



Mount Gibson Iron Limited

ABN 87 008 670 817

Notice of Meeting and Explanatory Memorandum

Meeting details:

Date: Friday, 23 March 2018

Time: 10.00AM (WST)

Place: The Function Room, The Celtic Club, 48 Ord Street, West Perth, WA

The Independent Directors UNANIMOUSLY RECOMMEND that you VOTE IN FAVOUR of the Resolution to approve the OFFTAKE AGREEMENT

The Independent Expert has concluded that the OFFTAKE AGREEMENT is FAIR AND REASONABLE

IMPORTANT INFORMATION

This is an important document that should be read in its entirety.

If you do not understand it, or any part of it, you should consult with your professional advisers without delay.

You are encouraged to attend the Meeting, but if you cannot, you are requested to complete and return the enclosed proxy form without delay

Important notices

Purpose of this Document

This Document is important. It contains information for Shareholders relating to the Offtake Agreement and provides Shareholders with information to assist them in deciding how to vote on the Resolution.

Shareholders should read this Document in its entirety before making a decision as to how to vote on the Resolution.

If you have any doubt as to what you should do once you have read this Document, you should consult your legal, financial or other professional adviser.

Forward looking statements

Certain statements in this Document relate to the future. Those statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Mount Gibson to be materially different from future results, performance or achievements expressed or implied by those statements. These statements reflect views only as of the date of this Document. While Mount Gibson believes that the expectations reflected in the forward looking statements in this Document are reasonable, neither Mount Gibson nor any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements in this Document will actually occur and you are cautioned not to place undue reliance on those forward looking statements.

Notice to persons outside Australia

This Document has been prepared in accordance with Australian laws, disclosure requirements and accounting standards. These laws, disclosure requirements and accounting standards may be different to those in other countries.

Disclaimer

No person is authorised to give any information or make any representation in connection with the Offtake Agreement which is not contained in this Document. Any information or representation not contained in this Document may not be relied on as having been authorised by Mount Gibson or the Directors in connection with the Offtake Agreement.

Responsibility for Information

The information contained in this Document (except for Grant Thornton Corporate Finance's Independent Expert's Report) including information as to the views and recommendations of the Directors has been prepared by Mount Gibson and is the responsibility of Mount Gibson.

Grant Thornton Corporate Finance has prepared the Independent Expert's Report in relation to the Resolution and takes responsibility for that report and has consented to the inclusion of that report in this Document. Grant Thornton Corporate Finance is not responsible for any other information contained within this Document. Shareholders are urged to read the Independent Expert's Report carefully to understand the scope of the report, the methodology of the assessment, the sources of information and the assumptions made.

ASX involvement

A copy of this Document has been lodged with ASX pursuant to the Listing Rules. Neither ASX nor any of its officers takes any responsibility for the contents of this Document.

Definitions

Capitalised terms used in this Document are defined in the glossary in section 4 of the Explanatory Memorandum.

Key Dates

Date of this Explanatory Memorandum	12 February 2018
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Proxy form to be received not later than	10.00am (WST) Wednesday, 21 March 2018
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Date and time for determining eligibility to vote	5.00pm (WST) Wednesday, 21 March 2018
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General Meeting	10:00am (WST) Friday, 23 March 2018
at The Function Room, The Celtic Club, 48 Ord Street, West Perth, Western Australia	
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What you need to do?

1. Read this Document

The Notice of Meeting and Explanatory Memorandum set out the details of the Resolution being put to Shareholders. This information is important. You should read the document carefully and if necessary seek your own independent advice on any aspects about which you are not certain.

2. Vote at the General Meeting or by Proxy

- **Entitlement to vote**

The Company has determined under the Corporations Regulations 2001 (Cth) regulation 7.11.37 that for the purposes of the General Meeting, Shareholders will be taken to be those registered holders of the Company's shares at 5.00pm (WST) on Wednesday, 21 March 2018. Accordingly, share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the General Meeting.

- **How to vote**

Shareholders may vote by attending the Meeting in person, by proxy or by authorised representative.

- **Voting in person**

To vote in person, attend the General Meeting on Friday, 23 March 2018 at 10:00am (WST) at the location below.

- **Location**

The General Meeting will be held at The Function Room, The Celtic Club, 48 Ord Street, West Perth, Western Australia.

- **Proxies**

Shareholders wishing to vote by proxy at the General Meeting must complete and sign the personalised proxy form which is enclosed with this document. A person appointed as a proxy may be an individual or a body corporate.

To vote by proxy, please complete and sign the enclosed proxy form and return to the Company using one of the following options:

In person:	Level 1, 2 Kings Park, West Perth, Western Australia
By Mail:	GPO Box 242, Melbourne, Victoria 3001
By facsimile:	1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia)
Electronically:	Submit proxy voting instructions online at www.investorvote.com.au

Please refer to the enclosed proxy form for more information about submitting proxy voting instructions online.

Please refer to the enclosed proxy form for instructions on how to sign the form.

The proxy form must be received by the Company at least 48 hours prior to the time of the commencement of the Meeting, that is **by 10.00am (WST) on Wednesday, 21 March 2018**. Proxy forms received later than this time will be invalid.

- **Voting by Corporate Representative**

A Shareholder that is a corporation may appoint an individual to act as its representative to vote at the General Meeting in accordance with section 250D of the Corporations Act. The appropriate certificate confirming the individual as a representative of the corporate entity must be produced prior to admission to the Meeting.

3. Seek further information if required

If you have any queries about any matter contained in this Document please contact the Company Secretary on (08) 9426 7500. If you are in doubt as to how to deal with this document or how to vote on the Resolution please consult your financial or other professional adviser.

Notice of Meeting

Notice is hereby given that a General Meeting of the Shareholders of Mount Gibson Iron Limited ("Company") will be held on the date and at the location and time specified below:

DATE: Friday, 23 March 2018

LOCATION: The Function Room, The Celtic Club, 48 Ord Street, West Perth WA

TIME: 10.00 am (WST)

The Explanatory Memorandum accompanying and forming part of this Notice of Meeting should be considered by Shareholders prior to voting on the business to be considered at the General Meeting. Terms used in this Notice of Meeting will, unless the context otherwise requires, have the meaning given to them in the Glossary in the Explanatory Memorandum.

BUSINESS

RESOLUTION – APPROVAL OF OFFTAKE AGREEMENT

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"For the purposes of Listing Rule 10.1 and for all other purposes, approval is given for Mount Gibson Iron Limited (or its wholly owned subsidiaries) to enter into and perform its obligations under the Offtake Agreement between Mount Gibson Mining Limited, SCIT Trading Limited and Shougang Concord, details of which are set out in Schedule 1 of the Explanatory Memorandum accompanying this Notice of Meeting."

Voting exclusion statement:

The Company will disregard any votes cast in favour of this Resolution by SCIT Trading Limited, Shougang Concord International Enterprises Company Limited, True Plus Limited, or any of their associates.

However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or if it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

BY ORDER OF THE BOARD



David Stokes
Company Secretary

DATED: 12 February 2018

Explanatory Memorandum

1 Summary

Why did I receive this Document?

This Document contains information relating to a proposed second offtake agreement between Mount Gibson Mining Limited, SCIT and Shougang Concord in relation to the sale of iron ore from Iron Hill (**Offtake Agreement**).

The information set out in this Document will assist you, as a Shareholder, to decide how you wish to vote on the Resolution to approve the Offtake Agreement.

What is the Offtake Agreement?

The Offtake Agreement is an agreement between Mount Gibson Mining Limited (a wholly-owned subsidiary of Mount Gibson Iron Limited) as seller, SCIT as buyer, and Shougang Concord as guarantor, in connection with the sale of hematite ore from Iron Hill.

The key terms of the Offtake Agreement are summarised in Schedule 1.

What is the Offtake Agreement review mechanism?

The Offtake Agreement includes a quarterly review mechanism to enable SCIT and Mount Gibson to renegotiate pricing or penalties if either party considers that the current pricing or penalties are not aligned to current market conditions.

To ensure that proper corporate governance processes are in place to protect the Company's interests, the Company's Contracts Committee (which consists solely of Independent Directors) will be involved in approving any changes recommended by management.

Further details on the review mechanism and the Contracts Committee are provided in section 2.3.

Why is shareholder approval required for the Offtake Agreement?

Due to the substantial holding of True Plus in Mount Gibson, the relationship between True Plus, SCIT and Shougang Concord, and the value of the Offtake Agreement, Shareholder approval is required under the Listing Rules.

The Offtake Agreement is conditional upon approval by a simple majority of Shareholders at the Meeting voting in person or by proxy.

Who can vote at the Meeting?

All Shareholders other than SCIT, Shougang Concord, True Plus and any of their associates can vote at the Meeting.

Based on the information available to them, the Independent Directors do not currently consider APAC and Shougang Concord to be associates of each other, and so APAC will be entitled to vote on the Resolution.

What are the key advantages with the Offtake Agreement?

The Offtake Agreement will underpin the sale of a substantial portion of the Available Production of standard grade hematite ore from Iron Hill on a life of mine basis.

The Offtake Agreement is on competitive terms and with an established customer that is also a substantial holder of the Company, giving it an interest in the success of the Company for the benefit of all Shareholders.

The Independent Expert's Report contains information about the terms of the Offtake Agreement in the context of the current iron ore market. Shareholders are encouraged to review this information.

What are the key disadvantages?

The proposed sale of a substantial portion of Available Production of hematite ore reduces the amount of hematite ore available from Iron Hill for sale to other customers on potentially more competitive terms. However, the Offtake Agreement is on terms comparable to and competitive with other offtake agreements negotiated for Iron Hill on the current spot market.

Who is SCIT?

SCIT is a wholly-owned subsidiary of Shougang Concord and is the entity used for the trading business of Shougang Concord.

Further information on SCIT is set out in section 2 of this Explanatory Memorandum.

Who is Shougang Concord?

Shougang Concord is a Hong Kong Stock Exchange listed company (HKEx: 0697) whose main area of operation is trading of iron ore, steel and related products.

Further information on Shougang Concord is set out in section 2 of this Explanatory Memorandum.

How does the Mount Gibson Board recommend that I vote?

The Independent Directors unanimously recommend that Shareholders vote to approve the Resolution

Each Independent Director will vote in favour of the Resolution in respect of the Shares they hold or control.

What is the opinion of the Independent Expert?

The terms and conditions of the Offtake Agreement have been reviewed by the Independent Expert, Grant Thornton and the summary of their opinion is on pages 3 – 7 of the Independent Expert's Report.

The Independent Expert has concluded that the Offtake Agreement is fair and reasonable to Shareholders who are not associated with SCIT, Shougang Concord and True Plus Limited.

The Independent Expert's Report is set out in Annexure A of this Explanatory Memorandum. Shareholders are encouraged to carefully read the Independent Expert's Report in its entirety.

2 Overview of the Offtake Agreement

2.1 Background

Mount Gibson announced on 21 December 2017 that it had agreed to enter into the Offtake Agreement with SCIT and Shougang Concord and that the agreement was conditional upon Shareholder approval.

2.2 What is the Offtake Agreement?

The Offtake Agreement is a life of mine contract where SCIT will initially be entitled to take up to 50% of Lump Ore and 70% of Fines Ore of standard grade quality from Mount Gibson's Available Production at Iron Hill. This is in addition to the 32% of Lump Ore and 13% Fines Ore of Available Production sold to SCIT under the First IH Offtake Agreement.

Upon expiry of the First IH Offtake Agreement, anticipated to be on 8 July 2018, SCIT will thereafter be entitled to take up to 75% of Lump Ore and 75% of Fines Ore from Mount Gibson's Available Production at Iron Hill.

It is estimated that Iron Hill's total Available Production will be based on an annualised production rate of 3.5 – 3.8 million tonnes of hematite ore with mining anticipated to be completed by the end of 2018. The actual tonnes of Lump and Fines Ore delivered will ultimately depend upon mine planning, production schedules and lump/fines ratios.

The terms of the Offtake Agreement are summarised in Schedule 1.

2.3 What is the Offtake Agreement review mechanism?

The Offtake Agreement includes a quarterly review mechanism to enable SCIT and Mount Gibson to renegotiate the contract pricing or penalties if either party considers that the current pricing or penalties are not aligned to current market conditions. If triggered, this review would involve the assessment of various market indices and market prices.

If the parties reach agreement then the adjusted pricing or penalties will apply. The adjusted pricing or penalties could have a positive or negative impact on the Company as any adjustment will depend on the market conditions at the time of the review.

If the parties are unable to reach agreement then either party may terminate the Offtake Agreement or continue with existing terms.

The review mechanism will not be subject to independent third party review or any further shareholder approval but will be a commercially negotiated outcome between Mount Gibson and SCIT. Failing agreement, if the Offtake Agreement is terminated, then Mount Gibson will be free to sell the hematite ore onto the spot market or to other new offtake buyers.

To ensure that proper corporate governance processes are in place to protect the Company's interests, the Company's Contracts Committee will be involved in approving any changes recommended by management. The Contracts Committee is comprised of Independent Directors and has oversight of all major contracts between the Company and its major shareholders in particular with respect to any contentious matters. When considering management's recommendations the Contracts Committee will take into account publicly available market information and general market intelligence from prevailing iron ore spot sales, in particular Iron Hill sales by Mount Gibson to third parties. Consistent with good corporate governance, this separate oversight will ensure that any changes triggered by the review provision are managed independently by the Contracts Committee outside of any influence from a major shareholder.

