

QUARTERLY REPORT



MOUNT GIBSON IRON LIMITED REPORT FOR THE QUARTER ENDED 30 JUNE 2019 15 July 2019

Key Points*

- Sales of high grade direct shipping ore (DSO) for the 2018/19 financial year totalled **2.9 million wet metric tonnes (Mwmt)**, in line with guidance, plus low grade sales from the Mid-West, for total annual sales of **3.2 Mwmt** and revenue of **\$240 million Free on Board (FOB)**.
- Sales for the June quarter totalled **0.6 Mwmt** for revenue of **\$72 million FOB**, including positive provisional pricing adjustments from the prior quarter.
- Koolan Island DSO high grade sales commenced in April 2019 and totalled **0.4 Mwmt** in the June quarter, with a **further 0.1 Mwmt** shipped in early July. Koolan Island shipping rates are now increasing to 3-4 Panamax shipments or 0.2-0.3 Mwmt per month.
- Operating cashflow for the June 2019 quarter of **\$13 million** before Koolan Island final pre-production expenditure of \$18 million (net of initial shipments). From the commencement of commercial production at the end of May, the Koolan operation was \$10 million cashflow positive.
- Cash and liquid investments of **\$385 million** at 30 June 2019.
- All-in group cash costs** for the year of **\$53/wmt FOB**, at the lower end of guidance. Koolan cash costs following the commencement of commercial production at the end of May were **\$77/wmt FOB** (before royalties), and are expected to reduce as shipped volumes increase.
- Shipments of stockpiled low grade material from Extension Hill are expected to continue to the December 2019 quarter, with any additional sales dependent upon iron ore prices at that time.

* Sales revenue, cost and cashflow figures are unaudited, and are subject to year-end audit and provisional pricing adjustments. All figures are presented in Australian dollars unless stated otherwise.

** Group cash costs are reported FOB and include operating costs, royalties, sustaining capital expenditure and allocated corporate costs, excluding Koolan Island capitalised restart and pre-production expenditure.

Comment

Mount Gibson Chief Executive Officer, Peter Kerr, said: "The June quarter was a key transition period for our business as Koolan Island became our primary longer term source of production and revenue, in turn establishing Mount Gibson as Australia's highest grade producer of direct shipping hematite iron ore.

"The ramp-up at Koolan Island contributed high grade ore sales of 0.4 Mwmt in the quarter, resulting in full year DSO sales for the Company of 2.9 Mwmt, within guidance.

"As volumes from Koolan Island continue to build, Mount Gibson is capitalising on buoyant iron ore prices which many commentators believe could continue for an extended period. The positive conditions have also enabled us to monetise some of the remnant lower grade stockpiles at our Mid West business.

"We look forward to a good start to the new financial year as Koolan Island's production and cashflow builds, enabling the Company to create further returns for its shareholders."

PERFORMANCE AT A GLANCE

	Unit	Jun-2018 Quarter	Sep-2018 Quarter	Dec-2018 Quarter	Mar-2019 Quarter	Jun-2019 Quarter	2018/19 Year
Standard DSO product sales	kwmt	845	1,149	1,012	402	370	2,933
Low Grade sales	kwmt	118	-	-	-	237	237
Total Ore Sales	kwmt	963	1,149	1,012	402	607	3,170
Platts 62% Fe CFR price, average	US\$/dmt	65	67	72	83	100	80
Platts 65% Fe CFR price, average	US\$/dmt	86	94	92	95	115	99
Realised Koolan fines FOB price*	US\$/dmt	-	-	-	-	106	106
Realised Mid-West fines FOB price [#]	US\$/dmt	26	28	41	44	29	37
Realised Mid-West lump FOB price [#]	US\$/dmt	52	56	70	58	36	61

Minor discrepancies may occur due to rounding.

* Realised Koolan FOB prices reflect a mix of month of shipping (M) and M+2 averages, referencing the Platts 65% Fe Index.

Realised prices are shown after shipping freight, provisional pricing adjustments and specification adjustments/penalties.

[#] Realised Mid-West FOB prices are shown after shipping freight and specification adjustments/penalties. Mid-West sales in the June 2019 quarter comprised only shipments of low grade cargoes.

kwmt = thousand wet metric tonnes.

US\$/dmt = USD per dry metric tonne.

OPERATIONS

Direct Shipping Ore (DSO) sales totalled 0.4 Mwmt in the June quarter, comprising high grade fines from the Company's Koolan Island mine in the Kimberley region. In addition, over 0.2 Mwmt of low grade material held in stockpiles at Extension Hill was shipped from Geraldton Port in the quarter. DSO high grade sales totalled 2.9 Mwmt in the year to 30 June 2019, within guidance of 2.7-3.3 Mwmt.

