

QUARTERLY REPORT



MOUNT GIBSON IRON LIMITED QUARTERLY REPORT FOR THE PERIOD ENDED 30 JUNE 2016 21 July 2016

Key Points*

- June quarter iron ore sales of **0.8 million wet metric tonnes (Mwmt)**, and quarterly ore sales revenue of **A\$53 million** Free on Board (FOB).
- Total ore sales of **5.0 Mwmt** for the 2015/16 financial year, at the upper end of guidance, and full year sales revenue of **A\$240 million**.
- Settlement of **A\$86 million** reached for the property damage component of the Koolan Island insurance claim, of which approximately **A\$50 million** was received by quarter end, with the balance since received.
- Cash, term deposits and tradeable investments of **A\$400 million** at 30 June 2016.
- Quarterly cashflow of approximately **A\$6 million** excluding the Koolan insurance proceeds.
- All-in group cash costs** of **A\$46/wmt** FOB for FY2015-16, and **A\$50/wmt** for the June quarter, in line with guidance.
- Continued solid operating performance at Extension Hill, and permitting for Iron Hill progressing.
- Business interruption component of the Koolan seawall insurance claim progressing.
- Positive progress in the evaluation of a potential Koolan Island production restart.

* Sales revenue and cost figures are unaudited.

** All-in group cash costs are reported FOB and include cash opex, royalties, capex and corporate costs, net of stockpile movements.

Comment

Mount Gibson Chief Executive Officer, Jim Beyer, said: "More buoyant conditions in recent weeks and our strong performance in the June quarter provided Mount Gibson with an excellent finish to the year.

"Consequently, we achieved sales at the upper end of guidance and costs at the lower end, which combined with comparatively stronger prices, helped us deliver modest but healthy operating cashflow and gives us cause for substantial optimism for the remainder of calendar 2016.

"The successful A\$86 million settlement of the property damage component of our insurance claim for the Main Pit seawall at Koolan Island in June was also extremely pleasing. This enhances our already very strong financial position as we steadily progress approvals for Extension Hill and the exciting potential redevelopment alternatives at Koolan Island, as well as continue our pursuit of resources investment opportunities.

"While market conditions remain challenging, we believe the coming year represents one of great potential for Mount Gibson and its shareholders."

PERFORMANCE AT A GLANCE

	Unit	Jun-2015 Quarter	Sep-2015 Quarter	Dec-2015 Quarter	Mar-2016 Quarter	Jun-2016 Quarter	FY2016
Standard DSO product sales*	kwmt	1,664	1,061	1,520	1,547	718	4,846
Low Grade material sales^	kwmt	-	-	-	-	125	125
Total Ore Sales	kwmt	1,664	1,061	1,520	1,547	843	4,971
Ave. Platts 62%Fe CFR price	US\$/dmt	58	55	47	48	56	51
MGX FOB Ave. realised fines price#	US\$/dmt	38	40	35	27	37	34

Minor discrepancies may occur due to rounding.
 *Standard DSO sales included 52kwmt of mine-gate sales from Extension Hill in the June 2015. DSO sales include material from the Acacia East satellite pit at Koolan Island.
 ^Refers to opportunistic sales from crushed remnant low grade material at the closed Talling Peak mine site.
 #Mount Gibson's realised FOB fines price includes standard DSO fines product from Extension Hill only, after adjustments for shipping freight, grade, provisional invoicing adjustments and penalties for impurities. Contract pricing in the period was based on a mix of lagging-monthly and month-of-shipment averages.
 kwmt = thousand wet metric tonnes.
 US\$/dmt = USD per dry metric tonne.

OPERATIONS

Ore sales in the June quarter totalled approximately 843,000 wmt, reflecting continued steady operational performance at Extension Hill. Quarterly sales volumes included the opportunistic sale of 125,000 wmt of remnant low grade lump material from the closed Talling Peak mine site, which assisted with environmental rehabilitation.

Total ore sales for the 2015/16 financial year totalled 5.0 Mwmt, at the upper end of guidance.

Operating statistics for each of the sites are tabulated in Appendix A.

Koolan Island

During the June 2016 quarter, the Koolan Island mine transitioned to care and maintenance following the completion of mining and sales from the Acacia East satellite pit in the March 2016 quarter.

Activity at Koolan Island is now primarily focused on the ongoing evaluation of the potential to reinstate the Main Pit seawall and recommence production. Following the successful completion of preliminary evaluation work, the Company has committed A\$1.5 million to undertake detailed design for the seawall, and detailed mine design and production scheduling to achieve a material reduction in the average strip ratio and also a marked increase in product grade.

Mount Gibson expects to be able to provide a more detailed update on the progress of this evaluation later in the second half of 2016.

Extension Hill Hematite Mine

The Extension Hill mine continued its strong operational performance in the June quarter. Shipments from Geraldton Port totalled 718,000 wmt.

The mine remained cashflow positive for the quarter, reflecting the impacts of higher realised prices and the continued focus on cost reduction and productivity efforts.

All-in site cash costs¹ averaged A\$44/wmt sold FOB for the quarter, in line with guidance.

