

QUARTERLY REPORT



MOUNT GIBSON IRON LIMITED QUARTERLY REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2017 20 October 2017

Key Points*

- **Sales increased ~40%** in the September quarter to **0.84 million wet metric tonnes (Mwmt)** including low grade sales of 0.18 Mwmt, for ore sales revenue of **\$43 million** Free on Board (FOB).
- **Cash and liquid investments increased to \$507 million** at 30 September 2017, up from \$447 million at 30 June 2017, reflecting positive operating cashflows and receipt of the proceeds from the Koolan seawall business interruption insurance claim, net of Koolan Island restart expenditure.
- **The high grade Koolan Island restart project continues** to progress in line with schedule.
- Cash proceeds totalling **\$64 million received from business interruption insurance** settlement for the Koolan Island seawall failure, taking the total insurance proceeds to \$150 million.
- **All-in group cash costs** of \$46/wmt FOB, a reduction of 27%** compared with the June quarter.
- **Full year iron ore sales guidance** for FY2018 of **3.5-3.8 Mwmt**, at an average all-in group cash cost** of **\$47-52/wmt**.
- Net profit after tax of **\$26.3 million** on total sales revenue of **\$173 million** reported for the year ended 30 June 2017, and final fully franked dividend of 2.0 cents per share paid after quarter-end.

*Quarterly 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: "Mount Gibson again delivered a solid performance in the September quarter amid continuing price volatility, especially for ores grading less than 62% Fe, as production ramped up at Iron Hill and work on the high grade Koolan Island Restart Project accelerated.

"It is pleasing to see that mining production and sales increased by almost 40% compared with the preceding quarter, as operations at Iron Hill gathered pace. This operational lift, combined with the receipt of \$64 million from the settlement of the business interruption component of the Koolan Island insurance claim, boosted end of quarter cash and liquid investment reserves to \$507 million after accounting for Koolan Island cash expenditure of \$12 million in the quarter. It was also pleasing that the Company was able to once again declare a fully franked dividend during the quarter on the back of the strong profit result reported for the prior financial year, taking total dividends paid since 2011 to \$196 million.

"Good progress on the Koolan Island Restart Project continues, with completion of the starter embankment concluded in the quarter. Construction works for the seepage barrier have since commenced, and the project remains on track to achieve first sales in early 2019. As we have stated previously, the high quality of ore from Koolan Island will set us apart in a market that is increasingly geared to premium quality products.

"Mount Gibson's start to the new financial year keeps us in a very solid position as we progress our Iron Hill and Koolan Island projects and seek new high quality resources investment opportunities."

PERFORMANCE AT A GLANCE

	Unit	Sep-2016 Quarter	Dec-2016 Quarter	Mar-2017 Quarter	Jun-2017 Quarter	Sep-2017 Quarter	2017/18 YTD
Standard DSO product sales	kwmt	711	657	357	300	659	<i>659</i>
Low Grade material sales [^]	kwmt	175	239	425	303	181	<i>181</i>
Total Ore Sales	kwmt	887	896	782	603	841	<i>841</i>
Ave. Platts 62%Fe CFR price	US\$/dmt	59	71	86	63	71	<i>71</i>
MGX FOB Ave. realised fines price [#]	US\$/dmt	37	49	46	na [*]	34	<i>34</i>
Minor discrepancies may occur due to rounding. [*]No fines material was sold during the June 2017 quarter. [^]Refers to spot sales from crushed low grade material at the Extension Hill mine site and, in previous quarters, at the now-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. kwmt = thousand wet metric tonnes. US\$/dmt = USD per dry metric tonne.							

OPERATIONS

Ore sales totalled 841,000 wmt in the September quarter, all from the Company's Mid West operations. Sales comprised 294,000 wmt of standard DSO (Direct Shipping Ore) lump and 366,000 wmt of standard DSO fines from the Iron Hill mine, and 181,000 wmt of low grade lump material from stockpiles at Extension Hill.

