

MOUNT GIBSON IRON LIMITED
ABN 87 008 670 817

2005

ANNUAL REPORT



CONTENTS

AND COMPANY DIRECTORY

Directors' Report	10	Directors' Declaration	45
Statement of Financial Performance	19	Independent Audit Report.....	46
Statement of Financial Position	20	Corporate Governance Statement.....	47
Statement of Cash Flows	21	ASX Additional Information	49
Notes to the Financial Statements	22		

Board of Directors

Bill Willis - Chairman

Brian Johnson - Deputy Chairman

Luke Tonkin - Managing Director (from 24/10/05)

Alan Rule - Finance Director

Craig Readhead - Non-Executive Director

Ian Macliver - Non-Executive Director

Guoping Liu - Non-Executive Director

Company Secretary

Angela Dent

Registered Office

Level 1, 7 Havelock Street

West Perth 6005, Western Australia

Phone: 61 8 9426 7500

Fax: 61 8 9485 2305

Email: admin@mtgibsoniron.com.au

Solicitors

Wright Legal

Share Registry

Computershare Investor Services Pty Ltd

Level 2, Reserve Bank Building

45 St George's Terrace Perth 6000

Western Australia

Phone: 61 8 9323 2000

Fax: 61 8 9232 2033

Auditors

Ernst & Young

Bankers

HSBC Bank Australia Ltd

Annual General Meeting of Shareholders

To be held at 1pm on Friday 18 November 2005 at

"The Sutherland Room", City West Function Centre

45 Plaistowe Mews, West Perth, 6005

Easy Access to information

See our website at www.mtgibsoniron.com.au for regular quarterly reports and financial results. Additionally, Shareholders or interested parties can register to receive emailed updates shortly after the Company makes any regular or major announcement.



Dear Shareholder

It is my pleasure to present the Mount Gibson Iron Limited Annual Report for the year ended 30 June 2005.

The Company sold 1.84 million tonnes of iron ore for the period, which resulted in a net profit after tax of \$23.7 million. The results reflect the first full year of mine production at Talling Peak and revenue received from the 1.84 million tonnes of direct shipping grade hematite ore exported to China.

Ore production from Talling Peak is currently around 2.3 million tonnes per annum (Mtpa) and is on track to achieve the targeted production rate of 3 Mtpa by the end of the first quarter of 2006. Previously reported rail and port infrastructure capacity constraints have been substantially overcome, resulting in reduced demurrage costs and other penalties.

The Company has benefited significantly from recent iron ore price rises, and market analysts suggest steel demand, driven by continued strong economic growth and industrial development in China and India, will see iron ore prices remain strong for the foreseeable future.

The Company will soon know the outcome of a Bankable Feasibility Study (BFS) for the development of its extensive magnetite resources at Extension Hill, Mt Gibson, which will be undertaken in partnership with a major Chinese steel mill, and produce 5 Mtpa of magnetite concentrate for a minimum of 20 years. The proposal also includes the development of a 2.5 Mtpa pellet plant at Longtan near Nanjing in South East China, which will be wholly owned by the Mount Gibson Iron Group.

The recent appointment of Luke Tonkin as Managing Director, who replaced Brian Johnson in October, further strengthens our operational management team as it focuses on maximising ore production at Talling Peak. Brian will concentrate on the strategic development of our magnetite resources, which are held within 76% owned subsidiary, Asia Iron Holdings Limited, of which he is Chairman.

The positive results for the year, combined with buoyant market conditions, underpin confidence in the Company's capacity to fund proposed expansion plans and development projects, and to generate sustainable growth in Shareholder wealth.

The Company's ability to retain high calibre management in key project and operational positions has been a critical element of our success to date and will support future growth.

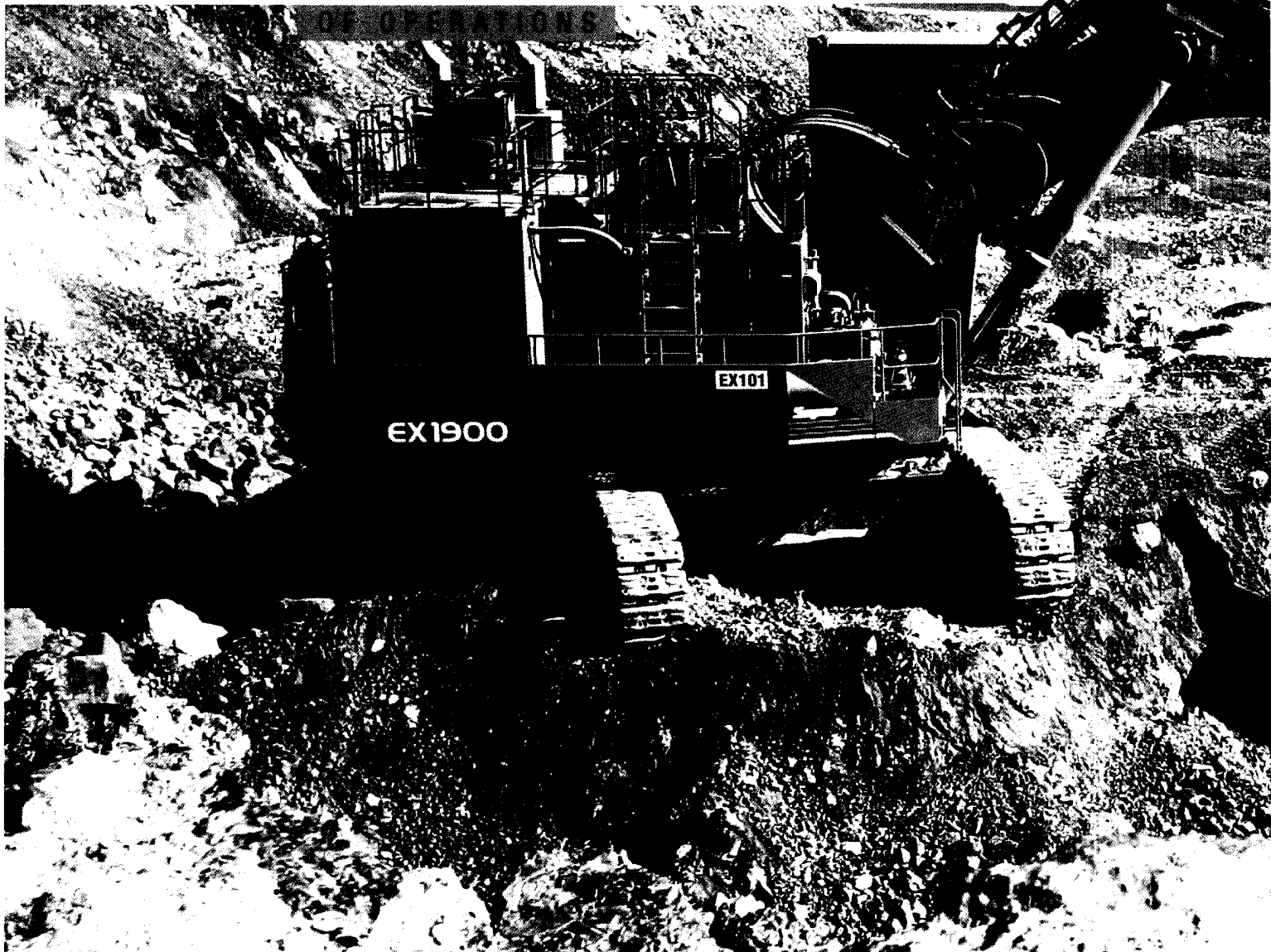
Mount Gibson Iron Limited is now an established Australian iron ore producer.

I wish to express my personal thanks to all those employees and contractors responsible for Talling Peak's first full year of operations, and for their efforts in creating a new and profitable iron ore company in Western Australia.

Yours sincerely

William B. Willis - *Chairman*

review



Tallering Peak Mine

The year ended 30 June 2005 was the first full year of operation for the Company's Tallering Peak iron ore mine in the Midwest region of Western Australia.

During the period, 1.84 million tonnes of direct shipping grade hematite was mined and sold to buyers in China despite difficulties with the rail contractor not meeting contractual commitments for the supply of wagons. A total of 231,000 tonnes of ore were trucked directly from the mine to the port of Geraldton at a cost penalty of approximately \$1 million for the year.

These costs have been claimed against the rail contractor but their potential receipt has not been included in gross profits of \$26.3 million reported for the period.

Recent in-fill drilling and forward mine planning has indicated that production can be increased from its current level of 2.3 Mtpa to 3 Mtpa from early next year and continue at this rate until at least the end of 2011. Drilling of additional prospects at Tallering Peak may extend the life of the mine.

The Company has ordered 34 new rail wagons from a Chinese supplier which are expected to be delivered at the end of the first quarter of 2006, when mine production will be increased to 3 Mtpa.

A substantial price increase for iron ore in April 2005 had a positive impact on earnings in the last quarter of the period and the higher prices are expected to continue in the short to medium term due to strong growth in the Asian steel market.



The Company is undertaking its own mining operations at Talling Peak rather than utilising contractors, and is making a conscientious effort to recruit its workforce from within the Geraldton region. Loyalty of technical staff and mine workers are obviously a prerequisite to a stable mining operation. The Company's policy of granting share options connected to continuing employment to its entire work force is assisting in this regard.

The Company is fortunate to have a highly skilled and dedicated management team at Talling Peak together with an experienced and stable work force.

Overall, conditions are favourable for the Company to make significant operating profits from the Talling Peak mine over the next six years and beyond, while it focuses on establishing new operations in the Midwest region with much longer mine life.

Top left:

Alan Rule - *Finance Director*

Luke Tonkin - *Managing Director (from 24/10/05)*

Bottom left:

Kevin Malaxos - *CEO, Mining*

Sheldon Coates - *Exploration Manager*



project

DEVELOPMENT



Mt Gibson Hematite Project

The Company's next project will involve the expansion of its direct shipping grade iron ore operations with the development of its second hematite mine at Mt Gibson.

Mining at the rate of 1.5 Mtpa is expected to commence by the end of the second quarter of 2007, with ore to be transported 85 km by road from Mt Gibson to Perenjori, then 240 km by rail to the port of Geraldton.

Total development costs will be in the order of \$10-15 million including establishment of the mine and storage facilities at the port. These costs will be funded from existing cash reserves.

Mining will be undertaken using Company plant and personnel. Crushing and screening, transport, and port services will be carried out by subcontractors.

Extension Hill Magnetite Project

The second phase of the Company's corporate development will involve the establishment of a mine at Extension Hill, Mt Gibson, to produce 5 Mtpa of high grade (68% Fe) magnetite concentrate for a minimum of 20 years.

This project is expected to be undertaken in joint venture with a major Chinese steelmaker on the basis that each participant will purchase 2.5 Mtpa of concentrate from the joint venture, for the life of mine.

The Company's interest in the project is held through 76% owned subsidiary, Asia Iron Holdings Limited (Asia Iron).

Asia Iron will ship its share of concentrate to a new pellet plant it intends to construct near Nanjing in China (refer page 8).

The Shougang Group (Shougang), which is the fourth largest steel producer in China, has been granted the right to take up a 50% interest in the



Extension Hill magnetite project in Western Australia, and must make a final decision in this regard by 31 January 2006, following completion of a Bankable Feasibility Study (BFS) in mid December 2005.

The capital cost for mine development and infrastructure, waste prestripping, the crushing and concentrating plant, and a 280 km slurry pipeline to transport concentrate to the Port of Geraldton, is expected to be in the order of \$620 million.

Of this amount, \$74 million of equity will be provided by Asia Iron and \$174 million by the Chinese partner.

Project finance of approximately \$372 million will represent 60% of total project costs.

Mount Gibson Iron's equity contribution of \$74 million will be financed through a combination of existing cash reserves and capital raised through Shougang's

option to subscribe for 60 million shares in the Company at \$0.75 per share to raise \$45 million.

Subject to the results of the BFS in December 2005, and finalising project financing, mine development should commence in the second quarter of 2006 with commissioning of the concentrator planned for mid 2007.

The management and operation of mining (other than drilling and blasting), concentrating, and slurry transport, will be undertaken by personnel from Mount Gibson Mining Limited, which will be reimbursed costs by the joint venture owners of the project, and receive an indexed management fee.

Subject to relevant approvals, it is intended to double concentrate production to 10 Mtpa in 2008 – 09.

project

DEVELOPMENT (CONT.)

Nanjing Pellet Project

A Chinese registered wholly owned subsidiary of Asia Iron proposes to construct a 2.5 Mtpa pellet making plant near Nanjing in China, using magnetite concentrate produced at Extension Hill as feed.

The pellet plant will be designed and constructed on a turnkey basis by Beijing Shougang Design Institute, a member of the Shougang Group.

Total capital cost for predevelopment expenses, including a feasibility study, engineering design, construction, project management, and commissioning, is expected to be approximately \$80 million.

Asia Iron's equity requirement of \$30 million will be funded from the Company's internal reserves.

Nanjing is located on the Yangtze River at the centre of a major industrial region with expanding steel production based on imported raw materials.

The selection of a site for pellet production at the port of Longtan near Nanjing was influenced by the ability to match the relatively small ship capacity available out of Geraldton with that of Longtan port, 430 km up the Yangtze River.

Asia Iron will avoid expensive transport of concentrate from the Chinese coast to Nanjing, which is necessary for potential competitors from Brazil who use Capesize vessels (150,000 DWT to 250,000 DWT) for the transport of pellets and pellet feed to China, and have to discharge cargos at the mouth of the Yangtze River prior to transporting 450 km by rail or barge to this particular steel making region.

With low capital and operating costs in China for the new pellet plant, the project appears extremely robust.

Asia Iron is currently negotiating sales agreements for its total pellet production for the first ten years of operation.



Westralian Metalised Iron Project

Asia Iron owns extensive magnetite deposits at Koolanooka South, and holds the right to mine several relatively small coal deposits north of Mingenew in the Midwest region, within a wholly owned subsidiary Westralian Iron Pty Ltd.

Westralian Iron has commenced a feasibility study which will be conducted in stages over two years to determine the technical and commercial viability of producing metalised iron at a site near the coastal town of Dongara.

The Company has recognised that the close proximity and availability of low cost magnetite, coal, and gas, combined with existing infrastructure, and a skilled workforce living in an attractive coastal environment, should result in a stable and financially robust project to produce metalised iron using proven Midrex rotary hearth furnace technology.

The study will investigate the prospect of progressively constructing four 500,000 tpa plant modules based on 60 m diameter annular furnaces with a rotating grate. The process involves mixing magnetite concentrate with suitable coal, balling, and feeding to the furnace.

The gas fired furnace can produce 100% metal with minimum impurities in a single 12 minute rotation.

The Company believes the Midrex technology will successfully compete with Hamersley Iron's Hismelt technology, which is currently being installed for the first time in a new plant at Kwinana in Western Australia.

