

QUARTERLY REPORT



MOUNT GIBSON IRON LIMITED QUARTERLY REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2016 21 October 2016

Key Points*

- September quarter iron ore sales of **0.9 million wet metric tonnes (Mwmt)**, and quarterly ore sales revenue of **\$45 million** Free on Board (FOB).
- Cash, term deposits and tradeable investments of **\$437 million** at 30 September 2016, up from \$400 million at 30 June 2016.
- Quarterly operating cashflow of approximately **\$2 million** before investment in ore inventory for future sale.
- All-in group cash costs** of **\$50/wmt** FOB for the quarter, in line with guidance and incorporating the continued build-up of ore stockpiles across the business.
- Continued steady operating performance at Extension Hill, and permitting for Iron Hill progressing.
- Business interruption component of the Koolan seawall insurance claim progressing.
- Continued positive progress in the evaluation of a potential Koolan Island production restart.
- Appointment of Mr Kin Chan as an Independent Non-Executive Director.
- Statutory net profit of \$86.3 million reported for the 2015/16 financial year.

* Sales revenue and cost figures are unaudited. All figures in Australian dollars unless stated otherwise

** All-in group cash costs are reported FOB and include cash opex, royalties, capex and corporate costs, net of stockpile movements.

Comment

Mount Gibson Chief Executive Officer, Jim Beyer, said: "Mount Gibson has started the new financial year in strong financial shape as it prepares for a substantial period of operational transition in market conditions which remain challenging. It is particularly pleasing that we continue to generate positive operational cashflow in this demanding environment.

"Mining within the current Extension Hill pit is on track to conclude in November, with sales to continue into early 2017 while activity focuses on final permitting for the transition to production at Iron Hill. At the same time, detailed seawall design work and economic evaluation for a potential restart of production from Main Pit at Koolan Island is intensifying with a view to making a determination in the March 2017 quarter. We remain extremely positive about the potentially high value opportunity of restarting Koolan Island.

"Meanwhile, we continue to actively evaluate a number of high-potential external resources investment opportunities.

PERFORMANCE AT A GLANCE

	Unit	Sep-2015 Quarter	Dec-2015 Quarter	Mar-2016 Quarter	Jun-2016 Quarter	Sep-2016 Quarter	FY2017
Standard DSO product sales*	kwmt	1,061	1,520	1,547	718	711	711
Low Grade material sales^	kwmt	-	-	-	125	175	175
Total Ore Sales	kwmt	1,061	1,520	1,547	843	887	887
Ave. Platts 62%Fe CFR price	US\$/dmt	55	47	48	56	59	59
MGX FOB Ave. realised fines price#	US\$/dmt	40	35	27	37	37	37
Minor discrepancies may occur due to rounding. *DSO sales in prior quarters include material from the Acacia East satellite pit at Koolan Island. ^Refers to opportunistic sales from crushed remnant low grade material at the closed Talling Peak mine site. #Mount Gibson's realised FOB fines price includes standard DSO fines product from Extension Hill only, after adjustments for shipping freight, grade, provisional invoicing adjustments and penalties for impurities. Contract pricing in the period was based on a mix of lagging-monthly and month-of-shipment averages. kwmt = thousand wet metric tonnes. US\$/dmt = USD per dry metric tonne.							

OPERATIONS

Ore sales in the September quarter totalled approximately 887,000 wmt, reflecting continued steady operational performance at Extension Hill and the opportunistic sale of 175,000 wmt of remnant low grade material from the closed Talling Peak mine site.

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

Extension Hill Hematite Mine

The Extension Hill mine continued its sound operational performance in the September quarter. Shipments from Geraldton Port totalled 711,000 wmt, comprising 417,000 wmt of lump and 294,000 wmt of fines.

The mine generated modest positive cashflow for the quarter, with average all-in site cash costs¹ of \$50/wmt sold FOB for the quarter, above the Company's full-year guidance of \$44-46/wmt reflecting the planned continued build-up of ore stockpiles throughout the logistics chain, ready for monetising over the coming 3-6 months. The Company's guidance for average all-in site cash costs for FY2017 reflects higher expected unit costs in the first half of the year.

At the end of September, approximately 253,000 wmt of crushed finished product was stockpiled at the mine. Uncrushed product stockpiled at the mine totalled approximately 233,000 wmt. Mine-site stockpiles of uncrushed lower grade material totalled 3.6 Mwmt at the end of the quarter. Crushed ore stockpiles at the Perenjori rail siding totalled approximately 405,000 wmt.

