



MOUNT GIBSON IRON LIMITED (“MOUNT GIBSON”) QUARTERLY REPORT FOR THE PERIOD ENDED 31 DECEMBER 2010 ASX ANNOUNCEMENT 19 JANUARY 2011

HIGHLIGHTS

- All time record ore sales of 1.76 million tonnes, up 18% on the previous quarter
- All time record ore sales of 890,000 tonnes from Talling Peak, up 30% on the previous quarter
- Unaudited net profit after tax for the six months ended 31 December 2010 of \$140 million, 51% higher than the previous half year and 255% higher than the corresponding period last year
- Cash and term deposits on hand at 31 December 2010 of \$410 million, up \$63 million on 30 June 2010 cash and term deposits after debt repayments of \$50 million
- Debt drawn at 31 December 2010 reduced to \$35 million from \$85 million at 30 June 2010
- Commenced mining operations at Extension Hill
- Finalised amendments to Long Term Ore Sales Agreements at Koolan Island and Talling Peak with Shougang Concord and APAC based on a market clearing pricing mechanism
- Finalised amendments to Long Term Ore Sales Agreement with Stemcor based on a market clearing pricing mechanism

QUARTERLY REPORT



CORPORATE

Unaudited Financial Results

The unaudited net profit after tax for the six months ended 31 December 2010 of \$140 million as summarised below:

		Audited 6 months ended 31 Dec 2009	Audited 6 months ended 30 June 2010	Unaudited 6 months ended 31 Dec 2010
Tonnes mined	wmt (mill)	3.68	3.60	3.13
Tonnes sold	wmt (mill)	3.38	3.10	3.24
Sales revenue	\$ mill	242.3	294.0	382.1
Interest income	\$ mill	4.4	14.6	10.5
Cost of goods sold	\$ mill	(189.1)	(168.5)	(189.9)
Gross profit	\$ mill	57.6	140.1	202.7
Other income	\$ mill	13.8	6.6	-
Admin and other expenses	\$ mill	(10.5)	(10.3)	(10.3)
Unrealised FX (loss) / gain	\$ mill	4.2	2.1	-
Hedge mark-to-market (loss) / gain	\$ mill	(0.5)	3.4	14.1
Operating profit before interest & tax	\$ mill	64.6	141.9	206.5
Finance costs	\$ mill	(8.8)	(9.4)	(8.5)
Net profit before tax	\$ mill	55.8	132.5	198.0
Tax (expense)	\$ mill	(16.4)	(39.5)	(58.0)
Net profit after tax	\$ mill	39.4	93.0	140.0

At 31 December 2010, Mount Gibson had:

- \$410 million cash on hand; and
- \$35 million in Senior Debt.

Long Term Hematite Ore Sales Agreements

On 3 November 2010 Mount Gibson announced that it had reached agreement with two of its customers, Shougang Concord International Enterprises Company Limited ("**Shougang**") and APAC Resources Limited ("**APAC**"), on a revised pricing mechanism to apply under ore sales agreements for Talling Peak and Koolan Island iron ore product. The revised pricing mechanism now reflects a market based clearing index.

Mount Gibson has continued to negotiate with Shougang and APAC a revised pricing mechanism to apply in place of the benchmark price at Extension Hill and has, to date, been unable to agree a revised pricing mechanism as contemplated by the sales agreements. Consequently Mount Gibson will openly market all iron ore sales from Extension Hill to potential customers other than Shougang and APAC ensuring acceptable commercial terms and conditions prior to commencement of shipping in the first half of the 2011/12 financial year.

Mount Gibson is also pleased to announce that agreement has been reached with Stemcor (S.E.A.) Pte Ltd on a revised pricing mechanism to apply under the long term ore sales agreement for Talling Peak which also reflects a market based clearing price. Stemcor has remained a supportive long term customer of Mount Gibson since the commencement of ore sales from Talling Peak in early 2004.

