

**New Millennium Iron Corp.  
(Formerly New Millennium Capital Corp.)  
Unaudited Interim Consolidated  
Financial Statements  
June 30, 2011**

Financial Statements

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**New Millennium Iron Corp.**  
**(Formerly New Millennium Capital Corp.)**  
**Interim Consolidated Statement of Financial Position**

(Unaudited)  
(Expressed in Canadian Dollars)

	June 30, 2011	December 31, 2010
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 4)	17,322,252	12,002,984
Short-term investments (Note 5)	67,352,487	3,674,699
Sales taxes, other receivables and prepaid expenses	2,946,799	1,045,687
Tax credits and mining duties receivable	1,829,315	3,223,842
Mineral exploration and evaluation assets held for sale (Note 6)	22,175,879	22,060,670
	<u>111,626,732</u>	<u>42,007,882</u>
<b>Non-current assets</b>		
Tax credits and mining duties receivable	1,472,753	198,136
Long-term investments (Note 5)	7,887,760	-
Advances on contracts	92,616	505,500
Property and equipment	296,718	186,933
Mineral exploration and evaluation assets (Note 6)	32,246,643	30,074,365
	<u>153,623,222</u>	<u>72,972,816</u>
<b>Total assets</b>		
<b>EQUITY AND LIABILITIES</b>		
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	6,304,689	5,181,237
<b>EQUITY</b>		
Share capital (Note 7)	170,108,084	88,435,402
Share capital to be issued (Note 7)	-	203,813
Contributed surplus	10,228,169	6,590,582
Deficit	(33,492,720)	(27,913,218)
	<u>146,843,533</u>	<u>67,316,579</u>
<b>Equity attributable to shareholders of the Company</b>		
Non-controlling interest	475,000	475,000
	<u>147,318,533</u>	<u>67,791,579</u>
	<u>153,623,222</u>	<u>72,972,816</u>
<b>Total liabilities and equity</b>		

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

Approved by the Board of Directors on August 22, 2011 and signed on their behalf by:

/S/ Dean Journeaux  
Director

/S/ Pierre Seccareccia  
Director

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

(Unaudited)  
(Expressed in Canadian Dollars)

	3 months ended June 30		6 months ended June 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
<b>Revenue</b>	-	-	-	-
Expenses				
General and administrative (Note 8)	3,058,397	875,897	6,514,376	1,546,330
Loss before other items and income taxes	(3,058,397)	(875,897)	(6,514,376)	(1,546,330)
Other items				
Other income (Note 6)	-	-	600,000	-
Investment income	249,844	4,736	334,874	8,969
Loss on sale of long-term investments	-	(6,490)	-	(6,490)
Change in fair value of long-term investments	-	-	-	168,000
	249,844	(1,754)	934,874	170,479
<b>Net loss and comprehensive loss</b>	<b>(2,808,553)</b>	<b>(877,651)</b>	<b>(5,579,502)</b>	<b>(1,375,851)</b>
Attributable to:				
Non-controlling interest	-	-	-	-
Shareholders of the Company	(2,808,553)	(877,651)	(5,579,502)	(1,375,851)
<b>Net loss and comprehensive loss</b>	<b>(2,808,553)</b>	<b>(877,651)</b>	<b>(5,579,502)</b>	<b>(1,375,851)</b>
Loss per share - basic and diluted	(0.02)	(0.01)	(0.03)	(0.01)
Weighted average number of shares outstanding	174,229,722	137,106,516	165,881,217	135,058,927

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

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(Unaudited)

Six months ended June 30, 2011 and 2010

(Expressed in Canadian Dollars)

