

QUARTERLY REPORT



MOUNT GIBSON IRON LIMITED QUARTERLY REPORT FOR THE PERIOD ENDED 31 MARCH 2017 27 April 2017

Key Points*

- **Restart of high grade Koolan Island mine** approved subsequent to quarter end.
- Seawall construction and dewatering capital cost estimated at \$97 million, with first ore sales targeted for early 2019.
- March quarter iron ore sales of **0.8 million wet metric tonnes (Mwmt)** including low grade sales of 0.4 Mwmt, and quarterly ore sales revenue of **\$44 million** Free on Board (FOB).
- Nine month iron ore sales of **2.6 Mwmt**, including 0.8 Mwmt of low grade material, and nine month sales revenue of **\$148 million**.
- Quarterly cashflow of approximately **\$9 million**.
- Cash, term deposits and tradeable investments of **\$456 million** at 30 March 2017, up from \$447 million at 31 December 2016.
- All-in group cash costs** of **\$52/wmt** FOB for the quarter. Year to date all-in group cash costs were \$49/wmt, in line with guidance.
- **Iron Hill mine approved**, and development commenced February 2017, with first sales on track to commence in June Quarter 2017.
- Full year group sales guidance subsequently increased to **3.2 – 3.5 Mwmt** for 2016/17 at average all-in cash costs of **\$47-51/wmt FOB**, including approximately 2.4 Mwmt of standard grade product.
- Net profit after tax of \$22.9 million reported for December 2016 Half Year.

* Sales revenue and cost figures are unaudited. All figures in Australian dollars unless stated otherwise.

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

Comment

Mount Gibson Chief Executive Officer, Jim Beyer, said: "Another strong performance by the Mount Gibson team in highly volatile conditions during the March Quarter has further enhanced the Company's financial position as we enter an exciting new stage in the evolution and regrowth of our business.

"We are extremely excited to now be proceeding with the restart of our very high grade Koolan Island mine, having confirmed a safe and viable seawall design and compelling economics. The high quality of ore from Koolan Island will set us apart in a market that is increasingly geared to premium quality products.

"In the Mid West, we have successfully transitioned mining operations to the Iron Hill deposit from which first ore sales are on track to start in the current quarter, whilst maintaining strong sales and cashflow from stockpiles at Extension Hill. This delivered a further increase in our cash reserves in the quarter, despite the decline in prices, particularly for lower grade ores, in the second half of the period.

"The rejuvenation of our two flagship assets, proven ability to perform in challenging conditions, and continued capability to invest in other opportunities that may emerge, give us great confidence in our long term future. "

PERFORMANCE AT A GLANCE

	Unit	Mar-2016 Quarter	Jun-2016 Quarter	Sep-2016 Quarter	Dec-2016 Quarter	Mar-2017 Quarter	2016/17 YTD
Standard DSO product sales*	kwmt	1,547	718	711	657	357	1,725
Low Grade material sales^	kwmt	-	125	175	239	425	839
Total Ore Sales	kwmt	1,547	843	887	896	782	2,565
Ave. Platts 62%Fe CFR price	US\$/dmt	48	56	59	71	86	72
MGX FOB Ave. realised fines price#	US\$/dmt	27	37	37	49	46	44
Minor discrepancies may occur due to rounding. *DSO sales in prior quarters include material from the Acacia East satellite pit at Koolan Island. ^Refers to spot sales from crushed low grade material at the closed Talling Peak mine site and the Extension Hill 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 lagged and provisional prices. kwmt = thousand wet metric tonnes. US\$/dmt = USD per dry metric tonne.							

OPERATIONS

Ore sales in the March quarter totalled approximately 0.8 Mwmt, comprising 357,000t of standard lump and fines from remaining stockpiles at Extension Hill, and 425,000t of low grade material from stockpiles at Extension Hill and the closed Talling Peak minesite.

Operating statistics are tabulated in Appendix A.

Extension Hill/Iron Hill Hematite Operations

The primary focus of activity during the quarter was on bringing the Iron Hill deposit into production, and maintaining sales from remaining ore stockpiles at Extension Hill, following the completion of mining in the Extension Hill pit during the previous quarter.

Sales from ore stockpiles at Extension Hill totalled 662,000wmt, comprising 180,000 wmt of standard lump and 176,000 wmt of standard fines, and 305,000 wmt of low grade lump from existing low grade stockpiles at the mine. The Company notes that standard material now being sold from Extension Hill grades circa 58% Fe due to the more variable nature of material extracted in the final stages of mining.

