NORTHERN IRON LIMITED (ASX: "NFE")

Entitlement Offer and Strategic Review Update

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4 October 2012

Entitlement Offer

Northern Iron Limited ("NFE", or "the Company") announced today the launch of a 1 for 3 accelerated pro-rata non-renounceable entitlement offer ("Entitlement Offer" or the "Offer") to raise up to A$55.5 million, at an offer price of A$0.45 ("Offer Price") per share ("New Share"). The Offer will consist of an institutional component ("Institutional Entitlement Offer") and a retail component ("Retail Entitlement Offer"). The Institutional Entitlement Offer, which is expected to raise approximately A$47.2 million, is underwritten.

The Offer Price of A$0.45 per New Share represents a 46.4% discount to the closing price of A$0.84 per share on 3 October 2012 (being the last trading day prior to the announcement of the Entitlement Offer) and a 39.2% discount to the theoretical ex-rights price[1] ("TERP") of A$0.74 per share.

Background and Use of Proceeds

NFE continues to make progress in increasing and sustaining iron ore concentrate production at the Sydvaranger Iron Ore Project. The Company continues to make substantial progress towards achieving 2.8Mtpa nameplate capacity at the processing plant. The focus of NFE management is now on sustaining the production rates at the mine to meet the capacity of the processing plant and implementing a maintenance performance plan across the Sydvaranger Iron Ore Project to ensure the project operates consistently and sustainably at nameplate capacity.

The company gave guidance on the 17 September 2012 that it expected to produce 475-500kt of dry concentrate at an average C1 direct operating cost of US$80-85/t in third quarter 2012. Actual performance for the period was 469kt of concentrate produced at an average C1 direct operating costs of US$83/t. The Company also indicated that work to complete the final step to achieve a 2.8Mtpa capable plant would be completed by the end of September. NFE continues to make

[1] *The theoretical ex-rights price is the theoretical price at which NFE's shares should trade immediately after the ex-date for the entitlement offer. The theoretical ex-rights price is a theoretical calculation only and the actual price at which NFE's shares trade immediately after the ex-date will depend on many factors and may not be equal to the theoretical ex-rights price. The theoretical ex-rights price has been calculated based on full retail participation.*

progress towards 2.8Mtpa nameplate capacity with concentrate production rates regularly over 7,000 tonnes per day (annualised 2.5Mtpa) and at times over 8,000 tonnes per day (annualised 2.7Mtpa).

The recent material decline in iron ore prices, coupled with the costs associated with addressing unplanned maintenance outages, has placed pressure on the working capital position of the Company. This has been exacerbated by the reduced iron ore prices and September quarter production limiting NFE's ability to draw on its US$35m working capital facility.

The proceeds of the Offer will strengthen NFE's working capital position, compensate for a reduction in the amount able to be drawn under the working capital facility brought on by the material decline in the iron ore price, ensure greater financial and operational flexibility and provide increased headroom under the financial covenants of the Company's debt facilities. In addition, NFE has successfully renegotiated its banking facilities, which together with the Entitlement Offer, is expected to provide NFE with the financial strength to withstand any near term volatility in iron ore prices and a buffer against a slower production ramp up regardless of the outcome of the review of strategic options available to the Company which was announced on 30 November 2011 ("Strategic Review").

NFE's Chairman, David Griffiths said "The Entitlement Offer will assist in supporting the Company through the current adverse iron ore price environment to reach its primary objective of reaching nameplate production at the Sydvaranger Iron Ore Project. Accordingly, regardless of the outcome of the Strategic Review, the NFE Board must ensure that the Company is appropriately capitalised and positioned to continue to develop as a standalone company."

Details of the Entitlement Offer

Institutional Entitlement Offer

Eligible institutional shareholders will be invited to participate in the Institutional Entitlement Offer which will take place from Thursday, 4 October 2012 to Friday, 5 October 2012. Institutional entitlements not taken up by institutional shareholders and entitlements of ineligible institutional shareholders will be placed into the institutional shortfall bookbuild. Shareholders will not receive any proceeds from the sale of institutional entitlements.

Felix Tschudi, NFE's largest shareholder, has indicated he intends to take up his pro rata entitlement under the Offer.

Retail Entitlement Offer

Eligible retail shareholders will be invited to participate in the Retail Entitlement Offer which will take place from Friday, 12 October 2012 to Friday, 26 October 2012. Further details about the Retail Entitlement Offer will be set out in the Prospectus, which NFE expects to lodge with ASX on Monday, 8 October 2012. Eligible retail shareholders wishing to participate in the Retail Entitlement Offer should carefully read the Prospectus and an accompanying personalised entitlement and acceptance form. Copies of the Prospectus will be available on the ASX website and NFE's website at (www.northerniron.com.au) from Monday, 8 October 2012.

Update on the Strategic Review

As announced in late July 2012, in the context of the Strategic Review, NFE received, from Essel Mining (a wholly owned subsidiary of Aditya Birla Group) and Prominvest, highly conditional, non-binding indicative proposals to acquire all of the Shares of NFE for A$1.40 per Share and $A1.42 per Share, respectively. Both parties are now conducting detailed stage two due diligence. Final binding offers are currently due to be submitted by mid-October, unless otherwise agreed. It is by no means certain that the Strategic Review will result in an offer to acquire all of the Shares of NFE either at all or at the above indicative amounts.

Both Essel Mining and Prominvest have been made aware of the Entitlement Offer and are continuing to undertake stage two due diligence on NFE to determine whether to submit a binding offer for NFE.

Successful Renegotiation of Bank Facilities

As announced, NFE continues to enjoy the support of its key financiers and has successfully renegotiated its banking facilities to further enhance the Company's financial flexibility and working capital position. Following the Entitlement Offer, the Company expects to maintain a comfortable level of headroom against its banking covenant levels going forward.

DnB Bank ASA ("DnB") has agreed to extend the US$35 million limit applicable to the working capital facility until 31 December 2012 along with an increase in the borrowing base for the facility to 80% of inventory (up from 60%) and 90% of sales receivables (up from 80%). Despite NFE continuing to satisfy its earnings covenants, DnB has also agreed to waive its earnings based covenants for a period of 12 months. Innovasjon Norge ("IN") has provided its consent to the amended terms offered by DnB. IN has also agreed to the deferral of all principal repayments due up until August 2013.

Further Details

Shares under the Offer will rank equally with existing shares in NFE. An indicative outline of the offer timeline is shown in the appendix.

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Appendix – Indicative Timetable

Date	Event
Thursday, 04 October, 2012	Trading halt commences (pre-market open)
Thursday, 04 October, 2012	Announcement of Offer and Institutional Entitlement Offer period commences
Friday, 05 October, 2012	Close of Institutional Entitlement Offer and Institutional book-build
Monday, 08 October 2012	Shares recommence trading on the ASX
Monday, 08 October 2012	Lodgement of Prospectus
7:00pm, Tuesday, 09 October 2012	Record date
Thursday, 11 October 2012	Prospectus despatched
Thursday, 11 October 2012	Settlement of the Institutional Entitlement Offer
Friday, 12 October 2012	Trading of New Shares under the Institutional Entitlement Offer
Friday, 12 October 2012	Retail Entitlement Offer opens
5:00pm, Friday, 26 October 2012	Retail Entitlement Offer closes
Wednesday, 07 November 2012	Despatch of holding statements
Thursday, 08 November 2012	Trading of New Shares under Retail Entitlement Offer

Note that this timetable is indicative only and may change, subject to the requirement of the ASX Listing Rules and the Corporations Act 2001 (Cth). NFE reserves the right to change these dates without prior notice. All references to time are to Sydney time