



NORTHERN IRON LIMITED (ASX:"NFE")

Quarterly Activities Report: Period ended 30 September 2010

Highlights:

- Concentrate production remained steady for the quarter, with a consistent level achieved in Q3 as Q2 of 348kt.
- Concentrate quality improved slightly during the quarter due to the introduction of a new pressure filter and additional grinding capacity.
- New stack sizers showed a substantial improvement in concentrate quality in testing over a three day period in October.
- Further quality improvements in October expected to achieve a concentrate quality of 66-67% Iron and 5-7% Silica in November.
- The improved quality and an increase in demand for iron ore is expected to have a positive material impact on the concentrate price received in Q4 compared to year to date performance.
- Negotiations with Corus (TATA Steel Europe) to modify the existing supply contract is on-going to reflect the lower than expected concentrate quality being delivered by the Sydvaranger project. A trial cargo sent to Corus' Ijmuiden pellet plant in July confirmed the positive handling characteristics of the concentrate from Sydvaranger.
- Shipments to Asia under the marketing agency agreement with OMH Ltd subsidiary OMS Pte Ltd commenced during the quarter, with competitive pricing achieved.
- Metallurgical and engineering consultants engaged by the Company have identified further throughput and quality initiatives to address plant performance.
- The review noted that despite good progress, removal of key bottlenecks in the process had exposed new constraints in part because the ore presently mined is harder than expected.
- Improvements are likely as elements of the circuit are modified and adapted between now and January 2011 with further refinements required to achieve nameplate throughput and grade specifications at an estimated cost of USD 24.8m, implemented over a period of 18 months subject to availability of key elements of the plant.
- The cost of the additional rectification works and the cashflow impact of less than nameplate throughput coincides with USD 25m in principal repayments (excluding finance lease payments) due in Q1 and Q2 of 2011.



Corporate
Treasury and Finance

Group cash balances at the end of the quarter were \$13.6 million, which consisted of unrestricted cash of \$9.1 million and restricted debt service and supplier guarantees of \$4.5 million. Funds on deposit earned an average interest rate of 1.2% 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)	259	840	7,537	4,894	58
% Total	1.9%	6.2%	55.5%	36.0%	0.4%
A\$ to	1.00	0.71	5.66	0.97	0.94

Table 1

As noted in Table 1, the Company has restricted cash totalling \$4.5 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.

2 The balance of trade receivables from sales was \$10.6 million at 30 September 2010.

Sales and Marketing

Concentrate sales of 388,000 dry metric tonnes (DMT) were achieved during the quarter, representing a 7% decrease over the preceding quarter. Most sales were to China, however one vessel was sold to Corus for use at the Ijmuiden pellet plant. The trial shipment of high silica material sent to the Corus plant at Ijmuiden met the customer's handling requirements. During the period the average price obtained for concentrate sales was US\$ 73.22 / DMT FOB Kirkenes. This represents a 7% decrease over the average price achieved in Q2.

During the quarter the Company commenced shipments to Asia under the short term marketing agreement entered into with OMS Pte Ltd (a subsidiary of OMH Ltd). The Company is currently in discussions with OMS to enter into a long term agreement and expects to complete these by the end of October.

During the quarter the Company entered into negotiation with Corus to modify the existing off-take contract to recognise that the product quality originally anticipated in 2008 is unlikely to be obtained in the short to medium term. As part of the negotiation process two senior Tata engineers attended a site visit to Kirkenes to undertake a technical assessment of the Sydvaranger project and the rectification works.

TATA has concluded that the rectification program is expected to achieve a product quality that is likely to be useable in their European operations, and consequently Corus and Northern Iron are



negotiating a variation to quality, tonnage and pricing to reflect the anticipated product quality. The negotiations are also addressing costs incurred by Corus as a result of Northern Iron's slower than expected production of high quality concentrate.

The Company expects a 5 year contract will be agreed with Corus, commencing January 2011, but may have reduced offtake quantities and a different pricing structure to reflect the lower quality material. Compensation for cost incurred by Corus for non delivery of concentrate under the current contract is expected to be made by a means of a relatively small reduction in the concentrate price over the first 3 years of the contract. The Company expects to conclude these negotiations in Q4.

