

QUARTERLY REPORT



MOUNT GIBSON IRON LIMITED QUARTERLY REPORT FOR THE PERIOD ENDED 31 DECEMBER 2016

25 January 2017

Key Points*

- December quarter iron ore sales of **0.9 million wet metric tonnes** (Mwmt) including low grade sales of 0.2 Mwmt, and quarterly ore sales revenue of **\$56 million** Free on Board (FOB).
- Half yearly iron ore sales of **1.8 Mwmt**, including 0.4 Mwmt of low grade material, and 6 month sales revenue of **\$102 million**.
- Quarterly cashflow of approximately **\$10 million**, excluding approximately \$5 million in period-end sales and anticipated favourable provisional pricing adjustments.
- Cash, term deposits and tradeable investments of **\$447 million** at 31 December 2016, up from \$437 million at 30 September 2016, and \$400 million at 30 June 2016.
- All-in group cash costs** of **\$45/wmt** FOB for the quarter and **\$48/wmt** FOB for the half-year, at the lower end of guidance.
- Completion of mining in the Extension Hill pit, and steady sales from stockpiles ahead of the anticipated development of the Iron Hill deposit.
- State environmental approval granted for Iron Hill, and permitting on track for mine development to commence in the current March 2017 quarter.
- Offtake agreements signed for approximately 70% of the first year's available production from Iron Hill.
- Opportunistic hedge protection taken over 360,000 tonnes of anticipated production in the June half.
- Continued progress in the evaluation and planning for a potential Koolan Island production restart.

* 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.

Comment

Mount Gibson Chief Executive Officer, Jim Beyer, said: "Another excellent performance by the Mount Gibson team in the December Quarter has further enhanced Mount Gibson's solid financial position, and leaves the Company well placed to continue executing its ongoing operational transition in 2017.

"Having successfully completed mining on schedule in the Extension Hill pit, our focus in the March quarter is on maximising ore sales from our extensive stockpiles while we secure the final approvals needed to bring our Iron Hill deposit into production. We are also looking to conclude our technical and economic evaluation of the potential to recommence production at our high-grade Koolan Island mine in the Kimberley.

"Consequently, Mount Gibson enters the new calendar year with great confidence and in outstanding shape to capitalise on the significant opportunities before it."

PERFORMANCE AT A GLANCE

	Unit	Dec-2015 Quarter	Mar-2016 Quarter	Jun-2016 Quarter	Sep-2016 Quarter	Dec-2016 Quarter	2016/17 H1
Standard DSO product sales*	kwmt	1,520	1,547	718	711	657	1,368
Low Grade material sales^	kwmt	-	-	125	175	239	414
Total Ore Sales	kwmt	1,520	1,547	843	887	896	1,783
Ave. Platts 62%Fe CFR price	US\$/dmt	47	48	56	59	71	65
MGX FOB Ave. realised fines price#	US\$/dmt	35	27	37	37	49	43
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 spot sales from crushed low grade material at the closed Talling Peak mine site and the Extension Hill 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 lagged and provisional prices. kwmt = thousand wet metric tonnes. US\$/dmt = USD per dry metric tonne.							

OPERATIONS

Ore sales in the December quarter totalled approximately 0.9 Mwmt, reflecting continued steady operational performance at Extension Hill and the sale of 122,000 wmt of low grade material from the closed Talling Peak mine site and 118,000 wmt of low grade stockpiled material from Extension Hill.

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 December quarter. Shipments from Geraldton Port totalled 0.8 Mwmt, comprising 362,000 wmt of standard lump and 295,000 wmt of standard fines, in addition to 118,000 wmt of low grade lump from existing low grade stockpiles at the mine.

Mining was completed in the Extension Hill pit during November. Sales of run-of-mine ore stockpiled during the final stage of mining will continue into the first half of 2017 while the Company secures the final outstanding approvals for development of the adjacent Iron Hill deposit. These sales will continue to be augmented by sales from existing low grade stockpiles when suitable prices can be attained.

Extension Hill generated solid positive cashflow for the quarter, with average all-in site cash costs¹ of \$42/wmt sold FOB for the quarter. All-in site cash costs for the December half-year were \$46/wmt sold, in line with the Company's full-year guidance for Extension Hill of \$44-46/wmt.

