NORTHERN IRON LIMITED (ASX:"NFE")

Quarterly Activities Report: Period ended 30 June 2010

Highlights:

- Ore mined of 978,000 tonnes represents a 12% increase over the previous quarter
- Concentrate sales of 415,000 tonnes represents a 20% increase over the previous quarter.
- Average sales price increased by 71% compared to the previous quarter
- Production and quality improvement plan remains on track.
  - The new pressure filter produced its first concentrate on the 16th July. On the 21st July the filter commenced sustained 24hr operation, at designed production rates and moisture levels.
  - The fifth secondary mill construction has been completed and is expected to be commissioned early August.
  - Recent concentrate production is above 64% Iron and below 10% Silica.
- Debt facilities were augmented during the quarter, with an additional USD 20m being made available to the Company and repayment terms on existing facilities extended.
- Short term marketing agreement for uncommitted sales into Asia agreed with OM Holdings Ltd subsidiary OM Materials (s) Pte Ltd.
- Trial shipment to Corus UK Ltd departed on the 22nd July.

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Corporate

Treasury and Finance

Group cash balances at the end of the quarter were $10.2 million, comprising unrestricted cash of $5.2 million and $5.0 million of restricted debt service and supplier guarantees. Funds on deposit were attracting an average interest rate of 1.8% per annum.

At the end of the quarter, the Company held the following cash balances in a combination of A$, Euro, NOK, USD and Swiss francs.

	A$	EURO	NOK	USD	CHF
Amount (A$'000)	325	329	6,738	2,774	59
% Total	3.2%	3.2%	65.9%	27.1%	0.6%
A$ to	1.000	0.694	5.535	0.852	0.922

Table 1

As noted, included in the cash position quoted in Table 1, the Company has restricted cash totalling $5.0 million reserved for debt service and supplier guarantees. The guarantees will be drawn upon by contractors and suppliers as goods and services are provided to the Company.

The Company is pleased to announce that its 100% owned Norwegian subsidiary, Sydvaranger Gruve AS ("SVG"), reached agreement with Credit Suisse during the quarter to increase SVG's secured export finance facility from USD 20 million to USD 30 million, and to extend the repayment terms by an additional 12 months. This was achieved by the Company demonstrating production improvements to Credit Suisse and followed a site visit by Credit Suisse representatives. Documentation on the facility amendment was completed in July and the additional funding has now been advanced and received by SVGAS.

During the quarter, SVG also completed documentation on a USD 10 million finance facility with OM Materials (S) Pte Ltd, a subsidiary of OM Holdings Ltd. The agreement is guaranteed by Northern Iron Ltd and repayment occurs in 6 monthly instalments commencing in January 2011. The facility was fully drawn during July 2010.

DnB NOR, Norway's largest bank, has also reinforced its strong historical support of the project. The Company entered into an equipment lease facility with DnB NOR Leasing in 2008 valued at USD 52M, and in late 2009 DnB NOR provided a NOK 60 million short term facility to the Company originally due for repayment by August 2010. The Company is pleased to announce that it has successfully renegotiated the terms of this short term facility so that repayment will now occur in six quarterly instalments commencing in March 2011.

Innovasjon Norge, Norway's state owned development bank, agreed to vary the security terms of its existing NOK 90 million facility with the Company to enable the increase of the Credit Suisse facility and the extension of both the Credit Suisse facility and DnB NOR facility to occur. Furthermore, Innovasjon Norge has extended the grace period on that facility by 12 months.

Sales and Marketing

Concentrate sales of 415,000 dry metric tonnes (DMT) were achieved during the quarter, representing a 20% increase over the preceding quarter. All sales were to China. During the period the average price obtained for concentrate sales was US$ 71.77 / DMT FOB Kirkenes. This represents a 71% increase over the average price achieved in quarter 1.

During the quarter the Company's 100% owned Norwegian subsidiary, Sydvaranger Gruve AS (SVG), entered into a short term marketing agreement with OMH's Singapore based marketing and trading subsidiary, OM Materials (S) Pte Ltd (OMS), for the sale of uncommitted SVG product into the Asian market. This agreement is structured as an agency agreement, and is expected to be in place until March 2011. Both parties have agreed to enter into negotiations which are expected to result in a long term marketing agency agreement being concluded by 30 September 2010. First sales as a result of the short term agreement are expected to occur in quarter 3.

Towards the end of the period realised prices declined in line with slowing demand from China. The Company expects that this short-term market weakness may continue to be observed during the coming quarter, but anticipates the effect of lower prevailing commodity prices to be alleviated by a relative increase in pricing due to improved product quality from August onwards.

