



# Mount Gibson Iron Limited

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The Manager  
Company Announcements  
Australian Stock Exchange Limited  
Level 10, 20 Bond Street  
SYDNEY NSW 2000

## RECORD PROFIT

This Preliminary Final Report for Mount Gibson Iron Limited and its subsidiaries ("**Mount Gibson**") (ASX Code: MGX) is provided to the Australian Stock Exchange ("**ASX**") under ASX Listing Rule 4.3A.

### Financial Highlights

- Record full year net profit after tax of \$47.8 million, up 103% on the previous year;
- Sales revenue of \$165 million, up 119% on the previous year;
- Operating profit before tax \$42.3 million, up 140% on previous year;
- Net assets total \$454 million, up 316% on the previous year;
- Cash on hand at June 2007 - \$61 million; and
- New Corporate Debt Facility signed on 28 August 2007 and conditions precedent to drawdown to be satisfied in early September

## COMMENTARY

Mount Gibson consolidated net profit after tax of \$47.7 million for the 12 months ended 30 June 2007 is summarised below:

		<b>12 months ended 30 June 2007</b>	<b>12 months ended 30 June 2006</b>
Sales revenue	\$'000	162,748	73,389
Other revenue	\$'000	2,256	1,857
<b>Total revenue</b>	<b>\$'000</b>	<b>165,004</b>	<b>75,246</b>
Cost of sales	\$'000	(108,955)	(50,938)
Other expenses	\$'000	(13,796)	(6,674)
<b>Operating profit before tax</b>	<b>\$'000</b>	<b>42,253</b>	<b>17,634</b>
Taxation benefit/(expense)	\$'000	(13,209)	3,949
<b>Operating profit after tax</b>	<b>\$'000</b>	<b>29,044</b>	<b>21,583</b>
Profit from discontinued operations after tax	\$'000	18,721	1,490
<b>Operating profit after tax</b>	<b>\$'000</b>	<b>47,765</b>	<b>23,073</b>
Loss attributable to Minority Interest	\$'000	-	406
<b>Net profit attributable to members</b>	<b>\$'000</b>	<b>47,765</b>	<b>23,479</b>

The Preliminary Final Report (Appendix 4E) and audited Financial Statements for the year ended 30 June 2007 are attached.

Yours sincerely,

**MOUNT GIBSON IRON LIMITED**



**Angela Dent**  
**Company Secretary**

For further information:

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### **About Mount Gibson Iron Limited (ASX Code: MGX)**

**Mount Gibson is Australia's leading** independent iron ore producer, and a driving force behind the development of the Mid West iron ore industry in Western Australia. Mount Gibson is leading the consolidation of the junior iron ore industry, and with the successful takeover of Aztec Resources, will build a sustainable platform for future shareholder growth. Mount Gibson has a hematite mining operation at Talling Peak operating at its targeted production rate and has commenced production from Koolan Island hematite mining operation. Mount Gibson's plans to develop the Extension Hill hematite project are well advanced. Current production rates from Mount Gibson exceed 3Mtpa with forecast production of 10Mtpa in 2010. Mount Gibson has firm commercial relationships with major Chinese steel industry customers, and with continued strong demand and prices the Company and its shareholders are ideally leveraged to benefit from further commodity price rises. The Company is generating strong cashflow and has a stable and experienced management team focused on delivering returns to shareholders.

**MOUNT GIBSON IRON LIMITED**  
**APPENDIX 4E – PRELIMINARY FINAL REPORT**

- Current Reporting Period: 12 months ended 30 June 2007
- Previous Corresponding Period: 12 months ended 30 June 2006

**RESULTS FOR ANNOUNCEMENT TO THE MARKET**

		<b>A\$'000's</b>
Revenue from ordinary activities	up 122% to	\$162,748
Net profit after tax from ordinary activities	up 107% to	\$47,765
Net profit after tax attributable to members	up 103% to	\$47,765

**DIVIDENDS**

No dividends have been paid or declared during the year

**RATIO'S**

- Net tangible asset backing \$0.577 (2006: \$0.247)

Net tangible asset backing per share has been calculated by dividing the net tangible assets excluding minority interest share by the closing number of ordinary shares on issue.

**DETAILS OF ENTITIES OVER WHICH CONTROL HAS BEEN GAINED OR LOST DURING THE PERIOD**

Mount Gibson Iron Limited gained control of Aztec Resources Limited and its subsidiaries on 30 November 2006. Full details of the acquisition are set out in Note 9 of the attached Financial Statements.

Mount Gibson Iron Limited lost control of Asia Iron Holdings Limited and its subsidiaries on 21 August 2006. Full details of the disposal are set out in Note 10 of the attached Financial Statements.

**STATUS OF AUDIT**

This Preliminary Final Report is based on accounts that have been audited.

This Preliminary Final Report is to be read in conjunction with the attached Financial Statements for the year ended 30 June 2007 together with any public announcements made by Mount Gibson during the year ended 30 June 2007 in accordance with the continuous disclosure obligations under the Corporations Act 2001.



**MOUNT GIBSON IRON LIMITED  
AND CONTROLLED ENTITIES**

**ABN 87 008 670 817**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED**

**30 JUNE 2007**

# Financial Report

For the year ended 30 June 2007

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# Directors' Report

Your Directors submit their report for the year ended 30 June 2007 for Mount Gibson Iron Limited ("**Company**") and the consolidated entity incorporating the entities that it controlled during the financial year ("**Consolidated Entity**").

## **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**

#### **Neil D. Hamilton – LLB**

##### ***Chairman, Independent Non-Executive Director***

Mr Hamilton was appointed Non-Executive Chairman on 24 April 2007. Mr Hamilton is a lawyer with more than 23 years experience as a director of public companies. Mr Hamilton is the Chairman of the Nomination, Remuneration and Governance Committee of the Company and has overall responsibility for Corporate Governance. Mr Hamilton is the Chairman of IRESS Market Technology Limited and Integrated Group Limited and Non-Executive Director of Insurance Australia Limited. He was formerly the Chairman of Western Power Group. During the past three years Mr Hamilton has served as a director of Chieftain Securities Limited and Sons of Gwalia Ltd.

#### **William B. Willis – AssocDipGeol RMIT, FAusIMM, MGSA, AMP109**

Mr Willis resigned as a Non-Executive Director and Chairman on 24 April 2007.

#### **Brian G. Johnson – B.E., MIEAust**

Mr Johnson resigned as a Non-Executive Director and Deputy Chairman on 30 June 2007.

#### **Luke Tonkin – B.E., MAusIMM, AICD**

##### ***Managing Director***

Mr Tonkin was appointed as Managing Director on 25 October 2005. Mr Tonkin has extensive experience in the resource industry traversing multi-commodities of gold, nickel, tantalum, tin & lithium. He has held General Management roles within some of Australia's largest, more complex operations namely WMC's Kambalda Nickel Operations, St Ives Gold Operations and Leinster Nickel Operations. Mr Tonkin's most recent role was Chief Executive Officer of Sons of Gwalia, the world's largest Tantalum producer and third largest Australian listed gold producer, assisting administrators restructure the Company. Mr Tonkin has a proven track record of implementing large-scale investment, divestment, transition and integration plans. During the past three years Mr Tonkin has not served as a director of any other listed companies.

#### **Craig L. Readhead – B. Juris, LL.B, AICD**

##### ***Independent Non-Executive Director***

Mr Readhead has spent the last 26 years practising in the resources law area and is a partner of law firm Pullinger Readhead Lucas. Mr Readhead is a member of the Nomination, Remuneration and Governance Committee and of the Audit and Risk Management Committee. 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 of Heron Resources Ltd, Halcyon Group Ltd and Galaxy Resources Ltd and is a Non-Executive Director of Frankland River Olive Company Limited and India Resources 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. During the past three years Mr Readhead has also served as a director of Pioneer Nickel Ltd and Agincourt Resources Ltd.

#### **Ian A. Macliver – B.Comm, CA, F Fin, AICD**

##### ***Independent 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. Mr Macliver is Chairman of the Audit and Risk Management Committee and a member of the Nomination, Remuneration and Governance Committee. 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 Stratatel Ltd and is a Non-Executive Director of Port Bouvard Ltd, Empire Beer Group Ltd and Otto Energy Ltd. During the past three years Mr Macliver has also served as a director of BioProspect Ltd.

# Directors' Report (continued)

**Alan S. Jones – CA**  
***Non-Executive Director***

Mr Jones was appointed as a Non-Executive Director on 28 July 2006. Mr Jones is a chartered accountant with extensive senior management and board experience in listed and unlisted Australian public companies, particularly in the construction, engineering, finance and investment industries. Mr Jones is a member of the Audit and Risk Management Committee. He is a Non-Executive Director of Mulpha Australia Limited, Sun Hung Kai & Co. Limited (Hong Kong), Allied Group Limited (Hong Kong) and Allied Properties Limited (Hong Kong). Mr Jones has been involved in the successful merger and acquisition of a number of public companies in Australia and internationally. During the past three years Mr Jones has not served as a director of any other listed companies.

**Peter R. Bilbe – B.E. (Mining) (Hons), MAusIMM**  
***Non-Executive Director***

Mr Bilbe was appointed as a Non-Executive Director on 23 February 2007. Mr Bilbe, the former Managing Director of Aztec Resources Limited, is an experienced engineer who has been working in the mining industry for more than 30 years. Mr Bilbe joined Aztec Resources Limited in 2004 as Project Manager for the Koolan Island Iron Ore Project and was appointed Chief Operating Officer of Aztec Resources Limited in August 2005. For the last 15 years Mr Bilbe has held various senior executive roles for mining companies both within Australia and overseas. Mr Bilbe is a non-executive director of RMA Energy Ltd. During the past three years Mr Bilbe has not served as a director of any other listed companies.

**Mark PM. Horn – M.A., LLB(Hons), Dip.B.Admin, FSI(dip), Barrister of the Honourable Society of Lincoln's Inn**  
***Non-Executive Director***

Mr Horn was appointed as a Non-Executive Director on 30 June 2007. Mr Horn is the Chief Executive of M. Horn & Co., a British corporate finance boutique regulated by the FSA. In addition, Mr Horn is the Chairman of ReSel Communications Ltd, a Director and General Counsel of Lakeshore Capital, and a Non-Executive Director of Bretton Resource Opportunities Fund Ltd, Bretton Capital Strategies SPC, and Dikorwe C.C. Mr Horn is also a member of the Lincolnshire County Council and Bourne Town Council, and serves as a Governor of Bourne Grammar School and Robert Manning Technology College. During the past three years Mr Horn has also served as a Director of AIM2 plc.

**Alan D. Rule – B.Comm, B.Acc, CA**  
***Alternate Director***  
***Chief Financial Officer***

Mr Rule was appointed Finance Director of the Company on 1 July 2005 and resigned as Finance Director on 30 June 2007 to become Chief Financial Officer of the Company. Mr Rule is the alternate director to Mr Tonkin. 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. Mr Rule is a Non-Executive Director of Resource Mining Corporation Limited. During the past three years Mr Rule has not served as a director of any other public company.

## **COMPANY SECRETARY**

**Angela Dent – BBus, CA**

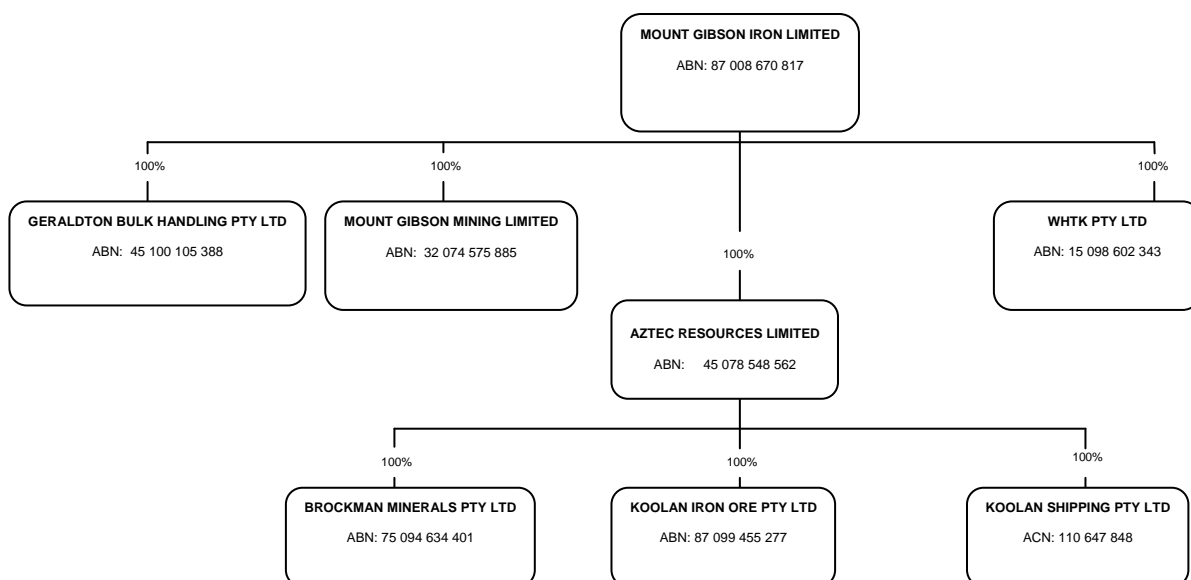
Ms Dent consults to a number of public and private companies, as a Management Accountant and Company Secretary. She has experience in financial and management accounting, and statutory requirements, in Australia and South East Asia.

# Directors' Report (continued)

## 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 2007 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;
- mining of hematite deposits at Koolan Island;
- construction and development of hematite mining operations at Extension Hill; and
- exploration and development of hematite deposits at Koolan Island and in the Mid-West region of Western Australia.

### Employees

The Consolidated Entity employed 183 employees as at 30 June 2007 (2006: 120 employees).

### Future Funding

As at the date of this report the Consolidated Entity has sufficient funds or access to debt funding to develop and mine the Talling Peak, Koolan Island and Extension Hill iron deposits.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

### Sale of Asia Iron Holdings Limited

The Company and its wholly owned subsidiary, Mount Gibson Mining Limited ("**MGM**") owned 73% of Asia Iron Holdings Limited ("**Asia Iron**") during the prior financial year and up until 17 November 2006, when Asia Iron ceased to be a subsidiary of the Consolidated Entity.

The impact on the consolidated half-year financial statements of the Company from the sale are summarised in Note 10 to these financial statements. In respect of the Consolidated Income Statement, the financial impact of the discontinued Asia Iron operation is separated from that of the continuing operations of the Consolidated Entity in both the current and prior periods. In each of the Consolidated Balance Sheet and Consolidated Cash Flow Statement, the prior period comparatives include the fully consolidated balances of Asia Iron. The current period balances in the Consolidated Cash Flow Statement include the impact of Asia Iron until 17 November 2006 and also the net cash impact to the Consolidated Entity of ceasing to consolidate Asia Iron.

# Directors' Report (continued)

## Acquisition of Aztec Resources Limited

On 24 July 2006, the Company announced its intention to acquire Aztec Resources Limited ("**Aztec**"), representing a landmark consolidation of Australia's emerging iron ore sector. Aztec developed the Koolan Island Iron Ore Project ("**Koolan Island**") located in the Buccaneer Archipelago of Yampi Sound in Western Australia.

The acquisition was implemented by means of an off-market scrip takeover bid by the Company for all the shares in Aztec. Under the bid, the Company offered Aztec shareholders 1 new share for every 3 Aztec shares. Details are set out in Note 9 to these financial statements.

At the end of the offer period on 22 December 2006, the Company's voting power in Aztec was 91.28% and as the applicable thresholds had been reached, the Company commenced the compulsory acquisition process to acquire all the remaining fully paid ordinary shares in Aztec which it did not already own.

The Company completed compulsory acquisition of the remaining Aztec shares on 9 February 2007. A total of 378,491,182 new shares in the Company were issued to Aztec shareholders.

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.

## REVIEW AND RESULTS OF OPERATIONS

### Operating Results for the Period

A summary of the operating results for the Consolidated Entity is set out below:

	CONSOLIDATED	
	2007	2006
	\$'000	\$'000
<b>Operating profit from Continuing Operations before tax</b>	<b>42,253</b>	<b>17,634</b>
Taxation (expense) / benefit	(13,209)	3,949
<b>Operating profit from Continuing Operations after tax</b>	<b>29,044</b>	<b>21,583</b>
Profit from discontinued operations after income tax	18,721	1,490
<b>Net operating profit after tax</b>	<b>47,765</b>	<b>23,073</b>
Loss Attributable to Minority Interest	-	406
<b>Net profit attributable to Members of the Company</b>	<b>47,765</b>	<b>23,479</b>

# Directors' Report (continued)

## Tallering Peak Hematite Operations

The Tallering Peak mine continued to improve operational performance during the financial year with waste and ore material movements increasing 46% and 161% respectively. Ore tonnes sold also increased 67% compared with the corresponding period last year however ore shipments were restricted resulting from ongoing congestion and poor loading rates at the Geraldton Port. Mount Gibson continued to work with the Geraldton Port Authority ("GPA") to optimise port performance and reduce the excessive waiting times experienced by all port users however Mount Gibson has become increasingly frustrated by the GPA's progress addressing excessive ship loading and waiting times. The GPA advises that additional shiploading capacity being constructed at Berth 5 will be operational by calendar year end and consequently Mount Gibson will increase rail capacity in the second half of the 2007-08 financial year to utilise the new installed shiploading capacity at the Port and lift production to 3 Mtpa.

