



Mount Gibson Iron Limited

ABN 87 008 670 817



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QUARTERLY REPORT FOR THE PERIOD ENDING 30 June 2004

HEMATITE PROJECTS

TALLERING PEAK OPERATIONS

The Company shipped 263,000 tonnes of iron ore during the quarter and received sales proceeds of \$10.3 million, both of which were below budget for the ramp-up period, due primarily to operational problems at the Geraldton Port and a shortage of rail wagons.

The Geraldton Port Authority has had difficulty in meeting its contractual obligation to load iron ore for the Company on a continuous 24 hour per day basis without undue shipping delays. The existing materials handling configuration cannot load the variety of bulk products being shipped through Berth 4 (mineral sands, talc, garnet, manganese, zinc concentrate, and iron ore), without frequent lengthy shut-downs for cleaning of conveyors between shipments to avoid product contamination. These delays have been exacerbated by mechanical problems with the Port's equipment.

However, past problems are expected to be largely alleviated following the Port Authority's recent announcement that it intends to install another shiploader on their Berth 6 in September 2004, and to shift the loading of some of the bulk materials away from Berth 4, thus increasing its capacity to load iron ore. Recent mechanical upgrades have also resulted in the shiploader now meeting its rated 1800tph loading capacity.

Despite unforeseen additional costs during the period due to poor rail and port performance, the underlying operating margin is close to that anticipated and with increasing tonnage now being shipped, and port and rail operations improving, the Company can expect to move to projected operating margins in the near term.

The Company shipped 128,744 tonnes of ore from Tallering Peak in June, 128,275 tonnes in July, and is scheduled to ship over 160,000 tonnes in August 2004. The Company expects to ship around 450,000 tonnes of ore in the current quarter and increase sales receipts to over \$15 million.

Mining of the first pit (T4) is now operating on a two shift basis with two Company owned excavators. Pre-stripping has commenced on the second pit (T3) and mine planning is underway for a third pit (T5).

Sealing of the Mullewa-Carnarvon Road was completed during the quarter, allowing transport of increased tonnages to the rail terminal and significantly reducing future road maintenance costs.

TALLERING PEAK PRODUCTION STATISTICS

	March Qtr	June Qtr	YTD
Mining			
Waste Mined (bcm)	513,599	1,154,424	1,668,023
Ore Mined (wmt)	261,846	293,146	554,992
Crushing (wmt)			
Lump	132,668	191,764	324,432
Fines	73,075	119,454	192,529
Total	205,743	311,218	516,961
Road Transport (wmt) (Tallering Peak to Mullewa)			
Lump	118,293	203,878	322,171
Fines	69,398	114,882	184,280
Total	187,691	318,760	506,451
Rail Transport (wmt) (Mullewa to Geraldton)			
Lump	79,792	210,430	290,222
Fines	64,854	45,573	110,427
Total	144,646	256,003	400,649
Road Transport (wmt) (Mullewa to Geraldton)			
Lump	-	19,448	19,448
Fines	-	51,464	51,464
Total	-	70,912	70,912
Shipping (wmt)			
Lump	67,466	191,042	258,508
Fines	56,963	71,502	128,465
Total	124,429	262,544	386,973

+ See chapter 19 ASX Listing Rules for defined terms.

FUTURE PRODUCTION

The Company is currently ramping up its production of direct shipping grade hematite at Talling Peak to 1.8Mtpa and was planning to develop the Mt Gibson hematite mine next year, at a production rate of 1.5Mtpa.

Westnet, the owner of rail infrastructure in the MidWest, has recently advised the Company that it can only handle 2.3Mtpa of iron ore on the existing system without major capital expenditure on track upgrade.

The Directors have decided that until the Port can efficiently handle larger iron ore volumes on a continuous basis, and amortisation of the cost of track upgrade can be shared with other planned iron ore projects in the MidWest, the Company will focus on increasing production at the Talling Peak mine to 2.3Mtpa in the near term, and will delay the commencement of the second mine at Mt Gibson for around twelve months.

