



Mount Gibson Iron Limited

ABN 87 008 670 817

Notice of Meeting and Explanatory Memorandum

Meeting details:

Date: Wednesday, 5 April 2017

Time: 10.00AM (WST)

Place: The Function Room, The Celtic Club, 48 Ord Street, West Perth, WA

The Independent Directors UNANIMOUSLY RECOMMEND that you VOTE IN FAVOUR of the Resolution to approve the OFFTAKE AGREEMENT

The Independent Expert has concluded that the OFFTAKE AGREEMENT is FAIR AND REASONABLE

IMPORTANT INFORMATION

This is an important document that should be read in its entirety.

If you do not understand it, or any part of it,

you should consult with your professional advisers without delay.

You are encouraged to attend the Meeting, but if you cannot, you are requested to complete and return the enclosed proxy form without delay

Important notices

Purpose of this Document

This Document is important. It contains information for Shareholders relating to the Offtake Agreement and provides Shareholders with information to assist them in deciding how to vote on the Resolution.

Shareholders should read this Document in its entirety before making a decision as to how to vote on the Resolution.

If you have any doubt as to what you should do once you have read this Document, you should consult your legal, financial or other professional adviser.

Forward looking statements

Certain statements in this Document relate to the future. Those statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Mount Gibson to be materially different from future results, performance or achievements expressed or implied by those statements. These statements reflect views only as of the date of this Document. While Mount Gibson believes that the expectations reflected in the forward looking statements in this Document are reasonable, neither Mount Gibson nor any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements in this Document will actually occur and you are cautioned not to place undue reliance on those forward looking statements.

Notice to persons outside Australia

This Document has been prepared in accordance with Australian laws, disclosure requirements and accounting standards. These laws, disclosure requirements and accounting standards may be different to those in other countries.

Disclaimer

No person is authorised to give any information or make any representation in connection with the Offtake Agreement which is not contained in this Document. Any information or representation not contained in this Document may not be relied on as having been authorised by Mount Gibson or the Directors in connection with the Offtake Agreement.

Responsibility for Information

The information contained in this Document (except for Grant Thornton Corporate Finance's Independent Expert's Report) including information as to the views and recommendations of the Directors has been prepared by Mount Gibson and is the responsibility of Mount Gibson.

Grant Thornton Corporate Finance has prepared the Independent Expert's Report in relation to the Resolution and takes responsibility for that report and has consented to the inclusion of that report in this Document. Grant Thornton Corporate Finance is not responsible for any other information contained within this Document. Shareholders are urged to read the Independent Expert's Report carefully to understand the scope of the report, the methodology of the assessment, the sources of information and the assumptions made.

ASX involvement

A copy of this Document has been lodged with ASX pursuant to the Listing Rules. Neither ASX nor any of its officers takes any responsibility for the contents of this Document.

Definitions

Capitalised terms used in this Document are defined in the glossary in section 4 of the Explanatory Memorandum.

Key Dates

Date of this Explanatory Memorandum	14 February 2017
Proxy form to be received not later than	10.00am (WST) Monday, 3 April 2017
Date and time for determining eligibility to vote	5.00pm (WST) Monday, 3 April 2017
General Meeting at The Function Room, The Celtic Club, 48 Ord Street, West Perth, Western Australia	10:00am (WST) Wednesday, 5 April 2017

What you need to do?

1. Read this Document

The Notice of Meeting and Explanatory Memorandum set out the details of the Resolution being put to Shareholders. This information is important. You should read the document carefully and if necessary seek your own independent advice on any aspects about which you are not certain.

2. Vote at the General Meeting or by Proxy

- **Entitlement to vote**

The Company has determined under the Corporations Regulations 2001 (Cth) regulation 7.11.37 that for the purposes of the General Meeting, Shareholders will be taken to be those registered holders of the Company's shares at 5.00pm (WST) on Monday 3 April 2017. Accordingly, share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the General Meeting.

- **How to vote**

Shareholders may vote by attending the Meeting in person, by proxy or by authorised representative.

- **Voting in person**

To vote in person, attend the General Meeting on 5 April 2017 at 10:00am (WST) at the location below.

- **Location**

The General Meeting will be held at The Function Room, The Celtic Club, 48 Ord Street, West Perth, Western Australia.

- **Proxies**

Shareholders wishing to vote by proxy at the General Meeting must complete and sign the personalised proxy form which is enclosed with this document. A person appointed as a proxy may be an individual or a body corporate.

To vote by proxy, please complete and sign the enclosed proxy form and return to the Company using one of the following options:

- In person: Level 1, 2 Kings Park, West Perth, Western Australia
- By Mail: GPO Box 242, Melbourne, Victoria 3001
- By facsimile: 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia)
- Electronically: Submit proxy voting instructions online at www.investorvote.com.au

Please refer to the enclosed proxy form for more information about submitting proxy voting instructions online.

Please refer to the enclosed proxy form for instructions on how to sign the form.

The proxy form must be received by the Company at least 48 hours prior to the time of the commencement of the Meeting, that is **by 10.00am (WST) on Monday, 3 April 2017**. Proxy forms received later than this time will be invalid.

- **Voting by Corporate Representative**

A Shareholder that is a corporation may appoint an individual to act as its representative to vote at the General Meeting in accordance with section 250D of the Corporations Act. The appropriate certificate confirming the individual as a representative of the corporate entity must be produced prior to admission to the Meeting.

3. Seek further information if required

If you have any queries about any matter contained in this Document please contact the Company Secretary on (08) 9426 7500. If you are in doubt as to how to deal with this document or how to vote on the Resolution please consult your financial or other professional adviser.

Notice of Meeting

Notice is hereby given that a General Meeting of the Shareholders of Mount Gibson Iron Limited ("**Company**") will be held on the date and at the location and time specified below:

DATE: Wednesday, 5 April 2017

LOCATION: The Function Room, The Celtic Club, 48 Ord Street, West Perth WA

TIME: 10.00 am (WST)

The Explanatory Memorandum accompanying and forming part of this Notice of Meeting should be considered by Shareholders prior to voting on the business to be considered at the General Meeting. Terms used in this Notice of Meeting will, unless the context otherwise requires, have the meaning given to them in the Glossary in the Explanatory Memorandum.

BUSINESS

RESOLUTION – APPROVAL OF OFFTAKE AGREEMENT

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"For the purposes of Listing Rule 10.1 and for all other purposes, approval is given for Mount Gibson Iron Limited (or its wholly owned subsidiaries) to enter into and perform its obligations under the Offtake Agreement between Mount Gibson Mining Limited, SCIT Trading Limited and Shougang Concord, details of which are set out in Schedule 1 of the Explanatory Memorandum accompanying this Notice of Meeting."

Voting exclusion statement:

The Company will disregard any votes cast on the Resolution by SCIT Trading Limited, Shougang Concord International Enterprises Company Limited, True Plus Limited, and any of their Associates.

However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or if it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

BY ORDER OF THE BOARD



David Stokes
Company Secretary

DATED: 14 February 2017

Explanatory Memorandum

1 Summary

Why did I receive this Document? This Document contains information relating to the proposed offtake agreement between Mount Gibson Mining Limited, SCIT and Shougang Concord (**Offtake Agreement**).

The information set out in this Document will assist you, as a Shareholder, to decide how you wish to vote on the Resolution to approve the Offtake Agreement.

What is the Offtake Agreement? The Offtake Agreement is an agreement between Mount Gibson Mining Limited (a wholly owned subsidiary of Mount Gibson Iron Limited) as seller, SCIT as buyer, and Shougang Concord as guarantor, in connection with the sale of Hematite Ore from Iron Hill.

The key terms of the Offtake Agreement are summarised in Schedule 1.

What shareholder approvals are required for the Offtake Agreement? Due to the substantial holding of True Plus in Mount Gibson, the relationship between True Plus, SCIT and Shougang Concord, and the value of the Offtake Agreement, Shareholder approval is required under the Listing Rules.

The Offtake Agreement is conditional upon approval by a simple majority of Shareholders at the Meeting voting in person or by proxy.

Who can vote at the Meeting? All Shareholders other than SCIT, Shougang Concord, True Plus and any of their associates can vote at the Meeting.

Based on the information available to them, the Independent Directors do not currently consider APAC and Shougang Concord to be associates and so APAC will be entitled to vote on the Resolution.

What are the key advantages with the Offtake Agreement? The Offtake Agreement will underpin the sale of a substantial portion of the Available Production of Hematite Ore from Iron Hill for at least the first 12 months of production, with SCIT having an option to extend for a further 12 months.

The Offtake Agreement is on competitive terms and with an established customer that is also a substantial holder of the Company, giving it an interest in the success of the Company for the benefit of all Shareholders.

The Independent Expert's Report contains information about the terms of the Offtake Agreement in the context of the current iron ore market. Shareholders are encouraged to review this information.

What are the key disadvantages?

The proposed sale of a substantial portion of Available Production of Hematite Ore reduces the amount of Hematite Ore available from Iron Hill for sale to other customers on potentially more competitive terms (although the Offtake Agreement follows a competitive tender process with a number of potential offtakers and is on terms comparable to and competitive with other offtake agreements negotiated for Iron Hill).

Who is SCIT?

SCIT is a wholly owned subsidiary of Shougang Concord and is the entity used for the trading business of Shougang Concord. Further information on SCIT is set out in section 2 of this Explanatory Memorandum.

Who is Shougang Concord?

Shougang Concord is a Hong Kong Stock Exchange listed company (HKEx: 0697) whose main area of operation is trading of iron ore, steel and related products. Further information on Shougang Concord is set out in section 2 of this Explanatory Memorandum.

How does the Mount Gibson Board recommend that I vote?

The Independent Directors unanimously recommend that Shareholders vote to approve the Resolution. Each Independent Director will vote in favour of the Resolution in respect of the Shares they hold or control.

What is the opinion of the Independent Expert?

The terms and conditions of the Offtake Agreement have been reviewed by the Independent Expert, Grant Thornton. The Independent Expert has concluded that the Offtake Agreement is fair and reasonable to Shareholders who are not associated with SCIT, Shougang Concord and True Plus. The Independent Expert's Report is set out in Annexure A of this Explanatory Memorandum. Shareholders are encouraged to carefully read the Independent Expert's Report in its entirety.

2 Overview of the Offtake Agreement

2.1 Background

Mount Gibson announced on 23 December 2016 that it had agreed to enter into the Offtake Agreement with SCIT and Shougang Concord and that the agreement was conditional upon Shareholder approval.

2.2 What is the Offtake Agreement?

The Offtake Agreement is a 12 month contract where SCIT will be entitled to take up to 32% of Lump Ore and 13% of Fines Ore from Mount Gibson's Available Production at Iron Hill, estimated to be up to 720,000 tonnes of Lump Ore and 240,000 tonnes of Fines Ore per year. This represents approximately a quarter of total planned production in Iron Hill's first year of operation. SCIT has an option to extend the term of the Offtake Agreement for up to one more year.

The terms of the Offtake Agreement are summarised in Schedule 1.

2.3 Is the Offtake Agreement conditional?

The Offtake Agreement will only become effective upon approval of the Resolution by Shareholders at the General Meeting and satisfaction of certain conditions precedent. The Offtake Agreement remains conditional upon completion of mine infrastructure required from mine site to port operations, and satisfaction that Mount Gibson is able to commence production and be able meet its obligations under the Offtake Agreement, all to be achieved by no later than 30 June 2017. Mount Gibson is not currently aware of anything that would prevent these conditions being satisfied.

2.4 Who is SCIT?

SCIT is a wholly owned subsidiary of Shougang Concord and the entity for Shougang Concord's trading business. SCIT and Shougang Concord were both parties to the Tallering Peak Offtake Agreement, which has since expired, and are parties to the Koolan Island Offtake Agreement, which remains in abeyance pending the potential restart of mining at Koolan Island.

