



Mount Gibson Iron Limited

ABN 87 008 670 817



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26 February 2007

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The Manager
Company Announcements
Australian Stock Exchange Limited
Level 10, 20 Bond Street
SYDNEY NSW 2000

SUBJECT: 31 DECEMBER 2006 HALF-YEAR FINANCIAL STATEMENTS

Mount Gibson Iron Limited ("**Mount Gibson**") (ASX Code MGX) is pleased to announce a net profit after tax of \$27.4 million for the 6 months ended 31 December 2006, an increase of \$26 million on the previous 6 months to the end of June 2006.

Ore mined increased 340% whilst ore sold increased by 144% compared with the 6 months ended 30 June 2006.

Mount Gibson's Managing Director, Luke Tonkin said "We are particularly pleased with the progress of the Company during the last 6 months in which a large number of strategic objectives have been realised. Mount Gibson has been able to demonstrate a significant increase in production from Talling Peak in line with forecast 3 Mtpa rates, progressed Extension Hill Hematite to feasibility whilst demonstrating the project's potential to provide significant financial returns, divest in and receive payment for the Extension Hill Magnetite Project which would have diluted shareholders and exposed Mount Gibson to significant debt, and Mount Gibson has successfully completed the acquisition of Aztec Resources Limited which provides Mount Gibson with a high quality asset that delivers an increase in production, increase in mine life, reduction in operating costs, significant exploration upside and mitigates the geographical and infrastructure risks of the Mid West".

Mr Tonkin also said "Mount Gibson has built a significant reserve base which will underpin our publicly released strategy of achieving 10 Mtpa production rates by 2010, delivering significant cash flows and earnings in the near term against a backdrop of strong iron ore prices. Strong cash flows and earnings creates the foundation for the future growth of the Company and ensures Mount Gibson is in a strong position to take advantage of any identified or presented accretive opportunities.

Over the next 6 months Mount Gibson will focus on consolidating production at Talling Peak, establishing production from Koolan Island and continuing to prepare Extension Hill Hematite for production in 2009."

The appendix 4D and half year financial statements are attached.

Yours sincerely,
MOUNT GIBSON IRON LIMITED

Angela Dent
Company Secretary

Enquiries: **Mr Luke Tonkin**
Managing Director
Telephone: 61 8 9426-7500

or

Mr Alan Rule
Finance Director
Email: admin@mtgibsoniron.com.au

APPENDIX 4D

This Preliminary Final Report is provided to the
Australian Stock Exchange (ASX) under ASX Listing Rule
4.2A.3

Current Reporting Period: 31st December, 2006

Previous Corresponding Period: 31st December, 2005

RESULTS FOR ANNOUNCEMENT TO THE MARKET

		A\$'000's
Revenue from ordinary activities	up 27% to	\$69,016
Profit from ordinary activities after tax attributable to members	up 24% to	\$27,397
Net profit for the period attributable to members	up 24% to	\$27,397

DIVIDENDS

No dividends have been paid or declared during the year

NET TANGIBLE ASSET BACKING

Consolidated Entity		2006	2005
Net Tangible Assets	<i>\$ mill</i>	432,479	109,196
Fully paid ordinary shares on issue at Balance Date		755,333,011	399,025,639
Net tangible asset backing per issued ordinary share as at balance date (cents)	<i>c/share</i>	57.2	27.3

DETAILS OF ENTITIES OVER WHICH CONTROL GAINED OR LOST DURING THE PERIOD

Mount Gibson Iron Limited gained control of Aztec Resources Limited and its subsidiaries on 30 November 2006. Full details of the acquisition are set out in Note 6 of the attached Half-Year financial statements.

Mount Gibson Iron Limited lost control of Asia Iron Holdings Limited and its subsidiaries on 21 August 2006. Full details of the disposal are set out in Note 5 of the attached Half-Year financial statements.

STATUS OF AUDIT

This Half Year Report is based on accounts that have been reviewed.

COMMENTARY

It is recommended that the half-year report is read in conjunction with the Annual Financial Report of Mount Gibson Iron Limited as at 30 June 2006 together with any public announcements made by Mount Gibson Iron Limited during the half-year ended 31 December 2006 in accordance with the continuous disclosure obligations under the Corporations Act 2001.



**MOUNT GIBSON IRON LIMITED
AND CONTROLLED ENTITIES**

ABN 87 008 670 817

FINANCIAL REPORT

FOR THE HALF-YEAR ENDED

31 DECEMBER 2006

Financial Report

For the half-year ended 31 December 2006

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Directors' Report

Your Directors submit their report for the half-year ended 31 December 2006 for the consolidated entity incorporating Mount Gibson Iron Limited ("**Company**") and the entities that it controlled during the half-year ("**Consolidated Entity**").

DIRECTORS

The names of the Company's directors in office during the half-year and until the date of this report are as below. Directors were in office for the entire period unless otherwise stated.

Bill Willis	<i>Chairman</i>
Brian Johnson	<i>Deputy Chairman</i>
Luke Tonkin	<i>Managing Director</i>
Alan Rule	<i>Finance Director</i>
Craig Readhead	<i>Non-Executive Director</i>
Ian Macliver	<i>Non-Executive Director</i>
Alan Jones	<i>Non-Executive Director – appointed 28 July 2006</i>
Peter Bilbe	<i>Non-Executive Director – appointed 21 February 2007</i>

Angela Dent is the Company Secretary.

CORPORATE INFORMATION

Corporate Structure

Mount Gibson Iron Limited is a company limited by shares that is incorporated and domiciled in Australia. It is the ultimate parent entity and has prepared a consolidated half-year financial report incorporating the entities that it controlled during the half-year.

Nature of Operations and Principal Activities

The principal activities of the entities within the Consolidated Entity are:

- mining of hematite deposits at Tallering Peak;
- construction and development of hematite mining operations at Koolan Island; and
- exploration and development of hematite deposits in the Mid-West region of Western Australia.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Sale of Asia Iron Holdings Limited

The Company and its wholly owned subsidiary, Mount Gibson Mining Limited ("**MGM**") owned 73% of Asia Iron Holdings Limited ("**Asia Iron**") during the prior reporting period and up until 17 November 2006, when Asia Iron ceased to be a subsidiary of the Consolidated Entity.

