

**NEW MILLENNIUM**  
CAPITAL CORP.

**ANNUAL REPORT 2008**

# LETTER TO SHAREHOLDERS

**Robert Martin**

President and Chief Executive Officer

2008 was a momentous year for New Millennium that saw the Company transform itself from a grassroots mining company into a production development mining company.

During 2008, New Millennium succeeded in achieving its key corporate goal, the attainment of a strategic partner - Tata Steel Global Holdings Pte Ltd. Securing a creditable strategic partner is imperative for a small iron ore company with moderate capitalization and with Tata Steel, New Millennium has not only acquired a world class partner to help advance its projects, but now has incomparable strategic counsel.

This achievement was all the more impressive because it occurred during the height of one of the world's worst ever global financial crises, a period which saw the demise of many mining companies with excellent projects.

Now in 2009 New Millennium is well financed and has realistic expectations to start mining operations in 2011. This coupled with potential life of mine sales contracts, near term cash flow and a strong strategic partner establishes NML as one of the best junior resource companies in Canada.

As we continue our efforts in 2009, it is important to reflect on the key objectives that were set for 2008. As part of my accountability to the Company's shareholders, it is my responsibility to comment on our efforts to achieve last year's objectives. In this regard, our six key DSO business objectives, five KéMag objectives and two LabMag objectives for fiscal 2008 are repeated below along with my remarks.

## **DSO Objectives (2008)**

### *1. Start DSO Impact and Benefit Agreement ("IBA") process by Q1, 2008*

This objective was achieved when the DSO IBA negotiation process was started, on schedule, in Q1, 2008.

### *2. Obtain a DSO strategic off-take or joint venture partner by Q3, 2008*

This objective was achieved when Tata Steel became a strategic investor of NML and acquired 19.9% of the common shares of the Company through a \$23.5 million private placement that was announced on October 1, 2008.

### *3. Start a DSO bankable feasibility study ("FS") by Q3, 2008*

This objective was achieved when the DSO FS was started on schedule in Q3, 2008 with a pre-feasibility study which was completed in Q1, 2009. The FS is expected to be completed in Q3, 2009.

4. *Complete a 5000 meter DSO drilling and bulking sampling program by Q3, 2008*

This objective was also achieved on schedule. In total, a 7,834 meter (140 holes) reverse circulation drilling program and a 2,000 tonne bulk sampling program were completed.

5. *Establish NI 43-101 DSO Mineral Resource Estimate by Q4, 2008*

This objective was achieved slightly later than anticipated owing to a delay in receiving assay results from an outside laboratory. As a consequence, on February 11, 2009, the Company announced the results of its DSO Mineral Resource estimate that was based on the 2008 drilling program. This demonstrated approximately 56 million tonnes of Measured and Indicated Mineral Resources at an average grade of 59% iron, on a dry basis, plus an additional 5.8 million tonnes of Inferred Mineral Resources of approximately 56% iron. An additional historical resource<sup>1</sup> of about 40 million tonnes remains to be drilled.

6. *Complete Agreements in principle relating to three railway tariff agreements for transportation of DSO products and a port agreement for the loading of vessels at Pointe-Noire by Q4, 2008*

These agreements are behind schedule as they depend on input from outside parties which have delayed NML's schedule. They are currently expected to be completed during Q2 and Q3, 2009.

**KéMag Objectives (2008)**

1. *Complete a 4000 meter KéMag winter drilling program by Q2, 2008*

This was completed on schedule. In total, a 2,216 meter (15 holes) diamond drilling program was completed.

2. *Obtain a KéMag strategic off-take/joint venture partner by Q3, 2008*

A taconite deposit strategic partner was obtained when Tata Steel made a strategic investment in NML. In accordance with the binding agreement Tata Steel has exclusivity with respect to the LabMag taconite property. This gives Tata Steel the right, but not the obligation, to negotiate and settle a proposed transaction in respect of the LabMag Project until June 30, 2009. As a result of this agreement, NML is now focused on the potential development of the LabMag Project.

3. *Start a KéMag bankable feasibility study by Q3, 2008*

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<sup>1</sup> The Corporation's historical resources are not currently in compliance with NI 43-101

The KéMag bankable feasibility study was not started in Q3, 2008 when it became apparent that NML's new strategic partner, Tata Steel, was interested in pursuing the LabMag Project.

4. *Complete a KéMag summer infill drilling and bulk sampling program by Q3, 2008*

The KéMag infill drilling and bulk sampling program was not started during the summer of 2008 in order to conserve funds and avoid the need for dilutive financing.

5. *Update existing NI 43-101 KéMag Mineral Resource Estimate by Q4, 2008*

This objective was achieved early in Q-1, 2009 due to a delay in receiving assay results from an outside laboratory. As a result, on January 16, 2009, the Company announced the positive results of its KéMag pre-feasibility study and upgrade of Mineral Resources to Mineral Reserves. The resource estimate which was based on the 2008 winter (Q1 & Q2) drilling program demonstrated approximately 2.141 billion tonnes of Proven and Probable Mineral Reserves, 307 million tonnes of Measured and Indicated Resources and Inferred Mineral Resources of 1.014 million tonnes.

### **LabMag Objectives (2008)**

1. Reactivate discussions with the Government of Newfoundland and Labrador by Q2, 2008.

This objective was achieved on schedule. Several meetings, focused on an economic analysis of the LabMag Project and ways in which to advance the LabMag Project, were held with the Government of NL during the remainder of the year.

Overall, I would characterize the Corporation's efforts in meeting our 2008 objectives as successful in all areas that were under the direct control of NML.

### **2009 Business Objectives**

In 2009, the Company has another ambitious schedule of business objectives related to its DSO and Taconite Projects. These are geared toward the progression of the DSO Project to the construction stage in early 2010 and the advancement of the Taconite Projects to the feasibility stage in mid to late 2009. The 2009 business objectives are listed below:

#### **DSO Project Objectives (2009)**

1. *Complete the DSO pre-feasibility ("PFS") study in Q-1*
2. *Complete the DSO joint venture agreement with Tata Steel ("JVA") in Q-2*
3. *Obtain DSO road, railway and power line permits in QC in Q-3*

4. *Complete the DSO feasibility study (“FS”) in Q-3*
5. *Obtain DSO environmental approval in NL in Q-4*
6. *Obtain DSO project approval by Tata Steel in Q-4*
7. *Order early stage DSO track material, camp and equipment in Q-4*

#### **LabMag and KéMag (“Taconite Projects”) Objectives (2009)**

1. *Complete KéMag pre-feasibility study and reserves estimate in Q-1*
2. *Start LabMag Project feasibility study stage in Q-3*

#### **Iron Ore Market:**

Global steel production has been affected by the worldwide economic crisis that became pronounced during the 2<sup>nd</sup> half of 2008 with the collapse of several major financial institutions in the US and resultant tightness in the credit market. As consumers started to experience difficulties in getting credit, economies in North America, Europe and Japan went into a major recession. Steel production plummeted by 50% in all industrialized countries, as automotive sales and construction activities shrank. World steel production, after a long and sustained growth since 2000, declined slightly in 2008.

Steel production is now projected to fall by 14% in 2009. As a result of stimulative packages introduced by various Governments to get credit flowing again, a further decline was averted. Current forecasts expect the economy to stabilize with an upturn beginning towards the latter half of 2009. A 10-11% rebound in steel production should occur in 2010. The market is also expected to recover and growth should resume in 2010. The current downturn is expected to affect iron ore prices until 2011, at which time supply and demand are expected to come into balance. This will most likely affect marginal projects as capital availability will be restricted.

New Millennium is in a uniquely advantageous position because of its association with Tata Steel. Their UK and Western European unit, Corus Group, does not have any captive sources of iron ore, but they consume about 30 mtpy at full capacity. As a consequence, despite the state of the steel industry, if Tata Steel exercises its option to advance the DSO Project, as expected, NML will become a captive source of iron ore for the Corus Group. This will guarantee NML: 1) life of mine sales; 2) a 20% interest in all mine profits and 3) the development of its DSO Project with virtually no capital cost (<1%) for the account of NML unless total capital exceeds \$300 million.

#### **Outlook:**

The worldwide economic crisis is affecting world steel consumption. Western steelmakers are currently operating at 50% capacity. As a result, steel prices have plummeted dramatically, reducing steelmakers' profits. With a projected 10 to 12% fall in steel consumption in 2009, steelmakers are pressing for reduced prices. The three

major iron ore producers have cut back production in order to minimize the reduction in benchmark prices; however, because of low steel prices, steelmakers are demanding 30 to 50% reductions in the benchmark price. The major iron ore producers are resisting and are currently engaged in protracted negotiations.

The spot market price for lower grade Indian ore destined for smaller Chinese steel producers has fallen from US\$ 130 to 140 to US\$ 50 to 55. This is well below the current benchmark prices, which are US\$ 75 for Brazilian fines and US\$ 88 for Australian fines. Most Analysts are projecting a 20 to 40% cut in the benchmark price. As the world economy recovers, which is projected for the second half of 2010, iron ore prices are also expected to recover because of the resumption of growth in China and other developing countries.

#### Acknowledgements

I would like to extend my thanks to NML's board for their continued guidance, our employees for their dedication and commitment to the success of our Company and to our shareholders for their understanding, support and encouragement. I also extend my welcome to our newest board members from Tata Steel, Mr. Arun Baijal and Mr. N.K. Misra, and to Suren Rao who was recently appointed, CEO - Canada Projects, by Tata Steel. I would also like to welcome Mark Freedman, Interim CFO, and to extend my thanks to Mr. William (Bill) Almdal, former CFO, who retired from the board in November owing to an illness.

Yours truly,  
New Millennium Capital Corp.

Robert A. Martin  
President and Chief Executive Officer

Montreal, April 29, 2009

New Millennium Capital Corp.

YEAR ENDED

DECEMBER 31, 2008

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE COMPANY'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Consolidated Financial Statements for the year ended December 31, 2008  
(Containing information as at April 27, 2009, except as indicated)

DATED April 28, 2009

Reference is made to the audited Consolidated Financial Statements of New Millennium Capital Corp. ("NML" or the "Company") for the year ended December 31, 2008 ("FYE 2008") and the year ended December 31, 2007 ("FYE 2007"), upon which the following discussion is based. The Consolidated Financial Statements and the notes thereto, have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada.

All dollar figures are in Canadian dollars ("C\$"), unless otherwise stated.

### FORWARD LOOKING STATEMENTS

*This MD&A includes certain statements that constitute "forward-looking statements", and "forward-looking information" within the meaning of applicable securities laws ("forward-looking statements" and "forward-looking information" are collectively referred to as "forward-looking statements", unless otherwise stated). These statements appear in a number of places in this MD&A and include statements regarding our intent, or the beliefs or current expectations of NML's officers and directors. Such forward-looking statements involve known and unknown risks and uncertainties that may cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this MD&A, words such as "believe", "anticipate", "estimate", "project", "intend", "expect", "may", "will", "plan", "should", "would", "contemplate", "possible", "attempts", "seeks" and similar expressions are intended to identify these forward-looking statements. Forward-looking statements may relate to the Company's future outlook and anticipated events or results and may include statements regarding the Company's future financial position, business strategy, budgets, litigation, projected costs, financial results, taxes, plans and objectives. The Company has based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. These forward-looking statements were derived utilizing numerous assumptions regarding expected growth, results of operations, performance and business prospects and opportunities that could cause NML's actual results to differ materially from those in the forward-looking statements. While the Company considers these assumptions to be reasonable, based on information currently available, they may prove to be incorrect. Accordingly, the reader is cautioned not to put undue reliance on these forward-looking statements. Forward-looking statements should not be read as a guarantee of future performance or results. To the extent any forward-looking statements constitute future-oriented financial information or financial outlooks, as those terms are defined under applicable Canadian securities laws, such statements are being provided to describe the current anticipated potential of the Company and readers are cautioned that these statements may not be appropriate for any other purpose, including investment decisions. Forward-looking statements are based on information available at the time those statements are made and/or management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Material risk factors which could cause actual results to differ materially include those disclosed in NML's Annual Information Form dated May 30, 2008 which is filed on SEDAR at [www.sedar.com](http://www.sedar.com). To the extent any forward-looking statements constitute future-oriented financial information or financial outlooks, as those terms are defined under applicable Canadian securities laws, such statements are being provided to describe the current anticipated potential of the*

***Company and readers are cautioned that these statements may not be appropriate for any other purpose, including investment decisions. Forward-looking statements speak only as of the date those statements are made. Except as required by applicable law, the Company assumes no obligation to update or to publicly announce the results of any change to any forward-looking statement contained or incorporated by reference herein to reflect actual results, future events or developments, changes in assumptions or changes in other factors affecting the forward-looking statements. If NML updates any one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements. The reader should not place undue importance on forward-looking statements and should not rely upon these statements as of any other date. All forward-looking statements contained in this MD&A are expressly qualified in their entirety by this cautionary statement.***

## **OVERALL PERFORMANCE**

### **Overview of Business**

NML controls the emerging Millennium Iron Range, located in the Province of Newfoundland and Labrador and in the Province of Quebec, which holds the world's largest undeveloped magnetic iron ore deposits. In the same area, the Corporation is also advancing to near term production its Direct Shipping Ore ("DSO") Project. Tata Steel Global Mineral Holdings Pte Ltd. ("Tata Steel"), DSO (Direct Shipping Ore) Project. Tata Steel, the world's sixth largest steel corporation, owns approximately 19.9% of the issued and outstanding common shares of New Millennium and is the Corporation's largest shareholder and strategic partner. Tata Steel has an exclusive option to fund the DSO Project, a commitment to take the resulting production, and an exclusive right to negotiate and settle a proposed transaction in respect of the LabMag Project.

