Mount Gibson Iron

Mount Gibson Iron Limited

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8 February 2011

Pages = 26

The Manager
Company Announcements
ASX Limited
Level 10, 20 Bond Street
SYDNEY NSW 2000

SUBJECT: 31 DECEMBER 2010 HALF-YEAR FINANCIAL STATEMENTS

Mount Gibson Iron Limited ("**Mount Gibson**") (ASX Code MGX) is pleased to announce a net profit after tax of $140.0 million for the 6 months ended 31 December 2010. The key financial results for each of the last 3 consecutive six month periods is summarised as follows:

		6 months ended 31 Dec 2009	**6 months ended 30 June 2010**	**6 months ended 31 Dec 2010**
Tonnes mined	*wmt (mill)*	3.68	3.60	**3.13**
Tonnes sold	*wmt (mill)*	3.38	3.10	**3.24**
Sales revenue	*$ mill*	242.3	294.0	**382.1**
Interest income	*$ mill*	4.4	14.6	**10.5**
Cost of goods sold	*$ mill*	(189.1)	(168.5)	**(189.9)**
Gross profit	*$ mill*	**57.6**	**140.1**	**202.7**
Other income	*$ mill*	13.8	6.6	**-**
Admin and other expenses	*$ mill*	(10.5)	(10.3)	**(10.3)**
Unrealised FX (loss) / gain	*$ mill*	4.2	2.1	**-**
Foreign exchange derivatives mark-to-market (loss) / gain	*$ mill*	(0.5)	3.4	**14.1**
Operating profit before interest & tax	*$ mill*	**64.6**	**141.9**	**206.5**
Finance costs	*$ mill*	(8.8)	(9.4)	**(8.5)**
Net profit before tax	*$ mill*	**55.8**	**132.5**	**198.0**
Tax (expense)	*$ mill*	(16.4)	(39.5)	**(58.0)**
Net profit after tax	*$ mill*	**39.4**	**93.0**	**140.0**

The appendix 4D and half year financial statements are attached.

Mount Gibson's Managing Director Luke Tonkin said: "The strong half year result reflected record iron ore sales revenue resulting from strong sales volumes from our operations and strengthening iron ore prices. Pleasing too was the significant progress made at Extension Hill, the reduction in Mount Gibson's debt and the strong cash generation of the business."

Yours sincerely,
MOUNT GIBSON IRON LIMITED

David Berg
Company Secretary

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APPENDIX 4D

This Half Year Report is provided to the Australian Securities Exchange (ASX) under ASX Listing Rule 4.2A.3

Current Reporting Period: 31 December 2010

Previous Corresponding Period: 31 December 2009

RESULTS FOR ANNOUNCEMENT TO THE MARKET

		A$ mill
Revenue from ordinary activities	Up 59% to	$392.6
Profit from ordinary activities after tax attributable to members	Up 255% to	$140.0
Net profit for the period attributable to members	Up 255% to	$140.0

DIVIDENDS

No dividends have been paid or declared during the year

NET TANGIBLE ASSET BACKING

Consolidated Entity		2010	2009
Net tangible assets	*$ mill*	1,072.1	839.9
Fully paid ordinary shares on issue at Balance Date		1,082,570,693	1,077,174,611
Net tangible asset backing per issued ordinary share as at balance date (cents)	*c/share*	99.0	77.9

DETAILS OF ENTITIES OVER WHICH CONTROL GAINED OR LOST DURING THE PERIOD

None.

STATUS OF AUDIT

This Half Year Report is based on accounts that have been reviewed.

COMMENTARY

It is recommended that the half-year report is read in conjunction with the Annual Financial Report of Mount Gibson Iron Limited as at 30 June 2010 together with any public announcements made by Mount Gibson Iron Limited during the half-year ended 31 December 2010 in accordance with the continuous disclosure obligations under the Corporations Act 2001.

Mount Gibson Iron

MOUNT GIBSON IRON LIMITED AND CONTROLLED ENTITIES

ABN 87 008 670 817

FINANCIAL REPORT

FOR THE HALF-YEAR ENDED

31 DECEMBER 2010

Financial Report

For the half-year ended 31 December 2010

Directors' Report

Your Directors submit their report for the half-year ended 31 December 2010 for the Group incorporating Mount Gibson Iron Limited ("**Company**" or "**Mount Gibson**") and the entities that it controlled during the half-year ("**Group**").

DIRECTORS

The names of the Company's directors in office during the half-year and until the date of this report are as below. Directors were in office for the entire period unless otherwise stated.

Craig Readhead	*Non-Executive Chairman (appointed Chairman on 17 November 2010)*
Luke Tonkin	*Managing Director*
Ian Macliver	*Non-Executive Director*
Alan Jones	*Non-Executive Director*
Cao Zhong	*Non-Executive Director*
Chen Zhouping	*Non-Executive Director*
Lee Seng Hui	*Non-Executive Director*
Neil Hamilton	*Non-Executive Chairman until 17 November 2010*
Peter Knowles	*Non-Executive Director until 17 November 2010*
Alan Rule	*Alternate Director to Luke Tonkin*
Robert Willcocks	*Alternate Director to Lee Seng Hui*

David Berg is the Company Secretary.

