

QUARTERLY REPORT



MOUNT GIBSON IRON LIMITED QUARTERLY REPORT FOR THE PERIOD ENDED 30 JUNE 2015 15 July 2015

Key Points*

- Cash and term deposits of **A\$334 million** at 30 June 2015.
- June quarter iron ore sales of **1.7 million wet metric tonnes (Mwmt)**, for FY2015 ore sales of **5.8 Mwmt**, and total FY2015 sales revenue of A\$325 million Free on Board (FOB).
- June quarter sales revenue of **A\$76 million** FOB incorporating an average realised Extension Hill FOB fines price of US\$38/dmt.
- Detailed evaluation of Koolan Island Main Pit seawall remediation options progressed, with further technical assessment work planned for early 2016.
- Conditional confirmation received that insurance policies will respond to the seawall failure.
- Agreement signed to progress Koolan Island Logistics Base (KILB) proposal with Qube Holdings Ltd.
- Operations review and FY2016 savings reduction program ongoing:
 - Organisational restructuring ongoing, with head office cash costs reduced 20% to A\$1.2 million/month in June and a further reduction to <A\$1 million/month targeted.
 - Extension Hill all-in site cash costs** reduced to **A\$44/wmt FOB** in the June quarter giving an average of **A\$47/wmt** for the H2 FY2015.
 - Extension Hill production to increase to **3.5-4.0 million tonnes per annum** in FY2016.
 - Second stage mining campaign planned at Koolan Island Acacia East satellite pit to recover additional 0.7Mt in the December half 2015, subject to the iron ore price over the period.
- Group ore sales guidance of **4.0–4.5 Mwmt** for FY2016 at an average all-in cash cost target of **A\$50-54/wmt** FOB, including all operating, capital, royalties, closure and head office costs.

* Sales revenue, cost figures and cash movements are unaudited.

** Site cash costs are reported FOB and include royalties and capex but are before corporate cost allocations.

Comment

Mount Gibson Chief Executive Officer, Jim Beyer, said: "The 2015 financial year was clearly a very challenging and difficult one for Mount Gibson, given the large fall in iron ore prices and the flow-on impacts of the seawall failure at Koolan Island.

"However, the benefits of the decisive and on-going cost reduction and business optimisation initiatives implemented by the Company have begun to materialise, as evidenced by an improved operational performance and an increase in our cash reserves in the June quarter. The response to the changed circumstances has been critical to ensure we maintain our strong financial position and preserve our flexibility to adapt to the difficult conditions.

"This flexibility is extremely important as we pursue improved returns on all of our financial and operational assets while investigating new resource development opportunities, as well as the proposed Koolan Island Logistics Base, in volatile market conditions."

PERFORMANCE AT A GLANCE

	Unit	Jun-2014 Quarter	Sep-2014 Quarter	Dec-2014 Quarter	Mar-2015 Quarter	Jun-2015 Quarter	FY2015
Standard DSO product sales*	kwmt	1,971	1,717	1,036	1,073	1,664	5,491
Low Grade DSO sales*	kwmt	481	0	58	0	0	58
Rizhao Special Product (RSP)*	kwmt	148	146	142	0	0	287
Total Ore Sales	kwmt	2,600	1,863	1,236	1,073	1,664	5,836
Ave. Platts 62%Fe CFR price	US\$/dmt	103	90	74	62	58	72
MGX FOB Ave. realised fines price#	US\$/dmt	83	65	60	47	38	54
<p>Minor discrepancies may occur due to rounding.</p> <p>*Standard DSO sales included 52kwmt of mine-gate sales from Extension Hill in the June 2015 quarter, 46kwmt in the March 2015 quarter, 106kwmt in the September 2014 quarter, and 138kwmt in the June 2014 quarter. DSO sales in 2015 includes material from the Acacia East satellite pit at Koolan Island. Final sales of RSP were completed in October 2014.</p> <p>#Mount Gibson's realised FOB fines price includes standard DSO fines product only, after adjustments for shipping freight, grade, provisional invoicing adjustments and penalties for impurities. The March and June quarter figures for 2015 include Extension Hill fines product only. Contract pricing in the period was based on a mix of lagging-monthly and month-of-shipment averages. Mine gate sales, when they occur, are priced on a Free on Train basis, reflecting market prices less the cost of rail, port and shipping.</p> <p>kwmt = thousand wet metric tonnes. US\$/dmt = USD per dry metric tonne.</p>							

OPERATIONS

Ore sales in the June quarter totalled 1.7 Mwmt, reflecting continued solid operational performance at Extension Hill, and increased sales from the Acacia East satellite pit at Koolan Island.

