Mount Gibson Iron

Mount Gibson Iron Limited
ABN 87 008 670 817

First Floor, 7 Havelock Street
West Perth 6005, Western Australia

PO Box 55, West Perth WA 6872

Telephone: 61-8-9426-7500
Facsimile: 61-8-9485 2305
E-mail: admin@mtgibsoniron.com.au

VIA: WWW.ASXONLINE.COM

11 August 2010

Pages = 79

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

30 JUNE 2010 APPENDIX 4E

RESULTS FOR ANNOUNCEMENT TO THE MARKET

This Preliminary Final Report for Mount Gibson Iron Limited and its subsidiaries ("**Mount Gibson**") (ASX Code: MGX) is provided to ASX ("**ASX**") under ASX Listing Rule 4.3A.

Financial Highlights

- Sales revenue of $536.3 million — up 26% on the previous year
- Operating profit before tax $188.3 million — up 205 % on the previous year
- Net profit after tax of $132.4 million — up 211% on the previous year
- Total assets total $1,296.0 million — up 16% on the previous year
- Net assets total $926.9 million — up 19% on the previous year
- Cash on hand and term deposits at 30 June 2010 - $347.4 million
- Debt drawn at 30 June 2010 - $85.0 million

The Preliminary Final Report (Appendix 4E) and audited Financial Statements for the year ended 30 June 2010 are attached.

The Annual General Meeting will be held on 17 November 2010 and the Annual Report will be sent to shareholders on or before 19 October 2010.

Yours sincerely,
MOUNT GIBSON IRON LIMITED

David Berg
Company Secretary

For further information:

Luke Tonkin or Alan Rule
Mount Gibson Iron Limited
+61-8-9426-7500
www.mtgibsoniron.com.au

David Griffiths
Gryphon Management Australia
+61(0)419-912-496
www.gryphon.net.au

- Current Reporting Period: 12 months ended 30 June 2010
- Previous Corresponding Period: 12 months ended 30 June 2009

		A$'000's
Revenue from ordinary activities	up 26% to	536,282
Net profit after tax from ordinary activities	up 211% to	132,395
Net profit after tax attributable to members	up 211% to	132,395

DIVIDENDS

No dividends have been paid or declared during the year

RATIO'S

- Net tangible asset backing per share is $0.858 (2009: $0.726)

  Net tangible asset backing per share has been calculated by dividing the net tangible assets excluding minority interest share by the closing number of ordinary shares on issue.

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

Not applicable.

STATUS OF AUDIT

This Preliminary Final Report is based on accounts that have been audited.

This Preliminary Final Report is to be read in conjunction with the attached Financial Statements for the year ended 30 June 2010 together with any public announcements made by Mount Gibson during the year ended 30 June 2010 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

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED

30 JUNE 2010

Financial Report

For the year ended 30 June 2010

Directors' Report

Your Directors submit their report for the year ended 30 June 2010 for Mount Gibson Iron Limited ("**Company**" or "**Mount Gibson**") and the consolidated entity incorporating the entities that it controlled during the financial year ("**Group**").

DIRECTORS

The names and details of the Company's Directors in office during the financial period and until the date of this report are set out below. Directors were in office for the entire period unless otherwise stated.

Names, Qualifications, Experience and Special Responsibilities

Neil Hamilton
LLB, AICD
Chairman, Independent Non-Executive Director

Mr Hamilton was appointed as the Non-Executive Chairman on 24 April 2007. Mr Hamilton has more than 23 years experience as a director of public companies. Mr Hamilton is the Chairman of the Nomination, Remuneration and Governance Committee of the Company and has overall responsibility for Corporate Governance. Mr Hamilton is the Chairman of Oz Minerals Ltd and Miclyn Express Offshore Ltd and Non-Executive Director of Metcash Limited. During the past three years Mr Hamilton served as a director of IRESS Market Technology Limited, Northern Iron Limited, Programmed Maintenance Services Limited and Insurance Australia Limited.

Luke Tonkin
B.E., MAusIMM, AICD
Managing Director

Mr Tonkin was appointed as the Managing Director on 25 October 2005. Mr Tonkin has extensive experience in the resource industry traversing multi-commodities of gold, nickel, tantalum, tin & lithium. He has held General Management roles within some of Australia's largest, more complex operations namely WMC's Kambalda Nickel Operations, St Ives Gold Operations and Leinster Nickel Operations. Mr Tonkin's most recent role was Chief Executive Officer of Sons of Gwalia, the world's largest Tantalum producer and third largest Australian listed gold producer, assisting administrators restructure the Company. Mr Tonkin has a proven track record of implementing large-scale investment, divestment, transition and integration plans. During the past three years Mr Tonkin has not served as a director of any other listed companies.

Craig Readhead
B. Juris, LL.B, AICD
Independent Non-Executive Director

Mr Readhead was appointed as a Non-Executive Director on 21 December 2001. Mr Readhead has spent the last 30 years practising in the resources law area and is a partner of law firm Allion Legal (formerly called Pullinger Readhead). Mr Readhead is a member of the Nomination, Remuneration and Governance Committee and the Audit and Risk Management Committee. Mr Readhead has had a significant legal role in the development of a number of mining projects within Australia, Africa and South East Asia. He is Chairman of Heron Resources Ltd and Galaxy Resources Ltd and is a Non-Executive Director of Frankland River Olive Company Limited and India Resources Ltd, and is past President of the Australian Mining and Petroleum Law Association, and past Vice-President of the Association of Mining and Exploration Companies. During the past three years Mr Readhead has also served as Chairman of Nickelore Limited and Agincourt Resources Ltd.

Ian Macliver
B.Comm, CA, F Fin, AICD
Independent Non-Executive Director

Mr Macliver was appointed as a Non-Executive Director on 21 December 2001. Mr Macliver is Managing Director of Grange Consulting Group Pty Ltd, which provide specialist corporate advisory services to both listed and unlisted companies. Mr Macliver is Chairman of the Audit and Risk Management Committee and a member of the Nomination, Remuneration and Governance Committee. He has many years experience as a senior executive and director of both resource and industrial companies with particular responsibility for capital raising and other corporate initiatives. Mr Macliver is Chairman of Stratatel Ltd and is a Non-Executive Director of Port Bouvard Ltd, Empire Beer Group Ltd and Otto Energy Ltd. During the past three years Mr Macliver has not served as a director of any other listed companies.

Directors' Report (continued)

Alan Jones
CA
Non-Executive Director

Mr Jones was appointed as a Non-Executive Director on 28 July 2006. Mr Jones is a chartered accountant with extensive senior management and board experience in listed and unlisted Australian public companies, particularly in the construction, engineering, finance and investment industries. Mr Jones has been involved in the successful merger and acquisition of a number of public companies in Australia and internationally. He is a Non-Executive Director of Mulpha Australia Ltd, Sun Hung Kai & Co Ltd (Hong Kong), Allied Group Ltd (Hong Kong), Allied Properties Ltd (Hong Kong), and IFC Capital Limited. During the past 3 years Mr Jones has also served as a director of APAC Resources Limited .

Cao Zhong
M.Eng; M.Econ
Non-Executive Director

Mr Cao was appointed as a Non-Executive Director on 1 December 2008. He graduated from Zhejiang University, the People's Republic of China and Graduate School, The Chinese Academy of Social Sciences, with a bachelor degree in engineering and a master degree in economics. Mr Cao has extensive experience in corporate management and operations. Mr Cao was the Managing Director of Shougang Concord International Enterprises Company Limited ("**Shougang International**") from November 2001 to May 2010 and is currently the Vice Chairman of Shougang International. During the past three years, Mr Cao has also served as the Chairman and executive director of APAC Resources Limited, the Chairman of Shougang Concord Technology Holdings Limited, the Chairman of Shougang Concord Century Holdings Limited, the Vice Chairman and Managing Director of Shougang Concord Grand (Group) Limited, the Chairman of Global Digital Creations Holdings Limited and the Vice Chairman and Managing Director of Fushan International Energy Group Limited.

Chen Zhouping
CPA
Non-Executive Director

Mr Chen was appointed as a Non-Executive Director on 19 January 2009. Mr Chen is a graduate from the School of Economics and Management, Beijing Tsinghua University and is a member of the Chinese Institute of Certified Public Accountants. He has extensive experience in the steel industry, engineering design, human resources and management. Mr Chen was appointed as Deputy Managing Director of Shougang International in November 2002. He is also the Deputy Managing Director of Shougang Holding (Hong Kong) Limited ("**Shougang Holding**") and the Vice Chairman and Managing Director of Fushan International Energy Group Limited (a Hong Kong listed company). He is a director of a number of other companies of which Shougang Holding or Shougang International is the holding company. During the past 3 years Mr Chen has not served as a director of any other listed companies.

Peter Knowles
B.Econ; AICD
Non-Executive Director

Mr Knowles was appointed a Non-Executive Director on 29 January 2010. Mr Knowles is a graduate of Monash University in Melbourne (Bachelor of Economics) and has had a 15-year career (1973 - 1988) with Hamersley Iron/CRA Group, including a significant period involved in negotiation and settlement of overseas resources transactions. In 1988, he joined the Wesfarmers Group where he spent 13 years in business development and commercial management roles, culminating in the last seven years as Managing Director of Wesfarmers CSBP Limited. Since 2002, Mr Knowles has acted as a professional business consultant, primarily to Rio Tinto Iron Ore, where he has been involved in a number of significant business development and project initiatives, including commercial negotiations and project integration. Mr Knowles is currently Chairman of Activ Foundation Inc and a Non-Executive Director of Coogee Chemicals Pty Ltd and CBH Group. He has completed advanced management programs at the University of Western Australia and Harvard Business School. During the past 3 years Mr Knowles has also served as a director of Vital Metals Ltd.

Lee Seng Hui
B.Law (Hons)
Non-Executive Director

Mr Lee was appointed a Non-Executive Director on 29 January 2010. Mr Lee graduated with Honours from the University of Sydney Law School. Mr Lee is the Chief Executive and an Executive Director of Allied Group Limited which is listed on the Hong Kong Stock Exchange. Mr Lee is also the Chairman and a Non-Executive Director of Tian An China Investments Company Limited and a Non-Executive Director of Tanami Gold NL and APAC Resources Limited. Mr Lee was previously the Chairman and an Executive Director of Yu Ming Investments Limited (now known as SHK Hong Kong Industries Limited). During the past 3 years Mr Lee has not served as a director of any other listed companies.

Directors' Report (continued)

Alan Rule
B.Comm, B.Acc, CA, MAICD
Alternate Director to Luke Tonkin
Chief Financial Officer

Mr Rule was appointed Finance Director of the Company on 1 July 2005 and resigned as Finance Director on 30 June 2007 to become Chief Financial Officer of the Company. Mr Rule is the alternate director to Mr Tonkin. He is a chartered accountant with extensive experience in the mining industry in Australia. He held the position of Chief Financial Officer of Western Metals Limited and more recently St Barbara Mines Limited. He has considerable experience in international financing of mining projects and implementation of accounting controls and systems. Mr Rule was previously Finance Director of Asia Iron Holdings Limited. During the past three years, Mr Rule has also served as a Non-Executive Director of Resource Mining Corporation Limited.

Robert Willcocks
B.Arts, B.Law, M.Law
Alternate Director to Lee Seng Hui

Mr Willcocks was appointed Alternate Director on 22 December 2008. From 1980 to 1994, Mr Willcocks was a partner of the Australian law firm Mallesons Stephen Jaques. From 1993 to 1996, Mr Willcocks was appointed by the Australian Government to the Australian International Legal Co-operation Committee. Since 1994, he has been a corporate advisor. He has been an advisor to companies in the resources industry for almost 30 years and is a representative of a leading global private equity firm. Mr Willcocks is a Non-Executive Director of CBH Resources Limited, Arc Exploration Limited, Ban-Pu Australia Pty Ltd, Oakbridge Pty Ltd, Emperor Mines Limited, Energy World Corporation Limited and eStar Online Trading Limited. During the past three years, Mr Willcocks has also served as a Non-Executive Director of Emperor Mines Limited and RIM Capital Limited.

COMPANY SECRETARY

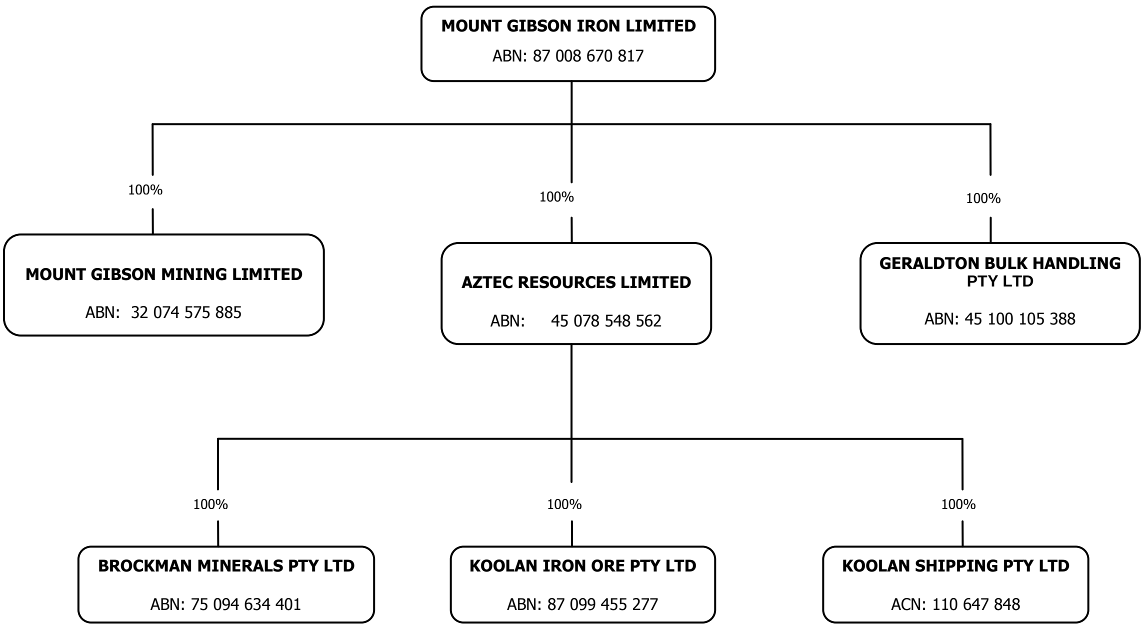
David Berg
B.Com, LLB

Mr Berg was appointed Company Secretary & General Counsel on 21 August 2008. He is a commercial lawyer with over 9 years experience, with the majority of this time having been spent working in the Perth offices of two national law firms. Immediately prior to joining MGI, Mr Berg was Legal Counsel at a significant private group of companies where he provided in house legal advice on a diverse range of issues.

CORPORATE INFORMATION

Corporate Structure

Mount Gibson is a company limited by shares that is incorporated and domiciled in Australia. It is the ultimate parent entity and has prepared a consolidated financial report incorporating the entities that it controlled during the financial year. The structure of the Group as at 30 June 2010 was as follows:



Directors' Report (continued)

Nature of Operations and Principal Activities

The principal activities of the entities within the Group are:

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

Employees

The Group employed 327 employees (excluding contractors) as at 30 June 2010 (2009: 275 employees).

Future Funding

As at the date of this report the Group has sufficient funds or access to debt funding to develop and mine the Tallering Peak, Koolan Island and Extension Hill iron deposits.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Until November 2008, the Group 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 Group to sell ore at prices determined by reference to the Hamersley Benchmark Iron Ore Price. During the December 2008 quarter Mount Gibson 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. The Group reached a settlement with Sinom (Hong Kong) Ltd on 29 October 2009 and the full amount due under the settlement was satisfied on 10 May 2010. Arbitration proceedings have been completed between the Group and the other two former customers. The Group 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 The Group was not justified and is also alleging that the Group engaged in misleading and deceptive conduct. The Group is very confident that the counterclaim is without substance. The arbitrations awards are expected to be made by the end of August – see Significant Events after Balance Date note for update.

The Group's sales revenue is derived under long term sales contracts for the life of mine at each of its operations. Under these contracts, the Group is paid for each tonne of ore delivered FOB expressed in US¢ per dry metric tonne Fe unit. All of Group's ore is currently sold into China. Until April 2010, prices were fixed at the prevailing published FOB prices (negotiated annually, for adjustment each year to apply from 1 April to 31 March the following year) for iron ore sold by Rio Tinto from its Hamersley Iron operations through its Pilbara ports ("**Hamersley Benchmark Price**"). Over the last 6 months it has become apparent that the benchmark price system based on annual bilateral negotiations may not continue into the future and that it is unlikely that a Hamersley Benchmark Price will be announced by Rio Tinto. BHP, Rio Tinto and Vale, who are the major seaborne iron ore producers and sellers into Asia, have announced that they are seeking to implement a reference market index pricing mechanism based on landed iron ore prices into China. It is intended that these pricing mechanisms would be based on quarterly lagged actual index iron ore prices and would apply for the duration of the next quarter. The Group is not aware to date of any index pricing mechanisms that have been agreed by the major producers with steel mills in Asia. However, it appears that the major iron ore producers have agreed interim short term prices with their customers whilst attempting to reach agreement on a new pricing mechanism. The Group is currently negotiating with all of its customers to establish a pricing mechanism similar to that proposed by the major iron ore producers except that it will be based on an FOB price rather than a landed price in China. The Group has agreed final prices for the June 2010 quarter with all of its customers similar to those announced by the major iron ore producers whilst negotiations proceed.

