Mount Gibson Iron

Mount Gibson Iron Limited
ABN 87 008 670 817

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11 February 2010

Pages = 26

The Manager
Company Announcements
ASX Limited
Level 10, 20 Bond Street
SYDNEY NSW 2000

SUBJECT: 31 DECEMBER 2009 HALF-YEAR FINANCIAL STATEMENTS

Mount Gibson Iron Limited ("**Mount Gibson**") (ASX Code MGX) is pleased to announce a net profit after tax of $39.4 million for the 6 months ended 31 December 2009. The key financial results for each of the last 3 consecutive six month periods is summarised as follows:

		6 months ended 31 Dec 2008	6 months ended 30 June 2009	6 months ended 31 Dec 2009
Tonnes mined	*wmt (mill)*	2.79	3.12	**3.68**
Tonnes sold	*wmt (mill)*	2.39	3.00	**3.38**
Sales revenue	*$ mill*	230.3	195.2	**242.3**
Interest income	*$ mill*	2.7	3.5	**4.4**
Cost of goods sold	*$ mill*	(124.3)	(169.2)	**(189.1)**
Gross profit	*$ mill*	**108.7**	**29.5**	**57.6**
Other income	*$ mill*	-	-	**13.8**
Admin and other expenses	*$ mill*	(14.7)	(5.4)	**(10.5)**
Provision for doubtful debt	*$ mill*	-	(15.2)	**-**
Unrealised FX (loss) / gain	*$ mill*	(10.1)	0.5	**4.2**
Hedge mark-to-market (loss) / gain	*$ mill*	(54.8)	40.2	**(0.5)**
Operating profit before interest & tax	*$ mill*	**29.1**	**49.6**	**64.6**
Finance costs	*$ mill*	(9.0)	(8.0)	**(8.8)**
Net profit before tax	*$ mill*	**20.1**	**41.6**	**55.8**
Tax (expense)	*$ mill*	(6.8)	(12.3)	**(16.4)**
Net profit after tax	*$ mill*	**13.3**	**29.3**	**39.4**

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

Mount Gibson's Managing Director Luke Tonkin said "the corresponding period last year was one of the most difficult for Mount Gibson with the Company impacted by a number of factors beyond our control. This included the failure of some customers to honour their long term iron ore agreements, the severe downturn in commodity demand and the resulting global financial crisis. The Board, management and employees moved quickly to mitigate the impact of these adverse conditions and has delivered a strong operational and financial performance on the back of the recovery of the Chinese iron ore market. This has provided us with the confidence to recommence construction and development of the Extension Hill Direct Ship Ore Project in the Mid West."

Yours sincerely,
MOUNT GIBSON IRON LIMITED

David Berg
Company Secretary

For further information:

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APPENDIX 4D

This Half Year Report is provided to the Australian Securities Exchange (ASX) under ASX Listing Rule 4.2A.3

Current Reporting Period: 31 December 2009

Previous Corresponding Period: 31 December 2008

RESULTS FOR ANNOUNCEMENT TO THE MARKET

		A$ mill
Revenue from ordinary activities	up 6% to	$246.7
Profit from ordinary activities after tax attributable to members	up 195% to	$39.4
Net profit for the period attributable to members	up 195% to	$39.4

DIVIDENDS

No dividends have been paid or declared during the year

NET TANGIBLE ASSET BACKING

Consolidated Entity		2009	2008
Net Tangible Assets	*$ mill*	839.9	590.2
Fully paid ordinary shares on issue at Balance Date		1,077,174,611	914,355,821
Net tangible asset backing per issued ordinary share as at balance date (cents)	*c/share*	77.9	64.5

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

None.

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 2009 together with any public announcements made by Mount Gibson Iron Limited during the half-year ended 31 December 2009 in accordance with the continuous disclosure obligations under the Corporations Act 2001.

Mount Gibson Iron

MOUNT GIBSON IRON LIMITED AND CONTROLLED ENTITIES

ABN 87 008 670 817

FINANCIAL REPORT

FOR THE HALF-YEAR ENDED

31 DECEMBER 2009

Financial Report

For the half-year ended 31 December 2009

Directors' Report

Your Directors submit their report for the half-year ended 31 December 2009 for the consolidated entity incorporating Mount Gibson Iron Limited ("**Company**" or "**Mount Gibson**") 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.

Neil Hamilton	*Chairman*
Luke Tonkin	*Managing Director*
Craig Readhead	*Non-Executive Director*
Ian Macliver	*Non-Executive Director*
Alan Jones	*Non-Executive Director*
Cao Zhong	*Non-Executive Director*
Chen Zhouping	*Non-Executive Director*
Peter Knowles	*Non-Executive Director (appointed 29 January 2010)*
Lee Seng Hui	*Non-Executive Director (appointed 29 January 2010)*
Alan Rule	*Alternate Director to Luke Tonkin*
Robert Willcocks	*Alternate Director to Cao Zhong*

David Berg 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;
- mining of hematite deposits at Koolan Island;
- development of hematite mining operations at Extension Hill;
- exploration of hematite deposits in Western Australia; and
- review and evaluation of growth opportunities in the resource sector.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 12 January 2010 Mount Gibson announced that it would recommence the Extension Hill project. Construction and development is scheduled to be completed within 15 months incurring $80 million of capital expenditure.

