JENNINGS CAPITAL INC.

February 20, 2013

# IRON ORE

## BECOMING PARTICULAR, IRONING IT OUT

## IRON ORE SECTOR VIEW

**Iron Ore Highlights**

- Global iron ore demand is forecast to grow to over 2 billion tonnes by 2015, with China accounting for just over half of that amount.
- Spot prices have rebounded sharply after falling to $88/tonne in 2012.
- High cost operators dominated by Chinese producers are likely to become mere fringe iron producers as low-cost supply increases.
- India, once the 3rd largest iron ore seaborne exporter, is likely to persist with export supply issues, adding further supply constraint to the iron ore seaborne market.

## RE-INITIATING COVERAGE

### LABRADOR TROUGH DIFFERENTIATOR: GETTING PREMIUM IRON OUT OF THE TROUGH SELECTIVELY

**New Millennium Iron Corp. – Recommendation: BUY; Target: $2.35; Risk Rating: Above Average**

- **Infrastructure Play, Built to Last:** NML has the ability to bypass the existing infrastructure hurdles in the Labrador Trough with a 600km slurry pipeline – feasibility underway.
- **Potential Low Cost, Long-life Asset Base:** The Taconite project has the potential for mine-life beyond 30 years at an average FOB cash operating cost around US$45 per tonne. NML has a very large global resource base of potentially 100 years.
- **Strategic Partner in Place:** NML has a solid strategic partner in place in Tata Steel, with a joint-venture agreement on its DSO project with production on the horizon, and potentially its taconite development projects under bankable feasibility study.

**SECTOR:** METALS AND MINING

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Please see important disclosures on pages 27 and 28.

## EXECUTIVE SUMMARY

The recent fall in iron ore prices was the cause of some concern regarding the health of continuous growth in China, and even greater concern for demand as the broader global economy on a whole deleverages. Iron ore prices fell to a three-year low last September; below $88 per tonne after hitting a year-high of $150 per tonne and a peak price of around $200 early in 2011.

Generally, iron ore miners, from domestic Chinese producers to seaborne exporters, have been quite responsive to the recent pull-back in prices, by curtailing production and/or delaying expansion projects. Iron ore prices started to rebound recently and have since hit the $158 per tonne level, helping to raise general optimism that the pace of infrastructure and industrial activity in China is by no means over, albeit just at a bit slower rate going forward compared to historically.

Although the greatest concern and general focus has been on the demand-side, the supply-side has had its share of issues - from rising structural costs and logistics to market (rail and port capacity), to country risks including permits, high rail tariffs, production bans and/or export duties leading to a rise in supply constraint issues, providing some underlying base support for iron ore prices. We believe that marginal cost for iron ore production sits at around $120 per tonne on a 2012 term cost basis.

Iron ore supply is expected to potentially grow by around 700Mt by 2020, underpinned by global annual steel consumption, which is expected to grow around 2-3% per year. The primary driver for iron ore consumption is being led by Chinese steel production, which is expected to rise from ~720mt in 2012 to 1bt per annum by 2030. China's steel industry accounted for ~47% of global production in 2012.

The global iron ore seaborne market has seen several structural changes that have challenged the once dominant roles played by the three majors Vale, BHP and Rio, primarily in the form of pricing evolution from annual contract price agreements and new iron ore suppliers, diversification and vertical integration by steelmakers.

India, until recently was ranked 3$^{rd}$ largest global iron ore producer, but a government-led production ban on illegal mining has pushed the country into a net importer status. India is now expected to import around 10mt on average over the next two years, which is likely to put extra demand on seaborne exports, providing further support for iron ore prices. Longer-term, the market expects India's seaborne iron supply to cease by around 2020.

The Labrador Trough in Canada produced around 40mt in 2011 representing ~4% of the seaborne iron ore market, ranking it 9$^{th}$ globally. Labrador has seen its importance in the export iron trade market rise over the last several years, through increased pellet demand in Europe, driven by quality and proximity to its key market. Currently, Arcelor Mittal, Cliffs Natural Resources and IOC-Rio Tinto are the majors in the Labrador Trough, producing the bulk of the 40mt, while New Millennium Iron Corp. (NML-T) is amongst a set of emerging players in the district that are attracting attention from other strategics and consumers alike vying to gain a foothold in the region.

We believe that the iron ore industry is likely to be supportive of the players that can demonstrate quality product as well as a low-cost profile, which means

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having the economies of scale, grade, product differentiation and ease of logistics to market. In our view, not all the greenfield projects are likely to get built, as the majors are still expanding iron ore production at the lower end of the global cost curve. With the large asset base, premium product offering, relatively low operating cost and strategic logistical advantage with a slurry pipeline, NML is well-positioned to become one of the winners of the footrace to production.

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## IRON ORE SECTOR VIEW

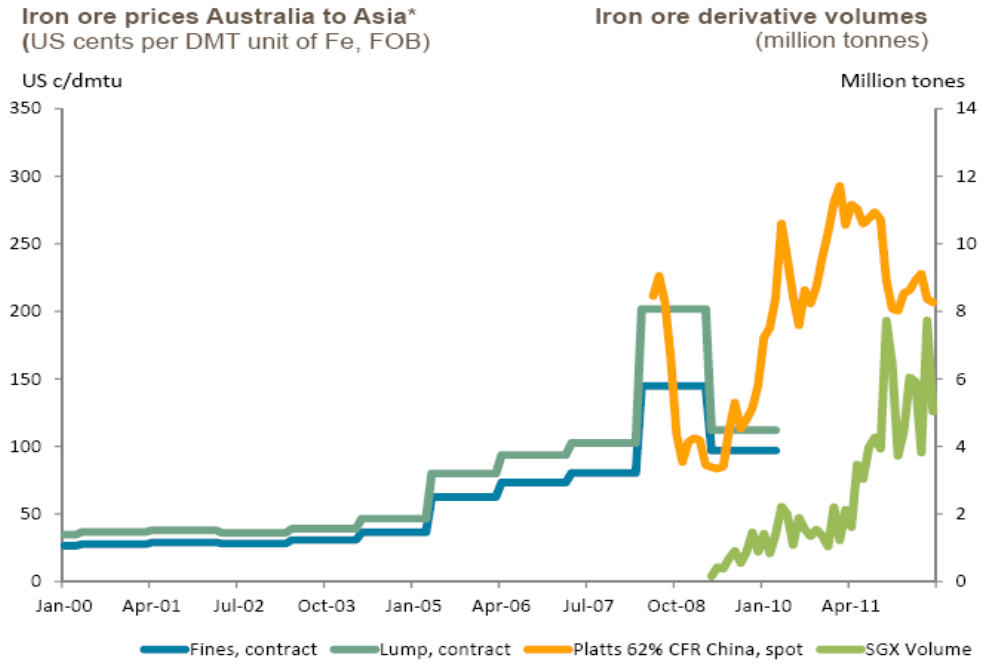
### *Iron Ore Market-Summary Overview*

Global iron ore demand is expected to continue to grow to over 2bt of consumption by 2015, with China accounting for just over half of that amount. Approximately 1bt of iron ore is currently supplied via the export seaborne market, with China having imported ~70% in 2011. Domestic Chinese iron mines, which are mostly low-grade with high operating cost, contribute around 350mt per annum to the Chinese iron ore consumption.

India, a key player in the global iron ore trade, and traditionally a net exporter of iron ore, is now faced with growing domestic steel sector-iron ore demand and a continuous production limitation that adds further uncertainty to export supply.

Iron ore spot prices fell into a downward spiral this summer, to $88 per tonne, a price level that trended below the cost position of approximately 25% of cumulative global production. The sharp fall in iron ore prices was primarily attributed to a build-up in Chinese port iron ore inventory (over 100mt at the time), combined with de-stocking at the steel mills and re-directed iron ore cargoes to China from weak European markets.

***Figure 1*** ***Iron Ore Price Evolution***




*Source: Rio Tinto presentation, June 2012*

### *Iron Ore Industry Cost Curve*

The lower cost quartile of the global iron ore cost curve is dominated by the top three seaborne exporters, Rio Tinto, Vale and BHP Billiton having an average cash cost of ~$45 per tonne, on a landed basis. At current spot iron prices, the majors easily cover their cost positions, with total iron production among the top three producers at around 670mt.

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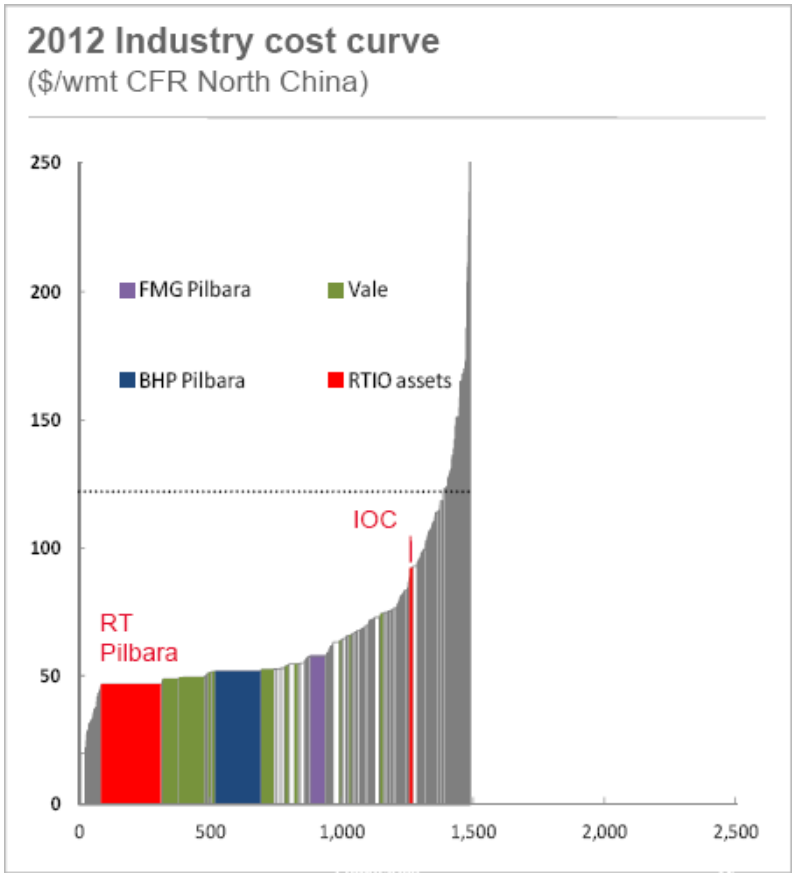
Chinese domestic iron ore production dominates the high cost quartile of the cost curve with low-grade ore that averages 15% iron content as compared to high-quality Brazilian and Australian ore that averages 60%. Approximately 50% of domestic Chinese production has a cost base above $100 and 40% above $120 per tonne. We could potentially see around 130mt of annual Chinese domestic iron ore production coming offline, if landed iron ore prices return below $120 per tonne for any sustained period of time. The marginal cash cost of the seaborne iron ore is around $120 per tonne.

