

QUARTERLY REPORT



MOUNT GIBSON IRON LIMITED QUARTERLY REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2018 24 October 2018

Key Points*

- Quarterly sales of **1.1 million wet metric tonnes** (Mwmt), for sales revenue of **\$65 million** Free on Board (FOB).
- Mid-West cash costs** of **\$37/wmt FOB**, below guidance.
- Operating cashflow for the quarter of **\$18 million** before Koolan Island restart expenditure of \$23 million in the quarter.
- Cash and liquid investments of **\$452 million** at 30 September 2018, compared with \$457 million at the end of the prior quarter.
- High grade Koolan Island Restart Project approximately 88% complete, and on track for first ore sales by the end of the March 2019 quarter.
- Mining at the Mid-West Iron Hill deposit scheduled for completion in late 2018, with ore sales to conclude in early 2019.
- Mr Peter Kerr appointed CEO to succeed Mr Jim Beyer, effective 1 October 2018.
- Reported 2017/18 net profit after tax of \$99.1 million.
- Fully franked final dividend for 2017/18 of 3.0 cents per share paid on 15 October 2018.

* Sales revenue and cost figures are unaudited. All figures are presented in Australian dollars unless stated otherwise.

** Cash costs are reported FOB and include cash operating costs, royalties, sustaining capital expenditure and corporate costs.

Comment

Mount Gibson Chief Executive Officer, Peter Kerr, said: "Mount Gibson has made a strong start to the new financial year, with a substantial increase in sales volumes from Iron Hill in the Mid West and continued good progress at the high grade Koolan Island Restart Project in the Kimberley, which remains on track to commence ore sales by the end of the March 2019 quarter.

"Total iron ore sales rose 19% to just over 1.1Mt in the September quarter, consistent with our annual guidance range, while Mid-West cash costs for the quarter were below guidance at \$37/wmt FOB. Operational cashflow from the Mid West remained solid at \$18 million, helping to offset our ongoing investment at Koolan Island, with cash and liquid investment reserves totalling \$452 million at the end of September.

"Furthermore, it was satisfying both to report a strong full year profit in the quarter and to provide shareholders with a fully franked final dividend of 3.0 cents per share, which was distributed on 15 October. With our robust balance sheet and sales of high grade ore from Koolan Island looming, Mount Gibson is well placed to continue delivering value for shareholders.

"As the Company's newly appointed CEO, on behalf of the Board and Mount Gibson team, I would like to acknowledge the contribution of my predecessor Jim Beyer in establishing this excellent platform, and look forward to continuing our positive record of performance."

PERFORMANCE AT A GLANCE

	Unit	Sep-2017 Quarter	Dec-2017 Quarter	Mar-2018 Quarter	Jun-2018 Quarter	Sep-2018 Quarter	2018/19 YTD
Standard DSO product sales	kwmt	659	781	917	845	1,149	1,149
Low Grade material sales^	kwmt	181	60	59	118	-	-
Total Ore Sales	kwmt	841	841	977	963	1,149	1,149
Ave. Platts 62%Fe CFR price	US\$/dmt	71	66	74	65	67	67
MGX FOB avge. realised fines price#	US\$/dmt	34	24	35	26	28	28
MGX FOB avge. realised lump price#	US\$/dmt	64	57	64	52	56	56
Minor discrepancies may occur due to rounding. ^Refers to spot sales from crushed low grade material at the Extension Hill mine site. #Mount Gibson's realised FOB prices are for standard DSO fines and lump product from Iron Hill, after adjustments for shipping freight, grade, provisional invoicing adjustments and penalties for impurities. kwmt = thousand wet metric tonnes. US\$/dmt = USD per dry metric tonne.							

OPERATIONS

Ore sales totalled 1.1 Mwmt in the September quarter, all from the Company's Mid West operations. Sales comprised 607,000 wmt of standard DSO (Direct Shipping Ore) lump and 542,000 wmt of standard DSO fines from the Iron Hill mine. No low grade sales were undertaken in the quarter. Sales were consistent with guidance of 2.0-2.3 Mwmt from Iron Hill for FY2018/19.

Operating statistics are tabulated in Appendix A.

Mid West Operations – Extension Hill/Iron Hill

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

Sales of lump and fines from Iron Hill were 19% higher than in the prior quarter, reflecting the mine schedule, with lump sales accounting for approximately 53% of total DSO sales, compared with 50% in the prior quarter.

