



Mount Gibson Iron Limited

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ASX ANNOUNCEMENT

ASX Code : MGX

23 August 2012

Mount Gibson announces annual net profit of \$172.5 million

- Net profit after tax of \$172.5 million (FY2011: \$239.5 million)
- Net profit before tax of \$239.6 million (FY2011: \$342.9 million)
- Final dividend of 2 cents per share fully franked, full year payout 4 cps fully franked (FY2011: 4cps)
- Strong balance sheet, \$293 million in cash/deposits (FY2011: \$387 million), no corporate debt
- Full year revenue of \$668.9 million (FY 2011: \$693.2 million)
- Sales revenue of \$648.5 million (FY 2011: \$672.1 million)
- Iron ore sales of 5.2 million tonnes of DSO hematite (FY 2011: 5.2 Mt)
- Total cost of goods sold \$71.70 per wet metric tonne (FY 2011: \$62.10/wmt)¹
- Average realised price of A\$124.50/wmt tonne sold FOB (FY2011: \$128.40/wmt)
- Record 6.9 million tonnes of ore mined and crushed (FY2011: 5.4 Mt)
- Substantial ore stockpiles at the mines, rail sidings and Geraldton port.
- Record production and sales volumes expected in FY2013
- Well placed to capitalise on attractive long term growth opportunities
- Senior executive management team rebuilt
- Foreign Investment Review Board recognition of Board independence/corporate governance

¹ Reflects all cash and non-cash costs, excluding the impairment provision for low-grade stockpiles.

Summary

Mount Gibson Iron Limited (**Mount Gibson**) is pleased to report a net profit after tax of \$172.5 million for the financial year ended 30 June 2012. The result is the second highest net profit ever recorded by the Company and was achieved on total revenue of \$668.9 million, including sales revenue of \$648.5 million.

Net profit was approximately 28% lower than the prior year's record result, and sales revenue was 6% lower than in the prior year on similar volumes. This result represents a solid performance in challenging operating and market conditions in 2012.

The full year result and lower cash balance reflect a number of factors, including:

- lower realised iron ore prices during the period;
- the first year of cash tax payments (\$34 million);
- dividend distributions (\$62 million);
- writedown of low-grade ore stockpiles (\$25 million)
- capital expenditure at Koolan Island, Extension Hill and Geraldton Port;
- higher unit production costs at Talling Peak and Koolan Island reflecting waste development and weather-related disruptions;
- disruption to rail operations resulting from infrastructure upgrades for other Mid West mining projects which restricted the shipment of material otherwise available for sale.
- high year-end inventory due to rescheduling of Koolan Island shipments from June to July.

Importantly, Mount Gibson generated robust earnings. It has also invested heavily to lay the foundations for the future growth of the business by optimising its existing mining operations, expanding export capacity, reinvigorating the executive management team and Board, and stepping up its evaluation of potential growth opportunities.

The Company declared a final dividend of 2 cents per share fully franked, maintaining the full year distribution at 4 cents. The Board will continue to assess future capital management initiatives in the context of market conditions and the capital requirements of the business.

Outlook

This result highlights the fundamental underlying strength of Mount Gibson's business and its ability to withstand volatile commodity and financial market conditions.

With total year-end cash reserves of \$293 million, strong cashflows and no corporate debt, Mount Gibson is well placed to consolidate and grow its business in the years ahead.

Mount Gibson expects FY2013 to be an improved year in terms of production and sales volumes following the successful expansion of port and rail facilities at Geraldton Port, which has doubled the export capacity of the Company's Mid West operations to 6 million tonnes per annum, the successful ramp-up of the Extension Hill mine, and operational improvement at Koolan Island in the Kimberley.

With the recent decline in iron ore prices, Mount Gibson is focused on programs to reduce costs so as to maximise profit margins and insulate the Company against future price fluctuations.

With respect to the Mineral Resource Rent Tax (MRRT), the FY2012 result includes a Deferred Tax Asset of \$2.9 million. Based on internal modeling, Mount Gibson does not currently expect to pay any MRRT over the life of its current assets. This remains dependent on future iron ore prices and foreign exchange rates.

Comment

Mount Gibson Chairman Geoff Hill said: "Mount Gibson's ability to generate solid earnings and maintain a strong balance sheet in conditions during the June half that were far more challenging than those of previous periods demonstrates the fundamental strength of our business."

“We have also undergone substantial transformation during the year. This has included a total renewal of the executive management team under new Chief Executive Officer Jim Beyer. Three highly skilled and experienced independent Directors have been appointed to the Board and enhanced corporate governance practices have been introduced, resulting in confirmation from the FIRB that Mount Gibson is in step with corporate governance guidelines with respect to Board independence.

“With the support of our major shareholders APAC Resources and Shougang, we have the production, cashflows, and balance sheet strength to not only withstand these challenging market conditions, but also to invest in the long term future of our business and capitalise on the attractive opportunities which are emerging.”

Mount Gibson's Appendix 4E and preliminary financial report for the year ended 30 June 2012 are attached.

For further information:

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MOUNT GIBSON IRON LIMITED
APPENDIX 4E – PRELIMINARY FINAL REPORT

- Current Reporting Period: 12 months ended 30 June 2012
- Previous Corresponding Period: 12 months ended 30 June 2011

		A\$ millions
Revenue from ordinary activities	down 3.5% to	648.5
Net profit after tax from ordinary activities	down 28.0% to	172.5
Net profit after tax attributable to members	down 28.0% to	172.5

DIVIDENDS

	Amount per security	Franked amount per security
Final dividend	2 cents	2 cents

Record date for determining entitlements to the dividend 8th October 2012

Date the final dividend is payable 22nd October 2012

A maiden final fully franked dividend of 4 cents per share in respect of the 2011 year and a maiden interim fully franked dividend of 2 cents per share were paid during the year ended 30 June 2012.

RATIOS

- Net tangible asset backing per share is \$0.302 (2011: \$0.397)

Net tangible asset backing per share has been calculated by dividing the Net Assets excluding Mine Properties by the closing number of ordinary shares on issue.

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

Not applicable.

STATUS OF AUDIT

The 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 2012 together with any public announcements made by Mount Gibson during the year ended 30 June 2012 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 2012

Financial Report

For the year ended 30 June 2012

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Directors' Report

Your Directors submit their report for the year ended 30 June 2012 for Mount Gibson Iron Limited ("**Company**" or "**Mount Gibson**") and the consolidated entity incorporating the entities that it controlled during the financial year ("**Group**").

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

Geoffrey Hill B.Econ, MBA, FCPA, FCDA, FSIA
Chairman, Independent Non-Executive Director

Mr Hill was appointed as an Independent Non-Executive Director on 20 May 2011 and Chairman on 24 August 2011. He is a company director and merchant banker. He served as Managing Director and Chief Executive Australia of the Morgan Grenfell group in the mid-1980s, before forming his own investment advisory business, International Pacific Securities. He is currently the chairman of Texas and Oklahoma Coal Company Limited, and Metals Finance Limited and a director of Broken Hill Prospecting Limited and Asian Property Investments Limited and is the executive chairman of International Pacific Securities Inc. During the past 3 years Mr Hill has also served as a director of Centrex Metals Limited, Hills Holdings Limited, Outback Metals Limited, and Heritage Gold Limited.

Alan Jones CA
Independent Non-Executive Director

Mr Jones was appointed as an Independent 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 has been involved in the successful merger and acquisition of a number of public companies in Australia and internationally. He is a Non-Executive Director of Mulpha Australia Ltd, Sun Hung Kai & Co Ltd (Hong Kong), Allied Group Ltd (Hong Kong), Allied Properties Ltd (Hong Kong), and IFC Capital Limited. During the past 3 years Mr Jones has also served as a director of APAC Resources Limited.

Chen Zhouping CPA
Non-Executive Director

Mr Chen was appointed as a Non-Executive Director on 19 January 2009. Mr Chen is a graduate from the School of Economics and Management, Beijing Tsinghua University and is a member of the Chinese Institute of Certified Public Accountants. He has extensive experience in the steel industry, engineering design, human resources and management. Mr Chen was appointed as Deputy Managing Director of Shougang Concord International Enterprises Company Limited ("**Shougang International**") in November 2002. He is also the Deputy Managing Director of Shougang Holding (Hong Kong) Limited ("**Shougang Holding**") and the Vice Chairman and Managing Director of Shougang Fushan Resources Group Limited formerly known as Fushan International Energy Group Limited (a Hong Kong listed company). He is a director of a number of other companies of which Shougang Holding or Shougang International is the holding company. During the past 3 years Mr Chen has not served as a director of any other listed companies.

Lee Seng Hui B.Law (Hons)
Non-Executive Director

Mr Lee was appointed as a Non-Executive Director on 29 January 2010. Mr Lee graduated with Honours from the University of Sydney Law School. Mr Lee is the Chief Executive and an Executive Director of Allied Group Limited which is listed on the Hong Kong Stock Exchange. Mr Lee is also the Chairman and a Non-Executive Director of Tian An China Investments Company Limited and a Non-Executive Director of Tanami Gold NL and APAC Resources Limited. Mr Lee was previously the Chairman and an Executive Director of Yu Ming Investments Limited (now known as SHK Hong Kong Industries Limited). During the past 3 years Mr Lee has not served as a director of any other listed companies.

Directors' Report (continued)

Li Shaofeng B.Automation
Non-Executive Director

Mr Li was appointed as a Non-Executive Director on 23 February 2012. Mr Li has extensive experience in management of, and investments in, listed companies, Sino-foreign joint ventures and steel industry entities. He holds a bachelor degree in Automation from University of Science and Technology Beijing. He is the vice chairman and managing director of Shougang Holding (Hong Kong) Limited. Mr Li is the managing director of Shougang Concord International Enterprises Company Limited and the chairman of each of Shougang Fushan Resources Group Limited, Shougang Concord Century Holdings Limited, Shougang Concord Technology Holdings Limited, Shougang Concord Grand (Group) Limited and Global Digital Creations Holdings Limited, all of which are companies listed on the Hong Kong Stock Exchange. He is also a director of Sinocop Resources (Holdings) Limited, a Hong Kong listed company.

Russell Barwick Dip.Mining Engineering, FAICD, FAIMM
Independent Non-Executive Director

Mr Barwick was appointed as an Independent Non-Executive Director on 16 November 2011. Mr Barwick is a mining engineer with 38 years technical, operational, managerial and corporate experience in international mining companies covering various commodities. He has worked for Bougainville Copper Limited (CRA), Pancontinental Mining Ltd (Jabiluka Uranium) and CSR Limited (coal). He then spent 17 years with Placer Dome Asia Pacific in key development, operational and corporate roles in numerous countries culminating in his appointment as Managing Director of Placer Niugini Ltd. He then served as Managing Director of Newcrest Mining Limited (2000 to 2001). For the four years to the end of 2006, Mr Barwick was the Chief Operating Officer of Wheaton River Minerals Ltd and Goldcorp Inc., based in Vancouver. He was subsequently the Chief Executive Officer of Halifax-based Gammon Gold Inc. He returned to Australia in 2008 and he is currently the Chairman of Red Metal Ltd (ASX:RDM).

Simon Bird B.Acc.Science (Hons) FCPA, FAICD

Independent Non-Executive Director

Mr Bird was appointed as an Independent Non-Executive Director on 23 February 2012 and is Chairman of the Audit and Risk Management Committee. Mr Bird has 27 years of international finance experience. He is presently the CEO of ASX-listed King Island Scheelite Ltd which is developing the tungsten mines on King Island in Tasmania. Until December 2008, Mr Bird was Stockland Ltd's General Manager Finance. Prior to that he was Chief Financial Officer at GrainCorp Ltd for six years and spent two years as Chief Financial Officer of Wizard Mortgage Corp. Mr Bird is a Non-Executive Director and Chairman of the Audit Committee of Metals Finance Limited and a former director of CPA Australia Limited and Kosciuszko Alpine Club Limited.

Professor Paul Douglas B.Eng (Chem), M.Eng.Science, FAICD, CEng., Hon Fellow Engineers Australia
Independent Non-Executive Director

Mr Douglas was appointed as an Independent Non-Executive Director on 16 November, 2011. Mr Douglas has 40 years of design, process, project engineering, managerial, commercial and corporate experience. Mr Douglas began his career in the Melbourne & Metropolitan Board of Works before joining Sinclair Knight Merz ("**SKM**") in 1978. From initial technical roles he soon assumed leadership roles in Sydney before returning to Melbourne as Associate Director and Victorian Branch Manager in 1985. In 1995 he was appointed Managing Director Elect and Director of Marketing before becoming Chief Executive Officer and Managing Director in 1996. For the next 15 years, he led a significant expansion of SKM locally and internationally involving more than 50 local and international acquisitions. He also oversaw the company's expansion into South-East Asia with the opening of offices in Shanghai and Hong Kong. During his leadership SKM developed strong project alliances with major mining companies including BHP Billiton, Rio Tinto and Vale Metals Group. Mr Douglas was a Non-Executive Director of ConnectEast Ltd from 2009 until its takeover in September 2011 and on the SKM Board from 1990 until 2011.

Peter Curry B.Comm, B.Law, CA, FAICD
Alternate Director to Lee Seng Hui

Mr Curry was appointed Alternate Director on 11 February 2011. With over 35 years of business experience, he worked as Tax Partner in Peat Marwick Mitchell (now known as "KPMG") and thereafter in different listed and unlisted companies in Australia as executive director or managing director specialising in natural resources, corporate finance, mergers and acquisitions. He has extensive experience in public and private capital raisings, initial public offering related services and corporate and financial advisory services. Mr Curry is a director of APAC Resources Limited, Sun Hung Kai & Co Limited and Ormil Energy Limited. During the past 4 years Mr Curry has also served as a director of Forrest Enterprises Australia Limited.

Directors' Report (continued)

Craig Readhead B. Juris, LL.B, AICD
Chairman, Non-Executive Director

Mr Readhead was the Non-Executive Chairman until 24 August 2011 and a Non-Executive Director until 14 December 2011. Mr Readhead was a committee member of the Nomination, Remuneration and Governance Committee and the Audit and Risk Management Committee until 14 December 2011 during which time he also held the position of Chairman on the Nomination, Remuneration and Governance Committee. Mr Readhead has spent the last 30 years practising in the resources law area and is a principal of law firm Allion Legal (formerly called Pullinger Readhead). Mr Readhead has had a significant legal role in the development of a number of mining projects within Australia, Africa and South East Asia.

Luke Tonkin B.E., MAusIMM, AICD
Managing Director

Mr Tonkin was the Managing Director until 16 December 2011. 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 has a proven track record of implementing large-scale investment, divestment, transition and integration plans.

Ian Macliver B.Comm, FCA, F Fin, AICD
Non-Executive Director

Mr Macliver was a Non-Executive Director until 16 November 2011. Mr Macliver was Chairman of the Audit and Risk Management Committee and a member of the Nomination, Remuneration and Governance Committee until 16 November 2011. 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.

Cao Zhong B.Eng, M.Econ
Non-Executive Director

Mr Cao was a Non-Executive Director until 23 February 2012. Mr Cao graduated from Zhejiang University, the People's Republic of China and Graduate School, The Chinese Academy of Social Sciences, with a bachelor degree in engineering and a masters degree in economics respectively. Mr Cao has extensive experience in corporate management and operations.

Alan Rule B.Comm, B.Acc, FCA, MAICD
Alternate Director to Luke Tonkin
Chief Financial Officer

Mr Rule was Alternate Director to Luke Tonkin until 16 December 2011. Mr Rule 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 St Barbara Mines Limited. He has considerable experience in international financing of mining projects and implementation of accounting controls and systems.

COMPANY SECRETARY

David Stokes B.Bus, LLB, ACIS
Company Secretary & General Counsel

Mr Stokes was appointed Company Secretary and General Counsel on April 2012. He is a corporate lawyer with a diverse range of mining and governance experience having worked at a corporate and operational level in the energy and resources sector for over 15 years. Prior to joining Mount Gibson, Mr Stokes was General Counsel and Company Secretary at Gindalbie Metals Limited, Corporate Counsel for Iluka Resources Limited and Resolute Mining Limited, and had also worked in private practice for a number of years.

David Berg B.Comm, LLB
Company Secretary & General Counsel

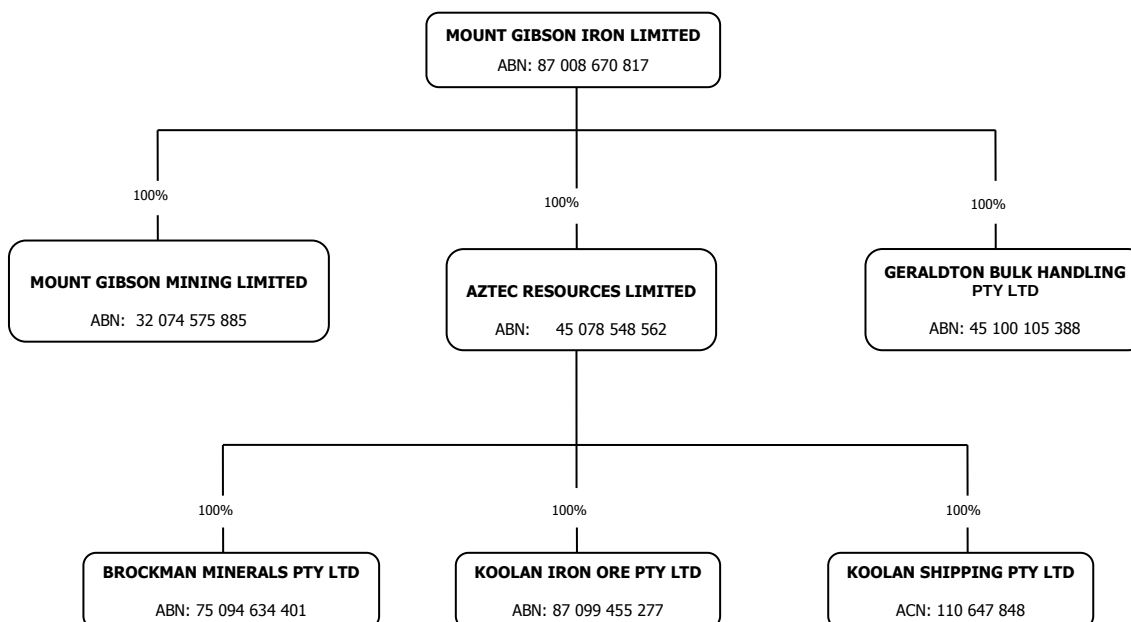
Mr Berg was Company Secretary until 2 April 2012 and General Council until 30 April 2012. He is a commercial and corporate lawyer with experience in advising on a diverse range of matters, including mergers and acquisitions, ASX Listing Rules, capital raisings, ore sales agreements and dispute resolution.