2.5 Who is Shougang Concord?

Shougang Concord is an investment holding company listed on the Hong Kong Stock Exchange (HKEx: 0697) and is primarily involved in trading of iron ore, steel and related products. Other business segments include processing and trading of copper and brass products, trading of coal and mineral exploration. Shougang Concord has a market capitalisation of approximately HK\$2.4 billion¹.

Shougang Concord holds a 27.61% shareholding interest in Shougang Fushan Resources Group Limited which in turn holds a 100% interest in True Plus Limited, which holds a 14.9% interest in Mount Gibson.

Shougang Concord is held 47.8% by Shougang Holding (Hong Kong) Limited (which itself holds 2.24% of Shougang Fushan Resources Group Limited), and which in turn is held 100% by state owned Shougang Corporation, based in the People's Republic of China.

¹ As at 24 January 2017

2.6 Relationship between Shougang Concord and APAC

For the purposes of the recapitalisation proposal put to Shareholders in 2008, the then independent Directors of Mount Gibson considered that the relevant APAC and Shougang Concord entities involved at that time may have been associates due to the then common shareholdings, the then common director between the entities and the 2008 Takeovers Panel decision that concluded that the entities were associates. At the time, APAC and Shougang Concord maintained that they were not associates.

The Independent Directors have considered the question of whether APAC and Shougang Concord are associates in light of current circumstances, having made enquiries of APAC and Shougang Concord and having considered information provided by APAC and Shougang Concord regarding their current common shareholdings.

Based on the information available to them, the Independent Directors do not currently consider APAC and Shougang Concord to be associates.

Accordingly, APAC will be entitled to vote on the Resolution.

2.7 Why is Shareholder approval required?

(a) Listing Rule 10.1 – Acquisition and disposal of substantial assets

Listing Rule 10.1 provides that approval of holders of Mount Gibson's Shares is required where the Company proposes to dispose of a substantial asset to an entity that is a substantial shareholder, or an associate of that entity.

For these purposes:

- a person is a substantial holder if the person and the person's associates have a relevant interest, or had a relevant interest at any time in the 6 months before the Offtake Agreement, in at least 10% of the total votes attached to the voting securities in Mount Gibson; and
- an asset is a substantial asset if its value, or the value of the consideration for it, is 5% or more of the equity interests of Mount Gibson as set out in the latest accounts of Mount Gibson given to ASX under the Listing Rules.

(b) Approval of the Offtake Agreements is required

True Plus Limited holds 14.9% of the Shares in Mount Gibson and is therefore a substantial holder in Mount Gibson for the purposes of Listing Rule 10.1. As a result of the relationship between SCIT, Shougang Concord and True Plus, SCIT and Shougang Concord are also substantial holders for the purposes of Listing Rule 10.1.

The aggregate value of the offtake being sold under the Offtake Agreements exceeds 5% of the equity interests of Mount Gibson set out in Mount Gibson's accounts for the half year ended 31 December 2016.

Mount Gibson has consulted with ASX as to its requirements and Shareholder approval is required for the Offtake Agreements under Listing Rule 10.1.

Under Listing Rule 10.10, the Notice of Meeting is required to contain a report on the Offtake Agreement from an independent expert stating whether the Offtake Agreement is fair and reasonable to holders of Mount Gibson's Shares whose votes are not to be disregarded. The report from the Independent Expert is set out in Annexure A of this Explanatory Memorandum. The Independent Expert has concluded that the Offtake Agreement is fair and reasonable to Shareholders who are not associated with SCIT, Shougang Concord or True Plus.

Shareholders are advised to consider the Independent Expert's Report carefully before deciding how to vote on the Resolution.

If Shareholders approve the disposals contemplated under the Offtake Agreement, no further shareholder approvals will be required in relation to the ongoing operation of the agreement. However, any material amendments to the Offtake Agreement or new agreements entered into by Mount Gibson or a subsidiary of Mount Gibson with an entity mentioned in Listing Rule 10.1 will require separate prior approval by Shareholders.

2.8 What happens if the Resolution is not passed?

If the Resolution is not passed by Shareholders then any party may terminate the Offtake Agreement. If the Offtake Agreement is terminated, Mount Gibson will be required to take steps to sell the Hematite Ore that otherwise would have been sold under the Offtake Agreement to other potential customers. There is no guarantee that Mount Gibson could achieve equivalent or better terms than incorporated in the Offtake Agreement.

3 Rationale for the Offtake Agreement and Directors Recommendation

3.1 Directors' recommendations

Based on the information available, including that contained in this Document, and the Independent Expert's Report, the Independent Directors consider that the Resolution is in the best interests of Shareholders and Mount Gibson.

Each of the Independent Directors recommend that Shareholders vote in favour of the Resolution.

3.2 Directors' voting intentions

Each Director who holds Shares in Mount Gibson (or whose associated entities hold Shares) and is entitled to vote intends to vote those Shares in favour of the Resolution.

3.3 Independent Expert's Opinion

The Independent Expert's Report assesses whether the Offtake Agreement is fair and reasonable to the Shareholders who are not associated with SCIT, Shougang Concord and True Plus. The Independent Expert's Report also contains an assessment of the advantages and disadvantages of the Offtake Agreement. This assessment is designed to assist all Shareholders in reaching their voting decision.

Grant Thornton has provided the Independent Expert's Report and has provided an opinion that it believes that the Offtake Agreement is fair and reasonable to Shareholders not associated with SCIT, Shougang Concord and True Plus.

It is recommended that all Shareholders read the Independent Expert's Report in full.

The Independent Expert's Report is set out in Annexure A.

3.4 Why is the Company proposing the Offtake Agreement?

Mount Gibson anticipates developing Iron Hill so that it moves into production sometime during the first half of 2017 subject to outstanding conditions. Iron Hill represents a low-capital cost production extension opportunity for Mount Gibson's Mid West business. Development capital costs are expected to total \$2-3 million, given Iron Hill's location just 3km south of the recently depleted Extension Hill open pit, and utilisation of the Company's existing mine facilities and logistics arrangements. All-in cash costs are expected to be consistent with Extension Hill. Iron Hill has total Indicated and Inferred Mineral Resources of 8.8 Million tonnes grading 58.3% Fe.²

(a) Advantages of the Offtake Agreement

Mount Gibson has sold almost 50% of the initial 12 months of Available Production to other customers and if the Offtake Agreement is approved the total will move to just above 70%, leaving 30% available for the spot market or other customers.

The process of allocating Available Production to different customers arose from a competitive tender process that was overseen by Mount Gibson's Contracts Committee, which is comprised of its Independent Directors. Those prospective customers that were most competitive were selected based on price, discounts, penalty adjustments, type and volume of Hematite Ore. This process resulted in, among others, the Offtake Agreement. Based on current iron ore market conditions, there is no guarantee that Mount Gibson could achieve equivalent or better terms than incorporated in the Offtake Agreement.

The Offtake Agreement is with an established customer of the Company that is also a substantial holder of the Company. The Independent Directors consider that Shougang Concord's relationship with the Company gives it an interest in Mount Gibson's success for the benefit of all Shareholders. The Independent Directors are confident that any issues that arise regarding the Offtake Agreement can be resolved through management discussions or at the board level as required.

(b) Disadvantages of the Offtake Agreement

The proposed sale of a substantial portion of Available Production of Hematite Ore reduces the amount of Hematite Ore available from Iron Hill for sale to other customers on potentially more competitive terms. However, as noted above, a competitive tender process was undertaken which led to Mount Gibson entering into the Offtake Agreement. The Independent Directors also note that the Offtake Agreement is on terms comparable to and competitive with the other offtake agreements negotiated for Iron Hill.

² Comprising Indicated Mineral Resources of 1.47 million tonnes grading 60.5% Fe and Inferred Mineral Resources of 7.33 million tonnes grading 57.9% Fe. Refer ASX release dated 31 August 2016 and the Competent Person Information on page 12.

4 Glossary

The following terms and abbreviations used in the Notice of General Meeting and this Explanatory Memorandum have the following meanings:

A\$	means Australian dollars.
APAC	means APAC Resources Limited.
associate	means an 'associate' for the purposes of Listing Rule 10.1.
ASX	means ASX Limited ACN 008 624 691.
Available Production	means the amount of lump and fines iron ore product from Iron Hill that is able to be shipped by Mount Gibson having regard to shipping schedules, mine production, transport logistics, port capacity and adverse movements in operating costs, foreign exchange and commodity prices impacting the financial viability of the Iron Hill mining operations.
Board or Mount Gibson Board	means the Board of Directors from time to time.
Company or Mount Gibson	means Mount Gibson Iron Limited ABN 87 008 670 817.
Corporations Act	means the <i>Corporations Act 2001</i> (Cth).
Director	means a Director of Mount Gibson from time to time.
Document	means this document, comprising the Notice of Meeting and Explanatory Memorandum.
Explanatory Memorandum	means this explanatory memorandum.
Independent Expert	means Grant Thornton Corporate Finance.
Independent Expert's Report	means the report by the Independent Expert included as Annexure A to this Explanatory Memorandum.
Grant Thornton or Grant Thornton Corporate Finance	means Grant Thornton Corporate Finance Pty Ltd (ABN 59 003 265 987).

Listing Rules	means the listing rules of the ASX and any other rules of ASX which are applicable while Mount Gibson is admitted to the official list, each as amended from time to time, except to the extent of any express written waiver by ASX.
Meeting or General Meeting	means the general meeting of Shareholders convened by the Notice of General Meeting.
Independent Directors	means the independent Directors of Mount Gibson.
Notice of Meeting	means the notice of general meeting set out in this Document.
Offtake Agreement	means the offtake agreement entered into between Mount Gibson Mining Limited, SCIT and Shougang Concord dated 23 December 2016.
Resolution	means the shareholder resolution set out in the Notice of Meeting.
Shares	means ordinary shares in Mount Gibson.
Shareholder	means a holder of a Share.
Shougang Concord	means Shougang Concord International Enterprises Company Limited.
US\$ or US dollar	means United States dollars.
WDT	means Western Daylight Time.

Competent Person's Statement

The information in this report that relates to Mineral Resources for the Iron Hill deposit is based on information compiled by Elizabeth Haren, a Competent Person who is a member and Chartered Professional of the Australasian Institute of Mining and Metallurgy and a member of the Australian Institute of Geoscientists. Ms Haren was previously a full-time employee of, and is now a consultant to, Mount Gibson Iron Limited, and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Ms Haren consents to the inclusion in this report of the matters based on her information in the form and context in which it appears.

Schedule 1

Summary of the Offtake Agreement

Set out below is a summary of the key terms of the Offtake Agreement. Unless otherwise defined below, capitalised terms are defined in the glossary in section 1 of this Explanatory Memorandum.

Parties

The Offtake Agreement has been entered into between Mount Gibson Mining Limited (a subsidiary of Mount Gibson), SCIT Trading Limited (a subsidiary of Shougang Concord) and Shougang Concord International Enterprises Company Limited (as guarantor).

Conditions precedent

The Offtake Agreement remains conditional upon Shareholder approval at a general meeting, completion of mine infrastructure required from mine site to port operations, and Mount Gibson being satisfied (acting reasonably) that it is able to commence production and be able to meet its obligations under the Offtake Agreement, all to be achieved by no later than 30 June 2017.

Key obligations

- Quantity of ore

Under the Offtake Agreement, Mount Gibson agrees to sell, and SCIT agrees to purchase, 32% of Lump Ore and 13% of Fines Ore from Mount Gibson's Available Production at Iron Hill during the Term other than to the extent the shipments exceed 3 Lump Ore shipments or 1 Fines Ore shipment per calendar quarter. Where shipments exceed these levels, SCIT will have an option as to whether it wishes to purchase such Hematite Ore under the Offtake Agreement.

There is further provision for Mount Gibson to offer to sell additional spot tonnages of Hematite Ore over above these thresholds at its absolute discretion. Where offered, SCIT will have an option as to whether it wishes to purchase such additional Hematite Ore under the Offtake Agreement.

