

QUARTERLY REPORT



MOUNT GIBSON IRON LIMITED QUARTERLY REPORT FOR THE PERIOD ENDED 30 JUNE 2018 20 July 2018

Key Points*

- Steady quarterly sales of **1.0 million wet metric tonnes (Mwmt)**, for sales revenue for the quarter of **\$45 million** Free on Board (FOB).
- Full year ore sales of **3.6 Mwmt**, in line with guidance, for sales revenue of **\$192 million** FOB.
- All-in group cash costs** of **\$44/wmt** FOB, a reduction of \$1/wmt from the prior quarter, and **\$45/wmt** FOB for financial year, at the lower end of guidance.
- Cash and liquid investments of **\$457 million** at 30 June 2018, compared with \$470 million at the end of the prior quarter, after Koolan Island restart expenditure of \$26 million in the quarter.
- High grade Koolan Island Restart Project 74% complete at quarter end, and on track for first ore sales in the March 2019 Quarter.
- Koolan Island seepage barrier construction complete, pumps tested and dewatering about to commence.
- Koolan Main Pit Ore Reserves increased by over 50% to 21Mt @ 65.5% Fe, extending mine life to 2023.
- Iron Hill mining on track for scheduled completion in late 2018, ore sales to conclude in early 2019.

* 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: "It was pleasing to complete the financial year with another solid operational effort in the Mid West and excellent progress at our high grade Koolan Island Restart Project in the Kimberley.

"Total iron ore sales remained steady in the quarter, resulting in full year sales in the middle of our guidance range at just over 3.6 Mwmt, while all-in cash costs for the year were at the bottom end of guidance at \$45/wmt FOB. Operational cashflow from the Mid West remained solid, partially offsetting our ongoing investment at Koolan Island, with cash and liquid investment reserves totalling \$457 million at the end of June.

"It has been especially satisfying to achieve critical milestones at Koolan Island, where seepage barrier construction was completed last week, the pumps have been tested and dewatering of Main Pit is about to commence. Coming after we significantly increased Ore Reserves in the Main Pit to 21Mt grading 65.5% Fe in April, we are very pleased to be rapidly advancing toward starting sales of ultra-high grade material in the March quarter.

"With mining at our Mid West business on track for completion later this year and sales to finish shortly ahead of the first shipments from Koolan Island, Mount Gibson is well placed to capitalise on the structural change in iron ore pricing which rewards high grade products and penalises lesser quality material. This puts Mount Gibson in an enviable position to generate strong cashflow and create value for our shareholders well into the next decade."

PERFORMANCE AT A GLANCE

	Unit	Jun-2017 Quarter	Sep-2017 Quarter	Dec-2017 Quarter	Mar-2018 Quarter	Jun-2018 Quarter	2017/18
Standard DSO product sales	kwmt	300	659	781	917	845	3,203
Low Grade material sales [^]	kwmt	303	181	60	59	118	419
Total Ore Sales	kwmt	603	841	841	977	963	3,622
Ave. Platts 62%Fe CFR price	US\$/dmt	63	71	66	74	65	69
MGX FOB Ave. realised fines price [#]	US\$/dmt	na [*]	34	24	35	26	30
Minor discrepancies may occur due to rounding. *No fines material was sold during the June 2017 quarter. ^Refers to spot sales from low grade stockpiles at the Extension Hill mine site. #Mount Gibson's realised FOB fines price includes standard DSO product from Extension Hill/Iron 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 963,000 wmt in the June quarter, all from the Company's Mid West operations. Sales comprised 361,000 wmt of standard DSO (Direct Shipping Ore) lump and 485,000 wmt of standard DSO fines from the Iron Hill mine, and 118,000 wmt of low grade lump material from stockpiles at Extension Hill. Combined ore sales for the full year to the end of June totalled 3.6 Mwmt, in line with guidance.

Operating statistics are tabulated in Appendix A.

Mid West Operations – Extension Hill/Iron Hill

The focus of activity during the quarter remained on production from Iron Hill, 3km south of the depleted Extension Hill pit. The operation continues to run at full capacity, with mining on track for completion in late 2018. Ore sales from Iron Hill are expected to conclude in early 2019, after which the site will move into closure as planned.

Sales of DSO lump and fines from Iron Hill were 8% lower than in the prior quarter, reflecting the mine schedule, with lump sales accounting for approximately 43% of total DSO sales. Sales volumes in the quarter were supplemented by two opportunistic shipments of stockpiled low grade material from Extension Hill.

Site all-in cash costs¹ for Extension Hill/Iron Hill averaged \$43/wmt in the period and \$42/wmt for the full year.

At the end of June, approximately 60,000 wmt of crushed high grade product was stockpiled at the mine. Stockpiles of uncrushed high grade Iron Hill material totalled 254,000 wmt and stockpiles of uncrushed lower grade material totalled 2.9 Mwmt grading 50-55% Fe. Crushed ore stockpiles at the Perenjori rail siding totalled approximately 190,000 wmt of high grade ore.

