

QUARTERLY REPORT



MOUNT GIBSON IRON LIMITED QUARTERLY REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2015 26 October 2015

Key Points*

- September quarter iron ore sales of **1.1 million wet metric tonnes (Mwmt)**, and quarterly ore sales revenue of **A\$54 million** Free on Board (FOB).
- All-in group cash costs** of **A\$52/wmt FOB**.
- Cash and term deposits of **A\$330 million** at 30 September 2015.
- Quarter-end cash reflects planned pre-stripping investment at Acacia East, and excludes revenue of A\$8 million received in early October following tidal surge delays of two shipments from Geraldton Port.
- Koolan Island Acacia East Stage 3 mining campaign approved to recover further **0.5 Mwmt** of ore.
- Group ore sales guidance range increased to **4.5-5.0 Mwmt** for FY2016, following approval of the Koolan Island Acacia East Stage 3 mining campaign.
- FY2016 average all-in group cash cost target maintained at **A\$50-54/wmt** FOB, including all operating, capital, royalties, closure and head office costs.
- FY2016 savings reduction program ongoing, with head office costs further reduced to ~A\$1 million/month for the September quarter, tracking in line with guidance.

* Sales revenue and cost figures are unaudited.

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

Comment

Mount Gibson Chief Executive Officer, Jim Beyer, said: "Pleasingly we have made a solid start to the new financial year, with strong operating performances at both Extension Hill and the Acacia East mining program at Koolan Island.

"The Extension Hill operation remained cashflow positive during the quarter, despite the two shipments delayed at quarter end, while production ramped up in step with our targeted 4 million tonnes per annum run rate.

"At Koolan Island, as expected, we continued with the pre-strip for Stage 2 ore at Acacia East where productivities are delivering lower than expected unit mining costs which will deliver significant cashflow benefits as sales ramp up in the December Quarter. Importantly, the success of our Acacia East program and the relative stability of iron ore prices in recent months has given us the confidence to proceed with a third stage mining campaign. This has enabled us to increase our sales guidance for the 2016 financial year.

"The program to clarify the value of a restart of Koolan Island will see us commencing, in the December quarter, geotechnical drilling around the Main Pit seawall. This will help advance our evaluation of potential options to rebuild the seawall.

"We continue to progress the permitting requirements for Iron Hill, within the Extension Hill operation area, whilst also actively assessing a number of potential resource investment opportunities outside of iron ore."

PERFORMANCE AT A GLANCE

	Unit	Sep-2014 Quarter	Dec-2014 Quarter	Mar-2015 Quarter	Jun-2015 Quarter	Sep-2015 Quarter	FY2016
Standard DSO product sales*	kwmt	1,717	1,036	1,073	1,664	1,061	1,061
Low Grade DSO sales*	kwmt	0	58	0	0	0	0
Rizhao Special Product (RSP)*	kwmt	146	142	0	0	0	0
Total Ore Sales	kwmt	1,863	1,236	1,073	1,664	1,061	1,061
Ave. Platts 62%Fe CFR price	US\$/dmt	90	74	62	58	55	55
MGX FOB Ave. realised fines price#	US\$/dmt	65	60	47	38	40	40
<p>Minor discrepancies may occur due to rounding. *Standard DSO sales included 52kwmt of mine-gate sales from Extension Hill in the June 2015 quarter, 46kwmt in the March 2015 quarter, 106kwmt in the September 2014 quarter, and 138kwmt in the June 2014 quarter. DSO sales in 2015 includes material from the Acacia East satellite pit at Koolan Island. Final sales of RSP were completed in October 2014. #Mount Gibson's realised FOB fines price includes standard DSO fines product only, after adjustments for shipping freight, grade, provisional invoicing adjustments and penalties for impurities. The March, June and September quarter figures for 2015 include Extension Hill standard fines product only. Contract pricing in the period was based on a mix of lagging-monthly and month-of-shipment averages. Mine gate sales, when they occur, are priced on a Free on Train basis, reflecting market prices less the cost of rail, port and shipping. kwmt = thousand wet metric tonnes. US\$/dmt = USD per dry metric tonne.</p>							

OPERATIONS

Ore sales in the September quarter totalled 1.1 Mwm, reflecting a steady operational performance at Extension Hill and the resumption of sales from the Acacia East satellite pit at Koolan Island in September.

