

QUARTERLY REPORT



MOUNT GIBSON IRON LIMITED (“MOUNT GIBSON”) QUARTERLY REPORT FOR THE PERIOD ENDED 31 DECEMBER 2011 ASX ANNOUNCEMENT 25 JANUARY 2012

HIGHLIGHTS

- Extension Hill commenced commercial operation with its first shipment of hematite ore
- Commissioning of Extension Hill crushing and screening plant
- Koolan Island commenced mining of stage 1 Main Pit ore
- Completion of sea wall at Koolan Island
- Work at the Geraldton Port Infrastructure continues with good progress on upgraded rail unloader and the new Shed 5 facility

CORPORATE

- Jim Beyer appointed as Chief Operating Officer and subsequently Acting Chief Executive Officer
- Appointment of experienced mining and engineering professionals Russell Barwick and Paul Douglas as independent non-executive directors
- Resignation of Craig Readhead as a director of the company
- Luke Tonkin stepped down from his position as Managing Director

OPERATIONS

Koolan Island

The December quarter saw the Koolan Island operation continue to improve in performance. In addition two significant milestones were achieved; the completion of the sea wall adjacent to Main Pit and the first high grade ore mined in Main Pit.

Overall mining performance improved slightly with waste movement increasing by more than 6% compared with the previous quarter. Ore production was 6% higher and the crusher and screening throughput increased by 5% relative to the previous quarter. Ore mining occurred in Mullet, Barramundi West and Main Pits. Weather has been conducive to steady operations over this period.

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Ore shipments were down from the previous quarter by 17% primarily due to late loading of the final December ship. Loading of this ship was completed on 3rd January.

Looking forward, Main Pit will increasingly become the main area of mining activity as Barramundi West and Mullet Pits are due for completion over the coming months. With the onset of the traditional wet season some delays due to inclement wet weather are anticipated, however these have been factored into production forecast.

Skilled labour availability continues to reflect the general shortage across the industry however the site has been able to make good progress with the implementation of some targeted changes to recruitment, in particular greater emphasis on employing local trainees and increasing training resources.

Production statistics for the half year to December 2011 are shown in the table below.

			Sept-11	Dec-11	Total 11-12
			Qtr	Qtr	
			000's	000's	000's
Mining	Waste Mined	bcm	2,205	2,350	4,555
	Ore Mined	wmt	685	726	1,411
Crushing	Lump	wmt	353	321	674
	Fines	wmt	382	448	830
	Total	wmt	735	769	1,504
Shipping	Lump	wmt	365	285	650
	Fines	wmt	508	442	950
	Total	wmt	873	727	1,600

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Figure 1- Showing pit development in Main Pit by end of December 2011 – Ore zone shown in red dashed area



Figure 2 – Completed Sea Wall looking West

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Extension Hill Hematite Mine

The December quarter saw Extension Hill make significant progress on its plans to become a key contributor to the company's long term production profile. Two major milestones were achieved with the successful commissioning of the crushing and screening plant and the successful export of the first shipment at the Geraldton Port.

Mine ore production was 3% higher than the previous quarter. With the crushing and screening plant now in production, Run of Mine stockpile constraints previously experienced have started to reduce giving the mine greater material movement flexibility. Crushing operations continued to ramp up during the quarter.

Road haulage from Extension Hill to Perenjori began during the December quarter with 216,000 tonnes transported in the Perenjori siding railhead. Railing of lump product commenced with a total of 125,000 tonnes transported to the company's existing shed, which is shared with Talling Peak, at the Geraldton Port.

This quarter saw Extension Hill Hematite export the first 121,000 tonnes of lump ore to two customers during December on two ships.

