NORTHERN IRON

NORTHERN IRON LIMITED (ASX: "NFE")

Quarterly Activities Report: Period ended 30 June 2013

Highlights

- **Concentrate production of 436 kt for the quarter, down 12% on the previous quarter. Production impacted by unplanned events in April and May but returned to higher production rates in June.**
  - Concentrate production of 436 kt for the quarter exceeded the previous guidance range of 400-425kt provided in June. Quarter-on-quarter, concentrate production declined by 12% due to the impact of an unplanned breakdown on the primary mill and a higher than acceptable concentrate moisture level loaded due to the spring thaw in April. Both issues have been investigated and corrective actions that are expected to prevent reoccurrence have been applied.
  - The June production result of 179kt was at a similar level to that achieved in the record months of February and March and is an indication that operations have returned to normal following the disruption events.

- **Mine Production was 4.4 million tonnes mined, down 11% on the prior quarter but in line with the plan for the period.**
  - Waste stripping remained at similar levels to the prior quarter while ore production was flexed down to match the concentrator requirement.
- **Concentrate sales of 467 kt for the quarter, down 3% on the previous quarter. Average hedged price realised of USD 99 / dry metric tonne FOB Kirkenes, down 10% on the prior quarter.**
  - 6 vessels dispatched to Tata Steel with a seventh vessel dispatched to Bahrain Steel BSCC (formerly named GIIC).
  - The hedging program resulted in realised price of USD 99 / dmt FOB Kirkenes for the quarter. The unhedged result was USD 93 / dmt FOB Kirkenes, an 18% decline compared to the prior quarter, driven by a decline in the global iron ore market price.
- **Unaudited EBITDA pre inventory movements of USD 0.3 million for the quarter, USD (4) million post inventory movements**
  - C1 unit cash operating costs increased to USD 99 / dmt for the quarter, USD 9 / dmt higher than the prior quarter due to the impact of the production disruption events. The stronger operating performance in June however resulted in a significant decline in C1 costs, with a result of USD 79 / dmt achieved in that month.
  - Disciplined capital expenditure was maintained during the quarter, with the result of approximately USD 3 million, 21 % lower than the prior period.

Corporate

Board Composition

During the quarter the Company's non-Executive Chairman, Mr David Griffiths, announced he was stepping down from the board due to personal and medical reasons. Mr Griffiths was immediately succeeded by Mr Peter Bilbe as interim Chairman, who has been a non-executive director of the Company since 2007.

Subsequent to the end of the quarter the Company's Managing Director and Chief Executive Officer, Mr John Sanderson, announced that he was resigning and subsequently completed his term on the 8th July. Mr Sanderson was immediately succeeded by Mr Antony Beckmand, who has been with the Company since 2008 and has been the Chief Financial Officer since 2009.

The Company is expected to review the composition of the board to ensure the appropriate number of independent non-executive directors in the second half of 2013.

Treasury and Finance

Group cash balances at the end of the quarter were USD 23.2 million, slightly improved from the previous quarter. The cash balances consisted of unrestricted cash of USD 22.4 million and restricted supplier guarantees of USD 0.8 million. The balance of trade receivables was approximately USD 35.9 million, a reduction of USD 4.0 million compared to the prior quarter.

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

	AUD	EUR	NOK	CHF	USD
Amount (USD'000)	1,397	83	7,106	87	14,533
% Total	6.0%	0.4%	30.6%	0.4%	62.6%
Rate: USD to	1.08	0.76	6.03	0.94	1.00

Table 1

At the date of this report, the Company had the following iron ore price swap agreements in place, referenced against the average TSI 62 percent Fe price for the quarter:

- Q3 2013 – 306 kt at an average price of USD 127/t for 62 percent Fe;
- Q4 2013 – 210 kt at an average price of USD 121/t for 62 percent Fe; and
- Q1 2014 – 120 kt at an average price of USD 119/t for 62 percent Fe

Settlement of the agreements occurs at the start of the quarter following the contract period. The Company continues to monitor market conditions and if appropriate will take steps to further mitigate price risk volatility.

Sales and Marketing

Concentrate sales of 467,000 dry metric tonnes (dmt) in seven vessels were achieved during the quarter, representing a 3% decrease over the preceding quarter. Six cargoes for the quarter were sold to TATA Steel, while a seventh vessel was sold to Bahrain Steel BSCC (formerly named GIIC). A second vessel for Bahrain Steel is expected to depart in July.

During the period the average hedged price realised for concentrate sales was USD 99 / dmt FOB Kirkenes, a 10% decline compared to the average hedged price of USD 110 / dmt achieved in the previous quarter. Although a significant decline was realised in the iron ore price during the period, the iron ore price hedging strategy put in place during quarter 4 2012 and quarter 1 2013 reduced the impact on the Company. Without the hedging, the realised price would have been USD 93 / dmt, an 18% decline compared to the prior quarter.

During the period the Company was in discussion with a number of European steel makers with the objective of securing trials of Sydvaranger concentrate in sintering plants. A number of these discussions are well advanced and it is expected trial shipments should commence in the second half of 2013.