Operating statistics for each of the sites are tabulated in Appendix A.

Koolan Island

Ore shipments from Koolan Island during the September quarter totalled 295,000 wmt, comprising 1 shipment of lump and 4 shipments of fines ore from the Acacia East satellite pit.

In July Mount Gibson commenced a planned second stage of mining at the Acacia East satellite pit on Koolan Island following an initial mining campaign that was concluded during the prior quarter. This second stage is planned to recover 0.7 Mwm of medium grade material for sale during the December half of 2015. As foreshadowed, sales from this second mining campaign did not commence until September due to the requirement for approximately two months of pre-stripping activity in the quarter, with the bulk of this material scheduled to be sold in the December quarter. This initial net investment in pre-stripping and inventory build totalled approximately \$4 million, as reflecting in average all-in site cash costs¹ of A\$52/wmt FOB for the quarter. While planned and previously noted, this investment contributed to the short term draw on cash reserves during the period. Importantly, underlying unit costs were significantly better than expected.

Following further optimisation of the Acacia East mine plan, the Company has now approved a third stage mining campaign at Acacia East to recover an additional 0.5 Mwm of material which will extend ore sales into the March quarter of 2016. Mount Gibson continues to expect site cash costs of A\$38-40/wmt FOB for Acacia East, before royalties. At current prices and exchange rates, sales from Acacia East Stages 2 and 3 are expected to generate approximately A\$15 million of positive cashflow.

Following the completion of sales from Acacia East, Koolan Island will transition to care and maintenance pending evaluation of options to potentially reinstate the Main Pit seawall, and work to progress the proposed Koolan Island Logistics Base (KILB).

Planning for geotechnical drilling at the Main Pit seawall to provide technical data for the evaluation of potential rebuild options commenced during the quarter. This drilling program is expected to be completed before the end of calendar 2015, weather permitting.

Production and shipping statistics for Koolan Island are tabulated in Appendix A.

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

Extension Hill Hematite Mine

The Extension Hill mine continued its strong operational performance in the September quarter. Total material movement was above plan at 1.7 Mwmt, including standard ore production of 1.0 Mwmt, consistent with the planned ramp-up in production to 4.0 Mwmt per annum.

However, shipping performance for the quarter was impacted by short duration tidal surge interruptions at Geraldton Port in September which temporarily delayed two shipments until early October. Consequently, ore shipments for the quarter were slightly behind plan and totalled 766,000 wmt, comprising 474,000 wmt of lump and 292,000 wmt of fines. No mine-gate sales were made during the quarter.

The mine remained cashflow positive for the quarter, reflecting the ongoing focus on cost reduction and efficiency improvements, the strong contribution from lump sales, and more stable prices over the period.

All-in site cash costs² averaged A\$48/wmt sold FOB for the quarter, excluding the A\$6 million inventory build-up of the two delayed Extension Hill cargoes dispatched immediately after quarter end, broadly in line with plans. Mount Gibson continues to expect site cash costs to average A\$44-47/wmt for the 2016 financial year as we complete the ramp up to 4Mtpa while also pursuing further cost improvements. The temporary delay of the two quarter-end cargoes into in early October resulted in a revenue shortfall for the quarter of approximately A\$8 million, contributing to the decline in Mount Gibson's reported cash reserves during the quarter.

At the end of September, approximately 76,000 wmt of crushed finished product was stockpiled at the mine. Uncrushed product stockpiled at the mine totalled approximately 16,000 wmt. Mine-site stockpiles of uncrushed lower grade material totalled 3.2 Mwmt at the end of the quarter. Crushed ore stockpiles at the Perenjori rail siding totalled approximately 278,000 wmt.

Production and sales statistics for Extension Hill are tabulated in Appendix A.

EXPLORATION AND RESOURCE DEVELOPMENT

Activity in the September quarter was primarily limited to progressing approvals and evaluating data from previously completed drilling and mapping of the Iron Hill and Gibson Hill prospects within the Extension Hill South project area.

Other than rehabilitation and environmental monitoring, all material exploration-related activities have been suspended as the Company focuses on cost reduction and capital preservation.