Until November 2008, the Consolidated Entity had in place a number of long term offtake agreements with various traders and steel mills covering life of mine production from each of Tallering Peak, Koolan Island and Extension Hill. Those agreements provided for the Consolidated Entity to sell ore at prices determined by reference to the Hamersley Benchmark Iron Ore Price. During the December 2008 quarter the Company announced that a number of its customers had failed to collect iron ore cargoes in accordance with binding long term offtake agreements. Agreements with three of these customers namely, Pioneer Iron and Steel Group Co Ltd, Rizhao Steel Holding Group Co Ltd ("**Rizhao**") and Sinom (Hong Kong) Ltd, were subsequently terminated in accordance with their terms. Mount Gibson reached a settlement with Sinom (Hong Kong) Ltd on 29 October 2009 – see further details in Note 6 to these half-year financial statements.

Arbitration proceedings have commenced between Mount Gibson and the other two former customers. Mount Gibson is seeking to recover the losses it claims arising from the breach and subsequent termination of the agreements. Rizhao have issued a counterclaim on the basis that the termination by Mount Gibson was not justified and also alleging that Mount Gibson engaged in misleading and deceptive conduct. Mount Gibson is very confident that the counterclaim is without substance. The arbitrations are progressing.

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 2009 were:

	CONSOLIDATED	
	31 December 2009 $'000	**31 December 2008 $'000**
Operating profit from Continuing Operations before tax	**55,759**	**20,122**
Taxation expense	(16,404)	(6,793)
Net profit after tax attributable to Members of the Company	**39,355**	**13,329**

Tallering Peak Hematite Operations

Tallering Peak continued the corresponding half-year's strong physical performance. Ore tonnes mined and crusher throughput both increased compared to the corresponding half year.

Waste movement decreased 23.3% compared to the corresponding half year reflecting an increased focus on ore mining and the operation's reducing strip ratio. Ore production was 55.5% higher compared with the corresponding half year with the majority of ore being sourced from the T6A2 cutback. Ore production was increased in the September quarter to ensure necessary crushed ore stocks were in place prior to a scheduled 17 day shutdown of the crushing plant in late November for planned maintenance and feeder upgrade.

The T6A1 cutback was completed during the September quarter. The production focus for the December quarter was the T6A2 and T6A3 cutbacks. Additional ore was also sourced from the T5 pit.

Crusher throughput increased by 24.5% compared to the corresponding half year whilst ore sales were 26.4% above the corresponding half year. Pleasingly, lump ore sales were 67.7% higher than the corresponding half year and 44% higher than the June 2009 half year.

PRODUCTION SUMMARY FOR 6 MONTHS	**Unit**	**Sept Qtr 2009 '000**	**Dec Qtr 2009 '000**	**YTD 2009 '000**	**YTD 2008 '000**	***% incr / (decr)***
Mining						
- Waste Mined	*bcm*	1,509	1,781	**3,290**	***4,289***	***(23.3%)***
- Ore Mined	*wmt*	1,063	792	**1,855**	***1,193***	***55.5%***
Crushing						
- Lump	*wmt*	431	391	**822**	*769*	*6.9%*
- Fines	*wmt*	425	347	**772**	*511*	*51.1%*
Total	*wmt*	**856**	**738**	**1,594**	***1,280***	***24.5%***
Transport to Mullewa Railhead						
- Lump	*wmt*	421	382	**803**	*753*	*6.6%*
- Fines	*wmt*	277	466	**743**	*538*	*38.1%*
Total	*wmt*	**698**	**848**	**1,546**	***1,291***	***19.8%***
Transport to Geraldton Port						
- Lump	*wmt*	546	440	**986**	*556*	*77.3%*
- Fines	*wmt*	179	350	**529**	*602*	*(12.1%)*
Total	*wmt*	**725**	**790**	**1,515**	***1,158***	***30.8%***
Shipping						
- Lump	*wmt*	507	476	**983**	*586*	*67.7%*
- Fines	*wmt*	214	301	**515**	*599*	*(14.0%)*
Total	*wmt*	**721**	**777**	**1,498**	***1,185***	***26.4%***

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

		6 Months ended 31 Dec 2009	**6 Months ended 30 June 2009**	**6 Months ended 31 Dec 2008**	**6 Months ended 30 June 2008**
Waste mined	*mill bcm*	3.29	3.23	4.29	4.77
Ore mined	*mill bcm*	0.42	0.27	0.28	0.49
Ore mined	*mill wmt*	1.86	1.19	1.19	2.07
Waste expenditure capitalised	*$ mill*	40.7	39.3	50.6	46.6
Waste expenditure amortised	*$ mill*	(53.3)	(33.5)	(35.6)	(43.6)

Koolan Island Hematite Project

Koolan Island continued to perform strongly during the half year with total material movement increasing to a record high of 7.8 million BCM which represents an 8% increase on the corresponding half year.

