

QUARTERLY REPORT



MOUNT GIBSON IRON LIMITED QUARTERLY REPORT FOR THE PERIOD ENDED 31 DECEMBER 2018 23 January 2019

Key Points*

- Quarterly sales of **1.0 million wet metric tonnes (Mwmt)**, for sales revenue of **\$72 million** Free on Board (FOB).
- Sales totalled **2.2 Mwmt** for the half year, in line with guidance, for revenue of **\$137 million** (FOB).
- Mid-West cash costs** of **\$37/wmt FOB** for the quarter and the half year, below guidance.
- Operating cashflow for the quarter of **\$35 million** before Koolan Island restart expenditure of \$42 million and payment of the \$18 million cash component of the final dividend for 2017/18.
- Cash and liquid investments of **\$431 million** at 31 December 2018, compared with \$452 million at the end of the prior quarter.
- High grade Koolan Island Restart Project almost complete with the seawall performing to expectations and first ore sales targeted for the end of the March 2019 quarter.
- Mining at the Mid-West Iron Hill deposit completed, with ore sales to conclude in the March quarter.

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

** Cash costs are reported FOB and include cash operating costs, royalties, sustaining capital expenditure and corporate costs.

Comment

Mount Gibson Chief Executive Officer, Peter Kerr, said: "Mount Gibson delivered another strong performance in the December Quarter. We maintained steady sales from the Mid-West as mining in the Iron Hill deposit wound down, and continued to make good progress at our high grade Koolan Island Restart Project in the Kimberley, where we are targeting first ore sales at the end of the March quarter.

"Total iron ore sales were just over 1.0Mt in the quarter and 2.2Mt for the half year, consistent with our annual guidance range. Mid-West cash costs for the quarter were below guidance at \$37/wmt FOB. Operational cashflow from the Mid West was solid at \$35 million, significantly better than the previous period due to higher realised prices and continued good cost control, offsetting our ongoing investment at Koolan Island, with cash and liquid investment reserves at quarter-end totalling \$431 million.

"We are in the transition phase of an exciting new stage in our business. Mining is now complete at Iron Hill and sales from the Mid-West are scheduled to conclude in the current quarter. Concurrently, the restart of the Koolan Island operation continues to progress well, and this will shortly establish Mount Gibson as Australia's highest grade supplier of direct-ship hematite iron ore.

"With the restart of Koolan Island and our robust balance sheet, Mount Gibson is well positioned to deliver value for shareholders."

PERFORMANCE AT A GLANCE

	Unit	Dec-2017 Quarter	Mar-2018 Quarter	Jun-2018 Quarter	Sep-2018 Quarter	Dec-2018 Quarter	2018/19 YTD
Standard DSO product sales	kwmt	781	917	845	1,149	1,012	2,161
Low Grade material sales [^]	kwmt	60	59	118	-	-	-
Total Ore Sales	kwmt	841	977	963	1,149	1,012	2,161
Ave. Platts 62%Fe CFR price	US\$/dmt	66	74	65	67	72	69
MGX FOB avge. realised fines price [#]	US\$/dmt	24	35	26	28	40	34
MGX FOB avge. realised lump price [#]	US\$/dmt	57	64	52	56	68	61
Minor discrepancies may occur due to rounding. [^] Refers to spot sales from crushed low grade material at the Extension Hill mine site. [#] Mount Gibson's realised FOB prices are for standard DSO fines and lump product from Iron Hill, after adjustments for shipping freight, grade, provisional invoicing adjustments and penalties for impurities. kwmt = thousand wet metric tonnes. US\$/dmt = USD per dry metric tonne.							

OPERATIONS

Ore sales totalled 1.0 Mwmt in the December quarter, all from the Company's Mid West operations. Sales comprised 475,000 wmt of standard DSO (Direct Shipping Ore) lump and 537,000 wmt of standard DSO fines from the Iron Hill mine. No low grade sales were undertaken in the quarter. Sales in the six months to 31 December 2018 totalled 2.2 Mwmt, consistent with full year guidance for Iron Hill of 2.0-2.3 Mwmt during 2018/19.

Operating statistics are tabulated in Appendix A.