REVIEW AND RESULTS OF OPERATIONS

Operating Results for the Period

	2010 $'000	2009 $'000
Operating profit from Continuing Operations before tax	**188,308**	**61,709**
Taxation expense	(55,913)	(19,091)
Net profit after tax attributable to Members of the Company	**132,395**	**42,618**

Directors' Report (continued)

Tallering Peak Hematite Operation

Tallering Peak had a very strong production performance. Ore tonnes mined, crushed, transported and shipped all increased significantly compared to the corresponding financial year.

Waste movement increased by 4% compared to the corresponding financial year reflecting an increased focus on ore mining and the operation's reducing strip ratio. Ore production was 59% higher compared with the corresponding financial year with the majority of ore being sourced from the T6A2 and T6A3 cutback.

Crusher throughput increased by 29% compared to the corresponding financial year whilst ore sales were 26% above the corresponding financial year. There was a scheduled 17 day shutdown of the crushing plant in late November for planned maintenance and feeder upgrade which has resulted in improved crusher performance.

As at 30 June 2010, 2.1 million tonnes of iron ore was stockpiled.

PRODUCTION SUMMARY FOR 12 MONTHS	**UNIT**	**SEPT QTR 2009 '000**	**DEC QTR 2009 '000**	**MAR QTR 2010 '000**	**JUN QTR 2010 '000**	**YTD 2010 '000**	**YTD 2009 '000**	***% INCR/ (DECR)***
Mining								
- Waste mined	*bcm*	1,509	1,781	2,495	2,035	**7,820**	**7,524**	*4%*
- Ore mined	*bcm*	243	181	169	282	**875**	**553**	*58%*
- Ore mined	*wmt*	1,063	792	731	1,220	**3,806**	**2,388**	*59%*
Crushing								
- Lump	*wmt*	431	391	463	549	**1,834**	**1,667**	*10%*
- Fines	*wmt*	426	347	322	443	**1,538**	**953**	*61%*
		857	**738**	**785**	**992**	**3,372**	**2,620**	*29%*
Transported to Mullewa Railhead								
- Lump	*wmt*	421	382	417	524	**1,744**	**1,554**	*12%*
- Fines	*wmt*	277	465	457	393	**1,592**	**925**	*72%*
		698	**847**	**874**	**917**	**3,336**	**2,479**	*35%*
Transported to Geraldton Port								
- Lump	*wmt*	546	440	439	401	**1,826**	**1,383**	*33%*
- Fines	*wmt*	179	350	348	383	**1,260**	**1,297**	*(6)%*
		725	**790**	**787**	**784**	**3,086**	**2,680**	*14%*
Shipping								
- Lump	*wmt*	507	476	468	465	**1,916**	**1,439**	*33%*
- Fines	*wmt*	213	301	360	358	**1,232**	**1,253**	*(2)%*
		720	**777**	**828**	**823**	**3,148**	**2,692**	*17%*

In accordance with the Company's stated accounting policy, deferred waste expenditure for the period has been capitalised in the Group's balance sheet and will be amortised over the expected life of the mine. Expenditure on waste development at Tallering Peak during the financial year was as follows:

		12 Months ended 30 June 2010	**12 Months ended 30 June 2009**	**12 Months ended 30 June 2008**
Waste mined	*mill bcm*	7.82	7.52	9.99
Ore mined	*mill bcm*	0.88	0.55	0.91
Ore mined	*mill wmt*	3.81	2.39	3.84
Deferred waste capitalised	*$ mill*	85.34	89.88	97.60
Amortisation of deferred waste	*$ mill*	115.28	69.11	80.66

Directors' Report (continued)

Koolan Island Hematite Operation

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.

The Koolan orebodies are tabular, generally high-grade hematite bodies which are estimated to produce a 30% Lump 70% Fines product with consistently high grades from the Main Ore body (>67% Fe). Initial production from established satellite pits of Mullet, Acacia and Barramundi, which contain lower Fe% and higher contaminants than ore from the Main Pit, has produced approximately 40% Lump 60% Fines product.

Koolan Island continued to perform strongly during the financial year with total material movement increasing to a record high of 14.3 million BCM which represents a 9% increase on the corresponding financial year.

Koolan Island shipped a record 3.3 million tonnes of iron ore during the financial year which was 23% above the corresponding period last year.

Ore crushed exceeded the previous financial year by 19%. Total material movement at Koolan Island was adversely affected by two Tropical Cyclones in December and January 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 well in excess of 500,000 tonnes of rain water. Operations were reestablished within 7-10 days of the cyclones passing with full operations not possible for 2-3 weeks. The June quarter was also impacted by unseasonal rainfall which adversely affected materials handling, particularly crushing and shiploading.

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 merged 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 financial 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 12 MONTHS	**UNIT**	**SEPT QTR 2009 '000**	**DEC QTR 2009 '000**	**MAR QTR 2010 ' 000**	**JUN QTR 2010 '000**	**YTD 2010 '000**	**YTD 2009 '000**	***% INCR/ (DECR)***
Mining								
- Waste mined	*bcm*	3,974	3,276	3,013	2,959	**13,222**	**11,865**	*11%*
- Ore mined	*bcm*	337	244	226	283	**1,090**	**1,124**	*(3)%*
- Ore mined	*wmt*	1,054	770	725	924	**3,473**	**3,524**	*(1)%*
Crushing								
- Lump	*wmt*	298	347	285	306	**1,236**	**974**	*27%*
- Fines	*wmt*	664	627	519	427	**2,237**	**1,952**	*15%*
		962	**974**	**804**	**733**	**3,473**	**2,926**	*19%*
Shipping								
- Lump	*wmt*	355	284	366	293	**1,298**	**944**	*38%*
- Fines	*wmt*	581	664	436	360	**2,041**	**1,763**	*16%*
		936	**948**	**802**	**653**	**3,339**	**2,707**	*23%*

Expenditure on waste development at Koolan Island during the financial year was as follows:

		12 Months ended 30 June 2010	**12 Months ended 30 June 2009**	**12 Months ended 30 June 2008**
Waste mined	*mill bcm*	13.22	11.87	8.53
Ore mined	*mill bcm*	1.09	1.12	0.89
Ore mined	*mill wmt*	3.47	3.52	3.05
Deferred waste capitalised	*$ mill*	174.53	159.99	125.51
Amortisation of deferred waste	*$ mill*	104.18	105.73	55.32

Directors' Report (continued)

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 by May 2011 incurring $88 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 ("**unloader upgrade**") necessary to ensure greater utilisation of the latent capacity at the Geraldton Port remains with the GPA to construct however Mount Gibson has had discussions with the Geraldton Port Authority, offering to fund the unloader upgrade.

Review of Financial Condition

During the course of the financial year a number of events impacted on the financial condition of the Group as follows:

- Shareholders funds increased by $146,428,000 (19%) to $926,908,000 including:
  - Net profit after tax of $132,396,000; and
  - Holders of 3,946,000 options exercised their options resulting in $3,496,000 in equity funding for the Company.
- Acquisition of property, plant and equipment with an aggregate fair value of $4,565,000 that were financed by means of finance leases.
- Mine properties increased by $32,272,000 primarily due to deferred waste capitalised as a result of waste mined.

At 30 June 2010 the Group had:

- Cash on hand and term deposits of $347,403,000;
- Corporate Debt of $85,000,000; and
- Equipment finance leases and hire purchase liabilities of $51,910,000.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Other than as referred to in the Review and Results of Operations and in this report, further information as to likely developments in the operations of the Group and likely results of those operations would, in the opinion of the Directors, be speculation and not in the best interest of the Company.

SIGNIFICANT EVENTS AFTER BALANCE DATE

On 23 July 2010 Mount Gibson advised the ASX that the arbitrator in the arbitration between its subsidiary, Mount Gibson Mining Limited ("**MGM**") and Pioneer Iron & Steel Co Limited ("**Pioneer**") has delivered his reasons. The arbitrator found that Pioneer repudiated its obligations under the long term agreement with MGM for the supply of iron ore and that MGM was entitled to damages for the loss of its bargain. The arbitrator has awarded MGM US$23.14 million in damages plus MGM's costs of the arbitration.

However, following the conclusion of the arbitral hearing and before the arbitrators reasons were handed down, Pioneer placed itself into insolvent liquidation meaning that MGM's entitlement to receive the final arbitral award will rank with other unsecured creditors of Pioneer. Pioneer's liquidators are yet to advise what dividend if any they expect to declare other than to say that Pioneer's asset position is very unclear.

Apart from the above, as at the date of this report there are no significant events after balance date of the Company or of the Group that require adjustment of or disclosure in this report.

SHARE OPTIONS

Unissued shares

Details of Options over Ordinary Shares in the Company on issue as at balance date and at the date of this report are:

			Options on issue at	
Exercise Price	**Exercise Date/ Period**		**Balance date**	**Date of report**
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
		Total	**5,000,000**	**5,000,000**

Shares issued as a result of the exercise of options

During the financial year, 3,946,000 options were exercised to acquire fully paid ordinary shares in the Company at a weighted average exercise price of $0.89. Since the end of the financial year, no options have been exercised or forfeited.

DIVIDENDS

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

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has, during the financial period, entered into deeds of access and indemnity with each Director. These deeds provide access to documentation and indemnification against liability for loss suffered, as a result of any act or omission, to the extent permitted by the *Corporations Act 2001*, from conduct of the Group's business.

During the financial year, the Company has paid premiums in respect of a contract insuring all the Directors of the Company against costs incurred in defending proceedings except for conduct involving:

- a wilful breach of duty; or
- a contravention of sections 182 or 183 of the *Corporations Act 2001*, as permitted by section 199B of the *Corporations Act 2001*.

The total amount of insurance contract premiums paid was $180,003. This amount has not been included in Directors' and Executives' remuneration.

REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for Directors and Key Management Personnel of the Group in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

For the purposes of this report Key Management Personnel of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any directors of the Company.

Nomination, Remuneration and Governance Committee ("NRGC")

The NRGC of the Board of Directors of the Company is responsible for determining and reviewing remuneration arrangements for the Board and Key Management Personnel.

The NRGC assesses the appropriateness of the nature and amount of remuneration of Key Management Personnel on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality, high performing Board and Executive team.

Remuneration Policy

The Remuneration Policy of the Company and its Controlled Entities has been put in place to ensure that:

- remuneration policies and systems support the Company's wider objectives and strategies;
- Directors' and Senior Executives' remuneration is aligned to the long-term interests of Shareholders within an appropriate control framework; and
- there is a clear relationship between the Executives' performance and remuneration.

Remuneration Structure

In accordance with best practice corporate governance, the structure of Non-Executive Director, Executive Director and Senior Executive management remuneration is separate.

Non-Executive Director Remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to Shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the Directors as agreed. The latest determination was at the Annual General Meeting held on 26 November 2008 when Shareholders approved an aggregate remuneration of $750,000 per year.

Each Non-Executive Director receives a fee for being a Director of the Company.

Non-Executive Directors' should be adequately remunerated for their time and effort and the risks involved. Non-Executive Directors are remunerated to recognise the responsibilities, accountabilities and associated risks of Directors.

All Non-Executive Directors' performance and remuneration is reviewed on an annual basis by the Chairman.

Non-Executive Directors' fixed remuneration will comprise the following elements:

- cash remuneration; and
- superannuation contributions made by the Company.

Board operating costs do not form part of Non-Executive Directors' remuneration.

Non-Executive Directors have long been encouraged by the Board to hold shares in the Company (purchased by the director on market). It is considered good governance for Directors to have a stake in the Company on whose board they sit.

Directors' Report (continued)

Executive Directors' and Senior Executives' Remuneration

Objective

The Company aims to reward Executive Directors and Senior Executives with a level and mix of remuneration commensurate with their position and responsibilities within the company and so as to:

- reward the Executive Directors and Senior Executives for company and individual performance against targets set by reference to appropriate benchmarks;
- align the interest of the Executive Directors and Senior Executives with those of Shareholders;
- link reward with the strategic goals and performance of the Company; and
- ensure total remuneration is competitive by market standards.

Fixed Remuneration

The components of the Executive Directors and Senior Executives fixed remuneration are determined individually and may include:

- cash remuneration;
- superannuation;
- accommodation and travel benefits;
- motor vehicle, parking and other benefits; and
- reimbursement of entertainment, home office and telephone expenses.

The Executive Directors' remuneration is reviewed on an annual basis by the Non-Executive Directors. The Senior Executives' remuneration is reviewed on an annual basis by the Managing Director.

In determining the remuneration package, the NRGC reviews the individual's remuneration with the use of market data for positions with comparable companies. Where appropriate, the package is adjusted so as to keep pace with market trends and ensure continued remuneration competitiveness. In conducting a comparative analysis, the Company's expected performance for the year is considered in the context of the Company's capacity to fund remuneration budgets. From time to time, a review of the total remuneration package by an independent consultant in this field is undertaken to provide an independent reference point.

Variable Remuneration

Short-term Incentive ("STI")

The Executive Directors and Senior Executives may receive variable remuneration in the form of STI. STI are linked to general performance targets and provide rewards for materially improved Company performance. The total potential STI available is at the Boards discretion but is measured to provide sufficient incentive to the Executive Directors and Senior Executives to achieve the operational targets and such that the cost to the Group is reasonable in the circumstances. Actual STI payments granted depend on the extent to which specific operating targets set at the beginning of the financial year are met. These targets consist of a number of Key Performance Indicators ("**KPI's**") covering both financial and non-financial, corporate and individual performance measures. The STI's are based on achieving the following measures where these are applicable to the specific Executive:

- performance of the Group in meeting its objectives which include contribution to net profit after tax, risk management and leadership/team contribution;
- financial performance of the Group;
- increase in market capitalisation of the Group; and
- such other matters determined by the NRGC in its discretion.

These measures have been selected to align the interests of Executives with shareholders representing the key drivers for short term success of the business and providing a framework for delivering long term value.

The Group has predetermined benchmarks that must be met in order to trigger payments under the STI scheme. On an annual basis, the individual performance of each Senior Executive is reviewed by the NRGC, which is in line with their responsibilities, after consideration of the Executive's performance against KPI's. This process usually occurs prior to or just after the reporting date. NRGC then determines the amount of STI to be allocated to each executive. Payments made are delivered as a cash bonus prior to or just after the reporting date.

STI bonus for 2010 financial year

For the 2010 financial year, 100% of the STI cash bonus totalling $538,649 was approved and vested to Executive Directors and Senior Executives and was paid in July 2010.

Directors' Report (continued)

Long-term Incentive ("LTI") for 2010 financial year

The Company established the Mount Gibson Iron Limited Performance Rights Plan ("**PRP"**) in the 2008 financial year. Under the PRP, the Board may invite eligible executives to apply for performance rights, which are an entitlement to receive ordinary shares in the Company, subject to satisfaction by the executive of specified performance hurdles set by the Board. The rights are 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. A TSR hurdle was incorporated in the PRP as it enables the Company to provide its executives with long term incentives which create a link between the delivery of value to shareholders, financial performance and rewarding and retaining the executives. The Company received shareholder approval for the issue of the performance rights to Mr Tonkin and Mr Rule at its 2007 and 2009 AGM's.

The employment contracts for the Managing Director, Mr Tonkin, the Chief Financial Officer, Mr Rule and the Company Secretary, Mr Berg incorporate payment of a long term incentive. Under their employment contracts, Mr Tonkin, Mr Rule and Mr Berg will each year each be invited to apply for, and the Company will grant a number of performance rights equivalent to one third of their respective base salaries (including superannuation) divided by the volume weighted average price of the Company's shares as traded on ASX for the 30 day period to 30 June for the relevant year.

Performance rights totalling 308,805 were granted on 30 June 2010 by the Company to Mr Tonkin, Mr Rule and Mr Berg in respect of the 2010 financial year. The Company does not have a policy restricting executives from entering into arrangements to protect the value of LTI awards.

Employment Contracts

As at the date of this report, the Group had entered into employment contracts with the following Executive Director, Senior Executive and Company Secretary:

Luke Tonkin

The key terms of his contract include:

- Commenced 1 July 2008 with no set term;
- Annual Salary Package increase by minimum of CPI from 1 July every year;
- STI Bonus of up to one half of Annual Salary Package;
- LTI Bonus of up to one third of Annual Salary Package; and
- If the Company wishes to terminate the contract other than if Mr Tonkin is guilty of any grave misconduct, serious or persistent breach of the terms of the contract or wilful neglect in the discharge of the Duties, the Company is obliged to pay out 12 months Annual Salary Package plus any other accrued entitlements and bonuses. If Mr Tonkin wishes to terminate the contract, he must provide six months notice.