Koolan Island shipped a near record 1,883,000 tonnes of iron ore during the half year which was 56% above the corresponding period last year.

Ore crushed exceeded the previous half year by 35.2%. Total material movement at Koolan Island was adversely affected by Tropical Cyclone Laurence in December which exposed Koolan Island to Category 4 cyclonic winds and heavy rain exceeding 500mm. Infrastructure on site experienced only minor damage whilst the open pits captured 564,000 tonnes of rain water. Operations were reestablished within 7 days of the cyclone passing with full operations not possible in the low lying Eastern Pit until the second half of January.

High grade ore was predominantly sourced from East Pit and Mullet Pit whilst the development of the Barramundi West Pit progressed as scheduled. The southern cutback of Mullet Pit progressed as planned and will merge with the Acacia cutback during the March 2010 quarter. Development of the Main Pit focused on the continued mining of the Stage 1 Main Pit cutback whilst the mining of Crusher Hill and Blinker Hill continued as scheduled, providing waste material for the construction of the Main Pit seawall.

Rehabilitation of Main Pit recommenced in July 2009 and seawall construction and the dewatering of Main Pit continued as planned during the half year. The temporary seawall and main seawall under construction, withstood the severe cyclonic conditions ensuring any storm surge was restricted from entering the Main Pit.

The monsoonal wet season generally runs from December to March and may impact operations should higher than average rain events occur or cyclonic activity occur during this period. As a consequence, Mount Gibson budgets lower output from Koolan Island during the wet season than would otherwise be expected during the dry season.

PRODUCTION SUMMARY FOR 6 MONTHS	Unit	Sept Qtr 2009 '000	Dec Qtr 2009 '000	YTD 2009 '000	YTD 2008 '000	*% incr / (decr)*
Mining						
- Waste mined	*bcm*	3,974	3,276	**7,250**	***6,745***	***7.5%***
- Ore mined	*wmt*	1,054	770	**1,824**	***1,598***	***14.1%***
Crushing						
- Lump	*wmt*	298	348	**646**	*525*	*23.0%*
- Fines	*wmt*	664	627	**1,291**	*908*	*42.2%*
Total		**962**	**975**	**1,937**	***1,433***	***35.2%***
Shipping						
- Lump	*wmt*	355	284	**639**	*583*	*9.6%*
- Fines	*wmt*	581	664	**1,245**	*624*	*99.5%*
Total		**936**	**948**	**1,884**	***1,207***	***56.1%***

Significant expenditure on waste development at Koolan Island during the half-year was as follows:

		6 Months ended 31 Dec 2009	6 Months ended 30 June 2009	6 Months ended 31 Dec 2008	6 Months ended 30 June 2008
Waste mined	*mill bcm*	7.25	5.12	6.75	4.61
Ore mined	*mill bcm*	0.58	0.65	0.48	0.42
Ore mined	*mill wmt*	1.82	1.92	1.60	1.47
Waste expenditure capitalised	*$ mill*	88.6	71.9	88.1	70.3
Waste expenditure amortised	*$ mill*	(54.7)	(57.8)	(47.9)	(26.6)

Extension Hill Direct Shipping Ore Project

Located in the Mount Gibson Ranges, 85 kilometres east of Perenjori and 260 kilometres east south east of Geraldton, the Extension Hill hematite deposit has Ore Reserves of 14.3 million tonnes and Mineral Resources of 22.1 million tonnes.

During the 2007/08 financial year the Mount Gibson Board approved the Detailed Feasibility Study ("**DFS"**) for production and sale of 3 Mtpa of hematite ore from the Extension Hill Direct Shipping Ore project ("**DSO Project"**). The DFS evaluated multiple operating options with related costs, timing and risks. The study demonstrated that the project will provide strong financial returns in a short time-frame, with minimal technical risks and relatively low capital requirements.

Development and construction commenced in July 2008 with the commencement of operations at Extension Hill originally scheduled for the June quarter of 2009.

As a result of customer offtake defaults in October 2008, Mount Gibson announced that all works associated with the Extension Hill Project were suspended.

On 12 January 2010 Mount Gibson announced that it would recommence the Extension Hill project. Construction and development is scheduled to be completed within 15 months incurring $80 million of capital expenditure.

Mount Gibson has executed Life of Mine ore sales agreements with each of Shougang Concord International Enterprises Company Limited and APAC Resources Limited for all the ore production from Extension Hill.

