

APPENDIX 4D

MOUNT GIBSON IRON LIMITED 31 DECEMBER 2018 HALF-YEAR FINANCIAL STATEMENTS

**This Half-Year Report is provided to the Australian Securities Exchange (ASX) under
ASX Listing Rule 4.2A.3**

Current Reporting Period:	Half-Year ended 31 December 2018
Previous Corresponding Period:	Half-Year ended 31 December 2017

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Consolidated Entity	Movement	A\$ million
Revenue from ordinary activities	Up 49% to	\$183.3
Profit from continuing operations before tax	Down 44%* to	\$45.2
Net profit after tax attributable to members of the Company	Down 44%* to	\$45.1

* The prior half-year period included proceeds of \$64.3 million from settlement of the business interruption component of the Koolan Island seawall insurance claim.

DIVIDEND

An interim dividend for the half-year ended 31 December 2018 has not been declared.

NET TANGIBLE ASSET BACKING

Consolidated Entity	Unit	31 December 2018	31 December 2017
Net tangible assets	<i>A\$ mill</i>	\$523.5	\$477.0
Fully paid ordinary shares on issue at balance date	<i>#</i>	1,128,369,730	1,096,562,516
Net tangible asset backing per issued ordinary share as at balance date	<i>c/share</i>	46.4	43.5

DETAILS OF ENTITIES OVER WHICH CONTROL WAS GAINED OR LOST DURING THE PERIOD

None.

STATUS OF AUDIT

This Half-Year Report is based on accounts that have been reviewed by Mount Gibson's statutory auditors.

NOTICE

It is recommended that the Half-Year Report be read in conjunction with Mount Gibson's Annual Financial Report for the year ended 30 June 2018 and any public announcements made by Mount Gibson during and after the half-year year ended 31 December 2018 in accordance with the continuous disclosure obligations under the Corporations Act 2001 and ASX Listing Rules.



**MOUNT GIBSON IRON LIMITED
AND CONTROLLED ENTITIES**

ABN 87 008 670 817

FINANCIAL REPORT

FOR THE HALF-YEAR ENDED

31 DECEMBER 2018

Financial Report

For the half-year ended 31 December 2018

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Directors' Report

Your Directors submit their report for the half-year ended 31 December 2018 for the Group incorporating Mount Gibson Iron Limited ("Company" or "Mount Gibson") and the entities that it controlled during the half-year ("Group").

CURRENCY

Amounts in this report and the accompanying financial report are presented in Australian dollars unless otherwise stated.

DIRECTORS

The names of the Company's directors in office during the half-year and until the date of this report are as below. Directors were in office for the entire period unless otherwise stated.

Lee Seng Hui	<i>Chairman, Non-Executive Director</i>
Alan Jones	<i>Independent Non-Executive Director</i>
Li Shaofeng	<i>Non-Executive Director</i>
Russell Barwick	<i>Independent Non-Executive Director</i>
Simon Bird	<i>Lead Independent Non-Executive Director</i>
Paul Douglas	<i>Independent Non-Executive Director</i>
Andrew Ferguson	<i>Alternate Director to Lee Seng Hui</i>

Peter Kerr is the Chief Executive Officer. David Stokes is the Company Secretary.

CORPORATE INFORMATION

Corporate Structure

Mount Gibson is a company limited by shares that is incorporated and domiciled in Australia. It is the ultimate parent entity of the Group and has prepared a consolidated half-year financial report incorporating the entities that it controlled during the half-year.

Nature of Operations and Principal Activities

The principal activities of the entities within the Group during the period were:

- mining of hematite iron ore in the Iron Hill deposit at the Extension Hill mine site in the Mid-West region of Western Australia, and haulage of the ore via road and rail for export from the Geraldton Port;
- reconstruction of the Koolan Island Main Pit seawall and recommencement of operations at the Koolan Island mine site, in the Kimberley region of Western Australia, with ore sales targeted to resume in the first half of 2019;
- treasury management; and
- the pursuit of mineral resources acquisitions and investments.

OPERATING AND FINANCIAL REVIEW

Overview of the Half-Year Period

The Group's financial performance for the half-year ended 31 December 2018 was positive, reflecting steady sales volumes from the final stages of the Iron Hill deposit at Extension Hill, expenditure on the high grade Koolan Island Restart Project, and payment of a 3.0 cents per share fully franked dividend for the 2017/18 financial year. The net profit after tax of \$45,083,000 in the half-year compares with \$80,006,000 in the prior corresponding half year, which included earnings from operations of \$15,719,000 and proceeds from the settlement of the Koolan Island business interruption insurance claim of \$64,287,000.

At the beginning of the half-year, the Platts Index for delivery of 62% Fe iron ore fines to northern China was approximately US\$64 per dry metric tonne ("dmt") and, after peaking at around US\$77/dmt in November 2018, finished the period at just under US\$73/dmt, with an average for the half-year of US\$69/dmt. Over the same period, the A\$/US\$ exchange rate traded between A\$1.00/US\$0.70 and US\$0.75, with an average of the half-year of US\$0.72. Although the high grade benchmark iron ore price (for 62% Fe fines material) remained well supported, market prices for lower and medium grade iron ore continued to be impacted by variable discounts against the Platts 62% Fe benchmark index, a situation which many commentators describe as a potentially permanent structural change to global iron ore pricing, notwithstanding seasonal moderation in discounts at the end of the half-year.

Group ore sales for the half-year totalled 2.2 million wet metric tonnes ("Mwmt") with sales revenue totalling \$138,586,000 Free On Board ("FOB") including realised foreign exchange hedging gains and provisional pricing adjustments. Mount Gibson achieved an average realised price for standard iron ore fines product for the half-year of US\$34/dmt FOB after grade and provisional pricing adjustments and penalties for impurities, compared with an average of US\$30/dmt in the 2017/18 financial year and US\$29/dmt in the prior corresponding December 2017 half-year period. The weighted average realised price received (including provisional pricing adjustments and realised foreign exchange hedging losses) for all products sold was \$64/wmt FOB in the half-year period compared with \$54/wmt FOB in both the 2017/18 financial year and the December 2017 half-year.

Cash reserves, including term deposits and tradeable investments, decreased by \$26,530,000 over the half-year to a total of \$431,004,000 as at 31 December 2018.

Operating Results for the Half-Year Period

The summarised operating results for the Group for the half-year ended 31 December 2018 are tabulated below.

Consolidated Group		31 December 2018 \$'000	31 December 2017 \$'000
Net profit before tax from continuing and discontinued operations	\$'000	45,083	80,006
Taxation benefit	\$'000	-	-
Net profit after tax attributable to members of the Company	\$'000	45,083	80,006
Earnings per share	cents/share	4.08	7.33

Consolidated quarterly operating and sales statistics for the half-year period are tabulated below:

Consolidated Group	Unit	Sept Quarter 2018	Dec Quarter 2018	Dec Half-Year 2018	Dec Half-Year 2017
Mining and crushing					
Total waste mined	kwmt	195	2,507	2,702	934
Total ore mined [#]	kwmt	1,081	810	1,891	2,216
Total ore crushed	kwmt	1,052	980	2,032	1,562
Shipping/sales					
Standard DSO Lump	kwmt	607	475	1,081	775
Standard DSO Fines	kwmt	542	537	1,080	665
Low grade DSO	kwmt	-	-	-	241
Total	kwmt	1,149	1,012	2,161	1,681
Average Platts 62% Fe CFR northern China price	US\$/dmt	67	72	69	68
MGX Free on Board (FOB) average realised fines price[^]	US\$/dmt	28	40	34	29
kwmt = thousand wet metric tonnes US\$/dmt = USD per dry metric tonne [#] Includes low-grade material at Extension Hill that is treated as waste for accounting purposes. [^] Reflects the realised fines price for standard DSO fines ore only, after adjustments for shipping freight, grade, provisional invoicing adjustments and penalties for impurities. Minor discrepancies may appear due to rounding.					

Extension Hill Hematite Operations

The Extension Hill/Iron Hill operations achieved another sound operational performance in the December 2018 half-year. Shipments from Geraldton Port totalled 2,161,000 wmt, comprising 1,081,000 wmt of lump ore and 1,080,000 wmt of fines ore. No sales of low grade material from existing Extension Hill stockpiles were completed in the half year, compared with 241,000 wmt of low grade lump material in the December 2017 half-year period.