The Millennium Iron Range currently hosts two advanced projects: LabMag contains 3.5 billion tonnes of Proven and Probable reserves plus 1.0 billion tonnes of Measured and Indicated resources and 1.2 billion tonnes of Inferred resources; KéMag contains 2.1 billion tonnes of Proven and Probable reserves, 0.3 billion tonnes of Measured and Indicated resources and 1.0 billion tonnes of Inferred resources.

The Corporation's DSO project contains 52.5 million tonnes of Proven and Probable Mineral Reserves, 3.5 million tonnes of measured and indicated Mineral Resources, 5.8 million tonnes of Inferred Resources and about 40.0 million tonnes of historical resources that are not currently in compliance with NI 43-101.

## **RESULTS OF OPERATIONS**

### **DSO Project**

#### **Development Plans**

On February 5, 2008, the Company announced that it had completed the proposed development plans and schedule for its DSO Properties in the Schefferville region of Quebec and Newfoundland and Labrador. NML's plan is to establish a brownfield mining operation that can be developed sooner and with less capital than the taconite deposits. The expedient and cost effective development of the DSO Project can potentially produce substantial cash flow for the Company while the larger taconite projects are being developed.

NML's DSO holdings are contained in 27 deposits that were previously owned by the Iron Ore Company of Canada ("IOC"). Based on historical estimates that are not compliant with the requirements of NI 43-101, these claims cover approximately 100 million tonnes of direct shipping quality iron ore.

The DSO holdings controlled by NML are sub-divided into four areas designated Area 1, Area 2, Area 3 and Area 4. The Company's conceptual plan is to consider mining these areas in two phases.

The first phase, which represents about 20% of the Company's historical estimated DSO resources, includes Area 2 and Area 3. This brownfield phase has semi-developed infrastructure which will permit rapid development. The conceptual plan is to transport the crude ore by haulage truck from the open pit deposits in Area 2 ( $\pm 10$  km north of Schefferville) and Area 3 ( $\pm 20$  km north of Schefferville) to a crusher and wash plant to be built and installed in Area 3. The wash plant is expected to produce two products, a lump ore and a fines product. It is planned to transport these products by rail to a marshalling yard near Schefferville prior to their shipment on the main line to Sept Îles.

One of the sites in area 3, Timmins 3, was partially mined and two others, Timmins 4 and Timmins 7 were partially stripped by IOC at the time of closure in 1982. All three are expected to be reopened by NML.

The second phase, which represents about 75% of NML's historical estimated DSO resources, will entail mining in Area 4. This area, about 50 km north of Schefferville, will require additional infrastructure and, as a consequence, will take longer to develop than Area 2 and Area 3. The conceptual mining plan is to transport the crude ore by haulage truck from the open pits in Area 4 to a locally-installed crusher from which crushed ore will be transported by an overland conveyor to the wash plant in Area 3, or to transport run of mine ore from Area 4 via truck directly to the Area 3 wash plant. The wash plant products will then be transported by the Phase 1 infrastructure to the Port of Sept-Îles.

NML anticipates the start-up of its Phase 1 production (Areas 2 and Area 3) in 2011 and that of its Phase 2 production (Area 4) in 2015. The Area 1 deposits represent about 5% of NML's historical estimated DSO resources. These are jointly owned with Labrador Iron Mines (TSX-V: LIR). To-date, there has not been any agreement reached with LIR regarding the mining of these deposits.

## **DSO Project Notice**

On April 29, 2008 NML announced that it had filed the Project Notice with the Government of Quebec for its DSO Project in Schefferville. The Project Description for the Government of Canada and the Project Registration for Newfoundland and Labrador were also filed shortly thereafter.

## **2008 Summer/Fall Exploration Program**

A reverse circulation drilling program, to upgrade the historical resources to NI 43-101 standards, was completed with a total of 7,834 meters (140 holes) during the summer and early fall, and the collection of 2,000 tons of bulk sampling was completed on July 19, 2008. Crushing and screening was completed at the mine site while washing and metallurgical testing of the crushed samples was performed in various laboratories experienced in iron ore processing. These pilot plant results are being used to design the mining plan and wash plant flow sheet, for incorporation in the feasibility study.

## **IBA's**

Consultations with the four First Nations (the Innu Nation of Matimekush-Lac John (Schefferville), Naskapi Nation (Kawawachikamach), Innu Nation (Labrador), and Innu TakuaiKAN Uashat mak Mani-Utenam (Sept-Îles)) potentially affected by the project were on going during 2008. The aim is to have Impact and Benefit Agreements ("IBAs") completed by Q3 2009.

## **Environmental**

Project registration/notices have been registered with the three levels of government. The province of Quebec responded to NML's Project Notice that was filed on April 29, 2008, and waived the necessity of an Environmental Impact Assessment ("EIA") for Phase I due to the small tonnage of the Quebec operations. However NML determined later that a larger quantity of Quebec ore must be mined for blending purposes. This determination has triggered the need for an EIA for Phase I in Quebec and will cause about a one year delay in Quebec mine start-up. Therefore the DSO Project is expected to commence operation using 100% NL deposits. Environmental field survey work for the EIA started in early July and was completed in Q4.

## **Feasibility and Special Engineering Studies**

NML started to negotiate a consulting engineering contract during Q3 to provide detailed engineering for the Pre-Feasibility Study ("PFS"). Assuming positive results from the exploration program, metallurgical test work and flow sheet development, a bankable feasibility is expected to be completed by Q3 2009.

NML is also engaged in discussions with Tshuettin Railway ("TSH") and other potential users for the rehabilitation of the TSH railroad from Ross Bay Junction to Schefferville. Assessment of the track condition is underway, and a rehabilitation feasibility study is in progress. Similarly, discussions are ongoing with the Sept-Iles Port Authority and Wabush Mines for the unloading, storage and vessel loading of the DSO product.

## **DSO Project – Subsequent Events**

### **NI 43-101 mineral resource estimate**

Subsequent to year-end 2008, on February 11, 2009, NML announced the results of the DSO Mineral Resource estimate from the 2008 drilling program. This demonstrated approximately 56.0 million tonnes of Measured and Indicated Mineral Resources at an average grade of 59.0% Fe on a dry basis plus an additional 5.8 million tonnes of Inferred Mineral Resources.

### **Positive DSO PFS results and upgrade of mineral resources to reserves**

On March 4, 2009, NML announced the positive results of the PFS undertaken by Met-Chem on its 100% owned DSO properties.

The highlights of the DSO project PFS are as follows:

- Production assumption of 4 million tonnes per year ("mtpy") Lump ores and Sinter Fine products.
- Proven and Probable Mineral Reserves of 52.5 million tonnes ("mt").
- Reserves are based on 2008 drilling data over a 10 year mine evaluation period.
- Stripping ratio varies from mine to mine and averages 1.18 over total mine life.
- Total initial capital cost of US\$ 289 million and working capital of about US\$ 4.0 million.
- Internal rate of return ("IRR") of 39% (unleveraged and before corporate taxes and mining taxes).
- Net present value ("NPV") of US\$ 488 million (before corporate taxes and mining taxes).
- Payback of 3 years after the start of commercial production.
- Direct jobs creation of 188 at the mine and wash plant.
- Projected Selling Price: Lump Ore US\$ 68.25/tonne, Sinter Fines US\$55.25/tonne.

The PFS demonstrated that the DSO Project has the potential to achieve significant near term cash flow for the Corporation. The positive project economics have allowed the Mineral Resources to be reclassified as reserves according to NI 43-101 guidelines.

In addition to the 52.5 million tonnes of Proven and Probable reserves, there are remaining

Measured (1.7 mt) and Indicated (1.8 mt) Mineral Resources, Inferred Mineral Resources estimated at 5.8 million tonnes, and about 40.0 million tonnes of historical resources that are not currently in compliance with NI 43-101.

## **KéMag Project**

### **Project Update on KéMag Mineral Resources**

On February 27, 2008, the Company provided an update of its estimated Mineral Resources as a result of the completion its latest 45-hole (4,885 metre) diamond drilling program in 2007 on its 100%-owned KéMag Iron Ore Property (the "KéMag Property") in Quebec.

The objective of the 2007 KéMag drill program was to upgrade and expand the resource base. As a result of the 2006 and 2007 KéMag drill programs, total Mineral Resources were estimated at 2,314 million tonnes of Measured and Indicated Resources and 1,034 million tonnes of Inferred Resources.

### **KéMag Project – Subsequent Events**

#### **Positive KéMag PFS results and upgrade of mineral resources to reserves**

Subsequent to year-end 2008, on January 16, 2009, NML announced the results of the PFS on its 100% owned KéMag property, and the upgrade of mineral resources to reserves. The PFS technical report was filed on SEDAR on March 3, 2009.

The KéMag project assumes a mine and concentrator at Harris Lake, Quebec, and a 750 km slurry pipeline to a pellet plant and ship loading facility at Pointe-Noire, Quebec.

The highlights of the PFS are as follows:

- Production assumption of 15 mtpy pellets and 7 mtpy concentrate.
- Proven and Probable Mineral Reserves of 2.141 billion tonnes.
- Stripping ratio of 0.39 in the first 25 years.
- Total initial capital cost of US\$3.8 billion and working capital US\$26.4 million.
- IRR of 25% (unleveraged and before corporate taxes and mining taxes).
- Return on equity of 39% (before corporate taxes and mining taxes).
- NPV of US\$ 7.3 billion (before corporate taxes and mining taxes).
- Payback of 4 years after the start of commercial production.
- Minimum 28 years mine life.
- Direct jobs creation of 1230.
- Projected Selling Price: US\$ 89.8/tonne of pellets and US\$58.7/tonne of concentrate.

In addition to the 2.141 billion tonnes of Reserves, there are Measured and Indicated Mineral Resources estimated at 307 million tonnes and Inferred Mineral Resources estimated at 1.014 billion tonnes. The iron ore grades 31.3% Fe for both the Proven and Probable Mineral Resources. The Davis Tube concentrates have an average grade of 27% DTWR, 69.1% Fe and 2.7% SiO<sub>2</sub>, based on a cut-off grade of 18% DTWR.

### **Execution of binding agreement with Tata Steel**

On October 1, 2008, the Company announced that it had entered into a binding agreement with Tata Steel Global Minerals Holdings Pte Ltd. ("Tata Steel"), a wholly owned indirect subsidiary of Tata Steel Limited of Jamshedpur, India (listed on The Bombay Stock Exchange, Mumbai and National Stock Exchange of India Ltd.) whereby Tata Steel became a strategic investor of NML.

On October 9, 2008 Tata Steel acquired, in a private placement, 19.9% of the post-acquisition common shares of the Company and will acquire, at its option, an 80% equity interest in NML's

DSO Project located in the Province of Newfoundland and Labrador and in the Province of Quebec. The agreement provides exclusivity with respect to each of the DSO Project and the LabMag taconite iron ore property located in NL which is 80% owned by NML through its interest in LabMag Limited Partnership.

The Company closed this private placement whereby it issued 26,143,556 common shares in the capital of the Corporation at a price of \$0.90 per common share to Tata Steel, raising aggregate gross proceeds of \$23,529,200. The net proceeds from the private placement will be used by the Company primarily to develop the DSO Project through a feasibility study expected to be completed in Q3 of 2009.

Tata Steel will have exclusivity on the DSO Project through completion of the feasibility study. After the completion of the feasibility study, Tata Steel will have an option for a 180 day period to acquire an 80% equity interest in the DSO Project. Upon exercising the option, Tata Steel will pay 80% of NML's costs incurred to the exercise date to advance the DSO Project. Tata Steel will fund up to \$300 million to earn its 80% share and will commit to take 100% of the DSO Project's iron ore production for the life of the mining operation. Subject to completion of a positive feasibility study, regulatory approvals and project financing, NML expects to produce 4 million tonnes per annum of iron ore products from the DSO Project. There is no assurance that the planned production will be achieved or that the DSO Project will be determined to be economically viable.

