08growth

2008 ANNUAL REPORT

Mount Gibson Iron

08growth

Financial Growth

Mount Gibson continues to capitalise on its strong balance sheet and cash flow generation from existing operations to seek investment opportunities to complement and enhance its suite of assets.

MORE INFORMATION > PAGE 2

PURPOSE

Mount Gibson's purpose is to build a sustainable platform for future shareholder growth.

CORE VALUE

A successful, profitable and sustainable mid-cap mining company.

CONTENTS

Operational Growth

Mount Gibson seeks to maintain and grow long-term profitability through discovery, development, participation in and/or acquisition of mineral resources.

As an established producer of direct ship hematite ore, Mount Gibson has a clearly defined operating strategy to produce 10 million tonnes of high grade hematite ore per annum from its three Western Australian mines by 2010.

MORE INFORMATION > PAGE 6

Sustainable Growth

At Mount Gibson, commitment to the principles and practices of good corporate and environmental citizenship goes well beyond the requirements of relevant authorities.

Our development of strong partnerships with local communities, governments and businesses aids development of essential infrastructure and provides public benefit for all the community.

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Mount Gibson Iron Limited is a leading Australian "pure play" iron ore company and is well-established in the bulk commodities sector. The company was established in Perth in 1996 and was listed on the Australian Stock Exchange in 2002.

Mount Gibson owns and operates two hematite iron ore mines in Western Australia – the Tallering Peak mine, east of Geraldton in the Mid West region, and the Koolan Island mine off the Kimberley coast in the remote north-west of the State.

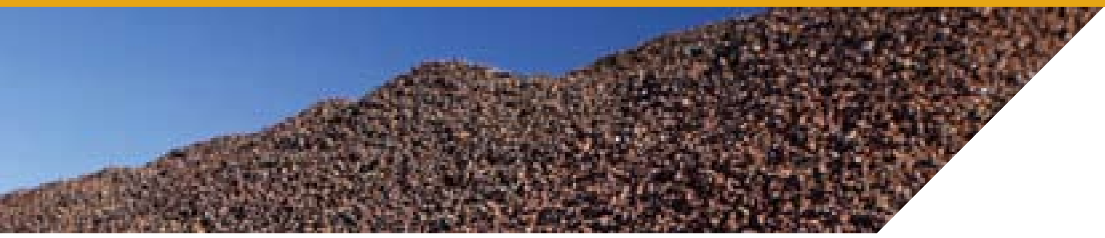
A third operation – the Extension Hill DSO Hematite Project in the Mt Gibson Range east of Geraldton – is also owned by the company and is due to commence mining in the first half of 2009.

As the leading iron ore producer in Western Australia's Mid West region, Mount Gibson is a driving force behind development in the area, advancing essential road, rail and port infrastructure projects.

The company has reinforced its solid foundations and is now poised to capitalise on organic growth and any further growth opportunity.

Mount Gibson Iron

Financial Growth



HIGHLIGHTS

- Record full year net profit after tax of $113.3 million – up 137% on the previous year
- Sales revenue of $432.7 million – up 166% on the previous year
- Operating profit before tax $163.9 million – up 288% on the previous year
- Total assets $894.0 million – up 29% on the previous year
- Net assets $596.5 million – up 31% on the previous year
- Cash on hand at 30 June 2008 – $48.7 million
- Debt drawn at 30 June 2008 – $105.0 million
- 96% and 80% increase in lump and fine iron ore prices respectively, effective 1 April 2008

	2004	2005	2006	2007	**2008**
Sales Revenue ($'000)	14,293	76,872	73,389	162,748	**432,674**
Net Profit Before Tax ($'000)	(10,982)	22,032	16,151	42,253	**163,857**
Net Profit After Tax ($'000)	(10,982)	13,502	23,479	47,765	**113,344**
Total Assets ($'000)	52,786	111,028	143,260	692,500	**894,037**
Earnings Per Share ($/share)	(0.0377)	0.0366	0.0574	0.0753	**0.1425**

NET PROFIT AFTER TAX
$113.3 million

UP **137%**
on the previous year

SALES REVENUE
$432.7 million

UP **166%**
on the previous year

NET PROFIT BEFORE TAX
$163.9 million

UP **288%**
on the previous year

EARNINGS PER SHARE
14.25 cents/share

UP **89%**
on the previous year

Chairman and Managing Director Report

Since Mount Gibson reported its performance in 2007 the company has made significant progress on a number of fronts. Operational and financial performance has been at record levels with production and shipments up 97% and 122% respectively on the previous year resulting in record sales revenue of $433 million and a record profit of $113 million, up 137% on the previous year. Mount Gibson has been well positioned to capitalise on the strength of the iron ore market and our shareholders have benefited through strong capital growth.

Mount Gibson's market capitalisation has increased relatively strongly from June 2007, elevating the company from the S&P/ASX Top 200 to the ASX Top 100 companies in Australia by capitalisation. Importantly, Mount Gibson was listed seventh on the S&P/ASX 200 Index of top performing companies with shares growing by 132.8% over the year to 30 June 2008.

Our strong results have been achieved within a challenging environment – both regional and industry-wide – with increased pressure on input costs, onerous contractual obligations, scarcity of intellectual and human capital, infrastructure constraints in the Mid West and a debilitating State mining approvals process. Mount Gibson's disciplined and pragmatic growth strategy has allowed the company to manage these factors to deliver on – and exceed – its 12-month operational and financial objectives.

Mount Gibson has been disappointed in the delay to the commencement of ground disturbing activities at Extension Hill and the poor operational performance of Geraldton Port in the first six months of the financial year which had a negative impact on the company's bottom line. It has been pleasing to eventually have access to the dedicated Berth 5 iron ore ship loader late in the financial year which was seen as critical to building iron ore export capacity from the Port and will allow Mount Gibson to reduce ore stockpiles once the Geraldton Port Authority acts to upgrade the rail unloader at the Port.

Due to the long lead time in securing State Government funding for a necessary upgrade to the Geraldton Port rail unloader, Mount Gibson has agreed to fund the detailed design and long lead item for the installation to ensure the facility is ready to accept Mount Gibson's significant increase in iron ore production from the Mid West in the last quarter of the 2008/09 financial year.

During the year Mount Gibson has actively progressed development of the Extension Hill project. Bringing this project into production has been challenging on a number of fronts, not the least of which has been the approvals process. The delay has directly attributed to the escalation of the capital cost of the project and has increased pre-production and approval expenditure which has been frustrating for the company but unavoidable.

Tallering Peak performed creditably during the year. The mine continued to improve on its safety and environmental performance and achieved records in all production key performance indicators.

Koolan Island completed its first full year of operations and is steadily bedding down operational systems, practices and procedures which will help ensure continued improvement from this site as the 4 Mtpa target production rate is achieved in 2010. Mount Gibson anticipates commencement of mining from the Koolan Island Main Pit high grade ore source in late 2010 with lower grade satellite open pits providing ore production in the interim.

The 2008/09 financial year will involve a significant amount of waste removal at Koolan Island and will see the Main Pit seawall, dewatering and rehabilitation substantially completed.

THE DEDICATED BERTH 5 IRON ORE SHIP LOADER GREATLY ENHANCES IRON ORE EXPORT CAPACITY FROM GERALDTON PORT.

Over the last two years Mount Gibson has completed a comprehensive infill drilling program at Tallering Peak which had previously been inadequately drilled for planning purposes. This infill program has been highly successful in substantially improving the company's knowledge of the Tallering Peak orebodies which has resulted in approximately 100% reconciliation against the reserve grade and tonnes for the year.

Substantial infill drilling at Koolan Island and Extension Hill will continue during the 2008/09 financial year to ensure the same level of planning certainty that Mount Gibson enjoys at Tallering Peak. Beyond infill drilling at each of our sites, Mount Gibson has identified numerous exploration targets within our tenements which will be pursued over the next two years.

As Mount Gibson moves forward with a strong, disciplined and fully funded growth strategy the company continues to recognise and emphasise commitment to our production base. Mount Gibson is working in a difficult environment, competing on many fronts and the risks to operations and the business are as acute as they have ever been.

Mount Gibson has continued to successfully engage with local communities on all levels, from direct local contributions to increasing cultural awareness, meeting our indigenous employment targets and ensuring our mutual obligations within the communities in which the company operates.

Mount Gibson is increasing its footprint in the Mid West and Kimberley regions of Western Australia which introduces further demands on the company. Mount Gibson is fully aware of its social responsibility and will continue to foster community commitment, support and equity.

Our strong, stable management team – exhibiting minimal turnover during the year – provides welcome continuity as Mount Gibson moves forward in a diverse and challenging environmental landscape. The ongoing challenge of attracting and maintaining management and staff is strengthened by our safe workplace and the provision of a work environment offering personal and professional growth opportunities.

During the year, Mr Peter Bilbe and Mr Mark Horn stepped down from the Board and the Board thanks them for their contribution, particularly Mr Bilbe, during the ramp-up phase of Koolan Island.

As Mount Gibson continues its strong growth, we would particularly like to thank our tremendous staff who continue to deliver strong results which in turn provide solid returns to our shareholders and a solid foundation for further growth.

Neil D. Hamilton
Chairman

Luke Tonkin
Managing Director

Operational Growth

HIGHLIGHTS

- Record ore production of 6.9 million tonnes, an increase of 97% on the previous year
- Record iron ore shipments, an increase of 122% on the previous year
- Record crushing, road cartage and rail haulage levels
- Extension Hill hematite mine production to commence in the first half of 2009
- Strong growth in Tallering Peak ore stockpiles providing operational flexibility and increased sales from the Mid West
- Completion of dedicated Berth 5 ship loading at Geraldton Port
- Identified highly prospective exploration targets on existing Mount Gibson tenements

CONSTRUCTION OF THE SEAWALL ACROSS ARBITRATION COVE WILL FACILITATE MINING FROM THE KOOLAN ISLAND MAIN PIT.

ORE PRODUCTION
6.9 million tonnes

UP 97%

on the previous year

ORE SHIPMENT
5.5 million tonnes

UP 122%

on the previous year

TALLERING PEAK

- **Record ore production – up 31% on the previous year**
- **Record crushing and screening throughput – up 24% on the previous year**
- **Record road haulage – up 15% on the previous year**
- **Record rail cartage – up 3% on the previous year**
- **Established substantial final product stockpiles increasing operational flexibility and ensuring increased future ore sales**
- **Completion of infill resource drilling extends mineralisation and enhances Reserve reconciliation**
- **Safety and environmental performance improvement**

The 2007/08 year has seen Tallering Peak exceed its targeted production rate of 3 million tonnes per annum (Mtpa) with a total of 3,841,000 tonnes produced.

Early in the year, material movement and ore production immediately climbed over the previous year's levels, causing stockpiles to expand ahead of infrastructure improvements at Geraldton Port.

Increased ore production during the first quarter of the year saw ore being sourced from multiple stages of the Main Range orebody. Mine productivity improved markedly as the pit floor area increased while the establishment of the T2 north-east cut back continued as planned.

Infill resource drilling of the T2 mineralisation, which commenced the previous year, was completed by September 2007 with 17 reverse circulation drill holes – totalling 1,202 metres – being drilled. As a result, Mount Gibson has significantly enhanced its understanding of the complex T2 resource while extending mineralisation and allowing the final pit design to extend in this area.

Staged mining of the Tallering Peak Main Range orebody continued during the second quarter with production rates approaching record levels and the T6A cut back providing the majority of the high grade ore mined, while medium grade blending ore was sourced from the T2 area.

The long-awaited commissioning of the Berth 5 ship loader at Geraldton Port saw loading of the first ship commence on 23 January 2008, with lump iron ore from Tallering Peak being loaded onto the iron ore carrier, Cape Courage.

Mount Gibson loaded seven ships from the new ship loader during the first quarter of 2008, at an average loading rate 55% higher than was previously achieved by the Berth 4 facilities, reducing loading time by more than 20 hours.

The Main Range Tallering Peak cutbacks continued in the third quarter of the year with the commencement of T6A2 benches and continuation of the T2A cut back which guaranteed continuity of ore supplies with subsequent T3C benches complete and T6A1 nearing completion.

The new Berth 5 ship loader's critical contribution to building iron ore export capacity from the Port became evident in the last quarter of the year, with Tallering Peak posting its highest shipping tonnage to date. It is anticipated that further improvements in ship loading rates will occur as the Geraldton Port Authority eliminates unplanned outages and becomes more proficient in loading vessels at the new facility.

Thirty new rail wagons were received by Tallering Peak during the June 2008 quarter and were fully commissioned by mid-July. Combined with the sizable crushed stocks at the Rivudini rail storage facility, this additional rail capacity provides further upside for shipping rates in the first half of 2008/09.

Despite increased shipping rates, the very strong operational performance at Tallering Peak resulted in limited draw-down of stockpiles resulting in a year-end ore and product stockpile total of approximately 1.8 million tonnes.

The outlook for Tallering Peak in the coming year is very encouraging. The current high levels of ore stocks – initially due to Port delays and then later due to above-target production – will translate into a positive and sustained impact on the year's exports particularly in the second half of the 2008/09 financial year given continued strong customer demand.

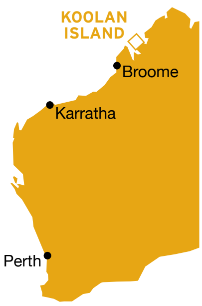
Crushing throughput at Tallering Peak improved by 24% to 3.36 million tonnes compared with the corresponding period last year. Further enhancements to the crushing circuit are scheduled for next financial year which are expected to improve plant reliability allowing further increases in output.

Beyond the 2008/09 financial year, Tallering Peak's strip ratios decline rapidly which significantly enhances cash flow from the operation.

PIT EXPANSION AT TALLERING PEAK MAIN RANGE OREBODY MARKEDLY IMPROVED PRODUCTIVITY.

KOOLAN ISLAND

- **First full year of shipments completed**
- **Major site infrastructure and mobile fleet substantially installed and commissioned**
- **Record final quarter material movement, crushing and shipping**
- **Main Pit seawall, dewatering and rehabilitation activities commenced**
- **Cut back of Main Pit commenced**
- **Power upgrade increases efficiency and crushing capacity**
- **Significant exploration targets identified**



Following Koolan Island's first shipment in June 2007, the 2007/08 year represented the first full year of shipments from the operation.

The ramp-up of production commenced the previous year continued into the first quarter of the new year, with approximately 2 million bank cubic metres of material being mined and a 66% increase in ore production. Wet commissioning of the crushing and screening facility led to a 150% increase in crusher throughput over the previous quarter, while shipments more than trebled.

A power upgrade in September 2007 enhanced the operation's ability to operate the crushing and screening facility while simultaneously loading ore carriers.

Ore production continued to increase to record levels throughout the latter part of 2007 following a focus on Main Pit West, Mullet Pit and the Barramundi Limb of East Pit. As scheduled, shipments began to decline from December during the monsoonal wet season and accelerated strongly after the season ended in March.

Various approvals for rehabilitation activities were received in October 2007 – with dewatering, rehabilitation of the footwall and construction of a seawall across Arbitration Cove commencing in December and continuing throughout the remainder of the year.

Operations at Koolan Island were restricted in the early part of 2008 due to particularly adverse weather conditions associated with two tropical cyclones and higher than average rainfall during the wet season. Accordingly, crushing and shipping rates were lower than those achieved in the December quarter but remained in line with forecasts.

In the final quarter of the year, Koolan Island returned to record levels of material movement – at 2.8 million bank cubic metres – and also achieved record crushing and shipping rates nearing 4 million tonnes on an annualised basis. This result augurs well for the operation to achieve its medium-term target of 4 Mtpa by the September quarter of 2010 following planned production ramp-up over the next two years.

The operation dispatched 13 shipments for the last quarter of the financial year, with an annual total for its first full year of 40 shipments.

Satellite open pit operations – East Pit and Barramundi Limb – developed as anticipated, while scheduled staging of Mullet Pit generated higher than planned ore volumes due to some localised conservatism in the geological model. Main Pit West has continued to expose wider benches as mining advances, improving productivity from this area. Ore production from the lower grade satellite pits is expected to continue through to the 2012 financial year.

A significant increase in total material movement from Koolan Island is scheduled for the coming year, as the cut back of Main Pit accelerates. To ensure this is completed as efficiently as possible, the mine drilling and excavator fleet has recently been enhanced with the commissioning of a SFK12 blast hole drill rig and a Hitachi 3600 excavator.

Koolan Island presents a number of organic growth opportunities owing to high prospectivity with identified untested hematite outcrops, and Main Pit ore surface extensions along strike and down dip providing outstanding synclinal and anticlinal structural targets.

THE EARLY SUCCESS OF THE KOOLAN ISLAND OPERATION IS SET TO CONTINUE WITH THE MAIN PIT HIGH GRADE ORE SOURCE DUE TO COMMENCE PRODUCTION IN 2010.

THE EXTENSION HILL DSO PROJECT RECEIVED STATE AND COMMONWEALTH ENVIRONMENTAL APPROVAL IN LATE 2007.

EXTENSION HILL DIRECT SHIPPING ORE (DSO) PROJECT

- **Definitive Feasibility Study confirms potential for strong financial returns**
- **State and Commonwealth Government environmental approvals granted**
- **Operation on track for production in first half of 2009**
- **Capital construction commenced**
- **Design and engineering works well advanced**
- **Various supply contracts awarded**

The company completed a Definitive Feasibility Study (DFS) in August 2007, which confirmed that a 3 Mtpa hematite mining operation at Extension Hill will generate strong financial returns. Increases in capital and operating costs outlined in the DFS – over those in the June 2006 desktop study – are expected to offset by increased project revenue to yield similar project valuations.

Mount Gibson advanced the Extension Hill project throughout the year however the rate of progress was impeded by onerous Environmental Ministerial conditions and as a consequence, delays in the environmental approvals process. These delays have adversely impacted the capital and operating costs for the project which has been unnecessary and disappointing.

The project was eventually granted environmental approval to proceed by the State Government in October 2007 – with the issue of Ministerial Statement 753 – and the Commonwealth Government gave its approval in December 2007.

The Environmental Management Plan (EMP) for the project required by the Ministerial Statement was submitted to the Department of Environment and Conservation (DEC) in November 2007.

After assessment and comment by the DEC, revised EMPs were submitted in April 2008.

Formal EMP approval is required prior to commencement of ground disturbing activities which presents a critical project milestone. In early July 2008, the Environmental Protection Authority (EPA) provided written advice that the DEC was happy with the EMP as submitted and the EMPs have been forwarded to the Commonwealth Government for approval.

Other plans, proposals and applications submitted and approved – or in the process of approval – during the year included:

- Project Management Plan for construction and operation of the Extension Hill mine as required by the Department of Consumer and Employee Protection
- Mining Proposal as required by the Department of Industry and Resources
- Application to transport processed hematite ore from Extension Hill to Geraldton Port, as required by the Environmental Protection Authority
- Environmental Works application as required by the Department of Environment and Conservation
- Application for a Water Abstraction Licence from the Department of Water
- Application to upgrade haul roads
- Building permit applications.

While these approvals are not considered to be in doubt, the majority are pending Commonwealth Government approval of the EMP.

The DFS highlighted the value of additional Mining Reserves to the project. Infill and extensional drilling in the area of the Extension Hill DSO open cut will commence once the EMP is approved by the Commonwealth Government and permitting of mining operations is completed late in 2008. Drilling has the potential to significantly increase the Reserve base and much of the Resource is expected to convert to Reserves.

Although delayed, development of the project has progressed, with many long lead capital items being tendered and off-site capital construction underway including a 250,000 tonne ore storage facility

at Geraldton Port. Delays to the project have increased the capital expenditure forecast from $85 million to in excess of $100 million with the project being relatively insensitive to capital cost due to its low capital intensity.

Design and engineering works are well advanced or completed – covering storage and handling facilities at Geraldton Port, a rail siding at Perenjori, haul roads construction and realignment, the mine's crushing and screening plant and site infrastructure and services.

Exploration drilling to locate suitable sources of process and potable water for the mine confirmed sufficient quantities to meet the mine's requirements, and site bores have been installed.

A number of contracts have been finalised, including contracts for the supply, construction and operation of a 130-person accommodation village, supply and erection of the main office complex, and supply and installation of site communications. Rail contracts for the haulage of 3Mtpa of iron ore from Perenjori to the Geraldton Port have been executed and rolling stock is expected to arrive from China in the March quarter of 2009.

EXPLORATION

TALLERING PEAK

Mount Gibson's current exploration focus at Tallering Peak is the identification of targets for future drilling campaigns.

Early in 2008 a detailed ground based gravity survey was undertaken, focusing on the poorly drilled North Ridge, with a total of around 75 line kilometres surveyed at a station spacing of 40 metres. Gravity surveys identify areas containing rocks of higher density which may indicate hematite mineralisation.

The data generated from this survey has been processed and is currently being modelled to determine if a significant drilling target exists. Preliminary results suggest that there is a coincident gravity anomaly and zone of less intense magnetics at the northern end of the ridge which may result from a buried hematite alteration zone.

The survey has also confirmed the T1 area, located on the Main Ridge, as a potential ore source at Tallering Peak.

KOOLAN ISLAND

Koolan Island provided the major focus of Mount Gibson's exploration activities during the year.

In the first half of the year, rapid expansion of the infill and extensional drilling program commenced the previous year delivered excellent results.

The program focused on the Main West, Barramundi West, Barramundi South, Acacia, Acacia East, Mullet-Acacia and Eastern-Barramundi deposits. The drilling of these deposits included both infill holes to gain greater pierce point density and extensional holes evaluating areas where the mineralisation remains open along strike and down dip. During the 2007 year, 23,967 metres of drilling was completed in 272 holes.

This program was completed in early December ahead of the wet season and the RC drill rig demobilised, after having delivered a number of encouraging results with many intercepts indicating greater mineralisation thickness than in existing models.

Infill and extensional drilling recommenced in May 2008 with 74 holes for 4,709 metres completed by the end of June and resource models for all target areas are being continually updated as drilling progresses.

In January 2008 Mount Gibson announced a new diamond drilling program at Koolan Island to test down dip extent of the Main Pit hematitic surface, and to determine if the Acacia hematitic surface also extended, connecting at depth with the Main Pit hematitic surface.

Two drill holes were completed in the target area in May 2008. Both holes intersected both the Main and Acacia surfaces at depth, with all intersections displaying typical Main and Acacia mineralisation and encouraging widths identified.

The drilling also confirmed that the Main Pit mineralisation extends at least 300 metres below the ultimate designed pit depth, and that the Acacia mineralised surface appears to extend approximately 1.4 kilometres down dip to form a continuous surface with the Main Pit mineralised surface.