	Share Capital		Share Capital to be Issued \$	Contributed Surplus \$	Deficit \$	Total Attributable to Shareholders of the Company \$	Non Controlling Interest \$	Total Equity \$
	Number of Shares Issued and Fully Paid	Amount \$						
<b>Balance at January 1, 2010</b>	<b>132,901,559</b>	<b>67,539,603</b>	-	<b>5,831,822</b>	<b>(17,907,694)</b>	<b>55,463,731</b>	<b>475,000</b>	<b>55,938,731</b>
Loss and comprehensive loss for the period	-	-	-	-	(1,375,851)	<b>(1,375,851)</b>	-	<b>(1,375,851)</b>
Issued for cash	14,285,714	20,000,000	-	-	-	<b>20,000,000</b>	-	<b>20,000,000</b>
Share-based remuneration								
- employees and directors	-	-	-	89,048	-	<b>89,048</b>	-	<b>89,048</b>
- consultants	-	-	-	27,653	-	<b>27,653</b>	-	<b>27,653</b>
Share capital to be issued in lieu of cash								
for mineral licences	-	-	490,000	-	-	<b>490,000</b>	-	<b>490,000</b>
Exercise of stock options	197,500	142,975	-	(56,400)	-	<b>86,575</b>	-	<b>86,575</b>
Share issue costs	-	(610,626)	-	-	-	<b>(610,626)</b>	-	<b>(610,626)</b>
<b>Balance at June 30, 2010</b>	<b>147,384,773</b>	<b>87,071,952</b>	<b>490,000</b>	<b>5,892,123</b>	<b>(19,283,545)</b>	<b>74,170,530</b>	<b>475,000</b>	<b>74,645,530</b>
<b>Balance at January 1, 2011</b>	<b>148,752,273</b>	<b>88,435,402</b>	<b>203,813</b>	<b>6,590,582</b>	<b>(27,913,218)</b>	<b>67,316,579</b>	<b>475,000</b>	<b>67,791,579</b>
Loss and comprehensive loss for the period	-	-	-	-	(5,579,502)	<b>(5,579,502)</b>	-	<b>(5,579,502)</b>
Share-based remuneration								
- employees and directors	-	-	-	2,509,389	-	<b>2,509,389</b>	-	<b>2,509,389</b>
- consultants	-	-	-	181,054	-	<b>181,054</b>	-	<b>181,054</b>
Share capital issued	24,811,385	86,839,847	-	-	-	<b>86,839,847</b>	-	<b>86,839,847</b>
Share capital issued in lieu of cash								
- for legal expenses	212,306	203,813	(203,813)	-	-	-	-	-
Exercise of stock options	647,000	684,885	-	(267,255)	-	<b>417,630</b>	-	<b>417,630</b>
Share issue costs	-	(6,055,863)	-	1,214,399	-	<b>(4,841,464)</b>	-	<b>(4,841,464)</b>
<b>Balance at June 30, 2011</b>	<b>174,422,964</b>	<b>170,108,084</b>	-	<b>10,228,169</b>	<b>(33,492,720)</b>	<b>146,843,533</b>	<b>475,000</b>	<b>147,318,533</b>

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

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

(Unaudited)

Six months ended June 30, 2011 and 2010

(Expressed in Canadian Dollars)

	2011	2010
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss and comprehensive loss for the period	(5,579,502)	(1,375,851)
Adjustments for:		
Share-based remuneration		
- Employees and directors	2,509,389	89,048
- Consultants	181,054	27,653
Depreciation of property and equipment	40,152	11,683
Interest accrued on short-term investments	(135,192)	-
Interest accrued on long-term investments	(98,940)	-
Loss on sale of long-term investments	-	6,490
Change in fair value of long-term investments	-	(168,000)
	<u>2,496,463</u>	<u>(33,126)</u>
Net changes in working capital items (Note 11)	(1,170,176)	130,543
Cash flows used by operating activities	<u>(4,253,215)</u>	<u>(1,278,434)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Net purchases of short term treasury bills and term deposits	(51,674,176)	(19,498,941)
Purchase of Government of Canada bonds		
with maturities over one year	(19,657,240)	-
Proceeds on sale and redemption of long-term investments	-	2,842,029
Advances on contracts	(599,627)	(137,476)
Acquisition of property and equipment	(149,937)	(176,867)
Mining duties and tax credits received	1,394,527	197,448
Additions to mineral exploration and evaluation assets	(2,157,078)	(4,518,210)
Cash flows used by investing activities	<u>(72,843,531)</u>	<u>(21,292,017)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Issuance of common shares	87,257,478	20,086,575
Share issue costs	(4,841,464)	(586,135)
Cash flows provided by financing activities	<u>82,416,014</u>	<u>19,500,440</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>5,319,268</u>	<u>(3,070,011)</u>
Cash and cash equivalents, beginning of period	<u>12,002,984</u>	<u>9,650,874</u>
Cash and cash equivalents, end of period	<u><u>17,322,252</u></u>	<u><u>6,580,863</u></u>