The Independent Expert considers that the terms of the review mechanism necessarily imply that the contracted price will be consistent with the market and valued on commercial and arm's length terms (see page 2 of the Independent Expert's Report).

During the last 12 months there has been profound changes arising China's structural supply reform that has increased the demand for higher grade ores and resulted in substantial discounting of lower quality ores. It is possible that the review mechanism could conceivably result in material variances to the initial contract prices should there be further market changes.

Shareholders should note that this review mechanism is a two way process such that if the market price appreciably increases beyond the contract price (for example, because market discounts or penalties for Iron Hill ore have reduced in comparison to the contract price) at the time when the review mechanism is applicable and the Company is not able to secure agreement from SCIT about a revision of discounts or penalties to align with changes in market pricing, the Company would have the ability to terminate the Offtake Agreement and sell onto the spot market.

2.4 Is the Offtake Agreement conditional?

The Offtake Agreement will only become effective upon approval of the Resolution by Shareholders at the General Meeting to be achieved by no later than 31 March 2018. Mount Gibson is not currently aware of anything that would prevent the condition being satisfied.

2.5 Who is SCIT?

SCIT is a wholly-owned subsidiary of Shougang Concord and the entity for Shougang Concord's trading business. In addition to the First IH Offtake Agreement, SCIT and Shougang Concord were both parties to an offtake agreement at Talling Peak, which has since expired, and are parties to an offtake agreement at Koolan Island, which remains in abeyance pending the restart of mining at Koolan Island.

2.6 Who is Shougang Concord?

Shougang Concord is an investment holding company listed on the Hong Kong Stock Exchange (HKEx: 0697) and is primarily involved in trading of iron ore, steel and related products. Other business segments include processing and trading of copper and brass products, trading of coal and mineral exploration and car parks/systems. Shougang Concord has a market capitalisation of approximately HK\$4.07 billion¹.

Shougang Concord holds a 27.61% shareholding interest in Shougang Fushan Resources Group Limited which in turn holds a 100% interest in True Plus Limited, which holds a 14.9% interest in Mount Gibson.

Shougang Concord is held 65.49% by Shougang Holding (Hong Kong) Limited (which itself directly holds 2.24% of Shougang Fushan Resources Group Limited), and which in turn is held 100% by state-owned Shougang Group Co.,Ltd (formally known as Shougang Corporation), based in the People's Republic of China.

2.7 Relationship between Shougang Concord and APAC

For the purposes of the recapitalisation proposal put to Shareholders in 2008, the then Independent Directors of Mount Gibson considered that the relevant APAC and Shougang Concord entities involved at that time may have been associates due to the then common shareholdings, the then common director between the entities and the 2008 Takeovers Panel decision that concluded that the entities were associates. At the time, APAC and Shougang Concord maintained that they were not associates.

The Independent Directors have considered the question of whether APAC and Shougang Concord are associates in light of current circumstances, having previously made enquiries of APAC and Shougang Concord and considered information provided by APAC and Shougang Concord regarding their current common shareholdings.

¹ As at 2 February 2018

Based on the information available to them, the Independent Directors do not currently consider APAC and Shougang Concord to be associates.

Accordingly, APAC will be entitled to vote on the Resolution.

2.8 Why is Shareholder approval required?

(a) Listing Rule 10.1 – Acquisition and disposal of substantial assets

Listing Rule 10.1 provides that approval of holders of Mount Gibson's Shareholders is required where the Company proposes to dispose of a substantial asset to an entity that is a substantial shareholder, or an associate of that entity.

For these purposes:

- a person is a substantial holder if the person and the person's associates have a relevant interest, or had a relevant interest at any time in the 6 months before the Offtake Agreement, in at least 10% of the total votes attached to the voting securities in Mount Gibson; and
- an asset is a substantial asset if its value, or the value of the consideration for it, is 5% or more of the equity interests of Mount Gibson as set out in the latest accounts of Mount Gibson given to ASX under the Listing Rules.

(b) Approval of the Offtake Agreements is required

True Plus Limited holds 14.9% of the Shares in Mount Gibson and is therefore a substantial holder in Mount Gibson for the purposes of Listing Rule 10.1. As a result of the relationship between SCIT, Shougang Concord and True Plus, SCIT and Shougang Concord are also substantial holders for the purposes of Listing Rule 10.1.

The aggregate value of the offtake being sold under the Offtake Agreements exceeds 5% of the equity interests of Mount Gibson set out in Mount Gibson's accounts for the full year ended 30 June 2017 and is also anticipated for the half year ended 31 December 2017.

Mount Gibson has previously consulted with ASX as to its requirements and understands that Shareholder approval is required for the Offtake Agreements under Listing Rule 10.1.

Under Listing Rule 10.10, the Notice of Meeting is required to contain a report on the Offtake Agreement from an independent expert stating whether the Offtake Agreement is fair and reasonable to holders of Mount Gibson's Shares whose votes are not to be disregarded. The report from the Independent Expert is set out in Annexure A of this Explanatory Memorandum. The Independent Expert has concluded that the Offtake Agreement is fair and reasonable to Shareholders who are not associated with SCIT, Shougang Concord or True Plus.

Shareholders are advised to consider the Independent Expert's Report carefully before deciding how to vote on the Resolution.

If Shareholders approve the disposals contemplated under the Offtake Agreement, no further shareholder approvals will be required in relation to the ongoing operation of the agreement. However, any material amendments to the Offtake Agreement, other than under the review mechanism (see section 2.3), or new agreements entered into by Mount Gibson or a subsidiary of Mount Gibson with an entity mentioned in Listing Rule 10.1 will require separate prior approval by Shareholders.

2.9 What happens if the Resolution is not passed?

If the Resolution is not passed by Shareholders then any party may terminate the Offtake Agreement. If the Offtake Agreement is terminated, Mount Gibson will be required to take steps to sell the hematite ore that otherwise would have been sold under the Offtake Agreement to other potential customers. There is no guarantee that Mount Gibson could achieve equivalent or better terms than incorporated in the Offtake Agreement.

3 Rationale for the Offtake Agreement and Directors Recommendation

3.1 Directors' recommendations

Based on the information available, including that contained in this Document, and the Independent Expert's Report, the Independent Directors consider that the Resolution is in the best interests of Shareholders and Mount Gibson.

Each of the Independent Directors recommends that Shareholders vote in favour of the Resolution.

3.2 Directors' voting intentions

Each Director who holds Shares in Mount Gibson (or whose associated entities hold Shares) and is entitled to vote intends to vote those Shares in favour of the Resolution.

3.3 Independent Expert's Opinion

The Independent Expert's Report assesses whether the Offtake Agreement is fair and reasonable to the Shareholders who are not associated with SCIT, Shougang Concord and True Plus. The Independent Expert's Report also contains an assessment of the advantages and disadvantages of the Offtake Agreement. This assessment is designed to assist all Shareholders in reaching their voting decision.

Grant Thornton has provided the Independent Expert's Report and has provided an opinion that it believes that the Offtake Agreement is fair and reasonable to Shareholders not associated with SCIT, Shougang Concord and True Plus.

It is recommended that all Shareholders read the Independent Expert's Report in full.

The Independent Expert's Report is set out in Annexure A.

3.4 Why is the Company proposing the Offtake Agreement?

Mount Gibson's Iron Hill mine is now in production. Previously Mount Gibson had entered into three main offtakes with Xinyu Iron and Steel Group Corporation, Sinogiant Steel Holdings Group Limited, and SCIT to underpin development of Iron Hill. As previously announced to the ASX during 2017, Mount Gibson terminated each of the offtakes with Xinyu and Sinogiant due to material defaults.

SCIT has continued to meet its obligations under the First IH Offtake Agreement and remains a reliable customer of Mount Gibson. It is anticipated that the First IH Offtake Agreement will expire on 8 July 2018. SCIT has an option to extend the term of the First IH Offtake Agreement for one more year from the expiry date, however it is not anticipated that SCIT will exercise that right given more favourable spot market conditions.

Although the First IH Offtake Agreement remains on foot until 8 July 2018, in order to secure an offtake arrangement for the life of the mine and in light of the termination of the offtakes noted above, the Independent Directors are unanimously of the view that the new Offtake Agreement is in the best interests of Shareholders. The new Offtake Agreement is with a reliable customer and will underpin a substantial portion of future supply of hematite ore from Iron Hill removing a key element of credit risk and business uncertainty that arises at times when dealing directly with the spot market.

(a) Advantages of the Offtake Agreement

The Offtake Agreement is with an established customer of the Company that is also a substantial holder of the Company. The Independent Directors consider that Shougang Concord's relationship with the Company gives it an interest in Mount Gibson's success for the benefit of all Shareholders. The Independent Directors are confident that any issues that arise regarding the Offtake Agreement can be resolved through management discussions or at the Board level as required.

The Offtake Agreement is structured as a proposed sale of Available Production. This reduces risk for the Company as there is no fixed tonnage commitment beyond what is actually produced from the mine from time to time. Should production cease, so too will the delivery obligations under the Offtake Agreement.

(b) **Disadvantages of the Offtake Agreement**

The proposed sale of a substantial portion of Available Production of hematite ore reduces the amount of hematite ore available from Iron Hill for sale to other customers on potentially more competitive terms. However, the Offtake Agreement is on terms comparable to and competitive with other offtake agreements negotiated for Iron Hill on the current spot market.

3.5 What are the key differences between the First IH Offtake Agreement and the Offtake Agreement?

The key differences between the First IH Offtake Agreement and the Offtake Agreement are:

- The Offtake Agreement is for the life of the mine with mining anticipated to be completed by the end of 2018. The First IH Offtake Agreement is a 12 month contract with a one year right to extend.
- The pricing mechanism has adjustments to reflect the difference in pricing for lower grade ore and high grade ore reflective of market conditions.
- The Offtake Agreement includes a quarterly review mechanism to enable SCIT and Mount Gibson to renegotiate the pricing or penalties if either party considers that the current pricing or penalties are not aligned to current market conditions. If the parties reach agreement then the adjusted pricing or penalties will apply. If the parties are unable to reach agreement then either party may terminate the Offtake Agreement or continue with existing terms. This review mechanism was not included in the First IH Offtake Agreement. See section 2.3 for further information.

4 Glossary

The following terms and abbreviations used in the Notice of General Meeting and this Explanatory Memorandum have the following meanings:

A\$	means Australian dollars.
APAC	means APAC Resources Limited.
associate	means an 'associate' for the purposes of Listing Rule 10.1.
ASX	means ASX Limited ACN 008 624 691.
Available Production	means the amount of lump and fines iron ore product from Iron Hill that is able to be shipped by Mount Gibson having regard to shipping schedules, mine production, transport logistics, port capacity and adverse movements in operating costs, foreign exchange and commodity prices impacting the financial viability of the Iron Hill mining operations.
Board or Mount Gibson Board	means the Board of Directors from time to time.
Company or Mount Gibson	means Mount Gibson Iron Limited ABN 87 008 670 817.
Corporations Act	means the <i>Corporations Act 2001</i> (Cth).
Director	means a Director of Mount Gibson from time to time.
Document	means this document, comprising the Notice of Meeting and Explanatory Memorandum.
Explanatory Memorandum	means this explanatory memorandum.
First IH Offtake Agreement	means the offtake agreement between Mount Gibson Mining Limited, SCIT and Shougang Concord dated 23 December 2016 approved by Shareholders at the general meeting held on 5 April 2017.
Grant Thornton or Grant Thornton Corporate Finance	means Grant Thornton Corporate Finance Pty Ltd (ABN 59 003 265 987).
Independent Directors	means the independent Directors of Mount Gibson.
Independent Expert	means Grant Thornton Corporate Finance.
Independent Expert's Report	means the report by the Independent Expert included as Annexure A to this Explanatory Memorandum.

Listing Rules	means the listing rules of the ASX and any other rules of ASX which are applicable while Mount Gibson is admitted to the official list, each as amended from time to time, except to the extent of any express written waiver by ASX.
Meeting or General Meeting	means the general meeting of Shareholders convened by the Notice of General Meeting.
Notice of Meeting	means the notice of general meeting set out in this Document.
Offtake Agreement	means the offtake agreement entered into between Mount Gibson Mining Limited, SCIT and Shougang Concord dated 20 December 2017.
Resolution	means the shareholder resolution set out in the Notice of Meeting.
SCIT	means SCIT Trading Limited.
Shares	means ordinary shares in Mount Gibson.
Shareholder	means a holder of a Share.
Shougang Concord	means Shougang Concord International Enterprises Company Limited.
US\$ or US dollar	means United States dollars.
WDT	means Western Daylight Time.

Schedule 1

Summary of the Offtake Agreement

Set out below is a summary of the key terms of the Offtake Agreement. Unless otherwise defined below, capitalised terms are defined in the glossary in section 1 of this Explanatory Memorandum.

Parties

The Offtake Agreement has been entered into between Mount Gibson Mining Limited (a wholly-owned subsidiary of Mount Gibson), SCIT Trading Limited (a wholly – owned subsidiary of Shougang Concord) and Shougang Concord International Enterprises Company Limited (as guarantor).