The impact on the consolidated half-year financial statements of the Company from the sale are summarised in Note 5 to the Half-Year Financial Report. In respect of the Condensed Income Statement, the financial impact of the discontinued Asia Iron operation is separated from that of the continuing operations of the Consolidated Entity in both the current and prior periods. In each of the Condensed Balance Sheet and Condensed Cash Flow Statement, the prior period comparatives include the fully consolidated balances of Asia Iron. The current period balances in the Condensed Cash Flow Statement include the impact of Asia Iron until 17 November 2006 and also the net cash impact to the Consolidated Entity of ceasing to consolidate Asia Iron.

Acquisition of Aztec Resources Limited

On 24 July 2006, the Company announced its intention to acquire Aztec Resources Limited (“**Aztec**”), representing a landmark consolidation of Australia’s emerging iron ore sector. Aztec is an iron ore company currently developing the Koolan Island Iron Ore Project (“**Koolan Island**”) located in the Buccaneer Archipelago of Yampi Sound in Western Australia. The acquisition has resulted in the creation of a leading independent Australian iron ore company with a market capitalisation of in excess of \$600 million, an asset portfolio offering near term cash flow, immediate growth potential supported by longer-life profile and longer term development opportunities. The acquisition was implemented by means of an off-market scrip takeover bid by the Company for all shares in Aztec. Under the bid, the Company offered Aztec shareholders 1 new share for every 3 Aztec shares (“**Offer**”), valuing each Aztec share at \$0.263 based on the Company’s volume weighted average price on 21 July 2006 of \$0.789, being the last trading day before announcement of the offer.

At the end of the offer period on 22 December 2006, the Company’s voting power in Aztec was 91.28% and as the applicable thresholds had been reached, the Company commenced the compulsory acquisition process to acquire all the remaining fully paid ordinary shares in Aztec which it did not already own. As at 31 December 2006, the Company had acquired 91.28% of the ordinary shares in Aztec.

DIVIDENDS

No dividends were paid during the period and no recommendation is made as to dividends.

REVIEW AND RESULTS OF OPERATIONS

Operating Results for the Period

Summarised operating results for the Consolidated Entity for the half-year ended 31 December 2006 were:

	CONSOLIDATED	
	31 December 2006 \$'000	31 December 2005 \$'000
Operating profit from Continuing Operations before tax	13,096	20,111
Taxation (expense) / benefit	(4,420)	2,837
Operating profit from Continuing Operations after tax	8,676	22,948
Profit / (loss) from discontinued operations after income tax	18,721	(1,268)
Net operating profit after tax	27,397	21,680
Loss Attributable to Minority Interest	-	407
Net profit attributable to Members of the Company	27,397	22,087

Tallering Peak Hematite Operations

Mining continued according to plan at Tallering Peak with operations focused on the development of the T6A pit. The majority of the pioneering work associated with this pit was successfully completed during the December quarter. The completion of this pioneering work, which is slow and difficult due to the steep topography, reduces future production risk.

Continuing large stockpiles of ore (751,000 tonnes) enabled the mining operation to focus on mining the T3c and 6A pits, exposing ore for future mining.

Mount Gibson Iron Limited – 31 December 2006 Half-Year Financial Report

Production for each quarter and year to date is set out below:

		Sept 2006 qtr 000's	Dec 2006 qtr 000's	TOTAL 2006 6 months 000's
Mining				
- Waste Mined	<i>bcm</i>	2,541	2,283	4,824
- Ore Mined	<i>wmt</i>	1,092	681	1,773
Crushing				
- Lump	<i>wmt</i>	411	408	819
- Fines	<i>wmt</i>	308	255	563
Total	<i>wmt</i>	719	663	1,382
Transport to Mullewa Railhead				
- Lump	<i>wmt</i>	391	370	761
- Fines	<i>wmt</i>	254	296	550
Total	<i>wmt</i>	645	666	1,311
Transport to Geraldton Port				
- Lump	<i>wmt</i>	300	331	631
- Fines	<i>wmt</i>	216	253	469
Total	<i>wmt</i>	516	584	1,100
Shipping				
- Lump	<i>wmt</i>	239	429	668
- Fines	<i>wmt</i>	170	279	449
Total	<i>wmt</i>	409	708	1,117

Production rates and key financial statistics at Talling Peak for the 6 months ended 31 December 2006 compared with the 6 months ended 30 June 2006 were:

- waste mining increased by 10%;
- ore tonnes mined increased by 340%;
- ore tonnes sold increased by 144%;
- realised selling prices per tonne of ore sold increased by 35% to \$62 per tonne; and
- total cost of sales decreased by 9% to \$42 per tonne.

Significant expenditure on waste development at Talling Peak during the half-year was as follows:

		6 Months ended 31 Dec 2006	6 Months ended 30 June 2006	6 Months ended 31 Dec 2005
Waste mined	<i>mill bcm</i>	4.8	4.3	2.1
Waste expenditure capitalised	<i>\$ mill</i>	43.6	35.5	18.7
Waste expenditure amortised	<i>\$ mill</i>	(32.5)	(7.4)	(7.5)

The new mining fleet comprising 300 tonne class excavators and 150 tonne class off highway haul trucks has been successfully introduced to site.

A significant challenge to mine operations is the supply of skilled operating and maintenance employees. A shortage of appropriately qualified labour and the increase in labour and consumable costs within the industry continues to dampen the operational potential of Talling Peak and skilled labour shortages represent a risk to sustained operational performance. The Company continues to implement strategies designed to mitigate the adverse impact of these issues.

A new resource and reserve estimate is in progress and will be completed in the March 2007 quarter. This will provide improved confidence in the distribution and location of ore in the T6 Main Ridge deposit and will allow improved short and long term planning. Further resource definition drilling at T2 is scheduled for the coming quarter to follow up potential depth extensions identified by extensional drilling completed to date.

Koolan Island Hematite Project

Koolan Island which is located in the Buccaneer Archipelago of Yampi Sound in Western Australia was opened by BHP in 1965 and operated until 1993. BHP mined approximately 68 million tonnes of high grade hematite ore from five pits at Koolan – Main, Mullet, Eastern, Barramundi and Acacia.