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

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

(Unaudited)

June 30, 2011

(Expressed in Canadian Dollars)

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**1 - GOVERNING STATUTES AND NATURE OF OPERATIONS**

The principal activities of New Millennium Iron Corp. and its subsidiaries (“the Company or NML”) are the exploration and evaluation of mineral properties. The 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 Company adopted a resolution to change the name of the Company to New Millennium Iron Corp.

The address of the Company’s registered and records office and its principal place of business is 1303 Greene Avenue, Westmount, Quebec, H3Z 2A7.

**2 - SIGNIFICANT ACCOUNTING POLICIES**

**Statement of compliance**

These interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”, using the accounting policies the Company expects to adopt in its consolidated financial statements as at and for the financial year ending December 31, 2011. Accordingly, these financial statements do not include all of the information and disclosure required in annual consolidated financial statements. The accounting policies used in the preparation of the unaudited interim consolidated financial statements have been consistently applied for all periods presented unless indicated otherwise.

As such, these interim consolidated financial statements should be read in conjunction with the Company’s 2010 annual financial statements and the Company’s March 31, 2011 interim financial statements, with consideration given to the International Financial Reporting Standards (“IFRS”) transition disclosures included in Note 22 of the March 31, 2011 financial statements and Note 15 to these interim consolidated financial statements and the additional disclosures included therein.

These interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on August 22, 2011.

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 of the March 31, 2011 unaudited interim financial statements.

**Basis of presentation**

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

Given that the Company is in the process of transferring a mineral property to an entity that it will not control, and given that it has not yet determined whether its other mineral properties contain mineral deposits that are economically recoverable, and given that it is consequently not possible for it to reliably project cash inflows from operations, the Company’s ability to continue as a going concern is largely dependent upon its ability to raise additional financing to further explore its mineral properties. Even if the Company has been successful in the past in doing so, there is no assurance that it will manage to obtain additional financing in the future.

**New Millennium Iron Corp.**  
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**Notes to Interim Consolidated Financial Statements**

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**2 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

The Directors have reviewed the Company's cash flow forecasts and operating projections as part of their consideration of going concern. Management believes they have sufficient funds available to continue operating and development programs. Accordingly, the going concern basis has been used in preparing the interim consolidated financial statements.

**3 - 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 interim consolidated financial statements. The Company is currently assessing the impact that these standards will have on the consolidated financial statements.

The standards issued but not yet effective are as follows:

*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, 2012. NML does not expect the implementation to have a material impact on the Company's disclosures.

*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, 2013 and management has not yet determined the impact that the application of this standard will have on the consolidated financial statements.

In May 2011, the International Accounting Standards Board published five 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.

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

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(Unaudited)

June 30, 2011

(Expressed in Canadian Dollars)

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### **3 - STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)**

#### *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 27 Separate Financial Statements*

The requirements relating to separate financial statements are unchanged and included in the amended IAS 27. The other portions of IAS 27 are replaced by IFRS 10.

#### *IAS 28 Investments in Associates and Joint Ventures*

IAS 28 is amended to conform to changes resulting from the issuance of IFRS 10, IFRS 11 and IFRS 12.

Each of the above five 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.

### **4 - CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include the following components:

	June 30, 2011 \$	December 31, 2010 \$
Cash in bank	9,323,183	1,849,238
Short-term investments	7,999,069	10,153,746
	17,322,252	12,002,984

Short-term investments at June 30, 2011 consisted of treasury bills maturing in July and August 2011 and bearing interest at 0.87% and 0.89% respectively.

