

NORTHERN IRON LIMITED
ABN 71 125 264 575

INTERIM FINANCIAL REPORT
30 JUNE 2012

CORPORATE DIRECTORY

Directors

DC Griffiths (Chairman)
JS Sanderson (Managing Director)
PR Bilbe (Non-Executive Director)
A Mehra (Non-Executive Director)
FH Tschudi (Non-Executive Director)
PS Larsen (Alternate Director)

Company Secretary

AJ Neuling

Auditors

HLB Mann Judd (WA Partnership)
Level 4
130 Stirling Street
Perth, WA 6000

Bankers

DnB NOR Bank ASA
Innovasjon Norge
Westpac Banking Group Limited

Registered Office

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Share Registry

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Investor Enquiries: 1300 557 010 (within Australia)
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Securities Exchange Listing

Securities of Northern Iron Limited are listed on the ASX Limited.

ASX Code: NFE - Ordinary shares

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DIRECTORS' REPORT

The directors present their report together with the consolidated financial report for the half-year ended 30 June 2012 of Northern Iron Limited ("Northern Iron" or the "Company"), and the independent auditor's review report thereon.

Directors

The directors of the Company in office at any time during or since the end of the half-year and up to the date of this report are as follows:

DC Griffiths	Chairman
JS Sanderson	Managing Director
PR Bilbe	Non-Executive Director
A Mehra	Non-Executive Director
FH Tschudi	Non-Executive Director
PS Larsen	Alternate Director

Review of operations

Operations

Northern Iron completed the redevelopment of the Sydvaranger Iron Project in 2009, and since October 2009 has been producing and shipping iron ore concentrate. As of 30 June 2012, a total of 3.98 million dry metric tonnes (DMT) had been shipped to customers in China, Europe and the Middle East since restart. Sales for the first six months of 2012 have been 970,819 DMT.

During the first half of the year the company completed an upgrade to the concentrator which resulted in a significant improvement to shipped product quality from April onwards. In the first three months of the year the iron grade averaged 67.2%, whilst in the second three months this improved to 68.6%. In the same periods silica fell from 5.7% to 4.2%. The improvement in quality has benefited realised pricing and improved competitiveness in the European market.

In the first half of the year the company continued the implementation of capital rectification projects to further debottleneck throughput. Following the half year, a new secondary crusher pre-screen has been installed and following the commissioning process, concentrate production is expected to increase to a 2.8 million tonne per annum rate.

Financial result

The consolidated profit from continuing operations before tax for the half-year was US\$7,205,000 (2011: US\$1,919,000) and reflects:

- US\$116.5 million of sales revenue;
- US\$105.1 million of site based operational expenses and administration costs;
- US\$3.0 million of net finance expenses;
- The consolidated profit after tax expense from continuing operations for the half-year was US\$5,020,000 (2011: loss US\$2,986,000).

Rounding of amounts

The Company is a company of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the half-year financial report are rounded to the nearest thousand dollars, unless otherwise indicated.

Auditor's Independence Declaration

The auditor's Independence Declaration, as required under section 307C of the *Corporations Act 2001*, is set out on page 5 and forms part of this directors' report for the half-year ended 30 June 2012.

Signed in accordance with a resolution of the directors made pursuant to s.306(3) of the *Corporations Act 2001*.



JS Sanderson
Managing Director



DC Griffiths
Chairman

Perth, Western Australia
27 August 2012

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Northern Iron Limited for the half-year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) any applicable code of professional conduct in relation to the review.



**Perth, Western Australia
27 August 2012**

**N G NEILL
Partner, HLB Mann Judd**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 30 June

	Half-year 30 June 2012 US\$000	Half-year 30 June 2011 US\$000
Continuing operations		
Revenue	116,460	97,631
Mining and processing expenses	(102,004)	(84,652)
Administrative expenses	(3,078)	(2,719)
Hedging loss	(894)	-
Foreign exchange loss	(6)	(3,747)
Share based payments	(255)	(561)
Results from operating activities	10,223	5,952
Finance income	98	78
Finance expense	(3,116)	(4,111)
Net finance expense	(3,018)	(4,033)
Profit before income tax	7,205	1,919
Income tax expense	(2,185)	(4,905)
Profit / (loss) for the period from continuing operations	5,020	(2,986)
Other comprehensive income		
Exchange differences arising on translation to presentation currency	846	9,291
Exchange differences arising on translation of foreign loans	(659)	(9,434)
Other comprehensive income / (loss) for the period net of income tax	187	(143)
Total comprehensive income / (loss) for the period net of tax	5,207	(3,129)
Basic and diluted earnings / (loss) per share from continuing operations (cents per share)	1.36	(0.89)