Tata Steel also has an exclusivity to negotiate and settle a proposed transaction in respect of the LabMag Project until June 30, 2009. The LabMag deposit contains 3.5 billion tonnes of proven and probable mineral reserves. These reserves are contained in 4.6 billion tonnes of measured and indicated resources and 1.2 billion tonnes of inferred resources. The parties intend to work together to find an economically viable solution to advance this project.

The Company paid its financial advisors \$3,350,000 in connection with this transaction and agreements, and has committed to pay its financial advisors up to an additional U.S. \$6,263,615 upon exercise of the option on either of the DSO or LabMag Projects by Tata Steel.

As part of the binding agreement, Tata Steel is entitled to two nominees on NML's board of directors. The number of nominees is subject to adjustment upwards or downwards based on each 9% change in ownership. Tata Steel will be entitled to one nominee if it holds at least 5% of the Issuer's common shares.

On November 24, 2008, the Company announced that Mr. Arun Das Baijal and Mr. N.K. Misra of Tata Steel Limited were appointed as directors of NML. Mr. Arun Das Baijal is Group Director, Global Minerals, Tata Steel Group, and Mr. Misra is Group Head (Mergers and Acquisitions) of Tata Steel Group. Additionally, Tata Steel has assigned Mr. Suren Rao, Chief Executive Officer - Canada Projects, and his staff to manage Tata Steel's interests in NML's DSO and LabMag Projects.

## **LabMag Project**

Work on the LabMag Project was on hold for most of 2008 pending the completion of the PFS on the KéMag Project. This situation changed following the execution of the binding agreement with Tata Steel whereby Tata Steel was given exclusivity to negotiate and settle a proposed transaction in respect of the LabMag Project. As a consequence, introductory meetings were held in November 2008 between NL Government officials and senior members of the Tata Steel and NML organizations to discuss possible ways in which to advance the LabMag Project.

## **LOI with Al-Tuwairqi**

On July 31, 2008, the Company announced the signing of a Letter of Intent ("LOI") for the future sale of up to three million tonnes per year of DR (direct reduction) grade Pellets or Iron Ore Lump

to the Al-Tuwairqi Group of Companies. Al-Tuwairqi, headquartered in Dammam in the Kingdom of Saudi Arabia, has production facilities in the Middle East and UK. Al-Tuwairqi currently produces 1.5 mtpy of direct reduced iron (DRI) using the Midrex DR process, and plans to achieve crude steel production of 6.0 mtpy by 2011 in Saudi Arabia alone.

NML's taconite marketing effort has focused as DRI producers in the Middle East because of the high growth projections for steel production in the area. DR grade is also a value added product that currently commands a premium price of about 10% more than the price of BF grade pellets.

Under the Letter of Intent, Al-Tuwairqi would purchase 3 mtpy of DR grade pellets or lump ores for ten years commencing in 2012. The letter of intent is an expression of interest only and any binding contract of purchase and sale will be subject to a production decision by NML and future negotiations related to terms and conditions of a definitive agreement, which has to be approved by each company's respective Board of Directors.

## **Exposure to ABCP Market**

At December 31, 2008, the Company holds \$4,415,000 in face value of Structured Investment Trust III, Series A ("SIT") asset-backed commercial paper ("ABCP"), with a fair value of \$2,400,283.

Since August 2007, the market for ABCP has experienced significant liquidity problems. There has been no active trading of the ABCP since then, and no market quotations are currently available. SIT failed to make payment at maturity and, along with other ABCP conduits, are subject to a restructuring proposal by a consortium of banks, assets providers and major investors (the "consortium").

In April 2008, the note holders approved a restructuring proposal under which the holders of ABCP will exchange their paper for floating rate notes with maturities based on the maturities of the assets underlying the ABCP. The Ontario Superior Court of Justice sanctioned the restructuring plan and subsequent legal proceedings have affirmed their decision.

Pursuant to the restructuring proposal, the Company's ABCP was converted on January 23, 2009 into the following face value notes:

\$2,945,000 into MAV2 Class A-1 Notes ("A-1")  
\$739,000 into MAV2 Class A-2 Notes ("A-2")  
\$134,000 into MAV2 Class B Notes ("B")  
\$118,000 into MAV2 Class C Notes ("C")  
\$479,000 into IA Tracking Notes Class 15 ("IA")

The Company also received an interest payment of \$151,000, which was its share of the cash that accumulated in the trusts up to August 31, 2008 and this amount has been included in the Company's determination of fair value of the ABCP as at December 31, 2008.

The A-1, A-2 and B notes will earn interest based upon the average bid rates of 30 days Canadian bankers' acceptance less 0.5%, while the C notes will earn interest at 20%. The interest on A-1 and A-2 will be payable quarterly, while interest on B and C will only be paid at maturity if funds remain. While the legal maturity dates for the A-1, A-2, B and C class notes are in July 2056, the expected repayment date of January 2017 based upon the maturities of the underlying assets is being used for valuation purposes along with an anticipated first principal repayment on A-1 in 2013. The order of preference with regard to repayments of principal is A-1, A-2, B and C. The Dominion Bond Rating Service ("DBRS") indicated in January 2009 that it will rate the MAV2 Class A-1 and A-2 Notes as "A", but that it will not rate the MAV2 Class B and C Notes. The IA notes while not rated by the DBRS, will pay a floating rate of interest commensurate with the nature of the underlying assets and have an expected repayment date of January 2013.

The ABCP was originally classified as held to maturity by the Company. As a result of the ABCP restructuring, the Company changed its classification of these investments to available for sale in the fourth quarter of 2007. As such, any change in fair value is recognized in other comprehensive loss by the Company unless it is an impairment loss which is recognized in net loss.

There is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the ABCP. The Company estimates the fair value of its ABCP by discounting expected future cash flows determined using a valuation model that incorporates management's best estimate, based on the best available data, of credit risk attributable to the underlying assets, relevant market interest rates, amounts to be received and maturity dates. In 2007, an \$880,000 impairment loss was recognized in the financial statements. As a result of the valuations done during 2008, a further write down for change in fair value of \$1,120,000 was recorded by the Company during the year in the net loss.

The above estimated fair values may not be indicative of the ultimate net realizable value of the ABCP. While management believes that its valuation technique is appropriate in the circumstances, changes in significant assumptions, especially those relating to the probability of realization scenarios, returns, discount rates and attributes of underlying assets could significantly affect the value of the ABCP in subsequent periods. The resolution of these uncertainties could result in the value of these investments varying significantly from management's current estimates. For example, an increase of 1% in the discount rate used in the valuation of the ABCP would result in a decrease in fair value of \$140,000.

The liquidity crisis in the Canadian and global markets has had no significant impact on the Company's operations. Cash and cash equivalents at December 31, 2008 is held as cash and the term deposits are held in Government of Canada treasury bills and guaranteed investment certificates and the Company has no further exposure to the current ABCP market disruption.

On April 16, 2009, the administrators of the underlying assets of the Notes indicated that while the first quarterly interest payment will occur as scheduled, due to a number of factors there will be no interest paid to holders of A-2 notes. Holders of A-1 notes will only receive 6% of the amount that would have been expected.

## **FINANCIAL CONDITION**

The following discussion of the Corporation's financial performance is based on the Audited Consolidated Financial Statements set forth herein. As discussed in Note 1 to the Consolidated Financial Statements, the financial statements are prepared in accordance with GAAP applicable to a going concern. Management is required to make estimates and assumptions that effect the reported amounts of assets and liabilities at the date of the financial statements and revenue and expenses for the period then ended.

The Audited Consolidated Balance Sheet as of December 31, 2008 indicates cash and cash equivalents of \$9,114,810, term deposits of \$13,270,079, sales taxes receivable and prepaid expenses of \$587,450 and tax credits and mining duties receivable of \$1,354,154 resulting in total current assets of \$24,326,493, an increase of \$16,369,714 from December 31, 2007. The long-term assets are comprised of mineral properties of \$35,666,950, property and equipment of \$42,092, advances on contracts of \$93,004 and long-term investment in ABCP of \$2,400,283, net of a \$2,000,000 write-down for change in fair value. The total assets are \$62,528,822 which is an increase of \$24,031,919 from December 31, 2007.

Current liabilities at December 31, 2008 are composed of accounts payables and accrued liabilities of \$3,827,108, with long-term liabilities comprised of future income taxes of \$983,827 and non-controlling interest of \$475,000, for total liabilities of \$5,285,935, an increase of \$3,010,532 from December 31, 2007. Shareholders' equity of \$57,242,887 increased by \$21,021,387 from December 31, 2007, and is comprised of capital stock of \$64,092,726 and contributed surplus of \$4,821,816 less the deficit of \$11,671,655.

Working capital at December 31, 2008 of \$20,499,385 is an increase of \$13,235,881 from the December 31, 2007 total of \$7,263,504.

The increase in shareholders' equity is mainly due to proceeds received by the Corporation in the amount of \$23,529,200 related to the private placement issuance of 26,143,556 common shares to Tata Steel and proceeds received of \$5,036,387 related to the issuance of 5,605,600 common shares upon exercise of stock options, share purchase warrants and agents' warrants. The increase is net of the future income tax effect of \$1,920,000 relating to the renunciation of \$6,000,000 of Canadian exploration expenses ("CEE") in favour of the purchasers which resulted in an equivalent decrease in capital stock. The Corporation used its term deposits and cash and cash equivalents to fund its operations and continuing investment in mineral properties. The cash and cash equivalents and term deposits represent the funds that remain from the Tata Steel private placement and other issuances of common shares and will continue to be used to pay for current liabilities, complete the DSO project's pre-feasibility and feasibility studies, complete the pre-feasibility study of the KéMag property, start the LabMag project's feasibility study and pay future corporate operating expenses. During the year, \$9,946,049 of the Corporation's expenditures were mainly related to the pre-feasibility study work on the KéMag project, and the pre-feasibility and feasibility study work on the DSO project. These expenditures were recorded as mineral properties. The future income taxes continue to be mainly comprised of the future tax liability that arises from the renunciation of CEE which is partially offset by the Corporation's operating losses.

For the FYE 2008, NML realized a net loss of \$4,949,225, or \$0.05 per share, compared to a net loss of \$2,672,021 or \$0.03 per share for the corresponding period in 2007. This loss represents operating expenses of \$5,667,117, (2007 - \$2,789,170) and change in fair value of long-term investment of \$1,120,000 (2007 - \$880,000), net of investment income of \$283,919 (2007 - \$229,529) and future income taxes recovery of \$1,553,973 (2007- \$767,620). The greater loss, when compared to 2007, is mainly due to an increase in professional fees partially offset by the increase in future income taxes recovery.

The Corporation expects to continue incurring operating losses until it is operating a revenue-producing mine. These losses are expected to be funded through the completion of the feasibility study, by equity financing or investments by strategic partners.

All costs associated with mineral properties, totaling \$35,666,950 as outlined in Note 8 to the December 31, 2008 Consolidated Financial Statements, have been classified as mineral properties. The expenditures are divided between the properties as follows: LabMag Property \$21,421,267, KéMag Property \$8,241,962, DSO Properties \$5,719,315 and Other Properties \$284,406. The cost centers for these capitalized expenditures are: mineral licenses \$3,423,160, resource evaluation \$11,154,788, drilling \$13,445,314, environmental \$7,762,892, field labour and supplies \$2,144,958 and other \$274,715. These expenditures are partially offset by tax credits and mining duties of \$2,538,877. The non-controlling interest of \$475,000, included in the Company's liabilities, relates to the LabMag Property. The carrying value of the mineral properties are reviewed by the Company on a quarterly basis by reference to the project economics, including the timing of the exploration and/or development work, the work programs and exploration results experienced by the Company and others. At December 31, 2008, the Company believes that the carrying values of the properties are less than their net recoverable amounts and as such there has been no impairment of value on any of these properties.

In 2007, the Company renounced CEE of \$6,000,000 in favour of the purchasers of the 2007 flow-through shares for which the renunciation documents were filed with the CRA in February 2008. This renunciation resulted in the Corporation recording a \$1,920,000 decrease in 2008 in its capital stock for the future income tax effect of the renunciation. As of December 31, 2008, the Corporation has met its expenditure commitments related to these flow-through shares.

## ANNUAL INFORMATION

The following table shows selected annual information for the Company derived from the Company's Audited Annual Financial Statements for the last three completed financial years.