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



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**Notes to Interim Consolidated Financial Statements**

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**5 - INVESTMENTS**

At June 30, 2011, investments include:

Security	Carrying Value \$	Maturity	Interest Rate
GIC's	173,036	Between July 2011 and June 2012	0.75%
Treasury Bills	43,410,644	Between September and December 2011	Between 0.94% and 1.22%
Government of Canada Bonds	<u>31,656,567</u>	Between March and September 2012	Between 1.26% and 1.32%
	75,240,247		
Short-term investments	<u>67,352,487</u>		
Long-term investments	<u><u>7,887,760</u></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 bears 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%

The fair value at June 30, 2011, of short-term investments is \$67,374,748 (December 31, 2010 – approximate their carrying value) and of long-term investments in bonds is \$7,868,784 (December 31, 2010 - Nil).

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

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(Unaudited)  
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 (Expressed in Canadian Dollars)

**6 – MINERAL EXPLORATION AND EVALUATION ASSETS**

	Direct Shipping Ore Holdings ("DSO") Properties \$	LabMag Property \$	KéMag Property \$	Other Properties \$	Balance as at June 30 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	(1,400)	700	8,966	76,882	3,421,646	3,336,498
Drilling Resource evaluation	(4,126)	31,438	2,663,296	51,037	21,528,210	18,786,565
Environmental Amortization of property and equipment	79,455	161,573	214,624	35,333	22,634,010	22,143,025
	51,955	120,503	71,867	-	14,061,824	13,817,499
	-	-	-	-	39,895	39,895
	127,284	313,514	2,949,787	86,370	58,263,939	54,786,984
Tax credits and mining duties	(10,675)	-	(1,255,814)	(8,127)	(7,263,063)	(5,988,447)
Balance, at June 30, 2011	<b>22,175,879</b>	<b>20,830,193</b>	<b>10,095,758</b>	<b>1,320,692</b>	<b>54,422,522</b>	<b>52,135,035</b>
Mineral exploration and evaluation assets held for sale – DSO Properties					<b>22,175,879</b>	<b>22,060,670</b>
Mineral exploration and evaluation assets not held for sale					<b>32,246,643</b>	<b>30,074,365</b>

**Overview**

The Company holds interests in 3,623 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 LabMag Limited Partnership ("LLP") are owned 80% by the Company through its 80% interest in LLP. Claims registered jointly are owned 71.37% directly by NML and 28.63% directly by LLP.

Province	Ownership	DSO Properties	LabMag Property	KéMag Property	Other Properties	Total
Newfoundland & Labrador	NML	217 [54.3 km <sup>2</sup> ]	-	-	973 [243.2 km <sup>2</sup> ]	1,190 [297.5 km <sup>2</sup> ]
	LLP	32 [8 km <sup>2</sup> ]	256 [64 km <sup>2</sup> ]	-	485 [121.3 km <sup>2</sup> ]	773 [193.3 km <sup>2</sup> ]
	NML / LLP	8 [2 km <sup>2</sup> ]	-	-	-	8 [2 km <sup>2</sup> ]
Québec	NML	525 [239.6 km <sup>2</sup> ]	-	171 [80.9 km <sup>2</sup> ]	956 [458.3 km <sup>2</sup> ]	1,652 [778.8 km <sup>2</sup> ]
<b>Total</b>		<b>782</b> [303.9 km <sup>2</sup> ]	<b>256</b> [64 km <sup>2</sup> ]	<b>171</b> [80.9 km <sup>2</sup> ]	<b>2,414</b> [822.8 km <sup>2</sup> ]	<b>3,623</b> [1,271.6 km <sup>2</sup> ]

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

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(Unaudited)

June 30, 2011

(Expressed in Canadian Dollars)

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**6 – 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:**

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 has the option to acquire an 80% equity interest in the DSO Properties by paying the Company 80% of the Company's costs incurred to the closing date to advance the DSO Properties. If Tata Steel acquires their 80% interest, all the DSO Properties will be transferred to a new company owned 80% by Tata Steel and 20% by the Company. 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.

On September 13, 2010, Tata Steel exercised this option and NML and Tata Steel are in the process of completing the steps necessary to finalize the transfer of the DSO Properties and expect the closing date to be before August 31, 2011. The new company, Tata Steel Minerals Canada Ltd. ("TSMC"), was incorporated on October 26, 2010. At that time, NML acquired a 19% interest for \$19 and intends to transfer the DSO properties to TSMC in return for an additional 1% interest.

