Mount Gibson Iron

Mount Gibson Iron Limited
ABN 87 008 670 817

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VIA: WWW.ASX.ONLINE.COM

9 March 2006

Pages = 28

The Manager
Company Announcements
Australian Stock Exchange Limited
Level 10, 20 Bond Street
SYDNEY NSW 2000

SUBJECT: 31 DECEMBER 2005 HALF YEAR FINANCIAL STATEMENTS

Mount Gibson Iron Limited (ASX Code "MGX") is pleased to announce a net profit after tax of $22.1 million for the 6 months ended 31 December 2005.

The first time application of International Financial Reporting Standards ("IFRS") impacted the result for the 6 months as follows:

	A$ million	**A$ million**
Net profit after tax under AGAAP attributable to members		22.1
IFRS adjustments		
• Share based payments	(2.8)	
• Tax effect accounting	2.8	
		0.0
Net profit after tax under IFRS attributable to members		**22.1**

The Company has recently developed a sustainable life of mine operating plan for the Tallering Peak hematite operation, which involves the development of the T6 orebody and a major cut back of existing pits. As advised in December, a consequence of the cut back and the development of the T6 pit will be reduced ore production and grade for the 6 months to June 2006, which will impact both cash flow and profitability for the period. However, as a result of recent developments, the Tallering Peak operations will be in a position to achieve the forecast production rate of 3Mtpa from June 2006 and will be well positioned to take advantage of increased production volumes whilst iron ore prices remain historically high.

Mount Gibson Iron Managing Director, Luke Tonkin advised that "The Company is well positioned for growth with access to infrastructure, long term off-take agreements, an established project pipeline and a sound balance sheet with a strong cash balance and no significant debt."

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

Yours sincerely,
MOUNT GIBSON IRON LIMITED

Angela Dent
Company Secretary

Enquiries:	Mr Luke Tonkin Managing Director Telephone: 61 8 9426-7500 Email: admin@mtgibsoniron.com.au	or	Mr Alan Rule Finance Director

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This Preliminary Final Report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A.3

Current Reporting Period: 31st December, 2005

Previous Corresponding Period: 31st December, 2004

RESULTS FOR ANNOUNCEMENT TO THE MARKET

		A$'000's
Revenue from ordinary activities	up 60% to	$54,050
Profit from ordinary activities after tax attributable to members	up 262% to	$22,087
Net profit for the period attributable to members	up 262% to	$22,087

DIVIDENDS

No dividends have been paid or declared during the year

NET TANGIBLE ASSET BACKING

Consolidated Entity		2005	2004
Net Assets	$	109,992,464	34,312,358
Less: intangible assets	$	-	-
Less: OEI net tangible assets	$	8,977,737	6,344,504
Net tangible assets of the Consolidated Entity	$	101,014,727	27,967,854
Fully paid ordinary shares on issue at Balance Date		399,025,639	311,260,162
Net tangible asset backing per issued ordinary share as at balance date (cents)		25.32	8.98

STATUS OF AUDIT

This Half Year Report is based on accounts that have been audited.

COMMENTARY

It is recommended that the half-year report is read in conjunction with the Annual Financial Report of Mount Gibson Iron Limited as at 30 June 2005 together with any public announcements made by Mount Gibson Iron Limited during the half-year ended 31 December 2005 in accordance with the continuous disclosure obligations under the Corporations Act 2001.

Mount Gibson Iron

MOUNT GIBSON IRON LIMITED AND CONTROLLED ENTITIES

ABN 87 008 670 817

FINANCIAL REPORT

FOR THE HALF-YEAR ENDED

31 DECEMBER 2005

Half Year Financial Report

For The Half-Year Ended 31 December 2005

Directors' Report

Your Directors submit their report for the half-year ended 31 December 2005 for Mount Gibson Iron Limited ("Company") and the Consolidated Entity incorporating the entities that it controlled during the half year.

DIRECTORS

The names of the company's directors in office during the half-year and until the date of this report are as below. Directors were in office for the entire period unless otherwise stated.

