



## Mount Gibson Iron Limited

ABN 87 008 670 817



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# QUARTERLY REPORT FOR THE PERIOD ENDING 31 December 2004

## HIGHLIGHTS

### Talling Peak Iron (Hematite) Mine

- Production rate increased to 1.8 Mtpa rate for half year.
- Quarterly shipments total 469,000 tonnes.
- Cash receipts for the quarter \$19.9 million

### Extension Hill (Mt Gibson) Magnetite

- Mount Gibson Iron Limited renegotiates sale of its 54% interest in Extension Hill Pty Ltd (formerly Asia Iron Pty Ltd) for \$11 million and takes a 54% stake in Asia Iron Holdings Limited.
- Asia Iron Holdings Limited sign framework agreement with Nanjing Iron and Steel United Co Ltd to develop a mine at Extension Hill and pellet plants at Nanjing, China to produce 5.0 Mtpa of iron pellets.

### Corporate

- 19.7 million options exercised realising \$4.86 million in cash.
- \$500,000 investment in Resource Mining Corporation Limited.
- \$7.6 million cash on hand at end of the quarter.

**HEMATITE PROJECTS****TALLERING PEAK OPERATIONS**

Mining operations at Talling Peak produced 470,000 tonnes (Sep Qtr: 436,000 tonnes) of iron ore for the quarter which is in excess of the budgeted production rate of 1.8 Mtpa for the first half of the financial year.

The Company shipped 469,000 tonnes of iron ore during the quarter and received proceeds of \$19.9 million. This result was achieved despite the raiing contractor's inability to provide sufficient suitable wagons to support the current production rate of 1.8 Mtpa. As a consequence, Mount Gibson Iron was required to incur additional trucking and handling expenses (above normal raiing costs) to ensure that the shipping schedule was achieved.

Mount Gibson Iron expects to produce ore at a rate of 2.0 Mtpa in the second half of the financial year, however, this remains dependent upon the improved performance from the railway operator. The railway operator has recently provided commitments to supply rail wagons sufficient to meet the Company's forecast production, by the end of February 2004.

Mount Gibson Iron is currently investigating the purchase of 33 rail wagons from China to ensure production and raiing can accommodate a proposed increase in the production rate to 3.0 Mtpa by the end of the 2005 calendar year.

**TALLERING PEAK PRODUCTION STATISTICS**

	<b>DEC QTR 2004</b>	<b>YTD 2004/05</b>
<b>Mining</b>		
Waste Mined (bcm)	1,051,000	2,080,000
Ore Mined (wmt)	470,000	906,000
<b>Crushing (wmt)</b>		
Lump	305,000	564,000
Fines	174,000	348,000
Total	479,000	912,000
<b>Transport to Mullewa Railhead (wmt)</b>		
Lump	333,000	542,000
Fines	142,000	306,000
Total	475,000	848,000

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	DEC QTR 2004	YTD 2004/05
<b>Transport to Geraldton Port (wmt)</b>		
Lump	300,000	503,000
Fines	189,000	375,000
Total	489,000	878,000
<b>Shipping (wmt)</b>		
Lump	292,000	513,000
Fines	177,000	423,000
Total	469,000	936,000

## MAGNETITE PROJECTS

### ASIA IRON HOLDINGS LIMITED

Asia Iron Holdings Limited ("Asia Iron") recently acquired a 46% minority shareholding in Extension Hill Pty Ltd (formerly Asia Iron Pty Ltd), which holds a number of mining and exploration tenements at Mt Gibson including a 230 Mt magnetite resource at Extension Hill.

In December 2004 Asia Iron signed a framework agreement with Nanjing Iron and Steel United Co Ltd ("Nanjing Iron & Steel") which set out the commercial and operational terms of the joint venture between the two companies. The agreement commits the companies to jointly develop a mine and concentrator at Extension Hill and two 2.5 Mtpa pellet plants near Nanjing, China.

Mount Gibson Iron has recently announced that it has revised its proposed commercial arrangements with Asia Iron. The Company will effect a reorganisation of the way in which it holds its interest in the Extension Hill deposit by transferring its 54% shareholding in Extension Hill Pty Ltd to Asia Iron in exchange for a 54% shareholding in Asia Iron.