***Figure 2 Iron Ore Industry Cost Curve 2012***




*Source: Rio Tinto presentation, Nov. 2012*

### *Seaborne Trade & China Effect*

The major players on the seaborne iron ore market continue to hold majority market share of approximately 65%, albeit at a lower rate than the 80% held back in 2005. The seaborne iron ore market has grown from around 650mt in 2005 to around 1bt in 2012.

Approximately 10% of seaborne export iron stays offline if the Indian production ban on illegal mining remains in place. Furthermore, we believe that India has experienced peak annual average iron ore export of approximately 100mt, decreasing to a 50% longer-term level based primarily on internal growth consumption from its local steel sector.

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Given that the seaborne supply is still concentrated within the top three, we would expect to see elements of the scarcity factor creeping back into play fairly quickly. Given seasonal weather effects from cyclone activity in Australia, rain in Brazil and winter slowdown in China, supply-side constraints could easily be exacerbated.

***Figure 3*** ***Global Seaborne Iron Ore Exports by Country 2011***

| | Mt | % of Total |
|---|---|---|
| Australia | 431 | 41% |
| Brazil | 337 | 32% |
| India | 77 | 7% |
| South Africa | 55 | 5% |
| Rest of World | 160 | 15% |
| **Total** | **1,060** | **100%** |

*Source: Kumba Iron Ore Presentation, July 2012*

***Expect seaborne exports to China to rise***. China iron ore imports have also grown accordingly, from around 40% of seaborne trade in 2005 to ~70% in 2011. Chinese domestic iron ore production has risen partially out of a legacy need to diversify away from the big three suppliers, along with its ability to satisfy its own internal demand. The domestic iron ore production is, however, price sensitive to iron ore prices and tends to fluctuate on average between 250mt and 350mt where the differential could be largely classified as swing production.

We expect iron ore seaborne exports to China to rise from just over 700mt to approximately 1bt by 2015.

***Labrador Trough***

The Labrador Trough has become a major destination for pellet and pellet feed supply of approximately 20% of the traded market, supplying primarily into the European markets. Labrador's iron supply is currently dominated by Arcelor Mittal mines, IOC-Rio Tinto and Cliffs Natural Resources, which in aggregate contribute 40mt or 4% of the global supply. The deposits in the region are largely magnetite composites having an average iron grade of around 30%, producing a mixture of pellets, pellet feed and sinter fines products.

The average Trough cost structure is located in the third quartile of the global iron cost curve, excluding IOC and Arcelor Mittal operations. IOC and Arcelor Mittal Mines Canada, with average cash costs of $40 per tonne, has the benefit of long-standing operations and early access to the better deposits in the region, and their own rail and port handling facilities.

***Iron Supply-Demand Balance***

***Fundamental demand to have near-term softness but remain intact longer-term***. The global iron ore demand side remains somewhat tepid overall, with continued weakness in Europe and slower growth in China, highlighted by weakness across the board experienced by market leaders such as Arcelor Mittal, ThyssenKrupp and Baosteel.

It should be noted that the World Steel Association revised its outlook in late 2012, for global steel consumption growth from around 3.5% to ~2% for 2012 and from 4.5% to 3.2% for 2013. We expect the demand side of iron ore to be restored to healthy sustained levels with overall global synchronized GDP growth

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above the 3.5% level. The main driver of the steel market is China, which is both the top global producer and end consumer. We have seen some confidence returning as steelmakers look to pass on steel prices with the recent lift in Shanghai rebar and hot-rolled coiled prices.

***Supply-side constraints to remain a feature in 2013.*** The supply-side has shown elements that are unfolding into some constraint, particularly seen in the seaborne supply. The announcement by some of the key players such as BHP Billiton, to defer expansion projects, is expected to have some medium- to longer-term effects. However, the general lack of ready infrastructure capacity affecting primarily West African iron ore supply, combined with production limitations by Indian regulations, is expected to continue to have immediate impact, as well as over the next year or so.

***Figure 4 Global Iron Ore Supply/Demand Summary***

**Global Iron Ore Supply/Demand Summary (Mt)**

| | 2010 | 2011 | 2012 | 2013E | 2014E | 2015E | 2016E | 2017E |
|---|---|---|---|---|---|---|---|---|
| **Estimated Global Production** | **1,760** | **1,920** | **2,000** | **2,100** | **2,300** | **2,400** | **2,450** | **2,500** |
| *change (%)* | *17.3%* | *9.1%* | *4.2%* | *5.0%* | *9.5%* | *4.3%* | *2.1%* | *2.0%* |
| | | | | | | | | |
| **Estimated Global Consumption** | 1,730 | 1,830 | 1,900 | **1,970** | **2,254** | **2,256** | **2,303** | **2,350** |
| *change (%)* | *15.3%* | *5.8%* | *3.8%* | *3.7%* | *14.4%* | *0.1%* | *2.1%* | *2.0%* |
| ***Global Steel production*** | **1417** | **1514** | **1520** | **1573** | **1636** | **1690** | **1741** | **1784** |
| | | | | | | | | |
| **Chinese Iron Imports** | 620 | 690 | 740 | **820** | **950** | **970** | **1,040** | **1,050** |
| *(%) of Seaborne Imports* | 59% | 62% | 64% | 68% | 70% | 70% | 71% | 71% |
| **Seaborne Iron Ore Exports** | **1,050** | **1,110** | **1,165** | **1,200** | **1,350** | **1,392** | **1,473** | **1,485** |
| *change (%)* | *12.9%* | *5.7%* | *5.0%* | *3.0%* | *12.5%* | *3.1%* | *5.8%* | *0.8%* |
| **Iron Ore price (US$/dmt)** | **146.71** | **167.60** | **128.47** | **131.25** | **151.25** | **120.00** | **110.00** | **100.00** |
| **Fines-CFR (landed China)** | | | | | | | | |

*Source: Jennings Capital Inc. estimates*

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JENNINGS CAPITAL INC.

**February 20, 2013**

# NEW MILLENNIUM IRON CORP. (TSX-NML C$1.17)

**Recommendation: BUY**
**12-Month Target: C$2.35**
**Risk Rating: ABOVE AVERAGE**

## RE-INITIATING COVERAGE

### LABRADOR TROUGH DIFFERENTIATOR: GETTING PREMIUM IRON OUT OF THE TROUGH SELECTIVELY

- **Infrastructure play, built to last:** The Millennium Iron Range-Taconite project under feasibility study is envisaged to bypass the existing complex high tariff rail network and use an owner-operated slurry pipeline over a 600km mine-to-pellet plant at the port, and then to market. Furthermore, the recent suspension of the CN feasibility study highlighted the risk involved for other players in the Trough to get their products to market with limited landside infrastructure in place.
- **Potential low cost, long-life asset base:** The Taconite project has the potential for mine-life beyond 30 years at an average FOB cash operating cost around US$45 per tonne. NML has a very large global resource base of potentially 100 years.
- **High product quality, market demands it:** Approximately 70% of the product mix is geared toward premium grade pellet products, supplying 15-17mtpa into the market. The growth of DRI consumption in electric furnace-based steelmaking and the decline in high grade hematite lump iron provide support for the continued market trend toward greater pellet grade material usage.
- **BFS underway:** The bankable feasibility study (BFS) on the Taconite project is expected around Q3 2013, with economic analysis potentially for three project development scenarios. We expect Tata Steel to maintain its role as cornerstone developer and operator.
- **Project financing/strategic partner:** Given the relative large-scale project size, robust economics, credible partner/consumer and proximity to European pellet markets; we would expect capital funding to be challenging but manageable. With attractiveness of the project and Tata Steel leading the financing efforts, we would expect high interest from potential strategic partners to come onboard.
- **Key risks:** Primary risks to our target price for NML include iron ore prices varying materially from our forecasts, regulatory and environmental risks associated with a Taconite slurry pipeline, and attracting capital funding for this relatively large-scale development project.
- **Valuation:** We derived our target price on NML based on a sum-of-the-parts NAV approach, using DCF of after-tax cash-flows to equity-holders plus a multiple of key exploration projects. We have applied an 8% discount to our DSO and 12% to our KéMag NAV in our valuation.

We are re-initiating coverage on New Millennium Iron Corp. with a **BUY** recommendation and **12-month target price of C$2.35 per share.**

**SECTOR:** METALS AND MINING


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| Company Statistics | |
|---|---|
| Market Capitalization | C$209.7 million |
| Basic Shares | 179.2 million |
| Fully Diluted Shares | 194.1 million |
| 52-Week Range | C$0.97 - C$3.23 |
| Cash and Short-Term Investments (09/30/12) | C$77.5 million |
| Long-Term Debt (09/30/12) | Nil |
| Working Capital (09/30/12) | C$68.1 million |
| Major Shareholder - Tata Steel Ltd. | 26.3% |
| **Project NAV per FD Share** | |
| $DSO_{8\%}$ (20% NML) | C$0.64 |
| $KeMag_{12\%}$ (20% NML) | C$0.99 |
| Othe Dev. Projects (89% NML) | C$0.38 |

**Operating Estimates and Iron Ore Price Forecasts**

| YE: Dec. 31 | 2013E | 2014E | 2015E |
|---|---|---|---|
| **DSO Production (20% NML)** | | | |
| Sinter Fines (000 tonnes) | 225 | 472 | 472 |
| Super Fines (000 tonnes) | 68 | 143 | 143 |
| Fines Price (US$/tonne CFR China) | $131 | $151 | $120 |
| Pellets Price (US$/tonne CFR China) | $161 | $181 | $150 |
| Lumps Price (US$/tonne CFR China) | $141 | $161 | $130 |

| Upcoming Catalysts | |
|---|---|
| Commercial Production at DSO Project | Q2 2013 |
| Taconite Project BFS | Q3 2013 |
| Tata Steel Investment Decision | Q3 2013 |


**New Millennium Iron Corp.** is a Canadian junior mining company with three iron ore projects in the Schefferville region of the Labrador Trough. The most advanced of these is the DSO project (Direct Shipping Ore), which the Company expects to be in commercial production by H2/13. The other two projects are large taconite projects, KéMag and LabMag, with bankable feasibility study due by mid-2013.

