



Mount Gibson Iron Limited

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ASX ANNOUNCEMENT

17 February 2016

December 2015 Half-Year Financial Result

Key Points *(All figures expressed in Australian dollars unless stated otherwise)*

- Six month sales revenue of **\$124 million** (1H 2014-15: \$180 million) after provisional pricing adjustments, on iron ore sales of **2.6 million wet metric tonnes (Mwmt)** (1H 2014-15: 3.1 Mwmt).
- Gross profit from continuing operations of **\$12.0 million** before tax and impairments (1H 2014-15: \$12.3 million gross loss).
- Reported statutory net loss after tax of **\$15.4 million** (1H 2014-15: \$869.8 million loss), after non-cash impairment charges of \$23.6 million, and corporate and other expenses/income.
- Cash and term deposits of **\$345.5 million** at 31 December 2015, an increase of \$11.5 million compared with 30 June 2015.
- Total Cost of Goods Sold (COGS) of **\$44/wmt** Free on Board (FOB), including non-cash costs, royalties and before impairments (1H 2014-15: \$61/wmt).
- All-in group cash costs* of **\$49/wmt** FOB for December Half 2015 (1H 2014-15: \$76/wmt).
- FY2016 sales guidance of **4.5 to 5.0 million tonnes** at all-in cash cost** of **\$50-54/wmt FOB**.

** All-in cash costs are reported FOB and include all operating, capital, royalties, closure and head office costs.*

Comment

Mount Gibson Chief Executive Officer, Jim Beyer, said: "Delivering an increase to the cash reserves and an underlying gross profit, before impairments, is a significant achievement by the Mount Gibson team especially when considered in light of the extremely challenging conditions. It represents a very encouraging start to the 2016 financial year.

"Mount Gibson's ongoing commitment to cost reduction and continuous improvement have stabilised our business and helped us preserve value for shareholders as well as the Company's financial capacity and flexibility to undertake new investments in the resources sector.

"We are determined to maintain our demonstrated highly disciplined approach in order to deliver the best outcome for the Company and all our shareholders in the volatile conditions which continue to prevail."

Results for 6 months ended 31 December 2015 compared with the prior corresponding 6 month period:		6 months ended 31 December 2015	6 months ended 31 December 2014
Ore tonnes mined [^]	<i>wmt (mill)</i>	3.4	3.2
Ore tonnes sold [^]	<i>wmt (mill)</i>	2.6	3.1
Average realised price, all products (FOB) ^{^^}	<i>\$/wmt sold</i>	48	64
Consolidated sales revenue	<i>\$ mill</i>	124.0	179.8
Continuing Operations (Extension Hill & Koolan Island):			
Sales revenue	<i>\$ mill</i>	124.0	179.8
Interest income	<i>\$ mill</i>	4.6	7.2
Cost of goods sold	<i>\$ mill</i>	(114.3)	(171.9)
Impairment of ore inventories	<i>\$ mill</i>	(2.4)	(27.4)
Gross profit/(loss)	<i>\$ mill</i>	12.0	(12.3)
Admin and other expenses/income	<i>\$ mill</i>	(4.9)	(16.1)
Impairments*	<i>\$ mill</i>	(21.2)	(917.3)
Finance costs	<i>\$ mill</i>	(1.0)	(1.6)
Profit/(loss) before tax from continuing operations	<i>\$ mill</i>	(15.1)	(947.3)
Income tax benefit/(expense)	<i>\$ mill</i>	-	106.9
Profit/(loss) after tax from continuing operations	<i>\$ mill</i>	(15.1)	(840.4)
Discontinued Operations (Tallering Peak):			
Profit/(loss) after tax from discontinued operations	<i>\$ mill</i>	(0.3)	(29.4)
Net profit/(loss) after tax	<i>\$ mill</i>	(15.4)	(869.8)
[^] Inclusive of the discontinued Tallering Peak operations. Refer the attached financial statements for further details. ^{^^} Average realised price all products after post-balance date provisional pricing adjustments. * Impairment of mine properties, consumables inventories, property/plant/equipment and deferred acquisition, and exploration and evaluation costs.			

Table 1 – Financial Performance

Earnings Summary

Mount Gibson Iron Limited (**Mount Gibson**) recorded a net loss after tax of \$15.4 million for the six months to 31 December 2015 on total sales revenue of \$124.0 million and ore sales of 2.6 Mwt. Final sales revenue for the period is after post balance date provisional pricing adjustments totaling \$6 million relating to the recent significant decline in iron ore prices, notably during December 2015.

The result includes non-cash impairments totalling \$23.6 million resulting from the depressed iron ore prices in the period.

Excluding these impairments, Mount Gibson reported a gross operating profit of \$12.0 million from continuing operations, compared with an underlying gross loss of \$12.3 million in the prior half year.

Realised Pricing

At the beginning of FY2016 the iron ore price was US\$58/dmt for the 62% Fe Platts Index and by the end of the half-year period this had dropped to US\$43/dmt, a reduction of 26%. During the period the price touched a low of US\$38.50/dmt in December 2015, and averaged US\$51/dmt for the half-year, compared with US\$82/dmt for the previous corresponding period.

Reflective of these difficult market conditions, Mount Gibson achieved an average realised price for standard Extension Hill fines ore for the half-year of US\$37/dmt Free On Board ("**FOB**"), after penalties and provisional

pricing adjustments resulting from the material decline in iron ore prices late in the December quarter. This compared with an average of US\$64/dmt in the previous corresponding half.

The weighted average realised price for all products sold, including Acacia East material from Koolan Island, was \$48/wmt FOB in the six month period, compared with \$64/wmt FOB in the prior corresponding half year.