CORPORATE INFORMATION

Corporate Structure

Mount Gibson is a company limited by shares that is incorporated and domiciled in Australia. It is the ultimate parent entity and has prepared a consolidated half-year financial report incorporating the entities that it controlled during the half-year.

Nature of Operations and Principal Activities

The principal activities of the entities within the Group are:

- mining of hematite deposits at Tallering Peak;
- mining of hematite deposits at Koolan Island;
- development of hematite mining operations at Extension Hill; and
- review and evaluation of growth opportunities in the resource sector.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 3 November 2010, Mount Gibson announced that it had reached agreement with two of its customers, Shougang Concord International Enterprises Company Limited ("**Shougang**") and APAC Resources Limited ("**APAC**"), on a revised pricing mechanism to apply under ore sales agreements for Tallering Peak and Koolan Island iron ore product ("**Sales Agreements**"). The revised pricing mechanism will now reflect a market based clearing index. Previously, pricing under the Sales Agreements was based on the annual benchmark price set by Rio Tinto and its subsidiaries for its Pilbara blend lump and fines products. As no benchmark price had been announced by Rio Tinto for the 2010/11 year Mount Gibson negotiated with Shougang and APAC a revised pricing mechanism to apply in place of the benchmark price. The agreed revised pricing mechanism adopts the Platts Iron Ore Index Price ("**Platts Index**") which is published daily for iron ore product with Fe content ranging from 58% to 65% and is quoted on a US$ per dry metric ton CFR North China basis. The price to be paid by Shougang and APAC for Mount Gibson's Tallering Peak and Koolan Island iron ore will be based on the applicable Platts Index for the type and quality of ore delivered and will reflect the average Platts Index for the preceding calendar month of the iron ore shipment. The average monthly Platts Index will be converted to an FOB price per dry metric ton by deducting the calculated shipping freight costs utilising corresponding shipping average monthly indices for Panamax vessels from the ports of Geraldton and Koolan Island to Qingdao. Lump iron ore will receive a premium to the published Platts Index price.

Mount Gibson has continued to negotiate with Shougang and APAC a revised pricing mechanism to apply in place of the benchmark price at Extension Hill and has, to date, been unable to agree a revised pricing mechanism as contemplated by the sales agreements. Consequently Mount Gibson will openly market all iron ore sales from Extension Hill to potential customers other than Shougang and APAC ensuring acceptable commercial terms and conditions prior to commencement of shipping in the first half of the 2011/12 financial year.

Mount Gibson reached agreement with Stemcor (S.E.A.) Pte Ltd on a revised pricing mechanism to apply under the long term ore sales agreement for Tallering Peak which also reflects a market based clearing price.

Mount Gibson is currently in the process of negotiating a revised pricing mechanism similar to recent announcements with its other two remaining Koolan offtake customers.

Until November 2008, the Group had in place a number of long term offtake agreements with various traders and steel mills covering life of mine production from each of Tallering Peak, Koolan Island and Extension Hill. Those agreements provided for the Group to sell ore at prices determined by reference to the Hamersley Benchmark Iron Ore Price. During the December 2008 quarter Mount Gibson announced that a number of its customers had failed to collect iron ore cargoes in accordance with binding long term offtake agreements. Agreements with three of these customers namely, Pioneer Iron and Steel Group Co Ltd ("**Pioneer**"), Rizhao Steel Holding Group Co Ltd ("**Rizhao**") and Sinom (Hong Kong) Ltd ("**Sinom**"), were subsequently terminated in accordance with their terms. The Group reached a settlement with Sinom Ltd on 29 October 2009 and the full amount due under the settlement was satisfied on 10 May 2010. Arbitration proceedings were completed between the Group and the other two former customers with Mount Gibson seeking to recover the losses it claims arising from the breach and subsequent termination of the agreements:

- On 23 July 2010 Mount Gibson advised ASX that the arbitrator in the arbitration between its subsidiary, Mount Gibson Mining Limited ("**MGM**") and Pioneer found that Pioneer repudiated its obligations under the long term agreement with MGM for the supply of iron ore and that MGM was entitled to damages for the loss of its bargain. The arbitrator has awarded MGM US$23.14 million in damages plus MGM's costs of the arbitration. However, following the conclusion of the arbitral hearing and before the arbitrators reasons were handed down, Pioneer placed itself into insolvent liquidation meaning that MGM's entitlement to receive the final arbitral award will rank with other unsecured creditors of Pioneer. Pioneer's liquidators are yet to advise what dividend if any they expect to declare other than to say that Pioneer's asset position is very unclear.
- On 17 August 2010 Mount Gibson advised ASX that the arbitrator in the arbitration between its subsidiaries, MGM, Koolan Iron Ore Pty Limited ("**Koolan**") and Rizhao found that Rizhao repudiated its obligations under the long term agreement with MGM and Koolan for the supply of iron ore and that MGM and Koolan was entitled to damages for the loss of its bargain. The arbitrator has awarded MGM US$114 million in damages plus interest of 6% from the date of award plus MGM's costs of the arbitration. MGM and Koolan will vigorously pursue Rizhao with all means possible to recover the amount owing.

