

QUARTERLY REPORT



MOUNT GIBSON IRON LIMITED QUARTERLY REPORT FOR THE PERIOD ENDED 31 DECEMBER 2012

22 January 2013

HIGHLIGHTS:

Record shipments achieved in December Quarter 2012

- Record December quarter shipments of **2.67 million tonnes** of iron ore, including 283,000t of mineralised waste, **up 52%** from the 1.76 million tonnes shipped in the preceding period
- Record shipments **up 86%** to **4.43 million tonnes** for the six months to 31 December 2012, including 398,000t of low-grade ore and mineralised waste
- Record quarterly sales from Koolan Island and Mid West operations:
 - Koolan Island shipments **up 65%** to **1.3 million tonnes**
 - Mid West shipments **up 41%** to **1.37 million tonnes**
- Sales on track to meet full year guidance of 8.0 - 8.5 million tonnes
- Cost reduction program on track
- Mid West growth strategy advanced with agreement to acquire strategic exploration package

Comment

Mount Gibson Chief Executive Officer Jim Beyer said Mount Gibson's continued operating improvement and record sales volumes demonstrated that the Company's focus on business optimisation during 2012 was beginning to deliver substantial benefits.

"It is gratifying that our focus on business improvement, which we made our number one priority for 2012, is bearing fruit. Similarly, we are pleased with progress of the major operational changes we announced in October, and intend to pursue additional savings and improvements in the months ahead.

"The upswing in prices since September has been encouraging, but recent price movements may be an indicator of future price volatility.

"Our approach has positioned our business to handle this price volatility, providing a buffer against potential price weakness while also providing flexibility to capitalise when conditions are stronger."

OPERATIONS

	March Qtr 2011-12	June Qtr 2011-12	September Qtr 2012-13	December Qtr 2012-13	YTD 2012-13
Standard Product Sales (kwmt)	1,216	1,158	1,644	2,385	4,029
Low grade/mineralised waste sales (kwmt)	0	0	115	283	398
Total Ore Sales (kwmt)	1,216	1,158	1,759	2,668	4,427
Ave. Platts 62%Fe CFR price (US\$/dmt)	143	141	113	122	117
MGX FOB Ave. realised fines price* (US\$/dmt)	114	117	110	96	102
*MGX realised FOB fines price reflects adjustments for freight, grade and penalties. Most contracts in the period were based on lagging monthly average prices. Average realised price excludes low-grade/mineralised waste sales. (kwmt) = thousand wet metric tonnes. (US\$/dmt) = USD per dry metric tonne.					

Mount Gibson achieved record shipments of 2.67 million tonnes during the December quarter, an increase of 52% over the preceding quarter, reflecting increased rail capacity in the Mid West. Total shipments included four cargoes of mineralised waste from Koolan Island following the commencement of supplies to Rizhao Steel in October.

Shipments for the December half totalled 4.43 million tonnes, an increase of 86% over the preceding six month period. Total shipments included two cargoes of low grade lump ore from Tallering Peak and four cargoes of mineralised waste from Koolan Island with a combined tonnage of 398,000 tonnes.

Operating statistics, including production and shipping, for each of the sites are tabulated in Appendix A.

Mount Gibson remains on track to meet its full year sales guidance of 8.0 to 8.5 million tonnes of iron ore in FY2013, excluding low grade/mineralised waste sales.

Mount Gibson achieved an average realised fines price, excluding sales of low grade and mineralised waste, of US\$96 per dry metric tonne Free on Board (FOB) during the December quarter. The December quarter average Platts CFR price (where the iron ore supplier pays freight costs) for 62% Fe fines delivered to China was US\$122/dmt. During the quarter, a number of contracts were migrated from lagging-month to month-of-delivery pricing arrangements. Mount Gibson expects the majority of its contracts to have moved to month-of-delivery pricing arrangements by the end of the March 2013 quarter.

Cash and term deposits were \$279 million as at 31 December 2012. Higher sales volumes in the six months to 31 December were offset by the significant decline in iron ore prices between July and early September, and substantial non-operating cash outlays during the half for corporate income tax instalments (\$28 million), dividends (\$18 million), final capital expenditure on the port upgrade (\$11 million), extra-ordinary capital expenditure at Koolan Island (\$7 million), and redundancy and other non-recurring expenses (\$6 million).

Cost Reduction Program

Mount Gibson remains on track to achieve its target of eliminating or deferring \$120 million to \$150 million in capital and operating expenditure from its original budget estimates for FY2013 following the implementation of business optimisation initiatives announced in October 2012. The significant manpower reduction program announced in October was completed during the quarter.

Approximately \$40 million to \$50 million of the targeted savings, or about one third of the total, are expected to be permanent ongoing savings, 80% of which will come from lower operating costs, such as better equipment productivity, with the remainder coming from ongoing reductions in capital expenditure.

The remaining two thirds, estimated at \$80 million to \$100 million, relate to the deferral of waste stripping at Koolan Island until later in the mine life.

