

# QUARTERLY REPORT



## MOUNT GIBSON IRON LIMITED QUARTERLY REPORT FOR THE PERIOD ENDED 31 DECEMBER 2014 28 January 2015

### Key Points

- Cash and term deposits of **\$354 million** (\$0.32/share) at 31 December 2014.
- December quarter iron ore sales revenue of **\$72 million** Free on Board (FOB).
- December quarter iron ore sales of **1.2 million wet metric tonnes** (Mwmt), and **3.1 Mwmt** for the December half, reflecting reduced sales from Koolan Island.
- Additional mining and existing stockpiles from Acacia East pit on Koolan Island to supplement ore sales during June half of 2015.
- Sales guidance range increased to **4.8 - 5.2 million tonnes** for FY2015.
- Non-essential activities at Koolan Island suspended and site workforce reduced following seawall failure in late November, reducing site expenditure significantly.
- Detailed technical and financial evaluation of Koolan Island Main Pit seawall remediation options commenced.
- Property and business interruption insurance policies in place and discussions with insurers commenced.
- Substantial non-cash impairment of between **\$850 million and \$950 million** before tax anticipated in financial results for six months to 31 December 2014.
- Corporate office restructuring underway to reflect changing operational support requirements.
- Continued positive cashflow from Extension Hill in the Mid West.
- Iron Hill RC drilling completed and level of assessment set by EPA.

\*All currency expressed in AUD unless stated otherwise. Sales revenue figures are unaudited.

### Comment

Mount Gibson Chief Executive Officer, Jim Beyer, said: "The December quarter was particularly challenging for Mount Gibson, in light of the continued decline in iron ore prices to five year lows and the failure of the Koolan Island seawall. These factors have necessitated significant reductions in the Company's workforce and will unfortunately require a substantial non-cash impairment to be recorded in our upcoming half year financial results next month.

"However, the Company remains in a very strong financial position with substantial cash reserves and negligible debt. We have responded diligently and promptly to preserve capital and further reduce costs while we assess the potential way forward at the Koolan Island operation.

"With efforts at Extension Hill continuing to focus on efficiencies and unit cost reductions to ensure the operation maintains a positive cashflow, and near term expenditure significantly reduced at Koolan Island and the Perth office, Mount Gibson has significantly greater flexibility to adapt to changing circumstances."

## PERFORMANCE AT A GLANCE

	Unit	Dec-2013 Quarter	Mar-2014 Quarter	June 2014 Quarter	Sep-2014 Quarter	Dec-2014 Quarter
Standard DSO product sales*	kwmt	2,046	1,392	1,971	1,717	<b>1,036</b>
Low Grade DSO sales*	kwmt	245	417	481	0	<b>58</b>
Rizhao Special Product (RSP)	kwmt	202	212	148	146	<b>142</b>
Total Ore Sales	kwmt	2,493	2,021	2,600	1,863	<b>1,236</b>
Ave. Platts 62%Fe CFR price	US\$/dmt	135	120	103	90	<b>74</b>
MGX FOB Ave. realised fines price#	US\$/dmt	103	95	83	65	<b>60</b>

\*Standard DSO sales included 106kwmt of mine-gate sales from Extension Hill in the September 2014 quarter, and 138kwmt in the June 2014 quarter.

#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. 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.

kwmt = thousand wet metric tonnes.

US\$/dmt = USD per dry metric tonne.

Minor discrepancies may occur due to rounding.

## OPERATIONS

Ore sales in the December quarter totalled 1.2 million tonnes, reflecting continued strong performance at Extension Hill, and reduced sales from Koolan Island as a result of the failure of the Main Pit seawall.

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

### *Koolan Island*

Ore shipments from Koolan Island during the December quarter totalled 331,000 wmt, including the final shipments of Rizhao Special Product (RSP) totalling 142,000 wmt. No shipments were made after October due to the failure of the Main Pit seawall.

As reported during the period<sup>1</sup>, following an initial slump in the Main Pit seawall on 24 October 2014, and before remediation efforts could be completed, a major failure of the seawall occurred on 26 November. Main Pit was inundated as a result of this breach of the seawall.