The mine generated earnings before interest and tax of \$45,978,000 reflecting continued steady sales in the final stage of operations, and the ongoing focus on cost control and efficiency improvements. Mining was concluded in the Iron Hill deposit as planned in December 2018, with final shipments anticipated in the March 2019 quarter.

Extension Hill's cost of sales for the half-year averaged \$43/wmt FOB compared with the 2017/18 financial year average of \$44/wmt.

At the end of the half-year, approximately 87,000 wmt of crushed high grade product was stockpiled at the mine. Crushed ore stockpiles at the Perenjori rail siding totalled approximately 114,000 wmt of high grade ore.

The average grade of Iron Hill high grade lump ore sold during the half-year was 60.2% Fe, and the average grade of the Iron Hill high grade fines ore sold in the period was 60.0% Fe.

Mount Gibson Iron Limited
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The total closure and rehabilitation cost for the combined Extension Hill and Iron Hill mine sites is provisioned at approximately \$15 million (including site personnel redundancy costs), of which approximately \$7 million is expected to be spent in 2018/19. A reassessment of the closure provision will be made before end of the current financial year to reflect the reclamation works completed, with any adjustments to be recorded at that time.

Production and shipping statistics for the December 2018 half-year are tabulated below:

Extension Hill Production Summary	Unit	Sept Quarter 2018 '000	Dec Quarter 2018 '000	Dec Half-Year 2018 '000	Dec Half-Year 2017 '000	% incr / (decr)
Mining						
Waste mined	<i>wmt</i>	195	57	252	934	(73)
Standard ore mined	<i>wmt</i>	959	757	1,715	1,840	(7)
Low grade ore mined*	<i>wmt</i>	122	54	176	375	(53)
Total ore mined	<i>wmt</i>	1,081	810	1,891	2,216	(15)
Crushing						
Lump	<i>wmt</i>	542	535	1,077	834	29
Fines	<i>wmt</i>	510	445	955	728	31
		1,052	980	2,032	1,562	30
Transported to Perenjori Railhead						
Lump	<i>wmt</i>	531	504	1,035	832	24
Fines	<i>wmt</i>	504	463	967	689	40
		1,035	967	2,002	1,521	32
Transported to Geraldton Port						
Lump	<i>wmt</i>	540	508	1,048	979	7
Fines	<i>wmt</i>	509	516	1,025	658	56
		1,049	1,024	2,073	1,637	27
Shipping/Sales						
Lump	<i>wmt</i>	607	475	1,081	775	40
Fines	<i>wmt</i>	542	537	1,080	665	62
Low grade lump	<i>wmt</i>	-	-	-	241	(100)
		1,149	1,012	2,161	1,681	29

* Low grade ore is material grading 50-55% Fe and which is considered saleable. This material is being stockpiled for future sale but continues to be treated as waste for accounting purposes.

Minor discrepancies may appear due to rounding.

Koolan Island Hematite Operations

Site activity at Koolan Island progressed significantly during the December 2018 half-year with the Restart Project rapidly nearing completion.

Construction of the seawall incorporating the impermeable seepage barrier was completed in mid-July 2018, enabling commencement of pit dewatering in August, refurbishment of the Main Pit footwall and re-profiling of the Main Pit hanging wall. Restart activity during the period included recruitment of site personnel, maintenance of equipment, and refurbishment and recommissioning of site facilities and infrastructure.

As at 31 December 2018, approximately 80% of the water in Main Pit had been extracted. Significantly, the seawall has been under full tidal loads since late November 2018 and all instrumentation and monitoring data continues to demonstrate that the seawall is performing to design expectations.

Drilling and blasting in the upper levels of Main Pit commenced in early November, with 2.4 million tonnes of waste material moved by half-year end. Waste mining continues with high grade iron ore expected to be accessed in February 2019 and first ore shipments anticipated in April 2019.

Cash expenditure on the Koolan Island Restart Project totalled approximately \$65 million in the half-year period and \$153 million since commencement in May 2017. All expenditure, as well as depreciation and amortisation non-cash items, has been capitalised.

Peak cash draw remains targeted at approximately \$175 million, subject to minimal wet season delays and shipments commencing as planned. In the event that first shipments are delayed, it is expected that any increase in peak cash draw will be promptly recovered from initial shipment revenues.

Mount Gibson Iron Limited
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Production statistics for the December 2018 half-year are tabulated below:

Koolan Island Production Summary	Unit	Sept Quarter 2018 '000	Dec Quarter 2018 '000	Dec Half-Year 2018 '000	Dec Half-Year 2017 '000	% incr / (decr)
Mining						
Waste mined	<i>wmt</i>	-	2,450	2,450	-	100
Standard ore mined	<i>wmt</i>	-	-	-	-	-

Financial Position

The Group's cash, term deposit and tradeable investment balances totalled \$431,004,000 as at 31 December 2018, a decrease of \$26,530,000 over the half-year from the balance of \$457,534,000 as at 30 June 2018. The movement comprised a positive underlying operating cashflow (including head office administration and working capital movements) of \$51,254,000, interest received of \$6,018,000, Koolan Island Restart Project expenditure (including plant and equipment) of \$65,455,000 and payment of the \$18,347,000 cash component of the fully franked final dividend to shareholders for the 2017/18 financial year.

As at the balance date, the Group's current assets totalled \$468,949,000 and its current liabilities totalled \$66,664,000. Accordingly, as at the date of this report, the Group has sufficient funds as well as access to further equity and debt sources to operate and sell iron ore from its operations and to advance its growth objectives.

Derivatives

As at 31 December 2018, the Group held foreign exchange collar option contracts covering the conversion of US\$3,000,000 into Australian dollars with a maturity date of 29 January 2019 and with a cap price of A\$1.00/US\$0.7520 and a floor price of A\$1.00/US\$0.7000. This collar contract expired unexercised.

Koolan Island Seawall Insurance Claim

In July 2017 the Company reached a negotiated settlement of \$64.3 million with 14 insurers, representing 92.5% of the Company's underwriting cover, for the Koolan Island business interruption claim, bringing the total cash settlement for the seawall insurance claim to just over \$150 million. Legal action is progressing to recover the remaining 7.5% from the one insurer that did not participate in settlement of the business interruption claim as negotiated by all other insurers.

Extension Hill Rail Refund/Credit – Contingent Asset

Following achievement of a contractual rail volume threshold at Extension Hill during the 2017/18 financial year, the Group has a contingent asset in the form of an entitlement to receive a partial refund of historical rail access charges from Arc Infrastructure, based upon the future usage by certain third parties of specific segments of the Perenjori to Geraldton railway line. This entitlement commences upon termination of the Group's existing rail agreements – which occurred in early 2019 – and is calculated at various volume-related rates, and capped at a total of approximately \$35 million (subject to indexation) and a time limit expiring in 2031. Receipt of this potential future refund is not certain and is fully dependent on the volumes railed by third parties on the specified rail segments.

CEO Succession and Executive Management Appointments

In September 2018, Mount Gibson announced the appointment of Mr Peter Kerr as Chief Executive Officer, succeeding Mr Jim Beyer, who tendered his resignation after almost seven years in the role to pursue another opportunity in the resources industry.

Mr Kerr commenced in the role of CEO on 1 October 2018, having initially joined Mount Gibson as Chief Financial Officer in September 2012. Mr Kerr has over 20 years' experience in the resources sector, including past roles as CFO of ASX-listed uranium development company Bannerman Resources, managing director of ASX-listed gold developer Northern Gold NL and senior executive roles with Canadian miner Teck Cominco Ltd and Australian gold miner PacMin Mining Corporation Ltd.

Mount Gibson subsequently announced the promotion of Ms Gill Dobson to the position of Chief Financial Officer, and Mr Scott de Kruijff as Chief Operating Officer. Ms Dobson is a highly experienced accountant and had been Group Commercial Manager at Mount Gibson since May 2013. Mr de Kruijff had been Mount Gibson's General Manager Operations since July 2015, and initially joined the Company as General Manager Koolan Island in September 2013. Both Ms Dobson and Mr de Kruijff have a detailed knowledge of Mount Gibson's operational and commercial activities, and sit on the Company's Executive Management Committee.