Mount Gibson Iron will be issued 67.5 million shares by Asia Iron at HK\$1.00 each which is approximately equivalent to the \$11.0 million cost of MGI's investment in the Extension Hill magnetite project over a period of eight years.

All tenements in the Mt Gibson range held by Extension Hill Pty Ltd and not required for the development of the Extension Hill mine, have been retained by Mount Gibson Iron. As a consequence, the substantial commercial potential of the magnetite and hematite resources occurring along a relatively unexplored 6km strike length of iron mineralization to the south of the proposed Extension Hill mine remains with Mount Gibson Iron. The Company will also benefit from the infrastructure developments necessary to support the Extension Hill mine development.

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Mount Gibson Iron has also gained the right to mine and sell all hematite resources at Extension Hill and at any other tenement held by Asia Iron in Western Australia.

Mount Gibson Iron is negotiating a 20 year contract to manage the operation of the Extension Hill magnetite mine and will also be engaged to manage any other magnetite mine developed by Asia Iron in Western Australia within the next 10 years.

Asia Iron and Nanjing Iron & Steel expect to complete a \$15 million bankable feasibility study of the project in August 2005. The preliminary financial analysis for the first stage of the pellet project is extremely robust and Mount Gibson Iron is confident the project will proceed and is looking for a strong dividend flow as well as management fees within two to three years.

## EXPLORATION

Exploration expenditure of \$774,000 was incurred on the further evaluation and exploration of the Mt Gibson magnetite and hematite deposits. The majority of this expenditure (\$464,000) was incurred on conducting the feasibility study for Asia Iron Holding Limited. These costs have been invoiced to Asia Iron.

## CORPORATE

### RESOURCE MINING CORPORATION LIMITED

During the quarter, Mount Gibson Iron purchased 100 million shares at \$0.005 in Resource Mining Corporation Limited ("RMC") for a total investment of \$500,000 which equates to approximately 4.9% of RMC's issued capital. Mount Gibson Iron also received 100 million free options convertible to shares at \$0.002 each on or before 30 June 2006.

RMC proposes to develop the Argyle iron ore deposit in the Kimberley region of Western Australia, subject to the results of a planned drilling program.

After a 1 for 10 share consolidation, RMC is currently trading at \$0.078, which values Mount Gibson Iron's investment at \$780,000, a gain of \$280,000.

### EXERCISE OF OPTIONS

During the quarter, 19,694,444 options were exercised which realised \$4.86 million of cash for the Company. Of these options 19 million were exercised in December 2004 by Asia Iron Holding Limited, which then disposed of its total holding of 35 million shares to a variety of overseas investors.

Union Park Company Ltd, which is a wholly owned Hong Kong registered subsidiary of China Railway Materials & Supplies Corporation ("CRMSC") acquired 18.5 million of these shares. CRMSC was established by the Chinese Ministry of Railways in 1988 to act as its supply and trading arm for China's fourteen railway regions and has multimillion dollar annual sales of locomotives, rolling stock, rail and other railway construction materials in China and overseas.

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# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

Mount Gibson Iron Limited

ABN

87 008 670 817

Quarter ended ("current quarter")

31 December 2004

### Consolidated statement of cash flows

<b>Cash flows related to operating activities</b>		Current quarter \$A'000	Year to date (6 months) \$A'000
1.1	Receipts from product sales and related debtors	19,916	32,440
1.2	Payments for (a) exploration and evaluation	(774)	(1,459)
	(b) development	-	(110)
	(c) production	(10,391)	(15,307)
	(d) administration	(287)	(514)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	10	21
1.5	Interest and other costs of finance paid		
	- hire purchase & finance lease	(197)	(403)
	- borrowings	(161)	(353)
	- other	(131)	(178)
1.6	Income taxes paid	-	-
1.7	Other (inventory)	-	-
	<b>Net Operating Cash Flows</b>	<b>7,985</b>	<b>14,137</b>
<b>Cash flows related to investing activities</b>			
1.8	Payment for purchases of:		
	(a)prospects	-	-
	(b)equity investments	(500)	(500)
	(c) other fixed assets	(149)	(222)
1.9	Proceeds from sale of:		
	(a)prospects	-	-
	(b)equity investments	-	-
	(c)other fixed assets	45	45
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	400	400
1.12	Other - payment for capitalised exploration	-	-
	- payment for capitalised waste	(4,582)	(9,518)
	<b>Net investing cash flows</b>	<b>(4,786)</b>	<b>(9,795)</b>
1.13	Total operating and investing cash flows (carried forward)	3,199	4,342