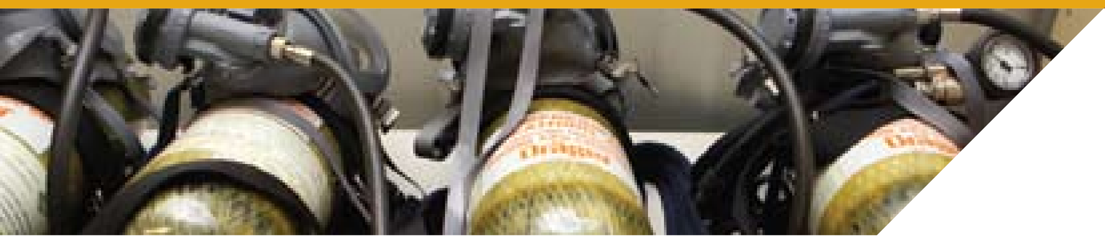
Mount Gibson is highly encouraged by these results given that the down dip extent of Main, Acacia, Barramundi and Mullet surfaces have not been previously tested by drilling. These new intersections extend known mineralisation down an additional 300 vertical metres, demonstrating the outstanding exploration targets and resource upside which exists at Koolan Island.

Given the success of these first two drill holes, a further 10,000 metres of diamond drilling has been approved by Mount Gibson's Board in order to continue testing of the deep Main Pit extensions and the Acacia Limb. Drilling commenced in August 2008.

EXTENSION HILL

No exploration work has been conducted at Extension Hill since March 2006 while processes related to environmental and other statutory approvals are underway. Significant – and ongoing – resource definition and extensional drilling programs are planned to commence as soon as statutory approvals authorising site access are received.

Sustainable Growth



COMPREHENSIVE WATER MANAGEMENT
AND MONITORING AT KOOLAN ISLAND
ENSURES MINIMAL ENVIRONMENTAL IMPACT.

At Mount Gibson, commitment to the principles and practices of good corporate and environmental citizenship goes well beyond the requirements of relevant authorities.

Our development of strong partnerships with local communities, governments and businesses aids development of essential infrastructure and provides public benefit for all the community.

ENVIRONMENT

Responsible environmental practices are essential to the company's operational and financial performance and to the sustainability of the resources industry in general. Mount Gibson employs pragmatic and appropriate industry practices to ensure that the natural environment is protected and responsibly managed, in areas where it operates.

A strong commitment to credible environmental management is a key driver for the company. Mount Gibson invests considerably in a range of environmental activities including significant ongoing research into minimising the impact of our operations, including mining, processing and ore transport.

In addition to our ongoing environmental management activities Mount Gibson achieved a number of significant environmental outcomes at our three projects during the year.

EXTENSION HILL

Developing the Extension Hill project has required the company's commitment to significant environmental research and meeting increasingly onerous environmental conditions. This included addressing over 32 critical management areas in the development of the project's Environmental Management Plan.

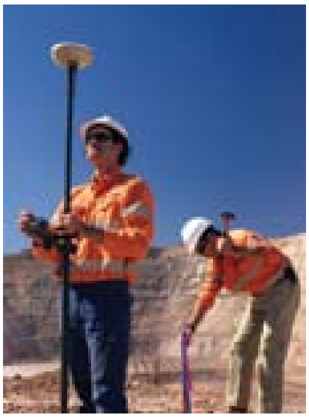
In a first for the Western Australian mining industry, Mount Gibson received approval from the State Government for a risk based Environmental Management Plan. This incorporates a unique approach to environmental management and includes research and recovery plans for flora and fauna.

This is a major advancement in the regulator's approach to environmental management and reflects the regulator's growing understanding that Mount Gibson's risk based approach demonstrates a pragmatic commitment to the environment in which it operates.

TALLERING PEAK

Expansion of our Tallering Peak mine saw the submission of a comprehensive mining and waste management plan for the T6B Stage 1 clearing permit. Mount Gibson will submit a further application to clear the T6B Stage 2, which will complete clearing approvals for the remaining life of the Main Range pits and ensure the orderly development of that part of the project.

Rehabilitation of waste dumps and other areas is undertaken progressively wherever possible. Rehabilitation earthworks totalling six hectares were completed on T5 and T6 waste dumps. This included contouring of batters to approximately 18 degrees and the spreading of topsoil to a nominal depth of 200mm.



Revegetation of the Northern face of T4 waste dump (previously contoured and cross-ripped) with native seed occurred in April 2008. Four monitoring transects were established and the Landscape Function Analysis technique (developed by CSIRO) was employed to establish baseline monitoring data for comparison annually.

An effective water saving initiative was introduced on site in December 2007. The Desert Cube waterless urinal system is based on small cubes containing natural beneficial microbes which eliminate the requirement to water flush. Water savings of approximately 300,000 litres have been achieved within the first six months of implementation.

Tallering Peak has conducted trials of suitable dust suppressant products previously and will be conducting further trials in the near future using a new water-based synthetic polymer. The use of these products can significantly reduce the application of water to reduce dust by coating and binding of dust particles.

Numerous recycling initiatives have been implemented over the last 12 months including:

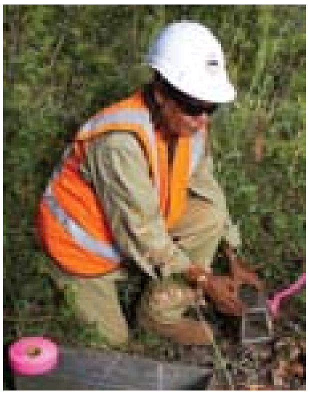
- Scrap metal – 420 tonnes of bulk scrap metal has been removed from site by a licensed scrap metal merchant for recycling. Ongoing scrap metal is placed in designated bins and collected by recyclers.
- Printer cartridges – recycled via the “Close the Loop” program which is part of the wider Planet Ark recycling initiative. Used cartridges are placed in boxes in print rooms and dispatched for recycling.
- Newspaper and white paper – used items are collected in plastic tubs and transported to recyclers. Proceeds from this go toward the upkeep of the Geraldton Aquarena leisure facility.

Further recycling opportunities will be implemented in 2008 for items such as aluminium cans, cardboard and batteries.

EXTENSIVE RESEARCH INTO KOOLAN ISLAND’S NATIVE FLORA AND FAUNA INCLUDES A SEED COLLECTION PROGRAM.

KOOLAN ISLAND

As part of our research into native flora and fauna on Koolan Island, the company made the exciting discovery of a new species of snail which is endemic to the island and not threatened by mining activity. This discovery adds to the scientific community's knowledge and understanding of the island's flora and fauna.



Mount Gibson also continues to monitor and review the location of the native quoll *Dasyurus hallucatus* populations on the island. The quoll is a small marsupial which is listed as a threatened species and the company has implemented an approved management plan which ensures that prior to clearing individual areas, a fauna capture and release program is implemented. This program is focused on the native quoll though other species are also relocated to adjacent vegetation.

At Koolan Island, Mount Gibson has implemented a range of land and water based projects to ensure our operations on the island have minimal environmental impact, and we are able to rehabilitate disturbed areas appropriately.

Mount Gibson has implemented comprehensive water management and monitoring on the island. As part of our dewatering for the redevelopment of the Main Pit, water is pumped into settlement dams prior to discharge into the ocean. This practice ensures minimal impact on the marine environment and bird life.

A comprehensive marine management plan for the island's operations has also been implemented during the year, as has a comprehensive Environmental Obligations Register for the site detailing external and legal environmental obligations.

A telemetric control system was installed on operational production bores to ensure pumping rate consistency and protection of the existing aquifers. Koolan Island also introduced a waste reduction and recycling program focused on a 20% annual reduction of waste to landfill.

COMPLIANCE

During 2008 the company reported no material environmental incidents to regulatory authorities.

MAIN PIT DEWATERING AT KOOLAN ISLAND ENSURES WATER IS PUMPED INTO SETTLEMENT DAMS PRIOR TO DISCHARGE RESULTING IN MINIMAL IMPACT ON MARINE AND BIRD LIFE.

TALLERING PEAK'S EMERGENCY RESPONSE TEAM PROVIDES IMMEDIATE ASSISTANCE TO BOTH MOUNT GIBSON'S OPERATIONS AND LOCAL COMMUNITY EMERGENCIES.

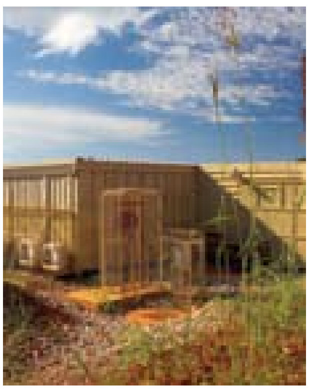
HEALTH AND SAFETY

Safety management is a critical element of everything Mount Gibson's employees and contractors undertake. The health and safety of our employees is a core value of Mount Gibson.

The safety of all our people and contractors is fundamental to all our activities. Our commitment to this is supported by the company's Safety Management System incorporating Safety Management Standards which provide a framework aligned to the requirements of Australian Standards 4801 and 4804.

Mount Gibson's objective is to achieve zero harm within our work environment. The company continues to work closely with our employees and contractors in delivering this goal.

Mount Gibson continued to improve on the lagging safety performance indicators of LTIFR and TRIFR which respectively improved 27% and 17% on the corresponding period last year.



Risk management is fundamental in maintaining a safe workplace. Measures were taken during the year to help safeguard our Koolan Island operations located in Western Australia's Kimberley region which is subject to tropical cyclone activity. As part of a comprehensive Cyclone Management Plan, in the event of a cyclone any personnel remaining on the island are safely accommodated in a purpose built cyclone shelter. This is able to accommodate 160 personnel and is equipped with emergency equipment, provisions, independent water and power supplies.

Highly trained response teams remains at the forefront of Mount Gibson's ability to ensure that, in the event of an emergency, operational personnel are able to respond appropriately.

Various emergency management activities were undertaken across our operations during the year including:

- plant and mining scenario training
- a series of emergency response exercises
- participating in an Emergency Response Competition.

At Koolan Island a Vulnerability Study was completed by the site Emergency Response Team to assess the risk of potential emergencies while a high impact safety audit was also completed against the operation's occupational health and safety management system.

Mount Gibson has comprehensive drug and alcohol management systems active across our operating sites and has introduced health and lifestyle coordinators at Koolan Island and Tallering Peak.

At Tallering Peak, the fully equipped ambulance supported by our trained Emergency Response Team not only supports our operations but is also able to provide immediate assistance to any community emergencies such as public road accidents.

As a remote site, Koolan Island has established a critical direct support network with the Royal Flying Doctor Service which has successfully conducted routine emergency training exercises on the island's sealed aerodrome.

MOUNT GIBSON PROVIDES LOCAL EMPLOYMENT OPPORTUNITIES WITH AN EMPHASIS ON INDIGENOUS EMPLOYMENT AND TRAINING.

COMMUNITY

Mount Gibson operates in diverse communities in Western Australia's West Kimberley and Mid West regions. The company is committed to the principles and practices of good corporate citizenship and our community initiatives reflect our commitment to social responsibility in these communities.

This includes providing local employment opportunities with a particular emphasis on indigenous employment and training, purchasing locally where practicable and undertaking ongoing stakeholder consultation.

As one of the largest employers in the Mid West, we employ most of our mine personnel from Geraldton or other regional towns. Engaging regularly with local communities ensures a mutual understanding of Mount Gibson's expectations and the community has a sound appreciation of our operations and plans.

Through this cooperative approach Mount Gibson is able to reduce our community impacts and provide appropriate support across a range of areas. Where possible, Mount Gibson conducts family days on its sites which encourage a deeper understanding by our employees' families of the important role of our employees and an informed comprehension of Mount Gibson's activities.

Mount Gibson also has a sponsorships and partnerships program, participates in community events including agricultural shows and community expos and supports regional cultural initiatives.

For example Mount Gibson has continued its links with the Mowanjum Artists Spirits of the Wandjina Aboriginal Corporation, first established by Aztec Mining, which the company acquired in 2006.

The link is strengthened through internationally acclaimed artist Donny Woolagoodja, a local Dambimangari – traditional owners of the land surrounding Koolan Island. Mr Woolagoodja is also a Ranger and cultural adviser to our Koolan Island operation whose artwork is sold internationally and through Mowanjum.

Mount Gibson's strong links with the traditional owners throughout all its sites is formalised through agreements that clearly describe the mutual obligations of Mount Gibson and the traditional indigenous owners. For example, the Co-Existence Deed, established between the company and the Dambimangari people, ensures that not only is Mount Gibson aware of the Dambimangari's cultural and spiritual needs but we are able to work hand in hand.

Mr Woolagoodja, together with Dr Ian Burston – former Chairman of Aztec Mining – conducted the formal opening of the Koolan Island operations in August 2007 and the Dambimangari conducted a smoking ceremony to welcome people to the Island.

Other initiatives undertaken as part of the comprehensive Co-Existence Deed included construction of a new administration complex in Derby and establishing new traditional owner employment positions at Koolan Island. Mount Gibson will achieve an indigenous employee milestone of 10% by the end of the second year of commercial production as required by the Deed.

Indigenous cultural awareness training continued during the year as a critical part of our on-site training and induction in the West Kimberley and Mid West.

Mount Gibson provides direct funding to groups and initiatives within the communities that we operate and the broader community. Mount Gibson also funds local community trusts which are established as a source of financial support for local community initiatives. These trusts are administered by committees comprising community and company representatives.

CELEBRATIONS MARK THE OPENING OF THE DAMBIMANGARI ADMINISTRATION COMPLEX IN DERBY.

INDIGENOUS JOB READY PROGRAM

Mount Gibson is committed to creating opportunities for people in the local communities surrounding our operations. We are predominantly focused on providing the local indigenous community – in particular the Dambimangari people – employment opportunities not only with Mount Gibson but broader employment opportunities within a diverse range of industries through our Job Ready Program provided by the Derby TAFE.

In late 2007, the second 17-week Job Ready Program was completed, equipping participants with the necessary skills to apply for positions in the Kimberley.

Other community activities during the year included:

- Implementation team meetings for the Mount Gibson-Derby Health partnership
- Native title agreement reached for exploration licence 1407 at Koolan Island
- Aboriginal employment forum held by the Shire of Derby and West Kimberley.

This commitment also extends to the Kimberley region where the Koolan Island operation is located. Mount Gibson continues to work with local indigenous leaders to develop employment programs and training programs for local indigenous youth.

EXTENSION HILL DSO PROJECT

The Extension Hill DSO project will see ore trucked from the mine site to a rail siding at Perenjori some 80 kilometres away before transport by train to Geraldton Port. As part of the planning process for the project, the company has undertaken a rigorous community and stakeholder engagement program.

This includes regular and ongoing meetings with the Shires of Perenjori and Yalgoo, landowners on the haulage route to the proposed rail siding, State Government agencies and local indigenous representatives. The company also conducted several well attended open community forums at Morawa and Perenjori. Arising from this consultation, the company will support the local communities including:

- using local business preferentially where suppliers are available
- offering employment and training opportunities to residents of the Perenjori and Yalgoo Shires where practicable and appropriate
- ensuring that the 45 road transport personnel are based in Perenjori rather than at the mine site.

Mount Gibson is also working closely with the community in assessing other opportunities for direct support such as partnering and sponsorships.

The stakeholder engagement program will be ongoing throughout the life of the project through to decommissioning and includes regular liaison with neighbours, local government, State Government agencies, non-government organisations and the public.

ORE WILL BE TRUCKED 80 KILOMETRES FROM THE EXTENSION HILL MINE SITE TO THE PROPOSED RAIL SIDING AT PERENJORI.

THE EXTENSION HILLS DSO PROJECT INVOLVED A RIGOROUS COMMUNITY AND STAKEHOLDER ENGAGEMENT PROGRAM.

Resources & Reserves

as at 30 June 2008

KOOLAN ISLAND

Mineral resources		Mt	Fe%	SiO_2%	Al_2O_3%	P%
	Measured	1.45	63.0	7.56	1.19	0.020
	Indicated	49.4	62.9	8.06	0.974	0.017
	Inferred	18.3	62.6	8.37	0.926	0.017
	Total	**69.1**	**62.8**	**8.13**	**0.966**	**0.017**
Mineral reserves	Proved	1.43	63.2	7.40	1.18	0.020
	Probable	27.9	63.7	6.22	1.01	0.016
	Total	**29.4**	**63.7**	**6.28**	**1.02**	**0.017**

TALLERING PEAK

Mineral resources		Mt	Fe%	SiO_2%	Al_2O_3%	P%
	Measured	12.2	63.1	3.98	2.18	0.026
	Indicated	3.91	59.3	7.22	3.01	0.053
	Inferred	1.08	56.1	12.1	4.67	0.065
	Total	**17.2**	**61.8**	**4.95**	**2.49**	**0.033**
Mineral reserves	Proved	12.0	62.3	4.57	2.37	0.025
	Probable	2.61	58.4	7.69	3.51	0.029
	Total	**14.6**	**61.6**	**5.13**	**2.57**	**0.026**

EXTENSION HILL

Mineral resources		Mt	Fe%	SiO_2%	Al_2O_3%	P%
	Indicated	12.8	60.0	5.36	1.75	0.064
	Inferred	6.69	59.6	6.76	1.77	0.056
	Total	**19.5**	**59.9**	**5.84**	**1.76**	**0.060**
Mineral reserves	Probable	12.84	60.3	5.48	1.64	0.062
	Total	**12.84**	**60.3**	**5.48**	**1.64**	**0.062**

TOTAL MINERAL RESOURCES	Mt	Fe%	SiO_2%	Al_2O_3%	P%
	105.8	**62.1**	**7.19**	**1.36**	**0.028**

TOTAL MINERAL RESERVES	Mt	Fe%	SiO_2%	Al_2O_3%	P%
	56.8	**62.4**	**5.80**	**1.56**	**0.029**

Note: Reserves exclude ore and product stocks.

The information in this report relating to Mineral Resources is based on information compiled by Rolf Forster, who is a member of the Australasian Institute of Mining and Metallurgy. Rolf Forster is a consultant to Mount Gibson Mining Limited, and has sufficient experience relevant to the styles of mineralisation and type of deposit under consideration and to the activity he is undertaking, to qualify as a Competent Person as defined in the December 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Rolf Forster has consented to the inclusion of the matters in this report based on his information in the form and context in which it appears.

The information in this report relating to Mining Reserves is based on information compiled by Rolf Forster and Weifeng Li, who are both members of the Australasian Institute of Mining and Metallurgy. Rolf Forster and Weifeng Li are consultants to Mount Gibson Mining Limited, and have sufficient experience relevant to the styles of mineralisation and type of deposit under consideration and to the activity which they are undertaking, to each qualify as a Competent Person as defined in the December 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Rolf Forster and Weifeng Li have consented to the inclusion of the matters in this report based on their information in the form and context in which it appears.

Financial Report

For the year ended 30 June 2008

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DIRECTORS' REPORT

Your Directors submit their report for the year ended 30 June 2008 for Mount Gibson Iron Limited ("Company") and the consolidated entity incorporating the entities that it controlled during the financial year ("Consolidated Entity").

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 D. Hamilton
LLB, AICD
Chairman, Independent Non-Executive Director

Mr Hamilton was appointed Non-Executive Chairman on 24 April 2007. Mr Hamilton is a lawyer with 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 IRESS Market Technology Limited and Northern Iron Limited and Non-Executive Director of Insurance Australia Limited, Metcash Limited and Programmed Maintenance Services Limited. During the past three years Mr Hamilton served as a director of Integrated Group Limited.

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

Mr Tonkin was appointed as Managing Director on 25 October 2005. Mr Tonkin has extensive experience in the resource industry traversing multi-commodities of gold, nickel, tantalum, tin and 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 L. Readhead
B. Juris, LL.B, AICD
Independent Non-Executive Director

Mr Readhead has spent the last 30 years practising in the resources law area and is a partner of law firm Pullinger Readhead Lucas. 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 A. Macliver
B.Comm, CA, F Fin, AICD
Independent Non-Executive Director

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 also served as a director of BioProspect Ltd.

Alan S. 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 is a member of the Audit and Risk Management Committee. He is a Non-Executive Director of Mulpha Australia Limited, Sun Hung Kai & Co. Limited (Hong Kong), Allied Group Limited (Hong Kong), Allied Properties Limited (Hong Kong), APAC Resources Limited and IFC Capital Limited. Mr Jones has been involved in the successful merger and acquisition of a number of public companies in Australia and internationally. During the past three years Mr Jones has not served as a director of any other listed companies.

Alan D. Rule
B.Comm, B.Acc, CA, MAICD
Alternate Director
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. Mr Rule is a Non-Executive Director of Resource Mining Corporation Limited. During the past three years Mr Rule has not served as a director of any other public company.

Mark P. M. Horn
M.A., LLB(Hons), Dip.B.Admin, FSI(Dip)

Barrister of the Honourable Society of Lincoln's Inn

Mr Horn resigned as a Non-Executive Director on 1 May 2008.

Peter R. Bilbe
B.E. (Mining) (Hons), MAusIMM

Mr Bilbe was an executive of the Company until 30 September 2007, he subsequently resigned as a Director on 21 November 2007.

COMPANY SECRETARY

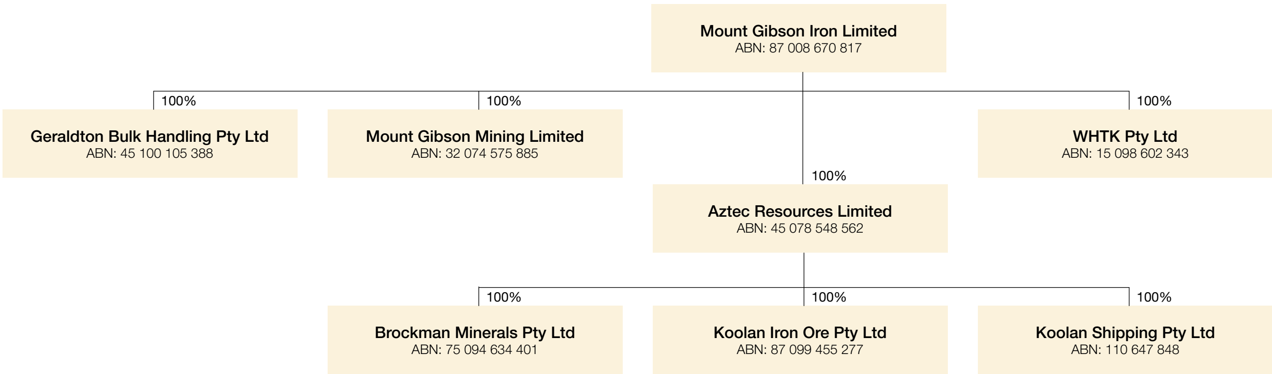
Angela Dent
BBus, CA

Ms Dent consults to a number of public and private companies, as a Management Accountant and Company Secretary. She has experience in financial and management accounting, and statutory requirements, in Australia and South East Asia.