Item	December 31, 2008	December 31, 2007	December 31, 2006
Investment income	283,919	229,529	310,121
Net loss	(4,949,225)	(2,672,021)	(2,031,604)
Loss per share <sup>(1)</sup>	(0.05)	(0.03)	(0.03)
Total assets	62,528,822	38,496,903	29,432,487
Long-term liabilities	1,458,827	1,582,128	1,697,901
Dividends	Nil	Nil	Nil

<sup>(1)</sup> The effect of the exercise of stock options and warrants would be anti-dilutive for the purposes of calculating the fully diluted earnings per share.

## SUMMARY OF QUARTERLY RESULTS

The following table sets out selected unaudited quarterly financial information of the Company for the eight quarters ended December 31, 2008. This information is derived from unaudited quarterly financial statements prepared by management. The Company's interim consolidated financial statements are prepared in accordance with GAAP and expressed in Canadian dollars.

	Dec-08	Sept-08	Jun-08	Mar-08	Dec-07	Sept-07	June-07	Mar-07
Investment Income	147,106	32,328	45,312	59,173	68,578	54,682	59,977	46,292
Net Loss	(3,126,558)	(413,823)	(734,550)	(674,294)	(506,547)	(1,339,969)	(430,046)	(395,459)
Loss Per Share (1)	(0.02)	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)

<sup>(1)</sup> The effect of the exercise of stock options and warrants would be anti-dilutive for the purposes of calculating the fully diluted earnings per share.

## FOURTH QUARTER RESULTS

For the three-month period ended December 31, 2008, general and administrative expenses, market development and professional fees and other expenses were \$3,122,240 compared to \$662,479 for the corresponding period in 2007. Included in the fourth quarter of 2008 expenses were \$2,421,000 of professional fees incurred in investment banking related activities to identify strategic investors and equity financing opportunities compared to \$49,000 in the corresponding period in 2007. The Company's loss for the period was increased by a decrease in the fair value of the long-term investment in the amount of \$1,120,000 for which there was no change in the quarter in 2007. These expenses were partially offset by investment income of \$147,106 compared to \$68,578 for the three months in 2007 and future income taxes recovery of \$968,576 for which there was \$87,355 recovered in the fourth quarter of 2007. As a result NML's net loss for the fourth quarter ended December 31, 2008 totalled \$3,126,558 or \$0.02 per share compared to a net loss of \$506,547 or \$0.01 per share for the comparative period in 2007.

## MILESTONES AND BUSINESS OBJECTIVES

### 2008 Milestones

The Company outlined six key DSO business objectives, five KéMag objectives and two LabMag objectives for the 2008 fiscal year. These are restated below along with the milestones achieved.

#### DSO Objectives

1. Start DSO IBAs process by Q1, 2008

This objective was achieved when the DSO IBA process was started, on schedule, in Q1, 2008.

2. Obtain a DSO strategic off-take or joint venture partner by Q3, 2008

This objective was achieved when Tata Steel became a strategic investor of NML and acquired 19.9% of the common shares of the Company through a \$23.5 million private placement that was announced on October 1, 2008.

3. Start a DSO bankable feasibility study by Q3, 2008

The DSO feasibility study process was started on schedule in Q3, 2008; however, it was decided to start with a pre-feasibility study. This was subsequently completed in Q1, 2009. This is currently being optimized, prior to commencement of the bankable feasibility study, which is scheduled for completion in Q3, 2009.

4. Complete a 5000 meter DSO drilling and bulking sampling program by Q3, 2008

This objective was achieved on schedule. In total, a 7,834 meter (140 holes) reverse circulation drilling program and a 2,000 tonne bulk sampling program were completed.

5. Establish NI 43-101 DSO Mineral Resource Estimate by Q4, 2008

This objective was achieved slightly later than anticipated owing to a delay in receiving assay results from an outside laboratory. As a consequence, on February 11, 2009, the Company announced the results of its DSO Mineral Resource estimate that was based on the 2008 drilling program. This demonstrated approximately 56.0 million tonnes of Measured and Indicated Mineral Resources at an average grade of 59.0% iron, on a dry basis, plus an additional 5.8 million tonnes of Inferred Mineral Resources.

6. Complete Agreements in principle relating to three railway tariff agreements for transportation of DSO products and a port agreement for the loading of vessels at Pointe-Noire by Q4, 2008

These agreements are behind schedule due to competing demands faced by the other participants. They are currently expected to be completed during Q2 and Q3, 2009.

#### KéMag Objectives

1. Complete a 4000 meter KéMag winter drilling program by Q2, 2008

This was completed on schedule. In total, a 2,216 meter (15 hole) diamond drilling program was completed.

2. Obtain a KéMag strategic off-take/joint venture partner by Q3, 2008

A taconite deposit strategic partner was obtained when Tata Steel made a strategic investment in NML. In accordance with the binding agreement Tata Steel has exclusivity with respect to the LabMag taconite property. This gives Tata Steel the right, but not the obligation, to negotiate and settle a proposed transaction in respect of the LabMag Project until June 30, 2009. As a result of this agreement, NML is now focused on the potential development of the LabMag Project.

3. Start a KéMag bankable feasibility study by Q3, 2008

The KéMag bankable feasibility study was not started in Q3, 2008 when it became apparent that NML's new strategic partner, Tata Steel, was interested in pursuing the LabMag Project.

4. Complete a KéMag summer infill drilling and bulk sampling program by Q3, 2008

The KéMag infill drilling and bulk sampling program was not started during the summer of 2008 in order to conserve funds and avoid the need for a dilutive financing.

5. Update existing NI 43-101 KéMag Mineral Resource Estimate by Q4, 2008

This objective was achieved early in Q1, 2009 due to a slight delay in receiving assay results from an outside laboratory. As a result, on January 16, 2009, the Company announced the

positive results of its KéMag pre-feasibility study and upgrade of Mineral Resources to Mineral Reserves. The resource estimate which was based on the 2008 winter (Q1 & Q2) drilling program demonstrated approximately 2.141 billion tonnes of Proven and Probable Mineral Reserves, 307 million tonnes of Measured and Indicated Resources and Inferred Mineral Resources of 1.014 million tonnes.

#### LabMag Objectives

1. Reactivate discussions with the Government of Newfoundland and Labrador by Q2, 2008.

This objective was achieved on schedule. Several meetings, focused on an economic analysis of the LabMag Project and ways in which to advance the LabMag Project, were held with the Government of NL during the remainder of the year.

#### **2009 Business Objectives**

New Millennium outlined several interrelated and contingent key objectives and tentative timelines for 2009:

#### DSO Project Objectives

1. Complete the DSO PFS study in Q1
2. Complete the DSO joint venture agreement with Tata Steel in Q2
3. Obtain DSO road, railway and power line permits from the Government of Quebec in Q2
4. Complete the DSO feasibility study ("FS") in Q3
5. Obtain DSO environmental approval from the Government of Newfoundland and Labrador in Q4
6. Obtain DSO Project approval by Tata Steel in Q4
7. Order early stage DSO track material, camp and equipment in Q4

#### LabMag and KéMag ("Taconite Projects") Objectives

1. Complete KéMag PFS and reserves estimate in Q1
2. Start LabMag Project FS stage in Q3

### **CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**

During 2008, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") on January 1, 2008. These standards are fully described in Note 2 of the Consolidated Financial Statements.

Section 1535 "Capital Disclosures" establishes standards for disclosing information about an entity's capital and how it is managed.

Section 3862 and 3863 "Financial Instruments – Disclosure and Presentation" which establish disclosures related to the significance of financial instruments on the entity's financial position and performance and the extent of the risk the Corporation is exposed to arising from financial instruments and how this risk is managed.

Section 1400 "General Standards of Financial Presentation" requires management to assess the Corporation's ability to continue as a going concern over a period that is at least, but not limited to, twelve months from the balance sheet date.

## **FUTURE ACCOUNTING CHANGES**

### **International Financial Reporting Standards (“IFRS”)**

In 2006, Canada’s Accounting Standards Board (“AcSB”) ratified a strategic plan that will result in GAAP, as used by publicly accountable enterprises, being fully converged with IFRS as issued by the International Accounting Standards Board (“IASB”) over a five year transitional period. On February 13, 2008, the AcSB announced that January, 1 2011 is the changeover date. The Company will be required to report using the converged standards effective for interim and annual financial statements relating to fiscal years beginning on January 1, 2011. The IASB’s work plan currently has projects underway that are expected to result in new pronouncements that continue to evolve IFRS, and, as a result, IFRS as at the transition date of January 1, 2010 is expected to differ from its current form. The transition to IFRS will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has completed the assessment phase of its transition plan regarding the adoption of IFRS as issued by the IASB which identified a modest number of topics possibly impacting either the Company’s financial results and the Company’s effort necessary for transition, the Company is unable to provide specific disclosures of identified accounting policy differences and their impact on the Company’s transition until the completion of the planning phase of transition to IFRS as issued by the IASB.

### **Other Future Accounting Changes**

Section 3064 “Goodwill and Intangible Assets” establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Company will implement this January 1, 2009. The Company’s results of operations and financial position will not be materially affected by these new recommendations.

On March 27, 2009, the CICA issued EIC 174 "Mining Exploration Costs" that establishes standards for the capitalization of exploration costs related to mining properties and what conditions indicate there may be an impairment of the capitalized value. The Company will effectively implement this as of January 1, 2009. The Company's results of operations and financial position will not be materially affected by these new recommendations.

## **ACCOUNTING ESTIMATES**

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. The estimates include the recoverability of mineral properties, the fair value of term deposits and long-term investments, the useful life of property and equipment, future income taxes as well as the fair value estimates of stock options, agents’ warrants and share purchase warrants. These estimates are based upon management’s best knowledge of current events and actions that the Company may undertake in the future, they are reviewed periodically and adjustments are made in the period in which they become known, if necessary. Actual results could differ materially from these estimates.

## **FINANCIAL INSTRUMENTS**

### **Fair Value**

Fair value is the amount that willing parties would accept to exchange a financial instrument based on the current market for instruments with similar risks and remaining maturity.

The fair value of cash and cash equivalents and accounts payable and accrued liabilities approximate their carrying value due to their short-term maturities.

The fair value of the long-term investment is estimated by management based on the assumptions disclosed in Note 6 to the audited consolidated financial statements

The fair value of the treasury bills is determined by discounting expected future cash flows using interest rates of 0.83%, which represent the rate that the Company can use for treasury bills with similar terms and conditions and maturity dates.

The fair value of the GIC's is determined by discounting expected future cash flows using interest rates of 0.75%, which represent the rate that the Company can use for GIC with similar terms and conditions and maturity dates.

Sensitivity to an increase of 1% in rates for the treasury bills and GIC's would affect net loss by \$39,000 for the one year period ended December 31, 2008.

## **FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Corporation is exposed to various financial risks in the normal course of operations and management manages financial risks. The Corporation's main financial risks 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 certain foreign currency transactions by buying the foreign currency at the spot rate when required.

At December 31, 2008, the Company had \$2,221,672 US in accounts payable and accrued liabilities which has been translated to Canadian dollars at the exchange rate on December 31, 2008. A \$0.01 increase or decrease in the USD/CAD exchange rate would result in a change to net loss of \$22,000.

### **Interest rate risk**

The cash equivalents and term deposits 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 Company does not use derivative financial instruments to reduce its interest rate exposure.

### **Liquidity risk**

Management serves to maintain 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 accounts payable and accrued liabilities are less than three months.

### **Credit risk**

The Company manages credit risk through an emphasis on quality in its investment portfolio. Cash and cash equivalents and term deposits are held through one Canadian chartered bank and in government of Canada treasury bills and management believes the risk of loss to be remote. The Company's credit risk is presently attributable to the ABCP (see Note 6 of the audited consolidated financial statements) of which a \$1,120,000 write-down for changes in fair value was taken in 2008.

### **Off-Balance Sheet arrangements**

Disclosure is required of all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect liquidity or the availability of capital resources. The Corporation has no such off-balance sheet arrangements.

## **CAPITAL MANAGEMENT**

The Company's capital management objectives are to ensure its ability to continue as a going concern and to maximize the return to its shareholders. The Company's definition of capital includes all components of shareholders' equity. In order to meet its objectives the Company monitors its capital structure and makes adjustments as required. Management has assessed that the October 2008 private placement with Tata Steel ensures that the Company has sufficient liquidity for the year ending December 31, 2009. The Company is not subject to any externally imposed capital requirements.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Working Capital**

The Corporation's working capital at December 31, 2008 increased from December 31, 2007 by \$13,235,881 to \$20,499,385 mainly due to raising \$23,529,200 on a private placement to Tata Steel, offset by financing on-going operations of the Company. The working capital consists of cash and cash equivalents, term deposits, sales taxes receivable and prepaid expenses and tax credits and mining duties receivable net of accounts payable and accrued liabilities.