Mid West Operations – Extension Hill/Iron Hill

The focus of activity during the quarter remained on completing production from Iron Hill, 3km south of the depleted Extension Hill pit. Mining finished as planned in December 2018. Ore will continue to be crushed and railed to Geraldton Port until the scheduled completion of ore sales in February 2019.

Sales of lump and fines from Iron Hill reduced by 12% in the quarter, reflecting the mine schedule in the final months of production. Lump sales accounted for approximately 47% of total DSO sales, compared with 53% in the prior quarter.

Site all-in cash costs¹ for Extension Hill/Iron Hill averaged \$37/wmt for the quarter and the half year, reflecting continued good cost control.

At the end of December, approximately 87,000 wmt of crushed high grade product was stockpiled at the mine. Stockpiles of uncrushed high grade material totalled 46,000 wmt and stockpiles of uncrushed lower grade material totalled 3.0 Mwmt grading 50-55% Fe. Crushed ore stockpiles at the Perenjori rail siding totalled approximately 114,000 wmt of high grade ore.

The average grade of Iron Hill lump sold during the quarter was 60.1% Fe while fines sold averaged 59.9% Fe, similar with the preceding quarter. DSO product grades are expected to decline slightly for the remaining sales.

As stated in the Company's financial results², the total closure and rehabilitation cost for the combined Extension Hill and Iron Hill mine sites is provisioned at approximately \$15 million (including site personnel redundancy costs), of which approximately \$8 million is expected to be spent during 2018/19.

¹ Site all-in cash costs are reported FOB and include royalties and capital expenditure, but are before corporate cost allocations.

² Refer ASX release dated 15 August 2018.

As previously stated, following achievement of a contractual rail volume threshold at Extension Hill last financial year, Mount Gibson has become entitled to receive a partial refund of historical rail access charges from railway leaseholder Arc Infrastructure based upon the future usage by certain third parties of specific segments of the Perenjori to Geraldton railway line. This entitlement will commence upon termination of the Company's existing rail agreements, now expected to occur during the current quarter. The refund is calculated at various volume-related rates, and capped at a total of approximately \$35 million (subject to indexation) and a time limit expiring in 2031. Receipt of this potential future refund is not certain and is fully dependent on the volumes railed by third parties on the specified rail segments.

Koolan Island

Site activity at Koolan Island again progressed significantly during the period with the project nearing completion (refer Figure 1). Mount Gibson continues to target first ore sales at the end of March 2019, however the Kimberley wet season is now well underway and there is potential for weather-related interruptions to impact on the schedule. Any delays are likely to be short.

Progress in all critical areas of the restart plan remains on track, whilst a strong safety performance has also been maintained, with no Lost Time Injuries recorded, and a Total Recordable Injury Frequency Rate (TRIFR) of 4.9 incidents per one million manhours worked.

The water level in Main Pit has now been reduced by over 50 metres since pumping commenced in August, with more than 16.5 million cubic metres of water having been extracted to date, representing almost 80% of the total water volume to be removed.

Importantly, the water level in the Main Pit is well below the in situ foundation rock on the pit side of the seawall, meaning the seawall has been under full tidal loads since late November. This has allowed the dewatering rate to be doubled to a targeted vertical reduction of half a metre per day. Critically, all instrumentation and monitoring data continues to demonstrate that the seawall and the impermeable seepage barrier installed within the seawall are performing to design expectations. Dewatering has now also exposed waste rock in the centre of the pit that was deposited by the seawall breach in 2014. The remaining water is now contained within separate pit lakes at the east and west ends of the Main Pit.

Refurbishment of the island-side footwall of the Main Pit is tracking to plan, with barge-mounted shotcreting and the installation of safety mesh progressing well. The footwall works are designed to improve the geotechnical competence of the footwall and provide future protection for personnel and equipment working in the base of the pit.

Insurance cover for the site, including the constructed seawall and the footwall installations, was obtained in line with the Company's budget estimates during the quarter.