CORPORATE INFORMATION

Corporate Structure

Mount Gibson Iron Limited is a company limited by shares that is incorporated and domiciled in Australia. It is the ultimate parent entity and has prepared a consolidated financial report incorporating the entities that it controlled during the financial year. The structure of the Consolidated Entity as at 30 June 2008 was as follows:



Nature of Operations and Principal Activities

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

- mining of hematite deposits at Tallering Peak;
- mining of hematite deposits at Koolan Island;
- 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 Consolidated Entity employed 222 employees as at 30 June 2008 (2007: 183 employees).

Future Funding

As at the date of this report the Consolidated Entity 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

Debt Facility

In June 2007 the Company mandated HSBC Australia Limited and National Australia Bank Limited as the joint lead Arranger and Underwriting Banks for a $200 million debt facility to fund the refinance of the existing project finance facility and the HSBC facility and provide additional debt funding for the Koolan Island and Extension Hill iron ore developments. The facility documentation was signed on 28 August 2007 with drawdown on 6 September 2007. See Note 16 for further details.

Koolan Island Hematite Project

Koolan production and operations ramped up to achieve 3 million tonnes per annum ("Mtpa") annualised production during the period.

Extension Hill Direct Shipping Ore Project

During the year the Consolidated Entity completed and the Mount Gibson Board approved the Detailed Feasibility Study into the feasibility of producing and selling 3 Mtpa of hematite ore from the Extension Hill Direct Shipping Ore project. Development and construction commenced in October 2007 with first shipments of ore scheduled for the June quarter of 2009.

REVIEW AND RESULTS OF OPERATIONS

Operating Results for the Period

A summary of the operating results for the Consolidated Entity is set out below:

	CONSOLIDATED	
	2008 $'000	2007 $'000
Operating profit from Continuing Operations before tax	**163,857**	**42,253**
Taxation (expense)	(50,513)	(13,209)
Operating profit from Continuing Operations after tax	**113,344**	**29,044**
Profit from discontinued operations after income tax	-	18,721
Net profit after tax attributable to Members of the Company	**113,344**	**47,765**

DIRECTORS' REPORT CONTINUED

Tallering Peak Hematite Operations

The Tallering Peak mine continued to improve operational performance during the financial year with waste and ore material movements increasing. Ore tonnes mined increased 31% compared with the corresponding period last year. Overall Tallering Peak achieved record annual ore production, crushing, transport and sales for the financial year. Ore shipments were restricted until early April 2008 by ongoing congestion and poor loading rates at the Geraldton Port.

The Geraldton Port Authority ("GPA") commissioned its dedicated iron ore ship loader at Berth 5 in late March 2008. The new Berth 5 ship loader has achieved significant improvements in loading rates in the June 2008 quarter. Ore stockpiles at 30 June 2008 totalled 1.9 Mt. The commissioning of the Berth 5 ship-loader in March 2008 and the rail unloader (expected in the June 2009 quarter) is critical to building iron ore export capacity from the Geraldton Port.

Annual crushing performance increased 24% compared with the corresponding period last year which established a crusher throughput record for Tallering Peak. Annual records were also achieved for road haulage and rail haulage which established benchmark performance criteria for the 2008/09 financial year in which haulage will continue to improve with rail upgrades, additional rolling stock and increased storage capacity at the Geraldton Port particularly in the second half of the 2008/09 financial year.

Tallering Peak is being mined in a number of staged cut backs throughout the life of mine. As these stages progressed during the financial year mining bench areas increased resulting in improvements in mine productivity and ultimately record annual material movements. Multiple mine stages has exposed multiple ore sources allowing the optimal feed blend to the crushing circuit for fines and lump ore production. Staged cut backs of the Tallering Main Range ore sources will continue in 2008/09 with supplementary ore supply being produced from the T5 open cut. Total material movement and ore production is forecast to reduce slightly in 2008/09, allowing Mount Gibson to draw down marginally on substantial ore stockpiles which have been generated during the previous year.

Continued infill and extensional exploration drilling at Tallering Peak has significantly enhanced Mount Gibson's knowledge of the Tallering Peak geological resource and has allowed mine production to be planned with a high level of confidence. Ore mined during the year versus the Reserve resulted in a 98% tonnes and 100% grade reconciliation. Exploration will focus on extending the resource and reserve base over the next two years at Tallering Peak.

PRODUCTION SUMMARY FOR 12 MONTHS	Unit	Sept Qtr 2007 '000	Dec Qtr 2007 '000	Mar Qtr 2008 '000	Jun Qtr 2008 '000	YTD 2008 '000	YTD 2007 '000	% Incr/ (Decr)
Mining								
- Waste mined	bcm	2,470	2,744	2,422	2,353	**9,989**	**9,600**	*4%*
- Ore mined	wmt	825	943	914	1,159	**3,841**	**2,932**	*31%*
Crushing								
- Lump	wmt	502	450	488	565	**2,005**	**1,645**	*22%*
- Fines	wmt	280	323	340	416	**1,359**	**1,066**	*27%*
		782	**773**	**828**	**981**	**3,364**	**2,711**	*24%*
Transported to Mullewa Railhead								
- Lump	wmt	482	388	504	484	**1,858**	**1,577**	*18%*
- Fines	wmt	177	309	251	401	**1,138**	**1,033**	*10%*
		659	**697**	**755**	**885**	**2,996**	**2,610**	*15%*
Transported to Geraldton Port								
- Lump	wmt	423	382	475	452	**1,732**	**1,425**	*22%*
- Fines	wmt	74	280	140	259	**753**	**976**	*(23%)*
		497	**662**	**615**	**711**	**2,485**	**2,401**	*3%*
Shipping								
- Lump	wmt	515	340	484	436	**1,775**	**1,375**	*29%*
- Fines	wmt	103	252	182	256	**793**	**937**	*(15%)*
		618	**592**	**666**	**692**	**2,568**	**2,312**	*11%*

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

		12 Months ended 30 June 2008	12 Months ended 30 June 2007	12 Months ended 30 June 2006
Waste mined	mill bcm	9.9	9.6	6.5
Deferred waste capitalised	$ mill	97.60	93.24	54.20
Amortisation of deferred waste	$ mill	80.66	53.57	17.77

Koolan Island Hematite Project

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

In early 2000, Aztec Resources Limited ("Aztec") acquired Koolan Island and in May 2003 an exploration licence was granted over Koolan Island. During 2003, Aztec undertook a review of available BHP data, carried out site inspections and committed to an exploration/feasibility study programme in 2004. Exploration drilling commenced in February 2004 and the bankable feasibility study was completed in August 2005. Mount Gibson acquired Aztec in February 2007.

The orebodies are tabular, 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 has produced approximately 40% Lump 60% Fines product.

Recommencement of open pit mining and stockpiling of ore on the ROM pad occurred in the December quarter 2006. Construction of the shiploader, jetty facilities and crushing and screening plant were completed and commissioned in May 2007 with the first ore shipment taking place in June 2007. At the forecast production rate of 4 Mtpa (production ramps to this rate over the period to the June 2010 quarter), and based on existing ore reserves, production is expected to continue for at least eight years to 2015 with potential to increase resources as a consequence of the planned exploration drilling to be undertaken over the next two to three years.

Mount Gibson completed its first full year of production from Koolan Island in which ore sources were established, mine development and infrastructure enhanced and installed facilities elevated to required capacity. Initial production from Koolan Island is sourced from Eastern, Barramundi, Acacia and Mullet pits whilst preparatory access works are completed at Main Pit prior to the cut back and eventual production from this high grade premium ore source. Initial development of the satellite ore sources was established during the year and multiple stages of current ore sources commenced. The initial development of Eastern, Barramundi, Acacia and Mullet pits has allowed productivity to improve as bench areas are expanded. Main West, an extension to the Main Pit also commenced during the year and will form part of the stage one cut back of Main Pit. Cut backs of the southern wall of Main Pit in the Crusher Hill and Blinker Hill areas also commenced during the year providing fill material for Main Pit seawall construction.

Seawall construction, pit dewatering and footwall rehabilitation projects commenced during the year and will be ongoing through 2008/09 as Koolan Island prepares to access high quality Main Pit hematite ore. All Main pit access projects will progress in parallel allowing stage 1 of Main Pit to develop below sea level.

A total of 28,676 metres of reverse circulation drilling was completed on Koolan Island during the year and focused primarily on infilling the current resource within planned open pits. This program will continue in 2008/09 to provide an appropriate drill spacing for resource estimation. Drilling to date has reduced the resource section spacing to 50 metres or better in most areas. Detailed geostatistical analysis of the assay data has shown that ore grade and thickness can vary rapidly and identified areas require increased drill hole density to provide meaningful data for detailed ongoing mine planning and evaluation.

Two diamond drill holes were also completed during the year targeting the Main Pit hematite horizon east and centrally of the ultimate Main Pit design. Despite anticipated poor core recoveries due to the friable nature of much of the mineralisation, the drill holes intersected typical Koolan Island Main orebody hematite width, grade and physical characteristics. Both holes continued through a major synclinal fold and intersected high grade hematite mineralisation in the Acacia limb. Both drill holes demonstrated that the Main Pit ore horizon continues for at least 300 metres below the base of the ultimate Main Pit and appears to continue around the synclinal fold into the Acacia Limb. There is at least 1km of untested dip extent along the Acacia Limb between the fold closure and the Acacia Pit.

A further 10,000 metres of diamond drilling is planned to continue testing of the deep Main Pit extensions and the Acacia Limb in 2008/09 ultimately targeting a significant increase in Koolan Island Resources.

PRODUCTION SUMMARY FOR 12 MONTHS	Unit	Sept Qtr 2007 '000	Dec Qtr 2007 '000	Mar Qtr 2008 '000	Jun Qtr 2008 '000	YTD 2008 '000	YTD 2007 '000	% Incr/ (Decr)
Mining								
- Waste mined	bcm	1,779	2,143	2,076	2,531	**8,529**	**1,748**	*388%*
- Ore mined	wmt	695	885	669	798	**3,047**	**559**	*445%*
Crushing								
- Lump	wmt	347	336	229	379	**1,291**	**146**	*784%*
- Fines	wmt	339	403	374	566	**1,682**	**128**	*1,214%*
		686	**739**	**603**	**945**	**2,973**	**274**	*985%*
Shipping								
- Lump	wmt	406	274	259	367	**1,306**	**74**	*1,665%*
- Fines	wmt	248	452	310	584	**1,594**	**76**	*1,997%*
		654	**726**	**569**	**951**	**2,900**	**150**	*1,833%*

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

		12 Months ended 30 June 2008	12 Months ended 30 June 2007
Waste mined	mill bcm	8.5	1.7
Deferred waste capitalised	$ mill	125.51	7.86
Amortisation of deferred waste	$ mill	55.32	1.94

DIRECTORS' REPORT CONTINUED

Extension Hill Direct Shipping Ore Project

During the period the Consolidated Entity completed and the Mount Gibson Board approved the Detailed Feasibility Study ("DFS") into the feasibility of producing and selling 3 Mtpa of hematite ore from the Extension Hill Direct Shipping Ore ("DSO") project.

The DFS validated the broad strategies and parameters assumed for the June 2006 study and 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.

The DSO project will have very similar operational characteristics to Mount Gibson's Tallering Peak operation with the added advantage of a much lower strip ratio of less than 1:1 (waste tonnes : ore tonnes) compared with Tallering Peak's strip ratio of 6:1. Ore mined from Extension Hill will be crushed and screened on site, transported by sealed road 85km to Perenjori and loaded onto rail wagons for a 235km journey to the Geraldton Port. Ore will be stored at the Geraldton Port at Mount Gibson's ore storage facilities being constructed at the new Berth 5 iron ore ship loading facility and loaded from Berth 5 for export.

WA Environment Minister Templeman issued Ministerial Statement 753 on 24 September 2007 thereby finalising State government environmental approval of the Mt Gibson Iron Ore Mine and Infrastructure Project. Commonwealth government approval for the Project was received on 18 December 2007.

Environmental Management Plans ("EMPs") for the Project required by Ministerial Statement 753 were submitted to the Department of Environment and Conservation ("DEC") and Environmental Protection Authority ("EPA"). The EPA recently confirmed acceptance of the EMPs and State approval of the EMPs has now been received. Federal approval is expected by mid September 2008. As Federal approval of the EMPs is required prior to 'ground disturbing activities' timely access to the Project site remains a critical project milestone.

Various other regulatory approvals are now progressing as a consequence of receipt of EMP State approval.

An application to transport processed hematite ore from the Extension Hill mine site to the Company's facilities at Geraldton Port was lodged with the EPA. The application is proceeding through the Assessment on Referred Information ("ARI") process nominated by the EPA.

The commencement of operations at Extension Hill remains on schedule for the June quarter of 2009 whilst an upgrade of rail unloading facilities necessary to ensure greater utilisation of the latent capacity at the Geraldton Port remains with the Geraldton Port Authority to construct. Construction of the rail unloading facility is expected to commence in October 2008.

Review of Financial Condition

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

- Shareholders funds increased by 31% to $597 million:
  - Holders of 16,054,000 options exercised their options resulting in $10 million in equity funding for the Company
- In June 2007 the Company mandated HSBC Australia Limited and National Australia Bank Limited as the joint lead Arranger and Underwriting Banks for a $200 million debt facility to fund the refinance of the existing debt facilities and the Koolan Island and Extension Hill iron ore developments (see Note 16).
- Acquisition of property, plant and equipment with an aggregate fair value of $7 million that were financed by means of finance leases.
- Increase in trade receivables as a result of price increase of 79% for fines and 96% for lump ore from 1 April 2008 which was announced to ASX 24 June 2008.
- Mine properties increased by $73 million primarily due to deferred waste capitalised as a result of increase in waste mined at Tallering Peak and Koolan Island.

Cash on hand at year end was $49 million with debt of $105 million drawn down under a Corporate Debt facility and $57 million in equipment finance leases and hire purchase liabilities.

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 Consolidated Entity 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

As at the date of this report there are no significant events after balance date of the Company or of the Consolidated Entity 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**
55 cents	On or before 31 December 2008		100,000	100,000
78 cents	On or before 31 December 2009		475,000	375,000
89 cents	On or before 31 December 2009		2,646,000	2,421,000
90 cents	On or before 30 June 2010		2,000,000	2,000,000
90 cents	On or before 23 October 2010		3,000,000	3,000,000
110 cents	On or before 23 October 2012		2,000,000	2,000,000
		Total	**10,221,000**	**9,896,000**

In addition, as at 30 June 2008, there were 8,475,000 (2007: 8,625,000) options granted but not issued under the Employee Share Scheme. The options were granted on the basis that the employees must complete employment service to 31 December 2008 before the options vest, at which time they will be issued to the respective employees. Once vested, these options will be exercisable at $2.99 each and expire on 31 December 2009. As at the date of this report, none of these options had vested.

Option holders do not have any right, by virtue of the Option, to participate in any share issue of the Company.

Shares issued as a result of the exercise of options

During the financial year, 16,054,000 options were exercised to acquire fully paid ordinary shares in the Company at a weighted average exercise price of $0.65. Since the end of the financial year, no options have been exercised.

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 Consolidated Entity'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 $74,899. This amount has not been included in Directors' and Executives' remuneration.

DIRECTORS' REPORT CONTINUED

REMUNERATION REPORT (AUDITED)

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

For the purposes of this report Key Management Personnel of the Consolidated Entity are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Consolidated Entity, 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 2007 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.

Non-Executive Directors are eligible to receive options under the Company Employee Option Scheme, subject to approval by Shareholders.

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.

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;
- 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 Board's 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 Consolidated Entity 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 ("KPIs") covering both financial and non-financial, corporate and individual performance measures. The STIs are based on achieving the following measures where these are applicable to the specific Executive:

- performance of the Consolidated Entity in meeting its objectives which include contribution to net profit after tax, risk management and leadership/team contribution;
- financial performance of the Consolidated Entity;
- increase in market capitalisation of the Consolidated Entity; 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 Consolidated Entity 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 KPIs. This process usually occurs within two months 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 in the following reporting period.

STI bonus for 2007 and 2008 financial years

For the 2007 financial year, 100% of the STI cash bonus of $350,000 as previously accrued in that period vested to executives and was paid in the 2008 financial year. For the 2008 financial year 100% of the STI cash bonus totalling $581,600 has been approved and vested to Senior Executives. $431,600 was paid in the current financial year.

Long-term Incentive ("LTI") for 2008 financial year

At the commencement of the 2008 financial year, the Company established the 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. 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 performance and vesting conditions set by the Board.

Performance rights were issued by the Company in respect of the 2008 financial year. The employment contracts for the Managing Director, Mr Tonkin, and the Chief Financial Officer, Mr Rule, incorporate payment of a long term incentive for the 2008 and successive financial years. Under their employment contracts, Mr Tonkin and Mr Rule will each be invited to apply for, and the Company will grant (subject to all applicable shareholder approvals being first obtained) 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.

The rights will be 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. The Company received shareholder approval for the issue of the performance rights to Mr Tonkin and Mr Rule at its 2007 AGM.

Employment Contracts

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

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 third 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 third 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.

DIRECTORS' REPORT CONTINUED

Remuneration of Key Management Personnel for the year ended 30 June 2008

	SHORT TERM			POST EMPLOYMENT		SHARE BASED PAYMENT		
	Salary and Fees $	Non Monetary $	Cash Bonuses $	Super-annuation $	Retirement Benefits $	Options $	Total $	% Performance Related
Directors								
N Hamilton	172,844	-	-	15,556	-	-	188,400	0%
L Tonkin	592,083	1,414	210,600	48,289	-	715,163	1,567,549	59%
C Readhead	85,000	-	-	-	-	-	85,000	0%
I Macliver	82,560	-	-	7,440	-	-	90,000	0%
A Jones	73,394	-	-	6,606	-	-	80,000	0%
P Bilbe	45,125	-	205,000	4,061	-	-	254,186	81%
M Horn	62,500	-	-	-	-	-	62,500	0%
A Rule #	412,844	1,414	150,000	37,156	-	368,710	970,124	53%
Sub-total directors	**1,526,350**	**2,828**	**565,600**	**119,108**	**-**	**1,083,873**	**3,297,759**	
Executives								
D Quinlivan *Chief Operating Officer*	683,644	1,414	-	-	-	-	685,058	0%
R Mencel *General Manager – Tallering Peak*	271,250	-	16,000	24,413	-	62,903	374,566	21%
R Jordinson *General Manager – Koolan Island*	515,000	-	-	-	-	35,903	550,903	7%
Sub-total executives	**1,469,894**	**1,414**	**16,000**	**24,413**	**-**	**98,806**	**1,610,527**	
Totals	**2,996,244**	**4,242**	**581,600**	**143,521**	**-**	**1,182,679**	**4,908,286**	

Mr Rule is the Chief Financial Officer of the Mount Gibson Group and is an alternate director for Mr Tonkin.

The following directors resigned during the year:

Mr Bilbe	21 November 2007
Mr Horn	1 May 2008

Options granted as part of remuneration for the year ended 30 June 2008

	Grant Date	Exercise Price	Grant Number	Value per Option at Grant Date	Value of Options Granted During the Year $	Vesting Date	Exercised Number	Value at Date Option Lapsed	Total Value of Options Exercised and Lapsed During Year	% of Remuneration
R Mencel	9-Jan-08	$2.99	100,000	0.7387	73,870	31-Dec-08	N/A	N/A	N/A	20%
R Jordinson	9-Jan-08	$2.99	100,000	0.7387	73,870	31-Dec-08	N/A	N/A	N/A	13%

These options were granted but not yet issued on the basis that the executives must complete their employment service to 31 December 2008 before they vest.

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
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 2008

	Grant Date	Performance Period Start	Performance Period End	Grant Number	Value per Right at Grant Date $	Value of Performance Rights Granted During the Year $	% of Remuneration
L Tonkin	18-Apr-08	18-Apr-08	30-Jun-10	161,681	$2.61	421,987	27%
A Rule	18-Apr-08	18-Apr-08	30-Jun-10	121,261	$2.61	316,491	33%

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:

Grant date	18-Apr-08
Share price at grant date	$2.72
Risk free interest rate	6.29%
Volatility factor	52%
Performance period start date	1-Jul-07
Performance period end date	30-Jun-10

The vesting of these Performance Rights is subject to a relative Total Shareholder Return ("TSR") hurdle to be measured at 30 June 2010 and 31 December 2010. Mount Gibson's TSR performance will be ranked relative to a comparator group consisting of 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%

Shares issued on exercise of options for the year ended 30 June 2008

There were no shares issued on exercise of options by the directors and executives during the year ended 30 June 2008.

DIRECTORS' REPORT CONTINUED

Remuneration of Key Management Personnel for the year ended 30 June 2007

	SHORT TERM			POST EMPLOYMENT		SHARE BASED PAYMENT		
	Salary and Fees $	Non Monetary $	Cash Bonuses $	Super-annuation $	Retirement Benefits $	Options $	Total $	% Performance Related
Directors								
N Hamilton	16,514	-	-	1,486	-	-	**18,000**	0%
W Willis	85,772	-	-	2,428	-	-	**88,200**	0%
B Johnson	40,000	2,734	-	-	-	801,634	**844,368**	95%
L Tonkin	550,459	1,501	200,000	49,541	-	770,745	**1,572,246**	62%
C Readhead	63,000	-	-	-	-	-	**63,000**	0%
I Macliver	44,037	-	-	3,963	-	-	**48,000**	0%
A Jones	44,000	-	-	-	-	-	**44,000**	0%
P Bilbe	115,320	1,192	-	9,298	-	-	**125,810**	0%
M Horn	-	-	-	-	-	-	**-**	0%
A Rule #	366,972	1,622	150,000	33,028	-	363,050	**914,672**	56%
Sub-total directors	**1,326,074**	**7,049**	**350,000**	**99,744**	**-**	**1,935,429**	**3,718,296**	
Executives								
K Malaxos *Chief Operating Officer (until 18 December 2006)*	145,683	8,307	-	10,413	-	-	**164,403**	0%
D Quinlivan *Chief Operating Officer (from 18 December 2006)*	430,650	428	-	-	-	-	**431,078**	0%
R Mencel *General Manager – Tallering Peak*	218,333	-	15,000	19,650	-	27,000	**279,983**	15%
Q Granger *General Manager – Koolan Island (until 8 June 2007)*	141,029	-	-	12,640	-	-	**153,669**	0%
R Jordinson *General Manager – Koolan Island (from 8 June 2007)*	47,000	-	-	-	-	-	**47,000**	0%
Sub-total executives	**982,695**	**8,735**	**15,000**	**42,703**	**-**	**27,000**	**1,076,133**	
Totals	**2,308,769**	**15,784**	**365,000**	**142,447**	**-**	**1,962,429**	**4,794,429**	

On 30 June 2007, Mr Rule resigned as Finance Director to become Chief Financial Officer and alternate director for Mr Tonkin.