Mining

4,410,000 tonnes of material was mined during the period, including 1,017,000 tonnes of ore and 3,393,000 tonnes of waste. Compared to the previous quarter this represents an 11% decrease in total tonnes mined. This result is in line with the planned movement for the period. Table 2 contains a summary of mining activity for the quarter compared to the previous two quarters.

	Dec Qtr	Mar Qtr	**Jun Qtr**	Qtr Variance (from Mar Q)	Qtr Variance (% from Mar Q)
Ore Tonnes (kt)	1,383	1,466	**1,017**	-449	-31%
Waste Tonnes (kt)	3,044	3,495	**3,393**	-102	-3%
Total Tonnes (kt)	4,427	4,961	**4,410**	-551	-11%

Table 2

Ore was mined from the Bjørnevatn and Kjellmannsåsen pits during the quarter.

Actual ore tonnes mined (defined as “delivered from the pits”) versus those predicted from the Mineral Reserve model are outlined in Table 3.

	Actual Ore Mined (kt)	Reserve Model Estimate (kt)	Variance (kt)	Variance (%)
Bjørnevatn	1,005	863*	149	+16
Kjellmannsåsen	11	16*	-5	-31
Total	1,017	880*	144	+16

Table 3

*Total Mineral Reserves includes floor stocks carried over from the previous quarter minus the floor stocks left at the end of current quarter and represents the theoretical ore tonnage extracted from the pit.

The Bjørnevatn pit displayed 16% positive ore tonnage reconciliation for the quarter. The positive difference was mainly due to the mining of approximately 84 kt inferred mineral resources during the development of the saddle. The inferred horizons in the saddle are normally too narrow and difficult to retrieve but have an extended width in some areas due to folding. This has enabled higher ore recovery in this zone than was expected.

The negative difference exhibited in Kjellmannsåsen throughout the quarter was due to mining in an area in the proximity to the diabase where the resource model is overestimated.

Table 4 below gives a comparison of the average ore grade for the quarter exiting the pits, compared to the average feed grade into the plant following primary crushing and upgrading through the cobbing plant.

	March Q1 Fe_{total}	June Q2 Fe_{total}
Ore Mined (% Fe)	30.80	33.15
Ore Milled (% Fe)	32.84	33.63

Table 4

Figure 1- Bjørnevatn in June 2013

Processing

Production

Production results from the processing facilities are outlined in Table 5

	Dec Qtr	Mar Qtr	**Jun Qtr**	Qtr Variance (tonnes)	Qtr Variance (%)
Crushed (kt)	1,431	1,360	**1,117**	-243	-18%
Milled (kt)	1,315	1,224	**1,028**	-196	-16%
Concentrate Produced (kt)	529	497	**436**	-61	-12%
Concentrate Shipped (kt) (dry metric tonnes)	474	482	**467**	-15	-3%

Table 5

Concentrate production of 436 kt was lower than originally expected but higher than the updated guidance range of 400-425kt provided in June. As previously disclosed, the main cause of lower than expected production in the June quarter was an unplanned two week outage of the primary mill in the second half of May, and reduced production due to a concentrate moisture issue during the spring thaw in April.

A preliminary investigation into the primary mill bearing failure identified a loss of load carrying capacity of the hydraulic oil as being the main failure reason. This occurred because of the oil reaching a temperature that significantly degraded its viscosity, resulting in the loss of load carrying capacity. The temperature increased due to the failure of a cooling unit which caused the oil temperature to increase, and the failure of a key protection system to shut the mill down automatically once the temperature reached a certain level due to an incorrect temperature limit setting. The issues have since been rectified and this type of failure in not expected to reoccur.

The concentrate moisture issue which caused lower than expected production in April was due to a vessel being partially loaded with very wet concentrate, caused by water ingress into 2 of 3 underground storage silos, expected to be related to the spring thaw of accumulated snow. Production was disrupted due to the need to produce very dry concentrate to blend the wet material to an average moisture level acceptable for shipping. The production of very dry concentrate required the plant to operate at less than 50% of planned operating rates for a period of 10 days. Actions have since been taken to minimise the risk of this type of incident having an impact of this magnitude in the future.

Following these unplanned events in April and May, production in June recovered strongly approaching levels previously seen in February and March. The monthly result of 179kt in June was just short of the two record months of 186 kt and 187 kt achieved in February and March, and it is expected production levels will continue to improve in the second half of 2013.

The Company believes the key to increasing volumes further is to focus on improved operations and maintenance management in the fine crushing circuit and concentrator. Some 37 individual improvement initiatives are currently being implemented by the management team, and these are expected to have a material beneficial impact on the Company's production and cost performance going forward.

Quality

Average concentrate quality was similar to results achieved in prior periods, with a slight increase in silica attributable to variable characteristics of the ore mined in the period. Table 6 summarises concentrate quality for the last three quarters, and compares the actual grade with the Company's published shipping specification for 2013.