Conditions precedent

The Offtake Agreement remains conditional upon Shareholder approval at a general meeting, to be achieved by no later than 31 March 2018.

Key obligations

- Quantity of ore

Under the Offtake Agreement, Mount Gibson initially agrees to sell, and SCIT agrees to purchase, 50% of Iron Hill's standard grade Lump Ore and 70% of Iron Hill's standard grade Fines Ore from Mount Gibson's Available Production at Iron Hill for the life of the mine (**Initial Supply Obligation**).

Upon expiry of the First IH Offtake Agreement, anticipated to be on 8 July 2018, SCIT will then be entitled to take up to 75% of Lump Ore and 75% of Fines Ore from Mount Gibson's Available Production at Iron Hill.

The First IH Offtake Agreement expires on 8 July 2018. SCIT has an option to extend the term of the First IH Offtake Agreement for one more year from 8 July 2018 (**Option Right**). It is not anticipated that SCIT will exercise the Option Right, but if it did, then the Initial Supply Obligation would continue for a further year albeit subject to remaining "Available Production" (as defined under the First IH Offtake Agreement).

It is estimated that Iron Hill's total Available Production will be based on an annualised production rate of 3.5 – 3.8 million tonnes of hematite ore. The actual tonnes of Lump and Fines Ore delivered will ultimately depend upon mine planning, production schedules and lump/fines ratios. Mining is anticipated to be completed by the end of 2018.

- Term

The period from the commencement date (the date the condition precedent has been satisfied or waived) to the earlier of the cessation of Available Production of standard grade hematite ore from Iron Hill or permanent cessation of mining at any time during the term.

- Price

The price payable by SCIT is calculated as the percentage of iron content of the hematite ore sold in each shipment, multiplied by the USD price per dry metric tonne unit linked to a monthly published benchmark reference point dependent upon the grade of the hematite ore. An additional discount is included in the price calculation to reflect the market discounts for lower quality ore.

- Penalties for impurities and sizings

The price has additional adjustments depending upon silica (SiO₂), alumina (Al₂O₃), phosphorus (P) and sulphur (S) levels, as well as physical specifications relating to the size distribution of the lump ore and fines (as applicable). If Mount Gibson delivers hematite ore which does not comply with certain specifications, SCIT must still purchase the hematite ore but the purchase price will be adjusted as set out in the Offtake Agreement.

- Shipment

Mount Gibson is responsible for arranging shipping for all cargoes to one main port in China on a CFR (cost and freight) basis whereby risk and title will pass at the port of loading at Geraldton Port. Where SCIT requests that a cargo be discharged at more than one port in China, SCIT will meet any additional freight and port costs. SCIT is responsible for effecting insurance for each shipment at its expense.

- Payment

Each sale must be supported by a prescribed letter of credit arranged by SCIT's bank.

- Termination

The Offtake Agreement can be terminated:

- (a) by Mount Gibson if SCIT does not comply with its payment obligations;
- (b) by either party, for a material breach of the agreement that is not remedied within 10 business days after receipt of a written notice requiring the breach to be remedied;
- (c) by either party, by giving 20 business days' notice, if the other party is prevented from carrying out its obligations under the Offtake Agreement as a result of force majeure for a period of 6 months; and
- (d) if triggered under the review mechanism (discussed below).

- Guarantee

The obligations of SCIT under the Offtake Agreement are guaranteed by Shougang Concord.

- Review mechanism

The Offtake Agreement includes a quarterly review mechanism to enable SCIT and Mount Gibson to renegotiate pricing or penalties if either party considers that the current pricing or penalties are not aligned to current market conditions. If triggered, this review would involve the assessment of various market indices and market prices. If the parties reach agreement then the adjusted pricing or penalties will apply. If the parties are unable to reach agreement then either party may elect to terminate the Offtake Agreement or continue with existing terms.

Annexure A

Independent Expert's Report



Grant Thornton

An instinct for growth™

Mount Gibson Iron Limited

Independent Expert's Report and Financial Services Guide

7 February 2018

Summary of opinion

Grant Thornton Corporate Finance has concluded that the Offtake Agreement is FAIR AND REASONABLE to the Non-Associated Shareholders.



Grant Thornton Corporate Finance Pty Ltd
 ABN 59 003 265 987
 AFSL 247140

The Independent Directors
 Mount Gibson Iron Limited
 Level 1, 2 Kings Park Road,
 West Perth WA 6005

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7 February 2018

Dear Independent Directors

Independent Expert's Report and Financial Services Guide

Introduction

Mount Gibson Iron Limited ("Mount Gibson" or "the Company") is an iron ore mining company which produces hematite ore in Western Australia. The Company is listed on the Australian Securities Exchange ("ASX") and had a market capitalisation of \$466 million as at 29 January 2017.

The Company's key mining operations include the Iron Hill and Iron Hill South Hematite deposits (collectively referred to as "Iron Hill") located in the Mt Gibson range, approximately 270km southeast of Geraldton, Western Australia. In late 2016, Mount Gibson via its wholly owned subsidiary, Mount Gibson Mining Ltd ("MGM"), entered into three offtake agreements with customers for the purchase each of up to approximately 24% of planned available production at Iron Hill in the first year of the operation. In June and July 2017, Mount Gibson terminated two of these offtake agreements after the relevant customers failed to comply with their respective agreements ("Terminated Offtake Agreements"¹). The remaining offtake agreement in place with SCIT Trading Limited ("SCIT") for approximately 24% of the total available production of iron ore at Iron Hill² ("First IH Offtake Agreement") remains in place.

On 21 December 2017, Mount Gibson announced that MGM had entered into a second off-take agreement with SCIT ("Offtake Agreement") for the purchase of additional production which increases the total production committed to SCIT under both contracts to approximately 82% of available lump ores and 83% of fines up until July 2018 when the First IH Offtake Agreement is expected to end. After 8 July 2018 (i.e. the date on which the First IH Offtake Agreement ends assuming that SCIT does not exercise its right to extend the First IH Offtake Agreement), the contracted production to SCIT under the Offtake Agreement will adjust to 75% of available lump and fines ores. Based on representations made by Management of MGM ("Management"), SCIT is unlikely to extend the First IH Offtake Agreement, given that it is on less favourable terms to SCIT than the current market conditions. Further, Management anticipates that mining at Iron Hill will end by December 2018.

SCIT is a wholly owned subsidiary of Shougang Concord International Enterprises Company Limited³ ("SCIE", "Guarantor"), which via its interest in Shougang Fushan Resources Group, is a major shareholder of the Company and guarantor of the Offtake Agreement. Shougang Concord International Enterprises

¹ These offtake agreements were entered into with non-related parties and were on commercial terms.

² This included up to 32% of available production of lump ore and up to 13% of available production of fines, on commercial terms.

³ For the 12 months ended June 2017, Shougang Concord International Enterprises Company Limited earned revenue of \$311.1 million. Shougang is also listed on the Hong Kong stock exchange, with a market capitalisation of \$684.9 million as at 19 January 2018.



Company Limited together with its associated companies⁴ (collectively referred to as “Shougang Group”) hold 14.9% of the issued share capital of the Company.

The Offtake Agreement has the following key terms:

- **Contracted Quantity:** Until the end of the First IH Offtake Agreement i.e. July 2018, sale of up to 50% of the available production of lump ore⁵ and up to 70% of the available production of fines⁶ from Iron Hill. Following conclusion of the First IH Offtake Agreement (assuming that it is not extended), sale of up to 75% of the total available production of lump and fines ore from Iron Hill.

Since the Contracted Quantity is calculated as a percentage of available production from Iron Hill, in the event that no iron ore is produced, the Company will not have any obligation or incur any penalty.

- **Term:** The tenure of the Offtake Agreement is from the date on which the conditions precedent are satisfied or waived by MGM (“Commencement Date”) to the earlier of the following dates:
 - The date on which MGM, acting reasonably, determines that the available production of a standard grade quality is no longer available at the Iron Hill mine.
 - The date of permanent cessation of MGM's mining operations at the Iron Hill mine.
- **Contracted Price:** The price per tonne of fines and lump ore is calculated using a formula (i.e. base price less discount less penalties), with a lump premium being added for lump ore. This is consistent with the pricing mechanism included in the First IH Offtake Agreement. The base price is calculated as a percentage of iron content in the ore sold relative to the relevant monthly Platts benchmark index⁷ (“the Platts Index”), multiplied by the USD price per DMT⁸. Penalties are applied based on the quality of iron ore delivered⁹ and are levied on the ore that does not conform to the physical and chemical specifications.
- **Price Review Mechanism:** The terms of the Offtake Agreement include a quarterly review mechanism to enable SCIT and Mount Gibson to renegotiate the contract pricing or penalties, if either party considers that the current pricing or penalties are not aligned to current market conditions. The revised terms take effect in the following quarter. If the parties are not able to reach agreement, then either party may elect to terminate the Offtake Agreement. The terms relating to the review mechanism necessarily imply that the Contracted Price will be consistent with market and hence representative of a value of iron ore that is commercial and on arm's length.
- **Guarantee:** SCIE has provided an unconditional and irrevocable guarantee of SCIT's obligations under the Offtake Agreement.

⁴ Including Shougang Group Co., Limited (formerly known as Shougang Corporation), Shougang Holding (Hong Kong) Limited, Shougang Fushan Resources Group Limited and True Plus Limited.

⁵ Lump ore is a direct saleable ore with diameter ranging from 6.3mm to 31.5mm. It can be introduced directly into the blast furnace and thus attracts a premium.

⁶ Fines ore is a direct saleable ore ranging from 0.15mm to 6.3mm. It requires additional processing and sizing before being introduced into the blast furnace.

⁷ Where the iron ore content in the ore mined exceeds 58%, the IODEX 62% Fe CFR North China index is used. Where the iron ore grade is lower than 58%, the IODEX 58% Fe CFR North China index is used.

⁸ Dry Metric Tonne.

⁹ Assessed as per the content of chemicals in the iron ore and the physical specifications of the iron ore.

- *Conditional upon approval by Mount Gibson's shareholders:* The Offtake Agreement is conditional upon approval by Mount Gibson's shareholders unrelated to Shougang Group.

The Independent Directors of Mount Gibson ("Independent Directors") unanimously recommend that all the shareholders of Mount Gibson not associated with SCIT or Shougang Group ("Non-Associated Shareholders") vote in favour of the Offtake Agreement. Each Independent Director holding ordinary shares in Mount Gibson ("Mount Gibson Shares") intends to vote in favour of the resolution to approve the Offtake Agreement.

Purpose of the report

The Shougang Group collectively holds in excess of 10% of the issued capital of Mount Gibson and the future sale of iron ore under the Offtake Agreement is considered to be a sale of a material asset to a substantial shareholder. Accordingly, the Independent Directors have commissioned Grant Thornton Corporate Finance to prepare an independent expert's report to assess whether the Offtake Agreement is fair and reasonable to the Non-Associated Shareholders for the purposes of Chapter 10 of the ASX Listing Rules.

Summary of opinion

Grant Thornton Corporate Finance has concluded that the Offtake Agreement is FAIR AND REASONABLE to the Non-Associated Shareholders.

Fairness Assessment

In forming our opinion in accordance with the Regulatory Guide 111: *Content of expert reports* ("RG111"), Grant Thornton Corporate Finance notes that the Offtake Agreement does not provide for a fixed Contracted Price (i.e. it is based on market indices less discount and penalties) or Contracted Quantity. Accordingly, for the purpose of assessing the fairness of the Offtake Agreement, we have considered the likelihood that the key contract terms supporting the Contracted Price and Contracted Quantity will result in a market competitive and arm's length price being obtained.

In assessing the fairness of the Offtake Agreement, we have had regard to the following:

- *Comparison with Terminated Offtake Agreements:* We have compared the key terms in the Offtake Agreement to the Terminated Offtake Agreements (which were on substantially the same terms of the First IH Offtake Agreement) and made enquiries with Management for the rationale for changes in order to assess whether the changes, if any, are consistent with market trends.
- *Comparison to spot market sales:* Management have provided a summary of the key terms of the agreements entered into in the spot market¹⁰. These agreements are with related and non-related parties and disclose information in relation to quantity, iron ore grades and pricing (including the discounts and penalties applied). We have confidentially reviewed the terms of the spot market agreements and compared them to the Offtake Agreement. In addition, for some of the information contained therein, such as the quantum of discount for the difference in grades relative to the appropriate Platts Index and broad trends in the applicable penalties for differing chemical specifications

¹⁰ These contracts are short-term offtake agreements

we have been able to benchmark to publicly available information. In our fairness assessment, we have compared the prices received by the Company under the spot offtake agreements with the prices that would have been received if the ore volumes were sold under the new Offtake Agreement.

- *Other publicly available information:* We have undertaken research on the industry generally as well as considered disclosures made by other iron ore producers to the market to benchmark the prevailing discount for difference in grades relative to the appropriate Platts Index.