During the six-month period ending June 30, 2011, NML incurred, in connection with Tata Steel's exercise of their option, \$84,000 (2010 - NIL) in professional fees. For the three-month period ending June 30, 2011, NML incurred \$29,000 (2010 – NIL) in professional fees.

**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.

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**Notes to Interim Consolidated Financial Statements**

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(Unaudited)

June 30, 2011

(Expressed in Canadian Dollars)

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**6 – MINERAL EXPLORATION AND EVALUATION ASSETS (continued)**

**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 include the Lac Ritchie and Perault Lake taconite exploration targets as well as other holdings of magnetic taconite and dolomite and the site of the potential Emeril plant.

**Taconite Binding Heads of Agreement**

On March 6, 2011, the Company signed a binding heads of agreement (“Binding HOA”) with Tata Steel to develop the LabMag Project and the KéMag Project. Under the Binding HOA, Tata Steel shall participate in the development of a feasibility study of these projects and will contribute 64% of the costs to complete the feasibility study. After completion of the feasibility study, Tata Steel will have an option for 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 to date 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” 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 also has an option to acquire an additional 16% paid equity and a right of first refusal to acquire another 4% should Tata Steel exercise its right to invite third party investors into the project.

The Company had granted Tata Steel an exclusive option to negotiate the Binding HOA on these projects that expired December 31, 2010. An extension was granted to Tata Steel in exchange for a \$600,000 payment, which was recorded as Other income on the consolidated statement of comprehensive income.

In connection with the Binding HOA, NML incurred during the six month period ending June 30, 2011, \$ 1,598,000 (2010 – NIL) in professional fees.

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**7 - EQUITY**

**SHARE CAPITAL**

**Authorized**

Unlimited number of shares

Common shares

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 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 \$63,250,001. The underwriters were paid fees of \$3,478,750 and were granted 1,084,285 common share purchase options 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 were \$648,721 of fees paid pursuant to Tata Steel's purchase.

On March 11, 2011, the Company issued 212,306 shares at a price of \$0.96 per share as an agreed payment for the provision of certain legal services.

**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.

The share-based payments expense during the six-month period ended June 30, 2011 was \$2,690,443 (\$116,701 in 2010) and is included in general and administrative expenses. For the three-month period ended June 30, 2011, the share based payment expense was \$1,844,716 (\$52,868 in 2010)

During the six month period ended June 30, 2011 3,584,000 options were granted (3,983,000 for 2010).

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**7 – EQUITY (continued)**

The weighted average fair value of options granted during the six-month period ended June 30, 2011 was \$2.13 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:

	June 30, 2011 (6 months)	June 30, 2010 (6 months)
Exercise price at date of grant	\$3.34	\$0.90
Share price at date of grant	\$3.34	\$0.90
Risk-free interest rate	1.83%	2.46%
Expected life (years)	5	5
Estimated volatility of the market price of the common shares	78.61%	89.84%
Dividend yield	Nil	Nil

The underlying expected volatility was determined by reference to historical data of common shares over a year of time since its listing on the Toronto Stock Venture Exchange. No special features inherent to the options granted were incorporated into measurement of fair value.

**Agents' warrants**

As disclosed above, agents involved in NML's February 28, 2011 equity financings were granted share purchase warrants during the six month period ending June 30, 2011. These warrants are convertible on a one for one basis into common shares of the Company. A summary of these agents' warrants is as follows:

	Number of outstanding warrants	June 30, 2011 weighted average exercise price \$
Balance, beginning of period	-	-
Granted	<u>1,084,285</u>	<u>3.50</u>
Balance, end of period	<u>1,084,285</u>	<u>3.50</u>
Warrants exercisable, end of period	<u>1,084,285</u>	<u>3.50</u>

There were no agent warrants outstanding at December 31, 2010 and no warrants were granted, exercised or expired in 2010.