Mount Gibson also has in place track access and rail haulage agreements to cater for at least 3 million tonnes per annum of production. All the rail wagons required to meet Extension Hill's production targets have been delivered and a $90 million upgrade of the existing line between Geraldton and Perenjori by Westnet Rail Pty Ltd will be completed by June 2011, with ore shipments to commence thereafter.

The DSO Project will have very similar operational characteristics to Mount Gibson's Tallering Peak operation with the added advantage of a lower strip ratio. Ore mined from Extension Hill will be crushed and screened on site, transported by sealed road 85 kilometres to Perenjori and loaded onto rail wagons for a 235 kilometre journey to the Geraldton Port. Ore will be stored at the Geraldton Port at Mount Gibson's ore storage facilities being constructed next to the new Berth 5 iron ore ship loading facility and loaded from Berth 5 for export. An upgrade of rail unloading facilities necessary to ensure greater utilisation of the latent capacity at the Geraldton Port remains with the GPA to construct.

SIGNIFICANT EVENTS AFTER BALANCE DATE

- As set out above, on 12 January 2010, Mount Gibson announced that it would recommence the Extension Hill project. Construction and development is scheduled to be completed within 15 months incurring $80 million of capital expenditure.

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.

ERNST & YOUNG

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11 Mounts Bay Road
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GPO Box M939 Perth WA 6843
Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
www.ey.com/au

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 2009, 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

Ernst & Young

Gavin A. Buckingham

Gavin A. Buckingham
Partner
11 February 2010

Liability limited by a scheme approved under Professional Standards Legislation.

Signed in accordance with a resolution of the Directors.

Neil Hamilton
Director

Perth, Western Australia

11 February 2010

Income Statement

For the half-year ended 31 December 2009

	Notes	CONSOLIDATED	
		31 December 2009	**31 December 2008**
		$'000	**$'000**
CONTINUING OPERATIONS			
Sale of goods	3[a]	242,310	230,243
Other revenue	3[a]	4,424	2,690
TOTAL REVENUE		**246,734**	**232,933**
Cost of sales	3[d]	(189,136)	(124,331)
GROSS PROFIT		**57,598**	**108,602**
Other income	3[b]	17,967	-
Derivatives mark-to-market loss - unrealised		(472)	(54,828)
Administration expenses	3[e]	(10,508)	(24,671)
PROFIT FROM CONTINUING OPERATIONS BEFORE INCOME TAX AND FINANCE COSTS		**64,585**	**29,103**
Finance costs	3[c]	(8,826)	(8,981)
PROFIT FROM CONTINUING OPERATIONS BEFORE INCOME TAX		**55,759**	**20,122**
Income tax (expense)		(16,404)	(6,793)
NET PROFIT FOR THE PERIOD AFTER INCOME TAX ATTRIBUTABLE TO OWNERS OF THE COMPANY		**39,355**	**13,329**

Earnings per share for profit attributable to the ordinary equity holders of the Parent:	**Cents per share**	**Cents per share**
- basic earnings per share	3.66	1.66
- diluted earnings per share	3.65	1.66

Statement of Comprehensive Income

For the half-year ended 31 December 2009

	Notes	CONSOLIDATED	
		31 December 2009 $'000	**31 December 2008 $'000**
NET PROFIT FOR THE PERIOD AFTER INCOME TAX		**39,355**	**13,329**
OTHER COMPREHENSIVE INCOME			
Change in fair value of cash flow hedges		18,353	(119,991)
Transferred to revenue in Income Statement		9,314	(5,175)
Deferred income tax on cash flow hedges		(8,300)	38,044
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		**19,367**	**(87,122)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**58,722**	**73,793**

Statement of Financial Position

As at 31 December 2009

	Notes	CONSOLIDATED 31 December 2009 $'000	30 June 2009 $'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		271,975	222,173
Trade and other receivables	6	25,833	17,224
Inventories		114,634	111,760
Prepayments		3,906	2,330
Derivatives		11,780	2,077
Other		-	15,107
TOTAL CURRENT ASSETS		**428,128**	**370,671**
NON-CURRENT ASSETS			
Trade and other receivables	6	2,025	-
Derivative financial assets		-	147
Property, plant and equipment		172,338	184,505
Deferred acquisition, exploration, evaluation and development costs		55,735	53,784
Mine properties		517,937	503,839
TOTAL NON-CURRENT ASSETS		**748,035**	**742,275**
TOTAL ASSETS		**1,176,163**	**1,112,946**
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		77,485	75,103
Interest-bearing loans and borrowings	7	60,915	112,508
Derivative financial liabilities	10	2,258	14,356
Provisions		3,089	2,489
TOTAL CURRENT LIABILITIES		**143,747**	**204,456**
NON-CURRENT LIABILITIES			
Provisions		18,714	18,303
Interest-bearing loans and borrowings	7	93,662	49,080
Derivative financial liabilities		-	6,942
Deferred income tax liabilities		78,688	53,684
TOTAL NON-CURRENT LIABILITIES		**191,064**	**128,009**
TOTAL LIABILITIES		**334,811**	**332,465**
NET ASSETS		**841,352**	**780,481**
EQUITY			
Issued capital	8	557,567	556,032
Retained earnings		253,178	213,823
Reserves		30,607	10,626
TOTAL EQUITY		**841,352**	**780,481**