Operating statistics are tabulated in Appendix A.

Mid West Operations – Extension Hill/Iron Hill

The primary focus of activity during the quarter remained on ramping up production from Iron Hill, 3km south of the depleted Extension Hill pit. Ore from Iron Hill is crushed and stockpiled at the Extension Hill site, and transported to the Geraldton Port utilising existing logistics infrastructure and commercial arrangements.

Sales of DSO fines from Iron Hill commenced in the September quarter, following the start of DSO lump sales in the preceding quarter, and accounted for approximately 55% of all DSO sales in the period as fines inventory built up in the prior quarter was monetised. DSO Lump sales remained consistent with the prior quarter but over the life of the operation are anticipated to average approximately 55% of DSO sales. Supplementary sales of low grade lump from stockpiles at Extension Hill totalled 181,000 wmt in the quarter and are expected to conclude during the current quarter as Iron Hill hits full production.

Site cash costs¹ for Extension Hill/Iron Hill averaged \$41/wmt for the quarter.

At the end of September, approximately 106,000 wmt of crushed high grade product was stockpiled at the mine. Stockpiles of uncrushed high grade Iron Hill material totalled 271,000 wmt and stockpiles of uncrushed lower grade material totalled 2.5 Mwmt grading 50-55% Fe. Crushed ore stockpiles at the Perenjori rail siding totalled approximately 345,000 wmt of high grade ore and 55,000 wmt of low grade lump products.

The average grade of Iron Hill high grade lump ore sold during the quarter was 61.4% Fe, and the average grade of the Iron Hill high grade fines ore sold in the period was approximately 59.1% Fe.

Koolan Island

Following the decision to proceed with the Koolan Island restart project in late April, and the commencement of material siteworks in June, activity accelerated during the September Quarter. Work is proceeding broadly in line with the schedule to achieve first ore sales in early 2019, with the project approximately 18% complete at the end of the quarter (refer Figure 1).

Construction of the starter embankment proceeded rapidly during July, and the seawall breach was successfully closed on 3 August 2017. Construction of the embankment entailed placement of approximately 500,000 cubic metres of waste rock via truck and barge dumping.

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

On completion of the starter embankment, preparations commenced for construction of the seepage barrier, including mobilisation of specialist contractors responsible for instrumentation, geotechnical drilling and seepage barrier construction. Activities included construction of the seepage barrier guide wall, completion of 140 vertical drains for drainage of the underlying marine sediments, pilot panel excavation and permeation grouting. Photographs depicting progress at Koolan during the quarter are included at the end of this quarterly report.

Cash expenditure on the Koolan Island restart project totalled approximately \$12 million in the quarter, on track with the project construction budget of \$97 million.

First ore sales are targeted for early 2019, with project payback estimated at 28 months after the commencement of sales assuming an average Platts 62% Fe iron ore price of US\$55/dmt over the project life. For full details, refer to the Company's announcement on 27 April 2017.

Figure 1 – Koolan Island Restart Project Schedule and Progress

Task Name	2017			2018				2019
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Rock Fill Embankment construction	completed							
Seepage Barrier Construction			in progress					
Dewatering & Footwall Rehabilitation								
Mining								
First Sales Commencement								◆

Progress achieved	
30-Sep-17	

Mineral Resources and Ore Reserves

The Company released its annual statement of Mineral Resources and Ore Reserves subsequent to the end of the quarter on 5 October 2017. Total Mineral Resources, as at 30 June 2017, were 87.9 million tonnes grading 61.4% Fe, and total Ore Reserves were 12.8Mt at 66.0% Fe. Refer page 5 for Competent Person information.

CORPORATE²

Realised Pricing and Revenue

The September 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\$71 per dry metric tonne (dmt) compared with the US\$63/dmt average of the preceding quarter. Continued widening of the lower grade price differential between the Platts 58% Fe and Platts 62% Fe price indices remained a significant impact on revenue during the period.