Likely Developments and Expected Results

Mount Gibson's overall objective is to maintain and grow long-term profitability through the discovery, development, operation and acquisition of mineral resources. As an established producer and seller of hematite iron ore, Mount Gibson's strategy is to grow its profile as a successful and profitable supplier of raw materials.

Key influences on the success of Mount Gibson are not only iron ore prices and foreign exchange rates but also consistency in government policy, the continued attainment of regulatory approvals, the ability to delineate new mineral resources and ore reserves, and the continued control of operating and capital costs.

The Board's corporate objective is to grow the Company's cash reserves and to continue to pursue an appropriate balance between the retention and utilisation of cash reserves for value-accretive investments. The Board has determined the following key business objectives for the 2018/19 financial year:

- **Extension Hill/Iron Hill** – complete final shipments as scheduled whilst controlling costs, to maximise margins and prepare the site for its ultimate closure in 2019.
- **Koolan Island** – complete the Restart Project and dewatering of Main Pit to enable commencement of commercial production in the first half of 2019.
- **Cost reductions** - continue to drive sustainable cost improvements across the existing business.
- **Treasury returns** – maintain the increased yield on the Group's cash and investment reserves.
- **Growth projects** – continue the search for acquisition opportunities in the resources sector.

Extension Hill Outlook

Following completion of mining in the Iron Hill open pit at the Extension Hill mine as planned in December 2018, the site will process, transport and export the remaining ore stockpiles with final shipments expected in the March 2019 quarter, after which the site will transition to full closure. Opportunistic sales of existing low grade stockpiles may be undertaken if economically justified. The site and Mid-West logistics workforce will progressively become redundant in line with this schedule, while site rehabilitation activities will continue until completion. The total closure and rehabilitation cost for the combined Extension Hill and Iron Hill mine sites is provisioned at approximately \$15 million (including site personnel redundancy costs), of which approximately \$7 million is expected to be spent in 2018/19. A reassessment of the closure provision will be made before end of the current financial year to reflect the reclamation works completed, with any adjustments to be recorded at that time.

Koolan Island Outlook

Given the advanced state of dewatering, footwall refurbishment, and other pre-production activities at Koolan Island at the half-year end, work for the remainder of the 2018/19 financial year will focus on completion of remaining pre-commissioning tasks and the transition to commercial production. First ore sales are anticipated in April 2019.

Based on the increased Ore Reserve estimate of 21.0 million tonnes at an average grade of 65.5% Fe, Koolan Island has an expected mine life of over 5 years. The high grade and low impurities of the Koolan Island Main Pit ore mean that the operation will benefit from the high grade premiums existing in the current iron ore market.

Life of mine all-in cash costs are projected at \$48/wmt FOB, including development capital expenditure and final closure costs, resulting in an estimated breakeven Platts 62% Fe price of US\$40/dmt CFR including capital and closure costs.

Group Sales Guidance and Cash Costs Guidance

Mount Gibson expects total sales of 2.7-3.3 Mwmt of iron ore at an average all-in group cash cost (excluding Koolan Island Restart Project expenditure) of \$52-57/wmt FOB for the 2018/19 financial year. Of this, the Mid West is expected to contribute 2.0-2.3 Mwmt at an average all-in cash cost of \$38-42/wmt FOB. Koolan Island is expected to contribute 0.7-1.0 Mwmt of high grade ore based on the current schedule, with site cash costs expected to average \$70-75/wmt FOB once sales commence. Costs at Koolan Island are projected to progressively decline over the mine life in line with the mine schedule as the strip ratio reduces each year.

DIVIDENDS

During the half-year, a final dividend of \$0.03 per share fully franked (\$32,987,000) in respect of the 2017/18 financial year was distributed by way of \$18,347,000 in cash and the issue of 29,883,486 new shares under the Company's Dividend Reinvestment Plan.

An interim dividend for the half-year ended 31 December 2018 has not been declared.

SIGNIFICANT EVENTS AFTER BALANCE DATE

As at the date of this report there are no significant events after balance date of the Group that require adjustment of or disclosure in this report.

ROUNDING

Amounts in this report and the accompanying financial report have been rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the company under ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191. The Company is an entity to which the instrument applies.

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with section 307C of the *Corporations Act 2001*, the Directors received the attached independence declaration from the auditor of the Company on page 8, which forms part of this report.

Signed in accordance with a resolution of the Directors.



Lee Seng Hui
Chairman

18 February 2019

Auditor's Independence Declaration to the Directors of Mount Gibson Iron Limited

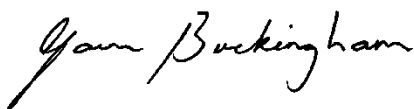
As lead auditor for the review of Mount Gibson Iron Limited for the half-year ended 31 December 2018, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Mount Gibson Iron Limited and the entities it controlled during the financial period.



Ernst & Young



Gavin Buckingham
Partner
18 February 2019

Interim Consolidated Statement of Profit or Loss

For the half-year ended 31 December 2018

	Notes	31 December 2018 \$'000	31 December 2017 \$'000
CONTINUING OPERATIONS			
Revenue	3[a]	177,374	117,017
Interest revenue		5,907	6,238
TOTAL REVENUE		183,281	123,255
Cost of sales	4[a]	(132,134)	(100,133)
GROSS PROFIT		51,147	23,122
Other income	3[b]	1,384	64,888
Administration and other expenses	4[c]	(6,516)	(7,468)
PROFIT FROM CONTINUING OPERATIONS BEFORE TAX AND FINANCE COSTS		46,015	80,542
Finance costs	4[b]	(776)	(305)
PROFIT FROM CONTINUING OPERATIONS BEFORE TAX		45,239	80,237
Tax benefit	5	-	-
PROFIT AFTER TAX FROM CONTINUING OPERATIONS		45,239	80,237
DISCONTINUED OPERATIONS			
Loss after tax for the period from discontinued operations	18	(156)	(231)
PROFIT FOR THE PERIOD AFTER TAX ATTRIBUTABLE TO MEMBERS OF THE COMPANY		45,083	80,006
Earnings per share (cents per share)			
▪ basic earnings per share		4.08	7.33
▪ diluted earnings per share		4.06	7.30
Earnings per share (cents per share) for continuing operations			
▪ basic earnings per share		4.10	7.35
▪ diluted earnings per share		4.07	7.32

Interim Consolidated Statement of Comprehensive Income

For the half-year ended 31 December 2018

	31 December 2018	31 December 2017
	\$'000	\$'000
PROFIT FOR THE PERIOD AFTER TAX	45,083	80,006
OTHER COMPREHENSIVE LOSS		
Items that may be subsequently reclassified to profit or loss:		
Change in fair value of cash flow hedges	179	(151)
Change in fair value of financial assets designated at fair value through other comprehensive income	(411)	-
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	(232)	(151)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	44,851	79,855

Interim Consolidated Statement of Financial Position

	Notes	31 December 2018 \$'000	30 June 2018 \$'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	6	47,458	46,547
Term deposits and subordinated notes	7	348,593	377,030
Financial assets held for trading	8	34,953	33,957
Trade and other receivables	9	12,921	7,843
Inventories	10	17,290	23,321
Prepayments		7,734	3,374
TOTAL CURRENT ASSETS		468,949	492,072
NON-CURRENT ASSETS			
Property, plant and equipment	11	15,837	7,734
Mine properties	12	141,119	87,781
Prepayments		2,150	2,370
TOTAL NON-CURRENT ASSETS		159,106	97,885
TOTAL ASSETS		628,055	589,957
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		53,931	42,078
Employee benefits		3,904	3,336
Derivative financial liabilities		34	325
Provisions		8,795	6,539
TOTAL CURRENT LIABILITIES		66,664	52,278
NON-CURRENT LIABILITIES			
Employee benefits		389	489
Provisions		37,521	40,366
TOTAL NON-CURRENT LIABILITIES		37,910	40,855
TOTAL LIABILITIES		104,574	93,133
NET ASSETS		523,481	496,824
EQUITY			
Issued capital	15	582,792	568,328
Accumulated losses		(1,041,636)	(1,053,908)
Reserves		982,325	982,404
TOTAL EQUITY		523,481	496,824