By increasing production at Talling Peak and delaying capital expenditure on the development of the Mt Gibson mine, the Company will more rapidly build up its cash reserves and better utilise existing capital investment in its port facilities and Talling Peak infrastructure.

Financial projections for the Talling Peak project for 2004 - 2005 will be released in September 2004 along with the Company's results to June 2004, and an updated statement of hematite resources.

MAGNETITE PROJECTS

KOOLANOOKA

The Company has recently reached agreement with Hong Kong based Asia Iron Holdings Limited, to act as Manager for Asia Iron's proposed mine at their Koolanooka property, which will produce 2.5Mtpa of magnetite concentrate for export to China. The mine is scheduled for commissioning by the end of next year.

Asia Iron has signed a Memorandum of Understanding with Nanjing Iron & Steel Group, a major Chinese steel mill, to form a 50:50 joint venture to develop mines at Koolanooka and Wolla Wolla to produce a total of 5.0 Mtpa of magnetite concentrate.

The concentrate will be used as feed for two 2.5Mtpa pellet plants to be constructed adjacent to a new port at Long Tan on the Yangtze River near Nanjing. Asia Iron and its partner intend to commence construction of both the first pellet plant and the Koolanooka mine in April 2005 and will require delivery of concentrate in March 2006.

Nanjing Iron & Steel will purchase 50% of pellet production from both plants for a period of 20 years. The balance of production will be sold to regional steel mills, with a priority to supply Asia Iron's own shareholders.

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The Company has completed a preliminary feasibility study on behalf of Asia Iron, for the development of the Koolanooka magnetite deposit, with metallurgical testwork indicating a mass recovery of 45% in the production of 67% Fe concentrate. With a waste to ore ratio of less than 0.8 to 1.0 by volume for the planned pit at North Flat, mining costs will be relatively low. Concentrate will be trucked 19km to the Koolanooka siding and railed 190km to Geraldton.

Asia Iron will construct a rotary rail car dumper at Geraldton and take advantage of the Company's option to construct storage facilities behind Berth 5. A new shiploader will also be required at Geraldton to accommodate the planned 5 Mtpa of concentrate exports to Nanjing.

Asia Iron will be responsible for negotiating rail access charges with WestNet, and their proposed production and railing levels should benefit the Company in relation to the development of the Mt Gibson hematite project.

The Company will not be required to provide capital for mine development under its 20 year management agreement with Asia Iron, and expects to generate fees from the end of 2005 which should rise progressively to a significant amount if Asia Iron is successful in meeting its objective of producing 10Mtpa of concentrate in the MidWest by 2008.

MT GIBSON

Predevelopment work on the Extension Hill magnetite project at Mt Gibson continued during the quarter with flora and fauna studies, investigations into water supplies for mining and magnetite concentration, and negotiations with local landowners, Main Roads Department and the local Shire regarding the planned private haulage route from Mt Gibson to the rail terminal at Perenjori.

EXPLORATION

A small RC program commenced on the Iron Hill deposit at Mt Gibson late in the quarter, targeting both hematite and magnetite. Three holes (IHH 024- 026) were completed by the end of the quarter for a total of 417 metres, with a best hematite intercept of 19m (11m down hole) @ 63.12% Fe. Magnetite results were encouraging with the resulting magnetic concentrates grading between 66% and 71% Fe with mass recoveries ranging between 24% and 69% (analysis by Davis Tube Recovery).

No exploration was carried out at Tallering Peak during the quarter due to unavailability of drilling rigs.