- Term

A period of 12 months from the date the first Shipment sails from Geraldton port with an option for SCIT to extend the term for a further 12 months. The term will automatically lapse upon the permanent cessation of mining at any time during the term.

- Price

The price payable by SCIT is calculated as the percentage of iron content of the Hematite Ore sold in each shipment, multiplied by the USD price per dry metric tonne linked to a monthly Platts benchmark reference point. An additional discount is then applied to the price to reflect the longer term arrangement.

- Penalties

The price has additional adjustments depending upon silica (SiO_2), alumina (Al_2O_3), phosphorus (P) and sulphur (S) levels, as well as physical specifications relating to size of the lump ore and fines (as applicable). If Mount Gibson delivers Hematite Ore which does not comply with certain specifications, the Buyer must still purchase the Hematite Ore but the purchase price will be adjusted as set out in the Offtake Agreement.

- Shipment

Mount Gibson is responsible for arranging shipping for all cargoes to one main port in China on a CFR (cost and freight) basis whereby risk and title will pass at the port of loading at Geraldton Port. Where SCIT requests that a cargo be discharged at more than one port in China, SCIT will meet any additional freight and port costs. SCIT is responsible for effecting insurance for each shipment at its expense.

- Payment

Each sale must be supported by a letter of credit arranged by SCIT's bank.

- Termination

The Offtake Agreement can be terminated:

- (a) by Mount Gibson if SCIT does not comply with its payment obligations;
- (b) by either party, for a material breach of the agreement that is not remedied within 10 business days after receipt of a written notice requiring the breach to be remedied; and
- (c) by either party, by giving 20 business days' notice, if the other party is prevented from carrying out its obligations under the Offtake Agreement as a result of force majeure for a period of 6 months.

- Guarantee

The obligations of SCIT under the Offtake Agreement are guaranteed by Shougang Concord.

Annexure A

Independent Expert's Report



Grant Thornton

An instinct for growth™

Mount Gibson Iron Limited

Independent Expert's Report and Financial Services Guide

9 February 2017



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The Independent Directors
 Mount Gibson Iron Limited
 Level 1, 2 Kings Park Road,
 West Perth WA 6005

9 February 2017

Dear Sirs

Independent Expert's Report and Financial Services Guide

Introduction

Mount Gibson Iron Limited ("Mount Gibson" or "the Company") is an iron ore mining company which produces high-grade hematite ore in Western Australia. The Company is listed on the Australian Securities Exchange ("ASX") and has a market capitalisation of \$394.8 million as at 8 February 2017.

The Company is in the process of obtaining final regulatory approvals to commence mining operations at the Iron Hill and Iron Hill South Hematite deposits¹ (collectively referred to as "Iron Hill").

In November and December 2016, Mount Gibson announced that its wholly-owned subsidiary, Mount Gibson Mining Ltd ("MGM"), had signed three separate off-take agreements with Sinogiant Steel Holdings Group Limited ("Sinogiant"), Xinyu Iron and Steel Group Limited ("Xinyu") and SCIT Trading Limited ("SCIT"), each for the purchase of up to 24% of the available production in the first year at Iron Hill².

SCIT, a wholly owned subsidiary of Shougang Concord International Enterprises Company Limited³, is a substantial shareholder of the Company given that Shougang Concord International Enterprises Company Limited together with its associated companies⁴ (collectively referred to as "Shougang Group") hold 14.9% of the issued share capital of the Company.

The off-take agreement with SCIT ("Proposed Off-take Agreement") has the following key terms:

- *Contracted Quantity*: sale of up to 24% of the total available production of iron ore to be produced from Iron Hill in the first year. This includes up to 32% of available production of lump ore⁵ and up to 13% of available production of fines⁶.

¹ Located in the Mt Gibson range, approximately 270 km southeast of Geraldton, WA.

² Refer to the discussion below for the extension option available to SCIT.

³ For the 12 months ended June 2016, Shougang earned revenue of \$1,105.5 million. Shougang is also listed on the Hang Seng stock exchange, with a market capitalisation of \$400.0 million as at 8 February 2017.

⁴ Including Shougang Corporation and True Plus Limited.

⁵ Lump ore is a direct saleable ore with diameter ranging from 6.3 mm to 31.5 mm. It can be introduced directly into the blast furnace and thus attracts a pricing premium.

Since the Contracted Quantity is calculated as a percentage of production from Iron Hill, in the event that no iron ore is produced, the Company will not have any obligation or incur any penalty.

- *Term:* The expiry date for the delivery of iron ore under the Proposed Off-take Agreement is 12 months from the date of the first shipment. In addition, SCIT has been granted an option to extend the contract by the earlier of an additional 12 months⁷ or when the mining of iron ore by Mount Gibson at Iron Hill ceases permanently.
- *Contracted Price:* the mechanics to calculate the price per tonne of fines and lump ore is the same (i.e. base price less discount less penalties), with a lump premium being added for lump ore. The base price is calculated as the percentage of iron content in the ore sold, multiplied by the USD price per DMT⁸ linked to a monthly Platts benchmark index. A discount is allowed in order to reflect the long-term arrangement, quality adjustments and other marketing-related factors. The level of discount under the Proposed Off-take Agreement is consistent with the discount in the Other Off-take Agreements. Penalties are applied based on the quality of iron ore delivered⁹ and are levied on the ore that does not conform to the physical and chemical specifications.
- *Guarantee:* Shougang Group has provided an unconditional and irrevocable guarantee of SCIT's obligations under the Proposed Off-take Agreement.

The Independent Directors of Mount Gibson ("Independent Directors") unanimously recommend that all the shareholders of Mount Gibson not associated with SCIT or Shougang Group ("Non-Associated Shareholders") vote in favour of the Proposed Off-take Agreement. Each Independent Director holding ordinary shares in Mount Gibson ("Mount Gibson Shares") intends to vote in favour of the Proposed Off-take Agreement.

Purpose of the report

The Shougang Group collectively hold in excess of 10% of the issued capital of Mount Gibson and the future sale of iron ore under the Proposed Off-take Agreement is considered the sale of a material asset to a substantial shareholder. Accordingly, the Independent Directors have commissioned Grant Thornton Corporate Finance to prepare an independent expert's report to assess whether the Proposed Off-take Agreement is fair and reasonable to the Non-Associated Shareholders for the purposes of Chapter 10 of the ASX Listing Rules.

⁶ Fines ore is also a direct saleable ore but required crushing and sizing before being introduced into the blast furnace. It has a diameter ranging from 0.15 mm to 6.3 mm.

⁷ This option would not apply if Mount Gibson's mining activities at Iron Hill cease before the expiry of the first 12 months of production.

⁸ Dry Metric Tonne

⁹ Assessed as per the content of other chemicals in the iron ore and the physical specifications of the iron ore.

Summary of opinion

Grant Thornton Corporate Finance has concluded that the Proposed Off-take Agreement is FAIR AND REASONABLE to the Non-Associated Shareholders.

Fairness Assessment

In forming our opinion in accordance with the Regulatory Guide 111: *Content of expert reports* (“RG111”), Grant Thornton Corporate Finance notes that the Proposed Off-take Agreement does not provide for a fixed Contracted Price (i.e. based on market indices less discount and penalties) or Contracted Quantity. Accordingly, for the purpose of assessing the fairness of the Proposed Off-take Agreement, we have considered the likelihood that the key contract terms supporting the Contracted Price and Contracted Quantity will result in a market competitive and arms’ length price being obtained.

In assessing the fairness of the Proposed Off-take Agreement, we have had regard to the following:

- *Tender process:* Mount Gibson had conducted a formal competitive tender process in relation to the Proposed Off-take Agreement and a number of potential off-takers were invited to submit their proposed terms. Extensive negotiations were undertaken and clarifications were obtained before the contracts were awarded, thereby ensuring that the bidding process was carried out in a sound and objective manner.

As a result of the tender process, as at the date of this Report, contracts have been awarded to three buyers for a total of 72% of the actual available production per year¹⁰.

In our assessment of whether or not the terms of the Proposed Off-take Agreement are on arms’ length, we have compared/ analysed the following:

- Terms of the off-take agreements awarded to the three counterparties i.e. SCIT, Sinogiant and Xinyu.
- Terms included in the submissions of other interested parties.
- *Other off-take agreements:* We have confidentially reviewed the terms of the other off-take agreement entered into by MGM with Glencore International AG in relation to the Extension Hill mine in order to compare the terms with the Proposed Off-take Agreement.

Based on the review of the documents outlined above, we are of the opinion that the terms of the Proposed Off-take Agreement are conducive to the realisation of a Contracted Price and Contracted Quantity that is commercial and on arms’ length based on the following key considerations:

¹⁰ SCIT, Sinogiant and Xinyu (24% of actual available production each).

Contracted Price

- The price of iron ore in the Proposed Off-take Agreement as well as the other off-take agreements with Sinogiant and Xinyu (“Other Off-take Agreements”) is not a fixed price and is calculated separately for each shipment, based on the percentage of iron content of the ore and the USD price per DMT based on a monthly Platts benchmark index. While the delivery of iron ore under these agreements has not yet commenced (and hence no historical price data is available), the terms of the Proposed Off-take Agreement suggest that the mechanics to calculate the iron ore price charged to SCIT will not be materially different from those adopted to calculate the iron ore price charged to Sinogiant and Xinyu for iron ore delivered in the same month and possessing the same physical and chemical specifications of the typical ore to be sold.
- The levy of penalties under the Proposed Off-take Agreement are similar to the Other Off-take Agreements. Under each agreement, penalties are levied upon failure of the ore delivered to meet physical and chemical requirements, which are dependent upon the requirements of each counterpart.
- The revenue generated per tonne of ore sold under the Proposed Off-take Agreement is substantially equivalent to the revenue generated under the Other Off-take Agreements, all other things being equal.
- The terms of the Proposed Off-take Agreement are more beneficial for the Non-Associated Shareholders compared with the indicative terms proposed by various other interested parties during the tender process.

Based on the above, we are of the opinion that the terms of the Proposed Off-take Agreement are conducive to the realisation of a Contracted Price that is commercial and on arm’s length.

Contracted Quantity

- The delivery of iron ore volumes under the Proposed Off-take Agreement has not been granted priority to the Other Off-take Agreements.
- Given that the iron ore deliverable is based on the actual available production at Iron Hill, there is no minimum quantity deliverable under the Proposed Off-take Agreement. Accordingly, there are no penalties for not delivering a specific quantity of ore.
- The number of shipments under the Proposed Off-take Agreement are comparable to the shipments to be made under the Other Off-take Agreements with Sinogiant and Xinyu. The percentage of available production of iron ore to be delivered to SCIT is also the same as that deliverable to Sinogiant and Xinyu.

In our opinion, the terms relating to the Contracted Quantity under the Proposed Off-take Agreement are conducive to the delivery of iron ore in a commercial and arm’s length manner.

Reasonableness Assessment

ASIC RG111 establishes that an offer is reasonable if it is fair. Given that our assessment of the Proposed Off-take Agreement is fair it is also reasonable. However, we have also considered the following advantages, disadvantages and other factors.

Advantages

Guaranteed and reliable buyer of produced ore

The Proposed Off-take Agreement provides increased certainty and stability to the Company's mining operations, particularly given the volatile market conditions. In addition, SCIT has been a customer of Mount Gibson for over 8 years, and is indirectly also a shareholder holding 14.9% of the issued capital of the Company, so the Proposed Off-take Agreement will further strengthen the relationship with SCIT.

Flexibility in production and delivery under the Proposed Off-take Agreement

Since the Contracted Quantity is calculated as a percentage of production from Iron Hill, in the event that no iron ore is produced, MGM will not have any obligation or incur any penalty. This provides MGM with an improved flexibility to manage its operations in conjunction with a material reduction in the benchmark iron ore price or unexpected increase in the production costs.

Guarantee by Shougang Group

As mentioned above, Shougang Group has provided a guarantee toward the liabilities of SCIT under the Proposed Off-take Agreement. This provides an additional security to MGM in the event that SCIT faces any financial or operational difficulties and is unable to satisfy its obligations under the Proposed Off-take Agreement.