### **Capital Expenditures**

There were capital expenditures of \$22,501 (2007 - \$29,172) during the twelve months of 2008.

### **Capital Resources**

At December 31, 2008, NML has paid up capital of \$64,092,726 (December 31, 2007 - \$37,330,528) representing 131,486,558 (December 31, 2007 - 99,737,402) common shares, a deficit of \$11,671,655 (December 31, 2007 - \$6,722,430) that is offset by contributed surplus of \$4,821,816 (December 31, 2007 - \$5,613,402) resulting in shareholders' equity of \$57,242,887 (December 31, 2007 - \$36,221,500).

## **TRANSACTIONS WITH RELATED PARTIES**

During the year ended December 31, 2008, NML incurred directors' fees of \$56,000 (2007 - \$33,000), consulting fees included in mineral properties of \$64,000 (2007 - \$93,000) and consulting fees included in expenses of \$106,000 (2007 - \$91,000) to businesses owned by directors, \$201,000 (2007 - \$210,000) in legal expenses to a law firm with a partner who is a director and \$46,000 (2007 - Nil) in accounting expenses to an accounting firm with a partner who is the interim CFO. Additionally, there were \$30,000 (2007 - \$52,000) of share issue costs incurred with a law firm with a partner who is a director. Of all of these amounts \$176,000 (2007 - \$55,000) is payable at December 31, 2008.

## **ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE**

Additional disclosure concerning the Company's expenditures for mineral properties are provided in Note 8 of the December 31, 2008 Audited Consolidated Financial Statements that is available on NML's website at [http://www.nmlresources.com/library/financial\\_statements.asp](http://www.nmlresources.com/library/financial_statements.asp) or on its SEDAR Page Site accessed through [www.sedar.com](http://www.sedar.com).

Included in the Corporation's Audited Consolidated Financial Statements were general and administration expenses of \$1,808,640 (2007 - \$1,596,777) comprised as follows: salaries and benefits \$721,627 (2007 - \$598,709), stock based compensation \$385,542 (2007 - \$544,567), office and administration \$352,742 (2007 - \$242,313), consultants \$171,862 (2007 - \$107,251), office rent \$98,118 (2007 - \$82,302), business taxes and licences \$78,749 (2007 - \$21,635).

## **MARKET OUTLOOK**

### **Iron Ore Market:**

Global steel production has been affected by the worldwide economic crisis that became pronounced during the 2nd half of 2008 with the collapse of several major financial institutions in the US and resultant tightness in the credit market. As consumers started to experience difficulties in getting credit, economies in North America, Europe and Japan went into a major recession. Steel production plummeted by 50% in all industrialized countries, as automotive sales and construction activities shrank. World steel production, after a long and sustained growth since 2000, declined slightly in 2008.

Steel production is now projected to fall by 14% in 2009. As a result of stimulative packages introduced by various Governments to get credit flowing again, a further decline was averted. Current forecasts expect the economy to stabilize with an upturn beginning towards the latter half of 2009. A 10-11% rebound in steel production should occur in 2010. The market is also expected to recover and growth should resume in 2010. The current downturn is expected to affect iron ore prices until 2011, at which time supply and demand are expected to come into balance. This will most likely affect marginal projects as capital availability will be restricted.

New Millennium is in a uniquely advantageous position because of its association with Tata Steel. Their UK and Western European unit, Corus Group, does not have any captive sources of iron ore, but they consume about 30 mtpy. If Tata Steel exercises its option to advance the DSO Project, NML will become a captive source of iron ore for the Corus Group. This will guarantee NML: 1) life of mine sales; 2) a 20% interest in all mine profits and 3) the development of its DSO Project with virtually no capital cost for the account of NML unless total capital exceeds \$300 million.

### **Outlook:**

The worldwide economic crisis is affecting the consumption of steel. Western steelmakers are currently operating at 50% capacity. As a result, steel prices have plummeted dramatically, reducing steelmakers' profits. With a projected 10-12% fall in steel consumption in 2009, steelmakers are pressing for price cutbacks. The three major iron ore producers have cut back production in order to minimize the reduction in benchmark prices; however, because of low steel prices, steelmakers are demanding 30-50% reductions in the benchmark price. The major iron ore producers are resisting and are currently engaged in protracted negotiations.

The spot market price for lower grade Indian ore destined for smaller Chinese steel producers has fallen from US\$ 130-140 to US\$ 50-55. This is well below the current benchmark price, which are US\$ 75.00 for Brazilian fines and US\$ 88.00 for Australian fines. Most Analysts are projecting a 20-40% cut in the benchmark price. As the world economy recovers, which is projected for the second half of 2010, iron ore prices are also expected to recover because of the resumption of growth in China and other developing countries.

## **BUSINESS RISKS**

The Company is engaged in the exploration and development of mineral properties. These activities involve a high degree of risk which, even with a combination of experience, knowledge and careful evaluation, may not be overcome. Consequently, no assurance can be given that commercial quantities of minerals will be successfully found or produced.

The Company has no history of profitable operations and its present business is at an early stage. As such, the Company is subject to many common risks to such enterprises, including under-capitalization, cash shortages and limitations with respect to personnel, financial and other resources and the lack of revenues. There is no assurance that the Company will be successful in achieving a positive return on shareholders' investment.

The Company has no source of operating cash flow and no assurance that additional funding will be available to it for further exploration and development of its projects when required. Although the Company has been relatively successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in the delay or indefinite postponement of further exploration and development of its properties.

The Company's property interests are located in remote, undeveloped areas and the availability of infrastructure such as surface access, skilled labour, fuel and power at an economic cost, cannot be assured. These are integral requirements for exploration, development and production facilities on mineral properties. Power may need to be generated on site.

The LabMag Project is located in the Province of Newfoundland and Labrador and therefore subject to its mining legislation which may require that primary processing be done within the province in order to obtain mining rights.

Recent, catastrophic market conditions for resource commodities, including iron ore, after several years of improving prices has resulted in a dramatic decrease in market capitalization and the inability of companies to acquire funding for their exploration and development properties. Even though the Company is currently well financed an extended period of poor macro-economic conditions could lead to an inability of the Company to finance future operations. .

Inflation has not been a significant factor affecting the cost of goods and services in Canada in recent years, this renewed exploration and development activity has resulted in a shortage of experienced technical staff, and heavy demand for goods and services needed by the mining community.

The mineral industry is intensely competitive in all its phases. NML competes with many other mineral exploration companies who have greater financial resources and technical capacity.

The market price of iron ore and other commodities is volatile and cannot be controlled.

The purchase of securities of the Company involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks. The Company's securities should not be purchased by persons who cannot afford the possibility of the loss of their entire investment. Furthermore, an investment in securities of the Company should not constitute a major part of an investor's portfolio.

In recent years securities markets have experienced extremes in price and volume volatility. The market price of securities of many early stage companies, among others, have experienced fluctuations in price which may not necessarily be related to the operating performance, underlying asset values or prospects of such companies. It may be anticipated that any market for the Company's shares will be subject to market trends generally and the value of the Company's shares on the TSX Venture Exchange may be affected by such volatility.

The Company is very dependent upon the personal efforts and commitment of its existing management. To the extent that management's services would be unavailable for any reason, a disruption to the operations of the Company could result, and other persons would be required to manage and operate the Company.

Additional risk factors are disclosed in the Company's Annual Information Form dated May 30, 2008 which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## DISCLOSURE OF OUTSTANDING SHARE DATA

The following information relates to share data of the Company as at December 31, 2008.

### 1. Share capital

(a) Authorized:

Unlimited number of common voting shares.

Unlimited number of preferred shares, without nominal or par value, issuable in series.

(b) Issued as of December 31, 2008: The Corporation has 131,486,558 common shares issued (\$64,092,726).

(c) Issued as of April 27, 2009: The Corporation has 131,486, 558 common shares issued (\$64,092,726).

### 2. Options

The Corporation has adopted an incentive stock option plan whereby options may be granted from time to time to directors, officers, employees and consultants to the Corporation with shares reserved for issuance as options not to exceed 10% of the issued and outstanding common shares.

At April 27, 2009, there were 10,678,267 common shares reserved for issuance pursuant to the exercise of stock option (December 31, 2008 – 8,108,267) as follows:

Number of Outstanding Options	Exercise Price	Expiry Date
1,688,267	\$0.30	August 11, 2009
225,000	\$0.36	September 13, 2009
200,000	\$0.47	November 1, 2009
25,000	\$0.52	September 27, 2010
865,000	\$0.55	October 19, 2010
40,000	\$0.76	April 6, 2011
1,500,000	\$0.75	September 13, 2011
90,000	\$0.75	November 2, 2011
375,000	\$0.50	February 1, 2012
905,000	\$0.75	August 2, 2012
250,000	\$0.65	November 13, 2012
25,000	\$0.73	November 19, 2012
1,500,000	\$0.83	January 30, 2013
250,000	\$1.44	March 25, 2013
100,000	\$1.65	April 30, 2013
70,000	\$1.75	June 1, 2013
2,570,000	\$0.37	January 20, 2014

### 3. Warrants

At April 27, 2009, there were no common shares reserved for issuance pursuant to the exercise of outstanding warrants (December 31, 2008 – 416,774).

## ADDITIONAL INFORMATION

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

**New Millennium Capital Corp.**  
**Consolidated Financial Statements**  
**December 31, 2008 and 2007**

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# Raymond Chabot Grant Thornton

## Auditors' Report

To the Shareholders of  
New Millennium Capital Corp.

Raymond Chabot Grant Thornton LLP  
Suite 2000  
National Bank Tower  
600 De La Gauchetière Street West  
Montréal, Québec H3B 4L8

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We have audited the consolidated balance sheets of New Millennium Capital Corp. as at December 31, 2008 and 2007 and the consolidated statements of loss and comprehensive loss, deficit, contributed surplus and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

/S/ Raymond Chabot Grant Thornton LLP

Montréal, March 6, 2009

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<sup>1</sup> Chartered accountant auditor permit no. 9990

**New Millennium Capital Corp.**  
**Consolidated Balance Sheets**  
December 31, 2008 and 2007

	2008	2007
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents (Note 4)	9,114,810	4,332,010
Term deposits (Note 5)	13,270,079	1,896,181
Sales taxes receivable and prepaid expenses	587,450	423,999
Tax credits and mining duties receivable	1,354,154	1,304,589
	<u>24,326,493</u>	<u>7,956,779</u>
Long-term investment (Note 6)	2,400,283	3,520,283
Advances on contracts	93,004	75,037
Property and equipment (Note 7)	42,092	56,201
Mineral properties (Note 8)	35,666,950	26,888,603
	<u>62,528,822</u>	<u>38,496,903</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	3,827,108	693,275
Future income taxes (Note 11)	983,827	1,107,128
Non-controlling interest	475,000	475,000
	<u>5,285,935</u>	<u>2,275,403</u>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 9)	64,092,726	37,330,528
Contributed surplus	4,821,816	5,613,402
Deficit	(11,671,655)	(6,722,430)
	<u>57,242,887</u>	<u>36,221,500</u>
	<u>62,528,822</u>	<u>38,496,903</u>

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

On behalf of the Board,

/S/ Robert Martin  
Director

/S/ Pierre Seccareccia  
Director

**New Millennium Capital Corp.**  
**Consolidated Loss and Comprehensive Loss**  
 Years ended December 31, 2008 and 2007

	2008	2007
	\$	\$
<b>Revenue</b>	-	-
<b>Expenses</b>		
General and administrative	1,808,640	1,596,777
Professional fees (Note 10)	3,252,746	717,508
Market development	569,122	429,941
Amortization of property and equipment	36,609	44,944
	<u>5,667,117</u>	<u>2,789,170</u>
Loss before other items and income taxes	<u>(5,667,117)</u>	<u>(2,789,170)</u>
<b>Other items</b>		
Investment income	283,919	229,529
Change in fair value of long-term investment (Note 6)	(1,120,000)	(880,000)
	<u>(836,081)</u>	<u>(650,471)</u>
Loss before income taxes	<u>(6,503,198)</u>	<u>(3,439,641)</u>
Future income taxes (Note 11)	<u>1,553,973</u>	<u>767,620</u>
<b>Net loss and comprehensive loss</b>	<u><u>(4,949,225)</u></u>	<u><u>(2,672,021)</u></u>
Loss per share - basic and diluted	<u>(0.05)</u>	<u>(0.03)</u>
Weighted average number of shares outstanding	<u>109,763,614</u>	<u>87,488,995</u>