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

		Sept	Dec	Total
		2011-12 Qtr	2011-12 Qtr	11-12
		000's	000's	000's
Mining				
Waste Mined	bcm	226	265	491
Ore Mined (>55%Fe)	wmt	444	459	903
Crushing				
Lump	wmt	0	260	260
Fines	wmt	0	133	133
Total	wmt	0	393	393
Transport to Perenjori Railhead				
Lump	wmt	0	154	154
Fines	wmt	0	62	62
Total	wmt	0	216	216
Transport to Geraldton Port				
Lump	wmt	0	125	125
Fines	wmt	0	0	0
Total	wmt	0	125	125
Shipping				
Lump	wmt	0	121	121
Fines	wmt	0	0	0
Total	wmt	0	121	121

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Tallering Peak

Waste material movement was down 19% and ore mined was 21% down on the previous quarter. Overall performance was hampered by labour skills shortages in key production areas. This was further compounded by very tight working areas in advancing the cutback along with delays associated with pitwall areas requiring unplanned ground support. These near term operational issues impacted on achieving the planned mine extraction sequences and are being worked through with activities continuing to focus on minimizing the impacts as the site's performance returns to expected levels.

Shipping was down 53% compared with the previous quarter driven by a delayed shipment that rolled into early January and by the near term ore availability constraints discussed above.

Production for the December 2011 quarter and comparison with the previous quarter is detailed in the following table:

			Sept-11	Dec-11	Total 11-12
			Qtr	Qtr	
			000's	000's	000's
Mining	Waste Mined	bcm	1,658	1,341	2,999
	Ore Mined	wmt	694	546	1,240
Crushing	Lump	wmt	479	398	877
	Fines	wmt	329	266	595
	Total	wmt	808	664	1,472
Transport to Mullewa Railhead					
	Lump	wmt	469	403	872
	Fines	wmt	327	230	557
	Total		796	633	1,429
Transport to Geraldton Port					
	Lump	wmt	305	241	546
	Fines	wmt	369	114	483
	Total		674	355	1,029
Shipping	Lump	wmt	351	240	591
	Fines	wmt	409	117	526
	Total	wmt	760	357	1,117

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Figure 3 - Main Range pit looking west from the T2 backfill Waste dump at the end of December 2011

Outlook for Mid West Operations

During the 2012 March Quarter the company's Mid West operations will be output constrained with batch transporting ore from Talling Peak and Extension Hill to the Geraldton Port. This is due to a combination of considerable rail downtime associated with rail line infrastructure upgrade for the Karara Mining Limited operation and the rail out loading constraints that will be in place until the common user facilities upgrades at the port are completed.

Completion of the rail line upgrades, train unloader upgrades at the port and the commissioning of the company's Shed 5 will significantly increase out loading capacity. These infrastructure works, along with the Talling Peak operation returning to more consistent output, will allow the company to fully utilise its existing train paths and drive towards its planned six million tonne per annum haulage rates from the Talling Peak and Extension Hill sites.

These construction activities have had an impact on the December quarter and until the work is completed the two Mid West operations will continue to experience limitations to total railing capacity. This work is now progressing at a satisfactory rate and these one off impacts will continue as construction tie-ins are completed at the port, rail upgrades are completed and the port facilities are commissioned. The internally managed activities are scheduled for late March/early April and the company is working closely with third parties to minimize the disruption to the business. In summary, the company expects these impacts to continue in the current March quarter with a guidance shipping range similar to the December quarter.

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EXPLORATION AND RESOURCE DEFINITION ACTIVITY

Koolan Island

Exploration drilling for the quarter focused on an area west of the Mullet Acacia resource (10.5Mt @ 59.87% Fe - 30 June 2011). A total of 5,164 metres were drilled over 24 holes investigating a possible extension to the Mullet - Acacia mineralised horizon west of the current pit.

Results to date have been very positive with the discovery of continuation of the Acacia mineralisation, (the Acacia West area). Holes were drilled at a nominal 150m east-west spacing. Due to challenging topography some of the drill sites host two or three drill collars, with a variety of angled orientations between 60° and 90° (vertical).

Assay results have been received for all holes completed, with 21 holes of 24 drilled encountering significant mineralization (>55% Fe).

