

QUARTERLY REPORT



MOUNT GIBSON IRON LIMITED QUARTERLY REPORT FOR THE PERIOD ENDED 30 JUNE 2017 24 July 2017

Key Points*

- Cash and liquid investments of **\$447 million** at 30 June 2017, compared with \$456 million at 31 March 2017, reflecting Koolan Island restart expenditure, Mid-West inventory build and market conditions.
- Business interruption insurance cash settlement of **\$64.3 million** for the Koolan Island seawall failure agreed subsequent to quarter end, with the proceeds now received.
- The high grade Koolan Island restart project is underway and on track with construction of the starter embankment progressing.
- June quarter iron ore sales of **0.6 million wet metric tonnes** (Mwmt) including low grade sales of 0.3 Mwmt, with quarterly ore sales revenue of **\$28 million** Free on Board (FOB). Initial Iron Hill high grade ore sales commenced in June.
- Full year iron ore sales of **3.2 Mwmt**, including 1.1 Mwmt of low grade material, and full year sales revenue of **\$173 million**.
- Full year cashflow of approximately **\$20 million** before working capital movements.
- All-in group cash costs** of **\$63/wmt** FOB for the quarter, reflecting inventory build and reduced sales during the transition to production from Iron Hill. Excluding net inventory build costs, all-in group cash costs totalled \$52/wmt sold for the quarter. Full year all-in group cash costs were \$52/wmt, or \$51/wmt excluding net inventory build costs.

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

** All-in group cash costs are reported FOB and include cash operating costs, royalties, sustaining capital expenditure and corporate costs, excluding Koolan Island restart expenditure.

Comment

Mount Gibson Chief Executive Officer, Jim Beyer, said: "The June quarter marked an important point in the ongoing evolution of Mount Gibson, most notably with the commencement of site works at our high grade Koolan Island project in the Kimberley, and the initial sales from our new Iron Hill mine in the Mid West.

"As foreshadowed, the June quarter was soft in terms of sales and revenue reflecting the transitional nature of this period and renewed volatility in market conditions. However, we look forward to an improved product mix as high grade Iron Hill ore replaces sales of low grade material from our depleted Extension Hill mine and work progresses to bring Koolan Island back into production and commence sales by early 2019. The high quality of ore from Koolan Island will set us apart in a market that is increasingly geared to premium quality products.

"Significantly, right after the end of the quarter we also concluded a \$64.3 million cash settlement for the business interruption insurance claim resulting from the 2014 failure of the Koolan Island seawall. The settlement proceeds have now been received, taking the total insurance proceeds for the seawall failure to over \$150 million, further building our strong cash reserves to over \$500 million.

"Mount Gibson remains in a very solid position as we progress our Iron Hill and Koolan Island projects and seek new high quality resources investment opportunities. We enter the new financial year with confidence."

PERFORMANCE AT A GLANCE

	Unit	Jun-2016 Quarter	Sep-2016 Quarter	Dec-2016 Quarter	Mar-2017 Quarter	Jun-2017 Quarter	2016/17 Year
Standard DSO product sales*	kwmt	718	711	657	357	300	2,025
Low Grade material sales^	kwmt	125	175	239	425	303	1,142
Total Ore Sales	kwmt	843	887	896	782	603	3,167
Ave. Platts 62%Fe CFR price	US\$/dmt	56	59	71	86	63	70
MGX FOB Ave. realised fines price#	US\$/dmt	37	37	49	46	na**	44**
Minor discrepancies may occur due to rounding. *DSO sales in prior quarters include material from the Acacia East satellite pit at Koolan Island. **No fines material was sold during the June 2017 quarter. ^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 totalled 603,000 wmt in the June quarter, all from the Company's Mid West operations. Sales comprised 300,000 wmt of standard DSO lump from the now-depleted Extension Hill mine and the recently commissioned adjacent Iron Hill mine, and 303,000 wmt of low grade material from stockpiles at Extension Hill.

Operating statistics are tabulated in Appendix A.

Mid West Operations – Extension Hill/Iron Hill

Sales from Extension Hill totalled 182,000 wmt of high grade lump ore and 303,000 wmt of low grade stockpiled material. No fines products were sold in the period. Sales from Iron Hill commenced in June, and totalled 118,000 wmt of high grade lump ore in the quarter. Shipments in the quarter were adversely impacted by the changeover from low grade stockpiled material to the initial sales of high grade Iron Hill ore, and the delay of some scheduled shipments until after the end of the quarter.