The 2006-07 financial year provided Mount Gibson with the opportunity to determine mine production capability, crushing and screening throughput capacity and transport capability at Tallering Peak. Although the GPA could not keep pace with Tallering Peaks operating performance Mount Gibson has demonstrated consistently that mine production, crushing and screening throughput, trucking capacity and rail capacity meets targeted 3Mtpa production rates. Throughout the year Tallering Peak established record mine production rates exceeding 3Mtpa, record crushing and screening rates which exceeded 3Mtpa rates and record rail transport rates in line with required annual performance.

Due to the congestion at the Geraldton Port and the resulting substantial increase in ore stockpiled, Mount Gibson suspended mining at Tallering Peak's T5 open pit. Operations at T5 will recommence once performance at the Geraldton Port improves and stockpiles are drawn down to appropriate levels. It is not contemplated that T5 will be mined in the 2007-08 financial year due to the current level of stockpiled material, Tallering Peak's access to ore within the Main Range pits and the successful resource drilling carried out during the 2006-07 financial year in the T2 area providing more cost efficient access to ore production.

Extensive infill and extensional exploration drilling at Tallering Peak has significantly enhanced Mount Gibson's knowledge of the Tallering Peak geological resource and has allowed mine production to be planned with a high level of confidence. Exploration drilling was also successful in increasing the Mineral Resource at Tallering Peak, particularly in the T2 Main Range pit area which continued to demonstrate the existence of significant mineralisation below the current resource. A total of 19,969m of exploration infill and extensional drilling was completed at Tallering Peak during the year.

<b>PRODUCTION SUMMARY FOR 12 MONTHS</b>	<b>UNIT</b>	<b>SEPT QTR 2006 '000</b>	<b>DEC QTR 2006 '000</b>	<b>MAR QTR 2007 '000</b>	<b>JUN QTR 2007 '000</b>	<b>YTD 2007 '000</b>
<b>Mining</b>						
- Waste mined	bcm	2,541	2,283	2,331	2,445	<b>9,600</b>
- Ore mined	wmt	1,092	681	468	691	<b>2,932</b>
<b>Crushing</b>						
- Lump	wmt	411	408	398	428	<b>1,645</b>
- Fines	wmt	308	255	251	252	<b>1,066</b>
		<b>719</b>	<b>663</b>	<b>649</b>	<b>680</b>	<b>2,711</b>
<b>Transported to Mullewa Railhead</b>						
- Lump	wmt	391	370	381	435	<b>1,577</b>
- Fines	wmt	254	296	248	235	<b>1,033</b>
		<b>645</b>	<b>666</b>	<b>629</b>	<b>670</b>	<b>2,610</b>
<b>Transported to Geraldton Port</b>						
- Lump	wmt	300	331	377	417	<b>1,425</b>
- Fines	wmt	216	253	279	228	<b>976</b>
		<b>516</b>	<b>584</b>	<b>656</b>	<b>645</b>	<b>2,401</b>
<b>Shipping</b>						
- Lump	wmt	239	429	319	388	<b>1,375</b>
- Fines	wmt	170	279	272	216	<b>937</b>
		<b>409</b>	<b>708</b>	<b>591</b>	<b>604</b>	<b>2,312</b>

## Directors' Report (continued)

Production rates and key financial statistics at Talling Peak for the 12 months ended 30 June 2007 compared with the 12 months ended 30 June 2006 were:

- waste mining increased by 46% from 6,565,000 bcm's to 9,600,000 bcm's;
- ore tonnes mined increased by 161% from 1,122,000 tonnes to 2,934,000 tonnes;
- ore tonnes sold increased by 67% from 1,386,000 tonnes to 2,312,000 tonnes; and
- average realised selling prices per tonne of ore sold increased by 16.7% from A\$54 per tonne to A\$63 per tonne.

Significant expenditure on waste development at Talling Peak during the financial year was as follows:

		12 Months ended 30 June 2007	12 Months ended 30 June 2006	12 Months ended 30 June 2005
Waste mined	mill bcm	9.6	6.5	3.8
Waste expenditure capitalised	\$ mill	93.24	54.20	23.49
Waste expenditure amortised	\$ mill	53.57	17.77	16.78

In accordance with its usual accounting practice, waste development expenditure for the period has been capitalised in the Consolidated Entity's balance sheet and will be amortised over the expected life of the mine.

A significant challenge to mine operations is the supply of skilled operating and maintenance employees. A shortage of appropriately qualified labour and the increase in labour and consumable costs within the industry continues to dampen the operational potential of Talling Peak and skilled labour shortages represent a risk to sustained operational performance. The Company continues to implement strategies designed to mitigate the adverse impact of these issues.

At 31 December 2006, Talling Peak had a Mineral Resource of 22.1 Mt at 61.7% Fe including Ore Reserves of 20.7 Mt at 61.5% Fe.

# Directors' Report (continued)

## Koolan Island Hematite Project

Koolan Island which is located in the Buccaneer Archipelago of Yampi Sound in Western Australia was opened by BHP in 1965 and operated until 1993. BHP mined approximately 68 million tonnes of high grade hematite ore from five pits at Koolan – Main, Mullet, Eastern, Barramundi and Acacia.

In early 2000, Aztec acquired Koolan Island and in May 2003 an exploration licence was granted over Koolan Island. During 2003, Aztec undertook a review of available BHP data, carried out site inspections and committed to an exploration/feasibility study programme in 2004. Exploration drilling commenced in February 2004 and the bankable feasibility study was completed in August 2005.

At 31 December 2006, Koolan Island had a Mineral Resource of 57.8 million tonnes of hematite ore at a grade of 64.3% Fe, including total Ore Reserves of 24.8 million tonnes of hematite ore with a grade of 65.0% Fe. The orebodies are tabular, high-grade hematite bodies which are estimated to produce a 30% Lump 70% Fines product with consistently high grades from the Main Ore body (>67% Fe). Initial production from established satellite pits has produced 50% Lump 50% Fines product, which if continued, enhances the financial performance of Koolan Island.

Recommencement of open pit mining and stockpiling of ore on the ROM pad occurred in the December quarter 2006, construction of the shiploader, jetty facilities and crushing and screening plant were completed and commissioned in May 2007 with the first ore shipment taking place in June 2007. At the forecast production rate of 4 Mtpa (production ramps to this rate over the period to the June 2009 quarter), and based on existing ore reserves, production is expected to continue for at least 8 years to 2015 with potential to increase resources as a consequence of the planned exploration drilling to be undertaken over the next 2 to 3 years. Initial production from Koolan Island will be sourced from Eastern and Mullet pits whilst preparatory access works are completed at Main Pit prior to the cut back and eventual production from this high grade premium ore source.

Total development costs for Koolan Island were \$143 million. The project encountered cost increases of \$10 million (7.5%) above the original budget due primarily to unforeseen ground conditions at the jetty, causeway and camp sites, changes to project scope, labour shortages, logistical and transport costs and some delays to the project schedule.

<b>PRODUCTION SUMMARY FOR 12 MONTHS</b>	<b>UNIT</b>	<b>SEPT QTR 2006 '000</b>	<b>DEC QTR 2006 '000</b>	<b>MAR QTR 2007 '000</b>	<b>JUN QTR 2007 '000</b>	<b>YTD 2007 '000</b>
<b>Mining</b>						
- Waste mined	bcm	-	-	510	1,238	<b>1,748</b>
- Ore mined	wmt	-	50	91	418	<b>559</b>
<b>Crushing</b>						
- Lump	wmt	-	-	-	146	<b>146</b>
- Fines	wmt	-	-	-	128	<b>128</b>
		-	-	-	<b>274</b>	<b>274</b>
<b>Shipping</b>						
- Lump	wmt	-	-	-	74	<b>74</b>
- Fines	wmt	-	-	-	76	<b>76</b>
		-	-	-	<b>150</b>	<b>150</b>

# Directors' Report (continued)

## Extension Hill Direct Shipping Ore Project

The Consolidated Entity has completed the Detailed Feasibility Study (“DFS”) into the feasibility of producing and selling 3 Mtpa of hematite ore from the Extension Hill Direct Shipping Ore (“DSO”) project.

The DFS validated the broad strategies and parameters assumed for the June 2006 study and evaluated multiple operating options with related costs, timing and risks. The study has demonstrated that the project will provide strong financial returns in a short time-frame, with minimal technical risks and relatively low capital requirements.

The DSO project will have very similar operational characteristics to Mount Gibson's Talling Peak operation with the added advantage of a much lower strip ratio of less than 1:1 (waste tonnes : ore tonnes) compared with Talling Peak's strip ratio of 6:1. Ore mined from Extension Hill will be crushed and screened on site, transported by sealed road 85km to Perenjori and loaded onto rail wagons for a 235km journey to the Geraldton Port. Ore will be stored at the Geraldton Port at Mount Gibson's ore storage facilities to be constructed at the new berth 5 iron ore ship loading facility and loaded from berth 5 for export.

Key critical path items driving overall project timing are:

- Availability of rail unloader capacity, including Port area and further rail infrastructure;
- Ministerial environmental approval of the project PER; and
- DEC, DPI and DoIR approvals, post PER approval.

On 1 August 2007 the Western Australian Minister for the Environment gave approval for the Mt Gibson Iron Ore and Infrastructure Project, of which the mining of Extension Hill DSO is part, to proceed.

The approval from the Minister is not conditional on “*the remaining ridges of Banded Iron Formations in the Mt Gibson area that contain sub-populations or suitable habitat for Darwinia masonii and Lepidosperma sp. Mt Gibson and habitat for the remaining restricted floristic communities in the Mt Gibson ranges*” being secured in a formal conservation estate prior to ground disturbing activities.

Official granted approval to proceed from the State and Federal Governments is expected by the end of September 2007.

Mount Gibson management will seek Board approval to commence DSO operations as soon as practicably possible with the expectation that production will commence late 2008.

## Review of Financial Condition

During the course of the financial year a number of events impacted on the financial condition of the Consolidated Entity as follows:

- Shareholders funds increased by 316% to \$454 million:
  - Acquisition of Aztec increased shareholders funds by \$298 million (see Note 9);
  - Disposal of Asia Iron Holdings increased shareholders funds by \$19 million (see Note 10); and
  - Holders of 7,236,920 options exercised their options resulting in \$2 million in equity funding for the Company.
- In June 2007 the Company mandated HSBC Australia Limited and National Australia Bank Limited as the joint lead Arranger and Underwriting Banks for a \$200 million debt facility to fund the refinance of the existing debt facilities and the Koolan Island and Extension Hill iron ore developments (see Note 15).
- Acquisition of property, plant and equipment with an aggregate fair value of \$56 million that were financed by means of finance leases, increasing lease liabilities to \$67 million.

Cash on hand at year end was \$61 million with debt of \$87 million drawn down under the Koolan Iron Ore Project Debt facility and \$67 million in equipment finance leases and hire purchase liabilities.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Other than as referred to in the Review and Results of Operations and in this report, further information as to likely developments in the operations of the Consolidated 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.

# Directors' Report (continued)

## SIGNIFICANT EVENTS AFTER BALANCE DATE

As at the date of this report, apart from the:

- Corporate Debt refinancing set out in Note 15; and
- Minister for the Environment approval for the DSO project to proceed,

there are no other significant events after balance date of the Company or of the Consolidated Entity.

## SHARE OPTIONS

### Unissued shares

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 Date/ Period	Options on issue at	
		Balance date	Date of report
50 cents	On or before 31 December 2007	5,000,000	5,000,000
55 cents	On or before 31 December 2008	5,000,000	5,000,000
90 cents	On or before 30 June 2010	2,000,000	2,000,000
90 cents	On or before 23 October 2010	3,000,000	3,000,000
110 cents	On or before 23 October 2012	2,000,000	2,000,000
	<b>Total</b>	<b>17,000,000</b>	<b>17,000,000</b>

In addition, as at 30 June 2007, there were 8,625,000 (2006: 4,175,000) 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 2007 before the options vest, at which time they will be issued to the respective employees. Once vested, 2,825,000 options will be exercisable at 78 cents each and expire on 31 December 2009 and 5,800,000 options will be exercisable at 89 cents each and expire on 31 December 2009. As at the date of this report, none of these options had vested.

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

### Shares issued as a result of the exercise of options

During the financial year, 7,236,920 options were exercised to acquire fully paid ordinary shares in the Company at a weighted average exercise price of \$0.28. Since the end of the financial year, no options have been exercised.

## DIVIDENDS

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

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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 for loss suffered, as a result of any act or omission, to the extent permitted by the Corporations Act 2001, 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 the Company 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 \$55,307. This amount has not been included in Directors' and Executives' remuneration.

# Directors' Report (continued)

## REMUNERATION REPORT

This report outlines the remuneration arrangements in place for Directors and Key Management Personnel of the Consolidated Entity.

The Consolidated Entity is taking advantage of Corporations Regulation 2M.6.04 and as a result is presenting the disclosures required by AASB 124 *Related Party Transaction* Aus 25.4 to Aus 25.7.2 in the Remuneration Report within the Director's Report. These remuneration disclosures have been audited. For the purposes of this report Key Management Personnel of the Consolidated Entity are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Consolidated Entity, directly or indirectly, including any directors of the Company.

### Nomination, Remuneration and Governance Committee ("NRGC")

The NRGC of the Board of Directors of the Company is responsible for determining and reviewing remuneration arrangements for the Board and Key Management Personnel.

The NRGC assesses the appropriateness of the nature and amount of remuneration of Key Management Personnel 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, high performing Board and Executive team.

### Remuneration Policy

The Remuneration Policy of the Company 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 November 2005 when Shareholders approved an aggregate remuneration of \$300,000 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 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.

# Directors' Report (continued)

## 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 NRCG 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*

#### *Short-term Incentive ("STI")*

The Executive Directors and Senior Executives may receive variable remuneration in the form of STI. STI are linked to general performance targets and provide rewards for materially improved Company performance. The total potential STI available is at the Boards discretion but is measured to provide sufficient incentive to the Executive Directors and Senior Executives to achieve the operational targets and such that the cost to the Consolidated Entity is reasonable in the circumstances. Actual STI payments granted depend on the extent to which specific operating targets set at the beginning of the financial year are met. These targets consist of a number of Key Performance Indicators ("KPI's") covering both financial and non-financial, corporate and individual performance measures. The STI's are based on achieving the following measures where these are applicable to the specific Executive:

- performance of the Consolidated Entity in meeting its objectives which include contribution to net profit after tax, risk management and leadership/team contribution;
- financial performance of the Consolidated Entity;
- increase in market capitalisation of the Consolidated Entity;
- such other matters determined by the NRCG in its discretion.

These measures have been selected to align the interests of Executives with shareholders representing the key drivers for short term success of the business and providing a framework for delivering long term value.

The Consolidated Entity has predetermined benchmarks that must be met in order to trigger payments under the STI scheme. On an annual basis, the individual performance of each Senior Executive is reviewed by the NRCG, which is in line with their responsibilities, after consideration of the Executive's performance against KPI's. This process usually occurs within 2 months after the reporting date. NRCG then determines the amount of STI to be allocated to each executive. Payments made are delivered as a cash bonus in the following reporting period.

#### *STI bonus for 2006 and 2007 financial years*

For the 2006 financial year, 100% of the STI cash bonus of \$400,000 as previously accrued in that period vested to executives and was paid in the 2007 financial year. For the 2007 financial year the 100% of the STI cash bonus totalling \$350,000 has been approved and vested to Senior Executives.

# Directors' Report (continued)

## *Long-term Incentive ("LTI") for 2008 financial year*

At the commencement of the 2008 financial year, the Company established the Mount Gibson Iron Limited Performance Rights Plan ("PRP"). The PRP enables the Company to provide its executives with long term incentives which create a link between the delivery of value to shareholders, financial performance and rewarding and retaining the executives. Under the PRP, the Board may invite eligible executives to apply for performance rights, which are an entitlement to receive ordinary shares in the Company, subject to satisfaction by the executive of performance and vesting conditions set by the Board.

No performance rights were issued by the Company in respect of the 2007 financial year. However, the Company has agreed to vary the employment contracts for the Managing Director, Mr Tonkin, and the Chief Financial Officer, Mr Rule, to incorporate payment of a long term incentive for the 2008 and successive financial years. Under their varied employment contracts, Mr Tonkin and Mr Rule will each be invited to apply for, and the Company will grant (subject to all applicable shareholder approvals being first obtained) a number of performance rights equivalent to one third of their respective base salaries (including superannuation) divided by the volume weighted average price of the Company's shares as traded on ASX for the 30 day period to 30 June for the relevant year.

The rights will be granted at no cost to the executives and will convert into ordinary shares on completion by the executive of three years' continuous service, subject to satisfaction of specified performance hurdles related to the Company's Total Shareholder Return ("TSR") measured against the TSR of a comparator group of companies over the same period. The Company intends to seek shareholder approval for the issue of the performance rights to Mr Tonkin at its 2007 AGM.

## **Employment Contracts**

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

### *Luke Tonkin*

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 the Company 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 six months notice.

### *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 the Company 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.