Interim Consolidated Statement of Cash Flows

For the half-year ended 31 December 2018

	Notes	31 December 2018 \$'000	31 December 2017 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		173,332	120,522
Payments to suppliers and employees		(118,329)	(105,947)
Proceeds from business interruption insurance		-	64,287
Interest paid		(236)	(123)
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		54,767	78,739
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		6,018	6,817
Proceeds from sale of property, plant and equipment		80	128
Purchase of property, plant and equipment		(10,574)	(2,019)
Payment (for)/from term deposits		26,000	(500)
Proceeds from sale of subordinated notes		12,000	-
Payment for subordinated notes		(9,974)	-
Proceeds from sale of financial assets held for trading		7,248	5,554
Payment for financial assets held for trading		(8,979)	(5,476)
Payment for deferred exploration and evaluation expenditure		(135)	(303)
Payment for mine development		(57,367)	(31,038)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(35,683)	(26,837)
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowing costs		(56)	(108)
Dividends paid		(18,347)	(21,859)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(18,403)	(21,967)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		681	29,935
Net foreign exchange difference		230	(176)
Cash and cash equivalents at beginning of period		46,547	48,756
CASH AND CASH EQUIVALENTS AT END OF PERIOD	6	47,458	78,515

Interim Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2018

	<i>Attributable to Equity Holders of the Parent</i>						Total Equity \$'000
	Issued Capital \$'000	Accumulated Losses \$'000	Share Based Payments Reserve \$'000	Net Unrealised Gains / (Losses) Reserve \$'000	Dividend Distribution Reserve \$'000	Other Reserves \$'000	
At 1 July 2017	568,328	(1,131,178)	20,531	232	964,262	(3,192)	418,983
Profit for the period	-	80,006	-	-	-	-	80,006
Other comprehensive income	-	-	-	(151)	-	-	(151)
Total comprehensive income for the period	-	80,006	-	(151)	-	-	79,855
Transactions with owners in their capacity as owners							
- Dividends paid	-	(21,859)	-	-	-	-	(21,859)
Share-based payments	-	-	-	-	-	-	-
At 31 December 2017	568,328	(1,073,031)	20,531	81	964,262	(3,192)	476,979
At 1 July 2018	568,328	(1,053,908)	20,531	803	964,262	(3,192)	496,824
Profit for the period	-	45,083	-	-	-	-	45,083
Other comprehensive income	-	-	-	(232)	-	-	(232)
Total comprehensive income for the period	-	45,083	-	(232)	-	-	44,851
Transactions with owners in their capacity as owners							
- Dividends paid	-	(32,987)	-	-	-	-	(32,987)
- After tax dividends netted off against loan-funded shares	-	176	-	-	-	-	176
- Shares issued under DRP	14,464	-	-	-	-	-	14,464
Share-based payments	-	-	153	-	-	-	153
At 31 December 2018	582,792	(1,041,636)	20,684	571	964,262	(3,192)	523,481

Notes to the Half-Year Financial Report

For the half-year ended 31 December 2018

1. Corporate Information

The consolidated financial report of the Group, comprising the Company and the entities that it controlled during the half-year ended 31 December 2018, was authorised for issue in accordance with a resolution of the Directors on 18 February 2019.

The Company is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The nature of operations and principal activities of the Group are the mining and export of hematite iron ore in the Mid-West region of Western Australia, reconstruction of the Koolan Island Main Pit seawall and restart of operations in the Kimberley region of Western Australia, treasury management and the pursuit of mineral resources acquisitions and investments.

The address of the registered office is Level 1, 2 Kings Park Road, West Perth, Western Australia, 6005.

2. Basis of Preparation and Accounting Policies

(a) Basis of preparation

This general purpose condensed financial report for the half-year ended 31 December 2018 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The half-year financial report:

- does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the full financial report;
- should be read in conjunction with the Annual Financial Report of Mount Gibson Iron Limited for the year ended 30 June 2018. It is also recommended that the half-year financial report be considered together with any public announcements made by Mount Gibson during and subsequent to the half-year ended 31 December 2018 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001* and Australian Securities Exchange Listing Rules;
- has been prepared on a historical cost basis, except for derivatives and certain financial assets measured at fair value; and
- is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Company under Australian Securities and Investment Commission ("ASIC") Instrument 2016/191. The Company is an entity to which the instrument applies.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(b) New standards, interpretations and amendments adopted by the Group

Since 1 July 2018, the Group has adopted all Accounting Standards and Interpretations mandatory to annual periods beginning on or before 1 July 2018. Adoption of these standards and interpretations did not have a material effect on the financial position or performance of the Group. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2018, except for the adoption of new standards and interpretations as of 1 July 2018.

The Group applies, for the first time, AASB 15 *Revenue from Contracts with Customers* ("AASB 15") and AASB 9 *Financial Instruments* ("AASB 9").

• AASB 15

AASB 15 and its related amendments superseded AASB 118 *Revenue* ("AASB 118") and related Interpretations, and applies to all revenue arising from contracts with customers. AASB 15 requires revenue to be recognised when control of a good or service transfers to a customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. The Group adopted AASB 15 using the modified retrospective method of adoption with an initial application date of 1 July 2018 and has not restated comparative information. The Group has applied AASB 15 to contracts that were not completed contracts at the date of initial application.

The effects of adopting AASB 15 are as follows:-

Iron ore sales

The Group derives revenue from the sale of iron ore. There were no changes identified with respect to the timing of revenue recognition in relation to iron ore sales as control transfers to customers at the date of loading/shipment which is consistent with the point in time when risks and rewards passed under AASB 118. Adjustments are made for variations in assay and weight between the time of dispatch of the ore and time of final settlement. The Group estimates the amount of consideration receivable using the expected value approach based on internal assays. Management considers that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur due to a variation in assay and weight.

There has been a change in the amount of revenue recognised for iron ore sold under Cost and Freight ("CFR") Incoterms where the Group provides shipping services. This is because these services are now considered to represent a separate performance obligation which is satisfied at a different point in time from the loading of the iron ore. Therefore some of the transaction price that was previously allocated to the iron ore under AASB 118 is now allocated to this new performance obligation under AASB 15.

Provisionally priced sales

Certain of the Group's sales are provisionally priced, where the final price depends on future index prices. Adjustments to the sales price occur based on movements in market prices up to the end of the quotational period ("QP"). Under previous accounting, provisionally priced sales were considered to contain an embedded derivative ("ED") which was separated from the host contract from the date of shipment. Revenue was initially recognised for these arrangements at the date of shipment based on the estimated forward price that the entity expected to receive at the end of the QP determined at the date of shipment. Subsequent changes in the fair value of the ED were recognised in the Statement of Profit and Loss each period until the end of the QP, and were presented as part of revenue. The adoption of AASB 9 will lead to a change in the Group's accounting (refer below) as the related receivable will now be measured at fair value through profit and loss. Under AASB 15 the accounting for revenue will remain unchanged except that the fair value adjustments on receivables subject to QP are recognised in other revenue and not included in revenue from contracts with customers.

Shipping services

As noted above, a portion of the Group's iron ore sales are sold on CFR Incoterms, whereby the group is responsible for providing freight and shipping services after the date that it transfers control of the iron ore to the customer. Under AASB 118, freight and shipping services were not accounted for as separate services. Instead all of the revenue relating to the sale was recognised at the date of loading and presented as revenue from sale of iron ore. Under AASB 15, it has been concluded that freight and shipping represents a separate performance obligation and that the Group acts as principal. As a result, a portion of the transaction price is now required to be allocated to this performance obligation and will be recognised over time on a gross basis as the services are provided. Given the nature of the Group's shipping profile, most of these services are completed in the same reporting period that control of the iron ore passes to the customer. The Group considered the deferral of revenue apportioned to the remaining sea voyages of vessels "in transit" to their destination ports as at the date of initial application of the standard and at balance date. At 31 December 2018, the Group had one vessel in transit and at 30 June 2017 the Group had only two vessels in transit. As the corresponding shipping freight cost would also be deferred, the impact to the income statement was not material.