Operating statistics for each of the sites are tabulated in Appendix A.

Koolan Island

Ore shipments from Koolan Island during the June quarter totalled 585,000 wmt, comprising 4 shipments of lump and 4 shipments of medium grade fines ore from the Acacia East satellite pit.

The initial limited mining campaign at Acacia East to produce 0.4 Mwmt of medium grade material was completed as planned in April. The improvement in iron ore prices during May and June enabled the sale of additional lower grade material that was previously considered uneconomic which helped deliver higher sales than initially expected.

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

Extension Hill Hematite Mine

Operationally Extension Hill recorded a solid performance in the June quarter, with total ores sales of 1.1 Mwmt. This comprised 610,000 wmt of lump and 418,000 wmt of fines shipped, plus 52,000 wmt of unplanned mine gate sales. Mine gate sales are priced on a Free on Train basis, reflecting market prices less the cost of rail, port and shipping.

The mine remained cashflow positive for the quarter, reflecting ongoing cost reduction initiatives and efficiency improvements, the strong contribution from lump sales, and improved prices in the second half of the quarter.

All-in site cash costs¹ averaged \$44/wmt for the quarter and A\$47/wmt for the June half-year, in line with the Company's previously stated guidance. This cost reduction effort resulted in the June half 2015 costs being 15% lower than the December half costs. Mount Gibson continues to target cost improvements and operating efficiencies in response to the uncertain market conditions.

At the end of June, approximately 47,000 wmt of crushed finished product was stockpiled at the mine. Uncrushed product stockpiled at the mine totalled approximately 48,000 wmt. Mine-site stockpiles of uncrushed lower grade material totalled 3.0 Mwmt at the end of the quarter. Crushed ore stockpiles at the Perenjori rail siding, totalled approximately 120,000 wmt.

¹ Site cash costs are reported FOB and include royalties and capex but are before corporate cost allocations. Cost figures are unaudited.

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

EXPLORATION AND RESOURCE DEVELOPMENT

During the June quarter, activity was limited to progressing approvals and evaluating data from previously completed drilling and mapping of the Iron Hill and Gibson Hill prospects within the Extension Hill South project area.

Other than rehabilitation and environmental monitoring, all exploration-related activities have been suspended as part of the Company's ongoing focus on cost reduction and capital preservation.

CORPORATE²

Realised Pricing and Revenue

The June quarter average Platts CFR price (which includes the cost of shipping paid for by the iron ore supplier) for 62% Fe fines delivered to northern China was US\$58 per dry metric tonne (dmt), a decline of 6% compared with the preceding quarter.

During the quarter, Mount Gibson achieved an average realised price for its standard Extension Hill iron ore fines of US\$38/dmt FOB, after grade and provisional pricing adjustments and penalties for impurities. This price excludes sales of material from the Acacia East satellite pit on Koolan Island.

Total FOB ore sales revenue for all products, including mine gate sales, totalled A\$76 million in the June quarter, compared with A\$60 million in the preceding quarter. Full year sales totalled A\$325 million, compared with A\$898 million in FY2014.

Cash and term deposits totalled A\$334 million at 30 June 2015, compared with A\$324 million at the end of March 2015, an increase of A\$10 million.

FY2015 PERFORMANCE SUMMARY²

Mount Gibson provides the following annual overview of the Company's operating performance for FY2015. The Company's audited financial results for the year ended 30 June 2015 will be released to the market in the second half of August.

At the beginning of FY2015 the iron ore price was US\$95/dmt for the 62% Fe Platts Index and by the end of FY2015 this had dropped to US\$59/dmt, a reduction of nearly 40%. During the period the price touched a low of US\$47/dmt in April 2015. This had a devastating effect on the cash flow generating capacity of the business and, when combined with the unexpected failure of the Koolan Main Pit seawall, the Company experienced extremely difficult operating conditions and consequently suffered a material reduction in its cash reserves.

Cashflow Summary

A key requirement of the planned business strategy to expand Koolan Island to a rate of 4Mtpa was to increase the waste stripping along with a mining fleet replacement programme. This expenditure programme saw A\$83 million invested in planned capitalised waste stripping, A\$45 million invested in mining fleet and mine development, and a further A\$3 million on footwall ground stabilisation in the Main Pit. All this expenditure was incurred prior to the seawall failure event in late October 2014.