## INVESTMENT SUMMARY

We believe that **New Millennium Iron Corp. (NML-TSX)** is an optional infrastructure and premium product play on the future development of the taconite low-grade iron ore development projects in the Labrador Trough. These projects can be very capital intensive and therefore require the economies of scale to justify development. The Company has the support of a senior strategic partner in Tata Steel (Tata), a major steel-producer that has shown a preference for self-sufficiency with iron ore raw material input.

NML, along with Tata, however, has started off the partnership with the DSO project. We believe the DSO was designed to not only serve as a relatively low-risk approach to advance a small-scale operation to cash generation status, but to also run a test case for Tata to familiarize itself with the regulatory and environmental process in the region, ease of logistics, labour and potential product quality in the area before making a much larger capital investment vis-à-vis the Taconite project.

In our view, NML is a best in class iron ore developer with a long-life asset base, relatively low-cost, premium quality products and a self-contained pathway to market. Currently, NML and Tata are undergoing a bankable feasibility study on the taconite project with a view to slurry pipe concentrate to port rather than transport by rail.

This slurry pipe decision is by no means risk-free, but significantly reduces several potential areas of bottlenecking and lack of ready infrastructure that one would experience railing concentrate to port. The recent CN feasibility study was put on hold and highlighted this infrastructure risk. The CN study, a potential $5 billion project, included rail access and a multi-user terminal with a central conveying link to the Sept-Îles expansion dock.

The potential longevity of mine operations from the Taconite iron projects offers the possibility of 30 years or more and annual production of up to 30mtpa, providing the necessary economies of scale for the capital investment in a slurry pipeline to be worthwhile. We estimate the initial project development capital to approach $6.2billion from the upcoming feasibility update in order to achieve initial production. Based on the numerous iron ore capex upward revisions and write-downs globally, we believe this is a fair assumption at this juncture, giving it capital intensity of $280/t and still below the $330/t for Minas-Rio project.

We believe that the potential long-life mine and slurry pipeline operation associated with the Taconite project will become a significant cash generator given the low-cost expectations, enabling the project to withstand commodity price volatility through market cycles. Until NML can monetize or extract additional longer-term value from the Millennium Range (through Lac Ritchie etc.), we view the Company is potentially the next dividend payer, an approach that has served Labrador Iron Ore Royalty Corp. quite well over the years.

We are re-initiating coverage on New Millennium Iron Corp with a **BUY** recommendation and a **12-month target price of C$2.35 per share**.

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## Getting Premium Iron out of the Trough, the Difference Maker

### *Large Resource, Plenty Iron in the Range*

New Millennium Iron Corp. ("NML") is an emerging iron ore producer that is partnered with one of the major steel producers, Tata Steel, to develop the highly prospective Millennium Iron Range, located in the Province of Newfoundland and Labrador and in the Province of Québec.

In the same general area, NML and Tata Steel have also advanced a smaller scale Direct Shipping Ore ("DSO") Project into mine production. Commercial shipments are expected by mid-year 2013, with Tata having 100% off-take. Tata and NML have an operating JV namely, TSMC, which controls the DSO project through Tata 80% and NML 20% ownership stakes.

Tata Steel Limited also owns an approximate 26.3% equity stake in NML and is the Company's largest shareholder, strategic partner and off-take consumer (100% of DSO and 50%-60% Taconite off-takes) life-of-mine.

NML holds one of the world's largest undeveloped magnetic iron ore sets of deposits, namely the Millennium Iron Range (over a 210km stretch), which currently hosts two advance-stage Taconite projects:

(a) LabMag deposit contains 3.5 billion tonnes of proven and probable reserves at a grade of 29.6% Fe plus 1.0 billion tonnes of Measured and Indicated resources at an average grade of 29.5% Fe and 1.2 billion tonnes of Inferred resources at an average grade of 29.3% Fe

(b) KéMag contains 2.1 billion tonnes of Proven and Probable reserves at an average grade of 31.3% Fe, 0.3 billion tonnes of Measured and Indicated resources at an average grade of 31.3 % Fe and 1.0 billion tonnes of Inferred resources at an average grade of 31.2% Fe.

**Tata Steel signed a binding heads of agreement (HOA) with NML back in March 2011,** to develop the LabMag and KéMag deposits (Taconite projects) and advance to a bankable feasibility study. Upon successful completion of the BFS, and under the HOA, Tata would elect to develop one or both projects with NML.

(c) **The Millennium Iron Range also hosts other magnetite deposits,** Lac Ritchie located at the northern limb of the Range. Lac Ritchie has 3.33 billion tonnes of measured and indicated Resources at an average grade of 30.3% Fe and 1.437 billion tonnes of Inferred Resources at 30.9% Fe. The Company recently announced a maiden indicated resource of 3.58 billion tonnes at an average grade of 31.2% Fe split between its Perault Lake and Sheps Lake properties.

### *DSO Project (20%-NML), Low-Risk Approach to Large-Scale Development*

In our view, the DSO project was designed to not only serve as a relatively low-risk approach to advance a small-scale operation to cash generation status, but to also run a test case for Tata to familiarize itself with the regulatory process in the region, ease of logistics and potential product quality in the area before making a much larger capital investment vis-à-vis the Taconite project.

Total development capital for the DSO project is expected at around $560 million, with NML being responsible for approximately $16 million in equity (accounting

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for the 70:30 debt-to-equity ratio and 20% free-carry on the first $300million). Tata is responsible for sourcing all project debt financing.

The DSO operation has a capital intensity of approximately $135/t compared to $280/t (estimated) for the Taconite project, due to much less processing and no beneficiation requirement. The DSO is potentially a 15-year mine-life operation with an expected average production of around 4mtpa, with further expansion planned for 6mtpa by 2015. The operating cost LOM is expected to average between $40 and 50/t, providing NML with potentially solid margins and stable cash-flows.

***Built to Last, Slurry Pipe Underpins Low Cost through the Cycle***

The potential longevity of mine operations from the Taconite iron projects offers the possibility of 30 years or more and annual production of up to 30mtpa, providing the necessary economies of scale for the capital investment in a slurry pipeline to be worthwhile. We estimate the initial project development capital to approach $6.2billion from the upcoming feasibility update. Based on the numerous iron ore capex upward revisions and write-downs globally, we believe this is a fair assumption at this juncture.

The slurry pipeline is expected to cost between $1.3 billion and $1.5 billion in capital investment, with maintenance costs of around ($1/t). Rail option for NML not only has capital investments that would be required (rail cars, load-out and unloading facilities etc.), but also potentially multi third-party rail suppliers to negotiate with annually, thereby risking future capacity constraints, bottlenecking issues and uncontrollable tariff rates etc.

Also of importance is the potential significant operating cost savings for slurry pipe (~$13/t cost differential) compared to rail transportation. The project's projected low operating cost LOM of $45 per tonne ranks favourably on the global iron ore cost curve amongst global projects.

***CN Feasibility - Study on-Hold Creates Uncertain Path to Market for Miners***

The CN feasibility study was geared toward the construction of a $5billion railway and multi-user terminal, in the process minimizing the monopoly of the QNS&L common carrier. The multi-user terminal facility would have also provided rail load-unload system, stockyard storage and central conveying system tied-in to the Sept-Îles expansion dock for ocean freight.

The recent suspension to the CN study has potentially significant cost ramifications for miners looking to get their product to port; left with status quo, they must get a deal done with QSN&L for railway transport. The monopoly logically leaves QSN&L with the upper-hand in tariff negotiations.

Furthermore, IOC has its own terminal facility likewise Cliffs and Arcelor-Mittal, leaving the emerging producers to either build their own, get into a consortium or have a deal similar to Labrador Iron Mines (railway with QSN&L, and terminal, port and marketing with IOC). All of these options are likely to add significant cost to these miners, both on a capital and operating basis.

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***NML is an indirect beneficiary of the halt in the CN feasibility, since the intention from the BFS is for slurry pipeline, pelletize at port and convey to multi-user Sept-Îles dock. We believe that the Labrador Trough project in general is a foot-race to market, where the market is likely to reward players that have a quality product, strategic partnership, clear logistics to market and project financing.***