Impact on the financial statements

The Group assessed all enforceable offtake agreements and as discussed above, it was determined that the adoption of AASB 15 did not have a significant impact on the Group.

• **AASB 9**

AASB 9 replaces parts of AASB 139 *Financial Instruments: Recognition and Measurement* ("AASB 139") and brings together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Group has applied AASB 9 retrospectively with the initial application date being 1 July 2018. In accordance with the transitional provisions in AASB 9, comparative information has not been restated.

The effects of adopting AASB 9 are as follows:

Classification and measurement

Under AASB 9, there has been a change in the classification and measurement requirements relating to financial assets. Previously, there were four categories of financial asset: loans and receivables, fair value through profit and loss, held to maturity and available for sale. Under AASB 9, financial assets are either classified as amortised cost, fair value through profit and loss ("FVTPL") or fair value through other comprehensive income ("FVTOCI"). For debt instruments, the classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' and the principal amount outstanding (the 'SPPI criterion').

At the date of initial application, existing financial assets and liabilities of the Group were assessed in terms of the requirements of AASB 9. The Group has determined the adoption of AASB 9 has impacted the classification of financial instruments at 1 July 2018 as follows:

Financial instruments	Classification under AASB 132	Classification under AASB 9
Cash and cash equivalents	Loans and receivables	Financial assets at amortised cost
Term deposits	Loans and receivables	Financial assets at amortised cost
Subordinated notes	Available for sale financial asset	Financial assets at FVTOCI
Trade receivables (subject to a QP adjustment)	Host - Loans and receivables ED - at fair value through profit and loss	Financial asset at FVTPL ^
Other receivables	Loans and receivables	Financial assets at amortised cost
Tradeable corporate bonds	FVTPL financial assets	Financial assets at FVTPL
Investment in listed equity shares	FVTPL financial assets	Equity financial assets at FVTPL
Derivative liabilities	Financial liabilities at fair value	Financial liabilities at fair value
Trade and other payables	Financial liabilities at amortised cost	Financial liabilities at amortised cost

^ Prior to the adoption of AASB 9, the exposure of provisionally priced sales to commodity price movements over the QP, previously led to an embedded derivative (QP derivative) being separated from the host trade receivable and accounted for separately. Under AASB 9, embedded derivatives are no longer separated from financial assets. Instead, the exposure of the trade receivable to future commodity price movements will cause the trade receivable to fail the SPPI test. Therefore, the entire receivable is now required to be measured at fair value through profit or loss, with subsequent changes in fair value recognised in the statement of profit or loss and other comprehensive income each period until final settlement.

The change in classification of financial instruments has not resulted in any re-measurement adjustments at 1 July 2018.

Impairment

The adoption of AASB 9 has changed the Group's accounting for impairment losses for financial assets by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. AASB 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss. As at 1 July 2018, the Group reviewed and assessed the existing financial assets for impairment. With respect to the Group's term deposits and subordinated notes at 30 June 2018, no material adjustments were required on adoption of the ECL approach. These balances were assessed as having low probability of default as they are held with reputable financial institutions with high credit ratings. Other receivables which the Group measures at amortised cost (i.e. receivables not subject to QP adjustment) are short term and the change to a forward-looking ECL approach did not have a material impact on the amounts recognised in the financial statements under AASB 139.

Hedging

The Group has elected to continue to apply the hedge accounting requirements of AASB 139. The adoption of AASB 9 has therefore had no impact on the Group's hedge accounting.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

In view of the current state of operations, the Group has yet to fully assess the full impact of the below accounting standard, when applied in future periods:

- AASB 16 *Leases* eliminates the distinction between operating and finance leases for lessees, (other than short term leases), and requires all "right of use" assets and the related lease liability to be recognised on the balance sheet. The standard does not apply mandatorily before 1 January 2019. On transition, the Group is expecting to apply the modified retrospective approach, whereby prior period comparative financial statements are not restated and the cumulative impact of applying the standard is recognised in opening retained earnings on the initial date of application, being 1 July 2019. The Group has performed an initial review of existing contracts and it is considered that, particularly regarding those associated with the restart of mining at Koolan Island, AASB 16 may have a material impact on the presentation of the Group's statement of financial position and statement of profit or loss.

Notes to the Half-Year Financial Report

	Notes	31 December 2018 \$'000	31 December 2017 \$'000
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3. Revenue and Other Income

[a] Revenue

Revenue from contracts with customers	[i]	169,481	114,771
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Other revenue:

Quotation period price adjustments		8,362	-
Realised gain/(loss) on foreign exchange and commodity forward sales contracts designated in cash flow hedges		(469)	2,246
		<u>177,374</u>	<u>117,017</u>

- [i] The Group has applied AASB 15 using the modified retrospective approach (see Note 2). Under this method, comparative information has not been restated for adoption of AASB 15. The comparative information has been restated for the impact of the reclassification adjustment referred to in Note 24.

[b] Other income

Net realised gain on foreign exchange transactions		833	227
Net gain on disposal of property, plant and equipment		78	128
Net gain on financial assets held for trading		-	40
Net unrealised gain on foreign exchange balances		230	-
Insurance proceeds – business interruption insurance claim		-	64,287
Insurance proceeds - other		3	4
Other income		240	202
		<u>1,384</u>	<u>64,888</u>

4. Expenses

[a] Cost of sales – continuing operations

Mining and administration costs		47,619	16,986
Depreciation – mining and administration		1,374	366
Mining waste costs deferred (Koolan Island)	12[a]	(16,547)	-
Amortisation of mine properties	12[a]	2,252	2,147
Crushing costs		4,686	2,595
Depreciation – crushing		127	17
Transport costs		44,132	36,651
Depreciation – transport		657	297
Port costs		9,177	7,722
Depreciation – port		215	61
Royalties		10,391	6,614
Net ore inventory movement		8,978	(157)
Pre-production expenditure capitalised (Koolan Island)		(19,715)	-
Cost of sales – Free on Board (FOB)		<u>93,346</u>	<u>73,299</u>
Shipping freight		38,788	26,834
Cost of sales – Cost and Freight (CFR)		<u>132,134</u>	<u>100,133</u>

[b] Finance costs

Finance charges on banking facilities		313	199
Non-cash interest accretion on rehabilitation provision		463	106
		<u>776</u>	<u>305</u>

Notes to the Half-Year Financial Report

	31 December 2018 \$'000	31 December 2017 \$'000
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4. Expenses (Continued)

[c] Administration and other expenses include:

Depreciation	93	177
Share-based payments expense	153	-
Insurance premiums (net of refunds)	627	360
Koolan seawall insurance claim and related site works expenses	82	360
Business development expenses	17	1,436
Impairment (write-back)/impairment of debtors	160	(114)
Impairment write-back on consumables inventories	(739)	(238)
Impairment (write-back)/impairment of deferred acquisition, exploration and evaluation	3	(65)
Net unrealised loss on foreign exchange balances	-	176
Net loss on financial assets held for trading	28	-
Unrealised marked-to-market (gain)/loss on foreign exchange derivatives	(112)	17
Unrealised marked-to-market (gain)/loss on financial assets held for trading	707	(447)

[d] Cost of sales & Administration and other expenses include:

Salaries, wages expense and other employee benefits	19,337	11,175
Operating lease rental – minimum lease payments	1,527	1,671

5. Taxation

Reconciliation of tax benefit

A reconciliation of tax benefit/(expense) applicable to accounting profit/(loss) before tax at the statutory income tax rate to tax expense at the Group's effective tax rate for the period ended 31 December 2018 and 2017 is as follows:

Accounting profit/(loss) before tax	45,083	80,006
• At the statutory income tax rate of 30% (2017: 30%)	13,525	24,002
• Expenditure not allowed for income tax purposes	100	(2)
• Adjustments in respect of deferred tax	53	-
• Recognition of previously unrecognised deferred tax assets	(13,680)	(24,040)
• Other	2	40
Tax benefit	-	-
Effective tax rate	-	-
Tax benefit reported in Income Statement	-	-

Unrecognised deferred tax assets (calculated at 30%)

Deferred tax assets have not been recognised in respect of the following items:

• Tax losses	39,249	47,365
• Non-current assets	31,478	42,751
	70,727	90,116

The Company has \$35,706,000 of franking credits available as at 31 December 2018 (31 December 2017: \$49,843,000). The movement from the prior comparative period is related primarily to the payment in October 2018 of a fully franked dividend of \$32,987,000.