Bill Willis	*Chairman*
Brian Johnson	*Deputy Chairman*
Luke Tonkin	*Managing Director – appointed 25 October 2005*
Craig Readhead	*Non-Executive Director*
Ian Macliver	*Non-Executive Director*
Alan Rule	*Finance Director*
Guoping Liu	*Non-Executive Director – appointed 12 August 2005* *retired 22 February 2006*

CORPORATE INFORMATION

Nature of Operations and Principal Activities

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

- mining of hematite deposits at Tallering Peak; and
- exploration and development of hematite and magnetite deposits in the Mid-West region of Western Australia.

REVIEW AND RESULTS OF OPERATIONS

Operating Results for the Period

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

	CONSOLIDATED	
	December 2005	**December 2004**
	$	$
OPERATING PROFIT BEFORE TAX	18,842,995	5,997,641
TAXATION BENEFIT	2,837,215	99,969
OPERATING PROFIT AFTER TAX	21,680,210	6,097,610
LOSS ATTRIBUTABLE TO MINORITY INTEREST	407,266	-
NET PROFIT ATTRIBUTABLE TO MEMBERS OF PARENT	**22,087,476**	**6,097,610**

The income tax benefit reflects the recognition in the current period of tax losses available for use by the consolidated entity.

Directors' Report (Continued)

Hematite Operations

During December 2005 the Company announced that detailed mine schedules to exploit the current ore reserve had recently been completed which indicate that development rates at Tallering Peak will need to be increased to sustain 3 Mtpa of ore production through to the end of mine life.

An increased rate of development stripping commenced in January 2006 following the mobilisation of additional hired mining equipment which will give the operation the capacity to load and haul 26 Mtpa of ore and waste annually over the next two years. Increased stripping in the first half of 2006 will impact cash flow with sustainable ore production of 3 Mtpa being achieved in the second half of 2006 rather than the first half due to:

- Delay in delivery of 34 rail wagons from December 2005 to April 2006;
- Increased development stripping from January 2006 restricting access to ore in the first half of 2006.

PRODUCTION SUMMARY	UNIT	SEPT QTR 2005 000's	DEC QTR 2005 000's	YTD 2005 000's
Mining				
- Waste mined	bcm	932	1,243	2,175
- Ore mined	wmt	471	248	719
Crushing				
- Lump	wmt	371	347	718
- Fines	wmt	190	68	258
		561	**415**	**976**
Transported to Mullewa Railhead				
- Lump	wmt	335	194	529
- Fines	wmt	173	106	279
		508	**300**	**808**
Transported to Geraldton Port				
- Lump	wmt	320	236	556
- Fines	wmt	186	113	299
		506	**349**	**855**
Shipping				
- Lump	wmt	322	300	622
- Fines	wmt	178	128	306
		500	**428**	**928**
Shipping				
- Lump	dmt	317	296	613
- Fines	dmt	174	125	299
		491	**421**	**912**

Directors' Report (Continued)

EXTENSION HILL MAGNETITE PROJECT

ASIA IRON HOLDINGS LIMITED

Mount Gibson Iron Limited currently owns 71.97% of the issued capital in Asia Iron Holdings Limited.

FEASIBILITY STUDY

Asia Iron has completed a feasibility study for the production of 5Mtpa of magnetite concentrate from a proposed mine at Extension Hill, Mt Gibson, in the MidWest region of Western Australia.

The results will be presented formally to the Boards of MGI and Asia Iron and representatives of the Shougang Group in March 2006, after which a joint working committee will be formed with Shougang to review prospective savings in capital costs and methods of project implementation, and to commence negotiations with project financiers.

The feasibility study has estimated the capital costs at A$715 million for the mine, crusher, concentrator, site infrastructure and slurry pipeline. These estimates include contingencies but exclude working capital and capitalised interest.

The feasibility study has estimated the operating costs at US$28/tonne of concentrate FOB Geraldton. Asia Iron and Shougang, the two potential participants in the development and operation of the Extension Hill mine, concentrator and associated slurry pipeline transport system to the Port of Geraldton, must commit in-principle to participation in the project by 30 April 2006.

Asia Iron's wholly owned Chinese subsidiary, Asia Iron (Nanjing) Co., Ltd, is progressing with the planning of a 2.5Mtpa pellet plant to be constructed at the port of Longtan on the Yangtze River near Nanjing. All planning and environmental approvals have been received and detailed engineering is expected to be completed within two months. Negotiations with the Beijing Shougang Design Institute to construct the pellet plant on a fixed price turnkey basis are progressing satisfactorily.