Neither of these two arbitration awards have been recognised in the financial statements to date.

DIVIDENDS

No dividends were paid during the period and no recommendation is made as to dividends.

REVIEW AND RESULTS OF OPERATIONS

Operating Results for the Period

Summarised operating results for the Group for the half-year ended 31 December 2010 were:

	CONSOLIDATED	
	31 December 2010 $'000	**31 December 2009 $'000**
Operating profit from Continuing Operations before tax	**197,944**	**55,759**
Taxation expense	(57,966)	(16,404)
Net profit after tax attributable to Members of the Company	**139,978**	**39,355**

Tallering Peak Hematite Operations

Tallering Peak had a sound production performance for the half-year with increased material movement and tonnes sold 5.3% above the previous corresponding half-year.

During the half-year, high grade ore was sourced from T6a3 and blended with existing ore stockpiles whilst mining from the T2 and T5 pits was completed.

As at 31 December 2010, 1.95 million tonnes of iron ore was stockpiled.

TALLERING PEAK PRODUCTION SUMMARY FOR 6 MONTHS	Unit	Sept Qtr 2010 '000	Dec Qtr 2010 '000	YTD 2010 '000	YTD 2009 '000	*% incr / (decr)*
Mining						
- Waste Mined	*bcm*	2,543	2,268	**4,811**	***3,290***	***46.2%***
- Ore Mined	*wmt*	921	512	**1,433**	***1,855***	***(22.7%)***
Crushing						
- Lump	*wmt*	437	435	**872**	***822***	*6.1%*
- Fines	*wmt*	324	388	**712**	***772***	*(7.8%)*
Total	*wmt*	**761**	**823**	**1,584**	***1,594***	***(0.6%)***
Transport to Mullewa Railhead						
- Lump	*wmt*	443	385	**828**	***803***	*3.1%*
- Fines	*wmt*	447	310	**757**	***743***	*1.9%*
Total	*wmt*	**890**	**695**	**1,585**	***1,546***	***2.5%***
Transport to Geraldton Port						
- Lump	*wmt*	329	387	**716**	***986***	*(27.4%)*
- Fines	*wmt*	395	412	**807**	***529***	*52.6%*
Total	*wmt*	**724**	**799**	**1,523**	***1,515***	***0.5%***
Shipping						
- Lump	*wmt*	286	474	**760**	***983***	*(22.7%)*
- Fines	*wmt*	401	416	**817**	***515***	*58.6%*
Total	*wmt*	**687**	**890**	**1,577**	***1,498***	***5.3%***

Expenditure on waste development at Tallering Peak during the half-year was as follows:

TALLERING PEAK		**6 Months ended 31 Dec 2010**	**6 Months ended 30 June 2010**	**6 Months ended 31 Dec 2009**	**6 Months ended 30 June 2009**
Waste mined	*mill bcm*	4.81	4.53	3.29	3.23
Ore mined	*mill bcm*	0.34	0.46	0.42	0.27
Ore mined	*mill wmt*	1.43	1.95	1.86	1.19
Deferred waste capitalised	*$ mill*	52.38	44.64	40.7	39.3
Amortisation of deferred waste	*$ mill*	(47.71)	(61.98)	(53.3)	(33.5)

Koolan Island Hematite Operations

Koolan Island which is located in the Buccaneer Archipelago of Yampi Sound in Western Australia was opened by BHP in 1965 and operated until 1993. BHP mined approximately 68 million tonnes of high grade hematite ore from five pits at Koolan – Main, Mullet, Eastern, Barramundi and Acacia.

The Koolan orebodies are tabular, generally high-grade hematite bodies which are estimated to produce a 30% Lump 70% Fines product with consistently high grades from the Main Ore body (>67% Fe). Initial production from established satellite pits of Mullet, Acacia and Barramundi, which contain lower Fe% and higher contaminants than ore from the Main Pit, has produced approximately 40% Lump 60% Fines product.

Ore production for the half-year was 7% below the corresponding period last year with total material movement 23% below the corresponding period last year as the floor areas of existing pits reduced significantly restricting equipment productivity. Adverse wet weather conditions also reduced total material movement.

Equipment scheduled to mobilise to Koolan Island in the December quarter to increase total material movement was delayed and will mobilise to site in the March 2011 quarter. The delay in equipment mobilisation is not expected to have a significant impact on annual iron ore sales.

Iron ore shipments exceed Mount Gibson's half year projections. Ore crushed was 31% below the corresponding quarter last year with Koolan Island drawing down final product ore stockpiles allowing major maintenance repairs on both the primary and secondary crusher circuits. A primary crusher swing stock replacement is scheduled for the March quarter.

The primary supply of high grade ore from Koolan Island was sourced from Mullet Acacia pit whilst Barramundi West ore provided a secondary ore source.

The wet season in the Kimberley region typically commences in November and persists through to April during which time monsoonal activity intensifies causing significant rainfall events and cyclonic events. Koolan Island's total material movement and shipping activity generally reduces during this period and is forecast to increase from April as weather improves.