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the notes to the consolidated interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2012 US\$000	31 December 2011 US\$000
Current Assets			
Cash and cash equivalents		21,250	28,618
Trade and other receivables		41,188	29,501
Inventory		19,980	24,714
Prepayments		437	890
Total Current Assets		82,855	83,723
Non-Current Assets			
Trade and other receivables		1,282	1,424
Mine properties		56,381	52,062
Property, plant and equipment		243,439	238,044
Deferred tax asset		24,384	26,568
Total Non-Current Assets		325,486	318,098
Total Assets		408,341	401,821
Current Liabilities			
Trade and other payables		37,089	28,143
Derivative financial liabilities		154	29
Provisions		8,476	8,943
Current tax liabilities		-	11
Interest bearing loans and borrowings		55,268	48,065
Total Current Liabilities		100,987	85,191
Non-Current Liabilities			
Provisions		1,714	5,400
Interest bearing loans and borrowings		60,550	71,129
Total Non-Current Liabilities		62,264	76,529
Total Liabilities		163,251	161,720
Net Assets		245,090	240,101
Equity			
Issued capital	3	330,747	330,747
Reserves		17,218	17,249
Accumulated losses		(102,875)	(107,895)
Total Equity		245,090	240,101

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the notes to the consolidated interim financial report.

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the half-year ended 30 June 2012

	Issued Capital US\$000	Translation reserve US\$000	Share based payments reserve US\$000	Accumulated (losses) US\$000	Total US\$000
Balance at 1 January 2011	309,752	13,297	2,933	(110,766)	215,216
(Loss) for the period	-	-	-	(2,986)	(2,986)
Other comprehensive income for the period	-	(143)	-	-	(143)
Total comprehensive income for the period	-	(143)	-	(2,986)	(3,129)
Share based payment expense	-	-	1,035	-	1,035
Balance at 30 June 2011	309,752	13,154	3,968	(113,752)	213,122
Balance at 1 January 2012	330,747	13,029	4,220	(107,895)	240,101
Profit for the period	-	-	-	5,020	5,020
Other comprehensive income for the period	-	187	-	-	187
Total comprehensive income for the period	-	187	-	5,020	5,207
Share based payment expense	-	-	(218)	-	(218)
Balance at 30 June 2012	330,747	13,216	4,002	(102,875)	245,090

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the notes to the consolidated interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the half-year ended 30 June

	Half-year 30 June 2012 US\$000	Half-year 30 June 2011 US\$000
Cash flows from operating activities		
Receipts from customers	105,035	88,491
Net GST refunds from the Australian Taxation Office	63	235
Payments to suppliers and employees	(83,713)	(94,950)
Income tax paid	(11)	-
Finance income	55	102
Finance expense	(3,088)	(3,520)
Net cash flows provided by / (used in) operating activities	18,341	(9,642)
Cash flows from investing activities		
Payments for mine properties	(6,170)	(4,969)
Payments for property, plant and equipment	(15,962)	(4,135)
Net security deposits (lodged) / repaid	(78)	2,190
Net cash flows used in investing activities	(22,210)	(6,914)
Cash flows from financing activities		
Proceeds from interest bearing loans and borrowings	7,780	40,751
Repayments of interest bearing loans and borrowings	(11,298)	(37,588)
Net cash flows (used in) / provided by financing activities	(3,518)	3,163
Net decrease in cash and cash equivalents	(7,387)	(13,393)
Cash and cash equivalents at beginning of the half-year	28,618	26,746
Foreign exchange effect on cash and cash equivalents	19	(116)
Cash and cash equivalents at end of the half-year	21,250	13,237

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the notes to the consolidated interim financial report.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
For the half-year ended 30 June 2012

NOTE 1 REPORTING ENTITY

Northern Iron Limited (“Company”) is a company registered and domiciled in Australia.

The interim financial report of the Company for the six months ended 30 June 2012 comprises the Company and its subsidiaries (together referred to as the “Group” or “Consolidated Entity”). The half-year report has been prepared on an accruals basis and is based on historical costs.