Alan Rule

The key terms of his contract include:

- Commenced 1 July 2008 with no set term;
- Annual Salary Package increase by minimum of CPI from 1 July every year;
- STI Bonus of up to one half of Annual Salary Package;
- LTI Bonus of up to one third of Annual Salary Package; and
- If the Company wishes to terminate the contract other than if Mr Rule is guilty of any grave misconduct, serious or persistent breach of the terms of the contract or wilful neglect in the discharge of the Duties, the Company is obliged to pay out 12 months Annual Salary Package plus any other accrued entitlements and bonuses. If Mr Rule wishes to terminate the contract, he must provide six months notice.

David Berg

The key terms of his contract include:

- Commenced 18 August 2008 with no set term;
- Annual Salary Package increase by minimum of CPI from 1 July every year;
- STI Bonus of up to one half of Annual Salary Package;
- LTI Bonus of up to one third of Annual Salary Package; and
- If the Company wishes to terminate the contract other than if Mr Berg is guilty of any grave misconduct, serious or persistent breach of the terms of the contract or wilful neglect in the discharge of the Duties, the Company is obliged to pay out 12 months Annual Salary Package plus any other accrued entitlements and bonuses. If Mr Berg wishes to terminate the contract, he must provide six months notice.

The terms of other executives contracts are as per the Group's standard terms and conditions of employment and there are no contracted entitlements to cash bonuses, options or performance rights.

Directors' Report (continued)

Details of Key Management Personnel

[i] Directors

N Hamilton	Chairman
L Tonkin	Managing Director
C Readhead	Non-Executive Director
I Macliver	Non-Executive Director
A Jones	Non-Executive Director
Cao Z	Non-Executive Director
Chen Z	Non-Executive Director
P Knowles	Non-Executive Director (appointed 29 January 2010)
Lee SH	Non-Executive Director (appointed 29 January 2010)
R Willcocks	Alternate Director to Mr Lee (from 10 March 2010)
A Rule	Chief Financial Officer and Alternate Director to Mr Tonkin

[ii] Executives

D Quinlivan	Chief Operating Officer
D Berg	Company Secretary
R Mencel	General Manager – Tallering Peak
R Richardson	General Manager – Koolan Island

Remuneration of Key Management Personnel and highest paid executives for the year ended 30 June 2010

	Short Term			Post Employment		Share Based Payment		
	Salary & Fees $	Non Monetary $	Cash Bonuses $	Superannuation $	Retirement Benefits $	Options and Performance Rights $	Total $	% Performance Related
Directors								
N Hamilton	182,493	-	-	16,424	-	-	**198,917**	0%
L Tonkin	690,400	2,251	238,467	25,000	-	447,224	**1,403,342**	49%
C Readhead	101,750	-	-	-	-	-	**101,750**	0%
I Macliver	96,713	-	-	8,704	-	-	**105,417**	0%
A Jones	86,621	-	-	7,796	-	-	**94,417**	0%
Cao Z	79,893	-	-	7,190	-	-	**87,083**	0%
Chen Z	79,893	-	-	7,190	-	-	**87,083**	0%
P Knowles	29,052	-	-	2,615	-	-	**31,667**	0%
Lee SH	29,052	-	-	2,615	-	-	**31,667**	0%
R Willcocks	-	-	-	-	-	-	**-**	0%
A Rule	486,000	2,251	170,333	25,000	-	199,574	**883,158**	42%
Sub-total directors	**1,861,867**	**4,502**	**408,800**	**102,534**	**-**	**646,798**	**3,024,501**	
Executives								
D Quinlivan	647,288	2,251	-	-	-	-	**649,539**	0%
D Berg	225,028	2,251	81,933	20,253	-	32,113	**361,578**	32%
R Mencel	309,215	-	25,768	27,829	-	-	**362,812**	0%
R Richardson	265,772	-	22,148	23,919	-	-	**311,839**	0%
Sub-total executives	**1,447,303**	**4,502**	**129,849**	**72,001**	**-**	**32,113**	**1,685,768**	
Totals	**3,309,170**	**9,004**	**538,649**	**174,535**	**-**	**678,911**	**4,710,269**	

Options granted as part of remuneration for the year ended 30 June 2010

There is currently a Directors, Officers, Employees and Other Permitted Persons option plan. Options issued pursuant to this plan do not have performance conditions but do contain a vesting condition requiring the employee to remain employed by the Group until a certain date. The cost of these options is measured by reference to their fair value at the date at which they are granted. The fair value is determined by using a binomial model.

There were no options granted to directors and executives during the year ended 30 June 2010 and there are no options outstanding at 30 June 2010.

Performance Rights granted as part of remuneration for the year ended 30 June 2010

	Grant Date	Number Granted	Value of Performance Rights Granted During the Year $	% of Remuneration
L Tonkin	30-Jun-10	150,114	130,824	9
A Rule	30-Jun-10	107,224	93,446	11
D Berg	30-Jun-10	51,467	44,853	12

Performance Rights granted above as part of Remuneration have been independently valued using the Black-Scholes methodology which considers the incorporation of the market based hurdles. The value per performance right at grant date is calculated using the following assumptions:

Accounting grant date	30-Jun-10
Share price at accounting grant date	$1.55
Risk free interest rate	4.34%
Volatility factor	100%

The vesting of these Performance Rights is subject to a relative Total Shareholder Return ("**TSR**") hurdle to be measured on 30 June 2012 and remeasured on 31 December 2012 for Performance Rights allocated on 30 June 2010.

Mount Gibson's TSR performance will be ranked relative to a comparator group consisting of 66 resource companies listed on ASX. The vesting scale is as follows:

Percentile Rank Achieved	Proportion of Target Award Vesting
>76th percentile	100%
> 51st percentile and ≤76th percentile	Pro rata allocation
51st percentile	50%
<51st percentile	0%

Performance Rights vesting during the year ended 30 June 2010

The following performance rights vested on 30 June 2010 to the following directors and executives:

	Year ended 30 June 2010	Year ended 30 June 2009
L Tonkin	227,758	-
A Rule	168,324	-
D Berg	-	-
Total	396,082	-

The shares were issued on 2 July 2010 pursuant to the vesting of these performance rights.

Shares issued on exercise of options for the year ended 30 June 2010

There were no shares issued on exercise of options by the directors and executives during the year ended 30 June 2010 (2009: nil).

Directors' Report (continued)

Options vested to directors and executives

	Year ended 30 June 2010	Year ended 30 June 2009
L Tonkin	-	3,000,000
A Rule	-	2,000,000
R Mencel	-	350,000
R Jordinson	-	100,000
Total	-	5,450,000

Remuneration of Key Management Personnel for the year ended 30 June 2009

	Short Term			Post Employment		Share Based Payment		
	Salary & Fees $	Non Monetary $	Cash Bonuses $	Superannuation $	Retirement Benefits $	Options and Performance Rights $	Total $	% Performance Related
Directors								
N Hamilton	199,083	-	-	17,917	-	-	**217,000**	0%
L Tonkin	650,000	1,637	150,000	50,000	-	646,437	**1,498,074**	53%
C Readhead	111,000	-	-	-	-	-	**111,000**	0%
I Macliver	105,505	-	-	9,495	-	-	**115,000**	0%
A Jones	94,495	-	-	8,505	-	-	**103,000**	0%
Cao Z	55,178	-	-	-	-	-	**55,178**	0%
Chen Z	42,425	-	-	-	-	-	**42,425**	0%
R Willcocks	-	-	-	-	-	-	**-**	0%
A Rule	458,716	1,637	107,143	41,284	-	216,789	**825,569**	39%
Sub-total directors	**1,716,402**	**3,274**	**257,143**	**127,201**	**-**	**863,226**	**2,967,246**	
Executives								
D Quinlivan	676,813	1,637	-	-	-	-	**678,450**	0%
D Berg	191,955	1,422	51,429	17,276	-	14,917	**276,999**	24%
R Mencel	302,500	-	20,000	27,225	-	37,967	**387,692**	15%
R Richardson	195,001	-	-	17,550	-	-	**212,551**	0%
R Jordinson [1]	119,000	730	150,000	-	-	9,570	**279,300**	57%
Sub-total executives	**1,485,269**	**3,789**	**221,429**	**62,051**	**-**	**62,454**	**1,834,992**	
Totals	**3,201,671**	**7,063**	**478,572**	**189,252**	**-**	**925,680**	**4,802,238**	

1 Mr Jordinson ceased to be an executive on 30th September 2008

Directors' Report (continued)

Options granted as part of remuneration for the year ended 30 June 2009

Options granted as part of Senior Executive emoluments have been valued using the Binomial option pricing model. The value per option at grant date is calculated using the following assumptions:

Grant date	9-Jan-08
Vesting date	31-Dec-08
Share price at grant date	$2.80
Exercise price	$2.99
Risk free interest rate	6.53%
Volatility factor	53%
Expiry date	31-Dec-09

Performance Rights granted as part of remuneration for the year ended 30 June 2009

Performance Rights granted as part of Remuneration have been independently valued using the Black-Scholes methodology to produce a Monte-Carlo simulation model which allows the incorporation of the market based performance hurdles that must be met before the Performance Rights vest. The value per option at grant date is calculated using the following assumptions:

Accounting grant date	Aug-08
Share price at grant date	$1.91
Risk free interest rate	5.69%
Volatility factor	55%

The vesting of these Performance Rights is subject to a relative Total Shareholder Return ("**TSR**") hurdle to be measured on:

- 30 June 2010 and remeasured on 31 December 2010 for Performance Rights allocated on 19 September 2008; and
- 30 June 2011 and remeasured on 31 December 2011 for Performance Rights allocated on 30 June 2009.

Mount Gibson's TSR performance will be ranked relative to a comparator group consisting of 62 resource companies listed on ASX. The vesting scale is as follows:

Percentile Rank Achieved	Proportion of Target Award Vesting
>76th percentile	100%
> 51st percentile and ≤76th percentile	Pro rata allocation
51st percentile	50%
<51st percentile	0%

Company Performance

The table below shows the performance of the Group over the last 5 years:

		30 June 2010	30 June 2009	30 June 2008	30 June 2007	30 June 2006
Net Profit after tax	***$'000***	132,395	42,618	113,344	47,765	23,479
Earnings per share	***$/share***	0.1230	0.0456	0.1425	0.0753	0.0574

Directors' Report (continued)

DIRECTORS' MEETINGS

The number of meetings of Directors (including meetings of Committees of Directors) held during the year and the number of meetings attended by each Director is as follows:

	Directors' Meetings	Audit and Risk Management Committee Meetings	Nomination, Remuneration and Governance Committee
Number of Meetings Held	9	2	3
N Hamilton	9	-	3
L Tonkin	9	-	-
C Readhead	9	2	3
I Macliver	8	2	3
A Jones	8	2	-
Cao Z	8	-	-
Chen Z	9	-	-
P Knowles [1]	4	-	-
Lee SH [2]	4	-	-
R Willcocks [3]	-	-	-
A Rule [4]	-	-	-

[1] Mr Knowles only appointed as a director on 29 January 2010
[2] Mr Lee only appointed as a director on 29 January 2010
[3] Mr Willcocks did not attend any meetings as an alternate director during the year
[4] Mr Rule did not attend any meetings as an alternate director during the year

DIRECTORS INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

As at the date of this report, the interests of the Directors in the Shares and Options of the Company were:

	Ordinary Shares	Options over Shares	Performance Rights over Shares
N Hamilton	185,000	-	-
L Tonkin	227,758	2,000,000	389,610
C Readhead	567,500	-	-
I Macliver	1,000,000	-	-
A Jones	100,000	-	-
Cao Z	-	-	-
Chen Z	-	-	-
P Knowles	-	-	-
Lee SH	-	-	-
R Wilcocks	-	-	-
A Rule	218,324	-	278,292

Directors' Report (continued)

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group has developed Environmental Management Plans for its operations at Koolan Island, Tallering Peak and the rail head at Ruvidini. The Environmental Management Plans have been approved by the West Australian Government Departments' of Industry & Resources, Environment and Conservation and Land Management.

The Environmental Protection Authority has granted approval of the Environmental Management Plans and the Department of Environment & Conservation has granted approval of the environmental works to allow construction of "prescribed" facilities at the Extension Hill mine site.

The Group holds various environmental licenses and authorities, issued under both State and Federal law, to regulate its mining and exploration activities in Australia. These licenses include conditions and regulation in relation to specifying limits on discharges into the environment, rehabilitation of areas disturbed during the course of mining and exploration activities, and the storage of hazardous substances.

There have been no material breaches of the Consolidated Entities licenses and all mining and exploration activities have been undertaken in compliance with the relevant environmental regulations.

PROCEEDINGS ON BEHALF OF THE COMPANY

There are no proceedings on behalf of the Company under section 237 of the *Corporations Act 2001* in the financial year or at the date of this report.

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.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of the Company support and have adhered to the principles of corporate governance. The Company's corporate governance statement is contained in the additional ASX information section of the annual report.

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with section 307C of the *Corporations Act 2001*, the directors received the attached independence declaration from the auditor of the Company on page 19 which forms part of this report.

NON-AUDIT SERVICES

There were no non-audit services provided by the entity's auditor, Ernst & Young, during the financial year ended 30 June 2010.

Signed in accordance with a resolution of the Directors.

N HAMILTON
Chairman
Perth, 11 August 2010

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
www.ey.com/au

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

In relation to our audit of the financial report of Mount Gibson Iron Limited for the financial year ended 30 June 2010, 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 Buckingham

Gavin A Buckingham
Partner
Perth
11 August 2010

Liability limited by a scheme approved
under Professional Standards Legislation

GB:MJ:MGI:168

Consolidated Income Statement

For the year ended 30 June 2010

	Notes	2010 $'000	2009 $'000
CONTINUING OPERATIONS			
Sale of goods	2[a]	536,282	425,443
Other revenue	2[a]	18,996	6,287
TOTAL REVENUE		**555,278**	**431,730**
Cost of sales	2[d]	(357,544)	(293,497)
GROSS PROFIT		**197,734**	**138,233**
Other income	2[b]	26,747	45
Administration expenses	2[e]	(20,726)	(27,963)
Impairment allowance for doubtful debts	6[b]	-	(15,247)
Foreign exchange derivatives mark-to-market gain/(loss)		2,899	(14,625)
Impairment of available-for-sale financial assets		-	(1,685)
Exploration expenses		(105)	(24)
PROFIT FROM CONTINUING OPERATIONS BEFORE TAX AND FINANCE COSTS		**206,549**	**78,734**
Finance costs	2[c]	(18,241)	(17,025)
PROFIT FROM CONTINUING OPERATIONS BEFORE INCOME TAX		**188,308**	**61,709**
Income tax expense	3	(55,913)	(19,091)
NET PROFIT AFTER TAX ATTRIBUTABLE TO MEMBERS OF THE COMPANY		**132,395**	**42,618**
Earnings per share (cents per share)			
• basic earnings per share	23	12.30	4.56
• diluted earnings per share	23	12.28	4.55

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2010

	2010 $'000	2009 $'000
NET PROFIT FOR THE PERIOD AFTER INCOME TAX	**132,395**	**42,618**
OTHER COMPREHENSIVE INCOME		
Impairment of available for sale financial assets	-	573
Change in fair value of cash flow hedges	(3,495)	28,615
Transferred to revenue in Income Statement	17,024	(58,854)
Deferred income tax on cash flow hedges	(3,600)	9,071
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**9,929**	**(20,595)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**142,324**	**22,023**

Consolidated Balance Sheet

As at 30 June 2010

	Notes	2010 $'000	2009 $'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	247,404	222,173
Term deposits	5	100,000	-
Trade and other receivables	6	33,979	17,224
Inventories	7	139,752	111,760
Prepayments		2,447	2,330
Derivative financial assets	8	3,273	2,077
Other assets	9	-	15,107
TOTAL CURRENT ASSETS		**526,855**	**370,671**
NON-CURRENT ASSETS			
Derivative financial assets	8	-	147
Property, plant and equipment	11	163,343	184,505
Deferred acquisition, exploration, evaluation and development costs	12	69,739	53,784
Mine properties	13	536,111	503,839
TOTAL NON-CURRENT ASSETS		**769,193**	**742,275**
TOTAL ASSETS		**1,296,048**	**1,112,946**
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	14	97,297	75,103
Interest-bearing loans and borrowings	15	96,992	112,508
Derivative financial liabilities	16	1,808	14,356
Provisions	17	3,328	2,489
TOTAL CURRENT LIABILITIES		**199,425**	**204,456**
NON-CURRENT LIABILITIES			
Provisions	17	19,104	18,303
Interest-bearing loans and borrowings	15	36,813	49,080
Derivative financial liabilities	16	-	6,942
Deferred income tax liabilities	3	113,798	53,684
TOTAL NON-CURRENT LIABILITIES		**169,715**	**128,009**
TOTAL LIABILITIES		**369,140**	**332,465**
NET ASSETS		**926,908**	**780,481**
EQUITY			
Issued capital	18[a]	559,207	556,032
Retained earnings	20	346,218	213,823
Reserves	19	21,483	10,626
TOTAL EQUITY		**926,908**	**780,481**