Site all-in cash costs¹ for Extension Hill/Iron Hill averaged \$37/wmt in the period compared with \$43/wmt in the preceding quarter.

Significantly, the site has maintained an excellent safety record, passing five years without a Lost Time Injury ("LTI") in early October. The Company's Geraldton Port operations have also maintained an excellent safety performance to remain LTI-free over the last nine years.

At the end of September, approximately 74,000 wmt of crushed high grade product was stockpiled at the mine. Stockpiles of uncrushed high grade Iron Hill material totalled 170,000 wmt and stockpiles of uncrushed lower grade material totalled 3.1 Mwmt grading 50-55% Fe. Crushed ore stockpiles at the Perenjori rail siding totalled approximately 179,000 wmt of high grade ore.

The average grade of both Iron Hill lump and fines sold during the quarter was 60.2% Fe, compared with lump and fines grades of 60.4% Fe and 59.7% Fe respectively in the June quarter. DSO product grades are expected to remain around current levels over the remainder of the short Iron Hill mine life.

As stated in the Company's financial results², the total closure and rehabilitation cost for the combined Extension Hill and Iron Hill mine sites is provisioned at approximately \$15 million (including site personnel redundancy costs), of which approximately \$8 million is expected to be spent during 2018/19, commencing in the December 2018 quarter.

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

² Refer ASX release dated 15 August 2018.

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

Koolan Island

Site activity at Koolan Island progressed significantly during the period with the project currently approximately 88% complete (refer Figure 1). The Project remains on track to achieve first ore sales late in the March 2019 quarter.

Activity in the September quarter was focused on dewatering the Main Pit, footwall refurbishment and earthworks to profile the inner side of the seawall embankment in line with the dewatering schedule and final pit design. This work included the second phase of geotechnical drilling scheduled as part of the ongoing seawall performance monitoring program.

As previously reported, extensive monitoring instrumentation was installed during the construction process which, together with all other monitoring activities, continues to demonstrate the wall is performing to expectation.

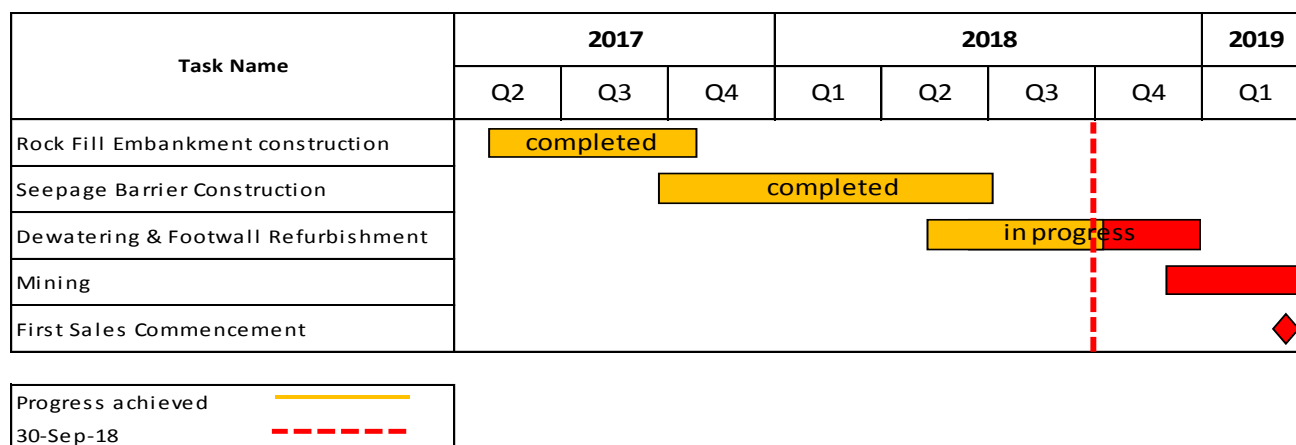
Following final completion of the impermeable seepage barrier in July, and commissioning of the large capacity submersible pumps, dewatering of the Main Pit commenced in early August at rate of approximately 1,500 litres per second.³ Dewatering is progressing on track with the scheduled completion at the end of calendar 2018.