Disadvantages

Increased concentration of counterparty risk

If the Proposed Off-take Agreement is approved, a material proportion of the Company's production at Iron Hill will be committed (also including the Other Off-take Agreements). If market conditions and iron ore price materially increase from the current level and the discount to the spot iron ore price incorporated into the off-take agreements reduces, MGM will be bound by the pricing terms in the Proposed Off-take Agreement and it will have limited ability to take advantage of improved market conditions.

Other factors

Option to extend the contract or sell additional quantities with a shareholder based on market prices

As mentioned earlier, SCIT has been granted the option to extend the Proposed Off-take Agreement by the earlier of an additional 12 months or till the cessation of mining operations at Iron Hill. Further, MGM may at its own discretion sell additional quantities of iron ore to SCIT on

the same terms, if SCIT agrees to accept the same. Whilst these options (i.e. the option to extend the Proposed Off-take Agreement as well as the option to deliver additional quantities thereunder) are not available under the Other Off-take Agreements, we are of the opinion that they do not provide an unfair advantage to SCIT as they are based on commercial terms.

The implications if the Proposed Off-take Agreement is not approved

If the Proposed Off-take Agreement is not approved, MGM would lose a secured buyer for up to 24% of the actual available production at Iron Hill. In such a scenario, the Company could seek to enter into an off-take agreement with another interested party. This process may take time and there is no certainty that Mount Gibson will be able to secure equivalent terms to those of the Proposed Off-take Agreement.

Independent Directors' recommendations and intentions

The Independent Directors unanimously recommend that Non-Associated Shareholders vote in favour of the Proposed Off-take Agreement.

Reasonableness conclusion

Based on the qualitative factors identified above, it is our opinion that the Proposed Off-take Agreement is REASONABLE to the Non-Associated Shareholders.

Overall conclusion

After considering the abovementioned quantitative and qualitative factors, Grant Thornton Corporate Finance has concluded that the Proposed Off-take Agreement is FAIR and REASONABLE to the Non-Associated Shareholders.

Other matters

Grant Thornton Corporate Finance has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is set out in the following section.

The decision of whether or not to accept the Proposed Off-take Agreement is a matter for each Non-Associated Shareholder to decide based on their own views of value of Mount Gibson and expectations about future market conditions, Mount Gibson's performance, risk profile and investment strategy. If Non-Associated Shareholders are in doubt about the action they should take in relation to the Proposed Off-take Agreement, they should seek their own professional advice.

Yours faithfully

GRANT THORNTON CORPORATE FINANCE PTY LTD



ANDREA DE CIAN
Director



HARLEY MITCHELL
Authorised Representative

9 February 2017

Financial Services Guide

1 Grant Thornton Corporate Finance Pty Ltd

Grant Thornton Corporate Finance Pty Ltd (“Grant Thornton Corporate Finance”) carries on a business, and has a registered office, at Level 17, 383 Kent Street, Sydney NSW 2000. Grant Thornton Corporate Finance holds Australian Financial Services Licence No 247140 authorising it to provide financial product advice in relation to securities and superannuation funds to wholesale and retail clients.

Grant Thornton Corporate Finance has been engaged by Mount Gibson to provide general financial product advice in the form of an independent expert’s report in relation to the Proposed Off-take Agreement. This report is included in the Company’s Notice of Meeting and Explanatory Memorandum.

2 Financial Services Guide

This Financial Services Guide (“FSG”) has been prepared in accordance with the Corporations Act, 2001 and provides important information to help retail clients make a decision as to their use of general financial product advice in a report, the services we offer, information about us, our dispute resolution process and how we are remunerated.

3 General financial product advice

In our report we provide general financial product advice. The advice in a report does not take into account your personal objectives, financial situation or needs.

Grant Thornton Corporate Finance does not accept instructions from retail clients. Grant Thornton Corporate Finance provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Thornton Corporate Finance does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice directly to retail investors.

4 Remuneration

When providing the Report, Grant Thornton Corporate Finance’s client is the Company. Grant Thornton Corporate Finance receives its remuneration from the Company. In respect of the Report, Grant Thornton Corporate Finance will receive from Mount Gibson a fixed fee of \$35,000 plus GST, which is based on commercial rate plus reimbursement of out-of-pocket expenses for the preparation of the report. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Except for the fees referred to above, no related body corporate of Grant Thornton Corporate Finance, or any of the directors or employees of Grant Thornton Corporate Finance or any of those related bodies or any associate receives any other remuneration or other benefit attributable to the preparation of and provision of this report.

5 Independence

Grant Thornton Corporate Finance is required to be independent of Mount Gibson in order to provide this report. The guidelines for independence in the preparation of independent expert's reports are set out in Regulatory Guide 112 *Independence of expert* issued by the Australian Securities and Investments Commission ("ASIC"). The following information in relation to the independence of Grant Thornton Corporate Finance is stated below.

"Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with Mount Gibson (and associated entities) that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation the Proposed Off-take Agreement.

Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the transaction, other than the preparation of this report.

Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the transaction. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.

Grant Thornton Corporate Finance considers itself to be independent in terms of Regulatory Guide 112 "Independence of expert" issued by the ASIC."

Accordingly, we consider Grant Thornton Corporate Finance to be independent of Mount Gibson, its Directors and all other parties involved in the Proposed Off-take Agreement.

6 Complaints process

Grant Thornton Corporate Finance has an internal complaint handling mechanism and is a member of the Financial Ombudsman Service (membership no. 11800). All complaints must be in writing and addressed to the Chief Executive Officer at Grant Thornton Corporate Finance. We will endeavour to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service who can be contacted at:

GPO Box 3
Melbourne, VIC 3001
Telephone: 1800 367 287

Grant Thornton Corporate Finance is only responsible for this report and FSG. Complaints or questions about the General Meeting should not be directed to Grant Thornton Corporate Finance. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.



7 Compensation arrangements

Grant Thornton Corporate Finance has professional indemnity insurance cover under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of section 912B of the Corporations Act, 2001.

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1 Purpose and scope of the report

1.1 Purpose

Chapter 10 of the ASX Listing Rules

Chapter 10 of the ASX Listing Rules requires the approval from the non-associated shareholders of a company if the company proposes to acquire or dispose a substantial asset from a related party or a substantial holder.

ASX Listing Rule 10.2 states that an asset is substantial if its value, or the value of the consideration, is 5% or more of the equity interest of the entity as set out in the latest financial statement provided to the ASX (“Substantial Asset”). Based on ASX Listing Rule 10.1.3, a substantial holder is a person who has a relevant interest, or had a relevant interest at any time in the six months before the transaction, in at least 10% of the voting power of the company.

ASX Listing Rule 10.10.2 requires that the Notice of Meeting and Explanatory Memorandum be accompanied by a report from an independent expert stating whether the transaction is fair and reasonable to the non-associated shareholders.

Given that SCIT (together with Shougang Group) is a substantial shareholder of Mount Gibson (holds 14.9% interest in Mount Gibson), the sale of iron ore under the Proposed Off-take Agreement to MGM is considered the sale of a Substantial Asset to a substantial shareholder.

Accordingly, the Independent Directors have requested Grant Thornton Corporate Finance to prepare an independent expert’s report stating, whether in its opinion the Proposed Off-take Agreement is fair and reasonable to the Non-Associated Shareholders.

1.2 Basis of assessment

Grant Thornton Corporate Finance has had regard to RG 111 in relation to the content of independent expert’s report and RG76 in relation to related party transactions. RG76 largely refers to RG111 in relation to the approach to related party transactions.

RG 111 establishes certain guidelines in respect of independent expert’s reports prepared for the purposes of the Corporations Act. RG 111 is framed largely in relation to reports prepared pursuant to Section 640 of the Corporations Act and comments on the meaning of “fair and reasonable” in the context of a takeover offer. RG 111 also regulates independent expert’s reports prepared for related party transactions in clauses 52 to 63. RG 111 notes that an expert should focus on the substance of the related party transaction, rather than the legal mechanism and, in particular where a related party transaction is one component of a broader transaction, the expert should consider what level of analysis of the related party aspect is required.

We note that RG111 clause 56 states the following:

RG 111.56 Where an expert assesses whether a related party transaction is ‘fair and reasonable’ (whether for the purposes of Chapter 2E or ASX Listing Rule 10.1), this should not be applied as a composite test—that is, there should be a separate assessment of whether the transaction is ‘fair’ and ‘reasonable’, as in a control transaction. An

expert should not assess whether the transaction is 'fair and reasonable' based simply on a consideration of the advantages and disadvantages of the proposal, as we do not consider this provides members with sufficient valuation information (See Regulatory Guide 76 Related party transactions (RG 76) at RG 76.106–RG 76.111 for further details).

Accordingly, in the consideration of the Proposed Off-take Agreement, the expert should undertake a separate test of the fairness and then analyse the advantages and disadvantages for the Non-Associated Shareholders.

RG 111 notes that a related party transaction is:

- Fair, when the value of the financial benefit being offered by the entity to the related party is equal to or less than the value of the assets being acquired.
- Reasonable, if it is fair, or, despite not being fair, after considering other significant factors, shareholders should vote in favour of the transaction.

In considering the fairness of the Proposed Off-take Agreement, we have analysed the key terms of the Proposed Off-take Agreement against terms agreed to by MGM in similar off-take agreements to ensure they are fair to the Non-Associated Shareholders and no net financial benefits are accrued to SCIT or Shougang Group.

In considering whether the Proposed Off-take Agreement is reasonable to the Non-Associated Shareholders, we have considered a number of factors, including:

- Whether the Proposed Off-take Agreement is fair.
- The implications to Mount Gibson and the Non-Associated Shareholders if the Proposed Off-take Agreement is not approved.
- Other likely advantages and disadvantages associated with the Proposed Off-take Agreement as required by RG111.
- Other costs and risks associated with the Proposed Off-take Agreement that could potentially affect the Non-Associated Shareholders.

1.3 Independence

Prior to accepting this engagement, Grant Thornton Corporate Finance considered its independence with respect to the Proposed Off-take Agreement with reference to the ASIC Regulatory Guide 112 “Independence of Expert’s Reports” (“RG 112”).

Grant Thornton Corporate Finance has no involvement with, or interest in, the outcome of the approval of the Proposed Off-take Agreement other than that of an independent expert. Grant Thornton Corporate Finance is entitled to receive a fee based on commercial rates and including reimbursement of out-of-pocket expenses for the preparation of this report.



Except for these fees, Grant Thornton Corporate Finance will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the issuing of this report. The payment of this fee is in no way contingent upon the success or failure of the Proposed Off-take Agreement.

Accordingly, we consider Grant Thornton Corporate Finance to be independent of Mount Gibson, its Directors and all other parties involved in the Proposed Off-take Agreement.

1.4 Consent and other matters

Our report is to be read in conjunction with the Notice of Meeting and Explanatory Memorandum dated on or around insert in which this report is included, and is prepared for the exclusive purpose of assisting the Non-Associated Shareholders in their consideration of the Proposed Off-take Agreement. This report should not be used for any other purpose.

Grant Thornton Corporate Finance consents to the issue of this report in its form and context and consents to its inclusion in the Notice of Meeting and Explanatory Memorandum.

This report constitutes general financial product advice only and in undertaking our assessment, we have considered the likely impact of the Proposed Off-take Agreement to Non-Associated Shareholders as a whole. We have not considered the potential impact of the Proposed Off-take Agreement on individual Non-Associated Shareholders. Individual shareholders have different financial circumstances and it is neither practicable nor possible to consider the implications of the Proposed Off-take Agreement on individual shareholders.

The decision of whether or not to approve the Proposed Off-take Agreement is a matter for each Non-Associated Shareholder based on their own views of value of Mount Gibson and expectations about future market conditions, Mount Gibson's performance, risk profile and investment strategy. If Non-Associated Shareholders are in doubt about the action they should take in relation to the Proposed Off-take Agreement, they should seek their own professional advice.