# Directors' Report (continued)

## Remuneration of Key Management Personnel for the year ended 30 June 2007

	Short Term			Post Employment		Share Based Payment	Total	% Performance Related
	Salary & Fees	Non Monetary	Cash Bonuses	Superannuation	Retirement Benefits	Options		
<b>Directors</b>								
N Hamilton	16,514	-	-	1,486	-	-	<b>18,000</b>	0%
W Willis	85,772	-	-	2,428	-	-	<b>88,200</b>	0%
B Johnson	40,000	2,734	-	-	-	801,634	<b>844,368</b>	95%
L Tonkin	550,459	1,501	200,000	49,541	-	770,745	<b>1,572,246</b>	62%
A Rule	366,972	1,622	150,000	33,028	-	363,050	<b>914,672</b>	56%
C Readhead	63,000	-	-	-	-	-	<b>63,000</b>	0%
I Macliver	44,037	-	-	3,963	-	-	<b>48,000</b>	0%
A Jones	44,000	-	-	-	-	-	<b>44,000</b>	0%
P Bilbe	115,320	1,192	-	9,298	-	-	<b>125,810</b>	0%
M Horn	-	-	-	-	-	-	-	0%
<b>Sub-total directors</b>	<b>1,326,074</b>	<b>7,049</b>	<b>350,000</b>	<b>99,744</b>	<b>-</b>	<b>1,935,429</b>	<b>3,718,296</b>	
<b>Executives</b>								
K Malaxos <i>Chief Operating Officer (until 18 December 2006)</i>	145,683	8,307	-	10,413	-	-	<b>164,403</b>	0%
D Quinlivan <i>Chief Operating Officer (from 18 December 2006)</i>	430,650	428	-	-	-	-	<b>431,078</b>	0%
R Mencil <i>General Manager – Talling Peak</i>	218,333	-	15,000	19,650	-	27,000	<b>279,983</b>	15%
Q Granger <i>General Manager – Koolan Island (until 8 June 2007)</i>	141,029	-	-	12,640	-	-	<b>153,669</b>	0%
R Jordinson <i>General Manager – Koolan Island (from 8 June 2007)</i>	47,000	-	-	-	-	-	<b>47,000</b>	0%
<b>Sub-total executives</b>	<b>982,695</b>	<b>8,735</b>	<b>15,000</b>	<b>42,703</b>	<b>-</b>	<b>27,000</b>	<b>1,076,133</b>	
<b>Totals</b>	<b>2,308,769</b>	<b>15,784</b>	<b>365,000</b>	<b>142,447</b>	<b>-</b>	<b>1,962,429</b>	<b>4,794,429</b>	

The following directors were appointed during the year:

- Mr Jones 28 July 2006
- Mr Bilbe 23 February 2007
- Mr Hamilton 24 April 2007
- Mr Horn 30 June 2007

The following directors resigned during the year:

- Mr Willis 24 April 2007
- Mr Johnson 30 June 2007
- Mr Rule 30 June 2007

# Directors' Report (continued)

## Remuneration of Key Management Personnel for the year ended 30 June 2006

	Short Term			Post Employment		Share Based Payment	Total	% Performance Related
	Salary & Fees	Non Monetary	Cash Bonuses	Superannuation	Retirement Benefits	Options		
<b>Directors</b>								
W Willis	105,505	-	-	9,495	-	14,735	<b>129,735</b>	11%
B Johnson	673,424	33,814	-	-	-	3,113,988	<b>3,821,226</b>	81%
L Tonkin	316,396	1,051	250,000	28,476	-	399,479	<b>995,402</b>	65%
A Rule	300,000	1,822	150,000	27,417	-	224,444	<b>703,683</b>	53%
C Readhead	48,000	-	-	-	-	7,368	<b>55,368</b>	13%
I Macliver	44,037	-	-	3,963	-	7,368	<b>55,368</b>	13%
<b>Sub-total directors</b>	<b>1,487,362</b>	<b>36,687</b>	<b>400,000</b>	<b>69,351</b>	<b>-</b>	<b>3,767,382</b>	<b>5,760,782</b>	
<b>Executives</b>								
D Garcia	398,655	-	-	12,777	-	-	<b>411,432</b>	-
K Malaxos	245,833	19,728	4,167	22,500	-	28,085	<b>320,313</b>	10%
P Jones	275,229	1,410	-	24,771	-	13,171	<b>314,581</b>	4%
S Coates	182,580	-	7,500	16,425	-	41,265	<b>247,770</b>	20%
B Wesley	129,019	1,663	5,000	11,366	-	13,171	<b>160,219</b>	11%
<b>Sub-total executives</b>	<b>1,231,316</b>	<b>22,801</b>	<b>16,667</b>	<b>87,839</b>	<b>-</b>	<b>95,692</b>	<b>1,454,315</b>	
<b>Totals</b>	<b>2,718,678</b>	<b>59,488</b>	<b>416,667</b>	<b>157,190</b>	<b>-</b>	<b>3,863,074</b>	<b>7,215,097</b>	

All executive directors and Senior Executives are engaged through Controlled Entities of the Company.

### Options granted as part of remuneration for the year ended 30 June 2007

	Grant Date	Exercise Price	Grant Number	Value per Option @ Grant Date	Value of Options Granted During the Year \$	Vesting Date	Exercised Number	Value at Date Option Lapsed	Total Value of Options Exercised and Lapsed During Year	% of Remuneration
R Mencil	9-Jan-07	\$0.89	250,000	\$0.216	54,000	31-Dec-07	N/A	N/A	N/A	10%

These options were granted but not yet issued on the basis that Mr Mencil must complete employment service to 31 December 2007 before they vest.

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

Grant date	9-Jan-07
Share price at grant date	\$0.87
Exercise price	\$0.89
Risk free interest rate	6.18%
Volatility factor	25.76%
Expiry date	31-Dec-09

# Directors' Report (continued)

## Options granted as part of remuneration for the year ended 30 June 2006

	Grant Date	Exercise Price	Grant Number	Value per Option @ Grant Date	Value of Options Granted During the Year \$	Vesting Date	Exercised Number	Value at Date Option Lapsed	Total Value of Options Exercised and Lapsed During Year	% of Remuneration
A Rule	4-Oct-05	\$0.90	2,000,000	\$0.464	928,000	1-Jul-08	N/A	N/A	N/A	31.9%
L Tonkin	4-Oct-05	\$0.90	3,000,000	\$0.478	1,434,000	24-Oct-08	N/A	N/A	N/A	29.5%
L Tonkin	4-Oct-05	\$1.10	2,000,000	\$0.518	1,036,000	24-Oct-10	N/A	N/A	N/A	10.6%
S Coates	31-Dec-05	\$0.78	250,000	\$0.332	83,000	31-Dec-07	N/A	N/A	N/A	5.3%
P Jones	31-Dec-05	\$0.78	250,000	\$0.332	83,000	31-Dec-07	N/A	N/A	N/A	4.2%
B Wesley	31-Dec-05	\$0.78	250,000	\$0.332	83,000	31-Dec-07	N/A	N/A	N/A	8.2%

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

Grant date	31-Dec-05	13-June-06	4-Oct-05	4-Oct-05	4-Oct-05
Share price at grant date	\$0.70	\$0.70	\$0.86	\$0.86	\$0.86
Exercise price	\$0.78	\$0.78	\$0.90	\$0.90	\$1.10
Risk free interest rate	5.09%	5.09%	5.40%	5.40%	5.40%
Volatility factor	60%	60%	60%	60%	60%
Expiry date	31-Dec-09	31-Dec-06	30-Jun-10	23-Oct-10	23-Oct-12

## DIRECTORS' MEETINGS

The number 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:

	Directors' Meetings	Audit and Risk Management Committee Meetings	Nomination, Remuneration and Governance Committee
<b>Number of Meetings Held</b>	30	2	2
N Hamilton	3	-	1
W Willis	23	1	1
B Johnson	18	1	-
L Tonkin	30	-	-
A Rule	30	-	-
C Readhead	26	2	2
I Macliver	27	2	2
A Jones	22	2	-
P Bilbe	7	-	-
M Horn	-	-	-

## 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 the Company were:

	Ordinary Shares	Options over Shares
N Hamilton	185,000	-
L Tonkin	-	5,000,000
A Rule	50,000	2,000,000
C Readhead	1,067,500	-
I Macliver	1,500,000	-
A Jones	100,000	-
P Bilbe	52,033	-
M Horn	-	-

# Directors' Report (continued)

## TAX CONSOLIDATION

The Company and its 100% owned controlled entities have formed a tax consolidated group with effect from 1 April 2006. Members of the Consolidated Entity have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned controlled entities on a pro-rate basis. In addition the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote. The head entity of the tax consolidated group is Mount Gibson Iron Limited.

## ENVIRONMENTAL REGULATION AND PERFORMANCE

The Consolidated Entity has developed Environmental Management Plans for its operations at Koolan Island, 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.

## PROCEEDINGS ON BEHALF OF THE COMPANY

There are no proceedings on behalf of the Company under section 237 of the Corporations Act 2001 in the financial year or at the date of this report.

## ROUNDING

Amounts in this report and the accompanying financial report have been rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

## CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of the Company 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'S INDEPENDENCE DECLARATION

In accordance with section 307C of the Corporations Act 2001, the directors received the attached independence declaration from the auditor of the Company on page 18 which forms part of this report.

## NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised. Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	\$
Aztec acquisition stamp duty advice	<u>31,750</u>

Signed in accordance with a resolution of the Directors.



**N HAMILTON**

**Chairman**

Perth, 30 August 2007.

### **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 financial year ended 30 June 2007, 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



Gavin A Buckingham  
Partner  
Perth  
30 August 2007

# Consolidated Income Statement

For the year ended 30 June 2007

	Notes	CONSOLIDATED		COMPANY	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>CONTINUING OPERATIONS</b>					
Sale of goods	2[a]	162,748	73,389	-	-
Other revenue	2[a]	2,256	1,857	2,840	2,836
		<b>165,004</b>	<b>75,246</b>	<b>2,840</b>	<b>2,836</b>
<b>TOTAL REVENUE</b>					
Cost of sales	2[d]	(108,955)	(50,938)	-	-
		<b>56,049</b>	<b>24,308</b>	<b>2,840</b>	<b>2,836</b>
<b>GROSS PROFIT</b>					
Other income	2[b]	2,805	1,966	1	1
Administrative expenses	2[d]	(13,020)	(6,684)	(1,543)	(6,368)
Write back of impairment allowance		-	-	-	10,833
Impairment of available-for-sale financial assets		(1,506)	-	(1,506)	-
Exploration expenses	2[d]	(8)	(814)	-	(25)
		<b>44,320</b>	<b>18,776</b>	<b>(208)</b>	<b>7,277</b>
<b>PROFIT/(LOSS) FROM CONTINUING OPERATIONS BEFORE TAX AND FINANCE COSTS</b>					
Finance costs	2[c]	(2,067)	(1,142)	(3)	(11)
		<b>42,253</b>	<b>17,634</b>	<b>(211)</b>	<b>7,266</b>
<b>PROFIT/(LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAX</b>					
Income tax benefit/(expense)	3	(13,209)	3,949	(474)	251
		<b>29,044</b>	<b>21,583</b>	<b>(685)</b>	<b>7,517</b>
<b>NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS FOR THE PERIOD AFTER INCOME TAX</b>					
Profit from discontinued operations after income tax	10[a]	18,721	1,490	91	-
		<b>47,765</b>	<b>23,073</b>	<b>(594)</b>	<b>7,517</b>
<b>NET PROFIT/(LOSS) FOR THE PERIOD AFTER INCOME TAX</b>					
Loss attributable to minority interest		-	406	-	-
		<b>47,765</b>	<b>23,479</b>	<b>(594)</b>	<b>7,517</b>
<b>NET PROFIT/(LOSS) ATTRIBUTABLE TO MEMBERS OF THE COMPANY</b>					
Earnings per share (cents per share)					
• basic earnings per share	25	7.53	6.01		
• diluted earnings per share	25	7.43	5.88		
• basic earnings per share – continuing operations	25	4.58	6.01		
• diluted earnings per share - continuing operations	25	4.52	5.88		

# Consolidated Balance Sheet

As at 30 June 2007

	Notes	CONSOLIDATED		COMPANY	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	4	60,798	4,548	351	145
Trade and other receivables	5	9,848	6,180	490	58
Inventories	6	34,581	5,685	-	-
Prepayments		1,049	877	313	1
Derivatives	16	5,065	2,541	-	-
		<b>111,341</b>	<b>19,831</b>	<b>1,154</b>	<b>204</b>
Assets classified as held for sale	10 [c]	-	46,093	-	-
<b>TOTAL CURRENT ASSETS</b>		<b>111,341</b>	<b>65,924</b>	<b>1,154</b>	<b>204</b>
<b>NON-CURRENT ASSETS</b>					
Trade and other receivables	5	-	-	54,722	29,690
Available for sale financial assets	7	1,805	1,248	1,805	1,248
Other financial assets	8	-	-	338,432	42,431
Property, plant and equipment	11	187,768	20,345	5	5
Deferred acquisition, exploration, evaluation and development costs	12	9,027	4,176	-	-
Mine properties	13	370,684	51,567	-	-
Deferred income tax assets	3	11,875	-	36,894	11,347
<b>TOTAL NON-CURRENT ASSETS</b>		<b>581,159</b>	<b>77,336</b>	<b>431,858</b>	<b>84,721</b>
<b>TOTAL ASSETS</b>		<b>692,500</b>	<b>143,260</b>	<b>433,012</b>	<b>84,925</b>
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Trade and other payables	14	64,314	17,836	14,214	341
Interest-bearing loans and borrowings	15	98,754	1,594	-	-
Derivatives	16	-	1,470	-	-
Provisions	17	1,172	463	-	-
		<b>164,240</b>	<b>21,363</b>	<b>14,214</b>	<b>341</b>
Liabilities associated with assets classified as held for sale	10 [c]	-	3,068	-	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>164,240</b>	<b>24,431</b>	<b>14,214</b>	<b>341</b>
<b>NON-CURRENT LIABILITIES</b>					
Trade and other payables	14	-	-	29,398	-
Provisions	17	18,470	702	-	-
Interest-bearing loans and borrowings	15	55,481	4,247	-	-
Deferred income tax liabilities	3	-	4,684	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>73,951</b>	<b>9,633</b>	<b>29,398</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>238,191</b>	<b>34,064</b>	<b>43,612</b>	<b>341</b>
<b>NET ASSETS</b>		<b>454,309</b>	<b>109,196</b>	<b>389,400</b>	<b>84,584</b>
<b>EQUITY</b>					
Issued capital	18(a)	386,766	86,851	386,766	86,851
Retained earnings / (accumulated losses)	20	57,861	10,096	(6,560)	(5,966)
Reserves	19	9,682	473	9,194	3,699
<b>Parent interests</b>		<b>454,309</b>	<b>97,420</b>	<b>389,400</b>	<b>84,584</b>
Minority interest	21	-	11,776	-	-
<b>TOTAL EQUITY</b>		<b>454,309</b>	<b>109,196</b>	<b>389,400</b>	<b>84,584</b>

# Consolidated Cash Flow Statement

For the year ended 30 June 2007

	Notes	CONSOLIDATED		COMPANY	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers		154,441	75,519	-	-
Payments to suppliers and employees		(144,931)	(82,704)	(1,509)	(1,073)
Interest paid		(6,420)	(1,196)	(111)	(11)
<b>NET CASH FLOWS PROVIDED BY / (USED IN) OPERATING ACTIVITIES</b>	4[b]	<b>3,090</b>	<b>(8,381)</b>	<b>(1,620)</b>	<b>(1,084)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest received		2,644	1,951	332	40
Proceeds from disposal of controlled entity, net of cash disposed	10[e]	50,354	-	24,892	-
Purchase of controlled entity	9	-	-	(6,275)	-
Net cash acquired on acquisition of controlled entity	9	3,652	-	-	-
Contribution to controlled entity		-	-	-	(20,813)
Proceeds from sale of property, plant and equipment		3,767	7	-	-
Purchase of property, plant and equipment		(36,834)	(12,362)	-	-
Payment for deferred exploration and evaluation expenditure		(4,578)	(15,126)	-	-
Payment for mine properties		(37,594)	-	-	-
Proceeds from disposal of available-for-sale financial assets		295	-	295	-
Purchase of available-for-sale investments		-	(960)	-	(960)
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>		<b>(18,294)</b>	<b>(26,490)</b>	<b>19,244</b>	<b>(21,733)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from issue of ordinary shares		2,010	7,460	2,010	7,460
Loans to other entities		(280)	(395)	(280)	(395)
Loans from/(to) related parties		-	-	(19,148)	15,853
Proceeds from borrowings		73,404	1,500	-	-
Repayment of lease liabilities		(6,529)	(2,520)	-	-
Repayment of borrowings		-	(419)	-	-
Payment for performance bonds		-	(1,100)	-	-
Proceeds from performance bonds		-	4,053	-	-
<b>NET CASH FLOWS PROVIDED BY (USED IN) / FINANCING ACTIVITIES</b>		<b>68,605</b>	<b>8,579</b>	<b>(17,418)</b>	<b>22,918</b>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>53,401</b>	<b>(26,292)</b>	<b>206</b>	<b>101</b>
Net foreign exchange differences		-	56	-	-
Cash and cash equivalents at beginning of period		7,397	33,633	145	44
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	4[a]	<b>60,798</b>	<b>7,397</b>	<b>351</b>	<b>145</b>

# Consolidated Statement of Changes in Equity

For the year ended 30 June 2007

	<i>Attributable to Equity Holders of the Parent</i>					<i>Minority Interest</i>	<i>Total Equity</i>	
	Issued Capital	(Accumulated Losses) / Retained Earnings	Option Premium Reserve	Net Unrealised Gains / (Losses) Reserve	Other Reserves	Total		
CONSOLIDATED	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
<b>At 1 July 2005</b>	<b>79,381</b>	<b>(13,383)</b>	<b>1,631</b>	<b>1,165</b>	<b>-</b>	<b>68,794</b>	<b>8,956</b>	<b>77,750</b>
Net unrealised losses on available-for-sale financial assets	-	-	-	(3,305)	-	(3,305)	-	(3,305)
Net gains on cash flow hedges	-	-	-	465	-	465	-	465
Release to income statement on expiry of cash flow hedges	-	-	-	(115)	-	(115)	-	(115)
Currency translation differences	-	-	-	-	(465)	(465)	-	(465)
Cost of share-based payment	-	-	4,323	-	-	4,323	-	4,323
<b>Total income and expense for the period recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>4,323</b>	<b>(2,955)</b>	<b>(465)</b>	<b>903</b>	<b>-</b>	<b>903</b>
Profit/(loss) for the period	-	23,479	-	-	-	23,479	(406)	23,073
<b>Total income and expense for the period</b>	<b>-</b>	<b>23,479</b>	<b>4,323</b>	<b>(2,955)</b>	<b>(465)</b>	<b>24,382</b>	<b>(406)</b>	<b>23,976</b>
Issue of share capital	10	-	-	-	-	10	-	10
Exercise of options	7,460	-	-	-	-	7,460	-	7,460
New issue of capital by a Controlled Entity	-	-	-	-	(3,226)	(3,226)	3,226	-
<b>At 30 June 2006</b>	<b>86,851</b>	<b>10,096</b>	<b>5,954</b>	<b>(1,790)</b>	<b>(3,691)</b>	<b>97,420</b>	<b>11,776</b>	<b>109,196</b>