The failure of the seawall necessitated significant one-off restructuring and mitigation costs. The resulting suspension of ore sales from November 2014 meant Koolan Island incurred almost a full quarter of costs with limited ore sales. The subsequent requirement to put the mine site to care and maintenance status, while options for its long term future are assessed, also resulted in significant costs, including approximately A\$26 million to clear the majority of Koolan Island's outstanding trade creditors and suppliers.

Mount Gibson also incurred one-off costs associated with the restructuring of its broader business in response to the substantial fall in iron ore prices. Total redundancy payments (including accrued entitlements) incurred by the Company for the year amounted to A\$17 million, including at Koolan Island, the Perth corporate office

² Sales, cost and cash movement figures are unaudited.

and those associated with the final closure of the Talling Peak mine in the September 2014 quarter. Corporate costs totalled A\$24 million for the year, including spending on business development (including the Koolan Island Logistics Base) and activities related to the Koolan Island seawall insurance claim, and exploration expenditure totalled A\$3 million.

In summary, the 2015 financial year was extremely challenging, as reflected by the decline in Mount Gibson's cash reserves from A\$520 million at 30 June 2014 to A\$334 million at year end, as tabulated below:

FY2015 Cash Movement Summary	A\$m	
Opening cash balance at 30 June 2014		520
Dividend paid	(44)	
Interest received	12	
Corporate & Projects	(24)	
Exploration	(3)	
Redundancies and accrued benefits	(17)	
Extension Hill cashflow (after royalties and capex)	35	
Koolan Island operating cashflow (after royalties, before capex)	20	
Koolan Island capex - mobile mining fleet and fixed assets	(45)	
Koolan Island capex - footwall ground stabilisation	(3)	
Koolan Island capex - waste stripping	(83)	
Pay-down of Koolan Island suppliers/creditors	(26)	
Seawall failure – initial repair works and insurance claim costs	(3)	
Other	(5)	(186)
Closing cash balance at 30 June 2015		334

Cost Reductions

Operating costs

Through the year, substantial reductions were achieved in both operating and head office costs. These reductions were obtained through productivity improvements, supplier cost savings and workforce reductions.

The Company's total workforce reduced by approximately 68% since June 2014, from 668 employees to 213 at 30 June 2015, while the Company's ore sales declined by approximately 40% year on year.

Strong cost reduction efforts have resulted in the Company's average accounting cost of goods sold (including non-cash costs but before impairments) reducing by 19% from A\$80/wmt FOB in FY2013 to approximately A\$65/wmt FOB in FY2015.

Corporate costs

Corporate costs, which include centralised site-support services, exploration and business development, have reduced by more than 50% from approximately A\$2.5 million per month in early FY2015 to A\$1.2 million/month in June 2015 (before one-off charges including redundancies). Costs are anticipated to reduce further in FY2016 to a targeted level of less than A\$1 million per month.

This reduction includes significant cost reductions relating to the Board and executive management. In early 2014, the Board size was reduced from eight to six and in February 2015 annual fees paid to each director were reduced by an average of 25%. In addition, the total number of senior roles in the company's Executive Committee has been reduced from seven to four. The annualised base remuneration of the Chief Executive Officer and the Chief Financial Officer has also been reduced by an average of approximately 30%, and both the STI and LTI bonus schemes have been suspended at the Board discretion.

Looking Forward - Corporate Strategy

The Board has undertaken a thorough review of the existing business in light of the significant events of FY2015 and the uncertain iron ore market outlook. The Board's strategic objective continues to be the creation of long term value for shareholders through investment in exploration, development, and efficient operational extraction of mineral resources.

The Board's FY2016 corporate objective is to grow the Company's cash reserves and continue to pursue an appropriate balance between the retention and utilisation of cash for value-accretive investments.

The Board has determined the following key business objectives in the FY2016 financial year:

- **Extension Hill** - operate the mine at an increased output rate and pursue necessary regulatory government approvals for the development of the Extension Hill South project area to extend the operational life of the Extension Hill mine beyond the current end of the reserve life in late 2016.
- **Koolan Island** – recommence mining of remnant ore in the Acacia East satellite pit in the first half of FY2016 and thereafter place the site on care and maintenance, and undertake the detailed work required to investigate the redevelopment potential of the Koolan Island Main Pit orebody.
- **Koolan Island seawall insurance claim** - progress and finalise the insurance claim.
- **Koolan Island Logistic Base (KILB)** – progress the business case with end-users and formalise the commercial arrangements with partner Qube Holdings Limited while ensuring the capability for future re-start of mining operations.
- **Cost reductions** - continue to drive for sustainable cost improvements across the existing business through further supplier cost reductions and productivity gains.
- **Treasury returns** - increase the yield on the Company's cash reserves.
- **Growth projects** - continuation of the search for business development opportunities in the resources sector.