Iron Hill

In August³, the Company announced a new mineral resource estimate for the Iron Hill deposit at Extension Hill South, immediately adjacent to the Company's operating Extension Hill mine. Total Mineral Resources at Iron Hill now comprise 8.8 Mt @ 58.5% Fe.

Delineation of a significant Mineral Resource at Iron Hill confirmed the potential for a material extension of mine life at Extension Hill for minimal capital cost, given Iron Hill's location just 3 km south of the current pit. Subject to receipt of all necessary approvals, Mount Gibson is targeting to commence mining at Iron Hill when remaining Ore Reserves in the Extension Hill pit are depleted in late 2016. For full details, refer to the Company's Annual Statement of Mineral Resources and Ore Reserves as at 30 June 2015⁴.

Shine

In August Mount Gibson announced total Mineral Resources at the of the Shine Project, located 85km north of Extension Hill, had doubled to 15.9 Mt @ 58.1% Fe following further resource modelling work in the June half of 2015⁵. Shine's previously reported Ore Reserves were removed from the Company's Ore Reserves in light of prevailing market conditions, however the project remains a high value opportunity to add production within a short start-up timeframe when conditions improve.

² Site cash costs are reported FOB and include royalties and capex but are before corporate cost allocations. Cost figures are unaudited.

³ Refer ASX releases dated 17 August 2015

⁴ Refer ASX releases dated 17 August 2015

⁵ Refer ASX releases dated 17 August 2015

Annual Statement of Mineral Resources and Ore Reserves

During the quarter⁶, Mount Gibson released its Annual Statement of Mineral Resources and Ore Reserves at 30 June 2015. Total Group Mineral Resources increased to 94.9 Mt @ 61.2% Fe, reflecting increased Mineral Resources at Iron Hill and Shine. Total Group Ore Reserves were reduced to 7.1 Mt @ 58.4% Fe, reflecting depletion through mining and the removal of Ore Reserves at Koolan Island Main Pit and at the Shine deposit.

CORPORATE⁷

Realised Pricing and Revenue

The September quarter average Platts CFR price (which includes the cost of shipping paid for by the iron ore supplier) for 62% Fe fines delivered to northern China was US\$55 per dry metric tonne (dmt), a decline of 6% compared with the preceding quarter.

During the quarter, Mount Gibson achieved an average realised price for its standard Extension Hill iron ore fines of US\$40/dmt FOB, after grade and provisional pricing adjustments and penalties for impurities. This price excludes sales of material from the Acacia East satellite pit on Koolan Island.

Total FOB ore sales revenue for all products, including mine gate sales, totalled A\$54 million in the September quarter, compared with A\$76 million in the preceding quarter.

Cash and term deposits totalled A\$330 million at 30 September 2015, compared with A\$334 million at the end of June 2015. The decline in the cash balance was attributable to the previously-noted waste stripping program in the Acacia East Stage 2 pit at Koolan Island as well as the delay of two quarter-end Extension Hill shipments into early October as a result of tidal surge interruptions in the Geraldton Port.

Cost Performance

Mount Gibson continued to focus on cost reductions and productivity improvements in the September quarter.

Corporate costs, which include centralised site-support services, exploration and business development, were further reduced to ~A\$1.0 million/month for the September quarter, in line with guidance. This compares with A\$1.2 million/month in June and a 50% reduction in monthly corporate costs achieved during the course of 2014-15.

All-in group cash costs, including all operating, capital, royalties, closure and corporate costs, averaged A\$52/wmt FOB in the quarter, excluding the A\$6 million inventory build-up of the two delayed Extension Hill cargoes dispatched immediately after quarter end.

Group Sales Guidance

Based on the planned Stage 3 mining campaign at the Acacia East pit on Koolan Island, Mount Gibson has increased its forecast production for FY2016 to **4.5-5.0 Mwmt** at an average all-in group cash cost of **A\$50-54/wmt** FOB, including all operating, capital, royalties, closure and corporate costs.

Koolan Island Insurance

As reported during the quarter⁸, constructive discussions continued to progress with the Company's insurers in relation to the failure of the Main Pit seawall during the December 2014 quarter. This included conditional confirmation that the Company's existing insurance policy would respond, subject to the insurers' further reviews. The majority of insurers agreed to make an initial early-stage progress payment of A\$1.85 million, which was received in July. However, the insurers have reserved their rights with respect to making a final determination.