QUARTERLY REPORT



OPERATIONS

Tallering Peak

Total material movement for the 6 months to the end of December of 5.2 million BCM was in line with Mount Gibson's half year projections. Total material movement for the quarter was 14% below the previous quarter and 20% higher than the corresponding quarter last year as mining activity advanced the T6a3d cutback and stripped the T6b2 to expose ore.

During the quarter, high grade ore was sourced from T6a3 and blended with existing ore stockpiles. T2 and T5 pits were completed during the quarter.

Crusher throughput was 8% higher than last quarter and 12% higher than the corresponding period last year. Modifications made to the crushing plant and additional opportune maintenance carried out last quarter allowed for higher throughput. A review of crushing strategy identified improvement opportunities leading to reduced crusher operation and a reduction in crusher personnel and operating costs.

Road haulage was down 22% compared with the previous quarter but remains above Mount Gibson's half year projections. Road haulage was reduced during the quarter to minimise the growth of ore stockpiles at the Mullewa rail head resulting from storage restrictions at the Geraldton port and speed restriction placed on the rail network as a consequence of high ambient track temperatures. In spite of the restrictions rail haulage increased to a record 799,000 tonnes, up 10% on the previous quarter.

Shipping was also at record levels of 890,000 tonnes, up 30% on the previous quarter and up 15% on the corresponding quarter last year.

Production for the December quarter is detailed in the following table:

		Sept 2010 qtr 000's	Dec 2010 qtr 000's	TOTAL 10-11 000's
Mining				
Waste Mined	bcm	2,543	2,268	4,811
Ore Mined	wmt	921	512	1,433
Crushing				
Lump	wmt	437	435	872
Fines	wmt	324	388	712
	Total	761	823	1,584
Transport to Mullewa Railhead				
Lump	wmt	443	385	828
Fines	wmt	447	310	757
	Total	890	695	1,585
Transport to Geraldton Port				
Lump	wmt	329	387	716
Fines	wmt	395	412	807
	Total	724	799	1,523
Shipping				
Lump	wmt	286	474	760
Fines	wmt	401	416	817
	Total	687	890	1,577

QUARTERLY REPORT



Comparison between figure 1 and figure 2 shows the progress of Talling Peak's Main Range mining operations in the December 2010 quarter.