Mount Gibson expects to complete mining operations in the current Extension Hill pit during November. Sales from the current pit are expected to continue into early 2017 by which time the Company plans to have secured approvals for development of the adjacent Iron Hill deposit. Mount Gibson will also evaluate the merits of selling ore from existing low grade stockpiles until Iron Hill material is available.

Assuming development of Iron Hill proceeds as planned in the period, one-off development capital costs of approximately \$2-3 million are anticipated for construction of a haul road and mine pre-stripping. Operational costs and product grades at Iron Hill are expected to be consistent with current operations at Extension Hill.

As stated previously, the Company continually reviews its activities in the context of prevailing market conditions and the future outlook for iron ore prices on the basis of what is in the best interests of the Company and all shareholders. This includes closely monitoring the viability of continuing operations at Extension Hill with regard to both mine cashflows as well as historical fixed infrastructure and transport obligations that would become payable on early closure. The early closure obligations relating to transport arrangements at Extension Hill, referred to above, will be fully amortised once it has railed 15 million tonnes on its contracted rail paths. These

¹ Site cash costs are reported FOB and include royalties, capex and adjustments for stockpile movements, but are before corporate cost allocations.

obligations amortise at a rate of approximately \$6/wmt of material railed, and totalled approximately \$10 million at 30 September 2016, compared with \$15 million at 30 June 2016.

Tallering Peak

During the quarter, Mount Gibson monetised some remnant low grade material remaining at the closed Tallering Peak mine site. These opportunistic sales, totalling 175,000 wmt of low grade lump and fines material, generated a modest cash margin and assisted with environmental rehabilitation at the Tallering Peak mine site.

Koolan Island

During the September 2016 quarter, activity at Koolan Island continued to be focused on the ongoing evaluation of the potential to reinstate the Main Pit seawall and recommence production. As previously indicated, the Company has committed \$1.5 million to undertake detailed design for the seawall, and detailed mine design and production scheduling to achieve a material reduction in the average strip ratio and also a marked increase in product grade. Mount Gibson expects to conclude this detailed evaluation work in the March 2017 quarter.

As previously indicated, based on preliminary work to date and taking into account recent mining history at Koolan Island, Mount Gibson considers it would need to have confidence that the project could achieve the following key technical and operating parameters:

- Main Pit seawall reinstated in a safe and economically feasible manner;
- total redevelopment capital and restart costs of less than \$90 million;
- sufficient Ore Reserves to support production of at least 15 million tonnes of hematite over a period of 3–4 years, grading above 62% Fe;
- an average life of mine strip ratio less than 3:1; and
- total material movement costs of less than \$7/tonne moved.

The Company remains extremely positive about the potentially high value opportunity of restarting Koolan Island. However, as with any mining project, until such time as the detailed engineering design, capital estimates and approvals have been finalised, it is not possible to confirm a viable redevelopment plan.

EXPLORATION AND RESOURCE DEVELOPMENT

Activity in the September quarter was primarily limited to progressing approvals for the Iron Hill deposit located 3km south of the current Extension Hill operations. Other than rehabilitation and environmental monitoring, all material exploration-related activities have been suspended as the Company focuses on cost reduction and capital preservation.

On 31 August 2016², the Company released its annual statement of Mineral Resources and Ore Reserves as at 30 June 2016. Total Group Mineral Resources were reported as 89.5 Mt @ 61.4% Fe, and total Group Ore Reserves were reported as 1.2 Mt @ 58.0% Fe. All Ore Reserves are located at the Extension Hill operation.

Iron Hill

In July 2016³, the Office of the Environmental Protection Authority (OEPA) of Western Australia released a positive conditional recommendation for Iron Hill. Two submissions were made during the two week public comment period, and are now being assessed by the relevant regulatory bodies. The timing of a final determination remains subject to this assessment, however the Company remains confident that its development timeline for Iron Hill remains on track.

Iron Hill has a Total Mineral Resource of 8.8Mt @ 58.3% Fe and has the potential for a material extension of mine life at Extension Hill for minimal capital cost, given its proximity to the existing operation. For details of Iron Hill's Mineral Resources, refer to the Company's Annual Statement of Mineral Resources and Ore Reserves as at 30 June 2016.

² Refer ASX release dated 31 August 2016, and page 6 for Competent Persons information.