Consolidated Cash Flow Statement

For the year ended 30 June 2010

	Notes	2010 $'000	2009 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		552,167	476,838
Payments to suppliers and employees		(368,850)	(362,806)
Interest paid		(14,233)	(14,544)
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	4[b]	**169,084**	**99,488**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		11,161	5,533
Proceeds from sale of property, plant and equipment		4	82
Purchase of property, plant and equipment		(6,703)	(10,921)
Payment for term deposits		(100,000)	-
Proceeds from receipt of convertible notes		1,000	-
Payment for deferred exploration, evaluation and development expenditure		(9,704)	(27,879)
Payment for mine properties		(17,909)	(17,035)
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES		**(122,151)**	**(50,220)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares		3,496	162,966
Payment for capital raising		-	(5,352)
Proceeds from performance bonds		15,107	-
Payment for performance bonds		-	(15,107)
Repayment of lease liabilities		(13,656)	(16,835)
Repayment of borrowings		(20,000)	-
Payment of borrowing costs		(6,649)	(1,425)
NET CASH FLOWS PROVIDED BY / (USED IN) FINANCING ACTIVITIES		**(21,702)**	**124,247**
NET INCREASE IN CASH AND CASH EQUIVALENTS		25,231	173,515
Cash and cash equivalents at beginning of year		222,173	48,658
CASH AND CASH EQUIVALENTS AT END OF YEAR	4[a]	**247,404**	**222,173**

As set out in note 5, the Group had in addition to the Cash and Cash Equivalents above, $100,000,000 in term deposits at 30 June 2010.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2010

	Issued Capital	(Accumulated Losses) / Retained Earnings	Share Based Payments Reserve	Net Unrealised Gains / (Losses) Reserve	Other Reserves	Total Equity
	Attributable to Equity Holders of the Parent					*Total Equity*
	$'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	-	42,618	-	-	-	**42,618**
Other comprehensive income	-	-	-	(20,595)	-	**(20,595)**
Total comprehensive income for the year	**-**	**42,618**	**-**	**(20,595)**	**-**	**22,023**
Transactions with owners in their capacity as owners						
- Capital raising cost	(5,352)	-	-	-	-	**(5,352)**
- Deferred income tax on capital raising cost	1,221	-	-	-	-	**1,221**
- Shares issued	162,524	-	-	-	-	**162,524**
- Exercise of options	442	-	-	-	-	**442**
- Share-based payment	-	-	3,131	-	-	**3,131**
At 30 June 2009	**556,032**	**213,823**	**17,641**	**(3,823)**	**(3,192)**	**780,481**
At 1 July 2009	**556,032**	**213,823**	**17,641**	**(3,823)**	**(3,192)**	**780,481**
Profit for the period	-	132,395	-	-	-	**132,395**
Other comprehensive income	-	-	-	9,929	-	**9,929**
Total comprehensive income for the year	**-**	**132,395**	**-**	**9,929**	**-**	**142,324**
Transactions with owners in their capacity as owners						
- Deferred income tax on capital raising cost	(321)	-	-	-	-	**(321)**
- Exercise of options	3,496	-	-	-	-	**3,496**
- Share-based payment	-	-	928	-	-	**928**
At 30 June 2010	**559,207**	**346,218**	**18,569**	**6,106**	**(3,192)**	**926,908**

Notes to the Consolidated Financial Report

For the year ended 30 June 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Corporate information

The consolidated financial statements of the Group, comprising the Company and the entities that it controlled during the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 11 August 2010.

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

The nature of operations and principal activities of the Group are the mining of hematite deposits at Tallering Peak and Koolan Island, construction and development of the Extension Hill project, and exploration and development of hematite deposits in the Mid-West region of Western Australia.

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

(b) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, applicable Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments and 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.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its controlled entities.

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 Group and cease to be consolidated from the date on which control is transferred out of the Group.

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.

(d) Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board.

(e) New accounting standards and interpretations

From 1 July 2009 the Group has adopted the following Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2009. Adoption of these standards and interpretations did not have any effect on the financial position or performance of the Group.

The following standards and interpretations have also been adopted from 1 July 2009:

- AASB 3 *Business Combinations (revised 2008)*
- AASB 7 *Financial Instruments: Disclosures*
- AASB 8 and AASB 2007-3 *Operating Segments and Consequential Amendments to other Australian Accounting Standards*
- AASB 101 (Revised), AASB 2007-8 and AASB 2007-10 *Presentation of Financial Statements and Consequential Amendments to other Australian Accounting Standards*
- AASB 2008-1 *Amendments to Australian Accounting Standards – Share-based Payments: Vesting Conditions and Cancellations*
- AASB 3 *Business Combinations (revised 2008)*
- AASB 127 *Consolidated and Separate Financial Statements (revised 2008)*
- AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127*

- AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- AASB 2008-6 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1 & AASB 5]*
- AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- AASB 2008-8 *Amendments to Australian Accounting Standards – Eligible Hedged Items*
- AASB 2009-2 *Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments*
- AASB 2009-4 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- AASB 2009-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- AASB 2009-7 *Amendments to Australian Accounting Standards*

The Group has not elected to early adopt any new standards or amendments.

When the adoption of the Standard or Interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

AASB7 *Financial Instruments: Disclosures*

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to all financial instruments recognised and measured at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class.

AASB 8 *Operating Segments*

AASB 8 replaced AASB 114 Segment Reporting upon its effective date. The Group concluded that the operating segments determined in accordance with AASB 8 are the same as the business segments previously identified under AASB 114. AASB 8 disclosures are shown in note 29.

AASB 101 *Presentation of Financial Statements*

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transaction with owners, with non-owner changes in equity presented in a reconciliation of each component of equity included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in on single statement, or in two linked statements. The Group has elected to present two linked statements.

Notes to the Consolidated Financial Report (continued)

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the period ended 30 June 2010. These are outlined in the table below:

Reference	Title	Summary	Application date of standard*	Application date for Group*
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5,8,101,117,118, 136 & 139]	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting except for the following: The amendment to AASB 117 removes the specific guidance on classifying land as lease so that only the general guidance remains. Assessing land leases based on the general criteria may result in more land leases being classified as finance leases and if so, the type of asset which is to be recorded (intangible vs. property, plant and equipment) needs to be determined. The amendment to AASB 101 stipulates that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do no affect its classification. The amendment to AASB 107 explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities. The amendment to AASB 118 provides additional guidance to determine whether an entity is acting as a principal or as an agent. The features indicating an entity is acting as a principal are whether the entity: • has primary responsibility for providing the goods or service; • has inventory risk; • has discretion in establishing prices; • bears the credit risk. The amendment to AASB 136 clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment, as defined in IFRS 8 before aggregation for reporting purposes. The main change to AASB 139 clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract. The other changes clarify the scope exemption for business combination contracts and provide clarification in relation to accounting for cash flow hedges.	1 January 2010	1 July 2010

Notes to the Consolidated Financial Report (continued)

Reference	Title	Summary	Application date of standard*	Application date for Group*
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1,3,4,5,7,101, 102,108,112,118,121, 127,128,131,132,136, 1023 & 1038 and Interpretations 10 & 12]	The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes: • Two categories for financial assets being amortised cost or fair value • Removal of the requirement to separate embedded derivatives in financial assets • Strict requirements to determine which financial assets can be classified as amortised cost or fair value. Financial assets can only be classified as amortised cost if: (a) the contractual cash flows from the instrument represent principal and interest; and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows • an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition • reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes • changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income	1 January 2013	1 July 2013
AASB 2009-12	Amendments to Australian Accounting Standard [AASB 5,8,108,110,112, 119,133,137,139,1023 & 1031 and Interpretations 2,4,16,1039 & 1052]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. The amendments to AASB 124 clarifies and simplifies the definition of a related party as well as providing some relief for government-related entities (as defined in the amended standard) to disclose details of all transactions with other government-related entities (as well as with the government itself)	1 January 2011	1 July 2011
AASB 2009-13	Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1]	This amendment to AASB 1 allows a first-time adopter may apply the transitional provisions in Interpretation 19 as identified in AASB 1048.	1 July 2010	1 July 2010
AASB 2009-14	Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	These amendments arise from the issuance of Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14). The requirements of IFRIC 14 meant that some entities that were subject to minimum funding requirements could not treat any surplus in a defined benefit pension plan as an economic benefit. The amendment requires entities to treat the benefit of such an early payment as a pension asset. Subsequently, the remaining surplus in the plan, if any, is subject to the same analysis as if no prepayment had been made.	1 January 2011	1 July 2011

Notes to the Consolidated Financial Report (continued)

Reference	Title	Summary	Application date of standard*	Application date for Group*
Interpretation 19***	Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are "consideration paid" in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability. The interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment.	1 July 2010	1 July 2010
AASB 2010-1	Amendments to Australian Accounting Standards - Limited Exemption from Comparative AASB 7 Disclosures for First-time Adopters	First-time adopters of Australian Accounting Standards are permitted to use the same transition provisions permitted for existing preparers of financial statements prepared in accordance with Australian Accounting Standards that are included in AASB 2009-2.	1 July 2010	1 July 2010
AASB 2010-2	Amendments to Australian Accounting Standards arising from reduced disclosure requirements	This Standard gives effect to Australian Accounting Standards – Reduced Disclosure Requirements. AASB 1053 provides further information regarding the differential reporting framework and the two tiers of reporting requirements for preparing general purpose financial statements.	1 July 2013	1 July 2013
AASB 2010-3	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]	Limits the scope of the measurement choices of non-controlling interest at proportionate share of net assets in the event of liquidation. Other components of NCI are measured at fair value. Requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses. Clarifies that contingent consideration from a business combination that occurred before the effective date of AASB 3 Revised is not restated. Eliminates the requirement to restate financial statements for a reporting period when significant influence or joint control is lost and the reporting entity accounts for the remaining investment under AASB 139. This includes the effect on accumulated foreign exchange differences on such investments.	1 July 2010	1 July 2010

Notes to the Consolidated Financial Report (continued)

Reference	Title	Summary	Application date of standard*	Application date for Group*
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments. Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions Clarify that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.	1 January 2011	1 July 2011
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement). These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below. (a) Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria. (b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.	1 January 2013	1 July 2013

Reference	Title	Summary	Application date of standard*	Application date for Group*
AASB 124 (Revised)	Related Party Disclosures (December 2009)	The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including: (a) the definition now identifies a subsidiary and an associate with the same investor as related parties of each other; (b) entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and (c) the definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other. A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.	1 January 2011	1 July 2011

The impact of the adoption of these new and revised standards and interpretations has not been determined by the Company.

(f) Foreign currency translation

Both the functional and presentation currency of the Company and its Australian controlled entities is Australian dollars (A$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All such exchange differences are taken to the income statement in the consolidated financial report.

(g) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(h) Trade and other receivables

Trade receivables are recognised and carried at amortised cost less any allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An allowance for impairment of trade receivables is made when there is objective evidence that the Group will not be able to collect the debts. Indicators of impairment would include financial difficulties of the debtor, likelihood of the debtor's insolvency and default in payment. Any impairment is recognised in the income statement.

All sales revenue is invoiced and received in US$ dollars.

Generally, on presentation of shiploading documents and provisional invoice, the customer settles 90%-95% of the provisional sales invoice value within 10 days of receipt of shiploading documents and provisional invoice and the remaining 5%-10% is settled within 30 days of presentation of the final invoice. The final price is subject to minor adjustment based on the final analyses of weight, chemical and physical composition, and moisture content.

(i) Inventories

Inventories are valued at the lower of cost and net realisable value.

Cost comprises direct material, labour and expenditure in getting such inventories to their existing location and condition, based on weighted average costs incurred during the period in which such inventories were produced.

Consumable materials for plant and equipment are recognised as inventory. Consumable stocks are carried at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(j) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation

The cost of owned property, plant and equipment directly engaged in mining operations is written off over its expected economic life on a units-of-production method, in the establishment of which, due regard is given to the life of the related area of interest. Plant and equipment under hire purchase or finance lease directly engaged in mining operations is written down to its residual value over the lesser of the hire purchase or finance lease term or useful life. Other assets which are depreciated or amortised on a basis other than the units-of-production method typically are depreciated on a straight-line basis over the estimated useful life of the asset as follows:

- Buildings 5 - 20 years
- Motor vehicles 4 - 5 years
- Office equipment 3 - 5 years
- Leasehold improvements Shorter of lease term or useful life of 5 – 10 years
- Koolan Island major fleet hire purchase 5 years

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

(k) Mine properties

Mine properties represent the accumulation of all acquisition, exploration, evaluation and development expenditure incurred by or on behalf of the Group in relation to areas of interest in which mining of mineral resource has commenced. When further development expenditure, including waste development, is incurred in respect of a mine property after the commencement of production, such expenditure is carried forward as part of the cost of that mine property only when substantial future economic benefits are established, otherwise such expenditure is classified as part of the cost of production.

Amortisation is provided on the units-of-production method, with separate calculations being made for each mineral resource. Estimated future capital and waste development costs to be incurred in accessing the reserves and measured resources are taken into account in determining amortisation charges. The units-of-production method results in an amortisation charge proportional to the depletion of the economically recoverable mineral resources (comprising proven and probable reserves plus where appropriate, a portion of measured resources).

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Should the carrying value of the expenditure not yet amortised exceed its estimated recoverable amount in any year, the excess is written off to the income statement.

(l) Acquisition, exploration, evaluation and development costs

Acquisition costs

Exploration and evaluation costs arising from acquisitions are carried forward where exploration and evaluation activities have not, at balance date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves.

Exploration and evaluation costs

Costs arising from exploration and evaluation activities are expensed as incurred, except where, at balance date, it is expected that the expenditure will be recouped by future exploitation or sale of the area of interest, in which case the expenditure is capitalised.

Development costs

Costs arising from development activities are capitalised as incurred to the extent that such costs, together with any costs arising from acquisition, exploration and evaluation carried forward in respect of the area of interest, are expected to be recouped through future exploitation or sale of the area of interest.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Where uncertainty exists as to the future viability of certain areas; the value of the area of interest is written off to the income statement or provided against.

(m) Rehabilitation costs

Long-term environmental obligations are based on the Group's environmental management plans, in compliance with current environmental and regulatory requirements.

Full provision is made based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the balance sheet date. Increases due to additional environmental disturbances, relating to the development of an asset, are capitalised and amortised over the remaining lives of the area of interest.

Annual increases in the provision relating to the change in the net present value of the provision are accounted for in the income statement as borrowing costs.

The estimated costs of rehabilitation are reviewed annually and adjusted as appropriate for changes in legislation, technology or other circumstances. Cost estimates are not reduced by potential proceeds from the sale of assets.

(n) Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. Recoverable amount is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less cost to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is also made at each reporting date as to whether there is any indication that a previously recognised impairment loss may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(o) Financial assets

Financial assets are classified into the following specified categories: 'held-to-maturity' investments, 'loans and receivables', and 'available-for-sale financial assets'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

[i] Held-to-maturity investments

Commercial bills and bonds with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

[ii] Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'.

Trade receivables, loans and other receivables are recorded at amortised cost, using the effective interest rate method, less impairment. Interest is recognised by applying the effective interest rate method.

[iii] Available-for-sale financial assets

Available-for-sale financial assets are non derivatives that are either designated as available for sale or not classified in any of the other categories. They are included in Non-Current Assets unless the Group intends to dispose of the investment within 12 months of the balance sheet date.

After initial recognition, investments, which are classified as available-for-sale, are measured at fair value. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair value of investments that are actively traded in organised markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

For investments with no active market, fair value is determined using valuation techniques. Such valuation techniques include using recent arm's length transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. Where fair value cannot be reliably measured for certain unquoted investments, these investments are measured at cost.

(p) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services

(q) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Fees paid on the establishment of loan facilities are included as part of the carrying amount of the loans and borrowings.

Gains and losses are recognised in the profit or loss when the liabilities are derecognised.

(r) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

A provision for dividends is not recognised as a liability unless the dividends have been declared, determined or publicly recommended on or before the reporting date.

(s) Share-based payment transactions

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("**equity-settled transactions**").

Options

There is currently a Directors, Officers, Employees and Other Permitted Persons option plan.

The cost of these options is measured by reference to their fair value at the date at which they are granted. The fair value is determined by using a binomial model.

In valuing these options, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company.

Performance rights

There is a Mount Gibson Iron Limited Performance Rights Plan ("**PRP"**). The PRP enables the Company to provide its executives with long term incentives which create a link between the delivery of value to shareholders, financial performance and rewarding and retaining the executives.

The cost of these performance rights is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a Black-Scholes model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("**vesting date**").

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(t) Employee benefits

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of future payments due to be settled in respect of services provided by employees up to the reporting date. Consideration is given to future wage and salary levels, experience of employee departures, and periods of service. Future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Superannuation

Contributions made by the Group to employee superannuation funds, which are defined contribution plans, are charged as an expense when incurred.

(u) Borrowing costs

Borrowing costs are recognised as an expense when incurred except when borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

(v) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating Leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense in the income statement on a straight-line basis over the lease term. Contingent rentals are recognised as an expense in the financial year in which they are incurred.

Finance Leases

Leases which effectively transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

Capitalised leased assets are depreciated over the estimated useful life of the asset or where appropriate, over the estimated life of the mine.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

Notes to the Consolidated Financial Report (continued)

(w) Revenue

Revenue is recognised and measured at the fair value of consideration received or receivable to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably.

