NORTHERN IRON LIMITED (ASX:“NFE”)

Quarterly Activities Report: Period ended 31 December 2011

Highlights

- **Production of 427kt for the quarter, 40% increase on the previous quarter**
  - The ore milled and concentrate produced results are quarterly production records. Total production for 2011 was 1.46 million dry metric tonnes.
  - A 6 day planned reline of the primary mill was completed during the quarter ahead of schedule.
  - Production rates at a 2.0 Mtpa production rate were sustained for a 30 day period during the later part of the quarter.
  - Unplanned downtime reduced during the quarter as the Company executed initiatives aimed at improving plant reliability. Further improvements during Q1 2012 are expected to support the achievement of a 2.2 Mtpa production rate.

- **Concentrate sales of 426kt, up 26% on the September quarter**
  - 3 vessels dispatched to Tata Steel Europe and 3 vessels to the Chinese spot market, with an average price of USD 108/ dmt FOB Kirkenes obtained.
  - Total tonnes shipped in 2011 were 1.51 million dry metric tonnes, a 5% increase versus 2010.

- **Concentrate quality maintained during the quarter**
  - December 2011 Quarter: 66.9% Fe and 5.7% Silica
  - Average Fe grade for 2011 was 66.8% versus 62.9% in 2010.

- **Unaudited EBITDA of USD 9.0 million achieved for the quarter, a 50% increase on the previous quarter**
  - Operating costs decreased to USD 86 / dmt for the quarter, slightly higher than previous guidance due to additional equipment usage in moving targeted ore stockpiles to the primary crushing facility and maintenance activities.

- **Corporate Activity**
  - The Company announced the commencement of a strategic review during the quarter.
  - Progress was made with the permitting process for the expansion project, with a key community consultation workshop completed during the quarter.

Corporate

Treasury and Finance

Group cash balances at the end of the quarter were USD 29.2 million, which consisted of unrestricted cash of USD 28.6 million and restricted supplier guarantees of USD 0.6 million, while the balance of trade receivables were approximately USD 28.9 million. Timing of shipments during December meant that approximately USD 12.0 million was received by the Company within the first week of January. The guarantees will be drawn upon by contractors and suppliers as goods and services are provided to the Company. Funds on deposit earned an average interest rate of 1.1% per annum.

At the end of the quarter, the Company held the following cash balances in a combination of A$, Euro, NOK, CHF and USD as presented in Table 1.

	A$	EURO	NOK	CHF	USD
Amount (USD'000)	3,767	222	8,222	1	17,010
% Total	12.9%	0.8%	28.1%	0.1%	58.2%
Rate: USD to	0.98	0.77	5.99	0.94	1.00

Table 1

During the quarter, the Company raised approximately USD 20.8 million net proceeds through an institutional placement and share purchase plan. The Company also accepted an offer from DnB Bank for an additional tranche of USD 9.0 million available under the Company's pre-existing six-year term debt facility, bringing the total principal outstanding under the USD 30.0 million facility to USD 27.5 million. A semi-annual repayment of USD 2.5 million was made under the facility during the quarter.

Sales and Marketing

Concentrate sales of 426,000 dry metric tonnes (DMT) in six vessels were achieved during the quarter, representing a 26% increase over the preceding quarter. Three vessels were sold to TATA Steel and a further three were sold to Chinese customers. In addition, there was one small sale to a non-steel making European customer.

During the period the average price obtained for concentrate sales was USD 108 per dry metric tonne FOB Kirkenes, representing a 22% decrease over the average price achieved in the previous quarter. The reduction in price is due to lower market prices for the quarter, which also applied to sales to TATA Steel. TATA have deferred the timing of the rebate payments for the December quarter's shipments.

As from December 2011 the Company has started selling shipments to the spot market on a CFR basis, whereby NFE manages the freight to the customer. This is expected to result in a slight increase in revenue.

Mining

A total of 1,883,000 tonnes of material was mined during the period, including 570,000 tonnes of ore and 1,313,000 tonnes of waste. Compared to the previous quarter these results represent a 61% decrease in ore mined, a 41% decrease in waste mined resulting in a 49% decrease in total tonnes mined. The significant variation between the quarters was due to a management decision to reduce cash expenditure [following the unplanned mill shutdown] and utilise the high ore stockpiles on hand in the mine. At the end of the quarter the company had reduced the ore stockpiles to a total of 621,423 tonnes of ex-pit ore.

Table 2 contains a summary of mining activity for the quarter compared to the previous two quarters.