Extension Hill Outlook

The Company intends to ramp up production from the current rate of approximately 3.0Mtpa to between 3.5Mtpa and 4.0Mtpa. The purpose of the ramp up is to pursue cost reductions through economies of scale and to bring forward operating cashflows. Accordingly, Mount Gibson expects all-in site cash costs of the Extension Hill operation to be in line with the strong June quarter performance.

The volatility in iron ore prices necessitates ongoing assessment of possible early closure of the Extension Hill mine in the event that price conditions deteriorate to the point that the business faces being in a cash-loss making position for a sustained period. This assessment considers the trade-off between the possible ongoing cash loss of continuing to operate against the option of closing immediately which results in the triggering of early contract termination obligations. At 30 June 2015, these early closure obligations were estimated to total approximately A\$45 million and mostly related to fixed infrastructure and transport commitments. These obligations reduce with cumulative sales tonnage over the scheduled life of the Extension Hill mine.

Koolan Island Outlook

Additional pit optimisation work and the recent stabilisation of iron ore prices has enabled the Company to proceed with a second stage mining campaign at the Acacia East satellite pit to recover a further 0.7Mt of ore in the December half of 2015. The mining sequence requires two months of up-front waste stripping prior to ore sales occurring, with the sales and cash generation biased to the December 2015 quarter. All mining and sales will be completed by the end of December 2015.

The all-in cash cost of the Acacia East material, before royalties, is expected to be between A\$38-40/wmt which, at prevailing iron ore prices will generate a modest cash margin. This decision will continue to be reviewed in light of prevailing iron ore prices.

Once this mining program is completed, the island will be placed on care and maintenance pending commencement of the KILB activities.

The technical evaluation and assessment of the likely timing and cost of options to rebuild the Main Pit seawall and resume production progressed. Technical information generated by the insurance investigation and assessment process continues to provide data that is critical for determining whether a viable reconstruction option can be identified. Separately, mine optimisation work has identified options to redesign

the Main Pit mine plan and potentially significantly reduce future waste stripping ratios, offset by a reduction in the likely volume of recoverable material.

This work has been very encouraging, however technical complexity and the uncertain outlook for iron ore prices continues to make any immediate decision on reconstruction of the seawall and resumption of Main Pit production challenging. Additional technical field work is required in order to determine the viability of seawall options and to establish a clear understanding of the resulting risk and cost profile. The program of work includes detailed bathymetric surveying and additional geotechnical drilling in and around the area in which the failure occurred. At the earliest, this work would commence in early 2016 after the upcoming cyclone season.

Koolan Island Insurance Claim Update

Mount Gibson's investigation into the cause of the Koolan island seawall failure continued and the majority of the work has now been completed. At this stage, the investigation has identified the following technical factors as potentially relevant to the incident:

- the sensitivity and structure of the natural marine sediments that formed the base of the seawall;
- the extent that water pressure within the marine sediments had dissipated effectively; and
- the impact of planned excavation on the landward side of the seawall.

As indicated previously, Mount Gibson has insurance policies for a variety of circumstances, including property damage and business interruption. Constructive discussions with the Company's insurers progressed during the June quarter. This included a conditional confirmation that the Company's existing policies would respond, subject to the insurers' further reviews. The insurers' own separate investigation, which has been running parallel to Mount Gibson's, is well advanced. The majority of insurers have indicated they are prepared to make an initial early-stage progress payment on account of approximately A\$2 million. However, the insurers have reserved their rights with respect to making a final determination. The full value of the business interruption and property damage claims are also yet to be quantified by the insurers and will be assessed subject to any relevant policy and limitations. Mount Gibson remains in discussions with the insurers in respect of those matters, and will provide further updates as appropriate.

Koolan Island Logistics Base

In May 2015, Mount Gibson announced an agreement with specialist logistics provider Qube Holdings Limited (Qube) that provides a framework to progress the potential establishment of a logistical services base for the offshore oil and gas industry at Koolan Island, in collaboration with the Dambimangari Traditional Owners (refer ASX release dated 12 May 2015).