# Consolidated Statement of Changes in Equity (continued)

For the year ended 30 June 2007

CONSOLIDATED	Attributable to Equity Holders of the Parent					Total	Minority Interest	Total Equity
	Issued Capital	(Accumulated Losses) / Retained Earnings	Option Premium Reserve	Net Unrealised Gains / (Losses) Reserve	Other Reserves			
	\$'000	\$'000	\$'000	\$'000	\$'000			
<b>At 1 July 2006</b>	<b>86,851</b>	<b>10,096</b>	<b>5,954</b>	<b>(1,790)</b>	<b>(3,691)</b>	<b>97,420</b>	<b>11,776</b>	<b>109,196</b>
Net unrealised gain on available-for-sale financial assets	-	-	-	1,032	-	1,032	-	1,032
Impairment of available-for-sale financial assets	-	-	-	1,506	-	1,506	-	1,506
Net gains on cash flow hedges	-	-	-	3,215	-	3,215	-	3,215
Currency translation differences	-	-	-	-	(386)	(386)	-	(386)
Currency translation differences released on sale of controlled entity	-	-	-	-	885	885	-	885
Cost of share-based payment	-	-	2,957	-	-	2,957	-	2,957
<b>Total income and expense for the period recognised directly in equity</b>	-	-	<b>2,957</b>	<b>5,753</b>	<b>499</b>	<b>9,209</b>	-	<b>9,209</b>
Profit for the period	-	47,765	-	-	-	47,765	-	47,765
<b>Total income and expense for the period</b>	-	<b>47,765</b>	<b>2,957</b>	<b>5,753</b>	<b>499</b>	<b>56,974</b>	-	<b>56,974</b>
Issue of share capital for acquisition of Controlled Entity	297,905	-	-	-	-	297,905	-	297,905
Exercise of options	2,010	-	-	-	-	2,010	-	2,010
Change in Minority Interest	-	-	-	-	-	-	(11,776)	(11,776)
<b>At 30 June 2007</b>	<b>386,766</b>	<b>57,861</b>	<b>8,911</b>	<b>3,963</b>	<b>(3,192)</b>	<b>454,309</b>	-	<b>454,309</b>

# Consolidated Statement of Changes in Equity (continued)

For the year ended 30 June 2007

COMPANY	<i>Attributable to Equity Holders of the Parent</i>				<i>Total Equity</i>
	Issued Capital	Accumulated Losses	Option Premium Reserve	Net Unrealised Gains / (Losses) Reserve	
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>At 1 July 2005</b>	79,381	(13,483)	1,631	1,050	<b>68,579</b>
Net unrealised losses on available-for-sale financial assets	-	-	-	(3,305)	<b>(3,305)</b>
Cost of share-based payment	-	-	4,323	-	<b>4,323</b>
<b>Total income and expense for the period recognised directly in equity</b>	-	-	<b>4,323</b>	<b>(3,305)</b>	<b>1,018</b>
Profit for the period	-	7,517	-	-	<b>7,517</b>
<b>Total income and expense for the period</b>	-	<b>7,517</b>	<b>4,323</b>	<b>(3,305)</b>	<b>8,535</b>
Issue of share capital	10	-	-	-	<b>10</b>
Exercise of options	7,460	-	-	-	<b>7,460</b>
<b>At 30 June 2006</b>	<b>86,851</b>	<b>(5,966)</b>	<b>5,954</b>	<b>(2,255)</b>	<b>84,584</b>
<b>At 1 July 2006</b>	86,851	(5,966)	5,954	(2,255)	<b>84,584</b>
Cost of share-based payment	-	-	2,957	-	<b>2,957</b>
Net unrealised gain on available-for-sale financial assets	-	-	-	1,032	<b>1,032</b>
Impairment of available-for-sale financial assets	-	-	-	1,506	<b>1,506</b>
<b>Total income and expense for the period recognised directly in equity</b>	-	-	<b>2,957</b>	<b>2,538</b>	<b>5,495</b>
Loss for the period	-	(594)	-	-	<b>(594)</b>
<b>Total income and expense for the period</b>	-	<b>(6,560)</b>	<b>2,957</b>	<b>2,538</b>	<b>4,901</b>
Issue of share capital for acquisition of Controlled Entity	297,905	-	-	-	<b>297,905</b>
Exercise of options	2,010	-	-	-	<b>2,010</b>
<b>At 30 June 2007</b>	<b>386,766</b>	<b>(6,560)</b>	<b>8,911</b>	<b>283</b>	<b>389,400</b>

# Notes to the Consolidated Financial Report

For the year ended 30 June 2007

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Corporate information

The financial report of the Company for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the directors on 27 August 2007.

The Company is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

The nature of operations and principal activities of the Consolidated Entity are the mining of hematite deposits at Talling Peak and Koolan Island and exploration and development of hematite deposits in the Mid-West region of Western Australia.

The address of the registered office is Level 1, 7 Havelock Street, West Perth, WA, 6005.

### (b) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Australian Accounting Standards and other mandatory professional reporting requirements. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments and quoted available-for-sale financial assets that have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

### (c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its controlled entities.

The financial statements of controlled entities are prepared for the same reporting period as the 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.

Controlled entities are consolidated from the date on which control is transferred to the Consolidated Entity and cease to be consolidated from the date on which control is transferred out of the Consolidated Entity.

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

Minority interests represent the interests in Asia Iron Holdings Limited, not held by the Consolidated Entity.

Investments in controlled entities are carried in the balance sheet of the Company at cost less impairment losses, if any.

### (d) Statement of compliance

Except for the amendments to AASB 101 Presentation of Financial Statements, which the Consolidated Entity has early adopted, Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Consolidated Entity for the annual reporting period ending 30 June 2007.

These are outlined in the table below.

## Notes to the Consolidated Financial Report (continued)

Reference	Title	Impact on Consolidated Entity financial report	Application Date of Standard	Application Date for Consolidated Entity
Revised AASB 101	Presentation of Financial Statements	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
AASB 2005-10	Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
AASB 2007-1	Amendments to Australian Accounting Standards arising from AASB Interpretation 11 [AASB 2]	No change to accounting policy required. Therefore no impact.	1 March 2007	1 July 2007
AASB 2007-2	Amendments to Australian Accounting Standards arising from AASB Interpretation 12 [AASB 1, AASB 117, AASB 118, AASB 120, AASB 121, AASB 127, AASB 131 & AASB 139]	No change to accounting policy required. Therefore no impact.	1 January 2008	1 July 2008
AASB 2007-3	Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]	No change to accounting policy required. Therefore no impact.	1 January 2009	1 July 2009
AASB 2007-4	Amendments to Australian Accounting Standards arising from ED151 and Other Amendments	No change to accounting policy required. Therefore no impact.	1 July 2007	1 July 2007
AASB 2007-6	Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 and 12]	No change to accounting policy required. Therefore no impact.	1 January 2009	1 July 2009
AASB 2007-7	Amendments to Australian Accounting Standards [AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128]	No change to accounting policy required. Therefore no impact.	1 July 2007	1 July 2007
AASB 7	Financial Instruments: Disclosures	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
AASB 8	Operating Segments	No change to accounting policy required. Therefore no impact.	1 January 2009	1 July 2009
AASB 123 (revised June 2007)	Borrowing Costs	No change to accounting policy required. Therefore no impact.	1 January 2009	1 July 2009
AASB Interpretation 10	Interim Financial Reporting and Impairment	No change to accounting policy required. Therefore no impact.	1 November 2006	1 July 2007
AASB Interpretation 11	Group and Treasury Share Transactions	No change to accounting policy required. Therefore no impact.	1 March 2007	1 July 2008
AASB Interpretation 12	Service Concession Arrangements	No change to accounting policy required. Therefore no impact.	1 January 2008	1 July 2008
AASB Interpretation 129 (revised June 2007)	Service Concession Arrangements	No change to accounting policy required. Therefore no impact.	1 January 2008	1 July 2008

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (“**AIFRS**”). The financial report also complies with International Financial Reporting Standards (“**IFRS**”).

# Notes to the Consolidated Financial Report (continued)

## (e) Foreign currency translation

Both the functional and presentation currency of the Company and its Australian controlled entities is Australian dollars (A\$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All such exchange differences are taken to the income statement in the consolidated financial report.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

## (f) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

### *Depreciation*

The cost of owned property, plant and equipment directly engaged in mining operations 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. Plant and equipment under hire purchase or finance lease directly engaged in mining operations is written down to its residual value over the period of the hire purchase or finance lease. Other assets which are depreciated or amortised on a basis other than the units-of-production method typically are depreciated on a straight-line basis over the estimated useful life of the asset as follows:

- Buildings 5 - 20 years
- Motor vehicles 4 - 5 years
- Office equipment 3 - 5 years
- Leasehold improvements Shorter of lease term or useful life of 5 – 10 years
- Koolan Island major fleet hire purchase 5 years

### *Impairment*

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

### *Derecognition*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

## (g) Mine properties

Mine properties represent the accumulation of all acquisition, exploration, evaluation and development expenditure incurred by or on behalf of the Consolidated Entity in relation to areas of interest in which mining of mineral resource has commenced. When further development expenditure, including waste development, 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 and waste 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 where appropriate, a portion of measured resources).

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Should the carrying value of the expenditure not yet amortised exceed its estimated recoverable amount in any year, the excess is written off to the income statement.

# Notes to the Consolidated Financial Report (continued)

## (h) Acquisition, exploration, evaluation and development costs

### *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.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Where uncertainty exists as to the future viability of certain areas; the value of the area of interest is written off to the income statement or provided against.

## (i) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

## (j) Rehabilitation costs

Long-term environmental obligations are based on the Consolidated Entity's environmental management plans, in compliance with current environmental and regulatory requirements.

Full provision is made based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the balance sheet date. Increases due to additional environmental disturbances, relating to the development of an asset, are capitalised and amortised over the remaining lives of the area of interest.

Annual increases in the provision relating to the change in the net present value of the provision are accounted for in the income statement as borrowing costs.

The estimated costs of rehabilitation are reviewed annually and adjusted as appropriate for changes in legislation, technology or other circumstances. Cost estimates are not reduced by potential proceeds from the sale of assets.

## (k) Recoverable amount of assets

At each reporting date, the Consolidated Entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Consolidated Entity makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. Recoverable amount is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less cost to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is also made at each reporting date as to whether there is any indication that a previously recognised impairment loss may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

## (l) Investments

All investments are initially recognised at the fair value of the consideration given, including acquisition charges associated with the investment.

# Notes to the Consolidated Financial Report (continued)

After initial recognition, investments, which are classified as available-for-sale, are measured at fair value. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair value of investments that are actively traded in organised markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

For investments with no active market, fair value is determined using valuation techniques. Such valuation techniques include using recent arm's length transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. Where fair value cannot be reliably measured for certain unquoted investments, these investments are measured at cost.

## **(m) Non-current assets and disposal groups held for sale and discontinued operations**

Non-current assets and disposal groups are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction. They are not depreciated or amortised. For an asset or disposal group to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the income statement.

## **(n) Inventories**

Inventories are 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.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

## **(o) Trade and other receivables**

Trade receivables, which generally have 60-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the Consolidated Entity will not be able to collect the debts. Bad debts are written off when identified.

## **(p) Cash and cash equivalents**

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

## **(q) Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in the profit or loss when the liabilities are derecognised.

## **(r) Trade and other payables**

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Consolidated Entity prior to the end of the financial year that are unpaid and arise when the Consolidated Entity becomes obliged to make future payments in respect of the purchase of these goods and services

## **(s) Provisions**

Provisions are recognised when the Consolidated Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

# Notes to the Consolidated Financial Report (continued)

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

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.

## (t) Share-based payment transactions

The Consolidated Entity provides benefits to employees (including directors) of the Consolidated Entity in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("**equity-settled transactions**").

There is currently a Directors, Officers, Employees and Other Permitted Persons option plan.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a binomial model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("**vesting date**").

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Consolidated Entity, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met and the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

## (u) Employee benefits

### *Wages, salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

### *Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

### *Superannuation*

Contributions made by the Consolidated Entity to employee superannuation funds, which are defined contribution plans, are charged as an expense when incurred.

## (v) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

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*

# Notes to the Consolidated Financial Report (continued)

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 in the income statement on a straight-line basis over the lease term.

Contingent rentals are recognised as an expense in the financial year in which they are incurred.

## *Finance Leases*

Leases which effectively transfer substantially all the risks and benefits incidental to ownership of the leased item to the Consolidated Entity are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

Capitalised leased assets are depreciated over the estimated useful life of the asset or where appropriate, over the estimated life of the mine.

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.

## **(w) Revenue**

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*

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably.

### *Interest*

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

### *Dividends*

Revenue is recognised when the shareholders' right to receive the payment is established.

## **(x) Income tax**

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

# Notes to the Consolidated Financial Report (continued)

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

## (y) Other taxes

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 receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement 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.

## (z) Derivative financial instruments and hedging

The Consolidated Entity uses foreign currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured to fair value.

Any gains and losses arising from changes in the fair value of derivatives, except those that qualify as cash flow hedges, are taken directly to net profit or loss for the year.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to cash flow hedges (forward foreign currency contracts) to hedge firm commitments which meet the conditions for a special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

## (aa) Issued capital

Issued and paid up capital is recognised at the fair value of the consideration received by the Consolidated Entity. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction in the proceeds received.

## (bb) Earnings per share

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

Diluted earnings per share is calculated as net profit attributable to members of the company, adjusted for:

- costs of servicing equity (other than dividends) and preference share 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;

# Notes to the Consolidated Financial Report (continued)

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

## (cc) Significant accounting judgements, estimates and assumptions

Significant accounting judgements, estimates and assumptions have been made as follows:

### *(i) Mine rehabilitation provision*

The Consolidated Entity assesses its mine rehabilitation provision annually in accordance with the accounting policy stated in Note 1(j). Significant judgement is required in determining the provision for mine rehabilitation as there are many transactions and other factors that will affect the ultimate liability payable to rehabilitate the mine site. Factors that will affect this liability include future development, changes in technology, commodity price changes and changes in interest rates. When these factors change or become known in the future, such difference will impact the mine rehabilitation provision in the period in which they change or become known.

### *(ii) Units of production method of depreciation*

The Consolidated Entity applies the units of production method of depreciation of its mine assets based on ore tonnes mined. These calculations require the use of estimates and assumptions. Significant judgement is required in assessing the available reserves and resources and the production capacity of the operations to be depreciated under this method. Factors that are considered in determining reserves and resources and production capacity are the Consolidated Entity's history of converting resources to reserves and the relevant time frames, the complexity of metallurgy, markets and future developments. The Consolidated Entity uses proved and probable reserves to depreciate assets on a units of production basis. However where a mineral property has been acquired and an amount has been attributed to the fair value of resources not yet designated as reserves the additional resources have been taken into account. When these factors change or become known in the future, such differences will impact pre-tax profit and carrying values of assets.

### *(iii) Determination of mineral resources and ore reserves*

The Consolidated Entity estimates its mineral resources and ore reserves in accordance with the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 (the 'JORC code'). The information on mineral resources and ore reserves were prepared by or under the supervision of Competent Persons as defined in the JORC code. The amounts presented are based on the mineral resources and ore reserves determined under the JORC code.

There are numerous uncertainties inherent in estimating mineral resources and ore reserves and assumptions that are valid at the time of estimation may change significantly when new information becomes available.

Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated. Such changes in the reserves could impact on depreciation and amortisation rates, asset carrying values, deferred stripping costs and provisions for decommissioning and restoration.

### *(iv) Impairment of capitalised exploration and evaluation expenditure*

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Consolidated Entity decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors which could impact the future recoverability include the level of proved, probable and inferred mineral resources, future technological changes which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made.

In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent that it is determined in the future that this capitalised expenditure should be written off, this will reduce profits and net assets in the period in which this determination is made.

### *(v) Impairment of capitalised mine development expenditure*

The future recoverability of capitalised mine development expenditure is dependent on a number of factors, including the level of proved, probable and inferred mineral resources, future technological changes which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised mine development expenditure is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made.

### *(vi) Impairment of property, plant and equipment*

Property, plant and equipment is reviewed for impairment if there is any indication that the carrying amount may not be recoverable. Where a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value in use' (being the net present value of expected future cash flows of the relevant cash generating unit) and 'fair value less costs to sell'.

## Notes to the Consolidated Financial Report (continued)

In determining value in use, future cash flows are based on:

- Estimates of the quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- Future production levels;
- Future commodity prices; and
- Future cash costs of production and capital expenditure.

Variations to the expected future cash flows, and timing thereof, could result in significant changes to any impairment losses recognised, if any, which could in turn impact future financial results.

### *(vii) Deferred Waste*

The Consolidated Entity has adopted a policy of deferring waste development costs and amortising them in accordance with the life-of-mine strip ratio. Significant judgement is required in determining this ratio for each mine. Factors that are considered include:

- Any proposed changes in the design of the mine;
- Estimates of the quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- Future production levels;
- Future commodity prices; and
- Future cash costs of production and capital expenditure.