At the end of December, approximately 248,000 wmt of crushed finished product was stockpiled at the mine. Mine-site stockpiles of uncrushed lower grade material totalled 3.4 Mwmt grading 50-55% Fe at the end of the quarter. Crushed ore stockpiles at the Perenjori rail siding totalled approximately 417,000 wmt.

Historical fixed infrastructure and transport obligations relating to Extension Hill will be fully amortised once it has railed 15 million tonnes on its contracted rail paths. The tonnage still required to be railed now totals less than 1 million tonnes. These obligations totalled approximately \$5 million at 30 December 2016, and continue to reduce at a rate of approximately \$6/wmt of material railed.

Talling Peak

During the quarter, Mount Gibson monetised additional remnant low grade material remaining at the closed Talling Peak mine site. These spot sales, totalling 122,000 wmt of low grade fines material, generated a small cash margin and, importantly, assisted with environmental rehabilitation at the Talling Peak mine site.

Koolan Island

During the December 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

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

Company has committed \$1.5 million to undertake detailed design for the seawall, and detailed mine design and production scheduling. Mount Gibson expects to conclude its evaluation work in the March 2017 quarter.

Subsequent to the end of the quarter, the Company submitted its referral documents to the Commonwealth Department of Environment in support of any future decision to proceed with the mine restart.

The December quarter also marked the success of an innovative co-operation agreement between Mount Gibson and WA's Department of Parks and Wildlife (DPaW) to base DPaW's patrol vessel *Worndoom* at Koolan Island's port facilities for the duration of its 2016 Kimberley patrol season running from May to October. This allowed more time on active patrol due to the island's closer proximity to the vessel's sphere of operations.

EXPLORATION AND RESOURCE DEVELOPMENT

Activity in the December quarter was primarily limited to progressing approvals for the Iron Hill deposit located 3km south of the Extension Hill mine.

Iron Hill

In December 2016², the planned development of Iron Hill was approved by Western Australia's Environment Minister. In late December, the Company also received approval for, and commenced, construction of the mine haul road. Final outstanding statutory approvals are anticipated in the March 2017 quarter, consistent with the targeted development schedule.

During the quarter³, Mount Gibson entered into three 12 month offtake agreements with Chinese customers for Iron Hill which jointly represent approximately 70% of planned available production in the first year of operation. The agreements include market-reflective pricing referenced to published industry benchmark prices, on a Cost and Freight (CFR) basis.

The agreements were reached with Sinogiant Steel Holdings Group Ltd, Xinyu Iron & Steel Group Ltd and SCIT Trading Ltd, a subsidiary of Shougang Concord International Enterprises Co Ltd. The agreement with SCIT will require shareholder approval, for which a shareholder meeting is expected to be held in April 2017.

Assuming Iron Hill proceeds as planned in the March 2017 quarter, one-off development capital costs of approximately \$2-3 million are anticipated for construction of the haul road and mine pre-stripping. Operational costs and product grades at Iron Hill are expected to be consistent with those at the Extension Hill deposit.

Iron Hill has a Total Mineral Resource of 8.8Mt @ 58.3% Fe. 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 2016⁴.

CORPORATE⁵

Realised Pricing and Revenue

The December 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\$71 per dry metric tonne (dmt) compared with the US\$59/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\$49/dmt FOB after grade and provisional pricing adjustments and penalties for impurities, compared with US\$37/dmt in the prior quarter.

FOB ore sales revenue for all products totalled \$56 million in the December quarter, compared with \$45 million in the preceding quarter, primarily reflecting higher realised prices. Total sales revenue for the half-year to the end of December was \$102 million.

² Refer ASX release dated 9 December 2016.

³ Refer ASX releases dated 24 November 2016, 25 November 2016 and 23 December 2016.

⁴ Refer ASX release dated 31 August 2016.

⁵ Sales, cost and cash movement figures are unaudited.

Cashflows and Cash Reserves

The Company generated positive cashflow of approximately \$10 million in the quarter, excluding approximately \$5 million in period-end sales and anticipated favourable provisional pricing adjustments. The Company's cash, term deposits and tradeable investments totalled \$447 million at 31 December 2016, compared with \$437 million at 30 September 2016 and \$400 million at 30 June 2016.