Asia Iron intends to use its 50% share of concentrate production from the Extension Hill mine as feed for the Nanjing pellet plant.

Shougang are expected to supply its 50% share of concentrate to a new steel mill the group is constructing at Caofeidian on the central coast of China.

AUDITOR'S INDEPENDENCE DECLARATION

The directors received the attached independence declaration from the auditor of Mount Gibson Iron Limited which forms part of this report.

Signed in accordance with a resolution of the Directors.

William B. Willis
Chairman
Perth, 9 March 2006.

Condensed Income Statement

For The Half-Year Ended 31 December 2005

	Notes	CONSOLIDATED	
		December 2005	**December 2004**
		$	$
REVENUE	2	54,049,891	33,742,420
Cost of sales		(29,588,965)	(26,238,451)
GROSS PROFIT		**24,460,926**	**7,503,969**
Other income	2	315,061	1,827,813
Other expenses		(5,358,927)	(2,284,819)
PROFIT BEFORE TAX AND FINANCE COSTS		**19,417,060**	**7,046,963**
Finance costs		(574,065)	(1,049,322)
PROFIT BEFORE INCOME TAX		**18,842,995**	**5,997,641**
Income tax benefit		2,837,215	99,969
NET PROFIT FOR THE PERIOD		**21,680,210**	**6,097,610**
Loss attributable to minority interest		407,266	-
NET PROFIT ATTRIBUTABLE TO MEMBERS OF PARENT		**22,087,476**	**6,097,610**

Earnings per share (cents per share)		
- basic for profit for the half-year	5.80	2.09
- diluted for profit for the half-year	5.72	1.95

Condensed Balance Sheet

As at 31 December 2005

	Notes	CONSOLIDATED	
		As At 31 December 2005	**As At 30 June 2005**
		$	$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	9	44,516,256	33,633,253
Trade and other receivables		8,202,813	6,631,446
Inventories		5,886,589	5,296,449
Prepayments		2,684,203	625,408
Derivatives		403,876	328,672
TOTAL CURRENT ASSETS		**61,693,737**	**46,515,228**
NON-CURRENT ASSETS			
Available for sale financial assets		2,675,229	2,942,318
Property, plant and equipment		19,286,946	17,663,589
Deferred acquisition, exploration, evaluation and development costs		37,367,992	29,104,015
Mine properties		23,536,380	15,130,842
TOTAL NON-CURRENT ASSETS		**82,866,547**	**64,840,764**
TOTAL ASSETS		**144,560,284**	**111,355,992**
LIABILITIES			
CURRENT LIABILITIES			
Trade payables and other liabilities		13,682,273	10,691,034
Interest-bearing loans and borrowings		3,589,824	2,779,550
Derivatives		1,473,545	-
Provisions		466,873	300,534
TOTAL CURRENT LIABILITIES		**19,212,515**	**13,771,118**
NON-CURRENT LIABILITIES			
Provisions		681,196	654,807
Interest-bearing loans and borrowings		9,904,357	8,937,905
Deferred income tax liabilities		4,769,752	7,606,967
TOTAL NON-CURRENT LIABILITIES		**15,355,305**	**17,199,679**
TOTAL LIABILITIES		**34,567,820**	**30,970,797**
NET ASSETS		**109,992,464**	**80,385,195**
EQUITY			
Issued capital	3	86,092,288	79,381,008
Retained earnings / (Accumulated losses)		12,504,389	(9,583,087)
Reserves	4	2,418,050	1,630,979
Parent interests		**101,014,727**	**71,428,900**
Minority interest		8,977,737	8,956,295
TOTAL EQUITY		**109,992,464**	**80,385,195**