1.5 Compliance with APES 225 Valuation Services

This report has been prepared in accordance with the requirements of the professional standard APES 225 Valuation Services ("APES 225") as issued by the Accounting Professional & Ethical Standards Board. In accordance with the requirements of APES 225, we advise that this assignment is a Valuation Engagement as defined by that standard as follows:

"An Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Member is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Member at that time."

2 Profile of the iron ore industry

Mount Gibson is primarily engaged in the mining, production and exploration of hematite iron ore. Accordingly, the financial performance of the Company is significantly impacted by the developments in the Australian and global iron ore industry. As such, we have provided below a brief overview of the iron ore industry.

2.1 Overview of the iron ore industry

Iron is one of the most abundant rock-forming elements in the Earth's crust. Over 98% of iron ore produced globally is consumed in the production of steel, which is used primarily in the construction, structural engineering and manufacturing, energy and industrial sectors. Thus, global economic growth is the primary factor that drives its supply and demand, e.g. the need for steel in construction increases when economies are growing which drives up iron ore prices. The demand for the mineral is also correlated with growth in China as China is the world's largest consumer of metals.

Iron mainly comes in the following iron oxide minerals: magnetite which contains approximately 72% iron, hematite which contains approximately 70% iron, goethite which contains approximately 63% iron, and limonite which contains approximately 60% iron¹¹. The most commonly mined iron ores are magnetite and hematite which via different processing method can be sold as iron ore fines, pellets and lumps. Fines require the most processing and as such are the least valuable. High quality pellets can attract a 5-30% premium over lump ore when sold.

Hematite is considered to be a high quality unprocessed iron ore and is often referred to as a direct shipping ore ("DSO"). This is because once hematite is mined, it undergoes a relatively simple crushing and screening process before being exported. Iron ore products can be categorised into lumps and fines. Lump iron ores can be introduced directly into the steel blast furnace, whereas fine iron ores need to be further processed. The global standard for DSO has an iron ore content of 62%.

Consistent with most iron ore mines across the globe, all the major Australian iron ore mines are open cut mines. Crushed and processed iron ore is primarily used to manufacture steel for building, transport infrastructure construction and other development projects.

2.2 Global iron ore market

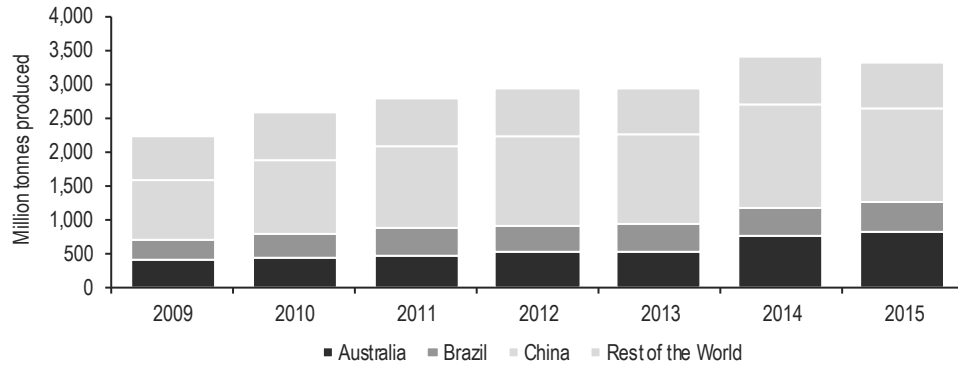
2.2.1 Iron ore supply

The iron ore industry has relatively high barriers to entry due to the large amounts of capital funding required for projects and infrastructure development. Consequently, there is a high level of concentration in the industry with production mainly being sourced from Brazil, Australia and China. China is the largest producer in the world despite being the largest importer of iron ore, and is currently the main driver for growth in the iron ore industry.

¹¹ Geoscience Australia, Commonwealth of Australia

Set out below is the global iron ore production by country.

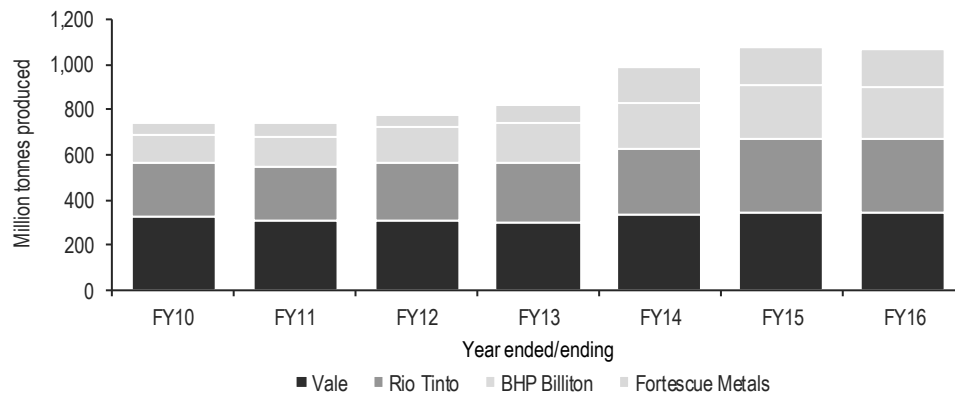
Global annual iron ore production by country



Source: US Geological Survey, 2009-2016

The global iron ore market has an oligopolistic market structure. The four largest global iron ore miners are the Brazilian company, Vale, followed by Australian miners, namely BHP Billiton, Rio Tinto and Fortescue Metals. These four businesses produce majority of the world's iron ore. Set out below is the production of iron ore by these companies from 2010 to 2016.

Production of iron ore by the four largest players



Note (1): FY16 figures for Vale and Rio Tinto are annualised based on the respective 9 months to year end results.

Source: Vale, Rio Tinto, BHP and Fortescue Annual Reports 2009-2016

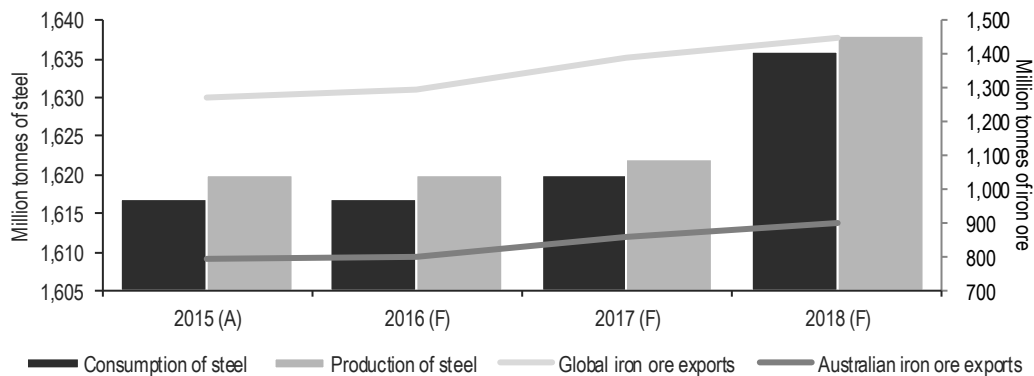
Iron ore mining is a substantial industry in Australia, representing approximately 2.33% of Australia GDP. Effectively all of Australia's iron ore is mined in Western Australia (98.5% of Australia's total production of iron ore in 2015).

2.2.2 Iron ore demand

China is the largest consumer of steel globally, accounting for approximately 44% of global steel consumption. The demand and price of iron ore are strongly driven by the growth rates in China.

The chart below shows the recent and forecast Australian and global iron ore exports, global steel consumption and global production.

Recent/forecast iron ore exports, global steel consumption and production



Note (1): A=Actual, F=Forecast

Source: Department of Industry, Innovation and Science Resources and Energy Quarterly December 2016

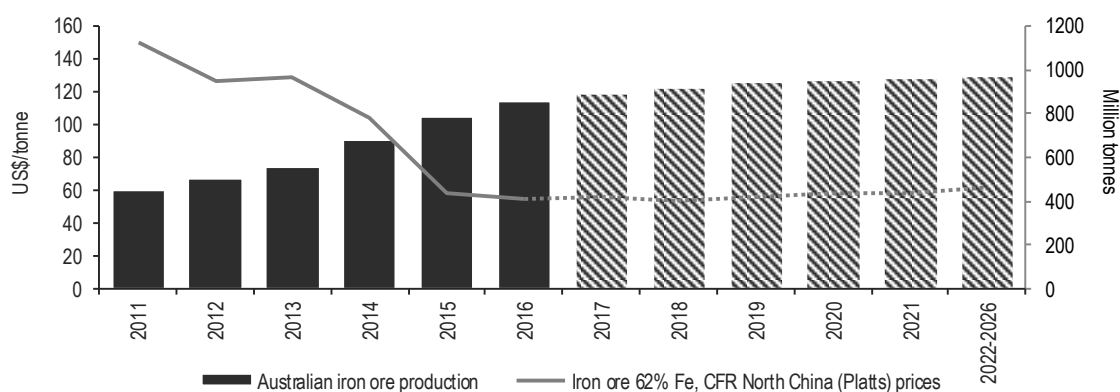
Since late 2016, China has been importing an increasing amount of iron ores from mainly Australia and Brazil to meet its requirements for premium steel production. In addition, steelmakers are doubling efforts to fully utilise mill capacity, which in turn increased the demand for iron ores and lifted iron ore prices.

2.2.3 Historical iron ore prices and outlook

Iron ore is not traded in open markets like other commodities. In fact, iron ore prices for trades between major iron ore producers and steel mills are usually negotiated and agreed upon under medium or long-term contracts. Market participants usually adopt the NYMEX traded 62% Fe CFR North China in US\$/metric tonne, a monthly cash settled iron ore future based on the Platts IODEX 62% Fe daily index, as a proxy of the metal's 'spot price'.

Set out in the following graph is the annual average historical price of iron ore 62% Fe CFR North China from January 2011 to January 2017 and forecast price of iron ore from February 2017 to 2026. It also shows Australia's historical and forecast production of iron ores.

Iron ore prices and Australian production 2011 - 2026



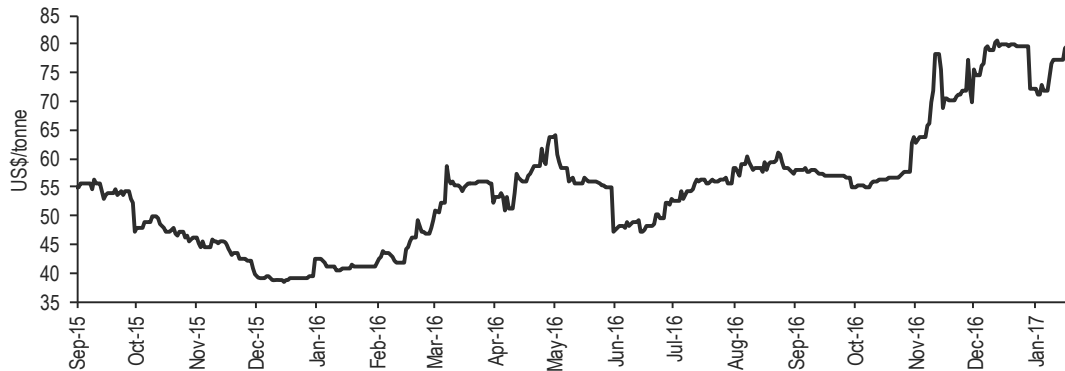
Note (1): Shaded columns and dotted lines denote forecast information

Source: Consensus Economics Inc. Resources and Energy Quarterly, IBIS World, S&P Global and GTCF calculations

The high prices experienced between 2011 and 2013 were supported by strong economic growth in China. The surge in iron ore prices during those times saw producers increasing output which led to an oversupply in the market, followed by a drop in prices between 2013 and 2015.