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

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**8 – INFORMATION INCLUDED IN CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	3 months ended June 30		6 months ended June 30	
	2011 \$	2010 \$	2011 \$	2010 \$
<b>Employee benefit expense</b>				
Wages, salaries and other short-term benefits	497,149	227,705	1,058,818	389,128
Stock-based payments	1,755,561	41,014	2,509,389	89,048
Employee benefit expense	<u>2,252,710</u>	<u>268,719</u>	<u>3,568,207</u>	<u>478,176</u>
<b>Other elements of expenses</b>				
Depreciation of plant and equipment	20,076	5,790	40,152	11,683

**9 - INCOME TAXES**

Deferred income taxes arise from temporary differences between accounting values and tax base values of various net capital assets of the Company. In assessing the realizability of future income tax assets, management considers whether it is more likely than not that some portion or all of the future income tax assets will not be realized. As at June 30, 2011, the future tax benefits from the future income tax assets, which arose as a result of applying the losses and non-capital losses carried forward to taxable income, have not been recognized in these accounts due to uncertainty regarding their utilization.

**10 - 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 June 30, 2011, the Company had \$3,170,978 USD, \$3,058,408 CAD (\$3,170,104 USD, \$3,152,985 CAD at December 31, 2010) in cash and cash equivalents which have been translated to Canadian dollars using the closing exchange rate for each financial reporting period.

At June 30, 2011, the Company had \$3,169,696 USD, \$3,057,171 CAD (\$3,209,365 USD, \$3,192,250 CAD at December 31, 2010) in trade and other payables which have been translated to Canadian dollars using the closing exchange rate for each financial reporting period.

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**10 - FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)**

The Company purchased US dollars when they became aware of the USD liability owing to an investment banker related to the exercise of the Tata Steel DSO option. The Company was uncertain as to the timing of the payment of this liability and purchased the US dollars to hedge this payable. As a result of holding almost equivalent amounts of USD and USD payables, a \$0.01 increase or decrease in the USD/CAD exchange rate would not have a material impact on net loss or equity at June 30, 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, short-term investments and long-term investments in bonds 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 government of Canada bonds with relatively short maturities. All the short term investments and long-term investments in bonds 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 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.

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

**Third party credit risk**

The Company manages third party credit risk through an emphasis on quality in its investment portfolio. Cash and cash equivalents, short-term and long-term investments are held through two Canadian chartered banks with high quality external credit ratings, in government of Canada and three provinces' treasury bills and government of Canada bonds and management believes the risk of loss to be remote.

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.



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**11 - INFORMATION INCLUDED IN CONSOLIDATED CASH FLOWS**

The changes in working capital items are detailed as follows:

	June 30, 2011 \$	June 30, 2010 \$
Other receivables	(1,901,112)	(55,213)
Trade and other payables	730,936	185,756
	<u>1,170,176</u>	<u>130,543</u>

The Company received during the six-month period interest of \$104,216 (June 30, 2010 - \$8,969).

Included in trade and other payables is an amount of \$1,510,003 (June 30, 2010 - \$1,805,111) pertaining to additions to mineral exploration and evaluation assets. Included in trade and other payables is an amount of \$Nil (\$39,043 at June 30, 2010) pertaining to share issue costs. Included in the cash flows used by advances on contracts is \$1,012,511 (June 30, 2010 - \$36,582) pertaining to mineral exploration and evaluation assets.

**12 - 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.

**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 19% shareholder	Advances

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**12 - RELATED PARTY TRANSACTIONS (continued)**

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

	Note	3 months ended June 30		6 months ended June 30	
		2011	2010	2011	2010
		\$	\$	\$	\$
<b><u>Consolidated Balance Sheet</u></b>					
Mineral exploration and evaluation assets	(i)	4,045	131,815	73,291	173,628
Share Issue Costs		832	39,043	138,367	39,043
<b><u>Consolidated Loss</u></b>					
General and administrative expenses	(i)	251,080	181,631	601,874	335,395

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 at June 30, 2011 was \$2,550,718 (June 30, 2010 - Nil). Accounts payable related to the above transactions at June 30, 2011 were \$258,194 (June 30, 2010 - \$370,257). These amounts have not been discounted as the time-value of money is not material.

**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	3 months ended June 30		6 months ended June 30	
		2011	2010	2011	2010
		\$	\$	\$	\$
Salaries and director's fees	(i), (iii)	540,900	650,709	1,205,298	988,555
Share-based payments	(ii),(iv)	4,239,000	1,495,663	4,239,000	1,499,400

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**12 - RELATED PARTY TRANSACTIONS (continued)**

- (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 period.
- (iii) Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the periods ended June 30, 2011 and June 30, 2010.
- (iv) During the six-months ended June 30, 2011, key management personnel exercised 325,000 share options (2010 – NIL) granted in the share-based compensation plan for a total of \$243,750.