Notes to the Half-Year Financial Report

	31 December 2018 \$'000	30 June 2018 \$'000
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6. Cash and Cash Equivalents

For the purpose of the Cash Flow Statement, cash and cash equivalents comprise the following:

Cash at bank and on hand	47,458	46,547
	47,458	46,547

	Notes	31 December 2018 \$'000	30 June 2018 \$'000
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7. Term Deposits and Subordinated Notes

Current

Term deposits – financial assets at amortised cost	[i]	253,000	-
Term deposits – loans and receivables	[i]	-	279,000
Subordinated notes – financial assets at fair value through OCI	[ii]	95,593	-
Subordinated notes – available for sale investments	[ii]	-	98,030
		348,593	377,030

[i] Term deposits are made for varying periods of between three and twelve months depending on the term cash requirements of the Group, and earn interest at market term deposit rates. Term deposits are held with various financial institutions with short term credit ratings of A-2 or better (S&P).

[ii] Subordinated notes comprise tradeable floating interest rate instruments with maturities of up to ten years. These instruments are held in order to supplement the Group's treasury returns, and the Group intends and is able to realise these instruments as and when the Group's cash needs require.

	31 December 2018 \$'000	30 June 2018 \$'000
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8. Financial Assets Held for Trading

Current

Tradeable corporate bonds at fair value through profit or loss	32,653	32,420
Quoted share investments at fair value through profit or loss	2,300	1,537
	34,953	33,957

Financial assets held for trading comprise corporate bonds and equity securities which are traded in active markets. The portfolio of bond investments is managed by a professional funds management entity, and Mount Gibson is able to vary or terminate the portfolio management mandate at any time, with applicable notice periods.

Notes to the Half-Year Financial Report

	Notes	31 December 2018 \$'000	30 June 2018 \$'000
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9. Trade and Other Receivables

Trade debtors – at amortised cost		3,845	6,087
Allowance for impairment		(3,540)	(3,374)
		305	2,713
Trade debtors – at fair value through profit or loss		4,521	-
Sundry receivables		5,058	2,763
Other receivables		3,037	2,367
		12,921	7,843

10. Inventories

Consumables – at cost		16,042	13,833
Allowance for obsolescence and impairment of consumables inventories		(6,801)	(7,539)
		9,241	6,294
Ore – at cost		8,759	17,737
Allowance for impairment of ore inventories		(710)	(710)
At lower of cost and net realisable value		8,049	17,027
		17,290	23,321

11. Property, Plant and Equipment

Property, plant and equipment – at cost		451,501	443,442
Accumulated depreciation and impairment		(435,664)	(435,708)
		15,837	7,734

[a] Reconciliation

Carrying amount at the beginning of the period		7,734	5,919
Additions		10,577	5,998
Disposals		(3)	-
Depreciation expense – continuing operations		(2,466)	(1,820)
Depreciation expense – discontinued operations		(5)	(22)
Depreciation capitalised		-	(2,341)
		15,837	7,734

Notes to the Half-Year Financial Report

	31 December 2018 \$'000	30 June 2018 \$'000
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12. Mine Properties

Mine development expenditure	1,685,233	1,629,644
Accumulated amortisation and impairment	(1,544,114)	(1,541,863)
	141,119	87,781

[a] Reconciliation

	Koolan Island		Extension Hill		Total	
	31-Dec-18	30-Jun-18	31-Dec-18	30-Jun-18	31-Dec-18	30-Jun-18
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Deferred waste						
Carrying amount at the beginning of the period	-	-	-	-	-	-
Deferred waste capitalised	16,547	-	-	-	16,547	-
Amortisation expensed	-	-	-	-	-	-
Carrying amount at the end of the period	16,547	-	-	-	16,547	-
Other mine properties						
Carrying amount at the beginning of the period	85,529	4,988	2,252	5,903	87,781	10,891
Additions	39,043	79,963	-	267	39,043	80,230
Mine rehabilitation – revised estimate	-	578	-	207	-	785
Amortisation expensed	-	-	(2,252)	(4,125)	(2,252)	(4,125)
Carrying amount at the end of the period	124,572	85,529	-	2,252	124,572	87,781
Total mine properties	141,119	85,529	-	2,252	141,119	87,781

13. Impairment of Assets

The Group reviews the carrying values of its assets at each balance date for indicators of potential impairment and, where such indicators exist, utilises the approaches required under applicable accounting pronouncements for assessment of any impairment expenses or reversals thereof.

As at 31 December 2018, there were no indicators of impairment present. No impairment expenses or reversals thereof have been recognised during the period (2017: nil).

Notes to the Half-Year Financial Report

	31 December 2018 \$'000	30 June 2018 \$'000
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14. Performance Bonding Facility

The following off-balance sheet financing facility had been negotiated and was available at the reporting date:

Performance bonding facility

Used at reporting date	9,444	9,444
Unused at reporting date	10,556	10,556
Total facility	20,000	20,000

Terms and conditions relating to the above facility:

In May 2011, the Company entered into a Facility Agreement comprising a Corporate Loan facility and a Performance Bonding facility. The undrawn Corporate Loan facility was cancelled in April 2013. The Performance Bonding facility was reduced in size from \$55,000,000 to \$20,000,000 in June 2017 and extended to 30 June 2021. As at balance date, bonds and guarantees totalling \$9,444,000 were drawn under the Performance Bonding facility.

The security pledge for the Performance Bonding facility is a fixed and floating charge over all the assets and undertakings of Mount Gibson Iron Limited, Mount Gibson Mining Limited, Geraldton Bulk Handling Limited, Koolan Iron Ore Pty Ltd and Aztec Resources Limited together with mining mortgages over the mining tenements owned by Mount Gibson Mining Limited and Koolan Iron Ore Pty Ltd and the contractual rights of Mount Gibson Mining Limited to mine hematite iron ore at Extension Hill.

	Notes	31 December 2018 \$'000	30 June 2018 \$'000
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15. Issued Capital

[a] Ordinary shares

Issued and fully paid	[b]	582,792	568,328
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	Notes	31 December 2018 Number of Shares	\$'000	30 June 2018 Number of Shares	\$'000
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[b] Movement in ordinary shares on issue

Unrestricted shares

Balance at the beginning of the period	1,091,813,060	568,328	1,091,279,435	568,328
Exercise of Performance Rights	-	-	533,625	-
Shares issued under DRP	29,883,486	14,464	-	-
	1,121,696,546	582,792	1,091,813,060	568,328

Restricted shares – Loan Share Plan

[e]

Balance at the beginning of the period	4,749,456	-	4,749,456	-
Shares issued under LSP	2,998,351	-	-	-
Shares forfeited under LSP	(1,074,623)	-	-	-
	6,673,184	-	4,749,456	-

Balance at end of the period	1,128,369,730	582,792	1,096,562,516	568,328
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Notes to the Half-Year Financial Report

[c] Share options

During the 6 months ended 31 December 2018, no options were issued.

As at balance date there were no options on issue.

[d] Performance rights

During the 6 month period to 31 December 2018, no performance rights were issued.

As at 31 December 2018, there were no performance rights on issue (30 June 2018: nil).

[e] Loan Share Plan

The Company has established a Loan Share Plan ("LSP") under which ordinary shares in the Company may be issued to eligible participants, with vesting of the shares being subject to the satisfaction of stipulated performance conditions. The shares are issued at their market value with the recipient required to pay this market value in order to take up the share offer. The Company or any of its subsidiaries will provide a loan to fund the acquisition price. The loan is interest-free and is secured against the shares in the form of a holding lock preventing all dealing in the shares. The loan is limited recourse such that if the shares do not ultimately vest and are therefore forfeited, this is treated as full repayment of the loan balance. While the loan balance remains outstanding, any dividends paid on the shares will be automatically applied towards paying down the loan. In making the loan in respect of the newly issued shares, there is no cash cost to the Company as the shares are newly issued.