## *Figure 1 Status of Labrador Trough Iron Ore Projects*

| Company / Stage | Production | | Financing | | Development | | | | Exploration |
|---|---|---|---|---|---|---|---|---|---|
| | Labrador Iron Mines | New Millennium Iron | Labrador Iron Mines | Alderon Iron Ore | New Millennium Iron | Champion Iron | Oceanic Iron Ore | Adriana Resources | Century Iron Mines |
| Ticker | TSX:LIM | TSX:NML | TSX:LIM | TSX:ADV | TSX:NML | TSX:CHM | TSXV:FEO | TSXV:ADI | TSX:FER |
| Key Project | James & Satellite Deposits | DSO Project | Houston | Kami | KeMag & LabMag | Fire Lake | Hopes Advance | Lac Otelnuk | Full Moon |
| Project Stage | Production | Production | Financing & Permitting | Financing & Permitting | Feasibility Q3 2013 | Feasibility Q3 2013 | Feasibility Q4 2013 | Feasibility 2014 | PEA Q1 2013 |
| Geology | DSO | DSO | DSO | Taconite | Taconite | Taconite | Taconite | Taconite | Taconite |
| Project Ownership | 100% | 20% NML, 80% Tata Steel | 100% | 75% ADV, 25% Hebei Iron & Steel | 20% NML (36%), 80% Tata Steel (64%) | 100% | 100% | 40% ADI, 60% WISCO | 60% FER, 40% WISCO |
| Strategic Partner | None | Tata Steel | None | Hebei Iron & Steel | Tata Steel | None | None | WISCO | WISCO |
| P&P, M&I NI 43-101 Contained Resource (100% Basis, Mt) | 12 | 88 | 13 | 378 | 2,117 | 233 | 509 | 3,280 | 2,191 |
| Resource Grade (% Fe) | 57.0% | 58.9% | 57.0% | 29.7% | 30.1% | 29.6% | 32.3% | 28.9% | 30.2% |
| Key Permits Outstanding | None | None | Construction | EIS | EIS | EIS | EIS | EIS | EIS |
| Rail Access | TSH/QSN&L | TSH/QNS&L | TSH/QNS&L | QNS&L | Slurry Pipeline | QNS&L | N/A | None | None |
| Port Access | 1. Currently IOC 2. Sept-Iles Expansion | 1. TBD 2. Sept-Iles Expansion | 1. Currently IOC 2. Sept-Iles Expansion | 8 Mtpa Sept-Iles Expansion | 15 Mtpa Sept-Iles Expansion | 10 Mtpa Sept-Iles Expansion | User-built Proposal | TBD | TBD |
| Production Start Date | 2011 | 2013 | 2014 | 2016 | 2018 | 2018 | 2018 | 2018 | 2018 |
| Development Capital (MM) | na | $560 | $57 | $1,273 | $6,200 | $1,394 | $2,850 | $12,909 | TBD |
| Current Production (Mtpa) | 1.6 | 2.0 | - | - | - | - | - | - | TBD |
| Production at Nameplate Capacity (Mtpa) | 2.0 | 4.2 | 2.0 | 8.0 | 22.0 | 9.3 | 10.0 | 50.0 | TBD |
| Capital Intensity ($/t) | na | $133.33 | $28.50 | $159.11 | $281.82 | $149.89 | $285.00 | $258.18 | TBD |
| Operating Costs ($/t) | $65.00 | $40.00 | $65.00 | $42.17 | $45.00 | $44.05 | $30.18 | $32.00 | TBD |

*Source: Company documents, Jennings Capital Inc.*

### *Tailor-to-Market, Premium Quality Product*

The HOA partnership is looking to produce mostly pelletized products that will have iron content between 66% and 68% Fe grade, and which also attract a premium pricing to benchmark prices (CFR-Fines).

Around 70% of the concentrate slurry-feed is expected to be upgraded at port to high-valued pellet products, customized primarily for blast furnaces into European markets (off-take mostly to Tata Steel) with the remainder going to DRI electric furnace (into other markets such as high-growth Middle-East and possibly the USA).

Pellet grade material typically attracts a premium of around $25 to $30 per tonne over fines. DRI pellets typically get a premium of 7.5% to 10% above BF pellets. Pellet grade is a very high quality product with low silica, low alumina and low phosphorus content that is directly charged into the steel-making process without any further processing.

### *Seasoned Operator, Cornerstone Investor and Consumer in Tata Steel*

Tata Steel is one of the largest steelmakers with around 27mt of annual crude steel capacity, ranking it 12$^{th}$ globally. Tata has approximately 18mt of crude

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steel capacity in Europe spilt between the UK and Netherlands, ranking it the 2nd largest steel producer in Europe behind Arcelor-Mittal.

Tata is 100% self-sufficient with iron ore for its steel business unit in India and is looking to replicate that strategy with its European operations. Tata is expected to take 100% of DSO (designed for 4.2mtpa and 6mtpa planned) and at least 50% of the Taconite (11mtpa of the 22mtpa) with added ocean freight advantage heading to Europe from Sept-Îles (approx. 5,000km) compared to China (approx.22,000km).

***Proposed Ownership Structure under the HOA***

Under the HOA, Tata Steel will give New Millennium a 20% free-carried interest on the capital development of the Taconite Project, up to a certain limit. In addition, New Millennium has the option to increase its ownership stake in the project to 36% through a 16% participating interest, if it so chooses. This 16% participating option is also variable, giving NML the option to invest any amount up to 16%.

Furthermore, should Tata choose to bring in another partner for its share of the project, New Millennium also has a right of first refusal on the first 4% of the partner's share, thereby giving the Company the potential to increase its ownership to 40% **(i.e. 20% free carried + optional 16% participating + optional 4% participating right of first refusal)**. Tata is responsible for arranging all of the project debt financing.

***Limiting Capex Contribution***

The amount of New Millennium's 20% free carried interest is capped by a maximum capital expenditure of $4.85 billion should Tata decide to proceed with both projects. The maximum amount is reduced to $4.68 billion should Tata choose to proceed with KéMag only and $3.76 billion for LabMag only. New Millennium is responsible for 20% of the capex above these amounts plus its pro-rata share for any participating interest it elects to exercise.

***Off-take Potential***

Each party will have an off-take right on production in proportion to its ownership interest in the JV.

***Minority Stake under the HOA Format, Free-Carry Provides Upside Potential***

Tata will have a maximum of four months from the completion of a bankable feasibility study to make an investment decision on the Taconite Project. Should Tata elect to develop only one of the two deposits, NML will retain the property and related rights with respect to the remaining deposit. New Millennium will have a further 60 days from Tata's positive investment decision to exercise its option to increase its ownership by up to 16% by way of a participating interest.

This HOA deal with Tata Steel, if fully exercised, would reduce NML's interest to a minority ownership role in both the Taconite and DSO projects, thereby reducing any control premium for NML.

We believe, however, that there is more upside for NML than downside under this HOA agreement. An iron ore project of this scale, funding requirement and complexity requires a major partner that would not just carry the financial burden of the capital intensity required but also provide a lead on the technical,

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operational aspects plus provide a ready market as a core consumer of the product.

***Potentially the Next Dividend Payer out of the Trough***

We believe that the potential long-life mine operation and slurry pipeline from the Taconite project will become a cash generator given the low-cost expectations, enabling the project to withstand any commodity price volatility through market cycles.

Until NML can monetize or extract additional longer-term value from the Millennium Range (through Lac Ritchie etc.), we view the Company as potentially the next dividend payer, an approach that has served Labrador Iron Ore Royalty Corp. quite well over the years with its minority role.

***100%-Owned Projects Provides Growth Optionality***

In our view NML is well-positioned to further monetize the rest of the Millennium Range once the taconite project gets off the ground. The potential net cashflow that is likely attributable to NML five years after Taconite goes into production amounts to around $150million. Building a cash stockpile would likely give NML a position of strength to negotiate a major role in the next set of development projects and also fund its share of financing.

Lac Ritchie, located a bit further north of Schefferville and the Taconite project, provides NML with the most advanced exploration project (100%-NML) that could be monetized or further developed through other strategic interest. Although the resource base is large enough to spark future interest, we believe the logistics to market and further unlock Lac Ritchie are potentially very challenging. We could, however, see Lac Ritchie as a future satellite deposit, being used as a source of ore-feed that could potentially be railed to KéMag for further processing.

Perault and Sheps Lake, which recently reported indicated resources of 3.58 billion tonnes, are south of Schefferville and therefore would be the closest assets to port. These would be much easier to develop/rail to port or monetize nearer-term.

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## COMPANY OVERVIEW – NEW MILLENNIUM IRON CORP.

NML's Millennium Range hosts three advance-stage iron ore projects in the Schefferville mining camp of Labrador and Québec, Canada.

- DSO is a "Direct Shipping Ore" project that is expected to produce 4mtpa, having started mining operations in 2012. NML has a joint venture agreement with Tata to develop the project under the TSMC JV. Tata will "arrange for" $300 million in initial capital to build the DSO project in order to acquire an 80% interest in the project. Tata will take 100% of the off-take and will pay NML market prices for its pro-rata share.

  The DSO project area consists of 25 deposits from which 10 were chosen, under the feasibility study, for mining development. The deposits are located from 15km southeast of Schefferville and extend to 55km northwest of the town.

- LabMag is a taconite project on the Labrador side of the provincial border with Québec. A 2006 prefeasibility study on the project outlined a 15mtpa pellet operation. NML has an 80% interest in LabMag, with the Naskapi First Nation owning the remaining 20%.

  The LabMag property is located approximately 30km northwest of the town of Schefferville in the western Labrador surrounding boundaries of Québec. The property covers 64km$^2$ which extend over a 30km distance.

- KéMag is a taconite project on the Québec side of the provincial border. A 2009 pre-feasibility study on the project outlines a 15mtpa pellet and a 7million tpa concentrate operation. NML owns 100% of KéMag.

- The KéMag property is located approximately 50km northwest of Schefferville in Nunavik, Québec. The property covers approximately 81km$^2$ over a 15.5km extension.