During the quarter the Company participated in the world first transit shipment of a cargo of iron ore from Kirkenes to China via the Northern Sea Route, a passage that uses Russian arctic waters and results in a significant reduction in shipping time versus conventional routes via the Suez canal or Southern Africa. The shipment organised by Tschudi Group and Prominvest SA, with substantial support from Rosatomflot (operator of the Russian Icebreaker fleet) and the shipping industry, was a highly successful demonstration of the feasibility of this passage to cut transit times from Europe to Asia. In the long term the window for use of the passage could increase and this may become a significant access route for Sydvaranger's product to Asia. The resulting decrease in freight costs is expected to increase the FOB price received by Sydvaranger for Asian sales. The Company intends to explore further opportunities to use the route in future northern hemisphere summers.

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Photo 1 - the MV Nordic Barents escorted by the Russian icebreaker "50 Years of Victory" carrying Sydvaranger iron concentrate to China via the Arctic Northern Sea Route, cutting transit times by more than one third. Image courtesy of Rosatomflot.



Mining

A total of 3,297,000 tonnes of material was mined during the period, including 911,000 tonnes of ore. This was a 3% increase over the previous quarter and was driven mainly by additional waste removal. Ore tonnes dropped slightly for the quarter, mainly due to lower than expected ore requirements from the concentrator.

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

	Mar Qtr	Jun Qtr	Sep Qtr	Qtr Variance (from June Q)	Qtr Variance (%) from June Q)
Ore Tonnes (kt)	875	978	911	-67	-7
Waste Tonnes (kt)	1,360	2,216	2,386	170	+8
Total Tonnes (kt)	2,235	3,194	3,297	103	+3

Table 2

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

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	Actual Ore Mined (kt)	Reserve model estimate (kt)	Variance (kt)	Variance (%)
Kjellmannsåsen	497	358	139	+39%
Hyttemalmen	414	472	-58	-12%
Total	911	830	81	+10%

Table 3

Kjellmannsåsen pit displayed 39% positive tonnage reconciliation for the quarter, while the Hyttemalmen pit displayed a negative variation of 12%. Total ore tonnage reconciliation for the period was a 10% positive variation.

The high positive variance exhibited in Kjellmannsåsen was due to additional ore not included in the resource model. As the pit deepens it is expected that this positive variance will decrease, and the pit will produce the ore predicted by the resource model.

The negative variance seen in Hyttemalmen is due to mining occurring on the edge of the orebody where a higher than expected amount of waste was encountered interlaced with the ore zone. This



changed the classification of this material to waste, hence the negative variance against the resource model.

Table 4 below compares mine grades estimated from the reserve model, and grades actually measured at the Primary Mill at Kirkenes.

	Jun Qtr Fe _{total}	Sep Qtr Fe _{total}
Ore Mined (% Fe)	34.6	33.7
Ore Milled (% Fe)	37.8	36.7

Table 4

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Photo 2 - Development of the Kjellmannsåsen deposit continues

PROCESSING

PRODUCTION



Production results from the processing facilities are outlined in Table 5. Concentrate produced was at a consistent level to the previous quarter. Production volume in the quarter was impacted by:

- scheduled maintenance on the primary mill;
- a longer than expected commissioning period for the new pressure filter; and
- the failure of an electric motor on one of the secondary mills resulting in reduced grinding capacity.

During the quarter the Company carried out the first complete relining of the primary mill. The new liner type is expected to reduce the frequency of shuts required for liner replacement by half (from 23 days in liner maintenance or replacement in Q2 and Q3 to 11 maintenance days per 6 months). The next scheduled replacement of the liner is not expected until Q1 2011. This is expected to have a positive impact on production in Q4.

The new pressure filter performed strongly in August, however in September an extended period of downtime was required to complete minor modifications and adjustments necessary after the first month of operation. This included employing different types of filter bags to optimise operating costs and filter performance for various ore types. These start up issues were resolved by the end of September and are not expected to reoccur.

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	Mar Qtr	Jun Qtr	Sept Qtr	Qtr Variance (tonnes)	Qtr Variance (%)
Crushed (kt)	892	925	857	-68	-7
Railed (kt)	799	826	814	-12	-1
Milled (kt)	772	751	770	+19	+3
Concentrate Produced (kt)	399	348	348	0	0
Concentrate Shipped (kt) (dry metric tonnes)	346	415	388	-27	-7

Table 5

In August an electric motor failed on one of the secondary grinding mills that resulted in reduced grinding capacity. The company was required to reduce throughput volume to ensure the contracted quality specifications were met for August cargo sales.