In early 2000, Aztec acquired Koolan Island and in May 2003 an exploration licence was granted over Koolan Island. During 2003, Aztec undertook a review of available BHP data, carried out site inspections and committed to an exploration/feasibility study programme in 2004. Exploration drilling commenced in February 2004 and the bankable feasibility study was completed in August 2005.

Koolan Island has a Mineral Resource of 53.3 million tonnes of hematite ore, including total Ore Reserves of 24.8 million tonnes of hematite ore with a grade of 65.0% Fe.

Koolan Island is expected to reach full production of 4 Mtpa of high grade hematite ore by 2009.

The onset of the “wet” season in the Kimberley region has slowed construction activities however progress is generally as planned with the first ore shipment scheduled to occur in the second quarter of 2007.

The completion status of construction in early February 2007 was as follows:

- Piling of the jetty and deck structure installation is 100% complete whilst the installation of berthing equipment and handrails have commenced;
- The ship loader, which was fabricated in Tasmania, has been transported and erection on the jetty is well advanced;
- The access road to the jetty is 100% complete and the final lift of the rock causeway (connecting the jetty to the island) is 90% complete;
- The mechanical installation of the crushing and screening plant is 90% complete and electrical installation underway. Dry commissioning commenced in early February;
- Construction of the ore stacking and reclaim system commenced during December 2006;
- The installation of the power station has advanced with generator sets, cabling, transformers and MCC in place for commissioning in late February;
- Sample preparation facility and assay laboratory is fully operational;
- Installation of the head works and telemetry for the four fresh water bores is nearing completion;
- The new village is operational with 95% of the accommodation units and the kitchen in place; and
- The installation of the 1.6 million litre fuel storage facility has commenced.

Open pit mining at Eastern and Mullet pits and stockpiling of ore on the ROM pad has commenced.

The first delivery of the permanent (larger) mining fleet, comprising four 730E Komatsu haul trucks and one PC3000 Komatsu excavator, arrived at Koolan Island in early January 2007. Deliveries of the remainder of the fleet (eight trucks and one excavator) are planned to occur in March 2007.

Total development costs for Koolan Island are forecast at \$147 million. The project has encountered cost increases due primarily to unforeseen ground conditions at the jetty, causeway and camp sites, changes to project scope, labour shortages, logistical and transport costs and some delays to the project schedule.

Extension Hill Direct Shipping Ore Project

The Consolidated Entity continued to progress the Detailed Feasibility Study (“DFS”) into the feasibility of producing and selling 3 Mtpa of hematite ore from the Extension Hill Direct Shipping Ore (“DSO”) project.

The DFS generally validated the broad strategies and parameters assumed for the June 2006 study and evaluated multiple operating options with related costs, timing and risks. Other factors influencing development in the Mid-West, outside the Company’s direct control, have become more apparent and better understood during the past six months. It is these external factors which drive the timing of the development scenarios presented.

Two project development scenarios were developed, with start-up timing determined by availability of infrastructure at Geraldton Port, specifically, rail and train unloading capacity and by the timing of statutory approvals:

- Base Case - first shipment in January 2009 is delayed 12 months from the previous target of January 2008 due to lack of rail and unloading infrastructure at the Port;
- Best Case - first shipment in May 2008 is delayed 4 months from the previous target by statutory approval requirements, but assumes early resolution of port infrastructure issues.

A summary of the DFS financial results is:

Scenario	First shipment date	Post Tax @8% NPV \$mill	IRR	Cap. Cost +/-30% NPV \$mill	Mining Cost +/-20% NPV \$mill	Transport Cost +/-20% NPV \$mill	Revenue +/-20% NPV \$mill
Base Case	Jan 2009	89	78%	74 / 103	81 / 96	62 / 115	156 / 21
Best Case	May 2008	108	121%	93 / 122	100 / 116	81 / 134	178 / 37
Desk Top Study	Jan 2008	106	115%	93 / 120	99 / 114	82 / 131	174 / 38

The DFS included the following assumptions:

- Total capital cost of approximately \$73 million, includes \$3.6 million mine development, \$2 million working capital, no contingency, compares with the June 2006 estimate of approximately \$67 million; and
- Total cash cost of production of approximately \$36 per tonne of crusher feed, including royalties, excluding capital works and sustaining capital.

The study has demonstrated that the project will provide strong financial returns in a short time-frame, with minimal technical risks and relatively low capital requirements. Most significant Base Case risks lie in reliance on non-Company infrastructure.

Key critical path items driving overall project timing are:

- Availability of rail unloader capacity, including Port area and further rail infrastructure;
- Ministerial environmental approval of the project PER; and
- DEC and DoIR approvals, post PER approval.

The development of the Extension Hill DSO project is subject to State Government Environmental approval and Mount Gibson Iron Limited Board approval.

SIGNIFICANT EVENTS AFTER BALANCE DATE

On 6 February 2007, the Company issued 32,453,786 shares to the remaining Aztec shareholders on finalisation of the compulsory acquisition of the remaining 8.72% of Aztec that the Company did not already own at 31 December 2006.

ROUNDING

Amounts in this report and the accompanying financial report have been rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

AUDITOR'S INDEPENDENCE DECLARATION

We have obtained the following independence declaration from our auditors, Ernst and Young.



■ The Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000
Australia

GPO Box M939
Perth WA 6843

■ Tel 61 8 9429 2222
Fax 61 8 9429 2436

Auditor's Independence Declaration to the Directors of Mount Gibson Iron Limited

In relation to our review of the financial report of Mount Gibson Iron Limited for the half-year ended 31 December 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Gavin A. Buckingham
Partner
26 February 2007

Liability limited by a scheme approved under Professional Standards Legislation.

Signed in accordance with a resolution of the Directors.