The Koolan Island Logistics Base (KILB) proposal remains at an early stage but envisages staged development of helicopter refuelling and maintenance facilities, air search and rescue facilities, an all-weather runway suitable for large-scale passenger jet aircraft, accommodation facilities and a marine terminal servicing the Browse Basin.

Development of the KILB would not restrict the potential to repair the Main Pit seawall and resume iron ore production at Koolan Island should a technically and economically robust solution be identified. Furthermore, Mount Gibson considers that the KILB development would provide operating cost benefits to future mining operations on the island.

Group Sales Guidance and Cash Costs Profile

Based on the above FY2016 forecast production of 4.0-4.5 Mwmt and cost estimates, Mount Gibson expects its all-in group cash costs, inclusive of all site operating and capital costs, royalties, closure and head office costs, to be in the range of A\$50-54/wmt, equivalent to US\$37-40/wmt at the prevailing exchange rate of A\$1.00/US\$0.745.

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15 July 2015

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Mount Gibson will host an analysts/institutions teleconference at **11.30am AEST (9.30am WST)** on 15 July 2015. Investors will be able to listen in to the teleconference by dialling **1800 857 029** immediately prior to the scheduled start time and entering the access code **61492002#** at the prompts. A recording of the teleconference will also be available via the Mount Gibson website after completion of the teleconference. In case of difficulties, operator assistance can be reached by calling 1800 857 079 (Australian callers) or +613 8788 6028 (overseas callers).

APPENDIX A

Quarterly Operating Statistics by Site

	Jun-2014 Quarter	Sep-2014 Quarter	Dec-2014 Quarter	Mar-2015 Quarter	Jun-2015 Quarter	FY 2014-15
KOOLAN ISLAND	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Waste mined	6,321	8,409	5,171	783	66	14,428
Ore mined	874	668	425	406	144	1,643
Ore crushed	1,257	908	297	273	403	1,882
Shipping/Sales						
Standard DSO Lump	220	210	42	149**	296**	697
Standard DSO Fines	835	568	147	148**	288**	1,152
Rizhao Special Product (RSP)	148	146	142	-	-	287
Total	1,203	923	331	297	585	2,136
TALLERING PEAK	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Waste mined	545	-	-	-	-	-
Ore mined	412	-	-	-	-	-
Ore crushed	698	-	-	-	-	-
Shipping/Sales						
Standard DSO Lump*	-	116	-	-	-	116
Standard DSO Fines	-	118	-	-	-	118
Low Grade DSO*	481	-	58	-	-	58
Total	481	234	58	-	-	292
EXTENSION HILL	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Waste mined	523	607	590	485	521	2,202
Standard ore mined	711	973	619	817	960	3,369
Low-grade ore mined [#]	210	279	255	158	172	864
Total ore mined	921	1,252	874	975	1,132	4,233
Ore crushed	789	954	743	833	982	3,512
Shipping/Sales[^]						
Standard DSO Lump	604	317	544	424	610	1,895
Standard DSO Fines	313	388	303	352	470	1,513
Total	916	705	847	776	1,080	3,408
CONSOLIDATED DATA	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Total waste mined	7,389	9,016	5,761	1,267	587	16,630
Total ore mined	2,207	1,920	1,299	1,381	1,276	5,876
Total ore crushed	2,744	1,862	1,041	1,106	1,386	5,394
Shipping/Sales						
Standard DSO Lump*	824	643	586	573**	906**	2,708
Standard DSO Fines	1,148	1,074	450	500**	758**	2,783
Low Grade DSO*	481	-	58	0	-	58
RSP	148	146	142	0	-	287
Total	2,600	1,863	1,236	1,073	1,664	5,836

kwmt = thousand wet metric tonnes.

*DSO Lump Sales were previously reported inclusive of lower grade lump ore sales from Talling Peak. DSO sales are now reported as Standard Lump, Standard Fines and Low Grade DSO.

**Mining at Koolan Island in the March and June 2015 quarters was only from the Acacia East satellite pit with lump material grading ~58% Fe and fines material grading ~57% Fe.

[^]Includes mine gate sales totalling 52kwmt of fines in the June 2015 quarter, 46kwmt of fines in the March 2015 quarter, 72kwmt of lump and 34kwmt of fines in the September 2014 quarter, and 121kwmt of lump and 17kwmt of fines in the June 2014 quarter.

[#] Low-grade ore is material grading 50-55% Fe at Extension Hill considered to be saleable. This material is being stockpiled for future sale but continues to be treated as mineralised waste for accounting purposes.

Minor discrepancies may appear due to rounding and minor post-period adjustments.