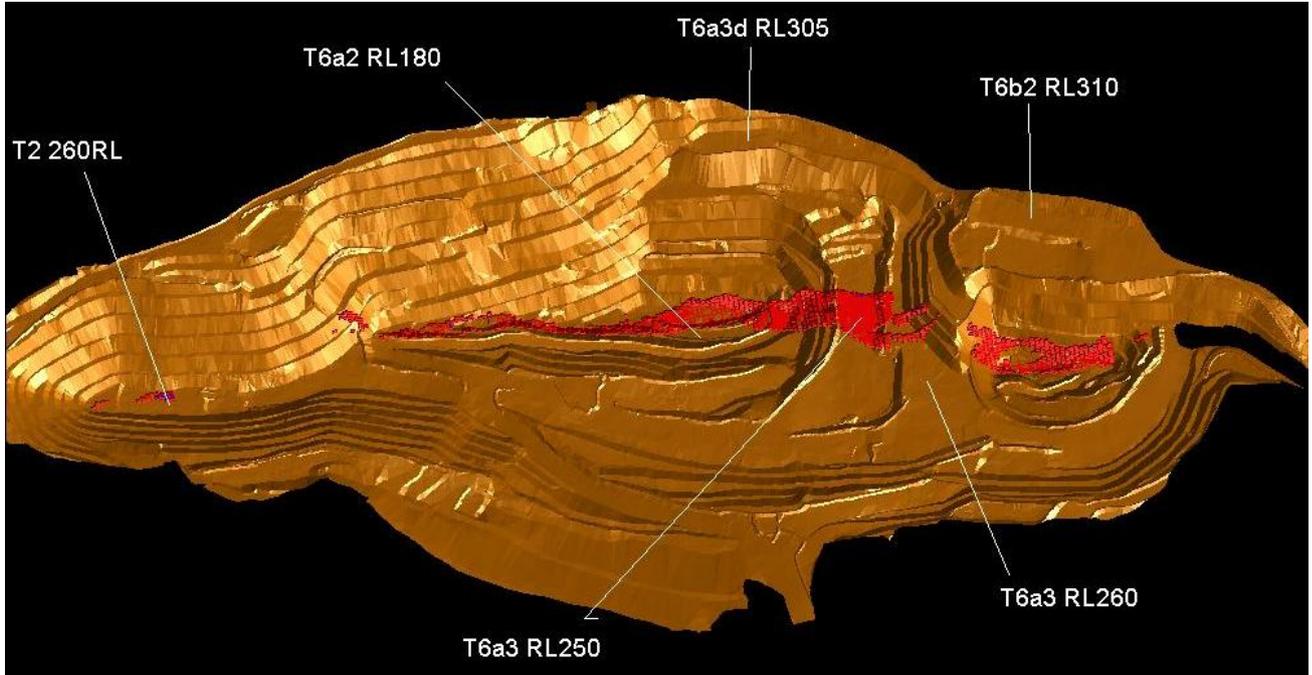


Figure 1 - Main Range mining as at the end of the September 2010 quarter

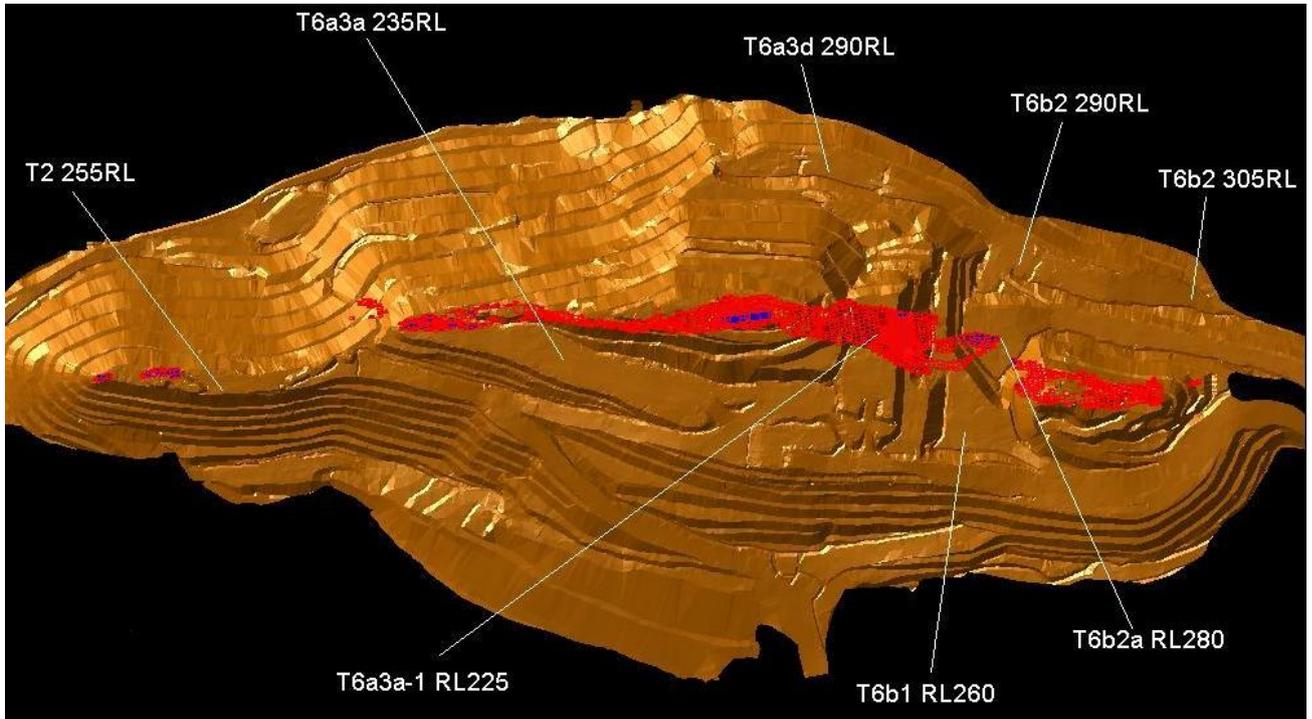


Figure 2 - Main Range mining as at the end of the December 2010 quarter

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QUARTERLY REPORT



Figure 3 - Main Range Pit looking north west from the high-wall

QUARTERLY REPORT



Koolan Island

Ore production for the quarter was in line with the corresponding period last year whilst being 16% down on the previous quarter. Total material movement was 21% below the corresponding quarter last year and 16% below the previous quarter as the floor areas of existing pits reduced significantly restricting equipment productivity. Adverse wet weather conditions also reduced total material movement.

Equipment scheduled to mobilise to Koolan Island in the December quarter to increase total material movement was delayed and will mobilise to site in the March quarter. The delay in equipment mobilisation is not expected to have a significant impact on annual iron ore sales.

Iron ore shipments increased 8% on the previous quarter and exceed Mount Gibson's half year projections. Ore crushed was consistent with the previous quarter and was 32% below the corresponding quarter last year with Koolan Island drawing down final product ore stockpiles allowing major maintenance repairs on both the primary and secondary crusher circuits. A primary crusher swing stock replacement is scheduled for the March quarter.

The primary supply of high grade ore from Koolan Island was sourced from Mullet Acacia pit whilst Barramundi West ore provided a secondary ore source.

The wet season in the Kimberley region typically commences in November and persists through to April during which time monsoonal activity intensifies causing significant rainfall events and cyclonic events. Koolan Island's total material movement and shipping activity generally reduces during this period and is forecast to increase from April as weather improves.

Rehabilitation of Main Pit is progressing as scheduled whilst the outer seawall embankment is due to be completed by the end of April with mining of the first Main Pit ore to commence in the first quarter of the 2011/12 financial year.

Production for the December quarter is detailed in the following table:

		Sept 2010 qtr 000's	Dec 2010 qtr 000's	TOTAL 10-11 000's
Mining				
Waste Mined	bcm	3,001	2,534	5,535
Ore Mined	wmt	919	775	1,694
Crushing				
Lump	wmt	277	308	585
Fines	wmt	397	357	754
Total	wmt	674	665	1,339
Shipping				
Lump	wmt	286	287	573
Fines	wmt	515	578	1,093
Total	wmt	801	865	1,666