More than 8.5 million cubic metres of water have now been extracted and the water level in the 2km-long pit lowered by 20 metres, in line with the plan. This represents over one third of the total dewatering volume, with dewatering now half way to exposing the uppermost mining bench. The water level in the pit is now approximately 17 metres below the low tide level, and less than 7 metres above the lowest point of the seepage barrier. Once below this level, as per the dewatering plan, it will be possible to increase the dewatering rate.

Earthworks to re-profile the inner side of the seawall embankment commenced during late July, in step with the dewatering schedule. This involves progressive removal of material from the upper levels of the embankment, in line with the operating phase pit design.

The second phase of geotechnical drilling also commenced in the quarter and was completed in mid October. This program is part of the ongoing seawall monitoring program and allows geotechnical modelling of the design as well as installation of additional monitoring sensors in areas made accessible by dewatering.

Figure 1 – Koolan Island Restart Project Schedule and Progress



³ Refer ASX release dated 2 August 2018.

Refurbishment of the island-side footwall continued during the quarter, with more than 750 cubic metres of shotcreting completed to date to refurbish areas affected by seawater inundation, groundwater or general degradation. Shotcreting is undertaken using mobile barge-mounted equipment in the Main Pit. Installation of avalanche mesh to catch any loose debris also continues in line with plan. Both shotcreting and meshing have been and will continue to be normal practice during mining operations in the Main Pit.

Recruitment of the operational workforce commenced during the quarter and is now well advanced. Mount Gibson is very pleased with the volume of applications for positions advertised to date and the calibre of successful candidates, a significant number of whom have previously worked at Koolan Island.

Cash expenditure on the Koolan Island restart project totalled approximately \$23 million in the quarter, comprising \$11 million of construction and dewatering expenditure and \$12 million of pre-production expenditure. Expenditure on the overall Koolan Island restart project since commencement in May 2017 to date has totalled approximately \$111 million. Peak cash draw prior to revenues for this highly accretive investment remains forecast at approximately \$175 million.

As previously reported, Koolan Island will be the highest grade direct shipping hematite mine Australia when sales commence late in the March 2019 quarter, with total Ore Reserves of 21.0Mt grading 65.5% Fe. Full details of the project and core assumptions were reported in the ASX release dated 20 April 2018.

As reported, at the Company's conservative base case assumptions, the Project has an estimated pre-tax Net Present Value (NPV) of \$252 million and estimated pre-tax Internal Rate of Return (IRR) of 37%, assuming an average Platts 62% Fe CFR price of US\$55/dmt, an exchange rate of A\$1.00/US\$0.75 and high grade premium of 10%.

Illustrating the Project's significant upside to higher prices, based on the current Platts CFR spot price for 62% Fe iron ore of approximately US\$75/dmt, current high grade premium of 26% and prevailing exchange rate, the pre-tax NPV and IRR would increase to well above \$900 million and over 90% respectively.

CORPORATE⁴

Realised Pricing and Revenue

The September quarter average Platts CFR price (which includes the cost of shipping paid for by the iron ore supplier) for 62% Fe fines delivered to northern China was US\$67 per dry metric tonne (dmt) compared with the US\$65/dmt average of the preceding quarter. The continued wide price differential between the Platts 58% Fe and Platts 62% Fe price indices remained a significant impact on revenue during the period, in particular for fines ore products.

DSO lump from Iron Hill accounted for approximately 53% of products sold in the quarter, and achieved an average realised price of US\$56/dmt FOB after grade and provisional pricing adjustments and penalties for impurities. The average realised price achieved for Iron Hill fines sold during the quarter was US\$28/dmt FOB, reflecting the continued impact of discounts on material grading below 62% Fe. As noted, Iron Hill lump and fines each averaged approximately 60% Fe in the quarter, and are expected to remain broadly consistent over the remainder of the production life.

FOB ore sales revenue for all products sold totalled \$65 million in the September quarter.

Cash Position

The Company's cash and liquid investments totalled \$452 million at 30 September 2018, compared with \$457 million at 30 June 2018. The movement reflected a positive cash inflow from the Mid-West business of \$18 million (comprising \$21 million of operating cashflows, \$3 million of interest revenue, \$3 million of corporate office costs, and \$3 million in adverse net working capital movements), before Koolan Island cash expenditure of \$23 million.