	Jun Qtr	Sep Qtr	**Dec Qtr**	Qtr Variance (from Sep Q)	Qtr Variance (% from Sep Q)
Ore Tonnes (kt)	1,055	1,481	**570**	-911	-61%
Waste Tonnes (kt)	2,416	2,225	**1,313**	-912	-41%
Total Tonnes (kt)	3,471	3,706	**1,883**	-1,823	-49%

Table 2

Ore was predominantly mined from the Hyttemalmen and Kjellmannsåsen pits during the quarter, with a small amount recovered from the Bjørnevatn pit during waste stripping activities. Actual tonnes mined versus the resource model prediction is outlined in Table 3.

	Actual Ore Mined (kt)	Resource model estimate (kt)	Variance (kt)	Variance (%)
Bjørnevatn	30	38	-8	-21%
Kjellmannsåsen	265	378	-113	-30%
Hyttemalmen	275	450	-175	-39%
Total	**570**	**866**	**-296**	**-34%**

Table 3

The Bjørnevatn pit displayed an 8% negative ore tonnage variation for the quarter. The Bjørnevatn ore was in an inferred part of the ore model and has no effect on the reserves or mine plan.

The 30% negative tonnage variance exhibited in Kjellmannsåsen was due to mining in the southern extremity of the pit where the geology has been found to be more complicated than was predicted in the resource model. This has made it more difficult to recover the predicted ore, but is not expected to have a material impact on the remaining Kjellmannsåsen reserves.

The 39% negative tonnage variation in Hyttemalmen pit was due to the final write off of non-retrievable ore from this pit after it was closed in December.

Table 4 compares mine grades estimated from the reserve model, and grades actually measured at the primary mill in the concentrator. A consistent positive variation was evident during the quarter.

	Sep Q3 Fe_{total}	**Dec Q4** Fe_{total}
Ore Mined (% Fe) (Reserve model estimate)	33.87	35.01
Ore Milled (% Fe) (Actual ore milled)	35.32	37.29

Table 4

Processing

Production

Production results from the processing facilities are outlined in Table 5.

	Jun Qtr	Sep Qtr	**Dec Qtr**	Qtr Variance (tonnes)	Qtr Variance (%)
Crushed (kt)	976	780	**1,045**	265	34%
Milled (kt)	985	796	**1,034**	238	30%
Concentrate Produced (kt)	368	305	**427**	122	40%
Concentrate Shipped (kt) (dry metric tonnes)	399	339	**426**	87	26%

Table 5

Concentrate production improved significantly during the quarter with the result of 427kt representing a 40% increase on the previous quarter, and a 7% improvement on the previous best quarter achieved in March 2010.

Plant performance continued to improve during the quarter, and towards the end of the period a continuous 30 day production period at a 2.0 Mtpa concentrate production rate was achieved. This was made possible by improvements in mill feed size delivered under the current plant debottlenecking project. Further enhancements were made when two new magnetic separators were installed and commissioned in the concentrator in the middle of December.

Plant utilisation improved significantly as initiatives designed to improve maintenance planning and execution started to deliver increased run time in the crushing plant and concentrator. A planned maintenance shut to reline the primary mill was completed ahead of schedule, and unplanned downtime declined during the period, however was still higher than forecast.

Events which impacted production performance during the quarter included optimisation of the filtration and magnetic separation circuit in October, completion of a mill reline in November, and unplanned maintenance on the fine crushing circuit and the primary mill in the second half of December.

Quality

Average concentrate quality grades remained steady during the quarter. Table 6 summarises concentrate quality for the last four quarters.

	Iron	Silica	Alumina	Phos	Sulphur	Mn
2011 Specification (%)	**66-68**	**4-6**	**0.4**	**0.01**	**0.02**	**0.05**
Mar’11 Qtr Actual (%)	66.5	6.1	0.3	0.01	0.01	0.05
Jun’11 Qtr Actual (%)	67.0	5.7	0.2	0.01	0.01	0.04
Sep’11 Qtr Actual (%)	66.8	6.1	0.2	0.01	0.02	0.05
Dec’11 Qtr Actual (%)	66.9	5.7	0.2	0.01	0.02	0.08

Table 6

Enhancements were made to the concentrator during the quarter that is expected to have a positive impact on product quality in 2012. Improvements completed included:

- Installation of two new magnetic separators in the primary grinding circuit;
- Modification and balancing of the flows through the secondary milling circuit to enable improved grinding and secondary magnetic separation performance;
- Completion of maintenance of the fifth secondary mill, expected in January. Completion has been delayed due to the diversion of maintenance resources to unplanned maintenance events in December.

Additionally, the first parcels of Bjørnevatn ore were treated during the quarter and were observed to have a beneficial impact on concentrator performance. Increased quantities of Bjørnevatn ore are expected to have benefits in both throughput and quality. Increased quantities are expected to be processed in quarter 1 2012 which will enable more accurate measurement of the expected impact.