The following directors resigned during the financial year ended 30 June 2007:

Mr Willis	24 April 2007
Mr Johnson	30 June 2007
Mr Rule	30 June 2007

All executive directors and Senior Executives are engaged through Controlled Entities of the Company.

Options granted as part of remuneration for the year ended 30 June 2007

	Grant Date	Exercise Price	Grant Number	Value per Option at Grant Date	Value of Options Granted During the Year $	Vesting Date	Exercised Number	Value at Date Option Lapsed	Total Value of Options Exercised and Lapsed During Year	% of Remuneration
R Mencel	9-Jan-07	$0.89	250,000	$0.216	54,000	31-Dec-07	N/A	N/A	N/A	10%

Options granted as part of Director and 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	31-Dec-05	13-June-06	4-Oct-05	4-Oct-05	4-Oct-05
Share price at grant date	$0.70	$0.70	$0.86	$0.86	$0.86
Exercise price	$0.78	$0.78	$0.90	$0.90	$1.10
Risk free interest rate	5.09%	5.09%	5.40%	5.40%	5.40%
Volatility factor	60%	60%	60%	60%	60%
Expiry date	31-Dec-09	31-Dec-06	30-Jun-10	23-Oct-10	23-Oct-12

Shares issued on exercise of options for the year ended 30 June 2007

	No. of shares issued	Paid per share $	Unpaid per share $
DIRECTORS			
W Willis	1,000,000	0.25	-
C Readhead	500,000	0.25	-
I Macliver	500,000	0.25	-
Total	2,000,000		

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 Meetings
Number of Meetings Held	13	2	3
N Hamilton	13	-	3
L Tonkin	13	-	-
C Readhead	11	2	3
I Macliver	12	2	3
A Jones	12	2	-
P Bilbe	6	-	-
M Horn	9	-	-

Mr Rule did not attend any meetings as an alternate director during the year.

DIRECTORS' REPORT CONTINUED

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	-	5,000,000	161,681
C Readhead	567,500	-	-
I Macliver	1,000,000	-	-
A Jones	100,000	-	-
A Rule	50,000	2,000,000	121,261

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

The granting of an environmental works approval by the Department of Environment and Conservation to allow construction of "prescribed" facilities at the Extension Hill mine site is pending Environmental Protection Authority approval of the Environmental Management Plans.

The Consolidated Entity 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 35 which forms part of this report.

NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised. Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	$
Aztec acquisition stamp duty advice	46,761
Other	2,575
	49,336

Signed in accordance with a resolution of the Directors.

N HAMILTON
Chairman

Perth, 11 August 2008.

ERNST & YOUNG

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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 year ended 30 June 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Gavin A Buckingham
Partner
Perth
11 August 2008

GAB:KT:MGI:136

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2008

	NOTES	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	COMPANY 2008 $'000	COMPANY 2007 $'000
CONTINUING OPERATIONS					
Sale of goods	2[a]	**432,674**	162,748	**-**	-
Other revenue	2[a]	**2,500**	2,256	**3,712**	2,840
Total revenue		**435,174**	165,004	**3,712**	2,840
Cost of sales	2[d]	**(244,635)**	(108,955)	**-**	-
Gross profit		**190,539**	56,049	**3,712**	2,840
Other income	2[b]	**3,881**	2,805	**-**	1
Administrative expenses	2[d]	**(15,030)**	(13,020)	**(2,712)**	(1,543)
Impairment of available-for-sale financial assets		**-**	(1,506)	**-**	(1,506)
Exploration expenses	2[d]	**(38)**	(8)	**-**	-
Profit/(loss) from Continuing Operations before tax and finance costs		**179,352**	44,320	**1,000**	(208)
Finance costs	2[c]	**(15,495)**	(2,067)	**(9,488)**	(3)
Profit/(loss) from Continuing Operations before income tax		**163,857**	42,253	**(8,488)**	(211)
Income tax benefit/(expense)	3	**(50,513)**	(13,209)	**2,742**	(474)
Net profit/(loss) from Continuing Operations for the period after income tax		**113,344**	29,044	**(5,746)**	(685)
Profit from discontinued operations after income tax	11[a]	**-**	18,721	**-**	91
Net profit/(loss) after tax attributable to members of the Company		**113,344**	47,765	**(5,746)**	(594)

Earnings per share (cents per share)					
• basic earnings per share	26	**14.25**	7.53		
• diluted earnings per share	26	**14.12**	7.43		
• basic earnings per share – continuing operations	26	**14.25**	4.58		
• diluted earnings per share – continuing operations	26	**14.12**	4.52		

CONSOLIDATED BALANCE SHEET

As at 30 June 2008

	NOTES	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	COMPANY 2008 $'000	COMPANY 2007 $'000
ASSETS					
Current Assets					
Cash and cash equivalents	4	**48,658**	60,798	**4,562**	351
Trade and other receivables	5	**83,436**	9,848	**38**	490
Inventories	6	**71,448**	34,581	**-**	-
Prepayments		**1,570**	1,049	**1**	313
Derivative financial assets	7	**25,161**	5,065	**1,559**	-
Total Current Assets		**230,273**	111,341	**6,160**	1,154
Non-current Assets					
Trade and other receivables	5	**1,000**	-	**116,947**	54,722
Available for sale financial assets	8	**1,113**	1,805	**1,113**	1,805
Other financial assets	9	**-**	-	**344,509**	338,432
Property, plant and equipment	12	**188,497**	187,768	**5**	5
Deferred acquisition, exploration, evaluation and development costs	13	**25,919**	9,027	**-**	-
Mine properties	14	**447,235**	370,684	**-**	-
Deferred income tax assets	3	**-**	11,875	**53,840**	36,894
Total Non-current Assets		**663,764**	581,159	**516,414**	431,858
TOTAL ASSETS		**894,037**	692,500	**522,574**	433,012
LIABILITIES					
Current Liabilities					
Trade and other payables	15	**73,406**	64,314	**2,114**	14,214
Interest-bearing loans and borrowings	16	**12,415**	98,754	**-**	-
Derivative financial liabilities	17	**342**	-	**342**	-
Provisions	18	**1,880**	1,172	**-**	-
Total Current Liabilities		**88,043**	164,240	**2,456**	14,214
Non-current Liabilities					
Trade and other payables	15	**-**	-	**18,861**	29,398
Provisions	18	**19,112**	18,470	**-**	-
Interest-bearing loans and borrowings	16	**145,858**	55,481	**101,607**	-
Deferred income tax liabilities	3	**44,532**	-	**-**	-
Total Non-current Liabilities		**209,502**	73,951	**120,468**	29,398
TOTAL LIABILITIES		**297,545**	238,191	**122,924**	43,612
NET ASSETS		**596,492**	454,309	**399,650**	389,400
EQUITY					
Issued capital	19[a]	**397,197**	386,766	**397,197**	386,766
Retained earnings / (accumulated losses)	21	**171,205**	57,861	**(12,306)**	(6,560)
Reserves	20	**28,090**	9,682	**14,759**	9,194
TOTAL EQUITY		**596,492**	454,309	**399,650**	389,400

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2008

	NOTES	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	COMPANY 2008 $'000	COMPANY 2007 $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		**357,139**	154,441	**-**	-
Payments to suppliers and employees		**(299,319)**	(144,931)	**(2,479)**	(1,509)
Interest paid		**(12,067)**	(6,420)	**(6,440)**	(111)
Net cash flows provided by / (used in) operating activities	4[b]	**45,753**	3,090	**(8,919)**	(1,620)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received		**2,410**	2,644	**247**	332
Proceeds from disposal of controlled entity, net of cash disposed	11[e]	**-**	50,354	**-**	24,892
Purchase of controlled entity	9	**-**	-	**-**	(6,275)
Payment for costs associated with acquisition of controlled entity		**(14,131)**	-	**(14,131)**	-
Net cash acquired on acquisition of controlled entity	10	**-**	3,652	**-**	-
Proceeds from sale of property, plant and equipment		**684**	3,767	**-**	-
Purchase of property, plant and equipment		**(19,118)**	(36,834)	**-**	-
Payment for deferred exploration and evaluation expenditure		**(14,911)**	(4,578)	**-**	-
Payment for mine properties		**(18,102)**	(37,594)	**-**	-
Proceeds from disposal of available-for-sale financial assets		**-**	295	**-**	295
Purchase of available-for-sale investments		**(168)**	-	**(168)**	-
Purchase of convertible note receivable		**(1,000)**	-	**(1,000)**	-
Loans from/(to) controlled entities		**-**	-	**(82,545)**	(19,148)
Loans from/(to) other entities		**236**	(280)	**236**	(280)
Net cash flows provided by / (used in) in investing activities		**(64,100)**	(18,574)	**(97,361)**	(184)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of ordinary shares		**10,367**	2,010	**10,367**	2,010
Proceeds from borrowings		**105,000**	73,404	**105,000**	-
Repayment of lease liabilities		**(17,057)**	(6,529)	**-**	-
Repayment of borrowings		**(87,095)**	-	**-**	-
Payment of borrowing costs		**(5,008)**	-	**(4,876)**	-
Net cash flows provided by / (used in) / financing activities		**6,207**	68,885	**110,491**	2,010
Net (decrease)/increase in cash and cash equivalents		**(12,140)**	53,401	**4,211**	206
Cash and cash equivalents at beginning of period		**60,798**	7,397	**351**	145
CASH AND CASH EQUIVALENTS AT END OF PERIOD	4[a]	**48,658**	60,798	**4,562**	351

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2008

CONSOLIDATED	Attributable to Equity Holders of the Parent						Minority Interest	Total Equity
	Issued Capital	(Accumulated Losses) / Retained Earnings	Share Based Payments Reserve	Net Unrealised Gains / (Losses) Reserve	Other Reserves	Total		
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 July 2006	86,851	10,096	5,954	(1,790)	(3,691)	**97,420**	11,776	**109,196**
Net unrealised gain on available-for-sale financial assets	-	-	-	1,032	-	**1,032**	-	**1,032**
Impairment of available-for-sale financial assets	-	-	-	1,506	-	**1,506**	-	**1,506**
Net gains on cash flow hedges	-	-	-	4,506	-	**4,506**	-	**4,506**
Deferred income tax on cash flow hedges	-	-	-	(1,291)	-	**(1,291)**		**(1,291)**
Currency translation differences	-	-	-	-	(386)	**(386)**	-	**(386)**
Currency translation differences released on sale of controlled entity	-	-	-	-	885	**885**	-	**885**
Cost of share-based payment	-	-	2,957	-	-	**2,957**	-	**2,957**
Total income and expense for the period recognised directly in equity	-	-	2,957	5,753	499	**9,209**	-	**9,209**
Profit for the period	-	47,765	-	-	-	**47,765**	-	**47,765**
Total income and expense for the period	-	47,765	2,957	5,753	499	**56,974**	-	**56,974**
Issue of share capital for acquisition of Controlled Entity	297,905	-	-	-	-	**297,905**	-	**297,905**
Exercise of options	2,010	-	-	-	-	**2,010**	-	**2,010**
Change in Minority Interest	-	-	-	-	-	**-**	(11,776)	**(11,776)**
At 30 June 2007	386,766	57,861	8,911	3,963	(3,192)	**454,309**	-	**454,309**

CONSOLIDATED	Attributable to Equity Holders of the Parent					Total Equity
	Issued Capital	(Accumulated Losses) / Retained Earnings	Share Based Payments Reserve	Net Unrealised Gains / (Losses) Reserve	Other Reserves	
	$'000	$'000	$'000	$'000	$'000	$'000
At 1 July 2007	386,766	57,861	8,911	3,963	(3,192)	**454,309**
Net unrealised loss on available-for-sale financial assets	-	-	-	(856)	-	**(856)**
Net gains on cash flow hedges	-	-	-	19,607	-	**19,607**
Deferred income tax on cash flow hedges	-	-	-	(5,942)	-	**(5,942)**
Cost of share-based payment	-	-	5,599	-	-	**5,599**
Total income and expense for the period recognised directly in equity	-	-	5,599	12,809	-	**18,408**
Profit for the period	-	113,344	-	-	-	**113,344**
Total income and expense for the period	-	113,344	5,599	12,809	-	**131,752**
Deferred income tax on capital raising cost	64	-	-	-	-	**64**
Exercise of options	10,367	-	-	-	-	**10,367**
At 30 June 2008	397,197	171,205	14,510	16,772	(3,192)	**596,492**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY CONTINUED

For the year ended 30 June 2008

	Attributable to Equity Holders of the Parent				Total Equity
COMPANY	Issued Capital	Accumulated Losses	Share Based Payments Reserve	Net Unrealised Gains / (Losses) Reserve	
	$'000	$'000	$'000	$'000	$'000
At 1 July 2006	86,851	(5,966)	5,954	(2,255)	**84,584**
Cost of share-based payment	-	-	2,957	-	**2,957**
Net unrealised gain on available-for-sale financial assets	-	-	-	1,032	**1,032**
Impairment of available-for-sale financial assets	-	-	-	1,506	**1,506**
Total income and expense for the period recognised directly in equity	-	-	2,957	2,538	**5,495**
Loss for the period	-	(594)	-	-	**(594)**
Total income and expense for the period	-	(594)	2,957	2,538	**4,901**
Issue of share capital for acquisition of Controlled Entity	297,905	-	-	-	**297,905**
Exercise of options	2,010	-	-	-	**2,010**
At 30 June 2007	386,766	(6,560)	8,911	283	**389,400**
At 1 July 2007	386,766	(6,560)	8,911	283	**389,400**
Cost of share-based payment	-	-	5,599	-	**5,599**
Net unrealised loss on available-for-sale financial assets	-	-	-	(856)	**(856)**
Net gains on cash flow hedges	-	-	-	1,174	**1,174**
Deferred income tax on cash flow hedges	-	-	-	(352)	**(352)**
Total income and expense for the period recognised directly in equity	-	-	5,599	(34)	**5,565**
Loss for the period	-	(5,746)	-	-	**(5,746)**
Total income and expense for the period	-	(5,746)	5,599	(34)	**(181)**
Deferred income tax on capital raising cost	64	-	-	-	**64**
Exercise of options	10,367	-	-	-	**10,367**
At 30 June 2008	397,197	(12,306)	14,510	249	**399,650**

NOTES TO THE CONSOLIDATED FINANCIAL REPORT

For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Corporate information

The financial report of the Company for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the directors on 11 August 2008.

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 Consolidated Entity are the mining of hematite deposits at Tallering Peak and Koolan Island, construction and development of 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 mandatory professional reporting requirements. 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 Consolidated Entity and cease to be consolidated from the date on which control is transferred out of the Consolidated Entity.

Where there is loss of control of a controlled entity, the consolidated financial statements include the results for the part of the reporting period during which the Company has control.

Minority interests represent the interests in Asia Iron Holdings Limited, not held by the Consolidated Entity.

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

(d) Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards ("IFRS").

(e) New accounting standards and interpretations

Except for the amendments arising from AASB 2007-4: Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments, which the Consolidated Entity has early adopted, Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Consolidated Entity for the annual reporting period ending 30 June 2008.

These are outlined in the table on the following two pages.

NOTES TO THE CONSOLIDATED FINANCIAL REPORT CONTINUED

For the year ended 30 June 2008

Reference	Title	Summary	Impact on Consolidated Entity financial report	Application Date of Standard	Application Date for Consolidated Entity
AASB Int. 12 (Revised)	Determining whether an Arrangement contains a Lease	The revised Interpretation specifically scopes out arrangements that fall within the scope of AASB Interpretation 12.	No change to accounting policy required. Therefore no impact.	1 January 2008	1 July 2008
AASB 8 and AASB 2007-3	Operating Segments and consequential amendments to other Australian Accounting Standards	New standard replacing AASB 114 *Segment Reporting*, which adopts a management reporting approach to segment reporting.	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Consolidated Entity's financial statements, although it may have an impact on the Consolidated Entity's segment disclosure.	1 January 2009	1 July 2009
AASB 123 (Revised) and AASB 2007-6	Borrowing costs and consequential amendments to other Australian Accounting Standards	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised.	No change to accounting policy required. Therefore no impact.	1 January 2009	1 July 2009
AASB 101 (Revised) and AASB 2007-8	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	These amendments are only expected to affect the presentation of the Consolidated Entity's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. The Consolidated Entity has not determined at this stage whether to present a single statement of comprehensive income or two separate statements.	1 January 2009	1 July 2009
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations	The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	The Consolidated Entity has share-based payment arrangements that may be affected by these amendments. However, the Consolidated Entity has not yet determined the extent of the impact, if any.	1 January 2009	1 July 2009
AASB 2008-2	Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation	The amendments provide a limited exception to the definition of a liability so as to allow an entity that issues puttable financial instruments with certain specified features, to classify those instruments as equity rather than financial liabilities.	These amendments are not expected to have any impact on the Consolidated Entity's financial report as the Consolidated Entity does not have on issue or expect to issue any puttable financial instruments as defined by the amendments.	1 January 2009	1 July 2009
AASB 3 (Revised)	Business Combinations	The revised standard introduces a number of changes to the accounting for business combinations, the most significant of which allows entities a choice for each business combination entered into – to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively.	The Consolidated Entity may enter into some business combinations during the next financial year and may therefore consider early adopting the revised standard. The Consolidated Entity has not yet assessed the impact of early adoption, including which accounting policy to adopt.	1 July 2009	1 July 2009

Reference	Title	Summary	Impact on Consolidated Entity financial report	Application Date of Standard	Application Date for Consolidated Entity
AASB 127 (Revised)	Consolidated and Separate Financial Statements	Under the revised standard, a change in the ownership interest of a subsidiary (that does not result in loss of control) will be accounted for as an equity transaction.	If the Consolidated Entity changes its ownership interest in existing subsidiaries in the future, the change will be accounted for as an equity transaction. This will have no impact on goodwill, nor will it give rise to a gain or a loss in the Consolidated Entity's income statement.	1 July 2009	1 July 2009
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127	Amending standard issued as a consequence of revisions to AASB 3 and AASB 127.	Refer to AASB 3 (Revised) and AASB 127 (Revised) above.	1 July 2009	1 July 2009
Amendments to International Financial Reporting Standards	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	The main amendments of relevance to Australian entities are those made to IAS 27 deleting the 'cost method' and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statements (i.e., parent company accounts). The distinction between pre- and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value.	Recognising all dividends received from subsidiaries, jointly controlled entities and associates as income will likely give rise to greater income being recognised by the parent entity after adoption of these amendments. In addition, if the Consolidated Entity enters into any group reorganisation establishing new parent entities, an assessment will need to be made to determine if the reorganisation meets the conditions imposed to be effectively accounted for on a 'carry-over basis' rather than at fair value.	1 January 2009	1 July 2009
Amendments to International Financial Reporting Standards	Improvements to IFRSs	The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part1 deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact.	The Consolidated Entity has not yet determined the extent of the impact of the amendments, if any.	1 January 2009 except for amend-ments to IFRS 5, which are effective from 1 July 2009	1 July 2009

Adoption of new accounting standard

The Consolidated Entity has adopted AASB 7 *Financial Instruments: Disclosures* and all consequential amendments which became applicable on 1 January 2007. The adoption of this standard has only affected the disclosure in these financial statements. There has been no affect on profit and loss or the financial position of the entity.

NOTES TO THE CONSOLIDATED FINANCIAL REPORT CONTINUED

For the year ended 30 June 2008

(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 original invoice amount less any provision for impairment.

A provision for impairment of trade receivables is made when there is objective evidence that the Consolidated Entity 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.

The majority of 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 adjusted 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, which were previously recognised directly in the profit and loss, are now 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 period of the hire purchase or finance lease. 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 Consolidated Entity 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 Consolidated Entity'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 Consolidated Entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Consolidated Entity 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.

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 Consolidated Entity 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 Consolidated Entity 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.

NOTES TO THE CONSOLIDATED FINANCIAL REPORT CONTINUED

For the year ended 30 June 2008

(p) Non-current assets and disposal groups held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction. They are not depreciated or amortised. For an asset or disposal group to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess if any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the income statement.

(q) Trade and other payables

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

(r) 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.

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

(s) Provisions

Provisions are recognised when the Consolidated Entity 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.

(t) Share-based payment transactions

The Consolidated Entity provides benefits to employees (including directors) of the Consolidated Entity 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 the 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

At the commencement of the 2008 financial year, the Company established the 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 Monte-Carlo simulation model.

The vesting of these performance rights is subject to a relative Total Shareholder Return ("TSR") hurdle to be measured at 30 June 2010 and 31 December 2010. The Company's TSR performance will be ranked relative to a comparator group consisting of resource companies listed on ASX.

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 Consolidated Entity, 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.

(u) 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 expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected 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 Consolidated Entity to employee superannuation funds, which are defined contribution plans, are charged as an expense when incurred.

(v) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

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.

(w) 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 Consolidated Entity 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.

(x) Revenue

Revenue is recognised 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.

(y) 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.

NOTES TO THE CONSOLIDATED FINANCIAL REPORT CONTINUED

For the year ended 30 June 2008

(z) 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.

(aa) Derivative financial instruments and hedging

The Consolidated Entity 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 a special 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 Consolidated Entity 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 Consolidated Entity 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 fixed 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.

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.

(bb) Financial instruments issued by the Consolidated Entity

[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.

(cc) Financial liabilities

[i] Financial liabilities at fair value through profit and loss

Financial liabilities at fair value through profit and loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

[ii] Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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

(dd) Issued capital

Issued and paid up capital is recognised at the fair value of the consideration received by the Consolidated Entity. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction in the proceeds received.

(ee) 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.

(ff) Significant accounting judgements, estimates and assumptions

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

[i] Mine rehabilitation provision

The Consolidated Entity 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 Consolidated Entity 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 Consolidated Entity's history of converting resources to reserves and the relevant time frames, the complexity of metallurgy, markets and future developments. The Consolidated Entity uses proved and probable reserves 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 Consolidated Entity 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 Consolidated Entity 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.

NOTES TO THE CONSOLIDATED FINANCIAL REPORT CONTINUED

For the year ended 30 June 2008

[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 Consolidated Entity has adopted a policy of deferring waste development costs and amortising them in accordance with the life-of-mine strip ratio. 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 and capital expenditure.

[viii] *Recoverability of potential deferred income tax assets*

The Consolidated Entity 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 Consolidated Entity 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 Consolidated Entity 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 fair value is determined by an external valuer using a binomial model, with the assumptions detailed in Note 25. The accounting estimates and assumptions relating to equity-settled 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 have been assessed using the interest differential approach.