The financial report was authorised for issue by the Directors on 27 August 2012.

NOTE 2 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The interim financial statements are a general-purpose financial report prepared in accordance with the requirements of the *Corporations Act 2001*, applicable accounting standards including AASB 134 *Interim Financial Reporting*, Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board (‘AASB’). Compliance with AASB 134 ensures compliance with IAS 34 *Interim Financial Reporting*.

This interim financial report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the Group as in the annual financial report.

It is recommended that this interim financial report be read in conjunction with the annual financial report for the year ended 31 December 2011 and any public announcements made by Northern Iron Limited and its subsidiaries during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001* and the ASX Listing Rules.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Basis of preparation

The interim financial report has been prepared on a historical cost basis. Cost is based on the fair value of the consideration given in exchange for assets. All amounts are presented in United States dollars (US\$), unless otherwise noted.

For the purpose of preparing the interim financial report, the half-year has been treated as a discrete reporting period.

The Company is of a kind referred to in ASIC Class Order 98/100, and accordingly, amounts in the directors’ report and the interim financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Significant accounting judgements and key estimates

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial report for the year ended 31 December 2011.

Going concern

Notwithstanding the fact that the Group has a working capital deficit of US\$18.1 million as at 30 June 2012, the Directors are of the opinion that the Company is a going concern for the following reasons:

- Expected improvements in cash flows based upon expected prices and sustained improvements in production resulting from the implementation of capital rectification projects expected to further debottleneck throughput and further improve product quality; and
- The expectation that access to sufficient working capital will be able to be obtained through continued support from financiers, or that the Group will be able to obtain waivers on loan covenants or restructure its debts or raise additional funds through further debt or equity raisings if required.

Adoption of new and revised Accounting Standards

In the half-year ended 30 June 2012, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for reporting periods beginning on or after 1 January 2012.

It has been determined by the Directors that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 30 June 2012. As a result of this review, the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies.

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NOTE 3 ISSUED CAPITAL

	30 June 2012	31 December 2011
	US\$000	US\$000
<i>Ordinary shares</i>		
Issued and fully paid	330,747	330,747

	Six Months Ended		Year Ended	
	30 June 2012		31 December 2011	
	Number of		Number of	
	shares	US\$000	shares	US\$000
<i>Movement in ordinary shares</i>				
Balance at beginning of the period	369,980,113	330,747	336,084,863	309,752
Issued for cash at A\$0.64 per share	-	-	31,250,000	20,458
Issued for cash at A\$0.64 per share	-	-	2,645,250	1,720
Share issue costs	-	-	-	(1,183)
Balance at end of the period	369,980,113	330,747	369,980,113	330,747

NOTE 4 OPTIONS AND PERFORMANCE RIGHTS

	30 June 2012	31 December 2011
	Number	Number
<i>Movement in options over ordinary shares on issue</i>		
Balance at beginning of period	1,500,000	1,500,000
Movement	-	-
Balance at end of period	1,500,000	1,500,000
<i>Movement in performance rights</i>		
Balance at beginning of period	650,000	-
Employees left employment of company	(250,000)	-
Lapsed	(50,000)	(50,000)
Issued	300,000	700,000
Balance at end of period	650,000	650,000

NOTE 5 SEGMENT INFORMATION

For management purposes, the Board of Directors of Northern Iron Limited has been defined as the Chief Operating Decision Maker. Segment information is presented in respect of the Group's business segments based on the Group's management and internal reporting structure.

The Group has three reporting segments, being Sydvaranger Iron Ore Project, marketing of ore concentrate, and corporate office. Intersegment pricing is determined on an arm's length basis.

Segment results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The following table presents the financial information regarding these segments provided to the Board of Directors for the interim periods ended 30 June 2012 and 30 June 2011.