Operational Financial Performance

Sales prices reduced 22% quarter-on-quarter to an average price of USD 108 per dry metric tonne FOB Kirkenes, yielding an unaudited EBITDA result for the quarter from the Sydvaranger operations of approximately USD 9 million, an increase of approximately 50% on the previous quarter.

With the Company having commenced selling shipments to China in December on a CFR basis, and thereby taking control of the freight arrangements, the associated freight cost for the quarter has been netted against revenues in order to make the results comparable with other sales in this and previous quarters which have been on a FOB basis.

Direct operating unit costs [(1)] for the quarter of USD 86 /dmt are higher than guidance of USD 70-80 /dmt at annual production levels of 1.45-1.55Mt. The significant factors which impacted the result for the quarter were:

- USD 3/dmt is attributable to increased diesel and mine consumable usage, mainly due to higher than anticipated equipment usage in moving targeted ore stockpiles to the primary crushing facility.
- USD 3/dmt is for above forecast labour and contractor expenditure associated with various maintenance activities on gearboxes, motors, and pumps.
- Production at the lower end of the guidance range.

[(1)] Direct operating costs includes all costs associated with producing iron ore concentrate inclusive of deferred mining and ore stockpile movements though excluding depreciation and amortisation costs. Freight costs associated with sales have also been excluded from direct operating costs, with the expense netted directly against revenue. For statutory reporting purposes the freight from CFR shipments will be included in operating expenses.

Operational & Financial Guidance: 2012

As previously announced the Company is anticipating full year concentrate production of 2.5 M dry tonnes in 2012.

Guidance regarding direct operating costs for 2012 remains as previously advised at between US$ 55 – 65/ dmt. Work continues in respect of reviewing the strategic mine plan and long term operating costs. Further guidance will be provided during the quarter following completion of the review.

Total capital expenditure during 2012 is expected to be approximately USD 32.0 million, with approximately USD 10.0 million of this being for the installation of additional filtering capacity.

Quarterly Activities Report: period ended 31 December 2011

Optimisation Program

During the quarter the company made further progress implementing its production debottlenecking program. Work completed during the September and December quarters resulted in a significant improvement in production volumes.

Significant work completed during the quarter included:

- Installation of two new magnetic separators in the primary grinding circuit;
- Closing the primary mill so that over size rejected ore is sent back to the mill for additional grinding;
- Modifying the distribution of feed to the secondary grinding circuit resulting in a more balanced distribution of grinding capacity;
- Closed the secondary grinding circuit to improve quality, throughput and recovery.

The Company completed a review during the quarter of remaining work required to achieve a 2.8 Mt per annum production rate, and assessed three main work areas were required. These areas and progress towards implementing them were:

- *Additional magnetic separators:* first 2 were installed and additional units have been ordered with delivery and commissioning expected during Q1 2012;
- *Secondary Crusher Pre-Screen:* a screen has been ordered and commissioning is expected in April 2012;
- *Additional filtering capacity:* a project to install a new filter has been commenced and commissioning is expected Q3 2012.

The Company expects to achieve a 2.8 Mt per annum production rate from July 2012.

Expansion studies

The Company is continuing to progress an expansion of the Sydvaranger project and during the quarter the following activities were completed:

- A community consultation meeting was held in Kirkenes to assist with defining the scope of work for the environmental and social consequences report. The meeting was well attended with delegates representing politicians, industry, and non-government organisations. The Company expects to have the scope approved by the local council in Q1 with work to commence on data collection and analysis shortly thereafter.
- The Company commissioned Noramco Engineering and Barr Engineering to complete a Scoping study for the Sydvaranger expansion project. The study is expected to be completed in Q1 2012.

Strategic Review

In November the Company announced it was initiating a strategic review with a view to maximising value for all shareholders. The review is considering corporate and operational strategies including a review of ownership options available to the Company. The Company has appointed Goldman Sachs to advise it on the review.

The Company is presently working with its advisor to design and implement a process to conduct the review. It is anticipated the review process will take some months to complete.

Program for next quarter

- *Continuing to improve plant reliability and production rates.*
- *Introducing significant quantities of Bjørnevatn ore to the process plant.*
- *Execution of the announced Strategic Review*
- *Finalisation of the scope of work for the expansion project consequences study with local community leaders.*

For and on behalf of the board.