On the 22nd July the Company completed a trial shipment to Corus when a vessel carrying 77,475 tonnes of iron ore concentrate departed Kirkenes for the steel making plant at IJmuiden in the Netherlands. This high silica shipment was accepted by Corus in order to test the handling characteristics of Sydvaranger concentrate at the IJmuiden pellet plant, and is in anticipation of improved concentrate quality making further shipments possible in the second half of 2010.

The shipment was completed outside of the existing 5 year sales agreement with Corus, for which shipments are dependent on a further improvement in product quality. Nonetheless it is considered to further demonstrate the ongoing co-operation between the Company and Corus, as the Company continues to actively pursue quality improvement initiatives in preparation to commence sales under the existing agreement.

Mining

A total of 3,194,000 tonnes of material was mined during the period, including 978,000 tonnes of ore. The rate of waste mining was increased during the quarter to allow the mine to keep pace with expected higher concentrator production rates in quarter 3.

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

	Dec Qtr	Mar Qtr	**Jun Qtr**	Mar vs Jun Qtr Variance	Qtr Variance (%)
Ore Tonnes (kt)	378	875	**978**	103	+12
Waste Tonnes (kt)	675	1,360	**2,216**	856	+63
Total Tonnes (kt)	1,054	2,235	**3,194**	959	+43

Table 2

A significant increase in mining rates will occur in quarter 4 when the prestrip of the Bjørnevatn pit commences. Preparations for this are proceeding according to schedule. During the quarter recruitment of the necessary operators to achieve the required production rates was completed, while a contract to dewater the pits ahead of the mining was negotiated with a Scandinavian contractor.

Ore was mined from both the Hyttemalmen and Kjellmannsåsen pits during the quarter. The actual tonnes mined versus the reserve model prediction is outlined in Table 3.

	Actual Ore Mined (kt)	Reserve model estimate (kt)	Variance (kt)	Variance (%)
Kjellmannsåsen	817	728	89	+12
Hyttemalmen	161	191	-30	-16
Total	978	919	59	+6

Table 3

Kjellmannsåsen pit displayed a 12% positive tonnage reconciliation for the quarter, while the Hyttemalmen pit displayed a negative variation of 16%. Total ore tonnage reconciliation for the period was a 6% positive variation, continuing the trend seen since the commencement of mining.

Mined ore grades continue to reconcile closely with grades measured at the primary mill, as outlined in Table 4. In the second quarter the positive variance is expected to have been largely due to the removal of waste material by the cobbing plant at Bjørnevatn.

	Mar Qtr Fe_{total}	Jun Qtr Fe_{total}
Ore Mined Reserve (% Fe)	34.8	34.6
Ore Milled (% Fe)	34.2	37.8

Table 4

Figure 1 - Development of the Hyttemalmen deposit continues

PROCESSING

PRODUCTION

Production results from the processing facilities are outlined in Table 5. Significant maintenance events during the quarter impacted production, including: the failure of the primary crusher liner at Bjørnevatn; scheduled replacement of the primary mill liners; and higher than expected wear rates in the fine crushing circuit at Kirkenes.

In the last week of March the primary crusher at Bjørnevatn experienced a liner failure that was related to the quality of construction work completed in 2009. This incident caused lower than expected production in the first two weeks of April. The repair work was completed by the middle of April and the failure type is not expected to reoccur. To provide redundancy in the primary crusher circuit, the refurbishment of the second primary crusher, originally scheduled for 2011, has been accelerated and is expected to be completed by the end of July 2010.

	Dec Qtr	Mar Qtr	**Jun Qtr**	Qtr Variance (tonnes)	Qtr Variance (%)
Crushed (kt)	400	892	**925**	33	+4
Railed (kt)	377	799	**826**	27	+3
Milled (kt)	394	772	**751**	-21	-3
Concentrate Produced (kt)	197	399	**348**	-51	-13
Concentrate Shipped (kt) (dry metric tonnes)	64	346	**415**	+69	+20

Table 5

During the quarter the Company carried out the first scheduled replacement of the primary mill liner, which resulted in a total of 9 lost production days. The time taken to complete this task was higher than what would normally be expected, and was due to the management and crew completing this task for the first time. It is expected future liner replacements will be conducted in significantly shorter lengths of time, and the Company is investigating alternative liner types to extend the liner life and reduce the frequency of required shuts.

The fine crushing circuit at Kirkenes has been experiencing higher than expected wear rates in the crusher mantles which has resulted in increased downtime and impacted concentrate production. The Company has recently purchased additional spare parts and equipment which will reduce the

time it takes to rebuild the crushers in future. It will also commence trials in quarter 3 of different mantle types to investigate if extending the wear life is possible.