Directors' Report (continued)

CORPORATE INFORMATION

Corporate Structure

Mount Gibson 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 Group as at 30 June 2012 was as follows:



Nature of Operations and Principal Activities

The principal activities of the entities within the Group are:

- mining of hematite deposits at Talling Peak;
- mining of hematite deposits at Koolan Island;
- mining of hematite deposits at Extension Hill; and
- exploration and development of hematite deposits at Koolan Island and in the Mid-West region of Western Australia.

Employees

The Group employed 694 employees (excluding contractors) as at 30 June 2012 (2011: 464 employees). The increase in employees resulted from the continued transition from contractor mining to owner mining at Koolan Island and the commencement of mining operations at Extension Hill.

Future Funding

As at the date of this report the Group 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

There were several significant changes relating to the make-up and operation of the Company's Board and management during the year as advised elsewhere in the Directors Report. Following these changes, the Board comprised eight directors, five of whom are classified by the Board as independent.

Directors' Report (continued)

On 16 November 2011, Mount Gibson advised the ASX that it had received a letter from the Foreign Investment Review Board ("**FIRB**") expressing concern that the composition of the Company's Board had developed in a manner inconsistent with commitments provided to the Treasurer and market at the time approval was given for the recapitalisation of the Company in 2008. The principal concern expressed by the FIRB was that the Company did not have a majority of independent directors on its Board, as recommended under the ASX Corporate Governance Principles and Recommendations. Mount Gibson advised the ASX that the Board was considering ways to satisfy the requirements of the FIRB.

Subsequent to the end of the financial year, on 23 July 2012, Mount Gibson announced to the ASX that the FIRB had confirmed in writing that it now considered Mount Gibson to be in compliance with the ASX Corporate Governance Guidelines regarding board independence. In its letter, the FIRB noted the initiatives implemented by Mount Gibson to address the FIRB's concerns, notably the appointment of additional independent directors and the establishment of a committee of independent directors to oversee matters in relation to Mount Gibson's major shareholders and customers.

Regarding customer agreements, there was a significant development with respect to litigation involving Mount Gibson and Rizhao Steel Holding Group Limited ("**Rizhao Steel**").

On 18 October 2011 Mount Gibson advised the ASX that it had agreed settlement terms with Rizhao Steel in relation to two arbitral awards delivered in Mount Gibson's favour in August 2010. Under the awards, which were delivered following arbitrations between the parties and announced to the ASX on 17 August 2010, Rizhao Steel was ordered to pay Mount Gibson US\$114 million in damages plus interest of 6% from the date of award plus Mount Gibson's costs of the arbitration.

The awards remained wholly unmet and Mount Gibson sought recognition and enforcement of the awards in various jurisdictions, including the People's Republic of China, culminating in a settlement on terms favourable to Mount Gibson.

Under the settlement, Rizhao Steel entered into two offtake agreements with Mount Gibson, the first of which is in respect of an agreed quantity of mineralised waste material from Koolan Island, and the second for Extension Hill hematite. Under the Koolan Island agreement, Rizhao agreed to purchase 1,700,000 tonnes of mineralised waste material (<54% Fe and high contaminant) from Koolan Island over a two to three year period for a total cash outlay of \$US82 million. In addition, Rizhao Steel agreed to purchase 25% of annual production from Extension Hill at a market clearing price plus an agreed premium, over a period of 5 years. As a condition precedent to the settlement, Rizhao Steel paid Mount Gibson a non-refundable deposit of US\$15 million, to be applied in reduction of the price payable for material purchased under both the Koolan Island agreement and the Extension Hill agreement over their terms.

Mount Gibson commenced sales to Rizhao Steel under the Extension Hill agreement in December 2011. As at 30 June 2012, Mount Gibson had not yet commenced mineralised waste sales to Rizhao Steel under the Koolan Island agreement.

Subsequent to the end of the period, Rizhao advised that it considered Mount Gibson to be in material breach of the Koolan Island agreement by not complying with a proposed annual shipping schedule provided in November 2011. Rizhao has also issued a conditional notice of termination of the agreement pending arbitration on whether the breach is deemed to be material, and if so is it unable to be remedied, and also has indicated it will be seeking unspecified damages. Mount Gibson rejects the allegations made by Rizhao and continues to focus on delivering waste material to Rizhao under the agreement. Regardless, Mount Gibson does not consider the potential termination of the Koolan Island agreement as likely to have any material adverse financial impact given availability of other buyers.

With respect to operational matters, on 21 December 2011, Mount Gibson announced it had commenced ore shipments from its Extension Hill hematite mine in the Mid West region of Western Australia, giving Mount Gibson its third operating mine. Extension Hill is scheduled to produce approximately 3 million tonnes of DSO hematite per annum for a period of five years.

In conjunction with the development and commissioning of the Extension Hill hematite mine, the Company also embarked on a substantial upgrade of its port and rail ore export facilities at Geraldton Port. This upgrade comprised construction of a new 240,000t capacity ore storage shed ("**Berth 5 storage facility**") to complement Mount Gibson's existing 120,000t storage shed ("**Berth 4 storage facility**") and the installation of a new high volume dual-wagon rail unloader. The rail unloader, funded by Mount Gibson, is a common-user facility that will be owned by the Geraldton Port Authority on final completion of commissioning. Together, these new facilities effectively double Mount Gibson's nominal export capability from its Mid West operations to approximately 6 million tonnes per annum. On 22 May 2012, Mount Gibson announced the upgrade works were complete and that commissioning had commenced.

Directors' Report (continued)

REVIEW AND RESULTS OF OPERATIONS

Operating Results for the Period

	2012 \$'000	2011 \$'000
Operating profit from Continuing Operations before tax	239,593	342,888
Taxation expense	(67,097)	(103,388)
Net profit after tax attributable to Members of the Company	172,496	239,500

Tallering Peak Hematite Operation

Ore tonnes mined, crushed, transported and shipped all decreased compared with the previous corresponding period reflecting several operational factors.

Tight working areas in the T6a3d cutback and labour skills shortages in key production areas were a limiting factor on production in the December half of 2011. Enhanced recruitment achieved necessary manning levels during the March 2012 quarter. Production was significantly lower during the March 2012 quarter reflecting a required revision of the mining schedule to rebalance waste and ore development. The focus on waste movement in the March quarter coincided with reduced raiing and unloading capacity at Geraldton port related to the ongoing upgrade of Mount Gibson's port facilities and upgrades of the rail for other mining projects in the region.

A pit wall slip occurred on the south eastern side of the pit in the middle of February 2012 which resulted in a limited disruption to operations. It did not cause any injuries or damage to equipment. Evaluation and monitoring of the affected area was undertaken during the March and June 2012 quarters to develop recovery plans to regain access to ore in the affected area. Evaluation of the slip and potential impacts was substantially complete at the end of June 2012, and indicated the slip would not have any material impact on 2012 or the current reported mine life.

Ore production was significantly higher in the June 2012 quarter reflecting the extensive waste development completed in the preceding quarter. Mount Gibson expects to complete mining of remaining ore reserves at Tallering Peak in mid 2013, with sales from stockpiles expected to continue into the 2014 financial year. Exploration commenced at the T1 prospect in late June 2012 to determine the potential for a small addition to mineral resources.

As at 30 June 2012, 1.96 million tonnes of iron ore was stockpiled.

PRODUCTION SUMMARY FOR 12 MONTHS	UNIT	SEPT QTR 2011 '000	DEC QTR 2011 '000	MAR QTR 2012 '000	JUN QTR 2012 '000	YTD 2012 '000	YTD 2011 '000	% INCR/ (DECR)
Mining								
- Waste mined	bcm	1,658	1,341	1,543	1,231	5,773	8,184	(29%)
- Ore mined	bcm	166	131	43	129	469	611	(23%)
- Ore mined	wmt	694	546	177	532	1,949	2,597	(25%)
Crushing								
- Lump	wmt	479	398	83	206	1,166	1,686	(31%)
- Fines	wmt	329	266	53	319	967	1,380	(30%)
		808	664	136	525	2,133	3,066	(30%)
Transported to Mullewa Railhead								
- Lump	wmt	469	403	68	388	1,328	1,562	(15%)
- Fines	wmt	327	230	60	222	839	1,404	(40%)
		796	633	128	610	2,167	2,966	(27%)
Transported to Geraldton Port								
- Lump	wmt	305	241	133	201	880	1,184	(26%)
- Fines	wmt	369	114	54	200	737	1,641	(55%)
		674	355	187	401	1,617	2,825	(43%)
Shipping								
- Lump	wmt	351	240	121	119	831	1,185	(30%)
- Fines	wmt	409	117	59	178	763	1,650	(54%)
		760	357	180	297	1,594	2,835	(44%)

Directors' Report (continued)

In accordance with the Company's stated accounting policy, deferred waste expenditure for the period has been capitalised in the Group's balance sheet and will be amortised over the expected life of the mine. Expenditure on waste development at Tallering Peak during the financial year was as follows:

		12 Months ended 30 June 2012	12 Months ended 30 June 2011	12 Months ended 30 June 2010
Waste mined	<i>mill bcm</i>	5.77	8.18	7.82
Ore mined	<i>mill bcm</i>	0.47	0.61	0.88
Ore mined	<i>mill wmt</i>	1.95	2.59	3.81
Deferred waste capitalised	<i>\$ mill</i>	120.78	105.31	85.34
Amortisation of deferred waste	<i>\$ mill</i>	93.77	83.8	115.28

Koolan Island Hematite Operation

The Koolan Island iron ore mine is located on Koolan Island located in the Buccaneer Archipelago of Yampi Sound in Western Australia and was opened by BHP in 1965 and operated until 1993. The mine was redeveloped and re-opened by Mount Gibson in 2007.

The 2012 financial year was one of significant transition at Koolan Island, reflecting the shift to owner mining and the commencement of production in the Main Pit. The commencement of owner mining in September 2011 had a significant impact on performance, as had been anticipated with the commencement of 240 new employees. Production was also impacted in the December 2011 half by delays to scheduled equipment delivery.

Completion of the sea wall in the December 2012 quarter was a key milestone which enabled high grade ore to be mined from Main Pit for the first time. The Barramundi West and Mullet pits remained the primary source of ore in the year.

The wet season in the Kimberley region typically commences in November and persists through to April during which time monsoonal activity intensifies causing significant rainfall events and cyclonic events. Koolan Island's total material movement and shipping activity generally reduces during this period. As a consequence, Mount Gibson anticipates lower output from Koolan Island during the wet season than would be expected during the dry season.

Production during the March 2012 quarter was disrupted significantly by three monsoonal rainfall events, one each in January, February and March, which caused substantial flooding in the Mullet, Barramundi and East pits. Total rainfall for the 2011/12 wet season was similar to that of the previous year, although rainfall for both wet seasons was approximately double the previous average. As a result, all material movement from mid-January was concentrated in Main Pit, with production constrained by a restricted working areas, congestion and damage to haul roads caused by the monsoonal rainfall events.

The end of the wet season enabled a substantial improvement in the June Quarter 2012, with ore production increasing 110% over the previous quarter and crushing increasing by 44%. Ore production resumed at Mullet pit late in the quarter, and Barramundi pit was completed.

Ore production for the year was 17% higher than in the previous corresponding period, while crushing volumes were 37% higher. Although full year shipments were 18% higher than in the preceding year, shipments for the June 2012 quarter were lower partly due to late customer nominations by SCIT Trading Limited which is a related party of Shougang Concord, a director related party (**SCIT**), of vessels for four shipments that were scheduled to occur in June; and partly due to weather related production issues in the first half of 2012. These shipments were rescheduled to occur in July.

As at 30 June 2012, 1.16 million tonnes of iron ore was stockpiled.

Directors' Report (continued)

PRODUCTION SUMMARY FOR 12 MONTHS	UNIT	SEPT QTR 2011 '000	DEC QTR 2011 '000	MAR QTR 2012 '000	JUN QTR 2012 '000	YTD 2012 '000	YTD 2011 '000	% INCR/ (DECR)
Mining								
- Waste mined	<i>bcm</i>	2,205	2,350	1,689	2,160	8,404	9,686	(13%)
- Ore mined	<i>bcm</i>	199	208	118	249	774	768	1%
- Ore mined	<i>wmt</i>	685	726	583	965	2,959	2,523	17%
Crushing								
- Lump	<i>wmt</i>	353	321	249	329	1,252	1,022	23%
- Fines	<i>wmt</i>	382	448	430	652	1,912	1,292	48%
		735	769	679	981	3,164	2,314	37%
Shipping								
- Lump	<i>wmt</i>	365	285	219	143	1,012	887	14%
- Fines	<i>wmt</i>	508	442	511	370	1,831	1,514	21%
		873	727	730	513	2,843	2,401	18%

The decommissioning provision increased from \$12.5 million at the 30 June 2011 to \$59.6 million at the 30 June 2012, based on current cost estimates.

Expenditure on waste development at Koolan Island during the financial year was as follows:

		12 Months ended 30 June 2012	12 Months ended 30 June 2011	12 Months ended 30 June 2010
Waste mined	<i>mill bcm</i>	8.40	9.69	13.22
Ore mined	<i>mill bcm</i>	0.77	0.77	1.09
Ore mined	<i>mill wmt</i>	2.96	2.52	3.47
Deferred waste capitalised	<i>\$ mill</i>	121.29	192.27	174.53
Amortisation of deferred waste	<i>\$ mill</i>	114.39	85.78	104.18

Extension Hill Direct Shipping Ore Project

The Extension Hill hematite mine is located in the Mount Gibson Ranges, 85 kilometres east of Perenjori and 260 kilometres east south east of Geraldton. The project has similar operational characteristics to Talling Peak, with ore crushed and screened on-site, transported by sealed road 85km to Perenjori, where it is loaded onto rail wagons and railed 235km to Geraldton Port.

To optimise exports from Extension Hill and Talling Peak, Mount Gibson constructed a new 240,000 tonne storage facility at Geraldton Port, the Berth 5 storage facility and funded the installation of a new common-user rail unloader with a nominal unloading capacity of 3,000 tonnes per hour. The unloader allows ore to be loaded into both the Company's new Berth 5 storage facility and its existing 120,000t Berth 4 storage facility, and then loaded onto ships via the existing Berth 5 shiploader operated by the Geraldton Port Authority. Once fully commissioned, these new facilities will effectively double Mount Gibson's export capacity in the Mid West to approximately 6 million tonnes per annum. Full ramp up is expected to be achieved in the September 2012 quarter.

After mining commenced in the June half of 2011, the mine exported its first shipment of ore in late December 2011.

Ore production increased steadily during the December 2011 and March 2012 quarters, though production and sales were constrained by restrictions related to the upgrade of facilities at Geraldton port and rail upgrades associated with other mining projects in the region.

Batch transporting of ore from Extension Hill to Geraldton Port continued until the start of May, when port operations were suspended for three weeks to tie-in the new rail unloader. This work was timed to coincide with a major maintenance shutdown by the Geraldton Port Authority. Mount Gibson announced the completion of this work on 22 May 2012. Rail load-out rates improved steadily following the start of commissioning, though ongoing rail restraints on the line into Geraldton continued to restrict the transport of ore from both Extension Hill and Talling Peak.

The resulting build-up of minesite stockpiles at Extension Hill and the Perenjori rail siding in turn constrained mine production at Extension Hill. This build-up of stockpiles resulted in a 22% reduction in the volume of ore transported by road to Perenjori, and a 26% reduction in the volume of ore railed to Geraldton in the June 2012 quarter compared with the previous quarter. However, significant improvement is anticipated as improved rail availability enables the drawdown of ore in stockpiles.

As at 30 June 2012, 1.71 million tonnes of iron ore was stockpiled.