Based on the review of the items noted above, we are of the opinion that the terms of the Offtake Agreement are conducive to the realisation of a Contracted Price and Contracted Quantity that is commercial and on arm's length terms. More specifically, our conclusion is based on the following key considerations:

Contracted Price

- The terms of the Offtake Agreement include a quarterly review mechanism to enable SCIT and Mount Gibson to renegotiate the contract pricing or penalties, if either party considers that the current pricing or penalties are not aligned to current market conditions. The revised terms take effect in the following quarter. If the parties are not able to reach agreement, then either party may elect to terminate the Offtake Agreement. The terms relating to the review mechanism necessarily imply that the Contracted Price will be consistent with market and hence commercial and on arm's length terms.
- Based on confidential information provided by the Company, we have verified the realised price achieved by the Company in recent competitive spot sales is consistent with the price that would be realised under the Offtake Agreement for ore of the same quantity and specifications.
- Mount Gibson has established a Contracts Committee that has general oversight of offtake arrangements with major shareholders, and as part of that oversight will be required to approve any changes to pricing or penalties recommended by Management in respect of the Offtake Agreement. We understand from Management that the Contracts Committee is comprised of Independent Directors who will take into account publicly available market information and general market intelligence from prevailing iron ore spot sales, and specialist advice as required
- The price payable by SCIT per the Offtake Agreement is not a fixed price and is calculated separately for each shipment, based on the percentage of iron content of the ore and the USD price per DMT based on the Index. This price mechanism is consistent with the terms of agreements in the spot market entered into by Mount Gibson with unrelated parties.
- The levy of penalties under the Offtake Agreement is similar to the levies in the spot market agreements with non-related parties. Under each agreement, penalties are levied upon failure of the ore delivered to meet physical and chemical requirements, which are dependent upon the requirements of each counterparty.
- Compared to the First IH Offtake Agreement, the discount for low iron ore content has increased significantly relative to the Platts Index. This is not inconsistent with discounts set out in the spot market agreements as well as information available in the public domain.



- Compared to the First IH Offtake Agreement, the penalty for silica content has increased and the minimum acceptable threshold for silica has decreased. Based on research undertaken and publicly available information, this trend is not inconsistent with the trend being observed in the market.

Based on the above, we are of the opinion that the terms of the Offtake Agreement are conducive to the realisation of a Contracted Price that is commercial and on arm's length.

Contracted Quantity

The iron ore that is deliverable pursuant to the Offtake Agreement is based on the actual available production at Iron Hill with no minimum quantity deliverable being stipulated. Accordingly, there are no penalties for not delivering a specific quantity of ore or no ore.

In our opinion, the terms relating to the Contracted Quantity under the Offtake Agreement are conducive to the delivery of iron ore in a commercial and arm's length manner.

Reasonableness Assessment

ASIC RG111 establishes that an offer is reasonable if it is fair. Given that our assessment of the Offtake Agreement is fair it is also reasonable. However, we have also considered the following advantages, disadvantages and other factors.

Advantages

Guaranteed and reliable buyer of produced ore

The Offtake Agreement provides improved certainty and hence stability to the Company's mining operations, particularly given the current volatile market conditions. In addition, SCIT has been a customer of Mount Gibson for over 9 years, and is indirectly also a shareholder with a 14.9% interest in the issued capital of the Company; hence the Offtake Agreement will further strengthen the relationship with SCIT.

Flexibility in production and delivery under the Offtake Agreement

Since the Contracted Quantity is calculated as a percentage of production from Iron Hill, in the event that no iron ore is produced, MGM will not have any obligation or incur any penalty. This provides MGM with an improved flexibility to manage its operations after considering the benchmark iron ore price or unexpected increase in the production costs.

Guarantee by Shougang Group

As mentioned earlier, Shougang Group has provided a guarantee toward the liabilities of SCIT under the Offtake Agreement. This provides an additional security to MGM in the event that SCIT faces any financial or operational difficulties and is unable to satisfy its obligations under the Offtake Agreement.

Disadvantages

Increased concentration of customer risk

If the Offtake Agreement is approved, a material proportion of the Company's production (c. up to 80¹¹%) at Iron Hill will be committed to the Shougang Group. While the price review mechanism ensures that the Offtake Agreement can be revisited in the event that either party considers the pricing formula or penalties to be inconsistent with the market, there is potentially a risk of over-reliance on one customer, resulting in a risk of default.

However, we note that the ultimate holding company of the Shougang Group, Shougang Group Co Limited is a Chinese state-owned enterprise. Further, Shougang Fushan Resources Group Limited, which is the holding company of True Plus Limited is listed on the Hong Kong Stock exchange with a market capitalisation of c. \$1.5 billion¹² as at 18 January 2018, LTM¹³ EBITDA of \$274.6 million¹⁴ for the period ended 30 June 2017 and cash and cash equivalents of \$500.4 million¹⁵ as at 30 June 2017. Therefore, while there is over-reliance on one customer leading to a higher risk of default, the existence of the guarantee noted above together with the financial metrics of the Shougang Group mitigates those risks.

Other factors

The implications if the Offtake Agreement is not approved

If the Offtake Agreement is not approved, MGM would lose a secured buyer for up to c. 80¹⁶% of the actual available production at Iron Hill. In such a scenario, the Company could seek to enter into an offtake agreement with another interested party or choose to sell it on the spot market. This process may take time and there is no certainty that Mount Gibson will be able to secure equivalent terms to those of the Offtake Agreement and it is also likely there would be an increase in Mount Gibson's marketing costs

Independent Directors' recommendations and intentions

The Independent Directors unanimously recommend that Non-Associated Shareholders vote in favour of the Offtake Agreement.

Reasonableness conclusion

Based on the qualitative factors identified above, it is our opinion that the Offtake Agreement is REASONABLE to the Non-Associated Shareholders.

¹¹ Following the commencement of the Offtake Agreement, c. 82% of available lump ore and 83% of fines until 8 July 2018 will be contracted to Shougang Group. After 8 July 2018 i.e. the expiry of the First IH Offtake Agreement, 75% of lump ore and fines will be contracted to SCIT.

¹² The market capitalisation expressed in Hong Kong Dollars ("HKD") is c. HKD 9 billion and has been converted at an exchange rate of AUD/HKD 0.1598.

¹³ Last twelve months

¹⁴ The exchange rate of AUD/HKD is 0.1669.

¹⁵ The exchange rate of AUD/HKD is 0.1669.

¹⁶ Following the commencement of the Offtake Agreement, c. 82% of available lump ore and 83% of fines until 8 July 2018 will be contracted to Shougang Group. After 8 July 2018 i.e. the expiry of the First IH Offtake Agreement, 75% of lump ore and fines will be contracted to SCIT.



Overall conclusion

After considering the abovementioned quantitative and qualitative factors, Grant Thornton Corporate Finance has concluded that the Offtake Agreement is FAIR and REASONABLE to the Non-Associated Shareholders.

Other matters

Grant Thornton Corporate Finance has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is set out in the following section.

The decision of whether or not to accept the Offtake Agreement is a matter for each Non-Associated Shareholder to decide based on their own views of value of Mount Gibson and expectations about future market conditions, Mount Gibson's performance, and risk profile and investment strategy. If Non-Associated Shareholders are in doubt about the action they should take in relation to the Offtake Agreement, they should seek their own professional advice.

Yours faithfully

GRANT THORNTON CORPORATE FINANCE PTY LTD

ANDREA DE CIAN
Director

JANNAYA JAMES
Authorised Representative

7 February 2018

Financial Services Guide

1 Grant Thornton Corporate Finance Pty Ltd

Grant Thornton Corporate Finance Pty Ltd ("Grant Thornton Corporate Finance") carries on a business, and has a registered office, at Level 17, 383 Kent Street, Sydney NSW 2000. Grant Thornton Corporate Finance holds Australian Financial Services Licence No 247140 authorising it to provide financial product advice in relation to securities and superannuation funds to wholesale and retail clients.

Grant Thornton Corporate Finance has been engaged by Mount Gibson to provide general financial product advice in the form of an independent expert's report in relation to the Offtake Agreement. This report is included in the Company's Notice of Meeting and Explanatory Memorandum.

2 Financial Services Guide

This Financial Services Guide ("FSG") has been prepared in accordance with the Corporations Act, 2001 and provides important information to help retail clients make a decision as to their use of general financial product advice in a report, the services we offer, information about us, our dispute resolution process and how we are remunerated.

3 General financial product advice

In our report we provide general financial product advice. The advice in a report does not take into account your personal objectives, financial situation or needs.

Grant Thornton Corporate Finance does not accept instructions from retail clients. Grant Thornton Corporate Finance provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Thornton Corporate Finance does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice directly to retail investors.

4 Remuneration

When providing the Report, Grant Thornton Corporate Finance's client is the Company. Grant Thornton Corporate Finance receives its remuneration from the Company. In respect of the Report, Grant Thornton Corporate Finance will receive from Mount Gibson a fixed fee of \$35,000 plus GST, which is based on commercial rate plus reimbursement of out-of-pocket expenses for the preparation of the report. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Except for the fees referred to above, no related body corporate of Grant Thornton Corporate Finance, or any of the directors or employees of Grant Thornton Corporate Finance or any of those related bodies or any associate receives any other remuneration or other benefit attributable to the preparation of and provision of this report.

5 Independence

Grant Thornton Corporate Finance is required to be independent of Mount Gibson in order to provide this report. The guidelines for independence in the preparation of independent expert's reports are set out in Regulatory Guide 112 *Independence of expert* issued by the Australian Securities and Investments Commission ("ASIC"). The following information in relation to the independence of Grant Thornton Corporate Finance is stated below.

"Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with Mount Gibson (and associated entities) that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation the Offtake Agreement.

Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the transaction, other than the preparation of this report.

Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the transaction. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.

Grant Thornton Corporate Finance considers itself to be independent in terms of Regulatory Guide 112 "Independence of expert" issued by the ASIC."

We note that Grant Thornton Corporate Finance was engaged as an independent expert by Mount Gibson to assess fairness and reasonableness of the First IH Offtake Agreement in February 2017.

In our opinion, the above engagement does not impact on our ability to provide an independent and unbiased opinion in the context of the Offtake Agreement. Accordingly, we consider Grant Thornton Corporate Finance to be independent of Mount Gibson, its Directors and all other parties involved in the Offtake Agreement.

6 Complaints process

Grant Thornton Corporate Finance has an internal complaint handling mechanism and is a member of the Financial Ombudsman Service (membership no. 11800). All complaints must be in writing and addressed to the Chief Executive Officer at Grant Thornton Corporate Finance. We will endeavour to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service who can be contacted at:

Financial Ombudsman Service Limited
GPO Box 3
Melbourne, VIC 3001
Telephone: 1800 367 287

Grant Thornton Corporate Finance is only responsible for this report and FSG. Complaints or questions about the General Meeting should not be directed to Grant Thornton Corporate Finance. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.



7 Compensation arrangements

Grant Thornton Corporate Finance has professional indemnity insurance cover under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of section 912B of the Corporations Act, 2001.

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1 Purpose and scope of the report

1.1 Purpose

Chapter 10 of the ASX Listing Rules

Chapter 10 of the ASX Listing Rules requires the approval from the non-associated shareholders of a company if the company proposes to acquire or dispose a substantial asset from a related party or a substantial holder.

ASX Listing Rule 10.2 states that an asset is substantial if its value, or the value of the consideration, is 5% or more of the equity interest of the entity as set out in the latest financial statement provided to the ASX ("Substantial Asset"). Based on ASX Listing Rule 10.1.3, a substantial holder is a person who has a relevant interest, or had a relevant interest at any time in the six months before the transaction, in at least 10% of the voting power of the company.

ASX Listing Rule 10.10.2 requires that the Notice of Meeting and Explanatory Memorandum be accompanied by a report from an independent expert stating whether the transaction is fair and reasonable to the non-associated shareholders.

Given that Shougang Group is a substantial shareholder of Mount Gibson (holds 14.9% interest in Mount Gibson), the sale of iron ore under the Offtake Agreement to MGM is considered the sale of a Substantial Asset to a substantial shareholder.

Accordingly, the Independent Directors have requested Grant Thornton Corporate Finance to prepare an independent expert's report stating, whether in its opinion the Offtake Agreement is fair and reasonable to the Non-Associated Shareholders.

1.2 Basis of assessment

Grant Thornton Corporate Finance has had regard to RG 111 in relation to the content of independent expert's report and RG76 in relation to related party transactions. RG76 largely refers to RG111 in relation to the approach to related party transactions.

RG 111 establishes certain guidelines in respect of independent expert's reports prepared for the purposes of the Corporations Act. RG 111 is framed largely in relation to reports prepared pursuant to Section 640 of the Corporations Act and comments on the meaning of "fair and reasonable" in the context of a takeover offer. RG 111 also regulates independent expert's reports prepared for related party transactions in clauses 52 to 63. RG 111 notes that an expert should focus on the substance of the related party transaction, rather than the legal mechanism and, in particular where a related party transaction is one component of a broader transaction, the expert should consider what level of analysis of the related party aspect is required.

We note that RG111 clause 56 states the following:

RG 111.56 Where an expert assesses whether a related party transaction is 'fair and reasonable' (whether for the purposes of Chapter 2E or ASX Listing Rule 10.1), this should not be applied as a composite test—that is, there should be a separate assessment of whether the transaction is 'fair' and 'reasonable', as in a

control transaction. An expert should not assess whether the transaction is 'fair and reasonable' based simply on a consideration of the advantages and disadvantages of the proposal, as we do not consider this provides members with sufficient valuation information (See Regulatory Guide 76 Related party transactions (RG 76) at RG 76.106–RG 76.111 for further details).