³ Refer www.epa.wa.gov.au to read the EPA's recommendation. The Company's Iron Hill Deposits Public Environmental Review was published on 23 November 2015 and is available at www.mtgibsoniron.com.au

CORPORATE⁴

Realised Pricing and Revenue

The September 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\$59 per dry metric tonne (dmt) compared with the US\$56/dmt average of the preceding quarter.

During the quarter, Mount Gibson achieved an average realised price for its standard Extension Hill iron ore fines product of US\$37/dmt FOB after grade and provisional pricing adjustments and penalties for impurities, similar to the prior quarter.

FOB ore sales revenue for all products totalled \$45 million in the September quarter, compared with \$53 million in the preceding quarter, primarily reflecting the increased proportion of remnant low grade sales from the closed Tallering Peak site.

Cashflows and Cash Reserves

The Company generated positive cashflow from operations of approximately \$2 million in the quarter, before the build-up of ore stockpiles and the receipt of interest income and surplus equipment sales proceeds. Including these items, group cashflow was approximately \$5 million for the quarter. After working capital movements and receipt of the \$34.6 million Koolan insurance claim settlement proceeds at the start of the quarter, the Company's cash, term deposits and tradeable investments totalled \$437 million at 30 September 2016, compared with \$400 million at 30 June 2016.

Cost Performance

All-in group cash costs⁵ averaged \$50/wmt FOB in the September quarter, in line with prior guidance⁶ and similar to the preceding quarter.

Koolan Island Insurance

As reported in June 2016⁷, Mount Gibson reached final agreement with its insurers for a cash settlement of \$86 million for the property damage component of its insurance claim relating to the late-2014 failure of the Koolan Island Main Pit seawall. The settlement amount included the \$1.85 million interim payment received in mid-2015, with \$49.6 million having been received by 30 June 2016, and the remaining balance of \$34.6 million received in July. The settlement is independent of any decision Mount Gibson may take to rebuild the Main Pit seawall. Mount Gibson retains substantial carry-forward tax losses and other deductions, and therefore does not expect any tax outflow on the settlement proceeds.

The property damage insurance settlement is also separate to the ongoing discussions between Mount Gibson and its insurers in relation to the business interruption component of the Company's insurance claim. These discussions remain in progress and it is premature to comment as to the likely outcome of this component of the claim. Mount Gibson will provide further updates as appropriate.

FY2016 Financial Results and Group Sales Guidance for FY2017

On 17 August 2016⁸, Mount Gibson reported a full year statutory net profit of \$86.3 million for the 2015-16 financial year, including a \$19.4 million gross underlying profit, comprising a \$13.4 million gross profit from continuing operations and a \$6.0 million gross profit from the discontinued Tallering Peak operation.

The Company has provided group sales guidance of 2.8 to 3.1 Mwmt at an average all-in cash cost of \$48-52/wmt FOB for the 2016-17 financial year. As indicated, unit costs are expected to be higher in the first half.

⁴ Sales, cost and cash movement figures are unaudited.

⁵ All-in group cash costs are reported FOB and include cash opex, royalties, capex and corporate costs, net of stockpile movements.

⁶ Refer ASX release dated 18 April 2016

⁷ Refer ASX release dated 16 June 2016

⁸ Refer ASX release dated 17 August 2016. The underlying basis is an unaudited non-IFRS measure that in the opinion of the Directors provides useful information to assess the Company's financial performance.

Product sales will comprise approximately 2.0 Mwmt of standard ore from the current Extension Hill pit, with the remainder expected to comprise a mix of lower grade material from existing stockpiles at Extension Hill, which presently total approximately 3.6 Mwmt of material grading 50-55% Fe, and higher grade material from Iron Hill. Total sales volumes and actual product mix in the first half of calendar 2017 will depend on receipt of final development approvals for Iron Hill, and the timing of production.

Director Appointment

In September 2016⁹, the Company announced the appointment of Mr Kin Chan as an Independent Non-Executive Director of the Company.

Mr Chan is the founding shareholder of successful Hong Kong-based investment institution Argyle Street Management Limited (**Argyle**), and has been the Chief Investment Officer since inception in 2002.

Prior to founding Argyle, Mr Chan was Chief Executive and Managing Director of Lazard Asia Limited from 2000 to 2001 and managed the firm's advisory business in Asia outside of Japan. Prior to joining Lazard, Mr Chan was an Executive Director at Goldman, Sachs & Co. where he worked in Hong Kong, New York and Singapore from 1992 to 1999.