Directors' Report (continued)

PRODUCTION SUMMARY FOR 12 MONTHS	UNIT	SEPT QTR 2011 '000	DEC QTR 2011 '000	MAR QTR 2012 '000	JUN QTR 2012 '000	YTD 2012 '000	YTD 2011 '000	% INCR/ (DECR)
Mining								
- Waste mined	<i>bcm</i>	226	265	363	509	1,363	644	<i>112%</i>
- Ore mined	<i>bcm</i>	149	157	253	244	803	100	<i>703%</i>
- Ore mined	<i>wmt</i>	444	459	748	717	2,368	300	<i>689%</i>
Crushing								
- Lump	<i>wmt</i>	-	260	431	342	1,033	-	<i>100%</i>
- Fines	<i>wmt</i>	-	133	252	228	613	-	<i>100%</i>
		-	393	683	570	1,646	-	100%
Transported to Perenjori Railhead								
- Lump	<i>wmt</i>	-	154	429	336	919	-	<i>100%</i>
- Fines	<i>wmt</i>	-	62	258	199	519	-	<i>100%</i>
		-	216	687	535	1,438	-	100%
Transported to Geraldton Port								
- Lump (Rail)	<i>wmt</i>	-	125	192	167	484	-	<i>100%</i>
- Lump (Road)	<i>wmt</i>	-	-	62	-	62	-	<i>100%</i>
- Fines (Rail)	<i>wmt</i>	-	-	159	139	298	-	<i>100%</i>
		-	125	413	306	844	-	100%
Shipping								
- Lump	<i>wmt</i>	-	121	184	234	539	-	<i>100%</i>
- Fines	<i>wmt</i>	-	-	122	114	236	-	<i>100%</i>
			121	306	348	775	-	100%

Expenditure on waste development at Extension Hill during the financial year was as follows:

		12 Months ended 30 June 2012	12 Months ended 30 June 2011	12 Months ended 30 June 2010
Waste mined	<i>mill bcm</i>	1.36	0.64	-
Ore mined	<i>mill bcm</i>	0.80	0.10	-
Ore mined	<i>mill wmt</i>	2.37	0.30	-
Deferred waste capitalised	<i>\$ mill</i>	27.85	13.28	-
Amortisation of deferred waste	<i>\$ mill</i>	22.62	2.40	-

Review of Financial Condition

During the course of the financial year, a number of events impacted on the financial condition of the Group, as follows:

- Shareholders funds increased by:
 - Net profit after tax of \$172,496,000; and
 - 2,945,959 shares were issued under the dividend reinvestment plan and performance rights plan resulting in \$3,219,716 in equity funding for the Company.
- Acquisition of property, plant and equipment with an aggregate fair value of \$27,714,098 were financed by means of finance leases.
- Mine properties increased by \$212,894,000 due primarily to deferred waste capitalised as a result of waste mined and reassessment of mine closure and rehabilitation costs.

At 30 June 2012 the Group had:

- Cash on hand and term deposits of \$292,678,000; and
- Equipment finance leases and hire purchase liabilities of \$47,024,000.

Directors' Report (continued)

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 Group and likely results of those operations would, in the opinion of the Directors, be uncertain and not in the best interests of the Company.

SIGNIFICANT EVENTS AFTER BALANCE DATE

On 22 August 2011, the directors of Mount Gibson declared a final dividend on ordinary shares in respect of the 2012 financial year. The total amount of the dividend is \$21,714,569 which represents a fully franked dividend of 2 cents per share. The dividend has not been provided for in the 30 June 2012 financial statements.

During August 2012 there have been delays in customer nominations of 5 vessels by SCIT (a director related party) that were scheduled to occur in August. These shipments are expected to occur in September 2012.

Subsequent to year end iron ore prices have deteriorated from US\$135.25 per dry metric tonne (**DMT**) at the 29 June 2012 to US\$108.78 DMT at the 21 August 2012 based on the benchmark Platts price for iron ore fines grading 62%Fe CFR North China .

Apart from the above, as at the date of this report there are no significant events after balance date of the Company or of the Group that require adjustment of or disclosure in this report.

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
110 cents	On or before 23 October 2012	2,000,000	2,000,000

Shares issued as a result of the exercise of options

There were no options exercised or forfeited during the financial year or to the date of this report.

DIVIDENDS

	Amount per security	Franked amount per security
Final dividend	2 cents	2 cents

A final dividend of 2 cents fully franked has been declared for the year ended 30 June 2012.

During the financial year dividends of \$64,957,156 (2011: \$nil) were paid.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has, during current or previous financial periods, entered into deeds of access and indemnity with certain Directors. 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 Group's business.

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company, the Company Secretary and all Executive Officers of the Company and of any related body corporate against a liability incurred as such a Director, Company Secretary or Executive Officer to the extent permitted by the Corporations Act (2001).

The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses' insurance contracts, as such disclosure is prohibited under the terms of the contract.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or any related body corporate against a liability incurred as such an officer or auditor.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for Directors and Key Management Personnel of the Group in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

For the purposes of this report Key Management Personnel of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, 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 of shareholders. An amount not exceeding the amount determined is then divided between the Non-Executive Directors as agreed. The latest determination was at the Annual General Meeting held on 16 November 2011 when Shareholders approved an aggregate remuneration of \$1,250,000 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.

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

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

- cash remuneration; and
- superannuation contributions made by the Company.

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

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 interests 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;
- superannuation;
- 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 Chief Executive Officer.

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.

Variable Remuneration

Short-term Incentives ("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 Board's 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 Group 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 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 Group in meeting its objectives which includes contribution to net profit after tax, risk management and leadership/team contribution;
- financial performance of the Group;
- increase in market capitalisation of the Group; and
- 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 Group 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 prior to or just 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 prior to or just after the reporting date.

STI bonus for 2012 financial year

For the 2012 financial year, 100% of the STI cash bonus totalling \$532,670 was approved and vested to Executive Directors and Senior Executives and was paid in July 2012.

Directors' Report (continued)

Long-term Incentive ("LTI") for 2012 financial year

The Company established the Mount Gibson Iron Limited Performance Rights Plan ("PRP") in the 2008 financial year. 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 specified performance hurdles set by the Board. The rights are 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. A TSR hurdle was incorporated in the PRP as it 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. The Company received shareholder approval for the issue of the performance rights to Mr Tonkin and Mr Rule at its 2007 and 2009 AGM's.

The employment contracts for the Chief Executive Officer, Mr Beyer, and the Company Secretary, Mr Stokes, incorporate payment of a long term incentive. Under their employment contracts, Mr Beyer, and Mr Stokes will each year each be invited to apply for, and the Company will grant 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 prior to 30 June for the relevant year.

On 30 June 2012, 271,318 performance rights were granted by the Company in respect of the 2012 financial year. The Company does not have a policy restricting Executives from entering into arrangements to protect the value of LTI awards.

Employment Contracts

As at the date of this report, the Group had entered into employment contracts with the following executives:

James Beyer

The key terms of his contract include:

- Commenced 14 May 2012 with no set term;
- Annual Salary Package increase by minimum of CPI from 1 July every year;
- STI Bonus of up to one half of Annual Salary Package;
- LTI Bonus of up to one third of Annual Salary Package; and
- If the Company wishes to terminate the contract other than if Mr Beyer is guilty of any grave misconduct, serious or persistent breach of the terms of the contract or wilful neglect in the discharge of his duties, the Company is obliged to pay out 12 months Annual Salary Package plus any other accrued entitlements and bonuses. If Mr Beyer wishes to terminate the contract, he must provide six months notice.

David Stokes

The key terms of his contract include:

- Commenced 2 April 2012 with no set term;
- Annual Salary Package increase by minimum of CPI from 1 July every year;
- STI Bonus of up to one half of Annual Salary Package;
- LTI Bonus of up to one third of Annual Salary Package; and
- If the Company wishes to terminate the contract other than if Mr Stokes is guilty of any grave misconduct, serious or persistent breach of the terms of the contract or wilful neglect in the discharge of his duties, the Company is obliged to pay out 12 months Annual Salary Package plus any other accrued entitlements and bonuses. If Mr Stokes wishes to terminate the contract, he must provide six months notice.

Luke Tonkin (terminated 16 December 2011)

The key terms of his contract were:

- Commenced 1 July 2008 with no set term;
- Annual Salary Package increase by minimum of CPI from 1 July every year;
- STI Bonus of up to one half of Annual Salary Package;
- LTI Bonus of up to one third of Annual Salary Package; and
- 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 12 months Annual Salary Package plus any other accrued entitlements and bonuses. If Mr Tonkin wishes to terminate the contract, he must provide six months notice.

Directors' Report (continued)

Alan Rule (resigned 30 June 2012)

The key terms of his contract were:

- Commenced 1 July 2008 with no set term;
- Annual Salary Package increase by minimum of CPI from 1 July every year;
- STI Bonus of up to one half of Annual Salary Package;
- LTI Bonus of up to one third of Annual Salary Package; and
- 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 12 months Annual Salary Package plus any other accrued entitlements and bonuses. If Mr Rule wishes to terminate the contract, he must provide six months notice.

David Berg (resigned 30 April 2012)

The key terms of his contract were:

- Commenced 18 August 2008 with no set term;
- Annual Salary Package increase by minimum of CPI from 1 July every year;
- STI Bonus of up to one half of Annual Salary Package;
- LTI Bonus of up to one third of Annual Salary Package; and
- If the Company wishes to terminate the contract other than if Mr Berg 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 12 months Annual Salary Package plus any other accrued entitlements and bonuses. If Mr Berg wishes to terminate the contract, he must provide six months notice.

In addition the Company entered into an independent contracting arrangement with Mr Keith Faulkner to act in the Chief Operating Officer position.

Keith Faulkner

The key terms of his contract include:

- A six month term from 17 April 2012 until 17 October 2012;
- A fixed daily rate plus GST; and
- If the Company wishes to terminate the contract other than if Mr Faulkner is guilty of any grave misconduct, serious or persistent breach of the terms of the contract or wilful neglect in the discharge of his duties, the Company is obliged to provide 28 days written notice and to pay any outstanding monies owed up to the date of termination.

Directors' Report (continued)

Details of directors and key management personnel disclosed in this report

[i] Directors

G Hill	Non-Executive Director, Chairman from 24 August 2011
A Jones	Non-Executive Director
Chen Z	Non-Executive Director
Lee SH	Non-Executive Director
Li S	Non-Executive Director
R Barwick	Non-Executive Director from 16 November 2011
S Bird	Non-Executive Director from 23 February 2012
P Douglas	Non-Executive Director from 16 November 2011
P Curry	Alternate Director to Mr Lee
C Readhead	Chairman until 23 August 2011 and Non-Executive Director until 14 December 2011
I MacIver	Non-Executive Director until 16 November 2011
Cao Z	Non-Executive Director until 23 February 2012
L Tonkin	Managing Director until 16 December 2011
A Rule	Alternate Director to Mr Tonkin until 16 December 2011

[ii] Key Management Personnel

J Beyer	Chief Operating Officer from 2 November 2011 until 14 May 2012, Chief Executive Officer from 14 May 2012
A Rule	Chief Financial Officer until 30 June 2012
D Berg	Company Secretary and General Counsel until 2 April 2012
D Stokes	Company Secretary and General Counsel from 2 April 2012
K Faulkner	Acting Chief Operating Officer from 17 April 2012

Mr P Kerr was appointed Chief Financial Officer commencing from the 13 September 2012. Ms K Bozanic is Acting Chief Financial Officer from 1 July 2012 until Mr P Kerr's commencement. Mr A Thomson was appointed Chief Operating Officer and will commence with the Company on 18 September 2012. There were no other changes to KMP after the reporting date and before the date the financial report was authorised for issue.

Directors' Report (continued)

Remuneration of Key Management Personnel for the year ended 30 June 2012

	Short Term			Post Employment		Long Term	Share Based Payment	Termination Payment	Total	% Performance Related
	Salary & Fees	Non Monetary	Cash Bonuses	Super-annuation	Retirement Benefits	Long Service Leave	Options and Performance Rights			
	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Directors										
G Hill	177,275	-	-	15,955	-	-	-	-	193,230	0%
A Jones	104,129	-	-	9,372	-	-	-	-	113,501	0%
Chen Z	90,844	-	-	6,681	-	-	-	-	97,525	0%
Lee SH	87,156	-	-	7,844	-	-	-	-	95,000	0%
Li S	30,868	-	-	2,778	-	-	-	-	33,646	0%
R Barwick	62,572	-	-	5,632	-	-	-	-	68,204	0%
S Bird	33,467	-	-	3,012	-	-	-	-	36,479	0%
P Douglas	56,915	-	-	5,122	-	-	-	-	62,037	0%
C Readhead	65,512	-	-	-	-	-	-	-	65,512	0%
I MacIver	39,857	-	-	3,587	-	-	-	-	43,444	0%
Cao Z	59,156	-	-	4,178	-	-	-	-	63,334	0%
L Tonkin	364,582	1,151	-	25,000	-	-	(305,237) ^[1]	745,370	830,866	(37%)
Sub-total	1,172,333	1,151	-	89,161	-	-	(305,237)	745,370	1,702,778	
Other KMP										
A Rule	580,482	2,303	292,340	25,000	-	-	137,641	-	1,037,766	41%
J Beyer	686,651	1,343	100,000	25,000	-	256	13,816	-	827,066	14%
D Berg	221,248	1,919	140,331	25,000	-	-	37,792	27,653	453,943	39%
D Stokes	73,347	576	-	6,192	-	-	-	-	80,115	0%
K Faulkner	140,400	480	-	-	-	-	-	-	140,880	0%
Sub-total	1,702,128	6,621	532,671	81,192	-	256	189,249	27,653	2,539,770	
Totals	2,874,461	7,772	532,671	170,353	-	256	(115,988)	773,023	4,242,548	

[1] Reversal of performance rights on termination

Accrued annual leave and long service leave benefits were paid on termination to Mr Tonkin of \$198,284, Mr Rule \$326,651, and Mr Berg \$37,016. These amounts are not included in the table above.

Directors' Report (continued)

Options granted as part of remuneration for the year ended 30 June 2012

There is currently a Directors, Officers, Employees and Other Permitted Persons option plan. Options issued pursuant to this plan do not have performance conditions but do contain a vesting condition requiring the employee to remain employed by the Group until a certain date. The cost of these options is measured by reference to their fair value at the date at which they are granted. The fair value is determined by using a binomial model.

There were no options granted to Directors and Executives during the year ended 30 June 2012 and there are no options outstanding at 30 June 2012.

Performance Rights granted as part of remuneration for the year ended 30 June 2012

	Grant Date	Number Granted	Value of Performance Rights Granted During the Year \$	% of Remuneration
J Beyer	30-Jun-12	271,318	276,907	14

The estimated maximum and minimum possible total value of these performance rights is \$276,907 and \$nil respectively.

Performance Rights granted above as part of Remuneration are independently valued using the Black-Scholes methodology which considers the incorporation of the market-based hurdles. The value per performance right at grant date is calculated using the following assumptions:

Accounting grant date	30-Jun-12
Share price at accounting grant date	\$1.03
Risk free interest rate	2.67%
Volatility factor	51%

The vesting of these Performance Rights is subject to a relative Total Shareholder Return ("TSR") hurdle to be measured on 30 June 2014 and re-measured on 31 December 2014 for performance rights allocated on 30 June 2012.

Mount Gibson's TSR performance is ranked relative to a comparator group consisting of resource companies listed on ASX. The vesting scale is as follows:

Percentile Rank Achieved	Proportion of Target Award Vesting
>76 th percentile	100%
> 51 st percentile and ≤76 th percentile	Pro rata allocation
51 st percentile	50%
<51 st percentile	0%

Performance Rights vested

The following performance rights vested to the following Directors and Executives:

	Year ended 30 June 2012	Year ended 30 June 2011
L Tonkin	-	-
A Rule	211,778	-
D Berg	83,128	-
Total	294,906	-

294,906 performance rights vested during the financial year at the discretion of the Board of Directors prior to the vesting period pursuant to exit terms. A total of 83,128 shares were issued for nil consideration during the financial year and the remaining 211,778 shares were issued for nil consideration on 3 July 2012 (2011: nil).

Performance rights which did not meet TSR performance conditions lapsed.

Directors' Report (continued)

Performance Rights benefits

For each grant of performance rights, the percentage of the available grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. The performance rights vest after three years, providing the vesting conditions are met (refer above).

	Year Granted	Vested %	Forfeited %	Financial Years Performance Rights May Vest
J Beyer	2012	-	-	2014
L Tonkin	2011	-	100	-
	2010	-	100	-
	2009	-	100	-
A Rule	2011	100	-	-
	2010	100	-	-
D Berg	2011	63	37	-
	2010	100	-	-

Shares issued on exercise of options for the year ended 30 June 2012

There were no shares issued on exercise of options by the Directors and Executives during the year ended 30 June 2012 (2011: nil).

Remuneration of Key Management Personnel for the year ended 30 June 2011

	Short Term			Post Employment		Long Term	Share Based Payment	Termination Payment	Total	% Performance Related
	Salary & Fees	Non Monetary	Cash Bonuses	Super-annuation	Retirement Benefits	Long Service Leave	Options and Performance Rights			
	\$	\$	\$	\$	\$		\$	\$	\$	
Directors										
N Hamilton	76,314	-	-	6,868	-	-	-	-	83,182	0%
L Tonkin	770,772	2,228	361,038	24,473	-	-	230,936	-	1,389,447	46%
C Readhead	111,000	-	-	-	-	-	-	-	111,000	0%
I MacIver	105,505	-	-	9,495	-	-	-	-	115,000	0%
A Jones	94,495	-	-	8,505	-	-	-	-	103,000	0%
Cao Z	87,156	-	-	7,844	-	-	-	-	95,000	0%
Chen Z	87,156	-	-	7,844	-	-	-	-	95,000	0%
P Knowles	33,410	-	-	3,007	-	-	-	-	36,417	0%
Lee SH	87,156	-	-	7,844	-	-	-	-	95,000	0%
G Hill	10,074	-	-	907	-	-	-	-	10,981	0%
Sub-total	1,463,038	2,228	361,038	76,787	-	-	230,936	-	2,134,027	
Other KMP										
A Rule	536,759	2,228	257,884	25,000	-	-	118,479	-	940,350	40%
D Berg	244,674	2,228	123,776	25,000	-	-	57,624	-	453,302	40%
Sub-total	781,433	4,456	381,660	50,000	-	-	176,103	-	1,393,652	
Totals	2,244,471	6,684	742,698	126,787	-	-	407,039	-	3,527,679	

Directors' Report (continued)

Options granted as part of remuneration for the year ended 30 June 2011

There were no options granted to directors and executives during the year ended 30 June 2011 and there were no options outstanding at 30 June 2011.