Mount Gibson completed its first sales of Iron Hill fines material during the quarter, achieving an average realised price for its fines shipments of US\$34/dmt FOB, reflecting the impact of the discounts for material grading below 62% Fe. However, due to higher quality specifications and a higher lump premium in the quarter, standard Iron Hill lump ore achieved a significantly higher average realised price of US\$64/dmt FOB after grade and provisional pricing adjustments and penalties for impurities, compared with US\$40/dmt FOB in the prior quarter. As noted previously, standard Iron Hill fines material presently grades circa 59% Fe while lump material is expected to average more than 60% Fe over the production life.

² Sales, cost and cash movement figures are unaudited.

FOB ore sales revenue for all products totalled \$43 million in the September quarter, compared with \$28 million in the preceding quarter.

Cash Position

The Company's cash, term deposits and tradeable investments totalled \$507 million at 30 September 2017, compared with \$447 million at the end of June 2017.

The increase of \$60 million reflected receipt of the \$64 million proceeds from the Koolan seawall business interruption insurance settlement in July, interest income of \$3 million, Koolan Island cash expenditure of \$12 million, and operating cashflows from the Mid-West business (after corporate office costs) of \$5 million.

Cost Performance and Group Sales Guidance

All-in group cash costs³ averaged \$46/wmt FOB in the September quarter, a substantial reduction of approximately 27% compared with \$63/wmt FOB in the June 2017 quarter which largely reflected the build-up of ore inventory. The reduction in costs during the September quarter was primarily due to increased production and sales volumes.

As previously reported, the Company has provided group sales guidance for the 2017/18 financial year of 3.5-3.8 Mwmt of ore at an average all-in group cash cost of \$47-52/wmt FOB.

Koolan Island Insurance

As reported on 7 July 2017, the Company reached final agreement with 14 insurers, representing 92.5% of the Company's underwriting cover for the Koolan business interruption insurance cover, for a cash settlement of the business interruption component of the Koolan Island insurance claim for just over \$64 million.

Proceeds of the settlement were received in July. Correspondence is continuing with one further insurer representing the remaining 7.5% of the Company's business interruption insurance cover.

The recent 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 2016⁴.

Full year financial results and Annual General Meeting

Mount Gibson announced its financial results for the 2016-17 financial year on 16 August 2017, reporting a statutory net profit after tax of \$26.3 million. The Company also declared a fully franked final dividend of 2.0 cents per share, paid on 16 October 2017. The distribution, totalling \$21.9 million, takes fully franked total dividends paid by Mount Gibson since late 2011 to \$196 million.

The Company released its 2017 Annual Report and Notice of Annual General Meeting on 6 October 2017. The AGM will be held in Perth on Wednesday 8 November 2017.

For further information:

Jim Beyer

Chief Executive Officer
Mount Gibson Iron Limited
+61-8-9426-7500

John Phaceas

Empeiros Advisory
+61-8-9426-7500
+61-(0)411-449-621

Mount Gibson will host an analysts/institutions teleconference at **1.00pm AEDT (10.00am WST)** on **20 October 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).

³ 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.

⁴ Refer ASX release dated 16 June 2016.

Competent Persons attributions

Mount Gibson Iron Mineral Resources:

The information in this report relating to Mineral Resources for the Koolan, Extension Hill, Tallering Peak and Shine deposits is based on information compiled by Ms Elizabeth Haren, a Competent Person who is a member and Chartered Professional of the Australasian Institute of Mining and Metallurgy and member of the Australian Institute of Geoscientists. Ms Haren was a full-time employee of, and is 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.

Mount Gibson Iron Ore Reserves:

The information in this report relating to Ore Reserves at Koolan Island is based on information compiled by Mr Brett Morey, a member of the Australasian Institute of Mining and Metallurgy. Mr Morey is a full-time employee of 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'. Mr Morey consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Koolan Island Restart Project Pictorial Update



Figure 2: Starter embankment construction in July 2017.