Figure 2 outlines the key business drivers for the Company in quarters 1 and 2 of 2010.

Tonnes milled, which correlates with volume of concentrate produced, showed some improving trends during the period. Following the production disruption in April due to the primary crusher liner failure and the reline of the primary mill, production became more consistent and downtime events planned and evenly spaced. This indicates improving stability in the production process as employees and managers become more experienced in their roles.

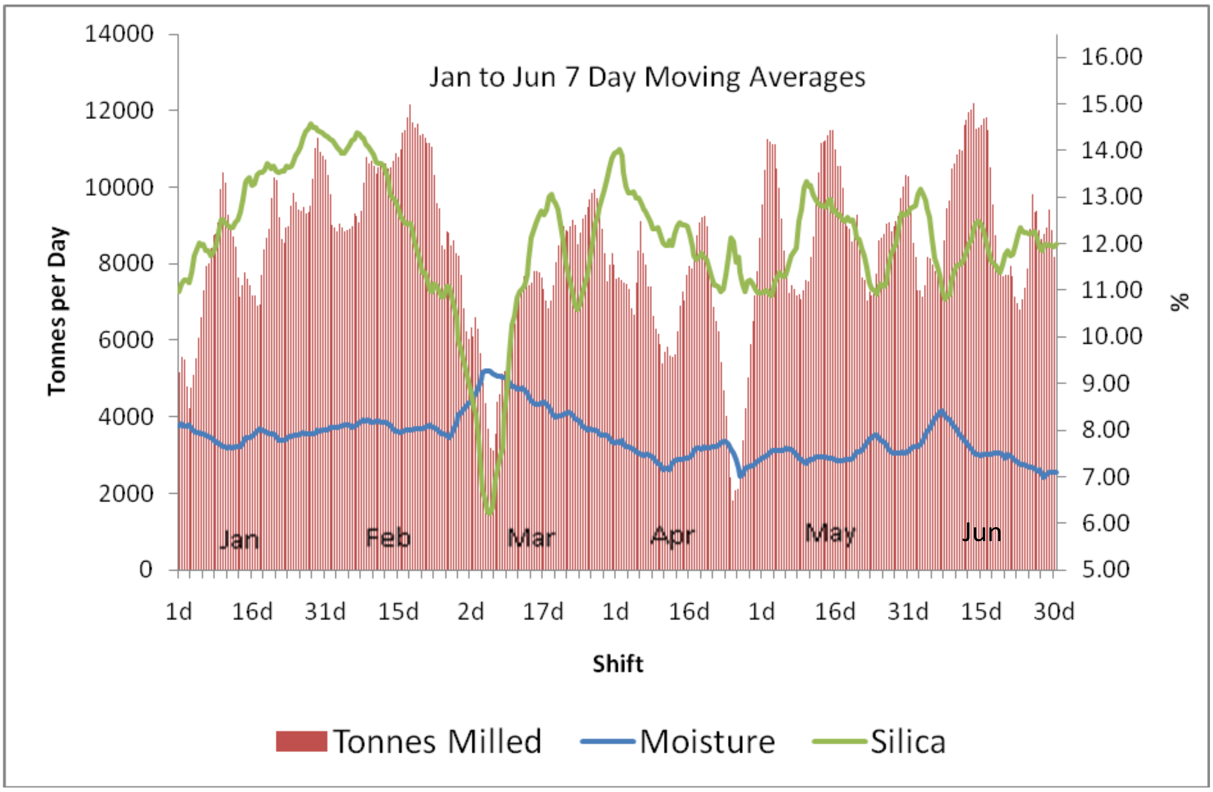

Figure 2 - key business drivers in Q1 and Q2

QUALITY

During the period concentrate quality improved marginally over values seen in previous quarters. Table 6 summarises concentrate quality for the last three quarters. Despite product quality being less than expected, customer demand has been strong and as outlined pricing continued to increase during the quarter despite quality remaining consistent.

	Iron	Silica	Alumina	Phos	Sulphur	Manganese
Specification (%)	67.50	3.00	0.40	0.02	0.03	0.15
Dec Qtr Actual (%)	61.67	12.69	0.31	0.01	0.01	0.06
Mar Qtr Actual (%)	61.91	12.41	0.46	0.01	0.02	0.06
Jun Qtr Actual (%)	62.16	11.96	0.56	0.01	0.02	0.05

Table 6

Figure 2 indicated improving trends in quality, with variability reducing for the quarter versus the previous period.

