October 23, 2012

New Millennium Iron Corp.

NML-TSX

Company Brief

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Rating	Outperform 2
Current Price (Oct-23-12)	C$1.41

Mining | Iron Ore

Higher-Than-Expected Cost Inflation on the DSO Project

Event: Before market open on October 23, New Millennium announced an update on the construction progress at its 20%-owned Direct Shipping Ore (DSO) iron ore project in the Schefferville camp of Canada's Labrador Trough. The DSO project is a joint venture with Tata Steel, which owns the other 80%.

Details:

- **Preliminary production underway –** Production to date of sinter fines and lump from high-grade ore using a portable dry crushing and screening circuit totals approximately 250,000 tonnes. The company expects to produce 300,000 tonnes of these products by year-end 2012. Although the start of production is ahead of schedule (we had assumed first production in mid-2013), this material will be stockpiled at the mine-site until the rail-spur is completed, thus enabling it to be delivered to the port and sold in mid-2013. The portable dry crushing and screening plant appears to us to be a new development to supplement the production that will be generated by the larger processing facility that is currently under construction. The dry crushing facility will be used to beneficiate high-grade ores (it is currently being used for ore with a head grade of over 63% Fe).
- **Expansion to 6 million tonnes/year** – The company plans to expand production to 6 mln tonnes/year from a base case of 4 mln tonnes/year in 2015 through the addition of the portable dry crushing and screening circuit, and debottlenecking (the plant has a design capacity of 5.2 mln tonnes/year).
- **Increase to capital costs** – The company has provided an update to the capital expenditure for the DSO project to $560 mln. This compares to RJL's estimate of $425 mln. The increase is the result of scope changes and inflation in input costs. As per the joint venture agreement with Tata Steel, New Millennium has a free-carry on the first $300 mln of expenditures, and is required to contribute its 20% share on all costs thereafter. New Millennium estimates that based on an expected 30%/70% equity-debt financing, it will be required to contribute $16 mln in equity.

Analysis: In isolation, we view the early production start and expansion announcements as positive. However, this is trumped by the significant capital cost increase (32% higher than our forecast, which was already significantly higher than the Feasibility Study estimate). There are three factors that cushion the blow for New Millennium: 1) the free-carry on the first $300 mln of the capital expenditure, and its minority 20% ownership stake (most of the cost increase will be borne by Tata Steel), 2) New Millennium's strong balance sheet (~$100 mln in cash and cash equivalents as of June 30, 2012), and 3) the DSO is a starter project, and the majority of the company's NAV is derived from its larger taconite iron ore projects in the Labrador Trough.

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	Coverage Universe Rating Distribution				Investment Banking Distribution			
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Strong Buy and Outperform (Buy)	65%	52%	28%	53%	39%	19%	0%	0%
Market Perform (Hold)	33%	40%	60%	34%	21%	8%	2%	0%
Underperform (Sell)	3%	7%	12%	12%	50%	0%	0%	0%

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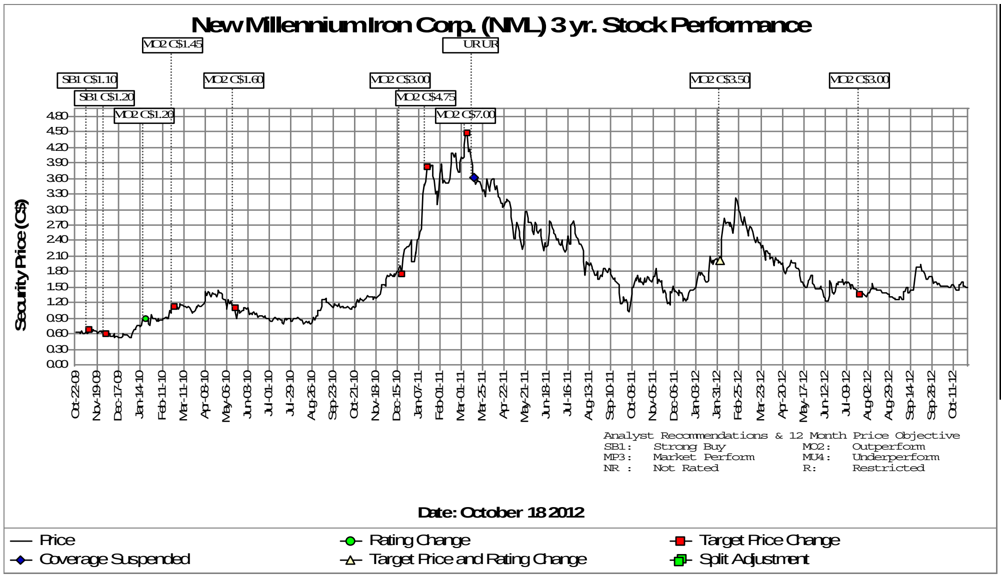
Target Prices: The information below indicates our target price and rating changes for NML stock over the past three years.



Update Date	Closing Price	Target Price	Rating
Jul-24-12	1.37	3.00	2
Feb-01-12	2.02	3.50	2
Mar-15-11	3.63	UR	UR
Mar-07-11	4.48	7.00	2
Jan-18-11	3.83	4.75	2
Dec-20-10	1.75	3.00	2
May-18-10	1.10	1.60	2
Feb-26-10	1.13	1.45	2
Jan-21-10	0.88	1.20	2
Dec-01-09	0.59	1.20	1
Nov-09-09	0.67	1.10	1

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