⁴ Sales, cost and cash movement figures are unaudited.

Cost Performance and Group Sales Guidance

As noted above, Mid-West cash costs were \$37/wmt for the quarter. All-in group cash costs⁵ were \$40/wmt FOB for the September quarter, excluding Koolan seawall construction and restart expenditure.

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

CEO Succession and Executive Management Appointments

On 14 September 2018, Mount Gibson announced the appointment of Mr Peter Kerr as Chief Executive Officer, succeeding Mr Jim Beyer, who tendered his resignation after almost seven years in the role to pursue another opportunity in the resources industry.

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

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

Other

On 15 August 2018, Mount Gibson reported a full year net profit after tax of \$99.1 million for the 2017/18 financial year. The Company also declared a fully franked final dividend of 3 cents per share, which was paid on 15 October 2018. The final distribution amounted to \$33 million, comprising cash of \$18.5 million and 29.9 million shares reflecting take up of the reactivated Dividend Reinvestment Plan.

Subsequent to the end of the quarter, the Company released its 2018 Annual Statement of Mineral Resources and Ore Reserves⁶, as well as the 2018 Annual Report and Notice of Meeting for the Annual General Meeting to be held in Perth on Wednesday 14 November 2018.⁷

For further information:

Peter Kerr

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

John Phaceas

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

Mount Gibson will host an analysts/institutions teleconference at **11:00am AEDT (8:00am WST)** on **24 October 2018**. Investors will be able to listen in to the teleconference by dialling **1800 857 029** immediately prior to the scheduled start time and entering the access code **18314558#** at the prompts. A recording of the teleconference will also be available via the Mount Gibson website after completion of the teleconference. In case of difficulties, operator assistance can be reached by calling 1800 857 079 (Australian callers) or +613 8788 6028 (overseas callers).

⁵ All-in group cash costs are reported FOB and include cash operating costs, royalties, sustaining capital expenditure, corporate costs and Koolan Island pre-production working capital, but exclude Koolan Island restart development capital.

⁶ Refer ASX release dated 11 October 2018.

⁷ Refer ASX releases dated 12 October 2018.

Koolan Island Restart Project Pictorial Update



Figure 1: Re-profiling of the Main Pit inner seawall, looking southwest, October 2018.



Figure 2: Re-profiling of the central inner seawall, looking west, October 2018.