Operating statistics are tabulated in Appendix A.

Koolan Island

The Koolan Island mine transitioned from pre-production activities to commercial operations during the June quarter. As previously reported, the first shipment of high grade DSO was achieved in late April 2019. Subsequently, the site reached commercial production for reporting purposes at the end of May.

The transition to commercial production progressed steadily while maintaining a strong safety performance. The Total Recordable Injury Frequency Rate (TRIFR) at the end of the period reduced to 3.7 incidents per one million man-hours worked (4.8 at 31 March 2019) despite the Company recording its first Lost Time Injury since late 2016.

Mining and drilling performance improved progressively during the quarter, with activities in the Main Pit being constrained within the central zone orebody. A total of 3.6 million tonnes of waste material was extracted and 544,000 wmt of high grade DSO was mined and delivered to the processing plant. With access to high grade ore zones improving along the pit floor, better sequencing of mining and footwall geotechnical works can be undertaken to increase mining productivity. The site is now on track to average 3-4 Panamax shipments per month, consistent with the initial period mine plan.

Dewatering activities in the Koolan Main Pit are now focused on managing normal natural groundwater recharge. All seawall instrumentation and monitoring data continues to demonstrate that the seawall and installed impermeable seepage barrier, which have been under full tidal loads since November 2018, are performing to design expectations.

Refurbishment of the island-side footwall of the Main Pit involving depressurisation drilling, cable bolting, shot-creting and installation of safety mesh continues according to plan. The works are designed to maintain the geotechnical competence of the footwall and protect personnel and equipment working in the floor of the pit.

Five Panamax shipments of high grade fines DSO sales totalling 370,000 wmt were made in the June quarter, with two shipments previously scheduled for the June quarter deferred to the September quarter.

The average grade of the fines shipments made in the quarter was 65% Fe. All sales from Koolan Island are made on FOB terms, with the sale occurring upon shipment loading at Koolan Island. At prevailing spot prices for high grade iron ore, and based on the average life-of-mine product grade of 65-66% Fe, each Panamax cargo has a gross value of approximately \$9-10 million FOB.

Operating unit costs were generally in line with expectations, with site cash costs (before royalties) averaging \$77/wmt FOB¹ after the commencement of commercial production at end-May. As indicated previously, cash costs will progressively reduce over the life of the mine in step with the scheduled decline in the waste to ore stripping ratio in the Main Pit after the first two years.

Cash expenditure on pre-production activities prior to the commencement of commercial production totalled approximately \$18 million in the quarter (net of initial shipments), compared with \$41 million in the prior quarter. From the commencement of commercial production at the end of May, the Koolan operation was \$10 million cashflow positive.

As previously reported, Koolan Island is the highest grade direct shipping hematite iron ore mine in Australia, with total Ore Reserves of 21.0Mt grading 65.5% Fe. Full details of the project and key assumptions were reported in the Company's ASX release dated 20 April 2018.

Mid West Operations – Extension Hill

Final DSO sales from the Iron Hill deposit at the Extension Hill minesite were completed in February 2019 after which site closure activities commenced. Following renewed market interest in lower grade material, in early June Mount Gibson commenced shipments of previously uneconomic stockpiled low grade material from the Extension Hill mine site.

Four Panamax shipments totalling approximately 237,000 wmt were completed in the quarter. The current program envisages total low grade shipments in the order of 1.0 Mwmmt over a six month period, with the potential for any additional sales being dependent on iron ore prices at that time.

Although the resulting cashflow from the program will be modest, these sales will assist in final site rehabilitation works. Site cash costs (including royalties) for these sales averaged approximately \$39/wmt FOB in June.

Separate to the low grade operations, Mount Gibson is also entitled to receive a partial cash refund of historical rail access charges from the Mid-West railway leaseholder based upon the future usage by certain third parties of specific segments of the Perenjori to Geraldton railway line. The refund 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 the first payment is anticipated to occur at the end of the September 2019 quarter, and at six month intervals thereafter, with payments dependent on the volumes railed by third parties on the specified rail segments. The refund is currently being accrued at approximately \$1.8 million per quarter.

CORPORATE²

Realised Pricing and Revenue

Ore sales revenue for all products sold totalled \$72 million FOB in the June quarter and \$240 million for the year ended 30 June 2019. The sales revenue figure for the quarter included approximately \$7 million in positive provisional pricing adjustments from shipments made in the prior quarter. All revenue figures remain subject to further provisional pricing adjustments.