Statement of Cash Flows

For the half-year ended 31 December 2009

	Notes	CONSOLIDATED 31 December 2009 $'000	CONSOLIDATED 31 December 2008 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		245,509	285,964
Payments to suppliers and employees		(181,546)	(201,875)
Interest paid		(7,150)	(7,723)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**56,813**	**76,366**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		4,066	2,405
Proceeds from convertible notes		1,000	-
Proceeds from sale of property, plant and equipment		4	-
Purchase of property, plant and equipment		(2,557)	(7,999)
Payment for deferred exploration, evaluation and development expenditure		(2,725)	(23,042)
Payment for mine development		(7,760)	(12,764)
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES		**(7,972)**	**(41,400)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares		1,696	66,442
Payment for capital raising costs		-	(788)
Payment for performance bonds		-	(5,105)
Proceeds from performance bonds		15,107	-
Repayment of lease liabilities		(9,154)	(6,022)
Repayment of borrowings		(801)	-
Borrowing costs		(5,887)	(1,026)
NET CASH FLOWS FROM FINANCING ACTIVITIES		**961**	**53,501**
NET INCREASE IN CASH AND CASH EQUIVALENTS		49,802	88,467
Cash and cash equivalents at beginning of period		222,173	48,658
CASH AND CASH EQUIVALENTS AT END OF PERIOD	5[a]	**271,975**	**137,125**

Statement of Changes in Equity

For the half-year ended 31 December 2009

CONSOLIDATED	Issued Capital	Retained Earnings	Share Based Payments Reserve	Net Unrealised Gains / (Losses) Reserve	Consolidation Reserve	Total Equity
	Attributable to Equity Holders of the Parent					
	$'000	$'000	$'000	$'000	$'000	$'000
At 1 July 2008	**397,197**	**171,205**	**14,510**	**16,772**	**(3,192)**	**596,492**
Profit for the period	-	13,329	-	-	-	**13,329**
Other comprehensive income	-	-	-	(87,122)	-	**(87,122)**
Total comprehensive income for the period	**-**	**13,329**	**-**	**(87,122)**	**-**	**(73,793)**
Transactions with owners in their capacity as owners						
- Placement of shares	66,000	-	-	-	-	**66,000**
- Capital raising costs	(1,679)	-	-	-	-	**(1,679)**
- Deferred income tax on capital raising costs	(72)	-	-	-	-	**(72)**
- Exercise of options	442	-	-	-	-	**442**
- Share based payments	-	-	2,768	-	-	**2,768**
At 31 December 2008	**461,888**	**184,534**	**17,278**	**(70,350)**	**(3,192)**	**590,158**
At 1 July 2009	**556,032**	**213,823**	**17,641**	**(3,823)**	**(3,192)**	**780,481**
Profit for the period	-	39,355	-		-	**39,355**
Other comprehensive income	-	-	-	19,367	-	**19,367**
Total comprehensive income for the period	**-**	**39,355**	**-**	**19,367**	**-**	**58,722**
Transactions with owners in their capacity as owners						
- Exercise of options	1,696	-	-	-	-	**1,696**
- Deferred income tax on capital raising costs	(161)	-	-	-	-	**(161)**
- Share based payments	-	-	614	-	-	**614**
At 31 December 2009	**557,567**	**253,178**	**18,255**	**15,544**	**(3,192)**	**841,352**

Notes to the Half-Year Financial Report

For the half-year ended 31 December 2009

1. CORPORATE INFORMATION

The financial report of Mount Gibson Iron Limited for the half-year ended 31 December 2009 was authorised for issue in accordance with a resolution of the directors on 11 February 2010.

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. BASIS OF PREPARATION AND ACCOUNTING POLICIES

(a) Basis of preparation

This general purpose condensed financial report for the half-year ended 31 December 2009 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001.*

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 2009. 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 2009 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001* and Stock Exchange Listing Rules.

Except as noted below, 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 2009.

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) Changes in accounting policies

From 1 July 2009 the Consolidated Entity has adopted all Australian Accounting Standards and Interpretations mandatory for annual periods beginning on or after 1 July 2009, including:

- AASB 8 *Operating Segments*

  This standard requires the disclosure of information about the Consolidated Entity's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Consolidated Entity. Adoption of this standard did not have any effect on the financial position or performance of the Consolidated Entity.

- AASB 101 Revised *Presentation of Financial Statements*

  The revised standard separates owner and non-owner changes in equity and requires a statement of comprehensive income to be prepared which discloses all changes in equity during a period resulting from non-owner transactions. The Consolidated Entity has elected to present comprehensive income using the two statement approach.