Performance Rights granted as part of remuneration for the year ended 30 June 2011

	Grant Date	Number Granted	Value of Performance Rights Granted During the Year \$	% of Remuneration
L Tonkin	30-Jun-11	146,375	223,412	16
A Rule	30-Jun-11	104,554	159,581	17
D Berg	30-Jun-11	50,188	76,602	17

Performance Rights granted above as part of Remuneration have been independently valued using the Black-Scholes methodology which considers the incorporation of the market based hurdles. The value per performance right at grant date is calculated using the following assumptions:

Accounting grant date	30-Jun-11
Share price at accounting grant date	\$1.84
Risk free interest rate	4.55%
Volatility factor	100%

The vesting of these Performance rights is subject to a relative TSR hurdle to be measured on 30 June 2013 and remeasured on 31 December 2013 for Performance Rights allocated on 30 June 2011.

Mount Gibson's TSR performance will be ranked relative to a comparator group consisting of resource companies listed on ASX. The vesting scale is as follows:

Percentile Rank Achieved	Proportion of Target Award Vesting
>76 th percentile	100%
> 51 st percentile and ≤76 th percentile	Pro rata allocation
51 st percentile	50%
<51 st percentile	0%

Company Performance

The table below shows the performance of the Group over the last 5 years:

		30 June 2012	30 June 2011	30 June 2010	30 June 2009	30 June 2008
Net Profit after tax	\$'000	172,496	239,500	132,395	42,618	113,344
Earnings per share	\$/share	0.1593	0.2214	0.1230	0.0456	0.1425

END OF REMUNERATION REPORT

Directors' Report (continued)

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 are as follows:

	Directors' Meetings	Audit and Risk Management Committee Meetings	Nomination, Remuneration and Governance Committee	Operational Risk and Sustainability Committee	Contracts Committee
Number of Meetings Held	18	4	7	2	1
G Hill	18	2	6	-	1
A Jones	18	4	7	-	1
Chen Z	18	1	-	1	-
Lee SH	11	-	-	-	-
Li S ^[1]	9	-	-	-	-
R Barwick ^[2]	9	-	4	2	1
S Bird ^[3]	5	1	-	-	1
P Douglas ^[4]	9	-	-	2	1
P Curry ^[5]	7	-	-	-	-
C Readhead ^[6]	11	2	3	-	-
I MacIver ^[7]	9	2	-	-	-
Cao Z ^[8]	8	-	-	-	-
L Tonkin ^[9]	5	-	-	-	-
A Rule ^[10]	5	-	-	-	-

[1] Mr Li attended 4 meetings as Alternate Director to Mr Cao and 5 as Non-Executive Director

[2] Mr Barwick became a Non-Executive Director on 16 November 2011

[3] Mr Bird became a Non-Executive Director on 23 February 2012

[4] Mr Douglas became a Non-Executive Director on 16 November 2011

[5] Mr Curry is an Alternate Director to Mr Lee

[6] Mr Readhead was Chairman until 23 August 2011 and Non-Executive Director until 14 December 2011

[7] Mr MacIver was a Non-Executive Director until 16 November 2011

[8] Mr Cao was a Non-Executive Director until 23 February 2012

[9] Mr Tonkin was Managing Director until 16 December 2011

[10] Mr Rule was an Alternate Director to Mr Tonkin until 16 December 2011

Directors' Report (continued)

DIRECTORS 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	Performance Rights over Shares
G Hill	70,000	-	-
A Jones	-	-	-
Chen Z	-	-	-
Lee SH	-	-	-
Li S	-	-	-
R Barwick	-	-	-
S Bird	20,000	-	-
P Douglas	100,000	-	-
P Curry	-	-	-
Cao Z	-	-	-

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group has developed Environmental Management Plans for its operations at Koolan Island, Talling Peak Extension Hill. The Environmental Management Plans have been approved by the Western Australian Government Departments' of Mining and Petroleum, Environment and Conservation and where applicable the Department of Health. In addition plans associated with specific species have been approved by the federal Department of Sustainability, Environment, Water, Population and Communities.

The Environmental Protection Authority (EPA) has also granted approval for the sites Environmental Management Plans. In addition the Department of Environment & Conservation has granted approval of environmental works to allow construction of "prescribed" facilities and the Department of Mines and Petroleum have granted approval for Mining Proposals at each of the three mine sites.

The Group 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, exploration activities, tenement conditions associated with exploration and mining and the storage of hazardous substances.

There have been no material breaches of the Group licences. An incident of over clearing occurred during upgrade of the public road between Extension Hill Mine Site and Perenjori. The Group has responded to the EPA queries in respect of this matter and is awaiting a response. In addition, a diesel spill occurred on Koolan Island. After inspection of the spill, the contaminated soils were completely removed and the facility upgraded to prevent recurrence. Both incidents were reported to the relevant government authorities.

The Group continues to report under the National Greenhouse and Energy Reporting (NGER) Act 2009. Diesel combustion is the largest source of greenhouse gas emissions.

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.

Directors' Report (continued)

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 24 which forms part of this Report.

NON-AUDIT SERVICES

There were no non-audit services provided by the entity's auditor, Ernst & Young, during the financial year ended 30 June 2012.

Signed in accordance with a resolution of the Directors.



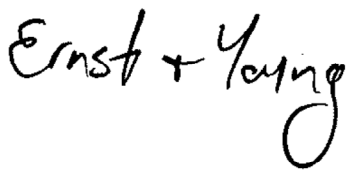
G HILL

Chairman

Perth, 22 August 2012

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 2012, 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.

A stylized, handwritten signature of 'Ernst & Young' in black ink.

Ernst & Young

A handwritten signature of 'P McIver' in black ink.

P McIver
Partner
Perth
22 August 2012

Consolidated Income Statement

For the year ended 30 June 2012

	Notes	2012 \$'000	2011 \$'000
CONTINUING OPERATIONS			
Sale of goods	2[a]	648,464	672,082
Other revenue	2[a]	20,425	21,147
TOTAL REVENUE		668,889	693,229
Cost of sales	2[d]	(373,437)	(325,094)
Impairment – low grade ore		(25,117)	-
GROSS PROFIT		270,335	368,135
Other income	2[b]	163	79
Administration expenses	2[e]	(23,554)	(20,429)
Foreign exchange derivatives mark-to-market gain/(loss)		-	8,119
Exploration expenses		(53)	(20)
PROFIT FROM CONTINUING OPERATIONS BEFORE TAX AND FINANCE COSTS		246,891	355,884
Finance costs	2[c]	(7,298)	(12,996)
PROFIT FROM CONTINUING OPERATIONS BEFORE INCOME TAX		239,593	342,888
Income tax expense	3	(67,097)	(103,388)
NET PROFIT AFTER TAX ATTRIBUTABLE TO MEMBERS OF THE COMPANY		172,496	239,500
Earnings per share (cents per share)			
• basic earnings per share	22	15.93	22.14
• diluted earnings per share	22	15.92	22.13

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2012

	2012 \$'000	2011 \$'000
NET PROFIT FOR THE PERIOD AFTER INCOME TAX	172,496	239,500
OTHER COMPREHENSIVE INCOME		
Change in fair value of cash flow hedges	(11,170)	(28,066)
Reclassification adjustments for (gains)/losses on cash flow hedges included in the Income Statement	11,453	24,910
Deferred income tax on cash flow hedges	61	489
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	344	(2,667)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	172,840	236,833

Consolidated Balance Sheet

As at 30 June 2012

	Notes	2012 \$'000	2011 \$'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	40,678	117,007
Term deposits	5	252,000	270,000
Trade and other receivables	6	23,792	22,249
Inventories	7	227,694	160,358
Prepayments		3,186	3,210
Derivative financial assets	8	5,583	386
TOTAL CURRENT ASSETS		552,933	573,210
NON-CURRENT ASSETS			
Property, plant and equipment	10	283,381	246,695
Deferred acquisition, exploration, evaluation and development	11	344	309
Mine properties	12	949,753	736,859
Deferred income tax assets	3	2,889	-
TOTAL NON-CURRENT ASSETS		1,236,367	983,863
TOTAL ASSETS		1,789,300	1,557,073
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	13	122,530	99,556
Interest-bearing loans and borrowings	14	21,702	28,607
Derivative financial liabilities	15	393	63
Income tax payable		9,440	22,793
Provisions	16	10,603	4,348
TOTAL CURRENT LIABILITIES		164,668	155,367
NON-CURRENT LIABILITIES			
Provisions	16	78,098	24,228
Interest-bearing loans and borrowings	14	25,322	16,461
Deferred income tax liabilities	3	243,779	194,476
TOTAL NON-CURRENT LIABILITIES		347,199	235,165
TOTAL LIABILITIES		511,867	390,532
NET ASSETS		1,277,433	1,166,541
EQUITY			
Issued capital	17[a]	564,710	561,585
Retained earnings	19	693,257	585,718
Reserves	18	19,466	19,238
TOTAL EQUITY		1,277,433	1,166,541

Consolidated Cash Flow Statement

For the year ended 30 June 2012

	Notes	2012 \$'000	2011 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		639,176	690,934
Payments to suppliers and employees		(548,883)	(459,203)
Interest paid		(53)	(9,323)
Income tax paid		(34,071)	-
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	4[b]	56,169	222,408
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		19,765	19,364
Proceeds from sale of property, plant and equipment		1,273	56
Purchase of property, plant and equipment		(86,191)	(99,864)
Proceeds from term deposits		928,000	-
Payment for term deposits		(910,000)	(170,000)
Payment for deferred exploration, evaluation and development expenditure		(35)	-
Payment for mine properties		(6,359)	(3,030)
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES		(53,547)	(253,474)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares		-	2,700
Repayment of lease liabilities		(18,290)	(15,329)
Proceeds from borrowings		7,005	-
Repayment of borrowings		(5,497)	(85,000)
Payment of borrowing costs		(1,075)	(1,702)
Dividends paid		(61,935)	-
NET CASH FLOWS (USED IN) FINANCING ACTIVITIES		(79,792)	(99,331)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(77,170)	(130,397)
Net foreign exchange difference		841	-
Cash and cash equivalents at beginning of year		117,007	247,404
CASH AND CASH EQUIVALENTS AT END OF YEAR	4[a]	40,678	117,007

Consolidated Statement of Changes in Equity

For the year ended 30 June 2012

	<i>Attributable to Equity Holders of the Parent</i>					<i>Total Equity</i>
	Issued Capital	(Accumulated Losses) / Retained Earnings	Share Based Payments Reserve	Net Unrealised Gains / (Losses) Reserve	Other Reserves	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2010	559,207	346,218	18,569	6,106	(3,192)	926,908
Profit for the period	-	239,500	-	-	-	239,500
Other comprehensive income	-	-	-	(2,667)	-	(2,667)
Total comprehensive income for the year	-	239,500	-	(2,667)	-	236,833
Transactions with owners in their capacity as owners						
- Deferred income tax on capital raising cost	(322)	-	-	-	-	(322)
- Exercise of options	2,700	-	-	-	-	2,700
- Share-based payment	-	-	422	-	-	422
At 30 June 2011	561,585	585,718	18,991	3,439	(3,192)	1,166,541
At 1 July 2011	561,585	585,718	18,991	3,439	(3,192)	1,166,541
Profit for the period	-	172,496	-	-	-	172,496
Other comprehensive income	-	-	-	344	-	344
Total comprehensive income for the year	-	172,496	-	344	-	172,840
Transactions with owners in their capacity as owners						
- Deferred income tax on capital raising cost	(94)	-	-	-	-	(94)
- Shares issued	3,219	-	-	-	-	3,219
- Dividends paid	-	(64,957)	-	-	-	(64,957)
- Share-based payment	-	-	(116)	-	-	(116)
At 30 June 2012	564,710	693,257	18,875	3,783	(3,192)	1,277,433

Notes to the Consolidated Financial Report

For the year ended 30 June 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Corporate information

The consolidated financial statements of the Group, comprising the Company and the entities that it controlled during the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the Directors on 22 August 2012.

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

The nature of operations and principal activities of the Group are the mining of hematite deposits at Tallering Peak and Koolan Island, construction, development and mining of the Extension Hill project, 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 authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments 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.

For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

(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 Group and cease to be consolidated from the date on which control is transferred out of the Group.

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.

(d) Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

(e) New accounting standards and interpretations

From 1 July 2011 the Group has adopted all new and amended accounting standards mandatory for annual periods beginning on or after 1 July 2011 including:

Notes to the Consolidated Financial Report (continued)

Reference	Title	Application date of standard	Application date for Group
AASB 124 (Revised)	The revised AASB 124 <i>Related Party Disclosures (December 2009)</i> simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including: (a) The definition now identifies a subsidiary and an associate with the same investor as related parties of each other (b) Entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other (c) The definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.	1 January 2011	1 July 2011
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] Makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. In particular, it amends AASB 8 <i>Operating Segments</i> to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. It also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB.	1 January 2011	1 July 2011
AASB 2010-4	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13] Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments. Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions. Clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.	1 January 2011	1 July 2011

Notes to the Consolidated Financial Report (continued)

Reference	Title	Application date of standard	Application date for Group
AASB 2010-5	Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042] This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB. These amendments have no major impact on the requirements of the amended pronouncements.	1 January 2011	1 July 2011
AASB 1054	Australian Additional Disclosures This standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB. This standard, with AASB 2011-1 relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas: a) Compliance with Australian Accounting Standards b) The statutory basis or reporting framework for financial statements c) Whether the entity is a for-profit or not-for-profit entity d) Whether the financial statements are general purpose or special purpose e) Audit fees f) Imputation credits	1 July 2011	1 July 2011
AASB 2010-6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7] The amendments increase the disclosure requirements for transactions involving transfers of financial assets but which are not derecognised and introduce new disclosures for assets that are derecognised but the entity continues to have a continuing exposure to the asset after the sale.	1 July 2011	1 July 2011

The Group has not elected to early adopt any new standards or amendments.

The adoptions of the above Standard or Interpretations did not have an impact on the financial statements or performance of the Group.

Notes to the Consolidated Financial Report (continued)

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the period ended 30 June 2012. These are outlined in the table below:

Reference	Title	Summary	Application date of standard	Application date for Group
2010-8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]	These amendments address the determination of deferred tax on investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that the carrying amount will be recoverable through sale. The amendments also incorporate <i>SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets</i> into AASB 112.	1 Jan 2012	1 July 2012
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]	This Standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not.	1 July 2012	1 July 2012
AASB 10	Consolidated Financial Statements	AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 <i>Consolidated and Separate Financial Statements</i> dealing with the accounting for consolidated financial statements and UIG-112 <i>Consolidation – Special Purpose Entities</i>. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. Consequential amendments were also made to other standards via AASB 2011-7.	1 January 2013	1 July 2013

Notes to the Consolidated Financial Report (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 11	Joint Arrangements	AASB 11 replaces AASB 131 <i>Interests in Joint Ventures</i> and UIG-113 <i>Jointly-controlled Entities – Non-monetary Contributions by Ventures</i>. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB 128.	1 January 2013	1 July 2013
AASB 12	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	1 July 2013
AASB 13	Fair Value Measurement	AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. Consequential amendments were also made to other standards via AASB 2011-8.	1 January 2013	1 July 2013

Notes to the Consolidated Financial Report (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 119	Employee Benefits	The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognized in full with actuarial gains and losses being recognized in other comprehensive income. It also revised the method of calculating the return on plan assets. The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date. Consequential amendments were also made to other standards via AASB 2011-10.	1 January 2013	1 July 2013
Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine	This interpretation applies to stripping costs incurred during the production phase of a surface mine. Production stripping costs are to be capitalised as part of an asset, if an entity can demonstrate that it is probable future economic benefits will be realised, the costs can be reliably measured and the entity can identify the component of an ore body for which access has been improved. This asset is to be called the "stripping activity asset". The stripping activity asset shall be depreciated or amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The units of production method shall be applied unless another method is more appropriate. Consequential amendments were also made to other standards via AASB 2011-12.	1 January 2013	1 July 2013

Notes to the Consolidated Financial Report (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
Annual Improvements 2009–2011 Cycle AASB 2012-5	Annual Improvements to IFRSs 2009–2011 Cycle	This standard sets out amendments to International Financial Reporting Standards (IFRSs) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB. The following items are addressed by this standard: IFRS 1 First-time Adoption of International Financial Reporting Standards • Repeated application of IFRS 1 • Borrowing costs IAS 1 Presentation of Financial Statements • Clarification of the requirements for comparative information IAS 16 Property, Plant and Equipment • Classification of servicing equipment IAS 32 Financial Instruments: Presentation • Tax effect of distribution to holders of equity instruments IAS 34 Interim Financial Reporting • Interim financial reporting and segment information for total assets and liabilities	1 January 2013	1 July 2013
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	This Amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies.	1 July 2013	1 July 2013

Notes to the Consolidated Financial Report (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 1053	Application of Tiers of Australian Accounting Standards	This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements: (a) Tier 1: Australian Accounting Standards (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements. The following entities apply Tier 1 requirements in preparing general purpose financial statements: (a) For-profit entities in the private sector that have public accountability (as defined in this Standard) (b) The Australian Government and State, Territory and Local Governments The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements: (a) For-profit private sector entities that do not have public accountability (b) All not-for-profit private sector entities (c) Public sector entities other than the Australian Government and State, Territory and Local Governments. Consequential amendments to other standards to implement the regime were introduced by AASB 2010-2, 2011-2, 2011-6, 2011-11 and 2012-1.	1 July 2013	1 July 2013
AASB 2012-2	Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities	AASB 2012-2 principally amends AASB 7 Financial Instruments: Disclosures to require disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.	1 January 2013	1 July 2013
AASB 2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities;	AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.	1 January 2014	1 July 2015

Notes to the Consolidated Financial Report (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below. (a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. (b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. (c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. (d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: ▶ The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ▶ The remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.	1 January 2013	1 July 2013

AASB ED 215 *Mandatory effective date of IFRS 9* proposes to defer the mandatory effective date of AASB 9 from annual periods beginning 1 January 2013 to annual periods beginning on or after 1 January 2015, with early application permitted. At the time of preparation, finalisation of standard is still pending by the AASB. However, the IASB has deferred the mandatory effective date of IFRS 9 to annual periods beginning on or after 1 January 2015, with early application permitted.