Some outstanding intersections have been drilled including :

PKRC1514: 52m @ 66.26% Fe from 120 metres downhole
PKRC1507: 45m @ 67.08% Fe from 111 metres downhole
PKRC1502: 26m @ 67.37% Fe from 117 metres downhole
PKRC1491: 26m @ 64.59% Fe from 211 metres downhole

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Significant Intercepts Fe>55%

HoleID	from	to	Width (m)	Fe %	SiO ₂ %	Al ₂ O ₃ %	P %	LOI %	EOH (m)
PKRC1491	190	202	12	62.83	8.99	0.55	0.011	0.14	240
	211	237	26	64.59	7.06	0.42	0.008	0.15	
PKRC1492	224	236	12	62.69	10.08	0.31	0.006	0.12	246
PKRC1493	198	203	5	63.72	8.99	0.16	0.003	0.02	216
PKRC1494	132	148	16	67.49	3.61	0.23	0.003	0.03	216
	184	189	5	64.88	7.16	0.30	0.009	0.21	
PKRC1495	No significant results								162
PKRC1496	91	109	18	61.96	10.48	0.51	0.007	0.16	150
PKRC1497	No significant results								138
PKRC1498	110	113	3	56.47	18.47	0.36	0.007	0.17	204
	122	126	4	63.55	8.92	0.31	0.006	0.12	
	135	142	7	63.07	9.58	0.20	0.006	0.02	
	146	156	10	59.78	14.02	0.27	0.010	0.04	
PKRC1499	No significant results								246
PKRC1500	133	142	9	60.76	11.72	0.82	0.011	0.23	204
PKRC1501	130	135	5	57.02	17.60	0.57	0.013	0.15	210
	143	167	24	63.58	8.80	0.19	0.006	0.09	
PKRC1502	117	143	26	67.37	3.84	0.19	0.002	0.05	180
	152	167	15	63.11	9.50	0.28	0.005	0.03	
PKRC1503	201	215	14	66.60	4.06	0.36	0.003	0.17	232
PKRC1504	198	218	20	64.44	7.48	0.31	0.004	0.11	264
	230	233	3	66.37	4.99	0.78	0.004	0.17	
	236	246	10	60.03	13.34	0.174	0.014	0.08	
PKRC1505	177	195	18	65.63	5.79	0.34	0.004	0.12	252
	236	239	3	66.53	4.64	0.25	0.016	0.08	
PKRC1506	176	198	22	68.89	1.38	0.18	0.003	0.07	234
	228	232	4	63.78	7.63	0.87	0.020	0.28	
PKRC1507	111	156	45	67.08	3.59	0.27	0.005	0.07	198
PKRC1508	212	223	11	65.57	6.04	0.21	0.004	0.07	276
	252	262	10	62.14	10.93	0.19	0.007	0.05	
PKRC1509	201	205	4	63.50	8.35	0.73	0.004	0.24	240
	209	223	14	66.21	5.14	0.17	0.003	0.08	
	226	234	8	63.78	8.50	0.29	0.006	0.08	
PKRC1510	No Significant Results								210
PKRC1511	113	126	13	60	12.84	0.2	0.006	0.14	216
	130	150	20	65.38	4.98	0.32	0.005	0.13	
PKRC1512	126	130	4	60.90	7.89	0.28	0.012	0.54	216
	134	147	13	65.35	5.06	0.24	0.004	0.14	
	158	169	11	62.30	9.87	0.26	0.006	0.16	
	176	180	4	60.78	11.84	0.43	0.006	0.22	
PKRC1513	No Significant Results								204
PKRC1514	120	172	52	66.26	3.96	0.30	0.005	0.14	180

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Results confirm hematite mineralisation continues west of the Mullet Acacia resource. Significant intersections vary between 4 and 52 metres true width, with the mineralisation typically found along the contact of the Elgee Siltstone the Yampi Sandstone.

Several drill holes encountered two or more mineralised intersections which are thought to represent both southerly dipping limbs of a tight recumbent anticline. The wide intercepts of PKRC1514 (52m @ 66.26%) and PKRC1507 (45m @ 67.08%) are interpreted as having intersected the hinge of the fold.

The interpreted fold geometry is a tight recumbent fold with both limbs dipping to the south. The fold axis has a shallow westerly plunge. The High Grade Mineralisation is open to the west with further drilling planned in 2012.

The success of the Acacia West exploration during the 2011 December quarter is encouraging however additional drilling of similar intercepts is required before resource estimation can be considered.