Interest

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

(x) Income tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(y) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Notes to the Consolidated Financial Report (continued)

(z) Derivative financial instruments and hedging

The Group uses foreign currency contracts to hedge its risks associated with foreign currency fluctuations and interest rate swaps to hedge against interest rate movements. Such derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured to fair value.

Any gains and losses arising from changes in the fair value of derivatives, except those that qualify as cash flow hedges, are taken directly to net profit or loss for the year.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

Cash flow hedges – forward foreign currency contracts

In relation to cash flow hedges (forward foreign currency contracts) to hedge firm commitments which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

The Group tests each of the designated cash flow hedges for effectiveness on a monthly basis both retrospectively and prospectively using regression analysis. A minimum of 50 data points is used for regression analysis and if the testing falls within the 80:125 range, the hedge is considered highly effective and continues to be designated as a cash flow hedge.

At each balance date, the Group measures ineffectiveness using the ratio offset method. For foreign currency cash flow hedges if the risk is over hedged, the ineffective portion is taken immediately to other income or expense in the income statement.

Cash flow hedges – interest rate swaps

In relation to interest swaps hedged against variable rate borrowings, the settlement dates coincide with the dates on which interest is payable on the underlying debt. All interest rate swaps matched directly against the appropriate loans and interest expense are considered highly effective, and are settled on a net basis. The swaps are measured at fair value and all gains and losses attributable to the hedged risk are taken directly to equity and reclassified into profit and loss when the interest expense is recognised. Any ineffective portion is taken to other expenses in the income statement.

Cash flow hedges – collars

In relation to foreign exchange collars to hedge firm commitments which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised either directly in equity or the profit and loss depending on whether the exchange rate falls within the range of the collars. Any ineffective portion in recognised in the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecast transaction occurs.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

Cash flow hedges – leased liabilities

In relation to lease liabilities to hedge firm commitments which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised either directly in equity or the profit and loss depending on the effectiveness of the hedge. Any ineffective portion in recognised in the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecast transaction occurs.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

(aa) Financial instruments issued by the Group

[i] Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

[ii] Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

(bb) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the company, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(cc) Significant accounting judgements, estimates and assumptions

Significant accounting judgements, estimates and assumptions have been made as follows:

(i) Mine rehabilitation provision

The Group assesses its mine rehabilitation provision annually in accordance with the accounting policy stated in Note 1(m). Significant judgement is required in determining the provision for mine rehabilitation as there are many transactions and other factors that will affect the ultimate liability payable to rehabilitate the mine site. Factors that will affect this liability include future development, changes in technology, commodity price changes and changes in interest rates. When these factors change or become known in the future, such difference will impact the mine rehabilitation provision in the period in which they change or become known.

(ii) Units of production method of depreciation

The Group applies the units of production method of depreciation of its mine assets based on ore tonnes mined. These calculations require the use of estimates and assumptions. Significant judgement is required in assessing the available reserves and resources and the production capacity of the operations to be depreciated under this method. Factors that are considered in determining reserves and resources and production capacity are the Group's history of converting resources to reserves and the relevant time frames, the complexity of metallurgy, markets and future developments. The Group uses economically recoverable mineral resources (comprising proven and probable reserves plus where appropriate, a portion of measured resources) to depreciate assets on a unit of production basis. However, where a mineral property has been acquired and an amount has been attributed to the fair value of resources not yet designated as reserves the additional resources have been taken into account. When these factors change or become known in the future, such differences will impact pre-tax profit and carrying values of assets.

(iii) Determination of mineral resources and ore reserves

The Group estimates its mineral resources and ore reserves in accordance with the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 (the 'JORC code'). The information on mineral resources and ore reserves were prepared by or under the supervision of Competent Persons as defined in the JORC code. The amounts presented are based on the mineral resources and ore reserves determined under the JORC code.

There are numerous uncertainties inherent in estimating mineral resources and ore reserves and assumptions that are valid at the time of estimation may change significantly when new information becomes available.

Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated. Such changes in the reserves could impact on depreciation and amortisation rates, asset carrying values, deferred stripping costs and provisions for decommissioning and restoration.

(iv) Impairment of capitalised exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors which could impact the future recoverability include the level of proved, probable and inferred mineral resources, future technological changes which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made.

In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent that it is determined in the future that this capitalised expenditure should be written off, this will reduce profits and net assets in the period in which this determination is made.

(v) Impairment of capitalised mine development expenditure

The future recoverability of capitalised mine development expenditure is dependent on a number of factors, including the level of proved, probable and inferred mineral resources, future technological changes which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised mine development expenditure is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made.

(vi) Impairment of property, plant and equipment

Property, plant and equipment is reviewed for impairment if there is any indication that the carrying amount may not be recoverable. Where a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value in use' (being the net present value of expected future cash flows of the relevant cash generating unit) and 'fair value less costs to sell'.

In determining value in use, future cash flows are based on:

- Estimates of the quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- Future production levels;
- Future commodity prices; and
- Future cash costs of production and capital expenditure.

Variations to the expected future cash flows, and timing thereof, could result in significant changes to any impairment losses recognised, if any, which could in turn impact future financial results.

(vii) Deferred Waste

The Group has adopted a policy of deferring all waste development costs and amortising them in accordance with the accounting policy 1(k). Significant judgement is required in determining this ratio for each mine. Factors that are considered include:

- Any proposed changes in the design of the mine;
- Estimates of the quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- Future production levels;
- Future commodity prices; and
- Future cash costs of production.

(viii)Recoverability of potential deferred income tax assets

The Group recognises deferred income tax assets in respect of tax losses to the extent that the future utilisation of these losses is considered probable. Assessing the future utilisation of these losses requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, this could result in significant changes to the deferred income tax assets recognised, which would in turn impact future financial results.

(ix) Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted and applying an estimated probability that they will vest. The accounting estimates and assumptions relating to share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

(x) Financial guarantees

The fair value of financial guarantee contracts has been assessed using the interest differential approach.

Notes to the Consolidated Financial Report (continued)

	Notes	2010 $'000	2009 $'000
2. REVENUE AND EXPENSES			
[a] Revenue			
Sale of ore		519,258	484,297
Realised gain/(loss) on foreign exchange hedges		17,024	(58,854)
		536,282	425,443
Other revenue			
Finance income – other persons / corporations		11,345	6,287
Interest income		7,651	-
		18,996	6,287
[b] Other income			
Arbitration settlement income		20,406	-
Realised gain on foreign exchange		9	-
Net gain on sale of plant and equipment		4	45
Net gain on foreign exchange		6,321	-
Other income		7	-
		26,747	45
[c] Finance costs			
Finance charges on loans		13,315	10,253
Finance charges payable under finance leases		4,199	5,548
		17,514	15,801
Unwinding of discount on rehabilitation provision		727	1,224
		18,241	17,025
[d] Cost of Sales			
Mining costs		254,309	242,735
Mining depreciation costs		23,131	20,834
Mining waste costs deferred	13	(259,866)	(249,860)
Amortisation of mining waste costs deferred	13	219,459	174,847
Amortisation of other mine properties	13	26,426	26,857
Crushing costs		18,005	21,880
Transport costs		35,473	30,373
Port costs		19,489	16,018
Royalties		37,457	34,893
Depreciation – excluding mining depreciation		8,947	7,986
Net ore inventory movement		(25,286)	(33,066)
		357,544	293,497
[e] Administration Expenses include:			
Depreciation		269	339
Share-based payments expense	22[a]	928	3,131
Bad debts written off		-	8
Net foreign exchange loss		-	9,557
[f] Cost of Sales and Administration expenses above include:			
Salaries, wages expense and other employee benefits		43,624	37,123
Operating lease rental – minimum lease payments		14,905	15,885

Notes to the Consolidated Financial Report (continued)

	2010 $'000	2009 $'000
3. INCOME TAX		
Major components of income tax expense for the years ended 30 June 2010 and 2009 are:		
Income Statement		
Current income tax		
Current income tax charge	-	-
Deferred income tax		
Relating to origination and reversal of temporary differences	55,913	19,091
Income tax expense reported in income statement	**55,913**	**19,091**
Statement of Changes in Equity		
Current income tax		
Current income tax charge	-	-
Deferred income tax		
Capital raising costs	600	(868)
Remeasurement of foreign exchange contracts	2,815	(7,933)
Interest rate swap contracts	786	(1,138)
Deferred income tax (benefit)/liability reported in equity	4,201	(9,939)
Reconciliation of income tax expense		
A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the years ended 30 June 2010 and 2009 is as follows:		
Accounting profit before income tax	188,308	61,709
• At the statutory income tax rate of 30% (2009: 30%)	56,492	18,513
• Temporary differences not brought to account as a deferred tax asset	-	506
• Expenditure not allowed for income tax purposes	283	950
• Other	(488)	(806)
• Investment allowance	(374)	(72)
Income tax expense	**55,913**	**19,091**
Effective income tax rate	29.7%	30.9%
Income tax expense reported in income statement	**55,913**	**19,091**

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
CONSOLIDATED						
Accrued liabilities	(958)	(204)	-	-	(958)	(204)
Borrowing costs	(114)	(560)	-	-	(114)	(560)
Capital raising costs	(3,194)	(6,184)	-	-	(3,194)	(6,184)
Deferred income	-	-	57,338	28,055	57,338	28,055
Allowance for doubtful debts	-	(4,574)	-	-	-	(4,574)
Exploration expenditure	-	-	4,085	4,113	4,085	4,113
Foreign exchange contracts	(1,975)	(8,552)	3,628	809	1,653	(7,743)
Interest rate swaps	-	(899)	-	52	-	(847)
Interest receivable	-	-	702	623	702	623
Inventory	-	-	2,960	1,636	2,960	1,636
Lease liability	(1,965)	(3,205)	-	-	(1,965)	(3,205)
Mine properties	-	-	90,612	75,595	90,612	75,595
Prepaid expenditure	-	-	24	22	24	22
Property, plant and equipment	-	-	8,585	10,217	8,585	10,217
Provisions	(6,730)	(6,238)	-	-	(6,730)	(6,238)
Tax losses	(39,200)	(37,022)	-	-	(39,200)	(37,022)
Tax (assets) liabilities	(54,136)	(67,438)	167,934	121,122	113,798	53,684
Set off of tax	54,136	67,438	(54,136)	(67,438)	-	-
Net tax (assets) liabilities	**-**	**-**	**113,798**	**53,684**	**113,798**	**53,684**

Notes to the Consolidated Financial Report (continued)

	Balance 1 July 2009 $'000	Recognised in Income $'000	Recognised in Equity $'000	Balance 30 June 2010 $'000
Movement in temporary differences during the financial year ended 30 June 2010				
Accrued liabilities	(204)	(754)	-	(958)
Borrowing costs	(560)	446	-	(114)
Capital raising costs	(6,184)	2,390	600	(3,194)
Deferred income	28,055	29,283	-	57,338
Doubtful debts provision	(4,574)	4,574	-	-
Exploration expenditure	4,113	(28)	-	4,085
Foreign exchange contracts	(7,743)	6,581	2,815	1,653
Interest rate swaps	(847)	61	786	-
Interest receivable	623	79	-	702
Inventory	1,636	1,324	-	2,960
Lease liability	(3,205)	1,240	-	(1,965)
Mine properties	75,595	15,017	-	90,612
Prepaid expenditure	22	2	-	24
Property, plant and equipment	10,217	(1,632)	-	8,585
Provisions	(6,238)	(492)	-	(6,730)
Tax losses	(37,022)	(2,178)	-	(39,200)
	53,684	**55,913**	**4,201**	**113,798**

	Balance 1 July 2008 $'000	Recognised in Income $'000	Recognised in Equity $'000	Balance 30 June 2009 $'000
Movement in temporary differences during the financial year ended 30 June 2009				
Accrued liabilities	(174)	(30)	-	(204)
Borrowing costs	(1,009)	449	-	(560)
Capital raising costs	(6,392)	1,076	(868)	(6,184)
Deferred income	40,863	(12,808)	-	28,055
Doubtful debts provision	-	(4,574)	-	(4,574)
Exploration expenditure	3,464	649	-	4,113
Foreign exchange contracts	8,060	(7,870)	(7,933)	(7,743)
Interest rate swaps	365	(74)	(1,138)	(847)
Interest receivable	268	355	-	623
Inventory	1,121	515	-	1,636
Lease liability	(4,284)	1,079	-	(3,205)
Mine properties	51,524	24,071	-	75,595
Prepaid expenditure	16	6	-	22
Property, plant and equipment	10,249	(32)	-	10,217
Provisions	(6,298)	60	-	(6,238)
Tax losses	(53,241)	16,219	-	(37,022)
	44,532	**19,091**	**(9,939)**	**53,684**

Notes to the Consolidated Financial Report (continued)

	2010 $'000	2009 $'000
Unrecognised deferred tax assets		
Deferred tax assets have not been recognised in respect of the following items:		
Provision for write down of investments	965	965
Tax losses	44	311
	1,009	1,276

4. CASH AND CASH EQUIVALENTS

	2010 $'000	2009 $'000
Cash at bank and in hand	47,497	27,966
Short-term deposits	199,907	194,207
	247,404	**222,173**

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

[a] Reconciliation of cash

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:

	2010 $'000	2009 $'000
Cash at bank and in hand	47,497	27,966
Short-term deposits	199,907	194,207
	247,404	222,173

[b] Reconciliation of the net profit after tax to the net cash flows from operations

	2010 $'000	2009 $'000
Net profit after tax	132,395	42,618
Adjustments for:		
Depreciation of non-current assets	32,347	29,159
Amortisation of deferred waste	219,459	174,847
Amortisation of other mine properties	26,426	26,857
Net profit on disposal of property, plant and equipment	(4)	(45)
Net mark-to-market differences on derivatives	(2,899)	14,625
Interest received	(11,345)	(6,287)
Exploration expenses written off	105	24
Share based payments	928	3,131
Unwinding of rehabilitation provision	727	1,224
Impairment of investments	-	1,685
Allowance for doubtful debts	-	15,247
Borrowing costs	4,871	2,488
Capitalised expenses	(4,648)	12,991
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	(17,572)	52,720
(Increase) in inventory	(27,992)	(40,312)
(Increase)/decrease in prepayments and deposits	(270)	(82)
(Increase) in capitalised deferred waste	(259,866)	(249,860)
Increase/(decrease) in creditors and accruals	19,427	(1,229)
Increase/(decrease) in GST paid	71	(75)
Increase/(decrease) in deferred income tax liabilities	55,912	19,091
Increase in employee benefits	1,012	671
Net Cash Flow from Operating Activities	**169,084**	**99,488**

Notes to the Consolidated Financial Report (continued)

[c] Non-cash financing activities

During the financial year, the Group acquired property, plant and equipment with an aggregate fair value of $4,564,803 (2009: $14,508,222) by means of finance leases and hire purchase agreements. During the financial year, the Group disposed of property, plant and equipment with an aggregate fair value of nil (2009: $36,500) that were financed by means of finance leases.

	Notes	2010 $'000	2009 $'000
5. TERM DEPOSITS			
Current			
Long-term deposits		100,000	-
		100,000	**-**

Long-term deposits are made for varying periods of between three and twelve months depending on the term cash requirements of the Group, and earn interest at the respective term deposit rates.

	Notes	2010 $'000	2009 $'000
6. TRADE AND OTHER RECEIVABLES			
Current			
Trade debtors	[a][i]	26,573	26,727
Allowance for impairment	[b],[c]	-	(15,247)
		26,573	11,480
Sundry debtors	[a][ii]	3,501	2,298
Convertible note receivable	[a][iii]	-	1,000
Other receivables		3,905	2,446
		33,979	**17,224**

[a] Terms and conditions

Terms and conditions relating to the above financial instruments:

[i] Details of terms and conditions of trade debtors and credit sales are set out in note 1(h).

[ii] Sundry debtors are non-interest bearing and have repayment terms between 30 and 90 days.

[iii] Convertible note held in Resources Mining Corporation Limited, convertible into 31,250,000 ordinary shares. The convertible note was unsecured, interest free and was repaid in full on 18 December 2009.

[b] Settlement

On 29 October 2009, Mount Gibson advised ASX that it has entered into a settlement agreement with Sinom (Hong Kong) Ltd ("**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 were as follows:

- Sinom 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 was granted security by parties related to Sinom for these payments.

Mount Gibson received the first US$2,500,000 on 10 November 2009, the second US$5,000,000 on 10 February 2010 and the final payment, in full and final settlement, of US$17,500,000 on 10 May 2010. A total of US$25,000,000 was received. $28,000,000 ($19,600,000 after tax) relating to the settlement amount has been recognised in the Profit and Loss split between Other Income ($20,400,000) and Interest income ($7,600,000).

The amount recorded initially as a receivable was determined by 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 Consolidated Financial Report (continued)

[c] Impaired or past due financial assets

An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. At 30 June 2010, trade debtors of nil (2009: $ $15,247,130) in the Group were impaired. In 2009, the impaired amount was owed by Sinom for iron ore sales in the period 1 April 2008 to 30 June 2008. The amount owing relates to the Hamersley benchmark price increase adjustment from 1 April 2008 that was announced on 24 June 2008 after the sales had already occurred.