Rehabilitation of Main Pit is progressing as scheduled whilst the outer seawall embankment is due to be completed by the end of April with mining of the first Main Pit ore to commence in the first quarter of the 2011/12 financial year.

As at 31 December 2010, 1.09 million tonnes of iron ore was stockpiled.

KOOLAN PRODUCTION SUMMARY FOR 6 MONTHS	Unit	Sept Qtr 2010 '000	Dec Qtr 2010 '000	YTD 2010 '000	YTD 2009 '000	*% incr / (decr)*
Mining						
- Waste mined	*bcm*	3,001	2,536	**5,537**	***7,250***	***(23.6%)***
- Ore mined	*wmt*	919	775	**1,694**	***1,824***	***(7.1%)***
Crushing						
- Lump	*wmt*	277	308	**585**	***646***	*(9.4%)*
- Fines	*wmt*	397	357	**754**	***1,291***	*(41.6%)*
Total		**674**	**665**	**1,339**	***1,937***	***(30.9%)***
Shipping						
- Lump	*wmt*	286	287	**573**	***639***	*(10.3%)*
- Fines	*wmt*	515	578	**1,093**	***1,245***	*(12.2%)*
Total		**801**	**865**	**1,666**	***1,884***	***(11.6%)***

Expenditure on waste development at Koolan Island during the half-year was as follows:

KOOLAN		6 Months ended 31 Dec 2010	6 Months ended 30 June 2010	6 Months ended 31 Dec 2009	6 Months ended 30 June 2009
Waste mined	*mill bcm*	5.54	5.97	7.25	5.12
Ore mined	*mill bcm*	0.52	0.51	0.58	0.65
Ore mined	*mill wmt*	1.69	1.65	1.82	1.92
Deferred waste capitalised	*$ mill*	91.53	85.93	88.60	71.90
Amortisation of deferred waste	*$ mill*	(57.59)	(49.48)	(54.70)	(57.80)

Extension Hill Direct Shipping Ore Project ("DSO Project")

Located in the Mount Gibson Ranges, 85 kilometres east of Perenjori and 260 kilometres east south east of Geraldton, the Extension Hill hematite deposit has Ore Reserves of 14.3 million tonnes and Mineral Resources of 22.1 million tonnes.

In January 2010 Mount Gibson recommenced the Extension Hill project. Construction and development is scheduled to be completed by June 2011 incurring $85 million of capital expenditure.

Mount Gibson also has in place track access and rail haulage agreements to cater for at least 3 million tonnes per annum of production. All the rail wagons required to meet Extension Hill's production targets have been delivered and a $90 million upgrade of the existing line between Geraldton and Perenjori by Westnet Rail Pty Ltd will be completed by June 2011, with ore shipments to commence thereafter.

The DSO Project will have very similar operational characteristics to Mount Gibson's Tallering Peak operation with the added advantage of a lower strip ratio. Ore mined from Extension Hill will be crushed and screened on site, transported by sealed road 85 kilometres to Perenjori and loaded onto rail wagons for a 235 kilometre journey to the Geraldton Port. Ore will be stored at the Geraldton Port at Mount Gibson's ore storage facilities being constructed next to the new Berth 5 iron ore ship loading facility and loaded from Berth 5 for export. An upgrade of rail unloading facilities necessary to ensure greater utilisation of the latent capacity at the Geraldton Port remains with the GPA to construct however Mount Gibson has agreed to fund the upgrade.

Mining operations commenced at Extension Hill in December with 73 hectares being cleared, 8,100 BCM of topsoil recovered and 16,200 BCM of overburden blasted.

Initial clearing and pioneering works is being completed under contract over a six month period prior to Mount Gibson introducing owner mining on site.

SIGNIFICANT EVENTS AFTER BALANCE DATE

On 28 January 2011, Mount Gibson repaid in full the remaining Senior Debt of $35 million.

As at the date of this report, there are no other significant events after balance date of the Group that require adjustment of or disclosure in this report.

ROUNDING

Amounts in this report and the accompanying financial report have been rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with section 307C of the *Corporations Act 2001*, the Directors received the attached independence declaration from the auditor of the Company on page 8 which forms part of this report.

Signed in accordance with a resolution of the Directors.

Craig Readhead
Director

Perth, Western Australia

8 February 2011

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Auditor's Independence Declaration to the Directors of Mount Gibson Iron Limited

In relation to our review of the financial report of Mount Gibson Iron Limited for the half-year ended 31 December 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin A Buckingham
Partner
Perth
8 February 2011