In late 2016, iron ore prices rallied due to an increase in import by China with most cargoes from Australia and Brazil. The upward trend in price movement continued in January 2017, rallying to a two-year high after surging more than approximately 80% in 2016. The graph below shows the iron ore price movements since the fourth quarter of 2015, averaging US\$64/tonne over the period. We note that the highest price of US\$80.47/tonne was recorded on 13 December 2016 and the lowest price of US\$52.73/tonne was recorded on 1 July 2016.

Iron ore 62% Fe, CFR North China (Platts) price movement



Source: S&P Global

Expectations in relation to the future performance of iron ore prices vary amongst market analysts and commentators. However, overall it is expected that there will be lower volatility.

3 Profile of Mount Gibson

3.1 Company overview

Mount Gibson is an Australian listed public company primarily involved in the production and export of iron ores, predominantly hematite.

Mount Gibson, through its wholly owned subsidiaries, operates and owns 100% interest in three hematite iron ore mines and iron ore export facilities at Geraldton Port in Western Australia, consisting of a 50-year lease of two ore storage facilities with a combined ore storage capacity of 360,000 tonnes. In addition, Mount Gibson has long term rail access and haulage agreements under which the Company may transport ore from its Mid-West mines to Geraldton for export. The existing access to infrastructure provides the Company with competitive advantage and further potential for long-term development within the industry.

A brief overview of Mount Gibson's mining assets is set out below:

- The Extension Hill mine is located in the Mount Gibson Ranges, approximately 260 km southeast of Geraldton in the Mid West region of Western Australia. Hematite ore mined at Extension Hill is crushed and screened on-site before it is loaded onto trucks and transported to the local railway siding at Perenjori, from where the ore is railed to the Port of Geraldton for export. MGM has conducted mining operations at Extension Hill since December 2011. Given that mining in the Extension Hill pit was completed in November 2016 and that only stockpiles are currently being sold, MGM applied for approvals¹² to conduct operations at Iron Hill (adjacent to Extension Hill) with a view to commence production in early 2017.
- MGM also has 100% interest in an exploration and development asset called the Shine Project. This deposit is located 85 km north of the Extension Hill Hematite Project. The Shine Project remains as a potentially viable development opportunity going forward.
- The Koolan Island mine is located in the northern Kimberley coast of Western Australia, approximately 140 km north of Derby in Yampi Sound. The Company acquired this project through its takeover of Aztec Resources Limited in 2007. In FY16, ore shipments from Koolan Island totalled 1.5 million WMT with all production and sales from the Acacia East satellite pit, compared with sales of 2.1 million WMT in FY15 with ore sourced from the Main Pit prior to the failure of the seawall in late 2014. Operations at the Acacia East satellite pit were concluded by the quarter ended 31 March 2016. The mine site was subsequently placed under care and maintenance.

¹² We understand that although approval has been received from the Minister for the Environment as at the date of this Report, certain final regulatory approvals are pending.

Shown below are the locations of Mount Gibson's operations and development assets in Western Australia.



Source: Google maps

3.2 Resources and reserves

In 2016, ore produced was principally derived from the Extension Hill and the Koolan Island mines, while a small amount of remnant material from the discontinued Tallering Peak operations was monetised. The Extension Hill mine life has been extended to beyond 2017. Pending certain regulatory approvals, production at the Iron Hill deposit is targeted in the first half of 2017.

Set out below is the breakdown of the hematite mineral resource and ore reserve estimates by mine sites of Mount Gibson as at 30 June 2016 (JORC 2012 compliant).

Resources and reserves (above 50% Fe)							
As at 30 June 2016	Location	Status	Million tonnes	Fe %	SiO ₂ %	Al ₂ O ₃ %	P %
Mineral resources							
Measured	Koolan Island	Production	7.69	59.10	13.53	1.16	0.018
	Extension Hill	Production	2.10	56.73	8.13	2.41	0.077
	Talling Peak	Rehabilitation	0.41	58.90	6.26	3.50	0.082
	Shine	Exploration and development	5.73	58.90	9.04	1.81	0.076
	Indicated	Koolan Island	Production	41.93	64.40	6.36	0.76
Extension Hill		Production	0.34	57.32	10.31	1.60	0.072
Iron Hill		Exploration and development	1.47	60.50	8.35	1.02	0.047
Talling Peak		Rehabilitation	1.03	58.10	11.70	1.66	0.066
Shine		Exploration and development	6.57	58.00	10.01	1.35	0.070
Inferred	Koolan Island	Production	10.89	60.20	12.48	0.79	0.015
	Extension Hill	Production	0.20	56.61	10.49	1.66	0.055
	Iron Hill	Exploration and development	7.33	57.90	8.65	1.74	0.069
	Talling Peak	Rehabilitation	0.20	54.70	17.89	1.93	0.056
	Shine	Exploration and development	3.59	56.80	9.61	1.18	0.063
Ore reserves							
Proved	Extension Hill	Production	1.10	58.00	7.09	2.10	0.088
Probable	Extension Hill	Production	0.05	56.80	9.87	1.91	0.087
Total mineral resources			89.48	61.37	8.66	1.08	0.032
Total ore reserves			1.15	57.95	7.21	2.09	0.088

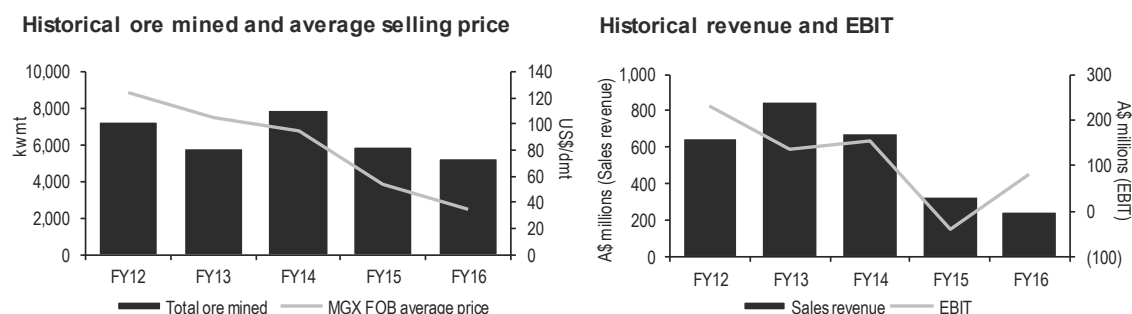
Note (1): Mineral resources are reported inclusive of ore reserves.

Note (2): Fe = Iron, SiO₂ = Silicon dioxide, Al₂O₃ = Aluminium oxide, and P = Phosphorus

Source: Mount Gibson Annual financial report 2016, Mount Gibson Mineral resources and ore reserves statement, and GTCF calculations

3.3 Operations

The graphs below set out the historical production of hematite ores mined and the free on board (“FOB”) average price per tonne for standard DSO fine ores realised by Mount Gibson, as well as Mount Gibson’s historical sales revenue and underlying EBIT¹³.



Note (1): The EBIT figure shown above for FY15 does not include the impairment charge of \$945.2 million.

Source: Annual financial report 2012-2016, GTCF calculations

¹³ Earnings before interest and tax.

- Mount Gibson's revenue is principally derived under negotiated sales contracts. These agreements outline market reflective pricing structures whereby prices of the iron ores are referenced to relevant benchmark indices, typically the Iron Ore 62% Fe CFR North China (Platts) index, and market-typical lump premium and impurity penalties, on a cost and freight ("CFR") basis.
- As shown in the above graphs, Mount Gibson has over the last five years mined between approximately 5,295,000 tonnes (FY16) and approximately 7,927,000 tonnes (FY14). The average for the period FY12 to FY16 was approximately 6,436,200 tonnes. Over this same period, the average FOB price for standard DSO products realised by Mount Gibson has declined in line with the market.
- Earnings before interest and tax declined in FY15, where a net loss after tax of \$911.4 million was reported after a non-cash impairment of \$945.2 million was charged. Alongside the impairment charge, sales revenue also dropped by approximately 40% from \$898 million in FY14 to \$325 million in FY15. This significant reduction was driven by the final closure of Tallering Peak after ten years of continuous operation in September 2014, and the suspension of large scale production at Koolan Island following the failure of the Main Pit sea wall in November 2014. In addition, the steep reduction in iron ore prices led to a drop in production, owing to reducing profitability.

3.4 Financial information

3.4.1 Income statement

The statement of profit or loss for Mount Gibson for the year ended 30 June 2015 (“FY15”) and the year ended 30 June 2016 (“FY16”) are set out in the following table.

Consolidated statement of profit or loss and other comprehensive income A\$'000s	FY15 Audited	FY16 Audited
Revenue		
<i>Continuing operations</i>		
Sale of goods	315,644	235,188
Interest revenue	12,209	9,667
Total revenue	327,853	244,855
Cost of sales	(341,742)	(213,681)
Impairment write-back/(loss) on ore inventories	(3,442)	3,442
Gross profit/(loss)	(17,331)	34,616
Other income	7,874	91,848
Consumables stock obsolescence	(9,048)	(31)
Impairment of consumables inventories	(339)	(8,111)
Impairment of mine properties	(712,917)	(2,135)
Impairment of property, plant and equipment	(203,213)	(12,377)
Impairment of deferred acquisition, exploration and evaluation	(19,219)	(3,037)
Exploration expenses	(1,014)	(77)
Net unrealised market-to-market gain/(loss)	-	512
Administration expenses	(31,279)	(19,903)
Profit/(loss) from continuing operations before tax and finance costs	(986,486)	81,305
Finance costs	(2,929)	(1,760)
Profit/(loss) from continuing operations before tax	(989,415)	79,545
Tax benefit/(expense)	99,908	761
Profit/(loss) after tax from continuing operations	(889,507)	80,306
<i>Discontinued operations</i>		
Profit/(loss) after tax for the year from discontinued operations	(21,915)	5,991
Profit/(loss) after tax attributable to members of the Company	(911,422)	86,297
Profit/(loss) for the period after tax	(911,422)	86,297
Other comprehensive income/(loss)		
Items that may be subsequently reclassified to profit or loss		
Change in fair value of cash flow hedges	5,334	(231)
Reclassification adjustments for gain/(loss) on cash flow hedges transferred to the income statement	(7,729)	231
Deferred income tax on cash flow hedges	719	-
Other comprehensive income/(loss) for the year, net of tax	(1,676)	-
Total comprehensive income/(loss) for the year	(913,098)	86,297

Source: Annual financial report 2015 and 2016

We note the following in relation to the income statements of Mount Gibson.

- In August 2015, the Company reported a net loss for the year ended 30 June 2015 of \$911.4 million mainly due to a non-cash impairment charge of \$945.2 million.
- Production costs decreased in line with but to a greater extent than sale of iron ore. The average FOB selling price realised by Mount Gibson has further decreased from US\$54/DMT in FY15 to US\$35/DMT in FY16 (FY14: US\$95/DMT).

3.4.2 Balance sheet

The consolidated statements of financial position of Mount Gibson as at 30 June 2015 and 30 June 2016 are set out in the table below.

