



Mount Gibson Iron Limited

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ASX ANNOUNCEMENT

15 February 2017

December 2016 Half-Year Financial Result

Key Points *(All figures expressed in Australian dollars unless stated otherwise)*

- Sales revenue from continuing operations of **\$94 million** (1H 2015-16: \$124 million), and total sales revenue of \$102 million including the discontinued Talling Peak operation.
- Total product sales **1.8 million wet metric tonnes** (Mwmt) (1H 2015-16: 2.6 Mwmt).
- Net profit after tax of **\$22.9 million** (1H 2015-16: \$15.4 million loss).
- Gross profit from continuing operations of **\$24.2 million** before tax (1H 2015-16: \$12.0 million).
- Cash, term deposits and liquid investments of **\$447 million** at 31 December 2016, an increase of \$47 million over the half year.
- All-in group cash costs* of **\$48/wmt** FOB (1H 2015-16: \$49/wmt), at the low end of guidance.
- Iron Hill mine approved, first ore sales targeted to commence in May 2017.
- FY2017 sales guidance consequently increased to **3.2–3.5 Mwmt** at reduced all-in group cash cost* of **\$47-51/wmt FOB**.

** All-in group cash costs are reported FOB and include all operating, capital, royalties and corporate costs.*

Comment

Mount Gibson Chief Executive Officer, Jim Beyer, said: "The Mount Gibson team has delivered an excellent operational and financial result with a net profit after tax of \$22.9 million during a period of continued price volatility and significant operational transition. This performance has seen us generate strong cashflows during the first six months of the financial year.

"It also puts the Company in a strong position heading into the second half of the financial year where we are well placed to capitalise on the iron ore price as we see a short timeline for commencement of initial ore sales from the Iron Hill deposit.

"Mount Gibson has strong prospects ahead of it with development now underway at Iron Hill, the outcome of our advanced evaluation of the potential to restart Koolan Island anticipated in the coming weeks, and the financial capacity to act on additional value-creation opportunities that may emerge."

Results for the half-year ended 31 December 2016 compared with the prior corresponding half-year period:		Half-Year ended 31 December 2016	Half-Year ended 31 December 2015
Ore tonnes mined*	wmt (mill)	1.1	3.4
Ore tonnes sold*	wmt (mill)	1.8	2.6
Average realised price, all products (FOB)*	\$/wmt sold	57	48
Consolidated sales revenue*	<i>\$ mill</i>	102.0	124.0
Continuing Operations (Extension Hill & Koolan Island):			
Sales revenue	<i>\$ mill</i>	93.8	124.0
Interest income	<i>\$ mill</i>	6.0	4.6
Cost of sales	<i>\$ mill</i>	(75.6)	(114.3)
Impairment of ore inventories	<i>\$ mill</i>	-	(2.4)
Gross profit/(loss)	<i>\$ mill</i>	24.2	12.0
Admin and other expenses/income	<i>\$ mill</i>	(3.4)	(4.9)
Impairments (net of reversals)	<i>\$ mill</i>	(0.5)	(21.2)
Finance costs	<i>\$ mill</i>	(0.6)	(1.0)
Profit/(loss) before tax from continuing operations	<i>\$ mill</i>	19.7	(15.1)
Income tax benefit/(expense)	<i>\$ mill</i>	1.5	-
Profit/(loss) after tax from continuing operations	<i>\$ mill</i>	21.2	(15.1)
Discontinued Operations (Tallering Peak):			
Profit/(loss) after tax from discontinued operations	<i>\$ mill</i>	1.7	(0.3)
Net profit/(loss) after tax	<i>\$ mill</i>	22.9	(15.4)
<i>Note: Some totals may not add due to rounding.</i> <i>* Shown inclusive of the discontinued Tallering Peak operation. Refer the attached financial statements for further details.</i>			

Table 1 – Financial Performance for the Half-Year ended 31 December 2016

Earnings Summary

Mount Gibson Iron Limited (**Mount Gibson**) recorded a net profit after tax of \$22.9 million for the half-year ended 31 December 2016 on total sales revenue of \$102.0 million and total ore sales of 1.8 million wet metric tonnes ("**Mwmt**"), including sales of low grade material from the discontinued Tallering Peak operation.

The result compares with a \$15.4 million net loss after tax reported for the prior corresponding half year.

Realised Pricing

During the December 2016 half year, the 62% Fe Platts Index price averaged US\$65 per dry metric tonne ("**dmt**"), compared with US\$51/dmt in the prior corresponding half year. Reflective of these conditions, Mount Gibson achieved an average realised price for standard Extension Hill fines ore for the half year of US\$43/dmt Free On Board ("**FOB**"), after penalties and provisional pricing adjustments, compared with an average of US\$37/dmt in the previous corresponding half.

The weighted average realised price for all products sold, including low grade material from Tallering Peak and Extension Hill, was \$57/wmt FOB, compared with \$48/wmt FOB in the prior corresponding half year.

Cashflow Summary

Mount Gibson's financial performance for the half-year ended 31 December 2016 continued to improve on the previous six months due to ongoing operational improvements and increases in realised iron ore prices.