	NOTES	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	COMPANY 2008 $'000	COMPANY 2007 $'000
2. REVENUE AND EXPENSES					
[a] Revenue					
Sale of ore		**409,349**	156,020	**-**	-
Realised gain on foreign exchange hedges		**23,325**	6,728	**-**	-
		432,674	162,748	**-**	-
Other revenue					
Finance income – other persons / corporations		**2,500**	2,256	**247**	332
Finance income – intercompany loans		**-**	-	**3,465**	2,508
		2,500	2,256	**3,712**	2,840
[b] Other income					
Realised gain on foreign exchange		**664**	-	**-**	-
Net gain on sale of plant and equipment		**54**	-	**-**	-
Net unrealised gain on foreign exchange		**3,163**	2,764	**-**	-
Other income		**-**	41	**-**	1
		3,881	2,805	**-**	1
[c] Finance costs					
Finance charges on loans		**11,142**	4,370	**9,488**	3
Less: finance charges on loans capitalised		**-**	(3,010)	**-**	-
		11,142	1,360	**9,488**	3
Finance charges payable under finance leases		**4,353**	2,122	**-**	-
Less: finance charges on leases capitalised		**-**	(1,446)	**-**	-
		4,353	676	**-**	-
Unwinding of discount on rehabilitation provision		**-**	31	**-**	-
		15,495	2,067	**9,488**	3
[d] Expenses included in the Income Statement					
Depreciation of Non-Current Assets					
• Plant and equipment		**8,902**	2,078	**-**	-
• Plant and equipment under lease		**10,793**	4,103	**-**	-
• Buildings		**5,281**	885	**-**	-
• Buildings under lease		**48**	51	**-**	-
		25,024	7,117	**-**	-
• Less : depreciation capitalised		**(16)**	(2,400)	**-**	-
		25,008	4,717	**-**	-
Amortisation of deferred waste		**135,989**	55,508	**-**	-
Amortisation of other mine properties		**29,358**	3,141	**-**	-
Acquisition accrual reversal		**(5,319)**	-	**-**	-
Share-based payments expense		**5,599**	2,957	**-**	-
Operating lease rental – minimum lease payments		**25,988**	19,766	**-**	-
Exploration expenditure written off		**38**	8	**-**	-
Government royalties		**31,048**	10,702	**-**	-
Salaries, wages expense and other employee benefits		**29,312**	18,451	**-**	-
Net loss on sale of plant and equipment		**-**	501	**-**	-
Bad debts		**-**	44	**-**	44
Net (gain)/loss on cash flow hedges		**(390)**	511	**(286)**	-
Net loss on disposal of available-for-sale-financial-assets		**3**	183	**-**	183
Impairment of available-for-sale financial assets		**-**	1,506	**-**	1,506

NOTES TO THE CONSOLIDATED FINANCIAL REPORT CONTINUED

For the year ended 30 June 2008

	NOTES	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	COMPANY 2008 $'000	COMPANY 2007 $'000
3. INCOME TAX					
Major components of income tax expense for the years ended 30 June 2008 and 2007 are:					
Income Statement					
Current income tax					
Current income tax charge		**-**	-	**-**	-
Deferred income tax					
Relating to origination and reversal of temporary differences		**50,513**	21,286	**(2,742)**	474
Benefit from previously unrecognised tax loss used to reduce deferred tax expense / temporary differences		**-**	-	**-**	-
Income tax expense/(benefit) reported in income statement		**50,513**	21,286	**(2,742)**	474
Statement of Changes in Equity					
Current income tax					
Current income tax on exchange difference on loan		**-**	-	**-**	-
Deferred income tax					
Capital raising costs		**(48)**	164	**(64)**	-
Remeasurement of foreign exchange contracts		**5,590**	1,292	**-**	-
Interest rate swap contracts		**352**	-	**352**	-
Deferred income tax benefit reported in equity		**5,894**	1,456	**288**	-
Reconciliation of income tax expense / (benefit)					
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 2008 and 2007 is as follows:					
Accounting profit/(loss) before income tax		**163,857**	69,052	**(8,488)**	(120)
• At the statutory income tax rate of 30% (2007: 30%)		**49,157**	20,715	**(2,546)**	(36)
• Adjustments on formation of a tax consolidated group		**-**	(774)	**-**	-
• Previously unrecognised tax losses now recognised		**-**	-	**-**	58
• Temporary differences not brought to account as a deferred tax asset		**1**	452	**1**	452
• Expenditure not allowed for income tax purposes		**1,683**	893	**-**	-
• Adjustments in respect of deferred income tax of previous years		**233**	-	**(124)**	-
• Charge to equity		**(561)**	-	**(73)**	-
Income tax expense/(benefit)		**50,513**	21,286	**(2,742)**	474
Effective income tax rate		**30.8%**	30.8%	**(32.3%)**	(395%)
Income tax expense reported in income statement		**50,513**	13,209	**(2,742)**	474
Income tax attributable to discontinued operation	11	**-**	8,077	**-**	-
		50,513	21,286	**(2,742)**	474

Tax Consolidation

The Company and its 100% owned controlled entities have formed a tax consolidated group. Members of the Consolidated Entity have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned controlled entities on a group allocation approach. 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.

Tax effect accounting by members of the tax consolidated group

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of current taxes to members of the tax consolidated group. Deferred taxes are allocated to members of the tax consolidated group in accordance with a group allocation approach which is consistent with the principles of AASB 112 Income Taxes.

The allocation of taxes under the tax funding agreement is recognised as an increase / decrease in the controlled entities intercompany accounts with the tax consolidated group head company, Mount Gibson Iron Limited. In this regard the Company has assumed the benefit of tax losses from controlled entities in the current year of $14,492,208 (2007: $26,020,750) as of the balance date. The nature of the tax funding agreement is such that no tax consolidation contributions by or distributions to equity participants are required.

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	ASSETS		LIABILITIES		NET	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000
CONSOLIDATED						
Accrued liabilities	**(174)**	(131)	**-**	-	**(174)**	(131)
Borrowing costs	**(1,009)**	(718)	**-**	-	**(1,009)**	(718)
Capital raising costs	**(6,392)**	(10,036)	**-**	-	**(6,392)**	(10,036)
Deferred income	**-**	-	**40,863**	7,825	**40,863**	7,825
Doubtful debts provision	**-**	(105)	**-**	-	**-**	(105)
Exploration expenditure	**-**	-	**3,464**	2,709	**3,464**	2,709
Foreign exchange contracts	**(327)**	(275)	**8,387**	2,336	**8,060**	2,061
Interest rate swaps	**(103)**	-	**468**	-	**365**	-
Interest receivable	**-**	-	**268**	427	**268**	427
Inventory	**-**	-	**1,121**	396	**1,121**	396
Lease liability	**(4,284)**	(999)	**-**	-	**(4,284)**	(999)
Mine properties	**-**	-	**51,524**	24,991	**51,524**	24,991
Prepaid expenditure	**-**	-	**16**	4	**16**	4
Property, plant and equipment	**-**	4,266	**10,249**	-	**10,249**	4,266
Provisions	**(6,298)**	(5,893)	**-**	-	**(6,298)**	(5,893)
Tax losses	**(53,241)**	(36,672)	**-**	-	**(53,241)**	(36,672)
Tax (assets) liabilities	**(71,828)**	(50,563)	**116,360**	38,688	**44,532**	(11,875)
Set off of tax	**71,828**	38,688	**(71,828)**	(38,688)	**-**	-
Net tax (assets) liabilities	**-**	(11,875)	**44,532**	-	**44,532**	(11,875)

NOTES TO THE CONSOLIDATED FINANCIAL REPORT CONTINUED

For the year ended 30 June 2008

	Balance 1 July 2006 $'000	Recognised in Income $'000	Recognised in Equity $'000	Disposal of AIHL $'000	Recognised for Aztec $'000	Balance 30 June 2007 $'000
Movement in temporary differences during the financial year ended 30 June 2007						
Accrued liabilities	(218)	97	-	-	(10)	(131)
Borrowing costs	(7)	(711)	-	-	-	(718)
Capital raising costs	(266)	1,929	164	-	(11,863)	(10,036)
Deferred income	3,689	4,136	-	-	-	7,825
Doubtful debts provision	(162)	57	-	-	-	(105)
Exploration expenditure	13,363	(6,629)	-	(4,206)	181	2,709
Fair value increase	(1,662)	9,566	-	(7,904)	-	-
Foreign exchange contracts	322	164	1,292	-	283	2,061
Interest receivable	202	225	-	-	-	427
Inventory	-	325	-	-	71	396
Lease liability	(1,301)	302	-	-	-	(999)
Mine properties	3,950	27,974	-	-	(6,933)	24,991
Prepaid expenditure	5	(1)	-	-	-	4
Property, plant and equipment	3,562	(1,959)	-	32	2,631	4,266
Provisions	(350)	(5,508)	-	-	(35)	(5,893)
Tax losses	(16,443)	(8,681)	-	5,541	(17,089)	(36,672)
	4,684	21,286	1,456	(6,537)	(32,764)	(11,875)

	Balance 1 July 2007 $'000	Recognised in Income $'000	Recognised in Equity $'000	Balance 30 June 2008 $'000
Movement in temporary differences during the financial year ended 30 June 2008				
Accrued liabilities	(131)	(43)	-	**(174)**
Borrowing costs	(718)	(291)	-	**(1,009)**
Capital raising costs	(10,036)	3,692	(48)	**(6,392)**
Deferred income	7,825	33,038	-	**40,863**
Doubtful debts provision	(105)	105	-	**-**
Exploration expenditure	2,709	755	-	**3,464**
Foreign exchange contracts	2,061	409	5,590	**8,060**
Interest rate swaps	-	13	352	**365**
Interest receivable	427	(159)	-	**268**
Inventory	396	725	-	**1,121**
Lease liability	(999)	(3,285)	-	**(4,284)**
Mine properties	24,991	26,533	-	**51,524**
Prepaid expenditure	4	12	-	**16**
Property, plant and equipment	4,266	5,983	-	**10,249**
Provisions	(5,893)	(405)	-	**(6,298)**
Tax losses	(36,672)	(16,569)	-	**(53,241)**
	(11,875)	50,513	5,894	**44,532**

	ASSETS		LIABILITIES		NET	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**	**2008 $'000**	**2007 $'000**
COMPANY						
Accrued liabilities	**(45)**	(37)	**-**	-	**(45)**	(37)
Borrowing costs	**(510)**	(6)	**-**	-	**(510)**	(6)
Capital raising costs	**(364)**	(136)	**-**	-	**(364)**	(136)
Doubtful debts provision	**(43)**	(43)	**-**	-	**(43)**	(43)
Interest rate swaps	**(103)**	-	**468**	-	**365**	-
Tax losses	**(53,243)**	(36,672)	**-**	-	**(53,243)**	(36,672)
Tax (assets) liabilities	**(54,308)**	(36,894)	**468**	-	**(53,840)**	(36,894)
Set off of tax	**468**	-	**(468)**	-	**-**	-
Net tax (assets) liabilities	**(53,840)**	(36,894)	**-**	-	**(53,840)**	(36,894)

	Balance 1 July 2006 $'000	Recognised in Income $'000	Recognised in Equity $'000	Transfers Out (In) $'000	Balance 30 June 2007 $'000
Movement in temporary differences during the financial year ended 30 June 2007					
Accrued liabilities	(7)	(30)	-	-	(37)
Borrowing costs	(8)	2	-	-	(6)
Capital raising costs	(266)	130	-	-	(136)
Provisions	(169)	126	-	-	(43)
Tax losses	(10,897)	246	-	(26,021)	(36,672)
	(11,347)	474	-	(26,021)	(36,894)

	Balance 1 July 2007 $'000	Recognised in Income $'000	Recognised in Equity $'000	Transfers Out (In) $'000	Balance 30 June 2008 $'000
Movement in temporary differences during the financial year ended 30 June 2008					
Accrued liabilities	(37)	(8)	-	-	**(45)**
Borrowing costs	(6)	(504)	-	-	**(510)**
Capital raising costs	(136)	(165)	(63)	-	**(364)**
Provisions	(43)	-	-	-	**(43)**
Interest rate swaps	-	13	352	-	**365**
Tax losses	(36,672)	(2,078)	-	(14,493)	**(53,243)**
	(36,894)	(2,742)	289	(14,493)	**(53,840)**

	CONSOLIDATED		COMPANY	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
Unrecognised deferred tax assets				
Deferred tax assets have not been recognised in respect of the following items:				
Provision for write down of investments	**624**	487	**624**	487
Exploration rights	**-**	122	**-**	-
Tax losses	**311**	786	**311**	45
	935	1,395	**935**	532

NOTES TO THE CONSOLIDATED FINANCIAL REPORT CONTINUED

For the year ended 30 June 2008

	NOTES	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	COMPANY 2008 $'000	COMPANY 2007 $'000
4. CASH AND CASH EQUIVALENTS					
Cash at bank and in hand		**33,930**	28,540	**4,562**	351
Short-term deposits		**14,728**	32,258	**-**	-
		48,658	60,798	**4,562**	351

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:

		CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	COMPANY 2008 $'000	COMPANY 2007 $'000
Cash at bank and in hand		**33,930**	28,540	**4,562**	351
Short-term deposits		**14,728**	32,258	**-**	-
		48,658	60,798	**4,562**	351

[b] Reconciliation of the net profit/(loss) after tax to the net cash flows from operations

		CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	COMPANY 2008 $'000	COMPANY 2007 $'000
Net profit/(loss) after tax		**113,344**	47,765	**(5,746)**	(594)
Adjustments for:					
Depreciation of non-current assets		**25,008**	4,717	**-**	-
Amortisation of deferred waste		**135,989**	55,508	**-**	-
Amortisation of other mine properties		**29,358**	3,141	**-**	-
Net (profit)/loss on disposal of property, plant and equipment		**(54)**	501	**-**	-
Net exchange differences		**(502)**	512	**(287)**	-
Interest received		**(2,500)**	(2,256)	**(247)**	(332)
Exploration expenses written off		**38**	8	**-**	-
Share based payments		**5,599**	2,957	**-**	-
Intra-group interest income		**-**	-	**(3,465)**	(2,508)
Bad debts		**-**	44	**-**	44
Impairment of investments		**-**	1,506	**-**	1,506
Borrowing costs		**2,481**	-	**2,345**	-
Profit from disposal of controlled entity		**-**	(18,721)	**-**	(91)
Net loss on disposal of available-for-sale financial assets		**3**	183	**3**	183
Capitalised expenses		**(5,319)**	(10,325)	**-**	(3)
Changes in assets and liabilities					
(Increase)/decrease in trade and other receivables		**(74,468)**	(534)	**27**	(16)
(Increase) in inventory		**(36,867)**	(16,673)	**-**	-
(Increase)/decrease in prepayments and deposits		**(837)**	(94)	**1**	(312)
Decrease in deferred tax assets		**-**	-	**-**	474
(Increase) in capitalised deferred waste		**(223,113)**	(102,570)	**-**	-
Increase in creditors and accruals		**25,883**	23,783	**1,002**	208
Increase/(decrease) in GST paid		**459**	(172)	**190**	(179)
Increase/(decrease) in deferred income tax liabilities		**50,513**	13,326	**(2,742)**	-
Increase in employee benefits		**738**	484	**-**	-
Net Cash Flow (used in)/from Operating Activities		**45,753**	3,090	**(8,919)**	(1,620)

[c] Non-cash financing activities

During the financial year, the Consolidated Entity acquired property, plant and equipment with an aggregate fair value of $6,860,022 (2007: $56,371,647) by means of finance leases and hire purchase agreements. During the financial year, the Consolidated Entity disposed of property, plant and equipment with an aggregate fair value of $1,320,021 (2007: $3,771,433) that were financed by means of finance leases.

	NOTES	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	COMPANY 2008 $'000	COMPANY 2007 $'000
5. TRADE AND OTHER RECEIVABLES					
Current					
Trade debtors	[a][i]	**78,493**	3,954	**-**	10
Allowance for impairment	[b]	**-**	(350)	**-**	-
		78,493	3,604	**-**	10
Sundry debtors	[a][ii]	**1,522**	2,222	**-**	17
Other receivables		**3,421**	4,022	**38**	463
		83,436	9,848	**38**	490
Non-Current					
Other receivables – controlled entities	[a][iii]	**-**	-	**116,092**	54,867
Allowance for impairment		**-**	-	**(145)**	(145)
Convertible note receivable	[a][iv]	**1,000**	-	**1,000**	-
		1,000	-	**116,947**	54,722

[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] Except for amounts payable by Mount Gibson Mining Limited of $51,763,184, on which interest is charged at 7% pa, receivables from controlled entities are non-interest bearing with no fixed repayment date and are repayable on demand.

[iv] Convertible note held in Resources Mining Corporation Limited, convertible into 31,250,000 ordinary shares. The convertible note is unsecured, interest free and due on 19 December 2009.

[b] Impaired or past due financial assets

A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. At 30 June 2008, trade debtors of $nil (2007: $349,988) in the Consolidated Entity and $nil (2007: $nil) in the Company were impaired. The impairment losses have been included in administrative expenses in the income statement.

At 30 June 2008, trade debtors of $348,111 (2007: $1,185,790) in the Consolidated Entity and $nil (2007: $10,000) in the Company 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	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	COMPANY 2008 $'000	COMPANY 2007 $'000
Movements in the provision for impairment were as follows:					
Balance at the beginning of the year		**350**	-	**-**	-
Charge for the year		**-**	350	**-**	-
Amounts written off		**(350)**	-	**-**	-
Balance at the end of the year		**-**	350	**-**	-
The ageing of debtors past due but not impaired is as follows:					
Less than 30 days overdue		**-**	22	**-**	-
Between 30 and 60 days overdue		**280**	288	**-**	-
Between 60 and 90 days overdue		**23**	1	**-**	-
Greater than 90 days overdue		**45**	875	**-**	10
		348	1,186	**-**	10

NOTES TO THE CONSOLIDATED FINANCIAL REPORT CONTINUED

For the year ended 30 June 2008

6. INVENTORIES

Consumables – at cost		**9,473**	4,984	**-**	-
Ore – at cost		**61,975**	29,597	**-**	-
		71,448	34,581	**-**	-

7. DERIVATIVE FINANCIAL ASSETS

Current					
Foreign currency forward contracts and options	34[b][i]	**23,602**	5,065	**-**	-
Interest rate swap contracts	34[c][i]	**1,559**	-	**1,559**	-
		25,161	5,065	**1,559**	-

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Shares – unlisted at fair value		**-**	3	**-**	3
Shares – listed at fair value		**1,113**	1,802	**1,113**	1,802
		1,113	1,805	**1,113**	1,805

Available-for-sale financial assets consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate. A 10% change in the market price of the listed shares will increase or decrease the fair value by $111,297 (2007: $180,225).

9. OTHER FINANCIAL ASSETS

Non-Current					
Investments in controlled entities – at cost		**-**	-	**344,509**	338,432

10. INTEREST IN SUBSIDIARIES

Name	Country of Incorporation	Percentage of Equity Interest Held by the Consolidated Entity		Investment	
		2008 %	2007 %	2008 $'000	2007 $'000
Mount Gibson Mining Limited	Australia	**100**	100	**26,187**	20,588
WHTK Pty Ltd	Australia	**100**	100	**-**	-
Geraldton Bulk Handling Pty Ltd	Australia	**100**	100	**-**	-
Aztec Resources Limited	Australia	**100**	100	**318,322**	317,844
• Koolan Iron Ore Pty Ltd	Australia	**100**	100	**-**	-
• Koolan Shipping Pty Ltd	Australia	**100**	100	**-**	-
• Brockman Minerals Pty Ltd	Australia	**100**	100	**-**	-
				344,509	338,432

ACQUISITION OF AZTEC RESOURCES LIMITED

On 24 July 2006, the Company announced its intention to acquire Aztec.

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

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

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

The Company completed compulsory acquisition of the remaining Aztec shares on 9 February 2007. A total of 378,491,182 new shares in the Company were issued to Aztec shareholders.

A summary of the consideration paid by the Company and the fair value of identifiable assets and liabilities of Aztec as at the date of acquisition are provided below.

	$'000
Consideration	
Issue of Mount Gibson Iron Limited shares to Aztec shareholders	297,905
Costs of the Offer	19,834
Total consideration	**317,739**

The net cash flow on acquisition is summarised as follows:	
Net cash acquired with subsidiary	9,927
Costs associated with the acquisition	(6,275)
	3,652

NOTES TO THE CONSOLIDATED FINANCIAL REPORT CONTINUED

For the year ended 30 June 2008

	Recognised on acquisition $'000	Carrying value prior to acquisition $'000
Net Assets of Aztec as at 30 November 2006		
Cash	9,927	9,927
Receivables	2,571	2,571
Prepayments	83	83
Inventories	141	141
Property, plant and equipment	84,985	84,985
Deferred acquisition, exploration, evaluation and development costs	282	282
Mine Properties	248,356	85,062
Deferred tax asset	32,764	-
Trade and other payables	(15,081)	(15,081)
Interest bearing liabilities	(18,561)	(18,561)
Provision – employee entitlements	(153)	(153)
Provision – rehabilitation	(12,329)	(10,000)
Hire purchase liabilities	(15,246)	(15,246)
	317,739	**124,010**

If the combination had taken place at the beginning of the period, the profit before tax from continuing operations for the Consolidated Entity would have been $27 million and revenue from continuing operations would have been $166 million.

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 2008. 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.