In support of these cost reduction initiatives, the Board and senior executive management of Mount Gibson agreed to a 10% reduction in the total Board and executive remuneration package for the financial year.

Cost reduction remains a key continuing focus across the business, and is central to Mount Gibson's approach to maximise cash flow and profitability in a volatile pricing environment.

Koolan Island

Ore shipments from Koolan Island during the December Quarter increased 65% over the preceding quarter to a record 1.298 million tonnes, including four shipments of mineralised waste totalling 283,000 tonnes.

Ore production was 27% higher and crushing was 15% higher than in the previous quarter, including crushing of 194,000t of mineralised waste.

The revised production and sales schedule implemented in the quarter also significantly reduced the amount of crushed ore held in stockpiles compared with the previous quarter. At the end of December, crushed ore stockpiles totalled approximately 400,000 tonnes of standard product. A further 85,000 tonnes of direct shipping ore was stockpiled ready for crushing.

Similarly, waste movement was 50% lower than in the previous quarter reflecting the operational changes announced in October 2012.

The Koolan Island mine optimisation study to determine the optimum mining and waste-stripping profile for the operation advanced significantly during the quarter. Mount Gibson expects to complete and announce the outcomes of this work in February. Preparing for the onset of the cyclone season is a key focus of activity heading into the current quarter.

Production and shipping statistics for Koolan Island are tabulated in Appendix A.

Mid West Operations

The December quarter was one of significant improvement for Mount Gibson's operations in the Mid West, following the successful ramp-up of the upgraded regional rail network and Mount Gibson's upgraded facilities at Geraldton Port.

Tonnes railed from the Company's Mid West mines to Geraldton port totalled 1.33 million tonnes, a 41% increase on the preceding quarter. Total tonnes shipped from Geraldton during the quarter increased by 50% for the second consecutive quarter to 1.46 million tonnes.

Extension Hill Hematite Mine

Ore mining for the December quarter totalled 589,000 tonnes, 11% higher than in the September quarter, while total material movement was 19% lower in the quarter, and 26% lower for the six month period. This reflected better productivity and the expenditure minimisation strategy implemented during the second half of 2012.

At the end of December, approximately 195,000 tonnes of crushed finished product was stockpiled at the mine, in addition to approximately 850,000 tonnes of uncrushed standard product stockpiled at the mine ready for crushing. Stockpiles of crushed finished product at the Perenjori rail siding totalled approximately 550,000 tonnes.

Total tonnes crushed in the quarter increased by 5% to 665,000 tonnes, with road haulage to the Perenjori rail siding also increasing 5% to 624,000 tonnes. Rail haulage to Geraldton Port increased 38% to 730,000 tonnes for the quarter reflecting the completion of the regional rail upgrade in the previous quarter.

Shipments increased 2.5% to 600,000 tonnes in the quarter, comprising 361,000 tonnes of lump and 239,000 tonnes of fines.

During the quarter, Mount Gibson continued to expand the customer base for Extension Hill product, delivering its first spot cargo of uncommitted Extension Hill ore to a new steel mill customer in China. The Company remains in discussions with a number of prospective offtake and spot customers regarding the approximately 20% of Extension Hill production that is currently uncommitted.

Production and shipping statistics for Extension Hill are tabulated in Appendix A.

Tallering Peak

The Tallering Peak mine performed strongly in the December quarter reflecting the operational changes implemented in the second half of 2012 and improved rail availability following the completion of regional rail upgrades.

Ore production increased 12% to 627,000 tonnes, and crusher throughput was 33% higher, while total material movement was 55% lower than the previous quarter. Lower material movement reflected accelerated waste development and internal pit development in the September quarter and the implementation of the optimisation initiatives announced in October 2012.

Road haulage was 48% higher than the previous quarter due to higher ore production and increased shipping. Rail haulage also improved and was 45% above the previous quarter as stocks were drawn down from railhead stockpiles for shipping.

At the end of December, approximately 270,000 tonnes of crushed standard product were stockpiled at the mine, in addition to stockpiles of approximately 132,000 tonnes of uncrushed standard product. Uncrushed stocks of low grade ore at the mine totalled approximately 440,000 tonnes. At the Mullewa rail siding, stockpiles of crushed standard product totalled approximately 285,000 tonnes, while stockpiles of crushed low grade material totalled approximately 770,000 tonnes.

Shipping increased 98% from the previous quarter to 770,000 tonnes due to improved ship loading and rail haulage. No shipments of low-grade material were made in the December quarter.

Significant progress was made on rehabilitation of the existing waste dumps during the quarter.

Production and shipping statistics for Talling Peak are tabulated in Appendix A.

EXPLORATION

Talling Peak

The focus of exploration activity at Talling Peak during the quarter was at the T1 prospect, approximately 1km north-east of the T6 pit on the Talling Main Range. Based on historical exploration activity undertaken by Western Mining Corporation in the 1960s, the prospect is considered to have potential for modest tonnes of DSO hematite.