Craig Readhead
Director
Perth, Western Australia
26 February 2007

Condensed Income Statement

For the half-year ended 31 December 2006

	Notes	CONSOLIDATED	
		31 December 2006 \$'000	31 December 2005 \$'000
CONTINUING OPERATIONS			
Sale of goods	3[a]	68,243	53,005
Other revenue	3[a]	773	1,030
		69,016	54,035
TOTAL REVENUE			
Cost of sales	3[d]	(49,971)	(29,542)
		19,045	24,493
GROSS PROFIT			
Other income	3[b]	1,677	167
Other expenses	3[d]	(7,012)	(3,976)
		13,710	20,684
PROFIT FROM CONTINUING OPERATIONS BEFORE TAX AND FINANCE COSTS			
Finance costs	3[c]	(614)	(573)
		13,096	20,111
PROFIT FROM CONTINUING OPERATIONS BEFORE INCOME TAX			
Income tax (expense) / benefit		(4,420)	2,837
		8,676	22,948
NET PROFIT FROM CONTINUING OPERATIONS FOR THE PERIOD AFTER INCOME TAX			
Profit / (loss) from discontinued operations after income tax	5[a]	18,721	(1,268)
		27,397	21,680
NET PROFIT FOR THE PERIOD AFTER INCOME TAX			
Loss attributable to minority interest		-	407
		27,397	22,087
NET PROFIT ATTRIBUTABLE TO MEMBERS OF THE COMPANY			
Earnings per share (cents per share):			
- basic earnings per share		5.59	5.80
- diluted earnings per share		5.55	5.72
- basic earnings per share – continuing operations		1.77	6.03
- diluted earnings per share – continuing operations		1.76	5.95

Condensed Balance Sheet

As at 31 December 2006

	Notes	CONSOLIDATED	
		31 December 2006 \$'000	30 June 2006 \$'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		53,876	4,548
Trade and other receivables		27,889	6,180
Inventories		20,896	5,685
Prepayments		4,445	877
Derivatives		6,108	2,541
		113,214	19,831
Assets classified as held for sale		-	46,093
TOTAL CURRENT ASSETS		113,214	65,924
NON-CURRENT ASSETS			
Available for sale financial assets		1,518	1,248
Property, plant and equipment		122,677	20,345
Deferred acquisition, exploration, evaluation and development costs		6,777	4,176
Mine properties		345,125	51,567
		476,097	77,336
TOTAL NON-CURRENT ASSETS		476,097	77,336
TOTAL ASSETS		589,311	143,260
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		63,720	17,836
Interest-bearing loans and borrowings	7	41,522	1,594
Derivatives		69	1,470
Provisions		863	463
		106,174	21,363
Liabilities associated with assets classified as held for sale		-	3,068
TOTAL CURRENT LIABILITIES		106,174	24,431
NON-CURRENT LIABILITIES			
Provisions		10,725	702
Interest-bearing loans and borrowings	7	27,860	4,247
Deferred income tax liabilities		12,073	4,684
		50,658	9,633
TOTAL NON-CURRENT LIABILITIES		50,658	9,633
TOTAL LIABILITIES		156,832	34,064
NET ASSETS		432,479	109,196
EQUITY			
Issued capital	8	386,731	86,851
Retained earnings		37,493	10,096
Reserves		8,255	473
		432,479	97,420
Parent interests			
Minority interest		-	11,776
TOTAL EQUITY		432,479	109,196

Condensed Cash Flow Statement

For the half-year ended 31 December 2006

	Notes	CONSOLIDATED	
		31 December 2006 \$'000	31 December 2005 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		64,607	53,710
Payments to suppliers and employees		(67,231)	(37,600)
Interest paid		(629)	(574)
NET CASH FLOWS (USED IN) / FROM OPERATING ACTIVITIES		(3,253)	15,536
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		158	1,002
Net cash acquired on acquisition of controlled entity	6	8,348	-
Proceeds from sale of property, plant and equipment		13	6
Purchase of property, plant and equipment		(8,309)	(954)
Payment for deferred exploration and evaluation expenditure		(2,320)	-
Payment for mine development		(2,104)	(7,049)
Proceeds from sale of financial assets		295	-
Proceeds from disposal of controlled entity, net of cash disposed	5[e]	37,854	-
Purchase of available for sale investments		-	(960)
NET CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES		33,935	(7,955)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares		1,703	6,711
Loans from/(to) other entities		(280)	(250)
Proceeds from borrowings		17,080	-
Repayment of lease liabilities		(2,706)	(1,640)
Repayment of borrowings		-	(419)
Payment for performance bonds		-	(1,100)
NET CASH FLOWS FROM FINANCING ACTIVITIES		15,797	3,302
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		46,479	10,883
Cash and cash equivalents at beginning of period		7,397	33,633
CASH AND CASH EQUIVALENTS AT END OF PERIOD	4[a]	53,876	44,516

Condensed Statement of Changes in Equity

For the half-year ended 31 December 2006

	<i>Attributable to Equity Holders of the Parent</i>					<i>Minority Interest</i>	<i>Total Equity</i>	
	Issued Capital	Option Premium Reserve	(Accumulated Losses) / Retained Earnings	Net Unrealised Gains / (Losses) Reserve	Other Reserves	Total		
CONSOLIDATED								
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
At 1 July 2005	79,381	1,631	(9,583)	-	-	71,429	8,956	80,385
Application of AASB 132 and AASB 139	-	-	-	1,165	-	1,165	-	1,165
At 1 July 2005	79,381	1,631	(9,583)	1,165	-	72,594	8,956	81,550
Profit for the period	-	-	22,087	-	-	22,087	(407)	21,680
Net unrealised losses on available-for-sale financial assets	-	-	-	(2,278)	-	(2,278)	-	(2,278)
Net gains/(losses) on cash flow hedges	-	-	-	(760)	-	(760)	-	(760)
Release to income statement on expiry of cash flow hedges	-	-	-	(115)	-	(115)	-	(115)
Currency translation differences	-	-	-	-	(21)	(21)	-	(21)
Exercise of options	6,711	-	-	-	-	6,711	-	6,711
Cost of share-based payment	-	2,796	-	-	-	2,796	-	2,796
Change in Minority Interest	-	-	-	-	-	-	429	429
At 31 December 2005	86,092	4,427	12,504	(1,988)	(21)	101,014	8,978	109,992
At 1 July 2006	86,851	5,954	10,096	(1,790)	(3,691)	97,420	11,776	109,196
Profit for the period	-	-	27,397	-	-	27,397	-	27,397
Net unrealised gain on available-for-sale financial assets	-	-	-	748	-	748	-	748
Impairment of available-for-sale financial assets	-	-	-	1,506	-	1,506	-	1,506
Net gains on cash flow hedges	-	-	-	3,985	-	3,985	-	3,985
Currency translation differences	-	-	-	-	(388)	(388)	-	(388)
Currency translation differences released on sale of controlled entity	-	-	-	-	885	885	-	885
Issue of share capital	272,267	-	-	-	-	272,267	-	272,267
Shares to be issued pursuant to compulsory acquisition notice	25,603	-	-	-	-	25,603	-	25,603
Exercise of options	2,010	-	-	-	-	2,010	-	2,010
Cost of share-based payment	-	1,046	-	-	-	1,046	-	1,046
Change in Minority Interest	-	-	-	-	-	-	(11,776)	(11,776)
At 31 December 2006	386,731	7,000	37,493	4,449	(3,194)	432,479	-	432,479

