



**MOUNT GIBSON IRON LIMITED**

**ABN 87 008 670 817**

**HALF-YEAR FINANCIAL REPORT**

**For the half-year ended**

**31 DECEMBER 2003**

# Half Year Financial Report

For The Half-Year Ended 31 December 2003

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# Directors' Report

Your Directors submit their report for the half-year ended 31 December 2003.

## 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.

Bill Willis (Chairman)

Brian Johnson (Managing Director)

Craig Readhead (Non-Executive Director)

Ian Macliver (Non-Executive Director)

## REVIEW AND RESULTS OF OPERATIONS

Pioneering development work at the Tallering Peak iron ore mine commenced in October 2003 and was completed in December 2003. Prior to commencement of work, Mount Gibson Mining Limited entered into contracts for crushing, road haulage and rail haulage, and leased or purchased the mining equipment necessary for operations. The Company also secured the prepayment of US\$6 million for ore sales to Stemcor (SEA) Limited to fund mine infrastructure.

In July 2003 Mount Gibson Mining Limited subscribed for additional shares in Asia Iron Pty Ltd resulting in a majority shareholding and there Asia Iron Pty Ltd is included in the consolidated group. The Directors have reviewed the carrying value of Asia Iron Pty Ltd and reduced it to \$6 million, resulting in a write-down of investments of \$4 million.

The Group recorded a half-year loss attributable to the members of \$10,358,935 (2002: \$1,467,028).

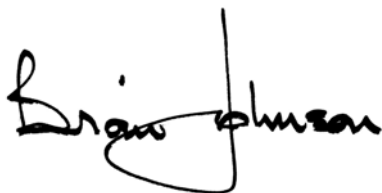
## SIGNIFICANT EVENTS AFTER BALANCE DATE

In January 2004 mining, trucking and railing of iron ore from Tallering Peak commenced. The first shipment left Geraldton Port for Nanjing China on 23 February 2004.

On 23 February 2004 Mount Gibson Iron Limited entered in to a contract with Hong Kong based Asia Iron Limited for the sale of up to 10mtpa of magnetite concentrate for 15 years.

Asia Iron Limited subscribed for 10 million shares at 20 cents, with 10 million attaching options exercisable at 25 cents on or before 31 December 2004, and agreed to subscribe for a further 15 million shares at 20 cents with attaching options, subject to shareholder approval. The Shareholder meeting to approve this placement will be held in April 2004.

Signed in accordance with a resolution of the Directors.



**Brian G Johnson**

**Managing Director**

Perth, 15 March 2004.

# Condensed Statement of Financial Performance

For The Half-Year Ended 31 December 2003

	Note	CONSOLIDATED	
		December 2003	December 2002
		\$	\$
<b>REVENUES FROM ORDINARY ACTIVITIES</b>	2	748,514	817,971
Cost of goods sold (Timber Business)		-	(579,143)
Operating expenses		(3,548,528)	(184,625)
Administration expenses		(1,002,143)	(224,795)
Corporate expenses		(222,224)	(193,192)
Borrowing expenses	3	(486,347)	(1,027,454)
Development costs		(1,687,349)	-
Property, plant and equipment sold		-	(23,396)
Listed investments sold		-	(52,250)
Write-down of tenements		(7,733,937)	-
Other expenses		-	(144)
<b>LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE</b>		(13,932,014)	(1,467,028)
INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES		-	-
<b>NET LOSS ATTRIBUTABLE TO OUTSIDE EQUITY INTEREST</b>		(3,573,079)	-
<b>NET LOSS ATTRIBUTABLE TO MEMBERS OF MOUNT GIBSON IRON LIMITED</b>		(10,358,935)	(1,467,028)
Capital raising costs		(150,000)	-
<b>TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS</b>		(10,508,935)	(1,467,028)
Basic earnings per share (cents per share)		(3.97)	(1.17)
Diluted earnings per share (cents per share)		(3.97)	(1.17)