Consolidated Income Statement

For the half-year ended 31 December 2010

	Notes	31 December 2010 $'000	31 December 2009 $'000
CONTINUING OPERATIONS			
Sale of goods	3[a]	382,072	242,310
Other revenue	3[a]	10,455	4,424
TOTAL REVENUE		**392,527**	**246,734**
Cost of sales	3[d]	(189,941)	(189,136)
GROSS PROFIT		**202,586**	**57,598**
Other income	3[b]	50	17,967
Foreign exchange derivatives mark-to-market gain/(loss)		14,112	(472)
Administration expenses	3[e]	(10,272)	(10,508)
PROFIT FROM CONTINUING OPERATIONS BEFORE INCOME TAX AND FINANCE COSTS		**206,476**	**64,585**
Finance costs	3[c]	(8,532)	(8,826)
PROFIT FROM CONTINUING OPERATIONS BEFORE INCOME TAX		**197,944**	**55,759**
Income tax (expense)		(57,966)	(16,404)
NET PROFIT FOR THE PERIOD AFTER INCOME TAX ATTRIBUTABLE TO OWNERS OF THE COMPANY		**139,978**	**39,355**

Earnings per share for profit attributable to the ordinary equity holders of the Parent:	**Cents per share**	**Cents per share**
- basic earnings per share	12.95	3.66
- diluted earnings per share	12.94	3.65

Consolidated Statement of Comprehensive Income

For the half-year ended 31 December 2010

	31 December 2010 $'000	31 December 2009 $'000
NET PROFIT FOR THE PERIOD AFTER INCOME TAX	**139,978**	**39,355**
OTHER COMPREHENSIVE INCOME		
Change in fair value of cash flow hedges	(4,695)	18,353
Transferred to revenue in Income Statement	8,912	9,314
Deferred income tax on cash flow hedges	(1,723)	(8,300)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**2,494**	**19,367**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**142,472**	**58,722**

Consolidated Balance Sheet

As at 31 December 2010

	Notes	31 December 2010 $'000	30 June 2010 $'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	5	167,911	247,404
Term deposits		242,000	100,000
Trade and other receivables		29,230	33,979
Inventories		144,458	139,752
Prepayments		7,546	2,447
Derivatives		14,874	3,273
TOTAL CURRENT ASSETS		**606,019**	**526,855**
NON-CURRENT ASSETS			
Property, plant and equipment		154,574	163,343
Deferred acquisition, exploration, evaluation and development costs		112,896	69,739
Mine properties		582,288	536,111
TOTAL NON-CURRENT ASSETS		**849,758**	**769,193**
TOTAL ASSETS		**1,455,777**	**1,296,048**
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		106,181	97,297
Interest-bearing loans and borrowings	6	58,614	96,992
Derivative financial liabilities		5	1,808
Income tax payable		20,617	-
Provisions		4,065	3,328
TOTAL CURRENT LIABILITIES		**189,482**	**199,425**
NON-CURRENT LIABILITIES			
Provisions		19,547	19,104
Interest-bearing loans and borrowings	6	21,470	36,813
Deferred income tax liabilities		153,183	113,798
TOTAL NON-CURRENT LIABILITIES		**194,200**	**169,715**
TOTAL LIABILITIES		**383,682**	**369,140**
NET ASSETS		**1,072,095**	**926,908**
EQUITY			
Issued capital	7	561,746	559,207
Retained earnings		486,196	346,218
Reserves		24,153	21,483
TOTAL EQUITY		**1,072,095**	**926,908**

Consolidated Statement of Cash Flows

For the half-year ended 31 December 2010

	Notes	31 December 2010 $'000	31 December 2009 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		389,854	245,509
Payments to suppliers and employees		(223,162)	(181,546)
Interest paid		(7,128)	(7,150)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**159,564**	**56,813**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		8,966	4,066
Proceeds from convertible notes		-	1,000
Proceeds from sale of property, plant and equipment		-	4
Purchase of property, plant and equipment		(3,717)	(2,557)
Payment for term deposits		(142,000)	-
Payment for deferred exploration, evaluation and development expenditure		(34,586)	(2,725)
Payment for mine development		(11,797)	(7,760)
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES		**(183,134)**	**(7,972)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares		2,700	1,696
Proceeds from performance bonds		-	15,107
Repayment of lease liabilities		(8,168)	(9,154)
Repayment of borrowings		(50,000)	(801)
Borrowing costs		(455)	(5,887)
NET CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES		**(55,923)**	**961**
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(79,493)	49,802
Cash and cash equivalents at beginning of period		247,404	222,173
CASH AND CASH EQUIVALENTS AT END OF PERIOD	5[a]	**167,911**	**271,975**

As set out on the Consolidated Balance Sheet, the Group had in addition to the cash and cash equivalents above, $242,000,000 in Term Deposits at 31 December 2010 (31 December 2009: $nil).

Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2010

	Attributable to Equity Holders of the Parent					
	Issued Capital $'000	Retained Earnings $'000	Share Based Payments Reserve $'000	Net Unrealised Gains / (Losses) Reserve $'000	Consolidation Reserve $'000	Total Equity $'000
At 1 July 2009	**556,032**	**213,823**	**17,641**	**(3,823)**	**(3,192)**	**780,481**
Profit for the period	-	39,355	-		-	**39,355**
Other comprehensive income	-	-	-	19,367	-	**19,367**
Total comprehensive income for the period	**-**	**39,355**	**-**	**19,367**	**-**	**58,722**
Transactions with owners in their capacity as owners						
- Deferred income tax on capital raising costs	(161)	-	-	-	-	**(161)**
- Exercise of options	1,696	-	-	-	-	**1,696**
- Share based payments	-	-	614	-	-	**614**
At 31 December 2009	**557,567**	**253,178**	**18,255**	**15,544**	**(3,192)**	**841,352**
At 1 July 2010	**559,207**	**346,218**	**18,569**	**6,106**	**(3,192)**	**926,908**
Profit for the period	-	139,978	-	-	-	**139,978**
Other comprehensive income	-	-	-	2,494	-	**2,494**
Total comprehensive income for the period	**-**	**139,978**	**-**	**2,494**	**-**	**142,472**
Transactions with owners in their capacity as owners						
- Exercise of options	2,700	-	-	-	-	**2,700**
- Deferred income tax on capital raising costs	(161)	-	-	-	-	**(161)**
- Share based payments	-	-	176	-	-	**176**
At 31 December 2010	**561,746**	**486,196**	**18,745**	**8,600**	**(3,192)**	**1,072,095**

Notes to the Half-Year Financial Report

For the half-year ended 31 December 2010

1. CORPORATE INFORMATION

The financial report of Mount Gibson Iron Limited for the half-year ended 31 December 2010 was authorised for issue in accordance with a resolution of the directors on 8 February 2011.

The Company is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The address of the registered office is Level 1, 7 Havelock Street, West Perth, WA, 6005.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

(a) Basis of preparation

This general purpose condensed financial report for the half-year ended 31 December 2010 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001.*

The half-year financial report:

- does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the full financial report;
- should be read in conjunction with the Annual Financial Report of Mount Gibson Iron Limited as at 30 June 2010. It is also recommended that the half-year financial report be considered together with any public announcements made by Mount Gibson Iron Limited during the half-year ended 31 December 2010 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001* and Stock Exchange Listing Rules;
- has been prepared using the same accounting policies as used in the Annual Financial Report of the Company for the year ended 30 June 2010;
- has been prepared on a historical cost basis, except for derivative financial instruments and quoted available-for-sale financial assets that have been measured at fair value;
- complies with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board; and
- is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(b) Changes in accounting policies

The Group did not early adopt any Australian Accounting Standards that are not yet mandatory.
From 1 July 2010 the Group has adopted all Australian Accounting Standards and Interpretations mandatory for annual periods beginning on or after 1 July 2010, including:

- *AASB 101 Presentation of Financial Statements* The revised standard amends that the terms a liability that could at any time result in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification as current or non-current. The amendment has no impact.
- *AASB 107 Statement of Cash Flows* The revised standard amends that only expenditures that result in a recognised asset can be classified as a cash flow from investing activities. The amendment has no impact.
- *AASB 117 Leases* The revised standard removes specific guidance on classifying land as a lease so that only the general guidance remains. The amendment has no impact.
- *AASB 132 Financial Instruments: Presentation* The revised standard amends the definition of a financial liability to classify certain rights (and certain options or warrants) as equity instruments if they satisfy certain conditions. The amendment has no impact.
- *AASB 136 Impairment* The revised standard amends that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact.
- *Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments* The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are "consideration paid". As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that liability. The amendment has no impact.

Notes to the Half-Year Financial Report (continued)

	31 December 2010 $'000	31 December 2009 $'000
3. REVENUE AND EXPENSES		
[a] Revenue		
Sale of ore	373,160	232,996
Realised gain on foreign exchange hedges	8,912	9,314
	382,072	242,310
Other revenue		
Interest income	10,455	4,424
[b] Other income		
Arbitration settlement	-	13,773
Net realised gain on foreign exchange	27	34
Net unrealised gain on foreign exchange	-	4,157
Gain on sale of property, plant and equipment	-	3
Other income	23	-
	50	17,967
[c] Finance costs		
Finance charges on loans	6,284	6,250
Finance charges payable under finance leases	1,870	2,212
	8,154	8,462
Unwinding of discount on rehabilitation provision	378	364
	8,532	8,826
[d] Cost of Sales		
Mining costs	143,452	126,640
Mining depreciation	10,857	11,412
Mining waste costs deferred	(143,905)	(129,276)
Amortisation of mining waste costs deferred	105,296	108,042
Amortisation of other mine properties	10,595	13,783
Preproduction expenditure capitalised	(2,450)	-
Crushing costs	11,115	10,711
Transport costs	19,074	16,947
Port costs	8,833	9,482
Royalties	27,015	16,440
Depreciation	4,281	4,523
Net ore inventory movement	(4,222)	432
	189,941	189,136
[e] Administration Expenses include:		
Depreciation	156	140
Share-based payments expense	176	614
Exploration and evaluation costs written off	(13)	15
Net unrealised loss on foreign exchange	154	-
[f] Cost of Sales & Administration expenses include:		
Salaries, wages expense and other employee benefits	25,149	20,896
Operating lease rental – minimum lease payments	9,352	5,872

Notes to the Half-Year Financial Report (continued)

4. OPERATING SEGMENTS

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Managing Director and his management team in assessing performance and in determining the allocation of resources.