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

**New Millennium Capital Corp.**  
**Consolidated Deficit**  
**Consolidated Contributed Surplus**  
 Years ended December 31, 2008 and 2007

	2008	2007
	\$	\$
<b>CONSOLIDATED DEFICIT</b>		
Balance, beginning of year	6,722,430	4,050,409
Net loss	4,949,225	2,672,021
Balance, end of year	<u>11,671,655</u>	<u>6,722,430</u>
<b>CONSOLIDATED CONTRIBUTED SURPLUS</b>		
Balance, beginning of year	5,613,402	5,015,743
Stock-based compensation expense		
Employees and directors	316,042	371,817
Consultants	69,500	172,750
Agents' warrants granted for stock offering	—	326,162
Transfer to capital stock upon exercise of agents' warrants	(406,206)	(171,160)
Transfer to capital stock upon exercise of share purchase warrants	(695,928)	(80,420)
Transfer to capital stock upon exercise of stock options	(74,994)	(21,490)
Balance, end of year	<u>4,821,816</u>	<u>5,613,402</u>

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

**New Millennium Capital Corp.**  
**Consolidated Cash Flows**  
 Years ended December 31, 2008 and 2007

	2008	2007
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss	(4,949,225)	(2,672,021)
Non-cash items		
Stock-based compensation expense		
Employees and directors	316,042	371,817
Consultants	69,500	172,750
Amortization of property and equipment	36,609	44,944
Unrealized changes in fair value of long-term investment	1,120,000	880,000
Future income taxes	(1,553,973)	(767,620)
	<u>(4,961,047)</u>	<u>(1,970,130)</u>
Changes in working capital items (Note 13)	2,510,618	385,614
Cash flows used by operating activities	<u>(2,450,429)</u>	<u>(1,584,516)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of term deposits	(13,307,895)	(1,935,340)
Redemptions of term deposits	1,933,995	2,620,975
Acquisition of long-term investment	-	(4,400,283)
Advances on contracts	(413,052)	(211,255)
Acquisition of property and equipment	(22,501)	(29,172)
Tax credits and mining duties received	1,184,723	-
Additions to mineral properties	(9,157,783)	(7,024,223)
Cash flows used by investing activities	<u>(19,782,513)</u>	<u>(10,979,298)</u>
<b>FINANCING ACTIVITIES</b>		
Issuance of common shares	28,565,587	14,612,681
Share issue costs	(1,549,845)	(1,130,896)
Cash flows provided by financing activities	<u>27,015,742</u>	<u>13,481,785</u>
<b>Increase in cash and cash equivalents</b>	4,782,800	917,971
Cash and cash equivalents, beginning of year	<u>4,332,010</u>	<u>3,414,039</u>
Cash and cash equivalents, end of year	<u>9,114,810</u>	<u>4,332,010</u>

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

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

New Millennium Capital Corp. (Company) was incorporated pursuant to the provisions of the Alberta Business Corporations Act on August 8, 2003.

The Company is in the process of exploring and evaluating its mineral properties. The recoverability of amounts shown for mineral properties is dependent upon the ability of the Company to obtain necessary financing to complete the exploration and development of economically recoverable reserves in the mineral properties, upon the renewal of the underlying mineral claims, maintaining of the Company's interest in the underlying mining titles and compliance with filing obligations, and upon future profitable production of these reserves or sufficient proceeds from the disposition thereof.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) applicable to a going concern, which assumes that the Company will be able to realize its assets, except within the limits described above, and discharge its liabilities in the normal course of operations. Management has assessed that the October 2008 private placement described in Note 9 ensures that the Company has sufficient liquidity for at least the year ending December 31, 2009.

## **2 - ACCOUNTING CHANGES**

### **Recently adopted standards**

Effective January 1, 2008, in accordance with the applicable transitional provisions, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA). These standards have been adopted on a prospective basis with no restatement to prior period financial statements.

- Section 1400, "General Standards of Financial Statement Presentation"
- Section 1535, "Capital Disclosure"
- Section 3862, "Financial Instruments – Disclosure"
- Section 3863, "Financial Instruments – Presentation"

#### *General Standards of Financial Presentation*

In June 2007, the CICA modified Section 1400, "General Standards of Financial Statement Presentation", in order to require that management make an assessment of the Company's ability to continue as a going concern over a period that is at least, but is not limited to, twelve months from the balance sheet date. The new requirements have no impact on the Company's financial results and the relevant disclosures are addressed in Note 1.

#### *Capital Disclosures*

In December 2006, the CICA issued Section 1535, "Capital Disclosures". This new section establishes standards for disclosing information about an entity's capital and how it is managed to enable users of financial statements to evaluate the entity's objectives, policies and procedures for managing capital (see Note 12).

## **2 - ACCOUNTING CHANGES (Continued)**

### *Financial Instruments – Disclosures and Presentation*

In December 2006, the CICA revised and enhanced Section 3861, "Financial Instruments – Disclosure and Presentation", and issued two new sections to replace it, Section 3862, "Financial Instruments – Disclosures", and Section 3863, "Financial Instruments – Presentation". These modified disclosure standards relate to the significance of financial instruments on the entity's financial position and performance and the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. The adoption of this section requires the Company to present sensitivity analysis regarding specific risks. Comparative information about the nature and extent of risks arising from financial instruments is not required in the year the section is adopted. These new requirements address disclosure and presentation and had no impact on the Company's financial results and the relevant disclosures are addressed in Note 16.

### **Future Accounting Changes**

#### *International Financial Reporting Standards (IFRS)*

In 2006, Canada's Accounting Standards Board (AcSB) ratified a strategic plan that will result in GAAP, as used by publicly accountable enterprises, being fully converged with IFRS as issued by the International Accounting Standards Board (IASB) over a five year transitional period. On February 13, 2008, the AcSB announced that January 1, 2011 is the changeover date. The Company will be required to report using the converged standards effective for interim and annual financial statements relating to fiscal years beginning on January 1, 2011. The IASB's work plan currently has projects underway that are expected to result in new pronouncements that continue to evolve IFRS, and, as a result, IFRS as at the transition date of January 1, 2010 is expected to differ from its current form. The transition to IFRS will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has completed the assessment phase of its transition plan regarding the adoption of IFRS as issued by the IASB which identified a modest number of topics possibly impacting either the Company's financial results and the Company's effort necessary for transition, the Company is unable to provide specific disclosures of identified accounting policy differences and their impact on the Company's transition until the completion of the planning phase of transition to IFRS as issued by the IASB.

#### *Goodwill and Intangible Assets*

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets" to replace Section 3062, "Goodwill and Other Intangible Assets". Publication of this new section resulted in the withdrawal of Section 3450, "Research and Development Costs", and consequential amendments to certain recommendations in the CICA Handbook. The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets by profit-oriented enterprises. This new section is effective for annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008 and therefore the Company will implement them in the first quarter of 2009, retroactively with restatement, if necessary, of the comparative periods for the current and prior year. The Company's results of operations and financial position will not be materially affected by the new recommendations.

### **3 - ACCOUNTING POLICIES**

#### **Basis of presentation**

The financial statements are prepared in Canadian dollars using the historical cost method, except for certain financial instruments that are recognized at fair value. No information on fair value is presented when the carrying amount corresponds to a reasonable approximation of the fair value.

#### **Accounting estimates**

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. The estimates include the recoverability of mineral properties, the fair value of term deposits and long-term investments, the useful life of property and equipment, future income taxes as well as the fair value estimate of stock options, agents' warrants and share purchase warrants. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results may differ from these estimates.

#### **Principles of consolidation**

These consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary LabMag Services Inc., the 80%-owned subsidiary LabMag GP Inc. and its 80% interest in LabMag Limited Partnership (LLP).

In accordance with the Partnership agreement between LLP and the Company, the Company shall be responsible for providing and arranging for all capital in excess of initial contributions of each partner and all operating costs for exploration until commercial production commences. Consequently, the Company included 100% of assets, liabilities and losses and reflecting the initial contribution of the Partner holding the 20% interest in the Partnership in the consolidated financial statements as a non-controlling interest.

#### **Cash and cash equivalents**

Cash and cash equivalents include cash and investments having a term of three months or less from the acquisition date.

#### **Mineral properties**

The Company capitalizes costs, net of tax credits and mining duties, relating to the acquisition, exploration and development of mineral properties on an area of interest basis. These expenses will be charged against revenue, through unit of production depletion, when properties are developed to the stage of commercial production. If an area of interest is abandoned, or management determines that there is a permanent and significant decline in value, the related costs are charged to operations. The Company reviews the carrying values of mineral property interests on a quarterly basis by reference to the project economics, including the timing of the exploration and/or development work, the work programs and exploration results experienced by the Company and others, and the extent to which optionees have committed, or are expected to commit to, exploration on a property. When it becomes apparent that the carrying value of a

property exceeds its estimated net recoverable amount based on the foregoing criteria, an impairment is recognized.

### **3 - ACCOUNTING POLICIES (Continued)**

#### **Tax credits and mining duties**

The tax credits and mining duties are recorded as a reduction of the mineral properties during the year in which the costs are incurred, provided that the Company is reasonably certain that the tax credits and mining duties will be received. The tax credits and mining duties claimed and recorded must be examined and approved by the tax authorities and it is possible that the amount granted will differ from the amount recorded.

#### **Amortization**

Property and equipment are amortized over their estimated useful lives according to the straight-line method over the following period:

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

#### **Income taxes**

Income taxes are recorded using the liability method of tax allocation. Future income taxes are calculated based on temporary timing differences arising from the difference between the tax basis of an asset or liability and its carrying value using tax rates anticipated to apply in the periods when the timing differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

#### **Earnings (loss) per share**

Basic earnings (loss) per common share is computed by dividing the net earnings (loss) by the weighted average number of common shares outstanding during the year. Diluted earnings per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. For the years presented, this calculation proved to be anti-dilutive. The treasury stock method is used to determine the dilutive effect of stock options and warrants, as described in Note 9. Under the treasury stock method, only "in-the-money" dilutive instruments impact the dilution calculations.

#### **Share and unit issue costs**

Share and unit issue costs are recorded as a decrease of capital stock.

#### **Stock-based compensation**

The Company has a stock option plan as described in Note 9. The Company adopted the fair value method of recognizing all stock-based compensation awards. Such stock-based compensation expense for all options granted under the Company's option plan is determined

using the fair value method and the fair value of the stock options is determined using the Black-Scholes valuation model and is recognized over the vesting period of such options.

### **3 - ACCOUNTING POLICIES (Continued)**

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

#### **Flow-through common shares**

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Future income tax liability is increased and capital stock is reduced by the estimated tax benefits transferred to shareholders on the date the Company files the renunciation documents with the tax authorities.

#### **Financial Instruments**

Effective January 1, 2007, all financial instruments have been classified as follows:

- Cash and cash equivalents and term deposits are classified as held-for-trading financial assets. They are measured at fair value and changes in fair value are recognized in net loss and presented under investment income. Transaction costs from held-for-trading financial assets and liabilities are recognized in net loss and presented under general and administrative expenses;
- The long-term investment is classified as an available-for-sale financial asset. It is measured at fair value and any changes in fair value is recognized in "accumulated other comprehensive loss" unless it is an impairment loss which is recognized in net loss. Interest earned on this asset is recognized in net loss and presented under investment income;
- Accounts payable and accrued liabilities are classified as other financial liabilities. They are measured at amortized cost using the effective interest method.

#### **Asset retirement obligations**

During the course of acquiring and exploring potential mining properties, the Company must comply with government environmental regulations concerning reclamation requirements. The estimated costs of complying with these requirements are capitalized as mineral properties and the corresponding liability is increased accordingly. The carrying value will then be amortized over the life of the related assets on a unit-of-production basis and the related liabilities are accreted to the original value estimate. To date, during exploration all such costs have been met on a progressive basis. Management believes that no additional asset retirement obligations exist at this time and no amount has been recorded in these financial statements.

### **3 - ACCOUNTING POLICIES (Continued)**

#### **Foreign currency translation**

Monetary assets and liabilities in foreign currency are translated at the exchange rate in effect at the balance sheet date, whereas non-monetary items are translated at the historical rate. Revenue and expenses are translated at the exchange rate in effect at the transaction date. Gains and losses are included in the net loss for the year.

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

Cash and cash equivalents in 2008 consist only of cash (\$2,985,010 of treasury bills with interest at rates varying between 3.6% and 3.8% in 2007).

### **5 - TERM DEPOSITS**

In 2008, term deposits include a treasury bill with a cost of \$12,999,953 maturing in April 2009 and bearing interest at 2.0%, a guaranteed investment certificate (GIC) with a cost of \$150,922 maturing in July 2009 and bearing interest at 3.25% and a GIC with a cost of \$16,620 maturing in June 2009 and bearing interest at 2.25%.