The average grade of Iron Hill DSO lump sold during the quarter was 60.4% Fe, and the average grade of the Iron Hill DSO fines sold in the period was 59.7% Fe.

Koolan Island

Site activity at Koolan Island progressed significantly during the period with the overall project 74% complete at the end of the quarter (refer Figure 1) and approximately 80% complete as of the date of this release.

Activity in the quarter was focused on the final stages of seepage barrier construction and preparations for footwall refurbishment and dewatering. Panel placement rates increased substantially in the quarter and construction of the seepage barrier was successfully completed in mid July.

Dewatering pumps and associated equipment were mobilised to site in the period, tested and are being prepared for commissioning. Continuous dewatering of the Main Pit will commence later this month following a

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

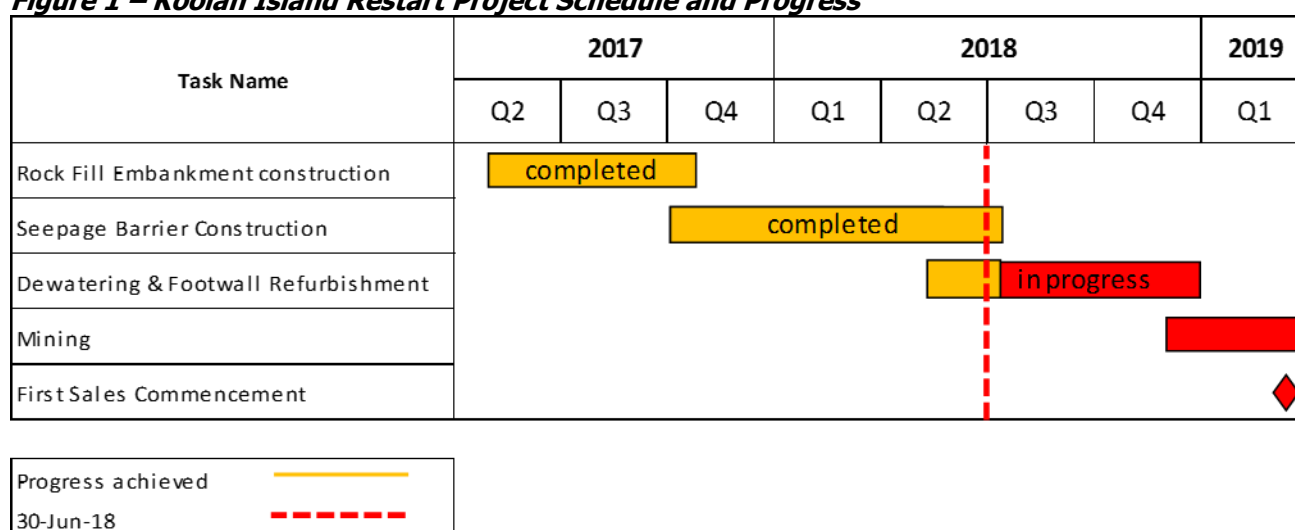
short period to monitor the initial consolidation and curing of the seepage barrier. Dewatering is scheduled to be complete by the end of calendar 2018.

During the quarter, Mount Gibson also commenced preparations for refurbishment of the Main Pit footwall, which will be undertaken in tandem with pit dewatering. Specialist contractors are on site and have commenced installation of avalanche mesh, while barge-mounted shotcreting of the footwall is also underway. Recruitment of the operational workforce is scheduled to commence towards the end of the September quarter.

The Project remains on track to achieve targeted first ore sales in the March 2019 quarter.

Cash expenditure on the Koolan Island restart project totalled approximately \$26 million in the quarter, including \$3 million of pre-production expenditure and \$2 million for equipment purchases. Expenditure at Koolan Island for the financial year totalled \$83 million, in line with guidance. Expenditure for the overall project since commencement in May 2017 totals \$88 million. Contingency provisions in Project start-up costs are currently considered to be sufficient to meet the bulk of expected additional costs, however, the Company continues to monitor both schedule and budget closely.

Figure 1 – Koolan Island Restart Project Schedule and Progress



Ore Reserves Upgrade

During the quarter (refer ASX release dated 20 April 2018), Mount Gibson announced Ore Reserves at the Koolan Island Restart Project had been increased by 64% to 21.0 Million tonnes grading an average of 65.5% Fe. This upgrade has increased the expected mine life to over 5 years, compared with the original life of 3.5 years based on the initial Ore Reserves of 12.8Mt grading 66.0% Fe.

The Ore Reserves increase is the result of geotechnical evaluation to confirm a viable method to safely access approximately 8Mt of high grade iron ore at the eastern end of Main Pit previously classified as Indicated Mineral Resources. The selected option involves building a ramp to mine out a 10-15m wide bench of relatively unstable rock stretching approximately 400m along the footwall at the eastern end of the Main Pit.