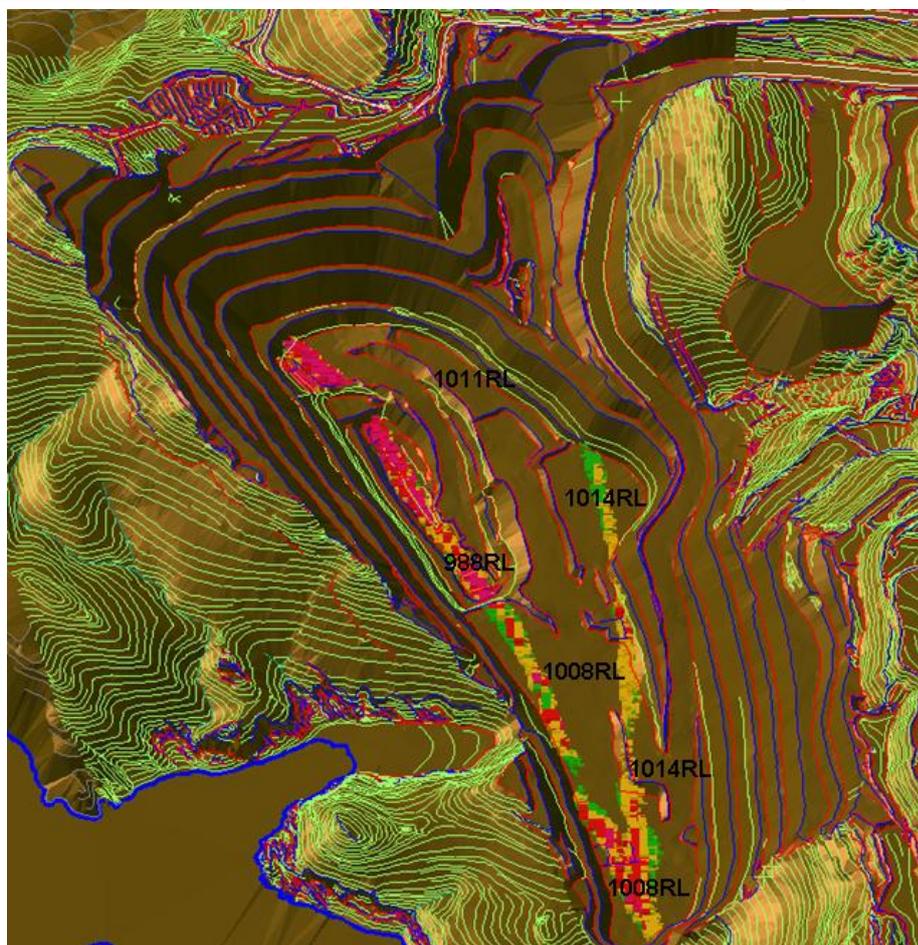


Figure 4 - Mullet Pit at the end of December 2010 looking north east



Figure 5 - Mullet Pit looking south west at the end of December 2010 showing bench development