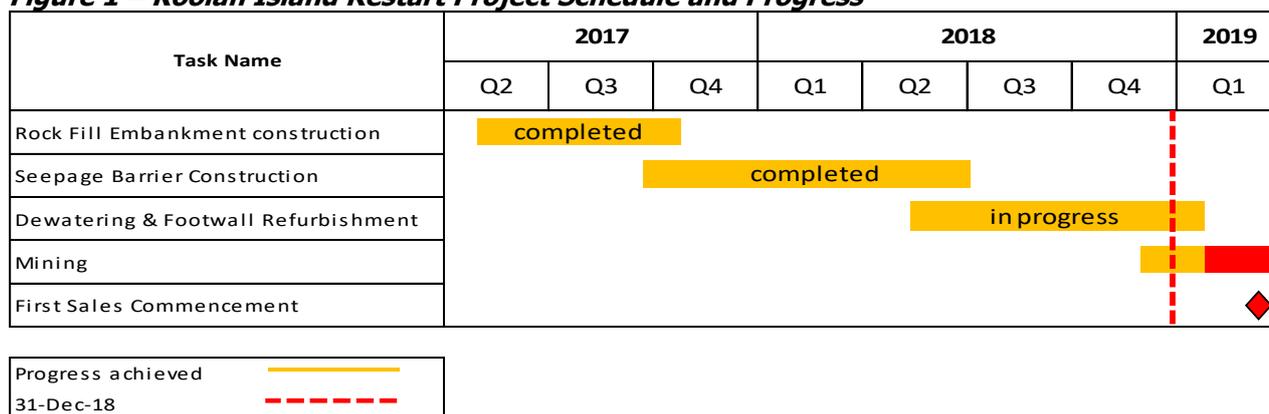
Drilling and blasting in the upper levels of Main Pit commenced in early November, and by the end of the quarter, 2.4 million tonnes of waste material had been moved. Mining is currently focused in the upper levels of the eastern end of the Main Pit, and on the exposed waste rock in the centre of Main Pit. The first benches of high grade iron ore are expected to be accessed in mid-February 2019.

The mining fleet currently comprises nine haul trucks and three excavators, with the latest addition being a new Hitachi 2600 excavator delivered to the island at the start of December. A further four hired haul trucks are scheduled to be delivered to the island in the March 2019 quarter. These haul trucks will cater for the higher mining movement in the first 2-3 years of the mine life, with Mount Gibson's owned fleet carrying the base production load throughout the mine life.

Refurbishment and maintenance of the crushing plant is well underway. Staged recommissioning activities have commenced, with refurbishment works focusing on the cone crusher, conveyor maintenance, structural steel repairs, overhaul of sample stations, and maintenance of plant electrics. Maintenance works have also now commenced on the shiploading facility.

Renovation works within the site accommodation camp, and recruitment of the 330 site-based employee and contractor positions, are scheduled to be completed during the March quarter.

Figure 1 – Koolan Island Restart Project Schedule and Progress



Cash expenditure on the Koolan Island Restart Project totalled approximately \$42 million in the quarter, comprising \$8 million of construction and dewatering expenditure, \$9 million of equipment purchases and capital refurbishment works, and \$25 million of mining and general pre-production expenditure.

Expenditure on the overall Koolan Island Restart Project since commencement in May 2017 to date has totalled approximately \$153 million. Peak cash draw is targeted at approximately \$175 million, subject to minimal wet season delays and shipments commencing in late March. In the event that first shipments are delayed, it is expected that any increase in peak cash draw will be promptly recovered from initial shipment revenues.

As previously reported, Koolan Island will be the highest grade direct shipping hematite mine in Australia, with total Ore Reserves of 21.0Mt grading 65.5% Fe. Full details of the project and key assumptions were reported in the Company's ASX release dated 20 April 2018.

CORPORATE³

Realised Pricing and Revenue

FOB ore sales revenue for all products sold totalled \$72 million in the December quarter and \$137 million for the half year.

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\$72 per dry metric tonne (dmt) compared with the US\$67/dmt average of the preceding quarter. The average price for the half year was US\$69/dmt CFR.

DSO lump from Iron Hill achieved an average realised price of US\$68/dmt FOB after grade and provisional pricing adjustments and penalties for impurities in the quarter, compared with US\$56/dmt in the prior quarter, and US\$61/dmt for the half year. The average realised price achieved for Iron Hill fines sold during the quarter was US\$40/dmt FOB, compared with US\$28/dmt in the September quarter, and US\$34/dmt for the half year, reflecting the continued impact of discounts on material grading below 62% Fe.