At the end of June, approximately 239,000 wmt of crushed finished product was stockpiled at the mine. Uncrushed product stockpiled at the mine totalled approximately 187,000 wmt. Mine-site stockpiles of uncrushed lower grade material totalled 3.5 Mwmt at the end of the quarter. Crushed ore stockpiles at the Perenjori rail siding totalled approximately 394,000 wmt.

¹ Site cash costs are reported FOB and include royalties, capex and adjustments for stockpile movements, but are before corporate cost allocations.

As previously indicated, Mount Gibson expects to complete mining operations in the current Extension Hill pit late in the September quarter of 2016, with sales from the current pit expected to conclude in early 2017 by which time the Company plans to have secured approvals for development of the adjacent Iron Hill deposit.

In the event that a gap between ore sales from the Extension Hill pit and Iron Hill appears likely (refer Iron Hill update below), Mount Gibson will evaluate the financial merits of selling ore from existing low grade stockpiles until Iron Hill material is available.

As stated previously, the Company continually reviews its activities in the context of prevailing market conditions and the future outlook for iron ore prices on the basis of what is in the best interests of the Company and all shareholders. This includes closely monitoring the viability of continuing operations at Extension Hill with regard to both mine cashflows as well as historical fixed infrastructure and transport obligations that would become payable on early closure. These obligations, which reduce with cumulative sales tonnage, totalled approximately A\$15 million at 30 June 2016, compared with A\$20 million at 31 March 2016.

Tallering Peak

During the quarter, Mount Gibson monetised some remnant low grade material remaining at the closed Tallering Peak mine site. These opportunistic sales, totalling 125,000 wmt of low grade lump material, generated a modest cash margin and assisted with environmental rehabilitation at the Tallering Peak mine site.

EXPLORATION AND RESOURCE DEVELOPMENT

Activity in the June quarter was primarily limited to progressing approvals and evaluating data from previously completed drilling and mapping of the Iron Hill prospect within the Extension Hill South project area.

Other than rehabilitation and environmental monitoring, all material exploration-related activities have been suspended as the Company focuses on cost reduction and capital preservation.

Iron Hill

In November 2015², the Public Environmental Review for the Iron Hill Deposit at Extension Hill South, immediately adjacent to the Company's operating Extension Hill mine, was released for public comment. A total of 11 submissions were received by the Office of the Environmental Protection Authority (OEPA) of Western Australia.

Subsequent to the end of the quarter, the OEPA released a positive conditional recommendation for Iron Hill. There is now a period for public comment that will close on 1 August 2016. The timing of a final determination remains subject to the outcome of any appeals lodged during the public comment period.

Mount Gibson also continues to progress other necessary regulatory requirements for Iron Hill.

Iron Hill has a Total Mineral Resource of 8.8Mt @ 58.3%Fe and has the potential for a material extension of mine life at Extension Hill for minimal capital cost, given its proximity to the existing operation. For details of Iron Hill Mineral Resources, refer to the Company's Annual Statement of Mineral Resources and Ore Reserves as at 30 June 2015³.

CORPORATE⁴

Realised Pricing and Revenue

The June quarter average Platts CFR price (which includes the cost of shipping paid for by the iron ore supplier) for 62% Fe fines delivered to northern China was US\$56 per dry metric tonne (dmt) compared with the US\$48/dmt average of the preceding quarter. The Platts CFR price averaged US\$51/dmt for 2015-16, compared with US\$72/dmt in the preceding financial year.

During the quarter, Mount Gibson achieved an average realised price for its standard Extension Hill iron ore fines product of US\$37/dmt FOB, after grade and provisional pricing adjustments and penalties for impurities,

² Refer Iron Hill Deposits Public Environmental Review, published 23 November 2015 and available at www.mtgibsoniron.com.au

³ Refer ASX releases dated 17 August 2015.

⁴ Sales, cost and cash movement figures are unaudited.

compared with US\$27/dmt FOB in the prior quarter. This price reflects the timing of sales and generally improved market conditions during the quarter.

Total FOB ore sales revenue for all products was A\$53 million in the June quarter, compared with A\$63 million in the preceding quarter. Ore sales revenue for the financial year totalled A\$240 million.

Cashflows and Cash Reserves

Excluding the Koolan insurance claim settlement receipts, the Company generated positive cashflow of approximately A\$6 million in the June quarter. This result included interest receipts of approximately A\$2 million.

Cash, term deposits and tradeable investments totalled A\$400 million at 30 June 2016, compared with A\$345 million at the end of March 2016. The quarter end cash position included part proceeds totalling approximately A\$49.6 million from the A\$86 million settlement of the property damage component of the Koolan Island insurance claim. The remaining A\$34.6 million of the property damage settlement, excluding A\$1.85 million which had already been received in mid-2015 as part of the insurers' initial prepayment, has since been received in full.

Cost Performance

All-in group cash costs⁵ averaged A\$46/wmt FOB for the year to 30 June 2016, below the lower end of guidance, reflecting the Company's ongoing focus on cost reductions and productivity improvements.