Notes to the Half-Year Financial Report

For the half-year ended 31 December 2006

1. CORPORATE INFORMATION

The financial report of Mount Gibson Iron Limited for the half-year ended 31 December 2006 was authorised for issue in accordance with a resolution of the directors on 26 February 2007.

The Company is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

The address of the registered office is Level 1, 7 Havelock Street, West Perth, WA, 6005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Consolidated Entity as the full financial report.

The half-year financial report should be read in conjunction with the Annual Financial Report of Mount Gibson Iron Limited as at 30 June 2006. It is also recommended that the half-year financial report be considered together with any public announcements made by Mount Gibson Iron Limited during the half-year ended 31 December 2006 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001* and Stock Exchange Listing Rules.

(a) Basis of preparation

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001* and AASB 134 "Interim Financial Reporting".

The half-year financial report has been prepared on a historical cost basis, except for derivative financial instruments and quoted available-for-sale financial assets that have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

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

(b) Significant Accounting Policies

These half-year financial statements have been prepared using the same accounting policies as used in the Annual Financial Report of the Company for the year ended 30 June 2006, except for the adoption of amending standards mandatory for annual periods beginning on or after 1 July 2006, as described in Note 2(d).

(c) Basis of consolidation

The half-year consolidated financial statements comprise the financial statements of the Company and its controlled entities for the half-year ended 31 December 2006.

The financial statements of controlled entities are prepared for the same reporting period as the Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Controlled entities are consolidated from the date on which control is transferred to the Consolidated Entity and cease to be consolidated from the date on which control is transferred out of the Consolidated Entity. Where there is loss of control of a controlled entity, the consolidated financial statements include the results for the part of the reporting period during which the Company has control.

Minority interests represent the interests not held by the Consolidated Entity.

Investments in controlled entities are carried in the balance sheet of the company at cost less impairment losses, if any.

Notes to the Half-Year Financial Report (continued)

(d) Changes in accounting policies

Australian Accounting Standards and UIG interpretations that have recently been issued or amended and are effective from 1 July 2006 are outlined in the table below:

AASB Amendment	Affected Standard(s)	Nature of Change to Accounting Policy	Application Date of Standard	Application Date for Group
2004-3	AASB1 "First-time Adoption of AIFRS" AASB 101 "Presentation of Financial Statements" AASB 124 "Related Party Disclosures"	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-1	AASB 139 "Financial Instruments: Recognition and Measurement"	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-4	AASB 1 "First-time Adoption of AIFRS" AASB 139 "Financial Instruments: Recognition and Measurement" AASB 132 "Financial Instruments: Disclosure and Presentation" AASB 1023 "General Insurance Contracts" AASB 1028 "Life Insurance Contracts"	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-5	AASB 1 "First-time Adoption of AIFRS" AASB 139 "Financial Instruments: Recognition and Measurement"	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-6	AASB 3 "Business Combinations"	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-9	AASB 4 "Insurance Contracts" AASB 1023 "General Insurance Contracts" AASB 139 "Financial Instruments: Recognition and Measurement" AASB 132 "Financial Instruments: Disclosure and Presentation"	No change to accounting policy at group level required. Therefore no impact.	1 January 2006	1 July 2006
2005-10	AASB 132 "Financial Instruments: Disclosure and Presentation" AASB 101 "Presentation of Financial Statements" AASB 114 "Segment Reporting" AASB 117 "Leases" AASB 133 "Earnings Per Share" AASB 139 "Financial Instruments: Recognition and Measurement" AASB 1 "First-time Adoption of AIFRS" AASB 4 "Insurance Contracts" AASB 1023 "General Insurance Contracts" AASB 1038 "Life Insurance Contracts"	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
UIG 4	Determining whether an Arrangement contains a Lease	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
UIG 8	Scope of AASB 2	No change to accounting policy required. Therefore no impact.	1 May 2006	1 July 2006
UIG 9	Reassessment of Embedded Derivatives	No change to accounting policy required. Therefore no impact.	1 June 2006	1 July 2006

Application date is for the annual reporting periods beginning on or after the date shown in the above table.

The following amendments are not applicable to the Consolidated Entity and therefore have no impact:

AASB Amendment	Affected Standard(s)
New Standard	AASB 119 "Employee Benefits" (Revised Dec 04) – Accounting policy options contained within the revised standard affect accounting for defined benefit schemes only. As Mount Gibson Iron Limited do not have or do not contribute to a defined benefit scheme, there is no impact of this change.
2005-2	AASB 1023 "General Insurance Contracts"
2005-12	AASB 1038 "Life Insurance Contracts" and AASB 1023 "General Insurance Contracts"
2005-13	AASB 25 "Financial Reporting by Superannuation Plans"
2006-1	AASB 121 "The Effects of Changes in Foreign Exchange Rates"
2006-2	AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards"
UIG 5	Rights to Interests in Decommissioning, Restoration and Environmental Rehabilitation Funds"
UIG 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
UIG 7	Applying the Restatement Approach under AASB 129 "Financial Reporting in Hyperinflationary Economies"

Notes to the Half-Year Financial Report (continued)