- AASB 123 Revised *Borrowing Costs*

  The standard has been revised to require capitalisation of borrowing costs on qualifying assets. The Consolidated Entity's existing policy is consistent with the revised standard hence no change in accounting policy has been made.

The Consolidated Entity has not elected to early adopted any new standards or amendments.

Notes to the Half-Year Financial Report (continued)

	Notes	CONSOLIDATED 31 December 2009 $'000	CONSOLIDATED 31 December 2008 $'000
3. REVENUE AND EXPENSES			
[a] Revenue			
Sale of ore		232,996	235,418
Realised gain/(loss) on foreign exchange hedges		9,314	(5,175)
		242,310	230,243
Other revenue			
Interest income		4,424	2,690
[b] Other income			
Arbitration settlement	6	13,773	-
Net realised gain on foreign exchange		34	-
Net unrealised gain on foreign exchange		4,157	-
Gain on sale of property, plant and equipment		3	-
		17,967	-
[c] Finance costs			
Loans		6,250	6,206
Finance charges payable under finance leases		2,212	2,775
		8,462	8,981
Unwinding of discount on rehabilitation provision		364	-
		8,826	8,981
[d] Cost of Sales			
Mining costs		126,640	134,822
Mining waste costs deferred		(129,276)	(138,621)
Amortisation of mining waste costs deferred		108,042	83,591
Amortisation of other mine properties		13,783	12,340
Crushing costs		10,711	12,956
Transport costs		16,947	14,306
Port costs		9,482	5,805
Royalties		16,440	17,510
Depreciation		15,935	13,567
Net ore inventory movement		432	(31,945)
		189,136	124,331
[e] Administration Expenses include:			
Depreciation		140	1,782
Share-based payments expense		614	2,768
Exploration and evaluation costs written off		15	17
Net realised loss on foreign exchange		-	3,856
Net unrealised loss on foreign exchange		-	10,071
[f] Cost of Sales & Administration expenses include:			
Salaries, wages expense and other employee benefits		20,896	18,179
Operating lease rental – minimum lease payments		5,872	11,037

Notes to the Half-Year Financial Report (continued)

4. OPERATING SEGMENTS

The Consolidated Entity is mining and processing iron ore in Western Australia. Each area of operation has been aggregated and therefore the operations of the Consolidated Entity present one operating segment under AASB 8 *Operating Segments*.

The accounting policies applied for internal reporting purposes are consistent with those applied in the preparation of the interim financial report.

	CONSOLIDATED	
	31 December 2009 $'000	**30 June 2009 $'000**
5. CASH AND CASH EQUIVALENTS		
[a] Reconciliation of cash		
Cash at bank and in hand	47,477	27,966
Short-term deposits	224,498	194,207
	271,975	**222,173**

[b] Non-cash financing activities

During the period ended 31 December 2009, the Consolidated Entity acquired property, plant and equipment with an aggregate fair value of $1,395,000 (2008: $14,508,000) by means of finance leases and hire purchase agreements.

6. TRADE AND OTHER RECEIVABLES

Included within the Trade and Other Receivables balance is an amount of $11,074,000 relating to the settlement amount owing by Sinom (Hong Kong) Ltd ("**Sinom**"). $2,025,000 is shown in Non-Current Assets.

On 29 October 2009, Mount Gibson advised ASX that it has entered into a settlement agreement with Sinom in relation to the arbitration proceedings brought by Mount Gibson against Sinom which arose from Sinom not taking scheduled iron ore shipments in September and October 2008 under the long term offtake agreement and the subsequent termination of that agreement by Mount Gibson.

The terms of the settlement are as follows:

- Sinom will pay Mount Gibson US$30,000,000 in staged quarterly payments commencing on 10 November 2009 and ending on 10 May 2011. If there has been no default by Sinom under the settlement agreement then the amount will be reduced to:
    - US$25,000,000 if Sinom pays it in full before 10 May 2010; or
    - US$27,500,000 if Sinom pays it in full before 10 February 2011

Mount Gibson has been granted security by parties related to Sinom for these payments.

Mount Gibson received the first US$2,500,000 on 10 November 2009 and the second US$5,000,000 on 10 February 2010.

The amount recorded as a receivable at 31 December 2009 is the net present value of anticipated future cash flows to be received from Sinom discounted to reflect Mount Gibson's assessment of Sinom's credit and transaction completion risks.