The impact of the adoption of these new and revised standards and interpretations has not been determined by the Company.

Notes to the Consolidated Financial Report (continued)

(f) Foreign currency translation

The functional currency of the Company and its 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.

(g) 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.

(h) Trade and other receivables

Trade receivables are recognised and carried at amortised cost less any allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An allowance for impairment of trade receivables is made when there is objective evidence that the Group will not be able to collect the debts. Indicators of impairment would include financial difficulties of the debtor, likelihood of the debtor's insolvency and default in payment. Any impairment is recognised in the income statement.

All sales revenue is invoiced and received in US\$ dollars.

Generally, on presentation of shiploading documents and provisional invoice, the customer settles 90-95% of the provisional sales invoice value within 10 days of receipt of shiploading documents and provisional invoice and the remaining 5-10% is settled within 30 days of presentation of the final invoice. The final price is subject to minor adjustments based on the final analyses of weight, chemical and physical composition, and moisture content.

(i) 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.

Consumable materials for plant and equipment are recognised as inventory. Consumable stocks are carried at the lower of cost and net realisable value.

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.

(j) 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 lesser of the hire purchase or finance lease term or useful life. 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 mining 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.

Notes to the Consolidated Financial Report (continued)

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.

(k) Mine properties

Mine properties represent the accumulation of all acquisition, exploration, evaluation and development expenditure incurred by or on behalf of the Group 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).

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.

(l) 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 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.

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.

(m) Rehabilitation costs

Long-term environmental obligations are based on the Group'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.

(n) Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group 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

Notes to the Consolidated Financial Report (continued)

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.

(o) Financial assets

Financial assets are classified into the following specified categories: 'held-to-maturity' investments, 'loans and receivables', and 'available-for-sale financial assets'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

[i] Held-to-maturity investments

Commercial bills and bonds with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

[ii] Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'.

Trade receivables, loans and other receivables are recorded at amortised cost, using the effective interest rate method, less impairment. Interest is recognised by applying the effective interest rate method.

(p) Trade and other payables

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

(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. Fees paid on the establishment of loan facilities are included as part of the carrying amount of the loans and borrowings.

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

(r) Provisions

Provisions are recognised when the Group 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.

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 balance date.

(s) Share-based payment transactions

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

Options

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

The cost of these options is measured by reference to their fair value at the date at which they are granted. The fair value is determined by using a binomial model.

Notes to the Consolidated Financial Report (continued)

In valuing these options, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company.

Performance rights

There is a 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.

The cost of these performance rights is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a Black-Scholes model.

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 Group, 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 as 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.

(t) Employee benefits

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave due 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 future payments due to be settled in respect of services provided by employees up to the reporting date. Consideration is given to future wage and salary levels, experience of employee departures, and periods of service. 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 Group to employee superannuation funds, which are defined contribution plans, are charged as an expense when incurred.

(u) Borrowing costs

Borrowing costs are recognised as an expense when incurred except when 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.

(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

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.

Notes to the Consolidated Financial Report (continued)

Finance Leases

Leases which effectively transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group are capitalised at the 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 and measured at the fair value of consideration received or receivable 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.

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

Mineral Resource Rent Tax (MRRT)

MRRT is considered, for accounting purposes, to be a tax based on income. Accordingly, current and deferred MRRT tax expense is measured and disclosed on the same basis as income tax.

Notes to the Consolidated Financial Report (continued)

The Group has recognised deferred income tax assets in respect of the tax base of MRRT assets to the extent that the Group estimates these deferred income tax assets will be utilised in the future.

On 29 March 2012 the MRRT legislation achieved Royal Assent and became law in Australia. The MRRT is effective from 1 July 2012 however as financial reporting considerations must be made from the date of Royal Assent, the Group has recognised the impact of deferred tax originating from MRRT as at 30 June 2012.

(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 Group uses foreign currency contracts to hedge its risks associated with foreign currency fluctuations and interest rate swaps to hedge against interest rate movements. 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.

Cash flow hedges – forward foreign currency contracts

In relation to cash flow hedges (forward foreign currency contracts) to hedge firm commitments which meet the conditions for 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.

The Group tests each of the designated cash flow hedges for effectiveness on a monthly basis both retrospectively and prospectively using regression analysis. A minimum of 50 data points is used for regression analysis and if the testing falls within the 80:125 range, the hedge is considered highly effective and continues to be designated as a cash flow hedge.

At each balance date, the Group measures ineffectiveness using the ratio offset method. For foreign currency cash flow hedges if the risk is over hedged, the ineffective portion is taken immediately to other income or expense in the income statement.

Cash flow hedges – interest rate swaps

In relation to interest swaps hedged against variable rate borrowings, the settlement dates coincide with the dates on which interest is payable on the underlying debt. All interest rate swaps matched directly against the appropriate loans and interest expense are considered highly effective, and are settled on a net basis. The swaps are measured at fair value and all gains and losses attributable to the hedged risk are taken directly to equity and reclassified into profit and loss when the interest expense is recognised. Any ineffective portion is taken to other expenses in the income statement.

Notes to the Consolidated Financial Report (continued)

Cash flow hedges – collars

In relation to foreign exchange collars to hedge firm commitments which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised either directly in equity or the profit and loss depending on whether the exchange rate falls within the range of the collars. Any ineffective portion is recognised in the income statement.

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 forecast 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.

Cash flow hedges – lease liabilities

The Group designated certain foreign currency denominated lease liabilities as hedging instruments for the purposes of hedging foreign currency risk on forecast sales transactions.

The effective portion of the foreign currency gain or loss on the hedging instrument is recognised directly in other comprehensive income in the net unrealised gains/(losses) reserve, while any ineffective portion relating to foreign currency contracts is recognised immediately in sales income or cost of sales in the income statement.

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 forecast 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.

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) Financial instruments issued by the Group

[i] Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

[ii] Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

(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;

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 Group assesses its mine rehabilitation provision annually in accordance with the accounting policy stated in Note 1(m). 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.

Notes to the Consolidated Financial Report (continued)

(ii) Units of production method of depreciation

The Group 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 Group's history of converting resources to reserves and the relevant time frames, the complexity of metallurgy, markets and future developments. The Group uses economically recoverable mineral resources (comprising proven and probable reserves) to depreciate assets on a unit 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 Group 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 Group 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'.

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.

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.

Notes to the Consolidated Financial Report (continued)

(vii) Deferred Waste

The Group has adopted a policy of deferring all waste development costs and amortising them in accordance with the accounting policy 1(k). Significant judgement is required in determining the capitalisation 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;
- Impacts of the carbon scheme;
- Future commodity prices; and
- Future cash costs of production.

(viii) Recoverability of potential deferred income tax assets

The Group 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 Group 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 Group 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 accounting estimates and assumptions relating to 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 has been assessed using the interest differential approach.

Notes to the Consolidated Financial Report (continued)

	Notes	2012 \$'000	2011 \$'000
2. REVENUE AND EXPENSES			
[a] Revenue			
Sale of ore		637,011	647,172
Realised gain on foreign exchange hedges		11,453	24,910
		<u>648,464</u>	<u>672,082</u>
Other revenue			
Interest income		20,425	21,147
		<u>20,425</u>	<u>21,147</u>
[b] Other income			
Realised gain on foreign exchange		-	33
Other income		163	46
		<u>163</u>	<u>79</u>
[c] Finance costs			
Finance charges on banking facilities		2,301	8,677
Finance charges payable under finance leases		4,010	3,563
		<u>6,311</u>	<u>12,240</u>
Unwinding of discount on rehabilitation provision		987	756
		<u>7,298</u>	<u>12,996</u>
[d] Cost of Sales			
Mining costs		397,594	309,622
Mining depreciation costs		28,622	22,641
Mining waste costs deferred	12	(384,326)	(310,861)
Amortisation of mining waste costs deferred	12	230,772	172,011
Amortisation of mine properties	12	22,995	16,721
Preproduction expenditure		(1,208)	(3,771)
Crushing costs		28,091	26,498
Transport costs		57,071	38,063
Port costs		16,027	17,238
Royalties		46,959	46,019
Depreciation – excluding mining depreciation		14,837	7,974
Net ore inventory movement		(83,997)	(17,061)
		<u>373,437</u>	<u>325,094</u>
[e] Administration Expenses include:			
Depreciation		370	357
Share-based payments expense	21[a]	(116)	422
Net loss on sale of plant and equipment		494	9
Net foreign exchange loss		129	84
[f] Cost of sales and Administration expenses above include:			
Salaries, wages expense and other employee benefits		88,859	55,156
Operating lease rental – minimum lease payments		36,430	19,230

Notes to the Consolidated Financial Report (continued)

2012	2011
\$'000	\$'000

3. INCOME TAX

Major components of income tax expense for the years ended 30 June 2012 and 2011 are:

Income Statement

Current income tax

Current income tax charge	20,718	22,793
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Deferred income tax

Relating to origination and reversal of temporary differences:

Income tax	49,268	80,595
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MRRT relating to origination and reversal of temporary differences	(2,889)	-
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Income tax expense reported in income statement	67,097	103,388
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Statement of Changes in Equity

Current income tax

Current income tax charge	-	-
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Deferred income tax

Capital raising costs	94	306
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Remeasurement of foreign exchange contracts	(61)	(62)
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Interest rate swap contracts	-	(161)
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Deferred income tax (benefit)/liability reported in equity	33	83
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Reconciliation of income tax expense

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 2012 and 2011 is as follows:

Accounting profit before income tax	239,593	342,888
• At the statutory income tax rate of 30% (2011: 30%)	71,878	102,866
• Expenditure not allowed for income tax purposes	(123)	132
• Other	(1,769)	390
MRRT tax benefit	(2,889)	-
Income tax expense	67,097	103,388
Effective income tax rate	28.0%	30.2%
Income tax expense reported in income statement	67,097	103,388

Notes to the Consolidated Financial Report (continued)

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2012	2011	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
CONSOLIDATED						
Accrued liabilities	(1,145)	(1,255)	-	-	(1,145)	(1,255)
Capital raising costs	(412)	(912)	-	-	(412)	(912)
Deferred income	-	-	43,877	44,246	43,877	44,246
Foreign exchange contracts	(15)	(998)	-	3,516	(15)	2,518
Interest receivable	-	-	699	1,278	699	1,278
Inventory	-	-	4,344	3,482	4,344	3,482
Lease liability	(890)	(1,559)	-	-	(890)	(1,559)
Mineral resource rent tax	(2,889)	-	-	-	(2,889)	-
Prepaid expenditure	-	-	101	27	101	27
Fixed assets, mine properties and exploration expenditure	-	-	227,227	157,425	227,227	157,425
Provisions	(26,610)	(7,373)	-	-	(26,610)	(7,373)
Share based payment	-	-	4	-	4	-
Tax losses	(3,401)	(3,401)	-	-	(3,401)	(3,401)
Tax (assets) liabilities	(35,362)	(15,498)	276,252	209,974	240,890	194,476
Set off of tax	32,473	15,498	(32,473)	(15,498)	-	-
Net tax (assets) liabilities	(2,889)	-	243,779	194,476	240,890	194,476

Balance	Recognised	Recognised	Balance
1 July 2011	in Income	in Equity	30 June 2012
\$'000	\$'000	\$'000	\$'000

Movement in temporary differences during the financial year ended 30 June 2012

Accrued liabilities	(1,255)	110	-	(1,145)
Capital raising costs	(912)	406	94	(412)
Deferred income	44,246	(369)	-	43,877
Foreign exchange contracts	2,518	(2,472)	(61)	(15)
Interest receivable	1,278	(579)	-	699
Inventory	3,482	862	-	4,344
Lease liability	(1,559)	669	-	(890)
Mineral resource rent tax	-	(2,889)	-	(2,889)
Prepaid expenditure	27	74	-	101
Fixed assets, mine properties and exploration expenditure	157,425	69,802	-	227,227
Provisions	(7,373)	(19,237)	-	(26,610)
Share based payment	-	4	-	4
Tax losses	(3,401)	-	-	(3,401)
	194,476	46,381	33	240,890

Notes to the Consolidated Financial Report (continued)

Movement in temporary differences during the financial year ended 30 June 2011

	Balance 1 July 2010 \$'000	Recognised in Income \$'000	Recognised in Equity \$'000	Balance 30 June 2011 \$'000
Accrued liabilities	(958)	(297)	-	(1,255)
Borrowing costs	(114)	114	-	-
Capital raising costs	(3,194)	1,976	306	(912)
Deferred income	57,338	(13,092)	-	44,246
Doubtful debts provision	-	-	-	-
Foreign exchange contracts	1,653	927	(62)	2,518
Interest rate swaps	-	161	(161)	-
Interest receivable	702	576	-	1,278
Inventory	2,960	522	-	3,482
Lease liability	(1,965)	406	-	(1,559)
Prepaid expenditure	24	3	-	27
Fixed assets, mine properties and exploration expenditure	103,282	54,143	-	157,425
Provisions	(6,730)	(643)	-	(7,373)
Tax losses	(39,200)	35,799	-	(3,401)
	113,798	80,595	83	194,476

Unrecognised deferred tax assets

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

		2012 \$'000	2011 \$'000
Mineral resources rent tax – mine properties (net of income tax)	[1]	292,659	-
Provision for write down of investments		965	965
Tax losses		44	44
		293,668	1,009

[1] Deferred tax assets relating to MRRT have not been recognised on the basis that it is not probable they will be utilised in the future and therefore they are considered not to be recoverable.

Notes to the Consolidated Financial Report (continued)

4. CASH AND CASH EQUIVALENTS

[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	40,678	21,911
Short-term deposits	-	95,096
	<u>40,678</u>	<u>117,007</u>

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.

[b] Reconciliation of the net profit after tax to the net cash flows from operations

Net profit after tax	172,496	239,500
<i>Adjustments for:</i>		
Depreciation of non-current assets	43,829	30,972
Amortisation of deferred waste	230,772	172,011
Amortisation of other mine properties	22,995	16,721
Net loss on disposal of property, plant and equipment	494	9
Net mark-to-market differences on derivatives	(4,747)	(8,119)
Interest received	(20,425)	(21,147)
Exploration expenses written off	47	20
Share based payments	(116)	422
Unwinding of rehabilitation provision	987	756
Stock obsolescence	-	194
Borrowing costs	1,738	4,310
Capitalised expenses	-	(3,770)
<i>Changes in assets and liabilities</i>		
(Increase)/decrease in trade and other receivables	(1,543)	13,513
(Increase) in inventory	(67,336)	(20,801)
(Increase) in prepayments and deposits	(24)	(285)
(Increase) in deferred tax assets	(2,889)	-
(Increase) in capitalised deferred waste	(384,326)	(310,861)
Increase in creditors and accruals	24,873	4,329
Decrease in GST paid	(46)	(42)
Increase/(decrease) in current income tax liabilities	(13,353)	22,793
Increase in deferred income tax liabilities	46,384	80,595
Increase in restructure provision	4,158	-
Increase in road sealing provision	333	-
Increase in employee benefits	1,868	1,288
Net Cash Flow from Operating Activities	56,169	222,408

[c] Non-cash financing activities

During the financial year, the Group acquired property, plant and equipment with an aggregate fair value of \$27,714,098 (2011: \$14,576,372) by means of finance leases and hire purchase agreements. During the financial year, the Group disposed of items of property, plant and equipment with an aggregate fair value of \$345,350 (2011: \$48,398) which were financed by means of finance leases.

Notes to the Consolidated Financial Report (continued)

Notes	2012 \$'000	2011 \$'000
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5. TERM DEPOSITS

Current

Term deposits	252,000	270,000
	252,000	270,000

Term deposits are made for varying periods of between three and twelve months depending on the term cash requirements of the Group, and earn interest at the respective term deposit rates.

6. TRADE AND OTHER RECEIVABLES

Current

Trade debtors	[a][i]	13,432	7,398
Sundry debtors	[a][ii]	5,384	10,057
Other receivables		4,976	4,794
		23,792	22,249

[a] Terms and conditions

Terms and conditions relating to the above financial instruments:

- [i] Details of terms and conditions of trade debtors and credit sales are set out in note 1(h).
- [ii] Sundry debtors are non-interest bearing and have repayment terms between 30 and 90 days.

[b] Impaired or past due financial assets

An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. At 30 June 2012, trade debtors of nil (2011: \$ \$nil) in the Group were impaired.

At 30 June 2012, trade debtors of \$4,585,321 (2011: \$262,435) in the Group were past due but not impaired. These relate to a number of customers for whom there is no recent history of default or other indicators of impairment. Of this amount, \$4,070,000 relates to receivables from SCIT (a director related party). At 16 August 2012 \$1,660,000 of this amount remains outstanding (SCIT (a director related party): \$553,000).

With respect to trade debtors that are neither impaired nor past due, there are no indications as of the reporting date that the relevant debtors will not meet their payment obligations.