Information on business segments

30 June 2012	Sydvaranger Iron Ore Project US\$000	Marketing US\$000	Corporate US\$000	Inter- segment eliminations US\$000	Consolidated US\$000
<i>Business Segments</i>					
External revenue	116,142	318	-	-	116,460
Intersegment revenue	318	259	27	(604)	-
Segment revenue	<u>116,460</u>	<u>577</u>	<u>27</u>	<u>(604)</u>	<u>116,460</u>
Segment loss	(103,077)	(323)	(995)	1,236	(103,159)
Administration expenses and directors' salaries	(1,862)	(249)	(967)	-	(3,078)
Finance income	1	-	97	-	98
Finance expense	(3,143)	-	-	27	(3,116)
Profit before tax	<u>8,379</u>	<u>5</u>	<u>(1,838)</u>	<u>659</u>	<u>7,205</u>
Income tax (expense)/benefit	(2,185)	-	-	-	(2,185)
Consolidated segment profit for the period	<u>6,194</u>	<u>5</u>	<u>(1,838)</u>	<u>659</u>	<u>5,020</u>
Segment assets	<u>393,505</u>	<u>3,761</u>	<u>475,367</u>	<u>(464,292)</u>	<u>408,341</u>

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30 June 2011	Sydvaranger Iron Ore Project US\$000	Marketing US\$000	Corporate US\$000	Inter- segment eliminations US\$000	Consolidated US\$000
<i>Business Segments</i>					
External revenue	37,338	60,293	-	-	97,631
Intersegment revenue	60,307	294	-	(60,601)	-
Segment revenue	97,645	60,587	-	(60,601)	97,631
Segment loss	(89,012)	(60,312)	(237)	60,601	(88,960)
Administration expenses and directors' salaries	(1,674)	(300)	(745)	-	(2,719)
Finance income	33	50	45	(50)	78
Finance expense	(4,111)	(50)	-	50	(4,111)
Profit before tax	2,881	(25)	(937)	-	1,919
Income tax (expense)/benefit	(5,278)	-	-	373	(4,905)
Consolidated segment profit for the period	(2,397)	(25)	(937)	373	(2,986)
Segment assets	369,017	8,418	456,108	(465,015)	368,528

NOTE 6 SUBSEQUENT EVENTS

On 2 July 2012 the Company announced that 50,000 performance rights issued under the Company's Performance Rights Plan have lapsed in accordance with their terms of issue.

As mentioned through the announcements to the Australian Stock Exchange, on 30 July and 3 August 2012, the Company has received two proposals for conditional indicative, non-binding cash offers for all of its shares. Both proposals have been offered stage two due diligence including management meetings and site visits. The Company will engage with each party to determine whether a binding proposal can be agreed that is capable of being put to shareholders with the recommendation of the Board.

On 16 August 2012, DNB agreed to extend the period of the additional working capital facility of US\$10 million from 31 August 2012 until 31 October 2012.

Other than this, no other matter or circumstance has arisen since 30 June 2012 that in the opinion of the Directors has significantly affected, or may significantly affect in future financial years:

- (i) the Group's operations, or
- (ii) the results of those operations, or
- (iii) the consolidated state of affairs.

NOTE 7 CONTINGENT ASSETS AND LIABILITIES

In the opinion of the Directors, there are no contingent liabilities or contingent assets, and no contingencies were incurred in the interval between balance date and the date of this financial report.

DIRECTORS' DECLARATION

In the opinion of the Directors of Northern Iron Limited (the "Company"):

1. the financial statements and notes thereto are in accordance with the *Corporations Act 2001* including:
 - a. complying with Accounting Standards, the *Corporations Regulations 2001*, and other mandatory professional reporting requirements; and
 - b. giving a true and fair view of the financial position of the Group as at 30 June 2012 and of its performance for the half-year ended on that date; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors made pursuant to s.303(5) of the *Corporations Act 2001*.



JS Sanderson
Managing Director



DC Griffiths
Chairman

Perth, Western Australia
27 August 2012

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Northern Iron Limited

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Northern Iron Limited ("the company") which comprises the condensed consolidated statement of financial position as at 30 June 2012, the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes and the directors' declaration of the group comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the group's financial position as at 30 June 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Northern Iron Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the reviewed half-year financial report

This review report relates to the half-year financial report of the group for the half-year ended 30 June 2012 included on the company's website. The company's directors are responsible for the integrity of the company's website. We have not been engaged to report on the integrity of this website. The review report refers only to the half-year financial report identified above. It does not provide an opinion on any other information which may have been hyperlinked to/from the half-year financial report. If users of the half-year financial report are concerned with the inherent risks arising from publication on a website they are advised to refer to the hard copy of the reviewed half-year financial report to confirm the information contained in this website version of the half-year financial report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Northern Iron Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the group's financial position as at 30 June 2012 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



HLB MANN JUDD
Chartered Accountants



N G NEILL
Partner

Perth, Western Australia
27 August 2012