The primary focus of activity during the quarter was on ramping up production and commencing sales from the new Iron Hill pit. After mining commenced late in the prior quarter, production of high grade ore from Iron Hill totalled 640,000 tonnes in the June quarter. Ore from Iron Hill is crushed and stockpiled at the Extension Hill site.

Site cash costs¹ for Extension Hill/Iron Hill averaged \$53/wmt for the quarter including the build-up of high grade Iron Hill ore inventories, and \$42/wmt excluding net inventory build-up costs. Site cash costs for the full 2016-17 financial year were \$48/wmt including net inventory build-up costs, and \$47/wmt excluding net inventory build costs.

Historical fixed infrastructure and transport obligations relating to Extension Hill have now been fully amortised.

At the end of June, approximately 78,000 wmt of crushed high grade product was stockpiled at the mine. Stockpiles of uncrushed high grade Iron Hill material totalled 205,000 wmt and stockpiles of both crushed and uncrushed lower grade material totalled 2.9 Mwmt grading 50-55% Fe. Crushed ore stockpiles at the Perenjori rail siding totalled approximately 214,000 wmt of high grade ore and 197,000 wmt of low grade lump products.

The commencement of Iron Hill sales was significant for Mount Gibson, given the higher average grade of Iron Hill product relative to material produced in the final stages of mining at Extension Hill. The average grade of Iron Hill lump sold during the quarter was 61.6% Fe, while the average grade of the Iron Hill fines produced in the period increased to approximately 59% Fe.

As previously announced², Mount Gibson terminated two offtake agreements relating to Iron Hill production after the relevant customers failed to comply with a fundamental term of their respective offtake agreements.

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

² Refer ASX releases dated 19 June and 6 July 2017.

The Company has reserved its rights to pursue the former offtake customers for any losses resulting from the termination of these agreements. Mount Gibson has commenced selling this material to alternative customers, and expects to be able to continue doing so as product becomes available.

Koolan Island

Following the decision to proceed with the Koolan Island restart project in late April, activity rapidly accelerated during the June Quarter.

Preferred suppliers were identified for key contracts, including for seepage barrier construction, geotechnical drilling, cement supply, and specialist instrumentation supply and installation.

The Koolan Island labour force increased to 64 personnel by end June, representing the bulk of the anticipated workforce required during the construction phase.

Material site works started in mid June with the commencement of truck and barge dumping of waste rock to reinstate the starter embankment for the seawall. By end June, approximately 100,000 cubic metres of waste rock had been placed.

Cash expenditure on the Koolan Island restart project totalled approximately \$5 million in the quarter, related primarily to equipment purchases, labour and equipment mobilisation, and waste rock placement.

Work is progressing in line with schedule, with completion of the starter embankment anticipated by the end of August. Work on the cement bentonite seepage barrier is on track to commence in September.

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.

CORPORATE³

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\$63 per dry metric tonne (dmt) compared with the US\$86/dmt average of the preceding quarter. The average price over 2016-17 was US\$70/dmt, compared with US\$51/dmt in the prior year. Also impacting revenue was the continued widening of the lower grade price differential between the Platts 58% Fe and Platts 62% Fe price indices during the period.

Mount Gibson sold no fines material during the June quarter, so no average realised price comparable to the US\$46/dmt FOB achieved in the prior quarter for standard Extension Hill iron ore fines is available. However, standard lump sold from Extension Hill and Iron Hill during the period achieved an average realised price of US\$40/dmt FOB after grade and provisional pricing adjustments and penalties for impurities. As noted previously, standard Extension Hill fines have averaged approximately 58% Fe for sales of material produced in the final stages of mining. Iron Hill material is higher quality, with fines material now grading circa 59% Fe and lump material expected to average more than 60% Fe over the production life.

FOB ore sales revenue for all products totalled \$28 million in the June quarter, compared with \$43 million in the preceding quarter, primarily reflecting pricing movements described above, reduced overall sales during the transition from Extension Hill to Iron Hill, and the significantly greater proportion of low grade material sold in the period. Sales revenue for the 2016-17 financial year totalled \$173 million.