The consolidated income statement and balance sheet of the Closed Group are as follows:

Consolidated Income Statement

	CONSOLIDATED	
	2008 $'000	2007 $'000
Continuing operations		
Sale of goods	**432,674**	162,748
Other revenue	**2,476**	2,243
Total revenue	**435,150**	164,991
Cost of sales	**(239,786)**	(103,390)
Gross profit	**195,364**	61,601
Other income	**3,880**	2,805
Administrative expenses	**(15,013)**	(12,943)
Impairment of available-for-sale financial assets	**-**	(1,506)
Exploration expenses	**(36)**	(8)
Profit from Continuing Operations before tax and finance costs	**184,195**	49,949
Finance costs	**(15,495)**	(2,067)
Profit from Continuing Operations before income tax	**168,700**	47,882
Income tax (expense)	**(51,966)**	(14,898)
Net profit from Continuing Operations for the period after income tax	**116,734**	32,984
Profit from discontinued operations after income tax	**-**	18,721
Net profit After Tax attributable to members of the Company	**116,734**	51,705

Consolidated Balance Sheet

	CONSOLIDATED	
	2008 $'000	2007 $'000
ASSETS		
Current assets		
Cash and cash equivalents	**47,679**	59,781
Trade and other receivables	**82,662**	9,158
Inventories	**71,448**	34,581
Prepayments	**1,569**	1,048
Derivative financial assets	**25,161**	5,065
Total current assets	**228,519**	109,633
Non-current assets		
Available for sale financial assets	**1,113**	1,805
Other receivables	**11,699**	8,118
Property, plant and equipment	**184,710**	183,482
Deferred acquisition, exploration, evaluation and development costs	**25,919**	9,027
Mine properties	**447,141**	370,591
Deferred income tax assets	**-**	12,152
Total non-current assets	**670,582**	585,175
TOTAL ASSETS	**899,101**	694,808
LIABILITIES		
Current liabilities		
Trade and other payables	**71,520**	62,803
Interest-bearing loans and borrowings	**12,415**	11,303
Derivative financial liabilities	**342**	-
Provisions	**1,827**	1,136
Total current liabilities	**86,104**	75,242
Non-current liabilities		
Provisions	**19,112**	18,470
Interest-bearing loans and borrowings	**145,858**	142,932
Deferred income tax liabilities	**43,939**	-
Total non-current liabilities	**208,909**	161,402
TOTAL LIABILITIES	**295,013**	236,644
NET ASSETS	**604,088**	458,164
EQUITY		
Issued capital	**397,197**	386,766
Retained earnings / (accumulated losses)	**178,450**	61,716
Reserves	**28,441**	9,682
TOTAL EQUITY	**604,088**	458,164

NOTES TO THE CONSOLIDATED FINANCIAL REPORT CONTINUED

For the year ended 30 June 2008

11. DISCONTINUED OPERATIONS - SALE OF ASIA IRON HOLDINGS LIMITED

On 17 November 2006 the Consolidated Entity sold its 73% interest in Asia Iron Holdings Limited ("Asia Iron") to Sinom Investments and ceased to consolidate Asia Iron. That business is reported as a discontinued operation in this financial report. The financial information presented below in respect of Asia Iron represents the period 1 July 2006 to 17 November 2006.

[a] Profit from discontinued operations

The financial information presented below in respect of Asia Iron represents the period 1 July 2006 to 17 November 2006 (30 June 2007 column) and for the twelve month period to 30 June 2006.

	NOTE	30 June 2008 $'000	30 June 2007 $'000
Asia Iron			
Other revenue		-	4
Total revenue		-	4
Cost of sales		-	-
Gross profit		-	4
Other income		-	368
Other expenses		-	(242)
Profit / (Loss) of Asia Iron before tax and finance costs		-	130
Finance costs		-	(16)
Profit / (Loss) of Asia Iron before income tax		-	114
Income tax (expense) / benefit		-	-
Net Profit of Asia Iron for the period after income tax		-	114
Gain on deconsolidation of Asia Iron	[b]	-	26,684
Related income tax	[b]	-	(8,077)
Net Profit after income tax recognised on disposal of Asia Iron		-	18,607
Net Profit from discontinued operations after income tax		-	18,721
Earnings per share (cents per share):			
- basic earnings per share – discontinued operations		-	3.82
- diluted earnings per share – discontinued operations		-	3.79

[b] Details of the gain on deconsolidation of Asia Iron

	NOTE	30 June 2007 $'000
Consideration received or receivable on disposal:		
- Cash received		52,500
- less: transaction costs		(492)
Net disposal consideration		52,008
MGI and MGM share of Asia Iron net assets disposed	[c]	24,439
FX translation reserve at disposal date		885
		25,324
Gain on deconsolidation before income tax		26,684
Related income tax expense		(8,077)
Gain on deconsolidation of Asia Iron after income tax		18,607

[c] Carrying amounts of Asia Iron assets and liabilities

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

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

[d] Assets and liabilities associated with discontinued operation

As at 30 June 2008, there are no assets or liabilities in the Balance Sheet relating to the discontinued operation.

[e] Cash flow information

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

		30 June 2007 $'000
Net cash inflow on disposal		
Net cash consideration received on disposal	[b]	52,008
Less cash and cash equivalents balances disposed	[c]	(1,654)
Net inflow of cash on disposal		**50,354**
Net cash flows of Asia Iron		
In respect of the discontinued operation of Asia Iron, the following net cash flows are included in the Condensed Cash Flow statement		
Operating activities		(211)
Investing activities		(960)
Financing activities		-
Net cash flows (used by) / from discontinued operation		**(1,171)**

NOTES TO THE CONSOLIDATED FINANCIAL REPORT CONTINUED

For the year ended 30 June 2008

	NOTES	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	COMPANY 2008 $'000	COMPANY 2007 $'000
12. PROPERTY, PLANT AND EQUIPMENT					
Freehold-land – at cost		**5**	5	**5**	5
Plant and equipment – at cost		**82,670**	91,636	**-**	-
Accumulated depreciation		**(12,553)**	(3,702)	**-**	-
		70,117	87,934	**-**	-
Plant and equipment under lease – at cost		**83,545**	78,005	**-**	-
Accumulated depreciation		**(17,078)**	(7,169)	**-**	-
		66,467	70,836	**-**	-
Buildings – at cost		**48,923**	30,316	**-**	-
Accumulated depreciation		**(7,341)**	(2,124)	**-**	-
		41,582	28,192	**-**	-
Buildings under lease – at cost		**522**	522	**-**	-
Accumulated depreciation		**(340)**	(292)	**-**	-
		182	230	**-**	-
Capital works in progress – at cost		**10,144**	571	**-**	-
Total property, plant and equipment – at cost		**225,809**	201,055	**5**	5
Total accumulated depreciation		**(37,312)**	(13,287)	**-**	-
		188,497	187,768	**5**	5

[a] Assets pledged as security

The value of assets pledged as security are:				
Land	**5**	5	**-**	-
Plant and equipment	**70,117**	87,934	**-**	-
Plant and equipment under lease	**66,467**	70,836	**-**	-
Buildings	**41,582**	28,192	**-**	-
Buildings under lease	**182**	230	**-**	-
Capital works in progress	**10,144**	571	**-**	-
	188,497	187,768	**-**	-

	NOTES	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	COMPANY 2008 $'000	COMPANY 2007 $'000
[b] Reconciliations					
Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current and previous financial year:					
Plant and equipment					
Carrying amount at the beginning of the year		**87,934**	8,843	**-**	-
Additions		**7,775**	1,778	**-**	-
Additions through acquisition of entities		**-**	1,020	**-**	-
Transfers		**(16,603)**	78,526	**-**	-
Disposals		**(87)**	(12)	**-**	-
Disposals – discontinued operations		**-**	(143)	**-**	-
Depreciation expense		**(8,902)**	(2,078)	**-**	-
Carrying amount at the end of the year		**70,117**	87,934	**-**	-
Plant and equipment under lease					
Carrying amount at the beginning of the year		**70,836**	3,071	**-**	-
Additions		**6,860**	56,371	**-**	-
Additions through acquisition of entities		**-**	19,122	**-**	-
Disposals		**(436)**	(3,625)	**-**	-
Depreciation expense		**(10,793)**	(4,103)	**-**	-
Carrying amount at the end of the year		**66,467**	70,836	**-**	-
Buildings					
Carrying amount at the beginning of the year		**28,192**	5,712	**-**	-
Additions		**2,151**	682	**-**	-
Additions through acquisition of entities		**-**	1,091	**-**	-
Transfers		**16,603**	21,600	**-**	-
Disposals		**(83)**	(8)	**-**	-
Depreciation expense		**(5,281)**	(885)	**-**	-
Carrying amount at the end of the year		**41,582**	28,192	**-**	-
Buildings under lease					
Carrying amount at the beginning of the year		**230**	281	**-**	-
Depreciation expense		**(48)**	(51)	**-**	-
Carrying amount at the end of the year		**182**	230	**-**	-
Capital works in progress					
Carrying amount at the beginning of the year		**571**	2,576	**-**	-
Additions		**9,573**	34,369	**-**	-
Additions through acquisition of entities		**-**	63,752	**-**	-
Transfers		**-**	(100,126)	**-**	-
Carrying amount at the end of the year		**10,144**	571	**-**	-

NOTES TO THE CONSOLIDATED FINANCIAL REPORT CONTINUED

For the year ended 30 June 2008

	NOTES	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	COMPANY 2008 $'000	COMPANY 2007 $'000
13. 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		**22,692**	8,317	**-**	-
Koolan Island		**3,227**	710	**-**	-
		25,919	9,027	**-**	-
Reconciliation					
Carrying amount at beginning of the year		**9,027**	4,176	**-**	-
Additions		**16,930**	4,859	**-**	-
Exploration expenditure written off		**(38)**	(8)	**-**	-
Carrying amount at the end of the year		**25,919**	9,027	**-**	-

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective mining areas. Amortisation of costs carried forward for the development phase is not recognised pending commencement of production.

	NOTES	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	COMPANY 2008 $'000	COMPANY 2007 $'000
14. MINE PROPERTIES					
Mine development expenditure		**711,267**	469,369	**-**	-
Accumulated amortisation		**(264,032)**	(98,685)	**-**	-
		447,235	370,684	**-**	-
Reconciliation					
Carrying amount at beginning of the year		**370,684**	51,567	**-**	-
Additions		**18,785**	28,310	**-**	-
Additions through acquisition of entities		**-**	248,356	**-**	-
Deferred waste capitalised during the year		**223,113**	101,100	**-**	-
Amortisation expensed – deferred waste		**(135,989)**	(55,508)	**-**	-
Amortisation expensed – other		**(29,358)**	(3,141)	**-**	-
Carrying amount at the end of the year		**447,235**	370,684	**-**	-
15. TRADE AND OTHER PAYABLES					
Current					
Trade creditors		**25,709**	16,510	**418**	106
Accruals and other payables		**47,697**	47,804	**1,696**	14,108
		73,406	64,314	**2,114**	14,214

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

	NOTES	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	COMPANY 2008 $'000	COMPANY 2007 $'000
Non-current					
Other payables – controlled entities		**-**	-	**18,861**	29,398

Non current payables to controlled entities are non-interest bearing with no fixed repayment date.

16. INTEREST-BEARING LOANS AND BORROWINGS

	NOTES	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	COMPANY 2008 $'000	COMPANY 2007 $'000
Current					
Lease liability	[a]	**3,961**	2,638	**-**	-
Hire purchase facility	[b]	**8,454**	8,665	**-**	-
Project Debt	[c]	**-**	87,451	**-**	-
		12,415	98,754	**-**	-
Non-current					
Lease liability	[a]	**10,320**	6,399	**-**	-
Hire purchase facility	[b]	**33,931**	49,082	**-**	-
Corporate Debt	[e]	**105,000**	-	**105,000**	-
Capitalised corporate debt facility costs		**(3,393)**	-	**(3,393)**	-
		145,858	55,481	**101,607**	-

Financing facilities available

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

	NOTES	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	COMPANY 2008 $'000	COMPANY 2007 $'000
Total facilities:					
• Finance leases	[a]	**14,281**	9,037	**-**	-
• Hire purchase facility	[b]	**42,385**	57,747	**-**	-
• Project Debt facility	[c]	**-**	100,000	**-**	-
• Contingent Instrument facility	[d]	**25,000**	5,488	**25,000**	-
• Bank multiple advance	[d]	**-**	20,474	**-**	-
• Corporate Debt	[e]	**175,000**	-	**175,000**	-
		256,666	192,746	**200,000**	-
Facilities used at reporting date:					
• Finance leases		**14,281**	9,037	**-**	-
• Hire purchase facility		**42,385**	57,747	**-**	-
• Project Debt facility		**-**	87,451	**-**	-
• Contingent Instrument facility		**13,816**	5,488	**13,184**	-
• Bank multiple advance		**-**	-	**-**	-
• Corporate Debt		**105,000**	-	**105,000**	-
		175,482	159,723	**118,184**	-
Facilities unused at reporting date:					
• Finance leases		**-**	-	**-**	-
• Hire purchase facility		**-**	-	**-**	-
• Project Debt facility		**-**	12,549	**-**	-
• Contingent Instrument facility		**11,184**	-	**11,816**	-
• Bank multiple advance		**-**	20,474	**-**	-
• Corporate Debt		**70,000**	-	**70,000**	-
		81,184	33,023	**81,816**	-

NOTES TO THE CONSOLIDATED FINANCIAL REPORT CONTINUED

For the year ended 30 June 2008

Terms and conditions relating to the above financial facilities:

[a] Finance leases are repayable monthly with final instalments due in July 2012. Interest is charged at an average rate of 8.35%. Secured by first mortgage over the leased assets.

[b] Hire purchase arrangements have been entered into by Koolan Iron Ore Pty Ltd via a Master Lease agreement with Komatsu Corporate Finance Pty Limited and National Australia Bank Limited. Hire purchase amounts are repayable monthly with final instalments due in April 2012. Interest is charged at an average rate of 7.43%. Secured by first mortgage over the assets the subject of the hire purchase agreement and a guarantee from Mount Gibson Iron Limited. This facility is drawn and repayable in US$ for Komatsu and A$ for NAB.

[c] The project finance facility was with a banking syndicate comprising Westpac Banking Corporation, Bank of Scotland (Australia) Limited and Bank of Tokyo-Mitsubishi UFJ Ltd. The $100 million facility consisted of:

- Senior debt facility of $54 million (drawn in US$);
- Cost overrun facility of $10 million (drawn in US$);
- Working capital facility of $30 million; and
- Environmental bond facility of $6 million.

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

As set out in [e] below, this project finance facility was repaid in full and cancelled by the drawdown of the Corporate Debt facility on 6 September 2007.

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

As set out in [e] below, this facility was repaid in full and cancelled by the drawdown of the Corporate Debt facility on 6 September 2007.

[e] In June 2007 the Company mandated HSBC Australia Limited and National Australia Bank Limited as the joint lead Arranger and Underwriting Banks for a $200 million debt facility to fund the refinance of the existing project finance facility in [c] above and the HSBC facility in [d] above and provide additional debt funding for the Koolan Island and Extension Hill iron ore developments. The facility documentation was signed on 28 August 2007 with drawdown on 6 September 2007.

The $200 million facility consists of:

- Senior debt facility of $175 million comprising 2 tranches:
  1. Tranche 1 of $125 million;
  2. Extension Hill tranche of $50 million which is only drawable against the Extension Hill DSO project after certain conditions precedent have been satisfied including EPA approval and Company Board approval for the project to proceed. These conditions precedent to drawdown will be satisfied in the near term; and
- Contingent Instrument facility of $25 million (including guarantees, performance bonds).

At 30 June 2010 a review of the facility will be undertaken to determine the amortisation period and final debt repayment date which will be no later than 30 June 2012.

The average interest rate on the debt facility is 8.99%.

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.

		CONSOLIDATED		COMPANY	
	NOTES	2008 $'000	2007 $'000	2008 $'000	2007 $'000
17. DERIVATIVE FINANCIAL LIABILITIES					
Current					
Interest rate swap contracts	34[c][i]	**342**	-	**342**	-

	NOTES	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	COMPANY 2008 $'000	COMPANY 2007 $'000
18. PROVISIONS					
Current					
Employee benefits		**1,780**	1,072	**-**	-
Road resealing		**100**	100	**-**	-
		1,880	1,172	**-**	-
Non-current					
Employee benefits		**59**	28	**-**	-
Decommissioning rehabilitation		**19,053**	18,442	**-**	-
		19,112	18,470	**-**	-
Movement in provisions:					
Road Resealing					
Carrying amount at beginning of the year		**100**	12	**-**	-
Provision for period		**200**	188	**-**	-
Amounts utilised during the period		**(200)**	(100)	**-**	-
Carrying amount at end of the year		**100**	100	**-**	-
Decommissioning Rehabilitation					
Carrying amount at beginning of the year		**18,442**	688	**-**	-
Unwinding of discount on rehabilitation provision		**-**	31	**-**	-
Revaluation of rehabilitation provision		**611**	5,394	**-**	-
Acquisition of Controlled Entity		**-**	12,329	**-**	-
Carrying amount at end of the year		**19,053**	18,442	**-**	-
19. ISSUED CAPITAL					
[a] Ordinary shares					
Issued and fully paid		**397,197**	386,766	**397,197**	386,766

		2008 NUMBER OF SHARES	2008 $'000	2007 NUMBER OF SHARES	2007 $'000
[b] Movement in ordinary shares on issue					
Beginning of the financial year		**787,786,821**	**386,766**	402,058,719	86,851
Shares issued for controlled entity	[i]	**-**	**-**	378,491,182	297,905
Issue of shares		**-**	**-**	-	-
Exercise of options		**16,054,000**	**10,367**	7,236,920	2,010
Deferred income tax on capital raising cost		**-**	**64**	-	-
End of the financial year		**803,840,821**	**397,197**	787,786,821	386,766

[i] Issued to Aztec Resources Limited shareholders in exchange for business combination of $297,905,196.

[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.

NOTES TO THE CONSOLIDATED FINANCIAL REPORT CONTINUED

For the year ended 30 June 2008

[d] Share options

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

EXERCISE PRICE	VESTING DATE / EXERCISE PERIOD	2008 NUMBER	2007 NUMBER
50 cents	Vested 31 Dec 2006 – exercise on or before 31 Dec 2007	**-**	5,000,000
55 cents	Vested 31 Dec 2007 – exercise on or before 31 Dec 2008	**100,000**	5,000,000
78 cents	Vested 31 Dec 2007 – exercise on or before 31 Dec 2009	**475,000**	-
89 cents	Vested 31 Dec 2007 – exercise on or before 31 Dec 2009	**2,646,000**	-
90 cents	Vesting on 1 July 2008 – exercise on or before 30 June 2010	**2,000,000**	2,000,000
90 cents	Vesting on 24 Oct 2008 – exercise on or before 23 Oct 2010	**3,000,000**	3,000,000
110 cents	Vesting on 24 Oct 2010 – exercise on or before 23 Oct 2012	**2,000,000**	2,000,000
		10,221,000	17,000,000

In addition, as at 30 June 2008, there were 8,475,000 (2007: 8,625,000) options granted but not issued under the Employee Share Scheme. The options were granted on the basis that the employees must complete employment service to 31 December 2008 before the options vest, at which time they will be issued to the respective employees. Once vested, these options will be exercisable at $2.99 each and expire on 31 December 2009. As at the date of this report, none of these options had vested.

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

[e] Performance rights

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

As at 30 June 2008 there were 283,942 performance rights on issue (2007:Nil).

	NOTES	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	COMPANY 2008 $'000	COMPANY 2007 $'000
20. RESERVES					
Option premium reserve	[a]	**14,510**	8,911	**14,510**	8,911
Net unrealised gains/(losses) reserve	[b]	**16,772**	3,963	**249**	283
Other reserves	[c]	**(3,192)**	(3,192)	**-**	-
		28,090	9,682	**14,759**	9,194
[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.					
Balance at the beginning of the year		**8,911**	5,954	**8,911**	5,954
Share based payments		**5,599**	2,957	**5,599**	2,957
Balance at the end of the year		**14,510**	8,911	**14,510**	8,911
[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.					
Balance at the beginning of the year		**3,963**	(1,790)	**283**	(2,255)
Net unrealised gains/(losses) on available-for-sale financial assets		**(856)**	1,032	**(856)**	1,032
Impairment of available-for-sale financial assets		**-**	1,506	**-**	1,506
Net gains on cash flow hedges		**19,607**	4,506	**1,174**	-
Deferred income tax on cash flow hedges		**(5,942)**	(1,291)	**(352)**	-
Balance at the end of the year		**16,772**	3,963	**249**	283
[c] Other reserves					
Consolidation reserve		**(3,192)**	(3,192)	**-**	-
		(3,192)	(3,192)	**-**	-

	NOTES	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	COMPANY 2008 $'000	COMPANY 2007 $'000
21. RETAINED EARNINGS / (ACCUMULATED LOSSES)					
Balance at the beginning of the year		**57,861**	10,096	**(6,560)**	(5,966)
Net profit/(loss) attributable to members of the Company		**113,344**	47,765	**(5,746)**	(594)
Balance at the end of the year		**171,205**	57,861	**(12,306)**	(6,560)
22. MINORITY INTERESTS					
Opening balance		**-**	11,776	**-**	-
Disposal by the Consolidated Entity of shares in Asia Iron Holdings Limited		**-**	(11,776)	**-**	-
Closing balance		**-**	-	**-**	-

	NOTES	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	COMPANY 2008 $'000	COMPANY 2007 $'000
23. EXPENDITURE COMMITMENTS					
[a] Exploration Expenditure Commitments	[i]				
Minimum obligations not provided for in the financial report and are payable:					
• Not later than one year		**625**	791	**-**	-
• Later than one year but not later than five years		**2,237**	2,175	**-**	-
		2,862	2,966	**-**	-
[b] Operating Lease Commitments	[ii]				
Minimum lease payments					
• Not later than one year		**7,709**	16,010	**-**	-
• Later than one year but not later than five years		**4,885**	2,302	**-**	-
		12,594	18,312	**-**	-
[c] Finance Lease and Hire Purchase Commitments	[iii]				
Minimum lease payments					
• Not later than one year		**16,157**	15,652	**-**	-
• Later than one year but not later than five years		**50,277**	64,956	**-**	-
• Later than five years		**-**	200	**-**	-
Total minimum lease payments		**66,434**	80,808	**-**	-
Future finance charges		**(9,769)**	(14,024)	**-**	-
		56,665	66,784	**-**	-
Total lease liability accrued for:					
Current					
Finance leases and hire purchase facility		**12,415**	11,303	**-**	-
Non-current					
Finance leases and hire purchase facility		**44,250**	55,481	**-**	-
		56,665	66,784	**-**	-
[d] Property, plant and equipment commitments	[iv]				
Commitments contracted for at balance date but not recognised as liabilities					
• Not later than one year		**66,820**	-	**-**	-
• Later than one year but not later than five years		**-**	-	**-**	-
		66,820	-	**-**	-

NOTES TO THE CONSOLIDATED FINANCIAL REPORT CONTINUED

For the year ended 30 June 2008

[i] In order to maintain current rights to explore and mine the tenements at Tallering Peak, Koolan Island, and Extension Hill the Consolidated Entity 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 1.4 years and expires in December 2008.

[iii] Finance leases and hire purchases have an average term of 4.5 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 8.35% and 7.43% respectively. Secured lease liabilities are secured by a charge over the leased assets.

[iv] The Consolidated Entity had contractual commitments to purchase property, plant and equipment principally relating to:

- construction and development of the Extension Hill project of $41 million; and
- Koolan Island Main Pit seawall, dewatering and footwall rehabilitation of $25 million.