Accordingly, in the consideration of the Offtake Agreement, the expert should undertake a separate test of the fairness and then analyse the advantages and disadvantages for the Non-Associated Shareholders.

RG 111 notes that a related party transaction is:

- Fair, when the value of the financial benefit being offered by the entity to the related party is equal to or less than the value of the assets being acquired.
- Reasonable, if it is fair, or, despite not being fair, after considering other significant factors, shareholders should vote in favour of the transaction.

In considering the fairness of the Offtake Agreement, we have analysed the key terms of the Offtake Agreement against terms agreed to by MGM in similar offtake agreements in the spot market to ensure they are fair to the Non-Associated Shareholders and no net financial benefits are accrued to SCIT or Shougang Group.

In considering whether the Offtake Agreement is reasonable to the Non-Associated Shareholders, we have considered a number of factors, including:

- Whether the Offtake Agreement is fair.
- The implications to Mount Gibson and the Non-Associated Shareholders if the Offtake Agreement is not approved.
- Other likely advantages and disadvantages associated with the Offtake Agreement as required by RG111.
- Other costs and risks associated with the Offtake Agreement that could potentially affect the Non-Associated Shareholders.

1.3 Independence

Prior to accepting this engagement, Grant Thornton Corporate Finance considered its independence with respect to the Offtake Agreement with reference to the ASIC Regulatory Guide 112 "Independence of Expert's Reports" ("RG 112").

Grant Thornton Corporate Finance has no involvement with, or interest in, the outcome of the approval of the Offtake Agreement other than that of an independent expert. Grant Thornton Corporate Finance is entitled to receive a fee based on commercial rates and including reimbursement of out-of-pocket expenses for the preparation of this report.



Except for these fees, Grant Thornton Corporate Finance will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the issuing of this report. The payment of this fee is in no way contingent upon the success or failure of the Offtake Agreement.

We note that Grant Thornton Corporate Finance was engaged as an independent expert by Mount Gibson to assess fairness and reasonableness of the First IH Offtake Agreement in February 2017.

In our opinion, the above engagement does not impact on our ability to provide an independent and unbiased opinion in the context of the Offtake Agreement. Accordingly, we consider Grant Thornton Corporate Finance to be independent of Mount Gibson, its Directors and all other parties involved in the Offtake Agreement.

1.4 Consent and other matters

Our report is to be read in conjunction with the Notice of Meeting and Explanatory Memorandum dated on or around 8 February 2018 in which this report is included, and is prepared for the exclusive purpose of assisting the Non-Associated Shareholders in their consideration of the Offtake Agreement. This report should not be used for any other purpose.

Grant Thornton Corporate Finance consents to the issue of this report in its form and context and consents to its inclusion in the Notice of Meeting and Explanatory Memorandum.

This report constitutes general financial product advice only and in undertaking our assessment, we have considered the likely impact of the Offtake Agreement to Non-Associated Shareholders as a whole. We have not considered the potential impact of the Offtake Agreement on individual Non-Associated Shareholders. Individual shareholders have different financial circumstances and it is neither practicable nor possible to consider the implications of the Offtake Agreement on individual shareholders.

The decision of whether or not to approve the Offtake Agreement is a matter for each Non-Associated Shareholder based on their own views of value of Mount Gibson and expectations about future market conditions, Mount Gibson's performance, and risk profile and investment strategy. If Non-Associated Shareholders are in doubt about the action they should take in relation to the Offtake Agreement, they should seek their own professional advice.

1.5 Compliance with APES 225 Valuation Services

This report has been prepared in accordance with the requirements of the professional standard APES 225 Valuation Services ("APES 225") as issued by the Accounting Professional & Ethical Standards Board. In accordance with the requirements of APES 225, we advise that this assignment is a Valuation Engagement as defined by that standard as follows:

"An Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Member is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Member at that time."

2 Profile of the iron ore industry

Mount Gibson is primarily engaged in the mining, production and exploration of hematite iron ore. Accordingly, the Company's financial performance is significantly impacted by developments in the Australian and global iron ore industry. Accordingly, we provide below a brief overview of the iron ore industry.

2.1 Overview of the iron ore industry

Iron is one of the most abundant rock-forming elements in the Earth's crust. Over 98% of iron ore produced globally is consumed in the production of steel, which is used primarily in the construction, structural engineering and manufacturing, energy and industrial sectors. Thus, global economic growth is the primary factor that drives its supply and demand.

Iron primarily comes in the following iron oxide minerals: magnetite which contains approximately 72% iron and hematite which contains approximately 70% iron¹⁷. In addition to these, iron is also derived from limonite and goethite. The most commonly mined iron ores are magnetite and hematite which via different processing method can be sold as iron ore fines, pellets and lumps. Fines require the most processing and as such are less valuable.

Hematite is considered to be a high quality unprocessed iron ore and is often referred to as a direct shipping ore ("DSO"). This is because once hematite is mined, it undergoes a relatively simple crushing and screening process before being exported. Iron ore products can be categorised into lumps and fines. Lump iron ores can be introduced directly into the steel blast furnace, whereas fine iron ores need to be further processed. The global standard for DSO has an iron ore content of 62%.

Consistent with most iron ore mines across the globe, all the major Australian iron ore mines are open cut mines. Crushed and processed iron ore is primarily used to manufacture steel for buildings, transport infrastructure construction and other development projects.

2.2 Global iron ore market

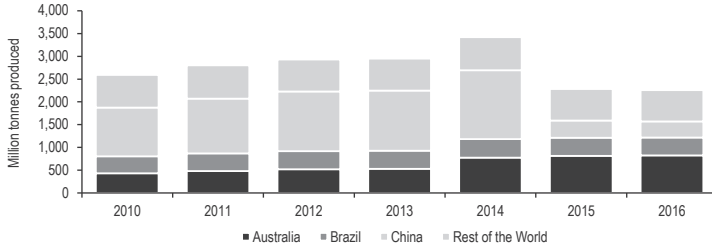
2.2.1 Iron ore supply

The iron ore industry has relatively high barriers to entry due to the large amounts of capital funding required for projects and infrastructure development. Consequently, there is a high level of concentration in the industry with production mainly being sourced from Brazil, Australia and China.

¹⁷ Geoscience Australia, Commonwealth of Australia

Set out below is the global iron ore production by country.

Global annual iron ore production by country

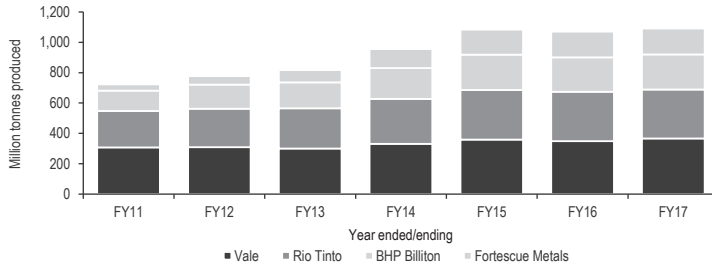


Note 1: The 2015 and 2016 annual iron ore production reported for China is based on the usable ore. Until 2014, data available was only for crude iron ore production.

Source: US Geological Survey, 2010-2016

The global iron ore market has an oligopolistic market structure, primarily due to the importance of having access to mining infrastructure. The four largest global iron ore miners are the Brazilian company, Vale, followed by BHP Billiton, Rio Tinto and Fortescue Metals. These four businesses produce majority of the world's iron ore. Set out below is the production of iron ore by these companies from 2010 to 2016.

Production of iron ore by the four largest players



Note 1: FY17 figures for Vale and Rio Tinto are annualised based on the respective 9 months to year end results.

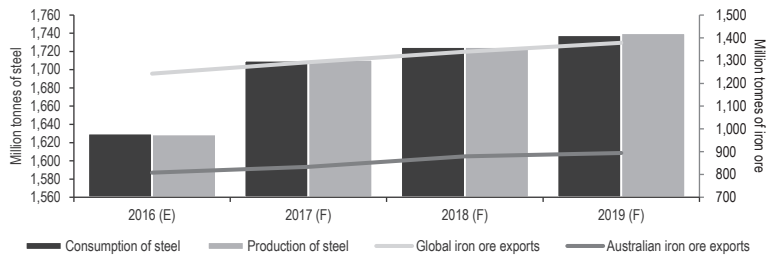
Source: Vale, Rio Tinto, BHP and Fortescue Annual Reports 2010-2017

Iron ore mining is a substantial industry in Australia, representing approximately 2.33% of Australia GDP. The majority of Australia's iron ore is mined in Western Australia (c. >95%).

2.2.2 Iron ore demand

China is the largest consumer of steel globally, accounting for approximately 44% of global steel consumption. As a result, demand and price of iron ore are strongly driven by the growth rates in China.

The chart below shows the recent and forecast Australian and global iron ore exports, global steel consumption and global production.



Note (1): A=Actual, F=Forecast

Source: Department of Industry, Innovation and Science Resources and Energy Quarterly September 2017

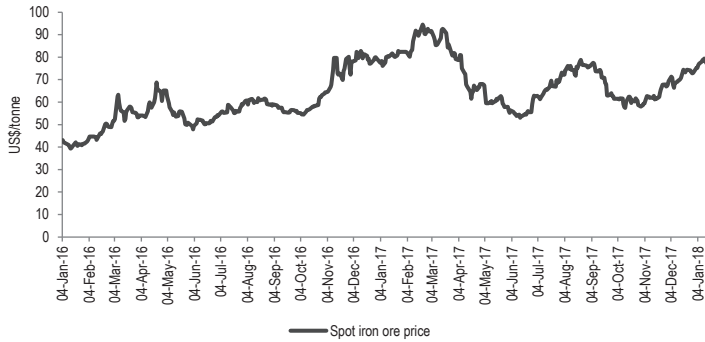
Approximately 45% of the global steel production and consumption is located in China. World steel production and consumption increased in 2017 due to fiscal policies adopted by China to achieve economic growth. The growth in production and consumption is expected to moderate in 2018 and 2019 as relatively stringent environmental regulations in China offset the growth in steel demand in the rest of the world.

2.2.3 Historical iron ore prices and outlook

Iron ore is not traded in open markets like other commodities. In fact, iron ore prices for trades between major iron ore producers and steel mills are usually negotiated and agreed upon under medium or long-term contracts. Market participants usually adopt the NYMEX traded 62% Fe CFR North China in US\$/metric tonne, a monthly cash settled iron ore future based on the Platts IODEX 62% Fe daily index, as a proxy of the metal's 'spot price'.

Set out in the graph below is the historical spot price of iron ore over the period January 2016 to January 2018.

Historical spot price Iron Ore 62% Fe

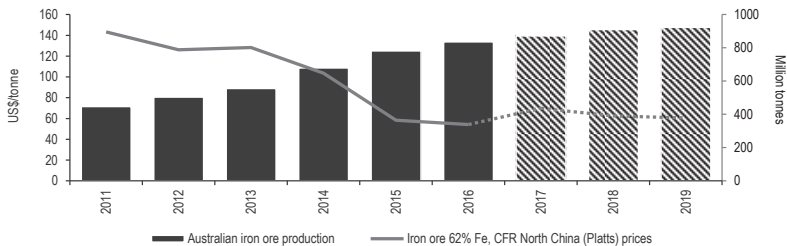


Source: S&P Global

As is evident from the graph above, iron ore prices have been volatile over the last 2 years. We note that the highest price of US\$94.7/tonne was recorded on 21 February 2017 due to expectations on the re-commencement of activity in the construction sector following the winter. The lowest price of US\$39.3/tonne was recorded on 13 January 2016 owing to oversupply. In the last few months iron ore prices have recovered due to continued demand for high grade material. This has also resulted in the increasing discount between high grade and low grade material, which has been discussed later in this section.

The following graph shows the annual average historical price of iron ore 62% Fe CFR North China from January 2011 to January 2017 and forecast price of iron ore from January 2017 to January 2019. It also shows Australia's historical and forecast production of iron ores.

Iron ore prices and Australian production 2011 - 2019



Note (1): Shaded columns and dotted lines denote forecast information
Source: Resources and Energy Quarterly December 2017, S&P Global, IBIS World

The high prices experienced between 2011 and 2013 were supported by strong economic growth in China. The surge in iron ore prices during those times saw producers increasing output which led to an oversupply in the market, followed by a drop in prices between 2013 and 2015.

The iron ore price is expected to experience some volatility in the initial months of 2018 owing to uncertainty associated with the impact of the steel production restrictions in China. There remain

conflicting factors influencing the iron ore prices. While the steel production restrictions are likely to reduce iron ore imports reducing demand and therefore price, the iron ore price has closely tracked China's steel prices, which is currently at a six-year high, implying that iron ore prices may increase.

According to the Energy and Resources Quarterly December 2017, the 2018 forecast iron ore prices are expected to decline, owing to supply from low-cost producers in Australia and Brazil and marginal decline in steel consumption from China relative to production. China's steel production remains an important factor impacting the outlook for iron ore prices.