Extension Hill generated solid positive cashflow for the quarter, with average site cash costs¹ of \$47/wmt sold FOB for the quarter. Year to date site cash costs averaged \$45/wmt, in line with the Company's full-year guidance for Extension Hill of \$44-46/wmt.

At the end of March, approximately 48,000 wmt of crushed finished product was stockpiled at the mine. Mine-site stockpiles of uncrushed lower grade material totalled 2.6 Mwmt grading 50-55% Fe at the end of the quarter. Crushed ore stockpiles at the Perenjori rail siding totalled approximately 320,000 wmt.

Historical fixed infrastructure and transport obligations relating to Extension Hill will be fully amortised once it has railed 15 million tonnes on its contracted rail paths, which is expected to occur by the end of April 2017.

In February 2016², the Company commenced development of the Iron Hill mine, 3km south of Extension Hill, following receipt of final regulatory approvals.

Mining commenced in March 2017, and first ore sales are on track to occur in the June Quarter 2017.

As previously announced, life-of-mine sales from Iron Hill are anticipated to total 5.5 to 6.0 million tonnes through to the expected end of production in late 2018, at an average site cash cost of \$46-48/wmt.

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

² Refer ASX release dated 9 February 2016.

Iron Hill's proximity to Extension Hill has enabled the Company to utilise the existing Extension Hill workforce of approximately 160 staff and contractors, and existing camp/processing/transport infrastructure, with minimal capital expenditure.

During the prior quarter³, Mount Gibson entered into three 12 month offtake agreements with Chinese customers for Iron Hill which jointly represent approximately 70% of planned available production in the first year of operation. The agreements include market-reflective pricing referenced to published industry benchmark prices, on a Cost and Freight (CFR) basis.

The agreements were reached with Sinogiant Steel Holdings Group Ltd, Xinyu Iron & Steel Group Ltd and SCIT Trading Ltd, a subsidiary of Shougang Concord International Enterprises Co Ltd. The SCIT agreement required approval by Mount Gibson shareholders which was obtained at a shareholder meeting on 5 April 2017.

Tallering Peak

During the quarter, Mount Gibson sold 120,000 wmt of remnant low grade material from the closed Tallering Peak mine site. All saleable remnant material has now been sold.

Koolan Island

During the March 2016 quarter, activity at Koolan Island continued to be focused on completing evaluation of the potential reinstatement of the Main Pit seawall and recommence production, and associated planning activities.

Evaluation and planning work was successfully completed subsequent to the end of the quarter. A decision to proceed was announced on 27 April 2017, following confirmation of a safe and viable seawall design and construction method, re-establishment of Ore Reserves, attractive viable capital and operating cost estimates, and receipt of necessary regulatory approvals.

As reported, seawall reconstruction and pit dewatering costs are estimated at \$97 million, including \$10 million in contingencies, with estimated peak cash draw prior to cashflow of \$145 million. Ore Reserves totalling 12.8 Million Tonnes grading 66.0% Fe were re-established for Main Pit, giving an initial mine life of 3.5 years. A potential Stage Two pit extension is under evaluation to convert an additional 7 Mt of Mineral Resources at the eastern end of Main Pit to Ore Reserves.

The project has an estimated pre-tax Internal Rate of Return of 34% and Net Present Value of \$106 million, assuming an average Platts 62% Fe price of US\$55/dmt, average USD:AUD exchange rate of 0.75 and a nominal discount rate of 10%.

Life of mine all-in cash costs are projected at \$53/wmt FOB, including development capex and final closure costs of \$30.6 million, resulting in an estimated breakeven Platts 62% Fe price of US\$46/dmt including capital and closure costs.

First ore sales are targeted for early 2019, with project payback estimated at 28 months after the commencement of sales. For full details, refer to the Company's announcement on 27 April 2017.

CORPORATE⁴

Realised Pricing and Revenue

The March 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\$86 per dry metric tonne (dmt) compared with the US\$71/dmt average of the preceding quarter.

During the quarter, Mount Gibson achieved an average realised price for its standard Extension Hill iron ore fines product of US\$46/dmt FOB after grade and provisional pricing adjustments and penalties for impurities, compared with US\$49/dmt in the prior quarter. The reduction reflected the significant widening of the price differential between the Platts 58% Fe and Platts 62% Fe price indices. As noted, Extension Hill fines averaged

³ Refer ASX releases dated 24 November 2016, 25 November 2016 and 23 March 2016.

⁴ Sales, cost and cash movement figures are unaudited.

58% Fe in the March quarter as sales came from the more variable material produced in the final stages of mining. Material from Iron Hill is anticipated to average 59-60% Fe.

FOB ore sales revenue for all products totalled \$44 million in the March quarter, compared with \$56 million in the preceding quarter, primarily reflecting reduced sales of high grade material and increased sales of low grade material.