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Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

Mount Gibson Iron Limited

ABN

87 008 670 817

Quarter ended ("current quarter")

30 June 2004

Consolidated statement of cash flows

		Current quarter \$A'000	Year to date (12 months) \$A'000
Cash flows related to operating activities			
1.1	Receipts from product sales and related debtors	10,349	14,142
1.2	Payments for (a) exploration and evaluation	-	-
	(b) development	(850)	(7,870)
	(c) production	(3,952)	(7,051)
	(d) administration	(580)	(2,150)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	11	166
1.5	Interest and other costs of finance paid		
	- hire purchase & finance lease	(35)	(473)
	- borrowings	(128)	(625)
	- other	(19)	(29)
1.6	Income taxes paid	-	-
1.7	Other (inventory)	-	-
	Net Operating Cash Flows	4,796	(3,890)
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a)prospects	-	-
	(b)equity investments	-	-
	(c) other fixed assets	(26)	(7,256)
1.9	Proceeds from sale of:		
	(a)prospects	-	-
	(b)equity investments	-	-
	(c)other fixed assets	-	12
1.10	Loans to other entities	-	(72)
1.11	Loans repaid by other entities	-	-
1.12	Other - payment for capitalised exploration	(601)	(1,609)
	- payment for capitalised waste	(4,543)	(4,543)
	Net investing cash flows	(5,170)	(13,468)
1.13	Total operating and investing cash flows (carried forward)	(374)	(17,358)

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1.13	Total operating and investing cash flows (brought forward)	(374)	(17,358)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	1,800	7,237
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	3,919	12,922
1.17	Repayment of borrowings		
	- hire purchase & finance lease	(384)	(990)
	- borrowings	(4,340)	(6,707)
1.18	Dividends paid	-	-
1.19	Other (Capital raising costs)	-	(150)
	Other (Redemption – Convertible Notes)	-	-
	Net financing cash flows	995	12,312
	Net increase (decrease) in cash held	621	(5,046)
1.20	Cash at beginning of quarter/year to date	1,886	7,553
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	2,507	2,507

Payments to directors of the entity and associates of the directors**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	171
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Included in "Proceeds from Borrowings" are advance payments of US\$6 million by Stemcor (S.E.A.) Pte Ltd for ore sales. Funds have been spent on the development of Talling Peak Hematite Project and construction of iron ore storage facilities in Geraldton. During June quarter US\$1.32 million was repaid from this advance.

Also included in "Proceeds from Borrowings" and "Repayment of Borrowings" are the drawdown and repayment of stockpile financing with HSBC Bank Australia Ltd. During the June quarter, US\$2.4 million was borrowed under this facility with US\$2 million being repaid.

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

During the current quarter, plant totalling \$1,081,161 was purchased under Hire Purchase arrangements.

- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

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Financing facilities available*Add notes as necessary for an understanding of the position.*

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	9,331	9,331
3.2 Credit standby arrangements	5,000	1,016

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	1,200
4.2 Development	-
Total	1,200

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	612	(9)
5.2 Deposits	1,895	1,895
5.3 Bank overdraft	-	-
5.4 Other (funds held in trust)	-	-
Total: cash at end of quarter (item 1.22)	2,507	1,886

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	N/A		
6.2	Interests in mining tenements acquired or increased	N/A		

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Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference + securities <i>(description)</i>	-	-	-	-
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	-	-	-	-
7.3 +Ordinary securities	291,565,822	282,565,822	-	-
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	9,000,000	-	20 cents	20 cents
7.5 +Convertible debt securities <i>(description)</i>	Convertible @ 30 cents 6 monthly to 30/6/05 Interest @ 10% pa 6 monthly in arrears Total on issue 7,916,667	-	-	-
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	- -	- -		
7.7 Options <i>(description and conversion factor)</i>	30,800,000 2,083,332 19,000,000	-	<i>Exercise price</i> 22.00 cents 15.84 cents 25.00 cents	<i>Expiry date</i> 15/10/05 28/02/06 31/12/04
7.8 Issued during quarter	12,000,000 9,000,000	- -	22.00 cents 25.00 cents	15/10/05 28/02/06
7.9 Exercised during quarter	-	-	-	-
7.10 Expired during quarter	-	-	-	-
7.11 Debentures <i>(totals only)</i>	-	-	-	-
7.12 Unsecured notes <i>(totals only)</i>	-	-	-	-

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Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does ~~does not~~* (*delete one*) give a true and fair view of the matters disclosed.

Sign here:



Date: 31 July 2004
(~~Director~~/Company Secretary)

Print name: Angela Dent

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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