Condensed Cash Flow Statement

For the Half-Year Ended 31 December 2005

	Notes	CONSOLIDATED	
		December 2005	**December 2004**
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		53,710,203	32,940,120
Payments to suppliers and employees		(37,600,477)	(18,576,699)
Interest paid		(574,064)	(934,334)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**15,535,662**	**13,429,087**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		1,001,552	21,222
Proceeds from sale of property, plant and equipment		7,364	45,563
Purchase of property, plant and equipment		(953,897)	(221,924)
Loans from/(to) other entities		(250,000)	400,000
Payment for mine development		(7,049,348)	(8,882,707)
Purchase of available for sale investments		(960,205)	(500,000)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(8,204,534)**	**(9,137,846)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares		6,711,280	4,860,000
Proceeds from borrowings		-	13,063,216
Repayment of lease liabilities		(1,640,392)	(926,559)
Repayment of borrowings		(419,013)	(14,308,673)
Payment for performance bonds		(1,100,000)	-
NET CASH FLOWS FROM FINANCING ACTIVITIES		**3,551,875**	**2,687,984**
NET INCREASE IN CASH AND CASH EQUIVALENTS		10,883,003	6,979,225
Cash and cash equivalents at beginning of period		33,633,253	611,132
CASH AND CASH EQUIVALENTS AT END OF PERIOD	9	**44,516,256**	**7,590,357**

Condensed Statement of Changes in Equity

For The Half-Year Ended 31 December 2005

	Attributable to Equity Holders of the Parent					*Minority Interest*	*Total Equity*
CONSOLIDATED	Issued Capital	Option Premium Reserve	(Accumulated losses)/ Retained Earnings	Other Reserves	Total		
	$	$	$	$	$	$	$
At 1 July 2004	40,848,134	-	(26,885,324)	-	13,962,810	6,344,504	20,307,314
Profit for the period	-	-	6,097,610	-	6,097,610	-	6,097,610
Issue of share capital	110,000	-	-	-	110,000	-	110,000
Exercise of options	4,750,000	-	-	-	4,750,000	-	4,750,000
Cost of share-based payment	-	24,216	-	-	24,216	-	24,216
At 31 December 2004	**45,708,134**	**24,216**	**(20,787,714)**	**-**	**24,944,636**	**6,344,504**	**31,289,140**

Condensed Statement of Changes in Equity (continued)

For The Half-Year Ended 31 December 2005

	Attributable to Equity Holders of the Parent						*Minority Interest*	*Total Equity*
CONSOLIDATED	Issued Capital	Option Premium Reserve	Retained Earnings	Net unrealised gains / (losses) reserve	Other Reserves	Total		
	$	$	$	$	$	$	$	$
At 30 June 2005	79,381,008	1,630,979	(9,583,087)	-	-	71,428,900	8,956,295	80,385,195
Application of AASB 132 and AASB 139	-	-	-	1,165,488	-	1,165,488	-	1,165,488
At 1 July 2005	79,381,008	1,630,979	(9,583,087)	1,165,488	-	72,594,388	8,956,295	81,550,683
Currency differences	-	-	-	-	(21,657)	(21,657)	-	(21,657)
Net losses on cash flow hedges	-	-	-	(760,149)	-	(760,149)	-	(760,149)
Net unrealised losses on available for sale investments	-	-	-	(2,277,901)	-	(2,277,901)	-	(2,277,901)
Release to income statement on expiry of cash flow hedges	-	-	-	(114,880)	-	(114,880)	-	(114,880)
Profit/(loss) for the period	-	-	22,087,476	-	-	22,087,476	(407,266)	21,680,210
Issue of shares on exercise of options	6,711,280	-	-	-	-	6,711,280	-	6,711,280
Change in Minority Interest	-	-	-	-	-	-	428,708	428,708
Cost of share-based payment	-	2,796,170	-	-	-	2,796,170	-	2,796,170
At 31 December 2005	**86,092,288**	**4,427,149**	**12,504,389**	**(1,987,442)**	**(21,657)**	**101,014,727**	**8,977,737**	**109,992,464**

Notes to the Half-Year Financial Report

For the Half-Year Ended 31 December 2005

1. BASIS OF PREPARATION OF HALF-YEAR FINANCIAL REPORT

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the Annual Financial Report of Mount Gibson Iron Limited as at 30 June 2005, which was prepared based on Australian Accounting Standards applicable for financial years beginning before 1 January 2005 ('AGAAP').

It is also recommended that the half-year financial report be considered together with any public announcements made by Mount Gibson Iron Limited and its controlled entities ("Consolidated Entity") during the half-year ended 31 December 2005 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001 and Stock Exchange Listing Rules.

(a) Basis of accounting

The half-year financial report has been prepared on a historical cost basis, except derivative financial instruments and quoted available for sale investments that have been measured at fair value.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(b) Statement of compliance

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and AASB 134 "Interim Financial Reporting".

