DSO claims, between NML and TSMC related to the sale of the DSO properties and, between NML and Tata Steel related to other income received in connection with the extension of the option on the Taconite Projects.

Transactions with key management personnel

Key management personnel of the Company are members of the board of directors, as well as the executive officers of the Company.

Key management personnel remuneration is comprised of the following:

	Note	December 31, 2011 \$	December 31, 2010 \$
Salaries and directors' fees	(i), (iii)	2,149,658	1,944,142
Share-based payments	(ii), (iv)	4,582,000	1,495,663
		<u>6,731,658</u>	<u>3,439,805</u>

- (i) Salaries and directors' fees include consulting and management fees disclosed above.
- (ii) Share-based payments are the fair value of options granted to key management personnel during the year.
- (iii) Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the years ended December 31, 2011 and December 31, 2010.
- (iv) During the year ended December 31, 2011, key management personnel exercised 1,325,000 share options (December 31, 2010 – 687,500) granted in the share-based compensation plan for a total of \$973,000 (December 31, 2010 - \$353,375).

20 - 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 12 and in the 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.

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21 - 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 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 \$1,473,000 expiring in June 2016.

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 \$	Total \$
Up to 1 year	525,000	180,000	705,000
1 to 5 years	768,000	-	768,000
Over 5 years	-	-	-
	<u>1,293,000</u>	<u>180,000</u>	<u>1,473,000</u>

22- FIRST-TIME ADOPTION OF IFRS

These are the Company's first consolidated financial statements prepared in accordance with IFRS. The date of transition to IFRS is January 1, 2010. Before the transition to IFRS, the Company's consolidated financial statements were prepared using generally accepted accounting principles effective before the transition to IFRS, hereinafter called "Canadian GAAP".

The Company's IFRS accounting policies presented in Note 2 have been applied in preparing these consolidated financial statements for the reporting period ended December 31, 2011 and have been used throughout all periods presented and the opening consolidated statement of financial position at the date of transition. The Company has applied IFRS 1 in preparing these first IFRS consolidated financial statements. The effects of the transition to IFRS on equity, total comprehensive loss and reported cash flows already established are presented in this section and are further explained in the notes that accompany the tables.

First-time adoption exemptions applied

IFRS 1, *First-time Adoption of International Financial Reporting Standards*, sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transition date with all adjustments to assets and liabilities being recognized in retained earnings except in circumstances where certain exemptions are applied from full retrospective application. The Company has applied the following mandatory and optional exemptions to its opening statement of financial position dated January 1, 2010:

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22- FIRST-TIME ADOPTION OF IFRS (continued)

Optional exemptions

Share-based payment transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2, *Share-based Payment*, to equity instruments that were granted subsequent to November 7, 2002 and vested before January 1, 2010. The Company has elected not to apply IFRS 2 to awards that were granted and vested prior to January 1, 2010, which have been accounted for in accordance with Canadian GAAP.

Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of January 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

Reconciliations and presentation differences

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the Company's actual cash flows, it has resulted in changes to the Company's reported financial position and results of operations. In order to allow the users of the financial statements to better understand these changes, the following tables show the total effect of the transition on the Company's Canadian GAAP statement of comprehensive loss and the statement of financial position and show reconciliations of the comprehensive loss and the equity to IFRS, with the resulting differences explained.

An explanation of how the transition from GAAP to IFRS has affected the Company's statement of financial position and comprehensive loss is set out as follows:

A) Reconciliation of shareholders' equity as reported under Canadian GAAP to IFRS as at the date of transition of January 1, 2010.

	Notes	Share Capital \$	Contributed Surplus \$	Deficit \$	Non- Controlling Interest \$	Total \$
As reported under Canadian GAAP – December 31, 2009		64,859,075	5,392,037	(13,979,918)	475,000	56,746,194
Effect of flow-through shares under IFRS	a	2,680,528	-	(2,680,528)	-	-
Deferred income tax reversal on purchase of mining claims through a tax free rollover	b	-	-	(532,748)	-	(532,748)
Share-based payments	c	-	439,785	(439,785)	-	-
Write-off of mineral exploration and evaluation expenses incurred prior to purchase of LabMag Property claims	d	-	-	(274,715)	-	(274,715)
As reported under IFRS – January 1, 2010		67,539,603	5,831,822	(17,907,694)	475,000	55,938,731

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22- FIRST-TIME ADOPTION OF IFRS (continued)

Reconciliation of shareholders' equity as reported under Canadian GAAP to IFRS as at December 31, 2010.