QUALITY

Concentrate quality grades continued to improve during the quarter. Table 6 summarises concentrate quality for the last three quarters. The improvement in concentrate grade resulted from being able to grind finer due to the commissioning of the new pressure filter and the additional secondary mill. Further improvements to grade are expected with greater availability.



	Iron	Silica	Alumina	Phos	Sulphur	Manganese
Specification (%)	67.5	3.0	0.40	0.02	0.03	0.15
Mar Qtr Actual (%)	61.9	12.4	0.46	0.01	0.02	0.06
Jun Qtr Actual (%)	62.1	12.0	0.56	0.01	0.02	0.05
Sept Qtr Actual (%)	62.7	10.4	0.50	0.01	0.02	0.04
Month to date as of the 9 th Oct (%)	64.0	9.2	0.40	0.01	0.02	0.04

Table 6

The installation of new stacksizers - scheduled to be complete by the end of October have led to a further improvement in grade during early testing. Between the 2nd and 5th of October the Company ran the new stacksizers for 72 hours continuously with 100% of the concentrate being screened. The resulting concentrate grades achieved are outlined in Table 7.

	Iron	Silica	Alumina	Phos	Sulphur	Manganese	Moisture
2 nd -5 th October	65.5	7.4	0.34	0.01	0.01	0.05	7.7

Table 7

When these units are fully commissioned the Company expects to produce a concentrate grade of between 66-67% Fe and 5-7% Silica. The Company expects that these grades will be shipped from December onwards.

The Company expects that the improved quality will result in some sales into the European market.

Optimisation Program

In January 2010, the Company outlined a USD \$25m production and quality rectification plan to address bottlenecks identified in the first 2 months of the process plant operation in Q4 2009. The plan has already delivered significant improvements in product quality and removed the bottleneck previously associated with product moisture. The program is expected to be completed:

- 3 months ahead of schedule; and
- Expected cost USD 21m vs budget USD 25m.



After observing the performance of the plant upon completion of a majority of the rectification plan it became apparent that the expected improvement in throughput was not being achieved. In response, the Company engaged metallurgical consultants to complete a review of the entire processing operation to identify remaining production bottlenecks. As part of the process, the Company asked for recommendations on the feasibility of further improvements to product quality by removing additional silica from the concentrate.

The metallurgical review concluded:

- The objective of the work completed in the January 2010 - USD 25m rectification project was needed to achieve nameplate production and quality.
- The modification to the crusher screens has not achieved the required performance, and it is recommended the tertiary crushing circuit is redesigned to reduce the size of material being fed to the primary mill. .
- The crusher screen modification did not produce the anticipated result because the ore is harder than originally estimated and the limited space available in the plant restricts options to modify or replace the screens, and still achieve nameplate throughput.
- The Sydvaranger Project has a world class magnetite orebody and further process enhancements in the concentrator could achieve further quality improvements.

The Company also engaged an experienced magnetite processing engineering firm to propose equipment and process recommendations to implement the metallurgical consultants findings. The engineering firm has recommended the following modifications:

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- USD 10m be spent on modifying the tertiary crushing circuit to bring throughput to nameplate capacity;
- That USD 5.9m is spent modifying the primary and secondary grinding circuits to further reduce the amount of silica contained in the product.
- USD 5.6m is required to upgrade power and other infrastructure on site (the “Optimisation Plan”)

The Company is confident this solution will address the identified issue due to the magnetite processing experience of the engineering firm designing the solution, coupled with the knowledge the Company has gained after being in operation for 12 months. The modifications to the crushing and grinding circuits are commonly used in magnetite processing operations in other parts of the world, and closely resemble the original plant design used by Sydvaranger AS up to 1997.

The total cost and implementation timetable for the Optimisation Plan is expected to be USD 24.8m and consists of the elements outlined in Table 8.

Project	Target Completion	Estimated Cost USD\$ M	Performance Impact
Temporary re-crush equipment	Jan 11	No Capital	80% of nameplate capacity, \$ 5 / t increase in operating costs.
Concentrator	Oct 11	5.9	90% nameplate capacity



modifications			achieved and removal of additional 1% of silica.
Electrical and infrastructure upgrade	Oct 11	5.6	Additional power and other infrastructure.
New tertiary crushing circuit	Apr 12	10.0	Reduction in operating cost of \$ 5/t, 100% nameplate capacity achieved.
EPCM and Contingency	Apr 12	3.3	
Total Cost		24.8	

Table 8

In addition to the capital works associated with the Optimisation Program, the Company has engaged specialists to assist with initiatives improving maintenance and operational performance at the project. The Company expects the improvement to production volume from the Optimisation Program to be supported by these initiatives.