Top left:

James Tyers
Project Manager,
Environment and
Native Title

Brian Johnson
Chairman, Asia Iron
Holdings Limited

Ray Martin
Technical Director,
Pellet Production

Bottom left:

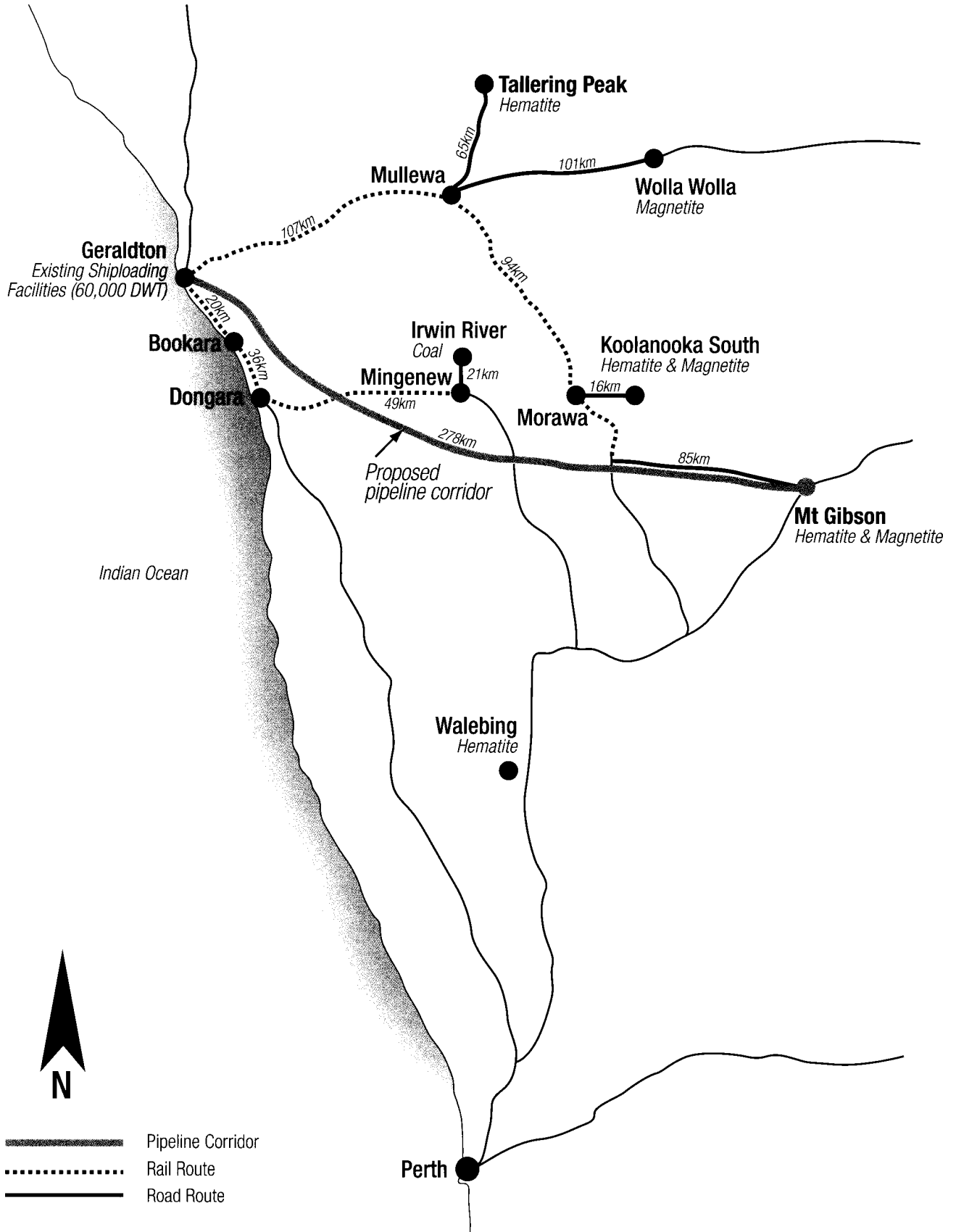
Sheldon Coates
Exploration Manager

Peter Jones
Construction Manager

Bob Third
Project Manager,
Concentrate
Production



resources





exploration

Exploration activity will be significantly increased from the second quarter of 2006, with the objective of;

- Increasing hematite resources at Talling Peak and Mt Gibson;
- Establishing hematite resources at Koolanooka South and Walebing;
- Increasing magnetite resources at Extension Hill;
- Establishing magnetite resources at Koolanooka South and Wolla Wolla; and
- Establishing coal resources at Irwin River, Mingenew.

The aim is to establish sufficient resources of direct shipping grade hematite at the Group's four prospective properties in the Midwest region to maintain production at around 4 Mtpa for at least ten years, and to increase magnetite resources at Extension Hill sufficient to support a doubling of mine production to 10 Mtpa of magnetite concentrate in 2008 – 09.

The Company will also determine the potential of its coal deposits at Mingenew to support its proposed Metalised Iron Project.

Your Directors submit their report for the year ended 30 June 2005 for Mount Gibson Iron Limited (the Company) and the Consolidated Entity incorporating the entities that it controlled during the financial year.

Directors

The names and details of the Company's Directors in office during the financial period and until the date of this report are set out below;

Directors were in office for the entire period unless otherwise stated.

Names, Qualifications, Experience and Special Responsibilities

Bill Willis – AssocDipGeol RMIT, FAusIMM, MGSA, AMP109

Chairman, Non-Executive Director

Mr Willis is a geologist with extensive technical and management experience in the Australian mining sector, particularly in iron ore. He was Executive Director and Chief Executive of Robe River Mining Co Pty Limited from 1993 to 1999 inclusive. Mr Willis was responsible to the Joint Venture between North Limited, Nippon Steel, Mitsui and Sumitomo Metals for the management, operation and expansion of the Robe River iron ore project in the Pilbara region of Western Australia in the 90's. Earlier, Mr Willis worked for BHP and was responsible for exploration, mine geology and management of iron ore production at the company's iron ore mines at Koolyanobbing and Yampi Sound, and responsible for exploration and mine geology at Mt Newman. Mr Willis consults to the group on a part-time basis, is a member of the Audit Committee and has overall responsibility for Corporate Governance. During the past three years Mr Willis has not served as a Director of any other listed companies.

Brian Johnson – BE MIEAust

Managing Director (until 24 October 2005)

Mr Johnson is a civil engineer with extensive experience in the construction and mining industries in Australia, South East Asia and North America. He has held a number of directorships in listed public companies. As a major shareholder and Chief Executive, Mr Johnson was instrumental in establishing Portman Limited's presence in the iron ore industry between 1991 and 1994, developing mines at Koolyanobbing and Cockatoo Island. He also personally partnered Mr Lang Hancock in the development and operation of McCamey's Monster iron ore mine in the Pilbara, prior to its sale to the BHP Group. Mr Johnson has experience in dealing with regional steel mills and major trading houses through his previous involvement in the production of coking coal, manganese and iron ore. Mr Johnson has been Managing Director since the inception of Mount Gibson. During the past three years Mr Johnson has not served as a Director of any other listed companies.

Craig Readhead – B Juris, LLB, AICD

Non-Executive Director

Mr Readhead has spent the last 25 years practising in the resources law area and is a partner of law firm Pullinger Readhead Lucas. Mr Readhead has had a significant legal role in the development of a number of mining projects within Australia, Africa and South East Asia. He is Chairman and a Non-Executive Director of Heron Resources Ltd, Agincourt Resources Ltd and Halcyon Group Ltd, and is past President of the Australian Mining and Petroleum Law Association, and past Vice-President of the Association of Mining and Exploration Companies. Mr Readhead is a member of the Audit Committee. During the past three years Mr Readhead has also served as a Director of Pioneer Nickel Ltd and New World Alloys Ltd

Ian Macliver – BComm, CA, ASIA, AICD

Non-Executive Director

Mr Macliver is Managing Director of Grange Consulting Group Pty Ltd, which provide specialist corporate advisory services to both listed and unlisted companies. He has many years experience as a Senior Executive and Director of both resource and industrial companies with particular responsibility for capital raising and other corporate initiatives. Mr Macliver is Chairman and a Non-Executive Director of Stratatell Ltd and is a Non-Executive Director of Port Bouvard Ltd, BioProspect Ltd and Ottoman Energy Ltd. Mr Macliver is Chairman of the Audit Committee. During the past three years Mr Macliver has also served as a Director of Commoditel Ltd, Continental Goldfields Ltd, Konekt Ltd (formerly Startrack Communications Ltd) and ORT Ltd (formerly Syntech Ltd).

Alan Rule – BComm, BAcc, CA

Finance Director

Mr Rule was appointed Finance Director on 1 July 2005. He is a chartered accountant with extensive experience in the mining industry in Australia. He held the position of Chief Financial Officer of Western Metals Limited and more recently St Barbara Mines Limited. He has considerable experience in international financing of mining projects and implementation of accounting controls and systems. Mr Rule was previously Finance Director of Asia Iron Holdings Limited and has been involved in the magnetite project since early 2004. During the past three years Mr Rule served as a Director of Nustar Mining Corporation Limited.

Guoping Liu

Non-Executive Director

Mr Liu was appointed on 12 August 2005. He is the Vice-President of China Railway Materials and Supply Corporation (CRMSC) a Government owned entity ranked 60th by revenue in the top 500 enterprises in China. He has

strong connections in Government and the steel industry in China, and extensive international trading experience within the USA, Europe, and South America. During the past three years Mr Liu has not served as a director of any other listed companies.

Company Secretary

Angela Dent – BBus, CA

Ms Dent consults to a number of public and private companies, as a Management Accountant and Company Secretary. She has experience in financial and management accounting, and statutory requirements, in Australia and South East Asia.

Interests in the Shares and Options of the Company

As at the date of this report, the interests of the Directors in the Shares and Options of Mount Gibson Iron Limited were:

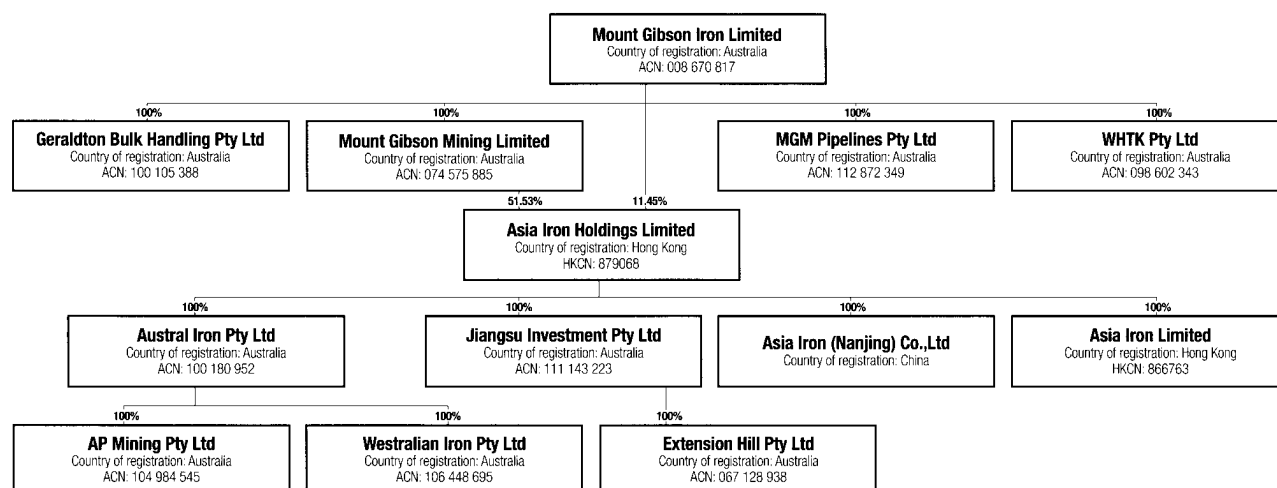
WB Willis	650,000	1,970,000
BG Johnson (refer note (i) below)	-	12,500,000
CL Readhead	177,500	1,250,000
IA Macliver	1,200,000	1,250,000
AD Rule	-	-
G Liu	-	-

(i) Mr Johnson holds 10,000,000 options in his own name. During the year Mr Johnson was a Director of a subsidiary of a family trust which he does not control which holds 2,500,000 options. Mr Johnson resigned as a Director of the subsidiary on 6 September 2005 and has no interest in or influence over these options at the date of this report.

Corporate Information

Corporate structure

Mount Gibson Iron Limited is a company limited by shares that is incorporated and domiciled in Australia. It is the ultimate parent entity and has prepared a consolidated financial report incorporating the entities that it controlled during the financial year. The structure of the Consolidated Entity as at 30 June 2005 was as follows:



Nature of operations and principal activities

The principal activities of the entities within the Consolidated Entity are:

- Mining of hematite deposits at Talling Peak; and
- Exploration and development of hematite and magnetite deposits in the Midwest region of Western Australia.

Employees

The Consolidated Entity employed 71 employees as at 30 June 2005 (2004: 46 employees).

Future funding

As at the date of this report the Consolidated Entity has sufficient funds or funding to develop and mine the Talling Peak iron deposits.

Review and Results of Operations

Operating results for the period

A summary of the operating profit/(loss) for the Consolidated Entity and the Company is set out below:

Operating profit / (loss) before tax	23,713,031	(10,982,911)	1,100,138	(564,030)
Taxation expense	-	-	-	-
Operating profit / (loss) after tax	23,713,031	(10,982,911)	1,100,138	(564,030)

Hematite operations

The Consolidated Entity's first iron ore mine is at Talling Peak, located 170 km by road and rail from Geraldton. Mining of overburden commenced in November 2003 and the first shipment of ore occurred in February 2004.

The 2004/05 financial year was the first full year of hematite production at the Talling Peak operations with almost 2 million tonnes of hematite ore being mined and 1.838 million tonnes sold. Approximately 65% of production for the year was lump ore and 35% fines.

Production for the year is summarised as follows:

Mining						
Waste	bcm	999	1,051	936	810	3,796
Ore	wmt	436	470	549	480	1,935
Crushing						
Lump	wmt	259	305	296	405	1,265
Fines	wmt	174	174	157	183	688
Total		433	479	453	588	1,953
Shipping						
Lump	dmt	218	245	375	278	1,116
Fines	dmt	239	218	128	137	722
Total		457	463	503	415	1,838

Problems with the rail contractor and the Geraldton Port Authority caused operational difficulties during the year. The situation has been improving with time.

Production from the Tallering Peak operation will be increased from 2 Mtpa to 3 Mtpa when additional rail wagons become available in the first quarter of 2006.

Hematite prices are fixed to the prevailing published FOB prices for iron ore sold by Hamersley Iron from its Pilbara ports which are reviewed annually on 1 April. The Company benefited from the 71.5% price increase applicable from 1 April 2005, which increased the price of lump iron ore (63.5% Fe) to A\$64/dmt and iron ore fines (61.5% Fe) to A\$49/dmt (based on a US\$0.78 exchange rate). This price increase in the last quarter has delivered a margin in excess of A\$30/dmt for lump ore and A\$20/dmt for fines.

The Consolidated Entity expects another strong year of production and profits in 2005/06 as a result of increased production and prices.

Magnetite project

During the year, the Consolidated Entity entered into commercial arrangements with Asia Iron Holdings Limited (Asia Iron), the Hong Kong based holding company which proposes to develop a pellet plant in China, and a new magnetite mine at Extension Hill in Western Australia's Mt Gibson ranges.

In December 2004, Asia Iron acquired a 46% minority shareholding in Extension Hill Pty Ltd (EHPL) (formerly Asia Iron Pty Ltd) from an unrelated party. EHPL holds a number of mining and exploration tenements at Mt Gibson including the 250 Mt magnetite resource at Extension Hill which will be developed to supply 5.0 Mtpa of magnetite concentrate as feed for Chinese pellet plants for at least 20 years.

The Consolidated Entity acquired a 9% interest in Asia Iron in February and March 2005 through a placement and purchase of shares from existing shareholders.

On 30 June 2005, the Consolidated Entity transferred its 54% shareholding in EHPL to Asia Iron in exchange for a 54% shareholding in Asia Iron resulting in a holding of 63% in Asia Iron. The Consolidated Entity was issued 67.5 million shares by Asia Iron at HK\$1.00 each, which is approximately equivalent to the A\$11.0 million cost of investment in the Extension Hill magnetite project over a period of eight years.