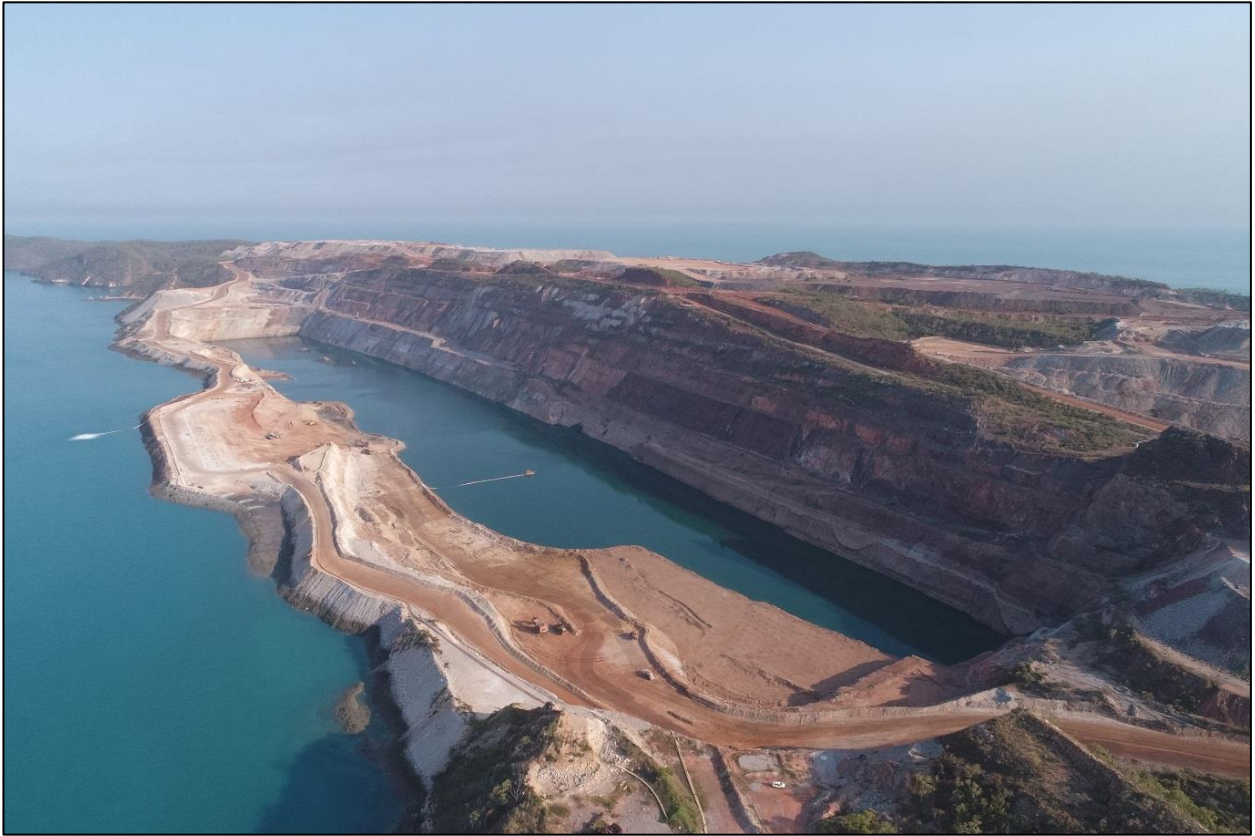


Figure 3: Main Pit looking northwest, October 2018.

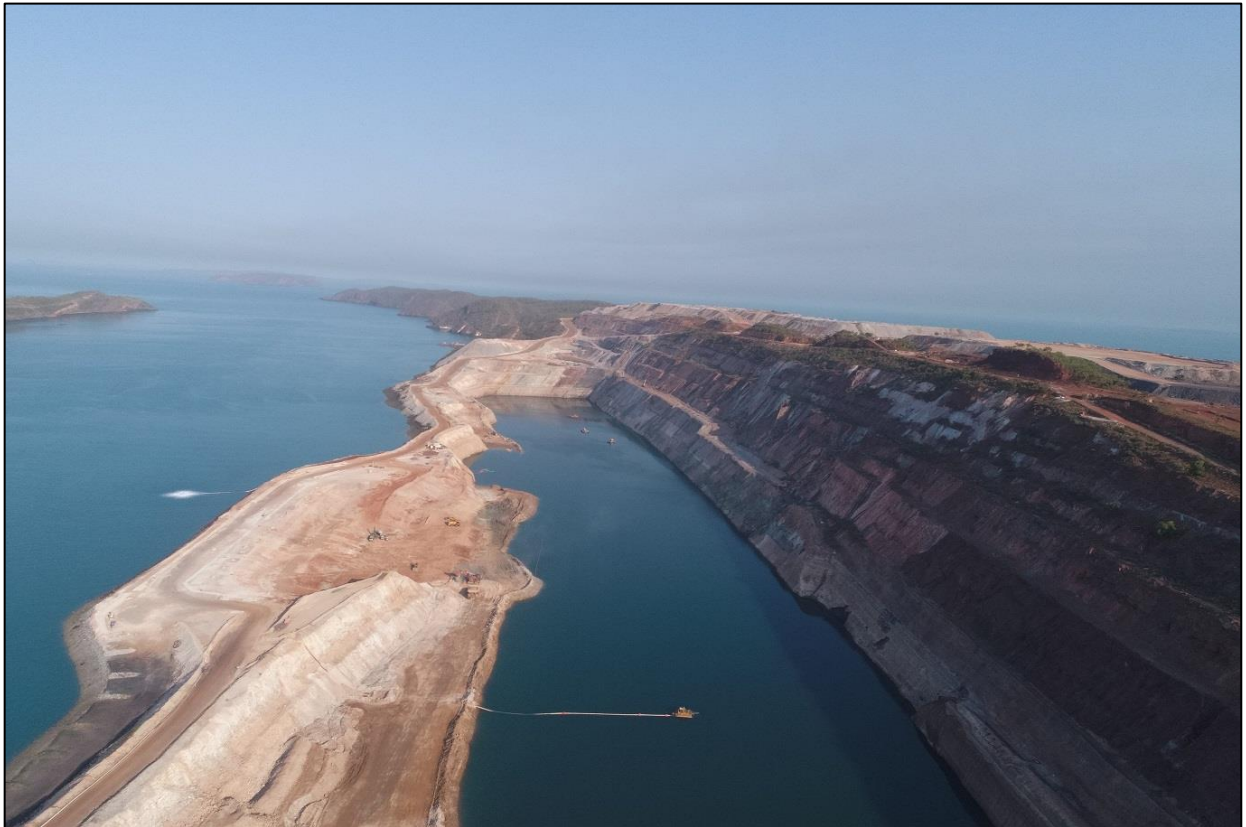


Figure 4: Main Pit, looking west, October 2018.