# Condensed Statement of Financial Position

As at 31 December 2003

	Note	CONSOLIDATED	
		As at 31 December 2003 \$	As at 30 June 2003 \$
<b>CURRENT ASSETS</b>			
Cash assets		1,042,569	3,244,041
Fixed deposit	5	1,895,000	4,309,248
Receivables	6	2,073,351	163,927
Other		313,468	44,424
<b>TOTAL CURRENT ASSETS</b>		<b>5,324,388</b>	<b>7,761,640</b>
<b>NON-CURRENT ASSETS</b>			
Other financial assets	7	-	7,223,858
Property, plant and equipment		17,832,359	1,564,903
Acquisition, exploration, evaluation and development costs	8	15,002,202	8,833,133
Other		-	83,761
<b>TOTAL NON-CURRENT ASSETS</b>		<b>32,834,561</b>	<b>17,705,655</b>
<b>TOTAL ASSETS</b>		<b>38,158,949</b>	<b>25,467,295</b>
<b>CURRENT LIABILITIES</b>			
Payables	9	2,586,069	667,554
Interest-bearing liabilities	10	4,621,275	14,427
Provisions	11	41,295	12,014
<b>TOTAL CURRENT LIABILITIES</b>		<b>7,248,639</b>	<b>693,995</b>
<b>NON-CURRENT LIABILITIES</b>			
Payables	9	730,000	885,000
Interest-bearing liabilities	10	13,770,018	2,937,865
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>14,500,018</b>	<b>3,822,865</b>
<b>TOTAL LIABILITIES</b>		<b>21,748,657</b>	<b>4,516,860</b>
<b>NET ASSETS</b>		<b>16,410,292</b>	<b>20,950,435</b>
<b>EQUITY</b>			
Contributed equity	12	36,807,978	33,761,186
Accumulated losses	13	(23,169,686)	(12,810,751)
Outside equity interest		2,772,000	-
<b>TOTAL EQUITY</b>		<b>16,410,292</b>	<b>20,950,435</b>

# Condensed Statement of Cash Flows

Half-Year Ended 31 December 2003

	<b>CONSOLIDATED</b>	
	<b>December 2003</b>	<b>December 2002</b>
	\$	\$
<b>CASH FLOWS USED IN OPERATING ACTIVITIES</b>		
Receipts from customers	94,482	795,268
Payments to suppliers and employees	(4,661,057)	(1,599,091)
Interest received	138,062	87,940
Borrowing costs	(486,346)	(850,807)
<b>CASH FLOWS USED IN OPERATING ACTIVITIES</b>	<b>(4,914,859)</b>	<b>(1,566,690)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of property, plant and equipment	11,707	28,655
Purchase of property, plant and equipment	(8,049,182)	(2,256)
Loans to other entities	(72,189)	-
Purchase of controlled entity	(165,000)	
Purchase of prospects	-	(1,005,000)
Purchase of short-term deposit	-	(5,000,000)
Proceeds from sale of financial assets	-	39,586
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(8,274,664)</b>	<b>(5,939,015)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of ordinary shares	3,196,792	1,019,800
Proceeds from convertible notes	-	650,000
Payments for capital raising	(150,000)	(174,799)
Proceeds from borrowings	6,238,305	2,681,381
Repayment of finance lease	(159,112)	-
Repayment of hire purchase	(52,182)	-
Repayment of borrowings - other	(500,000)	(8,682)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>8,573,803</b>	<b>4,167,700</b>
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>	<b>(4,615,720)</b>	<b>(3,338,005)</b>
Add opening cash brought forward	7,553,289	3,403,260
<b>CLOSING CASH CARRIED FORWARD</b>	<b>2,937,569</b>	<b>65,255</b>

# Notes to the Financial Statements

31 December 2003

## 1. BASIS OF PREPARATION OF HALF-YEAR FINANCIAL REPORT

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 consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the Annual Financial Report of Mount Gibson Iron Limited as at 30 June 2003. It is also recommended that the half-year financial report be considered together with any public announcements made by Mount Gibson Iron Limited and its controlled entities during the half-year ended 31 December 2003 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

### (a) Basis of accounting

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

The half-year financial report has been prepared in accordance with the historical cost convention.