***Figure 2 Global Resource-DSO, Taconite, & Exploration Projects***

| | | Total Resource (100% Ownership, MM tonnes) | | | | | |
|---|---|---|---|---|---|---|---|
| **Project** | **Ownership[1]** | **P&P** | **% Fe** | **M&I*** | **% Fe** | **Inferred** | **% Fe** |
| DSO | 20% | 64.1 | 58.87% | 85.1 | 59.20% | 10.3 | 58.30% |
| KeMag | 20% | 2,141.0 | 31.30% | 2,448.0 | 31.27% | 1,014.0 | 31.15% |
| LabMag | 80% | 3,545.0 | 29.60% | 4,590.0 | 29.45% | 1,151.0 | 29.32% |
| Lac Ritchie | 100% | - | - | 3,330.0 | 30.30% | 1,437.0 | 30.90% |
| Sheps Lake | 80% | - | - | 1,967.0 | 32.72% | 289.0 | 32.62% |
| Perault Lake | 100% | - | - | 1,612.0 | 29.40% | 507.0 | 29.39% |
| **Total** | | **5,750.1** | **30.56%** | **14,032.1** | **30.60%** | **4,408.3** | **30.55%** |

*Source: Company documents, Jennings Capital Inc.*
**M&I inclusive of P&P*

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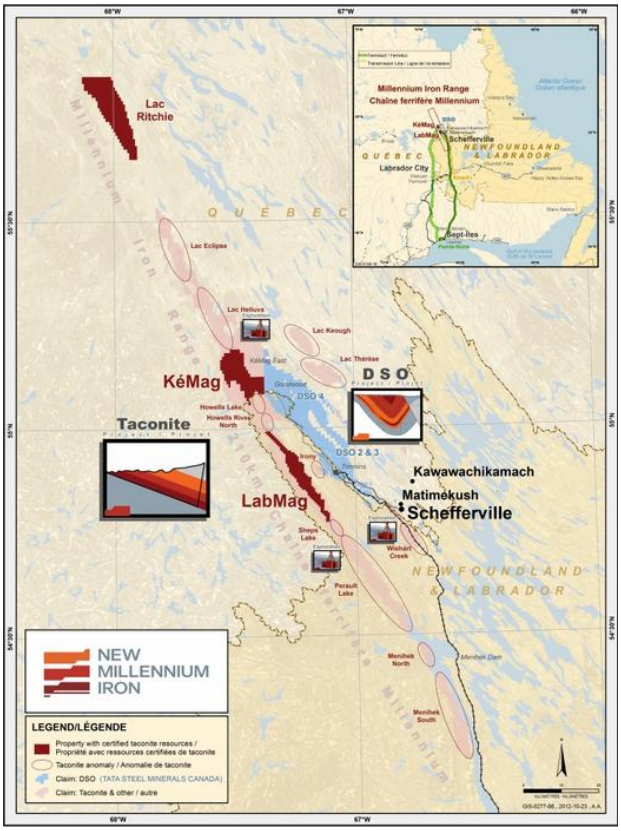
***Figure 3 Millennium Iron Range – Project Map & Potential Pipeline Routes***





*Source: Company Presentation*

***DSO OPERATION-Cash-flowing in the Trough, Unlocking Value Begins***

The DSO project contains 64mt of reserves grading 58.8% Fe with another 21mt in the measured and indicated category, sufficient for a mine-life of ~15 years with designed production capacity of 4.2mtpa. TSMC is giving consideration to further expansion to 6mtpa.

Mining activity related to the DSO project will be conducted in two distinct clusters: Cluster 1 (called Areas 2 & 3); and Custer 2 (called Area 4). Areas 2&3 consist of Phase 1 development, which is a brownfield site (previous IOC operation) and location for the processing plant and other facilities. Mining operation is expected to move to Area 4 within two years of start-up around the Goodwood area, which is where the bulk of the resources are located. TSMC plans to build a 35km haul road that would be used to truck the ore from the Goodwood site to the processing site at Area 3.

Mine production started in September 2012, with commercial shipments expected by mid-2013.

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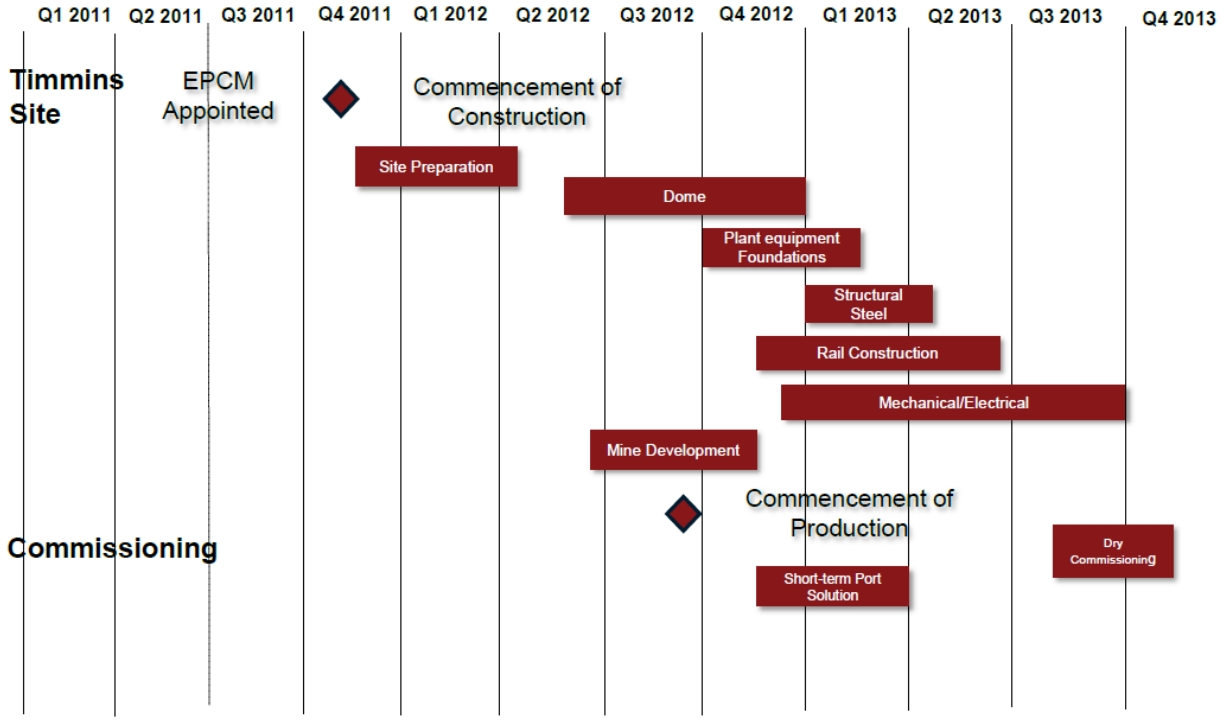
### *DSO LOGISTICS- Rail Experience Adds Clarity for Taconite Development*

The DSO material will be transported by rail over 610km down to the Port of Sept-Îles. The rail logistics are quite complex, involving four different rail providers: KéRail, which has TSMC as its only potential customer at present (built by arms-length operator Genesee & Wyoming, Inc.); TSH; QNS&L; and CFA, which is still under negotiation (involves transporting material through Cliffs own stockyard).

Rail access and tariff negotiations can be a challenging process in itself, which is made even more difficult with the involvement of multi-rail suppliers. At the core of these negotiations is QNS&L, the common carrier owned by Rio Tinto, which is estimated to have around 50mt of excess rail capacity.

NML successfully came to an agreement with QSN&L in January 2012 after having entered arbitration with QNS&L over rail tariff. In arbitration both sides have to make a rate proposal that reflects market conditions (fuel rate, labor rate, CPI etc.) and the judge would select the one which is considered the more reasonable. Rail tariffs are negotiated annually even though volumes are locked in over life of mine.

***Figure 4*** ***DSO Schedule***




*Source: Company Presentation*

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### *TACONITE DEVELOPMENT SCHEDULE*

Taconite Project (under the HOA: 20% NML, with 16% Option): The main reason for the BFS delay is attributable to the study managers "taking the time to get it right" and the pure number of companies taking part in the feasibility study process. We expect the study to be released around Q2/Q3 2013, with another few months of engineering work to be finalized.

Construction: Once the feasibility is completed, the Company estimates it will take another five years to get into production. This includes two years of permitting and detailed engineering and three years of construction and commissioning.

### *TACONITE BANKABLE FEASIBILITY-Ironing out the Scenarios*

The HOA partners are jointly funding the Taconite bankable feasibility study with each partner funding its pro-rata share (36% New Millennium; 64% Tata) of the estimated $50 million. The BFS was recently delayed due to the Study Managers' request to finalize additional technical aspects and capital estimates on the project. We anticipate the BFS to be completed around Q2/Q3 2013.

**One of the primary challenges for this Taconite BFS is the increasing likelihood that there will be just one slurry pipeline project instead of two**, leading to three possible development scenarios that the JV partners would likely have under consideration:

A. **LabMag project (Newfoundland only)** - LabMag is the preferred project for the HOA partnership, primarily due to its closer proximity to port (610km pipeline) and larger resource body (LOM 46 years). Labrador and Newfoundland currently has a law restricting ore beneficiation/pelletizing of its ore out-of-province, thereby adding "value-in use" to get high value end-product within NL. This scenario would require pelletizing in Newfoundland and transportation of pellets by rail to port of Sept-Îles which would prove to be very expensive and technically challenging. Running by rail would exclude slurry pipe, which equates to a totally different project.

   This scenario assumes that permission will be given for pelletizing to be done at port in Pointe-Noire, Québec, as it is not economically feasible to pelletize and transport rail to port. Cliffs Wabush mine in Labrador concentrate at site but pelletize in Pointe Noire, Québec, an operation since 1965. We believe it is a different environment now, which makes it a high probability for no-go decision for LabMag at this point.

   If this permission is given, then the partnership would have the option of reverting to scenario (B) or continue to stand alone and develop KéMag as a separate project in order to possibly double future production beyond the 22mtpa.

B. **Single Taconite project involving KéMag and LabMag deposits** - This scenario involves ore beneficiation at one site, with the other acting as satellite feed supply. It is assumed that the government of NL would allow pelletizing in Sept-Îles if Québec ore and KéMag are concentrated in NFL.

   The more cost-effective logistic under this scenario would be to convey ore from KéMag to be beneficiated at the LabMag site in Newfoundland and get

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permission for slurry concentrate to be upgraded/pelletized back at port in Pointe-Noire on the Québec side.

C. **KéMag project (Québec only)** - This scenario sees the project mined, beneficiated, slurry piped (650km) and pelletized all in the province of Québec only. This decision is likely to leave NML with the task of finding another strategic partner for the LabMag project, to be developed separately, as this would mean no possible future synergies by flowing LabMag ore to KéMag for processing. We believe this is the most likely scenario, since it does not require cross-border agreements and the pathway to permitting a pipeline is likely to be a bit clearer.

***TACONITE PROJECT FUNDING - May Require Strategic Partner/Off-takers***

Within the global context of major iron ore projects we have seen several blowouts in capital requirements, primarily due to lack of infrastructure and general cost increase with raw material inputs.

We believe that the capital estimate of $4.85billion for the Taconite project is likely to be increased with the updated BFS, driven primarily by cost inflation, since the initial cost estimate was given back in the 2009 with the PEA.

Based on the signed HOA and the various project scenarios, Tata Steel is expected to fund on its own up to a maximum of $4.85 billion before the capital cost goes pro-rata. Tata Steel and most of the other international steelmakers have experienced soft steel markets and have recently reported operating losses in the last quarter in 2012.

