

QUARTERLY REPORT



MOUNT GIBSON IRON LIMITED QUARTERLY REPORT FOR THE PERIOD ENDED 31 DECEMBER 2015 20 January 2016

Key Points*

- December quarter iron ore sales of **1.5 million wet metric tonnes** (Mwmt), and quarterly ore sales revenue of **A\$76 million** Free on Board (FOB).
- December half ore sales of **2.6 Mwmt** and ore sales revenue of **A\$130 million** FOB.
- Cash and term deposits **increased** by **A\$15 million** during quarter to **A\$345 million** at 31 December 2015.
- All-in group cash costs** of **A\$47/wmt** FOB.
- Koolan Island Acacia East Stage 3 mining and sales program on track for completion in March 2016.
- Continued Extension Hill operational changes to provide sales flexibility while controlling unit costs.
- FY2016 ore sales guidance maintained at **4.5-5.0 Mwmt**.
- Average all-in group cash cost target for FY2016 maintained at **A\$50-54/wmt** FOB.**
- Public Environmental Review for Iron Hill project at Extension Hill released for public comment.

* 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: "In the face of extremely tough market conditions in the December quarter, during which prices fell to their lowest level in a decade, it was a significant achievement to add to our cash reserves through continued strong operational performances at Koolan Island and Extension Hill.

"Nonetheless, the extreme market volatility now prevailing demands that we continue to act prudently to protect our business and preserve value for shareholders.

"We have acted to implement operational changes at Extension Hill to provide sales flexibility while controlling unit costs. This positions us to be able to preserve value in a low iron ore price environment as we look ahead to the planned development of the Iron Hill deposit, subject to securing all relevant regulatory approvals.

"Ongoing optimisation work has allowed us to flex Extension Hill's production between 3 and 4 million tonnes per annum to reduce gross expenditure with no material change in group unit costs, and will enable us to better optimise the intended transition of production from the existing Extension Hill pit and the future planned pit at Iron Hill.

"We progressed the Koolan Island seawall insurance claim and assessment of potential rebuild options. At the same time, we continue to evaluate potential new resources acquisition opportunities outside of iron ore with an eye to growing long term value for shareholders."

PERFORMANCE AT A GLANCE

	Unit	Dec-2014 Quarter	Mar-2015 Quarter	Jun-2015 Quarter	Sep-2015 Quarter	Dec-2015 Quarter	1H2016
Standard DSO product sales*	kwmt	1,036	1,073	1,664	1,061	1,520	2,582
Low Grade DSO sales*	kwmt	58	0	0	0	0	0
Rizhao Special Product (RSP)*	kwmt	142	0	0	0	0	0
Total Ore Sales	kwmt	1,236	1,073	1,664	1,061	1,520	2,581
Ave. Platts 62%Fe CFR price	US\$/dmt	74	62	58	55	47	51
MGX FOB Ave. realised fines price#	US\$/dmt	60	47	38	40	36	38
<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, September and December 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 December quarter totalled 1.5 Mwmt, reflecting a steady operational performance at Extension Hill and the Acacia East satellite pit at Koolan Island.

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

Koolan Island

Ore shipments from Koolan Island during the December quarter totalled 518,000 wmt, comprising 2 shipments of fines and 5 shipments of lump ore from the Acacia East satellite pit, an increase of 75% from the preceding quarter.

As previously reported, the increase reflects the production profile of the Stage 2 and 3 mining campaigns at Acacia East whereby production and sales are weighted toward the December and March quarters of FY2016, following a focus on pre-stripping and inventory build in the preceding September quarter.

Sales from ore stocks built up during the stripping phase helped reduce average site cash costs at Acacia East to A\$38/wmt FOB¹, including royalties, in the December quarter, which contributed to the increase in Company cash reserves in the period.

The Stage 3 mining campaign at Acacia East is on schedule for completion during the current quarter, with final sales of Acacia East material anticipated to occur in late March or early April 2016.