Cashflows and Cash Reserves

The Company generated positive cashflow of approximately \$9 million in the quarter, including working capital movements. The Company's cash, term deposits and tradeable investments totalled \$456 million at 31 March 2017, compared with \$447 million at 31 December 2016.

Cost Performance and Group Sales Guidance

All-in group cash costs⁵ averaged \$52/wmt FOB in the March quarter. Year to date all-in group cash costs averaged \$49/wmt, in line with guidance⁶.

As previously announced, in February the Company increased its sales guidance to 3.2-3.5 Mwmt at an average all-in cash cost of \$47-51/wmt FOB for the 2016-17 financial year⁷.

Full year product sales will comprise approximately 2.4 Mwmt of standard ore from the Extension Hill and Iron Hill pits, with the remainder expected to comprise lower grade material from existing stockpiles at Extension Hill, which presently total approximately 2.6 Mwmt grading 50-55% Fe.

Koolan Island Insurance

Discussions between Mount Gibson and its insurers in relation to the business interruption component of the Company's insurance claim continued during the March quarter. 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 already received \$86 million cash settlement of the property damage component of the insurance claim reached with the insurers in June⁸ 2016.

Interim Financial Results

On 15 February 2017, the Company reported a net profit after tax of \$22.9 million from total sales revenue of \$102 million for the six months ended 31 December 2016.

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Mount Gibson will host an analysts/institutions teleconference at **11.00am AEST (9.00am WST)** on **27 April 2017**. 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 **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 +613 8788 6028 (overseas callers).

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

⁶ Refer ASX release dated 17 August 2016.

⁷ Refer ASX release dated 9 February 2017.

⁸ Refer ASX release dated 16 June 2016.

Competent Persons Statement

Main Deposit Mineral Resources

The information in this report relating to the Mineral Resources of Main Deposit at Koolan Island is based on information compiled by Elizabeth Haren, a Competent Person who is a member and Chartered Professional of the Australasian Institute of Mining and Metallurgy and a member of the Australian Institute of Geoscientists. Ms Haren was a full-time employee of, and is now a consultant to, Mount Gibson Iron Limited and 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'. Ms Haren consents to the inclusion in this report of the matters based on her information in the form and context in which it appears.

Main Deposit Ore Reserves

The information in this report relating to Ore Reserves at Koolan Island is based on information compiled by Brett Morey, a Competent Person who is a member of the Australasian Institute of Mining and Metallurgy. Brett Morey is a full-time employee of Mount Gibson Iron Limited. Brett Morey 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'. Brett Morey consents to the inclusion in the report of the matters based on his information in the form and context in which it appears. The Ore Reserve estimates comply 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 they are suitable for public reporting.

APPENDIX A

Mount Gibson Iron Limited Quarterly Operating Statistics by Site

	Mar-2016 Quarter	Jun-2016 Quarter	Sep-2016 Quarter	Dec-2016 Quarter	Mar-2017 Quarter	2016-17 9M
KOOLAN ISLAND	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Waste mined	223	-	-	-	-	-
Ore mined	380	-	-	-	-	-
Ore crushed	517	-	-	-	-	-
Shipping/Sales						
Standard DSO Lump	361	-	-	-	-	-
Standard DSO Fines	290	-	-	-	-	-
Total	651	-	-	-	-	-
EXTENSION HILL	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Waste mined	461	486	328	28	6	363
Standard ore mined	1,013	847	669	171	28	868
Low-grade ore mined [#]	189	153	192	36	21	249
Total ore mined	1,203	1,001	862	207	49	1,117
Ore crushed	868	962	773	728	915	2,416
Shipping/Sales						
Standard DSO Lump	421	478	417	362	180	960
Standard DSO Fines	475	240	294	295	176	766
Low Grade Lump	-	-	-	118	305	423
Low Grade Fines	-	-	-	-	-	-
Total	896	718	711	775	662	2,148
TALLERING PEAK	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Shipping/Sales						
Low Grade Lump	-	125	58	-	-	58
Low Grade Fines	-	-	117	122	120	359
Total	-	125	175	122	120	417
CONSOLIDATED	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Total waste mined	684	486	328	28	6	363
Total ore mined	1,583	1,001	862	207	49	1,117
Total ore crushed	1,384	962	773	728	915	2,416
Shipping/Sales						
Standard DSO Lump	781	478	417	362	180	960
Standard DSO Fines	765	240	294	295	176	766
Low Grade	-	125	175	239	425	839
Total	1,547	843	887	896	782	2,565

kwmt = thousand wet metric tonnes.

[#] 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.