John Sanderson
Managing Director / CEO

Note:

The information in this report that relates to mineral resources is based on information compiled by Mr Mark Owen, who is a Chartered Geologist with the Geological Society of London. Mr Owen is employed full time by Wardell Armstrong International (WAI). Mr Owen has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Owen consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The information in this report that relates to Ore Reserves is based on information compiled by Mr Bruce Pilcher, who is a Member of the Australasian Institute of Mining and Metallurgy and is a Chartered Engineer under the Institute of Materials, Minerals and Mining. Mr Pilcher is employed full time by Wardell Armstrong International (WAI). Mr Pilcher has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Pilcher consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Quarterly Activities Report: period ended 31 December 2011

This report contains some references to forward looking assumptions, estimates and outcomes. These are uncertain by nature and no assurance can be given by Northern Iron Limited that its expectations, estimates and forecast outcomes will be achieved.

Rule 5.3

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

NORTHERN IRON LIMITED

ABN	Quarter ended ("current quarter")
71 125 264 575	**31 DECEMBER 2011**

Consolidated statement of cash flows

	Cash flows related to operating activities	Current quarter $US'000*	Year to date (12 months) $US'000*
1.1	Receipts from product sales and related debtors	44,352	176,469
1.2	Payments for (a) exploration & evaluation	(451)	(1,719)
	(b) development	(3,945)	(10,087)
	(c) production	(33,552)	(152,373)
	(d) administration	(2,742)	(17,199)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	76	189
1.5	Interest and other costs of finance paid	(2,380)	(7,797)
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	-	-
	Net Operating Cash Flows	**1,358**	**(12,517)**
	Cash flows related to investing activities		
1.8	Payment for purchases of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(3,105)	(13,562)
1.9	Proceeds from sale of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other – security deposits (paid)/returned	(5)	2,175
	Net investing cash flows	**(3,110)**	**(11,387)**
1.13	Total operating and investing cash flows (carried forward)	(1,752)	(23,904)

*As previously announced, the Company has changed its reporting currency to US$ with effect from 1 January 2011.

+ See chapter 19 for defined terms.

1.13	Total operating and investing cash flows (brought forward)	(1,752)	(23,904)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	21,960	21,960
1.15	Share issue costs	(1,131)	(1,131)
1.16	Proceeds from borrowings	9,728	68,032
1.17	Repayment of borrowings	(8,437)	(59,500)
1.18	Dividends paid	-	-
1.19	Other – sales prepayments	-	(3,440)
	Net financing cash flows	**22,120**	**25,921**
	Net increase (decrease) in cash held	20,368	2,017
1.20	Cash at beginning of quarter/year to date	8,282	26,745
1.21	Exchange rate adjustments to item 1.20	(32)	(144)
1.22	**Cash at end of quarter**	**28,618**	**28,618**

Payments to directors of the entity and associates of the directors Payments to related entities of the entity and associates of the related entities

		Current quarter $US'000
1.23	Aggregate amount of payments to the parties included in item 1.2	3,387
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Line 1.23 includes US$127,552 for directors fees, and US$3,259,753 for transactions with related parties of Sydvaranger Gruve AS, representing a leasing agreement for handling, storage and loading of iron ore concentrate, and administrative services.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Financing facilities available

Add notes as necessary for an understanding of the position.

		Amount available $US'000	Amount used $US'000
3.1	Loan facilities	119,194	119,194
3.2	Credit standby arrangements	-	-

Estimated cash outflows for next quarter

		$US'000
4.1	Exploration and evaluation	(306)
4.2	Development	(1,404)
4.3	Production	(32,281)
4.4	Administration	(2,808)
	Total	**(36,799)**

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter $US'000	Previous quarter $US'000**
5.1	Cash on hand and at bank	28,618	8,282
5.2	Deposits at call	-	-
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
	Total: cash at end of quarter (item 1.22)	**28,618**	**8,282**

**A$12,351,000 as previously reported, translated at the 30 June 2011 rate of 1.0718.

Changes in interests in mining tenements

		Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed				
6.2	Interests in mining tenements acquired or increased				

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	**Preference +securities** *(description)*				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	**+Ordinary securities**	369,980,113	369,980,113		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	33,895,250	33,895,250	$0.64	$0.64
7.5	**+Convertible debt securities** *(description)*				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	**Options** *(description and conversion factor)*	500,000 500,000 500,000		*Exercise price* A$2.15 A$2.50 A$3.00	*Expiry date* 24 August 2013 24 August 2013 24 August 2013
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Expired during quarter			*Exercise price*	*Expiry date*
7.11	**Debentures** *(totals only)*				
7.12	**Unsecured notes** *(totals only)*				

+ See chapter 19 for defined terms.

7.13	**Performance rights** *(totals only)*	400,000 Various performance conditions and hurdle prices	nil

Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).

2 This statement does give a true and fair view of the matters disclosed.

Sign here: .... Date: 16 January 2012
(~~Director~~/Company secretary)

Print name: ALEX NEULING

Notes

1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.

4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.

5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.