**13 - 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 7 and in the interim consolidated statement of changes in equity. In order to meet its objectives, the Company monitors its capital structure and makes adjustments as required in light of changes in economic conditions and the risks characteristics of the underlying assets. These objectives will be achieved by identifying the right exploration projects, adding value to these projects and ultimately taking them through production and cash flow, either with partners or by the Company's own means.

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

**14 - COMMITMENTS AND CONTINGENCY**

In June 2010, the Company and the Naskapi Nation of Kawawachkamach ("NNK") located near Schefferville, Québec entered into an Impact and Benefits Agreement ("IBA"). The IBA is a life of mine agreement that promotes and governs a mutually beneficial development of the Company's DSO Project and ensures an ongoing positive relationship between the Company and the NNK. In return for their consent and support of the DSO Project, NNK will benefit through training, employment, business opportunities and financial participation in the project. This commitment will be transferred to TSMC along with the DSO properties.

In September 2010, the Company, Labrador Iron Mines Holdings Limited and the Innu Matimekush-Lake-John First Nation reached an agreement to start IBA negotiations in return for contributions towards education, health, youth programs, traditional activities and the improvement of a community facility. This commitment will be transferred to TSMC along with the DSO properties.

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**14 - COMMITMENTS AND CONTINGENCY (continued)**

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 long-term operating leases for premises and equipment and consulting agreements amounting to \$2,593,000 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	338,000	97,000	435,000
1 to 5 years	2,055,000	15,000	2,070,000
Over 5 years	88,000	-	88,000
	<u>2,481,000</u>	<u>112,000</u>	<u>2,593,000</u>

**15 – FIRST-TIME ADOPTION OF IFRS**

The Company's transition to IFRS is January 1, 2010.

The Company's IFRS accounting policies presented in Note 2 of the March 31, 2011 unaudited interim consolidated financial statements have been applied in preparing these interim consolidated financial statements for the reporting period ended June 30, 2011 and have been used throughout all periods presented and the opening consolidated statement of financial position at the date of transition. The Company applied IFRS 1 in preparing these IFRS interim 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, are further explained in the notes that accompany the tables and in Note 22 of the March 31, 2011 unaudited interim consolidated financial statements.

**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 described the mandatory and optional exemptions applied to its opening statement of financial position dated January 1, 2010 in Note 22 of the March 31, 2011 unaudited interim consolidated financial statements.

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**15 – FIRST-TIME ADOPTION OF IFRS (continued)**

**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 equity and comprehensive loss is set out as follows:

Reconciliation of shareholders' equity as reported under Canadian GAAP to IFRS as at June 30, 2010.

	Notes	Share Capital \$	Share Capital to be Issued	Contributed Surplus \$	Deficit \$	Non- Controlling Interest \$	Total \$
As reported under Canadian GAAP – June 30, 2010		84,391,424	490,000	5,644,037	(15,236,466)	475,000	75,763,995
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	-	-	248,086	(248,086)	-	-
Write-off of mineral exploration and evaluation assets incurred prior to purchase of LabMag Property claims	d	-	-	-	(274,715)	-	(274,715)
As reported under IFRS – June 30, 2010		87,071,952	490,000	5,892,123	(19,283,545)	475,000	74,645,530

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**15 – FIRST-TIME ADOPTION OF IFRS (continued)**

Reconciliation of loss and comprehensive loss as reported under Canadian GAAP to IFRS

Notes	Three months ended June 30, 2010 \$	Six months ended June 30, 2010 \$
Loss and comprehensive loss under Canadian GAAP	(674,159)	(1,256,548)
Deferred income tax reversal on purchase of mining claims through a tax-free rollover	b (150,624)	(311,001)
Share-based payments	c (52,868)	191,698
Loss and comprehensive loss under IFRS	(877,651)	(1,375,851)

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 chosen to account for past issues retrospectively based on the substance of the transactions, which involved the issue of ordinary shares and the sale of 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.

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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**15 – 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.