The price differential between the Platts 58% Fe and Platts 62% Fe price indices remained a significant impact on revenue during the period. However, seasonal factors and softer market conditions in the Chinese steel industry have resulted in recent reductions of the discount for 58% Fe grade materials (now circa 29%) and the premium for high grade products grading 65% Fe (currently circa 12%). Mount Gibson continues to expect the differential to remain a significant market feature, albeit subject to pinching and swelling in step with general market conditions.

Cash Position

The Company's cash and liquid investments totalled \$431 million at 31 December 2018, compared with \$452 million at 30 September 2018. The movement reflected a positive cash inflow from the Mid-West business of \$35 million, \$3 million of interest revenue, \$3 million of corporate office costs and \$4 million in favourable net working capital movements, before Koolan Island cash expenditure of \$42 million and payment of the \$18 million cash component of the 2017/18 final dividend.

³ Sales, cost and cash movement figures are unaudited.

Cost Performance and Group Sales Guidance

As noted above, Mid-West cash costs were \$37/wmt FOB for the quarter and half year. All-in group cash costs⁴ were \$41/wmt FOB in the quarter (September quarter: \$40/wmt FOB) and \$40/wmt in the half year.

As previously reported, Mount Gibson expects total sales of 2.7-3.3 Mwmt of iron ore at an average all-in group cash cost (excluding Koolan Island seawall construction and restart expenditure) of \$52-57/wmt FOB for the 2018/19 financial year. Of this, the Mid-West is expected to contribute 2.0-2.3 Mwmt at an average all-in cash cost of \$38-42/wmt FOB. Koolan Island is expected to contribute 0.7-1.0 Mwmt of high grade ore based on the current schedule, with site cash costs expected to average \$70-75/wmt FOB once sales commence. Costs at Koolan Island are projected to progressively decline over the mine life in line with the mine schedule as the strip ratio reduces each year.

Other

As previously announced, Mr Peter Kerr commenced in the role of Chief Executive Officer on 1 October 2018. Subsequently, the Company promoted Ms Gillian Dobson to succeed Mr Kerr as Chief Financial Officer, and promoted Mr Scott de Kruijff to the role of Chief Operating Officer. Other staff vacancies resulting from these promotions were also filled from within the Company.

On 14 November 2018, Mount Gibson held its 2018 Annual General Meeting. All resolutions were passed on a show of hands.

The Company expects to release its financial results for the half-year ended 31 December 2018 on 19 February 2019.

For further information:

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Mount Gibson will host an analysts/institutions teleconference at **11:00am AEDT (8:00am WST)** on **23 January 2018**. Investors will be able to listen in to the teleconference by dialling **1300 289 804** immediately prior to the scheduled start time and entering the access code **18314558#** 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).

⁴ All-in group cash costs are reported FOB and include cash operating costs, royalties, sustaining capital expenditure and corporate costs, but exclude Koolan Island restart development capital.

Koolan Island Restart Project Pictorial Update



Figure 1: Main Pit looking west, January 2019.