As a result of this transaction, the Consolidated Entity has retained the same effective interest in the Extension Hill deposit as previously, and gained an interest in Asia Iron's wholly owned magnetite deposits at Koolanooka South and Wolla Wolla, which are also located in the Midwest region of Western Australia.

The balance of Asia Iron's shares on issue (57.5 million) were subscribed by Asia Iron's directors and associates between December 2003 and June 2004, at HK\$1.00 per share.

The Company's wholly owned subsidiary, Mount Gibson Mining Limited (MGM), has retained the right to mine and sell all hematite resources at Extension Hill and at any other tenement held by Asia Iron in Western Australia.

MGM is negotiating a 20 year contract to manage the operation of the Extension Hill magnetite mine to be developed by Asia Iron and its partners, and will also be engaged to manage any other magnetite mine developed by Asia Iron in Western Australia within the next 10 years.

MGM will receive a management fee for each tonne of magnetite concentrate produced, escalated in accordance with increases in the Consumer Price Index.

On 23 June 2005, the Company signed a Participation Agreement with Shougang Holding (Hong Kong) Limited (Shougang) to jointly develop EHPL's extensive magnetite resources at Mt Gibson.

Shougang is a wholly owned subsidiary of the Beijing based Shougang Group (also known as Capital Steel), which is China's fourth largest steelmaker.

In addition to becoming the Consolidated Entity's development partner

in EHPL, Shougang has sought to become a strategic investor in the Company. The Company will grant Shougang an option to subscribe for 15% of the Company's issued capital at the date of completion of the Bankable Feasibility Study (BFS). Asia Iron expect to complete the BFS of the project in December 2005.

Asia Iron intends to commission both the Extension Hill mine, concentrator, slurry pipeline, necessary port facilities and a 2.5 Mtpa pellet plant at Longtan on the Yangtze River near Nanjing by the 3rd quarter of 2006.

The Company is confident the project will proceed and sees its controlling shareholding in Asia Iron as an appropriate level of exposure to the secondary processing of its magnetite ore in China, where the capital cost of proven low technology pellet plants, is less than one third of their cost in Western Australia.

Review of financial condition

During the course of the financial year, the Company took the opportunity to raise equity funding to provide sufficient funds for completion of the BFS for the magnetite project and for pre-development expenses of the magnetite project. A total of \$32.3 million was raised through the placement of 47.8 million shares.

All of the outstanding convertible notes were exercised during the year resulting in 7.9 million additional shares being issued to extinguish \$2.4 million in convertible notes.

Holders of 19.3 million options exercised their options during the year resulting in an additional \$4.8 million in equity funding for the Company.

By 30 June 2005, the Company had acquired 10.36% in the ordinary share capital of Resource Mining Corporation Limited (RMC). RMC has a controlling interest in iron ore deposits at Argyle in the Kimberley and at Ravensthorpe in the South West of Western Australia.

The Consolidated Entity is in a strong position at year end with \$33.6 million in cash and no debt apart from leases on mobile mining equipment. The Talling Peak operations are generating strong monthly cash flows.

Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the Consolidated Entity other than those referred to elsewhere in this report or the financial statements or notes thereto.

Significant Events After Balance Date

On 29 August 2005, the Company announced that it will be increasing its shareholding in Asia Iron from 63% to 76% by the end of September 2005 through the subscription of new shares in Asia Iron and the acquisition of shares from an existing shareholding.

Since 30 June 2005, the Company has increased its shareholding in RMC from 10.36% to 13.11%.

Other than as referred to in the Review of Projects and in this report, further information as to likely developments in the operations of the entity and likely results of those operations would, in the opinion of the Directors, be speculation and not in the best interest of the Company.

The Consolidated Entity has developed Environmental Management Plans for its operations at Talling Peak and the rail head at Mullewa. The Environmental Management Plans have been approved by the West Australian Government Departments' of Industry & Resources, Environment and, Conservation and Land Management.

The Consolidated Entity holds various environmental licenses and authorities, issued under both State and Federal law, to regulate its mining and exploration activities in Australia. These licenses include conditions and regulation in relation to specifying limits on discharges into the environment, rehabilitation of areas disturbed during the course of mining and exploration activities, and the storage of hazardous substances.

There have been no material breaches of the Consolidated Entities licenses and all mining and exploration activities have been undertaken in compliance with the relevant environmental regulations.

Details of Options over Ordinary Shares in the Company on issue as at balance date and at the date of this report are:

Exercise Price	Exercise Period	Number of Options	Number of Options
22 cents	On or before 15 Oct 2005	30,523,300	29,392,300
25 cents	On or before 31 Dec 2006	4,500,000	4,875,000
50 cents	On or before 31 Dec 2007	5,000,000	5,000,000
55 cents	On or before 31 Dec 2008	5,000,000	5,000,000
Total		45,023,300	44,267,300

In addition, as at 30 June 2005, there were 10,750,000 options granted but not issued under the Employee Share Scheme. The options were granted on the basis that the employees must complete employment service to 31 December 2005 before the options vest, at which time they will be issued to the respective employees. Once vested the options will be exercisable at 25 cents each and expire on 31 December 2006. As at the date of this report, 375,000 options had vested and a further 375,000 options granted were cancelled on the redundancy of an employee.

Option holders do not have any right, by virtue of the Option, to participate in any share issue of the Company.

Dividends

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

Indemnification and Insurance of Directors and Offices

The Company has, during the financial period, entered into deeds of access and indemnity with each Director. These deeds provide access to documentation and indemnification against liability from conduct of the Consolidated Entity's business.

During the financial year, the Company has paid premiums in respect of a contract insuring all the Directors of Mount Gibson Iron Limited against costs incurred in defending proceedings except for conduct involving:

- A wilful breach of duty; or
- A contravention of sections 182 or 183 of the Corporations Act 2001, as permitted by section 199B of the Corporations Act 2001.

The total amount of insurance contract premiums paid was \$54,742. This amount has not been included in Directors' and Executives' remuneration.

Remuneration Report

This report outlines the remuneration arrangements in place for Directors and Executives of the Consolidated Entity.

Remuneration philosophy

The Remuneration Policy of Mount Gibson Iron Limited and its Controlled Entities has been put in place to ensure that:

- Remuneration policies and systems support the Company's wider objectives and strategies;
- Directors' and Senior Executives' remuneration is aligned to the long-term interests of Shareholders within an appropriate control framework; and
- There is a clear relationship between the Executives' performance and remuneration.

Remuneration structure

In accordance with best practice corporate governance, the structure of Non-Executive Director, Executive Director and Senior Executive management remuneration is separate.

Non-Executive Director Remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to Shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the Directors as agreed. The latest determination was at the Annual General Meeting held on 18 December 2001 when Shareholders approved an aggregate remuneration of \$150,000 per year.

Each Non-Executive Director receives a fee for being a Director of the Company.

Non-Executive Directors should be adequately remunerated for their time and effort and the risks involved. Non-Executive Directors are remunerated to recognise the responsibilities, accountabilities and associated risks of Directors.

All Non-Executive Directors' performance and remuneration is reviewed on an annual basis by the Chairman.

Non-Executive Directors' fixed remuneration will comprise the following elements:

- Cash remuneration; and
- Superannuation contributions made by the Company.

Non-Executive Directors are eligible to receive options under the Company's Employee Option Scheme, subject to approval by Shareholders.

Board operating costs do not form part of Non-Executive Directors' remuneration.

Non-Executive Directors have long been encouraged by the board to hold shares in the Company (purchased by the director on market). It is considered good governance for Directors to have a stake in the Company on whose board they sit. The Non-Executive Directors of the Company can participate in the Employee Share Plan which provides incentives where specified criteria are met.

Executive Directors and Senior Executives Remuneration

Objective

The company aims to reward Executive Directors and Senior Executives with a level and mix of remuneration commensurate with their position and responsibilities within the company and so as to:

- Reward the Executive Directors and Senior Executives for company and individual performance against targets set by reference to appropriate benchmarks;
- Align the interest of the Executive Directors and Senior Executives with those of Shareholders;
- Link reward with the strategic goals and performance of the Company; and
- Ensure total remuneration is competitive by market standards.

Fixed remuneration

The components of the Executive Directors and Senior Executives fixed remuneration are determined individually and may include:

- Cash remuneration;
- Accommodation and travel benefits;
- Motor vehicle, parking and other benefits; and
- Reimbursement of entertainment, home office and telephone expenses.

The Executive Directors' remuneration is reviewed on an annual basis by the Non-Executive Directors. The Senior Executives' remuneration is reviewed on an annual basis by the Managing Director.

In determining the remuneration package, the Company reviews the individual's remuneration with the use of market data for positions with

comparable companies. Where appropriate, the package is adjusted so as to keep pace with market trends and ensure continued remuneration competitiveness. In conducting a comparative analysis, the Company's expected performance for the year is considered in the context of the Company's capacity to fund remuneration budgets. From time to time, a review of the total remuneration package by an independent consultant in this field is undertaken to provide an independent reference point.

Variable remuneration

The Executive Directors and Senior Executives may receive variable remuneration as follows:

- Short Term Incentives – the Executive Directors and Senior Executives are eligible to receive a bonus so long as certain key performance indicator's (KPI's) are achieved. These KPI's are approved by the Board at the commencement of the financial year; and
- Long Term Incentives – the Executive Directors and Senior Executives are eligible to receive Bonus Options under the Company's Employee Option Scheme, at the discretion of the Board.

Employment contracts

As at the date of this report, the Consolidated Entity had entered into employment contracts with the following Executive Directors and proposed Executive Directors:

Brian Johnson

The key terms of his current consulting contract through OTR Nominees Pty Ltd are as follows:

- From 1 June 2003 to 31 December 2007
- There are no termination benefits at the completion of the contract term. However, if Mount Gibson Iron Limited wishes to terminate the contract other than if Mr Johnson is guilty of any grave misconduct, serious or persistent breach of the terms of the contract or wilful neglect in the discharge of the Duties, the Company is obliged to pay out the remaining term of the contract to a maximum of two years. If OTR Nominees Pty Ltd wishes to terminate the contract, he must provide three months notice.

Mr Johnson will be stepping down as Managing Director of the Company in October 2005 to take responsibility for the construction of the Extension Hill magnetite mine and the Longtan pellet plant in China. Consequently, he is currently renegotiating the terms of his contract.

Alan Rule

The key terms of his contract are as follows:

- 5 years from 1 July 2005 to 30 June 2010
- There are no termination benefits at the completion of the contract term. However, if Mount Gibson Iron Limited wishes to terminate the contract other than if Mr Rule is guilty of any grave misconduct, serious or persistent breach of the terms of the contract or wilful neglect in the discharge of the Duties, the Company is obliged to pay out the remaining term of the contract to a maximum of two years. If Mr Rule wishes to terminate the contract, he must provide three months notice.

Luke Tonkin

Mr Tonkin has been appointed Managing Director of Mount Gibson Iron Limited with effect from 24 October 2005.

The key terms of his contract are as follows:

- 5 years from 24 October 2005 to 24 October 2010
- There are no termination benefits at the completion of the contract term. However, if Mount Gibson Iron Limited wishes to terminate the contract other than if Mr Tonkin is guilty of any grave misconduct, serious or persistent breach of the terms of the contract or wilful neglect in the discharge of the Duties, the Company is obliged to pay out the remaining term of the contract to a maximum of two years. If Mr Tonkin wishes to terminate the contract, he must provide three months notice.

Director remuneration for the year ended 30 June 2005

WB Willis	2005	116,731	-	-	6,229	-	29,230	152,190
	2004	82,934	-	-	9,102	-	58,495	150,531
BG Johnson	2005	344,669	88,309	250,000	-	-	1,543,389	2,226,367
	2004	288,433	85,178	-	-	-	155,212	528,823
CL Readhead	2005	41,951	-	-	-	-	14,615	56,566
	2004	33,026	-	-	2,974	-	29,247	65,247
IA MacIver	2005	38,485	-	-	3,476	-	14,615	56,576
	2004	33,026	-	-	2,974	-	29,247	65,247
AD Rule	2005	-	-	-	-	-	-	-
	2004	-	-	-	-	-	-	-
G Liu	2005	-	-	-	-	-	-	-
	2004	-	-	-	-	-	-	-

Mr Rule and Mr Liu were appointed Directors of the Company on 1 July 2005 and 12 August 2005 respectively.

Remuneration of the 5 named executives who receive the highest remuneration for the year ended 30 June 2005

KJ Malaxos	2005	207,692	-	10,000	19,592	-	31,285	268,569
	2004	185,000	-	7,500	17,325	-	31,285	241,110
JP Arbuckle	2005	150,000	-	10,000	14,400	-	41,714	216,114
	2004	150,000	-	-	13,500	-	-	163,500
JR Tyers	2005	130,780	-	10,000	12,670	-	31,285	184,735
	2004	114,677	-	-	10,321	-	-	124,998
SP Coates	2005	130,872	-	7,500	12,453	-	12,514	163,339
	2004	130,872	-	7,500	12,453	-	12,514	163,339

All Directors and Executives are engaged through controlled entities of Mount Gibson Iron Ltd.

Options granted as part of remuneration for the year ended 30 June 2005

BG Johnson	16-Mar-05	5,000,000	\$0.50	31-Dec-05	31-Dec-07	\$0.5516	N/A	N/A	N/A	45.3%
BG Johnson	16-Mar-05	5,000,000	\$0.55	31-Dec-06	31-Dec-08	\$0.5713	N/A	N/A	N/A	20.8%
KJ Malaxos	15-Dec-04	750,000	\$0.25	31-Dec-05	31-Dec-06	\$0.0807	N/A	N/A	N/A	11.6%
JP Arbuckle	15-Dec-04	750,000	\$0.25	31-Dec-05	31-Dec-06	\$0.0807	N/A	N/A	N/A	13.0%
JR Tyers	15-Dec-04	1,000,000	\$0.25	31-Dec-05	31-Dec-06	\$0.0807	N/A	N/A	N/A	19.3%
SP Coates	15-Dec-04	750,000	\$0.25	31-Dec-05	31-Dec-06	\$0.0807	N/A	N/A	N/A	16.9%
C Lee	15-Dec-04	300,000	\$0.25	31-Dec-05	31-Dec-06	\$0.0807	N/A	N/A	N/A	7.7%

Options granted as part of Director and Executive emoluments have been valued using the Black and Scholes option pricing model. The value per option at grant date is calculated using the following assumptions:

Date approved by Mount Gibson Iron Board	24-Jan-05	24-Jan-05	24-Jan-05
Share price at date approved by Mount Gibson Iron Board	\$0.41	\$0.41	\$0.41
Grant Date	16-Mar-05	16-Mar-05	15-Dec-04
Share price at grant date	\$0.90	\$0.90	\$0.265
Exercise price	\$0.50	\$0.55	\$0.25
Risk free interest rate	5.30%	5.30%	5.55%
Volatility factor	40%	40%	32%
Expiry date	31-Dec-07	31-Dec-08	31-Dec-06

Directors' Meeting

The numbers of meetings of Directors (including meetings of Committees of Directors) held during the year and the number of meetings attended by each Director is as follows:

Director	Number of Meetings Held	Number of Meetings Attended
WB Willis	11	1
BJ Johnson	12	-
CL Readhead	11	1
IA MacIver	10	1

Tax Consolidation

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

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

Entering into a tax consolidation group is not expected to have an impact on the income tax balances of the Company or the Consolidated Entity for the year ended 30 June 2005.