A second phase of RC drilling was conducted in November and December following evaluation of the geology from phase one drilling completed in September 2012.

Evaluation of technical data from the recent drilling combined with historical data is well advanced and Mount Gibson anticipates completion of a mineral resource estimate in the coming weeks.

Significant intercepts >50% Fe from the second phase of drilling are outlined in the table below:

T1 near mine exploration Talling Peak Significant intercepts >50%Fe											
Hole ID	Depth From	Depth To	Width	Fe	SiO₂	Al₂O₃	P	S	LOI	EOH	Comment
TTRC046	31	38	7	59.7	11.65	0.37	0.17	0.058	2.27	72m	
TTRC049	14	19	5	57.4	13.35	0.66	0.01	0.013	2.62	119m	
TTRC050	1	8	7	61.5	8.64	0.90	0.02	0.020	2.14	108m	
<i>including</i>	48	66	18	62.3	8.10	0.50	0.01	0.005	1.19	108m	
TTRC051	8	19	11	57.0	14.28	0.51	0.01	0.004	2.12	126m	
<i>including</i>	38	48	10	58.7	12.52	0.43	0.01	0.004	1.35	126m	
TTRC052	1	19	18	62.5	7.85	0.60	0.01	0.008	1.41	118m	Drilled down dip due to access. True thickness ~7m
TTRC053	1	21	20	62.0	9.44	0.50	0.02	0.007	1.19	84m	Drilled down dip due to access. True thickness ~8m
<i>including</i>	2	45	19	63.8	7.81	0.13	0.02	0.008	1.02	84m	

Koolan South

In late October, Mount Gibson was granted exploration licence EL 04/1407 on the mainland directly south of Koolan Island.

The Koolan South tenement covers 230 square kilometres, and is considered prospective for iron ore and base metals. No exploration has been undertaken in the area for more than 15 years.

Mount Gibson is following due process to secure exploration access and commence field work later in 2013.

CORPORATE

Agreement to acquire Mid West exploration package

On 20 December 2012, Mount Gibson announced it had reached agreement with Royal Resources Ltd (Royal) to acquire a substantial exploration landholding at Field's Find, 60 kilometres north of Mount Gibson's Extension Hill iron ore mine.

The proposed acquisition is consistent with the Company's stated strategy to expand its exploration footprint around its existing Mid West iron ore operations and transport infrastructure.

The land package covers approximately 250 square kilometres and includes a number of iron ore targets, including the Plateau prospect where Royal previously reported that drilling had intersected shallow hematite/goethite mineralisation from surface on a lateritic plateau. The area of significant mineralisation covers approximately 4 square kilometres on a duricrust plateau which covers an area of approximately 12 square kilometres.

Full details of the proposed acquisition are contained in Mount Gibson's ASX announcement dated 20 December 2012.

Rizhao Steel

During December, Mount Gibson and Rizhao Steel worked together to successfully conclude an acceptable resolution of a dispute regarding a contract to supply mineralised waste from the Koolan Island mine. Details of the dispute were disclosed in Mount Gibson's financial accounts released to the ASX on 23 August 2012.

Under the contract with Rizhao, Mount Gibson is required to supply 1.7 million tonnes of mineralised waste from Koolan Island over a three year period. Shipments of mineralised waste commenced in October.

Other

On 13 November 2012, Federal Minister for Resources and Energy, Mr Martin Ferguson, formally opened Mount Gibson's new corporate office in West Perth.

The Company held its annual general meeting on 14 November 2012. All resolutions were passed on a show of hands.

JIM BEYER

Chief Executive Officer

22 January 2013

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APPENDIX A

Quarterly Operating Statistics by Site

	March Qtr 2011-12	June Qtr 2011-12	September Qtr 2012-13	December Qtr 2012-13	Total 2012-13
KOOLAN ISLAND	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing					
Waste mined	4,144	5,306	5,373	2,668	8,041
Ore mined	583	964	555	707	1,262
Ore crushed	679	981	793	913	1,706
Shipping					
Lump	219	143	151	364	515
Fines	511	370	635	651	1,286
LG/MinWaste	0	0	0	283	283
Total	730	513	786	1,298	2,084
TALLERING PEAK	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing					
Waste mined	4,561	3,692	3,076	1,387	4,463
Ore mined	178	532	558	627	1,185
Ore crushed	136	525	504	672	1,178
Shipping					
Lump	121	119	160	592	752
Fines	59	178	113	178	291
LG	0	0	115	0	115
Total	180	297	388	770	1,158
EXTENSION HILL	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing					
Waste mined	911	1,189	927	595	1,522
Ore mined	749	717	530	589	1,119
Ore crushed	683	570	633	665	1,298
Shipping					
Lump	184	234	469	361	830
Fines	122	114	116	239	355
LG	0	0	0	0	0
Total	306	348	585	600	1,185

(kwmt) = thousand wet metric tonnes

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 Australian Institute of Geoscientists. 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.