Compliance with AASB 134 ensures that the half-year financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

This is the first half-year financial report prepared based on Australian equivalents to International Financial Reporting Standards ('AIFRS') and except for financial instruments, comparatives for the half-year ended 31 December 2004 and full-year ended 30 June 2005 have been restated accordingly. The company has taken the exemption available under AASB 1 to only apply AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139 "Financial Instruments: Recognition and Measurement" from 1 July 2005. A summary of the significant accounting policies of the Consolidated Entity under AIFRS are disclosed in Note 1(c) below.

Reconciliations of:

- AIFRS equity as at 1 July 2004, 31 December 2004 and 30 June 2005; and
- AIFRS profit for the half-year 31 December 2004 and full-year 30 June 2005,

to the balances reported in the 31 December 2004 half-year report and 30 June 2005 full-year financial report prepared under AGAAP are detailed in Note 1(e) below.

(c) Summary of significant accounting policies

(i) Basis of consolidation

The consolidated financial statements comprise the financial statements of Mount Gibson Iron Limited and its controlled entities.

The financial statements of subsidiaries are prepared for the same reporting period as the parent 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 Mount Gibson Iron Limited has control.

Minority interests represent the interests in Asia Iron Holdings Limited, not held by the consolidated entity.

(ii) Foreign currency translation

Both the functional and presentation currency of Mount Gibson Iron Limited 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.

The functional currencies of the overseas controlled entities Asia Iron Holdings Limited and Asia Iron Limited are Hong Kong dollars (HK$) and for Asia Iron (Nanjing) Co., Ltd Chinese renminbi (RMB).

As at the reporting date the assets and liabilities of these overseas controlled entities are translated into the presentation currency of Mount Gibson Iron Limited at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the period.

The exchange differences arising on the retranslation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

(iii) Property, plant and equipment

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

Depreciation

The cost of 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. 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

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.

Notes (Continued)

(iv) 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 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 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 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.

(v) 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.

(vi) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(vii) 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 or from plant clean up at closure.

Notes (Continued)

(viii) 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.

(ix) Investments

All investments are initially recognised at the fair value of the consideration given, including acquisition charges associated with the investment.

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.

(x) 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.

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.

(xi) Trade and other receivables

Trade receivables, which generally have 60-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Notes (Continued)

(xii) 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.

(xiii) 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.

(xiv) 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

(xv) 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.

(xvi) 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").

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

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Mount Gibson Iron Limited.

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 at 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.

Notes (Continued)

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.

(xvii) 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.

Contributions made by the Consolidated Entity to employee superannuation funds are charged as an expense when incurred.

(xviii) Leases

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.

(xix) 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.

Notes (Continued)

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.

(xx) 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.

(xxi) 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.

(xxii) Derivative financial instruments and hedging

The Consolidated Entity uses foreign currency contracts to hedge its risks associated with foreign currency fluctuations. 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.

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.

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.

(xxiii) 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.

(d) AASB 1 Transitional exemptions

The Consolidated Entity has made its election in relation to the transitional exemptions allowed by AASB 1 “First-time Adoption of Australian Equivalents to International Financial Reporting Standards” as follows:

Business combinations

AASB 3 “Business Combinations” was not applied retrospectively to past business combinations (i.e. business combinations that occurred before the date of transition to AIFRS).

Share-based payment transactions

AASB 2 'Share-Based Payments' is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

Exemption from the requirement to restate comparative information for AASB 132 and AASB 139

The Consolidated Entity has elected to adopt this exemption and has not applied AASB 132 'Financial Instruments: Presentation and Disclosure' and AASB 139 'Financial Instruments: Recognition and Measurement' to its comparative information.

Designation of previously recognised financial instruments

Investments were designated as available-for-sale financial assets at the date of transition to AIFRS.

Notes (Continued)

(e) Impact of adoption of AIFRS

The impacts of adopting AIFRS on total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 January 2005 ("AGAAP") are illustrated below.