All non-essential activities on the island were suspended following the seawall failure in order to reduce expenditure and preserve capital while detailed identification and assessment of potential redevelopment options are completed. Force majeure notices were issued to major offtake customers and suppliers.

Importantly, no Mount Gibson personnel were harmed or put at risk as a result of the safety protocols enacted by the Company. Environmental monitoring and assessment has been conducted since the event and no significant marine impacts from the seawall failure have been identified to date.

The detailed evaluation work now underway includes assessment of the likely timing and cost of options to rebuild the Main Pit seawall and resume production. The options will then be considered in the context of the outlook for the iron ore market, iron ore prices and exchange rates, and on the basis of what action will best preserve and create value for shareholders. A decision to move towards recommencing production from Main Pit at Koolan Island will only be made if Mount Gibson believes it is viable to do so. Mount Gibson anticipates it will be in a position to provide an update on the preferred course of action in the first half of calendar 2015.

While major activities at Koolan Island were wound back, mine planning in December identified approximately 400,000 tonnes of accessible material grading 58-59% Fe in the Acacia East satellite pit on the northern side of the island. At current spot prices and exchange rates, the Company expects the mining and sale of this higher-silica material to generate a gross cash margin of approximately \$5-10 million.

<sup>1</sup> Refer ASX releases dated 27 October, 10 November, 26 November, 28 November and 5 December 2015.

This limited mining campaign in Acacia East has commenced, with all sales of Acacia East material, including existing stockpiles, expected to be completed by the end of June 2015. These additional ore sales have been incorporated into the Company's revised sales guidance for the 2015 financial year of 4.8 – 5.2 million tonnes (refer page 4).

Approximately 200 positions at Koolan Island were made redundant immediately following the failure of the seawall. The limited mining campaign at Acacia East will require the retention of approximately 125 site-based roles until this activity has been completed. Redundancy costs, including for associated corporate office personnel, amounted to approximately \$6 million in December 2014, with further redundancy costs of \$5 million anticipated as work in Acacia East is completed and remaining ramp-down activities are concluded during the June 2015 quarter.

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

### ***Extension Hill Hematite Mine***

Extension Hill continued to perform strongly in the December quarter. Ore sales increased 20% to 847,000 tonnes, comprising 544,000 tonnes of lump and 303,000 tonnes of fines. No mine gate sales were completed during the period.

At the end of December, approximately 76,000 wmt of crushed finished product was stockpiled at the mine. Uncrushed product stockpiled at the mine totalled approximately 44,000 wmt. Mine-site stockpiles of uncrushed lower grade material totalled 2.7 Mwmt at the end of the quarter. Crushed ore stockpiles at the Perenjori rail siding totalled approximately 177,000 wmt.

The mine remained cashflow positive for the quarter, reflecting ongoing cost reduction initiatives and efficiency improvements, the strong contribution from lump sales, and external factors such as reduced fuel prices and the weakening Australian dollar. The full benefit of lower oil prices on cash margins is yet to be realised due to the lag effect on supply and transport contracts.

Mount Gibson continues to pursue additional cost savings and incremental efficiency improvements.

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

### ***Tallering Peak***

Closure and rehabilitation activities continued during the quarter, with the last remaining equipment anticipated to be removed from site early in the March 2015 quarter.

A remnant parcel of 58,000 tonnes of low grade fines stockpiled at Geraldton port was exported in December.

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

## **EXPLORATION AND RESOURCE DEVELOPMENT**

### ***Extension Hill South***

Mount Gibson completed a programme of RC drilling, comprising 63 holes for 3,072 metres, at the Iron Hill and Gibson Hill Prospects at Extension Hill South. This program of infill and extensional drilling is a follow up from RC drilling conducted at Iron Hill in December 2013 and a four hole diamond core programme drilled in August 2014. Full assay results are not yet available.