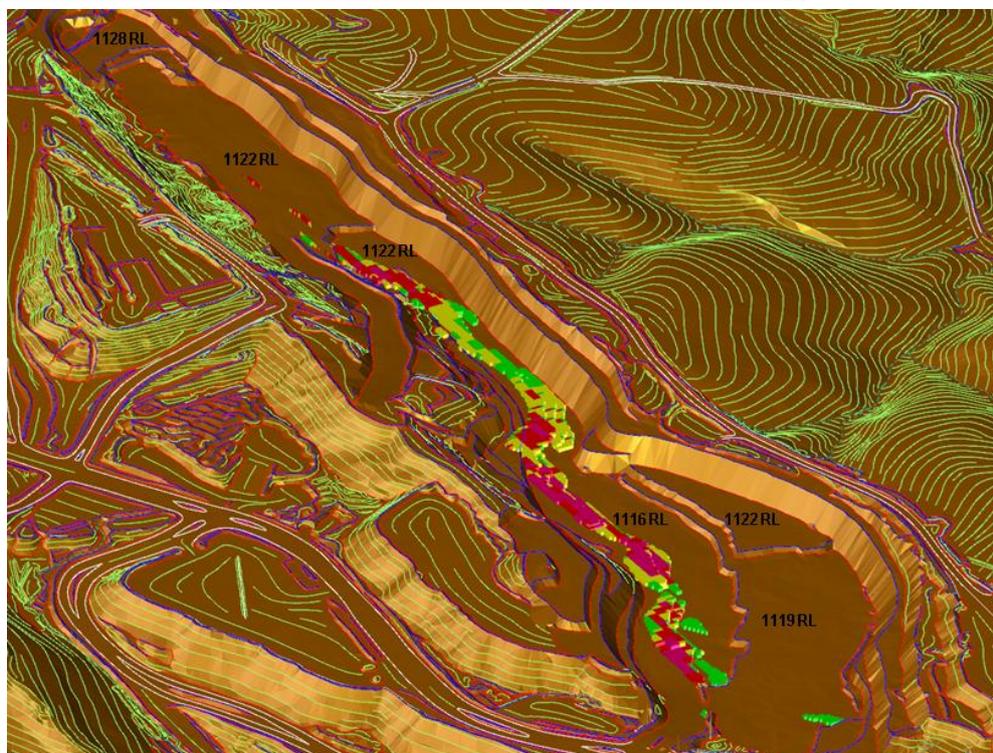


Figure 6 – Barramundi West Pit at the end of December 2010 looking north east

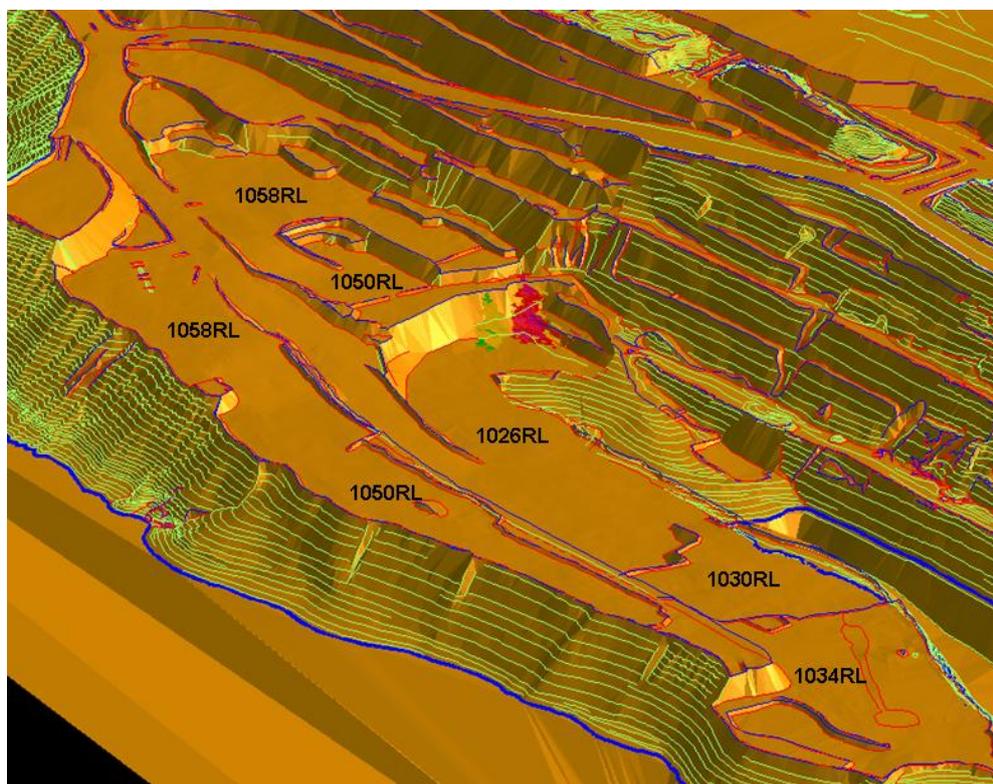


Figure 7 – Bench development of Stage 1 Main Pit at the end of December looking north west



Figure 8 – Main Pit south wall cut back, Main Pit Stage 1 and seawall at the end of December 2010 looking south east



Figure 9 – Seawall construction at the end of December 2010 looking west



EXPLORATION

An ongoing reverse circulation drilling program continued throughout the quarter in the Main Pit at Koolan Island (Figure 10). The drilling is required to improve ore definition and convert remaining in-pit inferred resources to reserves. A total of 11 holes were completed for 2269 metres.



Figure 10 – Plan of Main Pit (eastern end), Koolan Island showing drill-hole collar locations for holes drilled during the quarter (red circles) and all previous drilling (grey)

Assay results from the quarter are outstanding and highlight the extremely high grade, low contaminant nature of the Main Pit orebody (Figure 11). Significant results are tabulated below:

Table of significant assay results (>5 m, >55% Fe).

Hole Id	From (m)	To (m)	Length (m)	Fe (%)	SiO ₂ (%)	Al ₂ O ₃ (%)	P (%)	S (%)	LOI (%)
PKRC1418	252	270	18	67.82	1.39	1.04	0.007	0.005	0.49
PKRC1419	209	236	27	66.73	4.04	0.40	0.006	0.002	0.20
PKRC1420	245	259	14	68.79	0.57	0.37	0.014	0.007	0.29
PKRC1421	218	229	11	69.55	0.48	0.35	0.007	0.003	0.20
PKRC1422	135	168	33	68.55	1.18	0.45	0.006	0.003	0.27
PKRC1423	109	132	23	68.32	1.22	0.60	0.008	0.003	0.31
PKRC1425	166	192	26	68.76	0.69	0.56	0.014	0.004	0.34
PKRC1426	174	186	12	68.49	1.08	0.84	0.007	0.001	0.40
PKRC1427	153	181	28	68.86	0.87	0.39	0.011	0.003	0.27
PKRC1428	235	252	17	68.09	1.44	0.89	0.026	0.005	0.40