### *(viii) Recoverability of potential deferred income tax assets*

The Consolidated Entity recognises deferred income tax assets in respect of tax losses to the extent that the future utilisation of these losses is considered probable. Assessing the future utilisation of these losses requires the Consolidated Entity to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, this could result in significant changes to the deferred income tax assets recognised, which would in turn impact future financial results.

### *(ix) Share-based payment transactions*

The Consolidated Entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted and applying an estimated probability that they will vest. The fair value is determined by an external valuer using a binomial model, with the assumptions detailed in Note 24. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

### *(x) Financial guarantees*

The fair value of financial guarantee contracts have been assessed using the interest differential approach.

# Notes to the Consolidated Financial Report (continued)

	Notes	CONSOLIDATED		COMPANY	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>2. REVENUE AND EXPENSES</b>					
<b>[a] Revenue</b>					
Sale of ore		156,020	73,389	-	-
Realised gain on foreign exchange hedges		6,728	-	-	-
		<u>162,748</u>	<u>73,389</u>	-	-
<b>Other revenue</b>					
Finance income – other persons / corporations		2,256	1,857	332	40
Finance income – intercompany loans		-	-	2,508	2,796
		<u>2,256</u>	<u>1,857</u>	<u>2,840</u>	<u>2,836</u>
<b>[b] Other income</b>					
Net gain on sale of plant and equipment		-	632	-	-
Net unrealised gain on foreign exchange		2,764	939	-	-
Other income		41	395	1	1
		<u>2,805</u>	<u>1,966</u>	<u>1</u>	<u>1</u>
<b>[c] Finance costs</b>					
Finance charges on loans		4,370	175	3	11
Less: finance charges on loans capitalised		(3,010)	-	-	-
		<u>1,360</u>	<u>175</u>	<u>3</u>	<u>11</u>
Finance charges payable under finance leases		2,122	934	-	-
Less: finance charges on leases capitalised		(1,446)	-	-	-
		<u>676</u>	<u>934</u>	-	-
Unwinding of discount on rehabilitation provision		31	33	-	-
		<u>2,067</u>	<u>1,142</u>	<u>3</u>	<u>11</u>
<b>[d] Expenses included in the Income Statement</b>					
Depreciation of Non-Current Assets					
• Plant and equipment		2,078	674	-	-
• Plant and equipment under lease		4,103	3,079	-	-
• Buildings		885	447	-	-
• Buildings under lease		51	78	-	-
		<u>7,117</u>	<u>4,278</u>	-	-
• Less : depreciation capitalised		(2,400)	(15)	-	-
		<u>4,717</u>	<u>4,263</u>	-	-
Amortisation of deferred waste		55,508	17,296	-	-
Amortisation of other mine properties		3,141	473	-	-
Expense of share-based payments		2,957	4,323	-	4,323
Operating lease rental – minimum lease payments		19,766	754	-	-
Exploration expenditure written off		8	814	-	25
Government royalties		10,702	5,129	-	-
Salaries, wages expense and other employee benefits		18,451	9,288	-	-
Net loss on sale of plant and equipment		501	-	-	-
Bad debts		44	541	44	420
Net loss on disposal of available-for-sale-financial-assets		183	-	183	-
Impairment of investments		1,506	400	1,506	400

# Notes to the Consolidated Financial Report (continued)

	Notes	CONSOLIDATED		COMPANY	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>3. INCOME TAX</b>					
Major components of income tax expense for the years ended 30 June 2007 and 2006 are:					
<b>Income Statement</b>					
<i>Current income tax</i>					
Current income tax charge		-	-	-	-
Adjustments in respect of current income tax of previous years		-	-	-	-
<i>Deferred income tax</i>					
Relating to origination and reversal of temporary differences		21,286	6,601	474	(251)
Benefit from previously unrecognised tax loss used to reduce deferred tax expense / temporary differences		-	(13,523)	-	-
Income tax expense/(benefit) reported in income statement		21,286	(6,922)	474	(251)
<b>Statement of Changes in Equity</b>					
<i>Current income tax</i>					
Current income tax on exchange difference on loan		-	-	-	-
<i>Deferred income tax</i>					
Capital raising costs		164	-	-	-
Remeasurement of foreign exchange contracts		1,292	199	-	-
Deferred income tax benefit reported in equity		1,456	199	-	-
<b>Reconciliation of income tax expense / (benefit)</b>					
A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the years ended 30 June 2007 and 2006 is as follows:					
Accounting profit/(loss) before income tax		69,052	16,151	(120)	7,266
• At the statutory income tax rate of 30% (2006: 30%)		20,715	4,845	(36)	2,180
• Adjustments on formation of a tax consolidated group		(774)	(7,341)	-	-
• Previously unrecognised tax losses now recognised		-	(5,752)	58	(3,731)
• Temporary differences not brought to account as a deferred tax asset		452	-	452	-
• Expenditure not allowed for income tax purposes		893	1,326	-	1,300
Income tax expense/(benefit)		21,286	(6,922)	474	(251)
Effective income tax rate		30.8%	(25.7%)	(395.5%)	(3.5%)
Income tax expense reported in income statement		13,209	(3,949)	474	(251)
Income tax attributable to discontinued operation	10	8,077	(2,973)	-	-
		21,286	(6,922)	474	(251)

# Notes to the Consolidated Financial Report (continued)

## Tax Consolidation

The Company and its 100% owned controlled entities have formed a tax consolidated group. Members of the Consolidated Entity have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned controlled entities on a pro-rate basis. The agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At balance date, the possibility of default is remote. The head entity of the tax consolidated group is Mount Gibson Iron Limited.

## Tax effect accounting by members of the tax consolidated group

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of current taxes to members of the tax consolidated group. Deferred taxes are allocated to members of the tax consolidated group in accordance with a group allocation approach which is consistent with the principles of AASB 112 Income Taxes.

The allocation of taxes under the tax funding agreement is recognised as an increase / decrease in the controlled entities intercompany accounts with the tax consolidated group head company, Mount Gibson Iron Limited. In this regard the Company has assumed the benefit of tax losses from controlled entities of \$26,020,750 (2006: \$10,672,008) as of the balance date. The nature of the tax funding agreement is such that no tax consolidation contributions by or distributions to equity participants are required.

## Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>CONSOLIDATED</b>						
Accrued liabilities	(131)	(218)	-	-	(131)	(218)
Borrowing costs	(718)	(7)	-	-	(718)	(7)
Capital raising costs	(10,036)	(266)	-	-	(10,036)	(266)
Deferred income	-	-	7,825	3,689	7,825	3,689
Doubtful debts provision	(105)	(162)	-	-	(105)	(162)
Exploration expenditure	-	-	2,709	13,363	2,709	13,363
Fair value increase	-	(1,662)	-	-	-	(1,662)
Foreign exchange contracts	(275)	-	2,336	322	2,061	322
Interest receivable	-	-	427	202	427	202
Inventory	-	-	396	-	396	-
Lease liability	(999)	(1,301)	-	-	(999)	(1,301)
Mine properties	-	-	24,991	3,950	24,991	3,950
Prepaid expenditure	-	-	4	5	4	5
Property, plant and equipment	4,266	-	-	3,562	4,266	3,562
Provisions	(5,893)	(350)	-	-	(5,893)	(350)
Tax losses	(36,672)	(16,443)	-	-	(36,672)	(16,443)
Tax (assets) liabilities	(50,563)	(20,409)	38,688	25,093	(11,875)	4,684
Set off of tax	38,688	20,409	(38,688)	(20,409)	-	-
<b>Net tax (assets) liabilities</b>	<b>(11,875)</b>	<b>-</b>	<b>-</b>	<b>4,684</b>	<b>(11,875)</b>	<b>4,684</b>

## Notes to the Consolidated Financial Report (continued)

	Balance 1 July 2005 \$'000	Recognised in Income \$'000	Recognised in Equity \$'000	Balance 30 June 2006 \$'000
Movement in temporary differences during the financial year ended 30 June 2006				
Accrued liabilities	(48)	(170)	-	(218)
Borrowing costs	(22)	15	-	(7)
Capital raising costs	(371)	105	-	(266)
Deferred income	-	3,689	-	3,689
Doubtful debts provision	-	(162)	-	(162)
Exploration expenditure	8,116	5,247	-	13,363
Fair value increase	-	(1,861)	199	(1,662)
Foreign exchange contracts	-	322	-	322
Interest receivable	67	135	-	202
Lease liability	(2,353)	1,052	-	(1,301)
Mine properties	3,947	3	-	3,950
Prepaid expenditure	5	-	-	5
Property, plant and equipment	2,353	1,209	-	3,562
Provisions	(287)	(63)	-	(350)
Tax losses	-	(16,443)	-	(16,443)
	11,407	(6,922)	199	4,684

	Balance 1 July 2006 \$'000	Recognised in Income \$'000	Recognised in Equity \$'000	Disposal of AIHL \$'000	Recognised for Aztec \$'000	Balance 30 June 2007 \$'000
Movement in temporary differences during the financial year ended 30 June 2007						
Accrued liabilities	(218)	97	-	-	(10)	(131)
Borrowing costs	(7)	(711)	-	-	-	(718)
Capital raising costs	(266)	1,929	164	-	(11,863)	(10,036)
Deferred income	3,689	4,136	-	-	-	7,825
Doubtful debts provision	(162)	57	-	-	-	(105)
Exploration expenditure	13,363	(6,629)	-	(4,206)	181	2,709
Fair value increase	(1,662)	9,566	-	(7,904)	-	-
Foreign exchange contracts	322	164	1,292	-	283	2,061
Interest receivable	202	225	-	-	-	427
Inventory	-	325	-	-	71	396
Lease liability	(1,301)	302	-	-	-	(999)
Mine properties	3,950	27,974	-	-	(6,933)	24,991
Prepaid expenditure	5	(1)	-	-	-	4
Property, plant and equipment	3,562	(1,959)	-	32	2,631	4,266
Provisions	(350)	(5,508)	-	-	(35)	(5,893)
Tax losses	(16,443)	(8,681)	-	5,541	(17,089)	(36,672)
	4,684	21,286	1,456	(6,537)	(32,764)	(11,875)

# Notes to the Consolidated Financial Report (continued)

	Assets		Liabilities		Net	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>COMPANY</b>						
Accrued liabilities	(37)	(7)	-	-	(37)	(7)
Borrowing costs	(6)	(8)	-	-	(6)	(8)
Capital raising costs	(136)	(266)	-	-	(136)	(266)
Doubtful debts provision	(43)	(169)	-	-	(43)	(169)
Tax losses	(36,672)	(10,897)	-	-	(36,672)	(10,897)
Tax (assets) liabilities	(36,894)	(11,347)	-	-	(36,894)	(11,347)
Set off of tax	-	-	-	-	-	-
<b>Net tax (assets) liabilities</b>	<b>(36,894)</b>	<b>(11,347)</b>	<b>-</b>	<b>-</b>	<b>(36,894)</b>	<b>(11,347)</b>

Movement in temporary differences during the financial year ended 30 June 2006

	Balance 1 July 2005 \$'000	Recognised in Income \$'000	Recognised in Equity \$'000	Transfers Out (In) \$'000	Balance 30 June 2006 \$'000
Accrued liabilities	-	(7)	-	-	(7)
Borrowing costs	(10)	2	-	-	(8)
Capital raising costs	(371)	105	-	-	(266)
Provisions	(43)	(126)	-	-	(169)
Tax losses	-	(225)	-	(10,672)	(10,897)
	(424)	(251)	-	(10,672)	(11,347)

Movement in temporary differences during the financial year ended 30 June 2007

	Balance 1 July 2006 \$'000	Recognised in Income \$'000	Recognised in Equity \$'000	Transfers Out (In) \$'000	Balance 30 June 2007 \$'000
Accrued liabilities	(7)	(30)	-	-	(37)
Borrowing costs	(8)	2	-	-	(6)
Capital raising costs	(266)	130	-	-	(136)
Provisions	(169)	126	-	-	(43)
Tax losses	(10,897)	246	-	(26,021)	(36,672)
	(11,347)	474	-	(26,021)	(36,894)

## Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	CONSOLIDATED		COMPANY	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Provision for write down of investments	487	796	487	796
Exploration rights	122	-	-	-
Tax losses	786	45	45	45
	1,395	841	532	841

# Notes to the Consolidated Financial Report (continued)

	Notes	CONSOLIDATED		COMPANY	
		2007	2006	2007	2006
		\$'000	\$'000	\$'000	\$'000
<b>4. CASH AND CASH EQUIVALENTS</b>					
Cash at bank and in hand		28,540	4,334	351	145
Short-term deposits		32,258	214	-	-
		<b>60,798</b>	<b>4,548</b>	<b>351</b>	<b>145</b>

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

## [a] Reconciliation of cash

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:

Cash at bank and in hand		28,540	4,334	351	145
Short-term deposits		32,258	214	-	-
		60,798	4,548	351	145
Cash at bank and in hand attributable to the disposal group	10	-	2,849	-	-
		60,798	7,397	351	145

## [b] Reconciliation of the net profit/(loss) after tax to the net cash flows from operations

Net profit/(loss) after tax		47,765	23,073	(594)	7,517
<i>Adjustments for:</i>					
Depreciation of non-current assets		4,717	4,263	-	-
Amortisation of deferred waste		55,508	17,296	-	-
Amortisation of other mine properties		3,141	473	-	-
Net (profit)/loss on disposal of property, plant and equipment		501	(632)	-	-
Net exchange differences		512	(464)	-	-
Interest received		(2,256)	(1,907)	(332)	(40)
Exploration expenses written off		8	814	-	-
Share based payments		2,957	4,323	-	4,323
Intra-group interest income		-	-	(2,508)	(2,796)
Bad debts		44	541	44	420
Impairment of investments		1,506	400	1,506	400
Write back of impairment of investments		-	-	-	(10,833)
Profit from disposal of controlled entity		(18,721)	-	(91)	-
Net loss on disposal of available-for-sale financial assets		183	-	183	-
Capitalised expenses		(10,325)	-	(3)	-
<i>Changes in assets and liabilities</i>					
(Increase)/decrease in trade and other receivables		(534)	(2,208)	(16)	5
(Increase) in inventory		(16,673)	(388)	-	-

# Notes to the Consolidated Financial Report (continued)

	Notes	CONSOLIDATED		COMPANY	
		2007	2006	2007	2006
		\$'000	\$'000	\$'000	\$'000
(Increase)/decrease in prepayments and deposits		(94)	(335)	(312)	2
(Increase)/decrease in deferred tax assets		-	-	474	(251)
(Increase) in mine development expenditure		(102,570)	(54,205)	-	-
Increase in creditors and accruals		23,783	7,994	208	211
Increase/(decrease) in GST paid		(172)	(724)	(179)	(42)
Increase/(decrease) in deferred income tax liabilities		13,326	(6,922)	-	-
Increase in employee benefits		484	227	-	-
<b>Net Cash Flow (used in)/from Operating Activities</b>		<b>3,090</b>	<b>(8,381)</b>	<b>(1,620)</b>	<b>(1,084)</b>

## [c] Non-cash financing activities

During the financial year, the Consolidated Entity acquired property, plant and equipment with an aggregate fair value of \$56,371,647 (2006: \$2,783,417) by means of finance leases and hire purchase agreements. During the financial year, the Consolidated Entity disposed of property, plant and equipment with an aggregate fair value of \$3,771,433 (2006: \$7,143,498) that were financed by means of finance leases.

		CONSOLIDATED		COMPANY	
		2007	2006	2007	2006
		\$'000	\$'000	\$'000	\$'000
<b>5. TRADE AND OTHER RECEIVABLES</b>					
<b>Current</b>					
Trade debtors	[b]	3,604	3,350	10	-
Sundry debtors	[b]	2,222	1,480	17	10
Other receivables		4,022	1,350	463	48
		<b>9,848</b>	<b>6,180</b>	<b>490</b>	<b>58</b>
<b>Non-Current</b>					
Other receivables	[a],[b]	-	-	54,867	29,835
Allowance for doubtful debts		-	-	(145)	(145)
		-	-	<b>54,722</b>	<b>29,690</b>
<b>[a] Related party receivables</b>					
<b>Non-Current</b>					
Controlled entities		-	-	54,722	29,690

## [b] Terms and conditions

Terms and conditions relating to the above financial instruments:

- [i] Trade debtors are non-interest bearing and generally on 60-90 day terms.
- [ii] Sundry debtors are non-interest bearing and have repayment terms between 30 and 90 days.
- [iii] Except for amounts payable by Mount Gibson Mining Limited of \$51,744,103, on which interest is charged at 7% pa, related party receivables are non-interest bearing with no fixed repayment date and are repayable on demand.