2.2.4 Discount for low grade

Following China's steel production restrictions aimed at reducing pollution, the historically observed discount between the IODEX Platts Fe 58% Fines and the IODEX Platts Fe 62% Fines has increased. The average discount between 2012 and 2016 was between 10% and 15%¹⁸ and increased significantly to between 25% and 30%¹⁹ in 2017. The observed discount increased further to between 30% and 35%²⁰ in December 2017.

The Chinese government has indicated that there will be a growing emphasis on efficiency and addressing air quality concerns, suggesting a continued support for medium and high grade ores. This will impact the steel manufacturers. Therefore, while discounts may be impacted as steel prices decline, the historically observed discount range of 10% to 15% is not expected to recur in the short to medium term.

¹⁸ Resources and Energy Quarterly December 2017 – Department of Industry, Innovation and Science.

¹⁹ Ibid.

²⁰ Ibid.

3 Profile of Mount Gibson

3.1 Company overview

Mount Gibson is an Australian-listed iron ore miner primarily involved in the production and export of hematite.

Mount Gibson, through its wholly owned subsidiaries, owns and operates hematite iron ore mines and iron ore export facilities at Geraldton Port in Western Australia, including a 50-year lease of two ore storage facilities with a combined ore storage capacity of 360,000 tonnes. In addition, Mount Gibson has long-term rail access and haulage agreements allowing the Company to transport ore from its Midwest Operations²¹ to Geraldton for export. The existing access to infrastructure provides the Company with a competitive advantage and further potential for long-term development within the industry.

A brief overview of Mount Gibson's mining assets is set out below:

- *Midwest Operations*: The Midwest Operations are located in the Mount Gibson Ranges, approximately 260 km southeast of Geraldton in the Midwest region of Western Australia. The Midwest Operations comprise the Extension Hill Mine and the Iron Hill Mine. Mining at Extension Hill commenced in December 2011 and ceased in November 2016. Mining at Iron Hill commenced in February 2017 with first ore sales achieved in June 2017. Hematite ore mined at Iron Hill is crushed and screened on-site before it is loaded onto trucks and transported to the local railway siding at Perenjori, from where the ore is railed to the Port of Geraldton for export.
- *Shine Project*: MGM has a 100% interest in this exploration and development asset. This deposit is located 85 km north of the Extension Hill mine. The Company considers Shine Project to be a potentially viable development opportunity for hematite ore going forward.
- *Koolan Island*: is located in the northern Kimberley coast of Western Australia, approximately 140 km north of Derby in Yampi Sound. The Company acquired this project through its takeover of Aztec Resources Limited in 2007. In FY16, ore shipments from Koolan Island totalled 1.5 million WMT with all production and sales from the Acacia East satellite pit, compared with sales of 2.1 million WMT in FY15 with ore sourced from the Main Pit prior to the failure of the seawall in late 2014. Operations at the Acacia East satellite pit were concluded by the quarter ended 31 March 2016. The mine site was subsequently placed under care and maintenance.

The Company subsequently announced that its Board had approved the redevelopment of the Koolan Island Mine after a feasibility study confirmed economic viability. The Koolan Island Restart Project was approved in April 2017, with an expected development capital expenditure of \$97 million. The material site works commenced in June 2017 and first ore sales are targeted for early 2019.

²¹ Midwest Operations comprise the Extension Hill and Iron Hill projects.

Shown below are the locations of Mount Gibson's current and past operations and development assets in Western Australia.



Note 1: The Talling Peak mine site was closed in late 2014. The last stockpiles at Talling Peak were monetised during FY17.

Source: Google maps

3.2 Resources and reserves

In 2017, ore produced was principally derived from the Iron Hill project and monetisation of the last stockpiles at the Extension Hill and Talling Peak mine site. The Iron Hill mine life is expected to cease at the end of 2018.

Set out below is the breakdown of the hematite mineral resource and ore reserve estimates by mine sites of Mount Gibson as at 30 June 2017 (JORC 2012 compliant).

Resources and reserves (above 50% Fe)							
As at 30 June 2017	Location	Status	Million tonnes	Fe %	SiO ₂ %	Al ₂ O ₃ %	P %
Mineral resources							
Measured	Koolan Island	Development	7.69	59.10	13.53	1.16	0.018
	Extension Hill	Production	1.27	55.32	9.16	2.76	0.077
	Tallering Peak	Rehabilitation	0.41	58.90	6.26	3.50	0.082
	Shine	Exploration and development	5.73	58.90	9.04	1.81	0.076
	Koolan Island	Development	41.93	64.40	6.36	0.76	0.014
Indicated	Extension Hill	Production	0.31	57.29	10.42	1.62	0.076
	Iron Hill	Production	1.23	60.56	8.64	1.02	0.047
	Tallering Peak	Rehabilitation	1.03	58.10	11.70	1.66	0.066
	Shine	Exploration and development	6.57	58.00	10.01	1.35	0.070
	Koolan Island	Development	10.89	60.20	12.48	0.79	0.015
Inferred	Extension Hill	Production	0.20	56.61	10.49	1.66	0.055
	Iron Hill	Production	6.84	57.87	8.72	1.74	0.071
	Tallering Peak	Rehabilitation	0.20	54.70	17.89	1.93	0.056
	Shine	Exploration and development	3.59	56.80	9.61	1.18	0.063
	Koolan Island	Development	0.04	63.49	6.68	1.31	0.014
Ore reserves							
Proved	Koolan Island	Development	0.04	63.49	6.68	1.31	0.014
Probable	Koolan Island	Development	12.77	66.03	3.70	0.92	0.009
Total mineral resources			87.89	61.41	8.69	1.07	0.032
Total ore reserves			12.81	66.02	3.71	0.92	0.009

Note 1: Mineral resources are reported inclusive of ore reserves.

Note 2: Fe = Iron, SiO₂ = Silicon dioxide, Al₂O₃ = Aluminium oxide, and P = Phosphorus

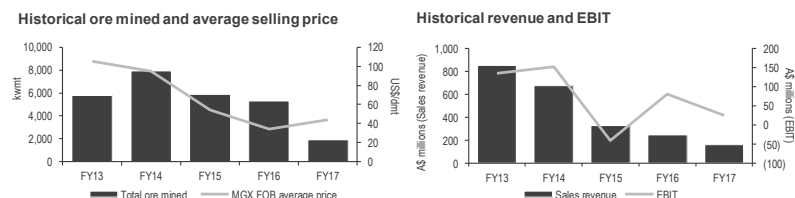
Note 3: Differences due to rounding off

Note 4: The status of the Koolan Island mine is classified as Development following commencement of materials site work in April 2017.

Source: Mount Gibson Annual financial report 2017

3.3 Operations

The graphs below set out the historical production of hematite ores mined and the free on board ("FOB") average price per tonne for standard DSO fine ores realised by Mount Gibson, as well as Mount Gibson's historical sales revenue and underlying EBIT²².



Note (1): The EBIT figure shown above for FY15 does not include the impairment charge of \$945.2 million.

Source: Annual financial report 2013-2017, GTCF calculations

Mount Gibson's revenue is principally derived under negotiated sales contracts. These agreements outline market reflective pricing structures whereby prices of the iron ores are referenced to relevant benchmark indices, typically the Iron Ore 62% Fe CFR North China (Platts) index or the Iron Ore 58% Fe CFR North China (Platts) index where the iron ore content is below 58% ("the Platts Index"), and market-typical lump

²² Earnings before interest and tax.

premium ("Lump Premium") and impurity penalties ("Penalties"), on a cost and freight ("CFR") basis. However, after the termination of the off-take agreements with Xinyu Iron and Steel Group Limited ("Xinyu") and Sinogiant Steel Holdings Group Limited ("Sinogiant"), the Company has been selling more iron ore volumes in the spot market.

As shown in the above graphs, Mount Gibson has over the last five years mined between approximately 1.9 million tonnes (FY17) and approximately 7.9 million tonnes (FY14). The average for the period FY13 to FY17 was approximately 5.3 million tonnes. Over this same period, the average FOB price for standard DSO products realised by Mount Gibson has declined until 2016 before marginally recovering in 2017. This trend was consistent with the trend observed in the market.

Earnings before interest and tax declined in FY15, where a net loss after tax of \$911.4 million was reported after a non-cash impairment of \$945.2 million was charged. Alongside the impairment charge, sales revenue also dropped by approximately 40% from \$898 million in FY14 to \$325 million in FY15. This significant reduction was driven by the final closure of Talling Peak²³ after ten years of continuous operation in September 2014, and the suspension of large scale production at Koolan Island following the failure of the Main Pit sea wall in November 2014. Additionally, declining iron ore prices led to a drop in production, owing to reduced profitability.

In FY16, the Company received c. \$86.4 million by way of insurance settlement in relation to the Koolan Island mine. This resulted in an increase in the EBIT. In FY17, due to conclusion of the mining operations at Extension Hill, the EBIT has declined. However, the decline in EBIT has been partially offset by reversal of impairment charges related to Koolan Island and Iron Hill mines.

²³ The Talling Peak hematite operation commenced production of high quality lump and fine hematite ore in February 2004. Operations at Talling Peak were concluded after 10 years of continuous production, generating life of mine sales of c. 25 million tonnes.

3.4 Financial information

3.4.1 Income statement

The statement of profit or loss for Mount Gibson for the year ended 30 June 2016 ("FY16") and the year ended 30 June 2017 ("FY17") are set out in the following table.

Consolidated statement of profit or loss and other comprehensive income	FY16	FY17
A\$'000s	Audited	Audited
Revenue		
<i>Continuing operations</i>		
Sale of goods	235,188	162,043
Interest revenue	9,667	12,113
Total revenue	244,855	174,156
Cost of sales	(213,681)	(134,545)
Impairment write-back/(loss) on ore inventories	3,442	(3,153)
Gross profit/(loss)	34,616	36,458
Other income	91,848	5,866
Consumables stock obsolescence	(31)	-
<i>Impairment & Reversals</i>		
(Impairment) / reversal of consumables inventories	(8,111)	2,479
Impairment of mine properties	(2,135)	-
Impairment of property, plant and equipment	(12,377)	-
(Impairment) / reversal of deferred acquisition, exploration and evaluation	(3,037)	2,507
Exploration expenses	(77)	(90)
Net unrealised market-to-market gain/(loss)	512	(137)
Administration expenses	(19,903)	(21,831)
Profit/(loss) from continuing operations before tax and finance costs	81,305	25,252
Finance costs	(1,760)	(1,134)
Profit/(loss) from continuing operations before tax	79,545	24,118
Tax benefit/(expense)	761	1,481
Profit/(loss) after tax from continuing operations	80,306	25,599
<i>Discontinued operations</i>		
Profit/(loss) after tax for the year from discontinued operations	5,991	723
Profit/(loss) after tax attributable to members of the Company	86,297	26,322
Other comprehensive income/(loss)		
Items that may be subsequently reclassified to profit or loss		
Change in fair value of cash flow hedges	(231)	341
Reclassification adjustments for gain/(loss) on cash flow hedges transferred to the income statement	231	(109)
Total comprehensive income/(loss) for the year	86,297	26,554

Source: Annual financial report 2016 and 2017

We note the following in relation to the income statements of Mount Gibson.

- *Gross profit/ (loss)*: Whilst total revenues decreased in line with reduced production, direct costs decreased to a lesser extent than decrease in revenue. After allowing for interest revenue and adjustments for inventory impairments, gross profit modestly increased in FY17 compared to FY16. It is also observed that the average FOB selling price realised by Mount Gibson has marginally improved from US\$34/DMT in FY16 to US\$44/DMT in FY17.

- *Other income:* in FY16, the other income relates to the receipt of c. \$86 million as insurance claim for damages incurred at the Koolan Island mine.
- *Impairment & Reversals:* given the commencement of the Iron Hill mine (c. \$3.0 million), an impairment reversal was recorded in FY17. Other minor impairment charges and reversals have been recorded relating to ore and consumables inventories at various mine sites.
- *Administration expenses:* includes the expenses in relation to the feasibility study for restarting the Koolan Island mine (\$2.1 million) and the impairment of debtors following the default by previous Off-take parties (\$3.1 million).

3.4.2 Balance sheet

The consolidated statements of financial position of Mount Gibson as at 30 June 2016 and 30 June 2017 are set out in the table below.