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Mount Gibson Iron Limited support and have adhered to the principles of corporate governance. The Company's corporate governance statement is contained in the additional ASX information section of the annual report.

Auditor Independence and Non-Audit Services

The directors received the attached independence declaration from the auditor of Mount Gibson Iron Limited which forms part of this report.

Non-Audit Services

There were no non-audit services provided by the entity's auditor, Ernst & Young, during the financial year ended 30 June 2005.

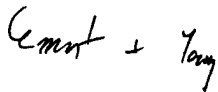
Signed in accordance with a resolution of the Directors.



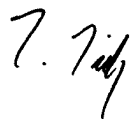
WB Willis Chairman - Perth, 12 September 2005

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

In relation to our audit of the financial report of Mount Gibson Iron Limited for the year ended 30 June 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



V W Tidy
Partner

Perth 12 September 2005

Liability limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW).

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For The Year Ended 30 June 2005

Sales revenue	2	76,872,338	14,293,488	-	-
Cost of sales		(50,556,143)	(11,154,702)	-	-
Gross profit		26,316,195	3,138,786	-	-
Other revenue from ordinary activities	2	644,910	177,918	1,890,358	143,436
Administration expenses		(280,489)	(1,733,389)	(121,477)	(128,968)
Corporate expenses		(544,557)	(372,030)	(447,780)	(272,903)
Borrowing expenses	3	(1,676,046)	(1,363,751)	(168,423)	(305,595)
Development expenses		(28,496)	(9,228,176)	-	-
Exploration expenses	3	(665,946)	(1,601,920)	-	-
Other expenses		(52,540)	(349)	(52,540)	-
Profit/(loss) from ordinary activities before income tax expense		23,713,031	(10,982,911)	1,100,138	(564,030)
Income tax expense relating to ordinary activities	4	-	-	-	-
Net profit/(loss)		23,713,031	(10,982,911)	1,100,138	(564,030)
Net Profit/(loss) attributable to outside equity interest		-	-	-	-
Net profit/(loss) attributable to members of Mount Gibson Iron Limited	18	23,713,031	(10,982,911)	1,100,138	(564,030)
Share issue costs	17	(958,000)	(150,000)	(958,000)	(150,000)
Total changes in equity other than those resulting from transactions with owners as owners		22,755,031	(11,132,911)	142,138	(714,030)
Basic earnings/(loss) per share (cents per share)	23	7.44	(4.04)		
Diluted earnings/(loss) per share (cents per share)	23	7.16	(4.04)		

At 30 June 2005

Current Assets					
Cash assets	20	33,633,253	1,784,086	44,182	26,641
Fixed deposit	20	2,952,531	1,895,000	-	-
Receivables	5	2,876,136	1,197,678	30,114	87,666
Inventories	6	5,296,449	2,797,374	-	-
Other financial assets	7	328,672	1,349,446	-	-
Other	9	658,658	467,885	3,250	4,958
Total Current Assets		45,745,699	9,491,469	77,546	119,265
Non-Current Assets					
Receivables	5	-	-	53,419,260	23,084,848
Other financial assets	7	2,942,318	-	13,727,453	6,798,301
Property, plant and equipment	10	17,416,637	16,758,280	5,400	5,400
Deferred acquisition, exploration and evaluation costs	11	29,104,015	17,889,333	-	-
Mine properties	12	14,724,769	8,647,663	-	-
Total Non-Current Assets		64,187,739	43,295,276	67,152,113	29,888,549
Total Assets		109,933,438	52,786,745	67,229,659	30,007,814
Current Liabilities					
Payables	13	9,662,833	8,464,098	123,294	159,461
Other financial liabilities	14	328,672	1,349,446	-	-
Interest-bearing liabilities	15	2,708,084	7,757,213	-	-
Provisions	16	548,020	139,264	-	-
Total Current Liabilities		13,247,609	17,710,021	123,294	159,461
Non-Current Liabilities					
Payables	13	459,627	499,648	-	-
Interest-bearing liabilities	15	7,969,530	11,178,100	-	2,375,000
Total Non-Current Liabilities		8,429,157	11,677,748	-	2,375,000
Total Liabilities		21,676,766	29,387,769	123,294	2,534,461
Net Assets		88,256,672	23,398,976	67,106,365	27,473,353
Equity					
Contributed equity	17	79,381,008	40,848,134	79,381,008	40,848,134
Accumulated losses	18	(80,631)	(23,793,662)	(12,274,643)	(13,374,781)
Total Parent Entity Interest in Equity		79,300,377	17,054,472	67,106,365	27,473,353
Outside equity interest	19	8,956,295	6,344,504	-	-
Total Equity		88,256,672	23,398,976	67,106,365	27,473,353

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Year Ended 30 June 2005

Cash Flows From Operating Activities					
Receipts from customers		76,662,283	15,051,259	-	-
Payments to suppliers and employees		(57,207,462)	(23,483,180)	(646,531)	(466,580)
Interest received		426,601	166,211	33,095	143,433
Borrowing costs		(1,676,046)	(1,363,750)	(168,422)	(305,595)
Cash Flows From / (Used In) Operating Activities	20(a)	18,205,376	(9,629,460)	(781,858)	(628,742)
Cash Flows From Investing Activities					
Proceeds from sale of property, plant and equipment		45,563	11,707	-	-
Purchase of property, plant and equipment		(997,152)	(6,486,710)	-	-
Loan to related parties		-	-	(28,829,328)	(8,650,809)
Purchase of controlled entity	20(e)	534,119	(165,000)	(1,511,830)	-
Loan from other entities		47,829	-	-	-
Purchase of shares		(2,942,317)	-	(2,542,317)	-
Exploration expenditure		(6,123,287)	(1,603,145)	-	-
Cash Flows (Used in) Investing Activities		(9,435,245)	(8,243,148)	(32,883,475)	(8,650,809)
Cash Flows From Financing Activities					
Proceeds from issue of ordinary shares		34,640,874	7,236,948	34,640,874	7,236,948
Payments for performance bonds		(1,202,532)	(1,895,000)	-	-
Payments for capital raising		(958,000)	(150,000)	(958,000)	(150,000)
Repayment of lease liabilities		(2,033,670)	(990,412)	-	-
Proceeds from borrowings		14,096,274	12,643,059	-	-
Repayment of borrowings		(20,290,956)	(5,914,144)	-	(500,000)
Cash Flows From Financing Activities		24,251,990	10,930,451	33,682,874	6,586,948
Net Increase/(Decrease) In Cash Held					
Add opening cash brought forward		611,132	7,553,289	26,641	2,719,244
Closing Cash	20(b)	33,633,253	611,132	44,182	26,641

NOTES TO THE FINANCIAL STATEMENTS

30 June 2005

(a) Basis of accounting

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 including applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with. The financial report has been prepared in accordance with the historical cost convention.

(b) Changes in accounting policies

Other than a change in the policy for acquisition, exploration, evaluation, development and restoration costs, the accounting policies adopted are consistent with those of the previous year.

The Consolidated Entity's previous policy stated that all costs arising from exploration, evaluation and development activities were written off as incurred, except to the extent they arise through acquisition. The policy for acquisition, exploration, development and restoration costs has been amended to differentiate between Exploration and Evaluation costs and Development costs and to allow capitalisation where it is expected that the expenditure will be recouped by future exploitation or sale of the area of interest. This policy was changed to improve the relevance and reliability of the financial information.

The new accounting policy adopted states that:

- Exploration and Evaluation costs are expensed as incurred, except where at balance date, it is expected that the expenditure will be recouped by future exploitation or sale of the area of interest, in which case the expenditure is capitalised; and
- Development Costs are capitalised as incurred to the extent that such costs, together with any costs arising from acquisition, exploration and evaluation carried forward in respect of the area of interest, are expected to be recouped through future exploitation or sale of the area of interest.

This change in accounting policy has no effect on the financial results for the current or prior financial years.

(c) Principles of consolidation

The consolidated financial statements are those of the Consolidated Entity, comprising Mount Gibson Iron Limited (the parent company) and all entities that Mount Gibson Iron Limited controlled from time to time during the year and at reporting date.

Information from the financial statements of subsidiaries is included from the date the parent Company obtains control until such time as control

ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent Company has control.

Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

(d) Foreign currencies

Translation of foreign currency transactions

Transactions in foreign currencies of entities within the Consolidated Entity are converted to local currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

A monetary item arising under a foreign currency contract outstanding at the reporting date where the exchange rate for the monetary items is fixed in the contract is translated at the exchange rate fixed in the contract.

Except for certain specific hedges, all resulting exchange differences arising on settlement or re-statement are recognised as revenues and expenses for the financial year. Any gains or costs on entering a hedge are deferred and amortised over the life of the contract.

Amounts payable to and by the entities within the Consolidated Entity that are outstanding at the reporting date and are denominated in foreign currencies have been converted to local currency using rates of exchange ruling at the end of the financial year.

Specific hedges

Where a purchase or sale is specifically hedged, exchange gains or losses on the hedging transactions arising up to the date of purchase or sale and costs, premiums and discounts relative to the hedging transactions are deferred and included in the measurement of the purchase or sale. Exchange gains and losses arising on the hedge transactions after that date are taken to the net profit.

(e) Cash and cash equivalents

Cash on hand and in banks and short-term deposits are stated at nominal value.

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within 2 working days, net of outstanding bank overdrafts.

Bank overdrafts are carried at the principal amount. Interest is recognised as an expense as it accrues.

(f) Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due.

(g) Investments

All investments are carried at the lower of cost and recoverable amount. Investments in associates are carried at the lower of the equity accounted amount and receivable amount in the consolidated financial report.

(h) Inventories

Inventories of work in progress and finished goods are physically measured or estimated and valued at the lower of cost and net realisable value. Cost comprises direct material, labour and expenditure in getting such inventories to their existing location and condition, based on weighted average costs incurred during the period in which such inventories were produced. Inventories of consumable supplies and spare parts expected to be used in production are valued at weighted average cost. Obsolete or damaged inventories of such items are valued at net realisable value.

(i) Recoverable amount

Non-current assets measured using the cost basis are not carried at an amount above their recoverable amount, and where carrying values exceed this recoverable amount assets are written down. In determining recoverable amount, the expected net cash flows have not been discounted to their present value.

(j) Property, plant and equipment

Cost and valuation

All classes of property, plant and equipment are measured at cost.

Depreciation

The cost of property, plant and equipment is written off over its expected economic life on a units-of-production method, in the establishment of which, due regard is given to the life of the related area of interest. Land associated with mining is written off over the life of the mine. Assets which are depreciated or amortised on a basis other than the units-of-production method typically have the following expected economic lives:

Property, Plant and Equipment;	2005	2004
Buildings	5-20 years	5-20 years
Motor vehicles	4 - 5 years	4 - 5 years
Office equipment	3 - 5 years	3 - 5 years
Leasehold improvements	5 - 10 years	5 - 10 years

(k) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

Finance leases

Leases which effectively transfer substantially all the risks and benefits incidental to ownership of the leased item to the group are capitalised at the present value of the minimum lease payments and disclosed as property, plant and equipment under lease, a lease liability of equal value is also recognised.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and charged directly to the Statement of Financial Performance.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter

(l) Acquisition, exploration, evaluation, development and restoration costs

As noted at (b) Changes in accounting policies, the Consolidated Entity has changed its accounting policy relating to acquisition, exploration, evaluation, development and restoration costs to the following:

Acquisition costs

Exploration and evaluation costs arising from acquisitions are carried forward where exploration and evaluation activities have not, at balance date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves.

Exploration and evaluation costs

Costs arising from exploration and evaluation activities are expensed as incurred, except where, at balance date, it is expected that the expenditure will be recouped by future exploitation or sale of the area of interest, in which case the expenditure is capitalised.

Development costs

Costs arising from development activities are capitalised as incurred to the extent that such costs, together with any costs arising from

acquisition, exploration and evaluation carried forward in respect of the area of interest, are expected to be recouped through future exploitation or sale of the area of interest.

Amortisation

Accumulated acquisition, exploration, evaluation and development costs on productive areas are amortised over the life of the area of interest to which such costs relate on the production output basis.

Restoration costs

Restoration costs that are expected to be incurred are provided for as part of the cost of the exploration, evaluation, development, construction or production phases that give rise to the need for restoration. Accordingly, these costs are recognised progressively over the life of the facility as these phases occur. The costs include obligations relating to reclamation and other costs associated with the restoration of the site. These estimates of the restoration obligations are based on anticipated technology and legal requirements and future costs, which have been discounted to their present value. Any changes in the estimates are adjusted on a retrospective basis. In determining the restoration obligations, the entity has assumed no significant changes will occur in the relevant Federal and State legislation in relation to restoration of such mines in the future.

(m) Mine properties

Mine properties represent the accumulation of all exploration, evaluation and development expenditure incurred by or on behalf of the Consolidated Entity in relation to areas of interest in which mining of a mineral resource has commenced. When further development expenditure is incurred in respect of a mine property after the commencement of production, such expenditure is carried forward as part of the cost of that mine property only when substantial future economic benefits are established, otherwise such expenditure is classified as part of the cost of production.

Amortisation is provided on the units-of-production method, with separate calculations being made for each mineral resource. Estimated future capital development costs to be incurred in accessing the reserves and measured resources are taken into account in determining amortisation charges. The units-of-production method results in an amortisation charge proportional to the depletion of the economically recoverable mineral resources (comprising proven and probable reserves plus measured resources).

(n) Other non-current assets

Expenditure carried forward

Significant items of carry forward expenditure having a benefit or relationship to more than one period are written off over the periods to which such expenditure relates.

(o) Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Consolidated Entity.

Payables to related parties are carried at the principal amount.

Deferred cash settlements are recognised at the present value of the outstanding consideration payable on the acquisition of an asset discounted at prevailing commercial borrowing rates.

(p) Interest-bearing liabilities

All loans are measured at the principal amount. Interest is recognised as an expense as it accrues. Convertible Notes are recorded as liabilities and are recognised when issued at the amount of the net proceeds received. Interest is recognised as an expense in the period to which it relates.

Finance lease liability is determined in accordance with the requirements of AASB 1008 "Leases".

(q) Provisions

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

A provision for dividends is not recognised as a liability unless the dividends have been declared, determined or publicly recommended on or before the reporting date.

(r) Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(s) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods - Control of the goods has passed to the buyer.

Interest - Control of the right to receive the interest payment.

Dividends - Control of the right to receive the dividend payment.

(t) Taxes

Income taxes

Tax-effective accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Goods and Service Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- Where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(u) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefits liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the interest rates attaching to government guaranteed securities, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefits expenses and revenues arising in respect of the following categories:

- Wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave entitlements; and
- Other types of employee benefits are recognised against profits on a net basis in their respective categories.

The value of the employee share incentive scheme described in note 2 is not being recognised as an employee benefits expense.

In respect of the Consolidated Entity's defined contribution superannuation plans, any contributions made to the superannuation plans by entities within the Consolidated Entity are recognised against profits when due.

(v) Derivative financial instruments

Forward exchange contracts

The Consolidated Entity enters into forward exchange contracts where it

agrees to buy or sell specified amounts of foreign currencies in the future at a predetermined exchange rate. The objective is to match the contract with anticipated future cash flows from sales and purchases in foreign currencies, to protect the Consolidated Entity against the possibility of loss from future exchange rate fluctuations. The forward exchange contracts are usually for no longer than 12 months.

Forward exchange contracts are recognised at the date the contract is entered into. Exchange gains or losses on forward exchange contracts are recognised in net profit except those relating to hedges of specific commitments that are deferred and included in the measurement of the sale or purchase.