# Notes to the Consolidated Financial Report (continued)

	Notes	CONSOLIDATED		COMPANY	
		2007	2006	2007	2006
		\$'000	\$'000	\$'000	\$'000
<b>6. INVENTORIES</b>					
Consumables – at cost		4,984	627	-	-
Ore – at cost		29,597	5,058	-	-
		<b>34,581</b>	<b>5,685</b>	-	-

## 7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Shares – unlisted at fair value	3	-	3	-
Shares – listed at fair value	1,802	1,248	1,802	1,248
	<b>1,805</b>	<b>1,248</b>	<b>1,805</b>	<b>1,248</b>

Available-for-sale financial assets consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

## 8. OTHER FINANCIAL ASSETS

### Non-Current

Investments in controlled entities – at cost	-	-	<b>338,432</b>	<b>42,431</b>
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## 9. INTEREST IN SUBSIDIARIES

Name	Country of Incorporation	Percentage of Equity Interest Held by the Consolidated Entity		Investment	
		2007	2006	2007	2006
		%	%	\$'000	\$'000
Mount Gibson Mining Limited	Australia	100	100	20,588	17,631
WHTK Pty Ltd	Australia	100	100	-	-
Geraldton Bulk Handling Pty Ltd	Australia	100	100	-	-
Aztec Resources Limited	Australia	100	-	317,844	-
• Koolan Iron Ore Pty Ltd	Australia	100	-	-	-
• Koolan Shipping Pty Ltd	Australia	100	-	-	-
• Brockman Minerals Pty Ltd	Australia	100	-	-	-
Asia Iron Holdings Limited	Hong Kong	-	73	-	24,800
• Asia Iron (Nanjing) Co., Ltd	China	-	73	-	-
• Asia Iron Limited	Hong Kong	-	73	-	-
• Jiangsu Investment Pty Ltd	Australia	-	73	-	-
• Extension Hill Pty Ltd	Australia	-	73	-	-
• Austral Iron Pty Ltd	Australia	-	73	-	-
• AP Mining Pty Ltd	Australia	-	73	-	-
• Westralian Iron Pty Ltd	Australia	-	73	-	-
• MGM Pipelines Pty Ltd	Australia	-	73	-	-
				<b>338,432</b>	<b>42,431</b>

# Notes to the Consolidated Financial Report (continued)

## ACQUISITION OF AZTEC RESOURCES LIMITED

On 24 July 2006, the Company announced its intention to acquire Aztec.

The acquisition was implemented by means of an off-market scrip takeover bid by the Company for all shares in Aztec. Under the bid, the Company offered Aztec shareholders 1 new share for every 3 Aztec shares.

The Company gained effective control of Aztec on 30 November 2006.

At the end of the offer period on 22 December 2006, the Company's voting power in Aztec was 91.28% and as the applicable thresholds had been reached, the Company commenced the compulsory acquisition process to acquire all the remaining fully paid ordinary shares in Aztec which it did not already own.

The Company completed compulsory acquisition of the remaining Aztec shares on 9 February 2007. A total of 378,491,182 new shares in the Company were issued to Aztec shareholders.

A summary of the consideration paid by the Company and the provisional fair value of identifiable assets and liabilities of Aztec as at the date of acquisition are provided below. The values are provisional as some of the costs associated with the acquisition have yet to be finalised.

	\$'000
<b>Consideration</b>	
Issue of Mount Gibson Iron Limited shares to Aztec shareholders	297,905
Costs of the Offer	19,834
<b>Total consideration</b>	<b>317,739</b>

The net cash flow on acquisition is summarised as follows:

Net cash acquired with subsidiary	9,927
Costs associated with the acquisition	(6,275)
	<u>3,652</u>

	Recognised on acquisition \$'000	Carrying value prior to acquisition \$'000
<b>Net Assets of Aztec as at 30 November 2006</b>		
Cash	9,927	9,927
Receivables	2,571	2,571
Prepayments	83	83
Inventories	141	141
Property, plant and equipment	84,985	84,985
Deferred acquisition, exploration, evaluation and development costs	282	282
Mine Properties	248,356	85,062
Deferred tax asset	32,764	-
Trade and other payables	(15,081)	(15,081)
Interest bearing liabilities	(18,561)	(18,561)
Provision – employee entitlements	(153)	(153)
Provision - rehabilitation	(12,329)	(10,000)
Hire purchase liabilities	(15,246)	(15,246)
	<b>317,739</b>	<b>124,010</b>

If the combination had taken place at the beginning of the period, the profit before tax from continuing operations for the Consolidated Entity would have been \$27 million and revenue from continuing operations would have been \$166 million.

# Notes to the Consolidated Financial Report (continued)

## 10. DISCONTINUED OPERATIONS – SALE OF ASIA IRON HOLDINGS LIMITED

On 7 June 2006 the Company advised ASX that it had signed an agreement with China's third largest steel producer, the Shougang Group, for the sale of the Consolidated Entity's entire 73% interest in Asia Iron for \$52.5 million. The agreement was subject to Foreign Investment Review Board (**FIRB**) approval and the minority shareholders in Asia Iron not exercising an option to match the Shougang offer. Minority shareholders had 28 days to exercise an option to match the Shougang offer.

On 6 July 2006 the Company advised ASX that it had received notice of an election to purchase the Consolidated Entity's shareholding in Asia Iron from a minority shareholder, Sinom Investments. Sinom Investments' notice to match the Shougang offer resulted in a binding agreement for the sale of the Consolidated Entity's entire 73% interest in Asia Iron on the same terms as those previously agreed with Shougang. As a result of Sinom Investments' election, the condition precedent to the Shougang agreement could not be satisfied. The Consolidated Entity therefore terminated the Shougang agreement to allow the sale to Sinom Investments.

Sinom Investments obtained FIRB approval on 2 August 2006 and completion of the sale by the Consolidated Entity of its 73% interest in Asia Iron to Sinom Investments occurred on 21 August 2006 with \$52.5 million being placed in escrow pending environmental approval.

Under a further agreement dated 17 November 2006, Sinom agreed to immediately release the first \$40 million being held in escrow to the Company and Mount Gibson Mining Limited, with the balance of \$12.5 million to be released to the Company and Mount Gibson Mining Limited on the earlier of 31 May 2007 and the date on which environmental approval is obtained in respect of the Extension Hill Magnetite Project.

As a result of this agreement, the 30 November 2007 deadline for obtaining environmental approval was removed and Sinom Investments was no longer entitled to terminate the original agreement and return the sale shares if the environmental deadline was not met. Payment of the final amount of \$12.5 million was received on 31 May 2007.

From 17 November 2006 the Company ceased to consolidate Asia Iron, and that business is reported as a discontinued operation in this financial report. Financial information relating to the discontinued operation of Asia Iron for the period to the date of disposal and the process of disposing of that business is set out below:

### [a] Profit from discontinued operations

The financial information presented below in respect of Asia Iron represents the period 1 July 2006 to 17 November 2006 (30 June 2007 column) and for the twelve month period to 30 June 2006.

	Note	30 June 2007 \$'000	30 June 2006 \$'000
<b>ASIA IRON</b>			
Other revenue		4	50
<b>TOTAL REVENUE</b>		<b>4</b>	<b>50</b>
Cost of sales		-	-
<b>GROSS PROFIT</b>		<b>4</b>	<b>50</b>
Other income		368	205
Other expenses		(242)	(1,684)
<b>PROFIT / (LOSS) OF ASIA IRON BEFORE TAX AND FINANCE COSTS</b>		<b>130</b>	<b>(1,429)</b>
Finance costs		(16)	(54)
<b>PROFIT / (LOSS) OF ASIA IRON BEFORE INCOME TAX</b>		<b>114</b>	<b>(1,483)</b>
Income tax (expense) / benefit		-	2,973
<b>NET PROFIT OF ASIA IRON FOR THE PERIOD AFTER INCOME TAX</b>		<b>114</b>	<b>1,490</b>
Gain on deconsolidation of Asia Iron	(b)	26,684	-
Related income tax	(b)	(8,077)	-
<b>NET PROFIT AFTER INCOME TAX RECOGNISED ON DISPOSAL OF ASIA IRON</b>		<b>18,607</b>	<b>-</b>
<b>NET PROFIT FROM DISCONTINUED OPERATIONS AFTER INCOME TAX</b>		<b>18,721</b>	<b>1,490</b>
Earnings per share (cents per share):			
- basic earnings per share – discontinued operations		3.82	0.38
- diluted earnings per share – discontinued operations		3.79	0.37

# Notes to the Consolidated Financial Report (continued)

## [b] Details of the gain on deconsolidation of Asia Iron

	Notes	30 June 2007 \$'000
Consideration received or receivable on disposal:		
- Cash received		52,500
- less: transaction costs		(492)
<b>Net disposal consideration</b>		<b>52,008</b>
MGI and MGM share of Asia Iron net assets disposed	(c)	24,439
FX translation reserve at disposal date		885
		<b>25,324</b>
Gain on deconsolidation before income tax		26,684
Related income tax expense		(8,077)
<b>Gain on deconsolidation of Asia Iron after income tax</b>		<b>18,607</b>

## [c] Carrying amounts of Asia Iron assets and liabilities

The major classes of assets and liabilities of Asia Iron measured at the lower of carrying amount and fair value, were as follows:

	21 August 2006 \$'000	30 June 2006 \$'000
<b>Assets</b>		
Cash	1,654	2,849
Trade and other receivables	209	216
Prepayments	72	115
Property, plant and equipment	3,149	3,158
Deferred acquisition, exploration, evaluation and development costs	40,303	39,755
Deferred tax assets	1,367	-
	<b>46,754</b>	<b>46,093</b>
<b>Liabilities</b>		
Trade and other payables	(1,286)	(1,568)
Interest bearing liabilities	(1,500)	(1,500)
Deferred tax liabilities	(7,904)	-
Liabilities directly associated with assets classified as held for sale	<b>(10,690)</b>	<b>(3,068)</b>
Net assets of discontinued operations disposed	<b>36,064</b>	<b>43,025</b>
Less: Minority interest	(11,625)	(11,776)
<b>Net assets attributable to disposal of Asia Iron</b>	<b>24,439</b>	<b>31,249</b>

# Notes to the Consolidated Financial Report (continued)

## [d] Assets and Liabilities associated with discontinued operation

As at 30 June 2007, there are no assets or liabilities in the Balance Sheet relating to the discontinued operation.

## [e] Cash flow information

The net cash flow on disposal of Asia Iron is presented below:

		30 June 2007	30 June 2006
		\$'000	\$'000
<b>Net cash inflow on disposal</b>			
Net cash consideration received on disposal	(b)	52,008	
Less cash and cash equivalents balances disposed	(c)	(1,654)	
Net inflow of cash on disposal		<u>50,354</u>	
<b>Net cash flows of Asia Iron</b>			
In respect of the discontinued operation of Asia Iron, the following net cash flows are included in the Condensed Cash Flow statement			
Operating activities		(211)	(492)
Investing activities		(960)	(9,027)
Financing activities		-	10,546
Net cash flows (used by) / from discontinued operation		<u>(1,171)</u>	<u>1,027</u>

# Notes to the Consolidated Financial Report (continued)

	Notes	CONSOLIDATED		COMPANY	
		2007	2006	2007	2006
		\$'000	\$'000	\$'000	\$'000
<b>11. PROPERTY, PLANT AND EQUIPMENT</b>					
Freehold land - at cost		5	3,020	5	5
Plant and equipment – at cost		91,636	10,057	-	-
Accumulated depreciation		(3,702)	(1,214)	-	-
		87,934	8,843	-	-
Plant and equipment under lease – at cost		78,005	6,095	-	-
Accumulated depreciation		(7,169)	(3,024)	-	-
		70,836	3,071	-	-
Buildings – at cost		30,316	6,709	-	-
Accumulated depreciation		(2,124)	(997)	-	-
		28,192	5,712	-	-
Buildings under lease – at cost		522	522	-	-
Accumulated depreciation		(292)	(241)	-	-
		230	281	-	-
Capital works in progress – at cost		571	2,576	-	-
<b>Total property, plant and equipment</b>					
At cost		201,055	28,979	5	5
Total accumulated depreciation		(13,287)	(5,476)	-	-
		187,768	23,503	5	5
Attributable to assets held for sale	10	-	(3,158)	-	-
		<b>187,768</b>	<b>20,345</b>	<b>5</b>	<b>5</b>
<b>[a] Assets pledged as security</b>					
The value of assets pledged as security are:					
Plant and equipment		87,934	8,843	-	-
Plant and equipment under lease		70,836	3,071	-	-
Buildings		28,192	5,712	-	-
Buildings under lease		230	281	-	-
Capital work in progress		571	2,576	-	-
		187,763	20,483	-	-

# Notes to the Consolidated Financial Report (continued)

	Notes	CONSOLIDATED		COMPANY	
		2007	2006	2007	2006
		\$'000	\$'000	\$'000	\$'000
<b>11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)</b>					
<b>[b] Reconciliations</b>					
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					
Carrying amount at the beginning of the year		8,843	1,887	-	-
Additions		1,778	7,666	-	-
Additions through acquisition of entities		1,020	-	-	-
Transfers		78,526	-	-	-
Disposals		(12)	(36)	-	-
Disposals – discontinued operations		(143)	-	-	-
Depreciation expense		(2,078)	(674)	-	-
Carrying amount at the end of the year		87,934	8,843	-	-
Plant and equipment under lease					
Carrying amount at the beginning of the year		3,071	9,852	-	-
Additions		56,371	2,783	-	-
Additions through acquisition of entities		19,122	-	-	-
Disposals		(3,625)	(6,485)	-	-
Depreciation expense		(4,103)	(3,079)	-	-
Carrying amount at the end of the year		70,836	3,071	-	-
Buildings					
Carrying amount at the beginning of the year		5,712	5,562	-	-
Additions		682	597	-	-
Additions through acquisition of entities		1,091	-	-	-
Transfers		21,600	-	-	-
Disposals		(8)	-	-	-
Depreciation expense		(885)	(447)	-	-
Carrying amount at the end of the year		28,192	5,712	-	-
Buildings under lease					
Carrying amount at the beginning of the year		281	359	-	-
Depreciation expense		(51)	(78)	-	-
Carrying amount at the end of the year		230	281	-	-
Capital works in progress					
Carrying amount at the beginning of the year		2,576	-	-	-
Additions		34,369	2,576	-	-
Additions through acquisition of entities		63,752	-	-	-
Transfers		(100,126)	-	-	-
Carrying amount at the end of the year		571	2,576	-	-

# Notes to the Consolidated Financial Report (continued)

	Notes	CONSOLIDATED		COMPANY	
		2007	2006	2007	2006
		\$'000	\$'000	\$'000	\$'000
<b>12. DEFERRED ACQUISITION, EXPLORATION, EVALUATION AND DEVELOPMENT COSTS</b>					
Deferred acquisition, exploration, evaluation and development costs carried forward in respect of mining areas of interest:					
Extension Hill Hematite		8,317	4,176	-	-
Koolan Island		710	-	-	-
Mt Gibson Magnetite		-	34,547	-	-
Koolanooka South Magnetite		-	5,208	-	-
		<b>9,027</b>	<b>43,931</b>	-	-
Attributable to disposal group	10[c]	-	(39,755)	-	-
		<b>9,027</b>	<b>4,176</b>	-	-
<b>Reconciliation</b>					
Carrying amount at beginning of the year		4,176	29,104	-	-
Additions		4,859	15,641	-	25
Exploration expenditure written off		(8)	(814)	-	(25)
		<b>9,027</b>	<b>43,931</b>	-	-
Attributable to disposal group	10[c]	-	(39,755)	-	-
Carrying amount at the end of the year		<b>9,027</b>	<b>4,176</b>	-	-
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 recognised pending commencement of production.					
<b>13. MINE PROPERTIES</b>					
Mine development expenditure		469,369	91,603	-	-
Accumulated amortisation		(98,685)	(40,036)	-	-
		<b>370,684</b>	<b>51,567</b>	-	-
<b>Reconciliation</b>					
Carrying amount at beginning of the year		51,567	15,131	-	-
Additions		28,310	-	-	-
Additions through acquisition of entities		248,356	-	-	-
Waste capitalised during the year		101,100	54,205	-	-
Amortisation expensed – deferred waste		(55,508)	(17,296)	-	-
Amortisation expensed – other		(3,141)	(473)	-	-
Carrying amount at the end of the year		<b>370,684</b>	<b>51,567</b>	-	-
<b>14. TRADE AND OTHER PAYABLES</b>					
<b>Current</b>					
Trade creditors		16,510	7,333	106	175
Accruals and other payables		47,804	10,503	14,108	166
		<b>64,314</b>	<b>17,836</b>	<b>14,214</b>	<b>341</b>

Current trade creditors and other payables are non-interest bearing and are normally settled on 30 day terms.

# Notes to the Consolidated Financial Report (continued)

	Notes	CONSOLIDATED		COMPANY	
		2007	2006	2007	2006
		\$'000	\$'000	\$'000	\$'000
<b>14. TRADE AND OTHER PAYABLES (CONTINUED)</b>					
<b>Non-Current</b>					
Other payables – related party		-	-	29,398	-
Non current related party payables are non-interest bearing with no fixed repayment date.					
<b>15. INTEREST-BEARING LOANS AND BORROWINGS</b>					
<b>Current</b>					
Lease liability	[a]	2,638	1,594	-	-
Hire purchase facility	[b]	8,665	-	-	-
Project Debt	[c]	87,451	-	-	-
		<b>98,754</b>	<b>1,594</b>	-	-
<b>Non-Current</b>					
Lease liability	[a]	6,399	4,247	-	-
Hire purchase facility	[b]	49,082	-	-	-
		<b>55,481</b>	<b>4,247</b>	-	-
Attributable to disposal group not included above	10	-	1,500	-	-
<b>Financing facilities available</b>					
At reporting date, the following financing facilities had been negotiated and were available:					
<b>Total facilities:</b>					
• Finance leases	[a]	9,037	5,841	-	-
• Hire purchase facility	[b]	57,747	-	-	-
• Project Debt facility	[c]	100,000	-	-	-
• Contingent Instrument facility	[d]	5,488	5,526	-	-
• Bank multiple advance	[d]	20,474	20,474	-	-
• Commercial bill		-	1,500	-	-
		<b>192,746</b>	<b>33,341</b>	-	-
<b>Facilities used at reporting date:</b>					
• Finance leases		9,037	5,841	-	-
• Hire purchase facility		57,747	-	-	-
• Project Debt facility		87,451	-	-	-
• Contingent Instrument facility		5,488	5,526	-	-
• Bank multiple advance		-	-	-	-
• Commercial bill		-	1,500	-	-
		<b>159,723</b>	<b>12,867</b>	-	-
<b>Facilities unused at reporting date:</b>					
• Finance leases		-	-	-	-
• Hire purchase facility		-	-	-	-
• Project Debt facility		12,549	-	-	-
• Contingent Instrument facility		-	-	-	-
• Bank multiple advance		20,474	20,474	-	-
• Commercial bill		-	-	-	-
		<b>33,023</b>	<b>20,474</b>	-	-

# Notes to the Consolidated Financial Report (continued)

Terms and conditions relating to the above financial facilities:

- [a] Finance leases are repayable monthly with final instalments due in August 2013. Interest is charged at an average rate of 8.24%. Secured by first mortgage over the leased assets.
- [b] Hire purchase arrangements have been entered into by Koolan Iron Ore Pty Ltd via a Master Lease agreement with Komatsu Corporate Finance Pty Limited and Westpac Banking Corporation Limited. Hire purchase amounts are repayable monthly with final instalments due in April 2012. Interest is charged at an average rate of 7.14%. Secured by first mortgage over the assets the subject of the hire purchase agreement and a guarantee from Mount Gibson Iron Limited. This facility is drawn and repayable in US\$ for Komatsu and A\$ for Westpac.
- [c] The project finance facility is with a banking syndicate comprising Westpac Banking Corporation, Bank of Scotland (Australia) Limited and Bank of Tokyo-Mitsubishi UFJ Ltd. The \$100 million facility consists of:
  - Senior debt facility of \$54 million (drawn in US\$);
  - Cost overrun facility of \$10 million (drawn in US\$);
  - Working capital facility of \$30 million; and
  - Environmental bond facility of \$6 million.