At 30 June 2010, trade debtors of $354,588 (2009: $1,550,137) in the Group were past due but not impaired. These relate to a number of customers for whom there is no recent history of default and other indicators of impairment.

With respect to trade debtors that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

	Notes	2010 $'000	2009 $'000
Movements in the allowance for impairment were as follows:			
Balance at the beginning of the year		15,247	-
Charge for the year		-	15,247
Amounts written off		(15,247)	-
Balance at the end of the year		-	15,247
The ageing of debtors past due but not impaired is as follows:			
Less than 30 days overdue		374	-
Between 30 and 60 days overdue		36	402
Between 60 and 90 days overdue		-	592
Greater than 90 days overdue		(55)	556
		355	1,550
7. INVENTORIES			
Consumables – at cost		19,425	16,719
Ore – at cost		120,327	95,041
		139,752	**111,760**
8. DERIVATIVE FINANCIAL ASSETS			
Current			
Foreign currency forward contracts and options	31[b][i]	3,273	1,902
Interest rate swap contracts	31[c][i]	-	175
		3,273	**2,077**
Non-Current			
Foreign currency forward contracts and options	31[b][i]	-	147
		-	**147**
9. OTHER ASSETS			
Current			
Cash backed performance bonds		-	15,107
		-	**15,107**

Notes to the Consolidated Financial Report (continued)

10. INTEREST IN SUBSIDIARIES

Name	Country of Incorporation	Percentage of Equity Interest Held by the Group 2010 %	2009 %
Mount Gibson Mining Limited	Australia	100	100
WHTK Pty Ltd	Australia	-	100
Geraldton Bulk Handling Pty Ltd	Australia	100	100
Aztec Resources Limited	Australia	100	100
• Koolan Iron Ore Pty Ltd	Australia	100	100
• Koolan Shipping Pty Ltd	Australia	100	100
• Brockman Minerals Pty Ltd	Australia	100	100

Entities subject to Class Order relief

Pursuant to Class Order 98/1418, relief has been granted to Mount Gibson Mining Limited, Aztec Resources Limited and Koolan Iron Ore Pty Ltd from the *Corporations Act 2001* requirements for the preparation, audit and lodgement of their financial reports. As a condition of the Class Order, Mount Gibson Iron Limited, Mount Gibson Mining Limited, Aztec Resources Limited and Koolan Iron Ore Pty Ltd ("**Closed Group**") entered into a Deed of Cross Guarantee on 1 May 2009. The effect of this deed is that Mount Gibson Iron Limited has guaranteed to pay any deficiency in the event of winding up of these controlled entities or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that Mount Gibson Iron Limited is wound up or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee.

Consolidated Income Statement of the Closed Group

	2010 $'000	2009 $'000
CONTINUING OPERATIONS		
Sale of goods	536,282	425,443
Other revenue	18,985	6,273
TOTAL REVENUE	555,267	431,716
Cost of sales	(343,618)	(284,422)
GROSS PROFIT	211,649	147,294
Other income	26,746	45
Administration expenses	(17,824)	(42,584)
Doubtful debts provision	-	(15,247)
Impairment of available-for-sale financial assets	-	(1,685)
Exploration expenses	(120)	(30)
PROFIT FROM CONTINUING OPERATIONS BEFORE TAX AND FINANCE COSTS	220,451	87,793
Finance costs	(17,915)	(16,926)
PROFIT FROM CONTINUING OPERATIONS BEFORE INCOME TAX	202,536	70,867
Income tax expense	(60,181)	(21,838)
NET PROFIT AFTER TAX ATTRIBUTABLE TO MEMBERS OF THE COMPANY	142,355	49,029

Notes to the Consolidated Financial Report (continued)

Consolidated Balance Sheet of the Closed Group

	2010 $'000	2009 $'000
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	246,404	220,802
Term deposits	100,000	-
Trade and other receivables	32,984	16,417
Inventories	139,752	111,760
Prepayments	498	2,300
Derivative financial assets	3,273	2,077
Other assets	-	15,107
TOTAL CURRENT ASSETS	**522,911**	**368,463**
NON-CURRENT ASSETS		
Other receivables	14,212	13,747
Derivative financial assets	-	147
Property, plant and equipment	160,360	180,552
Deferred acquisition, exploration, evaluation and development costs	69,739	53,784
Mine properties	536,020	503,748
TOTAL NON-CURRENT ASSETS	**780,331**	**751,978**
TOTAL ASSETS	**1,303,242**	**1,120,441**
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	82,884	69,199
Interest-bearing loans and borrowings	95,097	112,508
Derivative financial liabilities	1,808	14,356
Provisions	3,232	2,392
TOTAL CURRENT LIABILITIES	**183,021**	**198,455**
NON-CURRENT LIABILITIES		
Provisions	19,099	18,300
Interest-bearing loans and borrowings	36,813	49,080
Derivative financial liabilities	-	6,942
Deferred income tax liabilities	113,785	53,527
TOTAL NON-CURRENT LIABILITIES	**169,697**	**127,849**
TOTAL LIABILITIES	**352,718**	**326,304**
NET ASSETS	**950,524**	**794,137**
EQUITY		
Issued capital	559,207	556,032
Retained earnings	369,834	227,479
Reserves	21,483	10,626
TOTAL EQUITY	**950,524**	**794,137**

11. PROPERTY, PLANT AND EQUIPMENT

	2010 $'000	2009 $'000
Freehold–land - at cost	5	5
Plant and equipment – at cost	94,018	86,968
Accumulated depreciation	(32,673)	(21,438)
	61,345	65,530
Plant and equipment under lease – at cost	101,789	97,497
Accumulated depreciation	(46,241)	(31,595)
	55,548	65,902
Buildings – at cost	56,703	55,783
Accumulated depreciation	(19,079)	(12,629)
	37,624	43,154
Buildings under lease – at cost	522	522
Accumulated depreciation	(418)	(369)
	104	153
Capital works in progress – at cost	8,717	9,761
Total property, plant and equipment		
At cost	261,754	250,536
Total accumulated depreciation	(98,411)	(66,031)
	163,343	**184,505**

[a] Assets pledged as security

The value of assets pledged as security are:

	2010 $'000	2009 $'000
Land	5	5
Plant and equipment	61,345	65,530
Plant and equipment under lease	55,548	65,902
Buildings	37,624	43,154
Buildings under lease	104	153
Capital work in progress	8,717	9,761
	163,343	184,505

	2010 $'000	2009 $'000

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

[b] Reconciliations

Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current and previous financial year:

	2010 $'000	2009 $'000
Plant and equipment		
Carrying amount at the beginning of the year	65,530	70,117
Additions	4,913	3,377
Transfers	2,137	921
Disposals	-	-
Depreciation expense	(11,152)	(8,885)
Depreciation capitalised	(83)	-
Carrying amount at the end of the year	61,345	65,530
Plant and equipment under lease		
Carrying amount at the beginning of the year	65,902	66,467
Additions	4,565	14,509
Transfers	(176)	-
Disposals	(48)	(37)
Depreciation expense	(14,695)	(15,037)
Carrying amount at the end of the year	55,548	65,902
Buildings		
Carrying amount at the beginning of the year	43,154	41,582
Additions	284	1,644
Transfers	637	5,216
Disposals	-	-
Depreciation expense	(6,451)	(5,288)
Carrying amount at the end of the year	37,624	43,154
Buildings under lease		
Carrying amount at the beginning of the year	153	182
Depreciation expense	(49)	(29)
Carrying amount at the end of the year	104	153
Capital works in progress		
Carrying amount at the beginning of the year	9,761	10,144
Additions	1,554	5,754
Transfers	(2,598)	(6,137)
Carrying amount at the end of the year	8,717	9,761

Notes to the Consolidated Financial Report (continued)

	Notes	2010 $'000	2009 $'000
12. DEFERRED ACQUISITION, EXPLORATION, EVALUATION AND DEVELOPMENT COSTS			
Deferred acquisition, exploration, evaluation and development costs carried forward in respect of mining areas of interest:			
Extension Hill Hematite		64,438	48,390
Koolan Island		5,301	5,394
		69,739	**53,784**
Reconciliation			
Carrying amount at beginning of the year		53,784	25,919
Additions		16,060	27,889
Exploration expenditure written off		(105)	(24)
Carrying amount at the end of the year		69,739	53,784
13. MINE PROPERTIES			
Mine development expenditure		1,247,733	969,575
Accumulated amortisation		(711,622)	(465,736)
		536,111	**503,839**
Reconciliation			
Carrying amount at beginning of the year		503,839	447,235
Additions		18,291	8,448
Deferred waste capitalised during the year	2[d]	259,866	249,860
Amortisation expensed – deferred waste	2[d]	(219,459)	(174,847)
Amortisation expensed – other	2[d]	(26,426)	(26,857)
Carrying amount at the end of the year		536,111	503,839
14. TRADE AND OTHER PAYABLES			
Current			
Trade creditors	[a]	29,144	25,392
Accruals and other payables	[a]	68,153	49,711
		97,297	**75,103**

[a] Current trade creditors and other payables are non-interest bearing and are normally settled on 30 day terms.

Notes to the Consolidated Financial Report (continued)

	Notes	2010 $'000	2009 $'000
15. INTEREST-BEARING LOANS AND BORROWINGS			
Current			
Lease liability	[a]	5,456	3,972
Hire purchase facility	[b]	9,641	10,357
Corporate Debt	[c]	85,000	105,000
Capitalised corporate debt facility costs		(3,105)	(6,821)
		96,992	**112,508**
Non-Current			
Lease liability	[a]	1,094	6,711
Hire purchase facility	[b]	35,719	42,369
		36,813	**49,080**

Financing facilities available

At reporting date, the following financing facilities had been negotiated and were available:

	Notes	2010 $'000	2009 $'000
Total facilities:			
• Finance leases	[a]	6,550	10,683
• Hire purchase facility	[b]	45,360	52,726
• Contingent Instrument facility	[c]	65,000	25,000
• Corporate Debt	[c]	85,000	175,000
		201,910	**263,409**
Facilities used at reporting date:			
• Finance leases		6,550	10,683
• Hire purchase facility		45,360	52,726
• Contingent Instrument facility		55,338	16,704
• Corporate Debt		85,000	105,000
		192,248	**185,113**
Facilities unused at reporting date:			
• Finance leases		-	-
• Hire purchase facility		-	-
• Contingent Instrument facility		9,662	8,296
• Corporate Debt		-	70,000
		9,662	**78,296**

Notes to the Consolidated 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 February 2015. Interest is charged at an average rate of 7.61%. Secured by first mortgage over the assets the subject of the hire purchase agreement and a guarantee from the Company. This facility is drawn and repayable in US$ for Komatsu and A$ for NAB.

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

On 28 August 2008 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 2009 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; and
- Contingent Instrument facility of $25,000,000 (including guarantees, performance bonds).

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

- Senior 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 30 June 2009.

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.

$20,000,000 of the Senior debt facility was repaid during the year ended 30 June 2010.

Notes to the Consolidated Financial Report (continued)

	Notes	2010 $'000	2009 $'000
16. DERIVATIVE FINANCIAL LIABILITIES			
Current			
Foreign currency forward contracts and options	31[b][i]	1,808	11,359
Interest rate swap contracts	31[c][i]	-	2,997
		1,808	**14,356**
Non-Current			
Foreign currency forward contracts and options	31[b][i]	-	6,942
		-	**6,942**
17. PROVISIONS			
Current			
Employee benefits		3,228	2,389
Road resealing		100	100
		3,328	**2,489**
Non-Current			
Employee benefits		194	120
Decommissioning rehabilitation		18,910	18,183
		19,104	**18,303**
Movement in provisions:			
Road Resealing			
Carrying amount at beginning of the year		100	100
Provision for period		200	200
Amounts utilised during the period		(200)	(200)
Carrying amount at end of the year		100	100
Decommissioning Rehabilitation			
Carrying amount at beginning of the year		18,183	19,053
Unwinding of discount on rehabilitation provision		727	1,224
Revaluation of rehabilitation provision		-	(2,094)
Carrying amount at end of the year		18,910	18,183

This provision relates to the forecast cost of decommissioning and rehabilitation on closure of both of Tallering Peak and Koolan Island mines.

	2010 $'000	2009 $'000
18. ISSUED CAPITAL		
[a] Ordinary shares		
Issued and fully paid	**559,207**	**556,032**

	Notes	2010 Number of Shares	2010 $'000	2009 Number of Shares	2009 $'000
[b] Movement in ordinary shares on issue					
Beginning of the financial year		1,075,228,611	556,032	803,840,821	397,197
Placement	[i]	-	-	110,000,000	66,000
Rights issue	[ii]	-	-	160,872,790	96,524
Exercise of options		3,946,000	3,496	515,000	442
Capital raising expenses		-	-	-	(5,352)
Deferred income tax on capital raising cost		-	(321)	-	1,221
End of the financial year		**1,079,174,611**	**559,207**	**1,075,228,611**	**556,032**

[i] 31 December 2008 - Placement to Shougang Concord of 110,000,000 ordinary shares at A$0.60 per share to raise A$66,000,000 (before expenses)

[ii] 12 January 2009 - 160,872,790 fully paid ordinary shares issued pursuant to a 1 for 5 fully underwritten renounceable rights issue at A$0.60 per share to raise gross proceeds of A$96,523,674 (before expenses)

[c] Terms and conditions of contributed equity

Ordinary shares have the right to receive dividends as declared, and in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

Effective from 1 July 1998, the Corporation legislation in place abolished the concept of authorised capital and par values. Accordingly, the Company does not have authorised capital nor par value in respect of its issued shares.

[d] Share options

As at 30 June 2010 there were 5,000,000 options on issue (2009: 15,771,000) – see Note 22(b).

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

[e] Performance rights

As at 30 June 2010 there were 801,482 performance rights on issue (2009: 888,759) – see Note 22(c).

Notes to the Consolidated Financial Report (continued)

	Notes	2010 $'000	2009 $'000
19. RESERVES			
Option premium reserve	[a]	18,569	17,641
Net unrealised gains/(losses) reserve	[b]	6,106	(3,823)
Other reserves	[c]	(3,192)	(3,192)
		21,483	**10,626**

[a] Option premium reserve

The option premium reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration.

		2010 $'000	2009 $'000
Balance at the beginning of the year		17,641	14,510
Share based payments		928	3,131
Balance at the end of the year		18,569	17,641

[b] Net unrealised gains/(losses) reserve

This reserve records movement for available-for-sale financial assets to fair value and gains and losses on hedging instruments determined to be effective cash flow hedges.

		2010 $'000	2009 $'000
Balance at the beginning of the year		(3,823)	16,772
Impairment of available-for-sale financial assets		-	573
Net gains/(losses) on cash flow hedges		13,529	(30,239)
Deferred income tax on cash flow hedges		(3,600)	9,071
Balance at the end of the year		6,106	(3,823)

[c] Other reserves

		2010 $'000	2009 $'000
Consolidation reserve		(3,192)	(3,192)
		(3,192)	(3,192)

		2010 $'000	2009 $'000
20. RETAINED EARNINGS			
Balance at the beginning of the year		213,823	171,205
Net profit attributable to members of the Company		132,395	42,618
Balance at the end of the year		**346,218**	**213,823**

Notes to the Consolidated Financial Report (continued)

	Notes	2010 $'000	2009 $'000
21. EXPENDITURE COMMITMENTS			
[a] Exploration Expenditure Commitments	[i]		
Minimum obligations not provided for in the financial report and are payable:			
• Not later than one year		978	995
• Later than one year but not later than five years		2,249	2,327
• Later than five years		3,655	4,153
		6,882	**7,475**
[b] Operating Lease Commitments	[ii]		
Minimum lease payments			
• Not later than one year		7,246	6,188
• Later than one year but not later than five years		3,238	1,599
		10,484	**7,787**
[c] Finance Lease and Hire Purchase Commitments	[iii]		
Minimum lease payments			
• Not later than one year		18,599	18,606
• Later than one year but not later than five years		39,184	54,137
Total minimum lease payments		57,783	72,743
Future finance charges		(5,873)	(9,334)
		51,910	**63,409**
Total lease liability accrued for:			
Current			
Finance leases and hire purchase facility		15,097	14,329
Non-Current			
Finance leases and hire purchase facility		36,813	49,080
		51,910	**63,409**
[d] Property, plant and equipment commitments	[iv]		
Commitments contracted for at balance date but not recognised as liabilities			
• Not later than one year		43,427	30,649
• Later than one year but not later than five years		-	-
		43,427	**30,649**

[i] In order to maintain current rights to explore and mine the tenements at Tallering Peak, Koolan Island, and Extension Hill the Group is required to perform minimum exploration work to meet the expenditure requirements specified by the Department of Industry and Resources.

[ii] Operating leases:

- operating lease for office space with an initial lease term of 5 years; and
- operating lease for machinery has an average term of 1.3 years and expires in November 2012.