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1.13	Total operating and investing cash flows (brought forward)	3,199	4,342
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	4,860	4,860
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings – stockpile finance	7,281	13,063
1.17	Repayment of borrowings		
	- hire purchase & finance lease	(490)	(926)
	- shareholder advance	(1,293)	(2,155)
	- stockpile finance	(7,501)	(12,154)
1.18	Dividends paid	-	-
1.19	Other (Capital raising costs)	-	(50)
	Other (Redemption – Convertible Notes)	-	-
	<b>Net financing cash flows</b>	<b>2,857</b>	<b>2,638</b>
	<b>Net increase (decrease) in cash held</b>	<b>6,056</b>	<b>6,980</b>
1.20	Cash at beginning of quarter/year to date	1,535	611
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	<b>7,591</b>	<b>7,591</b>

**Payments to directors of the entity and associates of the directors****Payments to related entities of the entity and associates of the related entities**

	Current quarter \$A'000	
1.23	Aggregate amount of payments to the parties included in item 1.2	146
1.24	Aggregate amount of loans to the parties included in item 1.10	-

## 1.25 Explanation necessary for an understanding of the transactions

Included in “Proceeds from Borrowings” and “Repayment of Borrowings” is the drawdown and repayment of stockpile financing with HSBC Bank Australia Ltd. The stockpile financing facility is used by the Company to maintain its working capital which would otherwise fluctuate due to the irregular timing of receipts from shipments. Drawdowns of stockpile financing are based on existing stocks at a point in time which are then repaid when proceeds are received from the ship that received those stocks, therefore, the nature of the funding is very short-term. During the December quarter, A\$7.3 million was borrowed under this facility with A\$7.5 million being repaid. This was based on 7 drawdowns with an average value of A\$1.04 million per drawdown.

Also included in “Repayment of Borrowings” is part repayment of the US\$6 million advance by Stemcor (S.E.A.) Pte Ltd for ore sales. This advance will be fully repaid by July 2005.

**Non-cash financing and investing activities**

## 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

During the current quarter, plant totalling \$79,881 was purchased under Hire Purchase arrangements.

- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil
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### Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities - hire purchase and finance lease - shareholder advance	9,347 3,890	9,347 3,890
3.2 Credit standby arrangements	5,000	1,925

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	244
4.2 Development	-
<b>Total</b>	<b>244</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	7,591	1,535
5.2 Deposits	-	-
5.3 Bank overdraft	-	-
5.4 Other (funds held in trust)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>7,591</b>	<b>1,535</b>

### Changes in interests in mining tenements

Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	N/A		
6.2 Interests in mining tenements acquired or increased	N/A		

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**Issued and quoted securities at end of current quarter***Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference +securities</b> <i>(description)</i>	-	-	-	-
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	-	-	-	-
7.3 <b>+Ordinary securities</b>	311,260,266	311,260,266	-	-
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	19,694,444	19,694,444	-	-
7.5 <b>+Convertible debt securities</b> <i>(description)</i>	Convertible @ 30 cents 6 monthly to 30/6/05 Interest @ 10% pa 6 monthly in arrears Total on issue 7,916,667	-	-	-
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	- -	- -		
7.7 <b>Options</b> <i>(description and conversion factor)</i>	30,800,000 1,388,888	- -	<i>Exercise price</i> 22.00 cents 15.84 cents	<i>Expiry date</i> 15/10/05 28/02/06
7.8 Issued during quarter	-	-	-	-
7.9 Exercised during quarter	19,000,000 694,444	- -	25.00 cents 15.84 cents	31/12/04 28/02/06
7.10 Expired during quarter	-	-	-	-
7.11 <b>Debentures</b> <i>(totals only)</i>	-	-	-	-
7.12 <b>Unsecured notes</b> <i>(totals only)</i>	-	-	-	-

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## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does ~~not~~\* (*delete one*) give a true and fair view of the matters disclosed.



Sign here:

Date: 28 January 2005

(~~Director~~/Company Secretary)

Print name: John Arbuckle

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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