The June 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\$100 per dry metric tonne (dmt) compared with the US\$83/dmt average of the preceding quarter. The average price for the 12 months to 30 June 2019 was US\$80/dmt CFR. The average Platts CFR price index for 65% Fe fines was US\$115/dmt in the quarter, compared with US\$95/dmt in the March quarter and US\$99/dmt for the 12 months to 30 June 2019.

¹ Site cash costs are reported FOB and include operating costs, sustaining capital expenditure and allocated corporate costs.

² Sales, cost and cash movement figures are unaudited.

During the quarter, high grade DSO fines from Koolan Island achieved an average realised price of US\$106/dmt FOB after penalties. This price reflects contract references to the Platts 65% Fe index as well as Panamax shipping freight rates (approximately US\$9-10 per tonne shipped in the quarter), specification adjustments and penalties, and provisional pricing adjustments.

Sales of low grade remnant material (51.0-53.5% Fe) from Extension Hill were sold on a fixed price basis and achieved an average realised price of US\$29/dmt FOB for fines and US\$36/dmt FOB for lump ore.

The market price differential between the Platts 58% Fe and Platts 62% Fe indices continued to have an impact on revenue during the period. However, the recent lift in pricing has contributed to a general reduction in discounts for 58% Fe grade materials (currently circa 6%) and in the premium for 65% Fe high grade products (currently circa 2%). Mount Gibson continues to expect the low and high grade differentials to vary in step with iron ore supply and general steel market conditions in China.

Cashflow and Cash Position

The Company's cash and liquid investments totalled \$385 million at 30 June 2019, compared with \$394 million at 31 March 2019.

The movement over the quarter reflected positive cashflow from the Mid-West operations of \$4 million, Koolan Island net cash outflows of \$8 million (which comprised final net pre-production expenditure of \$18 million and positive cashflow of \$10 million following the commencement of commercial production at end-May), interest income of \$3 million and corporate costs of \$4 million, as well as net working capital outflows, reflecting the timing of cash receipts and payments, of \$4 million.

Cost Performance and Group Sales Guidance

As noted above, Koolan Island cash costs were \$77/wmt FOB (before royalties) after the commencement of commercial production at the end of May. Cash costs for the Mid-West business averaged \$39/wmt FOB for the full year, in line with guidance, and also \$39/wmt for the month of June in which low grade shipments commenced. Total all-in group cash costs averaged \$53/wmt FOB (including royalties) for the full financial year, excluding capitalised Koolan restart and pre-production expenditure, at the lower end of guidance.

Mount Gibson intends to provide production and cost guidance for the 2019/20 financial year when it releases its 2018/19 annual financial results on 21 August 2019.

Koolan Island Offtake Agreement

As reported in June 2019, Mount Gibson approved the novation of the interests of Shougang Concord International Enterprises Company Limited and SCIT Trading Limited as guarantor and buyer respectively under their existing Koolan Island offtake agreement to HKSE-listed entity Newton Resources Ltd and its subsidiary Ace Profit Investment Limited. The novated offtake agreement continues to provide fully market reflective pricing with reference to the relevant high grade (+65% Fe) market price indices. More details regarding the novation agreement are provided in the Company's ASX release dated 3 June 2019.

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Mount Gibson will host an analysts/institutions teleconference at **11:30am AEST (9:30am WST) on Monday 15 July 2019**. Investors will be able to listen in to the teleconference by dialling **1300 289 804** 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 1300 289 804 (Australian callers) or +613 8788 6028 (overseas callers).