Cost Performance and Group Sales Guidance

All-in group cash costs⁶ averaged \$45/wmt FOB in the December quarter and \$48/wmt FOB for the December half, at the lower end of guidance⁷.

The Company's sales guidance presently remains unchanged at 2.8 to 3.1 Mwmt at an average all-in cash cost of \$48-52/wmt FOB for the 2016-17 financial year⁸. Mount Gibson will update this guidance, as appropriate, for Iron Hill production once final regulatory approvals are obtained and mining can commence.

Full year product sales will comprise approximately 2.0 Mwmt of standard ore from the 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 3.4 Mwmt grading 50-55% Fe.

Towards the end of the December quarter, Mount Gibson took advantage of higher iron ore prices to hedge 360,000 tonnes of anticipated production in the second half of 2016/17. The hedges comprise six shipments of 60,000 tonnes each, with monthly average prices for 62% Fe fines (CFR) ranging from US\$70-76/dmt. In addition, the Company transacted corresponding foreign exchange hedging contracts to ensure a minimum conversion rate of US dollars into Australian dollars.

Koolan Island Insurance

Discussions between Mount Gibson and its insurers in relation to the business interruption component of the Company's insurance claim continued during the December quarter. Given the ongoing status of these discussions it is premature to comment as to the likely outcome of this component of the claim. Mount Gibson will provide further updates as appropriate. The business interruption component of the insurance claim is separate to the already received \$86 million cash settlement of the property damage component of the insurance claim reached with the insurers in June⁹ 2016.

Annual General Meeting

The Company held its Annual General Meeting on 9 November 2016¹⁰, with all resolutions passed on a show of hands.

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⁶ All-in group cash costs are reported FOB and include cash opex, royalties, capex and corporate costs.

⁷ Refer ASX release dated 17 August 2016.

⁸ Refer ASX release dated 17 August 2016.

⁹ Refer ASX release dated 16 June 2016.

¹⁰ Refer ASX release dated 10 November 2016

Mount Gibson will host an analysts/institutions teleconference at **13.00pm AEDT (10.00am WST)** on **25 January 2017**. 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).

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.

APPENDIX A

Mount Gibson Iron Limited Quarterly Operating Statistics by Site

	Dec-2015 Quarter	Mar-2016 Quarter	Jun-2016 Quarter	Sep-2016 Quarter	Dec-2016 Quarter	2016-17 1H
KOOLAN ISLAND	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Waste mined	1,874	223	-	-	-	-
Ore mined	666	380	-	-	-	-
Ore crushed	514	517	-	-	-	-
Shipping/Sales						
Standard DSO Lump	372	361	-	-	-	-
Standard DSO Fines	146	290	-	-	-	-
Total	518	651	-	-	-	-
EXTENSION HILL	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Waste mined	487	461	486	328	28	356
Standard ore mined	1,034	1,013	847	669	171	840
Low-grade ore mined [#]	182	189	153	192	36	228
Total ore mined	1,216	1,203	1,001	862	207	1,069
Ore crushed	1,026	868	962	773	728	1,501
Shipping/Sales						
Standard DSO Lump	590	421	478	417	362	779
Standard DSO Fines	412	475	240	294	295	589
Low Grade Lump	-	-	-	-	118	118
Low Grade Fines	-	-	-	-	-	-
Total	1,002	896	718	711	775	1,486
TALLERING PEAK	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Shipping/Sales						
Low Grade Lump	-	-	125	58	-	58
Low Grade Fines	-	-	-	117	122	239
Total	-	-	125	175	122	297
CONSOLIDATED	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Total waste mined	2,362	684	486	328	28	356
Total ore mined	1,882	1,583	1,001	862	207	1,069
Total ore crushed	1,540	1,384	962	773	728	1,501
Shipping/Sales						
Standard DSO Lump	962	781	478	417	362	779
Standard DSO Fines	558	765	240	294	295	589
Low Grade	-	-	125	175	239	414
Total	1,520	1,547	843	887	896	1,783

kwmt = thousand wet metric tonnes.

[#] 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. Tallingering 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.