The reportable segments are based on aggregated operating segments determined by the similarity of activity type, as these are the sources of the Group's major risks and have the most effect on the rates of return. The Group's reportable segments are in the area of iron ore mining and processing in Western Australia. Each area of operation has been aggregated and therefore the operations of the Group present one operating segment under *AASB 8 Operating Segments.*

The accounting policies applied for internal reporting purposes are consistent with those applied in the preparation of the interim financial report.

5. CASH AND CASH EQUIVALENTS

	31 December 2010 $'000	30 June 2010 $'000
[a] Reconciliation of cash		
Cash at bank and in hand	65,950	47,497
Short-term deposits	101,961	199,907
	167,911	**247,404**

As set out on the Consolidated Balance Sheet, the Group had in addition to the cash and cash equivalents above, $242,000,000 in Term Deposits at 31 December 2010 (31 December 2009: $nil).

[b] Non-cash financing activities

During the period ended 31 December 2010, the Group acquired property, plant and equipment with an aggregate fair value of $2,808,354 (2009: $1,395,000) by means of finance leases and hire purchase agreements.

Notes to the Half-Year Financial Report (continued)

6. INTEREST-BEARING LOANS AND BORROWINGS

	Notes	31 December 2010 $'000	30 June 2010 $'000
Current			
Lease liability	[a]	5,036	5,456
Hire purchase facility	[b]	19,690	9,641
Corporate Debt	[c]	35,000	85,000
Capitalised corporate debt facility costs		(1,112)	(3,105)
		58,614	**96,992**
Non-Current			
Lease liability	[a]	27	1,094
Hire purchase facility	[b]	21,443	35,719
		21,470	**36,813**

Financing facilities available

At reporting date, the following financing facilities had been negotiated and were available:

	Notes	31 December 2010 $'000	30 June 2010 $'000
Total facilities:			
• Finance leases	[a]	5,063	6,550
• Hire purchase facility	[b]	41,133	45,360
• Contingent Instrument facility	[c]	65,000	65,000
• Corporate Debt	[c]	35,000	85,000
		146,196	**201,910**
Facilities used at reporting date:			
• Finance leases	[a]	5,063	6,550
• Hire purchase facility	[b]	41,133	45,360
• Contingent Instrument facility	[c]	55,338	55,338
• Corporate Debt	[c]	35,000	85,000
		136,534	**192,248**
Facilities unused at reporting date:			
• Finance leases		-	-
• Hire purchase facility		-	-
• Contingent Instrument facility		9,662	9,662
• Corporate Debt		-	-
		9,662	**9,662**

Notes to the Half-Year Financial Report (continued)

Terms and conditions relating to the above financial facilities:

[a] **Finance Lease Facility**

Finance leases are repayable monthly with final instalments due in July 2012. Interest is charged at an average rate of 8.96%. Secured by first mortgage over the leased assets.

[b] **Hire Purchase Facility**

Hire purchase arrangements have been entered into by Koolan Iron Ore Pty Ltd via a Master Lease agreement with Komatsu Corporate Finance Pty Limited and National Australia Bank Limited. Hire purchase amounts are repayable monthly with final instalments due in February 2015. Interest is charged at an average rate of 7.56%. Secured by first mortgage over the assets the subject of the hire purchase agreement and a guarantee from Mount Gibson Iron Limited. This facility is drawn and repayable in US$ for Komatsu and A$ for NAB.

[c] **Corporate Debt and Contingent Instrument Facility**

The Company has a Senior debt facility and Contingent Instrument facility as follows:

- Senior debt facility of $105,000,000 with the following repayment schedule:
    - $25,000,000 on 30 September 2010;
    - $25,000,000 on 30 December 2010;
    - $25,000,000 on 31 March 2011;
    - $30,000,000 on 30 June 2011; and
- Contingent Instrument facility of $65,000,000 (including guarantees, performance bonds) comprising 2 tranches:
    1. Tranche 1 for Koolan Island and Tallering Peak of $20,000,000;
    2. Tranche 2 for Extension Hill of $45,000,000.

The security pledge for these facilities is a fixed and floating charge over all the assets and undertakings of Mount Gibson Iron Limited, Mount Gibson Mining Limited, Geraldton Bulk Handling Limited, Koolan Iron Ore Pty Ltd and Aztec Resources Limited together with mining mortgages over the mining tenements owned by Mount Gibson Mining Limited and Koolan Iron Ore Pty Ltd and the contractual rights of Mount Gibson Mining Limited to mine hematite at Extension Hill.

$20,000,000 of the Senior debt facility was repaid during the year ended 30 June 2010 and a further $50,000,000 repaid in the 6 months to 31 December 2010.

Refer to note 10 Events after the Balance Sheet Date.