Consolidated statement of financial position	30-Jun-16	30-Jun-17
A\$'000s	Audited	Audited
Current assets		
Cash and cash equivalents	43,316	48,756
Term deposits and subordinated notes	337,000	365,500
Financial assets held for trading	19,771	32,523
Trade and other receivables	41,546	9,528
Inventories	20,017	20,736
Prepayments	1,887	1,953
Derivative financial assets	231	341
Income tax receivable	50	-
Total current assets	463,818	479,337
Non-current assets		
Property, plant and equipment	8,744	5,919
Deferred acquisition, exploration and evaluation	-	10,891
Total non-current assets	8,744	16,810
Total assets	472,562	496,147
Current liabilities		
Trade and other payables	36,229	31,477
Interest-bearing loans and borrowings	421	-
Employee benefits	2,708	2,966
Provisions	3,083	3,651
Total current liabilities	42,441	38,094
Non-current liabilities		
Employee benefits	191	334
Provisions	37,995	38,736
Total non-current liabilities	38,186	39,070
Total liabilities	80,627	77,164
Net assets	391,935	418,983

Source: Annual financial report 2016 and 2017, Mount Gibson Management

We note the following in relation to the balance sheet of Mount Gibson:

- *Term deposits and subordinated notes:* Short-term deposits are made for periods ranging from one day to three months, depending on the immediate cash requirements of the Company. Subsequently, the Company increased its investments by \$18.5 million in term deposits (made for periods between three to twelve months) and \$10 million in subordinated notes (comprising tradeable floating interest rate instruments with maturities of up to ten years). These financial instruments are with various financial institutions with credit ratings from BBB+ to AA- (Standard & Poor's rating).
- *Trade and other receivables:* declined primarily due to the reduction in revenue arising from lower sales volume and relatively higher discounts on lower grade iron ore.
- *Financial asset held for trading:* comprises investment in tradeable corporate bonds of other entities and investment in shares. These investments are managed by a professional funds management entity. The movement relates to an increase in investment in tradeable corporate bonds of other entities by c. \$12 million.
- *Mine properties:* relate to the capitalised costs of the development work being undertaken at the Koolan Island mine (\$4.9 million) and historical development and mine rehabilitation costs (c. \$5.9 million) at Extension Hill.

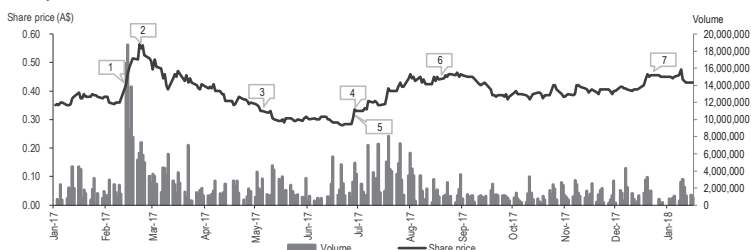
3.5 Share capital structure and share price movement

Mount Gibson has 1,096,562,516 fully paid listed ordinary shares on issue. Set out below is a summary of Mount Gibson's major shareholders as at 5 September 2017.

Top 10 shareholders of ordinary shares as at 5 September 2017			
Rank	Name	No. of shares	Interest (%)
1	APAC Resources Investments Limited	172,257,288	15.71%
2	True Plus Limited	163,866,874	14.94%
3	Sun Hung Kai Investment Services Limited	151,523,460	13.82%
4	Citi Corp Nominees Pty Ltd	142,226,031	12.97%
5	HSBC Custody Nominees (Australia) Limited	80,626,460	7.35%
6	J P Morgan Nominees Australia Limited	45,104,089	4.11%
7	DeBortoli Wines Pty Limited	39,096,165	3.57%
8	National Nominees Limited	29,918,663	2.73%
9	Zero Nominees Pty Ltd	17,700,000	1.61%
10	BNP Paribas Noms Pty Ltd (DRP)	6,772,064	0.62%
Top 10 shareholders total		849,091,094	77.43%
Remaining shareholders		247,471,422	22.57%
Total ordinary shares outstanding		1,096,562,516	100.00%

Source: Mount Gibson Annual financial report 2017

The daily movements in Mount Gibson's share price and volumes traded for the period from January 2017 to January 2018 are set out below:



Source: S&P Global and Grant Thornton Corporate Finance calculations

As can be seen in the graph above, over the period January 2017 to January 2018, Mount Gibson Shares have traded at a high of \$0.58 and a low of \$0.27 during the last 12 months.

We note the following non-exhaustive list of key announcements by the Company in the last year.

No.	Date	Comments
1	09-Feb-17	Mount Gibson received final approval to proceed with the Iron Hill mine. Total Iron Hill life-of-mine production sales are estimated at 5.5 to 6 million wmt and extend the Midwest mining operations life to 2018. Life-of-mine site cash costs estimated at \$46 - \$48/wmt FOB. First ore sales targeted for May 2017. Mount Gibson ore sales guidance consequently increased to 3.2 to 3.5 million wmt for FY17 at a reduced average all-in-group cash cost of \$47 - \$51/wmt FOB
2	15-Feb-17	Mount Gibson announced its half-yearly results. The Company reported a profit of \$22.9 million following a 16% increase in the low grade iron ore prices towards the end of 2016. Cash reserves increased following the receipt of \$34.5 million towards the property damage component of the Koolan Island insurance claim.
3	27-Apr-17	Mount Gibson announced that the Feasibility study undertaken for restarting operations at the Koolan Island mine confirmed robust economics to restart production at Main Pit at Koolan Island. The Initial Main Deposit Ore Reserves of 12.8 million tonnes grading 66% Fe and initial mine life of 3.5 years. Seawall construction and dewatering capital costs are \$97 million including contingencies, peak cash draw prior to cash flow of \$145 million, including pre-stripping and other working capital. Projected all-in-cash costs of \$53/wmt FOB, including development capex and final closure costs. First ore sales targeted to commence in early 2019.
4	19-Jun-17	Mount Gibson announced that the company had terminated the Off-take agreement with Xinyu Iron and Steel Group Limited ("Xinyu"). The Company advised that it had already successfully sold Iron Hill material into the spot market, and fully expects to continue to place all production from Iron Hill with customers as it becomes available.
5	06-Jul-17	Mount Gibson announced that the company had terminated the Off-take agreement with Sinogiant Steel Holdings Group Limited ("Sinogiant"). The Company advised that it expects to continue placing all production from Iron Hill with customers as it becomes available.
6	16-Aug-17	Mount Gibson announced full year results. The summary of the results is set out below <ul style="list-style-type: none"> - The total sales revenue was \$173 million. - Net profit after tax was \$26.3 million. - Cash, term deposits and liquid investments of \$447 million. - All-in group cash costs of \$52/wmt FOB including net inventory build. - Sales guidance for FY18 of 3.5 to 3.8 million wmt at all-in group cash cost of \$47-\$52/wmt FOB, implying further reduction in cost. - Fully franked final dividend of 2 cents per share.
7	21-Dec-17	Mount Gibson announced that the Company has entered into an Off-take agreement with SCIT Trading, which is part of the Shougang Group. The transaction is subject to the approval of shareholders not associated with Shougang Group to comply with Listing Rules 10.1 of the ASX Listing Rules.

Source: ASX announcements

Set out below is the volume weighted average price ("VWAP") analysis of Mount Gibson shares. We note that over the last 12 months approximately 51% of Mount Gibson Shares have traded on the market.

Month end	Volume traded ('000)	Monthly VWAP (\$)	Total value of shares traded (\$'000)	Volume traded as % of total shares
Jan 2017	37,696	0.3754	14,151	3.4%
Feb 2017	115,124	0.4698	54,091	10.5%
Mar 2017	60,324	0.4480	27,028	5.5%
Apr 2017	28,660	0.3794	10,872	2.6%
May 2017	47,107	0.3138	14,781	4.3%
Jun 2017	39,513	0.3000	11,856	3.6%
Jul 2017	77,851	0.3848	29,957	7.1%
Aug 2017	43,825	0.4496	19,706	4.0%
Sep 2017	21,426	0.4128	8,844	2.0%
Oct 2017	26,918	0.3900	10,497	2.5%
Nov 2017	29,153	0.3995	11,647	2.7%
Dec 2017	25,954	0.4234	10,989	2.4%
Min				1.95%
Average				4.21%
Median				3.52%
Max				10.50%

Source: S&P Global and Grant Thornton Corporate Finance calculations

4 Valuation methodologies

4.1 Introduction

Grant Thornton Corporate Finance has assessed value of the Offtake Agreement using the concept of fair market value. Fair market value is commonly defined as:

“the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm’s length.”

Fair market value excludes any special value. Special value is the value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

4.2 Valuation methodologies

RG 111 outlines the appropriate methodologies that a valuer should generally consider when valuing assets or securities for the purposes of, amongst other things, approval of an issue of shares using item 7 of s611 of the Corporations Act, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:

- Discounted cash flow (“DCF”) method and the estimated realisable value of any surplus assets.
- Application of earnings multiples to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets.
- Amount available for distribution to security holders on an orderly realisation of assets.
- Quoted price for listed securities, when there is a liquid and active market.
- Any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.

Further details on these methodologies are set out in Appendix A to this report. Each of these methodologies is appropriate in certain circumstances.

RG111 does not prescribe the above methodologies as the method(s) that an expert should use in preparing their report. The decision as to which methodology to use lies with the expert based on the expert’s skill and judgement and after considering the unique circumstances of the entity or asset being valued. In general, an expert would have regard to valuation theory, the accepted and most common market practice in valuing the entity or asset in question and the availability of relevant information.

4.3 Selected valuation methods

In relation to the fairness of the terms of the Offtake Agreement, RG111 requires the independent expert to compare the value of the financial benefit to be provided by Mount Gibson to SCIT with the value of the consideration being provided to Mount Gibson by SCIT.



The value of the consideration provided to MGM by SCIT relates to the value of MGM's iron ore to be sold to SCIT under the Offtake Agreement as determined by the Contracted Price, Contracted Quantity and other key terms.

Grant Thornton Corporate Finance notes that the Offtake Agreement does not provide for a fixed Contracted Price or Contracted Quantity. Accordingly, for the purpose of assessing the fairness and reasonableness of the Offtake Agreement, we have considered the likelihood that the key contract terms supporting the Contracted Price and Contracted Quantity will result in a market competitive and arm's length price being obtained. This has been done by not only considering the Offtake Agreement's key terms in isolation but also by having regard to the Terminated Offtake Agreements and First IH Offtake Agreement, spot market agreements entered into by Mount Gibson and other publicly available information, comparing the prices realised in the spot market with what is implied by the Offtake Agreement.

5 Valuation assessment - The Offtake Agreement

5.1 Background

MGM completed mining operations at Extension Hill in November 2016 and commenced mining at the adjacent Iron Hill in February 2017, achieving first sales in June 2017.

During 2016 Mount Gibson approached a number of potential buyers of ore and conducted a tender process in order to secure offtake agreements. As a result, the First IH Offtake Agreement was entered into as well as offtake agreements with two other parties: Xinyu and Sinogiant. In June and July 2017 the offtake agreements with Xinyu and Sinogiant were terminated. As a result of these agreements being terminated, MGM began selling ore in the spot market.

5.2 Likelihood that the key terms of the Offtake Agreement will result in market competitive and arm's length price being obtained

The key terms of the Offtake Agreement in relation to the Contracted Price, Contracted Quantity, term and guarantee are summarised in the Executive Summary section of the report. We consider that the terms of the Offtake Agreement in particular those supporting the Contracted Price and Contracted Quantity are likely to result in a market competitive and arm's length price being obtained. In arriving at this conclusion we have taken into account the following:

- *Discount:* The Contracted Price is calculated by reference to a base price, lump premium and penalties. The Base price is referable to the appropriate Platts Index and includes a discount for differences in the iron ore content relative to the appropriate Platts Index. For reasons of confidentiality and commercial sensitivity we are unable to disclose the discount per the Offtake Agreement. We observe that compared to the First IH Offtake Agreement and the Terminated Offtake Agreements the discount is higher. As noted in section 2 of the report, publicly available industry information confirms that the discount relative to the benchmark index has increased materially over the last 6 to 12 months. We also note that the discount nominated in the Offtake Agreement is in the range of the discounts for similar ores discerned from the publicly available information.

We have also benchmarked the discount contained in the Offtake Agreement to disclosures concerning discounts made by other iron ore producers. Mineral Resources Limited states in its FY17 Annual Report that the discount for lower grades of iron ore increased from 3.4% in FY16 to 13.7% in FY17. Similarly, the discount for lower grades increased from 2.7% in 1HY17 to 24.5% in 2HY17. Fortescue Metals Group Limited has also reported that the average realised price for contracts entered into in December quarter dipped to 66% of the Platts 62 CFR Index, implying a discount of c. 34%. The discount nominated in the Offtake Agreement is therefore comparable with the publicly disclosed information.

In addition to drawing comparisons to publicly available information, Management has provided us with a summary of spot market sales entered into by Mount Gibson in the last six months. This information includes the discounts realised on Iron Hill ore sales. For commercial sensitivity and confidentiality reasons, we have not divulged the details in the report. We however do note that the discounts included in the spot market agreements are not dissimilar to the range of discounts included in the Offtake Agreement.

- *Lump Premium:* An adjustment is made to the price of the ore depending on the size distribution of the lump ore for each shipment. We have been provided with lump premiums realised on offtake agreements relating to Iron Hill ore sales in the spot market in the last 6 months and note that the lump premium included in the spot market is not dissimilar to the lump premium included in the Offtake Agreement.
- *Penalty:* An adjustment is made to the price per tonne of the ore, where the ore does not comply with the specified physical and chemical requirements (e.g. silica). This process involves measuring the dimensions of the ore in accordance with international standards, and also measuring the percentage of other elements/ compounds in the ore.