Figure 4 - Plan showing location of exploration RC holes drilled at Acacia West on Koolan Island during the quarter (blue circles). GDA 94 coordinates shown

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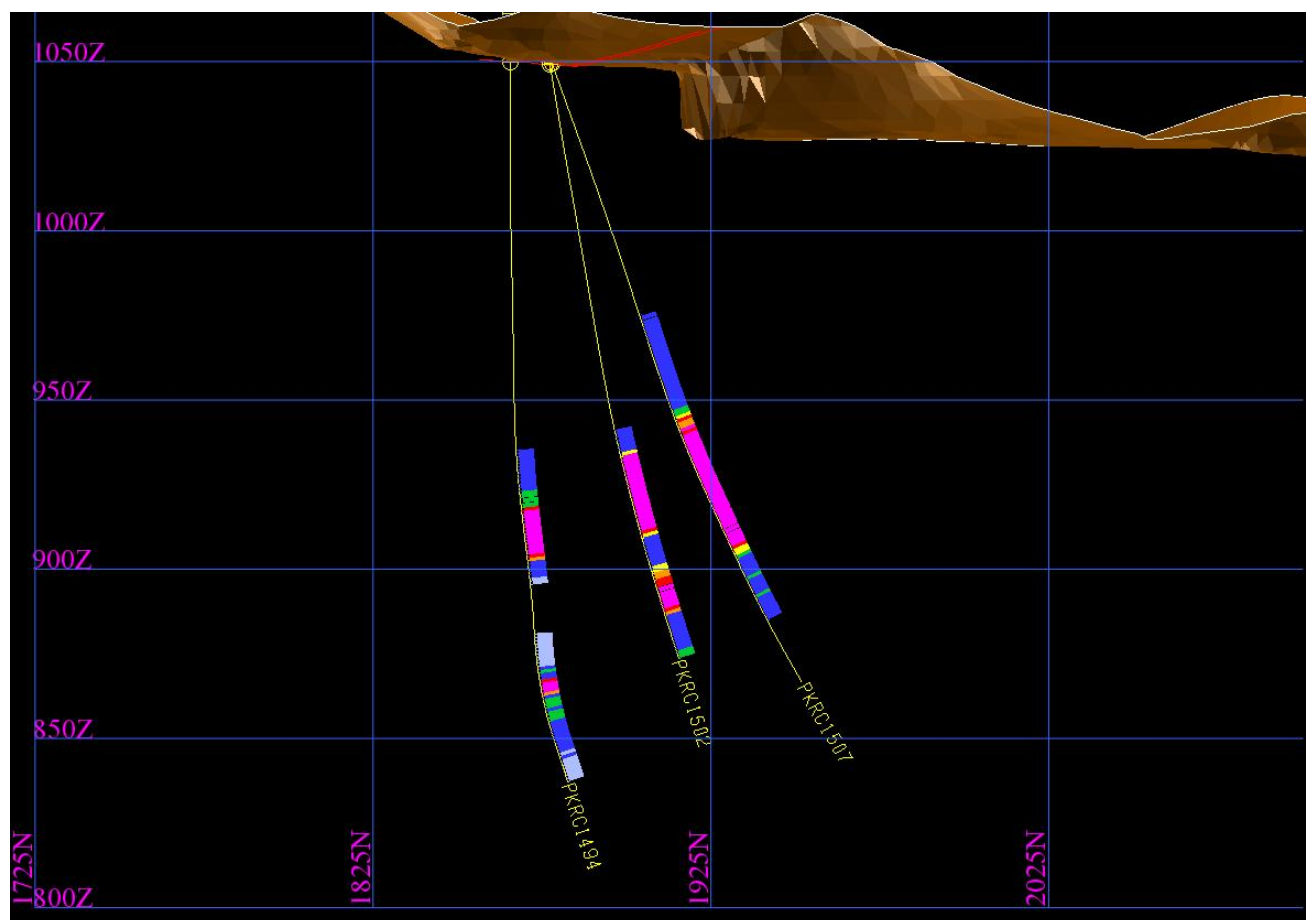


Figure 5 - Cross Section of Acacia West 9900mE looking west. Colours on drill trace represent Fe% assay results; (grey <10%, blue 10%–40%, green 40%–50%, yellow 50%–55%, orange 55%–60%, red 60%–65%, pink >65)

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Attribution

The information in this report that relates to Exploration Results is based on information compiled by Gregory Hudson, who is a member of the Australasian Institute of Mining and Metallurgy. Gregory Hudson is an employee of 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". Gregory Hudson 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 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.

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