(w) Earnings per Share

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

- Costs of servicing equity (other than dividends);
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

(x) Repairs and maintenance

Plant of the Consolidated Entity is required to be overhauled on a regular basis. This is managed as part of an ongoing major cyclical maintenance program. The costs of this maintenance are charged as expenses as incurred, except where they relate to the replacement of a component of an asset, in which case the costs are capitalised and depreciated in accordance with note 1(j). Other routine operating maintenance, repair and minor renewal costs are also recognised as expenses as incurred.

(y) Acquisition of assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition, plus incidental costs directly attributable to the acquisition.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of acquisition. The discount rate used is the incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(z) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

	Current Year		Prior Year	
	2005	2004	2005	2004
Revenues From Operating Activities				
Revenue from sale of goods	76,872,338	14,293,488	-	-
Total Revenues From Operating Activities	76,872,338	14,293,488	-	-
Revenues From Non-Operating Activities				
Interest – intercompany loan	-	-	1,857,257	-
Interest – other persons/corporations	470,931	166,211	33,094	143,433
Proceeds from disposal of property, plant and equipment	45,563	11,707	-	-
Export marketing grant	126,553	-	-	-
Other revenue	1,863	-	7	3
Total revenues from non-operating activities	644,910	177,918	1,890,358	143,436
Total Revenues From Ordinary Activities	77,517,248	14,471,406	1,890,358	143,436

Depreciation of Non-Current Assets				
Plant and equipment	385,766	118,937	-	-
Plant and equipment under lease	2,147,219	1,191,290	-	-
Buildings	431,865	114,005	-	-
Buildings under lease	124,665	38,424	-	-
	3,089,515	1,462,656	-	-
Decrement in the value of land	72,723	69,714	-	-
Amortisation of mine properties	17,415,929	4,664,107	-	-
Borrowing Costs Expensed				
Interest expense				
- Finance lease	803,900	473,555	-	-
- Loan	872,146	890,196	168,423	305,595
	1,676,046	1,363,751	168,423	305,595
Doubtful debts	-	-	-	(3,004)
Operating lease rental – minimum lease payments	959,409	728,002	-	-
Exploration, evaluation cost written off	665,946	1,601,920	-	-
Losses/(Gains)				
Net (gain)/loss on disposal of property, plant and equipment	17,482	(6,225)	-	-

The prima facie tax on profit/(loss) differs from the income tax provided in the financial statements as follows:				
Prima facie tax on profit/(loss) from ordinary activities	7,113,909	(3,294,873)	330,041	(169,209)
Future income tax benefit not brought to account	-	3,294,873	-	169,209
Prior year tax losses utilised	(7,113,909)	-	(330,041)	-
Income tax expense attributable to ordinary activities	-	-	-	-
Income Tax Losses				
Income tax losses not brought to account at reporting date as realisation of the benefit is not regarded as virtually certain	15,378,348	33,652,945	1,046,440	2,284,926

The future income tax benefit will only be obtained if:

- Future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- The conditions for deductibility imposed by tax legislation continue to be applied with; and

Tax Consolidation

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

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

Entering into a tax consolidation group is not expected to have an impact on the income tax balances of the Company or the Consolidated Entity for the year ended 30 June 2005.

c) No changes in tax legislation adversely affect the Consolidated Entity in realising the benefit.

5. Receivables

		2005	2004	2005	2004
Current					
Trade debtors	(b)	2,270,881	1,046,299	-	9,425
Sundry debtors	(b)	571,712	76,650	5,114	5,114
Other receivables		33,543	74,729	25,000	73,127
		2,876,136	1,197,678	30,114	87,666
Non-Current					
Other receivables	(a),(b)	-	-	53,564,023	23,229,611
Less: provision for doubtful debts		-	-	(144,763)	(144,763)
		-	-	53,419,260	23,084,848
a) Related Party Receivables					
Non-Current					
Controlled entities		-	-	53,419,260	23,084,848

b) **Terms and conditions** - Terms and conditions relating to the above financial instruments:

- Trade debtors are non-interest bearing and generally on 30 day terms.
- Sundry debtors are non-interest bearing and have repayment terms between 30 and 90 days.
- Except for amounts payable by Mt Gibson Mining Ltd, charged interest at 7% pa, related party receivables are non-interest bearing with no fixed repayment date.

6. Inventories

		2005	2004	2005	2004
Inventory – consumables at cost		199,231	152,243	-	-
Inventory – ore at cost		5,097,218	2,645,131	-	-
		5,296,449	2,797,374	-	-

Current					
Hedging foreign currency deferred loss	29(d)	-	1,349,446	-	-
Hedging foreign currency financial asset	29(d)	328,672	-	-	-
		328,672	1,349,446	-	-
Non-Current					
Investments at cost comprise:					
Controlled entities – unlisted		-	-	21,618,261	17,631,427
Less: provision for diminution		-	-	(10,833,126)	(10,833,126)
Other entities – unlisted (at cost)		400,000	-	10,785,135	6,798,301
Other entities – listed (at cost)	(a)	2,542,318	-	2,542,318	--
		2,942,318	-	13,727,453	6,798,301

a) During the year, Mount Gibson Iron Limited purchased 28,743,410 shares in Resource Mining Corporation Ltd, resulting in 10.36% shareholding in Resource Mining Corporation Ltd as at 30 June 2005. At balance date the investment had a market value of \$3,592,926.

8. Interest in Subsidiaries

Name					
Asia Iron Holdings Limited	Hong Kong	63	-	3,986,832	-
Mount Gibson Mining Limited	Australia	100	100	6,798,298	6,798,298
WHTK Pty Ltd	Australia	100	100	1	1
Geraldton Bulk Handling Pty Ltd	Australia	100	100	2	2
MGM Pipelines Pty Ltd	Australia	100	-	2	-
				10,785,135	6,798,301

In acquiring Asia Iron Holdings Limited, the consolidated entity also acquired the following controlled entities:

Asia Iron (Nanjing) Co., Ltd	China	63	-	-	-
Asia Iron Limited	Hong Kong	63	-	-	-
Jiangsu Investment Pty Ltd	Australia	63	-	-	-
Extension Hill Pty Ltd	Australia	63	-	-	-
Austral Iron Pty Ltd	Australia	63	-	-	-
AP Mining Pty Ltd	Australia	63	-	-	-
Westralian Iron Pty Ltd	Australia	63	-	-	-

9. Other Assets

Current					
Deposits paid		33,250	56,109	3,250	3,250
Prepayments		625,408	411,776	-	1,708
		658,658	467,855	3,250	4,958

10. Property, Plant and Equipment

Freehold Land					
At cost		732,628	732,628	5,400	5,400
Decrement in the value of land		(142,437)	(69,714)	-	-
		590,191	662,914	5,400	5,400
Plant and Equipment					
At cost		2,432,261	1,670,842	-	-
Accumulated depreciation		(546,006)	(156,739)	-	-
		1,886,255	1,514,103	-	-
Plant and Equipment Under Lease					
At cost		12,354,535	9,710,686	-	-
Accumulated amortisation		(3,335,935)	(1,206,270)	-	-
		9,018,600	8,504,416	-	-
Buildings					
At cost		6,111,598	5,731,857	-	-
Accumulated depreciation		(549,111)	(117,246)	-	-
		5,562,487	5,614,611	-	-
Buildings Under Lease					
At cost		522,194	500,660	-	-
Accumulated amortisation		(163,090)	(38,424)	-	-
		359,104	462,236	-	-
Total Property, Plant and Equipment					
At cost		22,153,216	18,346,673	5,400	5,400
Accumulated depreciation/amortisation		(4,736,579)	(1,588,393)	-	-
		17,416,637	16,758,280	5,400	5,400

a) Assets Pledged as Security					
The value of assets pledged as security are:					
Plant and equipment		1,886,255	1,514,103	-	-
Plant and equipment under lease	20(c),(d)	9,018,600	8,504,416	-	-
Buildings under lease	20(c),(d)	359,104	462,236	-	-
Buildings		5,562,487	5,614,611	-	-

b) Reconciliations - Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current and previous financial year.

Plant and Equipment Under Lease					
Carrying amount at beginning		8,504,416	41,911	-	-
Additions		2,783,438	9,626,910	-	-
Transfers		(66,484)	41,416	-	-
Disposals		(55,551)	(14,531)	-	-
Depreciation expense		(2,147,219)	(1,191,290)	-	-
		9,018,600	8,504,416	-	-

Plant and Equipment					
Carrying amount at beginning		1,514,103	110,444	-	-
Additions		617,411	1,567,420	-	-
Additions through acquisition of entities		81,517	-	-	-
Transfers		66,484	(44,824)	-	-
Disposals		(7,494)	-	-	-
Depreciation expense		(385,766)	(118,937)	-	-
		1,886,255	1,514,103	-	-
Buildings					
Carrying amount at beginning		5,614,611	607,148	-	-
Additions		379,741	5,118,060	-	-
Transfers		-	3,408	-	-
Depreciation expense		(431,865)	(114,005)	-	-
		5,562,487	5,614,611	-	-
Buildings Under Lease					
Carrying amount at beginning		462,236	-	-	-
Additions		21,533	500,660	-	-
Depreciation expense		(124,665)	(38,424)	-	-
		359,104	462,236	-	-

Deferred Acquisition, Exploration and Evaluation Costs

Deferred acquisition, exploration and evaluation costs carried forward in respect of mining areas of interest:					
Mt Gibson Hematite		4,021,812	4,021,812	-	-
Mt Gibson Magnetite		19,874,254	13,867,521	-	-
Koolanooka South Magnetite		5,207,949	-	-	-
		29,104,015	17,889,333	-	-

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective mining areas. Amortisation of costs carried forward for the development phase is not being recognised pending commencement of production.

12. Mine Properties

Transferred from deferred acquisition, exploration and development costs		-	4,837,968	-	-
Mine development expenditure		36,804,805	8,473,802	-	-
		36,804,805	13,311,770	-	-
Accumulated amortisation		(22,080,036)	(4,664,107)	-	-
		14,724,769	8,647,663	-	-

13. Payables

Current					
Bank overdraft	20(b)	-	1,172,954	-	-
Trade creditors and accruals	(a)	9,662,833	7,291,144	123,294	159,461
		9,662,833	8,464,098	123,294	159,461
Non-Current					
Other creditors	(b)	459,627	499,648	-	-
		459,627	499,648	-	-

a) Terms and conditions - Terms and conditions relating to the above financial instruments

- Trade creditors are non-interest bearing and are normally settled on 30 day terms.
- Other creditors are non-interest bearing and have an average term of 90 days.

b) Non-current payable

Interest free and payable over 10 years under contract for the purchase of land required for the rail loading area for the Talling Peak Hematite Project at Mullewa. In accordance with AASB 1015 Acquisition of Assets, as this payment is expected to be paid on a deferred settlement basis, the liability has been discounted using a discount rate of 6%. The liability is due for final repayment in October 2013.

14. Financial Instruments

	Notes	2005		2004	
		2005	2004	2005	2004
Current					
Hedging foreign currency payable	29(d)	-	1,349,446	-	-
Hedging foreign currency deferred gain	29(d)	328,672	-	-	-
		328,672	1,349,446	-	-

15. Financial Instruments - Balance Sheet

Current					
Lease liability	(a)	2,289,071	1,569,362	-	-
Borrowings		-	1,016,113	-	-
Unearned revenue	(c)	419,013	5,171,738	-	-
		2,708,084	7,757,213	-	-
Non-current					
Lease liability	(a)	7,969,530	7,762,035	-	-
Unearned revenue	(c)	-	1,041,065	-	-
Convertible notes	(b)	-	2,375,000	-	2,375,000
		7,969,530	11,178,100	-	2,375,000

Terms and condition relating to the above financial instruments:

- a) Finance leases are repayable monthly with final instalments due in May 2009. Interest is charged at an average rate of 7.87%. The loans are secured by first mortgage over the leased assets.
- b) Convertible Notes are convertible at the option of the holder to Shares at \$0.30 per share, with an interest rate of 10% payable at 6 monthly intervals from 31 December 2002 to 31 December 2005. The Convertible Notes are unsecured. All convertible notes were converted to ordinary shares during the year (refer Note 17).
- c) Stemcor (S.E.A) Limited agreed to prepay Mount Gibson Mining Limited US\$6 million for iron ore to be supplied under their Off-take Agreement. The facility is repaid over 18 months from the first shipment of ore to Stemcor (S.E.A) Limited in April 2004. Interest is payable on the outstanding balance of the prepayment at 7.15% pa. This facility is secured by an irrevocable and unconditional guarantee by Mount Gibson Iron Limited to Stemcor, guaranteeing all Mount Gibson Mining Limited's liabilities in connection with the facility. The facility was repaid in full in July 2005.

16. Provisions

Employee benefits	22	238,033	124,191	-	-
Rehabilitation	(a),(b)	247,486	15,073	-	-
Road resealing	(b)	62,501	-	-	-
		548,020	139,264	-	-

- a) The provision for rehabilitation has been based on the experience and knowledge of the senior management and a detailed study will be conducted in 2005/06.

16. Provisions (Cont)

b) Movements in provisions:

Rehabilitation					
Carrying amount at beginning		15,073	-	-	-
Provision for period		232,413	15,073	-	-
Carrying Amount at End		247,486	15,073	-	-
Road Resealing					
Carrying amount at beginning		-	-	-	-
Provision for period		62,501	-	-	-
Carrying Amount at End		62,501	-	-	-

17. Contributed Equity

a) Issued and Paid Up Capital Ordinary Shares Fully Paid		79,381,008	40,848,134	79,381,008	40,848,134
b) Movements in Shares on Issue					
Beginning of the financial year		291,565,822	40,848,134	252,561,928	33,761,186
issued during the year					
- converted from convertible notes		7,916,667	2,375,000	-	-
- equity placement		49,760,604	32,305,000	39,000,000	7,236,000
- exercise of options		19,276,700	4,810,874	3,894	948
Less capital raising costs		-	(958,000)	-	(150,000)
End of the Financial Year		368,519,793	79,381,008	291,565,822	40,848,134

c) Terms and conditions of contributed equity - Ordinary Shares have the right to receive dividends as declared, and in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

d) Share Options - As at balance date there were the following Options over unissued Shares:

25 cents	On or before 31 December 2004	-	19,000,000
22 cents	On or before 15 October 2005	30,523,300	25,800,000
15.84 cents	On or before 28 February 2006	-	2,083,332
25 cents	On or before 31 December 2006	4,500,000	-
50 cents	On or before 31 December 2007	5,000,000	-
55 cents	On or before 31 December 2008	5,000,000	-
		45,023,300	46,883,332

In addition, as at 30 June 2005, there were 10,750,000 options granted but not issued under the Employee Share Scheme. The options were granted on the basis that the employees must complete employment service to 31 December 2005 before the options vest. Once vested the options will be exercisable at 25 cents each and expire on 31 December 2006.