Notes	2012 \$'000	2011 \$'000
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Movements in the allowance for impairment of debtors were as follows:

Balance at the beginning of the year	-	-
Charge for the year	-	-
Amounts written off	-	-
Balance at the end of the year	-	-

The ageing of debtors past due but not impaired is as follows:

Less than 30 days overdue	-	-
Between 30 and 60 days overdue	509	428
Between 60 and 90 days overdue	1,819	20
Greater than 90 days overdue	2,257	(185)
	4,585	263

Notes to the Consolidated Financial Report (continued)

7. INVENTORIES

	2012 \$'000	2011 \$'000
Consumables – at cost	31,620	23,164
Provision for stock obsolescence	(194)	(194)
Ore – at cost	221,385	137,388
Provision for low grade ore	(25,117)	-
	227,694	160,358

8. DERIVATIVE FINANCIAL ASSETS

Current

Foreign currency forward contracts and options	30[b][i]	5,583	386
		5,583	386

9. INTEREST IN SUBSIDIARIES

Name	Country of Incorporation	Percentage of Equity Interest Held by the Group	
		2012 %	2011 %
Mount Gibson Mining Limited	Australia	100	100
Geraldton Bulk Handling Pty Ltd	Australia	100	100
Aztec Resources Limited	Australia	100	100
• Koolan Iron Ore Pty Ltd	Australia	100	100
• Koolan Shipping Pty Ltd	Australia	100	100
• Brockman Minerals Pty Ltd	Australia	100	100

Entities subject to Class Order relief

Pursuant to Class Order 98/1418, relief has been granted to Mount Gibson Mining Limited, Aztec Resources Limited and Koolan Iron Ore Pty Ltd from the *Corporations Act 2001* requirements for the preparation, audit and lodgement of their financial reports. As a condition of the Class Order, Mount Gibson Iron Limited, Mount Gibson Mining Limited, Aztec Resources Limited and Koolan Iron Ore Pty Ltd ("**Closed Group**") entered into a Deed of Cross Guarantee on 1 May 2009. The effect of this deed is that Mount Gibson Iron Limited has guaranteed to pay any deficiency in the event of winding up of these controlled entities or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that Mount Gibson Iron Limited is wound up or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee.

Notes to the Consolidated Financial Report (continued)

The Consolidated Income Statement and Balance Sheet of the Closed Group are set out below:

Consolidated Income Statement of the Closed Group

	2012	2011
	\$'000	\$'000
CONTINUING OPERATIONS		
Sale of goods	648,464	672,082
Other revenue	20,412	21,134
	TOTAL REVENUE	693,216
Cost of sales	(385,845)	(314,422)
	GROSS PROFIT	378,794
Other income	163	79
Administration expenses	(23,550)	(20,428)
Foreign exchange derivatives mark-to-market gain/(loss)	-	8,119
Exploration expenses	(53)	(20)
	PROFIT FROM CONTINUING OPERATIONS BEFORE TAX AND FINANCE COSTS	366,544
Finance costs	(7,298)	(12,741)
	PROFIT FROM CONTINUING OPERATIONS BEFORE INCOME TAX	353,803
Income tax expense	(67,774)	(108,179)
	NET PROFIT AFTER TAX ATTRIBUTABLE TO MEMBERS OF THE COMPANY	245,624

Notes to the Consolidated Financial Report (continued)

Consolidated Balance Sheet of the Closed Group

	2012 \$'000	2011 \$'000
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	40,028	116,082
Term deposits	252,000	270,000
Trade and other receivables	22,869	21,365
Inventories	227,690	160,358
Prepayments	3,156	3,183
Derivative financial assets	5,583	386
TOTAL CURRENT ASSETS	551,326	571,374
NON-CURRENT ASSETS		
Other receivables	100,732	32,561
Property, plant and equipment	216,640	244,280
Deferred acquisition, exploration, evaluation and development costs	344	309
Mine properties	949,753	736,768
Deferred income tax assets	2,889	-
TOTAL NON-CURRENT ASSETS	1,270,358	1,013,918
TOTAL ASSETS	1,821,684	1,585,292
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	117,468	96,492
Interest-bearing loans and borrowings	21,702	28,607
Derivative financial liabilities	393	63
Income tax payable	9,440	22,793
Provisions	10,454	4,256
TOTAL CURRENT LIABILITIES	159,457	152,211
NON-CURRENT LIABILITIES		
Provisions	78,063	24,217
Interest-bearing loans and borrowings	25,322	16,461
Deferred income tax liabilities	239,555	196,122
TOTAL NON-CURRENT LIABILITIES	342,940	236,800
TOTAL LIABILITIES	502,397	389,011
NET ASSETS	1,319,287	1,196,281
EQUITY		
Issued capital	564,710	561,585
Retained earnings	735,111	615,458
Reserves	19,466	19,238
TOTAL EQUITY	1,319,287	1,196,281

Notes to the Consolidated Financial Report (continued)

	2012 \$'000	2011 \$'000
10. PROPERTY, PLANT AND EQUIPMENT		
Freehold land - at cost	654	631
Plant and equipment – at cost	220,706	133,309
Accumulated depreciation	(81,162)	(41,398)
	139,544	91,911
Plant and equipment under lease – at cost	98,710	116,090
Accumulated depreciation	(52,076)	(63,814)
	46,634	52,276
Buildings – at cost	115,207	60,182
Accumulated depreciation	(30,722)	(23,352)
	84,485	36,830
Buildings under lease – at cost	522	522
Accumulated depreciation	(476)	(450)
	46	72
Capital works in progress – at cost	12,018	64,975
Total property, plant and equipment		
At cost	447,817	375,709
Total accumulated depreciation	(164,436)	(129,014)
	283,381	246,695

[a] Assets pledged as security

The value of assets pledged as security are:

Freehold land	654	631
Plant and equipment	139,544	91,911
Plant and equipment under lease	46,634	52,276
Buildings	84,485	36,830
Buildings under lease	46	72
Capital works in progress	12,018	64,975
	283,381	246,695

Notes to the Consolidated Financial Report (continued)

2012	2011
\$'000	\$'000

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

[b] Reconciliations

Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current and previous financial year:

Plant and equipment

Carrying amount at the beginning of the year	91,911	61,345
Additions	32,043	39,301
Transfers	32,339	201
Disposals	(1,530)	(17)
Depreciation expense	(15,219)	(8,868)
Depreciation capitalised	-	(51)
Carrying amount at the end of the year	139,544	91,911

Plant and equipment under lease

Carrying amount at the beginning of the year	52,276	55,548
Additions	27,714	14,576
Transfers	(11,847)	-
Disposals	(277)	(48)
Depreciation expense	(21,232)	(17,800)
Carrying amount at the end of the year	46,634	52,276

Buildings

Carrying amount at the beginning of the year	36,830	37,624
Additions	15,471	3,440
Transfers	39,534	38
Disposals	-	-
Depreciation expense	(7,350)	(4,272)
Carrying amount at the end of the year	84,485	36,830

Buildings under lease

Carrying amount at the beginning of the year	72	104
Depreciation expense	(26)	(32)
Carrying amount at the end of the year	46	72

Capital works in progress

Carrying amount at the beginning of the year	64,975	8,717
Additions	30,206	56,497
Transfers	(60,026)	-
Transfers to mine properties	(23,137)	(239)
Carrying amount at the end of the year	12,018	64,975

Notes to the Consolidated Financial Report (continued)

Notes	2012 \$'000	2011 \$'000
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11. DEFERRED ACQUISITION, EXPLORATION, EVALUATION AND DEVELOPMENT COSTS

Deferred acquisition, exploration, evaluation and development costs carried forward in respect of mining areas of interest:

Extension Hill Hematite	62	-
Koolan Island	282	261
Other	-	48
	344	309

Reconciliation

Carrying amount at beginning of the year	309	69,739
Additions	1,125	166
Transferred to mine properties	(1,043)	(69,542)
Exploration expenditure written off	(47)	(54)
Carrying amount at the end of the year	344	309

12. MINE PROPERTIES

Mine development expenditure	2,103,874	1,637,213
Accumulated amortisation	(1,154,121)	(900,354)
	949,753	736,859

Reconciliation

Carrying amount at beginning of the year		736,859	536,111
Additions		58,155	9,077
Transferred from deferred acquisition, exploration, evaluation and development costs		1,043	69,542
Transferred from capital works in progress		23,137	-
Deferred waste capitalised during the year	2[d]	384,326	310,861
Amortisation expensed – deferred waste	2[d]	(230,772)	(172,011)
Amortisation expensed – other	2[d]	(22,995)	(16,721)
Carrying amount at the end of the year		949,753	736,859

The security pledged for financing facilities includes mining mortgages over the mining tenements and contractual rights to mine hematite deposits owned by the Group. Refer note 14.

13. TRADE AND OTHER PAYABLES

Current

Trade creditors	[a]	32,867	32,188
Accruals and other payables	[a]	89,663	67,368
		122,530	99,556

[a] 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	2012 \$'000	2011 \$'000
14. INTEREST-BEARING LOANS AND BORROWINGS			
Current			
Lease liability	[a]	1,769	2,231
Hire purchase facility	[b]	19,933	26,376
Corporate Debt	[c]	-	-
		21,702	28,607
Non-Current			
Lease liability	[a]	1,197	2,965
Hire purchase facility	[b]	24,125	13,496
		25,322	16,461
Financing facilities available			
At reporting date, the following financing facilities had been negotiated and were available:			
Total facilities:			
• Finance leases	[a]	2,966	5,196
• Hire purchase facility	[b]	44,058	39,872
• Contingent Instrument facility	[c]	65,000	65,000
• Corporate Debt	[c]	50,000	50,000
		162,024	160,068
Facilities used at reporting date:			
• Finance leases		2,966	5,196
• Hire purchase facility		44,058	39,872
• Contingent Instrument facility		57,743	55,082
• Corporate Debt		-	-
		104,767	100,150
Facilities unused at reporting date:			
• Finance leases		-	-
• Hire purchase facility		-	-
• Contingent Instrument facility		7,257	9,918
• Corporate Debt		50,000	50,000
		57,257	59,918

Notes to the Consolidated Financial Report (continued)

Terms and conditions relating to the above financial facilities:

[a] **Finance Lease Facility**

Finance leases are repayable monthly with final instalments due in May 2014. Interest is charged at an average rate of 8.94% pa. Secured by first mortgages over the leased assets.

[b] **Hire Purchase Facility**

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 National Australia Bank Limited. Hire purchase amounts are repayable monthly with final instalments due in August 2016. Interest is charged at an average rate of 7.48% pa. Secured by a first mortgage over the assets the subject of the hire purchase agreement and a guarantee from the Company. This facility is drawn and repayable in A\$.

[c] **Corporate Debt and Contingent Instrument Facility**

On 9 May 2011, the Company entered into a Facility Agreement for a \$115,000,000 finance facility which expires on 30 June 2014 consisting of:

- Senior debt facility of \$50,000,000 repayable as follows:
 - \$25,000,000 on 31 December 2013; and
 - \$25,000,000 on 30 June 2014.
- Contingent Instrument facility of \$65,000,000 (including guarantees and 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	2012 \$'000	2011 \$'000
15. DERIVATIVE FINANCIAL LIABILITIES			
Current			
Foreign currency forward contracts	30[b][i]	393	63
		393	63
16. PROVISIONS			
Current			
Employee benefits		6,012	4,248
Road resealing		433	100
Restructure		4,158	-
		10,603	4,348
Non-Current			
Employee benefits		666	562
Decommissioning rehabilitation		77,432	23,666
		78,098	24,228
Movement in provisions:			
<i>Road Resealing</i>			
Carrying amount at beginning of the year		100	100
Provision for period		333	200
Amounts utilised during the period		-	(200)
Carrying amount at end of the year		433	100
This provision relates to the forecast cost of roadworks associated with the Talling Peak mine site.			
<i>Restructure</i>			
Carrying amount at beginning of the year		-	-
Provision for period		4,158	-
Amounts utilised during the period		-	-
Carrying amount at end of the year		4,158	-
This provision relates to the forecast costs associated with release of personnel on closure of Talling Peak.			
<i>Decommissioning Rehabilitation</i>			
Carrying amount at beginning of the year		23,666	18,910
Provision for period		52,779	4,000
Unwinding of discount on rehabilitation provision		987	756
Carrying amount at end of the year		77,432	23,666
This provision relates to the forecast cost of decommissioning and rehabilitation on closure of Talling Peak, Koolan Island and Extension Hill mines.			

Notes to the Consolidated Financial Report (continued)

2012	2011
\$'000	\$'000

17. ISSUED CAPITAL

[a] Ordinary shares

Issued and fully paid

564,710 **561,585**

Notes	2012		2011	
	Number of Shares	\$'000	Number of Shares	\$'000

[b] Movement in ordinary shares on issue

Beginning of the financial year	1,082,570,693	561,585	1,079,174,611	559,207
Exercise of options	-	-	3,000,000	2,700
Exercise of performance rights	83,128	-	396,082	-
Shares issued	2,862,831	3,219	-	-
Deferred income tax on capital raising cost	-	(94)	-	(322)
End of the financial year	1,085,516,652	564,710	1,082,570,693	561,585

[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 Corporations legislation in place abolished the concept of authorised capital and par values. Accordingly, the Company does not have authorised capital nor a par value in respect of its issued shares.

[d] Share options

As at 30 June 2012, there were 2,000,000 options on issue (2011: 2,000,000) – see Note 21(b).

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

[e] Performance rights

As at 30 June 2012, there were 271,318 performance rights on issue (2011: 1,102,599) – see Note 21(c).

[f] Capital management

The primary objective of the Group's capital management is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares or other securities.

No changes were made in the objectives, policy or processes for managing capital during the years ended 30 June 2012 and 30 June 2011.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital. Net debt is calculated as total borrowings (including 'borrowings' and trade and other payables' as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

Notes to the Consolidated Financial Report (continued)

	Notes	2012 \$'000	2011 \$'000
18. RESERVES			
Option premium reserve	[a]	18,875	18,991
Net unrealised gains/(losses) reserve	[b]	3,783	3,439
Other reserves	[c]	(3,192)	(3,192)
		19,466	19,238
[a] Option premium reserve			
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		18,991	18,569
Share based payments		(116)	422
Balance at the end of the year		18,875	18,991
[b] Net unrealised gains/(losses) reserve			
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		3,439	6,106
Net gains/(losses) on cash flow hedges		283	(3,156)
Deferred income tax on cash flow hedges		61	489
Balance at the end of the year		3,783	3,439
[c] Other reserves			
This reserve is used to record the gain or loss arising from the sale or acquisition of non-controlling interests to or from third party investors.			
Balance at the beginning of the year		(3,192)	(3,192)
Movement during the period		-	-
Balance at the end of the year		(3,192)	(3,192)
19. RETAINED EARNINGS			
Balance at the beginning of the year		585,718	346,218
Dividends paid during the period		(64,957)	-
Net profit attributable to members of the Company		172,496	239,500
Balance at the end of the year		693,257	585,718

Notes to the Consolidated Financial Report (continued)

		Notes	2012 \$'000	2011 \$'000
20. EXPENDITURE COMMITMENTS				
[a] Exploration Expenditure Commitments		[i]		
Minimum obligations not provided for in the financial report and are payable:				
• Not later than one year			545	735
• Later than one year but not later than five years			1,978	2,013
• Later than five years			2,653	3,148
			5,176	5,896
[b] Operating Lease Commitments		[ii]		
Minimum lease payments				
• Not later than one year			19,761	7,953
• Later than one year but not later than five years			15,564	2,047
			35,325	10,000
[c] Finance Lease and Hire Purchase Commitments		[iii]		
Minimum lease payments				
• Not later than one year			24,451	31,142
• Later than one year but not later than five years			26,984	18,265
Total minimum lease payments			51,435	49,407
Future finance charges			(4,411)	(4,339)
			47,024	45,068
Total lease liability accrued for:				
Current				
Finance leases and hire purchase facility			21,702	28,607
Non-Current				
Finance leases and hire purchase facility			25,322	16,461
			47,024	45,068
[d] Property, plant and equipment commitments		[iv]		
Commitments contracted for at balance date but not recognised as liabilities				
• Not later than one year			3,323	6,864
• Later than one year but not later than five years			-	-
			3,323	6,864
[e] Remuneration commitments		[v]		
Commitments for the payment of salaries and other remuneration under long term employment contracts in existence at the reporting date but not recognised as liabilities, payable:				
• Not later than one year			1,015	1,592
• Later than one year but not later than five years			-	-
			1,015	1,592
[f] Other commitments		[vi]		
Commitments for the payment of other mining and transport contracts:				
• Not later than one year			69,998	58,499
• Later than one year but not later than five years			105,555	73,814
			175,573	132,313

Notes to the Consolidated Financial Report (continued)

- [i] In order to maintain current rights to explore and mine the tenements at Talling Peak, Koolan Island and Extension Hill, the Group is required to perform minimum exploration work to meet the expenditure requirements specified by the Department of Industry and Resources.
- [ii] Operating leases relates to operating lease for office space with an initial lease term of 6 years and operating lease for machinery has an average term of 1.4 years.
- [iii] Finance leases and hire purchases have an average term of 3.7 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 8.94% pa and 7.48% pa respectively (2011: 8.89% pa and 7.67% pa respectively). Secured lease liabilities are secured by a charge over the leased assets.
- [iv] The Group had contractual commitments to purchase property, plant and equipment relating principally to the completion of construction and development of port facilities of \$3,622,769 (2011: \$6,863,888).
- [v] Amounts disclosed as remuneration commitments arising from the service contracts of Directors and Executives referred to in the remuneration report of the Directors' report that are not recognised as liabilities and are not included in the compensation of Key Management Personnel.
- [vi] Amounts disclosed as other commitments relate to contracts in respect of mining and transport that are not recognised as liabilities.