The security pledge for these facilities is a fixed and floating charge over all the assets and undertakings of Koolan Iron Ore Pty Ltd with a guarantee from Aztec Resources Limited. Interest is charged at an average rate of 7.22%.

This facility includes a Review Event clause in the event of a change in control which allows the banking syndicate the opportunity to review the creditworthiness of Aztec Resources Limited and the completion risk to the Koolan project as a consequence of the change of control. The banking syndicate may choose after this review to:

- leave the facility unaltered; or
- request further credit support from other companies in the Group; or
- give notice requiring repayment of the facility. Koolan Iron Ore Pty Ltd will have 90 days from the date of this notice to comply otherwise it will then constitute an event of default.

The banking syndicate was given notice about the review event in December 2006. On 30 April 2007 the Company provided a Corporate Guarantee to the banking syndicate.

As set out in [e] below, this project finance facility will be repaid in full and cancelled by the drawdown of the Corporate Debt facility.

- [d] This facility is with HSBC Bank Australia Limited. The security pledge for these facilities is a fixed and floating charge over all the assets and undertakings of Mount Gibson Mining Limited, Mount Gibson Iron Limited and Geraldton Bulk Handling Pty Ltd. This facility will be cancelled as a consequence of the establishment of the new Corporate Debt facility detailed in [e] below.
- [e] In June 2007 the Company mandated HSBC Australia Limited and National Australia Bank Limited as the joint lead Arranger and Underwriting Banks for a \$200 million debt facility to fund the refinance of the existing project finance facility in [c] above and the HSBC facility in [d] above and provide additional debt funding for the Koolan Island and Extension Hill iron ore developments. The facility documentation was signed on 28 August 2007 with drawdown under the facility subject to satisfaction of certain conditions precedent normal to this type of facility which are expected to be satisfied by early September 2007.

The \$200 million facility consists of:

- Senior debt facility of \$175 million comprising 2 tranches:
  1. Tranche 1 of \$125 million;
  2. Extension Hill tranche of \$50 million which is only drawable against the Extension Hill DSO project after certain conditions precedent have been satisfied including EPA approval and Company Board approval for the project to proceed; and
- Contingent Instrument facility of \$25 million (including guarantees, performance bonds).

The security pledge for these facilities is a fixed and floating charge over all the assets and undertakings of Mount Gibson Iron Limited, Mount Gibson Mining Limited, Geraldton Bulk Handling Limited, Koolan Iron Ore Pty Ltd and Aztec Resources Limited together with mining mortgages over the mining tenements owned by Mount Gibson Mining Limited and Koolan Iron Ore Pty Ltd and the contractual rights of Mount Gibson Mining Limited to mine hematite at Extension Hill.

# Notes to the Consolidated Financial Report (continued)

	Notes	CONSOLIDATED		COMPANY	
		2007	2006	2007	2006
		\$'000	\$'000	\$'000	\$'000
<b>16. DERIVATIVES</b>					
<b>Current Asset</b>					
Foreign currency forward contracts and options	34[c]	<b>5,065</b>	<b>2,541</b>	-	-
<b>Current Liability</b>					
Foreign currency forward contracts and options	34[c]	-	<b>1,470</b>	-	-
<b>17. PROVISIONS</b>					
<b>Current</b>					
Employee benefits		1,072	451	-	-
Road resealing		100	12	-	-
		<b>1,172</b>	<b>463</b>	-	-
<b>Non-Current</b>					
Employee benefits		28	14	-	-
Decommissioning rehabilitation		18,442	688	-	-
		<b>18,470</b>	<b>702</b>	-	-
<b>Movement in provisions:</b>					
<i>Road Resealing</i>					
Carrying amount at beginning of the year		12	62	-	-
Provision for period		188	100	-	-
Amounts utilised during the period		(100)	(150)	-	-
Carrying amount at end of the year		100	12	-	-
<i>Decommissioning Rehabilitation</i>					
Carrying amount at beginning of the year		688	655	-	-
Unwinding of discount on rehabilitation provision		31	33	-	-
Revaluation of rehabilitation provision		5,394	-	-	-
Acquisition of Controlled Entity		12,329	-	-	-
Carrying amount at end of the year		18,442	688	-	-

# Notes to the Consolidated Financial Report (continued)

	Notes	CONSOLIDATED		COMPANY	
		2007	2006	2007	2006
		\$'000	\$'000	\$'000	\$'000
<b>18. ISSUED CAPITAL</b>					
<b>[a] Ordinary shares</b>					
Issued and fully paid		<b>386,766</b>	<b>86,851</b>	<b>386,766</b>	<b>86,851</b>
		2007		2006	
		Number of Shares	\$'000	Number of Shares	\$'000
<b>[b] Movement in ordinary shares on issue</b>					
Beginning of the financial year		402,058,719	86,851	368,519,793	79,381
Shares issued for controlled entity	[i]	378,491,182	297,905	-	-
Issue of shares		-	-	40,000	10
Exercise of options		7,236,920	2,010	33,498,926	7,460
End of the financial year		<b>787,786,821</b>	<b>386,766</b>	<b>402,058,719</b>	<b>86,851</b>

[i] Issued to Aztec Resources Limited shareholders in exchange for business combination of \$297,905,196 (see Note 9).

## [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.

Effective from 1 July 1998, the Corporation legislation in place abolished the concept of authorised capital and par values. Accordingly, the Company does not have authorised capital nor par value in respect of its issued shares.

## [d] Share options

As at balance date the following Options over unissued Shares were on issue:

Exercise Price	Exercise Date/Period	2007	2006
		Number	Number
25 cents	On or before 31 December 2006	-	7,256,920
50 cents	On or before 31 December 2007	5,000,000	5,000,000
55 cents	On or before 31 December 2008	5,000,000	5,000,000
78 cents	On or before 31 December 2006	-	823,712
90 cents	On or before 30 June 2010	2,000,000	2,000,000
90 cents	On or before 23 October 2010	3,000,000	3,000,000
110 cents	On or before 23 October 2012	2,000,000	2,000,000
		<b>17,000,000</b>	<b>25,080,632</b>

In addition, as at 30 June 2007, there were 8,625,000 (2006: 4,175,000) 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 2007 before the options vest, at which time they will be issued to the respective employees. Once vested, 2,825,000 options will be exercisable at 78 cents each and expire on 31 December 2009 and 5,800,000 options will be exercisable at 89 cents each and expire on 31 December 2009. As at the date of this report, none of these options had vested.

Share options carry no right to dividends and no voting rights.

# Notes to the Consolidated Financial Report (continued)

		CONSOLIDATED		COMPANY	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>19. RESERVES</b>					
Option premium reserve	[a]	8,911	5,954	8,911	5,954
Net unrealised gains/(losses) reserve	[b]	3,963	(1,790)	283	(2,255)
Other reserves	[c]	(3,192)	(3,691)	-	-
		<b>9,682</b>	<b>473</b>	<b>9,194</b>	<b>3,699</b>
<b>[a] Option premium reserve</b>					
The option premium reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration.					
Balance at the beginning of the year		5,954	1,631	5,954	1,631
Share based payments		2,957	4,323	2,957	4,323
Balance at the end of the year		8,911	5,954	8,911	5,954
<b>[b] Net unrealised gains/(losses) reserve</b>					
This reserve records movement for available-for-sale financial assets to fair value and gains and losses on hedging instruments determined to be effective cash flow hedges.					
Balance at the beginning of the year		(1,790)	-	(2,255)	-
Application of AASB 132 and AASB 139		-	1,165	-	1,050
Net unrealised gains/(losses) on available-for-sale financial assets		1,032	(3,305)	1,032	(3,305)
Impairment of available-for-sale financial assets		1,506	-	1,506	-
Net gains on cash flow hedges		3,215	465	-	-
Release to income statement on expiry of cash flow hedges		-	(115)	-	-
Balance at the end of the year		3,963	(1,790)	283	(2,255)
<b>[c] Other reserves</b>					
Foreign currency translation reserve		-	(465)	-	-
Consolidation reserve		(3,192)	(3,226)	-	-
		(3,192)	(3,691)	-	-
<b>20. RETAINED EARNINGS / (ACCUMULATED LOSSES)</b>					
Balance at the beginning of the year		10,096	(13,383)	(5,966)	(13,483)
Net profit/(loss) attributable to members of the Company		47,765	23,479	(594)	7,517
Balance at the end of the year		<b>57,861</b>	<b>10,096</b>	<b>(6,560)</b>	<b>(5,966)</b>

# Notes to the Consolidated Financial Report (continued)

	CONSOLIDATED		COMPANY	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>21. MINORITY INTERESTS</b>				
Opening balance	11,776	8,956	-	-
Disposal by the Consolidated Entity of shares in Asia Iron Holdings Limited	(11,776)	-	-	-
Issue of capital by Asia Iron Holdings Limited	-	3,226	-	-
Share of current year loss	-	(406)	-	-
Closing balance	-	<b>11,776</b>	-	-
<b>22. EXPENDITURE COMMITMENTS</b>				
<b>[a] Exploration Expenditure Commitments</b>				
Minimum obligations not provided for in the financial report and are payable:				
• Not later than one year	791	906	-	-
• Later than one year but not later than five years	2,175	3,332	-	-
	<b>2,966</b>	<b>4,238</b>	-	-
<b>[b] Operating Lease Commitments</b>				
Minimum lease payments				
• Not later than one year	16,010	9,455	-	-
• Later than one year but not later than five years	2,302	10,627	-	-
	<b>18,312</b>	<b>20,082</b>	-	-
<b>[c] Finance Lease and Hire Purchase Commitments</b>				
Minimum lease payments				
• Not later than one year	15,652	2,001	-	-
• Later than one year but not later than five years	64,956	4,438	-	-
• Later than five years	200	610	-	-
Total minimum lease payments	80,808	7,049	-	-
Future finance charges	(14,024)	(1,208)	-	-
	<b>66,784</b>	<b>5,841</b>	-	-
<b>Total lease liability accrued for:</b>				
<b>Current</b>				
Finance leases and hire purchase facility	11,303	1,594	-	-
<b>Non-Current</b>				
Finance leases and hire purchase facility	55,481	4,247	-	-
	<b>66,784</b>	<b>5,841</b>	-	-

[i] In order to maintain current rights to explore and mine the tenements at Tallering Peak, Koolan Island, and Extension Hill 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:

- operating lease for office space with an initial lease term of 5 years; and
- operating lease for machinery has an average term of 1.4 years and expires in December 2008.

# Notes to the Consolidated Financial Report (continued)

[iii] Finance leases and hire purchases 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 rates implicit in the finance leases and hire purchases are 8.24% and 7.14% respectively. Secured lease liabilities are secured by a charge over the leased assets.

CONSOLIDATED		COMPANY	
2007	2006	2007	2006
\$'000	\$'000	\$'000	\$'000

## 23. EMPLOYEE BENEFITS

The aggregate employee benefits liability is comprised of:

Accrued wages, salaries and on-costs	720	1,544	-	43
Provisions	1,100	465	-	-
	<u>1,820</u>	<u>2,009</u>	<u>-</u>	<u>43</u>

## 24. SHARE-BASED PAYMENT PLANS

### (a) Recognised share-based payment expenses

Expense arising from equity-settled share-based payment transactions	2[d]	2,957	4,323	-	4,323
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The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2007 and 2006.

### (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 and issued under the employee share scheme is as follows:

	2007		2006	
	No. of Options	Weighted average exercise price (cents)	No. of Options	Weighted average exercise price (cents)
Balance at beginning of year	25,080,632	57.4	20,900,000	25.0
- granted and issued	-	-	9,073,712	91.7
- forfeited	(843,712)	52.9	(1,900,000)	56.9
- exercised	(7,236,920)	27.8	(2,993,080)	25.0
Balance at year end	<u>17,000,000</u>	<u>70.3</u>	<u>25,080,632</u>	<u>57.4</u>
Exercisable at year end	<u>10,000,000</u>	<u>52.5</u>	<u>13,080,632</u>	<u>37.8</u>

The outstanding balance of options granted and issued as at 30 June 2007 is represented by:

Exercise Price	Exercise Date	Vesting Date	No. of Options
50 cents	On or before 31 December 2007	31-Dec-05	5,000,000
55 cents	On or before 31 December 2008	31-Dec-06	5,000,000
90 cents	On or before 30 June 2010	01-Jul-08	2,000,000
90 cents	On or before 23 October 2010	24-Oct-08	3,000,000
110 cents	On or before 23 October 2012	24-Oct-10	2,000,000
			<u>17,000,000</u>

# Notes to the Consolidated Financial Report (continued)

In addition, as at 30 June 2007, there were 8,625,000 (2006: 4,175,000) 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 2007 before the options vest, at which time they will be issued to the respective employees. Once vested, 2,825,000 options will be exercisable at 78 cents each and expire on 31 December 2009 and 5,800,000 options will be exercisable at 89 cents each and expire on 31 December 2009. As at the date of this report, none of the options had vested.

The remaining contractual life for the options on issue as at 30 June 2007 is between 1 and 5 years (2006: 1 and 6 years).

The range for exercise prices for options on issue at the end of the year was \$0.50-\$1.10 (2006: \$0.25-\$1.10).

The fair value of the equity-settled share options granted under the option plan is estimated as at the date of grant using a binomial model taking into account the terms and conditions upon which the options were granted.

## 25. EARNINGS PER SHARE

Basic earnings per share amount are calculated by dividing net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

	CONSOLIDATED	
	2007	2006
	\$'000	\$'000
Profits used in calculating basic and diluted earnings per share	47,765	23,479
	<b>Number of Shares</b>	<b>Number of Shares</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	634,647,892	390,533,080
Effect of dilution		
- Share options	8,082,090	8,624,527
Weighted average number of ordinary shares used in calculating diluted earnings per share	642,729,982	399,157,607

## Conversions, calls, subscriptions or issues after 30 June 2007

Since the end of the financial year no 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.

## 26. DIVIDENDS PAID AND PROPOSED

No amounts have been paid, declared or recommended by the Company by way of dividend since the commencement of the year.

## 27. CONTINGENT LIABILITY

The HSBC Bank has provided a controlled entity with performance bonds totalling \$3,280,017.

# Notes to the Consolidated Financial Report (continued)

## 28. KEY MANAGEMENT PERSONNEL DISCLOSURES

### [a] Details of Key Management Personnel

#### [i] Directors

N Hamilton	Chairman (appointed 24 April 2007)
W Willis	Chairman (resigned 24 April 2007)
B Johnson	Deputy Chairman (resigned 30 June 2007)
L Tonkin	Managing Director
A Rule	Finance Director (resigned 30 June 2007, alternate Director from 30 June 2007)
C Readhead	Non-Executive Director
I Macliver	Non-Executive Director
A Jones	Non-Executive Director (appointed 28 July 2006)
P Bilbe	Non-Executive Director (appointed 23 February 2007)
M Horn	Non-Executive Director (appointed 30 June 2007)

#### [ii] Executives

K Malaxos	Chief Operating Officer (resigned 18 December 2006)
R Mencil	General Manager – Tallering Peak
D Quinlivan	Chief Operating Officer (appointed 18 December 2006)
Q Granger	General Manager – Koolan Island (from 1 December 2006 to 8 June 2007)
R Jordinson	General Manager – Koolan Island (from 8 June 2007)

### [b] Compensation of Specified Key Management Personnel

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Short-term	2,690	3,195	296	158
Post employment	142	157	8	10
Share-based payment	1,962	3,863	802	3,143
	<u>4,794</u>	<u>7,215</u>	<u>1,106</u>	<u>3,311</u>

The Consolidated Entity is taking advantage of Corporations regulation 2M.6.04 and as a result has presented the disclosure required by AASB 124 *Related Party Transaction* Aus 25.4 to Aus 25.7.2 in the Remuneration Report within the Directors' Report. These remuneration disclosures have been audited.