[iii] Finance leases and hire purchases have an average term of 4.3 years with the option to purchase the asset at the completion of the lease term for a pre-agreed amount. The average discount rates implicit in the finance leases and hire purchases are 8.92% and 7.61% respectively (2009: 8.82% and 7.61% respectively). Secured lease liabilities are secured by a charge over the leased assets.

[iv] The Group had contractual commitments to purchase property, plant and equipment principally relating to the construction and development of the Extension Hill project of $43,426,838.

	Notes	2010 $'000	2009 $'000
22. SHARE-BASED PAYMENT PLANS			
(a) Recognised share-based payment expenses			
Expense arising from equity-settled share-based payment transactions	2[e]	928	3,131

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2010 and 2009.

(b) Employee share scheme

An employee share scheme has been established where the Company may, at the discretion of the board, grant options over the ordinary shares of the Company. The options, issued for nil consideration, are granted in accordance with performance guidelines established by the directors of the Company. All directors, officers and employees are eligible for this scheme. As at balance date the following Options over unissued Shares were on issue:

Exercise Price	Vesting date / Exercise Period	2010 Number	2009 Number
78 cents	Vested 31 Dec 2007 – exercise on or before 31 Dec 2009	-	250,000
89 cents	Vested 31 Dec 2007 – exercise on or before 31 Dec 2009	-	1,621,000
299 cents	Vested 31 Dec 2008 – exercise on or before 31 Dec 2009	-	6,900,000
90 cents	Vested 1 July 2008 – exercise on or before 30 June 2010	-	2,000,000
90 cents	Vested 24 Oct 2008 – exercise on or before 23 Oct 2010	3,000,000	3,000,000
110 cents	Vesting 24 Oct 2010 – exercise on or before 23 Oct 2012	2,000,000	2,000,000
		5,000,000	**15,771,000**

The remaining contractual life for the options on issue as at 30 June 2010 is between 1 and 3 years (2009: 1 and 4 years). The range for exercise prices for options on issue at the end of the year was $0.90-$1.10 (2009: $0.78-$2.99).

Information with respect to the number of options granted and issued under the employee share scheme is as follows:

	2010		2009	
	No. of Options	Weighted average exercise price (cents)	No. of Options	Weighted average exercise price (cents)
Balance at beginning of year	15,771,000	183.7	10,221,000	92.8
- granted and issued	-	-	7,300,000	299.0
- forfeited	(6,900,000)	299.0	(1,235,000)	153.6
- exercised	(3,871,000)	88.8	(515,000)	85.8
Balance at year end	**5,000,000**	**98.0**	**15,771,000**	**183.7**
Exercisable at year end	**3,000,000**	**90.0**	**13,771,000**	**194.4**

In addition, as at 30 June 2010, there were nil (2009: nil) options granted but not issued under the Employee Share Scheme.

(c) Performance Rights Plan

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.

Information with respect to the number of Performance Rights granted and issued is as follows:

	2010 No. of Performance Rights	2009 No. of Performance Rights
Balance at beginning of year	888,759	282,942
- granted and issued	308,805	605,817
- forfeited	-	-
- vested	(396,082)	-
Balance at year end	**801,482**	**888,759**

23. EARNINGS PER SHARE

Basic earnings per share amount is calculated by dividing net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts is calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

	2010 $'000	2009 $'000
Profits used in calculating basic and diluted earnings per share	132,395	42,618

	Number of Shares	Number of Shares
Weighted average number of ordinary shares used in calculating basic earnings per share	1,076,540,422	935,386,705
Effect of dilution		
- Share options	1,838,710	390,022
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,078,379,132	935,776,727

Conversions, calls, subscriptions or issues after 30 June 2010

Since the end of the financial year no options have been converted to ordinary shares. On 1 July 2010, 396,082 shares were issued upon vesting of performance rights granted by the Company, there have been no other conversions to, calls of, or subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of this report.

24. DIVIDENDS PAID AND PROPOSED

No amounts have been paid, declared or recommended by the Company by way of dividend since 1 July 2009.

25. CONTINGENT LIABILITIES

1. The Corporate Debt banks have provided the Group with performance bonds totalling $55,338,465 (2009: $31,841,070), of which $nil (2009: $15,107,304) is cash backed (Note 9). 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.

Notes to the Consolidated Financial Report (continued)

26. KEY MANAGEMENT PERSONNEL DISCLOSURES

[a] Compensation of Specified Key Management Personnel

	2010 $	2009 $
Short-term	3,856,823	3,687,306
Post employment	174,535	189,252
Share-based payment	678,911	925,680
	4,710,269	4,802,238

[b] Option holdings of Key Management Personnel

30 June 2010	Balance at Beginning of Period 1 July 2009	Granted as Remuneration	Options Exercised	Net Change	Balance at End of Period 30 June 2010	Vested at 30 June 2010 Total	Not Exercisable	Exercisable
Directors								
N Hamilton	-	-	-	-	-	-	-	-
L Tonkin	5,000,000	-	-	(3,000,000)	2,000,000	-	-	-
C Readhead	-	-	-	-	-	-	-	-
I Macliver	-	-	-	-	-	-	-	-
A Jones	-	-	-	-	-	-	-	-
Cao Z	-	-	-	-	-	-	-	-
Chen Z	-	-	-	-	-	-	-	-
P Knowles	-	-	-	-	-	-	-	-
Lee SH	-	-	-	-	-	-	-	-
R Willcocks	-	-	-	-	-	-	-	-
A Rule	2,000,000	-	-	(2,000,000)	-	-	-	-
Executives								
D Quinlivan	-	-	-	-	-	-	-	-
D Berg	-	-	-	-	-	-	-	-
R Mencel	350,000	-	-	(350,000)	-	-	-	-
R Richardson	-	-	-	-	-	-	-	-
Total	7,350,000	-	-	(5,350,000)	2,000,000	-	-	-

30 June 2009	Balance at Beginning of Period 1 July 2008	Granted as Remuneration	Options Exercised	Net Change	Balance at End of Period 30 June 2009	Vested at 30 June 2009 Total	Not Exercisable	Exercisable
Directors								
N Hamilton	-	-	-	-	-	-	-	-
L Tonkin	5,000,000	-	-	-	5,000,000	3,000,000	-	3,000,000
C Readhead	-	-	-	-	-	-	-	-
I Macliver	-	-	-	-	-	-	-	-
A Jones	-	-	-	-	-	-	-	-
Cao Z	-	-	-	-	-	-	-	-
Chen Z	-	-	-	-	-	-	-	-
R Willcocks	-	-	-	-	-	-	-	-
A Rule	2,000,000	-	-	-	2,000,000	2,000,000	-	2,000,000
Executives								
D Quinlivan	-	-	-	-	-	-	-	-
D Berg	-	-	-	-	-	-	-	-
R Mencel	350,000	-	-	-	350,000	350,000	-	350,000
R Richardson	-	-	-	-	-	-	-	-
R Jordinson	100,000	-	-	-	100,000	100,000	-	100,000
Total	7,450,000	-	-	-	7,450,000	5,450,000	-	5,450,000

Notes to the Consolidated Financial Report (continued)

[c] Shareholding of Key Management Personnel

30 June 2010	Balance 1 July 2009 Ord	Granted as Remuneration Ord	On Exercise of Options Ord	Net Change Other Ord	Balance 30 June 2010 Ord
Directors					
N Hamilton	185,000	-	-	-	185,000
L Tonkin	-	-	-	-	-
C Readhead	567,500	-	-	-	567,500
I Macliver	1,000,000	-	-	-	1,000,000
A Jones	100,000	-	-	-	100,000
Cao Z	-	-	-	-	-
Chen Z	-	-	-	-	-
P Knowles	-	-	-	-	-
Lee SH	-	-	-	-	-
R Willcocks	50,000	-	-	(50,000)	-
A Rule	50,000	-	-	-	50,000
Executives					
D Quinlivan	-	-	-	-	-
D Berg	-	-	-	-	-
R Mencel	-	-	-	-	-
R Richardson	-	-	-	-	-
Total	1,952,500	-	-	(50,000)	1,902,500

30 June 2009	Balance 1 July 2008 Ord	Granted as Remuneration Ord	On Exercise of Options Ord	Net Change Other Ord	Balance 30 June 2009 Ord
Directors					
N Hamilton	185,000	-	-	-	185,000
L Tonkin	-	-	-	-	-
C Readhead	567,500	-	-	-	567,500
I Macliver	1,000,000	-	-	-	1,000,000
A Jones	100,000	-	-	-	100,000
Cao Z	-	-	-	-	-
Chen Z	-	-	-	-	-
R Willcocks	-	-	-	50,000	50,000
A Rule	50,000	-	-	-	50,000
Executives					
D Quinlivan	-	-	-	-	-
D Berg	-	-	-	-	-
R Mencel	-	-	-	-	-
R Richardson	-	-	-	-	-
R Jordinson	26,000	-	-	(26,000)	-
Total	1,928,500	-	-	24,000	1,952,500

All equity transactions with key management personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

Notes to the Consolidated Financial Report (continued)

[d] Performance Rights holding by Key Management Personnel

30 June 2010	Balance 1 July 2009	Granted as Remuneration	Vested during year	Balance 30 June 2010
Directors				
N Hamilton	-	-	-	-
L Tonkin	467,254	150,114	(227,758)	389,610
C Readhead	-	-	-	-
I Macliver	-	-	-	-
A Jones	-	-	-	-
Cao Z	-	-	-	-
Chen Z	-	-	-	-
P Knowles	-	-	-	-
Lee SH	-	-	-	-
R Willcocks	-	-	-	-
A Rule	339,392	107,224	(168,324)	278,292
Executives				
D Quinlivan	-	-	-	-
D Berg	82,113	51,467	-	133,580
R Mencel	-	-	-	-
R Richardson	-	-	-	-
Total	888,759	308,805	(396,082)	801,482

30 June 2009	Balance 1 July 2008	Granted as Remuneration	Vested during year	Balance 30 June 2009
Directors				
N Hamilton	-	-	-	-
L Tonkin	161,681	305,573	-	467,254
C Readhead	-	-	-	-
I Macliver	-	-	-	-
A Jones	-	-	-	-
Cao Z	-	-	-	-
Chen Z	-	-	-	-
R Willcocks	-	-	-	-
A Rule	121,261	218,131	-	339,392
Executives			-	
D Quinlivan	-	-	-	-
D Berg	-	82,113	-	82,113
R Mencel	-	-	-	-
R Richardson	-	-	-	-
R Jordinson	-	-	-	-
Total	282,942	605,817	-	888,759

[e] Loans to Specified Key Management Personnel

There were no loans to key management personnel during the year.

[f] Other Transactions and Balances with Key Management Personnel

There were no other transactions and balances with key management personnel during the year.

27. RELATED PARTY DISCLOSURE

Ultimate parent

Mount Gibson Iron Limited is the ultimate Australian parent company.

Director-related entity transactions

Sales

On 26 November 2008 the Group entered into the following agreements, which were subsequently approved by the Company's shareholders at an extraordinary general meeting held on 30 December 2008, whereby:

- During November and December, 2008 APAC and Shougang Concord would purchase all of the Group's available production at US$40 per WMT;
- Between 1 January and 30 June 2009 Shougang Concord would purchase all of the Group's available production at US$56 per WMT; and
- From 1 July 2009 onwards APAC and Shougang Concord would purchase all of the Group's available production at Hamersley benchmark price less 10%.

During all or part of the year, Mr Cao and Mr Chen were directors of Shougang Concord and Mr Cao, Mr Jones and Mr Lee were directors of APAC.

Pursuant to these agreements, during the financial year, the Group:

- Sold 745,863 WMT (2009: 184,167 WMT) of iron ore to APAC; and
- Sold 2,724,753 WMT (2009: 2,285,844WMT) of iron ore to Shougang Concord.

Amounts recognised at the reporting date in relation to director-related entity transactions:

	2010 $'000	2009 $'000
Assets and Liabilities		
Current Assets		
Trade receivables - Sino Chance Trading Limited	16,346	-
Trade receivables - Shougang Concord	4,303	9,425
Total trade receivables	20,649	9,425
Total Assets	**20,649**	**9,425**
Current Liabilities		
Trade payables - Shougang Concord	8	39
Total trade payables	8	39
Total Liabilities	**8**	**39**
Revenues and Expenses		
Sale of goods - APAC	59,974	10,899
Sale of goods - Shougang Concord	215,011	179,364
Total Sale of Goods	**274,985**	**190,263**

Apart from the above, there are no director-related entity transactions other than those specified in Note 26.

28. AUDITOR'S REMUNERATION

	2010 $	2009 $
Amounts received or due and receivable by Ernst & Young for:		
▪ An audit or review of the financial report of the entity and any other entity in the consolidated entity	213,775	228,150
▪ Other services in relation to the entity and any other entity in the consolidated entity	-	5,700
	213,775	**233,850**

Notes to the Consolidated Financial Report (continued)

29. SEGMENT INFORMATION

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Office and his management team in assessing performance and in determining the allocation of resources.

The reportable segments are based on aggregated operating segments determined by the similarity of activity type, as these are the sources of the Group's major risks and have the most effect on the rates of return.

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

During the year ended 30 June 2010, revenue received from the sale of iron ore was comprised of the following buyers who each on a proportionate bases equated to greater than 10% of total sales for the period:

Customer	2010 $'000
# 1	215,003
# 2	98,912
# 3	91,206
# 4	59,974
# 5	53,703
Other	460
	519,258

During the year ended 30 June 2009, revenue received from the sale of iron ore was comprised of the following buyers who each on a proportionate bases equated to greater than 10% of total sales for the period:

Customer	2009 $'000
# 1	180,113
# 2	82,830
# 3	78,067
# 4	48,521
Other	94,766
	484,297

Revenue from external customers by geographical location is based on location of iron ore shipped. All iron ore have been shipped to China during the 2009 and 2010 financial years.

The Group considers the segment assets and liabilities to be consistent with those disclosed in the financial statements.

30. EVENTS AFTER THE BALANCE SHEET DATE

On 23 July 2010 Mount Gibson advised ASX that the arbitrator in the arbitration between its subsidiary, Mount Gibson Mining Limited ("**MGM**") and Pioneer Iron & Steel Co Limited ("**Pioneer**") has delivered his reasons. The arbitrator found that Pioneer repudiated its obligations under the long term agreement with MGM for the supply of iron ore and that MGM was entitled to damages for the loss of its bargain. The arbitrator has awarded MGM US$23.14 million in damages plus MGM's costs of the arbitration.

However, following the conclusion of the arbitral hearing and before the arbitrators reasons were handed down, Pioneer placed itself into insolvent liquidation meaning that MGM's entitlement to receive the final arbitral award will rank with other unsecured creditors of Pioneer. Pioneer's liquidators are yet to advise what dividend if any they expect to declare other than to say that Pioneer's asset position is very unclear.

Apart from the above, as at the date of this report there are no significant events after balance date of the Company or of the Group that require adjustment of or disclosure in this report.

31. FINANCIAL INSTRUMENTS

[a] Financial risk management objectives

The Group's principal financial instruments, other than derivatives, comprise bank loans, finance leases and hire purchase contracts, cash and short-term deposits.

The main purpose of these financial instruments is to raise finance for the Group's operations.

The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The Group also enters into derivatives transactions, principally forward currency contracts, foreign currency collar options and interest rate swaps. The purpose is to manage the currency risks and interest rate risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk, commodity price risk and liquidity risk. The board reviews and agrees management's recommended policies for managing each of these risks and they are summarised below.

[b] Foreign currency risk

The Group 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$. The Group uses derivative financial instruments to manage specifically identified foreign currency exposures by hedging a proportion of forecast US$ 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 Group recognises derivative financial instruments at fair value at the date the derivative contract is entered into. The Group applies hedge accounting to forward foreign currency contracts and collar option contracts and US$ finance leases that meet the criteria of cash flow hedges.

During the period from 1 July 2009 to 30 June 2010 the Group delivered into US dollar foreign exchange forward contracts totalling US$269,100,000 at a weighted average A$ rate of 0.826.

At 30 June 2010 the foreign exchange hedge book totalling US$206,000,000 is made up as follows:

Forward contract profile totalling US$86,000,000 is:

- US$86,000,000 due in the 6 months ending 31 December 2010 - weighted average A$ rate of 0.8422

Collar options profile totalling US$120,000,000 is:

- US$30,000,000 due in the 6 months ending 31 December 2010 - call price 0.8600 and put price 0.7700; and
- US$90,000,000 due in the 6 months ending 30 June 2011 - call price 0.8600 and put price 0.7700

As at 30 June 2010, the mark-to-market gain on the total outstanding US dollar foreign exchange hedge book of US$206,000,000 was A$1,464,701.

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

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

The Group uses the following derivative instruments to manage foreign currency risk:

Instrument	Type of Hedging	Objective
Forward exchange contracts	Committed	Hedge sales receipts against cash flow volatility arising from the fluctuating US$/A$ exchange rates.
Collars	Committed	Hedge sales receipts against cash flow volatility arising from the fluctuating US$/A$ exchange rates by limiting exposure to exchange rates within a certain range of acceptable rates.