Notes to the Half-Year Financial Report (continued)

	Notes	CONSOLIDATED	
		31 December 2009 $'000	30 June 2009 $'000
7. INTEREST-BEARING LOANS AND BORROWINGS			
Current			
Lease liability	[a]	3,935	3,972
Hire purchase facility	[b]	10,314	10,357
Corporate Debt	[c]	50,000	105,000
Capitalised corporate debt facility costs		(3,334)	(6,821)
		60,915	**112,508**
Non-Current			
Lease liability	[a]	4,767	6,711
Hire purchase facility	[b]	36,363	42,369
Corporate Debt	[c]	54,199	-
Capitalised corporate debt facility costs		(1,667)	-
		93,662	**49,080**
Financing facilities available			
At reporting date, the following financing facilities had been negotiated and were available:			
Total facilities:			
• Finance leases	[a]	8,702	10,683
• Hire purchase facility	[b]	46,677	52,726
• Contingent Instrument facility	[c]	65,000	25,000
• Corporate Debt	[c]	105,000	175,000
		225,379	**263,409**
Facilities used at reporting date:			
• Finance leases	[a]	8,702	10,693
• Hire purchase facility	[b]	46,677	52,726
• Contingent Instrument facility	[c]	30,891	16,704
• Corporate Debt	[c]	104,199	105,000
		190,469	**185,113**
Facilities unused at reporting date:			
• Finance leases		-	-
• Hire purchase facility		-	-
• Contingent Instrument facility		34,109	8,296
• Corporate Debt		801	70,000
		34,910	**78,296**

Notes to the Half-Year Financial Report (continued)

Terms and conditions relating to the above financial facilities:

[a] **Finance Lease Facility**

Finance leases are repayable monthly with final instalments due in July 2012. Interest is charged at an average rate of 8.92%. Secured by first mortgage over the leased assets.

[b] **Hire Purchase Facility**

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 National Australia Bank Limited. Hire purchase amounts are repayable monthly with final instalments due in September 2013. Interest is charged at an average rate of 7.5%. Secured by first mortgage over the assets the subject of the hire purchase agreement and a guarantee from Mount Gibson Iron Limited. This facility is drawn and repayable in US$ for Komatsu and A$ for NAB.

[c] **Corporate Debt and Contingent Instrument Facility**

On 28 August 2007 the Company entered into a Facility Agreement with a Banking Syndicate for a $200,000,000 debt facility to fund the refinance of the existing finance facilities and provide additional debt funding for the Koolan Island and Extension Hill iron ore developments.

At 30 June 2008 the $200,000,000 facility consisted of:

- Senior debt facility of $175,000,000 comprising 2 tranches:
  1. Tranche 1 of $125,000,000;
  2. Extension Hill tranche of $50,000,000 which was only drawable against the Extension Hill DSO project after certain conditions precedent have been satisfied including EPA approval and Company Board approval for the project to proceed. These conditions precedent to drawdown were satisfied on 23 September 2008; and
- Contingent Instrument facility of $25,000,000 (including guarantees, performance bonds).

On 30 June 2009 the Company signed an Amended Facility Agreement to amend the Senior debt facility and Contingent Instrument facility as follows:

- Senior Corporate debt facility of $105,000,000 with the following repayment schedule:
  - $25,000,000 on 30 September 2010;
  - $25,000,000 on 30 December 2010;
  - $25,000,000 on 31 March 2011;
  - $30,000,000 on 30 June 2011; and
- Contingent Instrument facility of $65,000,000 (including guarantees, performance bonds) comprising 2 tranches:
  1. Tranche 1 for Koolan Island and Tallering Peak of $20,000,000;
  2. Tranche 2 for Extension Hill of $45,000,000.

The final condition precedent of the Amended Facility Agreement was satisfied in August 2009. As all conditions precedent had not been satisfied under the Amended Facility Agreement at 30 June 2009, the Corporate Debt facility of $105,000,000 was recorded as a current liability at that date.

The security pledge for these facilities is a fixed and floating charge over all the assets and undertakings of Mount Gibson Iron Limited, Mount Gibson Mining Limited, Geraldton Bulk Handling Limited, Koolan Iron Ore Pty Ltd and Aztec Resources Limited together with mining mortgages over the mining tenements owned by Mount Gibson Mining Limited and Koolan Iron Ore Pty Ltd and the contractual rights of Mount Gibson Mining Limited to mine hematite at Extension Hill.

Notes to the Half-Year Financial Report (continued)

	Notes	CONSOLIDATED 31 December 2009 $'000	30 June 2009 $'000
8. ISSUED CAPITAL			
[a] Ordinary shares			
Issued and full paid	[b]	**558,851**	**556,032**

	31 December 2009 Number of Shares	$'000
[b] Movement in ordinary shares on issue		
Beginning of the half-year	**1,075,228,611**	**556,032**
Exercise of options	1,946,000	1,696
Capital raising costs	-	-
Deferred income tax on capital raising costs	-	(161)
End of the half- year	**1,077,174,611**	**557,567**

[c] Share options

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

Exercise Price	Exercise Date/Period	31 December 2009 Number	30 June 2009 Number
78 cents	On or before 31 December 2009	-	250,000
89 cents	On or before 31 December 2009	-	1,621,000
299 cents	On or before 31 December 2009	-	6,900,000
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
		7,000,000	**15,771,000**

In addition, as at 31 December 2009, there were nil (2008: 7,250,000) options granted but not issued under the Employee Share Scheme.