	NOTES	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	COMPANY 2008 $'000	COMPANY 2007 $'000
24. EMPLOYEE BENEFITS					
The aggregate employee benefits liability is comprised of:					
Accrued wages, salaries and on-costs		**421**	720	**-**	-
Provisions		**1,839**	1,100	**-**	-
		2,260	1,820	**-**	-
25. SHARE-BASED PAYMENT PLANS					
[a] Recognised share-based payment expenses					
Expense arising from equity-settled share-based payment transactions	2[d]	**5,599**	2,957	**-**	-

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2008 and 2007.

[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.

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

	2008 No. of Options	2008 Weighted average exercise price (cents)	2007 No. of Options	2007 Weighted average exercise price (cents)
Balance at beginning of year	**17,000,000**	**70.3**	25,080,632	57.4
- granted and issued	**9,275,000**	**85.1**	-	-
- forfeited	**-**	**-**	(843,712)	52.9
- exercised	**(16,054,000)**	**64.6**	(7,236,920)	27.8
Balance at year end	**10,221,000**	**92.8**	17,000,000	70.3
Exercisable at year end	**3,221,000**	**87.3**	10,000,000	52.5

In addition, as at 30 June 2008, there were 8,475,000 (2007: 8,625,000) options granted but not issued under the Employee Share Scheme. The options were granted on the basis that the employees must complete employment service to 31 December 2008 before the options vest, at which time they will be issued to the respective employees. Once vested, these options will be exercisable at $2.99 each and expire on 31 December 2009. As at the date of this report, none of these options had vested.

The remaining contractual life for the options on issue as at 30 June 2008 is between 1 and 5 years (2007: 1 and 5 years).

The range for exercise prices for options on issue at the end of the year was $0.55-$2.99 (2007: $0.50-$1.10).

The fair value of the equity-settled share options granted under the option plan is estimated as at the date of grant using a binomial model taking into account the terms and conditions upon which the options were granted.

As at 30 June 2008 there were 283,942 performance rights on issue (2007 : Nil) under 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.

The fair value of the performance rights is estimated as at the date of grant using a Monte-Carlo simulation model taking into account the terms and conditions upon which the performance rights were granted.

26. EARNINGS PER SHARE

Basic earnings per share amounts are 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 are 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:

	CONSOLIDATED	
	2008 $'000	2007 $'000
Profits used in calculating basic and diluted earnings per share	**113,344**	47,765
	NUMBER OF SHARES	NUMBER OF SHARES
Weighted average number of ordinary shares used in calculating basic earnings per share	**795,508,824**	634,647,892
Effect of dilution		
- Share options	**7,182,397**	8,082,090
Weighted average number of ordinary shares used in calculating diluted earnings per share	**802,691,221**	642,729,982

Conversions, calls, subscriptions or issues after 30 June 2008

Since the end of the financial year no options have been converted to ordinary shares. 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.

27. DIVIDENDS PAID AND PROPOSED

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

28. CONTINGENT LIABILITY

The Corporate Debt banks have provided a controlled entity with performance bonds totalling $13,815,907 relating to performance of environmental obligations and rail upgrades.

NOTES TO THE CONSOLIDATED FINANCIAL REPORT CONTINUED

For the year ended 30 June 2008

29. KEY MANAGEMENT PERSONNEL DISCLOSURES

[a] 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
P Bilbe	Non-Executive Director (resigned 21 November 2007)
M Horn	Non-Executive Director (resigned 1 May 2008)
A Rule	Chief Financial Officer and alternate director from 30 June 2007

[ii] Executives

D Quinlivan	Chief Operating Officer
R Mencel	General Manager – Tallering Peak
R Jordinson	General Manager – Koolan Island

[b] Compensation of Specified Key Management Personnel

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
Short-term	**3,582,086**	2,689,553	**476,298**	296,057
Post employment	**143,521**	142,447	**29,602**	7,877
Share-based payment	**1,182,679**	1,962,429	**-**	801,634
	4,908,286	4,794,429	**505,900**	1,105,568

[c] Option holdings of Key Management Personnel

30 JUNE 2008	Balance at Beginning of Period 1 July 2007	Granted as Remuneration	Options Exercised	Net Change	Balance at End of Period 30 June 2008	Vested at 30 June 2008 Total	Not Exercisable	Exercisable
Directors								
N Hamilton	-	-	-	-	-	-	-	-
L Tonkin	5,000,000	-	-	-	5,000,000	-	-	-
C Readhead	-	-	-	-	-	-	-	-
I Macliver	-	-	-	-	-	-	-	-
A Jones	-	-	-	-	-	-	-	-
P Bilbe [i]	-	-	-	-	-	-	-	-
M Horn [ii]	-	-	-	-	-	-	-	-
A Rule [iii]	2,000,000	-	-	-	2,000,000	-	-	-
Executives								
D Quinlivan	-	-	-	-	-	-	-	-
R Mencel	250,000	100,000	-	-	350,000	250,000	-	250,000
R Jordinson	-	100,000	-	-	100,000	-	-	-
Total	7,250,000	200,000	-	-	7,450,000	250,000	-	250,000

[i] Mr Bilbe resigned as a director on 21 November 2007
[ii] Mr Horn resigned as a director on 1 May 2008
[iii] Mr Rule resigned as Finance Director on 30 June 2007 to become Chief Financial Officer and alternate Director to Mr Tonkin

30 JUNE 2007	Balance at Beginning of Period 1 July 2006	Granted as Remuneration	Options Exercised	Net Change	Balance at End of Period 30 June 2007	Vested at 30 June 2007 Total	Not Exercisable	Exercisable
Directors								
N Hamilton	-	-	-	-	-	-	-	-
W Willis [iv]	1,000,000	-	(1,000,000)	-	-	-	-	-
B Johnson [v]	5,000,000	-	-	(5,000,000)	-	-	-	-
L Tonkin	5,000,000	-	-	-	5,000,000	-	-	-
C Readhead	500,000	-	(500,000)	-	-	-	-	-
I Macliver	500,000	-	(500,000)	-	-	-	-	-
A Jones	-	-	-	-	-	-	-	-
P Bilbe	-	-	-	-	-	-	-	-
M Horn	-	-	-	-	-	-	-	-
A Rule	2,000,000	-	-	-	2,000,000	-	-	-
Executives								
K Malaxos [vi]	350,000	-	(350,000)	-	-	-	-	-
R Mencel	-	250,000	-	-	250,000	-	-	-
Q Granger	-	-	-	-	-	-	-	-
D Quinlivan	-	-	-	-	-	-	-	-
R Jordinson	-	-	-	-	-	-	-	-
Total	14,350,000	250,000	(2,350,000)	(5,000,000)	7,250,000	-	-	-

[iv] Mr Willis resigned as a director on 24 April 2007
[v] Mr Johnson resigned as a director on 30 June 2007
[vi] Mr Malaxos resigned on 18 December 2006

NOTES TO THE CONSOLIDATED FINANCIAL REPORT CONTINUED

For the year ended 30 June 2008

[d] Shareholding of Key Management Personnel

30 JUNE 2008	Balance 1 July 2007 Ord	Granted as Remuneration Ord	On Exercise of Options Ord	Net Change Other Ord	Balance 30 June 2008 Ord
Directors					
N Hamilton	185,000	-	-	-	185,000
L Tonkin	-	-	-	-	-
C Readhead	1,067,500	-	-	(500,000)	567,500
I Macliver	1,500,000	-	-	(500,000)	1,000,000
A Jones	100,000	-	-	-	100,000
P Bilbe [i]	52,033	-	-	(52,033)	-
M Horn [ii]	-	-	-	-	-
A Rule [iii]	50,000	-	-	-	50,000
Executives					
D Quinlivan	-	-	-	-	-
R Mencel	-	-	-	-	-
R Jordinson	-	-	-	26,000	26,000
Total	2,954,533	-	-	(1,026,033)	1,928,500

[i] Mr Bilbe resigned as a director on 21 November 2007
[ii] Mr Horn resigned as a director on 1 May 2008
[iii] Mr Rule resigned as Finance Director on 30 June 2007 to become Chief Financial Officer and alternate director to Mr Tonkin

30 JUNE 2007	Balance 1 July 2006 Ord	Granted as Remuneration Ord	On Exercise of Options Ord	Net Change Other Ord	Balance 30 June 2007 Ord
Directors					
N Hamilton	-	-	-	185,000	185,000
W Willis [iv]	1,480,000	-	1,000,000	(2,480,000)	-
B Johnson [v]	-	-	-	-	-
L Tonkin	-	-	-	-	-
C Readhead	727,500	-	500,000	(160,000)	1,067,500
I Macliver	1,000,000	-	500,000	-	1,500,000
A Jones	-	-	-	100,000	100,000
P Bilbe	-	-	-	52,033	52,033
M Horn	-	-	-	-	-
A Rule	-	-	-	50,000	50,000
Executives					
K Malaxos [vi]	25,000	-	-	(25,000)	-
R Mencel	-	-	-	-	-
Q Granger	-	-	-	-	-
D Quinlivan	-	-	-	-	-
R Jordinson	-	-	-	-	-
Total	3,232,500	-	2,000,000	(2,277,967)	2,954,533

[iv] Mr Willis resigned as a director on 24 April 2007
[v] Mr Johnson resigned as a director on 30 June 2007
[vi] Mr Malaxos resigned on 18 December 2006

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.

[e] Performance Rights holding by Key Management Personnel

30 JUNE 2008	Balance 1 July 2007	Granted as Remuneration	Vested during Year	Balance 30 June 2008
Directors				
N Hamilton	-	-	-	-
L Tonkin	-	161,681	-	161,681
C Readhead	-	-	-	-
I Macliver	-	-	-	-
A Jones	-	-	-	-
P Bilbe [i]	-	-	-	-
M Horn [ii]	-	-	-	-
A Rule [iii]	-	121,261	-	121,261
Executives				
D Quinlivan	-	-	-	-
R Mencel	-	-	-	-
R Jordinson	-	-	-	-
Total	-	282,942	-	282,942

[i] Mr Bilbe resigned as a director on 21 November 2007
[ii] Mr Horn resigned as a director on 1 May 2008
[iii] Mr Rule resigned as Finance Director on 30 June 2007 to become Chief Financial Officer and alternate director to Mr Tonkin

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:

Grant date	18-Apr-08
Share price at grant date	$2.72
Risk free interest rate	6.29%
Volatility factor	52%
Performance period start date	1-Jul-07
Performance period end date	30-Jun-10

The vesting of these Performance Rights is subject to a relative Total Shareholder Return ("TSR") hurdle to be measured at 30 June 2010 and 31 December 2010. Mount Gibson's TSR performance will be ranked relative to a comparator group consisting of 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%

[f] Loans to Specified Key Management Personnel

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

NOTES TO THE CONSOLIDATED FINANCIAL REPORT CONTINUED

For the year ended 30 June 2008

[g] Other Transactions and Balances with Key Management Personnel

Services

Pullinger Readhead Lucas, of which Mr CL Readhead is a partner, provided legal services to the Company and Consolidated Entity. The fees, paid under normal commercial terms and conditions, were $6,043 (2007: $187) and $6,043 (2007: $187) respectively.

Amounts recognised at the reporting date in relation to other transactions:

	CONSOLIDATED	
	2008 $'000	2007 $'000
Assets and Liabilities		
Current Liabilities		
Trade Creditors	**-**	-
Total Liabilities	**-**	-
Revenues and Expenses		
Corporate expenses	**6**	-
Total Expenses	**6**	-

30. RELATED PARTY DISCLOSURE

Ultimate parent

Mount Gibson Iron Limited is the ultimate Australian parent company.

Wholly-owned group transactions

Loans were made by the Company to wholly owned subsidiaries. Interest of $3,465,181 (2007: $2,507,739) was charged on the loan to Mount Gibson Mining Limited at 7%pa during the year. All other loans are interest free, have no fixed repayment date and are repayable on demand. Included in the loans are:

- repayment of the Koolan project finance facility of $87,094,764 funded by the Company by way of drawdown of the Corporate Debt facility on 6 September 2007;
- transfers of deferred tax asset and deferred tax liability balances to the Company from each of the wholly owned subsidiaries as a consequence of the tax consolidation group of $14,425,341 (2007: $29,467,928);
- share based payment expense incurred by the Company for options issued by the Company to employees that are employed by wholly owned subsidiaries of $5,598,360 (2007: $3,041,750).

Loans were made to the Company by wholly owned subsidiaries for transfers of deferred tax asset and deferred tax liability balances to the Company from wholly owned subsidiaries as a consequence of the tax consolidation group of $18,361,000 (2007: $29,398,000). They are interest free, have no fixed repayment date and are repayable on demand.

Director-related entity transactions

There are no director-related entity transactions other than those specified in Note 29.

31. AUDITORS' REMUNERATION

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
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	**186,800**	166,235	**186,800**	118,375
• Other services in relation to the entity and any other entity in the Consolidated Entity	**49,336**	31,750	**46,761**	31,750
	236,136	197,985	**233,561**	150,125

32. SEGMENT INFORMATION

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

33. EVENTS AFTER THE BALANCE SHEET DATE

As at the date of this report there are no significant events after balance date of the Company or of the Consolidated Entity that require adjustment of or disclosure in this report.

34. FINANCIAL INSTRUMENTS

[a] Financial risk management objectives

The Consolidated Entity'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 Consolidated Entity's operations.

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

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

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

[b] Foreign currency risk

As a result of receipts being denominated in US dollars ("USD"), the Consolidated Entity's cash flow can be affected significantly by movements in the USD/AUD exchange rates. The Consolidated Entity uses derivative financial instruments to manage specifically identified foreign currency exposures by hedging a proportion of these forecast sales transactions in accordance with the risk management policy. The primary objective of using derivative financial instruments is to reduce the volatility of earnings attributable to changes in USD/AUD, and to protect against undue adverse movements in these rates.

The hire purchase liabilities for the mining equipment at Koolan are denominated in USD.

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

The Consolidated Entity 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 USD/AUD exchange rates.
Collars	Committed	Hedge sales receipts against cash flow volatility arising from the fluctuating USD/AUD exchange rates by limiting exposure to exchange rates within a certain range of acceptable rates.

[i] Forward exchange contracts - cash flow hedges

The Consolidated Entity has entered into forward exchange contracts at reporting date designed as a hedge of anticipated future receipts that will be denominated in USD. This hedge has been treated as effective, in accordance with AASB 139.

At balance date the following foreign exchange contracts were outstanding:

	2008				2007			
	Average Contract Rate	USD $'000	Contract Value AUD $'000	Fair Value AUD $'000	Average Contract Rate	USD $'000	Contract Value AUD $'000	Fair Value AUD $'000
Forward Exchange Contracts								
- within one year	**0.8801**	**345,000**	**392,020**	**23,602**	0.7404	8,000	10,805	1,359
Collar Option								
- within one year		**-**	**-**	**-**		24,000	33,405	3,706
Call strike price 0.750/0.745								
Put strike price 0.715/0.711/0.724								
Total		**345,000**	**392,020**	**23,602**		32,000	44,210	5,065

NOTES TO THE CONSOLIDATED FINANCIAL REPORT CONTINUED

For the year ended 30 June 2008

Movement in forward exchange contract cash flow hedge reserve

	CONSOLIDATED		COMPANY	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
Opening balance	**5,169**	663	**-**	-
Charged to equity	**18,433**	4,506	**-**	-
Closing balance	**23,602**	5,169	**-**	-
Cash flow hedge ineffectiveness recognised immediately in profit and loss (included in other expenses)	**105**	511	**-**	-

[ii] Foreign currency sensitivity

The following table details the effect on profit and equity after tax to a 10% change in the Australian dollar against the USD from the spot rate at 30 June 2008 and 30 June 2007.

	CONSOLIDATED			
	Net Profit		Equity (Hedge Reserve)	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
10% appreciation in the AUD spot rate with all other variables held constant	**(3,337)**	6,416	**31,995**	3,388
10% depreciation in the AUD spot rate with all other variables held constant	**4,078**	(7,841)	**(39,106)**	(3,986)

The sensitivity analysis of the Consolidated Entity's exposure to the foreign currency risk at balance date has been determined based on the change in fair value due to foreign exchange movement 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 equity as the profit and loss impact for any ineffectiveness unwinds over the derivatives' life.

The Company does not have a foreign currency exposure.

[c] Interest rate risk

The Consolidated Entity's exposure to market interest rates relates primarily to the Consolidated Entity's long-term debt obligations.

The Consolidated Entity'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 Consolidated Entity has entered into interest rate swaps, in which the Consolidated Entity 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 Consolidated Entity constantly analyses its interest rate exposure. Within this analysis, consideration is given to potential renewals of existing positions, alternative financing, alternative hedging positions and the mix of fixed and variable interest rates.

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

	Floating interest rate		Fixed interest rate maturing in: 1 year or less		Fixed interest rate maturing in: Over 1 to 5 years		Non-interest bearing		Total carrying amount per balance sheet		Weighted Average Interest	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 %	2007 %
CONSOLIDATED												
i) Financial assets												
Cash	**33,926**	60,673	**14,725**	90	**-**	-	**7**	35	**48,658**	60,798	**6.36**	6.80
Trade and other receivables	**-**	-	**-**	-	**-**	-	**83,436**	9,848	**83,436**	9,848	**-**	-
Unlisted shares	**-**	-	**-**	-	**-**	-	**-**	3	**-**	3	**-**	-
Listed shares	**-**	-	**-**	-	**-**	-	**1,113**	1,802	**1,113**	1,802	**-**	-
Convertible notes	**-**	-	**-**	-	**-**	-	**1,000**	-	**1,000**	-	**-**	-
Derivatives	**-**	-	**-**	-	**-**	-	**25,161**	5,065	**25,161**	5,065	**-**	-
Total financial assets	**33,926**	60,673	**14,725**	90	**-**	-	**110,717**	16,753	**159,368**	77,516		
ii) Financial liabilities												
Trade and other payables	**-**	-	**-**	-	**-**	-	**73,406**	64,314	**73,406**	64,314	**-**	-
Derivatives	**-**	-	**-**	-	**-**	-	**342**	-	**342**	-	**-**	-
Lease liabilities	**-**	-	**3,961**	2,638	**10,320**	6,399	**-**	-	**14,281**	9,037	**8.35**	8.24
Hire purchase	**-**	-	**8,454**	8,665	**33,931**	49,082	**-**	-	**42,385**	57,747	**7.43**	7.14
Corporate debt	**30,500**	-	**-**	-	**74,500**	87,451	**-**	-	**105,000**	87,451	**8.99**	7.62
Total financial liabilities	**30,500**	-	**12,415**	11,303	**118,751**	142,932	**73,748**	64,314	**235,414**	218,549		
COMPANY												
i) Financial assets												
Cash	**4,562**	351	**-**	-	**-**	-	**-**	-	**4,562**	351	**6.65**	7.37
Trade and other receivables	**-**	-	**-**	-	**-**	-	**38**	490	**38**	490	**-**	-
Related party receivable	**-**	-	**-**	-	**51,763**	51,744	**64,184**	2,978	**115,947**	54,722	**7.00**	7.00
Derivatives	**-**	-	**-**	-	**-**	-	**1,559**	-	**1,559**	-	**-**	-
Investment in subsidiaries	**-**	-	**-**	-	**-**	-	**344,509**	338,432	**344,509**	338,432	**-**	-
Unlisted shares	**-**	-	**-**	-	**-**	-	**-**	3	**-**	3	**-**	-
Listed shares	**-**	-	**-**	-	**-**	-	**1,113**	1,802	**1,113**	1,802	**-**	-
Convertible notes	**-**	-	**-**	-	**-**	-	**1,000**	-	**1,000**	-	**-**	-
Total financial assets	**4,562**	351	**-**	-	**51,763**	51,744	**412,403**	343,705	**468,728**	395,800		
ii) Financial liabilities												
Trade and other payables	**-**	-	**-**	-	**-**	-	**2,114**	14,214	**2,114**	14,214	**-**	-
Derivatives	**-**	-	**-**	-	**-**	-	**342**	-	**342**	-	**-**	-
Related party loans	**-**	-	**-**	-	**-**	-	**18,861**	29,398	**18,861**	29,398	**-**	-
Corporate debt	**30,500**	-	**-**	-	**74,500**	-	**-**	-	**105,000**	-	**8.99**	-
Total financial liabilities	**30,500**	-	**-**	-	**74,500**	-	**21,317**	43,612	**126,317**	43,612		

NOTES TO THE CONSOLIDATED FINANCIAL REPORT CONTINUED

For the year ended 30 June 2008

[i] Interest rate swaps – cash flow hedges

The corporate debt facility of the Consolidated Entity currently bears an average variable interest rate of 8.99%. In order to protect against rising interest rates the Consolidated Entity has entered into interest rate swap contracts under which it has a right to pay interest at fixed rates. Swaps in place cover approximately 71% (2007: nil) of the principal outstanding and will expire on 30 June 2010. The fixed interest rates range between 6.98% and 8.08% (2007: nil) and the variable rate is 1.5% (2007: nil) above the 90 day bank bill rate, which at balance date was 9.39% (2007: nil).

At 30 June 2008, the notional principal amount and period of expiry on the interest rate swap contracts are as follows:

	CONSOLIDATED		COMPANY	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
1-2 years	74,500	-	74,500	-
	74,500	-	74,500	-
Current assets (Note 7)	1,559	-	1,559	-
Current liabilities (Note 17)	(342)	-	(342)	-
	1,217	-	1,217	-

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 equity and re-classified into profit and loss when the interest expense is recognised.

Movement in interest rate swap contract cash flow hedge reserve

	CONSOLIDATED		COMPANY	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Opening balance	-	-	-	-
Transferred to interest expense	(286)	-	(286)	-
Charged to equity	1,460	-	1,460	-
Closing balance	1,174	-	1,174	-
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 equity after tax to a 1% change in the interest rates at 30 June 2008 and 30 June 2007.

	CONSOLIDATED				COMPANY			
	Net Profit		Equity		Net Profit		Equity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000
1% increase in interest rate with all other variables held constant	(735)	(612)	1,203	-	(735)	-	1,203	-
1% decrease in interest rate with all other variables held constant	735	612	(1,232)	-	735	-	(1,232)	-

The sensitivity analysis of the Consolidated Entity's exposure to the interest rate risk at balance date has been determined based on the change in fair value due to foreign exchange movement 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 equity as the profit and loss impact for any ineffectiveness unwinds over the derivatives' life.

[d] Credit risk

The Consolidated Entity'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 Consolidated Entity'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 Company. At reporting date the net amount was A$23,602,077 (2007: $5,065,313).

Credit risk has arisen from the Consolidated Entity invoicing customers in late June 2008 an incremental amount subsequent to the Hamersley Benchmark iron ore price being set as a higher price for both lump and fines. All contracts with customers refer to the Hamersley Benchmark iron ore price, with the new price being applied from "price setting date" of 1 April 2008. This has resulted in an increase in trade debtors of $63,544,979. The Consolidated Entity believes these will be fully recoverable.