# Notes to the Consolidated Financial Report (continued)

## [c] Option holdings of Key Management Personnel

30 June 2007	Balance at Beginning of Period 1 July 2006	Granted as Remuneration	Options Exercised	Net Change	Balance at End of Period 30 June 2007	Vested at 30 June 2007		
						Total	Not Exercisable	Exercisable
<b>Directors</b>								
N Hamilton	-	-	-	-	-	-	-	-
W Willis [i]	1,000,000	-	(1,000,000)	-	-	-	-	-
B Johnson [ii]	5,000,000	-	-	(5,000,000)	-	-	-	-
L Tonkin	5,000,000	-	-	-	5,000,000	-	-	-
A Rule	2,000,000	-	-	-	2,000,000	-	-	-
C Readhead	500,000	-	(500,000)	-	-	-	-	-
I Macliver	500,000	-	(500,000)	-	-	-	-	-
A Jones	-	-	-	-	-	-	-	-
P Bilbe	-	-	-	-	-	-	-	-
M Horn	-	-	-	-	-	-	-	-
<b>Executives</b>								
K Malaxos [iii]	350,000	-	(350,000)	-	-	-	-	-
R Mencil	-	250,000	-	-	250,000	-	-	-
Q Granger	-	-	-	-	-	-	-	-
D Quinlivan	-	-	-	-	-	-	-	-
R Jordinson	-	-	-	-	-	-	-	-
<b>Total</b>	<b>14,350,000</b>	<b>250,000</b>	<b>(2,350,000)</b>	<b>(5,000,000)</b>	<b>7,250,000</b>	<b>-</b>	<b>-</b>	<b>-</b>

[i] Mr W Willis resigned on 24 April 2007.

[ii] Mr B Johnson resigned as a director on 30 June 2007.

[iii] Mr K Malaxos resigned on 18 December 2006.

30 June 2006	Balance at Beginning of Period 1 July 2005	Granted as Remuneration	Options Exercised	Net Change	Balance at End of Period 30 June 2006	Vested at 30 June 2006		
						Total	Not Exercisable	Exercisable
<b>Directors</b>								
W Willis	2,440,000	-	(1,440,000)	-	1,000,000	1,000,000	-	1,000,000
B Johnson	12,500,000	-	(2,500,000)	(5,000,000)	5,000,000	-	-	-
L Tonkin	-	5,000,000	-	-	5,000,000	-	-	-
A Rule	-	2,000,000	-	-	2,000,000	-	-	-
C Readhead	1,250,000	-	(750,000)	-	500,000	500,000	-	500,000
I Macliver	1,250,000	-	(750,000)	-	500,000	500,000	-	500,000
<b>Executives</b>								
S Coates	750,000	250,000	-	-	1,000,000	750,000	-	750,000
D Garcia	-	-	-	-	-	-	-	-
P Jones	-	250,000	-	-	250,000	-	-	-
K Malaxos	750,000	-	(400,000)	-	350,000	350,000	-	350,000
<b>Total</b>	<b>18,940,000</b>	<b>7,500,000</b>	<b>(5,840,000)</b>	<b>(5,000,000)</b>	<b>15,600,000</b>	<b>3,100,000</b>	<b>-</b>	<b>3,100,000</b>

# Notes to the Consolidated Financial Report (continued)

## [d] Shareholding of Key Management Personnel

30 June 2007	Balance 1 July 2006 Ord	Granted as Remuneration Ord	On Exercise of Options Ord	Net Change Other Ord	Balance 30 June 2007 Ord
<b>Directors</b>					
N Hamilton	-	-	-	185,000	185,000
W Willis [i]	1,480,000	-	1,000,000	(2,480,000)	-
B Johnson [ii]	-	-	-	-	-
L Tonkin	-	-	-	-	-
A Rule	-	-	-	50,000	50,000
C Readhead	727,500	-	500,000	(160,000)	1,067,500
I Macliver	1,000,000	-	500,000	-	1,500,000
A Jones	-	-	-	100,000	100,000
P Bilbe	-	-	-	52,033	52,033
M Horn	-	-	-	-	-
<b>Executives</b>					
K Malaxos [iii]	25,000	-	-	(25,000)	-
R Mencil	-	-	-	-	-
Q Granger	-	-	-	-	-
D Quinlivan	-	-	-	-	-
R Jordinson	-	-	-	-	-
<b>Total</b>	<b>3,232,500</b>	<b>-</b>	<b>2,000,000</b>	<b>(2,277,967)</b>	<b>2,954,533</b>

[i] Mr W Willis resigned on 24 April 2007.

[ii] Mr B Johnson resigned as a director on 30 June 2007.

[iii] Mr K Malaxos resigned on 18 December 2006.

30 June 2006	Balance 1 July 2005 Ord	Granted as Remuneration Ord	On Exercise of Options Ord	Net Change Other Ord	Balance 30 June 2006 Ord
<b>Directors</b>					
W Willis	420,000	-	1,440,000	(380,000)	1,480,000
B Johnson	-	-	2,500,000	(2,500,000)	-
L Tonkin	-	-	-	-	-
A Rule	-	-	-	-	-
C Readhead	177,500	-	750,000	(200,000)	727,500
I Macliver	1,200,000	-	750,000	(950,000)	1,000,000
<b>Executives</b>					
S Coates	900,000	-	-	40,000	940,000
D Garcia	-	-	-	-	-
P Jones	-	-	-	-	-
K Malaxos	25,000	-	400,000	(400,000)	25,000
<b>Total</b>	<b>2,722,500</b>	<b>-</b>	<b>5,840,000</b>	<b>(4,390,000)</b>	<b>4,172,500</b>

All equity transactions with key management personnel 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.

## [e] Loans to Specified Key Management Personnel

There were no loans to key management personnel during the year.

# Notes to the Consolidated Financial Report (continued)

## [f] Other Transactions and Balances with Key Management Personnel

### 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 \$187 (2006: \$1,546) and \$187 (2006: \$7,631) respectively.

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

	Consolidated	
	2007 \$'000	2006 \$'000
<b>Assets and Liabilities</b>		
<i>Current Liabilities</i>		
Trade Creditors	-	-
Total Liabilities	-	-
<b>Revenues and Expenses</b>		
Corporate expenses	-	8
Total Expenses	-	8

## 29. RELATED PARTY DISCLOSURE

### Ultimate parent

Mount Gibson Iron Limited is the ultimate Australian parent company.

### Wholly-owned group transactions

Loans were made by the Company to wholly owned subsidiaries. Interest of \$2,507,739 (2006: \$2,795,958) was charged on the loan to Mount Gibson Mining Limited at 7%pa during the year. All other loans are interest free, have no fixed repayment date and are repayable on demand. Included in the loans are:

- transfers of deferred tax asset and deferred tax liability balances to the Company from each of the wholly owned subsidiaries as a consequence of the tax consolidation group of \$29,467,928 (2006: \$10,672,008); and
- share based payment expense incurred by the Company for options issued by the Company to employees that are employed by wholly owned subsidiaries of \$3,041,7500 (2006: nil)

### Director-related entity transactions

There are no director-related entity transactions other than those specified in Note 28.

	CONSOLIDATED		COMPANY	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000

## 30. AUDITORS' REMUNERATION

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	166	100	118	24
▪ Other services in relation to the entity and any other entity in the consolidated entity	32	40	32	-
	198	140	150	24

## 31. SEGMENT INFORMATION

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.

# Notes to the Consolidated Financial Report (continued)

## 32. EVENTS AFTER THE BALANCE SHEET DATE

As at the date of this report, apart from the:

- Corporate Debt refinancing set out in Note 15; and
- Minister for the Environment approval for the DSO project to proceed,

there are no other significant events after balance date of the Company or of the Consolidated Entity..

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Consolidated Entity's principal financial instruments, other than derivatives, comprise bank loans, finance leases and hire purchase contracts, cash and short-term deposits.

The main purpose of these financial instruments is to raise finance for the Consolidated Entity's operations.

The Consolidated Entity has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The Consolidated Entity also enters into derivatives transactions, principally forward currency contracts. The purpose is to manage the currency risks arising from the Consolidated Entity's operations and its sources of finance.

The main risks arising from the Consolidated Entity's financial instruments are interest rate risk, credit risk, foreign currency risk, commodity price risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

### Interest rate risk

The Consolidated Entity's policy is to manage its interest cost using a mix of fixed and variable rate debt, and to keep between 50% and 75% of its borrowings at fixed rates of interest.

### Credit risk

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 balance sheet.

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\$5,065,313 (2006: \$1,071,486).

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. There are no significant concentrations of credit risk within the Consolidated Entity.

### Foreign currency risk

As a result of receipts being denominated in US dollars, the Consolidated Entity's cash flow can be affected significantly by movements in the US\$/A\$ exchange rates. The project finance facility for construction of the Koolan project is partly denominated in US\$ and all of the hire purchase liabilities for the mining equipment at Koolan are denominated in US\$.

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

It is the Consolidated Entity's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

### Commodity price risk

The Consolidated Entity's exposure to commodity price risk is significant. Iron ore prices are set each year and apply from 1 April to 31 March the following year. There are no readily available financial instruments available to hedge the iron ore price.

### Liquidity risk

The Consolidated Entity's objective is to maintain a balance between continuity of funding and flexibility through the use of its Corporate Debt facility, finance leases and hire purchase contracts.

## Notes to the Consolidated Financial Report (continued)

### 34. FINANCIAL INSTRUMENTS

#### [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:

	Fixed interest rate maturing in:								Total carrying amount per balance sheet		Weighted average effective interest rate	
	Floating interest rate		1 year or less		Over 1 to 5 years		Non-interest bearing		2007	2006	2007	2006
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	\$'000	\$'000	%	%
<b>i) Financial assets</b>												
Cash	60,673	4,333	90	84	-	-	35	131	<b>60,798</b>	<b>4,548</b>	6.80	5.29
Trade and other receivables	-	-	-	-	-	-	9,848	6,180	<b>9,848</b>	<b>6,180</b>	N/A	N/A
Unlisted shares	-	-	-	-	-	-	3	-	<b>3</b>	-	N/A	N/A
Listed shares	-	-	-	-	-	-	1,802	1,248	<b>1,802</b>	<b>1,248</b>	N/A	N/A
Derivatives	-	-	-	-	-	-	5,065	2,541	<b>5,065</b>	<b>2,541</b>	N/A	N/A
<b>Total financial assets</b>	<b>60,673</b>	<b>4,333</b>	<b>90</b>	<b>84</b>	<b>-</b>	<b>-</b>	<b>16,753</b>	<b>10,100</b>	<b>77,516</b>	<b>14,517</b>		
<b>ii) Financial liabilities</b>												
Trade and other payables	-	-	-	-	-	-	64,314	17,836	<b>64,314</b>	<b>17,836</b>	N/A	N/A
Derivatives	-	-	-	-	-	-	-	1,470	-	<b>1,470</b>	N/A	N/A
Lease liabilities	-	-	2,638	1,594	6,399	4,247	-	-	<b>9,037</b>	<b>5,841</b>	8.24	7.97
Hire purchase	-	-	8,665	-	49,082	-	-	-	<b>57,747</b>	-	7.14	N/A
Senior debt	-	-	-	-	87,451	-	-	-	<b>87,451</b>	-	7.62	N/A
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>11,303</b>	<b>1,594</b>	<b>142,932</b>	<b>4,247</b>	<b>64,314</b>	<b>19,306</b>	<b>218,549</b>	<b>25,147</b>		

# Notes to the Consolidated Financial Report (continued)

## 34. FINANCIAL INSTRUMENTS (CONTINUED)

### [b] Net fair values

All recognised financial assets and liabilities in the Consolidated Entity have been recognised at their net fair values at balance date.

The recognised financial assets and liabilities in the Consolidated Entity as at 30 June 2007, except for available for sale financial assets, have been recognised at their net fair value as detailed below.

	Carrying Value at 30 June 2007 \$'000	Net Fair Value at 30 June 2007 \$'000
Available for sale financial assets	1,802	1,802

The net fair value, representing the mark to market of a financial asset or a financial liability, is the amount at which the asset could be exchanged or liability settled in a current transaction between willing partners after allowing for transaction costs.

### [c] Hedging instruments

#### [i] Hedges for specific commitments

The Consolidated Entity has entered into forward exchange contracts and foreign exchange option 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 effective, in accordance with AASB 139.

As at 30 June 2007 the following foreign exchange contracts were outstanding:

	US\$'000	2007 A\$'000 equivalent	Fair Value A\$'000	US\$'000	2006 A\$'000 equivalent	Fair Value A\$'000
<b>Forward Exchange Contracts</b>						
- contract rate 0.7397	-	-	-	9,000	12,167	48
- contract rate 0.7287	-	-	-	9,000	12,351	214
- contract rate 0.7070	-	-	-	6,000	8,487	366
- contract rate 0.7404	8,000	10,805	1,359	-	-	-
	8,000	10,805	1,359	24,000	33,005	628
<b>Collar Option</b>	-	-	-	60,000	83,443	443
- call strike price 0.760/0.750/0.770/0.740/0.750/0.745						
- put strike price 0.7245/0.718/0.7335/0.72/0.715/0.711						
<b>Collar Option</b>	24,000	33,405	3,706	-	-	-
- call strike price 0.750/0.745						
- put strike price 0.715/0.711/0.724						
<b>Total</b>	<b>32,000</b>	<b>44,210</b>	<b>5,065</b>	<b>84,000</b>	<b>116,448</b>	<b>1,071</b>

All of the above contracts mature by 29 October 2007.

## Directors' Declaration

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

1. In the opinion of the Directors:
  - a. the financial statements, notes and the additional disclosures included in the Directors Report designated as audited 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 financial position of the Company and Consolidated Entity as at 30 June 2007 and of their performance for the year ended on that date; and
    - ii) complying with Accounting Standards and the 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.
  
2. This declaration has been 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 year ended 30 June 2007.

Signed in accordance with a resolution of the directors.



**N HAMILTON**  
Chairman

Perth, 30 August 2007

## Independent auditor's report to the members of Mount Gibson Iron Limited

We have audited the accompanying financial report of Mount Gibson Iron Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

The company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard 124 *Related Party Disclosures* ("remuneration disclosures"), under the heading "Remuneration Report" on pages 11 to 16 of the directors' report, as permitted by Corporations Regulation 2M.6.04.

### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards. The directors are also responsible for the remuneration disclosures contained in the directors' report.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and that the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Independence*

In conducting our audit we have met the independence requirements of 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. In addition to our audit of the financial report and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

### *Auditor's Opinion*

In our opinion:

1. the financial report of Mount Gibson Iron Limited is in accordance with 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 2007 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the consolidated financial report also complies with International Financial Reporting Standards as disclosed in Note 1
3. the remuneration disclosures that are contained on pages 11 to 16 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures*



Ernst & Young



Gavin A Buckingham

Partner

Perth

30 August 2007

# Corporate Governance Statement

## THE BOARD AND CORPORATE GOVERNANCE

The Company's 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 Company's Corporate Governance Principles and Practices Manual were approved on 10 June 2006 and have been reviewed and updated as necessary during the year.

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](http://www.mtgibsoniron.com.au).

The Board will continue 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 ROLE OF THE BOARD AND THE BOARD CHARTER

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 Company's 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.

## CONFLICT OF INTERESTS POLICY

The Board has adopted a Conflict of Interest Policy which establishes a protocol under which each Director is required to disclose certain interests and the advise the Board in circumstances where a potential conflict of interest may arise. The Conflicts of Interest Policy also sets out the procedures to be followed where the Chairman determines that a Director's interest in a matter may be sufficiently material or may result in a conflict of interest occurring.

## BOARD COMPOSITION

As at the date of this report the Company has seven Directors: six Non-Executive Directors including the Chairman, and one Executive Director.

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 2.

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

## DIRECTOR INDEPENDENCE

The Company'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:

- Mr Willis provided consultancy services to the Consolidated Entity 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.
- Mr Readhead and Pullinger Readhead Lucas a law firm of which he is a partner, provide legal services to the Consolidated Entity. The fees in relation to these legal services are not material to the Company or to the provider.
- Mr Macliver 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 Limited 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 Limited, the Board concluded that the relationship would not interfere with Mr Macliver's independent judgement.
- Mr Jones is a representative of Shareholder group, he has no other relationship which would interfere with his independent judgement.
- Mr Horn 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 bi-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 16.

### **BOARD COMMITTEES**

The Company's Board has established an Audit and Risk Management Committee and a Nomination, Remuneration and Governance Committee.

#### ***Audit and Risk Management Committee ("ARMC")***

The ARMC meets generally two times during a financial year. Committee members' attendance at ARMC meetings is detailed on page 16.

The ARMC'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 ARMC'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 Managing Director, Chief Financial officer and the External Auditors usually attend ARMC meetings.

#### ***Nomination, Remuneration and Governance Committee ("NRGC")***

The Board recently established the NRGC which expanded the role of the previously established Remuneration Committee. The NRGC will meet at least two times during a financial year. Committee members' attendance at NRGC meetings is detailed on page 16.

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

- reviewing and recommending to the Board the size, composition and membership of the Board;
- developing and facilitating the process for Board and Director evaluation;
- making recommendation to the Board on remuneration of Directors and Senior Executives;
- reviewing the Managing Director's performance, at least annually; and
- review and implementation of Corporate Governance protocols.

## **FINANCIAL REPORTING**

Consistent with ASX Principle 4.1, the Company's financial report preparation and approval process for the financial year ended 30 June 2007 involved both the Managing Director and the Chief Financial Officer providing detailed representations to the Board covering:

- compliance with the Company'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 Board annually self assess its collective performance, and the performance of individual Directors and of Board committees. The assessment is undertaken using questionnaires, discussions and, where applicable, advice from external consultants.

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**

The Company Secretary has primary responsibility for ensuring that the ASX disclosure requirements are met.

As well as its Continuous Disclosure Policy, the Company has also adopted:

- Policy for dealing with Media Enquiries; 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.