	Notes	Share Capital \$	Capital Stock to be Issued \$	Contributed Surplus \$	Deficit \$	Non- Controlling Interest \$	Total \$
As reported under Canadian GAAP – December 31, 2010		85,754,874	203,813	5,319,477	(22,843,120)	475,000	68,910,044
Effect of flow-through shares under IFRS	a	2,680,528	-	-	(2,680,528)	-	-
Deferred income tax reversal on purchase of mining claims through a tax free rollover	b	-	-	-	(843,750)	-	(843,750)
Share-based payments	c	-	-	1,271,105	(1,271,105)	-	-
Write-off of mineral exploration and evaluation asset expenses incurred prior to purchase of LabMag Property claims	d	-	-	-	(274,715)	-	(274,715)
As reported under IFRS – December 31, 2010		88,435,402	203,813	6,590,582	(27,913,218)	475,000	67,791,579

B) Reconciliation of total assets and liabilities between Canadian GAAP and IFRS as at the transition date of January 1, 2010.

	Notes	Total Assets \$	Total Liabilities \$
As reported under Canadian GAAP on December 31, 2009		58,166,118	1,419,924
Mineral exploration and evaluation assets	b, d	(1,118,465)	-
Deferred income tax liability	b	-	(311,001)
As reported under IFRS – January 1, 2010		57,047,653	1,108,923

Reconciliation of total assets and liabilities between Canadian GAAP and IFRS as at December 31, 2010.

	Notes	Total Assets \$	Total Liabilities \$
As reported under Canadian GAAP on December 31, 2010		74,091,281	5,181,237
Mineral exploration and evaluation assets	b, d	(1,118,465)	-
As reported under IFRS – December 31, 2010		72,972,816	5,181,237

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22- FIRST-TIME ADOPTION OF IFRS (continued)

C) Reconciliation of comprehensive loss as reported under Canadian GAAP to IFRS

	Notes	Year-ended December 31, 2010 \$
Comprehensive loss under Canadian GAAP		(8,863,202)
Deferred income tax reversal on purchase of mining claims through a tax-free rollover	b	(311,001)
Share-based payments	c	(831,321)
Comprehensive loss under IFRS		(10,005,524)

D) In the Statement of Comprehensive Income under IFRS expenses are presented by function, whereas under Canadian GAAP it was presented in a combination of function and nature.

a) Flow-through shares

IFRS do not specifically address the accounting for flow-through shares or the related tax consequences of such transactions. Consequently, the Company has accounted for past issues retrospectively based on the substance of the transactions, which involved the issue of common shares and the sale of the right to a tax deduction. As such, the Company has recognized the premium of the price of a flow-through share above the value of a common share as a liability to the Corporation. The liability is then reversed and applied against deferred tax expense in profit or loss at the date the qualifying expenditures are made. Concurrently, a deferred tax liability is recognized in accordance with IAS 12, *Income Taxes*, for the taxable temporary difference that arises from the difference between the carrying amount of eligible expenditures capitalized as an asset in the statement of financial position and its tax base.

At the date of transition, the premium for flow-through shares removed from share capital amounted to \$3,284,237 and the related deferred income tax adjustment credited to share capital is \$5,964,765 for a net credit to share capital of \$2,680,528 and a net debit to deficit for the same amount.

Under previous GAAP, the full value of the amount received for the issue of flow-through shares was recorded in share capital and the future tax effect recognized upon the renunciation date was debited to share capital.

b) Initial recognition exemption of deferred income taxes

The Company acquired its initial LabMag Property claims through a transaction whereby its tax cost was less than its book cost and thus created a deferred tax liability that, under Canadian GAAP, was recognized at the time of acquisition.

Under IAS 12, *Income Taxes*, a company should not recognize a deferred tax liability on the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable income at the time of initial recognition. As such, the Company has retroactively reversed the \$843,750 of deferred taxes originally debited to mineral exploration and evaluation assets. The retroactive reversal of the deferred tax liability to the cumulative deficit is limited each period to the extent of the recognized deferred tax balances.

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22- FIRST-TIME ADOPTION OF IFRS (continued)

c) Share-based payments

The Company issues share-based awards in the form of stock options that generally vest evenly over two years. Under Canadian GAAP, the Company recognized the fair value of the award, determined at the time of the grants, on a straight-line basis over the two year vesting period. Under IFRS 2, the fair value of each tranche of the award is considered to be a separate grant based on its vesting period. The fair value of each tranche is determined separately and recognized as compensation expense over the term of its respective vesting period. Accordingly, compensation expense under IFRS will be recognized at an accelerated rate compared to under Canadian GAAP.

d) Pre-claim costs

Certain costs incurred prior to obtaining the legal right to explore an area were capitalized under Canadian GAAP. Under IFRS, these costs may no longer be capitalized. As such, \$274,715 of pre-claim costs incurred have been written off through opening retained earnings as at the transition date of January 1, 2010.

Impairment losses recognized at the date of transition

The Company applied IFRS 6, *Exploration and Evaluation of Mineral Resources*, and IAS 36, *Impairment of Assets*, in determining whether any impairment losses arose at the date of transition to IFRS. No impairment losses (or reversals) were identified.