Balance at the beginning of the year		(23,793,662)	(12,810,751)	(13,374,781)	(12,810,751)
Net profit/(loss) attributable to members of Mount Gibson Iron Limited		23,713,031	(10,982,911)	1,100,138	(564,030)
Balance at End of Year		(80,631)	(23,793,662)	(12,274,643)	(13,374,781)

19. Outside Equity Interest

Opening balance	6,344,504	6,344,504	-	-
Less:				
Disposal by Mt Gibson Mining Limited of shares in Extension Hill Pty Ltd	(6,344,504)	-	-	-
Add:				
Acquisition by Mt Gibson Iron Limited of shares in Asia Iron Holdings Ltd (see note 19(e))	8,956,295	-	-	-
Closing Balance	8,956,295	6,344,504	-	-

20. Statement Of Cash Flows

a) Reconciliation of the net profit/(loss) after tax to the net cash flows from operations				
Net profit/(loss)	23,713,031	(10,982,911)	1,100,138	(564,030)
Non-Cash Items				
Depreciation of non-current assets	3,089,515	1,462,656	-	-
Decrement in the value of land	72,723	69,714	-	-
Net (profit)/loss on sale of property, plant and equipment	17,482	(6,225)	-	-
Unrealised gain on Foreign Exchange	(459,062)	-	-	-
Intra-group Interest Income	-	-	(1,857,262)	(26,648)
Exploration expenses written off	665,946	1,601,920	-	-
Amortisation of mine properties	17,415,929	4,664,107	-	-
Changes in Assets and Liabilities				
(Increase)/ decrease in trade and other receivables	(1,726,288)	(1,193,332)	9,725	(90,474)
(Increase)/ decrease in inventory	(2,499,076)	(2,797,374)	-	-
(Increase) in prepayments/deposits	(127,547)	(423,461)	1,708	(1,708)
(Increase)/ decrease in capitalised project and acquisition expenditure	-	83,761	-	83,761
(Increase) in mine development expenditure	(24,158,980)	(8,473,802)	-	-
Increase/(decrease) in creditors and accruals	2,132,623	6,981,083	(52,323)	(6,061)
Increase/(decrease) in GST paid	(44,762)	(727,773)	16,156	(23,582)
Increase/(decrease) in employee entitlements	113,842	112,177	-	-
Net Cash Flow from Operating Activities	18,205,376	(9,629,460)	(781,858)	(628,742)
b) Reconciliation of Cash				
Cash balance comprises:				
- Cash at bank and on hand	33,633,253	1,784,086	44,182	26,641
- Bank overdraft	-	(1,172,954)	-	-
- Deposits	2,952,531	1,895,000	-	-
	36,585,784	2,506,132	44,182	26,641

The deposits include performance bond of \$2,952,531 (2004: \$1,895,000) which is not available for use as it is used as monetary backing for performance guarantees issued to cover minimum freight movement with Australian Western Railroad.

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

Balance as above	36,585,784	2,506,132	44,182	26,641
Deposits relating to performance guarantees	(2,952,531)	(1,895,000)	-	-
Balance Per Statement of Cash Flows	33,633,253	611,132	44,182	26,641

c) Financing facilities available - At balance date the following financing facilities were available:

Total Facilities				
- Bank overdraft	1,000,000	1,172,954	-	-
- Finance leases	10,258,601	10,347,510	-	-
- Guarantee facility	2,700,620	2,647,387	-	-
- Export line of credit	4,000,000	4,000,000	-	-
Facilities Used At Reporting Date				
- Bank overdraft	-	1,172,954	-	-
- Finance leases	10,258,601	10,347,510	-	-
- Guarantee facility	493,120	-	-	-
- Export line of credit	-	-	-	-
Facilities Unused At Reporting Date				
- Bank overdraft	1,000,000	-	-	-
- Finance leases	-	-	-	-
- Guarantee facility	2,207,500	2,647,387	-	-
- Export line of credit	4,000,000	4,000,000	-	-

d) Non-cash financing activities - During the financial year, the consolidated entity acquired property, plant & equipment with an aggregate fair value of \$2,804,971 by means of finance leases.

e) Acquisition of Controlled Entity - During the year the Consolidated Entity acquired shares in Asia Iron Holdings Limited (Asia Iron). At 30 June 2005 the Consolidated Entity owned 82,500,000 fully paid ordinary shares in Asia Iron representing 62.98% of the issued capital in Asia Iron.

The shares in Asia Iron were acquired as follows:

25 February 2005	2,750,000 Mount Gibson Iron Limited shares	5,001,000
3 March 2005	2,200,000 Mount Gibson Iron Limited shares	4,000,000
30 April 2005	Mount Gibson Iron Limited subscribed cash of \$1,511,830	5,999,000
30 June 2005	Mount Gibson Mining Limited transferred its 53.8% shareholding in Extension Hill Pty Ltd (formerly Asia Iron Pty Ltd)	67,500,000
		82,500,000

In acquiring Asia Iron, the consolidated entity also acquired the following controlled entities:

- Asia Iron (Nanjing) Co., Ltd
- Asia Iron Limited
- Jiangsu Investment Pty Ltd
- Austral Iron Pty Ltd
- AP Mining Pty Ltd; and
- Westralian Iron Pty Ltd

Consideration:		
- Transfer by Mount Gibson Mining Limited of 53.8% controlling interest in Extension Hill Pty Ltd to Asia Iron		11,250,000
- Issue of Mount Gibson Iron Limited shares to vendors of Asia Iron shares		2,475,000
- Cash subscription price for Asia Iron shares		1,511,830
		15,236,830
Net assets of Asia Iron at 30 June 2005:		
- Cash		2,045,949
- Property plant and equipment		81,517
- Other assets		16,714
- Deferred acquisition, exploration and development costs		25,082,203
- Creditors and accruals		(3,033,259)
		24,193,124
Total Interest Acquired in Asia Iron		62.98%
		15,236,830
Minority interest acquired		8,956,295
Net Cash Effect:		
- Cash costs of acquisition		(1,511,830)
- Cash included in net assets acquired		2,045,949
		534,119

21. Expenditure Commitments

a) Exploration Expenditure Commitments					
Minimum obligations not provided for in the financial report and are payable:	(i)				
- Not later than one year		826,100	220,985	-	-
- Later than one year but not later than five years		3,128,400	883,940	-	-
		3,954,500	1,104,925	-	-
b) Lease Expenditure Commitments					
Operating leases (non-cancellable)	(ii)				
Minimum lease payments					
- Not later than one year		593,644	897,760	-	-
- Later than one year but not later than five years		970,697	1,525,372	-	-
		1,564,341	2,423,132	-	-
Finance Leases					
Minimum Lease Payments	(iii)				
- Not later than one year		3,051,665	2,550,387	-	-
- Later than one year but not later than five years		9,029,983	9,978,492	-	-
Total minimum lease payments		12,081,648	12,528,879	-	-
Future finance charges		(1,823,047)	(2,339,047)	-	-
		10,258,601	10,189,832	-	-
Total Lease Liability Accrued For:					
Current					
Finance leases		2,289,071	1,569,362	-	-
Non-Current					
Finance leases		7,969,530	7,762,035	-	-
		10,258,601	9,331,397	-	-

i) In order to maintain current rights to explore and mine the tenements at Talling Peak, Mt Gibson, Koolanooka, Extension Hill and Mintaja Coal, the Consolidated Entity is required to perform minimum exploration work to meet the expenditure requirements specified by the Department of Industry and Resources.

ii) Operating leases:

- The operating lease for office space with an initial lease term of 5 years has an implicit interest rate of 4%.
- The operating lease for machinery has a term of 5 years and expires in September 2008.

iii) Finance leases have an average term of 4.5 years with the option to purchase the asset at the completion of the lease term for a pre-agreed amount. The average discount rate implicit in the leases is 7.87%. Secured lease liabilities are secured by a charge over the leased assets.

c) **Capital expenditure commitments** - The consolidated entity has entered into an agreement to purchase 34 new narrow gauge bottom dump wagons from a Chinese railway manufacturing company for a total purchase price of \$3,295,000. The wagons are scheduled for delivery to Geraldton in the first quarter of 2006. As at 30 June 2005 a deposit of \$232,367 had been paid.

a) Employee Benefits				
The aggregate employee benefits liability is comprised of:				
Accrued wages, salaries and on costs	628,667	369,718	25,406	19,914
Provisions (current)	238,033	124,191	-	-
	866,700	493,909	25,406	19,914

b) **Employee Share Scheme** - An employee share scheme has been established where the Company may, at the discretion of the board, grant options over the ordinary shares of the Company. The options, issued for nil consideration, are granted in accordance with performance guidelines established by the directors of the Company. All directors, officers and employees are eligible for this scheme.

Information with respect to the number of options granted under the employee share scheme is as follows:

Balance at beginning of year	-	-	-	-
- granted	11,900,000	25.0	-	-
- forfeited	(1,000,000)	25.0	-	-
- exercised	-	-	-	-
Balance at year end	10,900,000	25.0	-	-
Exercisable at year end	-	-	-	-

i) **Options granted during the reporting period** - The options were granted in December 2004 on the basis that the employees must complete employment service to 31 December 2005 before the options vest. Once vested the options will be exercisable at 25 cents each and expire on 31 December 2006.

23. Earnings Per Share

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:		
Profits/(losses) used in calculating basic earnings per share	23,713,031	(10,982,911)
Profits/(losses) used in calculating diluted earnings per share	23,713,031	(10,982,911)
Weighted average number of ordinary shares used in calculating basic earnings per share		
	318,817,812	271,540,888
Weighted average number of ordinary shares used in calculating diluted earnings per share		
	331,050,290	271,540,888

Conversions, calls, subscriptions or issues after 30 June 2005

Since the end of the financial year 1,131,001 options have been converted to ordinary shares. There have been no other conversions to, calls of, or subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of this report.

24. Financial Statements of the Company and its Subsidiaries

a) Details of Specified Directors and Specified Executives

(i) Specified Directors	
WB Willis	Chairman
BG Johnson	Managing Director
CL Readhead	Non-Executive Director
IA Macliver	Non-Executive Director
(ii) Specified Executives	
KJ Malaxos	Chief Executive Officer (Mount Gibson Mining Limited)
JP Arbuckle	Chief Financial Officer
JR Tyers	Project Manager
SP Coates	Exploration Manager
C Lee	Mine Manager Tallering Peak (appointed September 2004)

b) Remuneration of Specified Directors and Specified Executives

i) Remuneration Policy

The Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors and Executive Officers. The Board assesses the appropriateness of the nature and amount of emoluments of all officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executive team. To assist in achieving these objectives, the nature and amount of Executive Directors' and Officers' emoluments are linked to the Company's financial and operational performance. The maximum total compensation payable to Non-Executive Directors is \$150,000 and was approved by Shareholders on 18 December 2001. All Directors and employees have the opportunity to qualify for participation in the Employee Share Scheme.

ii) Remuneration of Specified Directors and Specified Executives

Specified Director/Executive	Year	Salary			Fees		Retainer	Total
		Base Salary	Performance Related	Other	Director	Executive		
WB Willis (i)	2005	116,731	-	-	6,229	-	29,230	152,190
	2004	82,934	-	-	9,102	-	58,495	150,531
BG Johnson	2005	344,669	250,000	88,309	-	-	1,543,389	2,226,367
	2004	288,433	-	85,178	-	-	155,212	528,823
CL Readhead	2005	41,951	-	-	-	-	14,615	56,566
	2004	33,026	-	-	2,974	-	29,247	65,247
IA MacIver	2005	38,485	-	-	3,476	-	14,615	56,576
	2004	33,026	-	-	2,974	-	29,247	65,247
Total Remuneration: Specified Directors	2005	541,836	250,000	88,309	9,705	-	1,601,849	2,491,699
	2004	437,419	-	85,178	15,050	-	272,201	809,848
Specified Executives								
KJ Malaxos	2005	207,692	10,000	-	19,592	-	31,285	268,569
JP Arbuckle	2005	185,000	7,500	-	17,325	-	31,285	241,110
JR Tyers	2005	150,000	10,000	-	14,400	-	41,714	216,114
	2004	150,000	-	-	13,500	-	-	163,500
SP Coates	2005	130,780	10,000	-	12,670	-	31,285	184,735
C Lee	2005	130,872	7,500	-	12,453	-	12,514	163,339
Total Remuneration: Specified Executives	2005	804,344	45,000	-	76,440	-	148,083	1,073,867
	2004	264,677	-	-	23,821	-	-	288,498

i) Included in Bill Willis' fees is a \$36,000 retainer for the provision of consulting services to Mount Gibson Mining Limited during the financial year.

c) Remuneration Options : Granted and vested during the year

On 15 April 2005, the Directors or their nominees were issued Options under the Directors, Officers, Employees and Other Permitted Persons option plan.

Options granted as part of Director and Executive emoluments have been valued using the Black and Scholes option pricing model. The value per option at grant date is calculated using the following assumptions:

Date approved by Mount Gibson Iron Board	24-Jan-05	24-Jan-05	24-Jan-05
Share price at date approved by Mount Gibson Iron Board	\$0.41	\$0.41	\$0.41
Grant date	16-Mar-05	16-Mar-05	15-Dec-04
Share price at grant date	\$0.90	\$0.90	\$0.265
Exercise price	\$0.50	\$0.55	\$0.25
Risk free interest rate	5.30%	5.30%	5.55%
Volatility factor	40%	40%	32%
Expiry date	31-Dec-07	31-Dec-08	31-Dec-06

Terms and Conditions for each grant

BG Johnson	-	5,000,000	16 Mar 05	0.5516	0.50	31 Dec 05	31 Dec 07
BG Johnson	-	5,000,000	16 Mar 05	0.5716	0.55	31 Dec 06	31 Dec 08
KJ Malaxos	-	750,000	15 Dec 04	0.0807	0.25	31 Dec 05	31 Dec 06
JP Arbuckle	-	750,000	15 Dec 04	0.0807	0.25	31 Dec 05	31 Dec 06
JR Tyers	-	1,000,000	15 Dec 04	0.0807	0.25	31 Dec 05	31 Dec 06
SP Coates	-	750,000	15 Dec 04	0.0807	0.25	31 Dec 05	31 Dec 06
C Lee	-	300,000	15 Dec 04	0.0807	0.25	31 Dec 05	31 Dec 06

d) Option holdings of Specified Directors and Specified Executives

	Balance at Beginning of Period 1 July 2004	Granted as Remuneration	Options Expired	Net Change (Issued/ Disposed)	Balance at End of Period 30 June 2005	Vested at 30 June 2005		
						Total	Not Exercisable	Exercisable
Specified Directors								
WB Willis	2,440,000	-	-	-	2,440,000	1,440,000	-	1,440,000
BG Johnson	6,460,000	10,000,000	-	(3,960,000)	12,500,000	-	-	-
CL Readhead	1,220,000	-	-	-	1,220,000	720,000	-	720,000
IA Macliver	1,944,444	-	(694,444)	-	1,250,000	750,000	-	750,000
Specified Executives								
KJ Malaxos	-	750,000	-	-	750,000	-	-	-
JP Arbuckle	-	750,000	-	-	750,000	-	-	-
JR Tyers	-	1,000,000	-	-	1,000,000	-	-	-
SP Coates	-	750,000	-	-	750,000	-	-	-
C Lee	-	300,000	-	-	300,000	-	-	-
Total	12,064,444	13,550,000	(694,444)	(3,960,000)	20,960,000	2,910,000	-	2,910,000

e) Shareholdings of Specified Directors and Specified Executives

	Balance of Ordinary Shares on 1 July 2004	Ordinary Shares Granted as Remuneration	Ordinary Shares Issued on Exercise of Options	Ordinary Shares Acquired / (Sold)	Balance of Ordinary Shares on 30 June 2005
Specified Directors					
WB Willis	420,000	-	-	-	420,000
BG Johnson	-	-	-	-	-
CL Readhead	177,500	-	-	-	177,500
IA Macliver	1,081,666	-	694,444	(576,110)	1,200,000
Specified Executives					
KJ Malaxos	-	-	-	25,000	25,000
JP Arbuckle	-	-	-	-	-
JR Tyers	7,220	-	-	-	7,220
SP Coates	1,595,000	-	-	(695,000)	900,000
C Lee	-	-	-	-	-
Total	3,281,386	-	694,444	(1,246,110)	2,729,720

All equity transactions with specified directors and specified executives other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

f) Loans to Specified Directors and Specified Executives. There were no loans to Specified Directors and Specified Executives during the year.

g) Other transactions and balances with Specified Directors and Specified Executives

Services - Pullinger Readhead Lucas, of which Mr CL Readhead is a partner, provided legal services to the Company and Consolidated Entity. The fees, paid under normal commercial terms and conditions, were \$3,237 (2004:\$13,551) and \$16,997 (2004:\$49,877) respectively.