The end of the 12 month business interruption insurance period is approaching, which will enable Mount Gibson to finalise its total claim for submission during the December quarter. The Company will provide further updates as appropriate.

⁶ Refer ASX releases dated 17 August 2015

⁷ Sales, cost and cash movement figures are unaudited.

⁸ Refer ASX release dated 19 August 2015

Financial Results for 2014-15 financial year

In August 2015⁹ the Company reported a net loss for the 2014-15 financial year of A\$911.4 million, after non-cash impairment charges of A\$945.2 million and a non-cash income tax benefit of A\$99.9 million.

Annual Report and Annual General Meeting

In October 2015¹⁰, the Company released its 2015 Annual Report and Notice of Annual General Meeting, to be held in Perth on Wednesday 11 November 2015.

JIM BEYER

Chief Executive Officer
26 October 2015

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Mount Gibson will host an analysts/institutions teleconference at **13.00pm AEDT (10.00am WST)** on 26 October 2015. Investors will be able to listen in to the teleconference by dialling **1800 857 029** immediately prior to the scheduled start time and entering the access code **61492002#** at the prompts. A recording of the teleconference will also be available via the Mount Gibson website after completion of the teleconference. In case of difficulties, operator assistance can be reached by calling 1800 857 079 (Australian callers) or +613 8788 6028 (overseas callers).

⁹ Refer ASX release dated 19 August 2015.

¹⁰ Refer 2015 Annual Report and Notice of Annual General Meeting, released 10 October 2015.

APPENDIX A

Quarterly Operating Statistics by Site

	Sep-2014 Quarter	Dec-2014 Quarter	Mar-2015 Quarter	Jun-2015 Quarter	Sep-2015 Quarter	<i>FY 2015-16</i>
KOOLAN ISLAND	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Waste mined	8,409	5,171	783	66	1,225	1,225
Ore mined	668	425	406	144	335	335
Ore crushed	908	297	273	403	256	256
Shipping/Sales						
Standard DSO Lump	210	42	149	296	74	74
Standard DSO Fines	568	147	148	288	221	221
Rizhao Special Product (RSP)	146	142	-	-	-	-
Total	923	331	297	585	295	295
TALLERING PEAK	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Waste mined	-	-	-	-	-	-
Ore mined	-	-	-	-	-	-
Ore crushed	-	-	-	-	-	-
Shipping/Sales						
Standard DSO Lump	116	-	-	-	-	-
Standard DSO Fines	118	-	-	-	-	-
Low Grade DSO	-	58	-	-	-	-
Total	234	58	-	-	-	-
EXTENSION HILL	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Waste mined	607	590	485	521	539	539
Standard ore mined	973	619	817	960	969	969
Low-grade ore mined [#]	279	255	158	172	206	206
Total ore mined	1,252	874	975	1,132	1,175	1,175
Ore crushed	954	743	833	982	1,039	1,039
Shipping/Sales[^]						
Standard DSO Lump	317	544	424	610	474	474
Standard DSO Fines	388	303	352	470	292	292
Total	705	847	776	1,080	766	766
CONSOLIDATED DATA	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Total waste mined	9,016	5,761	1,267	587	1,763	1,763
Total ore mined	1,920	1,299	1,381	1,276	1,510	1,510
Total ore crushed	1,862	1,041	1,106	1,386	1,294	1,294
Shipping/Sales						
Standard DSO Lump	643	586	573	906	549	549
Standard DSO Fines	1,074	450	500	758	513	513
Low Grade DSO	-	58	0	-	-	-
RSP	146	142	0	-	-	-
Total	1,863	1,236	1,073	1,664	1,061	1,061

kwmt = thousand wet metric tonnes.

[^]Includes mine gate sales totalling 52kwmt of fines in the June 2015 quarter, 46kwmt of fines in the March 2015 quarter, 72kwmt of lump and 34kwmt of fines in the September 2014 quarter, and 121kwmt of lump and 17kwmt of fines in the June 2014 quarter.

[#] Low-grade ore is material grading 50-55% Fe at Extension Hill considered to be saleable. This material is being stockpiled for future sale but continues to be treated as mineralised waste for accounting purposes.

Minor discrepancies may appear due to rounding and minor post-period adjustments.