Figure 3: Starter embankment showing closure of seawall breach, 3 August 2017.

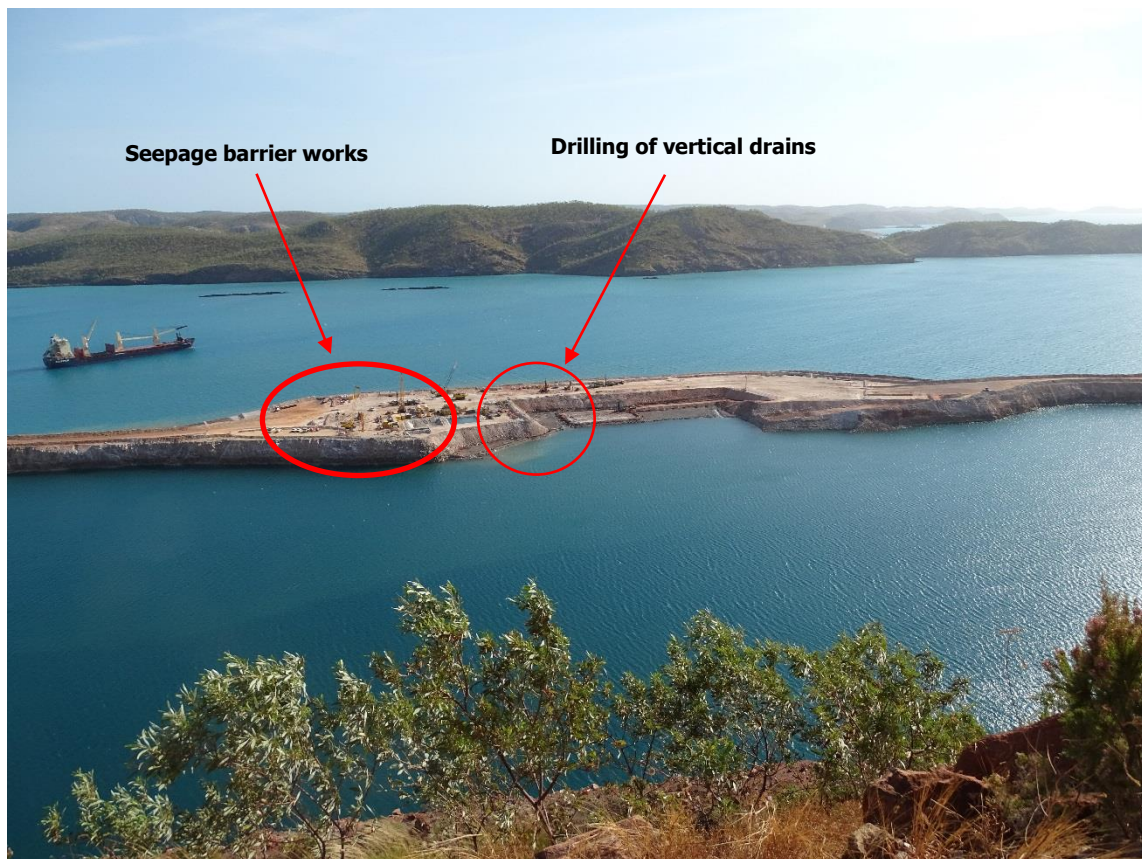


Figure 4: Seawall construction activity – 29 September 2017

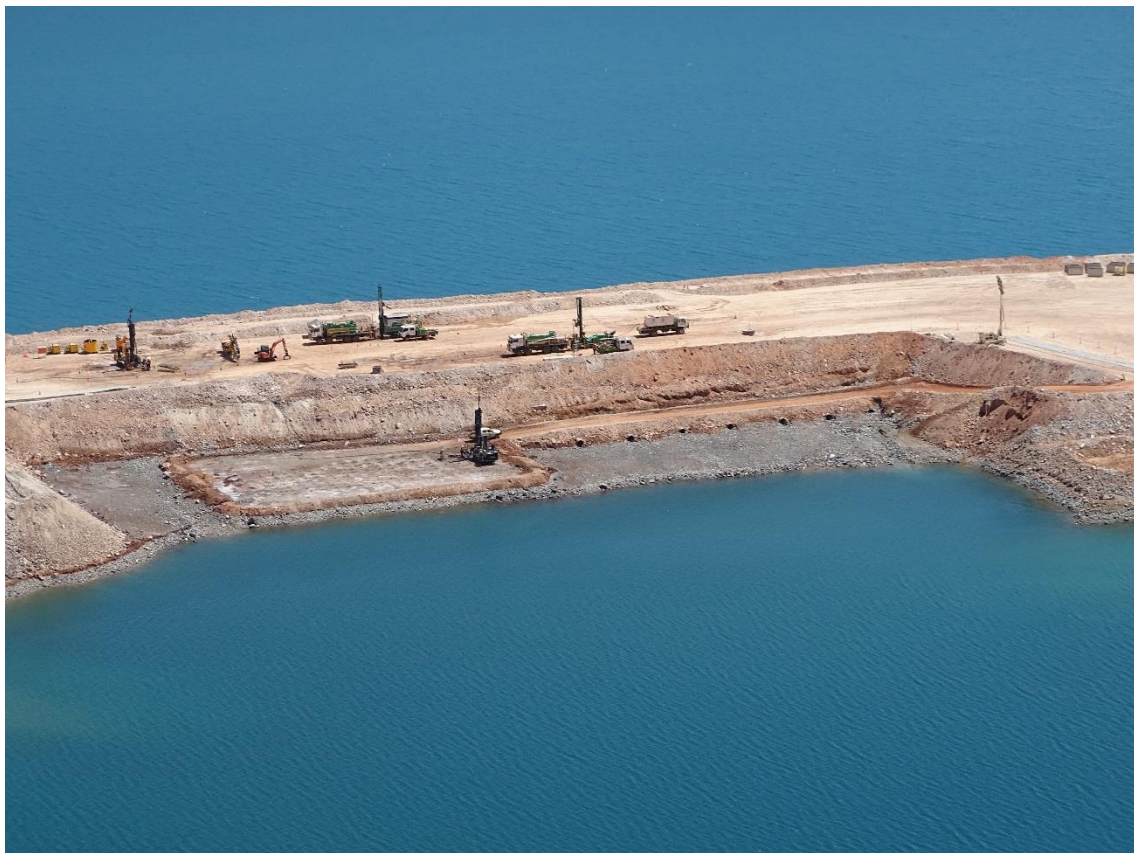


Figure 5: Vertical drains being drilled - 29 September 2017

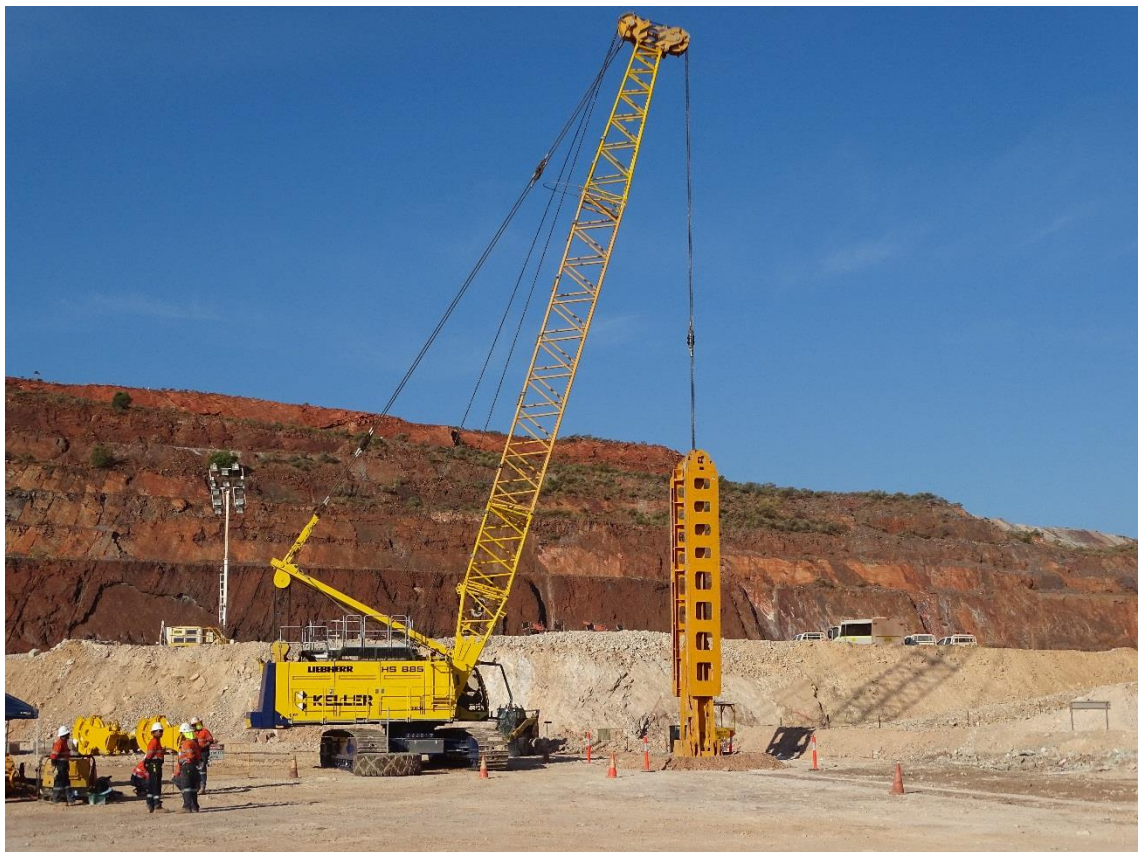


Figure 6: Specialised excavator digging pilot seepage barrier panel – 28 September 2017



Figure 7: Pilot seepage barrier panel excavation – 28 September 2017



Figure 8: Drilling vertical drains – 29 August 2017



Figure 9: Seepage barrier construction preparations - 30 September 2017

APPENDIX A