QUARTERLY REPORT

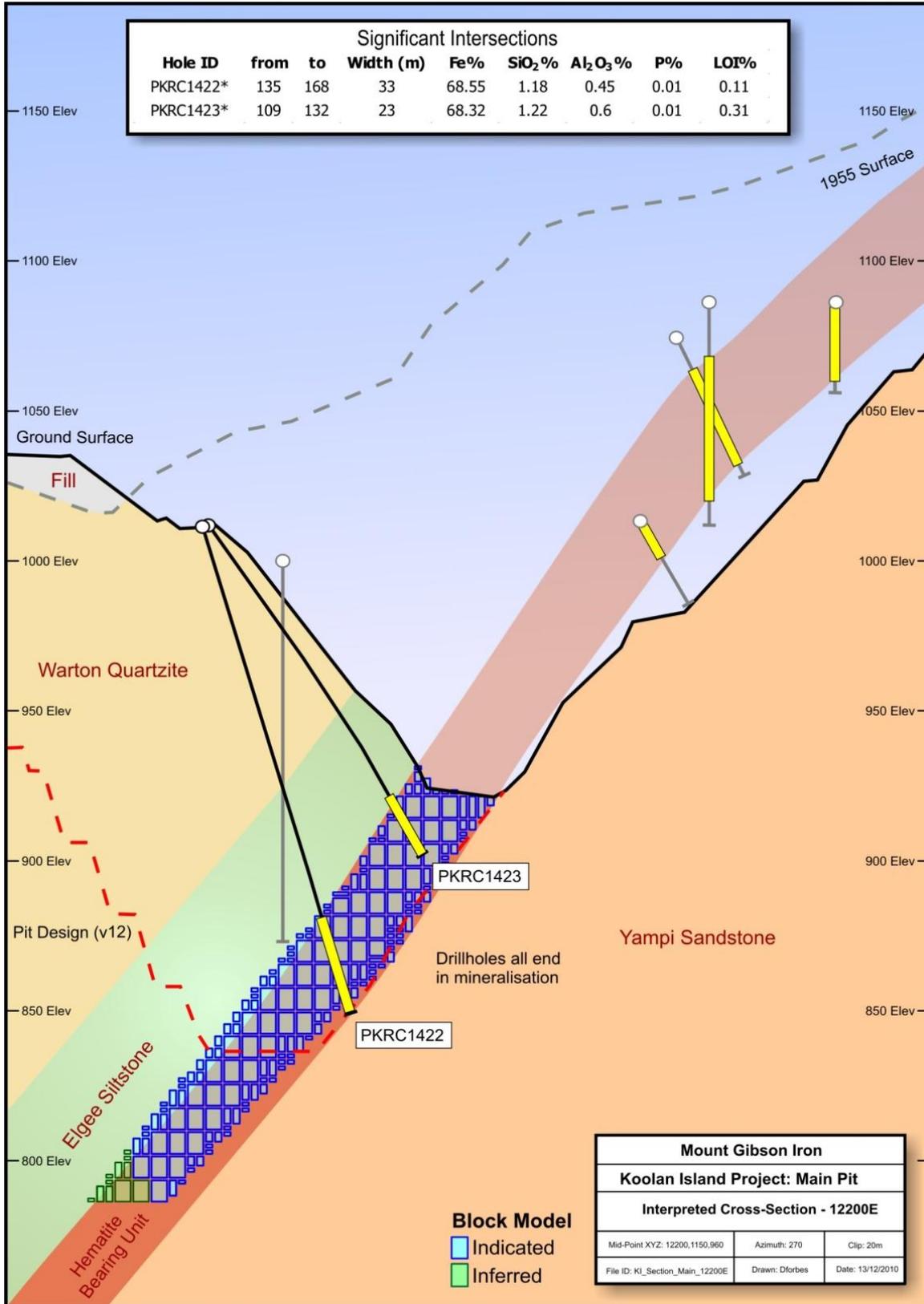


Figure 11 – Section 12200E, looking west, Main Pit



Koolan Island West

All required approvals have now been received from the Department of Mines and Petroleum and the traditional owners to allow access track development and drilling to commence in the previously untested western end of Koolan Island. Preliminary exploration activity will commence at the completion of the wet season in April.