**At the start of this year, the Labrador Trough attracted Asian strategic interest other than Chinese buyers, with the sale of 15% interest in Arcelor Mittal Mines Canada to Posco from Korea and China Steel from Taiwan for $1.1billion.**

We view this as a healthy sign of continued international interest in the Trough but also growing appetite for vertical integration from steelmakers and less reliance on the Vale, Rio and BHPs.

***PROJECT PERMITTING - Challenging, but Manageable***

The sheer scale and complexity of this project, involving a slurry pipeline of this length (assuming the 650km with KéMag scenario), makes it challenging. We believe, however, that KéMag permitting would be less challenging than that of LabMag, since the latter would require separate approvals from two provinces having a cross-border pipeline.

**The environmental impact statement is expected to be filed after the BFS this year. The HOA partnership expects that since the project sits wholly in the province of Québec, the review is likely to be subjected to only provincial assessment, unless it is determined that the province is not capable and then it would go to a federal review.**

It is important to note that the slurry pipeline is expected to be routed mostly through federal and provincial government land, with a small section on private

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land close to the port. The apportioned land is split: ~90% Federal; 8% provincial; and 2 % (10-15km) private land, mostly controlled by Cliffs-Wabush.

The slurry concentrate, which has around 62% solids, will be sent to a thickener system at port, which then increases the solid content to ~75%, creating excess water. The excess water is expected to be treated and discharged into the St. Lawrence River. Although water treatment is expected to render composite harmless, we anticipate that this portion of the permitting is likely to fall within the Ministry of Oceans and Fisheries jurisdiction.

***TACONITE LOGISTICS TO PORT- Slurry Piping; however, Routing Adds Complexity***

The HOA partnership envisages a single slurry pipeline that would be built to transport iron concentrate from site to the Port of Sept-Îles, where around 70% would then be further upgraded through a pelletized processing.

However, the NF government was opposed to the idea of any "Newfoundland" ore being processed outside of the province and wants the pellet plant built in Labrador, at the project site, along with the concentrator. The prefeasibility study demonstrated that project economics are superior with pipeline transport and does not support the expense of building or operating additional rail transportation to Sept-Îles. The Company believed, at the time, that it could not advance the LabMag project with this restriction in place.

**Technical aspects are complicated:** the slurry pipeline will be the largest ever built, at over 600km; however, the HOA partnership is confident in the length, depth, location and maintainability of the pipeline, which would be buried ~2-4m below the surface and well below the frost line. The elevation differential of the pipeline going from ~800m at head to 10m at delivery point gives it a natural gravity feed supported by a pumping station at the start and a booster pump about mid-way. The pipeline will also be designed with minimal slopes less than 15°, in order to avoid settlement in the pipe. The pipeline remains a cost effective high value measure as compared to the traditional rail shipment.

***PRODUCTION at 22MTPA - HOA Aiming for Top Premium Pellet Producer***

The 22Mtpa of annual production capacity envisaged coming from the Taconite project would lift the HOA partnership on par with IOC's current concentrate production in 2012 (expansion from 18mtpa in 2011), as the top two concentrate producers in the Trough. Arcelor Mittal Mines Canada aims to ramp up concentrate production from 15mtpa to 24mtpa by 2013, to take top concentrator spot in the Trough.

However, based on expected pelletizing to concentrate ratio (70:30), HOA aims to become the top ranked pellet producer in the Labrador Trough with approximately 17mtpa of pellet production compared to the 13mtpa from IOC and 9mtpa from AMMC.

Iron pellets typically attract a premium pricing of around $30 per tonne over fines, since pellets go through a further value-added beneficiation step; a product upgrading process (also require extra processing cost). Based on market conditions, however, pricing tends to fluctuate between concentrate and pellets,

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so a company would tend to adjust its product mix to maximize margins accordingly.

***PORT UPGRADES-Pelletizing and Shipping Capacity***

Following the slurry transportation from site to port, approximately 70% of the fine grained concentrate is expected to be further upgraded to pellets in a pelletizing plant at port resulting in customizable pellets for both the blast furnace-converter and DRI-to-electric furnace steelmaking routes.

The Port of Sept-Îles is undergoing a 50mtpa Phase1 capacity expansion at Pointe-Noire, with construction scheduled to be completed in March 2014. NML and TSMC have been allocated 20mt, representing 40% of Phase 1 capacity. Currently, 43mt of total capacity has been taken by four miners including the HOA partnership. The port expansion is expected to be completed comfortably ahead of the new projects coming on-stream. There is further consideration being given to a Phase 2 port expansion up to 100mtpa.

With CN's multi-user terminal handling landside facility no longer on the table, most of these miners would have to find a way to get their product to the Sept-Îles dock. This could become a potential cause for concern regarding bottlenecking issues that has hampered other regions such as in West Africa and Australia.

***MARKETING RISK MINIMIZED - Tata Takes 50-60%, Off-Takers Interested***

Tata has a strategy to become a leading steel producer in Europe by investing in reducing raw material costs through captive inputs in the iron-making process, becoming a more fully integrated player, similar to its Indian steel unit where it is 100% self-sufficient.

Tata has agreed to take between 50 and 60% of the 22mtpa iron production from the Labrador Taconite project, which is expected to feed its European operations, which has an estimated requirement of 20-25mtpa of iron ore. Europe, itself, has a distinct ocean freight advantage (5000km) as compared to shipping to China, which is much farther away (22,000km).

The HOA partnership is looking to add another strategic partner that would also potentially fulfill the role of off-taker/consumer of the iron product. Notwithstanding a strategic partner, the HOA partnership is looking into other pellet markets such as the high growth Middle East, which has embraced energy intensive DRI-electric furnace usage due to the region's comparative energy advantage.

Having the bulk of the 22mt in potential off-take deals would minimize the sales and marketing risks and eliminate most of the subsequent cost to securing buyers in the open market. As a comparison, Labrador Iron Mines pays IOC a marketing fee of around $22/t to ensure product sales.

***MILLENNIUM RANGE PROVIDES OPTIONALITY - Monetization is Possible***

In our view, as the HOA advances the development of the LabMag or KéMag projects, the optional value of the remaining deposits in the range is expected to

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rise. Lac Ritchie represents one of the next advance-stage exploration projects for NML with an identified measured and indicated resource of 3.3bt grading 30.5% Fe.

We believe that NML could be viewed as a partner of choice for future large-scale projects in the Labrador Trough if the Tata JV is successful. The 210 km long Millennium Range would afford NML the option to further monetize its interest in the other projects through JVs or outright asset sale.

## VALUATION

Ahead of the Taconite bankable feasibility study, we have derived our valuation from a NAV based method of DCF of after-tax free cash-flows to equity holders under the HOA partnership, post debt servicing, since there is to be 70% project debt financing. NML is attributed value at this point, based on a potential 20% stake in the partnership, net for both the DSO and Taconite project. We have modelled the DSO and KéMag over mine lives of 15 and 28 years, respectively.

We will make more detailed adjustments to our model once the BFS is released.

Also, at this juncture, we have determined that Tata Steel is likely to proceed with one of the two projects, with KéMag looking more feasible over LabMag. Post Tata's investment decision (after BFS), we have assumed that LabMag goes back to NML's project pool. This would give NML approximately 90% of remaining global M&I resources of contained iron of 3.1Bt, including Lac Ritchie, Sheps Lake and Perault Lake.

We have ascribed some value to these development projects that have reached the measured and indicated NI 43-101 compliant resource category, based on a multiple of EV/contained Fe tonne in the ground and a 60% probability of these projects proceeding in aggregate.

**Our target price on New Millennium Iron Corp. of C$2.35 per share is based on a sum-of-the-parts NAV approach, which includes NPV of DSO and KéMag, 0.5x EV of the key development projects, plus net cash and in-the-money investments.**(See Valuation Summary Figure 5)

***Figure 5 Valuation Summary - DCF of After-tax Free Cash-flow to Equity***

| | Ownership | Value per FD Share | Multiple | Contribution to FD Share Target |
|---|---|---|---|---|
| DSO $NAV_{8\%}$ | 20% NML | $0.64 | 1.0x | $0.64 |
| KeMag $NAV_{12\%}$ | 20% NML | $0.99 | 1.0x | $0.99 |
| Other Development Projects | 89% NML | $0.63 | 0.6x | $0.38 |
| Cash | | $0.33 | 1.0x | $0.33 |
| **Total** | | | | $2.35 |
| **12-Month Target Price** | | | | **$2.35** |

*Source: Jennings Capital estimates*

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### *NAV Sensitivity*

We have modelled NML as a 20% minority partner in all the near-term development projects, similar to the DSO arrangement. We have, however, provided sensitivity to NML increasing its stake in KéMag from 20% up to the 36% optional level.

Our KéMag NAV sensitivities show that if NML exercises its full 16% optionality, then KéMag's value could range from $0.99 up to $1.79 per share.