Koolan Island Mine Pictorial Update

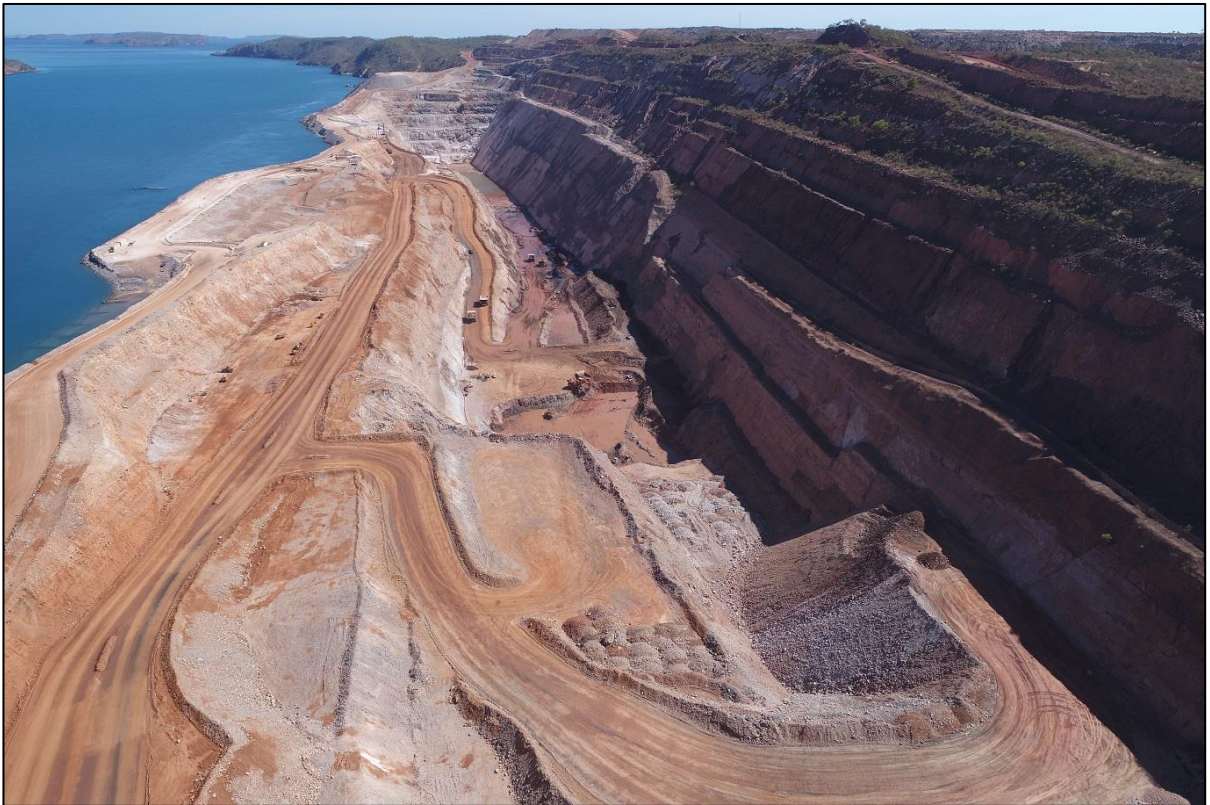


Figure 1: Main Pit looking west, late June 2019.



Figure 2: Waste stripping at east end of Main Pit, mid June 2019.



Figure 3: Crushed stockpile yard, early July 2019.



Figure 4: Bulk ore Panamax carrier Wisdom Diva berthing at Koolan Island, late May 2019.

APPENDIX A

Mount Gibson Iron Limited Quarterly Operating Statistics

	Jun-2018 Quarter	Sep-2018 Quarter	Dec-2018 Quarter	Mar-2019 Quarter	Jun-2019 Quarter	2018/19 Year
KOOLAN ISLAND	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Waste mined	-	-	2,450	4,148	3,588	10,185
Ore mined	-	-	-	8	544	552
Ore crushed	-	-	-	5	425	431
Shipping/Sales*						
Standard DSO Lump	-	-	-	-	-	-
Standard DSO Fines	-	-	-	-	370	370
Total	-	-	-	-	370	370
MID-WEST						
Mining & Crushing						
Waste mined	327	195	57	-	-	252
Standard ore mined	746	959	757	-	-	1,715
Low-grade ore mined [#]	129	122	54	-	-	176
Total ore mined	875	1,081	810	-	-	1,891
Ore crushed	992	1,052	980	57	385	2,474
Shipping/Sales*						
Standard DSO Lump	361	607	475	254	-	1,336
Standard DSO Fines	485	542	537	148	-	1,228
Low grade Lump	118	-	-	-	120	120
Low grade Fines	-	-	-	-	118	118
Total	963	1,149	1,012	402	237	2,800
CONSOLIDATED DATA						
Shipping/Sales*						
Standard DSO Lump	361	607	475	254	-	1,336
Standard DSO Fines	485	542	537	148	370	1,597
Low Grade Lump	118	-	-	-	120	120
Low Grade Fines	-	-	-	-	118	118
Total	963	1,149	1,012	402	607	3,170

kwmt = thousand wet metric tonnes.

* Mount Gibson ships in Panamax vessels which contain an average of 60,000 wmt from Geraldton Port in the Mid-West, and 72,000 wmt from Koolan Island.

[#] Low-grade ore is material grading 50-55% Fe at Extension Hill considered to be potentially saleable. This material is stockpiled for future sale and 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 Mr 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.