Consolidated statement of financial position A\$'000s	FY15 Audited	FY16 Audited
Current assets		
Cash and cash equivalents	91,003	43,316
Term deposits and subordinated notes	243,000	337,000
Financial assets held for trading	-	19,771
Trade and other receivables	15,354	41,546
Inventories	21,078	20,017
Prepayments	3,304	1,887
Derivative financial assets	-	231
Income tax receivable	-	50
Total current assets	373,739	463,818
Non-current Assets		
Property, plant and equipment	31,494	8,744
Deferred acquisition, exploration and evaluation	2,924	-
Mine properties	3,205	-
Total non-current assets	37,623	8,744
Total assets	411,362	472,562
Current liabilities		
Trade and other payables	49,664	36,229
Interest-bearing loans and borrowings	2,619	421
Provisions	13,802	5,791
Total current liabilities	66,085	42,441
Non-current liabilities		
Interest-bearing loans and borrowings	119	-
Provisions	39,584	38,186
Total non-current liabilities	39,703	38,186
Total liabilities	105,788	80,627
Net assets	305,574	391,935
Equity		
Issued capital	568,328	568,328
Accumulated losses	(1,243,797)	(1,157,500)
Reserves	981,043	981,107
Total equity	305,574	391,935

Source: Annual financial report 2015 and 2016, Mount Gibson Management

We note the following in relation to the balance sheet of Mount Gibson:

- The decrease in cash and cash equivalents balance from FY15 to FY16 was mainly due to the maturity of short-term deposits of \$45 million. Short-term deposits are made for periods ranging from one day to three months, depending on the immediate cash requirements of the Company. Subsequently, the Company increased its investments by \$40 million in term deposits (made for period between three to twelve months) and \$54 million in subordinated notes (comprising tradeable floating interest rate instruments with maturities of up to ten years). These financial instruments are with various financial institutions with credit ratings from BBB+ to AA- (Standard & Poor's rating).
- Trade and other receivables increased by approximately \$26 million, driven by the insurance receivable of \$34.6 million as at 30 June 2016 in relation to outstanding settlement amounts from the Koolan seawall property insurance claim settled with the Company's insurers during the period.
- Property, plant and equipment ("PPE") has been assessed for impairment as at 30 June 2016 and the carrying values of PPE at the Koolan Island and Extension Hill operations have been further written down to their fair values less costs to sell by depreciation and impairment.

3.5 Share capital structure and share price movement

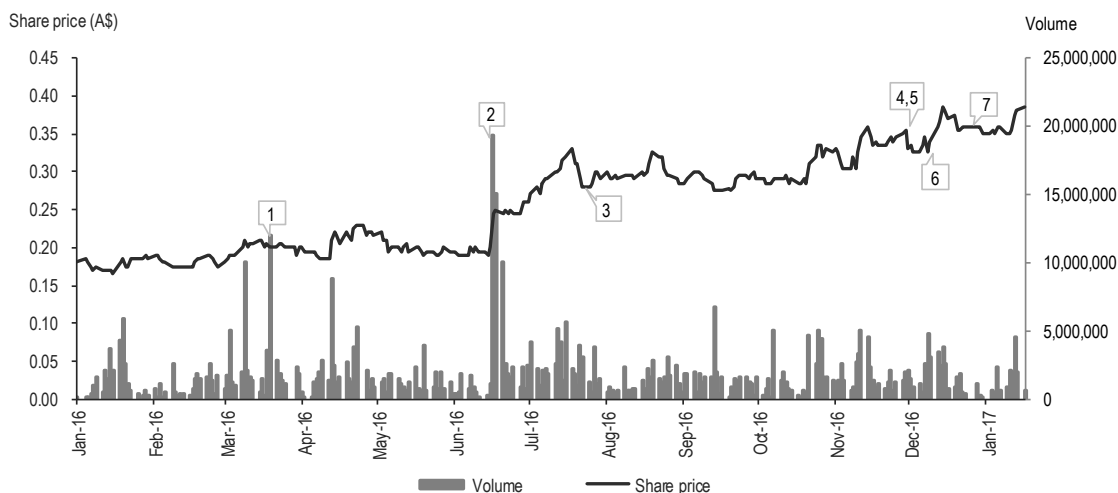
Mount Gibson has 1,096,562,516 fully paid listed ordinary shares on issue. Set out below is a summary of Mount Gibson's major shareholders as at 5 September 2016.

Top 10 shareholders of ordinary shares as at 5 September 2016			
Rank	Name	No. of shares	Interest (%)
1	Sun Hung Kai Investment Services Limited	191,577,278	17.47%
2	True Plus Limited	163,866,874	14.94%
3	Citicorp Nominees Pty Limited	114,144,204	10.41%
4	APAC Resources Investments Limited	82,900,000	7.56%
5	Zero Nomiees Pty Ltd	63,134,745	5.76%
6	J P Morgan Nominees Australia Limited	49,219,978	4.49%
7	BNP Paribas Noms Pty Ltd	48,889,705	4.46%
8	HSBC Custody Nominees (Australia) Limited	43,217,127	3.94%
9	Sun Hung Kai Investment Services Limited	40,053,818	3.65%
10	DeBortoli Wines Pty Limited and Associates	39,574,336	3.61%
Top 10 shareholders total		836,578,065	76.29%
Remaining shareholders		259,984,451	23.71%
Total ordinary shares outstanding		1,096,562,516	100.00%

Source: Mount Gibson Annual financial report 2016

The daily movements in Mount Gibson's share price and volumes traded for the period from January 2016 to January 2017 are set out below:

Historical share trading prices and volume for Mount Gibson



Source: S&P Global and Grant Thornton Corporate Finance calculations

As can be seen in the graph above, over the period January 2016 to January 2017, Mount Gibson Shares have traded at a high of \$0.39 on 16 January 2017 and a low of \$0.17 on 15 January 2016. We note the following with regard to the share price history over the last 12 months.

We note the following non-exhaustive list of announcements by the Company with regard to the share price history since July 2015.

No.	Date	Comments
1	11 March 2016	Mount Gibson was removed from the S&P/ASX 300 index hierarchy following the S&P Dow Jones Indices March quarterly review.
2	16 June 2016	Mount Gibson announced that a final agreement with its insurers for an \$86 million cash settlement has been reached for the property damage component of its insurance claim relating to the failure of the Koolan Island Main Pit seawall. The settlement amount includes an interim payment of \$1.85 million in mid-2015, and the balance to be received by July 2016. The proceeds from the settlement was expected to strengthen the Company's cash position as it continues to evaluate resource investment opportunities, including the potential to rebuild the Main Pit seawall at Koolan Island.
3	21 July 2016	Mount Gibson released the quarterly activities report for the quarter ended 30 June 2016. It was noted that the insurance claim in relation to the property damage component of \$86 million has been received as compensation for the failure of the Koolan Island Main Pit seawall, while the business interruption component of the claim is still in progress.
4	24 November 2016	Mount Gibson announced that the Company has signed the first iron ore offtake agreement for the Iron Hill deposit with their Chinese customer Sinogiant. The agreement term is for Sinogiant to purchase approximately one quarter of the first year's available annual production planned for the Iron Hill deposit.
5	25 November 2016	Mount Gibson announced that the Company has signed the second iron ore offtake agreement for the Iron Hill deposit with China-based. The agreement term is for Xinyu to purchase approximately one quarter of the first year's available annual production planned for the Iron Hill deposit.

No.	Date	Comments
6	9 December 2016	Mount Gibson announced that the Environmental Approval has been received from Western Australia's Minister for the Company's proposed development for the Iron Hill iron ore mine.
7	23 December 2016	<p>Mount Gibson announced that the Company has signed the Proposed Off-take Agreement for the Iron Hill deposit with SCIT. The agreement term is for SCIT to purchase approximately one quarter of the first year's available annual production planned for the Iron Hill deposit.</p> <p>Shougang Group has 14.9% interest in Mount Gibson as at the announcement date, as a result this agreement remains conditional upon regulatory approvals and project completion being achieved by 30 June 2017.</p>

Source: ASX announcements

Set out below is the volume weighted average price analysis of Mount Gibson shares. We note that over the last 12 months approximately 43% of Mount Gibson Shares have traded on the market.

Month end	Volume traded ('000)	Monthly VWAP (\$)	Total value of shares traded (\$'000)	Volume traded as % of total shares
Jan 2016	29,049	0.1758	5,106	2.7%
Feb 2016	20,750	0.1837	3,811	1.9%
Mar 2016	56,254	0.2044	11,498	5.2%
Apr 2016	43,243	0.2085	9,017	4.0%
May 2016	28,723	0.1982	5,692	2.6%
Jun 2016	67,321	0.2418	16,279	6.2%
Jul 2016	53,043	0.2969	15,747	4.9%
Aug 2016	30,355	0.3019	9,164	2.8%
Sep 2016	34,591	0.2889	9,993	3.2%
Oct 2016	36,925	0.3098	11,438	3.4%
Nov 2016	40,047	0.3380	13,535	3.7%
Dec 2016	34,616	0.3517	12,174	3.2%
Min				1.90%
Average				3.62%
Median				3.26%
Max				6.17%

Source: S&P Global and Grant Thornton Corporate Finance calculations

4 Valuation methodologies

4.1 Introduction

Grant Thornton Corporate Finance has assessed value of the Proposed Off-take Agreement using the concept of fair market value. Fair market value is commonly defined as:

“the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm’s length.”

Fair market value excludes any special value. Special value is the value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

4.2 Valuation methodologies

RG 111 outlines the appropriate methodologies that a valuer should generally consider when valuing assets or securities for the purposes of, amongst other things, approval of an issue of shares using item 7 of s611 of the Corporations Act, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:

- Discounted cash flow (“DCF”) method and the estimated realisable value of any surplus assets.
- Application of earnings multiples to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets.
- Amount available for distribution to security holders on an orderly realisation of assets.
- Quoted price for listed securities, when there is a liquid and active market.
- Any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.

Further details on these methodologies are set out in Appendix A to this report. Each of these methodologies is appropriate in certain circumstances.

RG111 does not prescribe the above methodologies as the method(s) that an expert should use in preparing their report. The decision as to which methodology to use lies with the expert based on the expert’s skill and judgement and after considering the unique circumstances of the entity or asset being valued. In general, an expert would have regard to valuation theory, the accepted and most common market practice in valuing the entity or asset in question and the availability of relevant information.

4.3 Selected valuation methods

In relation to the fairness of the Proposed Off-take Agreement, RG111 requires the expert to compare the value of the financial benefit to be provided by Mount Gibson to SCIT with the value of the consideration being provided to Mount Gibson by SCIT.



The value of the consideration provided to MGM by SCIT relates to the value of MGM's iron ore to be sold to SCIT under the Proposed Off-take Agreement as determined mainly by the Contracted Price and Contracted Quantity.

Grant Thornton Corporate Finance notes that the Proposed Off-take Agreement does not provide for a fixed Contracted Price or Contracted Quantity. Accordingly, for the purpose of assessing the fairness of the Proposed Off-take Agreement, we have considered the likelihood that the key contract terms supporting the Contracted Price and Contracted Quantity will result in a market competitive and arm's length price being obtained.

5 Valuation assessment - The Proposed Off-take Agreement

5.1 Background

MGM has conducted mining operations in the Extension Hill Hematite project since December 2011. Given that mining at this project was completed in November 2016, MGM applied for approvals¹⁴ to conduct operations at Iron Hill (adjacent to the Extension Hill Hematite project) with a view to commence production in early 2017.

In view of the impending commencement of production at Iron Hill, MGM approached a number of potential buyers of ore and conducted a tender process in late 2016 to enter into off-take agreements.

5.2 Tender process for the Proposed Off-take Agreement

A number of preferred buyers (comprising steel mills and trading companies) were identified based on existing relationships and invited to submit terms for the purchase of iron ore to be produced at Iron Hill. The tender process comprised the following:

- MGM provided the expected production quantities along with the expected physical and chemical composition of the ore produced, the expected length of contracts and pricing formula to be applied.
- From a short-list of twelve interested parties, six companies responded with detailed proposals. Two companies did not submit proposals as they felt they could not present firm, competitive proposals. Some overseas steel mills did not submit proposals due to lack of samples/ site visits and uncertainties on production dates.
- One of the proposals received was rejected on account of having unfavourable discount terms vis-à-vis the other proposals.
- Four interested parties were selected and MGM undertook detailed negotiations with them in relation to pricing, discounts, penalties and export terms.

As a result of the above, Mount Gibson announced that MGM had entered into off-take agreements with Sinogiant and Xinyu (in late November 2016) and with SCIT (in late December 2016).

5.3 Terms of the Proposed Off-take Agreement

The key terms of the Proposed Off-take Agreement are summarised below:

- Terms in relation to the Contracted Price, Contracted Quantity, Term and Guarantee as set out in the Executive Summary to this Report. We consider that these terms in the Proposed Off-take Agreement are comparable to the terms in the Other Off-take Agreements.