Notes	2012 \$'000	2011 \$'000
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21. SHARE-BASED PAYMENT PLANS

(a) Recognised share-based payment (income)/expense

(Income)/expense arising from equity-settled share-based payment transactions

2[e]	(116)	422
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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 2012 and 2011.

(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. As at balance date the following options over unissued shares were on issue:

Exercise Price	Vesting date / Exercise Period	2012 Number	2011 Number
110 cents	Vested 24 Oct 2010 – exercise on or before 23 Oct 2012	2,000,000	2,000,000
		2,000,000	2,000,000

The remaining contractual life for the options on issue as at 30 June 2012 is less than 1 year (2011: between 1 and 2 years).

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

	2012		2011	
	No. of Options	Weighted average exercise price (cents)	No. of Options	Weighted average exercise price (cents)
Balance at beginning of year	2,000,000	110.0	5,000,000	98.0
- granted	-	-	-	-
- forfeited	-	-	-	-
- exercised	-	-	(3,000,000)	90.0
Balance at year end	2,000,000	110.0	2,000,000	110.0
Exercisable at year end	2,000,000	110.0	2,000,000	110.0

Notes to the Consolidated Financial Report (continued)

(c) Performance Rights Plan

The Company has established the Mount Gibson Iron Limited Performance Rights Plan. The rights were 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.

Information with respect to the number of Performance Rights granted and issued is as follows:

	2012	2011
	No. of Performance Rights	No. of Performance Rights
Balance at beginning of year	1,102,599	801,482
- granted	271,318	301,117
- vested	(294,906)	-
- lapsed/forfeited	(807,693)	-
Balance at year end	271,318	1,102,599
Exercisable at year end	271,318	1,102,599

22. EARNINGS PER SHARE

Basic earnings per share amount is 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 is 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:

	2012	2011
	\$'000	\$'000
Profits used in calculating basic and diluted earnings per share	172,496	239,500
	Number of Shares	Number of Shares
Weighted average number of ordinary shares used in calculating basic earnings per share	1,083,054,960	1,081,674,803
Effect of dilution		
- Share options	341,357	804,348
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>1,083,396,317</u>	<u>1,082,479,151</u>

Conversions, calls, subscriptions or issues after 30 June 2012

Since the end of the financial year, no options have been converted to ordinary shares (2011: no options were converted to ordinary shares) and no shares were issued upon vesting of performance rights granted by the Company. There have been no other conversions to, calls of, or subscriptions for ordinary shares or issues of potential ordinary shares since the balance date and before the completion of this report.

Notes to the Consolidated Financial Report (continued)

Notes	2012	2011
	\$'000	\$'000

23. DIVIDENDS PAID AND PROPOSED

Declared and paid during the year:

(a) Dividends on ordinary shares:

Maiden final fully franked dividend for 2011: 4.0 cents per share	43,303	-
Maiden interim fully franked dividend for 2012: 2.0 cents per share	21,654	-
	64,957	-

(b) Dividends not recognised at the end of the reporting period:

On 22 August 2011, the directors of Mount Gibson declared a final dividend on ordinary shares in respect of the 2012 financial year. The total amount of the dividend is \$21,714,569 which represents a fully franked dividend of 2 cents per share. The dividend has not been provided for in the 30 June 2012 financial statements.

(c) Franked dividends:

The amount of franking credits available for the subsequent financial year are:

Franking account balance as at the end of the financial year at 30%	6,232	-
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	12,503	-
	18,735	-

The amount of franking credits available for future reporting periods:
Impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period

(9,306)	-
9,429	-

Tax rates

The tax rate at which paid dividends have been franked is 30%.

24. CONTINGENT LIABILITIES

1. The Corporate Debt banks have provided the Group with performance bonds totalling \$57,743,000 (2011: \$55,082,222). The performance bonds relate to performance of environmental obligations and rail upgrades.
2. A dispute has arisen between Mount Gibson Mining Limited and a contractor in relation to the contract for the upgrade of the road between Perenjori and Extension Hill. The contractor is seeking that Mount Gibson Mining Limited pay an additional sum of \$6,550,000 in connection with the upgrade works. Mount Gibson Mining Limited disputes that the additional sum is payable. The parties have commenced arbitration to resolve the matter.
3. Certain claims arising with customers, employees, consultants, and contractors have been made by or against certain controlled entities in the ordinary course of business, some of which involve litigation or arbitration. The Directors do not consider the outcome of any of these claims will have a material adverse impact on the financial position of the consolidated entity.

Notes to the Consolidated Financial Report (continued)

25. KEY MANAGEMENT PERSONNEL DISCLOSURES

[a] Compensation of Key Management Personnel

	2012	2011
	\$	\$
Short-term	3,414,904	2,993,853
Post employment	170,353	126,787
Long-term	256	-
Share-based payment	(115,988)	407,039
Termination payment	773,023	-
	<u>4,242,548</u>	<u>3,527,679</u>

[b] Option holdings of Key Management Personnel

	Balance at Beginning of Period	Granted as Remuneration	Options Exercised	Net Change	Balance at End of Period	Vested at 30 June 2012		
30 June 2012	1 July 2011				30 June 2012	Total	Not Exercisable	Exercisable
Directors								
G Hill	-	-	-	-	-	-	-	-
A Jones	-	-	-	-	-	-	-	-
Chen Z	-	-	-	-	-	-	-	-
Lee SH	-	-	-	-	-	-	-	-
Li S	-	-	-	-	-	-	-	-
R Barwick	-	-	-	-	-	-	-	-
S Bird	-	-	-	-	-	-	-	-
P Douglas	-	-	-	-	-	-	-	-
C Readhead	-	-	-	-	-	-	-	-
I Macliver	-	-	-	-	-	-	-	-
Cao Z	-	-	-	-	-	-	-	-
L Tonkin	-	-	-	-	-	-	-	-
A Rule	-	-	-	-	-	-	-	-
Other KMP								
J Beyer	-	-	-	-	-	-	-	-
D Berg	-	-	-	-	-	-	-	-
D Stokes	-	-	-	-	-	-	-	-
K Faulkner	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-

Notes to the Consolidated Financial Report (continued)

	Balance at Beginning of Period	Granted as Remuneration	Options Exercised	Net Change	Balance at End of Period	Vested at 30 June 2011		
30 June 2011	1 July 2010				30 June 2011	Total	Not Exercisable	Exercisable
Directors								
N Hamilton	-	-	-	-	-	-	-	-
L Tonkin	2,000,000	-	-	(2,000,000)	-	-	-	-
C Readhead	-	-	-	-	-	-	-	-
I Macliver	-	-	-	-	-	-	-	-
A Jones	-	-	-	-	-	-	-	-
Cao Z	-	-	-	-	-	-	-	-
Chen Z	-	-	-	-	-	-	-	-
P Knowles	-	-	-	-	-	-	-	-
Lee SH	-	-	-	-	-	-	-	-
G Hill	-	-	-	-	-	-	-	-
R Willcocks	-	-	-	-	-	-	-	-
P Curry	-	-	-	-	-	-	-	-
A Rule	-	-	-	-	-	-	-	-
Other KMP								
D Quinlivan	-	-	-	-	-	-	-	-
D Berg	-	-	-	-	-	-	-	-
R Mencil	-	-	-	-	-	-	-	-
G Hewitt	-	-	-	-	-	-	-	-
R Richardson	-	-	-	-	-	-	-	-
Total	2,000,000	-	-	(2,000,000)	-	-	-	-

[c] Shareholdings of Key Management Personnel

	Balance 1 July 2011 Ord	Granted as Remuneration Ord	On Exercise of Options Ord	Net Change Other Ord	Balance 30 June 2012 Ord
Directors					
G Hill	-	-	-	70,000	70,000
A Jones	-	-	-	-	-
Chen Z	-	-	-	-	-
Lee SH	-	-	-	-	-
Li S	-	-	-	-	-
R Barwick	-	-	-	-	-
S Bird	-	-	-	20,000	20,000
P Douglas	20,000 ^[1]	-	-	80,000	100,000
C Readhead	567,500	-	-	(567,500) ^[2]	-
I Macliver	1,000,000	-	-	(1,000,000) ^[3]	-
Cao Z	-	-	-	-	-
L Tonkin	-	-	-	-	-
A Rule	-	-	211,778	-	211,778
Other KMP					
J Beyer	-	-	-	-	-
D Berg	-	-	83,128	(83,128) ^[4]	-
D Stokes	-	-	-	-	-
K Faulkner	-	-	-	-	-
Total	1,587,500	-	294,906	(1,480,628)	401,778

[1] Initial interest on appointment as at 16 November 2011

[2] Final interest on resignation as at 14 December 2011

[3] Final interest on resignation as at 16 November 2011

[4] Final interest on resignation as at 30 April 2012

Notes to the Consolidated Financial Report (continued)

30 June 2011	Balance 1 July 2010 Ord	Granted as Remuneration Ord	On Exercise of Options Ord	Net Change Other Ord	Balance 30 June 2011 Ord
<i>Directors</i>					
N Hamilton	185,000	-	-	(185,000)	-
L Tonkin	-	227,758	-	(227,758)	-
C Readhead	567,500	-	-	-	567,500
I MacIver	1,000,000	-	-	-	1,000,000
A Jones	100,000	-	-	(100,000)	-
Cao Z	-	-	-	-	-
Chen Z	-	-	-	-	-
P Knowles	-	-	-	-	-
Lee SH	-	-	-	-	-
G Hill	-	-	-	-	-
R Willcocks	-	-	-	-	-
P Curry	-	-	-	-	-
A Rule	50,000	168,324	-	(218,324)	-
<i>Other KMP</i>					
D Quinlivan	-	-	-	-	-
D Berg	-	-	-	-	-
R Mencil	-	-	-	-	-
R Richardson	-	-	-	-	-
G Hewitt	-	-	-	-	-
	1,902,500	396,082	-	(731,082)	1,567,500

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.

Notes to the Consolidated Financial Report (continued)

[d] Performance Rights holdings by Key Management Personnel

	Balance 1 July 2011	Granted as Remuneration	Vested during year	Lapsed/ forfeited During year	Balance 30 June 2012
30 June 2012					
Directors					
G Hill	-	-	-	-	-
A Jones	-	-	-	-	-
Chen Z	-	-	-	-	-
Lee SH	-	-	-	-	-
Li S	-	-	-	-	-
R Barwick	-	-	-	-	-
S Bird	-	-	-	-	-
P Douglas	-	-	-	-	-
C Readhead	-	-	-	-	-
I MacIver	-	-	-	-	-
Cao Z	-	-	-	-	-
L Tonkin	535,985	-	-	(535,985)	-
A Rule	382,846	-	(211,778)	(171,068)	-
Other KMP					
J Beyer	-	271,318	-	-	271,318
D Berg	183,768	-	(83,128)	(100,640)	-
D Stokes	-	-	-	-	-
K Faulkner	-	-	-	-	-
Total	1,102,599	271,318	(294,906)	(807,693)	271,318

	Balance 1 July 2010	Granted as Remuneration	Vested during year	Lapsed/ forfeited During year	Balance 30 June 2011
30 June 2011					
Directors					
N Hamilton	-	-	-	-	-
L Tonkin	389,610	146,375	-	-	535,985
C Readhead	-	-	-	-	-
I MacIver	-	-	-	-	-
A Jones	-	-	-	-	-
Cao Z	-	-	-	-	-
Chen Z	-	-	-	-	-
P Knowles	-	-	-	-	-
Lee SH	-	-	-	-	-
R Willcocks	-	-	-	-	-
A Rule	278,292	104,554	-	-	382,846
Other KMP					
D Quinlivan	-	-	-	-	-
D Berg	133,580	50,188	-	-	183,768
R Mencil	-	-	-	-	-
Total	801,482	301,117	-	-	1,102,599

[e] Loans to Specified Key Management Personnel

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

[f] Other Transactions and Balances with Key Management Personnel

There were no other transactions and balances with key management personnel during the year.

Notes to the Consolidated Financial Report (continued)

26. RELATED PARTY DISCLOSURE

Ultimate parent

Mount Gibson Iron Limited is the ultimate Australian parent company.

Director-related entity transactions

Sales

During all or part of the year Mr Li and Mr Chen were directors of Shougang Concord and Mr Lee and Mr Curry were directors of APAC.

The following sale agreements are in place with director-related entities:

- The sale of 80% of iron ore from Talling Peak's production over the life of mine after 0.6 million WMT is provided to other customers (estimated at 2.2 million DMT) to SCIT.
- The sale of 20% of iron ore from Talling Peak's production over the life of mine after 0.6 million WMT is provided to other customers (estimated at 0.5 million DMT) to APAC.
- The sale of 80% of iron ore from Koolan Island's production over the life of mine (estimated at 25.1 million DMT) to SCIT.
- The sale of 20% of iron ore from Koolan Island's production over the life of mine (estimated at 6.3 million DMT) to APAC.

Pursuant to these sales agreements, during the financial year, the Group:

- Sold 1,203,488 Wet Metric Tonnes ("**WMT**") (2011: 719,071 WMT) of iron ore to APAC; and
- Sold 2,883,959 WMT (2011: 2,875,589 WMT) of iron ore to Shougang Concord.

Amounts recognised at the reporting date in relation to director-related entity transactions:

Assets and Liabilities

Current Assets

Trade receivables - Sino Chance Trading Limited

Trade receivables - Shougang Concord

Total trade receivables

Total Assets

Current Liabilities

Trade payables - Shougang Concord

Total trade payables

Total Liabilities

Revenues and Expenses

Sale of goods - APAC

Sale of goods - Shougang Concord

Total Sale of Goods

2012	2011
\$'000	\$'000

426	431
8,133	4,383
8,559	4,814
8,559	4,814

2	2
2	2
2	2

116,331	79,681
387,059	355,676
503,390	435,357

Apart from the above, there are no director-related entity transactions other than those specified in Note 25.

27. AUDITOR'S 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
- Other services in relation to the entity and any other entity in the consolidated entity

2012	2011
\$	\$
231,885	213,410
-	-
231,885	213,410

Notes to the Consolidated Financial Report (continued)

28. SEGMENT INFORMATION

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Office and his management team in assessing performance and in determining the allocation of resources.

The reportable segments are based on aggregated operating segments determined by the similarity economic characteristics.

The accounting policies applied for internal reporting purposes are consistent with those applied in the preparation of the financial statements. During the year ended 30 June 2012, revenue received from the sale of iron ore was comprised of the following buyers who each on a proportionate bases equated to greater than 10% of total sales for the period:

	2012
Customer	\$'000
# 1	387,059
# 2	116,331
# 3	59,140
# 4	47,209
Other	27,272
	<u>637,011</u>

During the year ended 30 June 2011, revenue received from the sale of iron ore was comprised of the following buyers who each on a proportionate bases equated to greater than 10% of total sales for the period:

	2011
Customer	\$'000
# 1	355,676
# 2	88,062
# 3	79,682
# 4	77,238
Other	46,514
	<u>647,172</u>

Revenue from external customers by geographical location is based on location of iron ore shipped. All iron ore has been shipped to China during the 2012 and 2011 financial years.

All segment assets are located within Australia.

29. EVENTS AFTER THE BALANCE SHEET DATE

On 22 August 2011, the directors of Mount Gibson declared a final dividend on ordinary shares in respect of the 2012 financial year. The total amount of the dividend is \$21,714,569 which represents a fully franked dividend of 2 cents per share. The dividend has not been provided for in the 30 June 2012 financial statements.

During August 2012 there have been delays in customer nominations of 5 vessels by SCIT (a director related party) that were scheduled to occur in August. These shipments are expected to occur in September 2012.

Subsequent to year end iron ore prices have deteriorated from US\$135.25 per dry metric tonne (**DMT**) at the 29 June 2012 to US\$108.78 DMT at the 21 August 2012 based on the benchmark Platts price for iron ore fines grading 62%Fe CFR North China .

As at the date of this report there are no significant events after balance date of the Company or of the Group that require adjustment of or disclosure in this report.

Notes to the Consolidated Financial Report (continued)

30. FINANCIAL INSTRUMENTS

[a] Financial risk management objectives

The Group'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 Group's operations.

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

The Group also enters into derivatives transactions, principally forward currency contracts, foreign currency collar options and interest rate swaps. The purpose is to manage the currency risks and interest rate risks arising from the Group's operations and its sources of finance.

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

[b] Foreign currency risk

The Group is exposed to the risk of adverse movement in the A\$ compared to the US\$ as its iron ore sales receipts are denominated in US\$. The Group uses derivative financial instruments to manage specifically identified foreign currency exposures by hedging a proportion of forecast US\$ sales transactions in accordance with its risk management policy being a minimum of 50% and maximum of 70% of the next 12 months of forecast US\$ sales. The primary objective of using derivative financial instruments is to reduce the volatility of earnings and cashflows attributable to changes in the US\$/A\$ exchange rate and to protect against adverse movements in these rates.

The Group recognises derivative financial instruments at fair value at the date the derivative contract is entered into. The Group applies hedge accounting to forward foreign currency contracts and collar option contracts and US\$ finance leases that meet the criteria of cash flow hedges.

During the period from 1 July 2011 to 30 June 2012, the Group delivered into US dollar foreign exchange forward contracts totalling US\$261,500,000 at a weighted average A\$ 1.00 : US\$ 1.0115.

At 30 June 2012, the notional amount of the foreign exchange hedge book totalling US\$199,999,994 is made up as follows:

Forward contract profile totalling US\$199,999,994 due in the 12 months ending 30 June 2013 - weighted average A\$ 1.00 : US\$ 0.99004.

As at 30 June 2012, the mark-to-market gain on the total outstanding US dollar foreign exchange hedge book of US\$199,999,994 was A\$5,190,841.