(i) Reconciliation of total equity as presented under AGAAP to that under AIFRS

		CONSOLIDATED	
	30 June 2005 $	**31 December 2004 $**	**1 July 2004 $**
Total equity under AGAAP	88,256,672	34,312,358	23,398,976
Adjustments to equity:			
[A] Derecognition of existing rehabilitation accrual	247,486	124,871	15,072
[B] Adjustment for unwinding of rehabilitation provision	(61,584)	(45,613)	(30,032)
[C] Adjustment for additional amortisation charge on rehabilitation asset	(187,150)	(116,339)	(45,528)
[D] Adjustment relating to siding construction	(208,097)	(137,693)	(66,410)
[E] Adjustment for derecognition of Mullewa land	(55,165)	(71,515)	(87,866)
[F] Adjustment for Income tax	(7,606,967)	(2,776,929)	(2,876,898)
Total equity under AIFRS	**80,385,195**	**31,289,140**	**20,307,314**

[A] The provision for rehabilitation recognised under AGAAP is derecognised as it was not based on discounted future cash flows.

[B] AASB 137 "Provisions, Contingent Liabilities and Contingent Assets", requires recognition of full provision for rehabilitation based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the balance sheet date, as against an undiscounted provision for rehabilitation required to be recognised under AGAAP. The increase in the provision amount due to passage of time has been recognised as borrowing costs as required under AASB 137.

[C] Represents adjustment for additional amortisation charge due to increase in the value of rehabilitation asset created under AASB 137 "Provisions, Contingent Liabilities and Contingent Assets"

[D] Siding construction was treated as an operating lease under AGAAP, however this has been treated as a finance lease under AASB 117 'Leases'.

[E] Mullewa land was treated as an asset purchased under finance lease under AGAAP, however this has been treated as operating lease under AASB 117 'Leases'.

[F] The Consolidated Entity had previously not recognised any deferred tax balances in its accounts under AGAAP. Under AIFRS deferred tax liabilities are recognised for all taxable temporary differences.

Notes (Continued)

(ii) Reconciliation of profit after tax under AGAAP to that under AIFRS

	CONSOLIDATED	
	Year ended 30 June 2005 $	**Half-Year 31 December 2004 $**
Profit after tax as previously reported	22,755,031	6,053,383
[A] Derecognition of existing rehabilitation accrual	232,413	109,798
[B] Adjustment for unwinding of rehabilitation provision	(31,552)	(15,581)
[C] Adjustment for additional amortisation charge on rehabilitation asset	(141,622)	(70,811)
[D] Adjustment relating to siding construction	(141,687)	(71,283)
[E] Adjustment for derecognition of Mullewa land	32,701	16,351
[F] Share based payments	(1,630,979)	(24,216)
[G] Adjustment for Income tax	(4,730,069)	99,969
Profit after tax under AIFRS	**16,344,236**	**6,097,610**

[A] The provision for rehabilitation recognised under AGAAP is derecognised as it was not based on discounted future cash flows.

[B] AASB 137 "Provisions, Contingent Liabilities and Contingent Assets", requires recognition of full provision for rehabilitation based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the balance sheet date, as against an undiscounted provision for rehabilitation required to be recognised under AGAAP. The increase in the provision amount due to passage of time has been recognised as borrowing costs as required under AASB 137.

[C] Represents adjustment for additional amortisation charge due to increase in the value of rehabilitation asset created under AASB 137 "Provisions, Contingent Liabilities and Contingent Assets"

[D] Siding construction was treated as an operating lease under AGAAP, however this has been treated as a finance lease under AASB 117 'Leases'.

[E] Mullewa land was treated as an asset purchased under finance lease under AGAAP, however this has been treated as operating lease under AASB 117 'Leases'.

[F] Share-based-payment costs are charged to the income statement under AASB 2 "Share-based-payments", but not under AGAAP.

[G] The Consolidated Entity had previously not recognised any deferred tax balances in its accounts under AGAAP. Under AIFRS deferred tax liabilities are recognised for all taxable temporary differences.

(iii) Explanation of material adjustments to the cash flow statements

There are no material differences between the cash flow statements presented under AIFRS and those presented under AGAAP.