¹⁴ We understand that although approval has been received from the Minister for the Environment as at the date of this Report, certain final regulatory approvals are pending.

- *Penalty:* an adjustment will be made in the price per tonne of the ore, if the ore does not comply with the specified physical and chemical requirements. This process involves measuring the dimensions of the ore in accordance with international standards, as also measuring the percentage of other elements/ compounds in the ore. The chemical and physical specifications of the Proposed Off-take Agreement are similar to the Other Off-take Agreements.
- *Terms of export:* the export of iron ore will take place on a CFR basis, wherein MGM will bear the costs until the ore is deposited on the ship as well as the freight cost involved in transporting the iron ore from the Port of Geraldton, WA to the destination port while SCIT will bear the costs thereafter. The ownership and risk of the iron ore passes from MGM to SCIT at the time the iron ore crosses the rail of the ship at the time of loading, at the Port of Geraldton, WA. MGM does not bear the cost of marine insurance taken on the iron ore being transported. We consider that the terms of export for the Proposed Off-take Agreement are comparable to the terms of export for the Other Off-take Agreements.
- *Fluctuation in macroeconomic factors:* the force majeure clause of the Proposed Off-take Agreement specifies inter alia that a deterioration in macroeconomic factors (like commodity prices or foreign exchange rate) which poses a threat to the commercial viability of the operations will be regarded as sufficient cause for MGM to not carry out its obligations. Further, in the event that MGM calls a force majeure event which continues for 6 months, the Proposed Off-take Agreement can be terminated by SCIT. In this regard, we note that the force majeure clause in the Proposed Off-take Agreement is similar to the clause in the Other Off-take Agreements.
- *Conditions precedent:* The Proposed Off-take Agreement is not effective unless the following conditions are satisfied:
 - The mine infrastructure¹⁵ is considered adequate for conducting the iron ore mining operations.
 - All regulatory approvals required to commence operations at Iron Hill have been obtained and Mount Gibson is able to commence production.
 - The shareholders of Mount Gibson have approved the Proposed Off-take Agreement.

We note that if the above conditions are not met or waived by MGM (as appropriate), the Proposed Off-take Agreement will be terminated.

¹⁵ This inter alia includes mining plant and equipment, ore treatment facilities, stockpile areas, loading facilities, logistics facilities, transport facilities and other structures and installations as may be required to operate the Iron Hill project, process, transport and load the iron ore.

5.4 Key differences with other offtake agreements

While the Proposed Off-take Agreement is largely similar to the Other Off-take Agreements, we have set out below the key differences:

- SCIT has an option to extend the Proposed Off-take Agreement for the earlier of 12 months or till production at Iron Hill ceases. The extension is not mandatory and will not apply if production has already ceased at the time of exercise of the option. We note that the option of extension is not available in the Other Off-take Agreements.
- The Contracted Quantity is capped at three and one shipments per quarter of lump ore and fines respectively. In case SCIT's share of the actual available production is expected to exceed these caps, MGM is required to notify SCIT of the excess production. SCIT is not obligated to accept the additional quantity generated but if it does so, the price will be equivalent to the Contracted Price. We note that the right to be notified of excess production and the option to purchase the same is not available in the Other Off-take Agreements.
- Pricing adjustments apply where the iron grade of the sold ore falls significantly below anticipated levels. MGM does not anticipate such adjustments to be applicable.

Conclusion

Based on our discussions above and as outlined in the Executive Summary to this Report, we consider the Proposed Off-take Agreement to be on arms' length and on commercial terms, in view of the following:

- The mechanics of calculating the Contracted Price and Contracted Quantity under the Proposed Off-take Agreement are generally consistent with the Other Off-take Agreements.
- We believe that the differences between the Proposed Off-take Agreement and the Other Off-take Agreements do not provide an unfair advantage to SCIT as they are based on commercial terms.

6 Sources of information, disclaimer and consents

6.1 Sources of information

In preparing this report Grant Thornton Corporate Finance has used various sources of information, including:

- Notice of Meeting and Explanatory Memorandum
- Proposed Off-take Agreement
- Off-take agreements with Sinogiant Steel Holdings Group Limited and Xinyu Iron and Steel Group Limited
- Annual reports of Mount Gibson
- Releases and announcements by Mount Gibson on the ASX
- IBISWorld Industry Report
- Other information provided by Mount Gibson
- S&P Global
- S&P Global Platts data
- Other publicly available information
- Discussions with Management of Mount Gibson and other relevant documentation

6.2 Qualifications and independence

Grant Thornton Corporate Finance Pty Ltd holds Australian Financial Service Licence number 247140 under the Corporations Act and its authorised representatives are qualified to provide this report.

Grant Thornton Corporate Finance provides a full range of corporate finance services and has advised on numerous proposed takeovers, corporate valuations, acquisitions, and restructures. Prior to accepting this engagement, Grant Thornton Corporate Finance considered its independence with respect to Mount Gibson and all other parties involved in the Proposed Off-take Agreement with reference to the ASIC Regulatory Guide 112 “Independence of experts” and APES 110 “Code of Ethics for Professional Accountants” issued by the Accounting Professional and Ethical Standard Board. We have concluded that there are no conflicts of interest with respect to Mount Gibson, its shareholders and all other parties involved in the Proposed Off-take Agreement.

Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the Proposed Off-take Agreement, other than the preparation of this report.

Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the Proposed Off-take Agreement. Grant Thornton Corporate Finance’s out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.

Accordingly, we consider Grant Thornton Corporate Finance to be independent of Mount Gibson, its Directors and all other parties involved in the Proposed Off-take Agreement.

6.3 Limitations and reliance on information

This report and opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

Grant Thornton Corporate Finance has prepared this report on the basis of financial and other information provided by Mount Gibson and publicly available information. Grant Thornton Corporate Finance has considered and relied upon this information. Grant Thornton Corporate Finance has no reason to believe that any information supplied was false or that any material information has been withheld. Grant Thornton Corporate Finance has evaluated the information provided by Mount Gibson through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base our report. Nothing in this report should be taken to imply that Grant Thornton Corporate Finance has audited any information supplied to us, or has in any way carried out an audit on the books of accounts or other records of Mount Gibson.

This report has been prepared to assist the Independent Directors in advising the Non-Associated Shareholders in relation to the Proposed Off-take Agreement. This report should not be used for any other purpose. In particular, it is not intended that this report should be used for any purpose other than as an expression of Grant Thornton Corporate Finance's opinion as to whether the Proposed Off-take Agreement is fair and reasonable of the Non-Associated Shareholders.

Mount Gibson has indemnified Grant Thornton Corporate Finance, its affiliated companies and their respective officers and employees, who may be involved in or in any way associated with the performance of services contemplated by our engagement letter, against any and all losses, claims, damages and liabilities arising out of or related to the performance of those services whether by reason of their negligence or otherwise, excepting gross negligence and wilful misconduct, and which arise from reliance on information provided by Mount Gibson, which Mount Gibson knew or should have known to be false and/or reliance on information, which was material information Mount Gibson had in its possession and which Mount Gibson knew or should have known to be material and which Mount Gibson did not provide to Grant Thornton Corporate Finance. Mount Gibson will reimburse any indemnified party for all expenses (including without limitation, legal expenses) on a full indemnity basis as they are incurred.

6.4 Consents

Grant Thornton Corporate Finance consents to the issuing of this report in the form and context in which it is included in the Notice of Meeting to be sent to Mount Gibson Shareholders. Neither the whole nor part of this report nor any reference thereto may be included in or with or attached to any other document, resolution, letter or statement without the prior written consent of Grant Thornton Corporate Finance as to the form and content in which it appears.

Appendix A – Valuation methodologies

Capitalisation of future maintainable earnings

The capitalisation of future maintainable earnings multiplied by appropriate earnings multiple is a suitable valuation method for businesses that are expected to trade profitably into the foreseeable future. Maintainable earnings are the assessed sustainable profits that can be derived by a company's business and excludes any abnormal or "one off" profits or losses.

This approach involves a review of the multiples at which shares in listed companies in the same industry sector trade on the share market. These multiples give an indication of the price payable by portfolio investors for the acquisition of a parcel shareholding in the company.

Discounted future cash flows

An analysis of the net present value of forecast cash flows or DCF is a valuation technique based on the premise that the value of the business is the present value of its future cash flows. This technique is particularly suited to a business with a finite life. In applying this method, the expected level of future cash flows are discounted by an appropriate discount rate based on the weighted average cost of capital. The cost of equity capital, being a component of the WACC, is estimated using the Capital Asset Pricing Model.

Predicting future cash flows is a complex exercise requiring assumptions as to the future direction of the company, growth rates, operating and capital expenditure and numerous other factors. An application of this method generally requires cash flow forecasts for a minimum of five years.

Orderly realisation of assets

The amount that would be distributed to shareholders on an orderly realisation of assets is based on the assumption that a company is liquidated with the funds realised from the sale of its assets, after payment of all liabilities, including realisation costs and taxation charges that arise, being distributed to shareholders.

Market value of quoted securities

Market value is the price per issued share as quoted on the ASX or other recognised securities exchange. The share market price would, prima facie, constitute the market value of the shares of a publicly traded company, although such market price usually reflects the price paid for a minority holding or small parcel of shares, and does not reflect the market value offering control to the acquirer.

Comparable market transactions

The comparable transactions method is the value of similar assets established through comparative transactions to which is added the realisable value of surplus assets. The comparable transactions method uses similar or comparative transactions to establish a value for the current transaction.



Comparable transactions methodology involves applying multiples extracted from the market transaction price of similar assets to the equivalent assets and earnings of the company.

The risk attached to this valuation methodology is that in many cases, the relevant transactions contain features that are unique to that transaction and it is often difficult to establish sufficient detail of all the material factors that contributed to the transaction price.

Appendix B – Glossary

A\$ or \$	Australian dollar
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Company or Mount Gibson	Mount Gibson Iron Limited
Contracted Price	The price at which Mount Gibson agrees to sell iron ore to SCIT
Contracted Quantity	The quantity of sell iron ore which Mount Gibson agrees to sell SCIT
CFR	Cost and Freight
DCF	Discounted cash flow
DMT	Dry Metric Tonnes
FOB	Free on board
FSG	Financial Services Guide
FYXX or FY20XX	Financial year ended 30 June 20XX
Grant Thornton Corporate Finance or GTCF	Grant Thornton Corporate Finance Pty Ltd
Independent Directors	Directors of Mount Gibson not associated with SCIT or Shougang Group
Iron Hill	Iron Hill Hematite project
Management	Key executive personnel of Mount Gibson
MGM	Mount Gibson Mining Ltd
Non-Associated Shareholders	Shareholders of Mount Gibson not associated with SCIT or Shougang Group
P.a.	per annum
Proposed Off-take Agreement	Offtake agreement for the sale of up to 24% of iron ore to be produced from Iron Hill to SCIT
RG 111	Regulatory Guide 111 "Content of expert reports"
RG 112	ASIC Regulatory Guide 112 "Independence of Expert's Reports"
SCIT	SCIT Trading Limited
Shougang Group	Shougang Corporation, together with Shougang Concord International Enterprises Company Limited, True Plus Limited and their shareholders
WMT	Wet Metric Tonnes

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How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the help tab, "Printable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**GO ONLINE TO VOTE,
or turn over to complete the form →**

Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.

Proxy Form

Please mark to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Mount Gibson Iron Limited hereby appoint

the Chairman of the Meeting **OR**

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the General Meeting of Mount Gibson Iron Limited to be held at The Function Room, The Celtic Club, 48 Ord Street, West Perth, Western Australia on Wednesday, 5 April 2017 at 10.00am (WST) any adjournment or postponement of that meeting.

STEP 2 Item of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

	For	Against	Abstain
Resolution Approval of Offtake Agreement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Chairman of the Meeting intends to vote undirected proxies in favour of the item of business. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact Name _____

Contact Daytime Telephone _____

Date / /