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

The Group uses the following derivative instruments to manage foreign currency risk:

Instrument	Type of Hedging	Objective
Forward exchange contracts	Committed	To hedge sales receipts against cash flow volatility arising from the fluctuation of US\$/A\$ exchange rates.
Collars	Committed	To hedge sales receipts against cash flow volatility arising from the fluctuation of US\$/A\$ exchange rates by limiting exposure to exchange rates within a certain range of acceptable rates.

Notes to the Consolidated Financial Report (continued)

[i] Foreign exchange contracts - cash flow hedges

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

At balance date, the following foreign exchange contracts were outstanding:

	2012				2011			
	Average Contract Rate A\$/US\$	US\$ \$'000	Contract Value A\$ \$'000	Fair Value A\$ \$'000	Average Contract Rate A\$/US\$	US\$ \$'000	Contract Value A\$ \$'000	Fair Value A\$ \$'000
Forward Exchange Contracts								
- within one year	0.9900	200,000	202,012	5,191	1.0591	45,000	42,490	323
Total	0.9900	200,000	202,012	5,191	1.0591	45,000	42,490	323

	2012 \$'000	2011 \$'000
Current assets (note 8)	5,583	386
Current liabilities (note 15)	(393)	(63)
Total forward exchange contracts	5,190	323
Current liabilities (hire purchase US\$ facility – note 14)	-	(20,299)
	<u>5,190</u>	<u>(19,976)</u>

Movement in forward exchange contract cash flow hedge reserve:

	2012 \$'000	2011 \$'000
Opening balance	323	7,305
Change in fair value of cash flow hedges	(6,586)	(33,127)
Transferred from / (to) revenue in Income Statement	11,453	24,910
Transferred from / (to) derivatives in Income Statement	-	1,235
Closing balance	<u>5,190</u>	<u>323</u>

Cash flow hedge ineffectiveness recognised immediately in profit and loss - 1,235

[ii] Foreign currency sensitivity

The following table details the effect on profit after tax and other comprehensive income after tax of a 10% change in the Australian dollar against the US\$ from the spot rate at 30 June 2012 and 30 June 2011.

	Net Profit		Other Comprehensive Income	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
10% appreciation in the A\$ spot rate with all other variables held constant	(749)	299	23,007	2,869
10% depreciation in the A\$ spot rate with all other variables held constant	915	(366)	(19,461)	(3,060)

Notes to the Consolidated Financial Report (continued)

The sensitivity analysis of the Group's exposure to the foreign currency risk at balance date has been determined based on the change in value due to foreign exchange movement based on exposures at balance sheet date. A positive number indicates an increase in profit and other comprehensive income.

At balance date, the Group's exposure to foreign currency risks on financial assets and financial liabilities, excluding derivatives, are as follows:

		CONSOLIDATED	
		2012	2011
		\$'000	\$'000
Financial Assets			
Cash	(included within note 4)	1,149	9,425
Trade receivables	(included within note 6)	10,755	6,300
Financial Liabilities			
Trade payables	(included within note 13)	(136)	(126)
Hire purchase facility	(included within note 14)	-	(20,299)
Net exposure		11,768	(4,700)

[c] Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's long-term debt obligations and cash equivalents.

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

The Group constantly analyses its interest income rate exposure. Within this analysis, consideration is given to potential renewals of existing positions and alternative financing.

At balance date, the Group's exposure to interest rate risks on financial assets and financial liabilities are as follows:

Notes to the Consolidated Financial Report (continued)

	Fixed interest rate maturing in:								Total carrying amount per balance sheet		Weighted Average Interest	
	Floating interest rate		1 year or less		Over 1 to 5 years		Non-interest bearing		2012	2011	2012	2011
	2012	2011	2012	2011	2012	2011	2012	2011			%	%
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		
CONSOLIDATED												
i) <i>Financial assets</i>												
Cash	40,673	21,904	-	95,096	-	-	5	7	40,678	117,007	2.82	5.58
Term deposits	-	-	252,000	270,000	-	-	-	-	252,000	270,000	5.65	5.99
Trade and other receivables	-	-	-	-	-	-	23,792	22,249	23,792	22,249	-	-
Derivatives	-	-	-	-	-	-	5,583	386	5,583	386	-	-
Total financial assets	40,673	21,904	252,000	365,096	-	-	29,380	22,642	322,053	409,642		
ii) <i>Financial liabilities</i>												
Trade and other payables	-	-	-	-	-	-	122,530	99,556	122,530	99,556	-	-
Derivatives	-	-	-	-	-	-	393	63	393	63	-	-
Lease liabilities	-	-	1,768	2,231	1,197	2,965	-	-	2,965	5,196	8.94	8.89
Hire purchase	-	-	19,934	26,376	24,125	13,496	-	-	44,059	39,872	7.48	7.67
Corporate debt	-	-	-	-	-	-	-	-	-	-	-	-
Total financial liabilities	-	-	21,702	28,607	25,322	16,461	122,923	99,619	169,947	144,687		

Notes to the Consolidated Financial Report (continued)

[i] Interest rate sensitivity

The following table details the effect on profit and other comprehensive income after tax to a 1% change in the interest rates at 30 June 2012 and 30 June 2011.

	Net Profit		Other Comprehensive Income	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
• 1% increase in interest rate with all other variables held constant	1,764	2,556	-	-
• 1% decrease in interest rate with all other variables held constant	(1,764)	(2,556)	-	-

The sensitivity analysis of the Group's exposure to Australian variable interest rate risk at balance date has been determined based on exposures at balance sheet date. A positive number indicates an increase in profit and equity. All mark-to-market movements in cash flow hedges have been assumed to go to other comprehensive income as the profit and loss impact for any ineffectiveness unwinds over the relevant derivatives' lives.

[d] Credit risk

The Group'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 Group'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 Group.

The Group 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.

Credit risk from balances with banks and financial institutions is managed in accordance with a Board approved policy. Investments of surplus funds are made only with approved counterparties with a Standard & Poors short term credit rating of at least A-1 and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Board on an annual basis, and may be updated throughout the year subject to approval of the Board. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure. No material exposure is considered to exist by virtue of the possible non performance of the counterparties to financial instruments.

There are no significant concentrations of credit risk within the Group.

[e] Commodity price risk

The Group's operations are exposed to commodity price risk. The Group's sales revenue is derived under long term sales contracts for the life of mine at each of its operations. The pricing mechanism reflects a market based clearing index. The pricing mechanism adopts the Platts Iron Ore Index Price ("**Platts Index**") which is published daily for iron ore product with Fe content ranging from 58% to 65% and is quoted on a US\$ per dry metric tonne "Cost and Freight" North China basis. The price to be paid by Mount Gibson's customers is based on the applicable Platts Index for the type and quality of ore delivered and reflects the average Platts Index for the preceding calendar month of the iron ore shipment. The average monthly Platts Index is converted to an "Free On Board" price per dry metric tonne by deducting the calculated shipping freight costs utilising corresponding shipping average monthly indices for Panamax vessels from the ports of Geraldton and Koolan Island to Qingdao. Lump iron ore receives a premium to the published Platts Index price and is determined every 3 or 6 months depending on the sales contract.

Revenue on sales is recognised based on provisional priced sales and is subject to final adjustments between 30 to 120 days after delivery of the commodity. There are limited available financial instruments available to hedge the iron ore price.

Notes to the Consolidated Financial Report (continued)

[f] Liquidity risk and Capital risk management

The Group'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. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities.

The Group's capital risk management objectives are to safeguard the business as a going concern, to maximise returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure in order to reduce the cost of capital (being equity and Corporate Debt).

Mount Gibson does not have a target debt/equity ratio but has a policy of maintaining a flexible financing structure so as to be able to take advantage of new investment opportunities that may arise. Note 14 sets out details of the Corporate Debt facility.

At 30 June 2012, the Group had unutilised standby credit facilities totalling \$57,257,000 (2011: \$59,918,000).

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. As the amounts disclosed in the table are the contractual undiscounted cash flows, these balances will not necessarily agree with the amounts disclosed in the Balance Sheet.

	30 June 2012					30 June 2011				
	Less than 6 months \$'000	6 to 12 months \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000	Less than 6 months \$'000	6 to 12 months \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
Financial Liabilities										
Trade and other payables	122,530	-	-	-	122,530	99,556	-	-	-	99,556
Lease liabilities	741	1,203	1,269	-	3,213	1,631	600	2,965	-	5,196
Hire purchases	11,604	10,903	25,714	-	48,221	12,613	13,763	13,496	-	39,872
Corporate debt	-	-	-	-	-	-	-	-	-	-
Derivatives – Gross Inflow	(185,662)	(21,671)	-	-	(207,333)	(42,818)	-	-	-	(42,818)
Derivatives – Gross Outflow	181,368	20,775	-	-	202,143	42,495	-	-	-	42,495
	130,581	11,210	26,983	-	168,774	113,477	14,363	16,461	-	144,301

Notes to the Consolidated Financial Report (continued)

[g] Fair value of financial assets and financial liabilities

The carrying amounts and fair values of the financial assets and financial liabilities for the Group are shown below.

The 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 parties after allowing for transaction costs.

The fair values of cash, short-term deposits, trade and other receivables, trade and other payables and other short-term borrowings approximate their carrying values, as a result of their short maturity or because they carry floating rates of interest.

The fair values of derivative financial instruments are determined using the Level 2 method requiring fair value to be calculated using observable market inputs. The Group's fair values under Level 2 method are sourced from an independent valuation by the Group's treasury advisor, Oakvale Capital ("Oakvale"). Oakvale's valuation techniques use prevailing market inputs sourced from Reuters/Bloomberg to determine an appropriate mid price valuation.

	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	\$'000	\$'000	\$'000	\$'000
Financial assets - current				
Cash	40,678	40,678	21,911	21,911
Short-term deposits	-	-	95,096	95,096
Term deposits	252,000	252,000	270,000	270,000
Trade debtors	13,432	13,432	7,398	7,398
Other receivables	10,360	10,360	14,851	14,851
Derivatives	5,583	5,583	386	386
	322,053	322,053	409,642	409,642
Financial liabilities – current				
Trade and other payables	122,530	122,530	99,556	99,556
Lease liabilities	21,702	21,702	28,607	28,607
Corporate debt	-	-	-	-
Derivatives	393	393	63	63
	144,625	144,625	128,226	128,226
Financial liabilities – non current				
Lease liabilities	25,322	25,322	16,461	16,461
	25,322	25,322	16,461	16,461
Net financial assets /(financial liabilities)	152,106	152,106	264,955	264,955

Notes to the Consolidated Financial Report (continued)

31. PARENT ENTITY INFORMATION

	2012 \$'000	2011 \$'000
[a] Information relating to Mount Gibson Iron Limited:		
Current assets	846	905
Total assets	670,726	597,022
Current liabilities	10,215	23,607
Total liabilities	205,593	23,607
Issued capital	564,805	561,585
Accumulated losses	(118,546)	(7,160)
Share based payments reserve	18,874	18,990
Total Shareholder's Equity	465,133	573,415
Net profit/(loss) after tax of the parent entity	(46,429)	10,975
Total comprehensive income / (loss) of the parent entity	(46,429)	10,975

[b] Details of any guarantees entered into by the parent entity

There are cross guarantees given by Mount Gibson Iron Limited in relation to the debts of its subsidiaries as described in note 9.

The parent entity has further provided bank guarantees in respect of obligations to various authorities. Refer to note 14.

[c] Details of any contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at reporting date. For information about guarantees given by the parent entity, refer [b] above.

[d] Details of any contractual commitments by the parent entity for the acquisition of property, plant and equipment

Mount Gibson Iron Limited guarantees the performance of Mount Gibson Mining Limited's obligations to Queensland Rail under the Transport Access Agreement made on 26 June 2008 as amended and restated on 30 June 2009. In accordance with this agreement, Mount Gibson Mining Limited agrees to reimburse Queensland Rail for track access charges properly due and payable to Brookfield.

There are no other contractual commitments by the parent entity for the acquisition of property, plant and equipment as at reporting date.

[e] Tax Consolidation

The Company and its 100% owned controlled entities have formed a tax consolidated group. Members of the Group entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned controlled entities. 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.

Notes to the Consolidated Financial Report (continued)

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 Group are in accordance with the *Corporations Act 2001*, including:
 - i) giving a true and fair view of the financial position of the Group as at 30 June 2012 and of their performance for the year ended on that date; and
 - ii) complying with Accounting Standards and the *Corporations Regulations 2001*; and
 - b. the financial statements and notes also comply with International Reporting Standards as disclosed in Note 1; and
 - c. there are reasonable grounds to believe that the Group 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 2012.

Signed in accordance with a resolution of the directors.



G HILL
Chairman

Perth, 22 August 2012

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

Report on the financial report

We have audited the accompanying financial report of Mount Gibson Iron Limited, which comprises the consolidated balance sheet as at 30 June 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, 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.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's 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, the auditor considers 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 complied with 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.

Opinion

In our opinion:

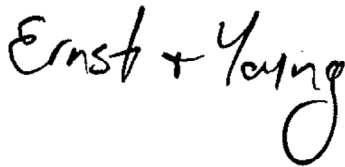
- a. the financial report of Mount Gibson Iron Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Mount Gibson Iron Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

A stylized, handwritten signature of 'Ernst & Young' in black ink.

Ernst & Young

A handwritten signature of 'P McIver' in black ink.

P McIver
Partner
Perth
22 August 2012

ASX Additional Information

The following information is required in order to complete the back end of the annual report entitled "ASX and Additional Information". The information is current as at 21 August 2012.

(a) Distribution of equity securities

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

			Ordinary Shares		% of Issued Capital
			Number of holders	Number of Shares	
1	-	1,000	2,374	1,367,621	0.13
1,001	-	5,000	6,052	18,155,307	1.67
5,001	-	10,000	3,289	25,894,684	2.39
10,001	-	100,000	3,853	104,743,351	9.65
100,001	-	999,999,999	246	935,567,467	86.17
TOTAL			15,814	1,085,728,430	100.00
The number of Shareholders holding less than a marketable parcel of Shares are:			1,134	291,362	

(b) Equity security holders

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

	Ordinary Shares	
	Number of Shares	% of Shares Held
True Plus Limited	163,866,874	15.09
Sun Hung Kai Investment Services Ltd <Client A/C>	151,523,460	13.96
HSBC Custody Nominees (Australia) Limited	106,692,494	9.83
JP Morgan Nominees Australia Limited	98,831,739	9.10
National Nominees Limited	88,320,317	8.13
APAC Resources Investments Limited	82,900,000	7.64
Sun Hung Kai Investment Services Ltd <Client A/C>	48,253,754	4.44
JP Morgan Nominees Australia Limited <Cash Income A/C>	39,480,522	3.64
Citicorp Nominees Pty Limited	24,724,955	2.28
Sun Hung Kai Investment Services Ltd <Client Katong Assets Ltd A/C>	9,721,855	0.90
BNP Paribas Noms Pty Ltd <Master Cust DRP>	7,105,833	0.65
Argo Investments Limited	6,433,498	0.59
Zero Nominees Pty Ltd	6,050,000	0.56
Debortoli Wines Pty Limited	5,941,240	0.55
Queensland Investment Corporation	5,076,596	0.47

ASX Additional Information continued

(b) Equity security holders (continued)

	Ordinary Shares	
	Number of Shares	% of Shares Held
HSBC custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C>	4,364,830	0.40
Bond Street Custodians Limited <Macq High Conv Fund A/C>	3,841,234	0.35
Citic Resources Australia Pty Ltd	3,405,000	0.31
BNP Paribas Noms Pty Ltd <SMP accounts DRP>	3,283,146	0.30
Mr Desmond George Samuel Anderson	3,050,000	0.28
Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (TOTAL)	870,187,196	80.14
Total Remaining Holders Balance	215,541,234	19.86

(c) Substantial Shareholders

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

	Number of Shares
APAC Resources Limited and its subsidiaries	279,877,774
COL Capital Limited, its subsidiaries and Ms Shirley Chong Suk Un	282,992,277
Shougang Corporation and Shougang Concord International Enterprises Company Limited and each of their controlled entities	154,166,874
Shougang Fushan Resources Group Limited, True Plus Limited and its subsidiaries	154,166,874

(d) Voting rights

All ordinary Shares carry one vote per Share without restriction.
No voting rights attach to options.

ASX Additional Information continued

(e) Schedule of interests in mining tenements

Location	Tenement	Status	Percentage Held
Koolan Island	E04/1265-I	Live	100%
Koolan Island	E04/1266-I	Live	100%
Koolan South	E04/1407	Pending	100%
Kooland Island	E04/2091	Pending	100%
Koolan Island	L04/29	Live	100%
Koolan Island	M04/416 - I	Live	100%
Koolan Island	M04/417 - I	Live	100%
Extension Hill	G70/232	Live	100%
Extension Hill	G70/238	Live	100%
Extension Hill	L70/133	Pending	100%
Tallering Peak	G70/192	Live	100%
Tallering Peak	G70/193	Live	100%
Tallering Peak	G70/201	Live	100%
Tallering Peak	G70/202	Live	100%
Tallering Peak	G70/203	Live	100%
Tallering Peak	G70/204	Live	100%
Tallering Peak	G70/205	Live	100%
Tallering Peak	L70/60	Live	100%
Tallering Peak	L70/69	Live	100%
Tallering Peak	L70/73	Live	100%
Tallering Peak	L70/74	Live	100%
Tallering Peak	M70/896 - I	Live	100%
Tallering Peak	M70/1062 - I	Live	100%
Tallering Peak	M70/1063 - I	Live	100%
Tallering Peak	M70/1064 - I	Live	100%
Tallering Peak	E70/3732	Pending	100%
Piawaning	E70/3059 - I	Live	100%
Jasper Hill	E59/1355-I	Live	100%