The business generated operating cash flow of \$7.0 million plus interest receipts of \$5.3 million. Cash reserves, including term deposits and liquid investments, increased by \$46.5 million over the half-year to \$446.6 million as at 31 December 2016, including receipt in July of the \$34.6 million balance of the property damage component of the Koolan Island insurance claim agreed towards the end of the prior financial year.

All-in group cash costs averaged \$48/wmt in the December half, at the lower end of guidance, compared with an average of \$49/wmt FOB in the prior corresponding half year.

The Extension Hill mine achieved a strong operational performance in the December half year, with total ore shipments of 1.5 Mwmt, comprising 0.8 Mwmt of lump ore, 0.6 Mwmt of fines ore and 0.1 Mwmt of low grade lump material.

The mine was cashflow positive for the half-year, reflecting the ongoing focus on cost control and efficiency improvements, and in particular the higher realised iron ore prices experienced in the period.

Mining was completed in the Extension Hill pit during November 2016. Sales of run-of-mine ore stockpiles will continue into the June half of 2017 as the Company undertakes initial development of the nearby Iron Hill deposit. Following the receipt of final regulatory approvals for Iron Hill in February 2017, the Company progressed development activities targeting first ore sales in May 2017. Mount Gibson has also entered into three offtake agreements with Chinese customers which jointly represent approximately 70% of planned available production from the Iron Hill deposit in the first year of operation. Sales of Iron Hill ore will be augmented by sales from existing low grade stockpiles when suitable prices can be attained.

Historical fixed infrastructure and transport obligations relating to transport arrangements at Extension Hill will be fully amortised once Mount Gibson has railed 15 million tonnes on its contracted rail paths. These obligations continue to amortise at a rate of approximately \$6/wmt of material railed, and totalled approximately \$5 million at 31 December 2016, compared with \$10 million at 30 September 2016.

Activity at Koolan Island during the half-year continued to be focused on the ongoing evaluation of the potential to reinstate the Main Pit seawall and recommence production. As previously indicated, Mount Gibson has undertaken detailed design work for the seawall along with detailed mine design and production scheduling. Mount Gibson expects to conclude its evaluation work in the March 2017 quarter. The Company has already submitted referral documents to the Commonwealth Department of Environment in support of any future decision to proceed with the mine restart.

Mount Gibson also continued to monetise a number of shipments of remnant low grade material remaining at the closed Tallering Peak mine site during the period. These spot sales, totalling 0.3 Mwmt of low grade lump and fines material, generated a modest cash margin and assisted with environmental rehabilitation at the Tallering Peak mine site. Final sales of this remnant material are expected in the March 2017 quarter.

Koolan Island seawall insurance claim

Discussions between Mount Gibson and its insurers in relation to the business interruption component of the Company's insurance claim continued during the December half-year. Given the ongoing status of these discussions it is premature to comment as to the likely outcome of this component of the claim. Mount Gibson will provide further updates as appropriate.

The business interruption component of the insurance claim is separate to the \$86 million cash settlement of the property damage component of the insurance claim reached with the insurers in June 2016. The final \$34.6 million component of the June 2016 settlement amount was paid in full early in the half-year.

Group Sales Guidance and Cash Costs Profile

Following the commencement of the Iron Hill mine in February 2017, Mount Gibson has increased its sales guidance for FY2016-17 to **3.2–3.5 Mwmt** with the average all-in group cash costs, inclusive of all site operating and capital costs, royalties, closure and head office costs, reduced to a range of **\$47-51/wmt**. Sales are expected to comprise standard direct shipping grade material from Extension Hill and Iron Hill, and low grade material from existing stockpiles.

Looking Forward

The Board's corporate objective is to grow the Company's cash reserves and continue to pursue an appropriate balance between the retention and utilisation of cash for value-accretive investments. The Board determined the following key business objectives for the 2016-17 financial year:

- **Extension Hill** - pursue necessary regulatory government approvals for the development of the Iron Hill deposit to extend the operational life of the Extension Hill operation beyond the current end of the reserve life. All required approvals have now been obtained.

- **Koolan Island** - maintain the site on care and maintenance, and complete the detailed work required to assess the viability of reinstating the Main Pit seawall and recommencing production.
- **Koolan Island seawall insurance claim** - progress and finalise the business interruption component of the claim.
- **Cost reductions** - continue to drive for sustainable cost improvements across the existing business.
- **Treasury returns** - maintain the increased yield on the Group's cash reserves.
- **Growth projects** - continuation of the search for business development opportunities in the resources sector.

Mount Gibson has continued to deliver into these objectives with some of the benefits already reflected in the financial result in the first half of FY2016-17.

The Appendix 4D and half-year financial statements are attached.

For further information:

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Mount Gibson will host an analysts/institutions teleconference at **10.30am AEDT** on **15 February 2017**. Investors will be able to listen in to the teleconference by dialing **1800 857 029** immediately prior to the scheduled start time and entering the access code **18314558#** 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 +61 3 8788 6028 (overseas callers).