Notes	CONSOLIDATED	
	31 December 2006 \$'000	31 December 2005 \$'000
3. REVENUE AND EXPENSES		
[a] Revenue		
Sale of ore	68,243	53,005
 Other revenue		
Finance income – other persons/ corporations	773	1,030
 [b] Other income		
Unrealised gain on foreign exchange	165	167
Realised gain on foreign exchange	1,496	-
Net gain on sale of plant and equipment	10	-
Other income	6	-
	1,677	167
 [c] Finance costs		
Loans	423	173
Finance charges payable under finance leases	174	384
Unwinding of discount on rehabilitation provision	17	16
	614	573
 [d] Expenses included in the Income Statement include:		
Depreciation of Non-Current Assets	2,819	2,058
Amortisation of mine properties	33,123	10,247
Expense of share-based payments	1,046	2,796
Operating lease rental – minimum lease payments	8,604	360
Exploration expenditure written off	4	50
Government royalties	4,685	3,731
Salaries, wages expense and other employee benefits	8,989	4,030
Impairment of loan	280	-
Impairment of available-for-sale investments	1,506	-

Notes to the Half-Year Financial Report (continued)

Notes	CONSOLIDATED	
	31 December 2006 \$'000	31 December 2005 \$'000
4. CASH AND CASH EQUIVALENTS		
[a] Reconciliation of cash		
Cash at bank and in hand	25,308	8,503
Short-term deposits	28,568	36,013
	53,876	44,516
	53,876	44,516

[b] Non-cash financing activities

During the period ended 31 December 2006, the Consolidated Entity acquired property, plant and equipment with an aggregate fair value of \$ 67,663 (2005: \$2,773,760) by means of finance leases

During the period from 1 December 2006 to 31 December 2006, the Consolidated Entity acquired property, plant and equipment with an aggregate fair value of \$13,052,658 (\$2005: \$nil) by means of hire purchases.

5. SALE OF ASIA IRON HOLDINGS LIMITED

On 7 June 2006 the Company advised ASX that it had signed an agreement with China's third largest steel producer, the Shougang Group, for the sale of the Consolidated Entity's entire 73% interest in Asia Iron for \$52.5 million. The agreement was subject to FIRB approval and the minority shareholders in Asia Iron not exercising an option to match the Shougang offer. Minority shareholders had 28 days to exercise an option to match the Shougang offer.

On 6 July 2006 the Company advised ASX that it has received notice of an election to purchase the Consolidated Entity's shareholding in Asia Iron from a minority shareholder, Sinom Investments. Sinom Investments' notice to match the Shougang offer resulted in a binding agreement for the sale of the Consolidated Entity's entire 73% interest in Asia Iron on the same terms as those previously agreed with Shougang. As a result of Sinom Investments' election, the condition precedent to the Shougang agreement could not be satisfied. The Consolidated Entity therefore terminated the Shougang agreement to allow the sale to Sinom Investments.

Sinom Investments obtained Foreign Investment Review Board approval on 2 August 2006 and completion of the sale by the Consolidated Entity of its 73% interest in Asia Iron to Sinom Investments occurred on 21 August 2006 with \$52.5 million being placed in escrow pending environmental approval.

Under a further agreement dated 17 November 2006, Sinom agreed to immediately release the first \$40 million being held in escrow to the Company and Mount Gibson Mining Limited, with the balance of \$12.5 million to be released to the Company and Mount Gibson Mining Limited on the earlier of 31 May 2007 and the date on which environmental approval is obtained in respect of the Extension Hill Magnetite Project.

As a result of this agreement, the 30 November 2007 deadline for obtaining environmental approval is removed and Sinom Investments is no longer entitled to terminate the original agreement and return the sale shares if the environmental deadline is not met. Sinom Investments will now have primary responsibility for obtaining environmental approval. In taking on this responsibility, Sinom Investments has agreed that it will not do anything which may adversely affect the processing of environmental approval in respect of Mount Gibson's Extension Hill hematite project.

Notes to the Half-Year Financial Report (continued)

From 17 November 2006 the Company ceased to consolidate Asia Iron, and that business is reported as a discontinued operation in this financial report. Financial information relating to the discontinued operation of Asia Iron for the period to the date of disposal and the process of disposing of that business is set out below:

(a) Profit from discontinued operations

The financial information presented below in respect of Asia Iron represents the period 1 July 2006 to 17 November 2006 (31 December 2006 column) and for the six month period to 31 December 2005.

	Notes	31 December 2006 \$'000	31 December 2005 \$'000
ASIA IRON			
Other revenue		4	15
TOTAL REVENUE		4	15
Cost of sales		-	-
GROSS PROFIT		4	15
Other income		368	148
Other expenses		(242)	(1,430)
PROFIT / (LOSS) OF ASIA IRON BEFORE TAX AND FINANCE COSTS		130	(1,267)
Finance costs		(16)	(1)
PROFIT / (LOSS) OF ASIA IRON BEFORE INCOME TAX		114	(1,268)
Income tax (expense) / benefit		-	-
NET PROFIT / (LOSS) OF ASIA IRON FOR THE PERIOD AFTER INCOME TAX		114	(1,268)
Gain on deconsolidation of Asia Iron	(b)	26,684	-
Related income tax	(b)	(8,077)	-
NET PROFIT AFTER INCOME TAX RECOGNISED ON DISPOSAL OF ASIA IRON		18,607	-
NET PROFIT / (LOSS) FROM DISCONTINUED OPERATIONS AFTER INCOME TAX		18,721	(1,268)
Earnings per share (cents per share):			
- basic earnings per share – discontinued operations		3.82	(0.33)
- diluted earnings per share – discontinued operations		3.79	(0.33)

Notes to the Half-Year Financial Report (continued)

(b) Details of the gain on deconsolidation of Asia Iron

	Notes	31 December 2006 \$'000
Consideration received or receivable on disposal:		
- Cash received		40,000
- less: transaction costs		(492)
Net cash received on disposal		39,508
- Cash receivable		12,500
Net disposal consideration		52,008
MGI and MGM share of Asia Iron net assets disposed	(c)	24,439
FX translation reserve at disposal date		885
		25,324
Gain on deconsolidation before income tax		26,684
Related income tax expense		(8,077)
Gain on deconsolidation of Asia Iron after income tax		18,607