The Consolidated Entity 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. There are no significant concentrations of credit risk within the Consolidated Entity.

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 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.

[e] Commodity price risk

The Consolidated Entity's exposure to commodity price risk is significant. Iron ore prices are set each year and apply from 1 April to 31 March the following year. 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 no readily available financial instruments available to hedge the iron ore price.

[f] Liquidity risk and capital risk management

The Consolidated Entity'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 Consolidated Entity manages liquidity risk by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities.

The Consolidated Entity'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.

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.

At 30 June 2008, the Consolidated Entity had unutilised standby credit facilities totalling $82 million (2007: $33 million).

The table below analyses the Consolidated Entity and the Company'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 2008					30 JUNE 2007				
	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
Consolidated										
Financial Liabilities										
Trade and other payables	73,406	-	-	-	**73,406**	64,314	-	-	-	**64,314**
Lease liabilities	2,552	2,511	11,564	-	**16,627**	1,734	1,524	7,082	200	**10,540**
Hire purchases	5,976	5,118	38,713	-	**49,807**	6,242	6,151	57,875	-	**70,268**
Corporate debt	4,554	4,480	114,033	-	**123,067**	88,697	-	-	-	**88,697**
Derivatives	145	-	-	-	**145**	-	-	-	-	**-**
	86,633	12,109	164,310	-	**263,052**	160,987	7,675	64,957	200	**233,819**
Company										
Financial Liabilities										
Trade and other payables	2,114	-	-	-	**2,114**	3,414	10,800	-	29,398	**43,612**
Corporate debt	4,554	4,480	114,033	-	**123,067**	-	-	-	-	**-**
	6,668	4,480	114,033	-	**125,181**	3,414	10,800	-	29,398	**43,612**

NOTES TO THE CONSOLIDATED FINANCIAL REPORT CONTINUED

For the year ended 30 June 2008

[g] Fair value of financial assets and financial liabilities

The carrying amounts and fair values of the financial assets and financial liabilities for the Consolidated Entity and the Company 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 sourced from an independent valuation by the Company'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.

	CONSOLIDATED				COMPANY			
	2008		2007		2008		2007	
	Carrying Amount $'000	Fair Value $'000	Carrying Amount $'000	Fair Value $'000	Carrying Amount $'000	Fair Value $'000	Carrying Amount $'000	Fair Value $'000
Financial assets – current								
Cash	**33,930**	**33,930**	28,540	28,540	**4,562**	**4,562**	351	351
Short-term deposits	**14,728**	**14,728**	32,258	32,258	**-**	**-**	-	-
Trade debtors	**78,493**	**78,493**	3,604	3,604	**-**	**-**	10	10
Other receivables	**4,943**	**4,943**	6,244	6,244	**38**	**38**	480	480
Derivatives	**25,161**	**25,161**	5,065	5,065	**-**	**-**	-	-
	157,255	**157,255**	75,711	75,711	**4,600**	**4,600**	841	841
Financial assets – non current								
Other receivables	**1,000**	**1,000**	-	-	**116,947**	**116,947**	54,722	54,722
Available-for-sale assets	**1,113**	**1,113**	1,805	1,805	**1,113**	**1,113**	1,805	1,805
	2,113	**2,113**	1,805	1,805	**118,060**	**118,060**	56,527	56,527
Financial liabilities – current								
Trade and other payables	**73,406**	**73,406**	64,314	64,314	**2,114**	**2,114**	14,214	14,214
Lease liabilities	**12,415**	**12,415**	11,303	11,303	**-**	**-**	-	-
Senior debt	**-**	**-**	87,451	87,451	**-**	**-**	-	-
Derivatives	**342**	**342**	-	-	**-**	**-**	-	-
	86,163	**86,163**	163,068	163,068	**2,114**	**2,114**	14,214	14,214
Financial liabilities – non current								
Other payables	**-**	**-**	-	-	**18,861**	**18,861**	29,398	29,398
Lease liabilities	**44,251**	**44,251**	55,481	55,481	**-**	**-**	-	-
Corporate debt	**105,000**	**105,000**	-	-	**105,000**	**105,000**	-	-
	149,251	**149,251**	55,481	55,481	**123,861**	**123,861**	29,398	29,398
Net financial assets / (financial liabilities)	**(76,046)**	**(76,046)**	(141,033)	(141,033)	**(3,315)**	**(3,315)**	13,756	13,756

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 Company and of the Consolidated Entity are in accordance with the *Corporations Act 2001*, including:
      i) giving a true and fair view of the financial position of the Company and Consolidated Entity as at 30 June 2008 and of their performance for the year ended on that date; and
      ii) complying with Accounting Standards and the Corporations Regulations 2001; and
   b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
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 2008.

Signed in accordance with a resolution of the directors.

N HAMILTON
Chairman

Perth, 11 August 2008

INDEPENDENT AUDIT REPORT

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 2008, and the income statement, 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 (d), 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. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

GAB:KT:MGI:136

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 financial position of Mount Gibson Iron Limited and the consolidated entity at 30 June 2008 and of their 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 28 to 33 of the directors' report for the year ended 30 June 2008. 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 2008, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin A Buckingham
Partner
Perth
11 August 2008

GAB:KT:MGI:136

CORPORATE GOVERNANCE STATEMENT

THE BOARD AND CORPORATE GOVERNANCE

The Company's Board is committed to protecting and enhancing shareholder value and conducting the Company's business ethically and in accordance with high standards of corporate governance.

The Company's Corporate Governance Principles and Practices Manual were approved on 10 June 2006 and have been reviewed and updated as necessary during the year.

A description of the Company's main corporate governance practices is set out below. Copies of the relevant corporate governance policies are available in the corporate governance section of the Company's website at www.mtgibsoniron.com.au.

The Board will continue to review and develop its corporate governance practices and the corporate governance section of the website will be updated with policies and procedures as they are formally adopted by the Company.

THE ROLE OF THE BOARD AND THE BOARD CHARTER

The Board is responsible for guiding and monitoring the Company on behalf of Shareholders by whom they are elected and to whom they are accountable. The Board's primary responsibility is to oversee the Company's business activities and management for the benefit of Shareholders.

Day to day management of the Company's affairs and the implementation of corporate strategies and policy initiatives are delegated by the Board to the Managing Director and senior executives, as set out in the Company's Board Charter.

The Company's Charter sets out the following overall powers and responsibilities of the Board:

- charting the direction, strategies and financial objectives of the Company and ensuring appropriate resources are available;
- monitoring the implementation of those policies and strategies and the achievement of those financial objectives and performance against the strategic plan and budgets; and
- monitoring compliance with control and accountability systems, significant disclosures to the market regulatory requirements and ethical standards.

Specific powers and responsibilities set out in the Board Charter include:

- appointing and monitoring the performance of the Managing Director and Company Secretary, and ratifying other key executive appointments and planning for executive succession;
- reviewing and ratifying systems of risk management and internal control and compliance, codes of conduct and compliance, codes of conduct and legal compliance;
- reviewing and ratifying major capital expenditure, capital management and acquisitions and divestitures; and
- approving the issue of any shares, options or other securities in the Company.

CONFLICT OF INTERESTS POLICY

The Board has adopted a Conflict of Interest Policy which establishes a protocol under which each Director is required to disclose certain interests and the advise the Board in circumstances where a potential conflict of interest may arise. The Conflicts of Interest Policy also sets out the procedures to be followed where the Chairman determines that a Director's interest in a matter may be sufficiently material or may result in a conflict of interest occurring.

BOARD COMPOSITION

As at the date of this report the Company has seven Directors: six Non-Executive Directors including the Chairman, and one Executive Director.

Board composition will be reviewed annually to ensure that the non-executive Directors between them bring the range of skills, knowledge and experience necessary to direct the Company. All Directors, other than the Managing Director, are required to retire and stand for re-election by Shareholders, every three years.

Details of the skills, experience and expertise relevant to the position of Director held by each Director in office as at the date of the Annual Report are set out on page 22.

The Board may have access to independent advisers where it sees the need.

DIRECTOR INDEPENDENCE

The Company's Policy on Independence of Directors provides criteria for the assessment of the independence of Directors. The criteria used are those recommended by the ASX Guidelines. A Director may be considered by the Board to be independent where the Director does not meet one or more of the criteria. The test of independence of a Director, as recommended by the ASX Guidelines, is that they should be free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of the Directors unfettered and independent judgement.

The Board consider that the Non-Executive Directors are independent. In making this assessment the following were considered in relation to the criteria and the test for independence:

- Mr Readhead and Pullinger Readhead Lucas a law firm of which he is a partner, provide legal services to the Consolidated Entity. The fees in relation to these legal services are not material to the Company or to the provider.
- Mr Macliver is a director and shareholder of Grange Consulting Pty Ltd which provided management, accounting and administration services to the Company prior to the "back-door" listing of Mount Gibson Mining Limited in January 2002. Grange Consulting continued to provide these services for Whittakers Timber Pty Ltd (subsidiary) until June 2002. Based on the time since the services were provided, and that the services were provided in relation to the Company prior to the acquisition of Mount Gibson Mining Limited, the Board concluded that the relationship would not interfere with Mr Macliver's independent judgement.
- Mr Jones is a representative of Shareholder group, he has no other relationship which would interfere with his independent judgement.

If any Director has a material interest in a matter, the Director will not be permitted to vote on the matter.

BOARD MEETINGS

The Board meets at least nine times each year, and full Board meetings are usually held bi-monthly. From time to time meetings are convened outside the scheduled dates to consider issues of importance. In addition the Board conducts visits to the Group's operations at least once per year.

Directors' attendance at Board and Committee meetings is detailed on page 33.

BOARD COMMITTEES

The Company's Board has established an Audit and Risk Management Committee and a Nomination, Remuneration and Governance Committee.

Audit and Risk Management Committee ("ARMC")

The ARMC has a formal charter and meets generally two times during a financial year. Committee members' attendance at ARMC meetings is detailed on page 33.

The ARMC's overall role is to assist the Board in fulfilling its responsibilities for the Company's financial reporting and audit, internal control and financial risks.

The ARMC's specific responsibilities include (but are not limited to):

- evaluating the effectiveness of the Company's internal control measures, and gaining an understanding of whether internal control recommendations made by external auditors have been implemented;
- understanding the current areas of greatest financial risk for the Company and management's response to minimising those risks;
- reviewing significant accounting and reporting issues; and
- reviewing annual financial reports, and meeting with management and external auditors to discuss the reports and the results of the audit.

The Managing Director, Chief Financial officer and the External Auditors usually attend ARMC meetings.

Nomination, Remuneration and Governance Committee ("NRGC")

The NRGC has a formal charter and meets generally at least two times during a financial year. Committee members' attendance at NRGC meetings is detailed on page 33.

The NRGC's specific responsibilities include (but are not limited to):

- reviewing and recommending to the Board the size, composition and membership of the Board;
- developing and facilitating the process for Board and Director evaluation;
- making recommendation to the Board on remuneration of Directors and Senior Executives;
- reviewing the Managing Director's performance, at least annually; and
- review and implementation of Corporate Governance protocols.

FINANCIAL REPORTING

Consistent with ASX Principle 4.1, the Company's financial report preparation and approval process for the financial year ended 30 June 2008 involved both the Managing Director and the Chief Financial Officer providing detailed representations to the Board covering:

- compliance with the Company's accounting policies and relevant accounting standards;
- the accuracy of the financial statements and that they provide a true and fair view;
- integrity and objectivity of the financial statements; and
- effectiveness of the system of internal control.

INDEMNITIES

The Company has entered into deeds of access, indemnity and insurance with each Director. These deeds provide access to documentation, indemnification against liability from conduct of the Company's business and subsidiaries, and Directors' and officers' liability insurance.

DIRECTORS AND EXECUTIVES PERFORMANCE EVALUATION AND REMUNERATION

The Board annually self assess its collective performance, and the performance of individual Directors and of Board committees. The assessment is undertaken using questionnaires, discussions and, where applicable, advice from external consultants.

The Company's Policy on Identifying, Assessing and Enhancing Director Competencies and its Remuneration Policy are available on its website.

CONTINUOUS DISCLOSURE AND SHAREHOLDER COMMUNICATIONS

The Company Secretary has primary responsibility for ensuring that the ASX disclosure requirements are met.

As well as it's Continuous Disclosure Policy, the Company has also adopted:

- Policy for dealing with Media Enquiries; and
- Policy for Shareholder Communications.

Shareholders may elect to receive company reports by mail or e-mail.

RISK MANAGEMENT

The Board is responsible for the identification of significant areas of business risk, implementing procedures to manage such risks and developing policies regarding the establishment and maintenance of appropriate ethical standards to:

- ensure compliance in legal statutory and ethical matters;
- monitor the business environment;
- identify business risk areas; and
- identify business opportunities.

The Company does not have a formal internal control function (ASX Principle 7.2) as the Board considers that the Company is not of a size to warrant the implementation of a separate internal control function.

AUDITORS

The external auditor attends the annual general meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

ASX AND ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows, The information is current as at 10 September 2008.

[a] Distribution of equity securities

The number of Shareholders by size of holding, in each class of Share is:

	ORDINARY SHARE	
	Number of Holders	Number of Shares
1-1000	2,817	1,880,309
1001-5000	7,010	20,832,139
5001-10,000	3,420	27,640,799
10,001-100,000	3,486	94,752,543
100,001 and over	299	659,060,031
Total	**17,032**	**804,165,821**
The number of Shareholders holding less than a marketable parcel of Shares are:	**336**	**48,463**

[b] Equity security holders

The names of the 20 largest holders of quoted Shares are:

	ORDINARY SHARE	
	Number of Shares	% Shares Held
Sun Hung Kai Investment Services Ltd <Client Fortune Desire A/C>	86,143,583	10.71
HSBC Custody Nominees (Australia) Limited	80,633,887	10.03
Merrill Lynch (Australia) Nominees Pty Limited <Berndale A/C>	74,169,844	9.22
J P Morgan Nominees Australia Limited	67,792,342	8.43
National Nominees Limited	64,206,322	7.98
ANZ Nominees Limited <Cash Income A/C>	27,121,414	3.37
RBC Dexia Investor Services Australia Nominees Pty Limited <Pipooled A/C>	19,842,154	2.47
Queensland Investment Corporation	18,888,122	2.35
AMP Life Limited	18,267,968	2.27
UBS Nominees Pty Ltd	17,641,118	2.19
Citicorp Nominees Pty Limited	14,093,753	1.75
Cogent Nominees Pty Limited	7,948,967	0.99
RBC Dexia Investor Services Australia Nominees Pty Limited <PIIC A/C>	7,881,986	0.98
Citicorp Nominees Pty Limited <CFS WSLE Imputation FND A/C>	6,712,381	0.83
Cogent Nominees Pty Limited	6,492,980	0.81
Citic Resources Australia Pty Ltd	5,677,742	0.71
Argo Investments Limited	4,900,000	0.61
Citicorp Nominees Pty Limited <CFS Imputation Fund A/C>	4,631,672	0.58
Cogent Nominees Pty Limited <SMP Accounts>	4,477,331	0.56
HSBC Custody Nominees (Australia) Limited - A/C 2	4,257,966	0.53
Total (Top 20 Shareholders)	**541,781,532**	**67.37**

[c] Substantial Shareholders

The names of Substantial Shareholders who have notified the Company in accordance with section 671B of the *Corporations Act 2001* are:

	Number of Shares
APAC Resources Limited	160,760,239

[d] Voting Rights

All ordinary Shares carry one vote per Share without restriction.
No voting rights attach to options.

[e] Schedule of interests in mining tenements

Location	Tenement	Percentage Held
Molema Island	E04/1265-I	100%
Koolan Island	E04/1266-I	100%
Koolan South	E04/1407	100%
Koolan Island	L04/0029	100%
Koolan Island	M04/0416	100%
Koolan Island	M04/0417	100%
Tallering Peak	G70/0192	100%
Tallering Peak	G70/0193	100%
Tallering Peak	G70/0201	100%
Tallering Peak	G70/0202	100%
Tallering Peak	G70/0203	100%
Tallering Peak	G70/0204	100%
Tallering Peak	G70/0205	100%
Tallering Peak	L70/0060	100%
Tallering Peak	L70/0069	100%
Tallering Peak	L70/0073	100%
Tallering Peak	L70/0074	100%
Tallering Peak	M70/0896-I	100%
Tallering Peak	M70/1062-I	100%
Tallering Peak	M70/1063-I	100%
Tallering Peak	M70/1064-I	100%

Location	Tenement	Percentage Held
Perenjori	G70/232	100%
Perenjori	G70/238	100%
Mt Yule	E70/2731	100%
Piawaning	E70/3059	100%
Warriedar	P59/1725	100%
Warriedar	P59/1726	100%
Warriedar	P59/1727	100%
Warriedar	P59/1728	100%
Warriedar	P59/1729	100%
Jasper Hill	E59/1355	100%
Brockman	P80/1626	100%
Brockman	P80/1627	100%
Brockman	P80/1628	100%
Brockman	P80/1629	100%
Brockman	P80/1630	100%
Brockman	P80/1631	100%
Brockman	P80/1632	100%
Brockman	P80/1633	100%
Brockman	P80/1634	100%
Brockman	P80/1635	100%
Brockman	M80/0509	100%
Brockman	M80/0510	100%

ASX AND ADDITIONAL INFORMATION CONTINUED

[f] Key Operational and Financial Statistics

	Unit	12 months ended 30 Jun 2003	12 months ended 30 Jun 2004	12 months ended 30 Jun 2005	12 months ended 30 Jun 2006	12 months ended 30 Jun 2007	12 months ended 30 Jun 2008
Production (Tallering Peak and Koolan Island)							
Waste mined	BCM '000	0	1,668	3,796	6,565	11,849	**18,516**
Ore mined	WMT '000	0	555	1,935	1,122	3,491	**6,888**
Tonnes sold							
• lump	WMT '000	0	259	1,173	889	1,448	**3,081**
• fines	WMT '000	0	128	693	498	1,014	**2,387**
		0	387	1,866	1,387	2,462	**5,468**
Profit and Loss							
Revenue							
Sales revenue	$'000	0	14,293	76,872	73,389	162,748	**432,674**
Other revenue	$'000	1,069	178	471	1,907	2,256	**2,500**
	$'000	1,069	14,471	77,343	75,296	165,004	**435,174**
Gross profit	$'000	(124)	3,137	26,856	25,297	56,049	**190,539**
Net profit/(loss) before tax	$'000	(12,350)	(10,982)	22,032	16,151	42,253	**163,857**
Tax (expense)/benefit	$'000	0	0	(8,530)	6,922	(13,209)	**(50,513)**
Profit after tax from discontinued operations	$'000	0	0	0	0	18,721	**0**
Net profit after tax before minorities	$'000	(12,350)	(10,982)	13,502	23,073	47,765	**113,344**
Minority interest	$'000	0	0	0	406	0	**0**
Net profit after tax	$'000	(12,350)	(10,982)	13,502	23,479	47,765	**113,344**
Cash flow							
Cash flow from operations	$'000	(2,696)	(9,629)	17,778	(8,381)	3,090	**45,753**
Cash flow from investing	$'000	(3,103)	(8,243)	(9,056)	(26,490)	(18,574)	**(64,100)**
Cash flow from financing	$'000	9,949	10,930	24,300	8,579	68,885	**6,207**
Net cash flow	$'000	4,150	(6,942)	33,022	(26,292)	53,401	**(12,140)**
Balance sheet							
Current assets	$'000	7,762	9,491	46,186	65,924	111,341	**230,273**
Non-current assets	$'000	17,705	43,295	64,842	77,336	581,159	**663,764**
Total assets	$'000	25,467	52,786	111,028	143,260	692,500	**894,037**
Current liabilities	$'000	694	17,710	13,443	24,431	164,240	**88,043**
Non-current liabilities	$'000	3,822	11,677	21,000	9,633	73,951	**209,502**
Total liabilities	$'000	4,516	29,387	34,443	34,064	238,191	**297,545**
Net assets	$'000	20,951	23,399	76,585	109,196	454,309	**596,492**
Shares on issue	#	252,561,928	291,565,822	368,519,793	402,058,719	787,786,821	**803,840,821**
KPIs							
Earnings per share	$/share	(0.0489)	(0.0377)	0.0366	0.0574	0.0753	**0.1425**
Net asset value per share	$/share	0.0830	0.0803	0.2078	0.2716	0.5770	**0.7420**

CORPORATE DIRECTORY

BOARD OF DIRECTORS

Neil D. Hamilton
Chairman, Non-Executive Director

Luke Tonkin
Managing Director

Craig Readhead
Non-Executive Director

Ian Macliver
Non-Executive Director

Alan Jones
Non-Executive Director

Alan Rule
Alternate Director for Luke Tonkin

COMPANY SECRETARY

David Berg

REGISTERED OFFICE

Level 1, 7 Havelock Street
West Perth 6005, Western Australia
Telephone: +61 8 9426 7500
Facsimile: +61 8 9485 2305
Email: admin@mtgibsoniron.com.au
Website: www.mtgibsoniron.com.au

SOLICITORS

Freehills
Level 36, QV1 Building
250 St Georges Terrace
Perth 6000, Western Australia

Wright Legal
Level 1, 103 Colin Street
West Perth 6005, Western Australia

AUDITORS

Ernst & Young
Ernst & Young Building
11 Mounts Bay Road
Perth 6000, Western Australia

BANKERS

HSBC Bank Australia Ltd
188-190 St Georges Terrace
Perth 6000, Western Australia

National Australia Bank Limited
Level 33, 500 Bourke Street
Melbourne 3000, Victoria

STOCK EXCHANGE LISTING

The company's shares are listed on the Australian Stock Exchange Limited. ASX Code: MGX

SHARE REGISTRY

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace
Perth 6000, Western Australia
Telephone: +61 8 9323 2000
Facsimile: +61 8 9323 2033

ANNUAL GENERAL MEETING OF SHAREHOLDERS

To be held at 9:30am on Tuesday 18 November at City West Function Centre 45 Plaistowe Mews, City West Centre, West Perth 6005.

See our website at **www.mtgibsoniron.com.au** for regular quarterly reports and financial results. Additionally, shareholders or interested parties can register to receive emailed updates shortly after the company makes any regular or major announcement.

DESIGNED AND PRODUCED BY GRYPHON MANAGEMENT AUSTRALIA

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ISO 14001 - The standard published by the International Standards Organisation specifying the requirements of an environmental management system.
Bleaching Process - Elemental Chlorine Free (ECF) Pulp is bleached using processes that do not use elemental Chlorine gas, reducing the amount of toxins released.
Forest Management - These papers are totally derived from resources which are managed to ensure their renewability for generations to come.
Recycled Content - 55% recycled, 30% pre consumer, 25% post-consumer & FSC certified pulp

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