Amounts recognised at the reporting date in relation to other transactions:

Assets and Liabilities		
Current Liabilities		
Trade Creditors	-	18,982
Total Liabilities	-	18,982
Revenues and Expenses		
Corporate expenses	16,997	49,877
Total Expenses	16,997	49,877

Ultimate parent. Mount Gibson Iron Limited is the ultimate Australian parent company.

Wholly-owned group transactions. Loans were made by Mount Gibson Iron Limited to wholly owned subsidiaries. Interest of \$1,857,257 was charged on the loan to Mount Gibson Mining Limited at 7% pa during the year. All other loans are interest free and have no fixed repayment date.

Director-related entity transactions. There are no Director-related entity transactions other than those specified in Note 24.

Amounts received or due and receivable by Ernst & Young for:				
An audit or review of the financial report of the entity and any other entity in the Consolidated Entity	45,000	30,000	12,000	12,000
Other services in relation to the entity and any other entity in the Consolidated Entity	-	2,935	-	2,285
	45,000	32,935	12,000	14,285

The HSBC Bank has provided a controlled entity with performance bonds totalling \$493,120. A controlled entity has provided performance guarantees by way of cash deposits totalling \$2,952,531 (2004: \$1,895,000) to cover minimum freight movement requirements with Australian Western Railroad.

Segment products and locations. The Consolidated Entity operates primarily in the mining sector, through the exploration, evaluation and development of its iron ore deposits in the Midwest region of Western Australia.

a) **Interest rate risk.** The Consolidated Entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities are as follows:

	Floating Interest Rate		Fixed Interest Rate				Fixed Interest Rate				Fixed Interest Rate						
			1 Year or Less		Over 1 to 5 Years		Non-Interest Bearing		2005		2004		2005		2004		
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	
i) Financial Assets																	
Cash	33,632,949	1,783,786	-	-	-	-	304	300	33,633,253	1,784,086	-	-	33,633,253	1,784,086	-	3.97	
Fixed Deposit	-	145,000	-	-	-	-	2,952,531	1,750,000	2,952,531	1,895,000	-	-	2,952,531	1,895,000	-	2.43	
Trade and other receivables	-	-	-	-	-	-	2,876,136	1,197,678	2,876,136	1,197,678	-	-	2,876,136	1,197,678	-	N/A	
Hedging foreign currency receivable	-	-	-	-	-	-	328,672	-	328,672	-	-	-	328,672	-	-	N/A	
Unlisted shares	-	-	-	-	-	-	400,000	-	400,000	-	-	-	400,000	-	-	N/A	
Listed shares	-	-	-	-	-	-	2,542,318	-	2,542,318	-	-	-	2,542,318	-	-	N/A	
Total Financial Assets	33,632,949	1,928,786	-	-	-	-	9,099,961	2,947,978	42,732,910	4,876,764	-	-	42,732,910	4,876,764	-		
ii) Financial Liabilities																	
Bank overdraft	-	1,172,954	-	-	-	-	-	-	-	-	-	-	-	1,172,954	-	1.36	
Trade and other creditors	-	-	-	-	-	-	9,662,833	7,291,144	9,662,833	7,291,144	-	-	9,662,833	7,291,144	-	N/A	
Hedging foreign currency payable	-	-	-	-	-	-	-	1,349,446	-	1,349,446	-	-	-	1,349,446	-	N/A	
Lease liabilities	-	-	2,289,071	1,569,362	7,969,530	7,762,035	-	-	10,258,601	9,331,397	-	-	10,258,601	9,331,397	-	8.03	
Borrowings	-	-	-	1,016,113	-	-	-	-	-	1,016,113	-	-	-	1,016,113	-	3.12	
Other creditors	-	-	-	-	-	-	459,627	499,648	459,627	499,648	-	-	459,627	499,648	-	N/A	
Unearned revenue	-	-	419,013	5,171,738	-	1,041,065	-	-	419,013	6,212,803	-	-	419,013	6,212,803	-	7.15	
Convertible notes	-	-	-	-	-	2,375,000	-	-	-	2,375,000	-	-	-	2,375,000	-	10.0	
Total Financial Liabilities	-	1,172,954	2,708,084	7,757,213	7,969,530	11,178,100	10,122,460	9,140,238	20,800,074	29,248,505	-	-	20,800,074	29,248,505	-		

b) Net fair values

In accordance with AASB 1012 Foreign Currency Translation, foreign currency hedges have been recognised as a deferred hedging gain and foreign currency hedge receivable at the difference between the hedge rate and the spot rate. The mark to market value of deferred hedge financial asset is \$116,157 (2004: \$1,349,446 payable).

As at 30 June 2005, Mount Gibson Iron Limited owned 28,743,410 shares in a listed entity, Resource Mining Corporation Ltd. The investment had a market value of \$3,592,926 (cost: \$2,542,318).

All other recognised financial assets and liabilities have been recognised at their net fair values at balance date.

c) Credit risk exposure

The Consolidated Entity's maximum exposures to credit risk at balance date in relation to each class of recognised financial assets, other than derivatives, is the carrying amount of those assets as indicated in the statement of financial position.

In relation to derivative financial instruments, whether recognised or unrecognised, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. The Consolidated Entity's maximum credit risk exposure in relation to forward exchange contracts is the full amount of the foreign currency it will be required to pay or purchase when settling the forward exchange contract, should the counterparty not pay the currency it is committed to deliver to the Company. At reporting date the net amount was A\$328,672 (2004: \$1,349,446).

Concentration of credit risk

The Consolidated Entity minimises concentrations of credit risk in relation to trade receivables by undertaking transactions with a number of customers and by the use of letters of credit which guarantee 90% of receivable amount at the time of sale.

d) Hedging instruments

i) Hedges for specific commitments

The Consolidated Entity has entered into forward exchange contracts at reporting date designed as a hedge of anticipated future receipts that will be denominated in US dollars.

This hedge has been treated as specific, in accordance with IJG 33, as the approximate value of the sale and the entities with which the transactions will be entered is presently known.

The amount of recognised deferred gain included in receivables at reporting date was \$328,672 (2004:\$1,349,446 loss).

As at 30 June 2005 the following foreign exchange contracts were outstanding:

Description			
Forward Exchange Contracts	10,000,000	13,413,816	166,676
- contract rate 0.7455			
Collar Option	36,500,000	50,092,583	50,654
- call strike price 0.720/0.725/0.730/0.733			
- put strike price 0.800/0.770/0.780/0.800			
Convertible Collar Option	11,500,000	15,333,333	(101,173)
- call strike price 0.750			
- put strike rate 0.800			
- barrier rate 0.7998			
Total	58,000,000	78,839,732	116,157

All of the above contracts mature by 30 June 2006.

On 29 August 2005, the Company announced that it will be increasing its shareholding in Asia Iron from 63% to 76%, by the end of September 2005, through the subscription of new shares in Asia Iron and the acquisition of shares from an existing shareholding.

Since 30 June 2005, the Company has increased its shareholding in RMC from 10.36% to 13.11%.

Mount Gibson Iron Limited has commenced transitioning its accounting policies and financial reporting from current Accounting Standards to Australian equivalents of International Financial Reporting Standards (IFRS). The Company has allocated internal resources to assess key areas that will be impacted by the transition to IFRS. As Mount Gibson Iron Limited has a 30 June year end, priority has been given to considering the preparation of an opening balance sheet in accordance with AASB equivalents to IFRS as at 1 July 2005. This will form the basis of accounting for Australian equivalents of IFRS in the future, and is required when Mount Gibson Iron Limited prepare its first fully IFRS compliant financial report for the year ended 30 June 2006. Set out below are the key areas where accounting policies will change and may have an impact on the financial report of Mount Gibson Iron Limited. At this stage the Company has not been able to reliably quantify the impacts on the financial report.

Although the adjustments disclosed in this note are based on management's best knowledge of expected standards and interpretations, and current facts and circumstances, these may change. For example, amended or additional standards or interpretations may be issued by the AASB and the IASB. Therefore, until the Company prepares its first full AIFRS financial statements, the possibility cannot be excluded that the accompanying disclosures may have to be adjusted

Classification of financial instruments

Under AASB 139 Financial Instruments: Recognition and Measurement, financial instruments will be required to be classified into one of five categories which will, in turn determine the accounting treatment of the item. The classifications are loans and receivables – measured at amortised cost, financial assets held to maturity – measured at amortised cost, financial assets held for trading – measured at fair value with fair value changes charged to net profit or loss, financial assets available for sale – measured at fair value with fair value changes taken equity and non-trading liabilities – measured at amortised cost. This will result in a change in the current accounting policy that does not classify financial instruments. Current measurement is at amortised cost, with certain derivative financial instruments not recognised on balance sheet. The effect of this is currently being assessed.

During the 2005 financial year, the outstanding convertible notes were converted into equity. As the convertible notes were treated as a liability and were outstanding at the date of transition to AIFRS the Company is considering the debt/equity classification in accordance with AASB 132 Financial Instruments: Disclosure and Presentation.

Hedge accounting

Under AASB 139 Financial Instruments: Recognition and Measurement, in order to achieve a qualifying hedge, the entity is required to meet the following criteria:

- Identify the type of hedge – fair value or cash flow;
- Identify the hedged item or transaction;
- Identify the nature of the risk being hedged;
- Identify the hedging instrument;
- Demonstrate that the hedge has and will continue to be highly effective; and
- Document the hedging relationship, including the risk management objectives and strategy for undertaking the hedge and how effectiveness will be tested.

Under the current accounting policy unrealised exchange gains and losses on specific hedges at balance date are deferred and recognised in the statement of financial position and any unrealised exchange gains or losses on general hedges are included in the statement of financial performance. Reliable estimation of the future financial effect of this change in accounting policy is continuing to be evaluated.

Impairment of assets

Under AASB 136 Impairment of Assets the recoverable amount of an asset is determined as the higher of net selling price and value in use. This will result in a change in the group's current accounting policy which determines the recoverable amount of an asset on the basis of undiscounted cash flows. Under the new policy it is likely that impairment of assets will be recognised sooner and that the amount of write-downs will be greater. The Company is currently preparing the appropriate model to enable the analysis of the effect of this change.

Share based payments

Under AASB 2 Share Based Payments, the Company will be required to determine the fair value of options issued to employees as remuneration and recognise an expense in the Statement of Financial Performance. This standard is not limited to options and also extends to other forms of equity based remuneration. It applies to all share-based payments issued after 7 November 2002 which have not vested as at 1 January 2005. The financial effect of these changes is in the process of being reviewed.

Income taxes

Under AASB 112 Income Taxes, the Company will be required to use a balance sheet liability method which focuses on the tax effects of transactions and other events that affect amounts recognised in either the Statement of Financial Position or a tax-based balance sheet. Previously, the capital gains tax effects of asset revaluation were not recognised. The analysis of the effect of this change in standard is still being evaluated.

Exploration and Evaluation Expenditure

AASB 6 Exploration for and Evaluation of Mineral Resources, will permit the company to continue applying its current accounting policy in relation to the recognition and measurement of exploration and evaluation assets. The disclosure requirements of the standard are currently being analysed by the company.

Provisions, Contingent Liabilities and Contingent Assets

Under AASB 137 Provisions, Contingent Liabilities and Contingent Assets, the mining restoration and rehabilitation and provision will be required to be discounted to its present value and an offsetting asset will be created. This will result in a change in the current accounting policy which recognises the provision based upon the units of production. Reliable estimation of the future financial effects of this change in accounting policy is not yet known as a detailed study is to be conducted into the rehabilitation costs at Talling Peak in 2005/06. The company is currently determining the impact of this change in standard.

Leases

The company is currently determining the impact of AASB 117 Leases and as such is reviewing significant contractual arrangements to determine whether they contain leases as defined in AASB 117.

Deferred Expenditure

The company is currently determining the impact of AIFRS upon post production overburden removal. The company's current policy is to separately capitalise the costs for each area of interest and then amortise this expenditure on a units of production basis.

Business Combinations

On 30 June 2005 the company acquired a controlling interest in Asia Iron Holdings Ltd. The company is currently reviewing the acquisition accounting in accordance with the requirements of AASB 3 Business Combinations.

direct

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

In the opinion of the Directors:

- a.** The financial statements and notes of the Company and of the Consolidated Entity are in accordance with the Corporations Act 2001, including:
 - i) Giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2005 and of their performance of the year ended on that date; and
 - ii) Complying with Accounting Standards and Corporations Regulations 2001; and
- b.** There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- c.** This declaration is made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2005.

On behalf of the Board



WB Willis - Chairman
Perth, 12 September 2005

Independent audit report to members of Mount Gibson Iron Limited

Scope

The financial report and Directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the Directors' declaration for Mount Gibson Iron Limited (the Company) and the Consolidated Entity, for the year ended 30 June 2005. The Consolidated Entity comprises both the company and the entities it controlled during that year.

The Directors of the Company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the Company and the Consolidated Entity, and that complies with Accounting Standards in Australia, in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report and the additional disclosures.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on them to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- Examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- Assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the Directors and management of the Company.

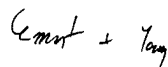
Independence

We are independent of the Company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the Directors of the company a written Auditor's Independence Declaration a copy of which is included in the Directors' Report.


Audit opinion

In our opinion, the financial report is in accordance with:

- (a) The Corporations Act 2001, including:
 - (i) Giving a true and fair view of the financial position of Mount Gibson Iron Limited and the Consolidated Entity at 30 June 2005 and of their performance for the year ended on that date; and
 - (ii) Complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) Other mandatory financial reporting requirements in Australia.



Ernst & Young



V W Tidy - Partner

Perth, 12 September 2005

Liability limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW).

GOVERNANCE STATEMENT

The Mount Gibson Iron Limited Board is committed to protecting and enhancing Shareholder value and conducting the Company's business ethically and in accordance with high standards of corporate governance.

The Board approved its Board Charter and policies on Continuous Disclosure, Directors Independence and Conduct of Directors on 28 July 2004. During the year all policies and procedures were reviewed and the Mount Gibson Iron Limited Corporate Governance Principles and Practices Manual was approved on 10 June 2005.

A description of the Company's main corporate governance practices is set out below. Copies of the relevant corporate governance policies are available in the corporate governance section of the Company's website at www.mtgibsoniron.com.au.

The Board is continuing to review and develop its corporate governance practices and the corporate governance section of the website will be updated with policies and procedures as they are formally adopted by the Company.

The Board is responsible for guiding and monitoring the Company on behalf of Shareholders by whom they are elected and to whom they are accountable. The Board's primary responsibility is to oversee the Company's business activities and management for the benefit of Shareholders.

Day to day management of the Company's affairs and the implementation of corporate strategies and policy initiatives are delegated by the Board to the Managing Director and Senior Executives, as set out in the Company's Board Charter.