Following commissioning of the new pressure filter the Company has been able to commence grinding finer and quality results in the second half of July have shown a considerable improvement, with grades above 64% iron and below 10% silica having been achieved. With the additional secondary mill (figure 3) expected to commence operation in early August, the Company expects further improvements to quality to follow.

Figure 3 - additional secondary mill being lowered into position in June

Production and Quality Improvement Plan

The Company has made substantial progress implementing the production and quality improvement plan during the quarter, as outlined in Table 7.

Project	Target Completion	Forecast Completion	Budget Cost USD$ M	% Budget Spent	% Project Complete
Refurbishment of existing screens	Feb'10	Complete	0.2	100 %	100 %
Refurbishment of 5th secondary mill.	May'10	Aug'10	2.3	56 %	95 %
Upgrade of secondary and tertiary crusher screen	Jun'10	Jul '10	0.7	1 %	18 %
Installation of additional magnetic separators	Jun'10	Complete	0.3	51 %	100 %
Installation of additional filter.	Jul'10	Complete	8.4	100%	100%
Installation of new concentrate screens	Jan'11	Oct'10	6.3	1 %	34%
Concentrator floor concrete refurbishment	Jun'10	Aug'10	2.0	0%	0%
EPCM and Contingency	Jan'11	Oct'10	4.8	68%	82%
Total Cost			**25.0**	54%	

Table 7

The new pressure filter, which enables both higher production rates and improved quality, produced its first ore on the 16th July and achieved 24hr continuous operation on the 21st July. The filter is operating at the expected production rates and achieving the expected product moisture (figures 4 and 5).

The fifth secondary mill was completed in mid July and was expected to be in operation by the end of that month. During commissioning an electric motor failed and this unit is now expected to be in operation early August.

An earlier delivery time for the new concentrate screens has been negotiated with the supplier and these units are expected to be onsite 3 months earlier than scheduled. The screens are now expected to be in operation in quarter 4 2010, and will result in a further improvement in product quality. Two of the smaller projects, the upgrade of the crusher screens and repairs to the concrete floors, have overrun the target completion date but are not expected to have a material impact on the Company.

The project is presently expected to be completed below the original budget of USD25m.

Figure 4 - completed pressure filter

Figure 5 - sub 7% moisture concentrate produced by the filter

Approval and Permits

The Norwegian Climate and Pollution Agency (KLIF) conducted an audit of the Company's operations in early June. While no requests were made by KLIF for the Company to modify or cease any of its production activities, a number of technical non-conformances with the Company's emissions licence were identified and KLIF has requested the Company to rectify these non-conformances by 1 September 2010.

The Company considers its environmental responsibilities to be of the utmost importance and has engaged specialist consultants to assist with rectifying the non-conformances, and assist SVGAS with implementation of the ISO14001 environmental management standard. The Company expects to comply fully with the designated deadline.

While the non-conformances are outstanding, KLIF has advised the Company it has temporarily suspended consideration of its application for reintroduction of the flotation circuit. Consideration of the application is expected to resume once the Company has demonstrated rectification of the observed non-conformances.

Management Additions

Mr Dale Ekmark, formerly of Cleveland Cliffs Inc and Kazakhmys PLC has joined the Company in the role of Chief Operating Officer, based on-site at Kirkenes. Mr Ekmark brings extensive Magnetite processing and maintenance experience to the Company, having held senior management positions in operations similar to the Sydvaranger project in North America.

Mr Rob Brown has joined the Company as the Processing and Rail Manager. Mr Brown is an experienced metallurgist who has held operations management positions at Oz Minerals Ltd, MMG and Tiwest Pty Ltd.

These recruitments to the senior management team mark the end of the Company's reliance on short term contractors to fill key management positions. The management team, with the exception of the CFO, is based full-time at Kirkenes.

Program for next quarter

Work planned for the September quarter will focus on:

- Completing the final stages of the production and quality improvement plan.
- Preparing to commence the prestrip of the Bjørnevatn pit in Q4.
- Increasing production rates in the process plant and improving product quality through finer grinding.

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 David Slater, who is a member of the Australian Institute of Mining and Metallurgy. David Slater is employed full time by Coffey Mining Pty Ltd. David Slater has sufficient experience which is relevant to the style of mineralization 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 'Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. David Slater 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 Mineral Reserves is based on information compiled by Harry Warries, who is a member of the Australian Institute of Mining and Metallurgy. Harry Warries is employed full time by Coffey Mining Pty Ltd. Harry Warries has sufficient experience which is relevant to the style of mineralization 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 'Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Harry Warries 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.