(c) Carrying amounts of Asia Iron assets and liabilities

The major classes of assets and liabilities of Asia Iron at 21 August 2006, measured at the lower of carrying amount and fair value, were as follows:

		31 December 2006 \$'000
Assets		
Cash		1,654
Trade and other receivables		209
Prepayments		72
Property, plant and equipment		3,149
Deferred acquisition, exploration, evaluation and development costs		40,303
Deferred tax assets		1,367
		46,754
Liabilities		
Trade and other payables		(1,286)
Interest bearing liabilities		(1,500)
Deferred tax liabilities		(7,904)
Liabilities directly associated with assets classified as held for sale		(10,690)
Net assets of discontinued operations disposed		36,064
Less: Minority interest		(11,625)
Net assets attributable to disposal of Asia Iron		24,439

Notes to the Half-Year Financial Report (continued)

(d) Assets associated with discontinued operation

As at 31 December 2006, the balance of the sale proceeds being \$12.5 million is included in Receivables in the Balance Sheet.

(e) Cash flow information

The net cash flow on disposal of Asia Iron is presented below:

	31 December 2006 \$'000	31 December 2005 \$'000
Net cash inflow on disposal		
Net cash consideration received on disposal (b)	39,508	
Less cash and cash equivalents balances disposed (c)	(1,654)	
Net inflow of cash on disposal	37,854	
Net cash flows of Asia Iron		
In respect of the discontinued operation of Asia Iron, the following net cash flows are included in the Condensed Cash Flow statement		
Operating activities	(211)	(492)
Investing activities	(960)	(9,027)
Financing activities	-	10,546
Net cash flows (used by) / from discontinued operation	(1,171)	1,027

6. ACQUISITION OF AZTEC RESOURCES LIMITED

On 24 July 2006, the Company announced its intention to acquire Aztec Resources Limited (“Aztec”).

The acquisition was implemented by means of an off-market scrip takeover bid by the Company for all shares in Aztec. Under the bid, the Company offered Aztec shareholders 1 new share for every 3 Aztec shares.

As at 31 December 2006, the Company had received acceptances under its takeover bid for Aztec for 91.28% of Aztec’s fully paid ordinary shares.

As the applicable thresholds had been reached, the Company announced to ASX on 22 December 2006 that it was commencing the compulsory acquisition process to acquire all the remaining fully paid ordinary shares in Aztec which it does not already own.

The Company gained effective control of Aztec on 30 November 2006.

Notes to the Half-Year Financial Report (continued)

A summary of the consideration paid by the Company and the provisional fair value of identifiable assets and liabilities of Aztec as at the date of acquisition are provided below. The values are provisional because the acquisition took place on 30 November 2006 and there was insufficient time to finalise the fair values for the half-year consolidated financial report.

	\$'000
Consideration	
Issue of Mount Gibson Iron Limited shares to Aztec shareholders	272,267
Shares to be issued pursuant to compulsory acquisition notice	25,603
Costs of the Offer	20,386
Total consideration	318,256

The net cash flow on acquisition is summarised as follows:

Net cash acquired with subsidiary	9,927
Costs associated with the acquisition	(1,579)
	8,348

	Recognised on acquisition \$'000	Carrying value prior to acquisition \$'000
Net Assets of Aztec as at 30 November 2006		
Cash	9,927	9,927
Receivables	2,571	2,571
Prepayments	83	83
Inventories	141	141
Property, plant and equipment	84,984	84,984
Deferred acquisition, exploration, evaluation and development costs	279,398	85,344
Deferred tax asset	192	-
Trade and other payables	(15,081)	(15,081)
Interest bearing liabilities	(18,561)	(18,561)
Provision – employee entitlements	(152)	(152)
Provision - rehabilitation	(10,000)	(10,000)
Hire purchase liabilities	(15,246)	(15,246)
	318,256	124,010

If the combination had taken place at the beginning of the period, the loss before tax from continuing operations for the Consolidated Entity would have been \$1.8 million and revenue from continuing operations would have been \$69.5 million.

Notes to the Half-Year Financial Report (continued)

	Notes	CONSOLIDATED	
		31 December 2006 \$'000	30 June 2006 \$'000
7. INTEREST-BEARING LOANS AND BORROWINGS			
Current			
Lease liability	[a]	2,149	1,594
Hire purchase liability	[b]	4,037	-
Project finance	[c]	35,336	-
		41,522	1,594
Non-Current			
Lease liability	[a]	3,599	4,247
Hire purchase liability	[b]	24,261	-
		27,860	4,247
Financing facilities available			
Total facilities:			
• Project finance facility	[c]	100,000	-
• Hire Purchase facility	[b]	69,262	-
• Bank multiple advance	[d]	20,474	20,474
• Finance leases	[a]	5,748	5,841
• Guarantee facility	[d]	5,526	5,526
• Commercial bill		-	1,500
		201,010	33,341
Facilities used at reporting date:			
• Project finance facility		35,336	-
• Hire Purchase facility		28,298	-
• Bank multiple advance		-	-
• Finance leases		5,748	5,841
• Guarantee facility		5,526	5,526
• Commercial bill		-	1,500
		74,908	12,867
Facilities unused at reporting date:			
• Project finance facility		64,664	-
• Hire Purchase facility		40,964	-
• Bank multiple advance		20,474	20,474
• Finance leases		-	-
• Guarantee facility		-	-
• Commercial bill		-	-
		126,102	20,474

Notes to the Half-Year Financial Report (continued)

Terms and condition relating to the above financial facilities:

- [a] Finance leases are repayable monthly with final instalments due in November 2014. Interest is charged at an average rate of 7.97%. Secured by first mortgage over the leased assets.
- [b] Hire purchase arrangements have been entered into by Koolan Iron Ore Pty Ltd via a Master Lease agreement with Komatsu Corporate Finance Pty Limited and Westpac Banking Corporation Limited. Hire purchase amounts are repayable monthly with final instalments due in December 2011. Interest is charged at an average rate of 6.8%. Secured by first mortgage over the assets the subject of the hire purchase agreement and a guarantee from Aztec Resources Limited.
- [c] The project finance facility is with a banking syndicate comprising Westpac Banking Corporation, Bank of Scotland (Australia) Limited and Bank of Tokyo-Mitsubishi UFJ Ltd. The \$100 million facility consists of:
- Senior debt facility of \$54 million (drawn in US\$);
 - Cost overrun facility of \$10 million (drawn in US\$);
 - Working capital facility of \$30 million; and
 - Environmental bond facility of \$6 million.