The Mount Gibson Iron Limited Board Charter sets out the following overall powers and responsibilities of the Board:

- Charting the direction, strategies and financial objectives of the Company and ensuring appropriate resources are available;
- Monitoring the implementation of those policies and strategies and the achievement of those financial objectives and performance against the strategic plan and budgets; and
- Monitoring compliance with control and accountability systems, significant disclosures to the market regulatory requirements and ethical standards.

Specific powers and responsibilities set out in the Board Charter include:

- Appointing and monitoring the performance of the Managing Director and Company Secretary, and ratifying other key executive appointments and planning for executive succession;
- Reviewing and ratifying systems of risk management and internal control and compliance, codes of conduct and compliance, codes of conduct and legal compliance;

- Reviewing and ratifying major capital expenditure, capital management and acquisitions and divestitures; and
- Approving the issue of any shares, options or other securities in the Company.

As at the date of this report Mount Gibson Iron has six Directors: four Non-Executive Directors including the Chairman, and two Executive Directors.

Board composition will be reviewed annually to ensure that the Non-Executive Directors between them bring the range of skills, knowledge and experience necessary to direct the Company. All Directors, other than the Managing Director, are required to retire and stand for re-election by Shareholders, every three years.

Details of the skills, experience and expertise relevant to the position of Director held by each Director in office as at the date of the Annual Report are set out on page 6.

The Board may have access to independent advisers where it sees need.

Mount Gibson Iron Limited's Policy on Independence of Directors provides criteria for the assessment of the independence of Directors. The criteria used are those recommended by the ASX Guidelines. A Director may be considered by the Board to be independent where the Director does not meet one or more of the criteria. The test of independence of a Director, as recommended by the ASX Guidelines, is that they should be free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of the Directors unfettered and independent judgement.

The Board consider that the Non-Executive Directors are independent. In making this assessment the following were considered in relation to the criteria and the test for independence:

- Bill Willis provides consultancy services to Mount Gibson Iron and its subsidiaries when required, and has a contract with the Company in relation to the provision of those services. Based on the nature, infrequency and irregularity of the consulting services provided, the Board concluded that the relationship would not interfere with Mr Willis' independent judgement.
- Craig Readhead and Pullinger Readhead Lucas a law firm of which he is a partner, provide legal services to Mount Gibson Iron. The fees in relation to these legal services are not material to the Company or to the provider.
- Ian MacIver is a Director and Shareholder of Grange Consulting Pty Ltd which provided management, accounting and administration services to the Company prior to the "back-door" listing of Mount Gibson Mining in January 2002. Grange Consulting continued to provide these services for Whittakers Timber

Pty Ltd (subsidiary) until June 2002. Based on the time since the services were provided, and that the services were provided in relation to the Company prior to the acquisition of Mount Gibson Mining, the Board concluded that the relationship would not interfere with Mr Macliver's independent judgement.

- Guoping Liu is a representative of Shareholder group, he has no other relationship which would interfere with his independent judgement.

If any Director has a material interest in a matter, the Director will not be permitted to vote on the matter.

Board Meetings

The Board meets at least nine times each year, and full Board meetings are usually held monthly. From time to time meetings are convened outside the scheduled dates to consider issues of importance. In addition the Board conducts visits to the Group's operations at least once per year.

Directors' attendance at Board and Committee meetings is detailed on page 15.

Board Committees

Mount Gibson Iron's Board has established an Audit Committee. It has not established a nomination committee (ASX Principal 2.4) or a remuneration committee (ASX Principal 9.2) as it believes the Company is not of a size to justify these committees. The recommended functions of these committees are fulfilled by the Board. The requirement for these committees will be reviewed by the Board at least annually.

Audit Committee

The structure of the Audit Committee has complied with the ASX Principles for the whole year, its Charter was formally adopted on 10 June 2005.

The Committee meets generally two times during a financial year. Committee members' attendance at Audit Committee meetings is detailed on page 15.

The Audit Committee's overall role is to assist the Board in fulfilling its responsibilities for the Company's financial reporting and audit, internal control and financial risks.

The Audit Committee's specific responsibilities include (but are not limited to):

- Evaluating the effectiveness of the Company's internal control measures, and gaining an understanding of whether internal control recommendations made by external auditors have been implemented;
- Understanding the current areas of greatest financial risk for the Company and management's response to minimising those risks;
- Reviewing significant accounting and reporting issues; and
- Reviewing annual financial reports, and meeting with management and external auditors to discuss the reports and the results of the audit.

The Chief Financial Officer and the External Auditors usually attend Audit Committee meetings.

Financial Reporting

Consistent with ASX Principle 4.1, the Company's financial report preparation and approval process for the financial year ended 30 June 2005 involved both the Managing Director and the Chief Financial Officer providing detailed representations to the Board covering:

- Compliance with Mount Gibson Iron's accounting policies and relevant accounting standards;
- The accuracy of the financial statements and that they provide a true and fair view;
- Integrity and objectivity of the financial statements; and
- Effectiveness of the system of internal control.

Indemnities

The Company has entered into deeds of access, indemnity and insurance with each Director. These deeds provide access to documentation, indemnification against liability from conduct of the Company's business and subsidiaries, and Directors' and Officers' liability insurance.

Directors and Executives Performance Evaluation and Remuneration

The policies and procedures approved on 10 June 2005 require an annual self assessment by the Board, of its collective performance, the performance of individual Directors and of Board committees. No formal assessment was undertaken during the year ended 30 June 2005.

The Company's Policy on Identifying, Assessing and Enhancing Director Competencies and its Remuneration Policy are available on its website.

Continuous Disclosure and Shareholder Communications

Mount Gibson Iron adopted its Continuous Disclosure and Market Communications Policy on 28 July 2004, the policy is consistent with the Board's informal policies and procedures that were in place prior to the adoption of the formal policy. The Company Secretary has primary responsibility for ensuring that the ASX disclosure requirements are met.

In June 2005 the Board reviewed and amended its Continuous Disclosure Policy it also formally adopted:

- Policy for dealing with Media Enquiries;
- ASX Guidance Note 8 - Continuous Disclosure Listing Rule; and
- Policy for Shareholder Communications.

Shareholders may elect to receive company reports by mail or e-mail.

Risk Management

The Board is responsible for the identification of significant areas of business risk, implementing procedures to manage such risks and developing policies regarding the establishment and maintenance of appropriate ethical standards to:

- Ensure compliance in legal statutory and ethical matters;
- Monitor the business environment;
- Identify business risk areas; and
- Identify business opportunities.

The Company does not have a formal internal control function (ASX Principle 7.2) as the Board considers that the Company is not of a size to warrant the implementation of a separate internal control function.

The Board has not yet formalised its risk management policy (ASX Principle 7.1), it intends to do so during this financial year. The Risk Management Policy will be available on the website when approved.





Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows. The information is current as at 16 September 2005.

(a) Distribution of equity securities

The number of Shareholders, by size of holding, in each class of Share are:

1-1,000	258	177,706
1,001- 5,000	1,403	4,826,673
5,001- 10,000	1,514	12,999,750
10,001-100,000	3,223	108,795,031
100,001 and over	406	242,851,633
	6,804	369,650,793
The number of Shareholders holding less than a marketable parcel of Shares are:	92	22,941

(b) Equity security holders

(i) Twenty largest quoted Shareholders

The names of the twenty largest holders of quoted Shares are:

National Nominees Limited	17,480,675	4.73
Sun Hung Kai Investment Services Ltd <SHKIS No. 2 Account>	16,681,298	4.51
Sun Hung Kai Investment Services Ltd <SHKIS No. 5 Account>	16,500,000	4.46
Link Enterprises (Holdings) Pty Limited	8,643,880	2.34
Marico Holdings (BV) Bulk Chartering Armada Aust Pty Ltd	8,000,000	2.16
Sun Hung Kai Investment Services Ltd <New Fortress Invest Ltd Account>	6,477,305	1.75
ANZ Nominees Ltd	6,234,998	1.69
Chemco Pty Ltd	6,000,000	1.62
Dominant Holdings AG	6,000,000	1.62
JP Morgan Nominees Australia Ltd	4,782,975	1.29
Citicorp Nominees Pty Ltd	3,872,902	1.05
Westpac Custodian Nominees Ltd	3,550,900	0.72
Desmond George Samuel Anderson	3,000,000	0.81
HSBC Custody Nominees (Australia) Ltd	2,676,086	0.96
Argo Investments Limited	2,500,000	0.68
CRMSC Australia Pty Ltd	2,200,000	0.60
Health Super Pty Ltd	2,017,025	0.55
Shanghai Industrial Investment Holding (SE Asia) Pte Ltd	2,000,000	0.54
Osson Pty Ltd	1,830,937	0.50
Surpion Pty Ltd <MW Suhr & Co Account>	1,830,000	0.50
	122,278,981	33.08

(ii) Twenty largest quoted optionholders

The names of the twenty largest holders of quoted Options are:

	Listed Ordinary Options	
	Number of Options	% of Issued Capital
Fortis Clearing Nominees Pty Ltd <Settlement Account>	3,142,049	10.69
CSFB Fourth Nominees Pty Ltd <Unpaid A/C>	1,789,388	6.09
Macquarie Newton SFM Ltd <Special Events Fund>	1,182,500	4.02
Mr William Brand Willis Ms Rhonda Marlene Willis <Willis Super Fund Account>	970,000	3.30
Jaril Pty Ltd <R&S Silverton Super Fund>	850,000	2.89
Mr Adrian Michael Sexton Mrs Mary Therese Sexton <Sexton Super Fund A/C>	753,500	2.56
StrategySearch Consulting Services Pty Ltd <StrategySearch Super Fund A/C>	730,000	2.48
Cornela Pty Ltd <MacIver Family A/C>	720,000	2.45
Hengolo Pty Ltd	710,000	2.42
Mr Roland Hill	600,000	2.04
Jimbo Investments Pty Ltd	500,000	1.70
Denlie Pty Ltd <Bowen Pension Fund A/C>	450,000	1.53
Mr Sheldon Philip Coates <Super Fund A/C>	400,000	1.36
Mr Ian Goodochkin	400,000	1.36
Mr Peter Rockey	400,000	1.36
Mrs Cheryl Annette Chant	350,000	1.19
Mr Sheldon Philip Coates	350,000	1.19
Mrs Ana Maria Hudson	330,000	1.12
Emco Pty Ltd <Super Fund A/C>	316,000	1.08
Day Surgery International Pty Ltd	300,000	1.02
	15,243,437	51.85

(c) Substantial Shareholders

The names of Substantial Shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

Sun Hung Kai Investment Services Ltd <Honest Opportunity Ltd and New Fortress Ltd Accounts>	23,426,589
Union Park Company	18,500,000
Acorn Capital Ltd	26,816,286

(d) Voting rights

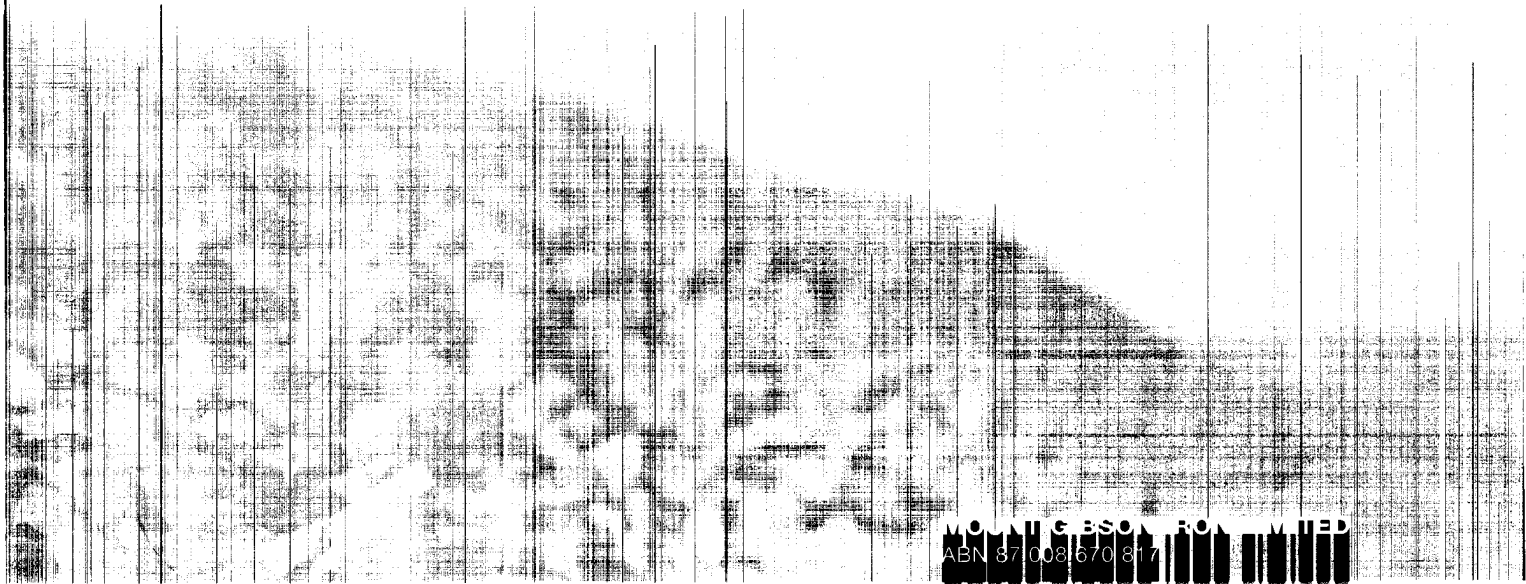
All ordinary Shares carry one vote per Share without restriction.

No voting rights attach to options.

(e) Schedule of interests in mining tenements

Location	Tenement	Percentage Held
Koolanooka	E 70/2412	63
Koolanooka	E 70/2705	63
Koolanooka	G 70/0212	63
Koolanooka	L 70/0083	63
Koolanooka	M 70/1164	63
Koolanooka	M 70/1190	63
Koolanooka	M 70/1242	63
Mingenew	E 70/2517	63
Mintaja Coal	E 70/2595	63
Mintaja Coal	E 70/2766	63
Mt Gibson	E 59/1179	63
Mt Gibson	G 59/0030	63
Mt Gibson	G 59/0031	63
Mt Gibson	G 59/0032	63
Mt Gibson	G 59/0033	63
Mt Gibson	G 59/0034	63
Mt Gibson	G 59/0035	63
Mt Gibson	L 59/0063	63
Mt Gibson	M 59/0338	63
Mt Gibson	M 59/0339	63
Mt Gibson	M 59/0454	63
Mt Gibson	M 59/0455	63
Mt Gibson	M 59/0526	63
Mt Gibson	M 59/0550	63
Mt Gibson	M 59/0609	63
Mt Yule	E 70/2731	100
Tallering Peak	G 70/0192	100
Tallering Peak	G 70/0193	100
Tallering Peak	G 70/0201	100
Tallering Peak	G 70/0202	100
Tallering Peak	G 70/0203	100
Tallering Peak	G 70/0204	100
Tallering Peak	G 70/0205	100
Tallering Peak	L 70/0060	100
Tallering Peak	L 70/0069	100
Tallering Peak	L 70/0073	100
Tallering Peak	L 70/0074	100
Tallering Peak	M 70/0896	100
Tallering Peak	M 70/1062	100
Tallering Peak	M 70/1063	100
Tallering Peak	M 70/1064	100
Yalgoo	E 59/1151	63





MOUNT GIBSON IRON LIMITED
ABN 871008670817

ANNUAL REPORT 2005

Executive

Level 1, 7 Havelock Street
West Perth 6005, Western Australia
Phone: 61 8 9426 7500
Fax: 61 8 9485 2305
Email: admin@mtgibsoniron.com.au



LINC