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

[d] Performance rights

The Company has established the Mount Gibson Iron Limited Performance Rights Plan. The rights were granted at no cost to the executives and will convert into ordinary shares on completion by the executive of three years' continuous service, subject to satisfaction of specified performance hurdles related to the Company's Total Shareholder Return ("**TSR**") measured against the TSR of a comparator group of companies over the same period.

During the 6 month period to 31 December 2009, no performance rights were issued.

As at 31 December 2009 there were 888,759 performance rights on issue (2008: 396,082).

At the AGM held on 18 November 2009, shareholders approved the issue, in future, of additional performance rights to certain executives.

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. FOREIGN EXCHANGE HEDGING

The Consolidated Entity is exposed to the risk of adverse movement in the A$ compared to the US$ as its iron ore sales receipts are denominated in US$. The Consolidated Entity uses derivative financial instruments to manage specifically identified foreign currency exposures by hedging a proportion of forecast US$ sales transactions in accordance with its risk management policy being a minimum of 50% and maximum of 70% of the next 12 months of forecast US$ sales. The primary objective of using derivative financial instruments is to reduce the volatility of earnings and cashflows attributable to changes in the US$/A$ exchange rate and to protect against adverse movements in these rates. In addition, the majority of the hire purchase liabilities for the mining equipment at Koolan Island are denominated in US$.

The Consolidated Entity recognises derivative financial instruments at fair value at the date the derivative contract is entered into. The Consolidated Entity applies hedge accounting to forward foreign currency contracts that meet the criteria of cash flow hedges.

During the period from 1 July 2009 to 31 December 2009 the Consolidated Entity delivered into US dollar foreign exchange forward contracts totalling US$134,750,000 at a weighted average A$ rate of 0.807.

At 31 December 2009, the profile of the outstanding US dollar foreign exchange forward contracts totalling US$220,350,000 was:

- U$134,350,000 due in the 6 months ending 30 June 2010 - weighted average A$ rate of 0.846; and
- U$86,000,000 due in the 6 months ending 31 December 2010 - weighted average A$ rate of 0.842.

As at 31 December 2009, the mark-to-market gain on the total outstanding US dollar foreign exchange forward contracts of US$220,350,000 was A$10,626,000.

The hire purchase liabilities for the mining equipment at Koolan are denominated in USD. This non-derivative liability has been designed as a hedging instrument in a cash flow hedge to manage foreign exchange risk on highly probable U$ denominated sales with effect from 1 November 2009.

It is the Consolidated Entity's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

Notes to the Half-Year Financial Report (continued)

11. EVENTS AFTER THE BALANCE SHEET DATE

- On 12 January 2010, Mount Gibson announced that it would recommence the Extension Hill project. Construction and development is scheduled to be completed within 15 months incurring $80 million of capital expenditure.

12. COMMITMENTS

At 31 December 2009 the Consolidated Entity has commitments of:

- $7,960,000 (31 December 2008: $5,146,000) relating to operating leases for the provision of mobile fleet equipment and office rental;
- $55,379,000 (31 December 2008: $63,409,000) under finance leases and hire purchase liabilities which have been recognised in the Statement of Financial Position; and
- $24,895,000 (31 December 2008: $nil) in relation to performance bonds to be issued progressively by 30 June 2010 pursuant to the Extension Hill rail contracts.

13. CONTINGENCIES

1. The Corporate Debt banks have provided the Consolidated Entity with performance bonds totalling $30,891,000 (2008: $19,566,000). The performance bonds relate to performance of environmental obligations and rail upgrades.
2. Legal proceedings have been initiated against Mount Gibson Mining Limited ("**MGM**") by Austman Pty Ltd ("**Austman**") in relation to a contract for the design and construction of the crusher at Extension Hill. Austman is seeking orders that MGM pay it the sum of $6,896,545 on a quantum meruit basis or alternatively as damages for breach of contract, plus interest accruing from 2 September 2008 until judgment plus costs. MGM denies the claim and will vigorously defend it. MGM is also counterclaiming damages from Austman for breach of contract. The precise quantum of MGM's claim has not yet been established but is expected to exceed $1,000,000.

There are no other 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 2009 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.

Neil Hamilton
Director

Perth, 11 February 2010

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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 which comprises the statement of financial position as at 31 December 2009, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the half year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity 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 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 establishing 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 Interim and Other Financial Reports 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 2009 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 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.

Liability limited by a scheme approved
under Professional Standards Legislation

Ernst & Young

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 is not in accordance with the *Corporations Act 2001*, including:

i giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 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.

Ernst & Young

Ernst & Young

Gam Buckingham

G A Buckingham
Partner
Perth

11 February 2010