## *Figure 6 DSO NAV Sensitivity to Long-Term Iron Ore Prices (C$/FD share)*

| NAV Discount Rate | Long-term Fines Iron Ore Price US$/t (CFR CHina) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **$80** | **$85** | **$90** | **$95** | **$100** | **$105** | **$110** | **$115** | **$120** |
| **4.0%** | 0.27 | 0.44 | 0.60 | 0.74 | 0.86 | 0.97 | 1.10 | 1.23 | 1.32 |
| **5.0%** | 0.26 | 0.42 | 0.56 | 0.68 | 0.80 | 0.90 | 1.02 | 1.13 | 1.21 |
| **6.0%** | 0.25 | 0.39 | 0.52 | 0.64 | 0.74 | 0.83 | 0.94 | 1.04 | 1.12 |
| **7.0%** | 0.24 | 0.37 | 0.49 | 0.59 | 0.69 | 0.78 | 0.87 | 0.97 | 1.04 |
| **8.0%** | 0.23 | 0.35 | 0.46 | 0.56 | **0.64** | 0.72 | 0.81 | 0.90 | 0.96 |
| **9.0%** | 0.22 | 0.33 | 0.44 | 0.52 | 0.60 | 0.67 | 0.76 | 0.84 | 0.89 |
| **10.0%** | 0.22 | 0.32 | 0.41 | 0.49 | 0.56 | 0.63 | 0.71 | 0.78 | 0.83 |
| **11.0%** | 0.21 | 0.30 | 0.39 | 0.46 | 0.53 | 0.59 | 0.66 | 0.73 | 0.78 |
| **12.0%** | 0.20 | 0.29 | 0.37 | 0.44 | 0.50 | 0.56 | 0.62 | 0.69 | 0.73 |

*Source: Jennings Capital Inc. estimates*

## *Figure 7 KéMag NAV Sensitivity to Long-term Iron Ore Prices (C$/FD share)*

| NAV Discount Rate | Long-term Fines Iron Ore Price US$/t (CFR China) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **$80** | **$85** | **$90** | **$95** | **$100** | **$105** | **$110** | **$115** | **$120** |
| **8.0%** | (0.02) | 0.72 | 1.45 | 2.10 | 2.83 | 3.43 | 4.15 | 4.68 | 5.38 |
| **9.0%** | (0.27) | 0.38 | 1.02 | 1.59 | 2.23 | 2.75 | 3.38 | 3.84 | 4.45 |
| **10.0%** | (0.47) | 0.10 | 0.67 | 1.17 | 1.73 | 2.19 | 2.74 | 3.15 | 3.69 |
| **11.0%** | (0.62) | (0.12) | 0.38 | 0.83 | 1.33 | 1.73 | 2.22 | 2.57 | 3.05 |
| **12.0%** | (0.74) | (0.29) | 0.16 | 0.55 | **0.99** | 1.35 | 1.79 | 2.10 | 2.52 |
| **13.0%** | (0.83) | (0.42) | (0.03) | 0.32 | 0.72 | 1.04 | 1.42 | 1.70 | 2.07 |
| **14.0%** | (0.89) | (0.53) | (0.17) | 0.14 | 0.49 | 0.78 | 1.12 | 1.37 | 1.70 |
| **15.0%** | (0.94) | (0.61) | (0.29) | (0.01) | 0.31 | 0.56 | 0.87 | 1.09 | 1.39 |
| **16.0%** | (0.97) | (0.67) | (0.39) | (0.13) | 0.15 | 0.38 | 0.66 | 0.85 | 1.12 |

*Source: Jennings Capital estimates*

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## *Figure 8 KéMag NAV Sensitivity to Free-carried Interest (C$/FD share)*

| NAV Discount Rate | KeMag Carried Interest | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 20.0% | 22.0% | 24.0% | 26.0% | 28.0% | 30.0% | 32.0% | 34.0% | 36.0% |
| 8.0% | 2.83 | 3.12 | 3.40 | 3.68 | 3.97 | 4.25 | 4.53 | 4.82 | 5.10 |
| 9.0% | 2.23 | 2.45 | 2.67 | 2.90 | 3.12 | 3.34 | 3.57 | 3.79 | 4.01 |
| 10.0% | 1.73 | 1.91 | 2.08 | 2.25 | 2.43 | 2.60 | 2.77 | 2.95 | 3.12 |
| 11.0% | 1.33 | 1.46 | 1.59 | 1.73 | 1.86 | 1.99 | 2.12 | 2.26 | 2.39 |
| 12.0% | **0.99** | 1.09 | 1.19 | 1.29 | 1.39 | 1.49 | 1.59 | 1.69 | 1.79 |
| 13.0% | 0.72 | 0.79 | 0.86 | 0.93 | 1.01 | 1.08 | 1.15 | 1.22 | 1.29 |
| 14.0% | 0.49 | 0.54 | 0.59 | 0.64 | 0.69 | 0.74 | 0.79 | 0.84 | 0.89 |
| 15.0% | 0.31 | 0.34 | 0.37 | 0.40 | 0.43 | 0.46 | 0.49 | 0.52 | 0.55 |
| 16.0% | 0.15 | 0.17 | 0.18 | 0.20 | 0.21 | 0.23 | 0.24 | 0.26 | 0.27 |

*Source: Jennings Capital estimates*

### *Labrador Trough Players*

**NML is undervalued compared to its peers:** Currently, the market is valuing NML's M&I resource base at $0.04/t of Fe, vs. the Trough average of $0.24/t.

We believe that with NML's quality, sizeable resource and optionality surrounding its exploration properties, the Company should trade more in line with its peer group.

## *Figure 9 Comparable Canadian Developers (EV/Contained Tonne)*

| Company | Ticker | Listing Currency | Close Price (Local) | Close Price (US$) | Market Cap (US$ MM) | Cash (US$ MM) | Debt (US$ MM) | EV (US$ MM) | Reserves & Resources (Contained Fe) P&P (MMt) | Reserves & Resources (Contained Fe) M&I (MMt) | EV/tonne Contained (US$/tonne) P&P | EV/tonne Contained (US$/tonne) M&I |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **QUEBEC, LABRADOR TROUGH** | | | | | | | | | | | | |
| Adriana Resources Inc. | TSXV:ADI | CAD | 0.36 | 0.36 | 57 | 15 | 6 | 15 | - | 131 | - | 0.11 |
| Advanced Explorations Inc. | TSXV:AXI | CAD | 0.11 | 0.11 | 18 | 5 | 10 | 23 | 41 | 66 | 0.55 | 0.35 |
| Alderon Iron Ore Corp. | TSX:ADV | CAD | 1.56 | 1.56 | 203 | 47 | - | 157 | 148 | 284 | 1.06 | 0.55 |
| Champion Iron Mines Limited | TSX:CHM | CAD | 0.36 | 0.36 | 43 | 7 | - | 36 | 204 | 389 | 0.18 | 0.09 |
| Century Iron Mines Corporation | TSX:FER | CAD | 0.53 | 0.53 | 50 | 42 | - | 9 | - | 1,318 | - | 0.01 |
| Labrador Iron Mines Holdings Limited. | TSX:LIM | CAD | 0.80 | 0.80 | 101 | 10 | 3 | 104 | - | 25 | - | 4.07 |
| Oceanic Iron Ore Corp. | TSXV:FEO | CAD | 0.19 | 0.18 | 36 | 3 | 3 | 37 | 438 | 509 | 0.08 | 0.07 |
| **Average** | | | | | | | | | | | **0.47** | **0.75** |
| **Excluding Min & Max** | | | | | | | | | | | **0.37** | **0.24** |
| **New Millennium Iron Corp** | **TSX:NML** | **CAD** | **1.19** | **1.19** | **213** | **79** | **-** | **136** | **981** | **3,242** | **0.14** | **0.04** |

***Note: CapitalIQ Market and Accounting Data; Reserve and resource figures based on attributable project ownership (M&I Inclusive of P&P)***

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## KEY RISKS

New Millennium is a development company with its DSO mine moving into commercial production by mid-2013. NML and Tata Steel are currently working toward a BFS of their Taconite projects, which we expect to be fairly capital intensive. The key risks, therefore, lie with the advancement of the Taconite project toward production.

**Permitting Risk – MEDIUM:** We believe that the primary challenge to environmental permitting is likely to be associated with the slurry pipeline. The right-of-way land access could become quite sensitive, even though the bulk of the pipe is expected to be laid on Crown land. A further issue is the discharge of spent excess water into the St. Lawrence River, which will be treated to non-reactive status but, again, could become sensitive. Overall, we expect the permitting process to sit mostly with the province of Québec and not federally, which would be positive.

**Capital Development Risk – MEDIUM to HIGH:** The BFS is currently underway, which we estimate is likely to have a capital cost of over $6billion. The difficulty in the steel market is also affecting Tata Steel negatively, resulting in operating losses in 2012. We expect Tata to pursue additional strategic partners (off-takers) to spread the financial risk. In a project of this nature, it is difficult to have a modular-phased approach, which means the capital is mostly upfront. There are positive signs that steelmakers are still interested in the Labrador Trough with the recent sale of 15% stake in Arcelor Mittal Mines Canada.

**Commodity Risk – LOW to MEDIUM:** This is mostly out of the partners' control, but could quickly affect the project economics. The Taconite and DSO both have relatively low operating costs, approximately $40-50/t FOB, which sits toward the lower end of the global iron ore cost curve. This cost position is beneficial in periods of low commodity prices.

## COMPANY BACKGROUND

The LabMag project was originally discovered in the 1960s, by the Iron Ore Company of Canada (IOC). LabMag remained in the IOC's project portfolio throughout the 1960s and 1970s, over which time it was intermittently evaluated. The IOC shut down its Schefferville operations in the early 1980s and eventually allowed the LabMag claims to lapse. The LabMag claims were re-staked in 2002, by LabMag Mining Corporation, which was acquired by New Millennium Capital, a capital pool Company, which went public via an IPO in 2004. Being drawn back to the area for the LabMag property, the Company acquired by staking other ground previously held by IOC. In 2004, NML began staking the claims encompassing the DSO project and in 2005, NML staked the KéMag property.

The involvement of the government of Newfoundland and Labrador (NL) played an important role in the discovery of the KéMag project, ironically located not in NL, but in neighbouring Québec. One of the key features of the LabMag prefeasibility study is a 605km slurry pipeline. The plan was to mine and concentrate taconite ore at the project site and to transport the concentrate to Sept-Îles, Québec, via slurry pipeline. Concentrate is to be pelletized in Sept-Îles for onward oceanic shipment. However, the NL government remained opposed to the idea of any "Newfoundland" ore being processed outside of the province and wants the pellet plant built in Labrador, at the project site, along with the

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concentrator. The prefeasibility study demonstrates that project economics are superior with pipeline transport and does not support the expense of building or operating rail transportation. The Company believed that it could not advance the LabMag project under these circumstances.

The Company was committed to the concept of a taconite project with pipeline transportation to port, so it began looking for another deposit. It did not have to look far. The LabMag project is part of the much larger Millennium Iron Range (210km long), so the Company began exploring the extension of the belt on the Québec side of the provincial boundary where KéMag was discovered.