Mr Chan has deep relationships and understanding of business across Asia, having completed transactions jointly totalling in excess of US\$15 billion in China, Hong Kong, India, Indonesia, Korea, Singapore and Thailand. The Board considers that Mr Chan will bring valuable additional expertise to the Mount Gibson Board as the Company evaluates capital deployment options, including potential resources investment opportunities.

Annual General Meeting and 2016 Annual Report

On 7 October 2016¹⁰, the Company released its 2016 Annual Report and Notice of Meeting for the Company's 2016 Annual General Meeting, which will be held at 10:00am on Wednesday 9 November 2016 at City West Function Centre, 45 Plaistowe Mews, West Perth. Details of the meeting, including shareholder proxy forms, are included in the Notice of Meeting.

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Mount Gibson will host an analysts/institutions teleconference at **2.00pm AEDT (11.00am WST)** on **21 October 2016**. 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).

⁹ Refer ASX release dated 23 September 2016

¹⁰ Refer ASX release dated 7 October 2016

Competent Persons Statement

Mineral Resources:

The information in this report relating to Mineral Resources for the Koolan Island, Extension Hill, Iron Hill, Talling Peak and Shine deposits is based on information compiled by Elizabeth Haren, a Competent Person who is a member and Chartered Professional of the Australasian Institute of Mining and Metallurgy. Ms Haren was previously a full-time employee of, and is now a consultant to, Mount Gibson Iron Limited, and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Ms Haren consents to the inclusion in this report of the matters based on her information in the form and context in which it appears. The Mineral Resource estimates comply with recommendations in the Australasian Code for Reporting of Mineral Resources and Ore Reserves (2012) by the Joint Ore Reserves Committee (JORC). Therefore they are suitable for public reporting.

Ore Reserves:

The information in this report relating to Ore Reserves at Extension Hill is based on information compiled by Paul Salmon, a Competent Person who is a member and a Chartered Professional of the Australasian Institute of Mining and Metallurgy. Mr Salmon is a full-time employee of Mount Gibson Iron Limited and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Salmon consents to the inclusion in the report of the matters based on his information in the form and context in which it appears. The Ore Reserve estimates comply with recommendations in the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2012) by the Joint Ore Reserves Committee (JORC). Therefore they are suitable for public reporting.

APPENDIX A

Mount Gibson Iron Limited Quarterly Operating Statistics by Site

	Sep-2015 Quarter	Dec-2015 Quarter	Mar-2016 Quarter	Jun-2016 Quarter	Sep-2016 Quarter	2016-17
KOOLAN ISLAND	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Waste mined	1,225	1,874	223	-	-	-
Ore mined	335	666	380	-	-	-
Ore crushed	256	514	517	-	-	-
Shipping/Sales						
Standard DSO Lump	74	372	361	-	-	-
Standard DSO Fines	221	146	290	-	-	-
Total	295	518	651	-	-	-
EXTENSION HILL	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Waste mined	539	487	461	486	328	328
Standard ore mined	969	1,034	1,013	847	669	669
Low-grade ore mined [#]	206	182	189	153	192	192
Total ore mined	1,175	1,216	1,203	1,001	862	862
Ore crushed	1,039	1,026	868	962	773	773
Shipping/Sales[^]						
Standard DSO Lump	474	590	421	478	417	417
Standard DSO Fines	292	412	475	240	294	294
Total	766	1,002	896	718	711	711
TALLERING PEAK	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Shipping/Sales						
Low Grade Lump	-	-	-	125	58	58
Low Grade Fines	-	-	-	-	117	117
Total	-	-	-	125	175	175
CONSOLIDATED DATA	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Total waste mined	1,763	2,362	684	486	328	328
Total ore mined	1,510	1,882	1,583	1,001	862	862
Total ore crushed	1,294	1,540	1,384	962	773	773
Shipping/Sales						
Standard DSO Lump	549	962	781	478	417	417
Standard DSO Fines	513	558	765	240	294	294
Low Grade	-	-	-	125	175	175
Total	1,061	1,520	1,547	843	887	887

kwmt = thousand wet metric tonnes.

[^]Includes mine gate sales totalling 52kwmt of fines in the June 2015 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. Talling Peak sales were sourced from crushed remnant low grade material remaining at the site.

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