EXTENSION HILL DIRECT SHIPPING ORE (“DSO”) PROJECT

Mining operations commenced at Extension Hill in December with 73 hectares being cleared, 8100 BCM of topsoil recovered and 16,200 BCM of overburden blasted.

Initial clearing and pioneering works is being completed under contract over a six month period prior to Mount Gibson introducing owner mining on site.

Initial blast-hole drilling has identified the first ore blocks at the surface of the Extension Hill mineralisation which will be mined in the March quarter. Approximately 750,000 tonnes of ore will be mined from Extension Hill through to the end of the June quarter which will be blended to create 340,000 tonnes of ROM stockpiles and 411,000 tonnes of final crushed product between the mine and the Geraldton port.

Extension Hill Mine Site

- The Extension Hill village was commissioned in November with 80 rooms being placed into service with the remaining 50 rooms completed and also placed into service by mid December.
- Temporary accommodation and messing facilities located at the nearby Mt Gibson Gold mine continued to be utilised as over flow accommodation required during the peak of construction and the initial ramp up of operations personnel.
- The bulk earthworks contractor completed all earthworks at the mine site and administration area including road train access roads and demobilised from site.
- Mine administration offices were occupied by the operations personnel in December. Minor works which remain to be finalised will be completed in January.
- Concrete works for the crushing and screening plant were substantially completed by December.
- Structural steel erection for the crushing plant commenced in December.
- Miscellaneous site concrete works for the explosives store, laboratory, warehouse and wash down areas were progressively being completed during December and will be finalised in January.
- Works on the Great Northern Highway achieved 95% completion and will be completed in January.
- Weighbridge concrete work was completed in December. Installation of the weighbridge mechanical, electrical and control components will be completed in the March quarter.
- Miscellaneous prefabricated site buildings were delivered to site and will be installed in the March quarter.
- The supply of specialist containers which will be used for workshops and crib rooms was 70% complete by the end of the quarter.



Transport Corridor

- The upgrade of the haul road from site to the Perenjori rail siding continued as scheduled throughout the quarter. Road work achieved 85% completion by the end of the quarter with the remaining 15% to be completed by the end of February.
- The construction of the rail siding commenced in October and civil work is scheduled for completion in the March quarter.
- Westnet continues to upgrade the rail line between Perenjori and the Port. Westnet have confirmed they will be able to meet their contractual obligations in regards to access to the rail line to Geraldton.
- All the project rail wagons have been procured and are commissioned ready for operations to commence.

Geraldton Port – Berth 5 Storage Facility

- The Berth 5 storage facility was 95% complete at the end of the quarter.

GPA Train Unloader Upgrade

- Tender documents were issued for the train unloading facility upgrade and tenders received late in the quarter. The tenders are currently being evaluated and bid review meetings will be held in January before the award of the contract.



Figure 12 – Wanarra Road-sealed section which forms part of the 85km sealed haul road between the mine and Perenjori



Figure 13– Great Northern Highway Bridge with underpass primed & ready for sealing, crushing and screening plant and mine site in the back ground



Figure 14 – Crushing and screening plant under construction



Figure 15 – Site facilities under construction looking north west from the mine

Attribution

The information in this report that relates to Exploration Results is based on information compiled by David Larsen, who is a member of the Australian Institute of Geoscientists. David Larsen is a full time employee of the company, 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”. David Larsen consents to the inclusion in the report of the matters based on his information in the form and context in which it appeared.

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.

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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.

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