

**NORTHERN IRON
LIMITED**

ABN 71 125 264 575
Level 1, 44 Ord Street, West
Perth
WA 6005

Tel: +61 (0) 8 9321 9334
Fax: +61 (0) 8 9321 9334

www.northerniron.com.au



Dear Fellow Shareholders,

While today I will spend some time reflecting on the performance and progress of the last year, with the dramatic changes that have been experienced in the iron ore market price environment over the last 12 months, it is also fitting that I update you on where the Company stands today.

The 2014 year was mixed with both operational success and financial challenges at our Sydvaranger Grube operations. Substantial progress has been made over the last 2 years to stabilise operations, improve operational and maintenance practices as well as reducing costs. As a result, throughout 2014, the Company was able to deliver a strong and stable operational performance which gave rise to step-change improvements in production capability and cost performance. Records were set in concentrate production of 2.3 million tonnes, an increase of 18%, sales of 2.4 million tonnes, an increase of 24%, while C1 unit cash operating costs reduced to US\$72 per dry metric tonne, an improvement of 20%. Costs continue to show an improving trend into 2015, with the C1 unit cash operating cost to date being approximately US\$56 per dry metric tonne.

It should be noted that these achievements were not accomplished by way of capital expenditure, but through the focus and commitment of our people. This planned approach has been developed with the acknowledgement that our business is our people and that people get things done.

Whilst the Company and shareholders can be proud of the operational performance and progress made in 2014, during the second half of the year, the market price for iron ore collapsed both quickly and precipitously, falling by more than 50%. With the onset of a worsening economic environment for the Company, significant effort has been applied towards preserving cash, reducing costs and securing financial support. The Company continues to actively work with key stakeholders, including its financiers, the major offtake partner and suppliers, to restructure and improve its working capital and overall position to ensure it is able to continue as a going concern.

In 2015, the Company has received further support from its financiers with repayment and interest holidays until 30 June 2015 and the addition of new working capital facilities to cover losses under foreign exchange hedge contracts for the 2015 year. In addition, the Company concluded an addendum with its major offtake partner for contract pricing support with improved payment terms until 30 June 2015.

Specific actions taken by the Company thus far to reduce costs and improve liquidity include:

- Voluntary payroll reductions across all levels.
- Termination of certain major contracts and insourcing of work, which is expected to offer significant savings over the coming months.
- Organisational restructuring which has reduced by more than 10% the total number of Company and contractor positions, inclusive of insourced works.
- Identification of low cost improvements to increase output.
- Optimising the mine plan to reduce short to medium term stripping requirements.
- Working closely with key suppliers to deliver further cost reduction.

In summary, the Group is actively working to optimise operations, achieve further cost reductions, restructure debt, while working actively with key stakeholders towards a long term solution.

On behalf of the Board, I would like to acknowledge and thank our shareholders, our financiers and our business partners for their active and ongoing support of the Company. I also acknowledge the effort and thank our employees and the local Kirkenes community for their continuing support as we strive to further improve the robustness of our high quality magnetite operation.