Regulatory assessment of the Iron Hill prospect progressed during the period. In late December, the Office of Environmental Protection Authority of Western Australia set a Public Environmental Review (PER) level of assessment for future mining at Iron Hill. Mount Gibson expects to receive the EPA-prepared Environmental Scoping Document for the PER assessment during the March 2015 quarter.

## **CORPORATE**

### **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\$74 per dry metric tonne (dmt), a reduction of

18% compared with the US\$90/dmt average in the preceding quarter. The price traded as low as US\$66.25/dmt on 23 December 2014.

During the quarter, Mount Gibson achieved an average realised price for its standard iron ore fines of US\$60/dmt FOB, after grade and provisional pricing adjustments and penalties for impurities. This price was for standard fines product only, and excludes sales of RSP and remnant low grade material from Talling Peak. This was 8% lower than the US\$65/dmt average price realised in the prior quarter, reflecting the comparatively high quality of the Company's standard iron ore products.

Total FOB ore sales revenue<sup>2</sup> for all products, including lower grade ore and RSP, totalled \$72 million in the December quarter, compared with \$117 million in the prior quarter.

Cash and term deposits totalled \$354 million (\$0.32 per share) at 31 December 2014, compared with \$360 million at the end of November and \$465 million at 30 September 2014. Cash outgoings during the December quarter included the payment of \$44 million in dividends, \$15 million on fleet and equipment purchases, \$6 million for redundancies following the failure of the Main Pit seawall at Koolan Island, and \$5 million related to settlement of historic disputes.

### **Sales guidance**

With Extension Hill expected to maintain its strong performance, and additional sales planned from the Acacia East satellite pit on Koolan Island, Mount Gibson has increased its sales guidance for the 2015 financial year to a range between 4.8 and 5.2 million tonnes.

### **Koolan Island insurance**

As indicated during the quarter, Mount Gibson has insurance policies for a variety of circumstances, including property damage and business interruption. Discussions with the Company's insurers commenced in December with regard to the failure of the Koolan Island seawall and continue to progress. It is not yet possible to accurately estimate the potential quantum or timing of any claim.

### **Corporate office restructuring**

Consistent with Mount Gibson's ongoing focus on cost reduction and business efficiency, corporate staffing levels have been progressively reducing to match changing operational support requirements following the seawall failure and ramp-down at Koolan Island. To date, approximately 20 corporate office roles have been affected. Mount Gibson will continue to assess staffing on the basis of organisational requirements. Corporate redundancy costs are captured within the Company's \$11 million total redundancy cost estimate.

### **Impairment and half yearly financial results**

As part of its normal period-end reporting obligations, the Company is reviewing the carrying value of its assets at 31 December 2014 in light of changed market conditions and developments at Koolan Island. As indicated during the quarter<sup>3</sup>, Mount Gibson anticipates that a substantial non-cash impairment is likely when it reports its financial results for the six months to 31 December 2014.

Based on preliminary evaluation, Mount Gibson anticipates this non-cash impairment to total between \$850 million and \$950 million before tax. This will be in addition to the previously flagged non-cash write-off of a \$46 million deferred tax asset related to the Mineral Resources Rent Tax (MRRT) which was repealed by the Australian Senate, effective 1 October 2014.

The Company expects to release its financial results for the six months to 31 December 2014 in the second half of February 2015.

### **WA Iron Ore Royalty Relief Initiative**

On 12 December 2014, the State Government of Western Australia announced it would make temporary relief available to eligible junior iron ore miners in the form of a 50 per cent rebate on hematite iron ore royalties for up to 12 months, subject to the miner's average realised FOB iron ore price remaining below A\$90/dmt tonne over the period. Rebates would be repayable within 2 years from the conclusion of the assistance period.

<sup>2</sup> Quarterly sales revenue figures are unaudited.

<sup>3</sup> Refer ASX release dated 5 December 2014

Mount Gibson welcomes the WA Government's demonstration of support for the junior iron ore sector in challenging conditions, and has submitted an application for relief.

### **Annual General Meeting**

The Company held its Annual General Meeting on 12 November 2014<sup>4</sup>.