	Iron	Silica	Alumina	Phos	Sulphur	Mn
Dec'12 Qtr Actual (%)	68.1	4.5	0.3	0.01	0.02	0.05
Mar'13 Qtr Actual (%)	67.9	4.7	0.3	0.01	0.03	0.06
Jun'13 Qtr Actual (%)	68.0	5.0	0.2	0.01	0.02	0.06
2013 Specification (%)	**68.5**	**4.5**	**0.3**	**0.01**	**0.02**	**0.05**

Table 6

Operational Financial Performance

The C1 unit cash operating cost for the June 2013 quarter was USD 99 / dmt, USD 9 / dmt higher than the previous quarter of USD 90 /dmt. This 9% increase in unit operating costs compares favourably with the 12% decline in concentrate production volume. Significant drivers of the cost performance this quarter included additional maintenance costs associated with the unplanned mill outage, higher demurrage costs due to production related disruption of the shipping schedule, offset by reduced tonnes mined compared to prior periods.

June was unaffected by the production disruption events of April and May, and the operating result of 179kt of concentrate at a C1 cost of USD 79 / dmt is further support to the Company's belief that higher production results will cause a significant decline in operating costs.

The resultant unaudited EBITDA pre inventory movements from the Sydvaranger operations was approximately USD 0.3 million for the quarter, USD (4) million post inventory movements.

Close management of capital expenditure continued during the quarter, with total costs of approximately USD 3 million. Although capital expenditure is anticipated to rise modestly in the second half of 2013 the Company expects to maintain its disciplined approach of approving capital only when necessary to improve or sustain production volume and/or product quality.

Growth Strategy

During the March ‘12 quarter NFE outlined a four year growth strategy aimed at optimising revenue from the Sydvaranger Project.

Although this strategy remains intact the Company has reduced expenditure on these activities until such time as operational performance and market conditions supports the commitment of further funding to large scale capital investments. A decision on the timing of the full resumption of these projects will be taken by the Board when the required conditions are present.

Current activity is aimed at supporting regulatory approvals for the expansion project and the port upgrade. The Company is pleased to report that the Sor-Varanger Kommune, the local municipality and an important authority for the Environmental and Social impact Assessment (ESIA) for the expansion project, approved the scope of the ESIA late May which clears the way for the company to complete the necessary works and submit applications for the permits required for the expansion.

Program for next quarter

The Company continues to put its efforts and focus on:

- *Continuing to improve plant reliability and milling rates to achieve higher concentrate production rates and lower unit costs.*
- *Diversifying sales amongst a variety of offtake partners including sale of product for use in sinter plants.*

For and on behalf of the Board.

Antony Beckmand
Managing Director / CEO

Note:

The information in this report that relates to Mineral Resources and Ore Reserves is based on information compiled by Thomas Lindholm, who is a Fellow of the Australasian Institute of Mining and Metallurgy. Thomas Lindholm is employed full time by GeoVistaAB. Thomas Lindholm 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’. Thomas Lindholm consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

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	**30 JUNE 2013**

Consolidated statement of cash flows

	Cash flows related to operating activities	Current quarter $US'000*	Year to date (6 months) $US'000*
1.1	Receipts from product sales and related debtors	53,210	103,344
1.2	Payments for		
	(a) exploration & evaluation	-	(2)
	(b) development	-	-
	(c) production	(39,045)	(90,789)
	(d) administration	(4,094)	(7,689)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	51	77
1.5	Interest and other costs of finance paid	(1,546)	(2,177)
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	-	-
	Net Operating Cash Flows	**8,576**	**2,764**
	Cash flows related to investing activities		
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(2,977)	(4,858)
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	-	-
	Net investing cash flows	**(2,977)**	**(4,858)**
1.13	Total operating and investing cash flows (carried forward)	5,599	(2,094)

+ See chapter 19 for defined terms.

1.13	Total operating and investing cash flows (brought forward)	5,599	(2,094)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Share issue costs	-	-
1.16	Proceeds from borrowings	-	5,145
1.17	Repayment of borrowings	(3,259)	(9,333)
1.18	Dividends paid	-	-
1.19	Other – share cancellations/refunds	-	-
	Net financing cash flows	**(3,259)**	**(4,188)**
	Net increase (decrease) in cash held	2,340	(6,282)
1.20	Cash at beginning of quarter/year to date	21,680	32,380
1.21	Exchange rate adjustments to item 1.20	(1,648)	(3,726)
1.22	**Cash at end of quarter**	**22,372**	**22,372**

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	2,065
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$157,330 for directors fees, and US$1,908,213 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	98,045	98,045
3.2	Credit standby arrangements	-	-

Estimated cash outflows for next quarter

		$US'000
4.1	Exploration and evaluation	-
4.2	Development	(2,314)
4.3	Production	(38,700)
4.4	Administration	(4,060)
	Total	**(45,074)**

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	22,372	21,680
5.2	Deposits at call	-	-
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
	Total: cash at end of quarter (item 1.22)	**22,372**	**21,680**

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				

+ See chapter 19 for defined terms.

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**	484,405,314	484,405,314		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
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)*	500,000 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: Alex Neul.. Date: 14 July 2013
(~~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.