In 2007, term deposits were GIC's including \$494,950 maturing in January 2008 and bearing interest at 3.8%, \$1,385,093 maturing in April 2008 and bearing interest at 4.3% and \$16,138 maturing in June 2008 and bearing interest at 3.25%.

The management of the Company has valued the term deposits at a fair value of \$13,270,079 (2007 - \$1,896,181) as disclosed in Note 16.

### **6 - LONG-TERM INVESTMENT**

At December 31, 2008, the Company holds \$4,415,000 in face value of Structured Investment Trust III, Series A (SIT) asset-backed commercial paper (ABCP), with a fair value of \$2,400,283 (2007 - \$3,520,283).

Since August 2007, the market for ABCP has experienced significant liquidity problems. There has been no active trading of the ABCP since then, and no market quotations are currently available. SIT failed to make payment at maturity and, along with other ABCP conduits, are subject to a restructuring proposal by a consortium of banks, assets providers and major investors (the "consortium").

In April 2008, the note holders approved a restructuring proposal under which the holders of ABCP will exchange their paper for floating rate notes with maturities based on the maturities of the assets underlying the ABCP. The Ontario Superior Court of Justice sanctioned the restructuring plan and subsequent legal proceedings have affirmed their decision. The consortium completed the restructuring plan by the end of January 2009.

Under the restructuring proposal, the Company's ABCP will be converted into the following face value notes:

**6 - LONG-TERM INVESTMENT (Continued)**

\$2,945,000 into MAV2 Class A-1 Notes (A-1)  
\$739,000 into MAV2 Class A-2 Notes (A-2)  
\$134,000 into MAV2 Class B Notes (B)  
\$118,000 into MAV2 Class C Notes (C)  
\$479,000 into IA Tracking Notes Class 15 (IA)

The A-1, A-2 and B notes will earn interest based upon the average bid rates of 30 days Canadian bankers' acceptance less 0.5%, while the C notes will earn interest at 20%. The interest on A-1 and A-2 will be payable quarterly, while interest on B and C will only be paid at maturity if funds remain. While the legal maturity dates for the A-1, A-2, B and C class notes are in July 2056, the expected repayment date of January 2017 based upon the maturities of the underlying assets is being used for valuation purposes along with an anticipated first principal repayment on A-1 in 2013. The order of preference with regard to repayments of principal is A-1, A-2, B and C. The Dominion Bond Rating Service (DBRS) indicated in January 2009 that it will rate the MAV2 Class A-1 and A-2 Notes as "A", but that it will not rate the MAV2 Class B and C Notes. The IA notes while not rated by the DBRS, will pay a floating rate of interest commensurate with the nature of the underlying assets and have an expected repayment date of January 2013.

The ABCP was originally classified as held to maturity by the Company. As a result of the ABCP restructuring, the Company changed its classification of this investment to available for sale in the fourth quarter of 2007. As such, any change in fair value is recognized in other comprehensive income or loss by the Company unless it is an impairment loss which is recognized in net loss.

There is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the ABCP. The Company estimates the fair value of its ABCP by discounting expected future cash flows determined using a valuation model that incorporates management's best estimate, based on the best available data, of credit risk attributable to the underlying assets, relevant market interest rates, amounts to be received and maturity dates. In 2007, an \$880,000 impairment loss was recognized in the financial statements. As a result of the valuations done during 2008, a further impairment loss of \$1,120,000 was recorded by the Company for the year in the net loss.

The above estimated fair values may not be indicative of the ultimate net realizable value of the ABCP. While management believes that its valuation technique is appropriate in the circumstances, changes in significant assumptions, especially those relating to the probability of realization scenarios, returns, discount rates and attributes of underlying assets could significantly affect the value of the ABCP in subsequent periods. The resolution of these uncertainties could result in the value of these investments varying significantly from management's current estimates. For example, an increase of 1% in the discount rate used in the valuation of the ABCP value would result in a decrease in fair value of \$140,000.

**New Millennium Capital Corp.**  
**Notes to Consolidated Financial Statements**  
 December 31, 2008 and 2007

**6 - LONG-TERM INVESTMENT (Continued)**

The liquidity crisis in the Canadian and global markets has had no significant impact on the Company's operations. Cash and cash equivalents at December 31, 2008 is held as cash and the term deposits are held in Government of Canada treasury bills and guaranteed investment certificates and the Company has no further exposure to the current ABCP market disruption.

The future income tax effect of the cumulative \$2,000,000 decrease in fair value is a future income tax asset of \$320,000. As the Company does not anticipate having capital gains in the foreseeable future, a valuation allowance of \$320,000 has been recognized.

**7 - PROPERTY AND EQUIPMENT**

	2008		
	Cost	Accumulated Amortization	Net
	\$	\$	\$
Office furniture and equipment	103,720	61,628	42,092
	2007		
	Cost	Accumulated Amortization	Net
	\$	\$	\$
Office furniture and equipment	198,711	142,510	56,201

During the year the Company wrote off \$117,491 (2007 - Nil) of fully amortized assets no longer in use.

**New Millennium Capital Corp.**  
**Notes to Consolidated Financial Statements**  
December 31, 2008 and 2007

**8 - MINERAL PROPERTIES**

	LabMag Property \$	KéMag Property \$	Direct Shipping Ore Holdings (DSO) \$	Other Properties \$	Balance as at Dec. 31 2008 \$	Balance as at Dec. 31 2007 \$
Balance, beginning of year	21,208,087	5,333,117	204,527	142,872	-	-
Mineral licenses	(5,880)	16,953	32,577	22,936	3,423,160	3,356,574
Drilling	20,300	2,016,278	3,084,908	-	13,445,314	8,323,828
Resource evaluation	84,135	852,010	1,839,886	40,547	11,154,788	8,338,210
Environmental	111,315	86,579	1,083,305	(640)	7,762,892	6,482,333
Field labour and supplies	3,310	96,095	540,069	87,952	2,144,958	1,417,532
Other	-	-	-	-	274,715	274,715
	<u>219,060</u>	<u>3,050,962</u>	<u>6,548,168</u>	<u>127,859</u>	<u>34,782,667</u>	<u>24,836,618</u>
Tax credits and mining duties	-	(159,070)	(1,065,957)	(9,261)	(2,538,877)	(1,304,589)
Balance, end of year	<u>21,421,267</u>	<u>8,241,962</u>	<u>5,719,315</u>	<u>284,406</u>	<u>35,666,950</u>	<u>26,888,603</u>

**Overview**

The Company holds interest in 2554 claims distributed between properties in Newfoundland and Labrador (NL) and Québec. Claims registered under New Millennium Capital Corp. (NML) are owned 100% by the Company. Claims registered under LLP are owned 80% by the Company.

Province	Ownership	LabMag Property	KéMag Property	DSO Properties	Other Properties	Total
Newfoundland & Labrador	NML	-	-	122	773	895
	LLP	619	-	35	19	673
Québec	NML	-	171	185	630	986
<b>Total</b>		<b>619</b> [155 km <sup>2</sup> ]	<b>171</b> [81 km <sup>2</sup> ]	<b>342</b> [121 km <sup>2</sup> ]	<b>1,422</b> [498 km <sup>2</sup> ]	<b>2,554</b> [855 km <sup>2</sup> ]

**8 - MINERAL PROPERTIES (Continued)**

**LabMag Property:**

The LabMag Iron Ore Project involves the exploration and development of a taconite deposit at Howells River, NL. The property is situated in western Labrador, in Elross Township, about 30 kilometers 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 tonnes per year pellet plant located at Emeril, near Wabush Township. The pellets produced are assumed in the study to be delivered via railway to a new dock at Pointe-Noire, near Sept-Îles for export overseas.

**KéMag Property:**

The KéMag Iron Ore Project involves the exploration and development of a taconite deposit at Lac Harris, Québec. The property is situated in the municipality of Rivière Koksoak in northern Québec, centered about 50 kms to the northwest of the town of Schefferville, Québec. A Preliminary Assessment Study was completed in 2007 on this Project based on a mining operation and concentrator located at Lac Harris with an estimated annual production rate of 21.2 million tonnes of concentrate. The concentrate is proposed to be shipped by a pipeline to a 15 million tonnes per year pellet plant located in Sept-Îles, Québec, where it is estimated in the study to be sufficient to feed the pellet plant and provide 7 million tonnes per year of concentrate for export in addition to 15 million tonnes per year of pellets.

**DSO Properties:**

The Company's DSO Projects involve exploration and development work on hematite deposits in Québec and Labrador which were previously held and/or mined by Iron Ore Company of Canada. The properties, located in isolated claim blocks, extend from 15 km SE of Schefferville to the Goodwood area some 50 km NW of Schefferville.

**Other Properties:**

The remaining claims include holdings of magnetic taconite and dolomite as well as the site of the potential Emeril plant.

As disclosed in Note 9, Tata Steel Global Minerals Holdings PTE Ltd. (Tata) acquired on October 9, 2008 19.9% of the post-acquisition total issued and outstanding common shares of the Company. Pursuant to a related agreement, Tata will have exclusivity on the DSO Properties through completion of a feasibility study. After completion of the feasibility study, Tata will have an option for a 180-day period to acquire an 80% equity interest on the DSO Properties. Upon exercising the option, Tata will pay 80% of NML's costs incurred to the exercise date to advance the DSO Properties. Tata will fund up to \$300 million to earn its 80% interest and will commit to purchase, at world price, 100% of DSO's iron ore production for the life of the mining operation.

Tata will also have an exclusivity to negotiate and settle a proposed transaction in respect of the LabMag Property until June 30, 2009. The parties intend to work together to find an economically viable solution to advance this project.

**New Millennium Capital Corp.**  
**Notes to Consolidated Financial Statements**  
December 31, 2008 and 2007

**9 - CAPITAL STOCK**

**Authorized**

Unlimited number of shares

Common shares

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

	Number of common shares	Amount \$
<b>Issued and fully paid</b>		
Balance, as at December 31, 2006	77,711,690	24,469,752
Issued for cash	12,902,903	7,999,800
Issued for cash on a flow-through basis	8,000,000	6,000,000
Tax effect of flow-through shares	-	(990,165)
Issued for cash on exercise of stock options	233,809	43,381
Issued for cash on exercise of share purchase warrants	500,000	375,000
Issued for cash on exercise of agents' warrants	389,000	194,500
Transferred from contributed surplus on exercise of agents' warrants	-	171,160
Transferred from contributed surplus on exercise of share purchase warrants	-	80,420
Transferred from contributed surplus on exercise of stock options	-	21,490
Share issue costs	-	(1,373,128)
Tax effect of share issue costs	-	338,318
Balance, as at December 31, 2007	99,737,402	37,330,528
Issued for cash	26,143,556	23,529,200
Tax effect of flow-through shares		(1,920,000)
Issued for cash on exercise of stock options	908,400	163,487
Issued for cash on exercise of share purchase warrants	3,400,000	3,900,000
Issued for cash on exercise of agents' warrants	1,297,200	972,900
Transferred from contributed surplus on exercise of agents' warrants		406,206
Transferred from contributed surplus on exercise of share purchase warrants		695,928
Transferred from contributed surplus on exercise of stock options		74,994
Share issue costs		(1,549,845)
Tax effect of share issue costs		489,328
<b>Balance, as at December 31, 2008</b>	<b>131,486,558</b>	<b>64,092,726</b>

**Stock options**

The Company has adopted an incentive stock option 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 common share market closing price on the day before the option grant less a permitted discount. The vesting period is determined by the Board of Directors and the maximum term of these options is five years. Some of the options only vest if certain performance criteria are met.