On 2 July 2018, the Company issued 2,998,351 shares under the LSP. In accordance with the terms of the LSP, the shares were issued at a market price of \$0.443 per share and pursuant to the vesting conditions, these shares do not vest unless a share price target of a 10% premium to the issue price is met between 1 July 2019 and 1 July 2023 and the participants remain continuously employed by the Group. The award was accounted for as an in-substance option award and the fair value at grant date assessed at \$0.159 per loan-funded share. In calculating this fair value, a Monte Carlo simulation model was utilised over several thousand simulations to predict the share price at each vesting test date and whether the 10% hurdle would be satisfied, with the resultant values discounted back to the grant date. The underlying share price and the exercise price were assumed at \$0.45 per share, the period to exercise was assumed as three years (being half way between the first possible vesting date and the expiry of the LSP shares), the risk free rate was 2.11% based on Australian Government bond yields with three year lives, the estimated volatility was 50% based on historical share price analysis, and the dividend yield was assumed as nil.

1,074,623 shares under the LSP were forfeited upon the resignation of Mr Jim Beyer on 30 September 2018. These shares were subsequently reissued under the Company's Dividend Reinvestment Plan (refer Note 16).

16. Dividends Paid and Proposed

During the half-year ended 31 December 2018, a final dividend of \$0.03 per share fully franked (\$32,987,000) in respect of the 2017/18 financial year was distributed by way of \$18,347,000 in cash and the issue of 29,883,486 new shares under the Company's Dividend Reinvestment Plan.

17. Operating Segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer and the executive management team in assessing performance and in determining the allocation of resources.

For management purposes, the Group has organised its operating segments into two reportable segments as follows:

- Extension Hill segment – this segment includes the mining, crushing, transportation and sale of iron ore from the Extension Hill and Iron Hill ore deposits.
- Koolan Island segment – this segment includes the reconstruction of the Main Pit seawall and activities for a re-start of operations.

Operating results for discontinued operations (Tallering Peak) have been excluded from the segment results below.

Notes to the Half-Year Financial Report

17. Operating Segments (Continued)

	Extension Hill		Koolan Island		Unallocated*		Consolidated	
	31 December	31 December	31 December	31 December	31 December	31 December	31 December	31 December
	2018	2017	2018	2017	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment revenue								
Sales revenue	177,374	117,017	-	-	-	-	177,374	117,017
Interest revenue	-	-	-	-	5,907	6,238	5,907	6,238
Segment revenue	177,374	117,017	-	-	5,907	6,238	183,281	123,255
Segment result								
Earnings/(loss) before impairment, interest, tax, depreciation and amortisation	49,877	18,082	(14)	-	134	63,531	49,997	81,613
Impairment (loss)/reversal	148	1,929	591	-	(3)	65	736	1,994
Earnings/(loss) before interest, tax, depreciation and amortisation	50,025	20,011	577	-	131	63,596	50,733	83,607
Depreciation and amortisation	(4,048)	(2,888)	(577)	-	(93)	(177)	(4,718)	(3,065)
Segment result	45,977	17,123	-	-	38	63,419	46,015	80,542
Finance costs							(776)	(305)
Profit before tax and discontinued operations							45,239	80,237
Items included in segment result:								
Impairment (write-backs) on consumables inventories	(148)	(238)	(591)	-	-	-	(739)	(238)
Impairment (write-backs) on ore inventories	-	(1,691)	-	-	-	-	-	(1,691)
Impairment/(write-backs) of exploration and evaluation expenditure	-	-	-	-	3	(65)	3	(65)
	(148)	(1,929)	(591)	-	3	(65)	(736)	(1,994)

* 'Unallocated' includes interest revenue (\$5,907,000) and corporate expenses such as head office salaries and wages.

Notes to the Half-Year Financial Report

17. Operating Segments (Continued)

As at:

	Extension Hill		Koolan Island		Unallocated		Consolidated	
	31 December 2018 \$'000	30 June 2018 \$'000	31 December 2018 \$'000	30 June 2018 \$'000	31 December 2018 \$'000	30 June 2018 \$'000	31 December 2018 \$'000	30 June 2018 \$'000
Segment assets								
Current financial assets	24,449	13,478	8,150	1,473	411,326	450,426	443,925	465,377
Other current assets	10,294	18,917	12,286	6,634	2,444	1,144	25,024	26,695
Property, plant and equipment	1,546	3,241	14,028	4,172	263	321	15,837	7,734
Mine properties	-	2,252	141,119	85,529	-	-	141,119	87,781
Other non-current assets	-	-	2,150	2,370	-	-	2,150	2,370
Total assets	36,289	37,888	177,733	100,178	414,033	451,891	628,055	589,957
Segment liabilities								
Financial liabilities	26,499	27,078	17,095	11,790	10,371	3,535	53,965	42,403
Other liabilities	17,491	18,471	30,563	29,331	2,555	2,928	50,609	50,730
Total liabilities	43,990	45,549	47,658	41,121	12,926	6,463	104,574	93,133
Net assets/(liabilities)	(7,701)	(7,661)	130,075	59,057	401,107	445,428	523,481	496,824

Notes to the Half-Year Financial Report

	31 December 2018 \$'000	31 December 2017 \$'000
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18. Discontinued Operations

The Talling Peak operation is reported as a discontinued operation in this financial report. Mining was completed in June 2014 and the final shipment of remnant low grade ore occurred in March 2017. Ongoing costs relate to rehabilitation and minor holding activities.

[a] Loss from discontinued operations

The financial results of the Talling Peak operation for the period are presented below:

Revenue	-	-
Cost of sales	-	-
Impairment of ore inventories	-	-
Gross profit	-	-
Other expenses	(156)	(231)
Loss before tax and finance costs from discontinued operations	(156)	(231)
Finance costs	-	-
Loss before tax from discontinued operations	(156)	(231)
Tax expense	-	-
Net loss after tax from discontinued operations	(156)	(231)
Loss per share (cents per share):		
▪ basic loss per share	(0.01)	(0.02)
▪ diluted loss per share	(0.01)	(0.02)

[b] Cash flow from discontinued operations

The net cash flows incurred by Talling Peak operation are as follows:

Operating	(288)	(504)
Investing	-	-
Financing	-	-
Net cash outflow from discontinued operations	(288)	(504)

Notes to the Half-Year Financial Report

19. Financial Instruments

[a] Foreign currency risk

The Group is exposed to the risk of adverse movements in the A\$ compared to the US\$ as its iron ore sales receipts are predominantly denominated in US\$. The Group uses derivative financial instruments to manage specifically identified foreign currency exposures by hedging a proportion of forecast US\$ sales transactions in accordance with its Financial Risk Management Policy. The primary objective of using derivative financial instruments is to reduce the volatility of earnings and cash flows attributable to adverse changes in the A\$/US\$ exchange rate.

The Group recognises derivative financial instruments at fair value at the date the derivative contract is entered into. The Group applies hedge accounting to forward foreign currency contracts and collar option contracts that meet the criteria of cash flow hedges.

During the 6 month period ended 31 December 2018, there were no US dollar foreign exchange forward contract deliveries.

At 31 December 2018, the notional amount of the foreign exchange hedge book totalling US\$3,000,000 is made up exclusively of a collar option contract with maturity date of 29 January 2019 and with a cap price of A\$1.00/US\$0.7520 and a floor price of A\$1.00/US\$0.7000. This collar contract expired unexercised.

As at 31 December 2018, the marked-to-market unrealised loss on the total outstanding US dollar foreign exchange hedge book of US\$3,000,000 was A\$34,000.

It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

The Group uses the following derivative instruments to manage foreign currency risk from time to time as business needs and conditions dictate:

Instrument	Type of Hedging	Objective
Forward exchange contracts	Cash flow hedge	To hedge sales receipts against cash flow volatility arising from the fluctuation of the A\$/US\$ exchange rate.
Collars	Cash flow hedge	To hedge sales receipts against cash flow volatility arising from the fluctuation of the A\$/US\$ exchange rate by limiting exposure to exchange rates within a certain range of acceptable rates.

[b] Commodity price risk

The Group's operations are exposed to commodity price risk as the Group sells iron ore to its customers. The majority of the Group's sales revenue is derived under long term sales contracts for each of its operations. The pricing mechanism in these contracts reflects a market based index. The pricing mechanism adopts the Platts Iron Ore Index Price ("**Platts Index**") which is published daily for iron ore "fines" with Fe content ranging from 52% to 65% and is quoted on a US\$ per dry metric tonne "Cost and Freight" North China basis.