Figure 5: Re-profiling in the eastern end of the Main Pit, looking west, October 2018.

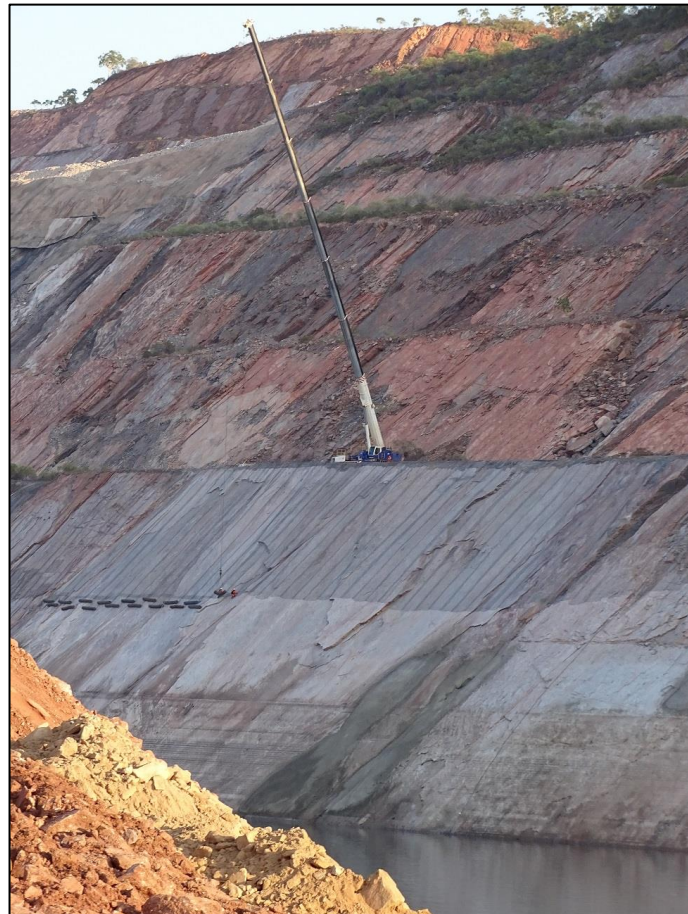


Figure 6: Avalanche mesh installation on the Main Pit footwall, October 2018.

APPENDIX A

Mount Gibson Iron Limited Quarterly Operating Statistics

	Sep-2017 Quarter	Dec-2017 Quarter	Mar-2018 Quarter	Jun-2018 Quarter	Sep-2018 Quarter	2018-19 YTD
EXTENSION/IRON HILL	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Waste mined	420	514	397	327	195	195
Standard ore mined	879	961	898	746	959	959
Low-grade ore mined [#]	225	151	97	129	122	122
Total ore mined	1,104	1,112	994	875	1,081	1,081
Ore crushed	821	742	953	992	1,052	1,052
Shipping/Sales						
Standard DSO Lump	294	481	492	361	607	607
Standard DSO Fines	366	300	426	485	542	542
Low Grade Lump	181	60	59	118	-	-
Total	841	841	977	963	1,149	1,149
kwmt = thousand wet metric tonnes. [#] Low-grade ore is material grading 50-55% Fe at Extension Hill considered to be saleable. This material has been stockpiled for future sale and is treated as mineralised waste for accounting purposes. Minor discrepancies may appear due to rounding.						

Competent Person Statement

Koolan Island Main Deposit Ore Reserves

The information in this report relating to Ore Reserves at Koolan Island is based on information compiled by Brett Morey, a member of the Australasian Institute of Mining and Metallurgy. Mr Morey is a full-time employee of Mount Gibson Iron Limited and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Morey consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.