Notes to the Consolidated Financial Report (continued)

[i] Foreign exchange contracts - cash flow hedges

The Group has entered into forward exchange contracts and foreign exchange option contracts at reporting date designed as a hedge of anticipated future receipts that will be denominated in US$.

At balance date the following foreign exchange contracts were outstanding:

	2010				2009			
	Average Contract Rate	US$ $'000	Contract Value A$ $'000	Fair Value A$ $'000	Average Contract Rate	US$ $'000	Contract Value A$ $'000	Fair Value A$ $'000
Forward Exchange Contracts								
- within one year	0.8422	86,000	102,116	232	0.8259	269,100	325,804	(9,457)
- within two years	-	-	-	-	0.8422	86,000	102,116	(6,795)
Collar Option								
- within one year	0.7700	120,000	155,844	1,233	-	-	-	-
call strike price 0.86								
put strike price 0.77								
Total	**0.8001**	**206,000**	**257,960**	**1,465**	**0.8298**	**355,100**	**427,920**	**(16,252)**

		2010 $'000	2009 $'000
Current assets	(note 8)	3,273	1,902
Non-current assets	(note 8)	-	147
Current liabilities	(note 16)	(1,808)	(11,359)
Non-current liabilities	(note 16)	-	(6,942)
Total forward exchange contracts and collar options		1,465	(16,252)
Non-current liabilities (hire purchase facility – note 15)		(31,559)	(40,137)
		(30,094)	(56,389)

Movement in forward exchange contract cash flow hedge reserve:

	2010 $'000	2009 $'000
Opening balance	(2,843)	23,602
Change in fair value of cash flow hedges	(8,112)	87,237
Transferred from / (to) revenue in Income Statement	17,024	(58,854)
Transferred from / (to) derivatives in Income Statement	1,236	(54,828)
Closing balance	7,305	(2,843)
Cash flow hedge ineffectiveness recognised immediately in profit and loss	1,236	-

Notes to the Consolidated Financial Report (continued)

[ii] Foreign currency sensitivity

The following table details the effect on profit after tax and other comprehensive income after tax of a 10% change in the Australian dollar against the US$ from the spot rate at 30 June 2010 and 30 June 2009.

	Net Profit		Other Comprehensive Income	
	2010	**2009**	**2010**	**2009**
	$'000	**$'000**	**$'000**	**$'000**
10% appreciation in the A$ spot rate with all other variables held constant	396	676	12,836	15,334
10% depreciation in the A$ spot rate with all other variables held constant	(484)	(825)	(15,606)	(19,366)

The sensitivity analysis of the Group's exposure to the foreign currency risk at balance date has been determined based on the change in value due to foreign exchange movement based on exposures at balance sheet date. A positive number indicates an increase in profit and other comprehensive income.

At balance date, the Group's exposure to foreign currency risks on financial assets and financial liabilities, excluding derivatives, are as follows:

		CONSOLIDATED	
		2010	**2009**
		$'000	**$'000**
Financial Assets			
Cash	(included within note 4)	412	4,373
Trade receivables	(included within note 6)	25,023	25,463
Financial Liabilities			
Trade payables	(included within note 14)	(96)	(310)
Hire purchase facility	(included within note 15)	(31,559)	(40,137)
Net exposure		**(6,220)**	**(10,611)**

[c] Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's long-term debt obligations and cash equivalents.

The Group's policy is to manage its interest costs using a mix of fixed and variable rate debt, and to keep between 50% and 75% of its borrowings at fixed rates of interest. The Group has entered into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations.

The Group constantly analyses its interest income rate exposure. Within this analysis, consideration is given to potential renewals of existing positions and alternative financing.

At balance date, the Group's exposure to interest rate risks on financial assets and financial liabilities are as follows:

Notes to the Consolidated Financial Report (continued)

	Floating interest rate		Fixed interest rate maturing in: 1 year or less		Over 1 to 5 years		Non-interest bearing		Total carrying amount per balance sheet		Weighted Average Interest	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 %	2009 %
CONSOLIDATED												
i) ***Financial assets***												
Cash	47,495	27,962	199,907	194,204	-	-	2	7	**247,404**	**222,173**	**4.26**	**4.06**
Term deposits	-	-	100,000	-	-	-	-	-	**100,000**	**-**	**5.90**	**-**
Trade and other receivables	-	-	-	-	-	-	33,979	16,224	**33,979**	**16,224**	**-**	**-**
Performance bonds	-	-	-	15,107	-	-	-	-	**-**	**15,107**	**-**	**3.02**
Convertible notes	-	-	-	-	-	-	-	1,000	**-**	**1,000**	**-**	**-**
Derivatives	-	-	-	-	-	-	3,273	2,224	**3,273**	**2,224**	**-**	**-**
Total financial assets	**47,495**	**27,962**	**299,907**	**209,311**	**-**	**-**	**37,254**	**19,455**	**384,656**	**256,728**		
ii) ***Financial liabilities***												
Trade and other payables	-	-	-	-	-	-	97,297	75,103	**97,297**	**75,103**	**-**	**-**
Derivatives	-	-	-	-	-	-	1,808	21,298	**1,808**	**21,298**	**-**	**-**
Lease liabilities	-	-	5,456	3,972	1,094	6,711	-	-	**6,550**	**10,683**	**8.92**	**8.82**
Hire purchase	-	-	9,641	10,357	35,719	42,369	-	-	**45,360**	**52,726**	**7.61**	**7.61**
Corporate debt	85,000	30,500	-	74,500	-	-	-	-	**85,000**	**105,000**	**7.77**	**7.29**
Total financial liabilities	**85,000**	**30,500**	**15,097**	**88,829**	**36,813**	**49,080**	**99,105**	**96,401**	**236,015**	**264,810**		

[i] Interest rate swaps – cash flow hedges

The corporate debt facility of the Group currently bears an average variable interest rate of 7.77%. In order to protect against rising interest rates the Group has entered into interest rate swap contracts under which it has a right to pay interest at fixed rates. Swaps in place cover approximately nil (2009: 71%) of the principal outstanding. The fixed interest rates range between nil and nil (2009: 6.98% and 8.08%) and the variable rate is 4.25% (2009: 1.5%) above the 90 day bank bill rate, which at balance date was 3.24% (2009: 7.89%).

At 30 June 2010, the notional principal amount and period of expiry on the interest rate swap contracts are as follows:

		2010 $'000	2009 $'000
Less than 1 year		-	74,500
		-	74,500
Current assets	(note 8)	-	175
Current liabilities	(note 16)	-	(2,997)
		-	**(2,822)**

The interest rate swaps require settlement of net interest payable each 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt. All swaps are matched directly against the appropriate loans and interest expense and as such are considered highly effective. They are settled on a net basis. The swaps are measured at fair value and all gains and losses attributable to the hedged risk are taken directly to other comprehensive income and re-classified into profit and loss when the interest expense is recognised.

Movement in interest rate swap contract cash flow hedge reserve:

	2010 $'000	2009 $'000
Opening balance	(2,619)	1,174
Transferred to interest expense	2,391	1,215
Change in fair value of hedging instrument	228	(5,008)
Closing balance	-	(2,619)
Cash flow hedge ineffectiveness recognised immediately in profit and loss (included in other expenses)	-	-

[ii] Interest rate sensitivity

The following table details the effect on profit and other comprehensive income after tax to a 1% change in the interest rates at 30 June 2010 and 30 June 2009.

	Net Profit		Other Comprehensive Income	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
• 1% increase in interest rate with all other variables held constant	1,504	1,146	-	421
• 1% decrease in interest rate with all other variables held constant	(1,504)	(1,146)	-	(427)

The sensitivity analysis of the Group's exposure to Australian variable interest rate risk at balance date has been determined based on exposures at balance sheet date. A positive number indicates an increase in profit and equity. All mark-to-market movements in cash flow hedges have been assumed to go to other comprehensive income as the profit and loss impact for any ineffectiveness unwinds over the derivatives' life.

[d] Credit risk

The Group's maximum exposures to credit risk at balance date in relation to each class of recognised financial assets, other than derivatives, is the carrying amount of those assets as indicated in the balance sheet.

In relation to derivative financial instruments, whether recognised or unrecognised, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. The Group's maximum credit risk exposure in relation to forward exchange contracts is the full amount of the foreign currency it will be required to pay or purchase when settling the forward exchange contract, should the counterparty not pay the currency it is committed to deliver to the Group.

The Group minimises concentrations of credit risk in relation to trade receivables by undertaking transactions with a number of customers and by the use of letters of credit which guarantee 90% of receivable amount at the time of sale.

Credit risk from balances with banks and financial institutions is managed by Treasury in accordance with a Board approved policy. Investments of surplus funds are made only with approved counterparties with a Standard & Poors short term credit rating of at least A-1 and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Mount Gibson Board on an annual basis, and may be updated throughout the year subject to approval of the Mount Gibson Board. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure. No material exposure is considered to exist by virtue of the possible non performance of the counterparties to financial instruments.

There are no significant concentrations of credit risk within the Group.

[e] Commodity price risk

The Group's operations are exposed to commodity price risk. The Group's sales revenue is derived under long term sales contracts for the life of mine at each of its operations. Under these contracts, the Group is paid for each tonne of ore delivered FOB expressed in US¢ per dry metric tonne Fe unit. All of Group's ore is currently sold into China. Until April 2010, prices were fixed at the prevailing published FOB prices (negotiated annually, for adjustment each year to apply from 1 April to 31 March the following year) for iron ore sold by Rio Tinto from its Hamersley Iron operations through its Pilbara ports ("**Hamersley Benchmark Price**"). Over the last 6 months it has become apparent that the benchmark price system based on annual bilateral negotiations may not continue into the future and that it is unlikely that a Hamersley Benchmark Price will be announced by Rio Tinto. BHP, Rio Tinto and Vale, who are the major seaborne iron ore producers and sellers into Asia, have announced that they are seeking to implement a reference market index pricing mechanism based on landed iron ore prices into China. It is intended that these pricing mechanisms would be based on quarterly lagged actual index iron ore prices and would apply for the duration of the next quarter. The Group is not aware to date of any index pricing mechanisms that have been agreed by the major producers with steel mills in Asia. However, it appears that the major iron ore producers have agreed interim short term prices with their customers whilst attempting to reach agreement on a new pricing mechanism. The Group is currently negotiating with all of its customers to establish a pricing mechanism similar to that proposed by the major iron ore producers except that it will be based on an FOB price rather than a landed price in China. The Group has agreed final prices for the June 2010 quarter with all of its customers similar to those announced by the major iron ore producers whilst negotiations proceed.

Revenue on sales is recognised based on provisional priced sales and is subject to final adjustments between 30 to 120 days after delivery of the commodity. There are limited available financial instruments available to hedge the iron ore price.

[f] Liquidity risk and Capital risk management

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of its corporate debt facility, finance leases and hire purchase contracts. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities.

The Group's capital risk management objectives are to safeguard the business as a going concern, to maximise returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure in order to reduce the cost of capital (being equity and Corporate Debt).

Mount Gibson does not have a target debt/equity ratio, but has a policy of maintaining a flexible financing structure so as to be able to take advantage of new investment opportunities that may arise. Note 15 sets out details of the Amended Corporate Debt facility.

At 30 June 2010, the Group had unutilised standby credit facilities totalling $9,662,000 (2009: $78,000,000).

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. As the amounts disclosed in the table are the contractual undiscounted cash flows, these balances will not necessarily agree with the amounts disclosed in the balance sheet.

	30 June 2010					**30 June 2009**				
	Less than 6 months $'000	**6 to 12 months $'000**	**1 to 5 years $'000**	**Over 5 years $'000**	**Total $'000**	**Less than 6 months $'000**	**6 to 12 months $'000**	**1 to 5 years $'000**	**Over 5 years $'000**	**Total $'000**
Financial Liabilities										
Trade and other payables	97,297	-	-	-	**97,297**	75,103	-	-	-	**75,103**
Lease liabilities	2,043	3,854	1,118	-	**7,015**	2,328	2,441	7,185	-	**11,954**
Hire purchases	6,493	6,209	38,066	-	**50,768**	7,913	5,923	46,951	-	**60,787**
Corporate debt	53,330	36,013	-	-	**89,343**	2,574	2,551	105,000	-	**110,125**
Derivatives – Gross Inflow	(141,841)	(117,583)	-	-	**(259,424)**	(167,279)	(149,067)	(95,321)	-	**(411,667)**
Derivatives – Gross Outflow	141,076	116,883	-	-	**257,959**	169,891	158,735	102,116	-	**430,742**
	158,398	**45,376**	**39,184**	**-**	**242,958**	**90,530**	**20,583**	**165,931**	**-**	**277,044**

Notes to the Consolidated Financial Report (continued)

[g] Fair value of financial assets and financial liabilities

The carrying amounts and fair values of the financial assets and financial liabilities for the Group are shown below.

The fair value representing the mark to market of a financial asset or a financial liability is the amount at which the asset could be exchanged or liability settled in a current transaction between willing parties after allowing for transaction costs.

The fair values of cash, short-term deposits, trade and other receivables, trade and other payables and other short-term borrowings approximate their carrying values, as a result of their short maturity or because they carry floating rates of interest.

The fair values of derivative financial instruments are determined using the Level 2 method requiring fair value to be calculated using observable market inputs. The Group's fair values under Level 2 method are sourced from an independent valuation by the Group's treasury advisor, Oakvale Capital ("**Oakvale**"). Oakvale's valuation techniques use prevailing market inputs sourced from Reuters/Bloomberg to determine an appropriate mid price valuation.

	2010		2009	
	Carrying Amount $'000	Fair Value $'000	Carrying Amount $'000	Fair Value $'000
Financial assets - current				
Cash	47,497	47,497	27,966	27,966
Short-term deposits	199,907	199,907	194,207	194,207
Long-term deposits	100,000	100,000	-	-
Trade debtors	26,573	26,573	11,480	11,480
Other receivables	7,406	7,406	5,744	5,744
Derivatives	3,273	3,273	2,077	2,077
Other assets	-	-	15,107	15,107
	384,656	384,656	256,581	256,581
Financial assets – non current				
Derivatives	-	-	147	147
	-	-	147	147
Financial liabilities – current				
Trade and other payables	97,297	97,297	75,103	75,103
Lease liabilities	15,097	15,097	14,329	14,329
Corporate debt	85,000	85,000	105,000	105,000
Derivatives	1,808	1,808	14,356	14,356
	199,202	199,202	208,788	208,788
Financial liabilities – non current				
Lease liabilities	36,813	36,813	49,080	49,080
Derivatives	-	-	6,942	6,942
	36,813	36,813	56,022	56,022
Net financial assets /(financial liabilities)	**148,641**	**148,641**	**(8,082)**	**(8,082)**

32. PARENT ENTITY INFORMATION

	2010 $'000	2009 $'000
[a] Information relating to Mount Gibson Iron Limited:		
Current assets	1,117	21,050
Total assets	666,115	682,589
Current liabilities	106,475	126,118
Total liabilities	106,475	126,118
Issued capital	559,207	556,032
Accumulated losses	(18,135)	(15,367)
Share based payments reserve	18,568	17,641
Net unrealised gains/(losses) reserve	-	(1,835)
Total Shareholder's Equity	559,640	556,471
Net loss after tax of the parent entity	(2,768)	(3,061)
Total comprehensive income / (loss) of the parent entity	(934)	(5,145)

[b] Details of any guarantees entered into by the parent entity in relation to the debts of its subsidiaries

Refer to Note 10.

[c] Details of any contingent liabilities of the parent entity

There are no contingent liabilities of the parent entity as at reporting date.

[d] Details of any contractual commitments by the parent entity for the acquisition of property, plant and equipment

There are no contractual commitments by the parent entity for the acquisition of property, plant and equipment as at reporting date.

[e] Tax Consolidation

The Company and its 100% owned controlled entities have formed a tax consolidated group. Members of the Group entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned controlled entities. The agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At balance date, the possibility of default is remote. The head entity of the tax consolidated group is Mount Gibson Iron Limited.

Directors' Declaration

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

1. In the opinion of the Directors:

   a. the financial statements, notes and the additional disclosures included in the Directors Report designated as audited of the Group are in accordance with the *Corporations Act 2001*, including:

      i) giving a true and fair view of the financial position of the Group as at 30 June 2010 and of their performance for the year ended on that date; and

      ii) complying with Accounting Standards and the *Corporations Regulations 200*1; and

   b. the financial statements and notes also comply with International Reporting Standards as disclosed in note 1; and

   c. there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2010.

Signed in accordance with a resolution of the directors.

N HAMILTON
Chairman

Perth, 11 August 2010

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
www.ey.com/au

Independent auditor's report to the members of Mount Gibson Iron Limited

Report on the Financial Report

We have audited the accompanying financial report of Mount Gibson Iron Limited, which comprises the balance sheet as at 30 June 2010, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the 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 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. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met 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

Auditor's Opinion

In our opinion:

1. the financial report of Mount Gibson Iron Limited is in accordance with the *Corporations Act 2001*, including:

    (i) giving a true and fair view of the consolidated entity's financial position at 30 June 2010 and of its performance for the year ended on that date; and

    (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 16 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Mount Gibson Iron Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin A Buckingham
Partner
Perth
11 August 2010