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## KEY EXECUTIVE MANAGEMENT– Well Experienced in Iron Ore and in the Trough

We believe NML management has done an excellent job, acquiring the land claims in the Trough, developing the Millennium Range into a large resource of potential pellet product, and securing a strategic partner in Tata Steel that has the technical and financial wherewithal to help advance this large-scale project. Having Tata Steel as a strategic and cornerstone partner has provided NML not only with increased access to capital markets but also to a core off-take customer life-of-mine.

**Dean Journeaux, President, CEO, Director**

Mr. Journeaux became President and CEO of NML on July 1, 2011, and continues as a Director. He most recently was Chief Operating Officer, a post he held since 2008, and he was involved in the Company from its inception in 2003. Mr. Journeaux has over four decades of experience in the mining industry. He has held various engineering, operations and management positions with Québec Cartier Mining Company, and MET-CHEM Canada Inc. At the time, both were US Steel subsidiaries.

Beginning in 1999, as an independent consultant, Mr. Journeaux worked on various international projects in Egypt, as Project Director with USS Engineers and Consultants Inc. for a proposed iron ore mine and steel plant and later, in India, as Project Director for the proposed Utkal Alumina International Limited bauxite mine and alumina refinery.

In 2002, Mr. Journeaux, along with other partners, formed the LabMag Mining Corp., with Mr. Journeaux acting as Director and Study Manager for the appraisal of an iron ore mine, concentrator, pipeline, pellet plant and port in Labrador. In 2003, this project led to the establishment of NML

Mr. Journeaux received a Bachelor of Engineering (Mining) from McGill University of Montréal, Québec in 1960. He is a Member of the Ordre des ingénieurs du Québec (retired category), a Member of the Association of Iron and Steel Engineers and a Fellow of the Canadian Institute of Mining, Metallurgy and Petroleum.

**Bish Chanda, Senior Vice President, Marketing and Strategy**

Mr. Chanda is Senior Vice President of Marketing and Strategy of NML, and has been with the Company since its inception in 2004. He has over 40 years' experience, with over 35 years of experience in iron ore. He worked for 25 years with the Iron Ore Company of Canada, where he occupied various technical and senior management positions in engineering and process and quality improvements. In 1997, Mr. Chanda became an independent consultant and was involved internationally in the iron ore development field.

Mr. Chanda's responsibilities include strategic planning and special activities related to investor relations. On the strategic front, Mr. Chanda monitors the development of the iron ore market and NML's competitive position in that market. He advises on critical issues and assists in the development of the Company's long term strategies. He is also involved in the development of iron ore processes to ensure that product quality would meet market requirements.

Mr. Chanda received his Bachelor of Technology in Civil Engineering from the Indian Institute of Technology, Kharagpur, in 1962. He is a member of both the Ordre des ingénieurs du Québec and Professional Engineers Ontario.

**Moulaye Melainine, Senior Vice President, Development**

Senior Vice President of Development since January, 2010, Mr. Melainine has been with NML since November, 2005, as Project Evaluation Manager and Vice President, Development. Mr. Melainine has over 31 years of experience working in the iron ore sector in operations, planning, and management. From 1979 to 1987, he was the Head of the Mining Division and later, Corporate Comptroller of Société nationale industrielle et minière (SNIM), the Mauritanian state-owned iron ore producer. Mr. Melainine then worked for ten years on numerous international projects as a staff member of Met-Chem, the Montréal-based steel, iron ore, mining and minerals consulting company. From 2000 to 2005, prior to

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joining NML, Mr. Melainine served as Regional Vice-President of Tecsult International Inc., an engineering consulting company based in Montréal.

Mr. Melainine received his degree in Mining Engineering in 1977, from Ecole Polytechnique in Montréal, and his Masters in Mineral Industry Economics in 1979, from McGill University in Montréal.

## *Figure 10 Trading Comparable – Iron Ore Producers & Developers*

| Company | Ticker | Listing Currency | Close Price (Local) | Close Price (US$) | Market Cap (US$ MM) | Cash (US$ MM) | Debt (US$ MM) | EV (US$ MM) | 2013E | 2014E | 2013E | 2014E | 2013E | 2014E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **MAJORS** | | | | | | | | | | | | | | |
| ArcelorMittal | ENXTAM:MT | EUR | 12.21 | 16.28 | 27,111 | 4,536 | 26,304 | 52,635 | 6.6x | 5.5x | 20.7x | 10.9x | 5.4x | 4.0x |
| BHP Billiton Limited | ASX:BHP | AUD | 38.59 | 39.97 | 212,772 | 4,832 | 28,586 | 238,036 | 7.0x | 6.7x | 13.6x | 13.1x | 8.9x | 8.4x |
| Vale S.A. | BOVESPA:VALE5 | BRL | 36.75 | 18.73 | 99,483 | 8,831 | 31,704 | 125,111 | 5.4x | 4.9x | 7.6x | 6.9x | 5.3x | 5.4x |
| Cliffs Natural Resources Inc. | NYSE:CLF | USD | 29.48 | 29.48 | 4,201 | 195 | 4,345 | 9,479 | 8.0x | 7.0x | 16.0x | 12.4x | 4.8x | 4.1x |
| Fortescue Metals Group Limited | ASX:FMG | AUD | 5.23 | 5.42 | 16,866 | 2,343 | 8,501 | 23,097 | 6.8x | 4.9x | 10.8x | 7.3x | 8.1x | 5.8x |
| Anglo American plc | LSE:AAL | GBP | 20.13 | 31.22 | 43,432 | 11,249 | 13,745 | 49,925 | 5.1x | 4.6x | 13.3x | 11.2x | 5.9x | 5.6x |
| Kumba Iron Ore Ltd. | JSE:KIO | ZAR | 599.90 | 67.99 | 21,824 | 309 | 390 | 22,451 | 6.8x | 7.3x | 13.4x | 14.2x | 12.8x | 12.4x |
| Rio Tinto plc | LSE:RIO | GBP | 37.46 | 58.09 | 107,308 | 7,615 | 26,819 | 136,279 | 6.2x | 5.6x | 9.6x | 8.6x | 6.6x | 6.3x |
| **Average** | | | | | **72,269** | **5,053** | **16,298** | **86,340** | **6.5x** | **5.9x** | **12.1x** | **10.5x** | **7.5x** | **6.9x** |
| **Excluding Min & Max** | | | | | | | | | **6.5x** | **5.8x** | **12.8x** | **10.6x** | **6.7x** | **5.9x** |
| **MID-TIER PRODUCERS** | | | | | | | | | | | | | | |
| African Minerals Limited | AIM:AMI | GBP | 3.34 | 5.17 | 1,713 | 1,165 | 543 | 1,234 | 2.8x | 1.7x | 11.2x | 6.6x | 5.9x | 2.7x |
| Arrium Limited | ASX:ARI | AUD | 1.18 | 1.22 | 1,644 | 284 | 2,546 | 3,997 | 6.0x | 4.8x | 7.9x | 5.6x | 4.2x | 3.6x |
| Atlas Iron Limited | ASX:AGO | AUD | 1.83 | 1.90 | 1,724 | 415 | 22 | 1,326 | 3.6x | 4.1x | 0.4x | 12.8x | 4.4x | 7.0x |
| Eurasian Natural Resources Corp Plc | LSE:ENRC | USD | 4.07 | 6.30 | 8,119 | 1,564 | 4,940 | 11,796 | 5.5x | 4.5x | 11.4x | 8.0x | 5.4x | 4.5x |
| Ferrexpo Plc | LSE:FXPO | GBP | 2.93 | 4.54 | 2,654 | 674 | 1,012 | 3,000 | 6.0x | 5.7x | 9.2x | 8.3x | 7.4x | 7.1x |
| Grange Resources Limited | ASX:GRR | AUD | 0.30 | 0.31 | 353 | 203 | 41 | 189 | 2.4x | 2.1x | 12.8x | 10.2x | 6.7x | 6.1x |
| Labrador Iron Mines Holdings Limited. | TSX:LIM | CAD | 0.80 | 0.80 | 101 | 10 | 3 | 104 | 9.3x | 10.2x | - | - | 7.5x | 2.0x |
| Labrador Iron Ore Royalty Corporation | TSX:LIF | CAD | 34.82 | 34.79 | 2,226 | 25 | 252 | 2,449 | 14.6x | 13.6x | 12.7x | 11.8x | 16.0x | 13.2x |
| London Mining Plc | AIM:LOND | GBP | 1.82 | 2.82 | 386 | 91 | 259 | 553 | 4.3x | 2.8x | 6.3x | 3.8x | 4.6x | 2.4x |
| MMX Mineracao E Metalicos SA | BOVESPA:MMXM3 | BRL | 3.29 | 1.68 | 1,047 | 276 | 1,373 | 2,192 | 11.3x | 6.0x | - | 17.0x | 21.4x | 11.3x |
| Mount Gibson Iron Limited | ASX:MGX | AUD | 0.90 | 0.93 | 1,011 | 300 | 48 | 756 | 1.3x | 2.4x | 2.9x | 6.8x | 1.9x | 4.2x |
| NMDC Limited | BSE:526371 | INR | 150.15 | 2.78 | 11,029 | 4,260 | - | 6,858 | 4.4x | 3.6x | 8.0x | 6.7x | - | - |
| Sesa Goa Limited | BSE:500295 | INR | 164.60 | 3.05 | 2,650 | 78 | 722 | 3,305 | 11.4x | 10.0x | 4.3x | 5.2x | 6.2x | 6.7x |
| **Average** | | | | | **2,102** | **492** | **1,069** | **2,739** | **6.4x** | **5.5x** | **7.9x** | **8.6x** | **7.6x** | **5.9x** |
| **Excluding Min & Max** | | | | | | | | | **6.1x** | **5.1x** | **8.2x** | **8.2x** | **6.8x** | **5.6x** |

***Note: Bloomberg Consensus Calendar Year Estimates, CapitalIQ Market and Accounting Data***

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| *DISTRIBUTION OF RATINGS* | |
|---|---|
| ***RATING*** | ***#*** |
| **BUY** | 12 |
| **SPECULATIVE BUY** | 16 |
| **HOLD** | 1 |
| **SELL** | 1 |
| **TENDER TO OFFER** | 0 |
| **UNDER REVIEW** | 0 |
| **RESTRICTED** | 3 |
| ***Total # of Companies Covered*** | **33** |
| *Revised Monthly* | |

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