The security pledge for these facilities is a fixed and floating charge over all the assets and undertakings of Koolan Iron Ore Pty Ltd with a guarantee from Aztec Resources Limited. Interest is charged at an average rate of 7.22%.

This facility includes a Review Event clause in the event of a change in control which allows the banking syndicate the opportunity to review the creditworthiness of Aztec Resources Limited and the completion risk to the Koolan project as a consequence of the change of control. The banking syndicate may choose after this review to:

- leave the facility unaltered; or
- request further credit support from other companies in the Group; or
- give notice requiring repayment of the facility. Koolan Iron Ore Pty Ltd will have 90 days from the date of this notice to comply otherwise it will then constitute an event of default.

The banking syndicate has been given notice about the review event and has commenced its review. As a result of this review event, the Company is required to disclose this facility as a current liability notwithstanding that it may remain unaltered as a result of this review.

Should, as a result of its review, the banking syndicate require partial or full repayment of the facility, the Board of the Company believes that this can be satisfied by using a combination of available cash on hand and other existing banking facilities or if required by the issue of equity.

The banking syndicate have advised that they will require a Corporate Guarantee from the Company should the corporate debt facility set out below not be completed by 30 April 2007.

- [d] This facility is with HSBC Bank Australia Limited. The security pledge for these facilities is a fixed and floating charge over all the assets and undertakings of Mount Gibson Mining Limited, Mount Gibson Iron Limited and Geraldton Bulk Handling Pty Ltd.

The Company has appointed Grant Samuel to arrange a \$200 million corporate debt facility for the Mount Gibson Group. This facility will replace the Koolan Island project financing facility, replace the existing Company debt facility with HSBC and provide funding for the Extension Hill DSO project development. The Company is targeting finalisation of this corporate facility by the end of April 2007.

Notes to the Half-Year Financial Report (continued)

	Notes	CONSOLIDATED	
		31 December 2006 \$'000	30 June 2006 \$'000
8. ISSUED CAPITAL			
[a] Ordinary shares			
Issued and full paid	[b]	361,128	86,851
Shares to be issued pursuant to compulsory acquisition notice		25,603	-
		386,731	86,851

31 December 2006			
		Number of Shares	\$'000
[b] Movement in ordinary shares on issue			
Beginning of the half-year		402,058,719	86,851
Issue of shares pursuant to Aztec Offer		346,037,396	272,267
Exercise of options		7,236,896	2,010
End of the half- year		755,333,011	361,128

[c] Share options

As at balance date the following Options over unissued Shares were on issue:

		31 December 2006 Number	30 June 2006 Number
Exercise Price	Exercise Date/Period		
25 cents	On or before 31 December 2006	-	7,256,920
50 cents	On or before 31 December 2007	5,000,000	5,000,000
55 cents	On or before 31 December 2008	5,000,000	5,000,000
78 cents	On or before 31 December 2006	-	823,712
90 cents	On or before 30 June 2010	2,000,000	2,000,000
90 cents	On or before 23 October 2010	3,000,000	3,000,000
110 cents	On or before 23 October 2012	2,000,000	2,000,000
		17,000,000	25,080,632

In addition, as at 31 December 2006, there were 3,825,000 (30 June 2006: 4,175,000) options granted but not issued under the Employee Share Scheme. The options were granted on the basis that the employees must complete employment service to 31 December 2007 before the options vest. Once vested the options will be exercisable at 78 cents each and expire on 31 December 2009.

Share options carry no right to dividends and no voting rights.

Notes to the Half-Year Financial Report (continued)

9. DIVIDENDS PAID AND PROPOSED

No amounts have been paid, declared or recommended by the company by way of dividend since the commencement of the half-year.

10. RELATED PARTY DISCLOSURE

Ultimate parent

Mount Gibson Iron Limited is the ultimate Australian parent company.

11. SEGMENT INFORMATION

The Consolidated Entity operates primarily in the mining sector, through the exploration, evaluation and development of its iron ore deposits in Western Australia.

12. EVENTS AFTER THE BALANCE SHEET DATE

On 6 February 2007, the Company issued 32,453,786 shares to the remaining Aztec shareholders on finalisation of the compulsory acquisition of the remaining 8.72% of Aztec that the Company did not already own at 31 December 2006.

13. COMMITMENTS

At 31 December 2006 the Consolidation Entity has commitments of \$19.6 million (30 June 2006: \$nil) relating to capital expenditure, commitments of \$21.5 million (30 June 2006: \$20.0 million) relating to operating leases for the provision of mobile fleet equipment and office rental, and commitments of \$34 million (30 June 2006: \$5.8 million) under finance leases and hire purchase liabilities.

14. CONTINGENCIES

There are no contingent liabilities or contingent assets as at the date of this report.

Directors' Declaration

In accordance with a resolution of the directors of Mount Gibson Iron Limited, I state that:

In the opinion of the Directors:

- a. the financial statements and the notes of the Consolidated Entity are in accordance with the *Corporations Act 2001*, including:
 - i) giving a true and fair view of the financial position as at 31 December 2006 and the performance for the half-year ended on that date of the Consolidated Entity; and
 - ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.



Craig Readhead
Director

Perth, 26 February 2007

To the members of Mount Gibson Iron Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Mount Gibson Iron Limited and the entities it controlled during the half-year, which comprises the condensed balance sheet as at 31 December 2006, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the half-year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 an Interim 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 consolidated entity's financial position as at 31 December 2006 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 and other mandatory financial reporting requirements in Australia. As the auditor of Mount Gibson Iron Limited and the entities it controlled during the half-year, 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. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' 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 interim financial report of Mount Gibson Iron Limited and the entities it controlled during the half-year, is not in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



Gavin A Buckingham
Partner
Perth
26 February 2007