#### **JIM BEYER**

Chief Executive Officer

28 January 2015

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Mount Gibson will host an analysts/institutions teleconference at **3.30pm AEDT (12.30pm WST)** on 28 January 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).

#### **Competent Persons Attribution:**

##### **Mount Gibson Iron Exploration Results**

The information in this report that relates to Exploration Results including sampling techniques and data is based on information compiled by Gregory Hudson, a Competent Person who is a member of the Australian Institute of Geoscientists. Gregory Hudson is an employee of Mount Gibson Iron Limited, and he has sufficient experience 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 December 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Gregory Hudson consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

<sup>4</sup> Refer ASX release dated 12 November 2015

## APPENDIX A

### Quarterly Operating Statistics by Site

	Dec-2013 Quarter	Mar-2014 Quarter	Jun-2014 Quarter	Sep-2014 Quarter	Dec-2014 Quarter	<i>FY</i> <i>2014-15</i>
<b>KOOLAN ISLAND</b>	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	<b>(kwmt)</b>
<b>Mining &amp; Crushing</b>						
Waste mined	5,436	7,335	6,321	8,409	5,171	13,580
Ore mined	665	446	874	668	425	1,093
Ore crushed	915	468	1,257	908	297	1,205
<b>Shipping/Sales</b>						
Standard DSO Lump	221	-	220	210	42	252
Standard DSO Fines	508	281	835	568	147	715
Rizhao Special Product (RSP)	202	212	148	146	142	287
<b>Total</b>	<b>931</b>	<b>493</b>	<b>1,203</b>	<b>923</b>	<b>331</b>	<b>1,254</b>
<b>TALLERING PEAK</b>	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	<b>(kwmt)</b>
<b>Mining &amp; Crushing</b>						
Waste mined	1,137	1,328	545	-	-	-
Ore mined	484	661	412	-	-	-
Ore crushed	571	659	698	-	-	-
<b>Shipping/Sales</b>						
Standard DSO Lump*	411	227	-	116	-	116
Standard DSO Fines	239	176	-	118	-	118
Low Grade DSO*	245	417	481	-	58	58
<b>Total</b>	<b>895</b>	<b>820</b>	<b>481</b>	<b>234</b>	<b>58</b>	<b>292</b>
<b>EXTENSION HILL</b>	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	<b>(kwmt)</b>
<b>Mining &amp; Crushing</b>						
Waste mined	467	323	523	607	590	1,197
Standard ore mined	385	600	711	973	619	1,592
Low-grade ore mined <sup>#</sup>	156	167	210	279	255	534
Total ore mined	541	767	921	1,252	874	2,126
Ore crushed	573	654	789	954	743	1,697
<b>Shipping/Sales<sup>^</sup></b>						
Standard DSO Lump	370	354	604	317	544	861
Standard DSO Fines	297	355	313	388	303	691
<b>Total</b>	<b>667</b>	<b>709</b>	<b>916</b>	<b>705</b>	<b>847</b>	<b>1,552</b>
<b>CONSOLIDATED DATA</b>	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	<b>(kwmt)</b>
<b>Mining &amp; Crushing</b>						
Total waste mined	7,041	8,987	7,389	9,016	5,761	14,777
Total ore mined	1,691	1,874	2,207	1,920	1,299	3,219
Total ore crushed	2,059	1,780	2,744	1,862	1,041	2,903
<b>Shipping/Sales</b>						
Standard DSO Lump*	1,001	581	824	643	586	1,229
Standard DSO Fines	1,045	811	1,148	1,074	450	1,525
Low Grade DSO*	245	417	481	-	58	58
RSP	202	212	148	146	142	287
<b>Total</b>	<b>2,493</b>	<b>2,021</b>	<b>2,600</b>	<b>1,863</b>	<b>1,236</b>	<b>3,099</b>

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.

<sup>^</sup>Includes mine gate sales totalling 72kwmt of DSO lump and 34kwmt of DSO fines in the September 2014 quarter, and 121 kwmt of DSO lump and 17kwmt of DSO fines in the June 2014 quarter.

<sup>#</sup> 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 waste for accounting purposes.

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