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

	<b>CONSOLIDATED</b>	
	<b>December 2003</b>	<b>December 2002</b>
	\$	\$
<b>2. REVENUE FROM ORDINARY ACTIVITIES</b>		
<b>Revenues from operating activities</b>		
Revenue	-	652,906
Total revenues from operating activities	-	652,906
<b>Revenues from non-operating activities</b>		
Rent	34,097	-
Interest – other persons/ corporations	138,063	87,940
Proceeds from disposal of property, plant and equipment	11,707	28,655
Proceeds from sale of listed investments	-	39,586
Unrealised gain on foreign exchange	374,414	-
Other revenue	190,234	8,884
Total revenues from non-operating activities	748,514	165,065
<b>Total revenues from ordinary activities</b>	748,514	817,971

# Notes continued

31 December 2003

	<b>CONSOLIDATED</b>	
	<b>December 2003</b>	<b>December 2002</b>
	\$	\$
<b>3. EXPENSES AND LOSSES</b>		
<b>a) Expenses</b>		
<i>Depreciation of non-current assets</i>		
Plant and equipment	92,306	15,478
Plant and equipment under lease	268,674	5,495
Total depreciation of non-current assets	<u>360,980</u>	<u>20,973</u>
Less: Depreciation capitalised	-	2,450
Total Depreciation expensed	<u><u>360,980</u></u>	<u><u>18,523</u></u>
 <i>Borrowing costs expensed</i>		
Interest expense		
- other	2,826	-
- finance lease	83,333	2,137
- hire purchase	16,602	3,389
- loans	83,982	-
- convertible notes	133,682	228,816
Other borrowing costs	<u>165,922</u>	<u>794,212</u>
Total borrowing costs	486,347	1,028,554
Less: Borrowing costs capitalised	-	1,100
Total borrowing costs expensed	<u><u>486,347</u></u>	<u><u>1,027,454</u></u>
 Operating lease rental	<u>264,942</u>	<u>86,692</u>
 <b>b) Losses/ (gains)</b>		
Net loss/ (gain) on disposal of financial assets	<u>-</u>	<u>12,664</u>
 Net loss/ (gain) on disposal of property, plant and equipment	<u>(6,225)</u>	<u>(5,529)</u>

## 4. INCOME TAX

### *Tax Consolidation*

For the purposes of income tax, Mount Gibson Iron Limited and its 100% owned subsidiaries intend to form a tax consolidated group. At the date of signing the financial report, Mount Gibson Iron Limited has not determined the date of entry into tax consolidation because this decision will be based upon the most favourable outcome in terms of the transitional rules in the tax consolidation legislation. The date of entry will be determined at the time the head company lodges its tax return.

As part of the entry into consolidation, it is anticipated that members of the group will enter into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis. In addition, it is anticipated that the agreement will provide for the allocation of income tax liabilities between the entities should the head entity default on its tax payments obligations.

No adjustments have yet been made to reflect the Company's possible intention to form a consolidated tax group.



# Notes continued

31 December 2003

	Note	CONSOLIDATED	
		December 2003 \$	June 2003 \$
<b>5. FIXED DEPOSITS</b>			
Fixed deposits		1,895,000	4,309,248
<b>6. RECEIVABLES</b>			
Trade debtors		5,704	4,264
Sundry debtors		1,995,158	82
Other receivables		72,489	159,581
		2,073,351	163,927
<b>7. OTHER FINANCIAL ASSETS</b>			
Asia Iron Pty Ltd		-	7,223,858

On 7<sup>th</sup> July 2003, Mount Gibson Mining Limited acquired an additional 825,000 shares in Asia Iron Pty Ltd, the company which holds the tenements at Mt Gibson, for \$165,000. Mount Gibson Mining Limited now holds 53.8% of Asia Iron Pty Ltd resulting in Asia Iron Pty Ltd becoming a subsidiary of Mount Gibson Iron Limited at 7<sup>th</sup> July 2003.

The value of the Mt Gibson Tenements, including outside equity interest, is therefore included in Acquisition, Exploration, Evaluation and Development Costs (refer Note 8) as at 31 December 2003.