As previously indicated, following the completion of sales from Acacia East, Koolan Island will transition to care and maintenance while activities continue with regard to evaluating options to potentially reinstate the Main Pit seawall and progress the proposed Koolan Island Logistics Base (KILB).

Geotechnical drilling at the Main Pit seawall to provide technical data for the evaluation of potential rebuild options commenced late in the December quarter and will be completed in January.

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

Extension Hill Hematite Mine

The Extension Hill mine continued its strong operational performance in the December quarter. Shipments from Geraldton Port totalled 1.0 Mwmt, comprising seven shipments of fines and ten shipments of lump ore.

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

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

All-in site cash costs² averaged A\$47/wmt sold FOB for the quarter, in line with guidance.

With the sustained and material decline in iron ore prices, the Company continues to implement operational changes at Extension Hill identified through the ongoing business efficiency programme to reduce gross expenditure and preserve value in the prevailing low price environment.

These changes allow potential to flex short term production while having no material impact on unit cost guidance.

As part of this ongoing programme the Company will finalise standardisation of two-and-one rosters across all Mid West roles. Regretfully, this will result in some reduction in total full time positions across the mine, the Perenjori rail siding and the Company's loading facilities at Geraldton Port.

Adjusting the mining rate will also potentially extend the operational life of the Extension Hill open pit to early 2017, subject to there being no further material and sustained deterioration of market conditions.

This will also provide additional flexibility with regard to securing environmental and development approvals for the adjacent Iron Hill deposit, 3km south of the current Extension Hill pit. The Iron Hill deposit represents a very low capital cost mine life extension opportunity should market conditions be sufficiently attractive to proceed. The changes will also enable the Company to better optimise the transition of production from the existing Extension Hill pit to the planned pit at Iron Hill.

As stated previously, the Company continues to review its activities in the context of prevailing market conditions and the future outlook for iron ore prices on the basis of what is in the best interests of the Company and all shareholders. This includes closely monitoring the viability of continuing operations at Extension Hill with regard to both mine cashflows as well as historical fixed infrastructure and transport obligations that would become payable on early closure. These obligations, which reduce with cumulative sales tonnage, totalled approximately A\$26 million at 31 December 2015, compared with A\$45 million at 30 June 2015.

At the end of December, approximately 81,000 wmt of crushed finished product was stockpiled at the mine. Uncrushed product stockpiled at the mine totalled approximately 56,000 wmt. Mine-site stockpiles of uncrushed lower grade material totalled 3.3 Mwmt at the end of the quarter. Crushed ore stockpiles at the Perenjori rail siding totalled approximately 267,000 wmt.

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

EXPLORATION AND RESOURCE DEVELOPMENT

Activity in the December quarter was primarily limited to progressing approvals and evaluating data from previously completed drilling and mapping of the Iron Hill prospect 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 November 2015³, the Public Environmental Review for the Iron Hill Deposit at Extension Hill South, immediately adjacent to the Company's operating Extension Hill mine, was released for public comment.

Iron Hill has potential for a material extension of mine life at Extension Hill for minimal capital cost, given its location just 3km 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 early 2017. For details of Iron Hill Mineral Resources, refer to the Company's Annual Statement of Mineral Resources and Ore Reserves as at 30 June 2015⁴.

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

³ Refer Iron Hill Deposits Public Environmental Review, published 23 November 2015 and available at www.mtgibsoniron.com.au

⁴ Refer ASX releases dated 17 August 2015

CORPORATE⁵

Realised Pricing and Revenue

The December 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\$47 per dry metric tonne (dmt), a decline of 15% 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\$36/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\$76 million in the December quarter, compared with A\$54 million in the preceding quarter. Sales revenue for the six months to 31 December 2015 totalled A\$130 million.