The estimated pre-tax Net Present Value (NPV) consequently increased by \$146 million to \$252 million, compared with the original estimated NPV of \$106 million, assuming an average Platts 62% Fe CFR price of US\$55/dmt and an exchange rate of A\$1.00/US\$0.75. The estimated pre-tax Internal Rate of Return (IRR) increased to 37%, with a payback period of 36 months from the commencement of sales.

The upgraded plan includes the purchase of one additional excavator and the hire of four additional haul trucks to place an access ramp that will allow for removal of the unstable bench and so avoid any substantive delays to the start of sales. The extra equipment will then allow improvements in future mining rates and continuity. Peak cash draw continues to be estimated at up to approximately \$175 million.

The higher NPV and IRR estimate incorporates a conservative increase in the assumed high grade premium from 4% to 10% (per unit of contained iron, or dry metric tonne unit, dmtu) for ores grading 65% Fe, reflecting

Mount Gibson's view of the sustainability of the pricing differential for ores grading above and below 62% Fe. This can be considered to be conservative relative to the prevailing high grade market premium of 38%.

Illustrating the Project's significant upside to higher prices, based on the current CFR spot price for 62% Fe iron ore of approximately US\$63/dmt and current high grade premium of 38% and prevailing exchange rate, the pre-tax NPV and IRR increase to be well above \$700 million and over 80% respectively (refer to ASX release dated 20 April 2018 for full project details and core assumptions).

CORPORATE²

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\$65 per dry metric tonne (dmt) compared with the US\$74/dmt average of the preceding quarter. The continued wide price differential between the Platts 58% Fe and Platts 62% Fe price indices remained a significant impact on revenue during the period, in particular for fines ore products.

DSO lump from Iron Hill accounted for approximately 43% of DSO products sold in the quarter, and achieved an average realised price of US\$52/dmt FOB after grade and provisional pricing adjustments and penalties for impurities. The average realised price achieved for Iron Hill fines sold during the quarter was US\$26/dmt FOB (US\$29/dmt before adverse provisional pricing adjustments), reflecting the continued impact of discounts on material grading below 62% Fe. As noted previously, standard Iron Hill fines material presently grades circa 59-60% Fe and lump material is expected to average more than 60% Fe over the production life.

FOB ore sales revenue for all products totalled \$45 million in the June quarter, taking sales revenue for the year to the end of June to \$192 million.

Cash Position

The Company's cash and liquid investments totalled \$457 million at 30 June 2018, compared with \$470 million at 31 March 2018. The movement reflected a positive cash inflow from the Mid-West business of \$13 million (comprising \$4 million of operating cashflows, \$3 million of interest revenue, \$2 million in realised foreign exchange and commodity hedging gains, \$3 million of corporate office costs, and \$7 million in positive net working capital movements), net of Koolan Island cash expenditure of \$26 million.

Cost Performance

All-in group cash costs³ averaged \$44/wmt FOB in the June quarter compared with \$45/wmt FOB in the March quarter, and \$45/wmt FOB for the financial year, at the bottom end of the guidance range of \$45-50/wmt FOB.

Other

Mount Gibson expects to report its financial results for the year ended 30 June 2018 on Wednesday 15 August 2018.

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Mount Gibson will host an analysts/institutions teleconference at **11.30am AEST (9.30am WST) on 20 July 2018**. 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).

² Sales, cost and cash movement figures are unaudited.

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.

Koolan Island Restart Project Pictorial Update



Figure 2: Aerial view of seawall embankment – end June 2018



Figure 3: Excavation of final seepage barrier panel - July 2018.
Inset: MGX and Keller personnel celebrate completion of the final panel.



Figure 4: Submersible dewatering pump ready for commissioning - July 2018



Figure 5: Avalanche mesh for installation on footwall - July 2018



Figure 6: Deployment of barge-mounted shotcreting equipment in Main Pit - July 2018



Figure 7: Shotcreting of Main Pit Footwall – July 2018

APPENDIX A

Mount Gibson Iron Limited Quarterly Operating Statistics

	Jun-2017 Quarter	Sep-2017 Quarter	Dec-2017 Quarter	Mar-2018 Quarter	Jun-2018 Quarter	2017-18
EXTENSION/IRON HILL	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Waste mined	295	420	514	397	327	1,659
Standard ore mined	640	879	961	898	746	3,484
Low-grade ore mined [#]	142	225	151	97	129	601
Total ore mined	782	1,104	1,112	994	875	4,085
Ore crushed	876	821	742	953	992	3,507
Shipping/Sales						
Standard DSO Lump	300	294	481	492	361	1,627
Standard DSO Fines	-	366	300	426	485	1,576
Low Grade Lump	303	181	60	59	118	419
Total	603	841	841	977	963	3,622

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.

Competent Person Statement

Koolan Island 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 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.