Consideration	\$
- shares issued	-
- acquisition costs paid in cash	165,000
	<u>165,000</u>

Net assets of Asia Iron Pty Ltd at 7 July 2003

- Mt Gibson tenements	13,893,068
- creditors and accruals	(159,131)
	<u>13,733,937</u>

Net cash effect

Cash costs of acquisition	165,000
Cash included in net assets acquired	-
Cash paid for purchase of entity as reflected in the consolidated financial report	<u>165,000</u>

# Notes continued

31 December 2003

		<b>CONSOLIDATED</b>	
		<b>December 2003</b>	<b>June 2003</b>
		\$	\$
<b>8. ACQUISITION, EXPLORATION, EVALUATION AND DEVELOPMENT COSTS</b>			
Tallering Peak Hematite		4,837,969	4,837,968
Mt Gibson Hematite		4,064,994	3,995,165
Mt Gibson Magnetite	(a)	6,000,000	-
Other		99,239	-
		<b>15,002,202</b>	<b>8,833,133</b>

(a) The carrying value of the Mt Gibson Magnetite Project (previously disclosed as investment in Asia Iron Pty Ltd, refer Note 7) has been written-down based on a reduced expectation that this project will proceed in the near term.

## 9. PAYABLES

### Current

Trade creditors		1,942,729	388,438
Other creditors		643,340	279,116
		<b>2,586,069</b>	<b>667,554</b>

### Non-current

Other creditors		730,000	885,000
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## 10. INTEREST-BEARING LIABILITIES

### Current

Lease Liability		1,321,275	14,427
Unearned Revenue	(a)	3,300,000	-
		<b>4,621,275</b>	<b>14,427</b>

### Non-current

Convertible Notes		2,375,000	2,875,000
Lease Liability		6,964,460	62,865
Unearned Revenue	(a)	4,430,558	-
		<b>13,770,018</b>	<b>2,937,865</b>

(a) Stemcor (SEA) Limited agreed to prepay Mount Gibson Mining Limited US\$6 million for iron ore to be supplied under their Off-take Agreement. The final drawdown of US\$1.5 million of these funds was received on 5 January 2004. Repayment will occur over 18 months from the first shipment of ore to Stemcor (SEA) Limited. Interest is payable on the outstanding balance of the prepayment at 7.15% pa.

# Notes continued

31 December 2003

	<b>CONSOLIDATED</b>	
	<b>December 2003</b>	<b>June 2003</b>
	\$	\$
<b>11. PROVISIONS</b>		
<b>Current</b>		
Provision for Annual Leave	41,295	12,014
	<hr/>	<hr/>
<b>12. CONTRIBUTED EQUITY</b>		
<b>a) Issued and paid up capital</b>		
Ordinary Shares fully paid	36,807,978	33,761,186
	<hr/>	<hr/>

	<b>December 2003</b>		<b>June 2003</b>	
	<b>Number of Shares</b>	<b>\$</b>	<b>Number of Shares</b>	<b>\$</b>
<b>b) Movements in shares on issue</b>				
Beginning of the period	252,561,928	33,761,186	118,280,904	21,228,518
- public equity raising	-	-	126,281,008	11,365,291
- purchase of Tallering Peak	-	-	8,000,000	2,000,000
- equity placement	18,800,000	3,196,000	-	-
- exercise of Options	3,165	792	16	4
Less capital raising costs	-	(150,000)	-	(832,627)
End of the period	<hr/> 271,365,093	<hr/> 36,807,978	<hr/> 252,561,928	<hr/> 33,761,186

	<b>CONSOLIDATED</b>	
	<b>December 2003</b>	<b>June 2003</b>
	\$	\$
<b>13. ACCUMULATED LOSSES</b>		
Accumulated losses	(23,169,686)	(12,810,751)
	<hr/>	<hr/>
Balance at the beginning of the period	(12,810,751)	(460,108)
Net loss attributable to members of Mount Gibson Iron Limited	(10,358,935)	(12,350,643)
Balance at the end of the period	<hr/> (23,169,686)	<hr/> (12,810,751)

## 14. SUBSEQUENT EVENTS

In January 2004 mining, trucking and railing of iron ore from Tallering Peak commenced. The first shipment left Geraldton Port for Nanjing China on 23 February 2004.