All-in group cash costs increased in the June quarter to A\$50/wmt FOB in the quarter, in line with prior guidance⁶, compared with A\$40/wmt in the preceding quarter, reflecting that all costs were divisible by sales from the Mid West only.

Koolan Island Insurance

As reported in June⁷, Mount Gibson reached final agreement with its insurers for a cash settlement of A\$86 million for the property damage component of its insurance claim relating to the failure of the Koolan Island Main Pit seawall in late 2014. The settlement amount includes the A\$1.85 million interim payment received in mid-2015, with A\$49.6 million received by 30 June 2016, and the remaining balance of A\$34.6 million now received in full. The settlement is independent of any decision Mount Gibson may take to rebuild the Main Pit seawall. Mount Gibson retains substantial carry-forward tax losses and other deductions, and therefore does not expect any tax outflow on the settlement proceeds.

The property damage insurance settlement is also separate to the ongoing discussions between Mount Gibson and its insurers in relation to the business interruption component of the Company's insurance claim. These discussions remain in progress and it is premature to comment as to the likely outcome of this component of the claim. Mount Gibson will provide further updates as appropriate.

Group Sales Guidance and FY2016 Financial Results

Mount Gibson plans to provide sales and cost guidance for the new financial year when it releases its financial results for the 2015-16 financial year, currently scheduled to occur on 18 August 2016.

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⁵ All-in group cash costs are reported FOB and include cash opex, royalties, capex and corporate costs, net of stockpile movements.

⁶ Refer ASX release dated 18 April 2016

⁷ Refer ASX release dated

Mount Gibson will host an analysts/institutions teleconference at **12.00 midday AEST (10.00am WST)** on **21 July 2016**. Investors will be able to listen in to the teleconference by dialling **1800 857 029** immediately prior to the scheduled start time and entering the access code **61492002#** at the prompts. A recording of the teleconference will also be available via the Mount Gibson website after completion of the teleconference. In case of difficulties, operator assistance can be reached by calling 1800 857 079 (Australian callers) or +613 8788 6028 (overseas callers).

Competent Person's Statement

The information in this report relating to the Mineral Resources of Iron Hill at the Extension Hill South project is based on information compiled by Jani Kalla, a Competent Person who is a member and Chartered Professional of the Australasian Institute of Mining and Metallurgy. Mr Kalla was a full-time employee of Mount Gibson Iron Limited, and is now a full time employee of another mining organisation. Mr Kalla has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Kalla consents to the inclusion in this report of the matters based on his information in the form and context in which it appears. The Iron Hill Mineral Resource estimate complies with recommendations in the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2012) by the Joint Ore Reserves Committee (JORC). Therefore it is suitable for public reporting.

APPENDIX A

Mount Gibson Iron Limited Quarterly Operating Statistics by Site

	Jun-2015 Quarter	Sep-2015 Quarter	Dec-2015 Quarter	Mar-2016 Quarter	Jun-2016 Quarter	2015-16
KOOLAN ISLAND	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Waste mined	66	1,225	1,874	223	-	3,322
Ore mined	144	335	666	380	-	1,381
Ore crushed	403	256	514	517	-	1,286
Shipping/Sales						
Standard DSO Lump	296	74	372	361	-	807
Standard DSO Fines	288	221	146	290	-	658
Total	585	295	518	651	-	1,465
EXTENSION HILL	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Waste mined	521	539	487	461	486	1,973
Standard ore mined	960	969	1,034	1,013	847	3,864
Low-grade ore mined [#]	172	206	182	189	153	731
Total ore mined	1,132	1,175	1,216	1,203	1,001	4,595
Ore crushed	982	1,039	1,026	868	962	3,895
Shipping/Sales[^]						
Standard DSO Lump	610	474	590	421	478	1,963
Standard DSO Fines	470	292	412	475	240	1,419
Total	1,080	766	1,002	896	718	3,382
TALLERING PEAK	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Shipping/Sales						
Low Grade Lump	-	-	-	-	125	125
Low Grade Fines	-	-	-	-	-	-
Total	-	-	-	-	125	125
CONSOLIDATED DATA	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Total waste mined	587	1,763	2,362	684	486	5,295
Total ore mined	1,276	1,510	1,882	1,583	1,001	5,977
Total ore crushed	1,386	1,294	1,540	1,384	962	5,181
Shipping/Sales						
Standard DSO Lump	906	549	962	781	478	2,770
Standard DSO Fines	758	513	558	765	240	2,076
Low Grade	-	-	-	-	125	125
Total	1,664	1,061	1,520	1,547	843	4,971

kwmt = thousand wet metric tonnes.

[^]Includes mine gate sales totalling 52kwmt of fines in the June 2015 quarter.

[#] Low-grade ore is material grading 50-55% Fe at Extension Hill considered to be saleable. This material is being stockpiled for future sale but continues to be treated as mineralised waste for accounting purposes. Talling Peak sales were sourced from crushed remnant low grade material remaining at the site.

Minor discrepancies may appear due to rounding and minor post-period adjustments.