Mount Gibson Iron Limited Quarterly Operating Statistics by Site

	Sep-2016 Quarter	Dec-2016 Quarter	Mar-2017 Quarter	Jun-2017 Quarter	Sep-2017 Quarter	2017-18 YTD
EXTENSION/IRON HILL	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Waste mined	328	28	6	295	420	420
Standard ore mined	669	171	28	640	879	879
Low-grade ore mined [#]	192	36	21	142	225	225
Total ore mined	862	207	49	782	1,104	1,104
Ore crushed	773	728	915	876	821	821
Shipping/Sales						
Standard DSO Lump	417	362	180	300	294	294
Standard DSO Fines	294	295	176	-	366	366
Low Grade Lump	-	118	305	303	181	181
Low Grade Fines	-	-	-	-	-	-
Total	711	775	662	603	841	841
TALLERING PEAK	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Shipping/Sales						
Low Grade Lump	58	-	-	-	-	-
Low Grade Fines	117	122	120	-	-	-
Total	175	122	120	-	-	-
CONSOLIDATED	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Total waste mined	328	28	6	295	420	420
Total ore mined	862	207	49	782	1,104	1,104
Total ore crushed	773	728	915	876	821	821
Shipping/Sales						
Standard DSO Lump	417	362	180	300	294	294
Standard DSO Fines	294	295	176	-	366	366
Low Grade	175	239	425	303	181	181
Total	887	896	782	603	841	841

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.

Minor discrepancies may appear due to rounding.