Cash and term deposits totalled A\$345 million at 31 December 2015, an increase of A\$15 million compared with the A\$330 million held at the end of September 2015. The increase in the cash balance reflected strong operational performances at Extension Hill and Koolan Island, and also the Koolan Island shipping schedule. As indicated previously, sales from Acacia East are weighted to the December and March quarters of FY2016, reflecting pre-stripping and inventory build completed in the September quarter.

Cost Performance

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

All-in group cash costs⁶ averaged A\$47/wmt FOB in the quarter, compared with A\$52/wmt in the preceding quarter.

Group Sales Guidance

Mount Gibson continues to expect FY2016 sales to be within its guidance range of **4.5-5.0 Mwmt** at an average all-in group cash cost of **A\$50-54/wmt** FOB.

Koolan Island Insurance

Constructive discussions with the Company's insurers continued to progress in relation to the failure of the Main Pit seawall in late 2014. As previously reported, the Company has received conditional confirmation from all of its insurers that its existing insurance policy would respond, subject to the insurers' further reviews and final determination.

The 12 month business interruption insurance period concluded during the December quarter, enabling Mount Gibson to prepare its total claim for submission. The Company will provide further updates as appropriate.

Annual General Meeting

The Company held its Annual General Meeting in Perth on Wednesday 11 November 2015. All resolutions were passed on a show of hands.

Interim Financial Results for 2015-16

The Company intends to release its interim financial results for the six months to 31 December 2015 in the second half of February 2016.

JIM BEYER

Chief Executive Officer
20 January 2016

⁵ Sales, cost and cash movement figures are unaudited.

⁶ All-in group cash costs are reported FOB and include cash opex, royalties, capex and corporate costs.

For more information:

Jim Beyer

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

John Phaceas

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

Mount Gibson will host an analysts/institutions teleconference at **13.00pm AEDT (10.00am WST)** on 20 January 2016. 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).

APPENDIX A

Quarterly Operating Statistics by Site

	Dec-2014 Quarter	Mar-2015 Quarter	Jun-2015 Quarter	Sep-2015 Quarter	Dec-2015 Quarter	1H 2015-16
KOOLAN ISLAND	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Waste mined	5,171	783	66	1,225	1,874	3,099
Ore mined	425	406	144	335	666	1,001
Ore crushed	297	273	403	256	514	770
Shipping/Sales						
Standard DSO Lump	42	149	296	74	372	446
Standard DSO Fines	147	148	288	221	146	367
Rizhao Special Product (RSP)	142	-	-	-	-	-
Total	331	297	585	295	518	814
TALLERING PEAK	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Waste mined	-	-	-	-	-	-
Ore mined	-	-	-	-	-	-
Ore crushed	-	-	-	-	-	-
Shipping/Sales						
Standard DSO Lump	-	-	-	-	-	-
Standard DSO Fines	-	-	-	-	-	-
Low Grade DSO	58	-	-	-	-	-
Total	58	-	-	-	-	-
EXTENSION HILL	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Waste mined	590	485	521	539	487	1,026
Standard ore mined	619	817	960	969	1,034	2,003
Low-grade ore mined [#]	255	158	172	206	182	388
Total ore mined	874	975	1,132	1,175	1,216	2,391
Ore crushed	743	833	982	1,039	1,026	2,065
Shipping/Sales[^]						
Standard DSO Lump	544	424	610	474	590	1,064
Standard DSO Fines	303	352	470	292	412	704
Total	847	776	1,080	766	1,002	1,768
CONSOLIDATED DATA	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Total waste mined	5,761	1,267	587	1,763	2,362	4,125
Total ore mined	1,299	1,381	1,276	1,510	1,882	3,393
Total ore crushed	1,041	1,106	1,386	1,294	1,540	2,834
Shipping/Sales						
Standard DSO Lump	586	573	906	549	962	1,511
Standard DSO Fines	450	500	758	513	558	1,071
Low Grade DSO	58	0	-	-	-	-
RSP	142	0	-	-	-	-
Total	1,236	1,073	1,664	1,061	1,520	2,582

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, and 72kwmt of lump and 34kwmt of fines in the September 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.