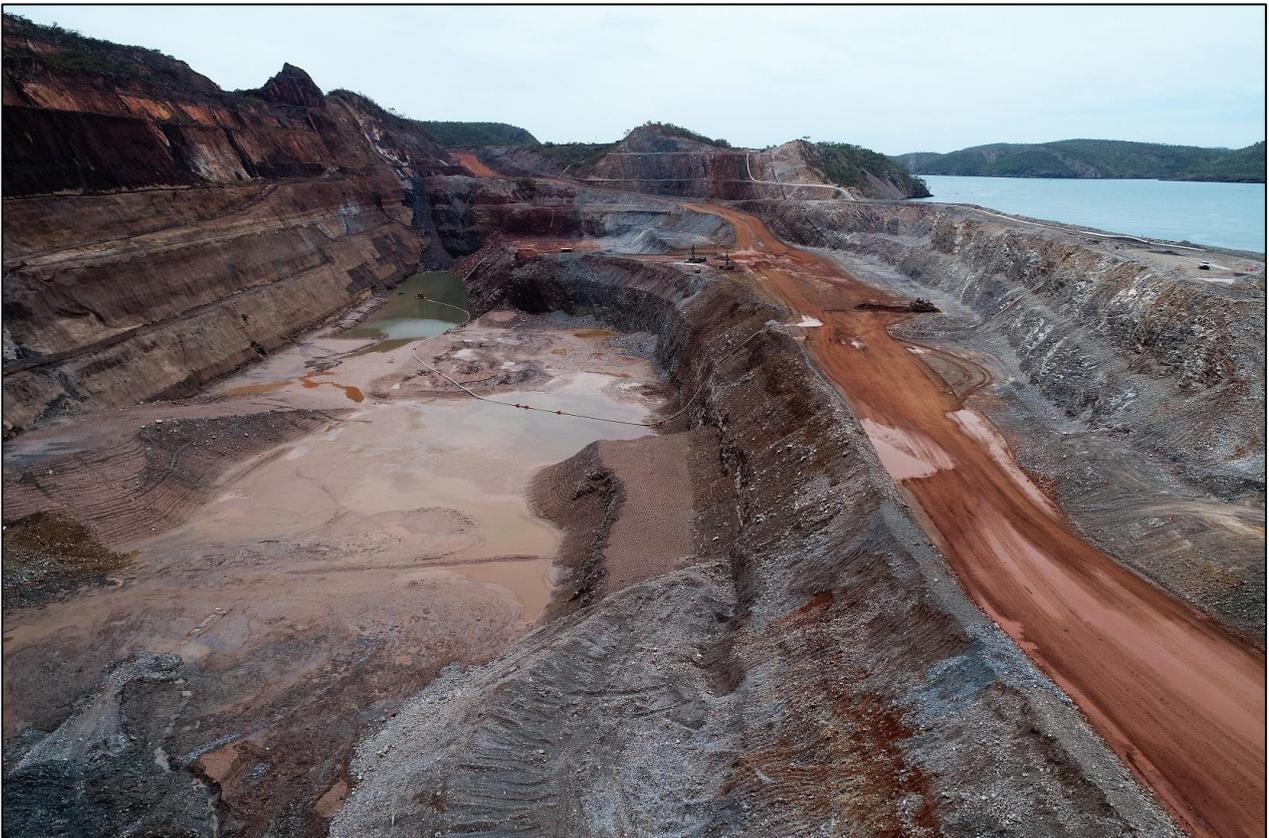


Figure 2: East end of Main Pit, January 2019.



Figure 3: Main Pit central and western areas, January 2019.



Figure 4: Crusher recommissioning, January 2019.

APPENDIX A

Mount Gibson Iron Limited Quarterly Operating Statistics

	Dec-2017 Quarter	Mar-2018 Quarter	Jun-2018 Quarter	Sep-2018 Quarter	Dec-2018 Quarter	2018-19 YTD
KOOLAN ISLAND	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Waste mined	-	-	-	-	2,450	2,450
Ore mined	-	-	-	-	-	-
Ore crushed	-	-	-	-	-	-
Shipping/Sales						
Standard DSO Lump	-	-	-	-	-	-
Standard DSO Fines	-	-	-	-	-	-
Total	-	-	-	-	-	-
EXTENSION/IRON HILL						
Mining & Crushing						
Waste mined	514	397	327	195	57	252
Standard ore mined	961	898	746	959	757	1,715
Low-grade ore mined [#]	151	97	129	122	54	176
Total ore mined	1,112	994	875	1,081	810	1,891
Ore crushed	742	953	992	1,052	980	2,032
Shipping/Sales						
Standard DSO Lump	481	492	361	607	475	1,081
Standard DSO Fines	300	426	485	542	537	1,080
Low Grade	60	59	118	-	-	-
Total	841	977	963	1,149	1,012	2,161
CONSOLIDATED DATA						
Shipping/Sales						
Standard DSO Lump	481	492	361	607	475	1,081
Standard DSO Fines	300	426	485	542	537	1,080
Low Grade	60	59	118	-	-	-
Total	841	977	963	1,149	1,012	2,161

kwmt = thousand wet metric tonnes.

[#] Low-grade ore is material grading 50-55% Fe at Extension Hill considered to be potentially saleable. This material is stockpiled for future sale and treated as mineralised waste for accounting purposes. Minor discrepancies may appear due to rounding.

Competent Person Statement

Koolan Island Main Deposit Ore Reserves

The information in this report relating to Ore Reserves at Koolan Island is based on information compiled by Mr Brett Morey, a member of the Australasian Institute of Mining and Metallurgy. Mr Morey is a full-time employee of Mount Gibson Iron Limited and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Morey consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.