Notes to the Half-Year Financial Report (continued)

	Notes	31 December 2010 $'000	30 June 2010 $'000
7. ISSUED CAPITAL			
[a] Ordinary shares			
Issued and full paid	[b]	**561,746**	**559,207**

	31 December 2010	
	Number of Shares	$'000
[b] Movement in ordinary shares on issue		
Beginning of the half-year	**1,079,174,611**	**559,207**
Exercise of options	3,000,000	2,700
Exercise of performance rights	396,082	-
Deferred income tax on capital raising costs	-	(161)
End of the half- year	**1,082,570,693**	**561,746**

[c] Share options

As at balance date the following Options over unissued Shares were on issue:

Exercise Price	Exercise Date / Period	31 December 2010 Number	30 June 2010 Number
90 cents	On or before 23 October 2010	-	3,000,000
110 cents	On or before 23 October 2012	2,000,000	2,000,000
		2,000,000	**5,000,000**

Share options carry no right to dividends and no voting rights.

[d] Performance rights

The Company has established the Mount Gibson Iron Limited Performance Rights Plan. The rights were granted at no cost to the executives and will convert into ordinary shares on completion by the executive of three years' continuous service, subject to satisfaction of specified performance hurdles related to the Company's Total Shareholder Return measured against the TSR of a comparator group of companies over the same period.

During the 6 month period to 31 December 2010, no performance rights were issued.

As at 31 December 2010 there were 801,482 performance rights on issue (2009: 888,759).

8. DIVIDENDS PAID AND PROPOSED

No amounts have been paid, declared or recommended by the company by way of dividend since the commencement of the half-year.

Notes to the Half-Year Financial Report (continued)

9. FOREIGN EXCHANGE HEDGING

The Group is exposed to the risk of adverse movement in the A$ compared to the US$ as its iron ore sales receipts are denominated in US$. The Group uses derivative financial instruments to manage specifically identified foreign currency exposures by hedging a proportion of forecast US$ sales transactions in accordance with its risk management policy. The primary objective of using derivative financial instruments is to reduce the volatility of earnings and cashflows attributable to changes in the US$/A$ exchange rate and to protect against adverse movements in these rates. In addition, the majority of the hire purchase liabilities for the mining equipment at Koolan Island are denominated in US$.

The Group recognises derivative financial instruments at fair value at the date the derivative contract is entered into. The Group applies hedge accounting to forward foreign currency contracts and collar option contracts and US$ finance leases that meet the criteria of cash flow hedges.

During the 6 month period to 31 December 2010 the Group delivered into US dollar foreign exchange forward contracts totalling US$116,000,000 at a weighted average A$ rate of 0.8491.

At 31 December 2010 the foreign exchange hedge book totalling US$90,000,000 is made up of collar options profile totalling US$90,000,000 due in the 6 months ending 30 June 2011 - call price 0.8600 and put price 0.7700.

The hire purchase liabilities for the mining equipment at Koolan are denominated in US$. This non-derivative liability has been designated as a hedging instrument in a cash flow hedge to manage foreign exchange risk on highly probable US$ denominated sales with effect from 1 November 2009.

It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

10. EVENTS AFTER THE BALANCE SHEET DATE

On 28 January 2011, Mount Gibson repaid in full the remaining Senior Debt of $35 million.

As at the date of this report, there are no other significant events after balance date of the Group that require adjustment of or disclosure in this report.

11. COMMITMENTS

At 31 December 2010 the Group has commitments of:

- $7,595,000 (31 December 2009: $7,960,000) relating to operating leases for the provision of mobile fleet equipment and office rental;
- $46,196,000 (31 December 2009: $55,379,000) under finance leases and hire purchase liabilities which have been recognised in the Statement of Financial Position; and
- $1,948,000 (31 December 2009: $24,895,000) in relation to performance bonds to be issued progressively by 30 June 2011 pursuant to the Extension Hill rail contracts.

12. CONTINGENCIES

1. The Corporate Debt banks have provided the Group with performance bonds totalling $55,338,465 (30 June 2010: $55,338,465). The performance bonds relate to performance of environmental obligations and rail upgrades.
2. Legal proceedings have been initiated against Mount Gibson Mining Limited ("**MGM**") by Austman Pty Ltd ("**Austman**") in relation to a contract for the design and construction of the crusher at Extension Hill. Austman is seeking orders that MGM pay it the sum of $6,896,545 on a quantum meruit basis or alternatively as damages for breach of contract, plus interest accruing from 2 September 2008 until judgment plus costs. MGM denies the claim and will vigorously defend it. MGM is also counterclaiming damages from Austman for breach of contract. The precise quantum of MGM's claim has not yet been established but is expected to exceed $1,000,000.

There are no other contingent liabilities or contingent assets as at the date of this report.

Directors' Declaration

In accordance with a resolution of the directors of Mount Gibson Iron Limited, I state that:

In the opinion of the Directors:

a. the financial statements and the notes of the Group are in accordance with the *Corporations Act 2001*, including:

   i) giving a true and fair view of the financial position as at 31 December 2010 and the performance for the half-year ended on that date of the Group; and

   ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.

Craig Readhead
Director

Perth, 8 February 2011

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To the members of Mount Gibson Iron Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Mount Gibson Iron Limited, which comprises the balance sheet as at 31 December 2010, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the period.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Mount Gibson Iron Limited and the entities it controlled during the period, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Mount Gibson Iron Limited is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin A Buckingham
Partner
Perth
8 February 2011