**New Millennium Capital Corp.**  
**Notes to Consolidated Financial Statements**  
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**9 - CAPITAL STOCK (Continued)**

A summary of the Company's stock option plan is as follows:

	2008		2007	
	Number of outstanding options	Weighted average exercise price \$	Number of outstanding options	Weighted average exercise price \$
Balance, beginning of year	7,096,667	0.51	6,345,476	0.47
Granted	1,920,000	0.99	1,555,000	0.67
Exercised	(908,400)	0.18	(233,809)	0.19
Expired	-	-	(570,000)	0.62
Balance, end of year	<u>8,108,267</u>	0.66	<u>7,096,667</u>	0.51
Options exercisable, end of year	<u>5,384,933</u>	0.56	<u>5,736,250</u>	0.45

Options exercisable and outstanding as at December 31, 2008 as set forth in the previous table are as follows:

Exercise price	Number of exercisable options	Number of outstanding options	Remaining contractual years
\$0.30	1,688,267	1,688,267	0.6
\$0.36	225,000	225,000	0.7
\$0.47	200,000	200,000	0.8
\$0.50	375,000	375,000	3.1
\$0.52 to \$0.55	890,000	890,000	1.8
\$0.65	166,666	275,000	3.9
\$0.73 to \$0.76	1,370,000	2,560,000	3.0
\$0.83	250,000	1,500,000	4.1
\$1.44	50,000	250,000	4.3
\$1.65	100,000	100,000	4.3
\$1.75	70,000	70,000	4.4
	<u>5,384,933</u>	<u>8,108,267</u>	2.0

The weighted average fair value of stock options granted during 2008 was \$0.61 per share (\$0.43 per share in 2007). The fair value of each option was estimated on the date of grant using the Black-Scholes model. The following assumptions were used:

	2008	2007
Risk-free interest rate	3.4%	4.3%
Expected life (years)	5	5
Estimated volatility of the market price of the common shares	72%	74%
Dividend yield	Nil	Nil

**New Millennium Capital Corp.**  
**Notes to Consolidated Financial Statements**  
December 31, 2008 and 2007

**9 - CAPITAL STOCK (Continued)**

**Agents warrants**

The Company has also granted warrants to the agents involved in the Company's equity financings. A summary of these agents' warrants is as follows:

	2008		2007	
	Number of outstanding warrants	Weighted average exercise price \$	Number of outstanding warrants	Weighted average exercise price \$
Balance, beginning of year	2,113,974	0.75	2,159,800	0.60
Granted	-	-	1,254,174	0.75
Exercised	(1,297,200)	0.75	(389,000)	0.50
Expired	(400,000)	0.75	(911,000)	0.50
Balance, end of year	<u>416,774</u>	0.75	<u>2,113,974</u>	0.75
Warrants exercisable, end of year	<u>416,774</u>	0.75	<u>2,113,974</u>	0.75

Warrants exercisable and outstanding as at December 31, 2008 as set forth in the previous table are as follows:

<u>Exercise price</u>	<u>Number of exercisable warrants</u>	<u>Number of outstanding warrants</u>	<u>Remaining contractual years</u>
\$0.75	<u>416,774</u>	<u>416,774</u>	0.3

There were no agent warrants granted in 2008. The weighted average fair value of agents' warrants granted during 2007 was \$0.26 per share. The fair value of each warrant was estimated on the date of grant using the Black-Scholes model. The following assumptions were used:

	<u>2007</u>
Risk-free interest rate	4.5%
Expected life (years)	1.5
Estimated volatility of the market price of the common shares	75.0%
Dividend yield	Nil

**Capital stock offerings**

On October 9, 2008, the Company completed a private placement to Tata, as discussed in Note 8, whereby 26,143,556 common shares which represented 19.9% of the post-acquisition issued and outstanding common shares of the Company. The Company received gross proceeds of \$23,529,200 or \$0.90 per share and its financial advisors were paid \$1,350,000 in connection with the private placement.

**9 - CAPITAL STOCK (Continued)**

Pursuant to a related agreement, Tata is entitled to a right of first refusal in connection with private placements of equity securities conducted by the Company and a pre-emptive right in connection with private placements (if it does not exercise its rights of first refusal) and other offerings of equity securities.

On October 4, 2007, the Company completed a private offering whereby 1,612,903 common shares were issued at a price of \$0.62 per common share for gross proceeds of \$1,000,000 and 5,333,333 flow-through common shares were issued at a price of \$0.75 per flow-through common share for gross proceeds of \$4,000,000. The agents of the offering were paid fees of \$300,000 and were granted 416,774 common share purchase warrants, exercisable at a price of \$0.75 per warrant for a period of eighteen months from the closing of the offering.

On June 12, 2007, the Company completed a private offering whereby 11,290,000 common shares were issued at a price of \$0.62 per common share for gross proceeds of \$6,999,800 and 2,666,667 flow-through common shares were issued at a price of \$0.75 per flow-through common share for gross proceeds of \$2,000,000. The agents of the offering were paid fees of \$539,990 and were granted 837,400 common share purchase warrants, exercisable at a price of \$0.75 per warrant for a period of eighteen months from the closing of the offering.

**Share purchase warrants**

As at December 31, 2008, the Company has no share purchase warrants outstanding. No share purchase warrants were issued during 2007 or 2008, while 4,000,000 expired unexercised on August 22, 2008 and another 4,000,000 expired unexercised on December 1, 2007.

**10 - PROFESSIONAL FEES**

In 2008, professional fees include \$2,680,000 (\$216,000 in 2007) of costs incurred in investment banking related activities to identify potential strategic partners and equity financing opportunities.

**11 - INCOME TAXES**

The Company has recorded a future income tax recovery and future income tax liabilities arising from temporary differences between accounting values and tax base values of various net capital assets of the Company.

**New Millennium Capital Corp.**  
**Notes to Consolidated Financial Statements**  
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**11 - INCOME TAXES (Continued)**

The future income taxes in the consolidated statements of loss are summarized as follows:

	2008	2007
	\$	\$
Loss before income taxes	<u>(5,383,198)</u>	<u>(3,439,641)</u>
Combined federal and provincial tax rates	<u>30.90%</u>	<u>32.02%</u>
Computed income tax recovery	(1,663,408)	(1,101,373)
Stock-based compensation expense	119,132	174,370
Mining duties	(61,843)	(43,488)
Professional fees	-	(10,236)
Unrecognized tax benefit	10,534	140,888
Change in tax rate and other items	<u>41,612</u>	<u>72,219</u>
	<u>(1,553,973)</u>	<u>(767,620)</u>

The future income tax assets and liabilities result from differences between the carrying amount and the tax basis of the following items:

	2008	2007
	\$	\$
Future income tax liabilities		
Mineral properties	<u>8,775,203</u>	<u>6,285,302</u>
Future income tax assets		
Non-capital losses carried-forward	7,010,504	4,555,028
Share and unit issue costs	764,661	577,543
Property and equipment	<u>16,211</u>	<u>45,603</u>
	<u>7,791,376</u>	<u>5,178,174</u>
	<u>983,827</u>	<u>1,107,128</u>

The Company has non-capital tax losses, which are available to reduce income taxes in the future years. They aggregate \$21,907,000 and can be carried over the following years:

	\$
2010	16,000
2014	503,000
2015	2,968,000
2026	7,573,000
2027	3,302,000
2028	<u>7,546,000</u>
	<u>21,907,000</u>

**11 - INCOME TAXES (Continued)**

The Company has limited partnership losses, through LLP, in the amount of \$372,000 for which no tax benefit has been recognized.

In February 2008, the Company filed the renunciation documents relating to the flow-through shares (FTS) of \$6,000,000 issued in 2007 (\$3,000,500 renounced in February 2007, but issued in 2006). The corresponding decrease in capital stock and the increase in future income taxes relating to these flow-through shares of \$1,920,000 was recorded in 2008 (\$990,165 related to 2006 FTS accounted for in 2007).

**12 - CAPITAL MANAGEMENT**

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 shareholder's equity. In order to meet its objectives, the Company monitors its capital structure and makes adjustments as required. The Company is not subject to any externally imposed capital requirements.

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

The changes in working capital items are detailed as follows:

	2008	2007
	\$	\$
Sales taxes and other receivables	(163,450)	659,020
Accounts payable and accrued liabilities	2,674,068	(273,406)
	2,510,618	385,614

Included in the accounts payable and accrued liabilities is an amount of \$817,180 (2007 - \$357,414) pertaining to additions to mineral licenses. Included in the cash used in advances on contracts is \$395,085 (2007 - \$156,718) pertaining to mineral properties.

In 2008, the Company did not grant any common share purchase warrants (2007 - 1,254,174) to its agents in connection with equity financings. The agents' warrants valued at \$326,162 in 2007 are excluded from the consolidated cash flows as they are non-monetary transactions.

Cash flows relating to income taxes and interest on operating activities are detailed as follows:

	2008	2007
	\$	\$
Interest received	203,834	249,029
Income taxes paid	-	-

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**14 - RELATED PARTY TRANSACTIONS**

The Company incurred the following transactions with the directors and companies under their control and partnerships in which a director and the chief financial officer are partners.

	2008	2007
	\$	\$
Mineral properties	63,894	92,820
General and administrative expenses	105,678	90,530
Directors fees	56,000	32,800
Professional fees	247,392	210,260
Share issue costs	29,861	52,394

These transactions, concluded in the normal course of operations, were measured at the exchange amount, which is the amount of consideration established and accepted by the parties.

The unpaid balances resulting from the above transactions amount to \$176,214 (\$55,208 in 2007) and are included in accounts payable and accrued liabilities.

**15 - COMMITMENTS AND CONTINGENCY**

Pursuant to the Tata agreement disclosed in Notes 8 and 9, if Tata exercises their option on either of the projects, then the Company is committed to pay financial advisors US\$6,263,615.

The Company has entered into long-term leases for office premises amounting to \$115,921 and expiring by October 2011. The minimum lease payments for the next three years are \$78,704 in 2009, \$20,300 in 2010 and \$16,917 in 2011. The company has also entered into a public relations agreement which has a commitment of \$50,000 in 2009.

Also, the Company is committed through LLP to pay aggregate royalties of 2% of gross revenue from the mineral interests acquired in 2004.

**16 - FINANCIAL INSTRUMENTS**

**Fair value**

Fair value is the amount that willing parties would accept to exchange a financial instrument based on the current market for instruments with similar risks and remaining maturity.

The fair value of cash and cash equivalents and accounts payable and accrued liabilities approximate their carrying value due to their short-term maturities.

The fair value of the long-term investment is estimated by management based on the assumptions disclosed in Note 6.

The fair value of the treasury bills is determined by discounting expected future cash flows using interest rates of 0.83% (2007 - 3.86%), which represent the rate that the Company can obtain for treasury bills with similar terms and conditions and maturity dates.

**16 - FINANCIAL INSTRUMENTS (Continued)**

The fair value of the GIC's is determined by discounting expected future cash flows using interest rates of 0.75% (2007 – 2.88%), which represent the rate that the Company can use for GIC with similar terms and conditions and maturity dates.

Sensitivity to an increase of 1% in rates for the treasury bills and GIC's would affect net loss by \$39,000 for the one year period ended December 31, 2008.

**Financial risk management objectives and policies**

In the normal course of operations, the Company is exposed to various financial risks. The Company's management manages financial risks.

The Company does not enter into financial instrument agreements including derivative financial instruments for speculative purposes.

**Financial risks**

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 certain foreign currency transactions by buying the foreign currency at the spot rate when required.

At December 31, 2008, the Company had \$2,221,672 US in accounts payable and accrued liabilities which has been translated to Canadian dollars at the exchange rate on December 31, 2008. A \$0.01 increase or decrease in the USD/CAD exchange rate would result in a change to net loss of \$22,000.

**Interest rate risk**

The cash equivalents and term deposits 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 Company does not use derivative financial instruments to reduce its interest rate exposure.

**Liquidity risk**

Management serves to maintain 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 accounts payable and accrued liabilities are less than three months.

**Credit risk**

The Company manages credit risk through an emphasis on quality in its investment portfolio. Cash and cash equivalents and term deposits are held through one Canadian chartered bank and in government of Canada treasury bills and management believes the risk of loss to be remote. The Company's credit risk is presently attributable to the ABCP (see Note 6) of which a \$1,120,000 impairment loss in fair value was taken in 2008.

**17 – SUBSEQUENT EVENT**

On January 23, 2009 the Company received the new notes pursuant to the restructuring plan described in Note 6. The exchange of the ABCP for the new notes is a transaction of substance and accordingly the Company will record settlement of the ABCP, initially recognize the new notes at their fair value, and recognize any resulting gain or loss in net income. The new notes will be classified as held-for-trading under the Company's financial instruments policy which will require them to be fair valued at each period end with changes in fair value included in the income statement in the period in which they arise. Until an active market develops for the new notes, the fair value will be determined by discounting future cash flows determined using a valuation model that incorporates management's best estimate, based upon available data, of credit risk attributable to the underlying assets, relevant market interest rates, amounts to be received and maturity dates.

As part of the exchange, the Company received an interest payment of \$151,000, which was its share of the cash that accumulated in the trusts up to August 31, 2008 and this amount had been included in the Company's determination of fair value of the ABCP as at December 31, 2008.

**18 - COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

During the fourth quarter of fiscal 2008, we discovered an error relating to the recording of non-controlling interest in LLP which caused liabilities and assets to each be understated by \$475,000 in each period presented since inception of LLP. This error only impacted on the consolidated balance sheet.

The effect of the restatement is as follows:

	<u>2008</u>	<u>2007</u>
	\$	\$
Increase in mineral properties	475,000	475,000
Increase in non-controlling interests	475,000	475,000