The Group enters into provisionally priced ore sales contracts, for which price finalisation is referenced to relevant market indices at specified future dates. The Group is exposed to movements in benchmark iron ore prices and movements in benchmark lump premium prices.

During the period, the Group did not enter into any forward sales agreements.

[c] Fair value of financial assets and financial liabilities

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – quoted market prices in an active market (that are unadjusted) for identical assets or liabilities

Level 2 – valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable)

Level 3 – valuation techniques (for which the lowest level of input that is significant to the fair value measurement is unobservable)

The fair values of derivative financial instruments are determined using the Level 2 method requiring fair value to be calculated using short and long term observable market inputs. The Group's fair values under the Level 2 method are sourced from an independent valuation by the Group's treasury advisors. The valuation techniques use prevailing market inputs sourced from Reuters/Bloomberg to determine an appropriate mid-price valuation.

The fair values of quoted notes and bonds are determined using Level 1 method based on market price quotations at the reporting date.

The fair values of cash, short-term deposits, trade and other receivables carried at amortised cost, trade and other payables and other interest-bearing borrowings approximate their carrying values, as a result of their short maturity or because they carry floating rates of interest.

Trade receivables at fair value are determined using the Level 2 method based on valuation techniques at the reporting date.

Notes to the Half-Year Financial Report

The carrying amounts and fair values of the financial assets and financial liabilities for the Group as at 31 December 2018 are shown below.

	31 December 2018 Carrying Amount \$'000	31 December 2018 Fair Value \$'000	30 June 2018 Carrying Amount \$'000	30 June 2018 Fair Value \$'000
Financial assets - current				
Cash	47,458	47,458	46,547	46,547
Term deposits	253,000	253,000	279,000	279,000
Subordinated notes	95,593	95,593	98,030	98,030
Financial assets held for trading	34,953	34,953	33,957	33,957
Trade debtors and other receivables	12,921	12,921	7,843	7,843
	443,925	443,925	465,377	465,377
Financial liabilities – current				
Trade and other payables	53,931	53,931	42,078	42,078
Derivatives	34	34	325	325
	53,965	53,965	42,403	42,403
Net financial assets	389,960	389,960	422,974	422,974

20. Events After Balance Sheet Date

As at the date of this report there are no significant events after balance date of the Group that require adjustment of or disclosure in this report.

21. Commitments

At 31 December 2018, the Group has commitments of:

- \$20,532,000 (31 December 2017: \$5,527,000) relating to operating leases for the provision of mobile fleet equipment and office rental;
- \$16,773,000 (31 December 2017: \$9,456,000) relating primarily to contractual commitments in respect of mining and transport that are not liabilities at the balance date; and
- \$1,715,000 (31 December 2017: \$65,000) relating to capital commitments for the purchase of property, plant and equipment at Koolan Island.

Notes to the Half-Year Financial Report

22. Related Party Disclosures

Ultimate parent

Mount Gibson Iron Limited is the ultimate Australian parent company.

Director-related entity transactions

Sales

During all or part of the half-year, Mr Li was a director of Shougang Concord International Trading Pty Ltd (**SCIT**), and Mr Lee and Mr Ferguson were directors of APAC Resources Limited (**APAC**).

The following sale agreements were in place with director-related entities during the period:

- The sale to SCIT of 80% of iron ore from Koolan Island's available mined production over the life of mine.
- The sale to a subsidiary of APAC of 20% of iron ore from Koolan Island's available mined production over the life of mine.
- The sale to SCIT of approximately 75% of the iron ore produced from the Iron Hill deposit located at the Extension Hill minesite.
- 2 ad hoc spot sales of iron ore to APAC from Iron Hill (Extension Hill).

Pursuant to these sales agreements, during the half-year, the Group:

- Sold 116,313 wmt (2017: 182,776 wmt) of iron ore to APAC; and
- Sold 1,621,274 wmt (2017: 835,935 wmt) of iron ore to SCIT.

Amounts recognised at the reporting date in relation to director-related entity transactions:

	31 December 2018 \$'000	30 June 2018 \$'000

Assets and Liabilities

Current Assets

Trade receivables - APAC
Trade receivables - SCIT
Total trade receivables

426	(53)
3,530	1,961
3,956	1,908
3,956	1,908

Total Assets

Current Liabilities

Trade payables - APAC
Trade payables - SCIT
Total trade payables

-	-
-	-
-	-
-	-

Total Liabilities

	31 December 2018 \$'000	31 December 2017 \$'000

Sales Revenue

Sales revenue - APAC
Sales revenue - SCIT
Total Sales Revenue

8,582	9,189
131,979	66,877
140,561	76,066

23. Contingent Liabilities

1. The Group has a performance bonding facility drawn to a total of \$9,444,000 (30 June 2018: \$9,444,000). The performance bonds secure the Group's obligations relating to environmental matters and infrastructure.
2. Certain claims arising with customers, employees, consultants and contractors have been made by or against certain controlled entities in the ordinary course of business, some of which involve litigation or arbitration. The Directors do not consider the outcome of any of these claims will have a material adverse impact on the financial position of the consolidated entity.

Notes to the Half-Year Financial Report

24. Reclassification of Prior Period Revenue

The Group has entered into contracts for the sale of iron ore from the Iron Hill deposit at its Extension Hill mine site, predominantly on a Cost and Freight (CFR) basis, with the Group responsible for organising and paying for shipping freight services. These contracts formed the vast majority of the Group's sales in the half-year ended 31 December 2017. As more fully disclosed in the Annual Financial Report for the year ended 30 June 2018, revenues have been restated to be presented on a gross CFR basis with the accompanying shipping freight costs included in Cost of Sales.

The Group had in previous periods disclosed its Revenue and Cost of Sales on a net Free on Board (FOB) basis. Revenue for the half-year ended 31 December 2017 has been restated to show Revenues on a CFR basis and Cost of Sales inclusive of shipping freight. Similarly, in its Cash Flow Statement the Group has reclassified the prior period Receipts from Customers and Payments to Suppliers and Employees, as follows:

	Half-year ended 31 December 2017 Original \$'000	Reclassification \$'000	Half-year ended 31 December 2017 Reclassified \$'000
Consolidated Income Statement:			
Sales revenue	90,183	26,834	117,017
Interest revenue	6,238	-	6,238
Total revenue	96,421	26,834	123,255
Cost of sales	(73,299)	(26,834)	(100,133)
Gross profit	23,122	-	23,122
Consolidated Cash Flow Statement:			
Receipts from customers	95,156	25,366	120,522
Payments to suppliers and employees	(80,581)	(25,366)	(105,947)
Interest paid	(123)	-	(123)
Proceeds from business interruption insurance	64,287	-	64,287
Net cash flows from operations	78,739	-	78,739

The reclassification adjustment does not impact accumulated losses at 1 July 2017 nor does it impact the profit or earnings per share for the half-year ended 31 December 2017.

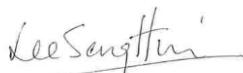
Directors' Declaration

In accordance with a resolution of the directors of Mount Gibson Iron Limited, I state that:

In the opinion of the Directors:

- a. the financial statements and the notes of the Group for the half-year ended 31 December 2018 are in accordance with the *Corporations Act 2001*, including:
 - i) giving a true and fair view of the financial position as at 31 December 2018 and the performance of the Group for the half-year ended on that date; and
 - ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.



Lee Seng Hui
Chairman

18 February 2019

Independent auditor's review report to the Members of Mount Gibson Iron Limited

Report on the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of Mount Gibson Iron Limited (the Company) and its subsidiaries (collectively the Group), which comprises the interim consolidated statement of financial position as at 31 December 2018, the interim consolidated statement of profit or loss, interim consolidated statement of comprehensive income, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2018 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and

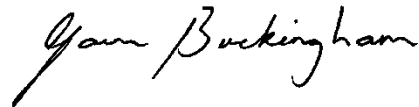
consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



Ernst & Young



Gavin Buckingham
Partner
Perth
18 February 2019