On 23 February 2004 Mount Gibson Iron Limited entered in to a contract with Hong Kong based Asia Iron Limited for the sale of up to 10mtpa of magnetite concentrate for 15 years.

Asia Iron Limited subscribed for 10 million shares at 20 cents, with 10 million attaching options exercisable at 25 cents on or before 31 December 2004, and agreed to subscribe for a further 15 million shares at 20 cents with attaching options, subject to shareholder approval. The Shareholder meeting to approve this placement will be held in April 2004.

# Notes continued

31 December 2003

## 15. CONTINGENT ASSETS AND LIABILITIES

Since the last annual reporting date, there has been no change of any contingent liabilities or contingent assets.

	<b>CONSOLIDATED</b>	
	<b>December 2003</b>	<b>June 2003</b>
	<b>\$</b>	<b>\$</b>
<b>16. DISCONTINUING OPERATION</b>		
Whittakers Timber Pty Ltd ceased operations during the half-year ended 31 December 2002.		
The disposal of plant & equipment gave rise to the following items of revenue and expense during the half-year:		
Proceeds from the sale of plant & equipment	-	28,655
Costs of plant & equipment sold	-	(22,679)
Profit on sale of plant & equipment	-	5,976
Related income tax expense	-	(1,793)
Profit on sale (net of income tax expense)	-	4,183
The carrying amounts of total assets to be disposed of and total liabilities to be settled as at 31 December 2003 are as follows:		
Total Assets	-	213,045
Total Liabilities	-	213,045
Net Assets	-	-

## Notes continued

31 December 2003

### 17. SEGMENT INFORMATION

#### Segment products and locations

The Consolidated Entity operates primarily in the mining sector, through the exploration, evaluation and development of its iron ore deposits in the Mid-West region of Western Australia, however as the mining operations are in the development stage there has been no revenue or results directly attributable to that segment., prior to balance date.

Whittakers Timber Pty Limited sold timber to the building industry in the south-west of Western Australia.

The “other” segment includes revenues and expenses associated with an investment portfolio and investment properties purchased in prior years and divested during the half-year, and other revenues and expenses associated with general head office activities.

	Mining		Timber		Other		Consolidated	
	December 2003 \$	December 2002 \$	December 2003 \$	December 2002 \$	December 2003 \$	December 2002 \$	December 2003 \$	December 2002 \$
<b>Revenues</b>								
Sales to customers outside the Consolidated Entity	-	-	-	652,906	-	-	-	652,906
Other revenues from customers outside the Consolidated Entity	190,234	-	-	-	558,280	165,065	748,514	165,065
Total segment revenue	190,234	-	-	652,906	558,280	165,065	748,514	817,971
<b>Results</b>								
Segment result	(7,662,120)	-	-	(105,914)	(6,024,883)	(139,097)	(13,932,014)	(245,011)
Unallocated expenses							-	(1,222,017)
Net profit/ (loss)							(13,932,014)	(1,467,028)

## 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 notes of the consolidated entity:
  - i) give a true and fair view of the financial position as at 31 December 2003 and the performance for the half-year ended on that date of the consolidated entity; and
  - ii) comply with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- b. there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

On behalf of the Board

A handwritten signature in black ink that reads "Brian G Johnson". The signature is written in a cursive style with a large, prominent 'B' and 'J'.

**Brian G Johnson**

**Managing Director**

Perth, 15 March 2004.

## Independent review report to members of Mount Gibson Iron Limited

### Scope

#### *The financial report and directors' responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows and accompanying notes to the financial statements for the consolidated entity comprising both Mount Gibson Iron Limited (the company) and the entities it controlled during the period, and the directors' declaration for the company, for the period ended 31 December 2003.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 1029 "Interim Financial Reporting", in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### *Review approach*

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

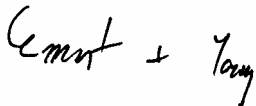
### Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

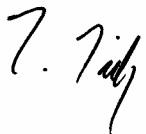
### Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity, comprising Mount Gibson Iron Limited and the entities it controlled during the period is not in accordance with:

- (a) the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2003 and of its performance for the period ended on that date; and
  - (ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia



Ernst & Young



V W Tidy  
Partner  
Perth

Date: 15 March 2004