In summary the Company expects to deliver an improving throughput trend during 2011 and 2012 with 80% nameplate achieved in January 2011, 90% achieved in October 2011, and 100% achieved in April 2012. During this period quality is expected to be maintained at 66-67% Fe and 5-7 % Silica, with a further improvement expected in October 2011 targeting sub 5% Silica.



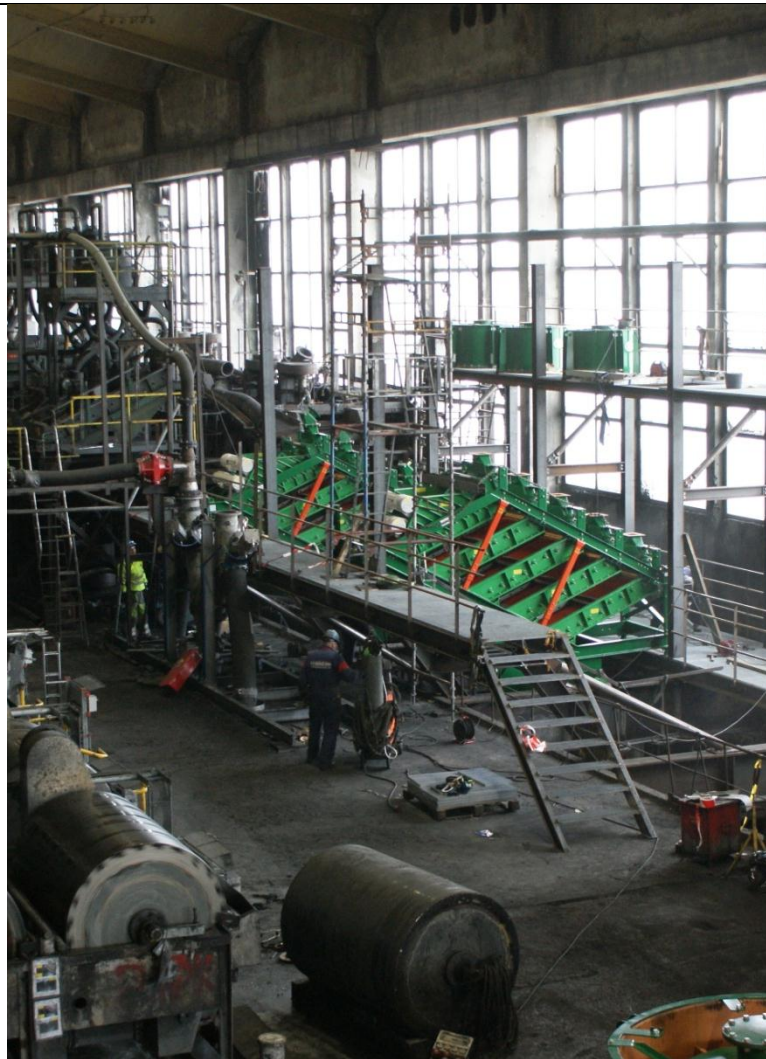


Photo 3 - new stack sizers being assembled in September. In the first week of October the new units were tested and a significant improvement in concentrate quality was achieved immediately.

Approval and Permits

The Company's Sydvaranger project was audited by the Norwegian Climate and Pollution Control Authority (KLIF) in August, and two minor non-conformances were identified, both of which were rectified by the end of the quarter.

The Company supplied additional information to KLIF regarding a new chemical introduced to the processing operation in March of this year. It is of the Company's opinion, and of its consultants, that it is now fully compliant with all aspects of its emissions permit.

The substantial progress made in upgrading environmental management systems in preparation for the KLIF audit in August has put the Company in a solid position to achieve ISO 9002 Environmental Management certification. The Company is targeting Q1 2011 to achieve this goal.



The Company continued to pursue its regulatory approvals for introducing flotation chemicals and expanding production.

Program for next quarter

- *Achieving a substantially improved product quality.*
- *Reaching agreement with Corus (TATA Steel Europe) for a modified supply agreement.*
- *Commencement of additional debottlenecking works.*
- *Pursue further improvements to plant maintenance performance.*
- *Restructuring the balance sheet to reduce short term debt obligations.*

For and on behalf of the board.



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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.