Cashflow Summary

Despite the very difficult market conditions, Mount Gibson successfully implemented its planned operating strategies at both the Koolan Island and Extension Hill mines, enabling the Company to further reduce unit costs and add to its cash balance over the period.

The Company's average cost of goods sold (including non-cash costs but before impairments) for its continuing operations reduced by 28% from \$61/wmt FOB in the prior corresponding half to \$44/wmt FOB in the half-year period. The business generated operating cash flow of \$6.0 million plus interest receipts of \$5.0 million. Cash reserves, including term deposits, increased by \$11.5 million over the half-year to \$345.5 million as at 31 December 2015.

This was driven by strong reduction in all-in group cash costs to \$49/wmt FOB in the half year, compared with \$76/wmt in the prior corresponding half.

Consistent with the Company's announced strategy, the extended mining campaign at the Acacia East satellite pit on Koolan Island contributed to the increased cash position. Total ore sales from Koolan Island of 1.25 Mwmt in the half-year reflected the production profile of the Acacia East pit, with sales weighted toward the December 2015 and March 2016 quarters, following a focus on pre-stripping and inventory build in the September 2015 quarter. Sales from stocks built up during the stripping phase contributed to site cash costs reducing from \$52/wmt in the September quarter to \$38/wmt inclusive of royalties in the December quarter.

The Acacia East mining campaign is scheduled for completion during the March 2016 quarter, with final ore sales expected to occur in late March or early April 2016. As previously indicated, Koolan Island will thereafter transition to care and maintenance, while assessment continues of potential rebuild options for the Main Pit seawall, and the longer term potential for the site to support offshore oil and gas activity in the Browse Basin.

Extension Hill also remained cashflow positive in the December half, with all-in site cash costs averaging \$47/wmt for the December half, in line with guidance.

As previously reported, the Company continues to implement operational changes at Extension Hill identified through the ongoing business efficiency program to reduce gross expenditure and preserve value in the prevailing low price environment. These changes allow potential to flex short term production while having no material impact on unit cost guidance.

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

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

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

Impairments

Following the significant impairment expense recorded in the year ended 30 June 2015, the iron ore price, when expressed in either US dollar or Australian dollar terms, continued to fall significantly in the half year. Consequently, Mount Gibson has recorded a further impairment expense in the December 2015 half year of \$23.6 million before tax comprising impairments of iron ore inventories (by \$2.4 million), consumables

inventories (by \$6.8 million), mine properties (by \$2.1 million), deferred acquisition, exploration and evaluation assets (by \$2.6 million) and property, plant and equipment (by \$9.6 million).

Koolan Island seawall insurance claim

Mount Gibson has insurance policies for a variety of circumstances, including property damage and business interruption. Discussions with the Company's insurers commenced in December 2014 with regard to the failure of the Koolan Island Main Pit seawall. As previously reported, the Company has received conditional confirmation from all of its insurers that its existing insurance policy would respond, subject to the insurers' further reviews and final determination.

The 12 month business interruption insurance period concluded during the December 2015 quarter, enabling Mount Gibson to prepare its total claim for submission. The Company will provide further updates as appropriate.

Group Sales Guidance and Cash Costs Profile

Mount Gibson has maintained guidance for FY2016 at total iron ore sales of **4.5 - 5.0 Mwmt**. Mount Gibson also expects to maintain Extension Hill's all-in site cash costs at \$44-47/wmt for the year. The Company expects its all-in group cash costs, inclusive of all site operating and capital costs, royalties, closure and head office costs, to be in the range of **\$50-54/wmt**.

Looking Forward

The Board's corporate objective is to grow the Company's cash reserves and continue to pursue an appropriate balance between the retention and utilisation of cash for value-accretive investments. As previously disclosed in Mount Gibson's 2015 annual report, the Board has determined the following key business objectives for the 2015/16 financial year:

- **Extension Hill** - operate the mine at an increased output rate and pursue necessary regulatory government approvals for the development of the Extension Hill South project area to extend the operational life of the Extension Hill mine beyond the end of the reserve life, currently expected in early 2017.
- **Koolan Island** – recommence mining of remnant ore in the Acacia East satellite pit in the first half of FY2016 and thereafter place the site on care and maintenance, and undertake the detailed work required to investigate the redevelopment potential of the Koolan Island Main Pit orebody.
- **Koolan Island seawall insurance claim** - progress and finalise the insurance claim.
- **Koolan Island Logistic Base** – progress the business case with end-users and formalise the commercial arrangements with Qube Holdings Limited while ensuring the capability for future re-start of mining operations.
- **Cost reductions** - continue to drive for sustainable cost improvements across the existing business through further supplier cost reductions and productivity gains.
- **Treasury returns** - increase the yield on the Company's cash reserves.
- **Growth projects** - continuation of the search for business development opportunities in the resources sector.

Mount Gibson has continued to deliver into these objectives with some of the benefits already reflected in the financial result in the first half of FY2016. The Company notes that the general market conditions for iron ore have weakened in the March 2016 Quarter and this will continue to place pressure on margins making continued focus on cost control even more important.

Dividend

In light of currently depressed iron ore prices, the Company's financial results and its desire to preserve flexibility for future growth options, no dividend has been declared for the December half-year. The Company will continue to assess future dividend payments on a six monthly basis.

The Appendix 4D and financial statements are attached.

For further information:

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Mount Gibson will host an analysts/institutions teleconference at **11.00am AEDT** on **17 February 2016**. Investors will be able to listen in to the teleconference by dialing **1800 857 029** immediately prior to the scheduled start time and entering the access code **61492002#** at the prompts. A recording of the teleconference will also be available via the Mount Gibson website after completion of the teleconference. In case of difficulties, operator assistance can be reached by calling 1800 857 079 (Australian callers) or +613 8788 6028 (overseas callers).