We note that some of the penalties for the chemical and physical requirements in the Offtake Agreement are higher than the penalties included in the First IH Offtake Agreement or the Terminated Offtake Agreements. This will ultimately impact the price realised under the Offtake Agreement. We have compared the key metrics in the Offtake Agreement with the penalties for chemical and physical requirements in the spot agreements and note that they are not dissimilar in terms of the structure of the penalty provision. In terms of the quantum of the penalties, other than the silica penalty, the penalties are consistent with the spot market agreements. The quantum of the penalty for silica content has increased relative to the First IH Offtake Agreement and the Terminated Offtake Agreements, which is consistent with market trends. One of the reasons for the increase in silica penalty is attributable to the increase in the import volumes for Mauritanian iron ore in China which increased by c. 24%²⁴ relative to 2016. Typically, iron ore from Mauritania contains 8.5% to 9.5%²⁵ of silica; higher levels of silica or other impurities impact the efficiency of the blast furnace, thus reducing profitability. Relatively high steel prices and margins, low inventory levels together with pollution control measures adopted in China have resulted in Chinese steel manufacturers demanding iron ore with specifications to maximise profitability.

- *Terms of export:* The export of iron ore is to take place on a CFR basis, wherein MGM will bear the costs until the ore is deposited on the ship as well as the freight cost involved in transporting the iron ore from the Port of Geraldton, WA to the destination port while SCIT will bear the costs thereafter. The ownership and risk of the iron ore passes from MGM to SCIT at the time the iron ore crosses the rail of the ship at the time of loading, at the Port of Geraldton, WA. MGM does not bear the cost of marine insurance taken on the iron ore being transported. We consider that the terms of export for the Offtake Agreement are comparable to the terms of export of other offtake agreements in the spot market.
- *Fluctuation in macroeconomic factors:* The force majeure clause of the Offtake Agreement specifies inter alia that a deterioration in macroeconomic factors (like commodity prices or foreign exchange rate) which poses a threat to the commercial viability of the operations will be regarded as sufficient cause for MGX to not carry out its obligations. Further, in the event that MGM calls a force majeure event which continues for 6 months, the Offtake Agreement can be terminated by SCIT. This clause is not considered detrimental to the interests of the Non-Associated Shareholders as it can potentially be used to limit the loss incurred by the Company, particularly during a low price iron ore environment.

²⁴ Singapore Platts, "Analysis: Iron ore impurities penalties surge on resurgence of varied supply" 23 June 2017.

²⁵ Ibid.

- *Conditions precedent:* The Offtake Agreement is not effective unless and until the members of Mount Gibson in a general meeting have approved, by the appropriate majority, the Seller's entry into the Offtake Agreement.

We note that if the above conditions are not met or waived by MGM (as appropriate), the Offtake Agreement will be terminated.

- *Review mechanism:* The quarterly review mechanism that allows SCIT and Mount Gibson to renegotiate the contract pricing or penalties if either party considers that the current pricing or penalties are not aligned to current market conditions necessarily implies that the Contracted Price will be consistent with market pricing.

5.3 Key differences of the Offtake Agreement with First IH Offtake Agreement and Terminated Offtake Agreements

While the Offtake Agreement is largely similar to the First IH Offtake Agreement and the Terminated Offtake Agreements, we have set out below the key differences:

- The First IH Offtake Agreement had an initial term of 12 months and could be extended by the buyer for a further 12 months, subject to available production, whereas the Offtake Agreement does not set out a specific end date but rather states it will cease when Mount Gibson determines that there is no available production or when it permanently ceases mining activities at Iron Hill. We understand from discussions with Management, given the prevalence of increased discounts, it is unlikely that the First IH Offtake Agreement will be renewed beyond 8 July 2018. Further, Management anticipates that mining at Iron Hill will come to an end by December 2018.
- Unlike the First IH Offtake Agreement, the Offtake Agreement contains a review mechanism. The review mechanism, which was previously discussed in this report, improves the continued commerciality of the arrangement between the parties to the Offtake Agreement.
- The First IH Offtake Agreement included quantity caps that limited the number of shipments each quarter. The Offtake Agreement does not include quantity caps. However, the review mechanism included in the Offtake Agreement is expected to help ensure that the lack of quantity caps are not used to the detriment of the Non-Associated Shareholders.
- Compared to the First IH Offtake Agreement, the discount set out in the Offtake Agreement is higher. Due to weak iron ore prices, the historically observed discount for low iron ore content relative to the appropriate Platts Index has significantly increased. As mentioned previously in this report, the increase is consistent with changes in the market.
- Compared to the First IH Offtake Agreement, the acceptable threshold for silica content in the ore mined has reduced and the value of the penalty for non-compliance with the minimum threshold has increased. As mentioned previously, this is not inconsistent with the market trend based on publicly available information.

5.4 Conclusion

Based on the information set out above and as outlined in the Executive Summary to this Report, we consider the Offtake Agreement to be at arms' length and on commercial terms, in view of the following:

- The mechanics of calculating the Contracted Price under the Offtake Agreement are likely to result in prices that are generally consistent with offtake agreements available in the spot market.
- We believe that the key terms of the Offtake Agreement do not provide an unfair advantage to SCIT as they are based on commercial terms. Particularly, we note that the review mechanism provides the option to both parties to the Offtake Agreement to review the price. This clause is likely to ensure that should the discount for lower iron ore content reduce, Management will take steps to ensure the discounts included in the Offtake Agreement are revised.

6 Sources of information, disclaimer and consents

6.1 Sources of information

In preparing this report Grant Thornton Corporate Finance has used various sources of information, including:

- Notice of Meeting and Explanatory Memorandum
- Offtake Agreement
- Offtake Agreements in the spot market
- Annual reports of Mount Gibson
- Releases and announcements by Mount Gibson on the ASX
- IBISWorld Industry Report
- Other information provided by Mount Gibson
- S&P Global
- S&P Global Platts data
- Other publicly available information
- Discussions with Management of Mount Gibson and other relevant documentation

6.2 Qualifications and independence

Grant Thornton Corporate Finance Pty Ltd holds Australian Financial Service Licence number 247140 under the Corporations Act and its authorised representatives are qualified to provide this report.

Grant Thornton Corporate Finance provides a full range of corporate finance services and has advised on numerous proposed takeovers, corporate valuations, acquisitions, and restructures. Prior to accepting this engagement, Grant Thornton Corporate Finance considered its independence with respect to Mount Gibson and all other parties involved in the Offtake Agreement with reference to the ASIC Regulatory Guide 112 "Independence of experts" and APES 110 "Code of Ethics for Professional Accountants" issued by the Accounting Professional and Ethical Standard Board. We have concluded that there are no conflicts of interest with respect to Mount Gibson, its shareholders and all other parties involved in the Offtake Agreement.

Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the Offtake Agreement, other than the preparation of this report.

Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the Offtake Agreement. Grant Thornton Corporate



Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.

We note that Grant Thornton Corporate Finance was engaged as an independent expert by Mount Gibson to assess fairness and reasonableness of the First IH Offtake Agreement in February 2017.

In our opinion, the above engagement does not impact on our ability to provide an independent and unbiased opinion in the context of the Offtake Agreement. Accordingly, we consider Grant Thornton Corporate Finance to be independent of Mount Gibson, its Directors and all other parties involved in the Offtake Agreement.

6.3 Limitations and reliance on information

This report and opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

Grant Thornton Corporate Finance has prepared this report on the basis of financial and other information provided by Mount Gibson and publicly available information. Grant Thornton Corporate Finance has considered and relied upon this information. Grant Thornton Corporate Finance has no reason to believe that any information supplied was false or that any material information has been withheld. Grant Thornton Corporate Finance has evaluated the information provided by Mount Gibson through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base our report. Nothing in this report should be taken to imply that Grant Thornton Corporate Finance has audited any information supplied to us, or has in any way carried out an audit on the books of accounts or other records of Mount Gibson.

This report has been prepared to assist the Independent Directors in advising the Non-Associated Shareholders in relation to the Offtake Agreement. This report should not be used for any other purpose. In particular, it is not intended that this report should be used for any purpose other than as an expression of Grant Thornton Corporate Finance's opinion as to whether the Offtake Agreement is fair and reasonable of the Non-Associated Shareholders.

Mount Gibson has indemnified Grant Thornton Corporate Finance, its affiliated companies and their respective officers and employees, who may be involved in or in any way associated with the performance of services contemplated by our engagement letter, against any and all losses, claims, damages and liabilities arising out of or related to the performance of those services whether by reason of their negligence or otherwise, excepting gross negligence and wilful misconduct, and which arise from reliance on information provided by Mount Gibson, which Mount Gibson knew or should have known to be false and/or reliance on information, which was material information Mount Gibson had in its possession and which Mount Gibson knew or should have known to be material and which Mount Gibson did not provide to Grant Thornton Corporate Finance. Mount Gibson will reimburse any indemnified party for all expenses (including without limitation, legal expenses) on a full indemnity basis as they are incurred.

6.4 Consents

Grant Thornton Corporate Finance consents to the issuing of this report in the form and context in which it is included in the Notice of Meeting to be sent to Mount Gibson Shareholders. Neither the whole nor part of this report nor any reference thereto may be included in or with or attached to any other document,



resolution, letter or statement without the prior written consent of Grant Thornton Corporate Finance as to the form and content in which it appears.

Appendix A – Valuation methodologies

Capitalisation of future maintainable earnings

The capitalisation of future maintainable earnings multiplied by appropriate earnings multiple is a suitable valuation method for businesses that are expected to trade profitably into the foreseeable future.

Maintainable earnings are the assessed sustainable profits that can be derived by a company's business and excludes any abnormal or "one off" profits or losses.

This approach involves a review of the multiples at which shares in listed companies in the same industry sector trade on the share market. These multiples give an indication of the price payable by portfolio investors for the acquisition of a parcel shareholding in the company.

Discounted future cash flows

An analysis of the net present value of forecast cash flows or DCF is a valuation technique based on the premise that the value of the business is the present value of its future cash flows. This technique is particularly suited to a business with a finite life. In applying this method, the expected level of future cash flows are discounted by an appropriate discount rate based on the weighted average cost of capital. The cost of equity capital, being a component of the WACC, is estimated using the Capital Asset Pricing Model.

Predicting future cash flows is a complex exercise requiring assumptions as to the future direction of the company, growth rates, operating and capital expenditure and numerous other factors. An application of this method generally requires cash flow forecasts for a minimum of five years.

Orderly realisation of assets

The amount that would be distributed to shareholders on an orderly realisation of assets is based on the assumption that a company is liquidated with the funds realised from the sale of its assets, after payment of all liabilities, including realisation costs and taxation charges that arise, being distributed to shareholders.

Market value of quoted securities

Market value is the price per issued share as quoted on the ASX or other recognised securities exchange. The share market price would, prima facie, constitute the market value of the shares of a publicly traded company, although such market price usually reflects the price paid for a minority holding or small parcel of shares, and does not reflect the market value offering control to the acquirer.

Comparable market transactions

The comparable transactions method is the value of similar assets established through comparative transactions to which is added the realisable value of surplus assets. The comparable transactions method uses similar or comparative transactions to establish a value for the current transaction.

Comparable transactions methodology involves applying multiples extracted from the market transaction price of similar assets to the equivalent assets and earnings of the company.



The risk attached to this valuation methodology is that in many cases, the relevant transactions contain features that are unique to that transaction and it is often difficult to establish sufficient detail of all the material factors that contributed to the transaction price.

Appendix B – Glossary

A\$ or \$	Australian dollar
Terminated Offtake Agreements	The offtake agreements entered into with Xinyu and Sinogiant
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
CFR	Cost and Freight
Company, Mount Gibson	Mount Gibson Iron Limited
Contracted Price	The price at which Mount Gibson agrees to sell iron ore to SCIT
Contracted Quantity	The quantity of sell iron ore which Mount Gibson agrees to sell SCIT
DCF	Discounted cash flow
Discount	The discount applied in the calculation of the Base Price based on the iron ore content relative to the benchmark index
DMT	Dry Metric Tonnes
First IH Offtake Agreement	The first offtake agreement entered into with SCIT in February 2017
FOB	Free on board
FSG	Financial Services Guide
FYXX or FY20XX	Financial year ended 30 June 20XX
Grant Thornton Corporate Finance or GTCF	Grant Thornton Corporate Finance Pty Ltd
Independent Directors	Directors of Mount Gibson not associated with Shougang Group
Iron Hill	Iron Hill and Iron Hill South hematite project
Lump Premium	Lump premium as reported by S&P Platts
Management	Key executive personnel of Mount Gibson
MGM	Mount Gibson Mining Ltd
Non-Associated Shareholders	Shareholders of Mount Gibson not associated with Shougang Group
Offtake Agreement	Offtake agreement for the sale of up to 82% of lump ore and 83% of fines to be produced from Iron Hill to SCIT
P.a.	per annum
Penalties	The penalties that are charged where the iron ore does not meet chemical or physical specifications
Platts Index	The appropriate Platts index i.e. the IODEX Platts 58% Fe and the IODEX Platts 62% Fe
RG 111	Regulatory Guide 111 "Content of expert reports"
RG 112	ASIC Regulatory Guide 112 "Independence of Expert's Reports"
SCIT	SCIT Trading Limited
Shougang Group	Shougang Group Co., Limited (formerly known as Shougang Corporation), Shougang Holding (Hong Kong) Limited, Shougang Fushan Resources Group Limited and True Plus Limited.
WMT	Wet Metric Tonnes