Notes (Continued)

	CONSOLIDATED	
	31 December 2005	31 December 2004
	$	$
2. REVENUE AND EXPENSES		
(a) Specific items		
Profit before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the entity:		
(i) Revenue		
Sale of goods	53,005,315	33,721,198
Finance income	1,044,576	21,222
	54,049,891	33,742,420
(ii) Other income		
Unrealised gain on foreign exchange	166,672	840,714
Recovery of development costs	-	986,000
Other revenue	148,389	1,099
	315,061	1,827,813
(iii) Expenses		
Depreciation	2,070,279	1,420,946
Amortisation of mine properties	10,247,370	70,811
Expense of share-based payments	2,796,170	24,216

	CONSOLIDATED	
	31 December 2005	30 June 2005
	$	$
3. ISSUED CAPITAL		
Ordinary shares		
Issued and fully paid	86,092,288	79,381,008
	Number	**$**
Movements in ordinary shares on issue		
At 1 July 2005	368,519,793	79,381,008
Issued on 15 July 2005 for cash on exercise of share options	150,000	33,000
Issued on 19 July 2005 for cash on exercise of share options	20,000	4,400
Issued on 10 August 2005 for cash on exercise of share options	28,000	6,160
Issued on 26 August 2005 for cash on exercise of share options	490,000	107,800
Issued on 30 September 2005 for cash on exercise of share options	9,256,759	2,036,487
Issued on 31 October 2005 for cash on exercise of share options	20,561,060	4,523,433
At 31 December 2005	399,025,612	86,092,288
4. RESERVES		
Option premium reserve	4,427,149	1,630,979
Net unrealised gains/(losses) reserve	(1,987,442)	-
Other reserves	(21,657)	-
	2,418,050	1,630,979

Notes (Continued)

5. SEGMENT REPORTING

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

6. CHANGE IN COMPOSITION OF ENTITY

On 30 September 2005, Asia Iron Holdings Limited issued 20,000,000 fully paid ordinary shares to Mount Gibson Iron Limited at HK$1.50 per share, as compensation for expenditure incurred by Mount Gibson in relation to the bankable feasibility study for the Extension Hill magnetite project, totalling A$5,110,733. As a result, Mount Gibson Iron Limited's shareholding in Asia Iron Holding Limited has increased from 62.98% to 67.88%.

The above transaction has resulted in an increase in minority interest of $428,708.

7. CONTINGENT ASSETS AND LIABILITIES

Since the last annual reporting date, there has been no material change in any contingent liabilities or contingent assets.

8. EVENTS AFTER THE BALANCE SHEET DATE

On 31 January 2006, Mount Gibson Iron Limited subscribed for 22,000,000 fully paid ordinary shares at HK$3.50 each in Asia Iron Holdings Limited in exchange for extinguishing the debts owed by Asia Iron Holdings Group to Mount Gibson Iron Limited, Mount Gibson Mining Limited and Geraldton Bulk Handling Pty Limited totalling A$13,184,931. This has increased the shareholding in Asia Iron Holdings Limited to 71.97%.

9. ADDITIONAL INFORMATION

a) Reconciliation of Cash

For the purposes of the Condensed Cash Flow Statement, cash and cash equivalents comprise the following at 31 December:

	CONSOLIDATED	
	31 December 2005 $	31 December 2004 $
Cash at bank and in hand	8,503,004	7,590,357
Short-term deposits	36,013,252	-
	44,516,256	7,590,357

b) Non-cash financing activities

During the period to 31 December 2005, the Consolidated Entity acquired property, plant and equipment with an aggregate fair value of $2,773,760 by means of finance leases.

Directors' Declaration

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

In the opinion of the Directors:

a. the financial statements and notes of the consolidated entity:

   i) give a true and fair view of the financial position as at 31 December 2005 and the performance for the half-year ended on that date of the consolidated entity; and

   ii) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and

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

On behalf of the Board

William B. Willis

Chairman

Perth, 9 March 2006

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Independent review report to members of Mount Gibson Iron Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity and accompanying notes to the financial statements for the consolidated entity comprising both Mount Gibson Iron Limited (the company) and the entities it controlled during the half-year ended 31 December 2005, and the directors' declaration for the company, for the half-year ended 31 December 2005.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the Corporations Act 2001, Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity, comprising Mount Gibson Iron Limited and the entities it controlled during the half-year ended 31 December 2005 is not in accordance with:

(a) the Corporations Act 2001, including:

  (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2005 and of its performance for the half-year ended on that date; and

  (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Ernst & Young

V. Tidy

V W Tidy
Partner
Perth
9 March 2006

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

In relation to our review of the financial report of Mount Gibson Iron Limited for the half-year ended 31 December 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

V. Tidy

V W Tidy
Partner
Perth
9 March 2006