Cashflows and Cash Reserves

The Company's cash, term deposits and tradeable investments totalled \$447 million at 30 June 2017, compared with \$456 million at 31 March 2017. The 30 June total does not include the \$64.3 million proceeds from the business interruption insurance settlement which were received in July.

The Company generated positive cashflow before working capital movements of approximately \$20 million for the 2016-17 year, after recording a net cash outflow of approximately \$9 million in the June quarter. The June quarter result reflects the temporary increased proportion of low grade sales from Extension Hill, the build up

³ Sales, cost and cash movement figures are unaudited.

of high grade Iron Hill stockpiles, the commencement of capital expenditure for the Koolan Island restart project, working capital movements and a significant reduction in iron ore prices.

Cost Performance and Group Sales Guidance

All-in group cash costs⁴ averaged \$63/wmt FOB in the June quarter including the cost of inventory build at Iron Hill. Excluding net inventory build costs, all-in group cash costs totalled \$52/wmt sold for the quarter. Full year all-in group cash costs averaged \$52/wmt including inventory build costs, and \$51/wmt excluding net inventory build costs.

Full year product sales totalled 3.2 Mwmt, at the lower end of guidance, and comprised approximately 2.0 Mwmt of high grade ore from the Extension Hill and Iron Hill pits, and 1.1 Mwmt of lower grade material from existing stockpiles at Extension Hill.

Koolan Island Insurance

Discussions between Mount Gibson and its insurers in relation to the business interruption component of the Company's insurance claim for the late 2014 seawall failure continued during the June quarter.

Subsequent to the end of the quarter, on 7 July 2017, the Company announced it had reached final agreement with 14 insurers, representing 92.5% of the Company's underwriting cover for business interruption, for a cash settlement of the claim for \$64.3 million.

Proceeds of the settlement have since been received, further strengthening the Company's cash position as it continues to evaluate resource investment opportunities and progresses activities to recommence production from the Main Pit at Koolan Island.

Negotiations will continue separately with one further insurer representing the remaining 7.5% of the Company's business interruption coverage.

The business interruption settlement takes total cash proceeds from Mount Gibson's insurance claim relating to the seawall failure to just over \$150 million, including the \$86 million cash settlement received for property damage in mid 2016⁵.

Full year financial results

Mount Gibson expects to release its financial results for the 2016-17 financial year on 16 August 2017.

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Mount Gibson will host an analysts/institutions teleconference at **11.00am AEST (9.00am WST)** on **24 July 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 **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).

⁴ All-in group cash costs are reported FOB and include cash operating costs, royalties, sustaining capital expenditure and corporate costs.

⁵ Refer ASX release dated 16 June 2016.

APPENDIX A

Mount Gibson Iron Limited Quarterly Operating Statistics by Site

	Jun-2016 Quarter	Sep-2016 Quarter	Dec-2016 Quarter	Mar-2017 Quarter	Jun-2017 Quarter	2016-17 Year
KOOLAN ISLAND	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Waste mined	-	-	-	-	-	-
Ore mined	-	-	-	-	-	-
Ore crushed	-	-	-	-	-	-
Shipping/Sales						
Standard DSO Lump	-	-	-	-	-	-
Standard DSO Fines	-	-	-	-	-	-
Total	-	-	-	-	-	-
EXTENSION/IRON HILL	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Waste mined	486	328	28	6	295	658
Standard ore mined	847	669	171	28	640	1,508
Low-grade ore mined [#]	153	192	36	21	142	391
Total ore mined	1,001	862	207	49	782	1,899
Ore crushed	962	773	728	915	876	3,292
Shipping/Sales						
Standard DSO Lump	478	417	362	180	300	1,259
Standard DSO Fines	240	294	295	176	-	766
Low Grade Lump	-	-	118	305	303	726
Low Grade Fines	-	-	-	-	-	-
Total	718	711	775	662	603	2,751
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	486	328	28	6	295	658
Total ore mined	1,001	862	207	49	782	1,899
Total ore crushed	962	773	728	915	876	3,292
Shipping/Sales						
Standard DSO Lump	478	417	362	180	300	1,259
Standard DSO Fines	240	294	295	176	-	766
Low Grade	125	175	239	425	303	1,142
Total	843	887	896	782	603	3,167

kwmt = thousand wet metric tonnes.

[#] Low-grade ore is material grading 50-55% Fe at Extension Hill considered to be saleable. This material has been stockpiled for future sale and is 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.